RIKSGÄLDS KONTORET
THE SWEDISH NATIONAL DEBT OFFICE

THE SWEDISH NATIONAL DEBT OFFICE ANNUAL REPORT 2005

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Contents

The Swedish National Debt Office's vision

The Swedish National Debt Office aims to be the world's best central government financial manager.

The tasks of the Debt Office

The Debt Office is the central government financial manager. We are an agency reporting to the Ministry of Finance and are responsible for three areas of activities:

Cash Management Department

The Debt Office manages and finances central government finances and is responsible for all incoming central government payments and for distributing these funds to the agencies in accordance with the decisions made by the Swedish Parliament, the Riksdag, and the Government. Incoming and outgoing central government payments are managed in the payment system that the Debt Office is responsible for.

We provides loan to government agencies. They also have to deposit their funds at the Debt Office.

The goal is to provide the agencies with good service and to keep down the state's interest expense.

State guarantees and loans

The Debt Office provides state guarantees and loans as decided upon by the Riksdag. We make an assessment of the risks and set fees corresponding to the expected cost for the state. We are also to work for efficient management of the guarantees and loans of other government agencies.

Central government debt management

The Debt Office manages and finances the central government debt. We borrow in the Swedish and international fixed-income markets. We also borrow directly from Swedish households and small enterprises, among other ways, by selling lottery bonds.

Central government debt management is subject to guidelines adopted annually by the government based on the Debt Office's recommendation. The goal is to minimise the long-term cost of the debt while taking into account risks, so that costs do not increase too much if anything unexpected occurs.

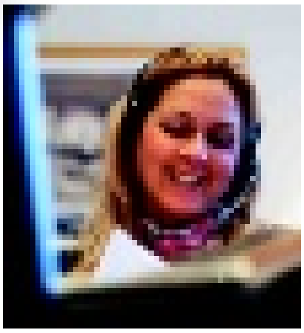
Efficient financial management due to concentration of activities

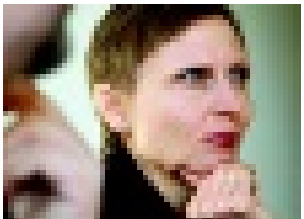
Our business areas are related in numerous ways. The net of all central government payments is equivalent to the net borrowing requirement. Our task is to cover any deficits in payments by borrowing. When there is a surplus in the state budget, the Debt Office is able to repay the government debt. Net payments control how much we have to borrow and affect whether government debt increases or decreases. If the guaranteed taker is unable to pay, the state must pay instead and borrow the money. The government debt will then increase by the amount indemnified.

The state can increase the efficiency of financial management by concentrating these three activities in one agency.

2005 in brief

- The surplus in the central government budget was SEK 14 billion.
- Interest on central government debt was SEK 33 billion.
- During the year the Debt Office has substantially overestimated the borrowing requirement. As late as October 2005, we expected a borrowing requirement of SEK 10 billion.
- Central government debt was SEK 1,309 billion at the end of 2005. Central government debt increased by SEK 51 billion. This was primarily due to a weakening of the krona during the year.
- The Debt Office amortised SEK 20 billion of foreign currency debt. The currency portion of the government debt was 23 per cent at the end of the year.
- The Debt Office issued a seven-year inflation-linked bond in 2005.
- The active management produced a negative result of SEK 428 million.
- Loans from private persons and small businesses decreased the cost of government debt by SEK 106 million.
- Lottery bonds for almost SEK 9 billion were sold in 2005. The outstanding volume of lottery bonds increased by 10 per cent to over SEK 42 billion.
- There was increased interest on the part of private persons for purchasing T-bills on the internet.
- New government framework agreements for charge and purchase cards came into use.
- New internet bank services for government agencies were introduced.
- The average cost of a government payment decreased.
- Provisions for anticipated losses in guarantee operations decreased slightly in 2005.
- The Debt Office took over the guaranteed loans to Stockholmsleder AB and Göteborgs Trafikleder AB. This reduces the state's interest expense.
- The Debt Office wrote in a referral comment that the deposit guarantee should be dealt with in the same way as other state guarantees and this activity be transferred to the Debt Office.





Comments of the Director General:

Central Government Financial Management

Since 1789, the Swedish National Debt Office has been given the task by the Riksdag of managing central government borrowing and debt. During the nineteenth century, the Debt Office was given further responsibilities as part of the Riksdag's aim of increasing its influence at the expense of royal power. However, in 1911, its task was again concentrated on financing state budget deficits and managing central government debt.

In recent decades, the Debt Office's remit has again been greatly expanded, partly due to the well-motivated decision in 1989 to transfer supervision of the Debt Office from the Riksdag to the Government. The role of internal bank has been developed from the limited deposit and lending activity in the mid-eighties into, among other things, responsibility for the state's payment system. The Debt Office is also responsible for issuing and managing state guarantees and loans and has moreover overall responsibility for improving the efficiency of the overall government guarantee and loan management.

The Debt Office is now the central government financial manager with the task of contributing to efficient payment flows and liquidity management, limiting risk and covering the costs of the state's guarantee and loan portfolio and minimising the long-term costs of government debt without taking too great risks.

The results achieved in 2005 have complied well with the goals set:

4 The service of the internal bank to the agencies has improved. The costs of government payments have decreased despite an increase in volume.
4 Guarantee operations have been characterised by a good balance betewen the risk of future losses and setting aside reserves.
4 Further improvement has been made in control of central government debt management. The reduced duration has decreased costs at an acceptable level of risk.
4 The issues of lottery bonds have exceeded expectations.

Our vision is to be the world's best central government financial manager. We work together with the debt offices of other countries within the framework of OECD and the World Bank and in other contexts and contribute in various ways to building up and improving financial management in less developed economies. Our aim is to achieve a firmer structure for this work.

Foresight and flexibility is required to be able to live up to our vision. We have therefore initiated a project, *The Swedish National Debt Office 2010*. This aims to increase knowledge about the development trends in the surrounding world which may affect our activities in the future, to provide a basis for goals for the period up to 2010 and to stimulate all members of staff to an understanding of and commitment to the work of renewal and development.

Stockholm, February 2006

Bo Lundgren
Director General

Summary of performance and goal fulfilment

Summary of in the appropriation directions	Assessment of outcome
FINANCIAL SYSTEMS AND SUPERVISION	
The overarching goals for the Debt Office are: 4 to minimise the costs of central government debt while taking account of risks. 4 efficient government debt management.	*The overarching goals have been achieved.* The various interim goals are shown below. We have submitted an appendix, *Documentation for evaluation of central government debt management*, to the 2005 annual report.
DEBT MANAGEMENT	
Minimise the costs of central government debt taking into account risks.	*Goal achieved* 4 by strategic decisions within the framework of the Government guidelines and change of the structure of the debt.
Improve control and evaluation of central government debt management.	*Goal achieved* 4 see *Proposed Guidelines 2006-2008.*
Contribute to improving the market for government securities without increasing cost.	*Goal achieved* 4 by a transparent borrowing and market maintenance services.
Borrow directly from private persons to reduce the cost of the central government debt.	*Goal achieved* 4 costs have decreased by SEK 106 million.
CASH MANAGEMENT	
Make loans and investments on market conditions.	*Goal achieved*
Work for an efficient central government payment system that does not favour any bank.	*Goal achieved* 4 by starting to use new framework agreements on charge and purchase cards.
Endeavour to reduce interest expense.	*Goal achieved* 4 by continuous simplification of central government payments.
Offer agencies good service.	*Goal achieved* 4 by continuous development of services, new framework agreements and information.
Further development the central government payment system.	*Goal achieved*

Summary of the appropriation directions	Assessment of outcome
GUARANTEES AND LOANS	
Carry out guarantee operations efficiently within the framework of the guarantee model.	*Goal achieved* 4 by risk and insurance-based fees and rearrangement of guaranteed loans.
Carrying out loan operations efficiently.	*Goal partly achieved* 4 by fees reflecting risk although principles and a regulatory framework for the state's external loans are still lacking.
Work for the guarantee and loan operations of other agencies to be performed efficiently.	*Goal achieved* 4 by advice and assistance to other agencies.
RISK MANAGEMENT	
Endeavour to follow best practice in risk management.	*Goal achieved* 4 by continuous development of methods, models and processes for risk management.
Ensure that the handling of financial and administrative risks complies with the requirements and regulations.	*Goal achieved* 4 see above.
It shall be possible to maintain society's basic needs even in periods of severe strains during peacetime.	*Goal partly achieved* 4 by active collaboration with other agencies; active measures to reduce vulnerability are in process.
PERSONNEL AND THE DEVELOPMENT OF EXPERTISE	
Work for a long-term, good availability of personnel.	*Goal achieved* 4 by intensified initiatives on availability of personnel despite a more difficult situation in the labour market.

Costs and funding

The total costs of the Debt Office's operations in 2005 were SEK 45 billion. SEK 32.9 billion of this amount was realised costs. Interest on central government debt deducted from appropriations accounted for SEK 32.6 billion.

Table 1.1

Debt Office appropriations 2005

Appropriation, SEK million		Opening appropriation balance	Withdrawal	Funds allocated	Expenditure	Expenditure change fr. 2004	Balance 31 Dec 05
26 92:1	Interest on central government debt			38,600	–32,561	–20,035	6,039
26 92:3	Commission expenses			160	–95	–26	65
2 2:3	Management expenses	17	–17	264	–263	–4	1
2 2:6	Provision for guarantees			1	–1	0	0
22 36:4	National Rail Administration: Track maintenance and sector tasks			70	–70	0	0
		17	–17	39,095	–32,990	–20,065	6,105

Interest on the central government debt

The appropriation Interest on central government debt is to cover interest and currency costs. The appropriation is not included in the expenditure ceiling and the Debt Office has the right to exceed the appropriation to meet the state's payment commitments.

SEK 38.6 billion was originally allocated in 2005 in the appropriation for interest on central government debt. The outcome was SEK 32.6 billion, which is SEK 6.0 billion less than the funds allocated. The reason for this is a drop in interest rates, which were considerably lower than the assumptions made in the calculation, on which the allocation of the appropriation was based. The lower interest rates mainly affected the current interest payments in Swedish kronor and have led to larger interest income in the form of issue premiums.

Currency gain leads to lower interest payments

Compared with 2004, interest payments decreased by SEK 20 billion. The great change is on the foreign currency side which amounted to a loss of SEK 5 billion in 2004 compared with a gain of SEK 10 billion

Table 1.2

INTEREST ON THE CENTRAL GOVERNMENT DEBT

SEK million	2001	2002	2003	2004	2005
Interest on loans in Swedish kronor	45,404	45,399	37,985	40,688	39,428
Interest on loans in foreign currency	24,071	17,469	16,397	11,515	11,415
Interest on deposits and loans	–3,271	373	–6,832	–6,993	–6,943
Total	66,204	63,241	47,550	45,210	43,900
Issue premium/discount	–4,644	–7,728	–14,453	–10,144	–9,049
Foreign currency losses/gains	12,318	6,650	4,366	5,106	–10,228
Price losses/gains	5,172	4,594	3,811	13,480	7,615
Other (deposits etc.)	2,021	426	741	–1,057	323
Total	14,867	3,942	–5,535	7,386	–11,339
Total appropriation interest on government debt	81,071	67,183	42,015	52,596	32,561
Cash basis adjustment	229	–1,996	223	23	35
Total interest payments	81,300	65,187	42,238	52,619	32,596

in 2005, that is a change of SEK 15 billion. Currency changes are mainly affected by the exchange rate of the Swedish kronor for other currencies when loans mature, but also by changes in the exchange rates between other currencies through various derivative instruments. Currency gains in 2005 were partly due to a couple of large maturities in dollar loans. The unrealised changes in exchange rates therefore moved from an income in 2004 to a cost in 2005 due to the weakening of the Swedish kronor in relation to other currencies in 2005. Compared with 2004, realised currency losses also decreased by SEK 6 billion. This is due to the Debt Office having made fewer buy-backs of bonds in connection with bond exchanges.

Halving of interest payments since 2001

Looking back over a number of years, interest payments have decreased from SEK 81 billion in 2001 to SEK 33 billion in 2005 (see Table 1.2). The low level of interest payments in 2005 is explained by large currency gains. However, even disregarding this, interest payments have approximately halved during the period. This is due to the considerable decrease in the level of interest rates both in Sweden and internationally in the past five years. As loans have matured, it has been possible to rearrange them at a successively lower interest rate. The size and complexity of the central government debt, with a large number of loans and derivative contracts with different maturities, means, however, that it will take time before the whole debt is renegotiated and the lower market rates have their full effect.

FACTS

Interest on the central government debt

The different component items of interest expense are shown in Table 1.2. The first component amount refers to current interest payments on loans and swaps in Swedish kronor and foreign currency and interest payments by agencies for their loans at the Debt Office. An example of a current interest payment is coupons on bonds.

The other component amount refers to different price effects of interest payments. For instance, there will be a price effect in the event of bond issues when the market rate deviates from the coupon rate, which it normally does. If the coupon is higher than the market rate, there will be a premium and conversely a discount. It works in the same way when the Debt Office buys back bonds, although this is referred to as price gains/losses. When loans in foreign currency mature, there will be a realised currency gain/loss if the exchange rate has changed since the loan was taken up.

Interest expenses can vary considerably depending on price effects in particular years. This depends on which loans are issued or bought back, and which coupons they have in relation to current market rates. Currency gains/losses can vary depending on how many loans mature and the exchange rates of the loans when they were raised.

FACTS

Average issue rate

The Debt Office sells its loans in Swedish kronor in auctions at market price. The interest rate at which a loan is sold is the issue rate. This differs from the loan's coupon rate which is set at the time of issue of the loan. The issue rate reflects the loan's accrued cost while the coupon rate affects the cash payments.

The average issue rate for a loan is calculated by weighing the issue rate in each sales transaction by the volume sold. In the same way, several loans can be weighed together to an average issue rate for an instrument category.

The three dominant instruments with which the Debt Offices finances the central government debt are SEK nominal bonds, T-bills and inflation-linked bonds. The total outstanding volume in these instruments was SEK 1,057 billion at the end of 2005. (The central government debt also includes retail market loans, foreign currency loans, swaps and other derivatives).

The table shows the outstanding volume at the end of 2005, the average issue rate at the end of 2005, volume issued in 2005 and the average issue rate for borrowing that took place during 2005 for nominal bonds, T-bills och inflation-linked bonds.

In 2005, market rates fell to record low levels. This is reflected by the average issue rate for bond borrowing in 2005 being considerably lower than for the debt stock as a whole. This is due to a large part of the loans in the debt stock being issued a long time ago, in a situation with higher interest rates than those applicable today. As older bonds mature and are replaced by new, the average issue rate will fall and thereby the interest expense, provided that market rates do not increase above the average for the stock.

For T-bills, which have a considerably shorter period to maturity than bonds, the average issue rate for borrowing in 2005 is the same as the debt stock, which reflects a faster impact of changes in market rates on the stock of T-bills compared with the bond stock.

AVERAGE ISSUE INTEREST RATES [1]

	Nominal bonds	T-bills	Inflation-linked bonds[3]
Outstanding volume, SEK billion	563	288	206
All outstanding debt, %	4.79	1.79	3.25
Volume sold 2005, SEK billion [2]	78	408	27
All borrowing 2005, %	3.03	1.79	1.43

[1] *In order to compare the average issue rate for nominal and inflation-linked instruments, the average issue rate for inflation-linked bonds must be compensated for the development of inflation.*

[2] *Volume issued in auctions and sold component in exchange transactions.*

[3] *The volume of inflation-linked bonds includes accrued inflation.*

Lower commissions in 2005

The appropriation Debt Office commission expenses relating to borrowing and debt management is used for expenses for commissions arising in connection with borrowing, selling and external management. Cost and expenditure mean the same in this case since we do not report any commissions as accrued but not yet realised.

Expenditure on commissions has been SEK 95 million this year, a fall of SEK 30 million compared with 2004.

With regard to commissions to our dealers in the institutional borrowing, the lower outcome is mainly due to changed invoicing dates. Commissions paid to our external managers remained unchanged. This is due to a deterioration in the result achieved by managers in active management.

Management expenses

The management expense appropriation is used for other management, operation and development expenses. The total cost for the year is SEK 351 million, SEK 263 million of which is deducted from appropriations. The difference refers to accrued expenses for lottery loans in central government debt management, the management expenses of guarantee operations which are fee-financed and the cost of guarantee subsidies.

In 2005, the outcome for deductions on appropriations was SEK 4 million less than the previous year. Transaction costs for registration of loans issued have decreased in central government debt borrowing due to better agreements with VPC and partly to fewer transactions. Furthermore new agreements have led to a less expensive call centre solution.

System development has taken place in a number of areas of activity during the year. The Cash Management Department has further developed the agency's systemic support to reduce the state's total costs for payment. Guarantee operations have improved the efficiency of guarantees and recourse claims. In all, these investments have amounted to SEK 5 million.

The Debt Office's largest expenditure item is personnel costs which were SEK 91 million in 2005.

Fee-financed activity

The Guarantees and Loans business area is entirely fee-financed. The guarantee taker pays fees based on the risk that the Debt Office assumes by providing the guarantee. The fees with a deduction for administrative expenses and redemptions are transferred to a guarantee reserve. In lending activities, non-state borrowers pay loan charges in a corresponding way. Fees for loans with a credit risk are paid to the state budget but a portion is retained for the Debt Office's costs.

The surplus for 2005 is primarily due to a decrease in provisions for anticipated losses. In all, the change in capital for Guarantees and Loans is SEK 1,313 million higher than the change in capital for the previous year. This is largely due to the value of three of the Debt Office's loans with a credit risk being written down.

Table 1.3

INCOME STATEMENT PER AREA OF OPERATION IN 2005, INCOME AND EXPENSES IN SEK MILLION

Operating income	Borrowing and government debt management	Cash management	Guarantees and loans	The Debt Office total	The Debt Office total 2004
Income from appropriations, interest on central government debt 26 92:1	39,217	–6,970		32,247	53,646
Income from appropriations, commissions 26 92:3	95			95	121
Income from appropriations	224	39		263	267
Income from appropriations for guarantee subsidy				71	71
Income from fees			194	194	199
Interest income			41	41	48
Total operating income	39,535	–6,931	235	32,911	54,352
Operating expenses					
Financial expenses for management of central government debt					
Realised net interest, etc	–49,420	6,946		–42,474	–48,540
Realised currency gain (/losses)	10,203	25		10,228	–5,106
Total, interest on central government debt 26 92:1	–39,217	6,970	0	–32,247	–53,646
Commissions 26 92:3	–95	0	0	–95	–121
Fees to banks, and others 2 2:3	0	0	0	0	–4
Unrealised net interest, etc	–246	51		–196	477
Unrealised currency gain (/losses)	–29,531	–47		–29,578	9,617
Total interest expense not deducted from appropriation	–29,777	4	0	–29,773	10,094
Total financial expenses on central government debt	–69,089	6,974	0	–62,115	–43,677
Other operating expenses					
Guarantee expenses			177	177	–1,152
Management 2 2:3	–224	–39	0	–263	–263
Management expenses not deducted from appropriation	13	0	–29	–88	–74
Total other operating expenses	–211	–39	147	–174	–1,488
Collection work	0	0	–1	–1	0
Total expenses	0	0	–1	–1	0
Change in capital for the year	–29,764	4	382	–29,378	9,187

Central government borrowing requirement and debt

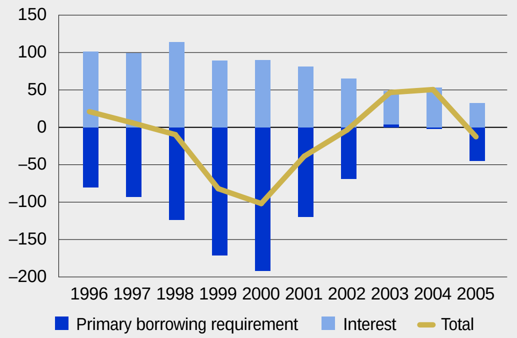
The Debt Office is responsible for borrowing money for the state. A borrowing requirement arises when expenditure is larger than income. The Debt Office makes forecasts of the borrowing requirement in order to be able to plan borrowing. In 2005 the state made a surplus of SEK 14 billion. This surprised us since we anticipated a deficit of SEK 10 billion as late as October.

There was a surplus in central government finances in 2005 for the first time since 2002. Despite this, the central government debt increased by SEK 51 billion. This was partly due to the weakening of the krona during the year. At the end of the year, the central government debt was SEK 1,309 billion, which is equivalent to approximately 49 per cent of GDP.

Diagram 2.1

CENTRAL GOVERNMENT BORROWING REQUIREMENT

SEK billion



SEK 14 billion surplus

In 2005, the state had a surplus of SEK 14 billion, which is an improvement of SEK 65 billion on 2004. See Diagram 2.1 and Table 2.1.

The central government borrowing requirement can be broken down into two components: primary borrowing requirement (or surplus) and interest payments on the central government debt. This means that the primary borrowing requirement includes all of central government payments except interest payments.

SEK 47 billion in primary surplus

The primary surplus was SEK 47 in 2005 (that is a negative borrowing requirement). This is SEK 45 billion more than in 2004.

Central government tax revenue normally increases over time since the tax bases become greater when the economy grows. What was characteristic for 2005 is an unexpectedly large increase in corporate

Table 2.1

CENTRAL GOVERNMENT BORROWING REQUIREMENT

SEK billion	2001	2002	2003	2004	2005
Primary borrowing requirement	–120.0	–68.7	4.3	–2.1	–46.7
Of which					
primary balance	–144.6	–82.9*	–5.8*	–17.1*	–59.9
Debt Office net lending	24.6	14.2	10.1	15.0	13.2
Interest on central government debt, etc.	81.3	65.2	42.2	52.6	32.6
Of which					
interest on loans in Swedish kronor	43.5	39.4	21.3	33.9	30.5
interest on loans in foreign currency	25.4	19.0	17.1	13.6	12.3
realised currency differences, net	12.3	6.7	3.9	5.1	–10.2
Central government borrowing requirement (net)	–38.7	–3.5*	46.6*	50.5*	–14.1

* *In June 2005, the Debt Office corrected the borrowing requirement for the period November 2002 to April 2005. This correction affected the borrowing requirement by SEK –2.3 billion in 2002, SEK 0.2 billion in 2003 and SEK –2.8 billion in 2004.*

taxes. This is partly due to one-off effects as a result of companies dissolving their accrual reserves and partly due to higher corporate profits. Revenue from consumption-based taxes has also increased a lot, as well as dividend income from state-owned enterprises.

Expenditure is also affected, in among other ways, by price and wage adjustments, changes in rules in the transfer systems and the number of people receiving different benefits. There have been relatively few changes in rules in 2005. The increase in sickness benefit days in recent years has ceased although the number of people with activity and sickness compensation continues to increase.

Altogether, however, transfers to households increased during the year, in particular to pensions and child allowances. Other expenditure that increased was tax payments to municipalities and county councils and for assistance and EU support to the agricultural sector. The large payments to the agricultural sector are largely explained, however, by expenditure for 2004 and 2006 being shifted to 2005.

Net lending to central government agencies and enterprises was SEK 13 billion in 2005, SEK 2 billion lower than in 2004.

SEK 33 billion in interest payments

Interest payments on central government debt amounted to SEK 33 billion, which is a reduction of SEK 20 billion compared with 2004.

This change is primarily due to higher currency gains. During the year, the state made a currency gain of SEK 10 billion, compared with a loss last year of SEK 5 billion. Currency gains/losses are primarily affected by the krona's exchange rate for other currencies when a loan matures, but also by changes of the exchange rates between other currencies through various kinds of derivative instruments. The year's currency gains are partly due to a couple of large maturities in dollar loans, which were taken up at considerably higher dollar exchange rates than when they were repaid.

Compared with 2004, realised capital losses also decreased by SEK 6 billion. This is due to the Debt Office having made fewer buy-backs of bonds in connection with bond exchanges.

See Table 1.2 in the section Costs and Funding for a more detailed description of the items included in the expenditure area.

The borrowing requirement forecast was successively reduced

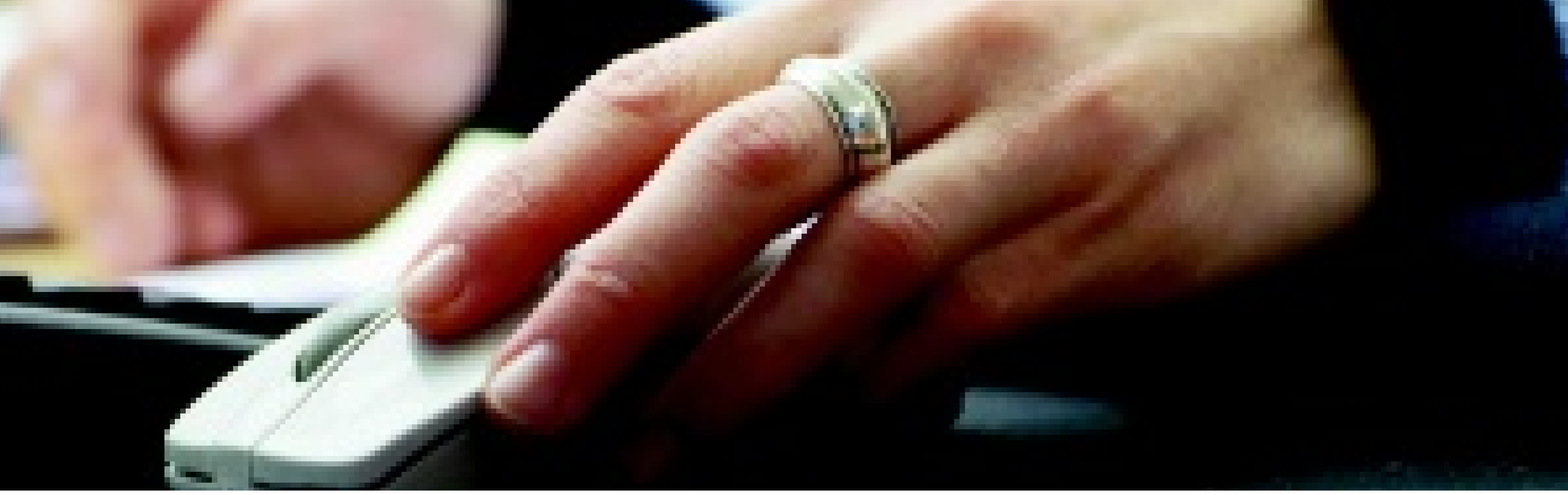
The Debt Office made five forecasts of the borrowing requirement for 2005. These are presented in Table 2.2. During the year, we successively reduced the borrowing requirement forecast. Despite this, the strength of central government finances was surprising and we greatly overestimated the borrowing requirement. As late as October this year, we anticipated a borrowing requirement of SEK 10 billion, which is to be compared with an outcome which was a surplus of SEK 14 billion.

We present the forecasts for the year below and the assessments we made on each forecast occasion.

Table 2.2

FORECASTS OF BORROWING REQUIREMENT 2005

Forecast date	June 2004	Oct 2004	Feb 2005	June 2005	Oct 2005
Borrowing requirement, SEK billion	43	46	38	31	10



SEK 38 billion in February

We reduced the borrowing requirement forecast from SEK 46 to SEK 38 billion in February 2005. This was because the state received larger supplementary payments of tax, larger income from sale of shares in Nordea and had lower interest payments than we anticipated in October 2004.

SEK 31 billion in June

During the spring, payments to the state were larger than expected and it was clear that the borrowing requirement would be lower than our forecast. However, we made the assessment that it was largely a matter of temporary income which would not affect the long-term development. There were a number of reasons for this.

In the first place, the rules for companies' accrual reserves were changed. This meant that interest was charged on the companies' allocations to the reserves, which in many cases led companies to dissolve the reserves and pay their tax directly instead of using the additional tax credit that the allocations otherwise permitted. We believed that this change explained a large part of the extra incoming payments that we saw during the spring but that the trend would not last.

Secondly, we underestimated the state's dividend income from companies, in particular from Vattenfall. We could also note that the Export Credit Board and the National Road Authority made a couple of large payments in central government net lending, which led to a reduction in the borrowing requirement. However, at the same time, we received new information that the Debt Office was to take over loans from Stockholmsleder AB and Göteborgs Trafikleder AB, which would increase the borrowing requirement by SEK 7 billion.

These considerations meant that we made a relatively cautious downward adjustment of the borrowing requirement in June. Altogether, we reduced the forecast by SEK 7 billion. Most of this money was money that the state had already received.

SEK 10 billion in October

In the summer and autumn, it was clear that we had underestimated the effect of the rise in corporate profits on tax payments. One explanation why we did not see this in the June forecast was that the flows from the tax reservations were probably so large that they overshadowed the rise in profits.

In October, we reduced the forecast by a total of SEK 21 billion to SEK 10 billion. Approximately SEK 15 billion was for higher taxation, in particular from companies, but also large VAT income. Expenditure was therefore revised downwards by SEK 3 billion and net lending by SEK 2 billion.

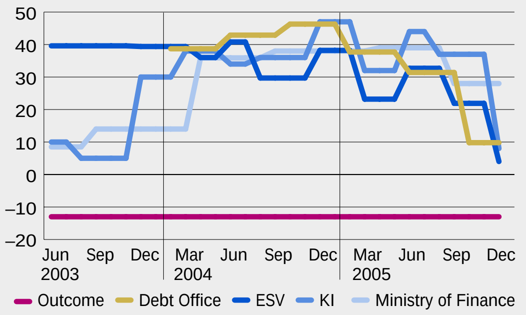
Comparison with other forecasters

Diagram 2.2 shows the outcome for the borrowing requirement for 2005 together with the different borrowing requirement forecasts from the Debt Office (RGK), the Ministry of Finance, the National Financial Management Authority (ESV) and the National Institute of Economic Research (KI).

Diagram 2.2

OUTCOME AND FORECASTS

SEK billion



Since spring 2004, all forecasters have greatly overestimated the borrowing requirement and then successively adjusted their forecasts downwards.

SEK 1,309 billion in central government debt

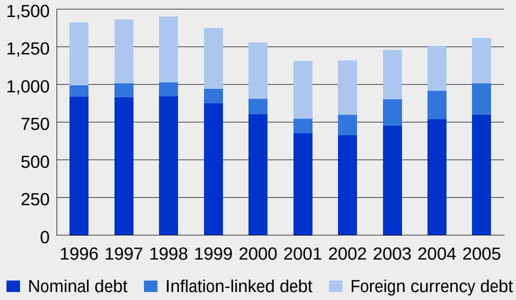
The central government debt was SEK 1,309 billion at the end of 2005. Compared with 2004, this is an increase of SEK 51 billion. See Diagram 2.3 and Table 2.3. Measured in proportion to GDP, the debt was around 49 per cent, which is one percentage point less than last year.

The budget surplus contributed to reducing the central government debt by SEK 14 billion. However, this was counteracted by debt dispositions and short-term investments increasing the debt by SEK 65 billion. The most important debt disposition is the revaluation of the foreign currency debt to current exchange rates. The krona weakened in 2005 which led to an increase in the foreign currency debt of SEK 29 billion.

Diagram 2.3

DEVELOPMENT OF THE CENTRAL GOVERNMENT DEBT

SEK billion



Central government debt was financed by nominal loans in Swedish kronor, inflation-linked loans in Swedish kronor and loans in foreign currency. The proportion of nominal loans was unchanged at 61 per cent at the end of 2005, while the proportion of inflation-linked loans increased by 1 percentage point to 16 per cent. At the same time, the proportion of loans in foreign currency decreased by one percentage point to 23 per cent.

Table 2.3

STRUCTURE OF THE CENTRAL GOVERNMENT DEBT

Instruments, SEK billion	2001	2002	2003	2004	2005	Change 2004–2005
Nominal loans in Swedish kronor						
Government bonds	353.2	351.1	394.9	426.1	424.3	–1.8
T-bills	227.3	218.7	244.5	259.2	288.3	29.1
Nominal retail market loans	57.8	57.9	58.0	59.2	63.3	4.1
Liquidity management instruments	47.7	42.9	28.8	22.1	22.8	0.7
Currency forward contracts etc.	0.0	0.3	–0.5	–0.2	–0.5	–0.3
Total nominal loans in Swedish kronor	686.1	670.9	725.7	766.4	798.2	31.8
Inflation-linked loans in Swedish kronor						
Government bonds	115.8	157.1	171.2	189.0	206.9	17.9
National Debt Savings	1.2	1.2	1.1	0.9	0.9	0.0
Total inflation-linked loans in Swedish kronor	117.0	158.3	172.2	189.9	207.8	17.9
Loans in foreign currency	407.4	375.0	330.9	301.0	302.6	1.6
Central government debt	1,210.6	1,204.2	1,228.8	1,257.3	1,308.6	51.2

Debt management

The Debt Office is responsible for managing the existing central government debt and for taking up new loans for the state. A borrowing requirement arises when central government expenditure is larger than income, and when older loans mature and must be repaid. Borrowing takes place by the Debt Office issuing government securities. The Debt Office borrows both in the Swedish and foreign fixed-income market. A smaller part of the debt is financed by savings products directed at private persons and small investors, see section on Retail market borrowing.

Goals and guidelines

The overall goal for central government borrowing is to minimise the long-term costs while taking risk into account. Other goals stated in the appropriation directions are:

- to improve control and evaluation of central government debt management
- to contribute to improving the performance of the market for government securities without increasing the cost of central government debt
- to borrow directly from private persons to reduce the cost of central government debt

Debt management is controlled by the guidelines adopted annually by the Government based on proposals from the Debt Office. These state the benchmarks for the structure and maturity of government debt.

According to the Guidelines for 2005 the debt in foreign currency was to decrease so that it would eventually be 15 per cent of central government debt. In 2005, amortisation is therefore to take place at SEK 25±15 billion. It was furthermore stated that the proportion of inflation-linked loans was to increase to 20-25 per cent in the long-term. However, consideration was also to be given to market demand and cost compared with borrowing in other types of debt. The guidelines also proposed that the maturity (in terms of duration) in the aggregate nominal krona and foreign currency debt was to be reduced from 2.7 to 2.5± 0.3 years. This reduction is to take place successively during the year to avoid unjustified transaction costs.

Reporting requirements

An overall description of the central government debt management and result is provided here. A complete basis for evaluation of central government debt management is available in *Underlag till utvärdering av statsskuldsförvaltningen 2005 (in Swedish)*. The Debt Office has also been commissioned to analyse questions concerning share control and a new measure of maturity. The result is to be reported in the guidelines proposal for 2006.

Important events in 2005

- 4 The amortisation pace of the foreign currency debt decreased from SEK 25 to 20 billion
- 4 The Debt Office issued a new inflation-linked bond with a 7-year time to maturity
- 4 The issue target for inflation-linked bonds was reduced from SEK 20 to SEK 15 billion
- 4 The average duration was reduced in the nominal krona and foreign currency debt by 0.2 years to 2.5 years.

Overall structure of central government debt

The overall structure of the debt is controlled by annual Government guidelines, based on the expected cost and risk considerations.

The debt consists of three types of debt: nominal krona debt, inflation-linked krona debt and foreign currency debt. Distributing the central government debt to these three types of debt is a way of reducing the risk of greatly increased interest expense.

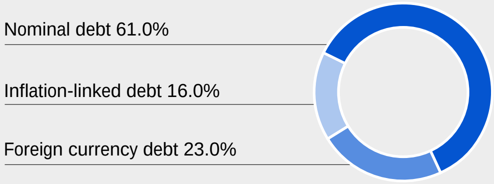
The duration of the nominal krona debt and the foreign currency debt is governed on the basis of a duration benchmark set by the Government. This benchmark serves as a restriction in borrowing, preventing too much borrowing in long or short maturities. Since the yield curve generally has a positive slope, it is more expensive to borrow in long maturities than in short. At the same time, short borrowing is associated with greater risk as short loans are rearranged more frequently which increases exposure to interest rate fluctuations. A structure with a spread of maturities reduces the risks in debt management. The benchmark set by the Government for duration in its guideline proposal accordingly strikes a balance between costs and risk.

In 2005, the Government reduced the benchmark from 2.7 to 2.5 years. The Government's assessment was that there was scope to reduce the anticipated costs by reducing the duration of the total nominal krona and foreign currency debt. To avoid unnecessary transactions costs, the duration of the nominal krona debt was reduced in steps during the year. For short periods, the duration has been high due to falling interest rates and our overestimation of the borrowing requirement. At the end of the year, the duration of the nominal debt was 2.5 years, however. This adaptation took place in a considerably shorter time in the foreign currency debt.

The duration of the types of debt is decided upon by the board of the Debt Office. It was decided in 2005 that it should be reduced to 2.8 years in the nominal krona debt and to 1.8 years in the foreign currency debt. By allowing the nominal krona debt to have a longer duration, good liquidity can be achieved in all bonds regardless of duration. Thus, interest expense can be kept down while complying with the requirement for good market maintenance.

Diagram 3.1

THE COMPONENTS OF THE CENTRAL GOVERNMENT DEBT



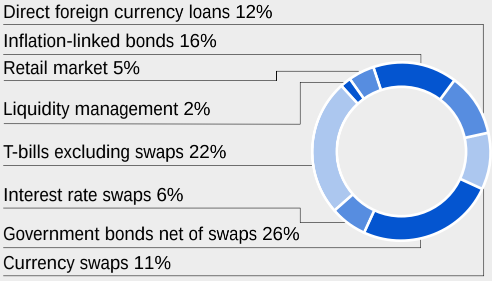
Total central government debt stated in per cent, 31 December 2005

Funding of the central government debt

The state budget showed a surplus (negative borrowing requirement) in 2005 equivalent to SEK 14.1 billion. Despite this, there was a borrowing requirement since loans that matured during the year had to be refinanced. The gross borrowing requirement which is the sum of the net borrowing requirement and maturing loans was SEK 66 billion. This is financed by borrowing in the Swedish and foreign fixed-income markets, see Table 3.5, page 21.

Diagram 3.2

CENTRAL GOVERNMENT DEBT INSTRUMENTS



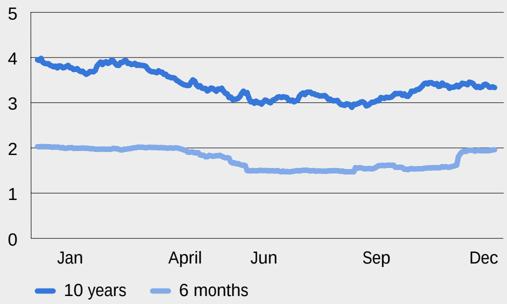
Debt instruments stated in per cent, 31 December 2005.

part of the nominal borrowing takes place in government bonds and T-bills. The nominal debt category also includes repos, overnight loans and liquidity bills. They are mainly used to counter temporary fluctuations in the central government borrowing requirement. The distribution between T-bills and nominal bonds is to be such that the duration is 2.8 years on average.

Diagram 3.3

INTEREST RATE TREND

Per cent, monthly



Interest rates have continued to be at low levels in 2005 and we have therefore been able to borrow on very favourable terms.

Nominal borrowing in SEK

Nominal loans are traditionally the most important source of central government finance. The major

Government bonds

The Debt Office issues nominal government bonds at auctions every other week. Authorised primary dealers

FACTS

Interest rate movements in 2005

During the year, Swedish market rates have mainly moved downwards, see Diagram 3.3. The Swedish 10-year bond rate fell from around 4 per cent to at the lowest 2.95 to subsequently rise to 3.30 per cent towards the end of the year.

Real interest rates also decreased during the year, although not as much as nominal rates. This led to very low break-even levels (the difference between nominal and real interest rates), see the Inflation-linked krona debt section.

It is not just in Sweden that interest rates have been low in 2005. Interest rates have also been low in the euro area and in the United States. Despite increases in the key interest rate in the United States, the US bond rates have only risen to a limited extent during the autumn.

At the time of the Riksbank reducing the interest rate last summer, Sweden had approximately 20 interest-rate points lower ten-year interest rates than in the euro area. We most recently saw the same interest-rate difference in 2000 when the Swedish key interest rate was below that of the ECB (European Central Bank). At the end of the year, there was no longer a gap in ten-year rates, however.

It is mainly a high level of demand, in particular from Asian investors, that has limited the tendencies to interest rate increases. In addition, there are low and stable inflation expectations and an endeavour on the part of, for instance, pension managers to extend the duration in their portfolios in order to improve the matching of assets and liabilities.

In Sweden, a discussion has taken place during the year on changes in rules for pension companies and the consequences that this can be expected to have on the investments of life assurance companies. The rule changes take effect on 1 January 2006 and may lead to an increased demand for bonds with longer maturities.

submit bids for their customers that wish to purshase government securities. Borrowing mainly takes place in bonds with a 2, 5 or 10-year maturity. These are referred to as benchmark loans, and are always issued in such large volumes that good liquidity can be maintained. A new 10-year bond was introduced on 14 September. This will be the ten-year benchmark loan in 2006 and the bond that we primarily make emissions in.

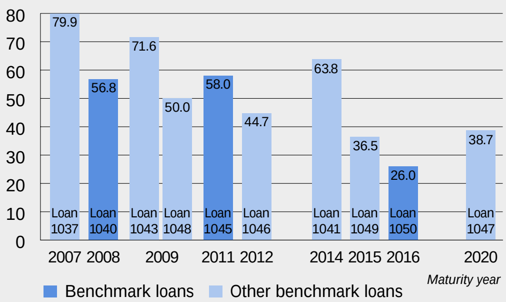
Borrowing in nominal government bonds decreased from SEK 91 billion in 2004 to SEK 56 billion in 2005. This is explained by a decreased borrowing requirement and by the shortening of the duration of the nominal debt.

The Debt Office only makes a qualitative evaluation of the borrowing in nominal bonds. Our assessment is that the auctions have taken place without problems. This is confirmed by questionnaire surveys addressed to dealers and investors.

Diagram 3.4

NOMINAL GOVERNMENT BONDS (benchmark loans)

SEK billion



Outstanding volumes of nominal bonds. 1050 is a new bond.

Table 3.1

ISSUES IN NOMINAL BONDS

	2001	2002	2003	2004	2005
Cover ratio *	2.34	2.92	3.16	3.17	3.69
Average issue rate	4.90	4.94	4.25	4.10	3.04

* *Bid volume in relation to issue volume offered.*

The interest rate we have obtained in auctions has mainly been between the rates that correspond to the market's bid and ask rate.

T-bills and interest-rate swaps

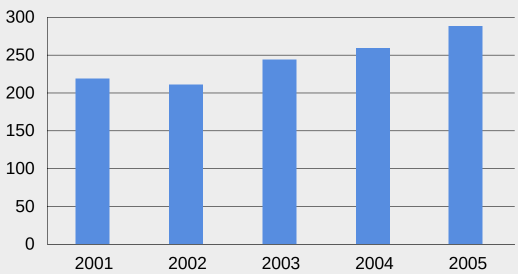
T-bills are issued every other week and make up the major part of short-term borrowing. The volume of

T-bills issued can vary greatly between auctions due to fluctuations in the central government borrowing requirement. An alternative to borrowing in T-bills is to issue bonds and subsequently replace fixed interest with variable. This takes place through a transaction in the derivative market, an "interest-rate swap". The advantage is that the state can use its relative strength as a borrower in longer maturities and thus reduce the cost of borrowing.

Diagram 3.5

STOCK OF T-BILLS

SEK billion, 31 December the past five years



Outstanding volume of T-bills as at 31 December
Borrowing in T-bills has been less than expected due to a lower borrowing requirement.

Table 3.2

ISSUES OF T-BILLS

	2001	2002	2003	2004	2005
Cover ratio *	2.22	2.81	2.29	2.18	2.51
Average issue rate	4.03	4.20	3.04	2.24	1.80

* *Bid volume in relation to issue volume offered.*

The Debt Office's borrowing in T-bills performed well during the year. The average issue rate was 1.80 per cent, which is considerably lower than in 2004. In 2005, we obtained bids in auctions which were at least as large as the volume offered. This entailed that we sold the whole of our offered volume, which is a better result than in 2004. Interest-rate swaps have contributed to reducing our borrowing costs by eight interest points since 2003, which is equivalent to SEK 93 million.

Liquidity management

The need to borrow varies greatly from day to day during a month depending on the pattern of incoming and outgoing central government payments. The deficit can be as large as SEK 50 billion on some days. On other days, incoming payments are larger than outgoing which leads to a surplus. However, it is possible to see a pattern. There is often a surplus during a couple of days in the middle of the month in connection with tax payments. Towards the end of the month, the borrowing requirement usually increases due to T-bills maturing.

In 2005, the Debt Office had a borrowing requirement on 52 per cent of the year's bank days. The deficit was around SEK 17 billion these days. The deficits were primarily financed by sale of T-bills, liquidity bills and long repos. The remaining deficits were financed by overnight loans and short repos. Since autumn 2005, the Debt Office has deliberately increased repo financing with the intention of decreasing the cost of central government debt management.

All krona payments affect the balance of the central government account at the Riksbank. Regardless of how the expected development of the borrowing requirement, the Debt Office ensures, through the daily liquidity management, that the account has a zero balance at the end of every day.

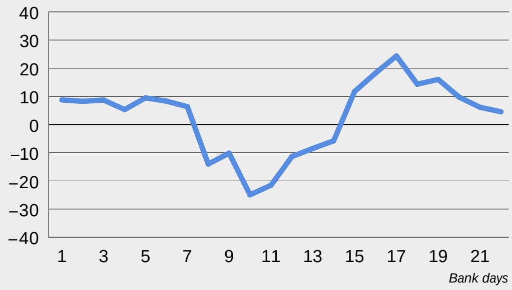
A negative balance is prohibited by law. The reason is that the state may not borrow at the Riksbank and thus finance its expenditure through printing money. While there is no statutory barrier to depositing surpluses at the Riksbank, the yield is better if the money is invested in the market.

Liquidity management normally takes place in Swedish kronor. This means that short-term balances in foreign currency are exchanged to be managed in the krona market. In the event of payments in foreign currency, the Debt Office obtains liquid funds in kronor which are then exchanged to the correct currency. Net exchanges were SEK 33.8 billion during the year.

Diagram 3.6

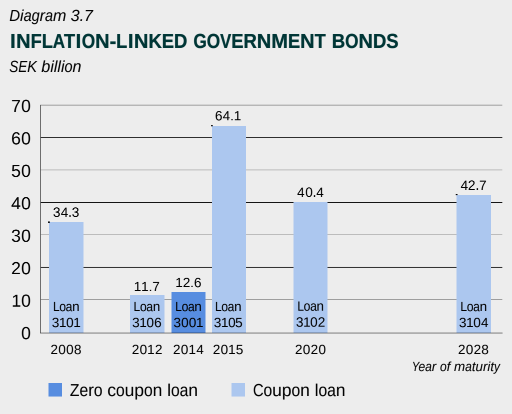
AVERAGE DAILY BORROWING REQUIREMENT DURING A MONTH IN 2005

SEK billion



A negative borrowing requirement means that there is a surplus to invest. This usually occurs in the middle of the month in connection with incoming tax payments. Towards the end of the month, the borrowing requirement increases due to maturing T-bills.

The total result of liquidity management was SEK 16.8 million. This result is calculated as the actual borrowing cost compared with the Riksbank's repo rate. The result for 2005 is higher than the previous year, mainly depending on there being a shortage of government securities during the autumn. We have therefore been able to make repos at very favourable levels.



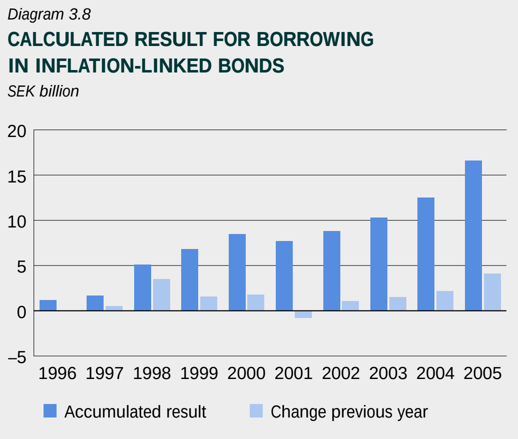


Table 3.3

ISSUES OF INFLATION-LINKED BONDS

	2001	2002	2003	2004	2005
Issue volume [1]	–2.9	2.0	18.2	17.7	13.0
Volume sold [2]	11.4	23.4	18.2	17.7	12.1
Cover ratio [3]	4.8	4.4	3.8	2.3	3.8
Average interest [4]	3.64	3.59	2.83	2.38	1.61
BEI [5]	1.67	1.90	2.09	2.23	1.84

[1] *Total volume issued in auctions during the year, net after outright auctions, exchanges and buy-backs.*

[2] *Total volume sold in auctions excluding exchanges and buy-backs.*

[3] *Bid volume in relation to issue volume offered.*

[4] *Weighted average interest rate during the year at issues.*

[5] *Average break-even inflation.*

Inflation-linked krona debt

Inflation-linked bonds differ from nominal bonds by having an in-built protection against inflation. In inflation-linked borrowing we accordingly pay both a fixed interest rate and compensation for inflation.

The so-called break-even inflation is calculated for inflation-linked bonds. This is the difference between the real interest rate at the time of issue and the nominal interest rate of a bond with a corresponding time to maturity. Break-even inflation states how high inflation must be on average during the time to maturity of the bond for the cost of inflation-linked borrowing to be equal to nominal borrowing. If inflation is higher than the break-even level, inflation-linked borrowing will be more expensive for the state. However, if it is lower, inflation-linked borrowing will be a cheaper alternative. Only at maturity will it be clear whether inflation-linked funding in 2005 has contributed to reducing the costs of debt management. Therefore the calculated result shown below only gives an indication of the final result.

In 2005, the Debt Office introduced a new inflation-linked bond for the first time since 1999. The bond maturing on 1 April 2012, is a relatively short loan and therefore complements our offering of longer inflation-linked bonds. The outstanding volume was SEK 11.6 billion on 31 December.

The Debt Office decided to change the form of auctions for inflation-linked bonds in 2005 in such a way as to make the auction procedure clearer. This is also in line with the points of view that we have received from our dealers and investors.

In 2005, the outstanding inflation-linked debt increased from SEK 190 to SEK 208 billion. Measured as a proportion of the total debt, this was an increase by one percentage point to 16 per cent. During the year, the forecast of how much we were to issue in inflation-linked bonds was reduced from SEK 20 to 15 billion per year. This was due to weaker demand than expected. The total volume sold was SEK 12.1 billion in 2005. The average issue rate in 2005 was 1.61 per cent, which is low compared with previous years.

The auctions took place at break-even levels between 1.64 and 2.12 with an average of 1.84 per cent.

The calculated result was SEK 4.1 billion in 2005 and is calculated as the difference between borrowing in inflation-linked and nominal bonds with a corresponding time to maturity.

The foreign currency debt

The present foreign currency debt was built up during a period when the borrowing requirement was very large. Loans in foreign currency then contributed to covering a part of the borrowing requirement and thereby keeping down loan costs.

For a number of years, the state has been amortising the foreign currency debt to reduce the total risk level in the central government debt. Since the debt is measured continuously and valued in kronor, changes in the exchange rate have a direct effect on the amount of debt. The goal is not to abolish the foreign currency debt, however, even if it does entail an exchange rate risk. The foreign currency debt contributes to diversifying the central government debt, since it reduces exposure to the Swedish interest rate.

There may also be cost benefits in borrowing in foreign fixed-income markets. This applies provided that interest rates are higher in Sweden than abroad and/or that the value of the krona develops favourably. The level of the foreign currency debt is to be 15 per cent according to the guidelines.

Every year, the Board of the Debt Office decides the currencies which the foreign currency debt is to consist of and the proportion for the respective currency (currency benchmark). The board also makes decisions on the total duration of the foreign currency debt and the duration for each currency.

In November 2005, the Debt Office decided to reduce the pace of amortisation of the foreign currency debt. The reason was the weakening of the krona during the year. In all, amortisation amounted to

Diagram 3.9

CURRENCY DISTRIBUTION OF BENCHMARK PORTFOLIO

2005

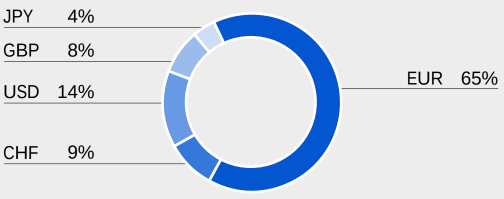
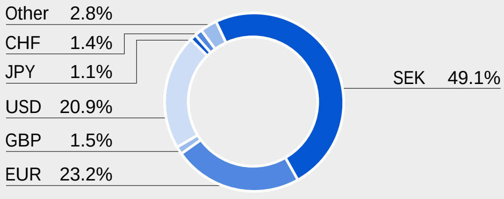


Diagram 3.10

FUNDING OF THE FOREIGN CURRENCY DEBT

31 December 2005



FACTS

The Debt Office's role in the fixed-income market

The Debt Office is an important player in the Swedish fixed-income market. By selling government securities, we borrow money to cover the central government borrowing requirement. The bonds are sold at auctions where a number of dealers (mainly banks) take part. The bonds are sold at auctions to the dealer or dealers who have stated the lowest interest rate, that is the highest price, at the auction. In other words, the market sets the price and thus the cost for the Debt Office to borrow money.

Since few investors retain a bond until maturity, there is an important second-hand market for bonds. Purchasers and sellers include Swedish and foreign banks, pension institutions and insurance companies. The price that an investor is prepared to pay for a particular bond in the second-hand market varies. The market value of the bond is affected by a number of economic variables, for instance, inflation expectations, the international interest-rate level and confidence in fiscal policy. In other words, the Debt Office does not affect how the market value of a bond develops.

The second-hand market consists of trade between dealers (interbank trade) and trade between dealers and other investors (customer trade). In 2005, customer trade had a turnover of SEK 17.8 billion per day. The total turnover in the interbank market was SEK 3.1 billion per day (excluding broker trade). Trade between the different dealers takes place partly through the electronic trade platform Saxess. The conditions for participants in Saxess are determined jointly by representatives of the dealers, OM and the Debt Office. The turnover in the electronic trade was SEK 1.2 billion per day (of a total of SEK 3.1 billion).

SEK 20 billion. At the same time, older loans matured equivalent to SEK 54 billion. The borrowing requirement which is the difference between maturing foreign currency loans and amortisation, was SEK 33.9 billion in 2005. Funding of the foreign currency debt does not always comply with the currency distribution specified in the benchmark. If it is favourable to borrow in dollars during a particular period, a large part of borrowing can take place in this currency. Derivative instruments are therefore used to obtain a currency exposure which accords with that specified in the benchmark.

At the end of 2005, the foreign currency debt was SEK 303 billion. During 2005, the borrowing conditions in the international fixed-income market have been favourable. It has on average been possible to issue bonds in foreign currency for 30 interest-rate points below the standardised bank rate for dollars (USD libor). Currency swaps have on average cost 21 interest rate points below USD libor.

Active management

The Debt Office is able to engage in active management of foreign currency with a limited risk-taking. The intention is to further reduce the state's costs for the debt by taking interest rate and currency positions in the international markets.

We use a number of external managers to diversify management and to obtain an idea of how efficient our own management is. These carry out management according to the same principles as the Debt Office, although on a smaller scale.

The active management of foreign currency showed a negative result of SEK 428 million. In the period 2001 to 2005, active management has, however, reduced the debt cost by almost SEK 1,035 million.

The currency side accounted for the whole of the negative result in 2005. Euro and yen purchases

Table 3.4

BORROWING COST OF DIFFERENT DEBT FORMS

Interest rate points below USD Libor	2001	2002	2003	2004	2005
Bond borrowing	–	–19.8	–26.9	–29.6	–27.9
Krona/currency swaps	–47.0	–26.6	–28.2	–18.0	–21.0
Average cost	–47.0	–22.5	–27.5	–27.6	–26.8

In 2005, the Debt Office borrowed in foreign currency at a variable cost corresponding to 26.8 interest-rate points below the standardised bank rate for the dollar (US dollar Libor). 86 per cent was borrowed by issuing bonds in foreign currency at a cost equivalent to 27.9 interest-rate points below USD Libor. 14 per cent was borrowed in kronor which was subsequently swapped to foreign currency corresponding to a cost of 26.8 per cent below USD Libor.

Table 3.5

FUNDING IN GOVERNMENT SECURITIES

SEK billion	2001	2002	2003	2004	2005
Net borrowing requirement	–39	–4	47	51	–14
Maturities, buy-backs, change in cash equivalent holdings, etc.	28	42	56	33	80
Total	–10	38	102	84	66
Funding	2001	2002	2003	2004	2005
Net borrowing requirement	–39	–4	47	51	–14
Change in cash equivalent holdings and retail market borrowing [1]	–13	–13	15	–10	24
Maturities, buy-backs etc.	44	55	43	43	56
Government bonds	18	17	12	21	16
Foreign currency loans	26	38	31	22	40
Total	–10	38	102	84	66
Funding in government securities	2001	2002	2003	2004	2005
T-bill borrowing, net [2]	–76	–54	–31	–35	–27
Bond borrowing, gross	66	92	134	119	93
Foreign currency bonds	0	33	11	10	25
Inflation-linked bonds [3]	3	9	18	18	12
Nominal government bonds [4]	63	50	105	91	56
Funding	–10	38	102	84	66

[1] *Change in liquidity management instruments and retail market loans, net*

[2] *Net of issues (excluding exchanges) and maurities during the calendar year*

	2001	2002	2003	2004	2005
[3] *Issue volume per auction, average*	*0.3*	*1.0*	*1.1*	*0.9*	*0.6*
[4] *Issue volume per auction, average*	*2.9*	*2.3*	*4.6*	*4.0*	*2.4*

Table 3.6

RESULT OF ACTIVE MANAGEMENT

SEK billion	2001	2002	2003	2004	2005
Total management	–103	434	937	195	–428
The Debt Office	–78	392	880	164	–426
Of which:					
Interest-rate positions	83	–78	224	–18	187
Currency positions	–161	470	656	182	–613
External managers	–25	42	57	31	–2
Result in per cent of managed amounts:					
The Debt Office	–0.02	0.11	1.52	0.11	–0.25
External managers	–0.12	0.14	0.14	0.09	–0.01

financed by dollar sales, were the two most negative positions. The interest-rate positions made a positive contribution to the result, The Debt Office has, in particular, taken positions for higher interest rates the US and Japan.

Market and debt maintenance

The Debt Office is an important player in the Swedish money and bond markets. We have therefore a responsibility to work for a well-functioning government securities market, since this in turn contributes to reducing borrowing costs. The Debt Office therefore aims for a transparent and predictable borrowing policy. To achieve this, we ensure, for instance, that borrowing is concentrated to a number of maturities, that our sales channels are efficient and that there is good communication with our dealers. Dealers are also offered a number of market maintenance services, for instance, repos and exchanges of bonds for T-bills.

Our work has been evaluated by an external company. The report is based on interviews with dealers and investors and the results will be presented in spring 2006.

Goal fulfilment

In 2005, the Debt Office has:

- amortised the foreign currency debt by SEK 20 billion. This is within the amortisation interval specified in the guidelines.
- increased the proportion of inflation-linked loans from 15 to 16 per cent of the central government debt.
- achieved the duration benchmark for the aggregate nominal krona and foreign currency debt
- contributed to a well-functioning market by market maintenance.

Our assessment is that we have made well-considered strategic decisions and that the goal of minimising cost while taking risk into consideration has been achieved. SEK 20 billion of the foreign currency debt was amortised and the inflation-linked borrowing increased. For short periods, the duration has been too high due to falling interest rates and our overestimation of the borrowing requirement. The duration of the nominal debt amounted to 2.5 years at the end of 2005, which was in accordance with the Government's guidelines.

We consider that the operational management has also performed well. The Debt Office has achieved relatively good terms in the inflation-linked borrowing and on loans in foreign currency. While the active management has produced a deficit of SEK 428 million this year, costs for debt management have been reduced of the most recent five-year period by over SEK 1 billion. To sum up, there are therefore grounds for the assessment that the Debt Office has complied with the objectives in the appropriation directions and the Government's guideline decision.

Retail market borrowing

Borrowing in the retail market is targeted on private persons, small businesses and organisations. The main part of this borrowing consists of lottery bonds and National Debt Savings. Government securities are also sold under the product name “Retail Sales of Government Securities” to private persons and other small investors via internet. On 31 December 2005, SEK 64 billion or 4.9 per cent of the Swedish central government debt was borrowed in the retail market.

Goal

4 Borrowing in instruments addressed directly to the retail market is to give the greatest possible saving in relation to the Debt Office’s alternative forms of borrowing in the capital market. The goal applies to the total borrowing in the retail market.

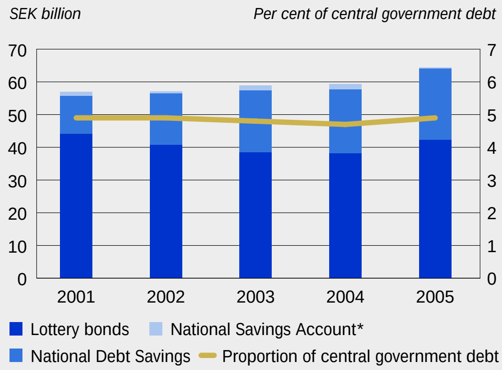
Reporting requirements

4 The cost saving in borrowing in the retail market is to be analysed and reported for 2005 and for the period 2001 to 2005. The position of the Debt Office in the market for savings products is to be clarified.

4 Experiences and costs for ”Retail Sales of Government Securities” is to be reported. ”Retail Sales for Government Securities” is not included in the income statement for direct retail market borrowing otherwise.

Diagram 4.1

THE RETAIL MARKET SHARE OF CENTRAL GOVERNMENT DEBT



** The National Savings Account is an old savings form which was wound up in 2005.*

Important events in 2005

4 There was a high level of interest in lottery bonds and the outstanding stock increased by 10 per cent.

4 National Debt Savings continued to increase despite low interest rates.

4 The Debt Office launched a new advertising concept in 2005, which met a good response.

Retail market borrowing reduces costs

Retail market borrowing reduced the costs of government debt by SEK 106 million in relation to alternative borrowing in the capital market in 2005. The total cost saving for the five-year period from 2001 to 2005 was SEK 1,104 million.

Lottery bonds accounted for the major part of the cost saving. The volume of sales was as large as in the mid-1990s when the prize per cent was much larger. We thus made a good result despite a low interest rate margin.

We also decided to issue lottery bonds with a five-year maturity instead of shorter loans, thus spreading the costs over a longer period.

The result for National Debt Savings improved by SEK 4 million, mainly due to the larger outstanding volume.

Table 4.1

SAVING RETAIL MARKET BORROWING

SEK million	2001	2002	2003	2004	2005
Lottery bonds	287	317	240	110	98
National Savings Account	2	–	–	–4	–2
National Debt Savings	10	10	20	6	10
Total saving	299	327	260	112	106

As from 2004, the Debt Office has used a new model for calculating results. Previous years have not been converted in accordance with the new method. The values are therefore not wholly comparable between years.

The result shows how much the equivalent borrowing would have cost in the institutional fixed-income market. Income is measured as an interest-rate margin in relation to borrowing in corresponding maturities in the money and bond market. The costs are the actual costs for borrowing in the retail market (e.g. system support, marketing and commissions).

Continued interest in lottery bonds

The stock of lottery bonds increased by over SEK 4 billion in 2005. New sales were SEK 8.6 billion, while bonds for SEK 4.5 billion matured. The outstanding volume decreased from 1998 until 2004 when it flattened out and showed a net increase instead in 2005.

The first lottery loan was issued in March when two loans matured.

The second premium loan was unusual since no previous loan matured at the same time. Sales went well, lottery bonds for SEK 3.8 billion being issued. Sales in the autumn show that there is scope to issue lottery bonds without taking money from maturing loans.

Many new customers

There are around 500,000 lottery bond customers, a large part of them being previous customers. In the most recent loan, 34 per cent were wholly new customers, a substantial increase compared with previous bonds. New, younger customers are important for future growth.

When the stock market fell, customer demand increased for safe products such as guarantee products. The interest in lottery bonds can be seen in this light. The prize component of lottery bonds gives customers a chance of a high yield without risking their investment. This has been emphasised in the advertising for lottery bonds.

National Debt Savings up despite lower interest

The outstanding volume of National Debt Savings increased by SEK 1.4 billion in 2005. Only accounts with variable interest increased, accounting for about 60 per cent of the total volume. The volume of accounts with fixed interest was largely unchanged.

The rate of increase for National Debt Savings has been slower in recent years due to lower interest rates and the stock market recovery. Variable interest accounts are still competitive alternatives to the interest rates offered on ordinary bank accounts.

A good interest rate and no charges are the main sales arguments when marketing National Debt Savings. At the end of 2005, there were around 150,000 National Debt Savings customers.

Table 4.2

NATIONAL DEBT SAVINGS

SEK billion	Outstanding volume, 31.1.2005	Change 2005
Fixed nominal interest *	7.6	0.1
Fixed, real interest rate	0.9	0.0
Floating, Without time limit	12.0	1.1
Floating, Monthly Savings	1.3	0.2
Total National Debt Savings	21.8	1.4

**Includes saving at nominal, variable interest rate for SEK 0.1 billion.*

Too much paid out

In March 2005, the final National Savings Account matured. The Debt Office incorrectly paid out approximately SEK 1 billion to around 10,000 customers. Our swift action and the cooperation of customers enabled us to recover almost all of this money. At the end of 2005 SEK 70,000 remained outstanding. This incident cost us around SEK 1 million. More stringent procedures and a new system support reduce the risk of new incidents.

Important to be seen in the saving market

Together with banks and other financial institutions, the Debt Office is a player in the saving market. In 2005, our share of the saving market fell by 0.1 per cent to 7.2 per cent.[1]

The fixed-income savings market (deposits in bank accounts, private bonds and interest funds) increased by 9 per cent to SEK 896 billion on 30 September 2005.

The Debt Office is among the smaller players (comparable with the niche banks, but considerably smaller than the major banks). Our retail market borrowing increased in the year and we almost succeeded in keeping pace with the unusually high increase in the savings market in 2005.

New advertising campaign

The Debt Office started working with a new advertising agency in 2005, Storåkers McCann. The message in the advertising campaign was secure and enjoyable saving. Sales are to increase by increased knowledge about the Debt Office and our saving products.

Our campaigns reached recipients to a very high extent. We were considerably above the industry average as regards how many had seen and understood the advertisements and could identity the sender. Many found our products attractive.

Internet sales of government securities

The Debt Office sold government securities on the Internet for around SEK 500 million in 2005, an increase of 34 per cent compared with last year. Sales and the number of customers have successively increased since the introduction of “Retail Sales of Government Securities” in autumn 2002.

Small companies and organisations are an important target group for government securities. Over half the volume was sold to companies in 2005 despite only 10 per cent being corporate customers.

Both companies and private persons bought T-bills, which accounted for 96 per cent of sales in 2005. The corporate market is less developed and we see a niche for government securities here.

Starting in September, we carried out an advertising campaign directed at companies and organisations. The number of corporate customers increased by 30 per cent by 31 December. The cost of ”Retail Sales of Government Securities” was SEK 7 million in 2005, the same level as in 2004.

Goal fulfilment

The goal for borrowing on the retail market was met. Lottery bonds and National Debt Savings generated a cost saving of SEK 106 million in relation to alternative borrowing in the capital market in 2005. The cost saving for the five-year period 2001 to 2005 was SEK 1,104 million.

[1] *The retail market borrowing of the Debt Office as at 31.12.2005, the fixed-interest saving market as at 30.09.2005.*

Cash management

Central government agencies, public enterprises and certain state-owned enterprises deposit and borrow money at the Debt Office on commercial terms. The Debt Office is also responsible for the state payment system. This is to make possible efficient and secure payments, to provide the agencies with good service and contribute to good state cash management. The borrowing and debt management of the Debt Office are based on deficits and surpluses in the outgoing and incoming payments of the agencies through this payment system.

Goals

The Debt Office is to:

- set market terms for loans and investments to government agencies and some companies; the terms are to be based on the cost of borrowing in the capital market
- work for the state payment system to make possible efficient payments, to maintain a high level of security, to be adapted to the central government accounting system, to meet the state's need for information and to be neutral in terms of competition; no bank is to be favoured above any other
- to work for reduced interest expenses in the state
- to offer the agencies good service
- to further development the state payment system.

Reporting requirements

The Debt Office is to report:

- the principles for setting interest
- the improvements achieved in qualitative and, if possible, quantitative terms
- the customers' view of the quality and applications of the service
- major steps in development work and more important proposals for structural measures and an analysis of the effects of measures.

Important events in 2005

- The average cost of a state payment decreased.
- New interbank services for agencies were introduced.
- A greater role in payments to and from the EU.
- New framework agreements on charge cards and purchase cards came into effect.

Payment volumes also increased in 2005

Six banks process state payments: Swedbank, Nordea, SEB, Svenska Handelsbanken, Den Danske Bank and the Riksbank. The state has framework agreements for payment processing with three of the banks, namely with Swedbank, Nordea and SEB. The other banks

Table 5.1

PAYMENT VOLUMES

SEK billion	PAYMENT FLOWS 2005 Total	Change from 2004	per cent
Incoming payments	2,119	45	2
Of which:			
Framework agreement banks	1,832	28	2
Other banks	287	17	6
Outgoing payments	2,065	–5	–0
Of which:			
Framework agreement banks	1,722	–6	–0
Other banks	343	1	0
Total	4,184	40	1

Diagram 5.1

NUMBER OF CENTRAL GOVERNMENT BANK ACCOUNTS

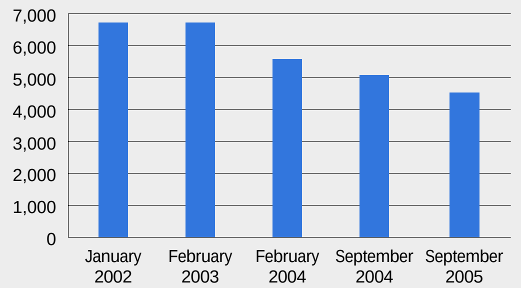
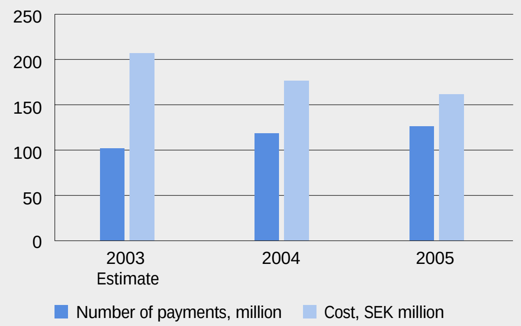


Diagram 5.2

CENTRAL GOVERNMENT PAYMENTS AND COSTS



were used by agencies which need bank services that are not included in the framework agreements. Table 5.1 shows the payment flows broken down by framework agreement banks and other banks.

The volume of payments has increased by 1 per cent in 2005. This increase is mainly due to increased incoming tax payments to the Tax Agency and the National Road Agency and large transfers between the Social Insurance Agency and the AP funds.

The volume of payments processed through the framework agreement banks has not changed markedly during the year. However, the relative share of the banks has changed. Nordea processed 51 per cent of the payment volume, a decrease of 4 percentage points from last year. SEB processed 27 per cent, which is an increase of 3 percentage points. Swedbank processed 7 per cent of the volume, which is an increase of 1 percentage point. The Debt Office has processed the remaining 15 per cent, of which 11 per cent is to/from other banks than the framework agreement banks.

The number of bank accounts continues to decrease

There are approximately 4,500 state bank accounts, which is a reduction of almost 500 accounts in 2005. Since the current framework agreements came into effect, the number of accounts has decreased every year, primarily due to the agencies adapting to the account charges in the framework agreements, see Diagram 5.1

The costs of payment processing is decreasing despite an increased number of payments

The state's costs for payments decreased in 2005 by SEK 16 million, despite the number of payments increasing by SEK 6 million. One reason for the reduction of costs is that a large part of the Tax Agency's tax repayment is now deposited directly in the recipient's account. Another reason is that the remaining payments for which payment is made by sending postal cheques slips is no longer processed through Plusgirot in Nordea, but for a lower price by SEB which uses the bank giro system.

The main reasons for the increase in the number of payments is that the payments of the Swedish National Board of Student Aid (CSN) now takes place within the framework agreement, and that the additional vehicle tax was paid in to the National Road Agency in 2005.

The state's costs for payments have successively decreased over the past five years due to the changeover to new framework agreements from 1 January 2004 and the adaptation of the agencies to the new

Table 5.2

COST OF A CENTRAL GOVERNMENT PAYMENT

CALENDAR YEAR 2005

Framework agreement bank	No. of payments million	Estimated cost million SEK	Average cost SEK
Nordea	51.6	88.8	1.72
Swedbank	43.5	36.9	0.85
SEB	30.2	35.1	1.16
Total 2005	125.3	160.8	1.28

Table 5.3

COST PER AGENCY FOR A PAYMENT

CALENDAR YEAR 2005

Agency	No. of payments million	Estimated cost million SEK	Average cost SEK
Social Insurance Agency	58.0	63.3	1.09
Tax Agency	18.0	28.6	1.59
National Road Agency	15.2	19.2	1.27
National Board of Student Aid	13.8	12.6	0.91
National Government Employee Pensions Board	3.5	5.5	1.55
Police	1.6	3.8	2.31
Armed Forces	1.9	3.6	1.93
National Labour Market Agency	1.4	1.8	1.27
National Prison and Probation Administration	0.6	1.3	2.35
Lund University	0.4	1.1	2.64
Other agencies	10.9	20.1	1.84
Total 2005	125.3	160.8	1.28

Table 5.4

COST OF DIFFERENT PAYMENT SERVICES

CALENDAR YEAR 2005

Payment service	No. of payments million	Estimated cost million SEK	Average cost SEK
National Insurance Agency account payments	53.4	41.0	0.77
Postal cheques	3.0	30.4	10.03
Wages and SPV pension	10.0	20.4	2.05
Of which wage and pension statements.	3.8	18.6	4.90
OCR payment service	18.5	16.7	0.90
Other services	40.4	52.3	1.29
Total 2005	125.3	160.8	1.28

form of payment with a charge per payment instead of float. During the same period, the number of payments has steadily increased. The changes are shown in Diagram 5.2.

In 2005, the costs amounted to SEK 161 million. The number of central government payments amounted to 125 million. The average cost of a central government payment was SEK 1.28 kronor – a reduction of 19 öre in 2005.

Nordea processed fewer central government payments in 2005 than last year. SEB and Swedbank processed more than last year. See Table 5.2.

Cost per agency

Some ten larger agencies account for over 90 per cent of the number of payments and an almost equally large part of the costs of payment processing, see Table 5.3. The Tax Agency, The National Government Employee Pensions Board and the group Other agencies have reduced their costs most during the year.

Cost per bank service

The number of postal cheques from the state has decreased by as much as 29 per cent. As a result, the costs for postal cheques have decreased by as much as SEK 16.9 million during the year.

The distribution of wage and pension statements has increased during the year. The largest part of the costs for wage payments consists of the monthly wage specifications. They are normally sent in printed form. A changeover to electronic distribution would reduce the costs radically. However, there is nothing to date that indicates that paper statements are going to decrease.

The National Road Agency's collection of additional vehicle tax in January and February 2005 has increased the number of incoming payments through the OCR payment service. Incoming payments by this service in other months and for other agencies has decreased.

The costs of the four most cost-intensive payment services are shown in Table 5.4

Deposits and loans also increased in 2005

Lending to agencies, public enterprises and certain state-owned enterprises increased by SEK 17 billion. Deposits increased by SEK 2 billion. Table 5.5 shows how the breakdown of deposits and loans by agencies, public enterprises, and limited companies and to some extent private customers.

The greatest change concerns the loan to the National Road Agency of SEK 11 billion. Of this amount, SEK 2.7 billion is new loans for financing Stockholmsleder AB and Göteborgs Trafikleder AB. The remainder of the SEK 11 billion corresponds to loans taken over by the National Road Agency from these companies.

Unchanged principles for setting interest

The principles for setting interest on deposit and loan accounts are unchanged since last year.

Improvements achieved

New agreements for charge cards and purchase cards

New framework agreements for charge cards and purchase cards came into force on 1 January 2005. The new agreements include a number of new aspects such as a travel account and purchase card and have met a good response at the agencies.

Table 5.5

LOANS AND DEPOSITS

SEK million	LOANS			DEPOSITS		
Public enterprise	Position 31.12.2005	Change 2005		Position 31.12.2005	Change 2005	
Civil Aviation Administration	5,053	–725		0	0	
Swedish Maritime Administration	0	0		611	–4	
Statens Järnvägar	1,214	–229		2,702	–576	
Svenska Kraftnät	0	–559		203	203	
Total public enterprises	6,267	–1,513	–19.4%	3,516	–377	–9.7%
Limited companies						
A-Train AB	1,000	0		0	0	
Botnia AB	7,795	2,915		0	0	
SJ-Bolag	110	–1,002		0	0	
Saab-Airbus	190	–4		0	0	
SVEDAB	3,886	356		0	0	
Svenska Spel AB	0	0		1,200	–350	
Volvo Aero AB	77	77		0	0	
Other [2]	0	–1,207		0	0	
Total limited companies	13,058	1,135	9.5%	1,200	–350	–22.6%
Agencies						
National Rail Administration	13,179	503		0	0	
National Board of Student Aid	136,864	6,942		0	0	
Defence Material Administration	15,470	–668		4,773	1,745	
National Fortifications Administration	5,985	421		0	0	
Premium Pension Authority	776	–921		30,258 [1]	3,074	
Broadcasting Operations [2]	1,207	189		573	121	
National Property Board	8,462	1,214		3	0	
National Road Agency	18,552	10,976		1,644	1,597	
Agencies' interest-bearing accounts	6,838	2,083		28,329	1,392	
Agencies' loans for fixed assets	16,908	384		0	0	
Other agencies	2,085	–3,749		16,197	–5,175	
Total agencies	226,326	17,374	8.3%	81,777	2,754	3.5%
Grand total	245,651	16,996	7.4%	86,493	2,027	2.4%

[1] *Premium pension funds from the National Social Insurance Board.* [2] *Transfer to agency group.*

New internet bank services in the SIBSYS business system

Internal direct debit

The SIBSYS business system makes it possible for the agency to obtain continuous appropriation reports, account statements, commitment statements, etc. SIBSYS has developed a number of new functions. An internal direct debit now makes it possible to record interest, fees and appropriations directly in the agency's interest-bearing account instead of as before by actual payments in the banking system. The agency avoids payment of payment fees in this way and the amounts are also recorded in the accounts in the correct period which facilitates reconciliation. On 1 January 2006, approximately 100 agencies used this direct debit service.

Commission services

In 2005 we have also made it possible for agencies to make transfers between their accounts and to make payments into the Government cheque account themselves.

Increased responsibility for EU-payments

The Debt Office took over administration of EU payments from the Riksbank on 9 March 2005.

Quality and service still good

The Debt Office's annual customer questionnaire on the view of the agencies about the quality and services of the services offered by the Debt Office produced a very high satisified customer index this year as well – 83 out of a maximum of 100 – which is a good result.

FACTS

What is a payment system

In order to be able to carry out payments, besides money, different kinds of networks and regulatory frameworks are required, a transport system for money, in brief, an infrastructure where payment commissions are processed and money flows channelled. It is this infrastructure that is the payment system.

The payment system includes IT systems, statutory rules and an organisation to carry out and report on payment transactions. Banks that keep accounts and produce mediation services are important parts of the payment system.

International assignments and contacts

The knowledge and experience of the Debt Office is in demand by others besides the agencies/customers directly concerned. The Debt Office has been asked on a number of occasions to inform about its operations both nationally and internationally. During the year, in collaboration with the National Financial Management Authority and Sida, we have informed about payment systems, risk management and liquidity management on site in a number of developing countries.

Development and proposed measures

Proposal on changed responsibility for setting benchmark rates

The Debt Office sets the interest rate on government loans, the central government rate of return, and the central government loan rate, the interest rate for the Swedish National Board of Student Aid and the housing bond rate. After a review of interest rates, the Debt Office has proposed to the Government that the respective interest rate is to be calculated and set by the agency that uses it. In this way, it will be easier to change a benchmark rate when the activity that it is to regulate changes.

The Debt Office also points out that the interest rates are mainly based on long rates while they are often used to regulate short-term claim and debt relations.

Proposal for a modernised payment ordinance

Part of the Ordinance (1994:14) concerning Central Government Payments and Management of Funds have become out of date and misleading. After a review made during the year, proposed amendments to the ordinance will be submitted to the Government in early 2006.

Performance and goal fulfilment for the activity

The Debt Office has complied with the goal for the Cash Management area of operations in 2005. This has been achieved by a number of activities aimed at efficient and cheap state payments, management of deposits and loans and good state cash management.

Guarantees

The Debt Office is to issue and manage state guarantees and provide loans with credit risk as mandated by the Riksdag. Guarantee activities are financed by risk-based fees either from guarantee takers or state subsidies. Viewed over a longer period, the goal is for guarantee indemnification and administration costs to be covered by fees. Guarantee activities are thereby wholly fee-financed unlike our other activities. Guarantees and loans are primarily made available for infrastructure projects and financial undertakings.

Goals

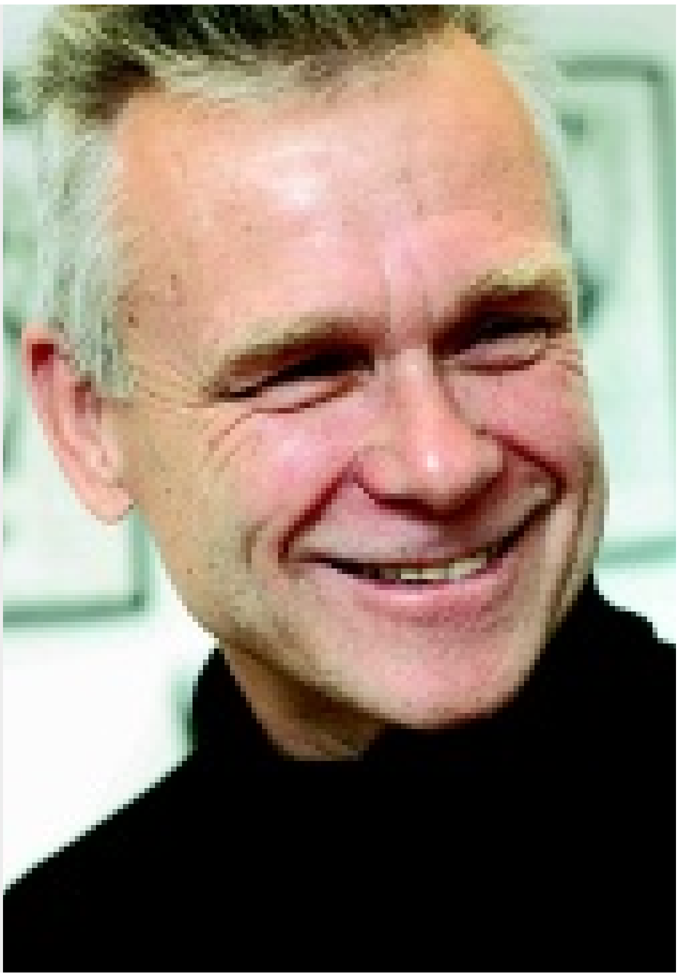
- The Debt Office shall pursue its guarantee operations efficiently while limiting risk within the framework of the guarantee model. Pricing is to take place on insurance principles.
- The costs of the guarantee activities are to correspond to its income over a longer period of time (including appropriation funds).
- The credit operations at the Debt Office are to be pursued efficiently by pricing on commercial terms.
- The Debt Office is to endeavour to ensure that the guarantee and credit operations of other agencies are to be pursued efficiently.

Reporting requirements

The Debt Office is to report:

- the financial outcome of guarantee operations and an analysis of factors affecting the outcome
- certain information on guarantees and loans with credit risk.

In connection with this annual report, the Debt Office has submitted a special report to the Government on the frameworks and outstanding amounts for guarantees and loans, etc.



Important events in 2005

- New system support and new routines for risk management are making the operation more efficient.
- Proposals have been submitted on common reporting of costs and risks by the central government agencies providing guarantees.
- Rearrangement of guaranteed loans reduces the state's interest expense.
- Financing of a new aircraft engine at Volvo Aero.

The Guarantee and Loan Portfolio

Cost coverage in guarantee operations

The Debt Office makes provisions for anticipated losses as a measure of the risk in the guarantee commitments. These provisions are to be compared with assets on the interest-bearing accounts where we have deposited guarantee fees. It is this comparison that is intended with the concept cost coverage.

The provisions for anticipated losses in the ordinary guarantee portfolio total SEK 2.2 billion, a reduction of SEK 0.2 billion since 31 December 2004. This reduction is partly due to the decreasing risks in certain guarantees to mortgage institutions and to a further increase in the risk buffer of the Nordic Investment Bank.

Current guarantee assets are SEK 1.7 billion. If we add the current value of the future fees and subsidies expected to be received (SEK 1.4 billion), the guarantee assets would be SEK 3.1 billion.

Over a longer period of time, the activity is to break even, i.e. the assets are to cover the realised losses. The fact that assets today exceed the provisions is due to there not having been any large indemnifications in recent years.

Continued write-down requirement in the loan portfolio

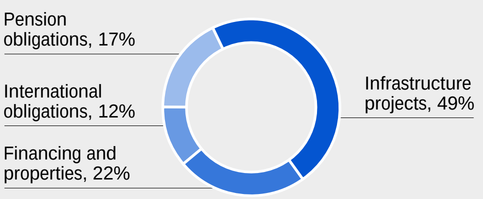
The Debt Office has outstanding loans with a credit risk of SEK 13.1 billion mainly within the sphere of infrastructure. The current value of the loan has been estimated at SEK 11.1 billion. The loans to Svedab (for the Swedish land approaches to the Öresund bridge) and A-Train AB (for the Arlanda railway line) were written down on 31 December last year due to expected loan losses. This valuation remains. The previous write-down requirement for Jernhusen at SEK 10 million no longer exists after the Government decided on a higher credit risk supplement.

In recent years, we have charged fees that reflect the credit risk in new loans although no fee has been charged for older loans. Credit risk fees paid (SEK 9.1 million in 2005) are transferred to the state budget although there is no appropriation at present that covers future loan losses.

Diagram 6.1

GUARANTEES OF SEK 58 BILLION

31 December 2005



There is in addition callable capital to international financing institutions of SEK 82 billion issued by the Ministry of Finance and the Ministry for Foreign Affairs and a guarantee commitment by the public enterprises of SEK 0.4 billion.

The Öresund Bridge represents the greatest risk

The ordinary guarantee portfolio[1] of SEK 53 billion mainly consists of a few large objects. The Öresund Bridge accounts for over half of the guaranteed amount but for more than three-quarters of the total provisions for anticipated losses.

In our assessment, no significant changes have taken place in 2005 that affect our long-term analysis. Neither provisions for guarantees to the Öresund Bridge nor write-down of the loan to Svedab has therefore been changed.

Increased reserve fund reduces the risk further of the NIB guarantees

The Nordic Investment Bank's, NIB, project investment loan is guaranteed by the Nordic and Baltic states. In 2005, NIB has expanded the reserve fund for future loan losses by EUR 50 million to EUR 240 million, which further reduces the risk of the guarantors. The state guarantee can only be invoked when the losses exceed this amount. Due to the reduced risk, the Debt Office has, as in 2004, repaid a portion of the guarantee fee which the state previously paid

[1] *Excluding the undertaking for SEK 4.8 billion for Venantius, which has its own guarantee reserve, and a callable capital of SEK 82 billion to international financing institutions, for which the Riksdag decided on a separate solution from the guarantee model.*

Table 6.1

UNDERTAKINGS, PROVISIONS AND ASSETS FOR THE TWO GUARANTEE RESERVES

31 December 2005

SEK million	Guarantee undertakings	Provision for anticipated guarantee losses	Guarantee fees paid	Future still unpaid guarantee fees
The general guarantee reserve	53,271	2,244	1,748	1,374
The guarantee reserve for Venantius	4,750	10	551	0

as a subsidy to NIB. Repayment to the state budget this year was EUR 6 million.

Reduced risk in the guarantees for Venantius

Venantius has continued to develop positively and the loan portfolio is being continuously reduced by sale of loans to banks and mortgage companies. It is therefore less probable that the loan guarantees of SEK 4.8 billion will need to be indemnified. The provision for future losses has therefore been reduced from SEK 50 million to SEK 10 million.

The separate guarantee assets for Venantius are SEK 551 million, which exceeds the provisions by a broad margin.

Rearrangement of guaranteed loans reduces the state's interest expense

As proposed by the Debt Office, the Government decided in June that the state-guaranteed loans of the state-owned enterprises Stockholmsleder and Göteborgs Trafikleder would be replaced by loans from the Debt Office directly to the National Road Agency. The interest cost for the state is then estimated to be SEK 150 million less.

Over half of the loans of SEK 12 billion have been replaced by new loans from the Debt Office to the National Road Administration. Other loans with fixed interest rates and longer durations were taken over on 4 November by the Debt Office as new lender instead of the companies.

Financing of a new aircraft engine at Volvo Aero

In May, the Government requested the Debt Office to sign an agreement with Volvo Aero on part financing of SEK 80 million of the company's R&D costs in the Trent-900 project. This project is a collaboration with Rolls Royce to produce the aircraft engine for the super Jumbo Airbus-380. The loan was paid out at the end of June.

Repayment from the company is wholly dependent on the outcome of the aircraft engine project (i.e. a royalty loan). In accordance with the Government commission and EU rules on government aid, the royalty amounts are subsidised, i.e. the state is not charging for the whole risk of the financing. The part of the risk that is subsidised will be covered by appropriation funds.

More efficient system support and risk management

During the year, we have developed a new system support for our guarantees and recourse requirements (claims that have arisen when the state redeemed

Table 6.2

LOANS WITH CREDIT RISK

31 December 2005

Borrower, SEK million	Loan frame	Outstanding loan	Write-down for anticipated credit losses
A-train AB	1,000	1,000	–100
Svedab AB	[1]	3,886	–1,900
Botniabanan AB	15,000	7,795	
SJ AB	2,000	0	
Other		392	
Total		13,073	–2,000

[1] *SEK 2,600 million at January 1997 price level together with capital service costs and value-added tax.*

guarantees). The new system provides us with a more efficient handling of recourse claims and an improved internal control.

We have updated a number of models used for risk assessment and pricing and produced more detailed guidelines for pricing and guarantee terms.

New and more efficient routines for monitoring risks in guarantee and credit operations provide a better overview of the total risks.

Continued recovery of claims

Work on claims for redeemed guarantees has continued and debtors repaid SEK 11 million in 2005. The remaining claims now total SEK 309 million. In addition, there is accrued penalty interest of SEK 198 million. This work will be simplified by the new system support. However, the opportunities for recovery are small due to insufficient collateral and the fact that many of the debtors have a poor payment capacity.

Guarantee and credit management at other agencies

The Debt Office provides ongoing advice and support to other agencies that provide guarantees and loans and recommends when required changes with a view to obtaining a more efficient and responsible management of loans within the state.

In the past few years, the Debt Office has, among other things, pointed out the need for a state loan model of a similar kind to that which exists for guarantees. The total commitments of central government with a credit risk could be managed in a more responsible way if a regulatory framework of this kind existed.

Common accounting of costs and risks

At the beginning of 2005, the Debt Office reported a commission from the Government to co-ordinate work with the other agencies providing guarantees to bring about a common reporting of costs and risks for state guarantees.

In the appropriation instructions for 2005, the Government gave the Debt Office a similar commission for state loans. This work is in process and a report is to be made at the latest on 15 March 2006.

The report works on making the border between loans and grants clear and setting uniform valuation principles for loans. The report is to serve as a basis for the Riksdag and Government in monitoring and evaluation of existing loans and decisions on future loans.

Reformed system for deposit guarantee

In our referral reply to the Deposit Guarantee Commission, we agree that the deposit guarantee should be dealt with in the same way as other state guarantees. However, we are critical to the proposal to combine all state guarantee operations in one agency. If the Government is planning a merger of this kind, we consider that the matter should be thoroughly investigated before a decision is made.

We consider that the alternative proposal of the commission, where the work of the Deposit Guarantee Board is incorporated in the Debt Office, should be the main alternative. A solution of this kind would mean that well-needed expertise could be swiftly and efficiently available to the operation and reduce the risks associated with too small agencies.

Goal performance

The goals for the guarantee activity have been met by insurance-based fees that reflect risk and by rearrangement of guaranteed loans.

The goal of efficient credit management has been partly met. We have charged fees that reflect risk for most loans in recent years, although there is still lacking a regulatory framework for the state's external provision of loans.

The goal of endeavouring to ensure that the guarantee and credit operations of other agencies is pursued efficiently has been met by advice and assistance to these agencies.

Risk management

The Debt Office deals with large risks. These risks arise by, for instance, the effect on the central government debt of changes in interest rates and exchange rates. The overall risks are controlled by government decisions, for instance, the annual guideline decision on central government debt management. Risks also arise in the Debt Office's ongoing operations which we deal with ourselves. Here we describe how we manage financial and operational risks in the ongoing work.

Goals

In addition to what is stated in the Government guidelines, the Debt Office shall

- endeavour to achieve the best market practice in risk management
- ensure that management of financial and operational risks complies with the relevant demands made in legislation for financial companies and in the regulations and general guidelines of the Swedish financial supervisory authority, Finansinspektionen.
- contribute to maintaining fundamental societal needs even at times of severe strain in peacetime.

Reporting requirements

The Debt Office is to report on the extent of compliance with goals. If a goal is not achieved, the reasons are to be analysed and planned measures for goal compliance described. The Debt Office is also to report:

- if and in this case how dependence on electricity, telecommunications and IT systems that are important for society is a limitation on being able to maintain an acceptable ability in the event of severe strains in society in peacetime and in the event of a situation of high alert
- whether an attack with NBC weapons is a restriction of this kind.

Important events in 2005

- Handling of operational risks has been gathered together in one common process.
- A financial and risk policy for 2006 has been adopted.
- The overall principles that are to apply for information security work at the Debt Office have been confirmed in a security policy.

Overall risk management

In 2005, the Debt Office has concluded the work of gathering the operational risk management in a common process. We have also developed and introduced a method for analysing and evaluating the operational risks. The method has been used in 2005 in all departments.

An integrated financial and risk policy has been produced for the Debt Office for 2006. This provides an overview of our risk management and the selected level of risk. The policy is a support for risk management and internal control. It will be reviewed and reconsidered annually.

In 2006, the policy covers the institutional borrowing but it is to be successively extended to cover all activities.

Financial risks

The Debt Office has decided upon benchmarks and limits in the form of permitted deviation intervals to manage and control financial risks.

Market risks

Daily monitoring of the risks in central government debt

The debt in foreign currency can relatively easily be managed on a daily basis. The reason for this is that we have access to a large derivative market in the international markets. Through derivative instruments, we can always ensure that the debt is at the target values. The target values consist of the maturity of the foreign currency debt (expressed as duration) and the composition of currencies. No marked deviations have taken place during the year in relation to the limits set.

The duration of the krona debt is harder to manage, however. During the year, certain deviations have taken place outside the limits. These have primarily arisen since it has been difficult to counter changes in the duration of the krona debt on a daily basis for technical and market maintenance reasons.

On the basis of our proposal, the Government has decided to change the maturity measure from duration to the period of fixed interest from 2006. The new measure is more adequate for central government debt management.

Risks in the active management of foreign currency

The Debt Office also engages in active management of foreign currency where we endeavour to reduce the cost of central government debt by taking positions in the international currency and interest markets. At the same time market risks arise.

We use Value at Risk, VaR (see fact panel) to measure and control the market risk in the active management. The estimated VaR value gives an indication of the amount of loss we could expect if market rates

FACTS

How financial risks arise

Financial risks consist of market risks and credit risks.

Market risks exist due to the fact that prices in the market can move in an unfavourable way. Examples of market risk are interest rate risk and currency risks. They are mainly dealt with the aid of the Value at Risk method (see the Value at Risk fact panel).

The credit risk is the risk of our counterparty not being able to perform its undertakings in a transaction. They arise primarily in the derivative transactions that we make to be able to manage central government debt. The market value of the derivatives is changed when interest rates and exchange rates change. If the value of the derivative increases above a set level, our counterparty will owe us money. Credit risks also arise when we temporarily invest money, i.e. in liquidity management.

and exchange rates move in the adverse direction for us under normal market conditions. The Debt Office has set a limit for the permissible size of the VaR value on a daily basis.

The average level of risk in the active management was SEK 50.5 million in 2005. This corresponds to almost 25 per cent of the total permitted extent of risk of SEK 220 million. The highest measurable level of risk was 71.5 and the lowest SEK 32.6 million. On 30 December, the aggregate risk was SEK 45.3 million (Table 7.1).

Since the VaR value is an anticipated value, the calculations of the model are to be compared with the outcome. In 2005, the values calculated by the VaR model have accorded well with the actual outcomes, see Diagram 7.1.

VaR models work well in normal conditions. In exceptional market conditions, the model can have certain deficiencies, however. The Debt Office limits these deficiencies by supplementary currency and interest limits.

Table 7.1

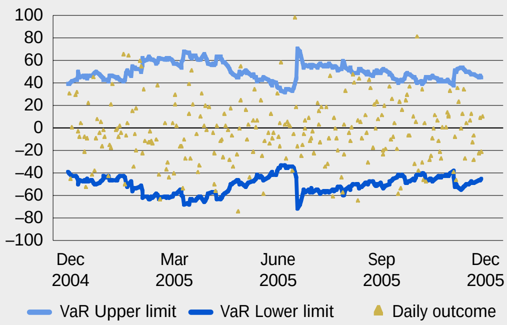
VaR APPOPORTIONED IN THE FIXED INTEREST AND FOREIGN EXCHANGE MARKET IN 2005

Market, SEK million	Average VaR	Least VaR	Most VaR	30 Dec 05 VaR
Currency	33.9	13.2	57.7	20.0
Interest	34.2	16.2	53.0	46.8
Total	50.5	32.6	71.5	45.3

Diagram 7.1

RESULT AND VALUE AT RISK

SEK million



Credit risks

Although the Debt Office is borrower, credit risks arise in the activity, see the fact panel on financial risks. To manage the credit risks, we make demands on the creditworthiness of our counterparties and on limits on the size of the exposures. We also sign collateral agreements with all counterparties.

The Debt Office only engages in transactions with counterparties that have a high credit rating. However, the financial position of the counterparty and exposure can change over time. We therefore

FACTS

Value at Risk

The Debt Office uses the Value at Risk method to measure and limit the market risks in the active management of foreign currency. VaR is a statistical model which describes the level of risk in normal market conditions. The value that the model calculates shows that the loss will not exceed the value given a particular probability and time. A VaR value of SEK 50 means, on average, for instance, that the loss will not be more than SEK 50 on 95 days out of 100. However, the method says nothing about how large the losses can be in abnormal conditions.

monitor continuous development of creditworthiness and exposure.

An important tool both to reduce and control the credit risk is agreements on transfer of collateral. The agreements, Credit Support Annex (CSA), entail that the exposure can never exceed an amount specified in the agreement. The amount is moreover dependent on the counterparty's rating. A lower rating leads to a lower amount. Today, we have CSA agreements with all counterparties whom we use in derivative transactions.

Diagram 7.2

EXPOSURE AND CREDIT RATING OF THE DEBT OFFICE'S COUNTERPARTIES

SEK million as at 31 December 2001–2005

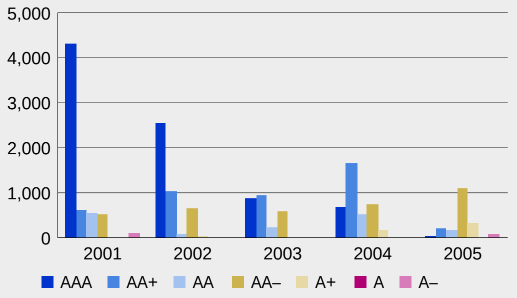


Diagram 7.2 shows how the exposure to counterparties with different credit rating has changed during the past five years. Since 2001, the total credit exposure has greatly decreased. At the same time, the creditworthiness of the counterparty has decreased, although it still remains at a high level.

Operational risks

In 2005, the Debt Office analysed operational risks at all departments. These analyses are based on a method for self-assessment of the operations. With the aid of the method, we have identified and evaluated the operational risks of the Debt Office. On the basis of this evaluation, we have subsequently prioritised measures to reduce the risks.

In 2005, we have also surveyed the process for management of operational risks. By describing and defining the different steps in the process, we make the management of operational risks more effective. This is important to create a link between identified risks and measures, and to continuously respond to changes in the risk scenario.

Physical and environmentally-related security

We work continuously to strengthen our physical protection. In 2005, we have carried out fire protection checks and fire protection training. In accordance with new legislation on protection against accidents, we have also carried out a review of electrical installations at the premises.

Readiness for crises and total defence

Society's work to strengthen the ability to withstand and reduce the effects of a crisis in peacetime and in conditions of heightened alert takes place within the framework of the Ordinance on Measures for Handling of Crises. The Debt Office participates in this context in the Financial Security sphere of collaboration area where a number of agencies work together.

Within this sphere, we participate in the work of increasing the power of resistance of the payment system and securities trading in crises and create redundancy in the socially important transfer systems. We contribute among other ways by the spread of knowledge in the sphere of collaboration and by strengthening security and the robustness of the Debt Office's own operational processes.

Goal performance

The goal for financial and operational risks has been met. The organisation is designed with a difference between front and back office with an independent risk department. The methods and models used to manage both financial and operational risks are considered to be in accord with market practice. Overall, the Debt Office fulfils the relevant requirements for good risk management.

The goal for the area Severe Strains and Civil Defence have been partly fulfilled. The security analysis presented to the Government in February 2005 indicated the measures we need to take to strengthen our ability. We are working actively to implement these measures.

Personnel and competence

The Debt Office should be a good workplace with competent and highly motivated staff. Here we describe our personnel situation and how we work to attract, recruit, develop and retain staff on the basis of operational needs.

Goal

The Debt Office should work for a long-term good provision of personnel with the appropriate expertise for the business.

Reporting requirements

The Debt Office should report:

- the extent to which the goals for the supply of personnel resources have been met in 2005
- the actions taken
- the goals that apply for the supply of personnel resources for the agency in 2006 and 2007-2008 respectively.

The report shall in the first place focus on the age structure, gender distribution, mobility of the staff and the agency's work to promote ethnic and cultural diversity.

Important events in 2005

- We have been able to fill all vacancies with competent personnel.
- A web-based personnel handbook with complete and easily available information has been produced.
- A customised management training for all managers has been procured.
- A working team for diversity has been appointed.

Greater focus on the supply of personnel

Competent and knowledgeable personnel are the most important resource for an efficient operation. Apace with the increasing competition in the labour market, it is even more important that we are a good employer with the ability to attract, recruit, develop and retain staff. Among other things, we have therefore carried out a personnel survey and continued to invest in the competence development and management training.

The recruitment situation more difficult

The labour market has improved and our recruitment situation has become more difficult compared with 2004. We have received fewer applications to advertised positions. We also have three "Free year positions".

We have none the less been able to fill all vacancies with competent personnel. Competition will continue to increase in 2006 and we will therefore continue to work with a long-term strategy for recruitment, taking into consideration age and gender distribution, diversity, etc.

Competence development

In 2005, the Debt Office invested SEK 15,000 kronor per employee in competence development and this amount has been equally distributed among women and men (see Table 8.1). Competence development consisted primarily of investments in IT and language, including courses in English, writing and presentation. Seminars have also been held for all employees at the Debt Office on the principle of public access to official records, secrecy and the Public Procurement Act.

Table 8.1

COST OF TRAINING IN 2005

SEK	Women	Men	Total cost
Language	198,672	90,890	289,562
IT	354,659	521,981	876,641
Economy/finance/ auditing	214,622	126,993	341,615
Law	87,758	92,368	180,126
Organisation and management	33,030	79,081	112,111
Other	179,987	101,792	281,779
Total	1,068,729	1,014,284	2,083,013

Personnel survey

In 2005, the Debt Office carried out an extensive personnel survey to obtain an up-to-date picture of the situation and a basis for improvement.

Overall, this produced a relatively good result with external comparisons, for instance with banks and officials in the public sector. We have good results for individual factors such as competence, motivation, responsibility and initiative.

The areas that produced low results are organisational efficiency, learning and renewal climate. During the year, a number of measures were carried out based on the survey. Additional activities will take place in 2006.

Good management

The previously started management development programme continued in 2005. The focus of the development is on good management, the individual as manager and leader and our own management philosophy and practical management.

During the year, a customised management programme has been procured.

Table 8.2

NUMBER OF EMPLOYEES WHO HAVE STARTED THEIR EMPLOYMENT

Personnel group	2001	2002	2003	2004	2005	Total
Managers	1	2	2	3	2	10
Executives/specialists	26	12	9	4	15	66
Assistants/equivalent support staff	1	4	–	–	2	7
Total	28	18	11	7	19	83

Table 8.3

NUMBER OF EMPLOYEES WHO HAVE LEFT THEIR EMPLOYMENT

Personnel group	2001	2002	2003	2004	2005	Total
Managers	1	1	2	1	2	7
Executives/specialists	15	11	2	7	4	39
Assistants/equivalent support staff	3	4	3	2	1	13
Total	19	16	7	10	7	59

More women than men at the Debt Office

The Debt Office had a staff of 148 at the beginning of 2006. 59 per cent of the employees are women and 41 per cent men. 60 per cent of the women and 40 per cent of the men were in executive posts. 68 per cent of the staff were university graduates.

Increased period of employment

The average period of employment in 2005 was 10.4 years and the average age 43.7 years. The corresponding figures for 2004 were 9.7 and 43.5 years respectively. The age distribution is shown in Table 8.4.

Table 8.4

AGE DISTRIBUTION, 2005

	< 30 years	30-49 years	> 49 years
No. of persons	7	96	45

Staff mobility varies between groups

Seven persons left the Debt Office in 2005. Nineteen were recruited, of whom two were managers and 15 executives/specialists, which enabled us to fill all vacancies. See Tables 8.2 and 8.3. Staff turnover decreased to five per cent, which is two percentage points less than in 2004. However, personnel turnover was higher in certain areas of compentence.

Working environment and keeping fit

Keep fit activities have been expanded by all personnel being offered a discounted card at nJoy and Friskis & Svettis. A third of all employees have been visited by an ergonomist during the year.

The total sick leave at the Debt Office was 3.8 per cent (Table 8.5). Short-term leave was low. The proportion on long-term sick leave, i.e. those who have been absent for 60 days or more accounted for 73 per cent of the total sick leave. The majority of those on long-term sick leave are women aged over 50. Active rehabilitation has been pursued during the year and all except one now work between 25 och 75 per cent.

Continued investment in increased diversity

Following on from diversity seminars, we have appointed a group which is to work with diversity and gender equality issues. The group has carried out a survey on our intranet where all staff have answered questions in this area. We will produce policies and plans for continued work with diversity and gender equality on the basis of the survey.

Table 8.5

SICK LEAVE IN 2005

Personnel group	% [1]
Women	5.5
Men	1.3
Employees aged below 30	1.7
Employees aged 30–49	1.9
Employees aged 50 or older	7.9
Total all employees	3.8 [2]

[1] *Sick leave/total ordinary time for respective group.*

[2] *73 per cent of the total sick leave was long-term sick leave of 60 days or more.*

Goal performance

The Debt Office has complied with the goal of provision of expertise for 2005. The development of expertise has continued and we have procured a customised management training for all managers. The recruitment situation is still slightly more difficult in 2006 than in 2005 due to an improved labour market. Work on strategic development of expertise and resource planning through to 2008 has started.

Glossary

Benchmark bond 4 Bonds in which the Debt Office has undertaken to maintain liquidity. Normally have an outstanding volume of at least SEK 20 billion.

Bond 4 An instrument of debt where the yield is paid in the form of interest.

Bond market 4 The market for securities with times to maturity longer than a year. Nominal and inflation-linked government bonds are traded in the bond market.

Break even-inflation 4 Break even-inflation is the difference between nominal and real yield at the time of issue. It specifies how large inflation has to be on average in the time to maturity for the cost of an inflation-linked and a nominal loan to be equally large. If inflation exceeds the break-even inflation, the inflation-linked loan will be more expensive for the state and vice-versa.

Capital market 4 Consists of the credit and stock markets

Coupon bond 4 A bond with an annual interest payment.

Credit market 4 Consists of the money and bond markets.

Credit risk 4 The risk that the counterparty will not perform its obligations in a transaction. Credit risk includes settlement risk, capital risk, counterparty risk, country risk and systemic risk.

Derivative instrument 4 Financial instrument, the price of which depends on another instrument. The most common derivative instruments are options, forward contracts and swaps.

Duration 4 Measure of the remaining maturity of a bond taking into consideration both the time to maturity and the coupon rate. A shorter maturity and a higher coupon rate will give a lower duration. Duration can also be viewed as a risk measure, which measures how much the market value of an interest security is affected by changes in the market interest rate.

Financial risks 4 Consist of market risks and credit risks, Cf *credit risk.*

Fixed-income market 4 Instruments are traded here that provide a predetermined yield (interest). The fixed-income market consists of the bond and money markets.

Fixed interest rate 4 Interest rate fixed at a particular level by agreement during the period of agreement.

Float 4 Is the period in connection with payment through a bank when neither the person who sends the money nor the recipient receives interest, which instead goes to the bank processing the payment.

Floating interest rate 4 An interest rate that varies during the period to maturity.

Forward (forward contract) 4 Agreement on purchase and sale at a specified price at a specified time in the future.

Framework agreement 4 Agreement entered into between a procuring unit and one or more suppliers. The intention is to establish the conditions that are to apply for a particular period for the unit that decides to make use of (sub-order) from the framework agreement. The Debt Office is the procuring unit for payment processing to and from the state. Government agencies can decide to make use of (sub order from) one of the framework agreements by written agreements with the bank concerned which is a party to the framework agreement.

Free year 4 A free year entails that an employee is on leave of absence for three to twelve months at the same time as a jobseeker from the Employment Service works as a temporary replacement.

Government bond 4 An umbrella term for the bonds issued by the Debt Office on the bond market. Includes both inflation-linked and nominal bonds.

Inflation 4 General price increases that decrease the purchasing power of money. Usually measured with the aid of a consumer price index.

Inflation-linked bond 4 A bond where the holder receives a fixed interest rate and compensation for inflation during the maturity. This means that the yield and the amount invested are protected against inflation, so that any inflation does not reduce the value of the bond during the period of saving.

Interest rate refixing period 4 The average period until the cash flows provided by the central government debt are to be paid. Cash flows arise when interest and loans fall due for payment

Issue 4 Sale of new government securities. Usually takes place by auctions.

Limits 4 Quantitative limitation of amounts or risks.

Liquidity bills 4 T-bills with customised times to maturity.

Lottery bond 4 Savings form where interest is paid as lottery prizes. The Debt Office normally issues premium bonds two to three times a year.

Market risk 4 The risk of unfavourable movements of market prices. Interest rate risk and currency risk are different forms of market risk.

Money market 4 The market for interest-bearing securities with times to maturity of up to a year. T-bills are traded in the money market.

National Debt Savings 4 National Debt Savings is an account-based bond saving. National Debt Savings is available with floating interest rate, fixed interest rate or inflation-linked fixed interest rate.

NBC weapons 4 Abbreviation of "Nuclear, Biological and Chemical" weapons.

Nominal bond 4 An investment at a nominal fixed interest rate provides a predetermined amount in kronor on maturity.

Operating risk 4 The risk of losses that depends on deficiencies in internal processes, human error, defective systems or external events. The concept includes legal risks but not strategic risks.

Rating 4 Is a certificate of, for instance, the ability of company or a country to perform its financial obligations, i.e. a certificate of creditworthiness.

Real interest rate 4 An interest rate, the value of which is protected against inflation, Cf *inflation-linked bond.*

Redundancy 4 Entails, for instance, duplication of components in a computer system with a requirement for a high level of access.

Reference loan 4 A reference loan is a benchmark bond traded as a 2, 5 or 10-year bond. Also called super benchmark. The Debt Office concentrates borrowing in these maturities, Cf *benchmark bond.*

Repo (repurchase agreement) 4 Agreement on sale of a security where the seller at the same time undertakes to buy back the security after a set period for an agreed price. The repo can also be reversed, i.e. a purchase agreement in combination with future sale.

Royalty loan 4 Loan where repayment depends on the amount of sales, manufacture, etc.

Swap 4 Agreement between two parties on a swap or exchange of interest payments during a particular period, for instance, an exchange of fixed interest for variable interest.

T-bill 4 A short-term security without coupon payments that is issued with maturities up to a year.

T-bill market 4 Trade with the T-bills and bonds that we issue or have issued.

Value at Risk, VaR 4 A measure of risk that forecasts anticipated loss level with a given probability during a set period.