RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Summary of Annual Report 2007

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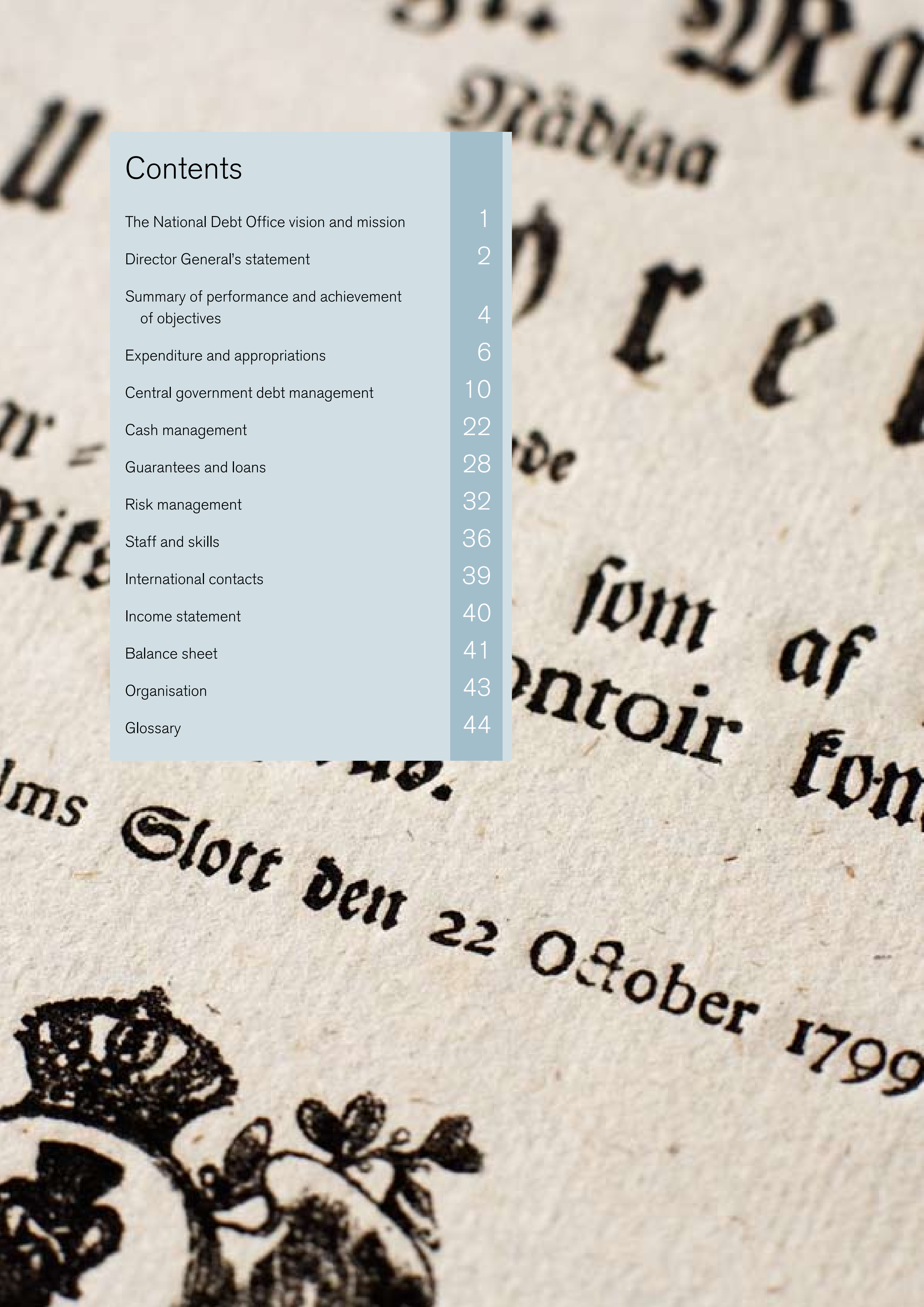


Our vision

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

Our mission

The Debt Office provides funding in accordance with decisions taken by the Swedish Government and the Swedish Parliament, the Riksdag. Our responsibilities range from providing appropriations and loans to individual government agencies and enabling them to make and receive payments efficiently to borrowing what is needed to cover the difference between incoming and outgoing payments.

The Debt Office is the Government's internal bank and is responsible for maintaining an efficient and secure state payment system. On behalf of the state, we procure payment processing services from commercial banks and payment card companies, assisting agencies to send and receive over 120 million payments every year. We are also responsible for ensuring effective state cash management practices. We hold the Government central account into which payments to agencies, such as taxes, charges and customs duties are made. Agencies' outgoing payments, for example, pensions, allowances and student loans, are drawn from this account. The Debt Office invests central account surpluses and, conversely, borrows to cover deficits. By collecting payments in the central account, we can make effective use of central government funds.

We are also responsible for central government debt management and work within the guidelines established by the Government and based on our proposals. Our aim is to borrow as cheaply as possible while taking account of risk. When there is a budget surplus, as in 2007, we use it to reduce the central government debt. However, as the surplus is not large enough to cover loans that mature, we still need to raise new loans.

The Debt Office also provides state guarantees and loans, as determined by the Riksdag and Government. We make a charge for the risk that the guarantee will be required. In the long term the total charges should correspond to the costs of state guarantees, thus making the system self-financing. On 1 January 2008 we took over responsibility for the deposit insurance and investor compensation schemes.

By designating responsibility for cash management, central government debt management, and guarantees and loans to the Debt Office, the Government is ensured coordinated and professional financial management, which in turn reduces costs and risks for the state.

Director General's statement

Strong central government finances

Central government finances continued to show a strong trend in 2007. The budget surplus amounted to SEK 103 billion, an increase of SEK 85 billion compared with 2006. This significant increase was partly due to the strong economy, which generated greater tax revenue and contributed to restrained central government expenditure. It was also the result of a SEK 12 billion increase in dividends from state-owned companies, sales income of about SEK 18 billion and reduced net lending to government agencies and enterprises of SEK 31 billion (mainly due to a non-recurrent effect in 2006).

Central government debt was SEK 1 168 billion at year end, equivalent to 38 per cent of gross domestic product. This is a decrease of 7 percentage points compared with 2006. Interest payments on central government debt were SEK 47.1 billion in 2007. Retail market borrowing reduced funding costs by SEK 171 million compared with other borrowing.

This very favourable trend for Sweden's economy and citizens has presented the Debt Office with a number of challenges. It is our ambition to maintain a wellfunctioning government securities market. The reduced borrowing requirement in combination with the ambition of maintaining good liquidity in government bonds has therefore led to a reduction in T-bill borrowing and a new policy involving fewer and shorter bills.

The uncertainty on world financial markets in the second half of the year bolstered demand for government securities. In particular we saw a dramatic increase in demand for the market support repos that we offer our primary dealers. In the autumn, volumes peaked at more than SEK 60 billion daily despite relatively unfavourable terms. Even though we probably contributed to mitigating the negative effects in Sweden, the situation was unsustainable in the long term. We announced a change in the terms of our repo activities and argued that more holders of government securities should participate in the repo market. This contributed to a normalisation at the end of the year.

In 2007 the new framework agreements for state payments we signed the previous year came into effect and contributed to reducing the costs of state payments by 20 per cent compared with 2006.

We prepared the takeover of the deposit insurance and investor compensation schemes, which became part of our operations in January 2008.

Throughout the year we continued developing our risk and crisis management abilities and made information security a special priority.

Our ability to carry out our mandate and achieve our objectives is based on the expertise and capabilities of our staff. I am very pleased that the 2007 staff survey showed that the great majority consider themselves very committed to their jobs and are satisfied with their work situation. This provides a solid foundation for further leadership and staff development.

Stockholm, February 2008

Bo Lundgren
Director General of the Debt Office

Bo Lundgren was appointed Director General of the Swedish National Debt Office in October 2004 for a six-year period. In 1991–1994 he served as minister responsible for financial markets and fiscal policy. He was leader of the Moderate Party in 1999–2003 and member of the Riksdag in 1976–2004.

Summary of performance and achievement of objectives

Summary of the appropriation directions	**Performance assessment**
Central government financial management	
The overall objective of the Debt Office is to achieve effective central government financial management while keeping long-term central government debt costs as low as possible without excessive risk-taking.	*The overall objective has been achieved.* The various interim objectives are specified below.
Central government debt management	
The long-term costs of central government debt must be as low as possible while taking account of risk.	*Objective achieved* through strategic decisions within the framework of Government guidelines and changes in debt composition.
Cash management	
Set market terms for loans and deposits and provide good service to government agencies.	*Objective achieved* through continued good service to our customers, 81 out of 100 in the customer satisfaction index, and new functions in our business system.
Offer government agencies an efficient and competitively neutral payment system.	*Objective achieved* in that costs of state payments fell by SEK 30 million, or 20 per cent, compared with 2006. The average cost of a payment was less than SEK 1.
Develop cash management strategy to reduce interest expense.	*Objective achieved* through continual streamlining of systems and support to agencies.

Summary of the appropriation directions	Performance assessment
Guarantees and loans	
Contribute to limiting the state's risk and safeguarding the state's rights by evaluating economic risks, setting fees, determining terms and conditions and collecting claims.	*Objective achieved* through risk-based fees, risk-limiting conditions and active collection, though no regulatory framework for external lending exists.
Ensure that costs of operations over a long period correspond to revenues from fees based on insurance principles.	*Objective achieved;* see above.
Work actively for the efficient performance of guarantee and loan operations of other agencies.	*Objective achieved* through advice and assistance to other agencies and proposed efficiency improvements.
Risk management	
Strive to align risk management practices with best market practices.	*Objective achieved* by using generally accepted methods, models and processes for risk management.
Monitor compliance of financial and operational risk management with requirements and regulations.	*Objective achieved;* see above.
Ensure that the fundamental needs of society can be met even in the event of a major peacetime emergency.	*Objective partially achieved* by continuing to implement the measures as proposed in the risk and vulnerability analysis.

The Debt Office is responsible for central government debt interest payments, which in 2007 amounted to SEK 47 billion. Central government debt fell by SEK 103 billion during the year but at the same time interest rates rose.

Expenditure and appropriations

The Debt Office is responsible for servicing central government debt. Interest payments account for about 6 per cent of total central government expenditure, making it one of the largest expenditure items in the state budget. We also have an appropriation for commission payments associated with central government debt management and an administration appropriation to cover our operating costs.

Reduced interest payments

Interest payments amounted to SEK 47.1 billion in 2007; see Table 1. This can be compared with the original interest appropriation of SEK 43.0 billion. The difference is mainly due to exchange losses being greater than expected. Central government debt fell more than expected, but was offset by higher interest rate levels.

Compared with 2006 interest payments fell by about SEK 2 billion, largely due to lower exchange losses. Exchange losses fell to SEK 2.5 billion in 2007 from SEK 6.3 billion in 2006. The size of exchange gains and losses depends on when loans mature and how exchange rates move after the loan is raised. Gains and losses are also affected by forward exchange contracts that we use to achieve the foreign exchange exposure we set for each currency.

Interest on loans in Swedish kronor and on loans in foreign currency remained at about the same level as last year. The reason current interest payments did not fall at the same rate as central government debt is that market interest rates continued to rise in 2007, particularly for short maturities. The short-term market rates rose because the Riksbank and the ECB raised their key interest rates and because interbank rates rose during the credit turbulence in the autumn.

The impact on interest payments from short-term interest rates is more immediate than from long-term interest rates since we hold a large number of instruments with short interest rate refixing periods. The debt in Swedish kronor includes Treasury bills (T-bills) and interest swaps, and the debt in foreign currency has a total interest rate refixing period of less than 2 months.

Average running yield

The average running yield for our largest loan instruments in Swedish kronor is shown in Figure 1. Altogether the outstanding volume of these instruments was SEK 907 billion. Total central government debt was SEK 1,168 billion.

Table 1 INTEREST ON CENTRAL GOVERNMENT DEBT

SEK million	2003	2004	2005	2006	2007
Interest on loans in Swedish kronor	37,985	40,688	39,428	37,913	38,587
Interest on loans in foreign currency	16,397	11,515	11,415	10,512	10,921
Interest on deposits and lending	−6,832	−6,993	−6,943	−6,110	−5,400
Total	**47,550**	**45,210**	**43,900**	**42,315**	**44,108**
Issue premium/discount	−14,453	−10,144	−9,049	−3,967	−3,533
Exchange losses/gains	4,366	5,106	−10,228	6,336	2,454
Capital losses/gains	3,811	13,480	7,615	5,929	4,228
Other (deposits etc.)	741	−1,057	323	−1,240	−97
Total	**−5,535**	**7,386**	**−11,339**	**7,059**	**3,052**
Total appropriation interest on government debt	**42,015**	**52,596**	**32,561**	**49,374**	**47,161**
Cash basis adjustment	223	23	35	−189	−77
Total interest payments	**42,238**	**52,619**	**32,596**	**49,185**	**47,084**

Nominal bonds

The average running yield for the total stock of nominal bonds was 4.48 per cent at the end of 2007, a decrease of 0.14 percentage points compared with 2006. The average running yield for bonds sold during the year was 4.13 per cent, an increase of 0.5 percentage points compared with 2006. The simultaneous decrease in average running yield for the stock and increase in interest on bonds sold was due to bonds maturing during the year that had been sold at interest rates considerably higher than average for the stock.

T-bills

The average running yield for T-bills continued to rise. During the year the stock gained 0.96 percentage points, while the figure for T-bills sold was 1.07 percentage points. As T-bills have short maturities the impact of market rate fluctuations on outstanding stock is soon felt. The change in market rates for T-bills was mainly due to the Riksbank raising its key interest rate from 3.00 per cent to 4.00 per cent over the year.

Inflation-linked bonds

The average running yield for the stock fell by 0.12 percentage points in 2007. At the same time the average running yield for bonds sold during the year increased by 0.30 percentage points. Current market rates for inflation-linked bonds are considerably lower than for the stock as a whole. This is why the average running yield is falling as older bonds mature or bonds are bought back.

Average running yield for the entire central government debt

The average running yield for the entire central government debt was 4.0 per cent at the end of 2007. This includes, apart from the instruments mentioned above, loans in foreign currency, loans to private individuals and an extensive derivatives portfolio consisting of swaps. At the end of 2006 the average running yield was 3.7 per cent. The increase from year to year is due to higher market rates for instruments with short maturities, which applies to loans in both Swedish and foreign currency.

Developments in the fixed-income and foreign currency markets

In Sweden, Europe and the United States, 2007 began with rising bond yields, primarily as a result of strong financial figures and positive growth prospects. In Sweden, however, we saw a reduction in interest rates at the beginning of February, after the Riksbank announced it did not intend to raise the key interest rate any faster than had already been indicated.

During the spring attention turned increasingly to the US housing market, and in particular to sub-prime loans, i.e. loans made to US borrowers with a weak repayment capacity. This resulted in a fall in bond yields across the board. However, anxiety quickly subsided as most indications were that exposure to these loans was fairly limited.

Bond yields started to rise again in March/April as a result of positive growth prospects in both Europe and the US.

In the summer the financial markets had another shaky period when attention returned to credit losses linked to the US housing market. This was followed by falling bond yields and a weaker US dollar.

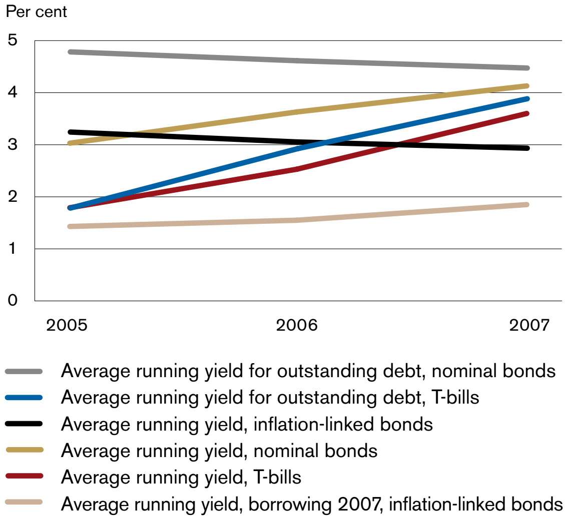
Tighter credit conditions and continued problems in the US housing market caused the Federal Reserve to cut the key rate by 0.5 percentage points to 4.75 per cent in September. The cut was larger than expected, indicating that the Fed was concerned about the economic outlook in the US. The Fed's action was a welcome injection for the financial markets, boosting risk appetite once again. Stock markets rose in both the US and Europe and bond markets stabilised. On the foreign exchange market the dollar continued to weaken against most currencies.

Towards the end of the year uncertainty grew as to how large the total credit losses really were. In addition there was a greater risk that tighter credit conditions, a high oil price and an ever weakening housing market would lead to lower US growth than had been forecast. This led to falling bond yields and a subdued stock market in the last months of the year.

The Swedish economy continued its strong performance in the autumn. Employment rose in all sectors and difficulties in matching labour supply and demand increased. This caused long-term interest rates to rise in the autumn.

However, downward pressure on short-term rates continued as a consequence of the international credit crisis. At the same time, interbank rates rose sharply since it had become increasingly difficult to raise liquidity.

Figure 1 AVERAGE RUNNING YIELDS



Lower commission expenses

We pay commission in connection with borrowing and purchasing the services of external portfolio managers.

In 2007 commission expenses were SEK 86.2 million, a decrease of SEK 5.2 million compared with 2006. Redemption commission on foreign loans fell in particular.

Administration expenditure fell slightly

Expenditure on human resources, premises, marketing, IT and so forth is referred to collectively as administration expenditure. In 2007 this was SEK 382.6 million, of which SEK 269.2 was paid from the central government budget. The difference, SEK 113.5 million, refers to costs of guarantee subsidies, the part of operations paid for by the guarantee and loans area of operations, and accrued expenses for staff and lottery bond loans. Compared with 2006, costs fell by SEK 6.5 million. Administration appropriation expenditure increased by SEK 4.5 million.

The surplus for the guarantee and loans area of operations was SEK 2 505 million. The outcome for 2007 is mainly due to a decrease in provision for expected future losses combined with increased interest income.

Table 2 INCOME STATEMENT BY AREA OF OPERATIONS

SEK million	Cash management	Central government debt management	Guarantees and loans	Debt Office total 2007	Debt Office total 2006
Income from appropriations, interest on central government debt 26 92:1	−5,514	52,759	0	47,245	50,597
Income from appropriations, commission 26 92:3	0	86	0	86	88
Income from appropriations, debt management 2 2:3	37	232	0	269	265
Income from appropriations for guarantee subsidies	0	0	0	86	86
Income from fees and grants	0	1	208	210	216
Interest income	0	1	79	80	57
Total operating income	**−5,477**	**53,080**	**287**	**47,977**	**51,308**
Operating expenses					
Financial expenses for management of central government debt					
Realised net interest etc.	5,409	−50,199	0	−44,791	−44,260
Realised exchange gains/losses	106	−2,560	0	−2,454	−6,336
Total interest on central government debt 26 92:1	**5,514**	**−52,759**	**0**	**−47,245**	**−50,597**
Commission 26 92:3	**0**	**−86**	**0**	**−86**	**−88**
Unrealised net interest etc.	231	381	0	612	2,989
Unrealised exchange gains/losses	888	−5,025	0	−4,137	23,493
Commission expense not deducted from appropriations	0	0	0	0	−3
Total interest and commission expense not deducted from appropriations	**1,119**	**−4,644**	**0**	**−3,525**	**26,483**
Total financial expenses on central government debt	**6,633**	**−57,489**	**0**	**−50,856**	**−24,205**
Other operating expenses					
Guarantee expenses	0	0	2,247	2,247	47
Administration 2 2:3	−38	−235	0	−272	−266
Cost of guarantee subsidies	0	0	0	−86	−86
Administration expenditure not deducted from appropriations	0	2	−29	−27	−39
Total other operating expenses	**−37**	**−232**	**2,218**	**1,862**	**−344**
Collection activities	0	0	0	0	0
Total expenses	**6,596**	**−57,722**	**2,218**	**−48,994**	**−24,549**
Change in capital for the year	**1,119**	**−4,642**	**2,505**	**−1,018**	**26,759**

Multimillion deals are a daily occurrence at the Debt Office trading desk, both in kronor and other currencies. Our employees work independently and often under time pressure. They need to demonstrate a high degree of professionalism and work towards the objective of reducing central government debt without taking excessive risks.

Central government debt management

The Debt Office manages the central government debt and state borrowing. Most of the central government debt consists of bonds and other securities purchased primarily by funds, insurance companies and other financial institutions, in and outside Sweden. A small part of central government debt is financed by lottery bonds and other savings products targeting private individuals and small investors. In addition to financing central government debt, the Debt Office is also tasked with active foreign currency management.

Key activities in 2007

- Central government debt decreased by SEK 102 billion to SEK 1,168 billion.
- The state budget surplus amounted to SEK 103 billion, the largest surplus ever. A budget surplus means that the state is amortising the central government debt.
- Issues of all types of government securities decreased due to the major budget surplus.
- The Debt Office amortised the equivalent of SEK 42 billion on the foreign currency debt, SEK 2 billion more than the benchmark in the Government guidelines. The difference is due to the amortisation rate being difficult to manage in detail, partly because it is affected by exchange rate fluctuations.
- The Debt Office reduced the maturity of the foreign currency debt from 2.1 years to 1.5 months.
- We decided that from the beginning of 2008 the number of maturities for T-bills would be reduced from six to four in line with the continued decrease in central government debt.
- Borrowing was unusually difficult to plan, since the Government had announced major sales of shares in state-owned companies and such payments are difficult to predict, both in terms of time and amount.
- During the autumn primary dealers exercised their right to borrow government securities from the Debt Office in connection with the general uncertainty in the fixed-income market. This meant that our short-term borrowing increased.

[1] *The new measurement is only used to describe the composition of central government debt. For reporting the size of the debt we use the traditional measure, non-consolidated gross debt. Figures referring to borrowing in different types of debt are also based on the traditional measurement.*

Objectives and guidelines

The overall objective of central government debt management is to minimise the long-term cost without excessive risk-taking. The Riksdag has fixed this objective in law. The central government debt is managed in accordance with guidelines determined annually by the Government based on proposals from the Debt Office. The guidelines establish the distribution of the debt and the average maturity.

The Government took the following decisions for 2007:

- A new control system and a new way of measuring the composition of the debt in the guidelines were introduced. The new share measure is based on the debt's aggregate cash flows.[1]
- The benchmarks for the composition of the debt according to the new measurement were set at 60 per cent for nominal krona debt, 25 per cent for inflation-linked debt and 15 per cent for foreign currency debt.
- The benchmark for amortisation of the foreign currency debt was raised to SEK 40 billion from last year's SEK 25 billion. The Debt Office was allowed to deviate from the amortisation benchmark by SEK 15 billion.
- The maturity benchmark was set at 4.7 years. This is equivalent to a reduction of about 0.3 years compared with 2006. The benchmark refers to the entire central government debt. Maturity is measured in terms of average interest rate refixing period.

The Debt Office mandate also includes borrowing directly from private individuals and other small investors, for example through lottery bonds. The objective is to achieve the greatest possible saving compared with loans by means of ordinary government securities to further reduce the cost of the central government debt.

The Debt Office is also engaged in active portfolio management in foreign currency. This means that we try to predict future movements in interest rates and foreign exchange rates and create positions that give a profit if our assessments prove to be correct. The objective is to reduce the cost to the state without taking excessive risks. The Government had introduced a new control system for active management for 2007 and gave the Debt Office a risk mandate of SEK 600 million, in terms of daily Value-at-Risk.

Reporting obligations

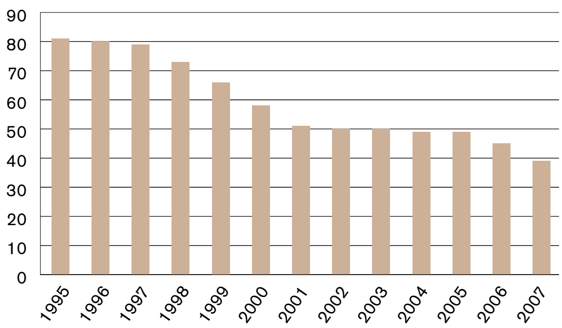
An overall assessment of the Debt Office's contribution to achieving the objective of central government debt management must be given in this annual report. We are also to report how much we have saved by borrowing in the retail market in 2007 and in the period 2003–2007, both for individual types of debt and borrowing as a whole. We must analyse our position in the savings market. A more detailed account is provided in a separate report containing reference material for evaluation of central government debt management in 2007.

Central government debt decreased by SEK 102 billion

At the end of 2007 the central government debt was SEK 1,168 billion. Central government debt measured as a percentage of GDP was approximately 38 per cent[1], which is around 7 percentage points less than last year; see Figures 2 and 3.

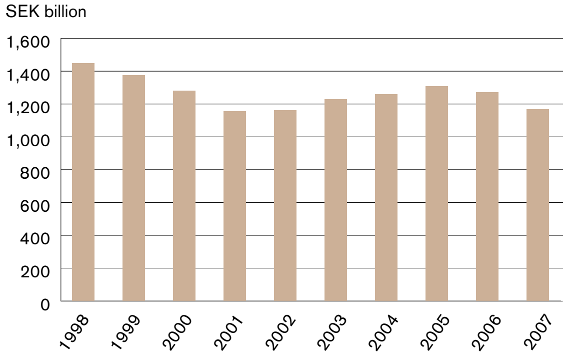
[1] *The calculation is based on the latest forecast of GDP in 2007 from the National Institute of Economic Research.*

Figure 2 CENTRAL GOVERNMENT DEBT AS PERCENTAGE OF GDP



Central government debt continues to fall. Measured as a percentage of GDP, it is falling even faster, since that measure is also affected by economic growth – the higher the growth, the lower the percentage of debt.

Figure 3 DEVELOPMENT OF CENTRAL GOVERNMENT DEBT



Overall, central government debt decreased by SEK 102 billion in 2007. The debt reduction was smaller than the budget surplus of SEK 103 billion. This is because there are further factors that affect the debt. These include revaluation of the foreign currency debt to current exchange rates and changes in the Debt Office's cash balance. These items can involve large amounts, but in 2007 they happened to more or less balance each other out. (More information on the surplus is given in the section on the borrowing requirement on page 13.)

Higher inflation-linked component and lower foreign currency component

Most of the central government debt is financed by nominal loans in kronor. By supplementing this with inflation-linked and foreign currency debt the state can spread the risks. Interest expenses for a debt that includes inflation-linked and foreign currency debt in addition to nominal debt will be more stable, as they will be less dependent on one single factor. Real interest rates do not move in the same way as nominal rates and the costs of interest-linked loans are also affected by the inflation trend. Nor do interest rates in other currencies follow the same pattern as those in kronor.

At the turn of the year the percentage of inflation-linked debt was 24.8, which is close to the 25 per cent benchmark set by the government. Foreign currency debt accounted for 16.3 per cent of central government debt and thus the foreign currency component is approaching the 15 per cent benchmark. The remainder was composed of nominal Swedish currency debt.

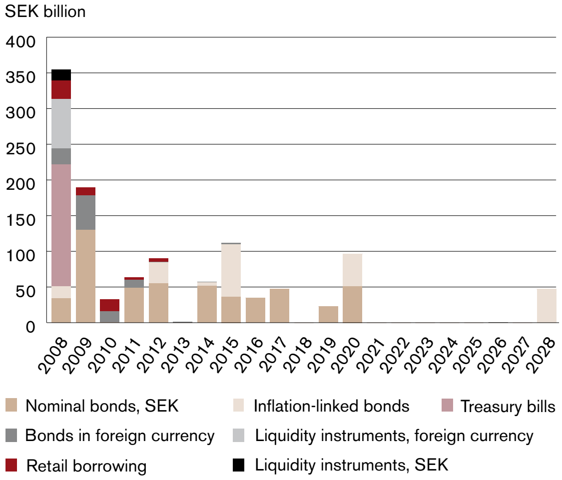
Shorter maturity

The choice of maturity is an expression of the trade-off between expected cost and risk in central government debt. Short maturity usually gives a lower expected cost, since short-term interest rates are generally lower than long-term, but the risk is higher. This is partly because short-term interest rates vary more, and partly because a greater proportion of the debt must be renewed each year and the new interest rate is uncertain. The Government's decision on the benchmark for the time to maturity is therefore based on an assessment of the state's risk appetite.

The average maturity of the central government debt was 4.5 years at the end of 2007. This means that the debt was 0.4 years shorter than at the previous year-end and 0.2 years shorter than the benchmark in the guidelines. The latter reflects the fact that we had an unusually large proportion of short-term nominal debt right at the end of the year.

A given average maturity can be achieved in many ways. By issuing loans that mature at different times we spread our risks. The maturity profile of the central government debt in Figure 4 shows that the state has some loans that will only mature in 20 years.

Figure 4 MATURITY PROFILE OF CENTRAL GOVERNMENT DEBT



The Debt Office raises loans of different types with varying maturities. We achieve a better risk spread in that a limited part of the debt has to be refinanced each year.

Market support and debt maintenance

Market support is central to keeping the costs of central government debt as low as possible. A well-functioning market reduces the risk for investors, who are then prepared to pay more for the securities we sell. This means lower borrowing costs for the state.

An important element is that borrowing in kronor is concentrated to a small number of loans. For example, there is at most one nominal bond loan that matures every year. Accordingly the outstanding volume of each loan becomes large enough to ensure that investors can buy and sell the bonds on the market at a low cost.

We also have a transparent and predictable borrowing policy. This means, for example, that we avoid varying the amount of nominal bonds and inflation-linked bonds we offer at each auction. We make an effort to provide clear information on our expected borrowing needs and in what way the borrowing requirement will be met.

It is also important that the Debt Office has effective sales channels, which is why we use a number of banks as primary dealers. Their tasks include passing on bids from investors in our government securities auctions. The primary dealers also play an important part in the trading of issued government securities by undertaking to buy and sell government securities on the secondary market.

In return, the primary dealers gain access to a number of market support services; for example, they can borrow government securities via repos. These repos reduce the risk to the primary dealers, which means that investors can count on being able to buy and sell large denominations of Swedish government securities without any problems.

In autumn 2007 the Debt Office once again carried out an interview survey of how primary dealers and investors regard our market support and debt maintenance work and the Swedish government securities market as a whole. As in previous years, the Debt Office and the Swedish market all in all received very high ratings.

Borrowing requirement

The amount the Debt Office needs to borrow depends on the size of the state's incoming and outgoing payments. We split the borrowing requirement into two parts: net borrowing requirement and maturing loans.

The net borrowing requirement is the mirror of the central government budget balance. If there is a deficit in the central government budget we borrow and central government debt increases. If there is a surplus we amortise the central government debt; see Table 3.

The second part of the borrowing requirement is linked to loans raised earlier. When an old loan matures it must

Table 3 CENTRAL GOVERNMENT BORROWING REQUIREMENT

SEK billion	2003	2004	2005	2006	2007
Primary borrowing requirement	**4.3**	**−2.1**	**−46.7**	**−67.6**	**−150.3**
Of which					
primary balance	−5.8	−17.1	−59.9	−97.5	−149.1
Debt Office net lending	10.1	15.0	13.2	29.9	−1.2
Interest on central government debt etc.	**42.2**	**52.6**	**32.6**	**49.2**	**47.1**
Of which					
interest on loans in Swedish kronor	21.3	33.9	30.5	33.9	34.9
interest on loans in foreign currency	17.1	13.6	12.3	9.0	9.8
realised exchange rate differences, net	3.9	5.1	−10.2	6.3	2.4
Central government borrowing requirement (net)	**46.6**	**50.5**	**−14.1**	**−18.4**	**−103.2**

A minus sign on the line for the central government borrowing requirement indicates a central government budget surplus and that we are amortising central government debt.

Forecasts for the borrowing requirement in 2007

The Debt Office forecasts central government borrowing requirements in order to plan borrowing. The first two forecasts for 2007 were published in the first half of 2006 and deviate considerably from the outcome. The main reason for this is that the economic outlook at that time seemed considerably worse, and the Budget Bill published in November 2006 entailed major changes.

The Government announced its plans to sell assets worth SEK 50 billion per year during its term of office. The size and time of these divestments are very difficult to predict. For want of any other information we decided not to deviate from the government's assessment, and included SEK 50 billion in proceeds from sales in all forecasts.

In 2007 sales reached no more than SEK 18 billion. Disregarding proceeds from sales, the forecasts we published in 2007 were relatively accurate. Hence we have had a fairly correct total picture of the normal factors affecting the central government borrowing requirement.

A characteristic of 2007 was that the borrowing requirement varied considerably more from month to month than previously. This means that the deviations from our monthly forecasts were greater than normal.

The major reason was that some agencies started to use repos as part of their asset management, obtaining funds through short-term lending of government securities. The money is deposited in a Debt Office account when the repo is made, and withdrawn when the repo is terminated. These activities affected the borrowing requirement for individual months, thereby making forecasting and liquidity management more difficult. However, the repos did not affect the full year borrowing requirement, since the agencies terminated their repos at year-end.

We give a brief account below of the three forecasts we published in 2007.

February: SEK 112 billion surplus
In February 2007 we raised the surplus forecast for the year by SEK 30 billion to SEK 112 billion. The main reason was sharply increasing tax revenues as a result of a stronger economy with a better labour market and rising private consumption.

June: SEK 138 billion surplus
In June 2007 we raised the forecast further to SEK 138 billion. This was due to higher tax revenues, higher dividends on the state's shareholdings and a lower EU membership fee.

October: SEK 135 billion surplus
In October we left our forecast more or less unchanged. The marginal change that was nevertheless made was due to somewhat larger interest payments on the central government debt. The forecast included SEK 32 billion in proceeds from sales, apart from the SEK 18 billion the state received from the sale of shares in TeliaSonera. If this SEK 32 billion is disregarded, the forecast was entirely in line with the actual outcome of SEK 103 billion.

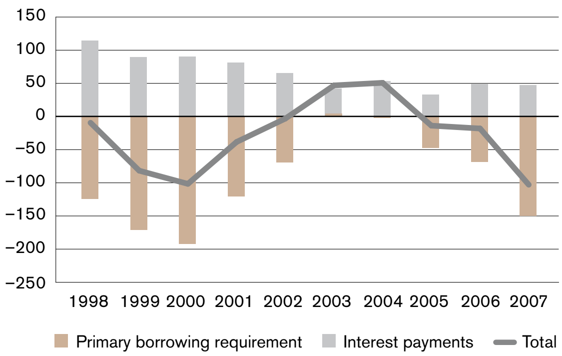
be repaid and we finance this by raising new loans. The total of the net borrowing requirement and maturing loans is called the gross borrowing requirement.

Large central government budget surplus

In 2007 the state budget surplus was SEK 103 billion, the largest ever. The surplus was SEK 85 billion greater than in 2006; see Figure 5. While the year-by-year change is affected by some temporary factors, it is nevertheless an indication that central government finances improved significantly compared with 2006.

The strong economy continued to have a positive impact on central government finances. Increased employment and consumption meant a continued rise in tax revenues. Tax cuts meant, however, that the rate of increase was lower than in 2006.

Figure 5 CENTRAL GOVERNMENT BORROWING REQUIREMENT



In the figure, a central government budget surplus means that the net borrowing requirement is negative. The budget surplus showed a marked increase in 2007. This is partly due to temporary factors, but basically reflects that the central government finances are strong.

The state sold some of its TeliaSonera holding in the spring, which raised SEK 18 billion. Dividends on the state's shareholdings were SEK 34 billion, an increase of SEK 12 billion compared with 2006.

The economic boom also affected central government expenditure, which showed a considerably smaller increase than in 2006. In particular, expenditure on unemployment and ill health decreased.

Net lending to government agencies and state-owned companies fell by SEK 1 billion, which can be compared with an increase of SEK 30 billion in 2006. The great difference is mainly due to a one-off effect of SEK 25 billion in 2006, caused by the impact on net lending of shifting payment of premium pension funds over the year-end.

Interest payments amounted to SEK 47 billion, a decrease of SEK 2 billion compared with 2006. (See page 7 for comments on interest payments.)

Borrowing in 2007

The large central government budget surplus, and expectations that the debt will continue to decrease in coming years, made their mark on borrowing in 2007.

Debt Office borrowing is mainly governed by two factors. The first and obvious one is that the loans we raise must cover the gross borrowing requirement. The second factor is that the central government debt – the sum of new and old loans – must be consistent with the Government's guidelines for the composition and maturity of central government debt, adjusted for any deviations decided by the Debt Office.

Table 4 CENTRAL GOVERNMENT BORROWING

SEK billion	2003	2004	2005	2006	2007
Net borrowing requirement[1]	**47**	**51**	**−14**	**−18**	**−103**
Change in cash balance and retail market[2]	15	−10	28	−39	−36
Maturities, buybacks etc.	43	44	56	71	79
Government bonds	12	21	16	36	62
Foreign currency loans	31	22	40	35	17
Total	**102**	**84**	**66**	**13**	**−59**
T-bill borrowing, net[3]	**−31**	**−35**	**−27**	**−78**	**−110**
Bond borrowing, gross	**134**	**119**	**93**	**91**	**51**
Bonds in foreign currency	11	10	25	20	5
Inflation-linked bonds	18	18	12	7	5
Nominal government bonds	105	91	56	64	41
Funding	**102**	**84**	**66**	**13**	**−59**

[1] *A minus sign on the line for the central government borrowing requirement indicates a central government budget surplus and that we are amortising central government debt.*
[2] *Net change in liquidity management instruments and retail market loans.*
[3] *Net of issues (excluding exchanges) and maturities during the calendar year.*

A shrinking debt means the Debt Office is required to establish priorities between the different loan instruments. The distribution of borrowing in 2007 between nominal krona debt, inflation-linked debt and foreign currency debt is shown in Table 4. The underlying decisions and considerations are described in the following sections.

Smaller volumes in bond and T-bill auctions

Nominal loans are the state's most important source of funding. Most nominal borrowing is in government bonds and T-bills. Nominal loans also include instruments with short maturities such as repos, overnight loans and liquidity bills used in liquidity management to counter fluctuations in the state's cash flows. The benchmark for maturity in nominal Swedish currency debt was 3.5 years, the same as 2006.

Government bonds

The Debt Office borrowed SEK 41 billion in nominal government bonds in 2007, compared with SEK 64 billion in 2006. The large budget surplus meant that we reduced the issue volume. At the beginning of the year the volume was SEK 2.5 billion per auction, but in the second half of the year we offered only SEK 1.5 billion. The Debt Office primarily issues bonds with maturities of two, five and ten years. To prevent individual loans being so small that they are difficult to trade on the market we decided in future to issue a new loan maturing in ten years every eighteenth month instead of every twelfth as previously.

The Debt Office makes a qualitative assessment of the borrowing in nominal bonds, since there are no quantitative measures. We concluded that borrowing functioned well during the year. Every auction was oversubscribed, which indicates high demand. At the same time, it is difficult to isolate the impact of our actions on demand. Our annual surveys of primary dealers and investors, however, give the Swedish nominal bond market a high rating. (See the section on market support and debt maintenance above.)

T-bills and interest rate swaps

Funding via T-bills, short-term government securities with a maximum maturity of 18 months, decreased in comparison with 2006. This is partly due to the budget surplus and partly because the average maturity in the nominal debt was below its benchmark at the beginning of the year. By reducing the volume of T-bills we could increase the average maturity.

The Debt Office sells T-bills by auction in the same way as nominal bonds. We use T-bills to offset fluctuations in the central government borrowing requirement over the course of the year. The variation for both auction volume and outstanding stock is considerably greater than for bonds.

An alternative to issuing T-bills is to use interest rate swaps to exchange the fixed interest rate on a long-term bond for floating rates. Accordingly, we issue more long-term bonds than we would otherwise have done. In this way we use our relative strength as a borrower in long maturities, and can reduce the costs of borrowing. In 2007 we achieved short-term borrowing for SEK 19 billion with interest rate swaps.

At the beginning of 2008 the Debt Office reorganised T-bill borrowing. In future there will only be four outstanding maturities and the longest maturity will be six months. Previously we have had at least six different bill maturities up to twelve months. This is an adjustment to the decreasing central government debt and shows that we give priority to the bond market. By using interest rate swaps we can keep the average maturity unchanged despite decreased T-bill borrowing.

Liquidity management

In 2007 we had a cash deficit on about 75 per cent of the business days in the year. Loan requirements vary considerably both from month to month and during a month, depending on the pattern of government payments. On some days the deficit may be SEK 50 billion or more. On other days, incoming payments are greater than outgoing payments, which generates a cash surplus.

All payments in kronor are made to and from the central government account at the Riksbank. Regardless of whether central government payments result in a surplus or a deficit we ensure that the balance of the account is zero at the end of each day. This is the result of daily liquidity management. A deficit is financed in the first place by liquidity bills. The rest is covered by overnight loans and short-term repos. Correspondingly, the surplus is deposited with banks and other actors in the overnight deposit market.

A repo means that the Debt Office sells a government security with an agreement to repurchase it after a certain number of days. Thus it is a form of short-term borrowing, even if the underlying security can have a long maturity. Repos are often cheaper for the Debt Office than other short-term borrowing, since some players need to borrow government securities and are prepared to pay a little extra to obtain them. The extra cost consists of their lending money to the state at an interest rate that is lower than the short-term market rate.

Primary dealers may enter into repos with us regardless of our liquidity requirements. Demand for these market support repos increased drastically after the summer, reflecting the credit unrest prevailing in the international fixed income market in the second half of 2007. Many investors wanted instruments with the highest possible credit rating. They were also anxious to make short-term deposits, since they were unsure of their own funding. One solution was to invest in government securities that they borrowed from one day to the next. Since supply in the ordinary repo market is limited, many turned to the Debt Office. We offer unlimited volumes, but at interest rates that are unfavourable in a normal market.

For the Debt Office a market support repo can mean that we borrow more money than planned if it is entered into when we have a low borrowing requirement or a liquidity surplus. We can invest the money at a higher interest rate than we pay, but when volumes increase our liquidity management is nevertheless adversely affected. Nor is it our function to manage a large cash surplus. So in the long term it is not expedient for us to receive large amounts via market support repos. But during this period of great uncertainty in the fixed income market our repos helped to stabilise interest rates on government securities and to keep trading more efficient than it would otherwise have been.

In the later part of the year repo volumes fell, partly because more players with large holdings of government securities started lending them via repos. In 2008 the Debt Office will nevertheless review the terms for market support repos to ensure that they are more efficient. As a first step, in December we decided to increase the difference between the interest rate we pay those who lend money to the state via market support repos and the Riksbank repo rate by 0.10 percentage points from 1 April 2008. This will make it less profitable to enter into repos with the Debt Office.

Small inflation-linked loan issues

In 2007 the Debt Office issued inflation-linked bonds for SEK 5 billion, which was less than in 2006. We continued to issue inflation-linked bonds despite the large surplus because some activity must be maintained in this area to enable the market to function as a source of funding even in the long term. Besides, there are few inflation-linked loans. This is why loans mature and have to be paid back only in certain years, while issues must be more evenly distributed over time.

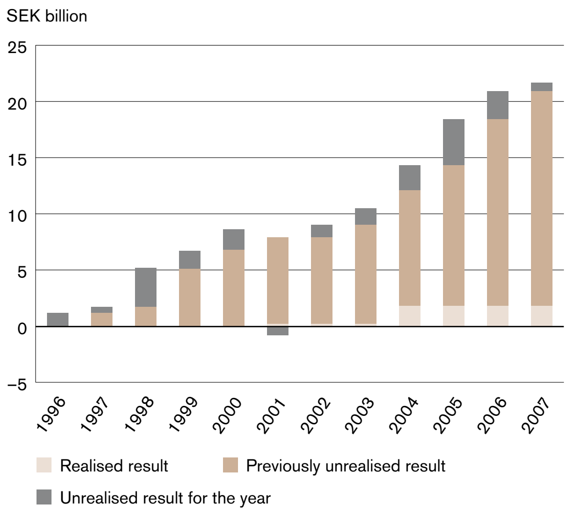
Inflation-linked loans have an in-built protection against inflation. The investor receives fixed real interest and variable compensation for the rate of inflation during the term of the loan. Inflation-linked bonds are issued on the same principles as nominal bonds, which is through auctions. However, there are fewer players in the inflation-linked market, which makes it harder to predict demand.

Although the main purpose of issuing inflation-linked bonds is to spread risk, it may be of interest to study how inflation-linked borrowing has affected the state's costs to date. Accumulated since 1996 the estimated saving of issuing inflation-linked loans is about SEK 22 billion; see Figure 6. Comparison is made against what it would have cost the state to issue nominal bonds with the same maturity. The explanation for the large saving is that inflation has been considerably lower than expected. Consequently, compensation for inflation paid by the state to inflation-linked loan holders was low.

The key indicator for comparisons of this kind is break-even inflation. It is defined as the difference between the inflation-linked interest rate at the time of issue and the interest rate on the same date for nominal bonds with equivalent maturity. The higher the break-even inflation, the greater the scope for inflation to rise without the inflation-linked loan becoming a more expensive alternative.

The average break-even level for issues in 2007 was 2.21 per cent. This is considerably higher than last year, when it was 1.89 per cent. Whether the inflation-linked loans will lead to lower costs will be determined by whether the average inflation rate over the term of the loan is below or above the break-even level.

Figure 6 CALCULATED RESULT



The calculated result increased by SEK 0.8 billion compared with 2006.

Foreign currency debt was amortised by SEK 42 billion

In 2007 the Debt Office generated foreign currency debt equivalent to SEK 20 billion and repaid SEK 62 billion. This means that we amortised SEK 42 billion of the foreign currency debt. The difference against the benchmark of SEK 40 billion in the Government guidelines is because exchange rate fluctuations prevent the Debt Office from being able to determine the amortisation amount exactly in krona terms.

Foreign currency debt is governed by a benchmark specifying distribution between the currencies included and maturity. The currency distribution is shown in Figure 7.

Figure 7 COMPOSITION OF FOREIGN CURRENCY DEBT

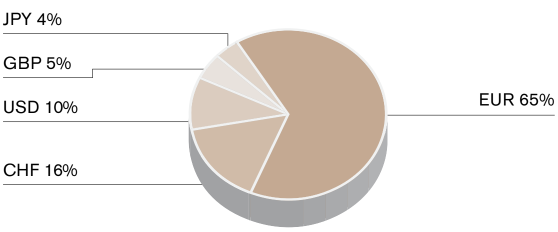
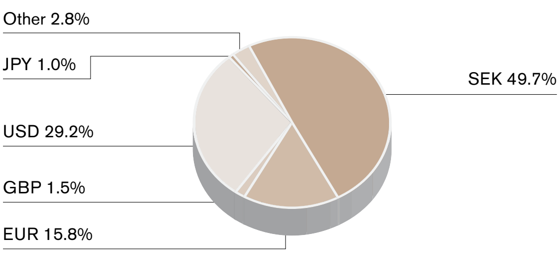


Figure 8 FUNDING OF FOREIGN CURRENCY DEBT



We do not finance foreign currency debt according to the benchmark. Instead, the Debt Office endeavours to borrow as cheaply as possible and then use derivatives to achieve a foreign currency debt with a composition and maturity in line with the benchmark. For example, about half of the foreign currency debt financing is in kronor, which is then converted to foreign currency commitments with currency swaps; see Figure 8.

In 2007 we created about one-third of the new long-term foreign currency debt with bond loans and the rest with currency swaps. Bonds in foreign currency gave an average interest rate that was 30 basis points below the standardised bank rate for dollars (USD libor). The average cost of currency swaps was 54 basis points below USD libor.

The benchmark for foreign currency debt maturity was reduced from the beginning of 2007 to 1.5 months. In 2006 the benchmark was 2.1 years. The sharp reduction was based on Debt Office analyses in the proposed guidelines for 2007, which indicated the possibility of reducing the expected cost by shortening the maturity of foreign currency debt without more than a marginal increase in risk.

Shortening the maturity was also simple to implement. The foreign currency debt is managed so that interest on all instruments is adjusted every third month. Previously we supplemented with instruments that prolonged the average maturity. By quite simply discontinuing these transactions we obtained a foreign currency debt with an average maturity of 1.5 months. The shorter maturity thus reduces the transaction costs of central government debt.

Retail borrowing

Borrowing in the retail market is aimed at private individuals, small businesses and organisations. On 31 December 2007, SEK 64 billion, or 5.4 per cent of the central government debt, was financed on the retail market; see Figure 9.

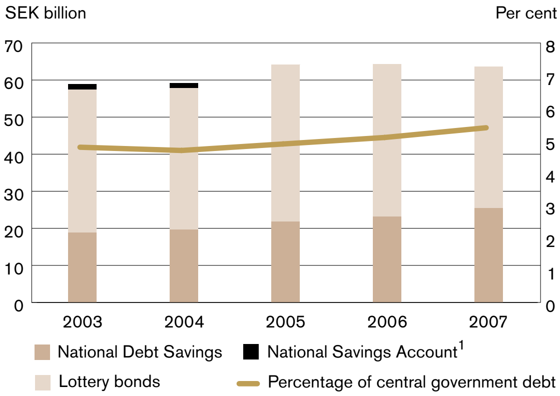
Our savings products

The Debt Office sells two products geared to the retail market: lottery bonds and National Debt Savings. We also sell government securities to retail market customers via our website.

Lottery bonds – saving with a chance to win

Lottery bonds are the Debt Office's most popular savings products with 500 000 customers.

Figure 9 RETAIL MARKET BORROWING, TOTAL AND AS PERCENTAGE OF CENTRAL GOVERNMENT DEBT



[1] *The National Savings Account is an older type of saving that was discontinued in 2005.*

We sold two new lottery bonds in 2007, one in April and one in October. New sales totalled SEK 9.1 billion. Unusually large amounts maturing during the year meant that the outstanding stock of lottery bonds fell by SEK 3.0 billion to SEK 38.2 billion.

National Debt Savings – more interest in savings accounts
The decline in the equity market and rising interest rates meant a sharp rise in deposits compared with 2006. The rise was only in floating rate accounts, which now represent 70 per cent of the total volume of National Debt Savings. Altogether National Debt Savings rose by SEK 2.3 billion during the year and on 31 December the outstanding volume was SEK 25.4 billion. At the end of the year there were 145 000 National Debt Savings customers.

Interest on floating rate National Debt Savings rose from 2.75 to 3.75 per cent during the year, as a result of the Riksbank's repo rate increases.

Internet sales of government securities
Interest in buying government securities via our website increased. We sold government securities worth SEK 1.4 billion and won 900 new government securities customers in 2007. This represents a sales increase of 50 per cent and a 90 per cent increase in the number of new customers.

There is most interest in short maturities. Both in 2007 and 2006 T-bills (with maturities of between 2 and 12 months) accounted for 98 per cent of sales.

The cost of internet sales was SEK 4 million in 2007, a decrease of SEK 1 million compared with 2006. Government securities are sold to retail market customers with no margin. Accordingly, we have no income from internet sales of government securities.

The role of the Debt Office in the savings market
The Debt Office savings market share is affected by both our own sales and the general market trend. In 2007 there was a substantial increase in the total fixed income savings market, mainly due to the decline in the equity market. We were not able to keep up with the savings market expansion and our market share fell by 0.9 percentage points to 5.6 per cent.[2]

Marketing
The catchword for the year's marketing was security. Our advertising earned several awards. We were awarded gold and silver in the category "Effect, business to consumer" in Posten's Guldlådan competition, and gold in the "Analysis award" of the Guldnyckeln competition, arranged by Swedish Direct Marketing Association.

[2] *Debt Office retail market borrowing as at 31 December 2007, total savings market as at 30 September 2007.*

New website a better sales channel
The internet is one of our most important sales channels for retail market borrowing. Our new website has made it easier for customers both to find information and register orders. The percentage of orders for National Debt Savings via the internet increased from 33 per cent to 40 per cent after the new website was launched, compared with the same period in 2006.

Retail market borrowing performance
Borrowing in the retail market reduced the costs of government debt by SEK 171 million compared with borrowing in the capital market in 2007. The total cost saving was SEK 826 million for the five-year period 2003–2007.

Table 5 SAVING, RETAIL MARKET BORROWING[1]

SEK million	2003	2004	2005	2006	2007
Lottery bonds	240	110	98	150	149
National Debt Savings	20	6	10	27	23
National Savings Account	–	−4	−2	–	–
Total saving	**260**	**112**	**106**	**177**	**171**

[1] *Government securities are not included in the result, since we pay the same interest to private individuals as to institutional investors.*

The result shows how much more the corresponding borrowing would have cost in the institutional fixed income market. Income is measured as an interest rate margin against borrowing in corresponding maturities in the money and bond markets. The costs are the actual costs of borrowing in the retail market.

The total saving fell by SEK 6 million compared with 2006; see Table 5. Lottery bonds performed the same as last year.

National Debt Savings performance weakened, falling by SEK 4 million compared with 2006. A discontinued system support project for National Debt Savings meant that expenditure of SEK 10 million that otherwise would have been accrued was realised in 2007. The project was abandoned because tests showed that the system was not sufficiently stable. The fixed rate National Debt Savings accounts, similar to bonds, differ from the usual type of savings accounts on the market. That is why a standard system requires major adaptation to work with National Debt Savings.

The additional costs of the system project were offset by reduced capital loss costs compared with previous years. This was because interest rates rose, resulting in lower early redemption costs. Moreover, a larger outstanding stock increased the earnings base.

Profit in active management 2003–2007

In the period 2003–2007 active portfolio management in foreign currency made a profit of SEK 803 million. During that period both interest-rate and currency positions made a profit. A profit in active management reduces the state's interest costs by the same amount. Active foreign currency management made a loss of SEK 238 million in 2007; see Table 6. The loss was from interest-rate positions, while currency positions made a small profit.

The Debt Office can take interest-rate and currency positions in foreign currency to reduce the state's costs without excessive risk. A position means that we increase or decrease exposure to a particular asset with the help of derivative instruments on the basis of how we believe the value of that asset will develop. If, for example, we expect the value of the dollar to fall against the euro, we make sure we have a debt in dollars and a corresponding claim in euros. If the dollar then falls against the euro we can sell our euro assets and pay back the dollar loan. The difference is the profit on the position. If instead the dollar should rise, we may be forced to take a loss.

The Debt Office also uses the services of external managers with the same task, but only with a minor part of the mandate (about 20 per cent). The purpose of external management is to engage external expertise and experience to reduce costs even more and also to have a yardstick against which we can evaluate our own management. Active management is a normal feature in the private sector, but is unusual among central government debt managers.

In 2007 our own management performance was more or less the same as the average of the external managers; they too made a loss. While the spread among these managers was large, only one achieved the target of a 0.25 per cent profit.

In the period 2003–2007 the Debt Office performed better on average than the external managers. (To enable a comparison between the Debt Office and the external managers, despite our larger risk mandate, the performance result is converted to a percentage of a reference portfolio totalling SEK 200 billion.)

Table 6 ACTIVE MANAGEMENT PERFORMANCE

	2003	2004	2005	2006	2007
SEK million					
Total management	937	195	−430	339	−238
Debt Office	880	164	−426	348	−203
Of which:					
Interest-rate positions	224	−18	187	367	−241
Currency positions	656	182	−613	−19	38
External managers	57	31	−4	−9	−35
Performance as a percentage of assets under management					
Debt Office	0.52	0.11	−0.25	0.21	−0.12
External managers	0.14	0.09	−0.01	−0.03	−0.11

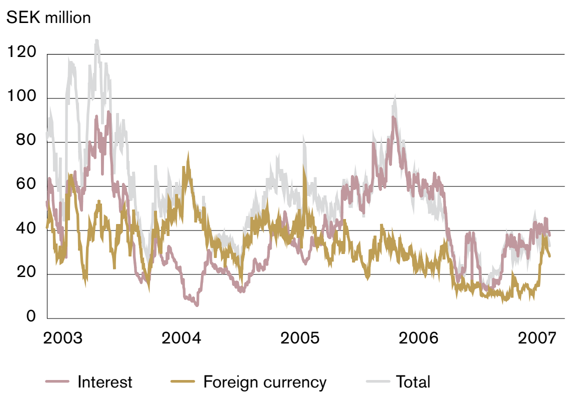
Reduced risk-taking

The positions taken are governed by a regulatory framework that limits the risks the Debt Office may take. For 2007 the Government set a total risk mandate of SEK 600 million in terms of daily Value-at-Risk (VaR). This means that we may take positions that (based on specified financial and statistical assumptions) with a certain probability can fall in value by no more than SEK 600 million in one day.

The board of the Debt Office resolved that the risk mandate for the day-to-day management would be SEK 220 million, the same as last year. The rest of the risk mandate was reserved for any major strategic positions, but none were taken in 2007. The entire result, therefore, is from the day-to-day active management.

The Debt Office took positions that gave an average VaR of SEK 29 million in 2007. In other words, we used a relatively small part of the total risk mandate. This reflects the fact that 2007 was a year in which it was difficult to find positions that we could deem as favourable.

Figure 10 VALUE AT RISK



Achievement of objectives

It is not possible to obtain an accurate evaluation of whether the objective of minimising the long-term cost of government debt without excessive risk-taking was achieved. The decisions that are most important in terms of costs and risks are taken by the Government in the guidelines for central government debt management. The evaluation of these decisions must address whether they as a whole appear to be reasonable and well judged, taking into account the goal and the information available at the time of the decisions. The control system for central government debt management is based on the Riksdag making such an assessment every year.

The proposed guidelines are based on our assessment of how the debt should be managed to achieve the objective. Since the system of annual guidelines was introduced in 1998 the Government has in all essentials followed our proposals. To date the Riksdag has found that the Government guidelines have been consistent with the objective. Since it is the Riksdag that has set and interprets the objective, this indicates that the Debt Office's work on the guideline proposals has made an important contribution to achieving the overall objective of central government debt management.

We consider that we also achieved the other goals of central government debt management in the appropriations directions and guideline decisions. We would like to draw particular attention to the following:

- We amortised SEK 42 billion of the foreign currency debt. The foreign currency component of central government debt fell to 16.3 per cent, but is still higher than the long-term benchmark in the Government guidelines.
- The proportion of inflation-linked debt increased to 24.8 per cent of central government debt, bringing it close to the benchmark in the Government guidelines.
- Borrowing in the retail market produced a surplus of SEK 171 million in 2007. The profit for the period 2003–2007 was SEK 826 million.
- Active foreign currency management made a loss of SEK 238 million in 2007. The profit for the period 2003–2007 was SEK 803 million.

In addition to these measurable results, the Debt Office made important decisions concerning, for example, T-bill and nominal bond borrowing to prepare central government debt management for a continuing decline in debt. These decisions are part of our market support and debt maintenance that help to keep the Swedish government securities market efficient, even in a situation of declining debt. A sound government securities market gives the state low borrowing costs. This also contributes to reducing risks in that well-functioning markets are available if the central government borrowing requirement should suddenly increase.

Cash management has taken on a growing role and more responsibilities in recent years. Both our own work and that of government agencies has become more efficient through a variety of new e-services that have virtually eliminated the paper flows between us.

Cash management

Central government agencies, public enterprises and state-owned companies deposit and borrow money at the Debt Office on market terms. We are also responsible for the state payment system, which is designed to enable efficient and secure payments and contribute to sound central government cash management. The surpluses and deficits arising from the agencies' incoming and outgoing payments through the payment system serve as the basis for our own borrowing activities.

Key activities in 2007

- The new framework agreements for payment services reduced the state's costs.
- New functions and a new user interface in our business system have enabled us to provide better service to government agencies.
- We proposed in a report to the Government a simplified application of loan models for fixed assets and interest-bearing accounts with a credit facility.

Objectives

The objectives of the Debt Office are to:

- set market terms for loans and deposits for government agencies and other enterprises; these terms are to be based on our borrowing costs
- manage and develop the state payment system so that it can ensure efficient payment services, maintain a high level of security, be adapted to the government accounting system, meet the state's information needs and be competitively neutral; no bank is to receive more favourable treatment than any other
- develop a cash management strategy that will lower interest expense in the long term
- provide the agencies with good service.

Reporting obligations

The Debt Office is required to report on:

- policy changes in setting interest rates
- improvements made – in qualitative and, if possible, quantitative terms
- customer views on quality and service
- significant development steps and important proposals for structural measures, as well as an impact analysis of these measures
- current frameworks for agencies, public enterprises and state-owned companies twice a year

Continued development work

In 2007 work on developing the state's internal treasury function continued and resulted in new framework agreements for payment services, more e-services and proposals for simplifying the interest account model.

New framework agreements reduce costs

New framework agreements for central government payments came into force in April 2007. The banks party to the framework agreements are, as previously, Nordea, SEB and Swedbank. Under the new agreements, remuneration to these banks is approximately 30 per cent lower than under the former agreements.

The framework agreements contain a basic package of the most common services for small government agencies. In the four largest agencies – the Swedish Social Insurance Agency, the Swedish Tax Agency, the Swedish National Board of Student Aid and the Swedish Road Administration – each service processes over one million payments per year. These agencies negotiated their own fees for their services in a second competitive round.

In the spring these agencies began to use the banking services as defined in the new agreements and, in our view, adapted quickly and smoothly to both the new agreements and the change of payment intermediaries.

Development of IT support for agencies continues

Cash management services and information concerning agency loans, deposits and payments in SIBWebb were expanded and developed during the year. Agencies now have electronic access to, for example, confirmation of invoices, statements of commitments and deposits, and account statements, eliminating the need to send these by post. Information between the Debt Office and government agencies is exchanged more quickly and paper flows have diminished. All agencies are now connected to SIBWebb.

Agencies can now also use SIBWebb for transfers, incoming and outgoing payments and certain adjustment services between interest-bearing and non-interest bearing flows.

The website has also become the most important information distribution channel for cash management news, the events calendar and the cash management newsletter for government agencies.

The interest account inquiry

The Debt Office was instructed by the Government to work with the National Financial Management Authority to evaluate the model that agencies use for loans for fixed assets and the model for interest-bearing accounts with a credit facility. We delivered our report on 15 December 2007.

The report included proposals to the Government for simplifying the application and management of the model for interest-bearing accounts. One proposal was to allow agencies with payments in both interest-bearing and non-interest bearing flows to use only one payment flow. Another proposal was to allow the Debt Office, in consultation with the National Financial Management Authority, to test an alternative to the current procedure of transferring appropriation funds to an agency's interest-bearing account in twelve equal monthly payments on the 25th of each month.

The loan model can be simplified by allowing an agency to part-finance a fixed asset investment with external funds. If a grant is paid by one agency to another from an appropriation that is meant for financing the acquisition of fixed assets, the receiving agency is not to finance the acquisitions through loans.

Costs for payment services continued to fall

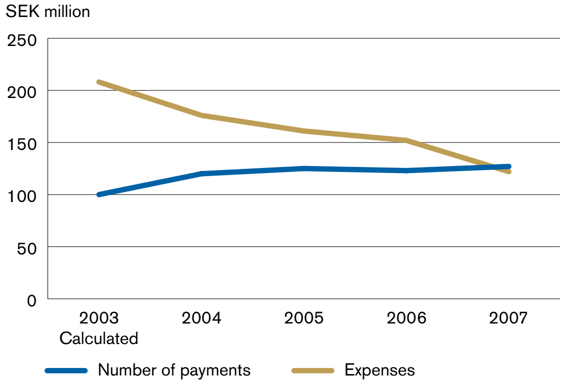
The cost of state payments continued to fall, mainly as a result of lower prices under the new framework agreements and increased use of electronic payment services.

Lower costs

In 2007, 127 million payments were made at a cost of SEK 122 million, a decrease of SEK 30 million or 20 per cent compared with 2006.

The average cost per payment was SEK 0.95, and for the first time ever below SEK 1. This decrease is due to the new framework agreements for central government payments that came into force on 1 April.

Figure 11 CENTRAL GOVERNMENT PAYMENTS AND EXPENSES



Expenses have been cut by almost half over the last five years despite the increase in the number of payments.

The costs for certain electronic services, including OCR payments, foreign deposits and supplier payments, were almost halved.

The costs for payments by postal cheque dropped by one-third, while the cost of card acquisition transactions rose due to increased use.

Electronic payments

By and large, all state payments are executed electronically in the form of credit transfers or giro payments. The most common electronic payments are pension payments, daily allowances and wages, tax payments, OCR payments, direct debit, foreign deposit and credit transfers.

Table 7 PAYMENTS 2007

Million	Number	%	Amount	%	Cost	%
Electronic	124	97	5,189	99	92	75
Card	2	2	2	0	4	3
Manual and cash	3	2	31	1	27	22
Total	**129**		**5,222**		**122**	

The information in this table includes card payments made via payment card issuers and therefore differs from that in the text.

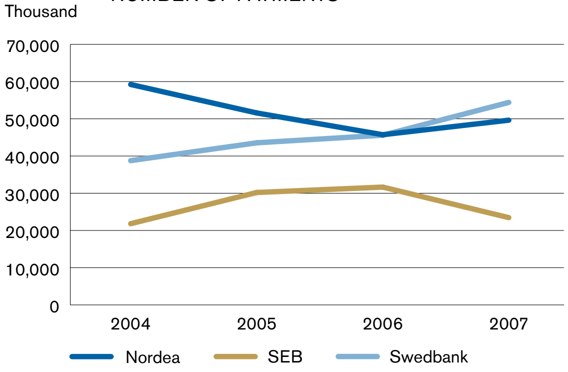
In 2007 about 2 per cent of payments were made by payment card.

Manual and cash payments also accounted for about 2 per cent of payments. These are mainly the result of the use of postal cheques for tax refunds and processing museums' cash takings. The use of electronic services or payment cards has continued to increase in these areas too, contributing to a decrease in the cost of state payments.

More even distribution between banks

In 2007, 127 million payments were made, an increase of 4 million compared with 2006.

Figure 12 CENTRAL GOVERNMENT PAYMENTS DISTRIBUTION BETWEEN BANKS, NUMBER OF PAYMENTS



Swedbank's share of central government payments increased and SEB's decreased.

Swedbank and Nordea distributed more payments during the period: 8.8 million and 3.9 million more, respectively. SEB distributed 8.2 million fewer payments than in 2006.

Swedbank took over the Swedish Road Administration's vehicle tax payments and the Tax Agency's tax refunds by postal cheque, which were previously handled by SEB.

Nordea took over the distribution of the Swedish Board of Agriculture's EU funds to Swedish farmers; these payments were previously distributed by Swedbank.

Congestion taxes – distributed by Nordea – were re-introduced but they do not affect the statistics as they are not included in the framework agreement.

The framework agreement banks distributed 86.9 per cent of the payment volume, which is 0.1 percentage point more than in 2006. Nordea distributed 46.8 per cent of payments during the period, which means that its share decreased by 2.9 percentage points compared with 2006. SEB's share of the payment volume increased by 3.3 percentage points to 33.6 per cent.

One reason for this is that SEB distributed a large share of the Tax Agency's payments, and incoming and outgoing tax payments increased significantly in value over the year. In addition, the Premium Pension Authority (PPM) fund flows in SEB are now automatically settled against the Government's central account with the Riksbank.

Lower account balances

The framework agreement banks transfer the agencies' incoming payments to us and we cover the agencies' outgoing payments with these banks three times a day. Payments made or received before 3 pm are not settled between us and the banks until the following morning. This means that a float remains in the banks overnight.

Account balances have decreased dramatically since 2004, when the form of remuneration to banks was changed from float to charges for payment services.

The average overnight balance in 2007 was SEK 147 million. The highest remaining account balance in the framework agreement banks over any one night was SEK 1,992 million. Both these measures show that the account balance decreased somewhat during the year.

In 2007 we set the follow-up limits for account balances overnight for the framework agreement banks.

Figure 13 CENTRAL GOVERNMENT PAYMENTS DISTRIBUTION BETWEEN BANKS, PAYMENT VOLUME THROUGH GOVERNMENT CENTRAL ACCOUNT WITH THE RIKSBANK

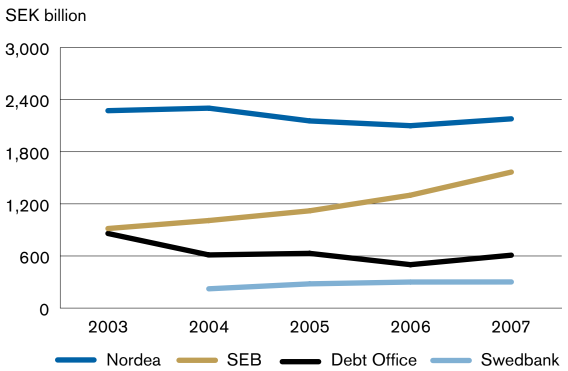
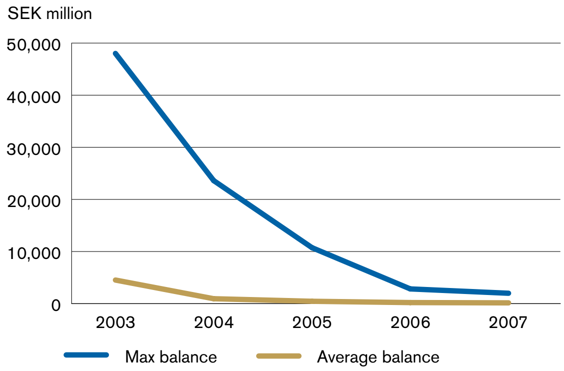


Figure 14 OVERNIGHT BALANCE



The follow-up limit is SEK 1 billion per bank. Each time the follow-up limit is exceeded we look into the cause with the bank concerned. In most cases, companies have paid in large tax payments so late in the day that there has not been time to transfer them to us until the following morning.

The account balance was a very minor part (0.07 per cent) of the total volume of payments distributed during the year.

This float does not entail costs for the Debt Office since we receive interest corresponding to the Riksbank's repo rate. On the other hand, it does entail a risk that we need to manage.

Currency hedging

We offer agencies currency hedging for foreign currency payments. Currency hedging and associated deliveries of foreign currency are part of our work to promote sound government cash management. The system also contributes to more efficient management and control of appropriation funds to government agencies.

Under the new payment ordinance (SFS 2006:1097) agencies that need to hedge their foreign currency payments are required to apply to the Debt Office for permission. By 31 December 2007 agencies had hedged foreign currency payments in an amount equivalent to approximately SEK 5 billion.

Drop in lending and rise in deposits

The Debt Office's total lending decreased by SEK 1.7 billion compared with the previous year; see Table 8.

The state-owned companies increased their borrowing by just over SEK 2 billion. The largest borrower is Botnia AB, which accounts for almost 70 per cent of corporate lending. In 2007 government agencies decreased their borrowing, largely due to the National Rail Administration and the Swedish Road Administration repaying their loans early since they received funding through increased appropriations. The single largest borrower, CSN, increased its borrowing by SEK 5.5 billion to SEK 148.6 billion.

During the year, deposits increased by over 5 per cent; see Table 9. Half of this increase was due to appropriations that agencies did not use and that therefore remained in their interest accounts. PPM and the Swedish Exports Credits Guarantee Board accounted for the remainder of the increase. The increase in corporate deposits was the result of Venantius AB depositing its surplus liquidity with us instead of a bank.

Good quality and service

We use an annual customer questionnaire to gather agencies' views on the quality and services we provide. The customer satisfaction index for 2007 was 81 out of a maximum of 100, which is a good result.

Achievement of objectives

We achieved our objectives for cash management operations in 2007. The new framework agreements resulted in lower costs for the state and a more efficient and secure payment system. The internet banking services were further enhanced and the agencies remain satisfied with our operations and services.

Table 8 DEBT OFFICE LENDING TO AGENCIES, PUBLIC ENTERPRISES AND COMPANIES

SEK million	2003	2004	2005	2006	2007
Agencies	195,313	210,160	226,326	235,690	232,299
Public enterprises	7,682	7,780	6,267	7,069	6,427
Limited companies	9,184	10,716	13,058	15,491	17,835
Total lending	**212,179**	**228,656**	**245,652**	**258,251**	**256,560**

Table 9 DEPOSITS AT THE DEBT OFFICE BY AGENCIES, PUBLIC ENTERPRISES AND COMPANIES

SEK million	2003	2004	2005	2006	2007
Agencies	75,889	79,034	81,777	67,080	70,666
Public enterprises	621	3,893	3,516	3,511	1,978
Limited companies	1,935	1,550	1,200	1,000	2,896
Total deposits	**78,445**	**84,477**	**86,493**	**71,591**	**75,540**

The Debt Office is situated in central Stockholm, which means that our staff are within easy walking distance of bank headquarters, government ministries and the Riksbank. We are also very conveniently located for our international visitors in particular.

The state loan guarantee system requires the Debt Office to build sophisticated models and develop new methods to assess and price the state's risks. In 2007 we proposed a new deposit insurance fee model that will determine the fees to be paid by banks and other institutions.

Guarantees and loans

The Debt Office is responsible for issuing and managing state guarantees and loans with credit risk in accordance with decisions taken by the Riksdag. Guarantee operations are financed by risk-based fees either from the guarantee holders of via appropriations from the state budget. In the longer term our aim is that fees will cover losses and administrative costs, so that all guarantee operations will be completely fee-funded.

Key activities in 2007

- Preparations for the takeover on 1 January 2008 of the Deposit Guarantee Board.
- Revaluation of the risks of the Øresund Bridge.
- Takeover of Venantius' state-guaranteed bond loans.
- New undertakings to SwePol Link AB and Volvo Aero AB.

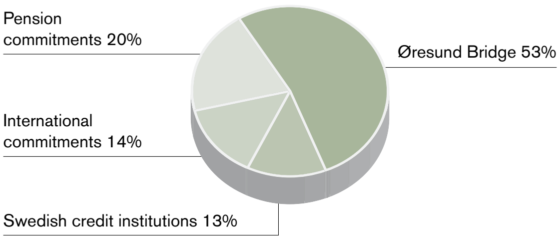
Objectives

The objectives of the Debt Office are to

- contribute to limiting the state's risk and safeguarding the state's rights by evaluating economic risks, setting fees, determining terms and conditions and collecting claims
- ensure that costs of operations over a long period correspond to revenues from fees based on insurance principles
- work actively to enable efficient performance of guarantee and loan operations of other agencies.

Figure 15 GUARANTEE COMMITMENTS

Guarantee portfolio of SEK 47 billion
31 December 2007, proportions %



Reporting obligations

The Debt Office is required to report on the financial results of operations and analyse the factors affecting them.

Guarantee and loan portfolio

The guarantee portfolio amounts to just over SEK 47 billion. We have large guarantee undertakings in infrastructure, Swedish and international credit institutions and pensions to former employees of central government agencies that have been corporatised. In addition, we have issued a number of guarantees to enterprises in agriculture and sparsely populated areas.

Debt Office lending to customers other than government agencies amounts to just over SEK 18 billion and mostly finances infrastructure projects.

Lower risk of loss in the new Øresund Bridge study

During the year, with help from our external consultants, we continued our study of future traffic revenue from the Øresund Bridge and found that the project's ability to repay its loans has improved. This applies both to the Øresundsbro Konsortiet's state guaranteed loan and parent company SVEDAB AB's Debt Office loan.

Provision for future guarantee losses from the Konsortiet's guaranteed loan was therefore reduced from SEK 1.9 billion to SEK 0.8 billion, and the write down for future credit losses from SVEDAB's loan decreased from SEK 1.9 billion to SEK 0.7 billion. The size of the project – the Debt Office and the Danish state together currently guarantee about SEK 25 billion – and the complexity of assessing the project risks make it relatively difficult to estimate the losses.

Table 10 GUARANTEE UNDERTAKINGS, PROVISIONS AND ASSETS IN GUARANTEE ACTIVITIES

31 December 2007, SEK million

	Guarantee activities	Provisions for anticipated guarantee losses	Guarantee fees paid	As yet unpaid future guarantee fees
Guarantee portfolio	47,426	1,063	2,191	106

The Debt Office took over Venantius' state-guaranteed bond loans

The Debt Office took over Venantius state-guaranteed bond loans and related interest rate and currency hedges in the derivatives market. The loans have varying maturity dates and will be managed by the Debt Office until 2013. Venantius paid the Debt Office SEK 4.1 billion for the takeover, which corresponds to the market value of the loans. The takeover means that the state guarantees no longer apply and the Debt Offices' special guarantee reserve for Venantius has been reversed.

Venantius is a state-owned credit market company established in 1995 to take over high-risk state housing loans. The company financed these loans by borrowing from the credit market through bonds guaranteed by the Debt Office. Since Venantius in recent years reduced its lending and the need for external financing therefore no longer existed, it proposed to the Government that the Debt Office take over the loans.

New guarantee for SwePol Link

In February 2007 the Debt Office issued a guarantee for a new bank loan that SwePol Link AB took to refinance a loan from Vattenfall AB. The guarantee was limited to 12 per cent of a amortization loan of SEK 1.3 billion.

SwePol Link owns a direct current cable under the Baltic Sea that connects the electricity networks of Poland and Sweden. It is owned by Svenska Kraftnät and Vattenfall – both Swedish state-owned – and Polish energy group PGE Polska Grupa Energetyczna S.A.

State financing prepared for Volvo Aero

The Government instructed the Debt Office to negotiate a state loan for Volvo Aero AB, which concerns partial funding of Volvo Aero's research and development of the GEnx jet engine. This engine, which will power the new Boeing 787, is being developed in partnership with General Electric.

In 2007 we negotiated a preliminary funding agreement. The funding requires the approval of the European Commission, after which the Government will express its views on the proposed agreement.

Reduced risk of future guarantee losses

Provisions for anticipated losses in the guarantee portfolio amount to SEK 1.1 billion, a decrease of SEK 1.1 billion compared with 2006. This is mainly due to the reappraisal of risk for the Øresund Bridge; see Table 10.

The current guarantee reserve amounts to SEK 2.2 billion. Due to the economic climate in recent years we have only needed to pay for a few minor guarantees. However, we know that losses are often cumulative when economic times are bad. It is natural, therefore that the guarantee reserve today is larger than the provisions.

Reduced risk of future credit losses

The Debt Office has outstanding loans to non-government borrowers amounting to SEK 17.8 billion, mainly in infrastructure; see Table 11. After write-down for anticipated credit losses the total value of these loans is SEK 16.9 billion. The write-down is SEK 1.1 billion less than on 31 December 2006 due to the reduced risk of the SVEDAB loan (see analysis of Øresund Bridge above). At the same time we estimate that the impairment loss on the loan to A-Train AB has increased from SEK 0.1 billion to SEK 0.2 billion.

Table 11 LOANS WITH CREDIT RISK

SEK million

Borrower	Outstanding loans	Write-down for expected credit losses
A-Train AB	1,000	200
SVEDAB AB	4,206	700
Botniabanan AB	12,345	
Other	295	
Total	**17,846**	**900**

Debt Office takes over deposit insurance

In 2007 we were instructed by the Government to prepare to take over the deposit insurance and investor compensation schemes from the Deposit Guarantee Board on 1 January 2008. The decision was taken to integrate the Deposit Guarantee Board into a larger agency, since it was a small and vulnerable organisation.

In autumn 2007 we made extensive preparations to enable the takeover at the start of the year

Proposal for a new deposit insurance fee model

Banks and institutions that belong to the deposit insurance scheme are required to pay a fee to the Debt Office. The size of the fee is regulated by law and based on the guaranteed deposits at the end of the previous year. The fee charged to each institution depends on how that institution's capital ratio relates to the capital ratio of other institutions.

As requested by the Government, the Debt Office presented a proposal for a new deposit insurance fee model in autumn 2007. The Debt Office had been tasked to design a model with a clearer link between the fees charged and the risks of each individual institution. We proposed that a fee corresponding to the state's risk should be charged to each institution and the fees deposited in a guarantee reserve. This would bring the management of these fees in line with that of other state guarantees.

Guarantee and credit management at other agencies

The Debt Office provides ongoing advice and recommends changes with a view to achieving more efficient and responsible management of the state's overall lending and guarantee operations.

In 2007 we were also part of a reference group connected with the new ordinance on a financing system for nuclear waste management. We have also been involved in simplifying the administration surrounding the issuance of promissory notes to international financial institutions.

Achievement of objectives

The objectives regarding guarantee operations have been achieved.

The objective regarding efficient credit management has been partially achieved. We have charged risk-based fees on most of the loans in recent years but there is still no regulatory framework for the state's external loans.

Deposit insurance and investor compensation

Deposit insurance is a state-provided guarantee of deposits in certain accounts at banks, securities companies and other institutions. This means that savers may receive compensation from the state if an institution goes bankrupt.

Investor compensation covers financial instruments and cash handled by certain securities companies, securities brokers and other institutions on behalf of customers in the course of providing investment services, such as the purchase, sale and deposit of financial instruments. Compensation is payable if an institution goes bankrupt and investors cannot recover their assets.

An organisation that handles multi-billion transactions on a daily basis must have good control over and knowledge of different types of risk. At the Debt Office we work systematically to identify, address and monitor our risks.

Risk management

The costs of managing the central government debt, the state payment system and the pricing of guarantees and loans depend on our ability to assess and manage risks. Our own actions and decisions also pose risks to the Debt Office's operating activities. For this reason, risk management is an important area of our work and one that we are constantly developing.

Key activities in 2007

- The financial and risk policy was extended to include all areas of operation.
- The internal control policy was adopted.
- A method and model for internal control work was developed.
- A new business continuity plan was adopted and crisis management exercises were conducted.

Objectives

The Debt Office, in addition to following the Government guidelines for central government debt management, will

- strive to align its risk management practices with best market practices
- ensure that its management of financial and operational risks complies with the relevant requirements set out in the legislation relating to financial companies and the regulations and general guidelines of the Swedish Financial Supervisory Authority
- ensure that the activities of the Economic Security coordination area are carried out to minimise the risk of disruption and help meet the fundamental needs of society, even in the event of a major peacetime emergency
- actively cooperate within the framework of the Ordinance on Crisis Preparedness and High Readiness (2006:942) to improve the robustness of critical infrastructure, enhance crisis management capabilities and increase knowledge through relevant business intelligence and analysis.

Reporting obligations

The Debt Office is required to report on the extent to which the objectives have been achieved. If an objective has not been achieved, an analysis must be undertaken and remedial action proposed.

The Debt Office is required to report on its crisis management capabilities, operational capacity and its ability to withstand severe disruptions in accordance with the definitions contained in the government decision of 30 November 2006 (Fö2006/2843/CIV).The report is to address the risks identified in the agency's risk and vulnerability analysis.

Limiting factors on how the Debt Office works to improve its capacity are also to be reported. Regarding the activities financed through appropriation 7:5 Emergency Preparedness, the report must outline the impact of these on the capacities mentioned above.

Overall risk management

The risk management practices adopted by the Debt Office are in line with best market practices and include uniform methods and models, and clearly defined policies and instructions.

The Board has ultimate responsibility for limiting and monitoring risks and for ensuring good internal control of operations. Every year the Board adopts a financial and risk policy and receives risk reports on a regular basis.

Each department is responsible for the risk levels and risk management of its own operations. The Risk Management Department is responsible for the independent overall control and the comprehensive reports submitted to the Board and the executive management. Internal auditing, which reports directly to the Board, evaluates risk management activities as a whole.

To discuss risks, incidents or risk management issues that concern many areas of our operations, representatives from the relevant areas are convened by the Director General of the Debt Office. The Risk Management Department is responsible for drawing up the annual financial and risk policy, while the preparatory work is done by a steering group chaired by the Director General.

Broadly speaking, our work focuses on two main types of risk: financial risks and operational risks.

Financial risks

Financial risks include market risk and credit risk; interest rate risk and exchange rate risk are different types of market risk.

Daily monitoring of central government debt market risk

In 2007 no significant deviations occurred from the intervals set up to control market risk. Interest rate risk and exchange rate risk remained at the set levels.

How large a market risk the Debt Office is allowed to take in managing the central government debt is determined by the benchmarks and deviation intervals established by the Debt Office Board. We monitor on a daily basis how the market risks of central government debt compare to these benchmarks and deviation intervals and make sure that the debt does not deviate from these. This monitoring also allows us to see which transactions are needed to manage the debt. Any deviations are reported to the Board and the executive management.

The Debt Office does not set any benchmarks or limits for its guarantee and loan operations. Financial risks that arise in this area are a result of decisions taken by the Riksdag or the Government, and therefore we are not responsible for deciding whether or not the risk should be taken.

Figure 16 VALUE AT RISK AND OUTCOME 2003–2007

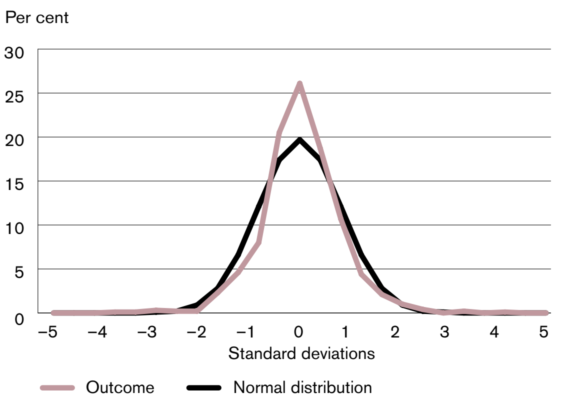


Figure 16 shows that the outcome closely follows the VaR model's normal distribution curve. One of the basic assumptions of the VaR model is that the daily change in value follows a normal distribution curve.

Estimating risk in the active management of foreign currency

In 2007 the permitted risk levels in the active management of foreign currency were not exceeded. To control and measure the market risk of our active management we set limits based on Value-at-Risk (VaR), which builds on a statistical method. This method forecasts how large the loss can be with a given probability over a given period of time.

Since the VaR model builds on a forecast of possible future losses it should be followed up continuously. We do this by comparing the forecasts produced by the model with the actual outcome. Figure 16 shows that for 2003–2007 the VaR forecasts were consistent with the actual outcome.

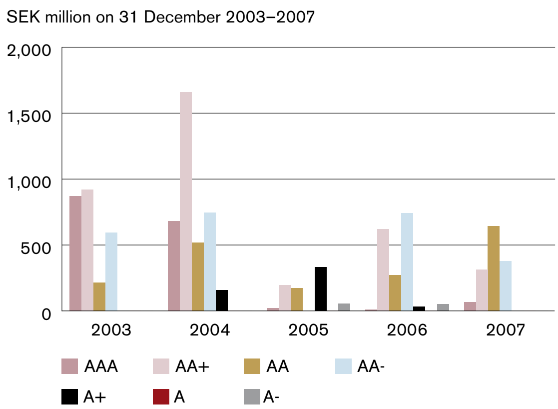
Lower credit risks

Despite the turbulence caused by the mortgage crisis in the US, which impacted the financial position of many banks, our credit exposure decreased in 2007. Credit risks arise in derivate and currency transactions that we conduct to manage the central government debt, in short-term deposits made to manage the state's liquidity and in the state payment system.

To keep credit risks in check, the Debt Office only does business with counterparties with high credit ratings. We also set a maximum limit for the amount of credit exposure to any one counterparty. No credit limit breaches occurred in 2007.

In derivative transactions we also require that agreements we enter into help us to limit risks. In line with best market practices we require agreements on netting,

Figure 17 EXPOSURE AND CREDIT RATING OF DEBT OFFICE COUNTERPARTIES



exchange of collateral to cover exposures (Credit Support Annex, CSA) and agreements that allow us to terminate transactions with a counterparty whose credit rating drops below a certain level.

Credit exposure continued to decrease in 2007; see Figure 17. This decrease was mainly due to our CSA agreements, which means that our counterparties put up collateral. Our counterparties have not been affected by the uncertainly of the markets to any significant extent. Two of them saw their credit ratings drop in 2007, while credit ratings rose for four others. Our entire credit exposure is now divided among counterparties with the four highest ratings (AAA to AA-).

In 2007 the board improved possibilities to invest surplus liquidity at low credit risk with other states.

Active management of operational risks

The Debt Office conducts an annual analysis of operational risks in all its departments. These are risks caused by human error, dysfunctional processes or incorrect systems and external events. The most serious have long been identified and we work actively to reduce the level of risk. New risks may also arise as our operations change.

The annual analyses are carried out in every department in connection with the business plan and result in concrete actions to reduce risks. The analyses are based on a self-evaluation method that helps us identify and assess our operational risks. We then use this assessment to prioritise actions that will reduce risks. We follow up these analyses twice during the year by carrying out a risk assessment taking into account the measures we have taken.

To obtain an overall picture of the operational risks we also report deviations in our activities. These deviations are linked to the risk analyses produced and are assessed using the same method. Both the risk analyses and deviations are reported to the Board and the executive management.

A new ordinance on internal management and control (SFS 2007:603) came into force on 1 January 2008. We have therefore adopted a new internal management and control policy and developed a method and model for our work in this area based on the international framework, COSO/ERM. As with the risk analyses, our work will build on self-evaluation in each department and we will record and monitor our improvement actions. The results will be reported to the Board and the executive management.

Emergency preparedness further enhanced

The Debt Office is a key actor in the state's overall economic structure and as such we have a significant obligation to operate in the event of a peacetime emergency. To ensure a high level of emergency preparedness, we undertake business continuity planning, which counteracts and handles breakdowns in the organisation and protects our critical business processes from the effects of severe unanticipated disruptions or disasters.

During the year we concluded the survey and risk assessment of our most critical business processes, and adopted a new business continuity plan. We have run courses and crisis management exercises, which have enhanced our ability to systematically manage a peacetime emergency. These measures were partly funded by the Swedish Emergency Management Agency (appropriation 7:5 Emergency Preparedness).

The Debt Office is represented in the steering group of the financial sector's public-private partnership project (FSPOS), led by the Swedish Financial Supervisory Authority, and in the economic security cooperation project (SOES). The experience and knowledge we exchange in these groups help us coordinate our own continuity planning with the external world.

Achievement of objectives

The objective regarding financial and operational risks has been achieved. The methods and models used to manage both financial and operational risks are deemed to follow market practices, which means that we are line with comparable financial market players. All in all, the Debt Office fulfils the relevant requirements of good risk management.

The objective regarding emergency preparedness has been partially achieved. In the risk and vulnerability analysis that we submitted to the Government in February 2007 we presented the measures we need to take to strengthen our capacity. We are in the process of implementing these measures.

According to the staff survey conducted in 2007, 96 per cent of our employees would recommend the Debt Office as a good employer. More than 60 per cent of our employees have at least one academic degree. We invest, on average, slightly more than SEK 20,000 per year and employee on professional training and development.

Staff and skills

The Debt Office is a knowledge-based organisation that relies on the skills, abilities and motivation of its staff. We strive to attract, develop and retain staff by encouraging their engagement in our improvement, skills development and health promotion activities.

Key activities in 2007

- Implementation and follow-up of staff survey
- Continued investment in leadership development
- Review of career opportunities
- Analysis of skills needs

Objective

The Debt Office aims to be an attractive workplace that provides an appropriate and high level of expertise in a stimulating work environment.

Enthusiastic and committed staff

The staff survey conducted in the spring found that 96 per cent of our staff would recommend the Debt Office as a good place to work; 83 per cent said that their work was stimulating and 75 per cent were satisfied with their work situation. The survey achieved a response rate of 92 per cent and showed that the Debt Office was perceived as a very good employer.

Above all, staff believed that improvements could be made in integrating new ideas and suggestions, and sharing knowledge and experience. Enhanced and more clearly defined professional development opportunities should be available, and we need to be better at managing conflicts.

The staff survey results were carefully analysed by the entire staff of the Debt Office, in every department and, in some cases, in individual working groups. Action plans were then developed and put into practice during the year.

Providing better leadership

We believe that good leadership is fundamental for attracting, developing and retaining employees. For this reason, in 2006 we launched a tailor-made leadership development programme that was also attended by managers employed since then. As a continuation of the programme, we organised a seminar for managers aimed at initiating a discussion – which will continue in 2008 – on a common leadership philosophy for the Debt Office.

As a result of the staff survey, everyone at the Debt Office with personnel responsibilities received training in conflict management during the year.

We also began work on defining alternative career paths. It is important for our staff to feel that there are many opportunities for professional development besides the traditional managerial career path.

Staff training and development

We invested SEK 21,207 per employee in external training programmes in 2007. Many employees took part in seminars and courses to enhance their specialist skills.

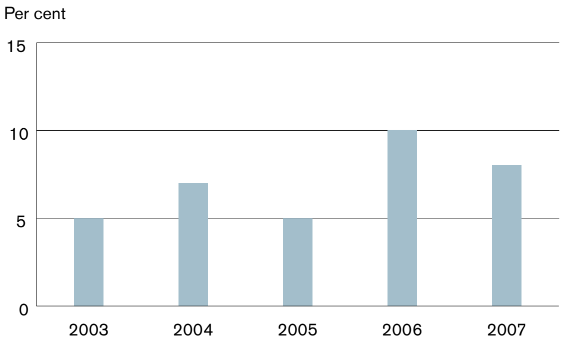
Since the staff survey indicated that improvements could be made to promote knowledge, skills and experience sharing, we organised a series of lunchtime seminars during the year on, for example, effective meetings and presentation skills.

We also conducted skills transfer within and between departments. Staff received training in a number of areas including business continuity planning and public access, secrecy and the Public Procurement Act. In addition, as part of our preparations to take over the operations of the Deposit Guarantee Board, a seminar was held on deposit insurance and investor compensation.

Investing in skills provision

Strategic skills provision is crucial for achieving our operational objectives. In 2007, therefore, we performed a skills needs analysis of our current and medium-term needs, and we will use the results of this analysis to guide us as we implement and prioritise skills development initiatives.

Figure 18 PERSONNEL TURNOVER



Labour market mobility remains high

Employee turnover decreased by two percentage points in 2007 but was still relatively high due to continued high labour market mobility. In particular, we noticed a great demand for people with financial and IT profiles.

Average age almost the same

At the end of 2007 the Debt Office had 162 employees; the average age was 43.5 and the average length of employment at the Debt Office was 10.0 years. The corresponding figures for 2006 were 43.4 years and 9.9 respectively. The age distribution is shown in Table 12.

Table 12 AGE DISTRIBUTION 2007

	29 and under	30–39	40–49	50 and over
Number of staff	11	57	46	48

Increased health promotion benefit

In 2007 the health promotion benefit was increased from SEK 2,000 to SEK 3,000 per year and employee. A growing number of employees took advantage of this benefit and during the year we noticed a greater variety in the health promotion activities they chose. Employees were also offered massage, health check-ups and health promotion seminars, as well as influenza and TBE vaccines. In the spring employees were each given a pedometer and a pedometer competition was launched.

Sickness absence

Sickness absence totalled 2.1 per cent in 2007; see Table 13. Short-term sickness absence remained low. The share of employees on long-term sick leave, that is, employees who were absent from work for sixty days or more, was 35 per cent of total sickness absence. The number of employees on long-term sick leave decreased compared to 2006. Active rehabilitation measures were put in place during the year and all but one of these employees are now working between 25 and 75 per cent of a full working week.

Table 13 SICKNESS ABSENCE

Staff	Per cent [1] 2006	Per cent [1] 2007
Women	3.3	2.9
Men	0.9	1.0
Employees 30 and under	1.2	2.8
Employees aged 30–49	2.6	2.3
Employees aged 50 and over	1.9	1.4
Total for all employees	**2.3**	**2.1**

[1] *Sickness absence period /ordinary hours for respective group.*

Equal opportunities for all

In 2007 women made up 56 per cent and men 44 per cent of employees. Of the senior executives 52 per cent were women and 48 per cent men. We worked with trade union organisations on gender equality issues and conducted a special salary analysis of the managerial staff to ensure that no unjustified gender pay gaps exist.

The staff survey found that 95 per cent of respondents believed that the men and women working at the Debt Office enjoyed equal opportunities.

Achievement of objectives

Despite the current labour market conditions we succeeded in recruiting staff to maintain the expertise that we needed during the year. According to the staff survey, almost every employee believes that the Debt Office is a good employer and that it offers a stimulating work environment.

International contacts

International cooperation provides the Debt Office with the opportunity to exchange experience and knowledge with other countries and international organisations in the area of central government financial management. This strengthens our international reputation and supports the further development of our staff.

Objective

The objective of international exchange is to help enhance expertise and motivation among our staff and improve our business intelligence.

Significant international interest in our operations

We cooperate actively with other countries and international organisations; we take part in study visits, conferences and seminars as well as individual assignments (technical support) in central government financial management.

In 2007 we hosted visits from countries including China, Vietnam, Thailand, Bahrain and Dubai. These visits are generally of a few days' duration and may also include visits to the Riksbank or other organisations.

During the year, a number of staff gave presentations at seminars organised by the IMF, OECD and World Bank. There is a great deal of interest in how we use derivative instruments for debt management and risk management in connection with this. Two members of staff took part in a workshop on derivatives management in Ankara at the invitation of the Turkish Ministry of Finance. The purpose of the workshop was to develop the country's debt management capacity through the use of derivative instruments.

There is also a strong interest in how we manage guarantees and loans. In November our guarantee and pricing model was presented at the OECD Working Party on Government Debt Management.

Another area receiving increasing international attention, and one where we are at the forefront, is government cash management. Other countries are interested in how we use routines, regulatory frameworks and system supports to ensure the efficient management of the state payment.

We have worked with the World Bank and IMF in the area of central government debt management for many years and have written for their publications in this area. From time to time, as part of our cooperation, Debt Office staff also carry out assignments in countries that request central government financial management services.

Income statement

SEK thousand	2007	2006
Operating income		
Income from appropriations	47,686,476	51,035,958
Income from fees	208,533	213,867
Income from grants	1,400	2,074
Interest income	80,375	56,544
Total operating income	**47,976,783**	**51,308,442**
Operating expenses		
Financial expenses for central government debt management		
Interest expense	−85,685,412	−78,404,330
Interest income	39,780,817	35,582,314
Issue premium/discount	5,940,965	7,462,934
Realised price changes	−4,227,688	−5,929,318
Realised exchange rate changes	−2,454,364	−6,336,433
Unrealised exchange rate changes	−4,136,684	23,494,804
Expired bonds, coupons and prizes recognised in income	12,471	17,617
Commissions to banks, etc	−86,152	−91,404
Total	**−50,856,048**	**−24,203,816**
Other operating expenses		
Personnel costs	−103,218	−99,777
Costs of premises	−18,130	−18,033
Expenses of guarantee operations	2,247,305	46,758
Other operating expenses	−244,544	−263,611
Interest expense	−855	−385
Depreciation, amortisation and impairments	−18,957	−10,584
Total	**1,861,601**	**−345,631**
Total operating expenses	**−48,994,446**	**−24,549,448**
Results of operations	**−1,017,664**	**26,758,995**
Revenue collection work		
Income from fees, etc not at the disposal of the agency	5,675	6,864
Income from revenue collection	3,436,616	3,417,221
Funds paid to the state budget from revenue collection	−3,442,283	−3,424,004
Total revenue collection work	**7**	**82**
Change in capital for the year	**−1,017,656**	**26,759,077**

Balance sheet

SEK thousand	31 December 2007	31 December 2006
ASSETS		
Intangible fixed assets	**8,614**	**16,472**
Capitalised expenditure for development	8,337	7,471
Rights and other intangible fixed assets	277	9,001
Tangible fixed assets	**12,140**	**19,777**
Leasehold improvements	8,684	9,317
Machinery, equipment, fixtures, etc	3,456	10,460
Financial fixed assets	**256,179,391**	**256,901,936**
Other long-term holdings of securities	554,465	650,946
Long-term receivables from other agencies	238,539,993	242,616,628
Other long-term receivables	17,084,934	13,634,363
Receivables	**2,525,340**	**1,862,287**
Accounts receivable	16,318	17,746
Receivables from other agencies	1,388,668	1,505,687
Other receivables	1,120,353	338,854
Cut-off items	**19,876,757**	**21,697,986**
Prepaid expenses	7,889,783	9,674,586
Other accrued income	11,986,974	12,023,400
Settlement with the government	**949,790,943**	**1,043,582,592**
Settlement with the government	949,790,943	1,043,582,592
Current investments	**10,944,831**	**26,032,397**
Securities and participation rights	10,944,831	26,032,397
Cash and bank	**2,936,380**	**3,081,293**
Cash and bank	2,936,380	3,081,293
TOTAL ASSETS	**1,242,274,396**	**1,353,194,740**
CAPITAL AND LIABILITIES		
Agency capital	**–52,331,601**	**–50,661,983**
State capital	1,726,224	1,810,387
Change in capital brought forward	–53,040,170	–79,231,447
Change in capital according to the income statement	–1,017,656	26,759,077
Allocations	**1,063,000**	**2,210,000**
Provision for future guarantee losses	1,063,000	2,210,000
Central government debt	**1,168,013,206**	**1,269,957,334**
Loans in Swedish kronor	935,172,883	1,003,933,564
Loans in foreign currency	232,840,324	266,023,770
Liabilities etc	**83,630,378**	**85,450,661**
Liabilities to other agencies	73,873,622	70,942,761
Accounts payable	27,890	19,272
Other liabilities	9,728,867	14,488,627
Cut-off items	**41,899,413**	**46,238,728**
Accrued expenses	21,910,189	23,823,590
Other prepaid income	19,989,224	22,415,138
TOTAL CAPITAL AND LIABILITIES	**1,242,274,396**	**1,353,194,740**
Contingencies		
Guarantee commitments without provision for future guarantee losses	79,932,518	78,081,268
Promissory notes	6,472,256	6,201,089
Registered saving and lottery bonds	1,059	1,079

Bo Lundgren, Director General of the Debt Office.

Organisation

The Government appoints the Board of the Debt Office and issues general instructions in the appropriations directions. The Government also appoints the Director General of the Debt Office. Based on the proposals provided by the Debt Office, the Government decides on the guidelines for central government debt management.

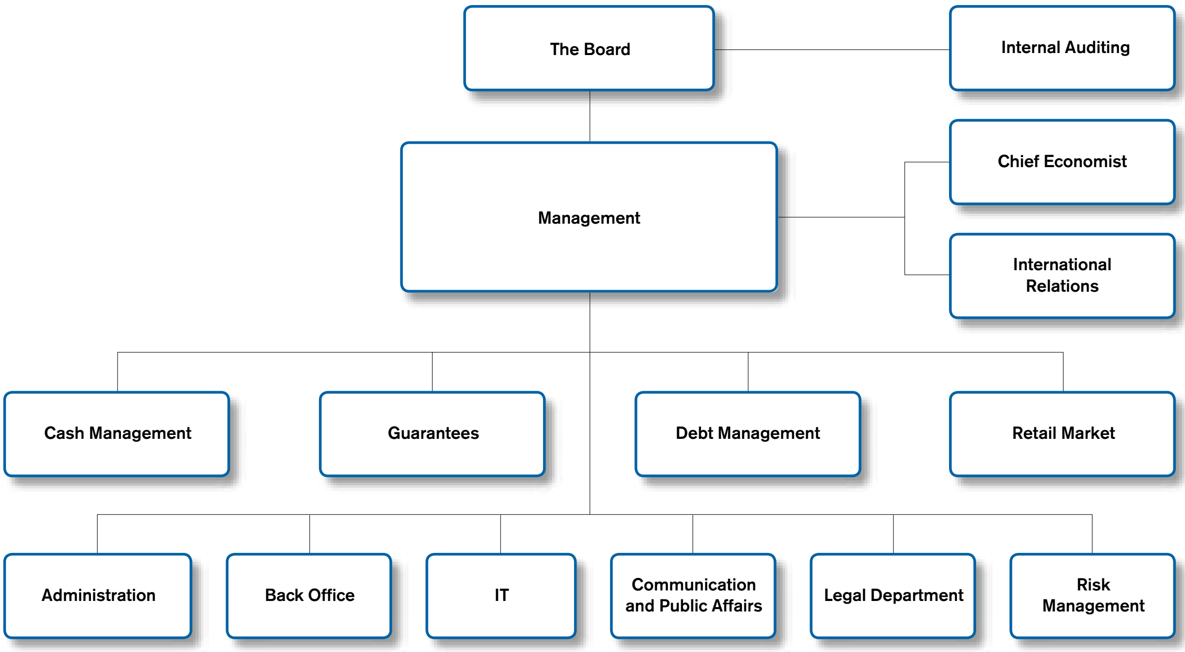
The Board is responsible for the operations of the Debt Office. On 1 January 2008 the Board comprised seven members and two employee representatives; it also has an internal audit committee. As of 1 January this year, the Director General of the Debt Office is also a member of the Board.

Chair
Lars Eric Ericsson, former Director General of the Ministry of Finance. Appointed 2005.

Deputy Chair
Åsa Mindus Söderlund
MSc (Economics and Business), Atos Consulting AB. Appointed 2003.

Board members
Mats Dillén, Director General, National Institute of Economic Research. Appointed 2007.
Lena Johansson, Director General, National Board of Trade. Appointed 2008.
Bo Lundgren, Director General, Debt Office
Lotty Nordling, Chair, National Board for Consumer Complaints. Appointed 2008.
Göran Robertsson, PhD, Swedish Institute for Financial Research. Appointed 2005.

Other Board members in 2007
Ingrid Bonde, Director General, Financial Supervisory Authority. Resigned December 2007.



Director General of the Debt Office Bo Lundgren and Deputy Director General Pär Nygren form the executive management team.

Glossary

Appropriation • A sum of money a government agency receives to conduct its activities.

Average interest rate fixation period • The average time until the remaining cash flows generated by a security are to be paid. Cash flows arise when interest rates and loans fall due for payment. Used as a measure of time to maturity.

Bond • A current (transferable) debt instrument that provides one or more payments of agreed amounts. The agreed amounts can be fixed in kronor or depend on a specific factor, for instance, inflation; see *inflation-linked bond*. Certain bonds provide a number of payments in the form of recurrent interest payments and are referred to as coupon bonds. A bond without interest payments is called a zero coupon bond. See also *T-bill*.

Break-even inflation • The difference between the nominal and inflation-linked interest rate when an inflation-linked loan is issued. It indicates what the average rate of inflation must be for the cost of an inflation-linked loan and a nominal loan to be the same. If inflation runs above the break-even rate, the inflation-linked loan will be more expensive for the state and vice versa.

Credit market • The market for borrowed capital. An umbrella term for the bond and money market.

Credit risk • The risk that a counterparty to a financial transaction will fail to fulfil their obligation.

Currency hedging • Currency hedging involves locking in the price for a future purchase or sale of foreign currency on a specified date. The Debt Office assumes the agencies' currency risks and provides or receives the foreign currency on the due date. The agencies receive a pre-specified price for the currency for a particular due date and thus know exactly how much they will pay or receive in kronor despite the actual payment taking place in the future when the exchange rates may be different.

Deposit • A short-term investment at a bank on the overnight market. See *overnight loan*.

Derivative instrument • Financial asset whose value depends on the value of another asset. The most common derivative instruments are options, futures and swaps.

Discount • Calculating the present value of a future payment. See also *present value*.

Discount (bond trading) • A bond is traded at a discount when the bond's price is lower than the nominal amount. This happens when the market rate is higher than the bond's set yield (coupon rate). See also *premium*.

Duration • Measure of the time to maturity of a bond which takes into consideration both the time to maturity and the coupon rate. Shorter time to maturity and higher coupon rate give a lower duration. Duration can also be regarded as a risk measure that reflects how much the market value of a fixed interest instrument is affected by a change in the market rate.

Expenditure ceiling in the state budget • A maximum level for central government expenditure in the state budget set by the Riksdag. The expenditure ceiling applies to all appropriations in the state budget except interest on the central government debt.

Financial risk • Consists of credit risk and market risk. See *credit risk* and *market risk* .

Float • The time from when money has been withdrawn from an account until it has been deposited in the account it has been sent to. Banks can use the money during this time to earn interest.

Future • Standardised and traded agreement on purchase or sale of securities or currencies where the price is determined now but delivery and payment take place at some specified future time.

Government bond • Umbrella term for the bonds that the Debt Office issues on the bond market; these include both inflation-linked and nominal bonds.

Inflation-linked bond • Holders of inflation-linked bonds receive a fixed interest rate and compensation for inflation during the time to maturity. This means that inflation does not erode the value of the bond.

Inflation-linked interest • See *inflation-linked bond.*

Interest rate swap • An agreement between two parties on an exchange of interest payments during a particular time to maturity, for instance, swapping fixed interest for floating interest.

Limit • A quantitative limit of amounts or risks.

Liquidity bill • A Treasury bill with customised maturity.

Loan framework • A promise of a loan in the form of a framework for how much money an agency may borrow from the Debt Office. The loan framework is decided upon by the Riksdag or the Government.

Market risk • The risk that the value of investments may decline due to moves in market factors; interest risk and currency risk are two types of market risk.

Netting • The possibility to set off liabilities and receivables in derivative transactions against a counterparty in a bankruptcy. If, for instance, we make two derivative transactions, where in one we owe the counterparty SEK 90 and in the other we have a receivable of SEK 100, we can "net" the transactions. If the counterparty goes bankrupt, we then lose SEK 10. Without "netting" we would lose SEK 100. "Netting" thus means that we do not have to pay the SEK 90 we owe the counterparty.

Nominal bond • A bond that pays a predetermined amount in kronor on maturity. Nominal government bonds also pay a fixed annual interest, a coupon rate.

Operational risk • The risk of loss resulting from inadequate internal processes, systems, human error or external events. The concept includes legal risks but not strategic risks.

Ordinance • A binding regulation issued by the Government, for example the provisions governing the operations of central government authorities.

Overnight loan • A loan with a time to maturity of up to five days. Used to finance short-term deficits in the state's cash holding. See also *deposit.*

Premium • A bond is traded at a premium when the price of the bond is higher than the nominal amount. This happens when the market rate is lower than the coupon rate. See also *discount.*

Present value • The value today of a future payment, discounted using a suitable interest rate. One krona tomorrow is less valuable than one krona today, since one krona today can be invested and generate a yield.

Provision • An amount reserved (set aside) on the balance sheet to cover anticipated losses in the future.

Rating trigger • An agreement that allows the Debt Office to terminate transactions if the counterparty's rating drops below a certain level.

Repo (repurchase agreement) • An agreement on the sale of a security whereby the seller undertakes to repurchase the security at a particular time at a specified price. A reverse repo is the purchase of a security with an agreement to resell on a future date.

Riksbank's repo rate • The Riksbank's most important policy rate; the repo rate affects short-term market rates.

Swap • Agreement between two parties on exchanging flows with one another during an agreed period, for instance, exchange of fixed interest for floating interest.

T-bill • A short-term government security without interest during the period to maturity. The yield consists of the difference between final payment and the purchase price of the T-bill.

Value at Risk • A risk measure that estimates future losses with a given probability and over a given period of time. For instance, it may estimate that there is a five per cent probability that a daily loss will be SEK 50 million or greater.

Volatility • A measure that describes how much interest and exchange rates vary. The more these rates fluctuate, the higher the volatility.

...gl. ...

Nådiga...

Kungör...

Angående

Koppar-Polletter, som...
...ders Riksgålds-Contoir...
utgifwas.

Stockholms Slott den 22 Octob...

riksgalden.se

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