RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Summary of Annual Report 2008

Contents

We are the central government financial manager

The Swedish National Debt Office is the central government financial manager. We play an important part in the national economy and in the financial market.

The assignments given to us by the Government include cash management, managing and financing central government debt and granting state guarantees and loans. On 1 January 2008 we took over responsibility for the deposit insurance and investor compensation schemes. On 1 November 2008 we also became the Supporting Authority under the Government Support to Credit Institutions Act.

There is a natural link between these areas of activity. The cash management department has systems for and collects information about incoming and outgoing payments. The net amount governs how much we need to borrow, both on a daily basis for liquidity management and over time in the form of the central government debt. Guarantees and government support are deferred liabilities. If the State must honour a guarantee or provide financial support we make the payment and the debt increases.

By bringing these activities under one agency the state achieves efficient and effective financial management.



Objectives and vision

The overall objective of the Debt Office is to minimise the costs of central government financial management without taking too high a risk. Efficient and effective financial management contributes to the best use of taxpayers' money.

Our vision is to be the world's best central government financial manager.

On 29 October the Riksdag enacted a new law making it possible for the Debt Office to provide support to credit institutions at short notice to counteract serious disruptions to the financial system.

Director General's statement:

A tumultuous year

In 2008 the Debt Office was confronted with major challenges and required to shoulder new tasks. On 1 January we took over responsibility for the deposit insurance and investor compensation schemes from the former Deposit Insurance Board. This assignment fits in very well with our guarantee operations and entails less vulnerability if any guarantee claims arise.

The past year, both as regards deposit insurance and other areas of our operation, was coloured by the global crisis in the financial markets. The heavy demand for the Debt Office's market support repos following the financial uncertainty in autumn 2007 subsided in the spring and some recovery was discernible in the financial markets.

This situation reversed after the summer and accelerated after the collapse of Lehman Brothers in mid-September 2008. The market for treasury bills (T-bills) ceased to function. On 18 September we discontinued our market support repos as demand could have reached extreme proportions. After consulting the Riksbank, we decided to issue T-bills in excess of the borrowing requirement up to a maximum of SEK 150 billion. Borrowing from T-bill issues was mainly invested in reverse repos in covered mortgage bonds. These measures gave support to the market and a small surplus that reduced the cost of the central government debt.

The financial crisis has led to a severe decline in the real economy. Admittedly, the central government budget surplus in 2008 was at a record high of SEK 135 billion, but the surpluses will turn into deficits over the next few years. However, compared with most other countries, Sweden is in a strong position since central government debt is so small in relation to the economy (about 35 per cent of GDP). This situation has also contributed to low funding costs.

The decision to allow Lehman Brothers to suspend payments dramatically aggravated the global financial crisis. The sharp decline in confidence made bank financing more difficult and more expensive globally. After discussions in the EU, the Swedish Government put forward proposals for an extensive support package, which was adopted by the Riksdag on 29 October.

The Debt Office was made the responsible Supporting Authority. We were assigned the task of handling a guarantee programme for banks' medium-term funding and the responsibility for other state aid to Swedish credit institutions that may need it. Our operations had been substantially affected even before the Riksdag decision but after Lehman Brothers was declared bankrupt we experienced a dramatic increase in questions from the public concerning the deposit insurance scheme. Deposits from households and small businesses in National Debt Savings – a part of central government debt funding – increased manyfold.

In October Carnegie Investment Bank received liquidity support from the Riksbank in its capacity as lender to solvent banks with liquidity problems. Carnegie was also the subject of an investigation by the Swedish Financial Supervisory Authority that could result in the revocation of its licences. The agencies concerned were agreed that in the turbulent environment Carnegie was a systemically important institution and therefore, as the Supporting Authority, we prepared measures to be taken in the event of licences being revoked or changes in economic conditions.

On 10 November the Swedish Financial Supervisory Authority decided to revoke the licences. Our task was to help maintain stability in the financial system by protecting the creditors at the lowest possible cost to taxpayers. We decided to take over ownership on the basis of loan and pledge agreements to avoid liquidation and regain the licences. The boards of Carnegie Investment Bank and insurance broker Max Matthiessen, which was also pledged as collateral for the Government's loan, were replaced. The new boards were made responsible, as far as possible, for resolving the bank's problems and preparing the sale of both companies to recover the Government's claim. This process was under way at the end of the year.

While the new tasks were being accomplished, mainly within the regular organisation, traditional tasks were also being carried out effectively. All our departments had a very heavy workload throughout the year.

I am proud of the Debt Office staff, who despite the heavy burden of work, performed both their regular tasks and new tasks so successfully.

Stockholm, February 2009

Bo Lundgren
Director General of the Debt Office

The Debt Office accounting department keeps track of all the billions of kronor handled by the central government financial manager, in addition to the organisation's appropriation and costs.

Summary

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 efficient and effective central government financial management while keeping long-term central government debt servicing 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 servicing central government debt must be as low as possible without excessive risk-taking.	• ***The objective has been 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, 85 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 8.5 million, or 7 per cent, compared with 2007. The average cost of a payment was SEK 0.86.
• Develop liquidity management strategy to reduce interest expense.	• ***Objective achieved*** through our continual streamlining of systems and support to agencies.
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 central government external lending exists.
• Ensure that costs of operations in the long term correspond to revenues from fees based on insurance principles.	• ***Objective achieved;*** see above.
• Work actively for the effective performance of guarantee and loan operations of other agencies.	• ***Objective achieved*** through advice and assistance to other agencies and proposed efficiency improvements.
Deposit insurance and investor compensation • Calculate and charge fees correctly and cost-effectively.	• ***Objective achieved*** through correct debiting of the annual fees.
• Manage deposit insurance fees so as to achieve good long-term returns while maintaining good contingency reserves and risk spread.	• ***Objective achieved*** by investing annual fees in outstanding government bonds with an even distribution of maturities up to ten years.
• Ensure correct and efficient processing of claims.	• ***Objective achieved*** by detailing staff from different departments to a stand-by team and updating and developing system support.
• Cooperate with representatives of foreign compensation systems. Have the capacity to process joint claims for compensation in Swedish and foreign compensation schemes.	• ***Objective achieved*** by participating in several international meetings and working groups.
Risk management • Strive to achieve best market practices in risk management and monitor compliance of financial and operational risk management with legislation and regulations for financial enterprises.	• ***Objective achieved*** by using generally accepted methods, models and processes for risk management.
• Ensure that the fundamental needs of society can be met even in the event of a major peacetime emergency.	• ***Objective achieved*** through planning and exercises that strengthened our capacity to withstand serious disruptions.

Our new role of strengthening financial stability in Sweden required a lot of work in the autumn.

Financial stability

In 2008 the Debt Office assumed a new and central role in central government efforts to strengthen stability in the Swedish financial system. The new mandate includes responsibility for the government guarantee programme for banks and mortgage institutions and deciding on support measures to banks and other credit institutions. We will also administer the stability fund being built up to finance future measures to safeguard the financial system. On 1 January 2008 we also became responsible for the deposit insurance and investor compensation schemes.

In the wake of the failure of US investment bank Lehman Brothers in the autumn, EU countries undertook a number of measures to stabilise the financial markets. Besides short-term liquidity support – which is normally provided by central banks – measures included issuing state loan guarantees and capital injections to banks.

In Sweden the Government instructed us to manage the support measures. Their purpose is to safeguard the functions of the financial markets and payment systems, which will ultimately benefit companies and households.

Guarantee programme to facilitate bank funding

The guarantee programme gives banks, mortgage institutions and some credit market companies the opportunity to receive state guarantees for some of their funding. This means that in return for a fee the Government promises to intervene if the institution cannot pay its lenders.

The programme is intended to facilitate bank and mortgage institutions' borrowing during the global financial crisis. This can in turn make it easier for companies and households to borrow.

The guarantee programme is for a fixed period and amount

The total monetary limit for the guarantee programme is initially SEK 1,500 billion, of which a maximum of SEK 500 billion may refer to covered bonds. By the end of the year, we had issued guarantees for a total of SEK 148 billion to Swedbank AB, Swedbank Hypotek AB and Volvofinans Bank AB.

The guarantee programme is a short-term measure and will run until 30 April 2009. The EU rules on state aid allow the Government to extend the programme until 31 December 2009 at the latest.

Agreement and conditions

To participate in the guarantee programme, an institution must first sign a guarantee agreement with the Debt Office. This agreement specifies certain conditions, for example, salaries and other remuneration to senior management and the board of directors. When an agreement has been signed, an institution can decide to apply for guarantees for one or more loans.

Fees

The institution pays a fee to the state for every guarantee issued. The size of the fees is regulated to a great extent by common regulations at EU level.

The bank guarantee fees are transferred to the newly established stability fund, which will cover any claims under the guarantees.

Bank support

The Debt Office can step in on behalf of the state if a financial institution experiences financial difficulties that are so great that they risk seriously disrupting the financial system of the country. This role is equivalent to that of the Bank Support Authority during the bank crisis in the first half of the 1990s.

We have a broad mandate to provide the support measures that the situation requires. Our task is to give support in the most appropriate form, such as capital injections to individual institutions. We are also authorised in certain circumstances to redeem the shares of a credit institution. In these cases the Government must give its approval. Following a decision by the Government we can also give loans or guarantees to credit institutions outside the general guarantee programme. The measures must be designed to ensure that the cost to taxpayers is as low as possible.

Carnegie Investment Bank

In 2008 the Debt Office gave support to one bank, Carnegie Investment Bank (CIB). In October, CIB was suffering liquidity problems and applied to the Riksbank, which provided liquidity support. CIB's listed parent company pledged as collateral all its shares in its subsidiaries, that is, CIB and Max Matthiessen

Holding AB, an insurance broker. At this time we had not yet assumed our new role as Supporting Authority.

At the same time, CIB's operations were under review by the Swedish Financial Supervisory Authority. There was a great risk that the Authority would revoke CIB's banking licence, which would mean that its operations would have to be liquidated. Contact with the Riksbank also revealed that the liquidity support could be withdrawn if the licence was revoked. Such a scenario would probably see the bank put into liquidation, with the risk of serious disruptions to the financial system as a consequence.

The Debt Office, as Supporting Authority, considered different solutions. One option was to allow the process of liquidation to proceed and give state guarantees to creditors against losses in connection with the liquidation. However, liquidation was expected to cause a rapid decline in values, which would result in substantial costs for guarantees issued.

We decided that, instead of liquidation, the most cost-effective way of avoiding a financial disruption was to take over the Riksbank's loans to the bank, including the pledges, so as to be able to take over ownership of the companies by realising the pledges. We were authorised by the Government to provide the loan and sell the shares we could have aquired.

When the Swedish Financial Supervisory Authority decided to revoke CIB's licence we assumed ownership of CIB and Max Matthiessen. Soon afterwards, the Authority decided to restore the licence.

A few days later we decided to start selling the state's CIB and Max Matthiessen shares. The sale was structured as two separate processes. Share purchase agreements were signed on 11 February 2009 with Altor Fund III and Bure Equity AB. The total value of the sale was SEK 2,275 million including a small amortisation of the Debt Office loan. In addition there is the possibility of future profit distribution, which means that taxpayers will probably be compensated in full.

Pledging agreement

In accordance with the pledging agreement a valuation has been made of the collateral, i.e., the shares, by an independent valuation institute. The pledger, the parent company D. Carnegie & Co AB, can refer this valuation to the appeals board for support to credit institutions set up by the Riksdag (Swedish Parliament). No such referral has been made.

D. Carnegie has, however, called into question the right of the Debt Office to take over ownership of the companies and argued that the realisation of the pledges took place in connection with the sale and that it is therefore the purchase price that must determine the value of the pledges. The Debt Office position is that the pledges were realised on 10 November 2008 and that is the date on which the value of the pledges must be calculated.

The central issue is if the valuation on takeover on 10 November or the final purchase price should determine whether D. Carnegie should receive any money. Since both the valuation and the purchase price are less than the value of the Debt Office loan, the question of when the pledges were realised is of marginal financial significance.

The stabilisation fund

The Riksdag has decided to build up a stabilisation fund to finance future support measures. The objective is for the fund to reach a value of the equivalent of 2.5 per cent of GDP within 15 years. The Government made an initial contribution of SEK 15 billion to the fund in a special appropriation.

The Government has stated that, in addition, the deposit insurance fund will also be merged with the stabilisation fund, and to achieve the target, institutions will in future pay an annual stability fee to the fund. The fee structure has not yet been decided.

Apart from stability fees, charges for guarantees issued and recoveries from support measures will be transferred to the fund, which will bear all costs of any support measure. The fund was used to cover the loan to CIB and proceeds from the sale of CIB and Max Matthiessen will be paid into the fund.

Multimillion deals are a daily occurrence at the Debt Office trading desk, both in Swedish kronor and foreign currencies. Quick decisions are made that can have major economic consequences.

Debt management

The large state budget surplus and expectations that the debt would continue to decrease in coming years made their mark on borrowing in the first half of 2008. The latter part of the year was coloured by the financial crisis and the drastically changed outlook for central government finances. Retail market borrowing was also affected by the financial crisis when concern about the creditworthiness of banks for a period led to large deposits in National Debt Savings.

Key events and activities in 2008

- Central government debt decreased by SEK 49 billion, to SEK 1,119 billion.
- The state budget surplus amounted to SEK 135 billion, the largest surplus ever. The ordinary issues of government securities decreased due to the major budget surplus.
- The large surplus meant that our funding was by and large only in nominal SEK-denominated bonds. Nominal bonds are the most important, since they are the only instruments with a sufficiently broad international investor base and sufficient depth for long-term funding of central government debt.
- Unrest in the financial markets and the risk of a collapse in T-bill trading led to our decision in September on extra issues of T-bills. The stock was to increase by a maximum of SEK 150 billion. At the end of the year, extra bills of SEK 52 billion were outstanding, which increased central government debt by the same amount.
- The equivalent of about SEK 50 billion in foreign currency was paid in when Vin & Sprit was sold. In consultation with the Government we decided not to convert into kronor but kept the assets in foreign currency. At the end of the year we still had SEK 18 billion, which would otherwise have been used to reduce central government debt.
- The income from Vin & Sprit meant that the central government foreign currency debt decreased and reached the benchmark level for the foreign currency component, i.e., 15 per cent. As a result, we switched to percentage control of the foreign currency debt and the previous method of control via the amortisation rate was abolished.
- Deposits in National Debt Savings reached a record level as a result of the autumn's financial unrest.
- The Debt Office decided in December to take a strategic position for a stronger krona by buying kronor and selling euros. The position will be gradually built up to a maximum value of SEK 15 billion. In December we bought kronor for about SEK 2.5 billion kronor on forward contracts.

Objectives and guidelines

The overall objective of central government debt management is to minimise the long-term cost of government debt without excessive risk-taking. The Riksdag has laid down this objective in law. The central government debt is managed in accordance with guidelines determined annually by the Government, based on our proposals. The guidelines establish how central government debt is to be split between different types of debt and the average maturity it must have. For 2008 the Government decided as follows:

- The benchmarks for the composition of the debt must be 60 per cent for nominal krona debt, 25 per cent for inflation-linked debt and 15 per cent for foreign currency debt, the same composition as last year.[1]
- The benchmark for amortisation of foreign currency debt must be SEK 40 billion. We were allowed to deviate from the amortisation benchmark by SEK 15 billion.
- The benchmark for maturity must be 4.8 years. Maturity is measured in terms of average interest rate refixing period.

The Debt Office's 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 via ordinary government securities to further reduce the cost of the central government debt.

We are also engaged in active foreign currency portfolio management. 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 active management is governed by a risk mandate determined by the Government, measured in terms of daily Value-at-Risk. The maximum risk level is SEK 600 million.

[1] *The guidelines for the composition of central government debt are based on the measurement of the aggregate cash flows of the central government debt. For reporting the size of the debt in the annual report and other contexts we use the traditional measure of debt called non-consolidated gross debt. Figures referring to borrowing in different types of debt are also based on the traditional measurement.*

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 2008 and in the period 2004–2008, both for individual types of debt and borrowing as a whole. We must also analyse our position in the savings market.

In previous years we have also submitted a more detailed report on central government debt management to the Government as a basis for the Government's reporting to the Riksdag. As the Riksdag will in future evaluate central government debt management every other year, we will not submit a separate report this year. Instead the annual report will serve as the basis for its evaluation.

An unusual year

Debt Office borrowing is normally governed by two factors. The first and obvious one is that the loans we issue must cover the net borrowing requirement and maturing loans. The other factor is that the composition and maturity of the central government debt must comply with the Government guidelines, adjusted for any deviations we have decided within the framework set by the Government.

But 2008 was not a normal year. As a consequence of the international financial crisis, demand for government securities increased drastically. The uncertainty of market participants concerning their own liquidity requirements and their counterparties' creditworthiness meant that they wanted securities with the highest possible credit rating that could be sold or used as collateral quickly. This favoured the Swedish state as the most creditworthy borrower in kronor and the interest rates on krona denominated nominal government securities fell sharply compared with, for example, mortgage bonds. At the same time, our loan terms in foreign currency deteriorated, since Swedish government securities do not give investors in international markets the highest possible liquidity.

The swing in market conditions was seen most clearly in September, when out of concern for the financial markets we decided to issue more T-bills than the normal borrowing requirement would warrant. The extra funds we received were primarily invested in reverse repos in mortgage bonds, which gave further support to the unstable financial markets.

Central government debt decreased

At the end of 2008 central government debt was SEK 1,119 billion. Central government debt measured as a percentage of GDP was approximately 35 per cent,[2] around 3 percentage points less than last year; see Figures 1 and 2.

Overall, central government debt decreased by SEK 49 billion. The budget surplus diminished central government debt by SEK 135 billion, but the debt is also affected by other factors. These include revaluation of the foreign currency debt to current exchange rates and changes in the Debt Office's cash balance; both these factors increased the debt in 2008. The weakening of the Swedish krona increased the central government debt by SEK 36 billion. The Debt Office cash balance grew by SEK 55 billion due to extra issues of T-bills and the proceeds from the sale of Vin & Sprit.

Higher inflation-linked component and lower foreign currency component

At the turn of the year, the share of inflation-linked debt was 28.2 per cent, which is above the 25 per cent benchmark set by the Government. Foreign currency debt accounted for 16.6 per cent of central government debt. The foreign currency component is accordingly within the interval of 15±2 per cent set by the Government. The rest, corresponding to 55.2 per cent, consisted of nominal krona debt.

[2] *The calculation is based on the latest forecast of nominal GDP in 2008 by the National Institute of Economic Research.*

Figure 1 Central government debt as a percentage of GDP

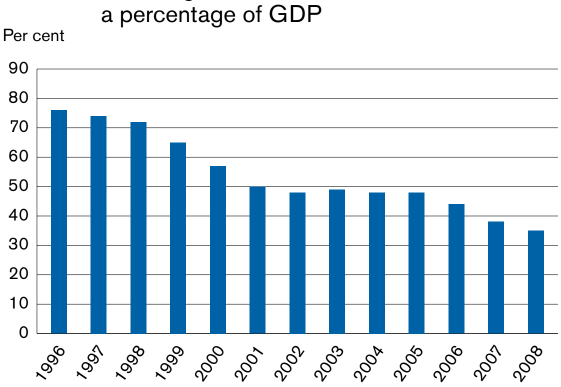


Figure 2 Trend of central government debt

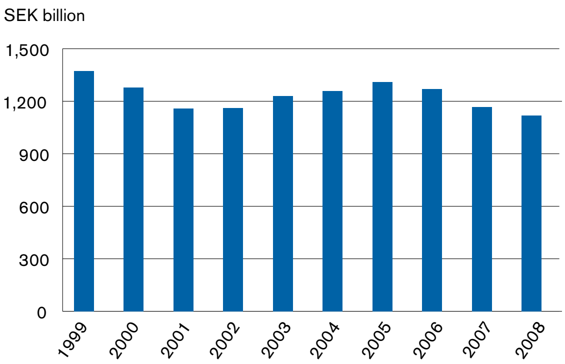
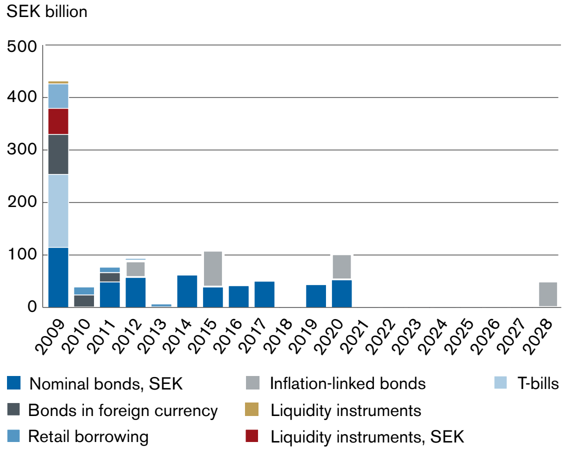


Figure 3 Maturity profile of central government debt



Most of the central government debt thus consists of nominal krona debt. By supplementing this with inflation-linked and foreign currency debt, the state can spread its risks. Hence interest costs are affected by several factors. 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.

Maturity in line with the objective

The average maturity of the central government debt was 4.7 years at the end of 2008. This means that maturity was 0.1 years shorter than the benchmark in the guidelines. Deviations from the benchmark depend on developments in the short-term borrowing requirement. The interest rate refixing period was well in line with the benchmark, bearing in mind that certain deviations are allowed.

Maturity differs in the three types of debt. The benchmark for the nominal krona debt is 3.5 years, for foreign currency debt 0.125 years and for inflation-linked debt 10.6 years. This distribution has so far been controlled by the Debt Office, but in the guidelines for 2009 the Government has determined the maturities in the three types of debt.

The choice of maturity is a trade-off between expected cost and risk. Short maturity gives a lower expected cost, since short-term interest rates are generally lower than long-term rates but the risk is higher. This is partly because short-term interest rates vary more, and partly because the interest on a major portion of the debt is fixed 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 how great a risk the state should take.

A given average maturity can be achieved in many ways, but by issuing loans that mature at different times we can reduce the risk of the state having to borrow large amounts for short periods, perhaps on particularly unfavourable terms. The maturity profile of the central government debt in Figure 3 shows that the state has some loans that will only mature in 20 years.

Market support and debt maintenance

The better the Swedish government securities market functions, the more investors are prepared to pay for the securities we sell and the lower the state's borrowing costs. Market and debt maintenance are therefore central to our endeavours to reduce the costs of central government debt.

An important element is that borrowing in kronor is concentrated to a small number of loans. For example, at most, one nominal bond loan matures every year, which means that each loan becomes larger. This makes it easier for investors to buy and sell government securities, which reduces their risks and makes them prepared to pay more.

We also have a transparent and predictable borrowing policy. For example, we avoid varying the amount of nominal bonds and inflation-linked bonds we offer at each auction and provide clear information on our expected borrowing needs and how the borrowing requirement will be met.

It is also important to have 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 auctions. The primary dealers also play an important role in the trading of 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 of buying and selling large denominations of Swedish government securities, which facilitates trade and benefits the state through lower funding costs. In autumn 2007, when the financial turmoil began, we periodically repoed out large volumes of T-bills and government bonds since they were difficult to buy on the market.

The volume of repos fell in spring 2008, but as financial turmoil picked up speed in the autumn the demand for repos again increased. The market support repo system came under such severe strain in September that we were forced to cancel the option of repos in T-bills; see the fact box on page 15.

Every year an interview survey is carried out of how primary dealers and investors regard our market support and debt maintenance work and the Swedish government security market as a whole. As in previous years, the Debt Office and the Swedish government security market all in all received high ratings in the latest survey.

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 budget we must borrow more and central government debt increases. If there is a surplus in the budget we amortise, which reduces the debt.

The other part of the borrowing requirement is due to old loans maturing and lenders having to be repaid, which we finance by issuing new loans. Since these replace old loans, they do not affect the size of the central government debt.

Large central government budget surplus

The state budget surplus amounted to SEK 135 billion in 2008; see Table 1 and Figure 4. The surplus was SEK 32 billion greater than in 2007.

The large surplus can largely be explained by income from the sale of state-owned companies. The sale of Vin & Sprit, Vasakronan and OMX altogether brought in the equivalent of SEK 77 billion in 2008.

Forecasts for the borrowing requirement in 2008

To plan the funding of central government debt we make forecasts of the net borrowing requirement. We published the first forecast for 2008 in February 2007 and we made a total of six forecasts for the year.

One considerable difficulty in the forecasts for 2008 was how to treat the sale of state-owned assets. In 2006 the Government had announced its plans to sell state-owned assets worth SEK 50 billion per year during its term of office. Six companies were on the sale list and the list was known all the time. However, it was difficult to forecast when the companies would be sold and at what price.

In 2007 valuations of the companies were high and many experts believed that the sales process would be much faster than the Government had announced. Falling share prices from mid-2007 and throughout 2008 made a rapid sales process less and less likely. In the first forecasts, we followed the Government's assessment of SEK 50 billion in sales proceeds for 2008 as a whole, but changed to SEK 86 billion in the second forecast in 2008. The state's holding in OMX had then been sold and it was known that Vin & Sprit would be sold. We also assumed that Vasakronan would be sold, which was the case, but the payment was somewhat lower than anticipated. In the last forecast we expected sales proceeds of SEK 77 billion, which was correct.

Apart from large income from the sale of state-owned assets, the year was characterised by high income from taxes on capital. Both households' capital gains and corporate profits reached record levels in 2007, which overflowed to 2008. Throughout the period, we forecast falling capital gains and corporate profits in 2008 and a gradually worsening economy. However, this did not affect the forecasts for 2008 very much, as we expected the main impact to be on the borrowing requirement as of 2009.

Our six annual forecasts ranged from a surplus of SEK 82 billion to SEK 163 billion, with an average of all the forecasts of SEK 121 billion; the outcome was SEK 135 billion. Excluding proceeds from sales, the forecasts ranged from a surplus of SEK 32 billion and SEK 77 billion, with an average of all the forecasts of SEK 61 billion; the outcome was SEK 58 billion.

Monthly forecasts

The variations in the net borrowing requirement between the months continued to increase in 2008. The spread between the months with the lowest and highest net borrowing requirements was as much as SEK 189 billion and deviations from our monthly forecasts were also large. These large variations in the net borrowing requirement during the year made it more difficult than before to produce accurate monthly forecasts. These monthly variations resulted, for example, from government agencies' repo transactions and an uneven flow of tax payments and interest payments. Despite considerable deviations for individual months, the total deviations by and large cancelled each other out.

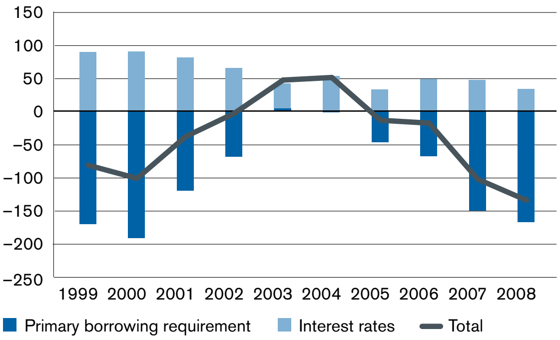
Table 1 Central government net borrowing requirement

SEK billion	2004	2005	2006	2007	2008
Primary borrowing requirement	**−2.1**	**−46.7**	**−67.6**	**−150.3**	**−168.4**
Of which					
primary balance	−17.1	−59.9	−97.5	−149.1	−146.3
Debt Office net lending[1]	15.0	13.2	29.9	−1.2	−22.1
Interest on central government debt etc.	**52.6**	**32.6**	**49.2**	**47.1**	**33.2**
Of which					
interest on loans in Swedish kronor	33.9	30.5	33.9	34.9	31.1
interest on loans in foreign currency	13.6	12.3	9.0	9.8	8.6
realised exchange rate differences, net	5.1	−10.2	6.3	2.4	−6.5
Central government borrowing requirement (net)[2]	**50.5**	**−14.1**	**−18.4**	**−103.2**	**−135.2**

[1] *Debt Office net lending is exclusive of interest-bearing accounts and other non-cash payments.*
[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.*

Figure 4 Central government net borrowing requirement

SEK billion



The income from Vin & Sprit is calculated at a standard rate, since it was in foreign currency which was never converted into Swedish kronor.

Our last forecast for 2008 was a surplus of SEK 148 billion. The difference in relation to the forecast is mainly due to the support measures for the corporate sector that that the Government implemented in December. For more detailed comments on the forecasts, see the fact box.

Interest payments on central government debt were SEK 33 billion, SEK 14 billion less than in 2007. The difference is mainly due to exchange gains and premiums on issues. For comments on interest payments, see the section entitled *Expenditure and appropriations.*

Borrowing in 2008

The record budget surplus was clearly a factor that affected borrowing. In the second half of 2008, the financial crisis took centre stage. We decided to issue more government securities than we needed to fund the actual central government debt. We also started to reorganise our borrowing to adapt to a rapid deterioration in the budget outlook.

The distribution of borrowing in 2008 between nominal krona debt, inflation-linked debt and foreign currency debt is shown in Table 2. The assessments and considerations that governed our actions are outlined in the following sections.

Table 2 Central government borrowing

SEK billion	2004	2005	2006	2007	2008
Net borrowing requirement[1]	**51**	**−14**	**−18**	**−103**	**−135**
Change in cash balance and retail market[2]	−11	24	−39	−35	57
Maturities, buybacks etc.	44	56	71	79	96
Government bonds	21	16	36	62	68
Foreign currency loans	22	40	35	17	28
Total	**84**	**66**	**13**	**−59**	**18**
Treasury bill borrowing, net[3]	**−35**	**−27**	**−78**	**−110**	**−32**
Bond borrowing, gross	**119**	**93**	**91**	**51**	**50**
Bonds in foreign currency	10	25	20	5	0
Inflation-linked bonds	18	12	7	5	3
Nominal government bonds	91	56	64	41	47
Funding	**84**	**66**	**13**	**−59**	**18**

[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.*

Extra issues of T-bills [1]

In mid-September the Debt Office decided at very short notice to issue more T-bills than we needed to finance the real central government debt. This step was taken to meet the great demand for government securities in the wake of the financial market turmoil. Demand could not be managed within the framework of our normal system for issuing T-bills to primary dealers via market support repos. We therefore stopped offering these repos in bills and instead supplied the market with more bills by means of large and frequent auctions. We set SEK 150 billion as the upper limit for the extra bills we could have outstanding.

In that way we could maintain the T-bill market via our issues and at the same time control the volume of T-bills that came onto the market. We had no formal ceiling on the market support repos, but we cannot issue any amount of T-bills. That would increase the reported central government debt and lead to unreasonably extensive cash management. Had market participants started to worry that we might abruptly close the repo facility, panic buying of T-bills could have broken out.

Investments in mortgage bonds

If we issue more government securities than we need to fund the debt, we receive money that must be invested. In this situation we decided to mainly invest in loans to banks with covered mortgage bonds as collateral with the same maturity as the extra T-bills. In this way, we also supported mortgage institutions' funding and banks' liquidity.

The other effect of the increased demand for government securities was that many market participants no longer wanted to trade in other securities. This also affected covered mortgage bonds. Despite their low credit risk, it was difficult in this uncertain situation to find private investors willing to buy covered mortgage bonds or accept them as security even for short-term loans. An important reason for this was the lack of liquidity in mortgage bonds.

Our transactions meant that the market participants could exchange securities with low liquidity for government securities that could be used as collateral for loans in the private sector. Although we were borrowing more money when we issued extra bills, we made day-to-day funding for banks and mortgage institutions easier and this contributed to reducing the effects of the financial turmoil.

The interest on the investments we made was higher than we needed to pay on the extra bills. The transactions were profitable for the state even though the real purpose was not to make money.

Decreased volumes towards year-end

In the autumn the Riksbank gradually increased its extra lending to banks against collateral in mortgage bonds etc. Although the situation in the financial markets continued to be uncertain, it meant that the need for corresponding transactions with the Debt Office decreased and we could reduce the extent of our extra funding. From a high of SEK 120 billion, extra bills of SEK 52 billion were outstanding at the end of the year. The longest extra bills mature in March 2009 and if nothing unexpected happens, the stock of bills will then return to the level necessary to fund the ordinary central government debt.

Legislative support after the event

The purposes for which the Debt Office is allowed to borrow are stipulated by law. Applying a strict interpretation of the rules for government borrowing, it was not self-evident that we were entitled to issue extra T-bills in this way, even if we have the right to conduct market support measures that are cost-free. But we decided that it was necessary to act even if doing so placed us on the periphery of the formal regulatory framework. The consequences would otherwise have been far too serious.

This assessment was confirmed when the Riksdag amended the law in October. A new provision entitles us to raise loans to satisfy the need for government securities for the purpose of counteracting threats to the functioning of the financial markets. The legislative amendment was retroactively applicable from the date on which our decision was made, which gives our actions an unambiguous legal basis.

[1] *For a more detailed description of the course of events, please refer to "Central Government Borrowing – Forecast and Analysis 2008:3", pp. 13–15.*

Large swings in auctions of nominal bonds and bills

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 used in liquidity management to counter fluctuations in the state's cash flows, for example repos, overnight loans and liquidity bills. The benchmark for maturity in nominal krona debt was 3.5 years, the same as in 2007.

Nominal bonds

The Debt Office borrowed SEK 47 billion in nominal bonds in 2008, compared with SEK 41 billion in 2007. The large budget surplus meant that at the beginning of the year we only offered SEK 1.5 billion per auction. In March we increased the volume to SEK 2.5 billion per auction in response to a new forecast of a somewhat smaller surplus in the central government budget. The volume was reduced to SEK 2 billion from August, but due to the rapidly changing outlook for central government finances we increased it to SEK 3.5 billion in the two last auctions in 2008.

We primarily issue bonds with a maturity of ten years. In December we decided to investigate the possibilities of issuing a longer bond; the main alternative was a twenty-year bond. Our reasons for this included the assessment that a greater borrowing requirement can be expected and that the long-term interest rates are at historically low levels. This indicates that longer loans may be relatively cheap, while we reduce the risk in central government debt through long-term funding of a larger percentage at a fixed interest rate.

In the absence of quantitative measures, the Debt Office conducts a qualitative evaluation of the borrowing in nominal bonds. Our assessment is that borrowing functioned well during the year. Bids were greater than the volume we wished to sell at all auctions, which indicates a good demand.

It is also worth noting that Swedish bond yields fell sharply during the year in relation to interest rates in the euro area. At the end of the year, the interest on a ten-year Swedish krona bond, for example, was about 50 basis points lower than the equivalent German government bond in euros. A year earlier the difference was zero. The interest rate differences against the rest of the euro area have become even greater. Developments are influenced by expectations of future monetary policy, but are probably due mainly to the advantage of the Swedish state as the most creditworthy lender, with the most liquid loan instruments, in a currency area of its own.

This also illustrates the difficulty of distinguishing how our actions affect demand and interest rates on government securities. The annual surveys of primary dealers and investors, however, give the Swedish nominal bonds market and our actions a very high rating.

T-bills

Funding via T-bills – short-term government securities with a maximum maturity of six months – decreased in comparison with 2007 since we concentrated our borrowing to nominal government bonds. Due to the falling central government debt, we had to concentrate borrowing to maintain liquidity and the investor base for nominal bonds. This market is decisive for long-term state funding, since nominal bonds are the only instruments with a sufficiently broad international investor base and sufficient depth to satisfy central government debt funding in the long term without risks becoming too high.

We sell T-bills by auction in the same way as nominal bonds. The bills are used 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.

Interest rate swaps

An alternative to issuing T-bills is to use interest rate swaps to exchange the fixed interest rate on a long-term bond for a floating rate. In that way we can issue more long-term bonds than we would otherwise have done, which makes the bond market more efficient. In 2008 we created short-term borrowing for SEK 31 billion with interest rate swaps.

When we borrow via the swap market we first issue a nominal bond. At the next stage we exchange the fixed bond rate for a floating interbank rate (STIBOR). Using this method we can utilise our relative strength as a borrower in the market for long-term borrowing. The state's high creditworthiness allows us to borrow on favourable terms. Thus the interest we receive on swaps is higher than the fixed rate we pay when borrowing in bonds. By swapping from fixed to floating rates we earn the swap spread.

Since the alternative to interest rate swaps is borrowing in T-bills, the gain or loss depends on how the swap spread relates to the average difference between STIBOR and the equivalent interest on a bill. As we pay STIBOR on the swap instead of the interest on a bill we lose the TED spread. Where the swap spread proves to be higher at the time of the contract than the average TED spread during the swap's duration, it will have been advantageous to swap long-term borrowing for short-term rather than to borrowing directly in T-bills, and vice-versa. In normal market situations the swap spread should be higher than the TED spread.

In 2007 and 2008 the global financial crisis and the extreme risk aversion that resulted meant that the TED spread was at historically very high levels, higher than the average swap spread in the long-term contracts we had entered into. Consequently, interest rate swaps – from 2003 when we started using them in Swedish krona borrowing and until year-end 2008 – were about

SEK 490 million more expensive than direct borrowing in T-bills.

Virtually all the swaps entered into are still outstanding, so we do not know what the final result will be. The interest rate swaps that fell due before 31 December 2008 – which we consequently have a realised outcome for – gave a surplus of SEK 41 million.

The current situation with extreme TED spreads probably does not represent a long-term equilibrium position. The swap spread was also high in 2008, which is favourable in the long run. When the financial crisis has abated and the TED spreads become more normal we will probably once again see borrowing via interest rate swaps reducing the cost of central government debt.

Liquidity management

Liquidity management means ensuring that the state can always make its payments at the right time. This is one of our most important tasks. The state must never miss its payments; this applies to all government expenditure, including payment of maturing loans.

In liquidity management we borrow the net of the money missing on the days the state has large expenditure, for example when state salaries are paid out. On days when there is an inflow of taxes, the state receives more money than is currently needed, and then we invest the surplus.

Liquidity management was conducted under highly unusual circumstances in 2008. Even disregarding the investments made when the extra issues of T-bills took place, our cash balance was mostly positive, which is to say we had a surplus. This was despite the fact that we had reduced regular funding in T-bills and in inflation-linked bonds to a minimum and had very limited borrowing in bonds.

The two most important reasons for the surplus were the sale of state-owned companies and the fact that the state had a large cash deficit in December. Since we borrow about the same amount in bonds over the whole year we had a surplus for many months of the year.

The ordinary 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 up to SEK 100 billion or more. On other days incoming payments are greater than outgoing payments, which gives a cash surplus. The surplus can also be close to SEK 100 billion on some days.

All payments in Swedish 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. A deficit is financed in the first place by liquidity bills and repos, and the rest is covered by overnight loans from banks. Similarly, a surplus is deposited in overnight loans to banks as well as in reverse repos.

A repo means that we sell 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 us than other short-term borrowing, since some agents need to borrow government securities and are prepared to pay a little extra to obtain them.

Reverse repos mean that we buy a debt security in order to invest a surplus. The security is then sold back, and we get the money back at a later date determined at the time of purchase. In that way we have collateral for the investment.

The state also makes payments in foreign currency. These are primarily payments of loans in foreign currency and the interest on them. Payments from the EU within the framework of the EU budget are made in euros, so on these occasions we have income in foreign currency. Currency exchange is therefore an important part of liquidity management. This exchange is for the purpose of ensuring that all commitments can also be met at the right time and in the right currency.

If we can borrow more cheaply or deposit at a higher interest rate in foreign currency we can make use of this. In autumn 2008 we received the proceeds from the sale of Vin & Sprit in foreign currency, since the transaction was settled mainly in dollars. The amount was the equivalent of about SEK 50 billion. These funds were never converted into kronor, since later in the autumn and in January 2009 we had significant expenditure in foreign currency in the form of maturing bonds in dollars and euros. By managing income and using it for foreign currency payments the state avoided any currency risk.

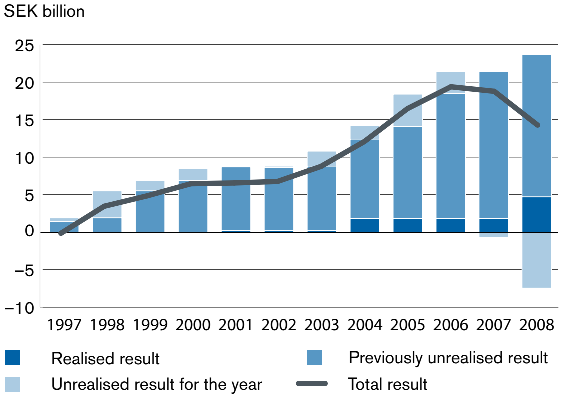
At the same time we also had large surpluses in kronor up to December. A contributory factor was the sale of Vasakronan and the fact that we had continued to borrow by issuing T-bills. Under our loan policy, we are committed to issuing three-month or six-month T-bills every other week.

Small inflation-linked loan issues

In 2008 the Debt Office issued inflation-linked bonds for SEK 2.6 billion, which was less than in 2007. We continued to issue inflation-linked bonds despite the large surplus and the high share of inflation-linked debt in the central government debt because some issues must take place to enable the market to function as a source of funding even in the long term. In addition, only in some years do loans mature and have to be paid back, while issues must be more evenly distributed over time.

We also contribute to keeping the market going by offering exchanges of inflation-linked bonds, where we buy bonds with a short maturity and sell bonds with longer maturity. By buying back larger volumes than we

Figure 5 Computed result for inflation-linked debt



sell, we help to reduce the percentage of inflation-linked bonds in the debt, which is somewhat too high.

Inflation-linked loans have an in-built protection against inflation. The investor receives fixed (real) interest and compensation for the rate of inflation during the term of the loan. The interest paid by the state for nominal loans is fixed when the loan is issued.

Estimated savings since 1996

Although the main purpose is to spread risk, it may be of interest to study how inflation-linked debt has affected the state's costs to date. Accumulated since 1996, the estimated saving of issuing inflation-linked loans is about SEK 16 billion; see Figure 5.

Comparison is made against what it would have cost the state to issue nominal bonds with the same maturity. The reason for this large saving is that inflation on average has been considerably lower than expected. Consequently, compensation for inflation paid by the state was low.

The key indicator for comparisons of this kind is called 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.

Inflation-linked debt showed a deficit in 2008

In 2008 the inflation rate was higher than the average break-even level in inflation-linked debt. As shown in Figure 5 this meant that inflation-linked debt showed a deficit and that the accumulated surplus decreased.

In December 2008 an inflation-linked bond that was introduced in 1995 matured. It gave a realised surplus of SEK 2.9 billion.

The average break-even level of issues in 2008 was 2.06 per cent. This is considerably lower than last year, when it was 2.21 per cent. Whether or not these loans will lead to lower costs depends on whether the average inflation rate over the term of the loan is above or below that level.

In the autumn, the break-even level fell abruptly for inflation-linked bonds, from about 2.5 per cent in the spring to around 1 per cent for the longest inflation-linked bonds. Even the seven-year inflation-linked bond had a break-even level of half a per cent. This reflects the current economic situation, with expectations of falling inflation in the coming year. The low break-even level for the longest inflation-linked bonds means that inflation-linked funding may be expensive if average inflation exceeds 1 per cent over the next 15–20 years. In this light it is appropriate that we currently only need to issue small volumes of our inflation-linked loans.

Foreign currency debt was amortised by SEK 37 billion

The Debt Office amortised SEK 37 billion of the foreign currency debt in 2008. We created debt instruments in foreign currency for the equivalent of SEK 5 billion by lending in government bonds and exchanging them for foreign currency loans through swap agreements. SEK 42 billion in debt instruments was repaid.

Under the Government's original guidelines, the benchmark for amortisation of the foreign currency debt was SEK 40 billion. In August, however, the Government decided that we would switch to managing the foreign currency component as this component was close to the benchmark of 15 per cent due to foreign currency payments received from the sale of Vin & Sprit.

In the later part of the year the foreign currency component increased, mainly as a result of the weakening of the krona against the currencies included in the foreign currency debt. The foreign currency component also varies from month to month in that the krona debt varies as a result of changes in the state's cash balance. Under the percentage control rules we are not to take any measures to check an increase in the foreign currency component arising from exchange rate fluctuations unless as a result the component increases or decreases by more than 2 percentage points. In that case we must gradually adjust the component by changing our issue plans. Nor do we compensate for changes in the foreign currency component arising from changes in the state's cash balance in kronor.

Previously, our mandate included changing the rate of amortisation on the foreign currency debt when we considered that the value of the krona deviated significantly from what was warranted in the long term. These decisions affected the reported foreign currency debt. The amortisation mandate has now been removed and instead, being able to adapt our actions based on assessments of the krona's exchange rate is part of the

Figure 6 Composition of foreign currency debt

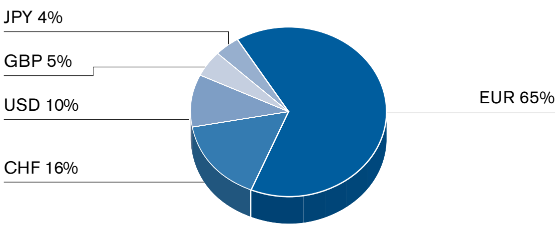
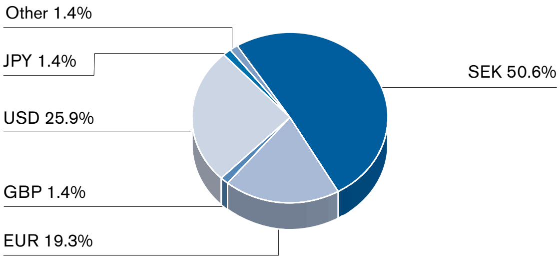


Figure 7 Funding of foreign currency debt



active management. Management of this mandate is accordingly dealt with below, along with the rest of the active management.

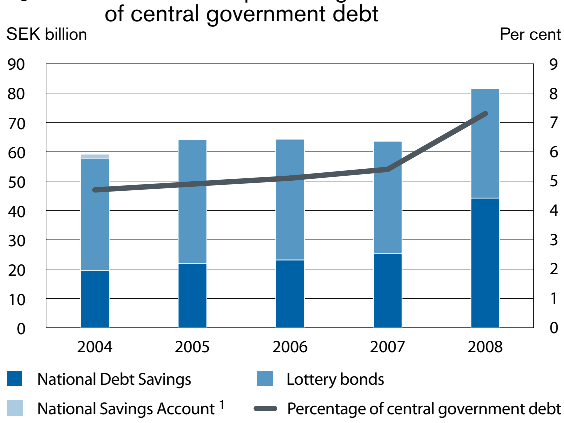
Foreign currency debt is governed by a benchmark specifying the distribution between the currencies included and maturity. The currency distribution is shown in Figure 6.

We do not finance foreign currency debt according to the benchmark. Instead, we endeavour 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. About half of the foreign currency debt financing is in kronor, which is then converted to foreign currency commitments with currency swaps; see Figure 7.

In 2008 we created new debt instruments in the foreign currency debt with currency swaps. Currency swaps cost an average of about 53 basis points under the dollar LIBOR rate, the three-month standardised interbank interest rate in dollars. This is the same level as last year.

The benchmark for foreign currency debt maturity is 1.5 months (0.125 years) and hence much shorter than for other types of debt. The reason for this short maturity is that according to our analyses it is possible to reduce the expected cost by shortening the maturity of foreign currency debt without more than a marginal increase in risk. This is partly because the foreign currency debt is distributed across five currencies, whose interest rates move differently. It is also simple in practice to keep a shorter foreign currency debt maturity, since the market for the derivatives we use to achieve a short maturity (interest rate swaps) is much deeper than the corresponding markets in kronor.

Figure 8 Retail market percentage of central government debt



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

Retail borrowing

As part of central government debt management we sell lottery bonds and National Debt Savings on the retail market. Borrowing is aimed at private individuals, small businesses and organisations. At the end of 2008, SEK 82 billion, or 7.3 per cent of central government debt, was borrowed on the retail market; see Figure 8.

Large deposits in National Debt Savings

Deposits in National Debt Savings were at a record level as a result of the autumn's financial crisis. Concern about security in the banking system and the coverage this was at times given in the media resulted in major inflows to National Debt Savings. Customers mainly deposited money in floating rate accounts.

When the Government decided to increase the deposit insurance to SEK 500,000 and the media focus on security in the banking system ebbed out, interest in National Debt Savings returned to more normal levels. In the last two months of the year there was instead a small net outflow.

Low interest rates at the end of the year also contributed to smaller inflows into National Debt Savings. At the end of December the interest rate on floating rate National Debt Savings was 1.75 per cent and the interest rate on an eight-year zero-coupon bond was 2.02 per cent. This can be compared with 3.75 per cent and 3.97 per cent at the beginning of the year.

On 31 December the outstanding volume of National Debt Savings was SEK 44 billion, an increase of SEK 19 billion during the year. The number of customers was 158,000, which was 13,000 more than at the beginning of the year.

Steady demand for lottery bonds

Demand for lottery bonds has been at a relatively stable level in recent years. In 2008 we sold new lottery bonds for a total of SEK 7.4 billion. New sales were somewhat fewer than maturing bonds, and the outstanding volume fell by SEK 0.7 billion to SEK 37.5 billion.

To reduce administrative costs we raised the denominations from SEK 1,000 to SEK 5,000 per lottery bond. The price per series was the same at SEK 50,000 but the series consisted of 10 bonds instead of 50. Customers were not affected to any great extent, since many buy entire series of lottery bonds.

Internet sales of government securities to be discontinued

In October we decided that the direct sale of government securities to private customers would be discontinued. In December we stopped accepting new customers, and in March 2009 registered customers will no longer be able to make bids.

The direct sale of government securities was introduced on a trial basis in autumn 2002. Our aim was to broaden the investor base by reaching private individuals and small investors directly. However, the volume sold via the website has been too small to justify the continued additional costs of the computer system, customer support etc. Private individuals and small investors who wish to buy government securities can still do so through banks and securities dealers.

From the start in 2002 up to and including December 2008, a total of about 5,000 customers registered via the website; of these, approximately 40 per cent placed a bid in at least one auction. In 2008 we sold government securities worth SEK 1.6 billion via the website.

The role of the Debt Office in the savings market

Lottery bonds and National Debt Savings accounted for a total of 6.7 per cent of the Swedish fixed income savings market on 31 December[3]. This is an increase of 1.1 percentage points seen over the year. The increase is due both to the substantial inflow to National Debt Savings in the autumn and to the fact that other parts of the fixed income savings market shrank in 2008.

Highly acclaimed marketing campaign

Marketing was divided into separate campaigns for lottery bonds and National Debt Savings. The theme for lottery bonds was “Do you love winning but hate losing?” and was used, for example, in the advertising shown during the sales periods. National Debt Savings were marketed using the classic piggy bank symbol.

Our advertising won several awards, including the *Guldnyckeln*, and nominations for *100-wattaren* and *Columbiägget*.

[3] *The Debt Office retail borrowing on 31 December 2008, the rest of the savings market on 30 September 2008.*

Good system support necessary

We initiated two large system development projects in 2008. One is to upgrade system support for National Debt Savings, which will be completed in 2009; the other is a preliminary study of login functions for the website. In the future, we must be able to offer customers a secure website solution for managing their savings alongside our other sales channels.

Retail market borrowing performance

Borrowing in the retail market reduced the costs of government debt by SEK 144 million in 2008. The total cost saving was SEK 710 million for the five-year period 2004–2008.

Table 3 Saving, retail market borrowing[1]

SEK million	2004	2005	2006	2007	2008
Lottery bonds	110	98	150	149	106
National Debt Savings	6	10	27	23	38
National Savings Account	–4	–2	–	–	–
Total saving	**112**	**106**	**177**	**171**	**144**
Total saving 2004–2008					**710**

[1] *The result shows how much more the corresponding borrowing would have cost in the institutional fixed income market. Income is measured with 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. Government securities are outside the calculation, since we pay the same interest rate to retail customers as to institutional investors.*

National Debt Savings performance improved in comparison with the previous year, partly due to increased sales and partly to unusually high IT costs affecting earnings for 2007.

Revenues for lottery bonds fell because older loans with a higher revenue margin matured.

Profit in active management 2004–2008

Over the period 2004–2008 active management in foreign currency made a total profit of SEK 358 million. During the five-year period currency positions made a considerable profit and interest rate positions made a small loss. In 2008 the active management generated a profit of SEK 492 million; see Table 4. The profit comes mainly from currency positions but interest rate positions also performed well.

The active management allows the Debt Office to take interest-rate and currency positions in foreign currency. The objective is to reduce the cost to the state without taking excessive risks. 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 rise against the euro, we make sure we have an asset in dollars and a corresponding debt in euros. If the dollar then rises against the euro we can sell our dollar asset and repay the euro debt. The difference is the profit on the position. If instead the dollar falls, we make a loss.

A profit in active management reduces the state's interest costs by the same amount. Active management is a normal element of modern asset management, but is unusual among central government debt managers.

Large profits in external management

The Debt Office also uses the services of external managers with the same tasks but 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.

The external managers performed on average better than our own in 2008, which proved to be one of the best years ever for external management. The spread between the various managers was large; two of them – IPM and PIMCO – achieved a profit of about 1.5 per cent.

In the five-year period 2004–2008 our own management and the external management contributed equally to the positive performance. (To make the comparison completely fair, when the risk mandates are different in size, the results are also converted to a percentage of the amount managed.)

Table 4 Active management performance

	2004	2005	2006	2007	2008
SEK million					
Total management	195	−430	339	−238	492
Swedish National Debt Office	164	−426	348	−203	305
Of which:					
Interest rate positions	−18	187	367	−241	44
Currency positions	182	−613	−19	38	261
External managers	31	−4	−9	−35	187
Performance as a percentage of assets under management					
Swedish National Debt Office	0.11	−0.25	0.21	−0.12	0.18
External managers	0.09	−0.01	−0.03	−0.11	0.65

Low risk utilisation

In its own management the Debt Office took positions that reflected a moderate utilisation of the risk limit allowed in 2008. The external managers utilised considerably more of the risk limit in their management, but since they account for a smaller part, total risk-taking was low.

The active management is governed by a regulatory framework that limits the risks we can take. Since 2007 the Government has 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 decided that the risk mandate for the day-to-day active management would be SEK 220 million, the same as last year. The rest of the risk mandate was reserved for any strategic positions; see below.

Position for a stronger krona

We decided in December to take a strategic position for a stronger krona by buying kronor and selling euros. The position will be a maximum of SEK 15 billion and will be gradually built up until the end of the first quarter of 2009. At the end of the year it was SEK 2.5 billion.

The background was that the krona weakened considerably during the autumn. In our view the krona exchange rate was far from levels that can be justified by more fundamental conditions. It should therefore, over time, strengthen considerably. By having more foreign exchange exposure when the krona is weak and reducing it when the krona is stronger, we can reduce the costs of central government debt.

Such an assessment would previously have led to our reducing the rate of amortisation in foreign currency debt. Now that we have switched to percentage control of the foreign currency debt, the Government has decided that positions must be taken within the framework of the active management and its risk mandate.

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. There are no clear measures to evaluate guideline decisions. Instead, the evaluation must address whether the decisions as a whole appear to be reasonable and well judged, taking into account the objectives and the information available at the time the decisions were taken. The governance system for central government debt management is based on the Riksdag making the final assessment.

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 our 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 objectives of central government debt management set out in the appropriations directions and guideline decisions. For example, we would like to point to the surpluses in retail market borrowing and active management.

In 2008 we had to face major and partly new challenges. With the outlook for central government finances growing bleaker, we had to quickly switch from discussing how to handle large surpluses and a shrinking national debt to preparing ourselves to deal with major borrowing requirements.

At the start of the financial crisis, we decided to quickly issue extra T-bills to support the government security and mortgage bond markets. We were then acting on the periphery of the rules governing central government borrowing, but we decided that passivity on our part would lead to serious damage to financial markets and the national economy. The Riksdag showed that our decision was correct by amending the law on central government borrowing and debt management retroactively.

The fixed income and foreign exchange markets

Movements on the fixed income and foreign exchange markets were extreme in 2008. At the end of the year the market rates on government securities had reached their lowest level in modern times.

Market rates fell in the first quarter on a broad front both in the United States and Europe, when concern about a global recession grew. The US Federal Reserve implemented a series of cuts in the federal funds rate in an attempt to slow the negative trend. At the same time losses associated with credit in the US housing market caused problems for several banks.

In the second quarter, market rates rose sharply, when several central banks shifted focus from risk of falling growth to defending the price stability target. Steeply rising oil and commodities prices contributed to a rise in inflation in the spring and summer. At the same time, risk appetite in the financial markets grew. In July the European Central Bank (ECB) decided to raise the policy rate to dampen inflationary pressure. Many people had earlier thought it more likely that the ECB would reduce the rate.

The credit crisis led to more interest rate cuts

In the summer, oil and commodity prices reached record levels, while rising unemployment, falling house prices and tightening credit conditions burdened US households. Losses associated with the US housing market were again in focus at the end of the summer, when two of the largest US mortgage institutions were forced to request capital injections and guarantees from the US government. This proved to be the start of the credit crisis that would rapidly spread throughout the global financial system.

To save the financial system, public authorities and central banks were forced to take far-reaching measures in the form of guarantees and capital injections to banks and credit institutions and liquidity support.

The credit crisis nevertheless drastically reduced household and corporate access to credit, which was a heavy blow to already fragile economies. To combat a rapid slowdown, most central banks decided on extensive policy rate cuts.

Lower policy rates, rapidly falling inflation and major slides in share prices contributed to another very drastic fall in market rates for government securities in the last four months of 2008.

The Riksbank changed track

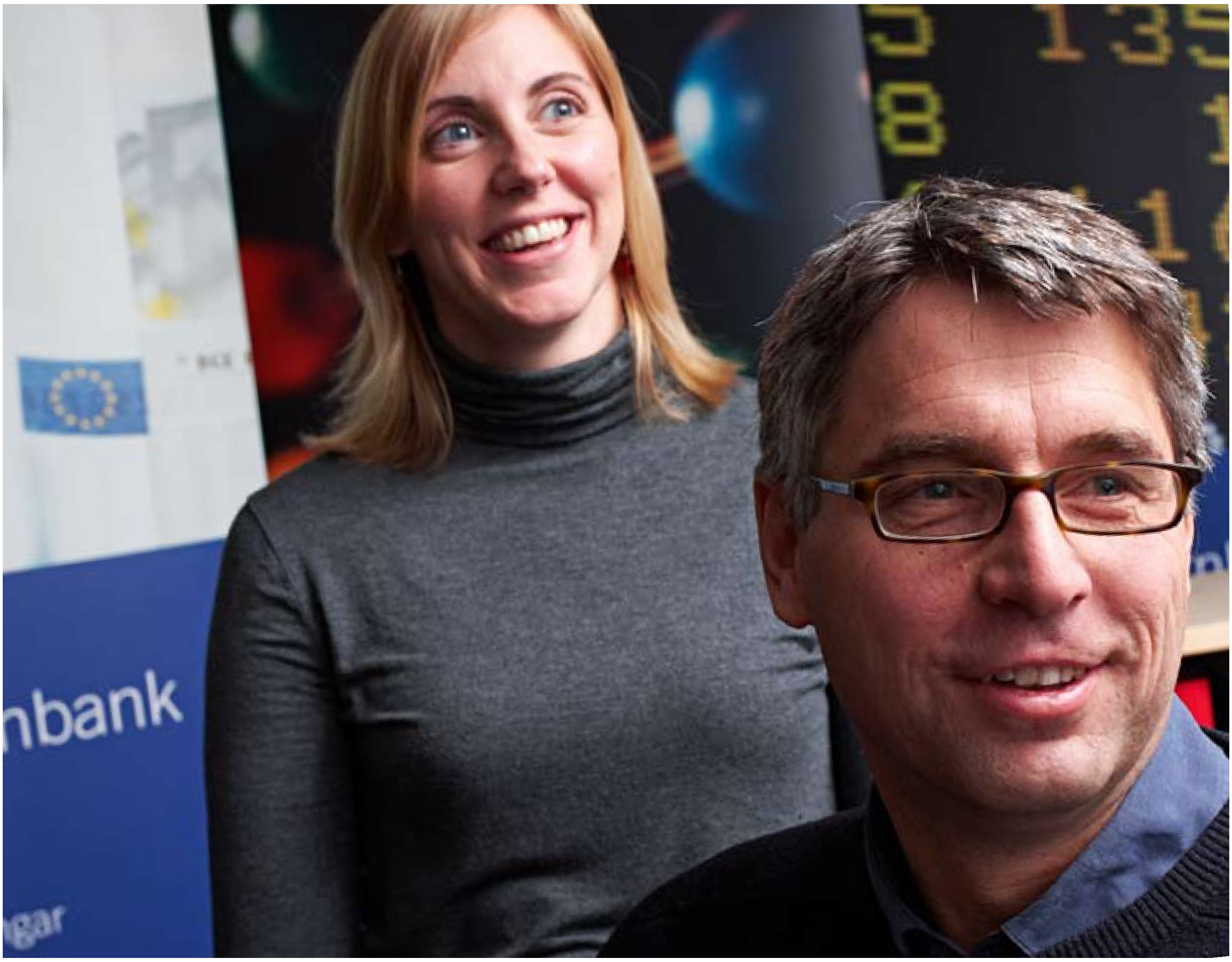
Sweden was also perceptibly affected by the autumn's turbulence, even if Swedish banks were not directly exposed to US housing loans. During the summer it was still difficult to predict how far-reaching the effects of the financial crisis would be on the Swedish economy. As late as in September, the Riksbank believed that inflation risks were predominant when they raised the Swedish policy rate.

In the last quarter, the Riksbank too decided on a rapid cut in the policy rate when Swedish companies' order books slumped leading to a surge in redundancy notices.

Large movements in foreign exchange markets

Movements in the foreign exchange markets during the financial turmoil last autumn were extreme. Above all, the US dollar and the Japanese yen were strengthened when risky exposures closed on a large scale.

Like other small currencies, the Swedish krona was considerably weakened in the autumn against a number of currencies including the euro.



As the Government internal bank we are responsible for ensuring the efficient and secure functioning of the state payment system.

Cash management

State payments continued to increase in number in 2008 while costs decreased as new framework agreements began to take effect. We extended the framework agreement for payment services and signed new agreements for charge cards, travel accounts and purchasing cards. The total flow of state payments was unusually large, due in part to the sale of state-owned companies.

Key events and activities in 2008

- We extended the existing framework agreement.
- We signed a new framework agreement for payment services, travel accounts and purchasing card services.
- We delivered a report to the Government on the risks and vulnerabilities of the state payment system.

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 funding costs
- manage and develop the state payment model 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 preferential treatment
- develop a liquidity management strategy that will reduce interest expense in the long term
- provide government agencies with good service

Reporting obligations

We are required to report on

- policy changes in setting interest rates and fees
- 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

Framework agreements reduce costs

Thanks to the Debt Office's framework agreements, payments are less expensive for the state as a whole. Since the framework agreements are obligatory, procurement costs for each individual agency are reduced.

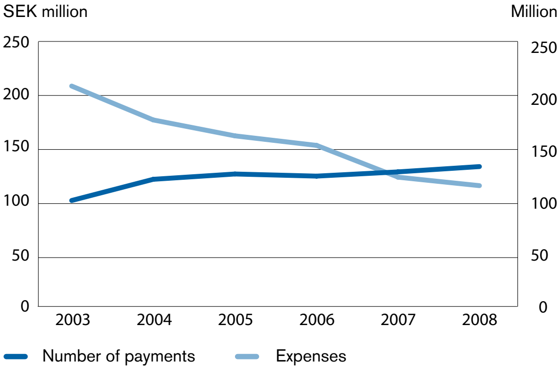
More payments at lower cost

The number of state payments continued to increase in 2008, while the costs involved decreased; see Figure 9.

The framework agreement banks transacted 132 million payments during the year. This cost the agencies SEK 114 million, which is SEK 8.5 million less that in 2007. The average price per payment was SEK 0.86.

Costs have continued to decrease over the last few years. The lower yearly costs are not only due to lower prices for services but also to agencies choosing competitively priced payment intermediaries

Figure 9 Central government payment and expenses



Extension of framework agreement for payment services

We decided to extend for an additional year the existing framework agreements for payment services etc. for government agencies.

The current agreements cover the agencies' payment services needs and have reduced costs by more than 30 per cent. Extending the agreements also saves resources for our clients and suppliers and provides us with an opportunity to plan for the next round of procurement in good time.

New framework agreement for cards

We signed a new framework agreement for charge cards, travel accounts and purchasing cards. The agreement applies from 2009 until 2011. Prices are now 25 per cent lower than under the previous agreement.

Increased payment flow

In 2008 payment flow was SEK 4,847 billion. Incoming payments rose by SEK 97.3 billion (4.0 per cent) and outgoing payments by SEK 85.7 billion (3.8 per cent). Compared with 2007 the payment flow increased on the monthly peak payment days. Tax collection continued to rise in 2008 as did tax refunds.

Large lump sum payments consisted of dividends from state-owned companies and payments in connection with the sale of companies. Dividends from state-owned companies amounted to approximately SEK 33 billion, which was lower than the previous year. OMX was sold in February for approximately SEK 2 billion, Vin & Sprit in July for approximately SEK 50 billion and Vasakronan in September for approximately SEK 25 billion.

The effects of these payments on the borrowing requirement are outlined in the section on central government debt management.

Distribution between the banks gradually changing

Around 85 per cent of the payment flow in 2008 was transacted by the framework agreement banks (i.e., Nordea, SEB and Swedbank), which is 1.8 percentage points less than in 2007. We distributed the rest via the Government's central account with the Riksbank.

The agencies with the largest payment flows were the Swedish Tax Agency, the Swedish Social Insurance Agency and the Swedish Road Administration. Together they account for 73 per cent of the banks' payments flow.

SEB competed successfully in terms of payment volumes and Swedbank in the number of payments. Nordea still had the largest number of customers; see Figures 10 and 11.

Figure 10 Central government payment distribution among banks, payment volume through government central account with the Riksbank

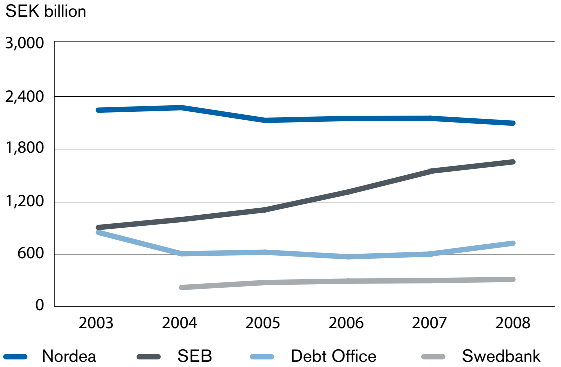
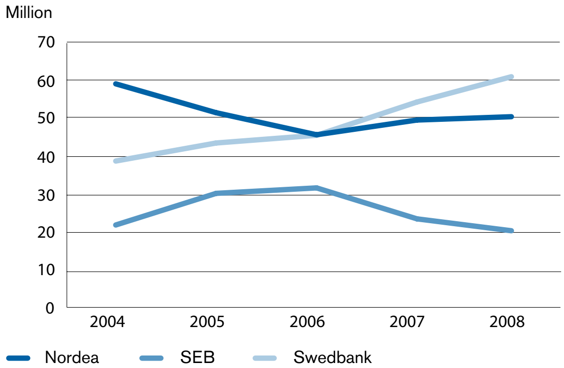


Figure 11 Central government payment distribution among banks, number of payments

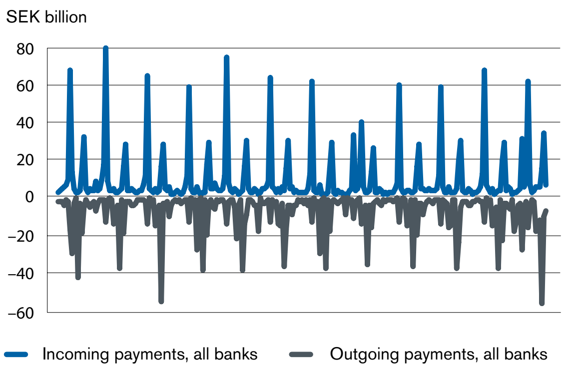


Central government payment flows

Tax collection is concentrated around two main periods per month. On the 12th and 13th of the month, more than SEK 60 billion is usually paid; around the 25th a further SEK 30 billion is paid; see Figure 12.

The largest outgoing payments, amounting to around SEK 40 billion, are made by the state between the 20th and 23rd of each month, when taxes are transferred to the municipalities and child allowance is paid. Outgoing payments are also substantial around the 18th of each month, when pensions are paid, and around the 25th, when government employees are paid.

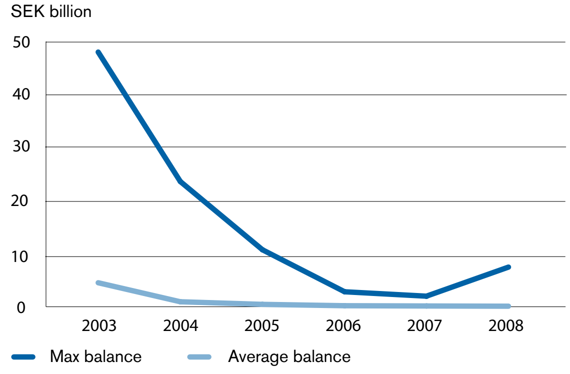
Figure 12 State payment flows per day 2008



Account balances still low in framework banks
Payments distributed by the framework agreement banks after 3 pm are not transferred to the Debt Office until the following morning. This means that a float remains in these banks overnight, which constitutes a credit risk.

The average overnight balance in 2008 was SEK 105 million, which was lower than in 2007. The highest remaining account balance over any one night was SEK 7,477 million and considerably higher than the figure for 2007. The reason for this was the disruption that occurred to the Riksbank's RIX central clearing system on 9–10 May; see Figure 13.

Figure 13 Overnight balance



Foreign exchange forwards increased
By 31 December 2008, agencies had hedged foreign currency payments in an amount equivalent to approximately SEK 7.5 billion. This is an increase of SEK 2.5 billion compared to year-end 2007 and is partly due to more agencies choosing to hedge their foreign currency payments.

Centralised currency hedging and deliveries of foreign currency are part of our work to promote sound government cash management. They also contribute to more efficient management of the agencies' appropriation funds.

Risk report delivered
During the year we conducted a risk analysis of the agencies' payments. The report on the risks and vulnerabilities of the state payment system (*Risker och sårbarheter i den statliga betalningsmodellen*) was delivered to the Government on 28 May. It contained a number of important conclusions including:

- Disruptions and delays in state payments do occur but can be reduced through functioning contingency procedures.
- Payment orders must be correct and submitted by an authorised person. Banks need to improve their control procedures with regard to powers of attorney.
- The state payment system has become complex in the course of time. It needs to be clearer, documented and streamlined.
- Information, training and collaboration on the state payment system can help it to be used more efficiently and effectively.
- Overnight account balances for the framework agreement banks are now low. Foreign currency accounts and currency exchange risks need to be studied and further reduced.

Agency loans and deposits
In 2008 agencies deposited more and borrowed less. When agencies use their loans or deposits in the Debt Office the central government borrowing requirement is affected; see *Central government debt management*.

Rise in deposits
Deposits by agencies rose by 14 per cent in 2008; see Table 5. This was mainly due to the Stabilisation Fund established in the autumn and the budget appropriation of SEK 15 billion for the Fund which was deposited in a Debt Office account.

Table 5 Deposits at the Debt Office by agencies, public enterprises and companies

SEK million	2004	2005	2006	2007	2008
Agencies	79,034	81,777	67,080	70,666	82,328
Public enterprises	3,893	3,516	3,511	1,978	1,087
Limited companies	1,550	1,200	1,000	2,896	2,782
Total deposits	**84,477**	**86,493**	**71,591**	**75,540**	**86,197**

Table 6 Debt Office lending to agencies, public enterprises and companies

SEK million	2004	2005	2006	2007	2008
Agencies	210,160	226,326	235,690	232,299	207,106
Public enterprises	7,780	6,267	7,069	6,427	7,898
Limited companies	10,716	13,058	15,491	17,835	20,887
Total lending	**228,656**	**245,651**	**258,250**	**256,560**	**235,891**

Drop in lending

The Debt Office's total lending decreased by SEK 20.7 billion; see Table 6. Government agencies decreased their borrowing by SEK 25.2 billion mainly due to the National Rail Administration and the Swedish Road Administration repaying almost all their loans early, since they received funding through increased appropriations. The single largest borrower, CSN (Swedish National Board of Student Aid), increased its borrowing by SEK 5.1 billion to SEK 153.7 billion.

Public enterprises and state-owned companies increased their borrowing by a total of SEK 4.5 billion. Among these the largest borrower is Botniabanan AB, which accounts for almost 70 per cent of corporate lending.

New services and satisfied customers

The Debt Office's annual customer questionnaire showed that government agencies are satisfied with the service they receive from us and the range of services we provide. The customer satisfaction score was 85 on a 100-point scale.

We expanded our services during the year and it is now possible, for example, to log into SIBWebb and SITS using a third type of electronic identification.

Achievement of objectives

We achieved our objectives for 2008. The new framework agreement for charge cards, travel accounts and purchasing card services reduced costs for the state. The risk report has provided us with a basis for improving the efficiency and security of the payment system. The agencies continue to be satisfied with our operations and services.

Following a decision by the Riksdag, the Debt Office provides loans to Swedish companies involved in developing new aircraft.

Guarantees and loans

The financial crisis caused the credit market to deteriorate during the year. Because many companies found it difficult to obtain loans, the Riksdag decided on new state guarantees and loans. These include the bank guarantee programme (see the section entitled *Financial stability*) and loans to the Swedish Export Credit Corporation. Due to the market downturn we have also been entrusted with the provision of guarantees and loans to the automotive industry.

Key events and activities in 2008

- New assignments to strengthen export financing through loans to the Swedish Export Credit Corporation
- New initiatives for the automotive industry
- Refund of subsidised guarantee fees for the Öresund Bridge and the Nordic Investment Bank
- Negotiations with Volvo Aero on a state condition loan

Objectives

The objectives of the Debt Office are to

- contribute to limiting the risk for the state and safeguarding its rights; we will do this by evaluating economic risks, setting fees, determining terms and conditions and collecting claims
- work to ensure that the costs of operations correspond in the long term to the revenues from these operations; we will do this by fee-setting based on insurance principles
- work actively for the effective performance of guarantee and loan operations of other agencies

Reporting obligations

We are required to report on the financial performance of our operations and analyse the factors affecting them.

Guarantee and loan portfolio

The guarantee portfolio amounted to SEK 51 billion at the end of 2008. It contains major commitments to 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 the agricultural sector and in sparsely populated areas.

Our total lending to non-government borrowers amounted at year-end to just over SEK 21 billion, most of which finances infrastructure projects. Botniabanan AB has received the largest loan.

In December 2008 the Riksdag decided on new state guarantees and credit measures that will increase our commitments in 2009.

Measures to strengthen export financing

The Riksdag decided in mid-December to broaden opportunities for the Swedish export industry to obtain financing. In February 2009, as a result of this decision, we were instructed by the Government to provide the Swedish Export Credit Corporation with a credit facility of up to SEK 100 billion.

Strengthened measures for the automotive industry

In mid-December the Riksdag decided to authorise state credit guarantees of up to SEK 20 billion to companies in the automotive industry that apply for loans from the European Investment Bank (EIB) for conversion to green technology.

In February 2009 the Government assigned us the task of negotiating with the EIB, Volvo and Ford on agreements required to enable us to guarantee the loans to the EIB that Volvo will apply for.

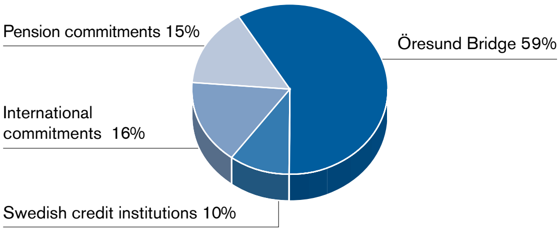
The Riksdag also decided on rescue loans of up to SEK 5 billion to companies in the automotive industry facing a serious liquidity crisis. As of 15 February 2009 we are responsible for processing applications for these loans.

Refund of subsidised risk fees

The risk associated with the guarantees for the Öresund Bridge has diminished significantly. In the spring we therefore proposed that the Government, for the time being, should not set aside additional appropriation funds to cover the risk in this commitment. The amount previously paid to the guarantee reserve is larger than is now needed to cover the risk. We thus proposed that SEK 300 million be refunded to the central government

Figure 14 Guarantee commitments

Guarantee portfolio of SEK 51 billion, 31 December 2008
Proportions %



budget from the guarantee reserve and are now awaiting a decision from the Government.

In 2008 we refunded part of the fee for the state guarantees for investment project loans from the Nordic Investment Bank (NIB), since the risk of claims has decreased. We have paid similar refunds twice before. Refunds to the central government budget in 2008 amounted to EUR 2 million.

NIB provides project investment loans guaranteed by the Nordic and Baltic countries and has a reserve fund for future credit losses. In 2008 this fund was increased by EUR 44 million to EUR 282 million, which means the risk of claims has declined. Only when the losses are larger than the reserve fund may NIB take advantage of the state guarantees.

The Debt Office proposes withdrawal of guarantee assignment for Fysikhuset

We proposed in the spring that the Government withdraw the assignment of issuing a guarantee to Fysikhuset Stockholm KB.

In our view, a guarantee of this kind is unnecessary. It also leads to ambiguity and guarantee structures that are difficult to apply, and in turn to uncertainty, which the state should avoid.

Guarantees in connection with the sale of shares in Vin & Sprit

In connection with the sale of the state's shares in Vin & Sprit we issued three guarantees aimed at securing a transaction worth SEK 4.9 billion. The two largest guarantees have now been concluded and the third will mature by 30 June 2009 at the latest. Pursuant to a government decision, no fees were charged to cover the economic risks to the state. Any potential claims will instead be settled against proceeds from the disposal of the shares.

Negotiations with Volvo Aero on conditional loan

During the summer we were instructed by the Government to initiate negotiations with Volvo Aero on a conditional state loan to the company. This loan is to finance the company's research and development costs in a new jet engine project headed by Rolls Royce.

The amount is not to exceed SEK 120 million, which corresponds to approximately 40 per cent of the company's R&D costs for this project. The final report to the Government on the agreement negotiations will be presented in February 2009. The EU Commission will then take a position on whether the proposed financing is compatible with the rules on state aid

Cost recovery in guarantee operations

At the end of the year we allocated SEK 1.1 billion to expected losses in the guarantee portfolio, which is roughly the same amount as twelve months previously.

In a Debt Office interest account there is a guarantee reserve to which guarantee fees paid are transferred. Claims and administration are charged to this account. At the end of the year the account balance was SEK 2.3 billion.

The guarantee reserve is thus larger than the allocation. Considering how few items we guarantee it is natural that allocations and reserves do not tally at all points in time. A claim or a relatively high risk of claim may instead lead to the reserve being lower than the allocation to expected losses

Unchanged risk in loan operations

The loans in our loan operations were valued at SEK 19.9 billion at the end of the year. This implies a write-down of SEK 0.9 billion due to expected credit losses. The write-down remains the same as for the previous year.

Table 8 Loans with credit risk

31 December 2008, SEK million Borrower	Outstanding loans	Write-down for expected credit losses
A-Train AB	1,000	200
Svedab AB	4,881	700
Botniabanan AB	14,648	
Other	245	
Total	**20,774**	**900**

Guarantee and credit management at other agencies

We provide ongoing advice to other guarantee and credit agencies and suggest changes that will lead to more effective and responsible state management. During the year we helped Sida (Swedish International Development Cooperation Agency) and others to develop their management of security reserves and the principles of guarantee pricing.

Achievement of objectives

The objectives for guarantee operations have been achieved.

The objective concerning effective 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 overall framework for the state's external loans.

Table 7 Guarantee commitments, provisions and assets in guarantee activities

31 December 2008, SEK million	Guarantee commitments	Provisions for anticipated guarantee losses	Guarantee fees – paid	As yet unpaid future guarantee fees
Guarantee portfolio	50,610	1,091	2,278	123

During the autumn, thousands of anxious savers phoned the Debt Office asking for information on deposit insurance.

Deposit insurance and investor compensation

On 1 January 2008 the Debt Office took over responsibility for the deposit insurance and investor compensation schemes from the Deposit Insurance Board. In connection with the financial turmoil in the autumn we received many questions from anxious savers. In October the Riksdag decided to increase deposit insurance and raise the compensation level to increase security for savers. Similar increases were made in most other EU countries.

Key events and activities in 2008

- Due to the prevailing financial uncertainty we received a lot of enquiries from the general public and affiliated institutions primarily concerning deposit insurance.
- Deposit insurance was increased in October. The level of compensation was doubled and now applies to all types of accounts.

Objectives

The objectives of the Debt Office are to

- calculate and charge fees correctly and cost-effectively
- manage deposit insurance fees so as to achieve good long-term returns while maintaining good contingency reserves and risk spread
- ensure correct and efficient processing of compensation claims
- cooperate with representatives of foreign compensation schemes; have the capacity to process joint claims for compensation in Swedish and foreign compensation schemes

Reporting obligations

We are required to report on

- how the fees are calculated and distributed among the institutions
- management performance and costs
- measures for and costs involved in processing compensation claims
- cooperation agreements with foreign compensation systems and other international cooperation
- experience gained from integrating the deposit insurance and investment compensation schemes into the Debt Office

Increased deposit insurance

As a result of the prevailing financial uncertainty most EU Member States increased deposit insurance to a minimum of EUR 50,000. In Sweden the compensation amount was raised from SEK 250,000 per customer and institution to a maximum of SEK 500,000. At the same time, deposit insurance was extended to cover all types of accounts regardless of whether savings are tied up or can be withdrawn freely (except for Individual Pension Savings accounts).

Expanding this deposit insurance is expected to increase the state's commitment by approximately SEK 100 billion.

Calculating the deposit insurance fee

Deposit insurance is financed by fees from the affiliated institutions. The total fees must be equivalent to 0.1 per cent of the total guaranteed deposits. The fee an institution pays varies between 0.06 and 0.14 per cent and depends on how the institution's capital adequacy ratio compares with that of other institutions.

Total guaranteed deposits at the 118 affiliated institutions amounted to SEK 638.8 billion on 31 December 2007. The fee for 2008 was therefore SEK 638.8 million.

Management of deposit insurance fees

The annual fees for deposit insurance are to be invested in government bonds or Debt Office interest-bearing accounts. The collective value of the deposits at the end of 2008 was SEK 19.8 billion.[1]

The Legal, Financial and Administrative Services Agency manages the fees for us with the aim of ensuring

[1] *Value of the deposits including accrued interest and unrealised gains/losses*

an even distribution of deposits between outstanding government bonds with a maximum maturity of ten years.

In 2008 the return was 14.1 per cent, which can be explained by the sharp decline in interest rates. The return is the highest since mid-1997, when management of the fees began.

Calculating the investor compensation fee

The institutions with investor compensation must pay fees to the Debt Office for the long-term financing of compensation and coverage of ongoing administration costs. In 2008 we worked on developing a model for distributing the costs for compensation claims and we will be presenting our proposal in the near future.

Performance and costs

In 2008 deposit insurance and investor compensation costs amounted to SEK 6.7 million and SEK 2.8 million respectively. Our costs increased due to the many questions we needed to answer in connection with the financial uncertainty and the work we put into developing system support and improving the information contained in our website. In addition, SEK 2.3 million went to the handling of earlier compensation claims.

In 2007 deposit insurance and investor compensation costs amounted to SEK 5.9 million and SEK 0.1 million respectively. Throughout the year, money from the state budget was used to cover the administration costs. Costs for 2007 were taken from the income for 2008 and were paid back to the state budget. Over time the central government budget balance is not affected.

Preparedness for compensation claims

We did not need to pay any compensation under the deposit insurance or investor compensation scheme in 2008. However, we boosted our preparedness by detailing staff from various departments to a stand-by team that will be able to step in and deal with claims as well as help share the workload when necessary. We can strengthen the stand-by team by hiring extra staff.

During the year we updated and developed our system support with a view to increasing our efficiency.

International cooperation

We took part in meetings organised by the European Forum of Deposit Insurers. We also participated in various working groups set up at the request of the European Commission. These groups dealt with various issues including factors causing delays in compensation payments and cooperation agreement models.

Special decision-making body was wound up

The Debt Office's special decision-making body for deposit insurance and investor compensation was wound up at year-end 2008. Its responsibilities have now been taken over by the Debt Office Board.

Achievement of objectives

The objectives for these activities have been achieved. The experiences of 2008 confirm that the decision to integrate deposit insurance and investor compensation into a larger organisation was correct. Vulnerability has been reduced and we had no difficulty answering the many questions we received from the general public and affiliated institutions as financial uncertainty increased.

The Debt Office further intensified its monitoring of risks and counterparties in light of the uncertainty in the international financial markets that also spread to Sweden.

Risk management

Risk management is an area constantly under development. In 2008 credit risks came into focus. We needed to invest unusually large amounts, primarily as a result of the sale of Vin & Sprit and Vasakronan, and the number of our counterparties therefore increased. The financial unrest in the autumn also placed higher demands on credit risk monitoring. Our risk models proved to be reliable even in the face of extreme market movements. In the area of operational risk management we initiated a survey of the internal control environment of our processes. We also strengthened our focus on information security and information classification.

Key events and activities in 2008

- Larger investment requirements and financial uncertainly placed high demands on credit risk management.
- We began a survey of the internal control environment of our processes.
- We strengthened our focus on information security and information classification.

Objectives

The objectives of the Debt Office are to

- 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
- have crisis management capability (policy area protection and preparedness against accidents and severe peacetime emergencies) to minimise the risk of disruptions and meet society's basic needs for economic security in the event of a major peacetime emergency
- have a good crisis management capability, operative capability and the capability to withstand serious disruptions to critical infrastructure

Reporting obligations

We are required to report on the extent to which we have achieved our objectives in relation to financial and operational risks.

Overall risk management

The risk management practices we adopt are in line with best market practices; in other words, we use methods and models similar to those of other leading financial market participants, and have 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.

Broadly speaking, our work focuses on two main types of risk: financial risk and operational risk. Since our operations are a central part of the state's financial system, it is also important that we follow secure procedures for handling our information. We manage information security risks within the framework of operational risk management.

Financial risk

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

The Debt Office Board decides how the Government's guidelines for central government debt management are to be applied. It does this by establishing limits, benchmarks and deviation intervals. We monitor on a daily basis how the risks compare to these. Monitoring ensures that the debt does not deviate from what is allowed and helps us to determine which transactions are needed to manage the debt. Any deviations are reported to the Board and the executive management.

We do not set any benchmarks or limits for our 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.

Daily monitoring of central government debt market risk

For a good part of 2008 the percentage of inflation-linked debt lay outside its deviation interval, because there is no cost-effective way to reduce inflation-linked debt when the central government debt declines. Otherwise no significant deviations occurred from the intervals that had been set.

Market risk in active management

To measure the market risk of our active management we set limits based on Value-at-Risk (VaR). Faster moving markets lead to higher VaR.

The financial markets in autumn 2008 were highly volatile. Strong pressure on many market participants to close positions led to rapid changes in interest rates, exchange rates and the relation between these. These kinds of changes also affect VaR. Combined with model-specific features, market movement and related changes resulted in some cases in large variations in VaR.

VaR builds on a statistical method that forecasts how large the loss can be with a given probability over a given period of time. Since VaR builds on a forecast of possible future losses it should be followed up continuously. We do this by comparing the model's forecasts with the actual outcomes.

One of the basic assumptions of the VaR model is that the daily performance follows the normal distribution curve. Figure 15 shows that in the period 2004–2008 the forecasts were well in line with the actual outcomes. Even during periods of extreme market movement, as in 2008, the forecasts corresponded relatively well with the outcomes.

New challenges for our credit risk management

Credit risks arise in derivate 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. In 2008 we needed to invest large amounts, partly due to the money we were required to take care of in connection with the sale of Vin & Sprit and Vasakronan. This placed new demands on us in terms of credit risk management. We took a number of measures, including increasing the number of counterparties, to spread the risk.

In the autumn we further intensified our credit risk monitoring procedures. As countries presented their programmes of measures to mitigate the effects of the financial crisis, we focused our efforts on examining these programmes to ensure that our transactions were protected. Like other market participants, however, we were also affected by the consequence of the financial crisis due to a bad debt.

We impose requirements on the creditworthiness of counterparties to control our level of credit risk. We only do business with counterparties with a credit rating of A– or higher. Figure 16 shows that most of our counterparties, despite the financial uncertainty, have good credit ratings. We also set limits for the maximum credit exposure of each counterparty.

When it comes to derivative transactions, we require additional measures to limit the credit risks. We have agreements on netting, exchange of collateral to cover exposures (Credit Support Annex, CSA) and the right to terminate transactions with a counterparty whose rating drops below a certain level (rating trigger).

Figure 15 Value at Risk and outcome 2004–2008

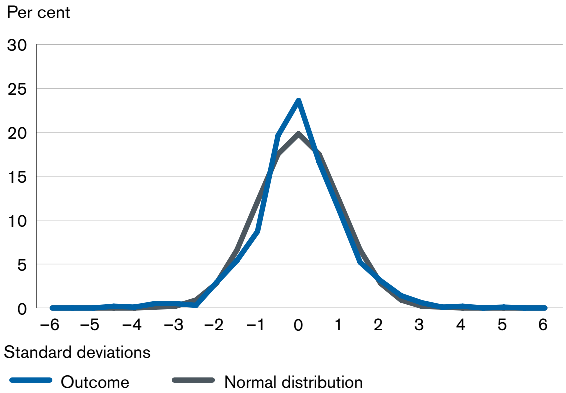
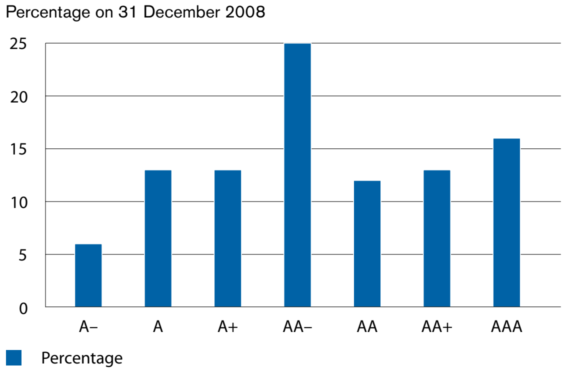


Figure 16 Debt Office counterparties by credit rating



Active management of operational risks

We conduct an annual analysis of operational risks in connection with the business plan, in projects and in our processes. Operational risks refer to human error, dysfunctional processes or incorrect systems and external events. Our analyses are based on a self-evaluationmethod for identifying and assessing our risks.

Risk analyses are carried out every year in connection with the business plan and our most important risks have long been identified. However, as our operations change, new risks can arise. In 2008 we introduced a new practice involving documenting each risk to establish whether it is of an acceptable level (selected level of risk) so that we can have a clearer basis for prioritising and planning measures. The analyses are followed up during the year and we carry out a new risk assessment taking into account the measures we have taken.

We document our internal control environment by means of process mapping and establish an information base for the assessment and management of operational risks in our daily work.

Deviations in our operations are also reported and compiled to determine the overall operational risks of the Debt Office. These deviations are linked to our risk analysis work and are evaluated using the same method.

The Board and management team are kept informed about the current risk status. They are also kept informed about deviations that have a major impact on our operations and any measures we have taken.

Information security affects us all

Information is one of the Debt Office's most important resources. For this reason there is a strong focus on information security and information classification in our work to identify and safeguard resources and processes.

We work actively on administrative and development issues in the area of security, involving every part of our operations. In 2008 we conducted an analysis based on ISO/IEC 27001:2006, Information Security Management Systems. We use this standard as a basis for measuring the security level in the organisation. In 2008 we also produced an information classification model that we now apply in our operations.

Conducting ongoing risk and vulnerability analyses is a key component of our security work. We identify deficiencies and take appropriate action at a reasonable cost.

Customer security is an important focus of our efforts in this area. We process information about our customers in a way that prevents unauthorised access. We comply with the Personal Data Act (PUL) and apply high standards for IT security and confidentiality, both internally and to our suppliers.

We work continually to review our level of protection and comply with the regulations in this area. Our aim is to protect information and assets and to ensure that employees and visitors feel safe on our premises.

High emergency preparedness

In 2008 we took part in the Swedish Emergency Management Agency's coordination exercise (SAMÖ08). This gave us an opportunity to practise our leadership and coordination capabilities with other agencies in the area of IT attacks against the financial system. We were able to conclude that our level of emergency preparedness is high.

The Debt Office sets high standards so that it will be able to conduct its operations even in the event of an emergency. For this reason, emergency preparedness represents an important part of our security work. We also collaborate with other government agencies to ensure that our part of the financial system always functions.

We participate in partnerships between government agencies and the private sector that work to ensure the continuity of the financial system during emergencies. The experience and skills that these groups possess contribute to the coordination of our own continuity planning with the rest of the world.

Achievement of objectives

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

The objective regarding emergency preparedness has been achieved. Through continuity planning and exercises we have built up a capability to withstand severe disruptions to critical infrastructure. Our emergency preparedness capacity was reported to the Government in November 2008.

The Debt Office invested more than SEK 22,000 per employee in external training programmes in 2008.

Staff and skills

Due to the financial crisis, our staff was required to work especially hard to deal with a number of new assignments. We received considerable media attention and many private individuals contacted us asking for information on deposit insurance and our savings products. Others contacted us to apply for jobs. We made special efforts to improve our processes for attracting, retaining and developing our staff.

Skills provision

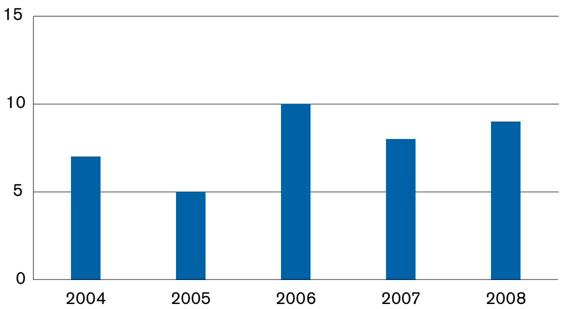
We received new assignments during the autumn as a result of the financial crisis. A new department was established and we recruited the specialist skills that were not available in-house. In 2009 we will be recruiting to increase the total number of staff.

Strategic staff provision is crucially important to us. To ensure that we have the right skills both in the short and long term, our human resources specialists and human resources managers conduct an inventory twice a year to determine the skills we will need in the immediate term and over the next few years. While many government agencies are affected by large-scale retirements of the baby-boomer generation, we are not affected to any great extent; we recruit staff on an ongoing basis to replace those who retire.

Leadership

To strengthen our leadership capability we developed a set of management criteria that takes into account the ability to manage, lead, and develop our staff and operations effectively. The criteria also set out how our values – professionalism, transparency and security – are to be reflected in our work as managers.

Figure 17 Staff turnover



Skills development

We invested SEK 22,738 per employee in external training programmes in 2008, an increase of SEK 1,531 per employee compared to 2007.

During the year we arranged in-house seminars on banking secrecy, the financial crisis and the central government debt.

Our new staff are invited to take part in a one-day introductory seminar that presents, for example, our mission and the main tasks of each department. In 2008 two such seminars were held.

Staff turnover

In 2008 staff turnover increased by 1 percentage point to 9 per cent. Our employees are attractive in the labour market, which we consider very positive. Recruiting new staff is not difficult.

Age distribution

In 2008 the Debt Office had 160 employees including temporary staff. The average length of employment was 9.9 years and the average age was 43.8. The 2007 figures were 10.0 years and 43.5 respectively. The age distribution is shown in Table 9.

Table 9 Age distribution

	29 and under	30–39	40–49	50 and over
Number of staff	12	53	46	49

Health and sickness absence

We offer all our employees an exercise grant of SEK 3,000 per year. Since fewer employees took advantage of this grant in 2008 we have decided to carry out several promotional activities in 2009 to encourage more employees to use their entitlement.

Massages, health check-ups, health promotion seminars as well as influenza and TBE vaccines were also available to all our staff.

The health survey conducted during the year found that our employees were just as healthy as when an equivalent survey was conducted in 2006.

Total sickness absence was 2.8 per cent; see Table 10. Short-term sickness absence remained low. The share of employees on long-term sick leave, that is, employees absent from work 60 days or more, was 54 per cent of total sickness absence. The number of employees on long-term sickness leave was higher than in 2007 but active rehabilitation measures were taken and all of these employees are now working at least part of the working week.

Table 10 Sickness absence

Staff	Per cent [1] 2007	Per cent [1] 2008
Women	2.9	4.4
Men	1.0	0.9
Employees 29 and under	2.8	1.1
Employees 30–49	2.3	2.8
Employees 50 and over	1.4	3.1
Total for all employees[2]	**2.1**	**2.8**

[1] *Sickness absence period/total ordinary hours for each group.*
[2] *Long-term sickness leave of sixty days or more accounted for 54 per cent of total sickness absence.*

Equal opportunities

We review and quality assure our recruitment process on an ongoing basis to ensure that all applicants are treated equally.

In 2008 women made up 54 per cent and men 46 per cent of our staff. The figures were exactly the same for women and men in senior executive positions. Overall, women and men are equally represented but major differences exist between departments. 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 pays gaps existed.

More men than ever before took advantage of their right to parental leave.

International contacts

The global financial crisis led to significant international interest in how Sweden has managed similar crises. Debt Office staff were invited to the US, Germany and other countries to talk about Swedish experiences of bank support and financing rescue packages. We also continued to develop our international cooperation in areas such as debt and liquidity management.

International cooperation provides an opportunity for us to exchange experience with other countries and organisations. This exchange helps to enhance expertise and motivation among our staff and strengthen our reputation in the rest of the world.

From debt reduction to financial crisis

Early in 2008 the major challenge for many debt offices around the world was to manage rapidly shrinking government debts and dwindling supplies of government securities.

We held a seminar on this theme and participants came to Stockholm from Denmark, Finland, Canada and New Zealand.

As financial uncertainty grew and spread around the world the focus shifted to the opposite challenges: managing bank crises and financing support measures. In the autumn the Director General of the Debt Office and other Debt Office staff attended a number of seminars and meetings with investors, economists and decision makers to explain how the Swedish state managed the bank crisis of the 1990s.

During the year some of our staff gave presentations at seminars and meetings organised by the OECD, IMF and World Bank. We have long been at the forefront in the field of debt management. In view of the state's new commitments to the banking sector and others, we also witnessed a growing interest in guarantee operations.

Another area receiving increasing international attention is government cash management. In 2008 the OECD Working Party on Debt Management initiated a study on government cash management and payment processing services. We will be playing a leading role in this group's continued work to identify best practices in the area.

International assignments and regular contacts

We cooperate actively with other countries and international organisations, taking part in study visits, conferences and seminars in addition to individual short-term assignments (technical assistance) in central government financial management.

To obtain a wider spread of assignments among our staff, in 2008 we looked into the possibility of establishing broader and longer-term cooperation with countries that are about to start building up their central government financial management capabilities. As of 2009 we will be able to export services to finance assignments of this kind.

In addition to regular contact with other OECD countries we had visits from various countries, among them Albania, Kenya and South Africa. Many visits are related to setting up a debt office. This is particularly the case for developing countries but also for the future Member States of the European Union. We have had contact with the National Treasury of South Africa for many years while the country was building up and developing its borrowing and debt management capabilities.

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 and also had a role as an external reviewer in this area. From time to time our cooperation has also led to Debt Office staff carrying out assignments in countries requesting central government financial management services.

Expenditure and appropriations

The Debt Office is responsible for interest payments on central government debt. We also have an appropriation for commission payments associated with central government debt management and an administration appropriation to cover our operating costs.

Interest payments on central government debt

Interest payments were SEK 33.2 billion in 2008. The original appropriation was SEK 40.6 billion. The difference can mainly be explained by premiums on issues being higher than expected, which was the result of lower market rates than those used in the calculations. Exchange gains were also higher than expected. The higher premiums were offset slightly by an increase in rate losses on repurchases.

Compared with 2007, interest payments decreased by SEK 13.9 billion, exchange rate differences accounting for SEK 9.0 billion and premiums on issues for SEK 4.5 billion. The size of the exchange rate differences depends on how the exchange rates for loans in foreign currency develop between the date of taking the loan and the date of maturity. During the autumn we also had deposits in foreign currency since the payment for Vin & Sprit was in dollars and euros. The deposits generated profits when they matured, since the krona had weakened.

Interest rates on loans in kronor remained at about the same level as in 2007. The fact that payments did not decrease despite a falling central government debt is partly due to the maturity of the 3101 inflation-linked bond loan. A large part of the interest on an inflation-linked bond is paid on maturity. Interest rates on loans in foreign currency fell by just over SEK 1 billion. Overall, current interest payments stayed at the same level as 2007.

Average running yield

The average running yield for our largest loan instruments in Swedish kronor is shown in Figure 18. Altogether, the outstanding volume was SEK 854 billion. At the end of the year, the total central government debt stood at SEK 1,119 billion.

Nominal bonds

The average running yield for the nominal bonds was 4.36 per cent at the end of 2008, a decrease of 0.12 percentage points compared with 2007. The average running yield for bonds sold during the year was 3.82 per cent, a decrease of 0.31 percentage points. This yield was lower because the market rates for nominal bonds fell sharply in the second half of the year.

Table 11 Interest on central government debt

SEK million	2004	2005	2006	2007	2008
Interest on loans in Swedish kronor	40,688	39,428	37,913	38,587	39,063
Interest on loans in foreign currency	11,515	11,415	10,512	10,921	9,645
Interest on deposits and lending	–6,993	–6,943	–6,110	–5,400	–4,813
Total	**45,210**	**43,900**	**42,315**	**44,108**	**43,895**
Issue premium/discount	–10,144	–9,049	–3,967	–3,533	–7,986
Exchange losses/gains	5,106	–10,228	6,336	2,454	–6,497
Capital losses/gains	13,480	7,615	5,929	4,228	3,922
Other (deposits etc.)	–1,057	323	–1,240	–97	–209
Total	**7,386**	**–11,339**	**7,059**	**3,052**	**–10,769**
Total appropriation interest on government debt	**52,596**	**32,561**	**49,374**	**47,161**	**33,126**
Cash basis adjustment	23	35	–189	–77	46
Total interest payments	**52,619**	**32,596**	**49,185**	**47,084**	**33,172**

T-bills

At the end of 2008 the average running yield for T-bills was 2.82 per cent. T-bills have short maturities (up to six months) and the impact of market rate fluctuations on outstanding stock is soon felt.

Market rates for T-bills are mainly affected by the Riksbank's policy rate and expectations concerning its future movements. The Riksbank raised its policy rate in three steps from 4 per cent to 4.75 per cent from the beginning of the year until September. After that it was cut in three steps to 2 per cent. The running yield for T-bills was slightly more than 4 per cent until September, after which it fell sharply in the last three months of the year.

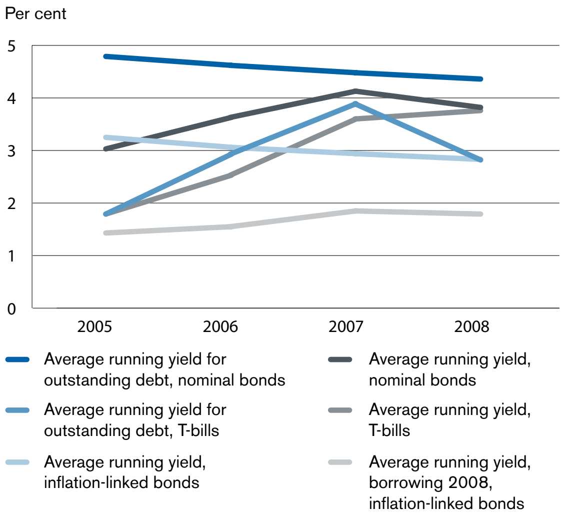
Inflation-linked bonds

The average running yield for the inflation-linked bond stock fell by 0.11 percentage points in 2008. The prevailing market rates for inflation-linked bonds are lower than the average running yields for the stock. This is why the average running yield falls when older bonds mature or we buy back bonds. The average running yield for bonds sold fell by 0.06 percentage points compared with last year.

Average running yield for the entire central government debt

The average running yield for the entire central government debt was 3.5 per cent at the end of 2008. This includes, apart from the instruments mentioned above, loans in foreign currency, swaps in kronor and foreign currency and loans from private individuals. At the end of 2007, the average running yield was 4.0 per cent. The decrease from year to year is due to lower market rates, above all for loans with short maturities and maturing older loans sold at higher interest rates.

Figure 18 Average running yields



Lower commission expenses

We pay commission expenses in connection with loans and external funds management. In 2008 the commission expenses were SEK 125.2 million, an increase of SEK 39.0 million compared with 2007. Sales commission on lottery bond loans decreased at the same time as accruals of commission expenses increased.

Administration expenditure fell

Expenditure on human resources, premises, marketing and IT is referred to collectively as administration expenditure. Total operating costs for the Debt Office were SEK 300.7 million, and SEK 281.0 million of this was paid from the central government budget. The difference of SEK 19.7 million refers to the operations paid for by the guarantee and loans operations (not including deposit insurance and investor compensation), accrued expenses and costs referring to our role as Supporting Authority.

Compared with 2007 administration expenditure fell by SEK 81.9 million, due mainly to a decrease in the costs of paying guarantee subsidies. Administration appropriation expenditure increased by SEK 11.8 million.

The surplus for the guarantee and loans area of operations was SEK 71.0 million.

Table 12 Income statement by area of operations

SEK million	Cash management	Finansial stability	Central govern-ment debt management	Deposit insurance and investor compensation	Guaran-tees and loans	Debt Office total 2008
Income from appropriations, interest on central government debt 26 92:1	–5,967	0	39,280	0	0	33,313
Income from appropriations, commission 26 92:3	0	0	69	0	0	69
Income from appropriations, debt management 2 2:2	39	0	231	11	0	281
Income from older appropriations	0	0	0	1	0	1
Income from appropriations for guarantee subsidies	0	0	0	0	0	1
Income from fees and grants	0	0	0	0	27	27
Interest income	0	19	1	0	99	114
Total operating income	**–5,928**	**19**	**39,580**	**12**	**126**	**33,805**
Operating expenses						
Financial expenses for management of central government debt						
Realised net interest etc.	5,616	0	–45,426	0	0	–39,810
Realised exchange gains/losses	351	0	6,146	0	0	6,497
Total interest on central government debt 26 92:1	**5,967**	**0**	**–39,280**	**0**	**0**	**–33,313**
Commission 26 92:3	**0**	**0**	**–69**	**0**	**0**	**–69**
Unrealised net interest etc.	–515	0	–2,846	0	0	–3,361
Unrealised exchange gains/losses	848	0	–36,560	0	0	–35,712
Commission expense not deducted from appropriations	0	0	–57	0	0	–57
Total interest and commission expense not deducted from appropriations	**333**	**0**	**–39,462**	**0**	**0**	**–39,129**
Total financial expenses on central government debt	**6,300**	**0**	**–78,811**	**0**	**0**	**–72,511**
Other operating expenses						
Guarantee expenses	0	0	0	–1	–50	–51
Costs of Government support to credit institutions	0	–19	0	0	–5	–19
Administration 2 2:2	–39	0	–232	–11	0	–282
Cost of guarantee subsidies	0	0	0	0	0	–1
Administration expenditure not deducted from appropriations	0	0	0	0	0	0
Total other operating expenses	**–39**	**–19**	**–232**	**–12**	**–55**	**–353**
Total expenses	**6,261**	**–19**	**–79,043**	**–12**	**–55**	**–72,864**
Collection activities	6	0	0	0	0	–6
Transfers	0	0	0	8	0	8
Change in capital for the year	**339**	**0**	**–39,462**	**8**	**71**	**–39,057**

Income statement

SEK thousand	2008	2007
Operating income		
Income from appropriations	33,664,015	47,686,476
Income from fees	26,633	208,533
Income from grants	0	1,400
Interest income	114,137	80,375
Total operating income	**33,804,785**	**47,976,783**
Operating expenses		
Financial expenses for central government debt management		
Interest expense	−81,913,704	−85,685,412
Interest income	36,123,567	39,780,817
Issue premiums/discounts	6,519,468	5,940,965
Realised price changes	−3,922,234	−4,227,688
Realised exchange rate changes	6,497,033	−2,454,364
Unrealised exchange rate changes	−35,711,933	−4,136,684
Expired bonds, coupons and prizes recognised in income	22,196	12,471
Commissions to banks, etc.	−125,188	−86,152
Total	**−72,510,795**	**−50,856,048**
Other operating expenses		
Personnel costs	−112,276	−103,218
Costs of premises	−18,237	−18,130
Expenses of guarantee operations	−24,727	2,247,305
Other operating expenses	−187,899	−244,544
Interest expense	−829	−855
Depreciation, amortisation and impairments	−8,823	−18,957
Total	**−352,791**	**1,861,601**
Total operating expenses	**−72,863,587**	**−48,994,446**
Results of operations	**−39,058,802**	**−1,017,664**
Revenue collection work		
Income from fees, etc not at the disposal of the agency	12,376	5,675
Income from revenue collection	3,656,924	3,436,616
Funds paid to the state budget from revenue collection	−3,669,534	−3,442,283
Total revenue collection work	**−234**	**7**
Transfers		
Other allocations received for financing of grants	707,698	0
Financial income	930,120	0
Financial expenses	−61,374	0
Allocations to funds etc. for transfers	−1,574,105	0
Balance	**2,338**	**0**
Change in capital for the year	**−39,056,698**	**−1,017,656**

Balance sheet

SEK thousand	31 December 2008	31 December 2007
ASSETS		
Intangible fixed assets	**11,617**	**8,614**
Capitalised expenditure for development	8,409	8,337
Rights and other intangible fixed assets	3,208	277
Tangible fixed assets	**20,495**	**12,140**
Leasehold improvements	7,660	8,684
Machinery, equipment, fixtures, etc	12,835	3,456
Financial fixed assets	**253,951,633**	**256,179,391**
Other long-term holdings of securities	18,994,000	554,465
Long-term receivables from other agencies	214,944,942	238,539,993
Other long-term receivables	20,012,691	17,084,934
Receivables	**4,383,748**	**2,475,510**
Accounts receivable	23,040	16,318
Receivables from other agencies	1,337,424	1,388,668
Other receivables	3,023,283	1,070,523
Cut-off items	**19,044,540**	**19,876,757**
Prepaid expenses	6,888,261	7,889,783
Other accrued income	12,156,279	11,986,974
Settlement with the government	**842,778,424**	**949,790,943**
Settlement with the government	842,778,424	949,790,943
Current investments	**68,347,914**	**10,944,831**
Securities and participation rights	68,347,914	10,944,831
Cash and bank	**15,865,495**	**2,936,380**
Interest account balance at Swedish National Debt Office	14,964,369	2 236,289
Cash and bank	901,126	700,091
TOTAL ASSETS	**1,204,403,866**	**1,242,224,566**
CAPITAL AND LIABILITIES		
Agency capital	**–91,717,548**	**–52,331,602**
State capital	1,539,860	1,726,224
Change in capital brought forward	–54,200,710	–53,040,170
Change in capital according to the income statement	–39,056,698	–1,017,656
Funds	**34,212,733**	**0**
Funds	34,212,733	0
Allocations	**1,092,323**	**1,063,000**
Provisions for pensions	1,323	0
Provision for future guarantee losses	1,091,000	1,063,000
Central government debt	**1,118,963,424**	**1,168,013,206**
Loans in Swedish kronor	893,916,328	935,172,883
Loans in foreign currency	225,047,096	232,840,324
Liabilities etc.	**99,276,548**	**83,580,548**
Liabilities to other agencies	85,082,809	73,873,622
Accounts payable	37,846	27,890
Other liabilities	14,155,893	9,679,037
Cut-off items	**42,576,386**	**41,899,413**
Accrued expenses	21,261,404	21,910,189
Other prepaid income	21,314,982	19,989,224
TOTAL CAPITAL AND LIABILITIES	**1,204,403,866**	**1,242,224,566**
Guarantees without provision		
Deposit insurance	638,851,101	0
Bank guarantees under the guarantee programme	148,077,260	0
Other	92,726,083	79,932,518
Contingencies		
Debt instruments	6,400,949	6,472,256
Registered saving and lottery bonds	1,331	1,059

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.

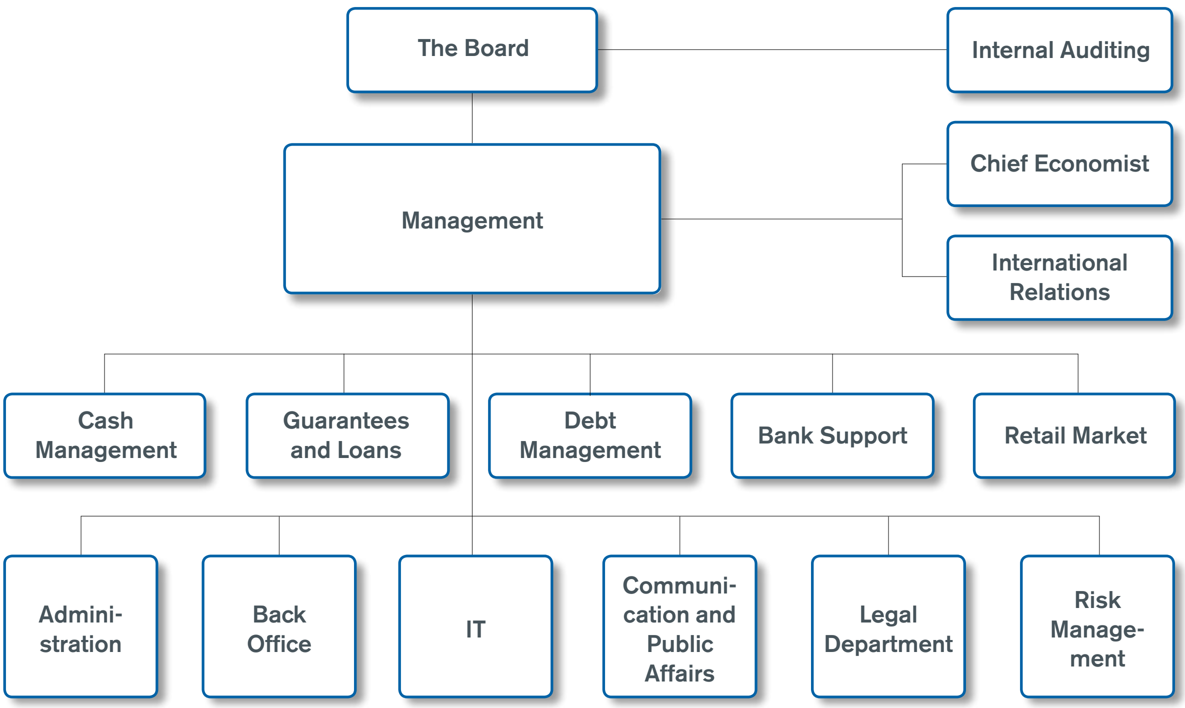
The Board is responsible for the operations of the Debt Office. On 1 January 2009 the Board comprised eight members and two employee representatives; it also has an internal audit committee. As of 1 January 2008, the Director General of the Debt Office is also a member of the Board.

Chair
Ove Nilsson. Chairman of the Ministers Remuneration Board and former Secretary of the Parliamentary Committee on Finance. Appointed 1 April 2008.

Deputy Chair
Lotty Nordling, Chair, National Board for Consumer Complaints. Appointed 2008. (Deputy Chair as of 2009)

Board members
Mats Dillén, Director General, National Institute of Economic Research. Appointed 2007.
Lars O. Grönstedt, former CEO of Handelsbanken. Appointed 2009.
Marika Rindborg Holmgren, Lawyer. Appointed 2009.
Lena Johansson, Director General, National Board of Trade. Appointed 2008.
Bo Lundgren, Director General, Debt Office.
Göran Robertsson, PhD, Institute for Financial Research. Appointed 2005.

Other Board members in 2008
Lars Eric Ericsson, former Director General of the Ministry of Finance. Resigned as Chair of the Board of the Debt Office in April 2008.
Åsa Mindus Söderlund, MSc (Economics and Business). Resigned as Deputy Chair in December 2008.



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.

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

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*.

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 .

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.

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.

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