

CENTRAL GOVERNMENT BORROWING

FORECAST AND ANALYSIS

2006:1

BORROWING REQUIREMENT

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FROM DEFICIT TO SURPLUS

2005 was a very puzzling year for forecasters. Unexpected effects of changed corporate tax rules, better profits than expected and a higher level of economic activity laid the ground for large deviations in the forecasts for central government finances. It was above all on the income side that the large (although economically beneficial) effects were seen.

In the National Debt Office's report on central government borrowing a year ago, we anticipated a borrowing requirement for 2005 of SEK 38 billion. The outcome was instead a surplus of SEK 14 billion, a difference of SEK 52 billion. Throughout 2005, the development of tax revenue was surprising, which led to a successive reduction in the forecast for the borrowing requirement.

The predominant reason for the inaccurate forecasts was that corporate profits were considerably higher than expected in 2004 – which led to higher tax revenue for 2005. Between 2003 and 2004, corporate tax income increased by 48 per cent, an improvement which was difficult to predict. Moreover, the final tax outcome for 2004 was not available until December 2005. The improved profit level probably continued during 2005, which is a further reason why we misjudged tax receipts during the year, since a large part of corporate taxes are paid as preliminary tax.

For the interested reader, there is an article in the Central Government Borrowing Report 2005:3 which deals with how the Debt Office makes forecasts of the borrowing requirement and describes the link between corporate taxed income and corporate tax payments in more detail.

The improved profits in 2004 and 2005 are expected to lead to higher tax income in 2006 as well, which has led us to increase the forecast for tax income. We have also increased the forecast for corporate profits in 2006, which also leads to higher tax revenue. Furthermore, we expect the labour market to improve somewhat and wage increases to be relatively high, leading to an increase in gross wages. Combined with improvements on the expenditure side, this leads to the forecast for the borrowing requirement for 2006 being revised downwards by SEK 42 billion compared with the October forecast. We thus expect a surplus of SEK 16 billion in 2006 and a surplus of SEK 6 billion in 2007.

Maturing loans and buybacks must also be financed even if the surpluses reduce the borrowing requirement. The total issue volume of nominal government bonds is calculated at SEK 64 billion, with an issue volume of SEK 3 billion per auction from 22 March. The lower borrowing requirement forecast leads us to reduce borrowing in T-bills. Borrowing in inflation-linked bonds is also being reduced to SEK 5-10 billion, partly due to a weaker demand and cost scenario.

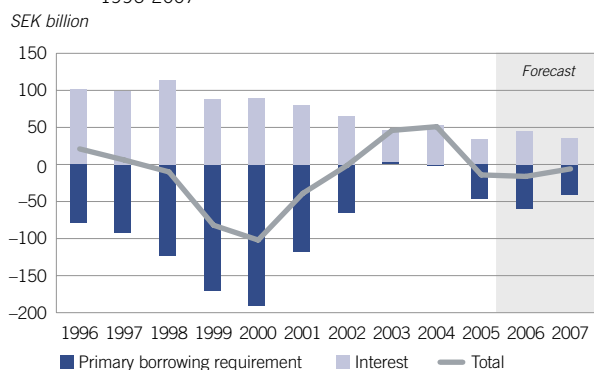
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CENTRAL GOVERNMENT BORROWING REQUIREMENT

The Swedish National Debt Office's forecast for 2006 indicates a budget surplus of SEK 16 billion, an improvement in central government finances of SEK 42 billion compared with the October forecast. This is mainly due to a sharp upward revision in tax revenue because of increased economic activity and continuing good corporate profits. In 2007, it is expected that the increase in tax revenue will slacken and the surplus be SEK 6 billion. At the end of 2006, central government debt is expected to amount to SEK 1,270 billion and at the end of 2007 to SEK 1,264 billion.

Figure 1. CENTRAL GOVERNMENT BORROWING REQUIREMENT, 1996-2007



Furthermore, dividends on the state's shares are expected to be higher, at the same time as expenditure for, for instance, student aid and the EU contribution will be lower.

Table 2. PRIMARY SURPLUS 2006, CHANGE FROM PREVIOUS FORECAST, SEK BILLION ¹

Taxes, net	29
Dividend on state's shares	3
Student aid	2
Local government funds	2
EU contribution	1
Net lending	1
Other	6
Total	44

¹ The amounts state the effect on the surplus. Thus, for instance, "Student aid 2" means that expenditure is estimated to be lower.

FORECAST FOR 2006

The Debt Office's revised forecast for 2006 indicates a budget surplus of SEK 16 billion (negative borrowing requirement). This is an improvement of SEK 42 billion compared with the forecast in October.

Table 1. CENTRAL GOVERNMENT BORROWING REQUIREMENT AND CENTRAL GOVERNMENT DEBT, 2005-2007, SEK BILLION

	2005	Forecast 2006	Forecast 2007
Primary borrowing requirement	-47	-61	-42
Interest payments on debt	33	45	36
Net borrowing requirement ¹	-14	-16	-6
Debt adjustments	43	-1	0
Re-evaluation, foreign currency loans etc.	29	-6	0
Short-term investments	22	-22	0
Change in central government debt	51	-39	-6
Debt at year-end	1,309	1,270	1,264

¹ The borrowing requirement is equal to the budget balance but with reversed signs.

The primary surplus (all central government payments excluding interest on central government debt) is being revised upwards by SEK 44 billion compared with the October forecast. A surplus of SEK 61 billion is thus forecast. The sharp improvement of central government finances is mainly explained by increasing tax revenue.

The final tax outcome for the 2004 income year confirms that corporate profits increased very sharply this year, which resulted in large supplementary tax payments from companies in 2005. Tax payments also increased due to a number of companies dissolving their tax reservations. The development of tax revenue in the final months of 2005 and the beginning of 2006 has continued to be strong, which surprised most analysts. Large incoming payments of preliminary tax from companies shows that we underestimated the rise in corporate profits in 2005 as well. This has led us to revise upwards the forecast for corporate profits with an ensuing increase in supplementary tax payments this year. At the same time, we judge that profits will continue to be good in 2006, although the rate of increase will slacken. This will also lead to preliminary incoming payments of tax from companies being higher this year than we previously estimated. In addition, corporate tax payments will also be positively affected by dissolved tax reservations, although to a smaller extent than last year.

The strong development for companies also largely applies to state-owned enterprises, providing higher dividend income on the state's shares.

A somewhat better labour market and relatively high wage increases are expected to lead to an increase in gross wages, thus increasing income from payroll taxes



and income tax. Higher employment together with this year's income tax cuts will lead to a rise in household disposable income. This will lead to increased consumption and thus larger VAT income for the state.

The strong development of the stock and housing markets in the past few years indicates that there will be a substantial increase in household capital gains in the 2005 income year. The largest part of the capital gains tax for 2005 will be paid as supplementary payments in 2006.

Central government expenditure for 2006 is expected to be lower than previously forecast. The outcome for expenditure in 2005 was lower than expected for a number of government agencies and we judge that the lower level will continue in 2006. The reduction can partly be explained by our underestimating the effect of the expenditure limits imposed on a number of agencies. In addition, the number of students with student aid is expected to be lower and it looks like the EU contribution will be rather lower than previously expected.

The Debt Office's *net lending* to government agencies, public enterprises and state-owned enterprises is expected to be SEK 14 billion, SEK 1 billion lower than the previous forecast.

Interest payments are expected to be SEK 45 billion. This is SEK 2 billion more than in the previous forecast. This is explained by higher market rates than in the previous forecast, leading to higher interest payments and reduced issue premiums.

Possible effect of the borrowing requirement of SEK 25 billion

Each year, the Premium Pension Authority (PPM) pays pension rights into every wage-earner's premium pension account. The payment has to date been made with a lag of two years every January. For instance, the payment made in January 2006 was for pension rights earned in the 2004 income year.

PPM intends to pay the pension rights for 2005 in December 2006, in other words a month earlier than was previously the case. If this is actually done, the borrowing requirement will increase by SEK 25 billion in 2006. In a similar way, the payment in January 2008 will be brought forward to December 2007. This has a marginal significance for funding of the central government debt since it only involves a shift of payment between two months. However, there will be a one-off effect on the annual borrowing requirement in 2006. We consider that it is not completely certain that there will be time to implement

this change and, as it only has a marginal significance for funding, we have decided until further notice to retain the outgoing payment in the forecast for January 2007.

FORECAST FOR 2007

The first forecast of the Debt Office for 2007 shows a budget surplus of SEK 6 billion. It is expected that the level of economic activity will continue to be good. Increasing employment and income for households will benefit central government finances. Together with reduced interest payments on central government debt, this will result in an expected surplus on the state budget in 2007 as well. However, we believe that corporate taxes and capital taxes will increase at a lower pace. At the same time, expenditure will continue to increase roughly at the same rate as before. Overall, this will lead to the surplus being SEK 10 billion lower than in 2006.

The primary surplus (all payments excluding interest on central government debt) is expected to be SEK 42 billion. Compared with 2006, this is a weakening of SEK 19 billion.

Gross wages, the most important tax base, is assumed to increase by over 5 per cent in 2007. This is based on continued rising employment with more hours worked and higher wages. There will therefore be a substantial increase in wage and consumption based taxes from one year to the next. The fact that the primary surplus will still decrease compared with 2006 is because the sharp rate of increase of corporate profits and capital profits is expected to slacken off in 2006 and 2007. This will lead to smaller incoming tax payments for previous income years in 2007. Moreover, the effect of tax reservations will be considerably less.

Central government expenditure is expected to substantially follow the development of the expenditure ceiling, which has already been set.

The Debt Office's *net lending* to central government agencies, public enterprises and state-owned enterprises is expected to be SEK 14 billion, the same as in 2006.

Interest payments are estimated at SEK 36 billion, SEK 9 billion less than in 2006. This decrease is due to capital losses related to fewer bond exchanges. Interest is also affected by a large amount of a maturing bond. This has a considerably higher coupon rate than the new loan, which is assumed to replace the maturing loan since the latter was issued when interest rates were considerably higher than they are now.

COMPARISONS

Central government financial net lending compared with the budget balance

Central government financial net lending has improved successively from 2003 and is expected to continue to do so for the rest of the forecast period. In 2007, the financial net lending is expected to be SEK 20 billion. The budget balance normally varies more than central government net lending, which is evened out by accrual of interest and taxes.

Central government financial net lending started to improve in 2004. The budget balance was then affected negatively by large capital effects of interest on central government debt and high net lending to central government agencies. In 2005, large incoming tax payments were received from companies that dissolved their tax reservations for 2004. This favoured the balance for 2005 but central government net lending was affected in 2004.

The budget balance was also improved by SEK 7 billion in 2005 when the state sold shares in Teliasonera and Nordea, which did not effect central government net lending.

We expect that a substantial amount of tax for previous income years will also be paid in 2006. This will improve the balance, but not affect central government financial net lending. When the accrual effects have decreased in 2007 we expect financial net lending to exceed the balance.

Table 3. CENTRAL GOVERNMENT NET FINANCIAL LENDING 2003-2007, SEK BILLION

	2003	2004	2005	Forecast 2006	Forecast 2007
Budget balance	-47	-51	14	16	6
Adjustment items	2	38	-16	-8	14
<i>Sale of limited companies</i>	0	0	-7	0	0
<i>Transfer from AP fund</i>	-13	-4	-2	0	0
<i>Loans, net repayment</i>	10	15	-2	7	8
<i>Exchange and capital losses</i>	8	19	-3	9	3
<i>Accruals, other</i>	-3	8	-3	-25	2
Net financial lending	-45	-12	-2	8	20

FACTS

CONDITIONS UNDERLYING THE FORECAST

In the areas where the forecast of the borrowing requirement requires macroeconomic assessments, the Debt Office bases itself on the National Institute of Economic Research's (NIER) macro scenario. In this forecast, we are using the macro forecast presented by NIER in December 2005.

The level of economic activity appears to be higher than it was at the time of our previous forecast in October. NIER expects GDP to rise by 3.6 per cent this year and 3.1 per cent in 2007. A brighter labour market and a rising rate of wage increases leads to an expected increase in gross wages, the most important tax base, of over 5 per cent in 2006.

The improvement in the labour market together with the income tax cuts and increases in allowances provide households with higher disposable income, resulting in increased private consumption. Public consumption is also increasing more quickly than before.

The Debt Office's forecast for interest payments on central government debt is based on the interest rates and exchange rates at the time of forecast. The stop date for the current forecast was 13 February 2006. We have also weighed in the outcome for the primary balance until 13 February 2006.

Comparisons with other forecasts of the borrowing requirement

The Debt Office's forecast indicates a surplus of SEK 16 billion this year and SEK 6 billion for 2007. This deviates sharply from other forecasters that predict deficits for both years.

The differences are mainly explained by the development of the primary borrowing requirement in the past few months being considerably better than generally expected. The outcome of the state budget for 2005 was a surplus of SEK 14 billion and this positive development has continued at the start of 2006. Other forecasters have not been able to take this information into account since their forecasts were made earlier.

Table 4. COMPARISON BETWEEN BORROWING REQUIREMENT FORECASTS, SEK BILLION

	Debt Office		Govt.		NIER		ESV	
	06	07	06	07	06	07	06	07
Primary borrowing requirement	-61	-42	-6	-21	-7	-9	-15	-15
Interest on central government debt	45	36	43	43	45	45	45	42
Borrowing requirement	-16	-6	37	23	38	36	30	27
Borrowing requirement with Debt Office interest and sales income	-16	-6	54	30	38	27	30	21



MONTHLY FORECASTS

The Debt Office publishes annual forecasts three times a year. At the same time, we publish monthly forecasts for the intervening months. Between regular publications, the Debt Office only makes revisions of annual and monthly forecasts in exceptional cases. The revised forecast is then presented with the announcement of the monthly borrowing requirement five working days after the end of each month.

There is a clear seasonal pattern in the central government borrowing requirement. Large supplementary tax payments are made in the late winter/spring, at the same time as dividends are received on the state's shares. This contributes to the central government payments having a surplus or a very small deficit in these months. The largest part of the supplementary payments is received in February, which explains the large surplus this month.

Table 5. CENTRAL GOVERNMENT BORROWING REQUIREMENT 2006, SEK BILLION

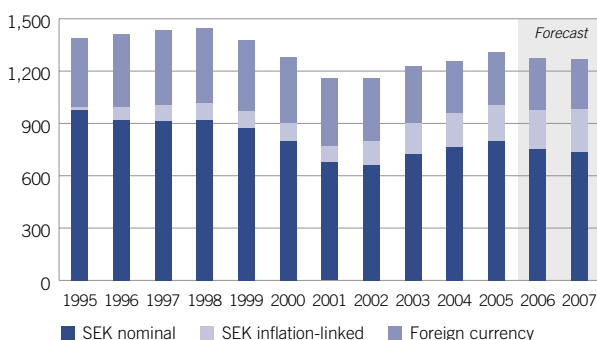
	Feb	Mar	Apr	May	Jun
Primary borrowing requirement	-31.6	-8.0	-17.7	-22.7	4.9
Interest on central government debt	-0.1	2.7	1.0	6.9	0.9
Borrowing requirement	-31.7	-5.3	-16.7	-15.8	5.8

CENTRAL GOVERNMENT DEBT

At the end of January 2006, central government debt was SEK 1,303 billion. This is a reduction since 1 January by SEK 5 billion.

The borrowing requirement increased central government debt by SEK 17 billion in January. At the same time, short-term investments and debt-related dispositions reduced government debt by SEK 23 billion. A debt-related disposition affects government debt but not the

Figure 2. CENTRAL GOVERNMENT DEBT 1995-2007
SEK billion



borrowing requirement. One example is the revaluation of foreign currency debt to current exchange rates, which takes place continuously when reporting central government debt.

The Debt Office does not take into account the expected debt-related dispositions in its forecast of the development of central government debt. The debt is therefore expected to change at the same rate as the borrowing requirement. At the end of 2006, central government debt is thus expected to amount to SEK 1,270 billion and at the end of 2007 to SEK 1,264 billion. Measured as a proportion of GDP, the debt is expected to be 45 per cent at the end of 2006 and 43 per cent at the end of 2007.

SENSITIVITY ANALYSIS

All forecasts include elements of uncertainty. The Debt Office does not produce any overall uncertainty analysis for the borrowing requirement. Instead, we present a partial analysis of the impact on the borrowing requirement that changes in some important macro variables. The table shows an estimate of the effect different changes will have on the borrowing requirements in a one-year perspective. If one wishes to make an assessment of an alternative scenario in which several variables develop differently, their effects must be added together.

SENSITIVITY ANALYSIS, SEK BILLION

Increase by one per cent/percentage point	Effect on borrowing requirement
Gross wages ¹	-6
Household consumption, current prices	-2
Registered employment	4
Swedish interest rates	4
International interest rates	1
Exchange rate	0.5

¹ Local taxes from employment are disbursed to local government with a one-year time lag. As a result, the effect on the central government borrowing requirement in a one-year perspective - the time horizon in the table - is greater than the permanent effect.

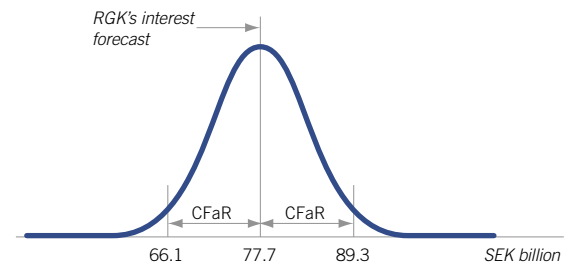
INTERVAL OF UNCERTAINTY FOR THE INTEREST FORECAST

The Debt Office has developed a model for estimating market risk in our interest payments forecasts. We call this measure “Cash Flow-at-Risk” (CfaR) (See “Cash Flow at Risk – a measure of market risk for interest payments forecasts”, Central Government Borrowing 2005:2). The measure shows how sensitive our interest forecasts are for market risk measured as changes in interest rates, exchange rates and inflation. More specifically, CfaR states an upper limit for how much interest payments can be expected to exceed the interest forecasts in a given time period at a particular probability.

CfaR can be used to illustrate the uncertainty of our interest rate forecasts with the aid of a confidence interval, where the interval limits are stated by CfaR at the 5th and the 95th percentile.

The current interest payments forecast for the period from 1 February 2006 to 31 December 2007 amounts to SEK 77.7 billion, of which SEK 35.8 billion

PROBABILITY DISTRIBUTION



There is a 90 per cent certainty that interest payments will not be greater or less than the interest forecast by more than SEK 11.6 billion in the forecast period.

is attributable to 2007. Our CfaR calculations show that there is a 90 per cent certainty that interest payments will not deviate from the forecast by more than +/- SEK 11.6 billion. This is around 14.9 per cent of the interest payments forecast.

THE CENTRAL GOVERNMENT'S BORROWING REQUIREMENT AND ITS ALLOCATION

The central government's borrowing requirement may be divided into *the primary borrowing requirement* and *interest payments on the central government debt*.

The primary borrowing requirement in turn consists of a *primary balance* and *the Debt Office's borrowing from and lending to public authorities and state-owned companies*. The primary balance is the net of all central government payments and receipts, connected to the central government budget, exclusive of interest payments on the central government debt.

Primary balance	
+ Debt Office's net lending to public authorities and state-owned companies	
<hr/>	
= Primary borrowing requirement	
+ Interest on the central government debt	
<hr/>	
= The central government's borrowing requirement	



FUNDING

The issue volume of nominal government bonds will be increased as planned to SEK 3 billion per auction. Borrowing in inflation-linked bonds will be reduced to an annual pace of SEK 5-10 billion. Foreign currency borrowing is estimated at SEK 49 billion in 2006.

The net borrowing requirement is estimated at SEK -16 and -6 billion for 2006 and 2007 respectively. We thus expect a budget surplus in both years. However, the Debt Office needs to refinance maturing loans and buybacks. Altogether, funding in bonds and T-bills (government securities) is expected to be SEK 33 billion in 2006, which is SEK 53 billion less compared with the previous forecast from October. This is mainly due to a downward revision of the net borrowing requirement. Funding in government securities is expected to rise to SEK 43 billion in 2007.

Table 1. FUNDING 2005-2007, SEK BILLION

	2005	2006	2007
Net borrowing requirement	-14	-16	-6
Change in cash equivalent holdings and retail market borrowing ¹	29	-23	2
Maturing bonds and buybacks ²	56	72	47
Government bonds	16	38	31
Foreign currency bonds	40	34	16
Total	66	33	43
T-bill borrowing, net ³	-27	-64	-54
Bond borrowing, gross ⁴	93	97	97
Foreign currency bonds	25	25	20
Inflation-linked bonds ⁵	12	8	8
Nominal government bonds ⁶	56	64	69
Funding in government securities	66	33	43

¹ Change in outstanding deposits, liquidity bills and repos. Retail market borrowing is assumed to be unchanged in 2006 and 2007.

² No buybacks are planned in 2006 and 2007.

³ Net of issues (excluding exchanges) and maturities.

⁴ Nominal amounts. Premiums and discounts (including inflation compensation) and exchange rate differences on issues are included as interest payments in the net borrowing requirement.

⁵ Issue volume per auction, average. 0.6 0.4 0.4

⁶ Issue volume per auction, average. 2.4 2.8 3.0

Table 1 shows an assessment of the allocation of funding between bonds and T-bills as well as the allocation of bond issues among nominal government bonds, inflation-linked bonds and foreign currency bonds.

NOMINAL KRONA BORROWING

Nominal government bonds

Increased issue volume

The issue volume will increase to SEK 3 billion per auction. This increase was previously planned to take place in June but is now being implemented from 22 March. A further

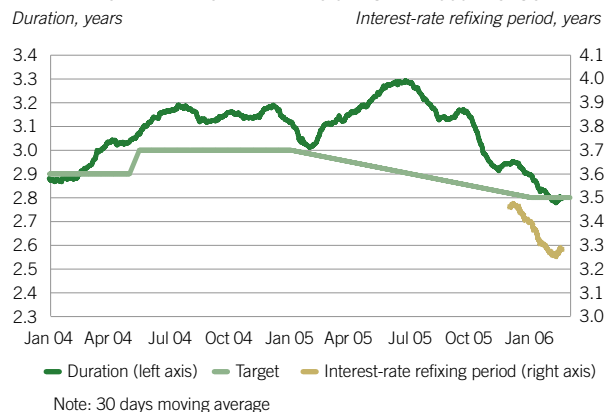
Table 2. IMPORTANT DATES 2006

Date	Time	Activity
8 June	11.00	Exchange of 3101 for 3106
21 June	09.30	Central Government Borrowing – Forecast and Analysis 2006:2
7 August	09.30	Press release on exchanges of 1051 and 1037
21-25 August	09.30	Exchanges of loan 1037 for T-bills
6 September	16.20	Conditions for issue of 1051 (coupon fixing)
7 September	11.00	Exchange of 3101 for 3106
13 September	11.00	Introduction of new ten-year nominal government bond 1051
14-19 September	11.00	Exchange of loan 1051
1 October at the latest		Debt Office's proposed guidelines for 2007
25 October	09.30	Central Government Borrowing – Forecast and Analysis 2006:3
15 November at the latest		Government decision on guidelines for 2007
14 December	11.00	Exchange of 3101 for 3106

change in the issue volume is not considered necessary in 2006 and 2007. Borrowing in nominal government bonds in 2006 will be SEK 64 billion including the coming increase.

The increase in the issue volume took place after having successively shortened the duration of the nominal krona debt during 2005. To ensure that this shortening takes place, bond borrowing has been less than the amount that corresponds to the medium-term borrowing

Figure 1. INTEREST RATE REFIXING PERIOD AND DURATION OF THE NOMINAL KRONA DEBT TO JANUARY 2006 INCLUSIVE



From 1 January 2006, the maturity of the debt has been measured by the interest rate refixing period (right axis) instead of the duration (left axis). The scales have been adapted so that the target for duration at the end of 2005 (2.8 years) coincides with the target for the interest rate refixing period for the nominal krona debt (3.5 years). The duration is at present at the target from the end of 2005, while the interest rate refixing period was below the target in January.

requirement. Now that the duration has been shortened, we are increasing the borrowing volume slightly. The size of the increase is also affected by the fact that the maturity, with our new way of measuring it, is far too short in relation to the target.

Table 3. CHANGE IN OUTSTANDING GOVERNMENT BONDS, NET INCL. SWAPS, SEK BILLION

	2005	2006	2007
Nominal government bonds, issues	56	64	69
Maturities, buybacks and exchanges	-75	-91	-66
Change in nominal government bond stock	-19	-27	3
Swaps, net	-27	-6	13
Nominal government bonds and swaps, net change	-46	-34	16

As shown in Table 3, the outstanding bond stock will decrease by SEK 27 in 2006 and increase by SEK 3

billion in 2007.¹ The exposure in bond rates, taking into consideration planned swaps, is expected to decrease by SEK 34 SEK in 2006 and increase by SEK 16 billion in 2007. Swaps are discussed in more detail in the section on T-bills and currency borrowing.

Half of the issues in the ten-year loan

On 13 September 2006, we plan to issue a new ten-year loan maturing on 12 August 2017. The new loan is being introduced initially in an auction with a planned volume of SEK 3 billion. In the four following bank days, an opportunity will be provided to exchange loan 1050 and one or more other older loans for the new ten-year loan. The last time we introduced a new ten-year government bond was in September last year. The outstanding volume of this loan (1050) maturing on 12 July 2016, is now SEK 30 billion.

¹ Information about outstanding stocks in different types of debt has been published in the Debt Office's monthly report *The Swedish Central Government Debt*.

FUNDING AND THE NEW DURATION TARGET

In December 2004, the Debt Office decided to shorten the duration target for the nominal government debt from 3.0 to 2.8 years. Although the shortening of the duration has taken place more slowly than expected, the target of 2.8 years has now been achieved. The reason that the duration period became altogether too high in 2005 is related to the net borrowing requirement being lower than expected. A lower borrowing requirement means, for a given size of bond borrowing, smaller volumes in T-bills issues and thus a longer duration of the debt.

From 1 January, the benchmark for the debt has been stated using the average interest rate refixing period instead of duration. The Government has decided that the average interest rate refixing period is to be 3.1 years for the whole of the nominal government debt. The Debt Office Board has subsequently decided to allocate the target of 3.1 in such a way that the nominal krona debt has a target of 3.5 years and the foreign currency debt 2.1 years. The nominal krona debt may deviate in the operational management by ± 0.3 years. The most important difference in using duration as a measure of maturity is that changes in market rates do not affect the interest rate refixing period.¹

The starting point in the change of maturity

¹ See also the article "The guideline proposal in brief", *Central Government Borrowing – Forecast and Analysis 2004:3 p.11*.

measure was that there would only be a marginal effect on the composition of the debt and borrowing in the medium-term perspective. The calculation of the target for the average interest rate refixing period is based on the average relation between the interest-rate refixing period and duration over a number of years. In particular years, however, the relation can deviate from the average value: a low interest-rate level produces, for instance, a higher duration compared with the interest rate refixing period.

The target was also determined so that we would not risk having to make a further reduction in bond borrowing. The historically low interest rates, with the concomitant lengthening of duration, had already depressed bond borrowing in 2005. Accordingly, 2005 was not a particularly representative year.

As shown in Figure 1, while duration was exactly on target in January 2006, the interest rate refixing period of 0.2 years was shorter than the new target of 3.5 years for the interest rate refixing period. The relationship between the two measures thus deviates from the historically more normal pattern. This means that bond borrowing in 2006 in particular would have been somewhat lower if we still had the duration target. In a longer perspective, however, we have made the assessment that the two measures largely produce the same maturing profile in the debt.



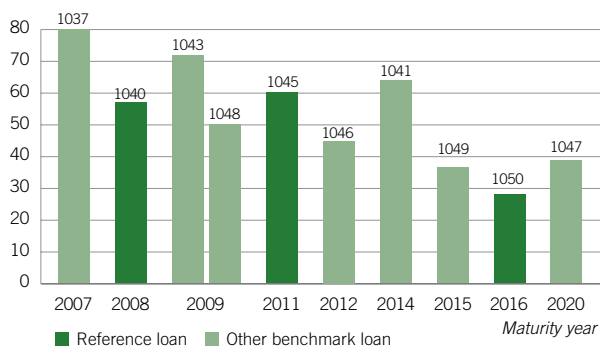
Bond issues are usually made in the benchmark loans with two, five and ten-year maturities that are traded in the electronic interbank market.² During 2006 and 2007, the issues will be allocated so that over half are made in the ten-year segment. We concentrate the borrowing on new loans to enable these to have sufficient liquidity. We expect to make a few issues in the two and fifteen-year maturities and the remainder in the five-year segment.³

Table 4. BENCHMARK LOANS IN THE ELECTRONIC INTERBANK MARKET¹

Date for exchanges of reference loans (IMM date)	2-year	5-year	10-year
Today	1040	1045	1050
21 June 2006	1043		
21 December 2006		1046	1051
21 March 2007			
20 June 2007	1048		

¹ The above date for change of the benchmark loan refers to the settlement date. The first settlement date for a new benchmark loan is normally the Friday before the IMM date

Figure 2. NOMINAL GOVERNMENT BONDS (BENCHMARK LOANS) SEK billion



T-bills and interest rate swaps

Reduced borrowing in T-bills

Funding in T-bills is expected to decrease in 2006 compared with 2005. In the October forecast, we had expected unchanged T-bill financing. The revision reflects the reduced net borrowing requirement. The whole of the reduced net borrowing requirement is taken on T-bills. As shown above, this is to enable us to achieve the duration

² The choice of benchmark loan in the electronic trade is determined by the loan that is closest in maturity to two, five or ten years. Benchmark loans are only changed, however, on IMM dates (the third Wednesday in March, June, September and December) with the criteria that the loan in terms of maturity is to be close to two, five or ten years on the subsequent IMM date. In this way, the underlying loan in the forward contracts will always be the same as a benchmark loan during the last three months of the contract.

³ See fact box on our issue decisions in Central Government Borrowing – Forecast and Analysis 2005:3.

target for the nominal krona debt. The outstanding stock is expected to decrease by SEK 8 billion in 2006. Since the T-bill stock has increased by SEK 64 billion in the last 3 years, the reduction of the outstanding stock should be able to take place without there being a deterioration of liquidity. Borrowing in T-bills varies, however, depending on seasonal variations in the financing requirement.

Table 5. CHANGE IN OUTSTANDING T-BILLS, NET INCLUDING SWAPS, SEK BILLION

	2005	2006	2007
T-bill borrowing, net ¹	-27	-64	-54
Exchanges of government bonds for T-bills	56	56	42
Change in T-bill stock	29	-8	-12
Interest rate swaps, net	41	3	16
T-bill stock and swaps, net change	70	-4	4

¹ Net of issues (excluding exchanges) and maturities

SEK 30 billion in interest-rate swaps

The Debt Office can also create short-term borrowing by issuing bonds and then using interest rate swaps to shorten the time to maturity. This technique makes it possible to provide more liquidity to the bond market than would otherwise be possible. Provided that the difference between the swap rate and the government bond rate is sufficiently large, this borrowing technique will reduce central government loan costs.

In 2006, around SEK 30 billion of bond borrowing will be swapped for short interest-rate exposure in kronor or foreign currency. Since we no longer need to reduce the duration of the debt, the swap volume has been reduced compared with 2005. Interest rate swaps can also be used as part of the foreign currency borrowing. The interest rate swap is then combined with a foreign currency swap in such a way that exposure in kronor is exchanged for exposure in foreign currency.⁴

The outstanding stock of swaps is expected to increase by SEK 6 billion in 2006 and decrease by SEK 13 billion in 2007.

If market conditions change, the actual swap volume can deviate from the forecast volume. Swaps will continue to be made at a relatively even pace during the year.

⁴ See fact panel on borrowing instruments and swaps on p. 9 in Central Government Borrowing – Forecast and Analysis 2004:2. For an extended discussion on the use of swaps, see Holmlund, A. (2002), "Swaps in central government debt management", Central Government Borrowing – Forecast and Analysis 2002:3, p. 17-20. An account of how funding is allocated to different loan instruments can be found in Olofsson, T. (2002), "How central government debt is funded", Central Government Debt – Forecast and Analysis 2002:3, p. 13-16.

Table 6. CHANGE IN OUTSTANDING SWAPS, SEK BILLION

	2005	2006	2007
Interest rate swaps ¹	41	6	21
Currency swaps ²	5	24	9
Swaps total	45	30	30
Swaps, maturities	-18	-24	-43
Swaps, net change	27	6	-13

¹ Interest rate swaps from long to short interest rate exposure in SEK.

² Interest rate swaps from long to short interest rate exposure combined with currency swaps to foreign exchange.

INFLATION-LINKED BORROWING

Issue volume reduced to SEK 5-10 billion

Demand for inflation-linked bonds has varied during the past year. On average, however, demand has been weaker than in previous years. The gap between nominal and real interest rate levels narrowed before the summer but widened again during the autumn.

In 2005, we issued SEK 12 billion. In 2006 and 2007, we expect to issue at an annual pace of SEK 5-10 billion. The background to the decision to reduce the issue volume is that we do not expect the central government to have any borrowing requirement in the next two years: the proportion of inflation-linked bonds will then increase even if we issue relatively small volumes. Moreover, there is no strong motive to increase the volume rapidly now in the light of the state of demand and a cost scenario which is not evidently favourable for the state. At the same time, there is reason to maintain issue activities to contribute to liquidity in the market.

Inflation-linked bonds will continue to be issued every other week. To achieve a reduction in the pace of issue, three of the planned auctions in 2006 will be used to exchange loan 3101 for loan 3106 and two auctions will not take place. The dates of the exchanges are shown in Table 2. The current auction calendar is shown in the Market Information at the end of this report.

The auction volume at the ordinary auctions will normally be SEK 500 million. Discrepancies can, however, occur if market conditions are special, such as on coupon maturity. If we issue exactly SEK 500 million on every ordinary issue date, the issue volumes will be SEK 8.0 and SEK 7.5 billion respectively in 2006 and 2007.

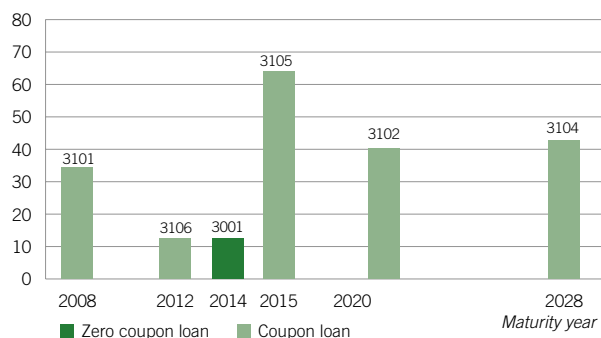
Loan 3106, which was introduced in September last year, now has an outstanding volume of SEK 13 billion. As mentioned above, the volume will continue to be built up by exchanges for 3101. In all, buybacks are offered of SEK 8 billion of loan 3101 in exchanges. This volume will be

allocated to three exchange dates. The exchanges in June and September will be neutral in terms of price risk and the exchange in December will be liquidity-neutral. ⁵

Loan 3101 now has an outstanding volume of SEK 34 billion. It is expected that the loan will have a volume of SEK 26 billion at the end of the year. The loan will mature on 1 December 2008. In 2007, investors will be offered exchange possibilities corresponding to the outstanding amount at the beginning of the year. No exchange or buy-back opportunities will be offered in 2008.

Loans 3106, 3105, 3102 and 3104 will be issued in 2006 and 2007. Market conditions permitting, the issues will be spread relatively evenly among the different maturities. Based on our assessment of demand, some overweighting is planned, in particular for loan 3106 but also for 3105. The choice of bond for each particular auction will be mainly in accordance with an issue plan decided in advance.

Figure 3. INFLATION-LINKED GOVERNMENT BONDS
SEK billion



FOREIGN CURRENCY BORROWING

The Debt Office is at present only amortising SEK 10 billion of the foreign currency debt. Our assessment is that the krona is undervalued and it can be expected that it will strengthen. For 2007, we have assumed, for the purpose of calculation, a pace of amortisation in accordance with the Government's guidelines of an annual pace of SEK 25 billion.

In 2006 and 2007, loans in foreign currency will mature for the equivalent of SEK 59 and 54 billion. We thus need to borrow SEK 49 and SEK 29 billion respectively in foreign currency this year and next year to achieve the target for the pace of amortisation of the foreign currency debt.

⁵ Price risk neutral means that the market value of purchase and sale volumes multiplied by modified duration for the respective bond are to be equal. Liquidity neutral means that purchase and sell amounts (cash amounts) are to be equal.



Table 7. FOREIGN CURRENCY DEBT 2005-2007, SEK BILLION

	2005	2006	2007
Foreign currency borrowing requirement, gross	30	49	29
Foreign currency amortisation	-20	-10	-25
Maturities and exchange rate differences	50	59	54
Foreign currency bonds ¹	43	30	16
Foreign currency swaps ²	18	21	38
Short-term foreign currency loans, net	-4	4	0
Realised foreign currency differences	-8	4	0
Foreign currency borrowing, gross	30	49	29
Foreign currency bonds	25	25	20
Foreign currency swaps, gross ²	5	24	9

¹ Valued at current exchange rates.

² Interest-rate swaps from long to short interest rate exposure combined with currency swaps to foreign currency.

We can borrow in foreign currency by issues of bonds in krona that are swapped to exposure in foreign currency (krona/swap borrowing)⁵ or by issues of foreign currency bonds (direct currency borrowing). The allocation of currency borrowing between direct currency borrowing and krona/swap borrowing will depend on the interest rate and other terms that can be obtained.

In 2005 the major part of borrowing took place by direct currency borrowing since it has been possible to obtain very good loan terms. Foreign currency bonds equivalent to SEK 25 billion were issued. In 2005, among others, two benchmark loans were made in eurodollars: one at USD 1 billion maturing in 2010 and one at USD 1.25 billion maturing in 2009. The size, maturity and public sale of the loans to large institutional investors make them benchmark loans.

Towards the end of the year, a krona/swap borrowing equivalent to almost SEK 5 billion and short-term borrowing ("Commercial paper") of SEK 4 billion were also made. The short-term borrowing was carried out to reduce the amortisation on the foreign currency debt at the end of the year when the krona weakened sharply.

Since we have reduced the pace of amortisation of the foreign currency debt, we need to borrow a relatively large amount in foreign currency. At the same time, we do not want to risk deterioration in the terms of borrowing by issuing an excessive number of foreign currency bonds. We plan to issue approximately the same amount as in 2005, i.e. approximately SEK 25 billion. We also expect

⁵ Issued government bonds are first swapped to short interest rate exposure. Variable interest in kronor is then exchanged for short foreign interest rate with a currency swap with the same maturity as the interest rate swap. At the same time, the Debt Office obtains the foreign currency spot when the swap is made. When the swap matures, we pay the same amount in foreign currency. In this way, the foreign currency swap creates a liability in foreign currency.

to issue two benchmark loans this year. In January, we issued a benchmark loan of USD 1 billion maturing on 7 February 2011.

The remaining borrowing requirement of approximately SEK 24 billion will be covered by krona/swap borrowing.

In 2007, the borrowing requirement has been allocated according to a standard between direct foreign currency borrowing and krona/swap borrowing; see Table 7. This allocation is based on the demand and cost experiences during the most recent years. The actual allocation may deviate from this scenario, however.

SUMMARY

The issue volume in nominal government bonds is being increased as previously planned to SEK 3 billion per auction. This increase will be implemented on 22 March 2006.

The increase in bond borrowing needs to take place despite the reduced borrowing requirement. In 2005, the maturity of the nominal debt in krona was reduced in accordance with the Government's decision. To ensure that this shortening took place, bond borrowing has previously been less than the amount that corresponded to the average borrowing requirement. The size of the increase is affected by the duration being too short at present. Bond borrowing is expected to total SEK 64 billion this year.

In 2006 and 2007, issues will be allocated so that just over half will be made in the ten-year bond. We expect to make some individual issues in the two and fifteen-year maturities and the rest in the five-year segment.

T-bill borrowing is being reduced in 2006 compared with last year. This is a downward revision compared with the last forecast.

We expect to make interest rate swaps in the range of SEK 30 billion per year. This is a reduction of SEK 15 billion compared with 2005.

The Debt Office is reducing borrowing in inflation-linked bonds from SEK 12 billion last year to SEK 5-10 billion in 2006.

The Debt Office is amortising the foreign currency debt at an annual pace of SEK 10 billion. Foreign currency borrowing is expected to total SEK 49 SEK billion in 2006. Approximately SEK 25 billion is expected to be raised in foreign currency bonds.

2005 IN RETROSPECT

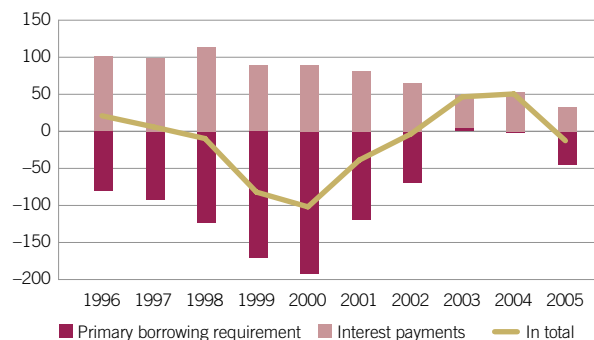
In 2005, the central government's finances showed a surplus for the first time since 2002. Tax payments increased greatly in comparison to 2004 and the surplus was SEK 14 billion. Even so, the central government debt increased by SEK 51 billion, among other things due to a weaker krona. The government debt was at year-end SEK 1,309 billion. This corresponds to approximately 49 percent of the gross domestic product.

CENTRAL GOVERNMENT FINANCES

The central government's borrowing requirement can be divided into two parts: primary borrowing requirement or surplus and interest payments on the government debt. In 2005, the primary surplus was SEK 47 billion. This is an improvement by SEK 45 billion compared to 2004.

Interest payments on the government debt were SEK 33 billion in 2005. This is SEK 20 billion lower than 2004. The reason is primarily increased currency gains. In the aggregate, this provided a budget surplus of SEK 14 billion. See figure 1.

Figure 1. CENTRAL GOVERNMENT BORROWING REQUIREMENT SEK billion



Tax revenues increased more than payments

On the income side, tax revenues increased by SEK 70 billion compared to 2004. It was mainly consumption, wages and business profits that increased and provided greater tax income. Company tax payments also increased because of changes in tax legislation that caused companies to dissolve tax allocation reserves to a great extent, thereby realising formerly deferred profits. Dividends on shares held by the central government also increased.

Payments increased by an aggregate of SEK 33 billion. The major part, 18 billion, consisted of tax payments to municipalities and county councils. Also transfers to households increased, primarily child subsidies and pensions. In addition, expenses for foreign aid and the EU farming subsidies increased. The increase of the EU subsidies is primarily due to payments for both 2004 and 2006 having been moved to 2005.

Interest on the government debt decreased

Interest payments on the government debt include realised currency gains or losses. In 2005, currency gains of SEK 10 billion were realised. The gains were primarily attributable to a couple of large dollar loans being renewed in 2005. They were originally taken at significantly higher dollar exchange rates than the ones that prevailed when they matured. In 2004, currency losses of 5 billion were incurred. Thus, there was an improvement of SEK 15 billion in 2005.

Losses associated with bond buy-backs were lowered by SEK 6 billion due to fewer repurchases in connection with bond switches. In the aggregate, interest payments were SEK 33 billion.

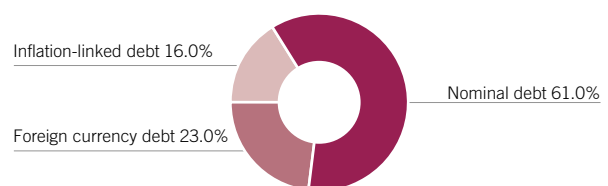
The government debt grew when the krona weakened

The government debt increased by SEK 51 billion despite the budget surplus. The primary reason was that the krona weakened in the summer and autumn. In November 2005, the board of directors of the Debt Office decided to reduce the amortisation rate for the foreign currency debt for the remainder of the year and for 2006.

An unexpectedly low borrowing requirement in December caused the short-term borrowing to be greater than needed. The surplus was placed in a bank account over year-end. The short-term investments were SEK 22 billion greater on 31 December 2005 compared to year-end 2004. This meant that the government debt increased to the same extent.

At the end of 2005, the government debt was SEK 1,309 billion. This is 49 percent of the GDP and one percentage point lower than 2004. See figure 3.

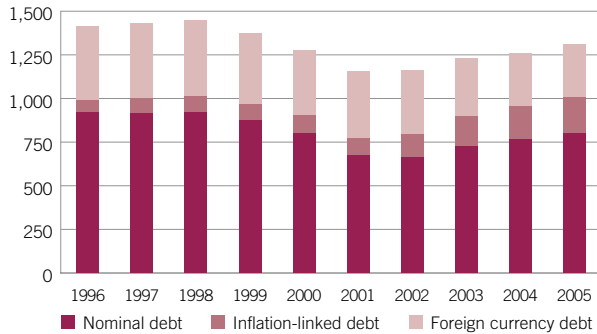
Figure 2. THE GOVERNMENT DEBT'S COMPONENT PARTS



Components stated in per cent, 31 December 2005.



Figure 3. THE GOVERNMENT DEBT'S TREND 1996-2005
SEK billion



FINANCING & DEBT MANAGEMENT

Even though the central government budget showed a surplus in 2005, the Debt Office had to borrow in order to refinance maturing debt. In 2005, loans of an aggregate of SEK 79 billion (including cash changes etc.) matured. Since the budget surplus was 14 billion, the gross borrowing requirement was SEK 65 billion.

The gross borrowing requirement is financed by the Debt Office borrowing in SEK (nominal bonds, treasury bills and other short-term instruments and inflation-linked bonds) and in foreign currency. Borrowing is primarily effected by selling government securities in our auctions.

Nominal krona loans

The borrowing in nominal government bonds was SEK 56 billion in 2005 and the outstanding volume at year-end was SEK 563 billion. The issuance volume was lowered from SEK 3.5 billion to 2.5 billion per auction in March and then further to SEK 2 billion per auction in June. In September, the Debt Office issued a new ten-year nominal bond.

Treasury bills are used to parry seasonal variations in the borrowing requirement during the course of the year. Therefore, the issuance volumes vary greatly. The volume of outstanding treasury bills was SEK 288 billion at year-end.

New seven-year inflation-linked bond

The demand for inflation-linked bonds varied during the course of the year and the rate of increase was lower than planned. One reason may have been the uncertainty surrounding the new investment rules for pension funds that came in the autumn. In order to increase predictability, the Debt Office decided to abolish the flexible issuance volumes in the auctions. At year-end, there were outstanding inflation-linked bonds, including inflation compensation, of SEK 205 billion.

In September, a new seven-year inflation-linked bond was introduced. At year-end, this bond had an outstanding volume of SEK 11.7 billion.

Increased foreign currency debt

The foreign currency debt increased by SEK 29 billion, even though the foreign currency debt was amortised by SEK 20 billion in 2005. This was a result of the weakening of the krona during the year. The Debt Office's board of directors therefore reduced the amortisation rate in the autumn. For 2006, the board of directors has decided that the amortisation shall be reduced to SEK 10 billion.

At year-end, the foreign currency debt, including unrealised exchange differences, was SEK 304 billion.

Active management of the foreign currency debt

The Debt Office actively manage part of the debt in foreign currencies. The aim is to lower the cost of the government debt by taking interest and currency positions on the international markets. If we for example believe that the dollar will lose value, we might take a position on that basis. If the dollar then falls, we will realise a profit, which reduces the cost of the government debt.

In 2005, the Debt Office incurred a loss of SEK 613 million on currency trading. Interest trading however resulted in a profit of SEK 187 million. Altogether, during the period 2001-2005, active management has lowered the cost of the government debt by SEK 1,033 million.

NEW BENCHMARK FOR THE FOREIGN CURRENCY DEBT

Debt denominated in foreign currencies currently accounts for just under one fourth of the aggregate government debt. The foreign currency debt consists of five different currencies, where the euro dominates with 65 percent. Every three years, the National Debt Office reviews the structure of the foreign currency benchmark. The aim is to find an allocation of foreign currencies with desirable risk and cost properties. In connection with the latest review for the period 2006 up to and including 2008, we made certain adjustments of the benchmark in the form of an increased exposure to Swiss francs at the expense of the percentages in pound sterling and US dollars. Our expectation is that the changes primarily will contribute to lower costs for the foreign currency debt, while the risk is estimated to remain unchanged in comparison to the former benchmark.

Every three years, there is a review of the benchmark for the allocation between currencies of the foreign currency debt. Since 1997, the analysis of the structure of the benchmark has been based on the mean-variance method. The objective is to find a foreign currency allocation with desirable risk and cost properties. Formerly, low risk has been the primary aim, but in the review for the period 2006-2008, the cost aspect has been given greater weight. The primary reason is that the picture of the long-term cost aspects of the different currencies is believed to become increasingly reliable as the volume of data increases.

The calculations have been based on historic market data of interest rates and exchange rates for the period 1993-2005. Since historical data are used as a forecast of the expected future trend, there is a significant measure of uncertainty in the calculations. The cost measure is defined as the sum of interest costs and market value changes of the debt as a result of changes in exchange rates. This means that market value changes of the debt as a result of interest rate changes are excluded. Risk is in turn defined as the volatility of the cost, where high volatility – i.e., great fluctuations in the cost – signifies high risk.

The following sections account for the change in the risk of the 2002 benchmark over time. Furthermore, the properties of the existing currencies in the benchmark will be analysed with respect to risk and cost. The purpose is to determine whether it is possible to find a more advantageous allocation, not in the least since the cost aspect has been given greater weight. The review will also analyse whether there may be additional foreign currencies with a satisfactory liquidity in the market that may contribute to lowering the risk or the cost of the foreign currency debt further. Finally, the earlier decision to partially replace euros with Swiss francs will be evaluated.

BENCHMARK 2003-2005

The benchmark that was determined in connection with the review in 2002 was close to, but not on, the historical efficient frontier. The intention behind the deviation was primarily to lower the cost in comparison to the risk-minimising currency allocation.

Depending on the period on which the calculation is based, the risk of the benchmark varies. It however appears as if the aggregate risk of the foreign currency debt has been reduced. Figure 2 illustrates this, as the aggregate risk tends to lessen when early observations are excluded from the calculation. The risk of the foreign

Figure 1. EFFICIENT FRONTIER AND THE 2002 BENCHMARK, 1993-2005

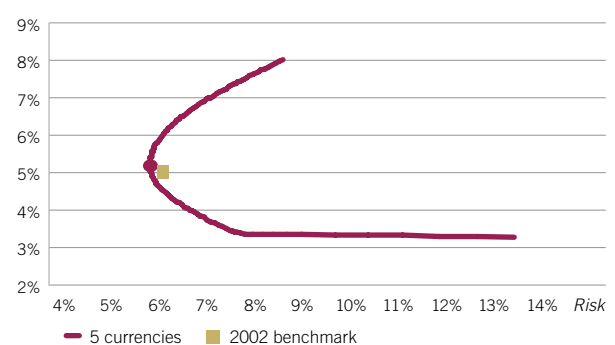
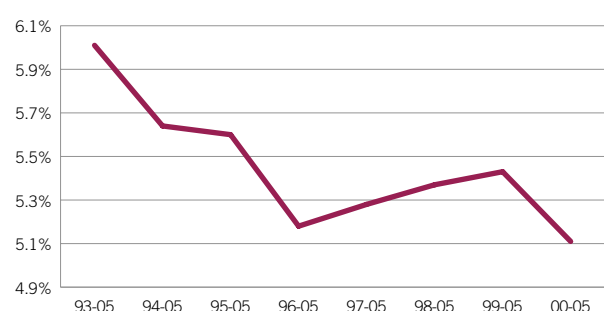


Figure 2. RISK OF THE 2002 BENCHMARK





currency debt is primarily in the exchange rate fluctuations, which directly affect the krona value of the debt, even if interest rate fluctuations have some significance as well. Lower exchange rate volatility in several of the foreign currencies in the benchmark seems to be the primary reason that the aggregate risk in the foreign currency debt successively has been falling. The trend has thereby been favourable as the debt management strives for low risk.

REVIEW OF THE PERCENTAGES OF EXISTING CURRENCIES

Figure 3 shows the risk of each currency based on historical monthly data. As shown in the diagram, the risk has successively been falling over time for the majority of the currencies in the benchmark. This is not however true for the US dollar where the risk appears to be increasing.

The higher dollar risk also has an impact on the weight of the dollar in the risk minimising portfolio. With increasing volatility that is not countervailed by a diversification effect, the risk minimising dollar percentage has successively been reduced over time.

FACTS

THE MEAN-VARIANCE METHOD, COST AND RISK DEFINITION

The Debt Office uses the mean-variance method to find optimal portfolio structures. This method is based on modern portfolio theory and is common in financial problem solving of this nature. The method aims to find, on the basis of historical data, the portfolios that are clearly better than other portfolios with regard to expected cost and risk. These portfolios are designated efficient and jointly constitute the efficient frontier.

The costs are defined as the sum of interest costs and market value changes of the debt as a result of exchange rate changes. Risk is in turn defined as the volatility of the cost.

Costs and risk are calculated on the basis of monthly data but presented converted to annual rates. Monthly market data from January 1993 until August 2005 are used. Currencies included in the analysis are the currencies that currently comprise the foreign currency benchmark (euros, dollars, yen, pounds and Swiss francs) as well as Canadian and Australian dollars. D-marks are used as an approximation of euros for the period prior to the introduction of the euro.

Figure 3. RISK IN SINGLE CURRENCIES
% annual rate

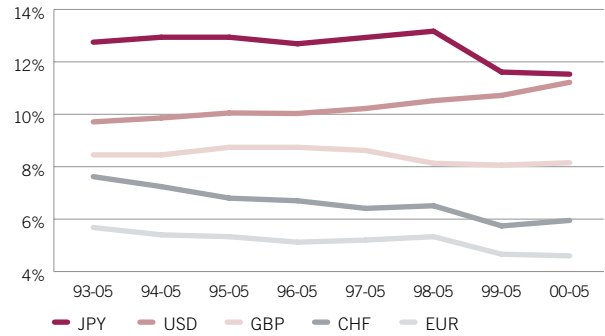
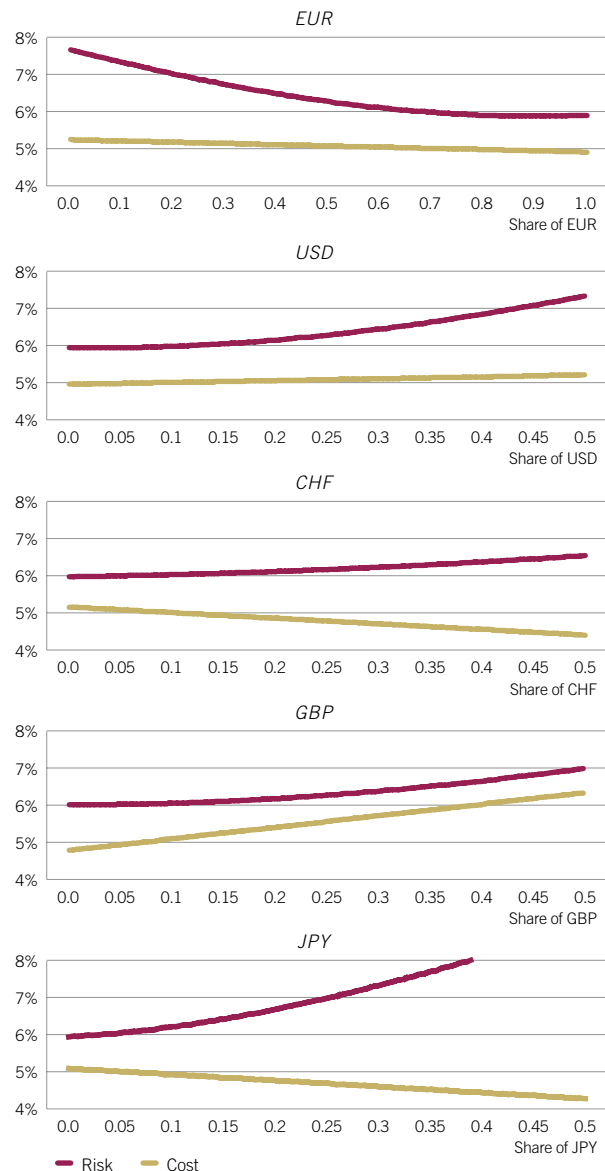


Figure 4. COST AND RISK UPON A CHANGE OF THE PERCENTAGE, 1993-2005



Another way to analyse the properties of each currency is to illustrate how cost and risk in the foreign currency debt changes if the weights of the different currencies in the benchmark vary. In the diagrams below, the percentages of each of the other currencies are changed at the expense of the euro, and the euro's percentage is varied at the expense of the other currencies, without their relative position being changed.

As shown in the charts, the properties of the different currencies differ in terms of risk and cost. A greater percentage of euros at the expense of the other currencies appears to reduce both cost and risk. The US dollar and the pound on the contrary seem to contribute to both higher risk and cost when the percentages of these currencies increase at the expense of the euro. In the same manner, increased percentages of Swiss francs and Japanese yen entail a higher risk, but at the same time the costs are reduced.

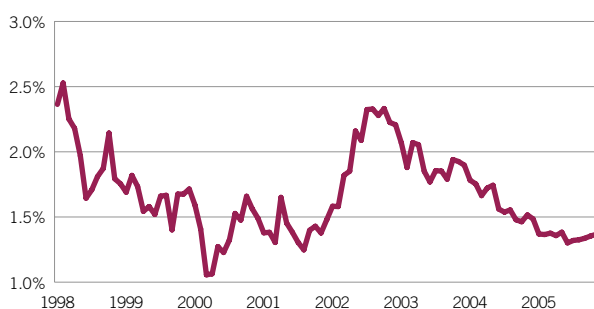
In the review of the benchmark in 2005, the percentages were therefore adjusted down for dollars and pounds to the benefit of a higher percentage of euros. This was based on the historical risk and cost properties of these currencies and the volatility trend over time. Through the adjustment, the risk and cost of the foreign currency debt are both expected to be lower in the future.

EXPOSURE TO THE SWISS FRANC

Historically, exposure to the Swiss franc at the expense of the euro percentage has contributed to lowering the cost for the foreign currency debt, with an insignificantly higher risk as a result. In the benchmark that was fixed in connection with the review in 1999, the Swiss franc was therefore allocated a weight of 9 percent. The Swiss market rates are still considerably below the German ones, even if a certain increase in the Swiss market rates, in parallel

Figure 5. INTEREST RATE SPREAD BETWEEN GERMANY AND SWITZERLAND

Average maturity 2.1 years



with lower German market rates, has reduced the interest rate difference since 2002. Data also indicate that the correlation between the exchange rates of the krona against the euro and the Swiss franc remains relatively stable around approximately 0.85.

In connection with the review of the foreign currency benchmark in 2005, the percentage of the Swiss franc was increased from 9 to 16 percent at the expense of the euro's percentage. The change was made because the present exposure to the Swiss franc has contributed to lowering the cost. Also other conditions are assessed to continue to be favourable.¹

ALTERNATIVE CURRENCIES

In connection with the latest review, it was also considered whether other foreign currencies, in addition to the present five foreign currencies in the benchmark, could contribute to reducing the risk or the cost of the foreign currency debt. Already in 2002, the Norwegian and Danish currencies were rejected. This was primarily due to insufficient liquidity in the interest and currency markets. The currencies that were considered for the currency benchmark this time were Canadian and Australian dollars. Unlike the Danish and Norwegian markets, these currencies have relatively good liquidity in the interest and currency markets.² In order to justify an extension of the benchmark to other currencies, these should however contribute to a significant reduction of the risk or the cost of the foreign currency debt.

Calculations on historical data for the period 1993-2005 indicated that the risk in the foreign currency debt would be reduced by including Canadian and Australian dollars in the benchmark. Concurrently, however, the cost would increase. Figure 6 shows this, since the efficient frontier with Canadian and Australian dollars included is partially to the left of the efficient frontier including only the currencies presently in the benchmark.

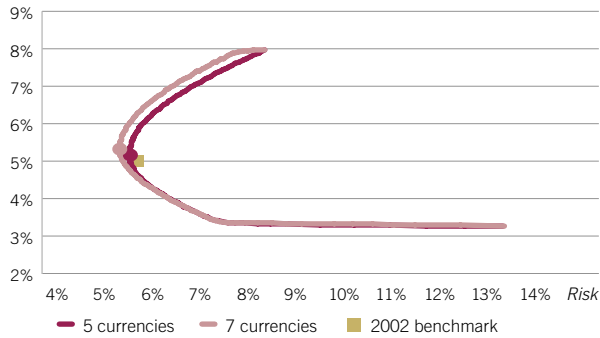
The analysis however showed that the risk reducing effect has been almost entirely related to the Australian dollar. Thereby, the Canadian dollar could be dismissed.

¹ Memorandum "Operational consequences of the Government's guideline decision for the management of the central government debt", the Swedish National Debt Office, 9 December 1999.

² OTC currency trade 2004:
AUD (CAD) USD 60 (41) billion per day. (Sweden USD 25 billion per day).
OTC interest trade 2004:
AUD (CAD) USD 13 (12) billion per day. (Sweden USD 7 billion per day).
"Triennial Central Bank Survey, Foreign exchange and derivatives market activity in 2004", BIS, March 2005.



Figure 6. EFFICIENT FRONTIER 1993-2005
Cost



With the Australian dollar in the benchmark at the expense of US dollars and British pounds, the risk in the foreign currency debt is expected to be reduced by approximately 0.1-0.2 percentage points per year. In parallel with a somewhat lower risk, the cost of the debt is however expected to increase somewhat. History indicates that the cost would increase by approximately 0.25 percentage points per year.

To achieve the intended risk reduction of including Australian dollars in the benchmark, the foreign currency benchmark would come to lack almost entirely larger currencies such as the US dollar and the pound sterling. To exclude entirely the largest and most liquid currencies from the benchmark to the benefit of smaller currencies was not considered desirable. In addition, reasons of a more technical nature were put forth against introducing the Australian dollar in the benchmark. Among other things, that the liquidity in the Australian interest market could be somewhat limited during normal Swedish business hours.

Considering the risk properties, the Australian dollar should be a part of the benchmark for the foreign currency debt. But even if the Australian dollar has attractive risk properties, these were not considered sufficiently great in relation to the increased cost that it was expected to entail.

NEW BENCHMARK FOR THE FOREIGN CURRENCY DEBT

The analysis indicated that the benchmark's dollar and pound percentages should be reduced in favour of a greater euro percentage. This would likely contribute to a reduction of both the cost and risk in the foreign currency debt. Furthermore, the positive risk and cost properties of the Swiss franc seemed to last. As early as in 1999, the exposure to the Swiss franc increased at the expense of the euro after this was deemed to reduce the cost, with only a marginally higher risk as a result. The exposure to the Swiss franc has had the intended effect on costs and the favourable properties appear to last. In connection with the latest review it was therefore deemed justified to increase the exposure to the Swiss franc. It is primarily an increased focus on the cost properties of the currencies that have contributed to the changes. Table 1 shows the percentages of each currency in the former and the current benchmarks for the foreign currency debt.

TABLE 1. CURRENCY PERCENTAGES AND EXPECTED RISK AND COST

	EUR	USD	GBP	JPY	CHF	Risk	Cost
Benchmark 2003-2005	65%	14%	8%	4%	9%	6.01%	5.01%
Benchmark 2006-2008	65%	10%	5%	4%	16%	6.01%	4.79%

In conclusion, the changes made in connection with the latest review of the foreign currency benchmark are expected to contribute to a reduction of the cost of the foreign currency debt in comparison to a situation where the former currency percentages had remained fixed. At the same time, the risk is expected to remain unchanged.

Richard Falkenhäll,
Analyst

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THE DEBT OFFICE SCORED HIGH AGAIN THIS YEAR

The Debt Office has received high marks from investors and primary dealers again in 2005, e.g., concerning our information about borrowing requirements and financing as well as our professionalism. Still, contacts with investors may be improved. This is shown by the survey of the Debt Office's borrowing that Prospera has carried out on our behalf. The survey is part of our efforts to develop and improve our operations.

We have now for the second year in a row carried out a survey of how we are perceived by investors and counterparties. The result is not very different from last year, even if the trend seems to be that we have now received slightly higher marks in most areas. Our weaknesses still lie in contacts with the investors and the sensitivity to the wishes of the market.

Good relations with investors and primary dealers are an important part of the Debt Office's borrowing policy. Good investor relations contribute to creating a broad and stable investor base with good liquidity for our funding instruments. Our investor relations shall, just like our borrowing policy in general, be characterized by openness, transparency and predictability. Ultimately, our borrowing policy aims to achieve low borrowing costs.

The survey is targeted at Swedish and international investors in Swedish government securities and at primary dealers and other sellers of government bonds. The factors we have emphasized are information, borrowing techniques, execution of auctions, professionalism in our conduct, and the functioning of the market. The survey is a tool in our efforts to further improve the debt management.

More or less everyone who was asked participated in the survey. The response frequency was 99 percent, which must be considered very good. In total, 29 Swedish investors, 21 foreign investors, 7 primary dealers and 6 other sellers of Swedish government bonds were interviewed. The interviews were carried out during the period 1 December 2005 until 11 January 2006.

The survey is available in pdf format on our home page, www.rgk.se.

COMMUNICATION AND ISSUANCES ARE IMPORTANT

The requirements of Swedish investors and primary dealers on the Debt Office are somewhat higher than one year ago. In the survey, all factors that form the basis for the assessment (see the fact box) are considered very important for the market's confidence. It is above all important that the Debt Office provides clear information about the borrowing requirement

and financing, that we act clearly and consistently in case of a reduction of offered auction volumes and that the information provides good predictability about the issuance plans. The primary dealers give the auction platform's functionality the highest priority for confidence.

A majority of the participants have good knowledge of the Debt Office. The best known area is the information about the central government's borrowing requirement.

The most important results are set forth in the diagrams below. The columns show how the interviewees assess the significance of the different factors, while the curves show how they assess the Debt Office. In the diagrams, the factors are ranked according to importance. The factors covered by the survey are set forth in the box below.

AREAS COVERED BY THE SURVEY

Communication and information

- a Clear information on borrowing requirement/financing
- b Good contacts with investors and primary dealers

Borrowing

Good selling techniques for:

- c1 nominal bonds
- c2 inflation-linked bonds
- c3 treasury bills

Suitable times/time intervals for auctions

- d1 nominal bonds
- d2 inflation-linked bonds
- d3 treasury bills

Good information on volumes and other terms

- e1 nominal bonds
- e2 inflation-linked bonds
- e3 treasury bills

Clear/consistent cutting of auction volumes

- f1 nominal bonds
- f2 inflation-linked bonds
- f3 treasury bills

General

- i Sensitivity to market requirements

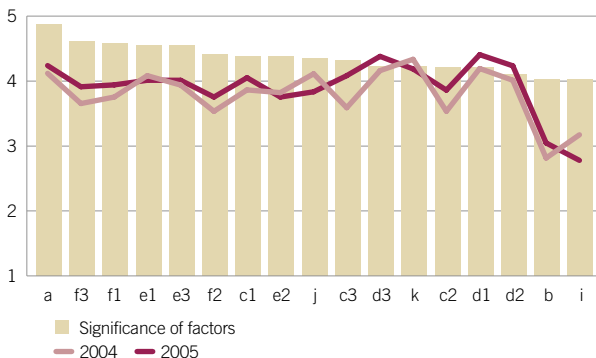
Professionalism

- j International comparison
- k Comparison with Swedish mortgage institutions

¹ Investment banks in London that trade in Swedish government securities

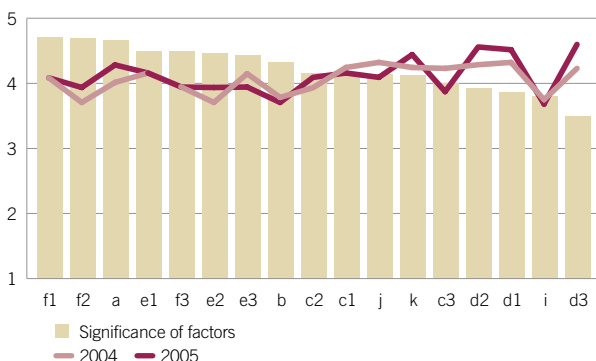


Figure 1. ASSESSMENT OF THE DEBT OFFICE
– SWEDISH INVESTORS 2005 VS. 2004



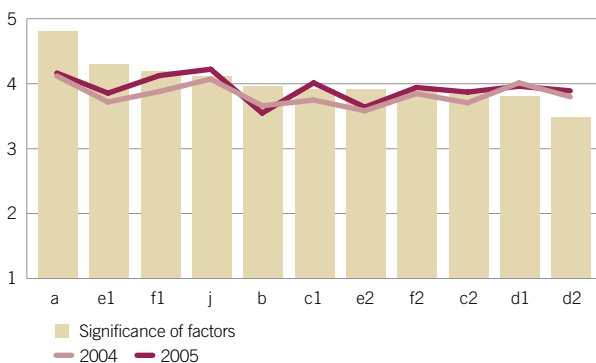
The grading scale is from 1 to 5. Values over 4 are interpreted as excellent or very significant, respectively, and values under 3 as poor or unimportant, respectively.

Figure 2. ASSESSMENT OF THE DEBT OFFICE
– PRIMARY DEALERS 2005 VS. 2004



The grading scale is from 1 to 5. Values over 4 are interpreted as excellent or very significant, respectively, and values under 3 as poor or unimportant, respectively.

Figure 3. ASSESSMENT OF THE DEBT OFFICE
– FOREIGN INVESTORS 2005 VS. 2004



The grading scale is from 1 to 5. Values over 4 are interpreted as excellent or very significant, respectively, and values under 3 as poor or unimportant, respectively.

PROFESSIONALISM, GOOD INFORMATION BUT DEFICIENT CONTACTS AND SENSITIVITY

The information is clear and provides good predictability

Our information, ability to act in a professional manner and the choice of time of day and frequency of auctions appear as our strong points. The information about borrowing requirement and financing is generally considered excellent and to provide good predictability. The same is true for the information about issuance volumes and terms. The investors are of the opinion that the Debt Office's home page and primary dealers in general are equally important channels for information from the Debt Office.

The Debt Office is generally assessed very highly in the issue of whether we act professionally by international comparison, especially by foreign investors, even if the overall assessment is not quite as positive as last year. One possible explanation, which is also stated by some of the interviewees, is that we have not met the demand for issuing long-term bonds.

The selling of government securities works well, both with respect to frequency and selling techniques as to how we act in case of reductions of auction volumes. During 2005, a very clear change in the attitude to the Debt Office's actions in the treasury bill market has taken place. This market is now considered to function very well.

The marks for the selling techniques of and how we act in connection with the inflation-linked bond auctions have been raised in 2005. One reason for the higher marks may be that we have abandoned the auction form with flexible volumes, which was considered opaque. The mark on the inflation-linked bond market is still lower than the mark on other markets.

Our primary dealers are of the opinion that the auction technique works well and appreciate the market support repos that we offer in order to reduce the risk of market squeezes.

Lacking sensitivity to the wishes of the market

The Debt Office receives a failing mark by Swedish investors in one area. This concerns the sensitivity to their wishes. One possible explanation is that we have not responded to the investors' demand that we issue long-term bonds.

Swedish investors believe that direct contacts with us can be significantly improved. The marks were raised in 2005, but are still low. A clear majority of the investors express a fairly great or very great interest in meetings with us. Primary dealers and other counterparties perceive the contacts to be good.

The Debt Office has also asked the investors whether they are interested in longer maturities of treasury bills, nominal bonds and inflation-linked bonds. There is little interest in long-term treasury bills or inflation-linked bonds. Results for the nominal bonds however show a moderate interest. Beneath this, however, there is a great spread among the answers. Many investors are entirely uninterested, while many state that they have a great interest in long-term bonds.

Secondary market gets mixed reviews

Swedish investors and primary dealers are of the opinion that the liquidity in the secondary market for nominal bonds and treasury bills is good, especially as concerns volumes and price transparency. The international participants in nominal bonds give us a weaker review.

Just as last year, however, the inflation-linked bond market gets consistently low marks. Liquidity and information on prices are not considered satisfactory and the interest rate spread, i.e. the difference between the bid and ask rates, is too wide. Moreover, the primary dealers are of the opinion that liquidity has worsened in the past year.

The primary dealers consider the broker trading as the best contribution to liquidity in the interbank market. The electronic interbank market (EIM, Saxess Trading) is considered to be an excellent instrument for price transparency. Electronic trading between primary dealers is thus considered to be very important for price information, while risk management between banks is primarily handled through brokers. This is the same result as in 2004.

The investors claim that they deal primarily in government bonds by telephone. Compared with 2004, fewer investors use electronic trading systems.

THE ROAD TO CONTINUOUS IMPROVEMENT

In several respects we have received good or satisfactory comments. Moreover, the marks are also higher within almost all areas compared to last year. This is inspiring – not in the least because we seem to have moved in the right direction in later years. However, this does not mean that we can settle down. It is especially important to improve our activities in the areas where we are perceived as weak.

One such area is that many investors would like to see an improvement in their contacts with the Debt Office. Against the background of the survey of 2004, we have continued our efforts to invite dialogue and discussions with investors and primary dealers about our borrowing. We have among other things established information

meetings in connection with the publication of the Central Government Borrowing Report. We have also carried out more in-depth discussions with primary dealers and investors about the functioning of the inflation-linked bond and treasury bill markets. These discussions resulted, among other things, in a departure from flexible auction volumes in inflation-linked bonds. We will continue to act for a closer and more systematic dialog.

We will also continue to develop our information. Among other things, comprehensive efforts are now underway to develop and improve our home page, an important information channel for our investors and primary dealers.

We have again been criticized for deficient sensitivity. This is, as stated before, a multi-dimensional issue. Our mission is to finance the central government's deficit by borrowing as cheaply as possible, with due regard to risk. For this purpose, objectives are defined for e.g. maturities and debt allocation. We consider the market situation in terms of demand and price relations in order for us to be able to borrow at low costs and risk. However, we cannot and should not take into consideration wishes that are not consistent with our aims.

There are also wishes and opinions regarding our operations, to which we should listen, and take into consideration. This may, e.g., concern selling techniques and communication. As long as they are compatible with our aims and our mission, we try as far as possible to meet these wishes. Sometimes, the wishes may however point in different directions, and on such occasions we are naturally unable to please everyone.

In order to improve our transparency and predictability, feedback on our borrowing policy is important. It is also important for us to be able to convey how our objectives affect borrowing. The survey that has now been carried out provides us with a good starting point for continuous efforts to develop our operations as well as the relations with our investors and other counterparties.

*Maria Norström,
Debt manager*



MARKET INFORMATION

Source: The Swedish National Debt Office, unless otherwise stated

NOMINAL BONDS, OUTSTANDING AMOUNTS, 31 JANUARY 2006

Nominal Bonds		(Nominal amount)	
Maturity Date	Coupon %	Loan no.	SEK m
2007-08-15	8.00	1037	79,901
2008-05-05	6.50	1040	56,783
2009-01-28	5.00	1043	71,621
2009-12-01	4.00	1048	49,990
2011-03-15	5.25	1045	60,034
2012-10-08	5.50	1046	44,696
2014-05-05	6.75	1041	63,774
2015-08-12	4.50	1049	36,489
2016-07-12	3.00	1050	27,990
2020-12-01	5.00	1047	38,703
Total benchmarks			529,981
Non-benchmarks			41,330

T-BILLS, OUTSTANDING AMOUNTS, 31 JANUARY 2006

T-Bills		(Nominal amount)
Maturity Date		SEK m
2006-02-15		38,684
2006-03-15		84,093
2006-04-19		22,551
2006-06-21		48,078
2006-09-20		54,573
2006-12-20		42,502
Total T-bills		290,481

INFLATION-LINKED BONDS, OUTSTANDING AMOUNTS, 31 JANUARY 2006

Maturity Date	Coupon %	Loan no.	SEK m
2008-12-01	4.00	3101	34,389
2012-04-01	1.00	3106	12,432
2014-04-01	–	3001	12,583
2015-12-01	3.50	3105	63,877
2020-12-01	4.00	3102	40,321
2028-12-01	3.50	3103	3
2028-12-01	3.50	3104	42,569
Total inflation-linked bonds (incl. inflation compensation)			206,173

RATING

	Debt in SEK	Foreign currency debt
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA

NOMINAL BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2006-03-01	2006-03-08	2006-03-13
2006-03-15	2006-03-22	2006-03-27
2006-03-29	2006-04-05	2006-04-10
2006-04-12	2006-04-19	2006-04-24
2006-04-26	2006-05-03	2006-05-08
2006-05-10	2006-05-17	2006-05-22
2006-05-24	2006-05-31	2006-06-05
2006-06-07	2006-06-14	2006-06-19
2006-06-21	2006-06-28	2006-07-03
2006-07-26	2006-08-02	2006-08-07
2006-08-09	2006-08-16	2006-08-21
2006-08-23	2006-08-30	2006-09-04
2006-09-06	2006-09-13	2006-09-18
2006-09-20	2006-09-27	2006-10-02
2006-10-04	2006-10-11	2006-10-16
2006-10-18	2006-10-25	2006-10-30
2006-11-01	2006-11-08	2006-11-13
2006-11-15	2006-11-22	2006-11-27
2006-11-29	2006-12-06	2006-12-11

T-BILLS, AUCTION DATES

Announcement date	Auction date	Settlement date
2006-02-22	2006-03-01	2006-03-03
2006-03-08	2006-03-15	2006-03-17
2006-03-22	2006-03-29	2006-03-31
2006-04-05	2006-04-12	2006-04-18
2006-04-19	2006-04-26	2006-04-28
2006-05-03	2006-05-10	2006-05-12
2006-05-16	2006-05-23	2006-05-26
2006-05-31	2006-06-07	2006-06-09
2006-06-14	2006-06-21	2006-06-26
2006-06-28	2006-07-05	2006-07-07
2006-07-19	2006-07-26	2006-07-28
2006-08-02	2006-08-09	2006-08-11
2006-08-16	2006-08-23	2006-08-25
2006-08-30	2006-09-06	2006-09-08
2006-09-13	2006-09-20	2006-09-22
2006-09-27	2006-10-04	2006-10-06
2006-10-11	2006-10-18	2006-10-20
2006-10-25	2006-11-01	2006-11-03
2006-11-08	2006-11-15	2006-11-17
2006-11-22	2006-11-29	2006-12-01
2006-12-06	2006-12-13	2006-12-15

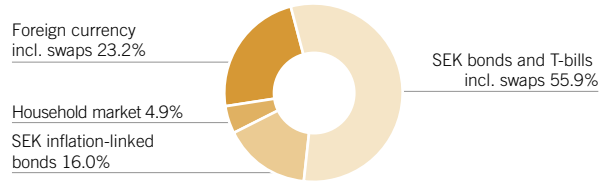
INFLATION-LINKED BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2006-02-23	2006-03-02	2006-03-07
2006-03-09	2006-03-16	2006-03-21
2006-03-23	2006-03-30	2006-04-04
2006-04-20	2006-04-27	2006-05-03
2006-05-04	2006-05-11	2006-05-16
2006-05-16	2006-05-23	2006-05-29
2006-06-01	2006-06-08	2006-06-13
2006-08-31	2006-09-07	2006-09-12
2006-09-14	2006-09-21	2006-09-26
2006-09-28	2006-10-05	2006-10-10
2006-10-12	2006-10-19	2006-10-24
2006-10-26	2006-11-02	2006-11-07
2006-11-09	2006-11-16	2006-11-21
2006-11-23	2006-11-30	2006-12-05
2006-12-07	2006-12-14	2006-12-19

DEBT STRUCTURE

Total debt SEK 1,303 billion

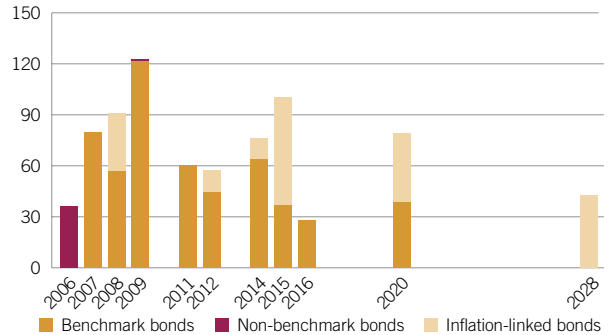
31 January 2006



MATURITY PROFILE, SEK NOMINAL AND INFLATION-LINKED BONDS

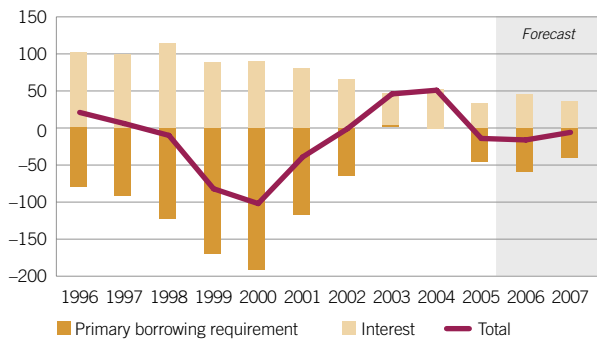
SEK billion

31 January 2006



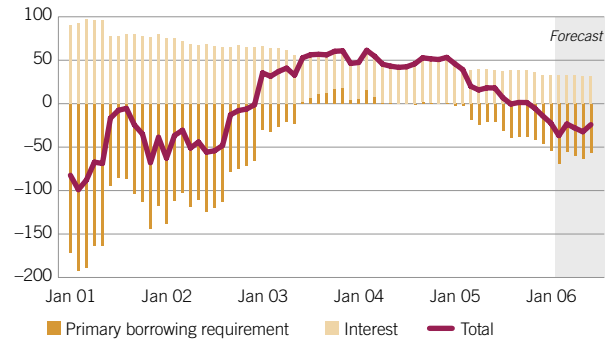
CENTRAL GOVERNMENT BORROWING REQUIREMENT, 1996-2007

SEK billion

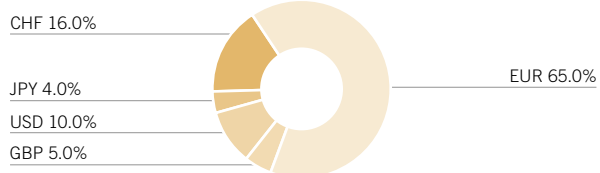


SWEDISH GOVERNMENT BORROWING REQUIREMENT, 12 MONTHS

SEK billion

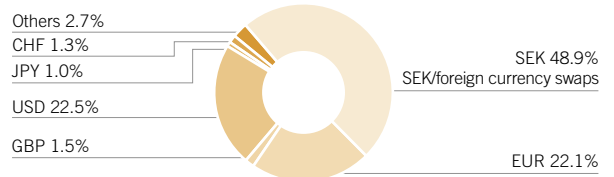


BENCHMARK FOR THE FOREIGN CURRENCY DEBT COMPOSITION



FUNDING IN FOREIGN CURRENCIES

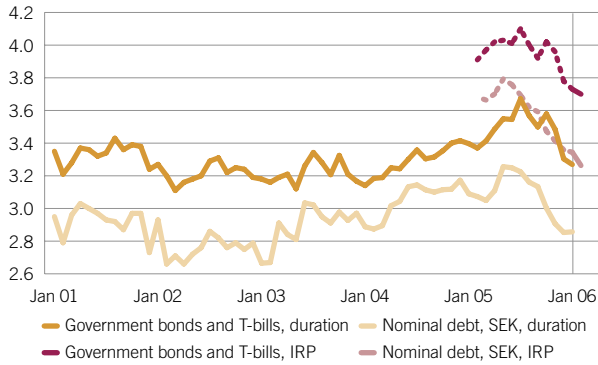
31 January 2006





INTEREST-RATE REFIXING PERIOD (IRP) AND DURATION OF NOMINAL DEBT

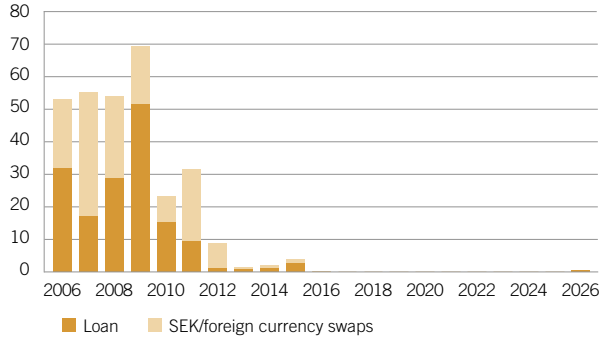
Years 31 January 2006



On 1 January 2006 the measure of maturity was changed from duration to interest-rate refixing period (IRP).

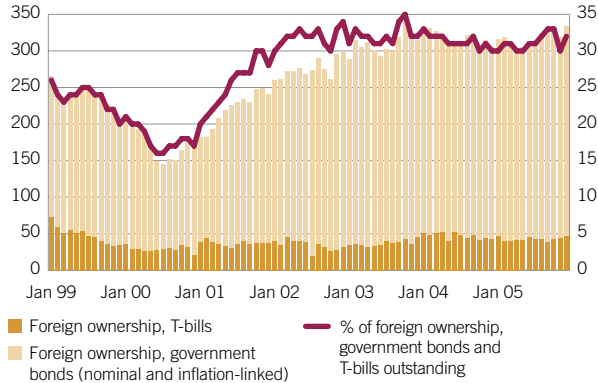
MATURITY PROFILE, FOREIGN CURRENCY LOANS EXCLUDING CALLABLE BONDS

SEK billion 31 January 2006



FOREIGN OWNERSHIP OF GOVERNMENT BONDS AND T-BILLS

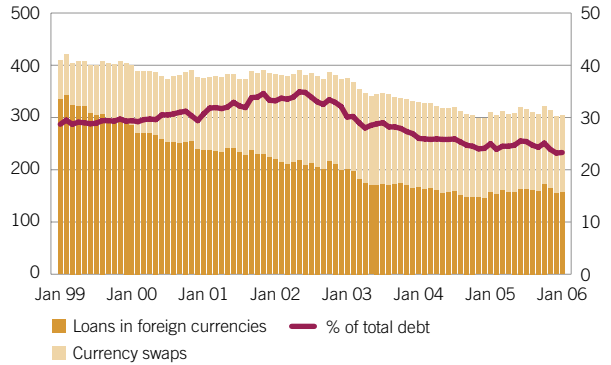
SEK billion %



Source: The Riksbank

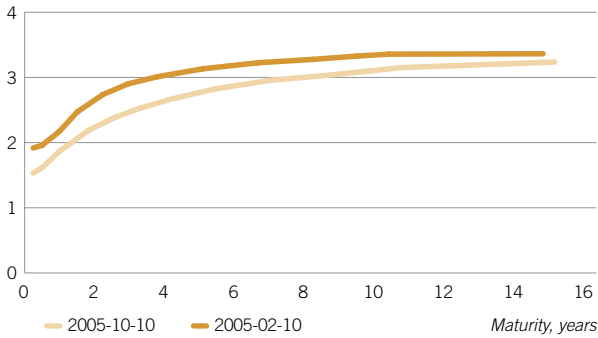
CENTRAL GOVERNMENT DEBT EXPOSURE IN FOREIGN CURRENCIES

SEK billion %

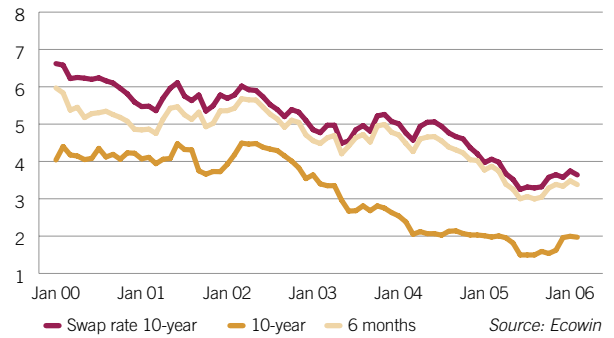




YIELD CURVE, SWEDISH GOVERNMENT SECURITIES
%

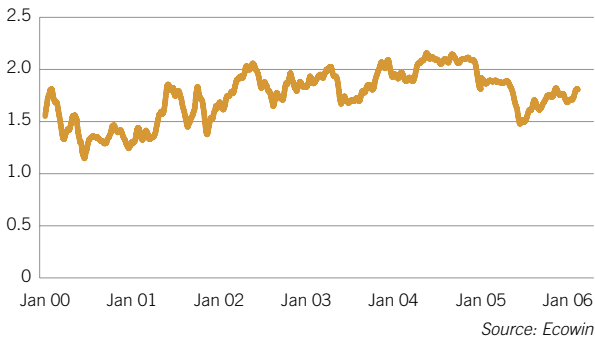


HISTORICAL INTEREST RATES
%

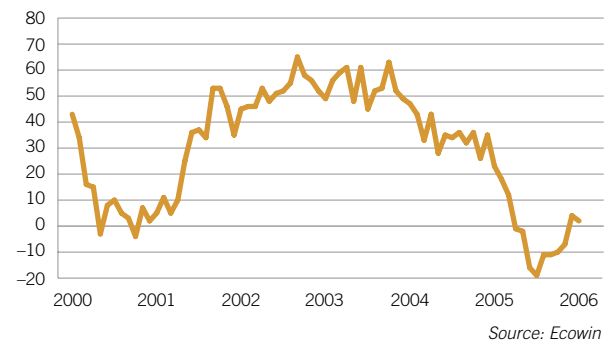


BREAK-EVEN INFLATION
%

Loan 1041-3105

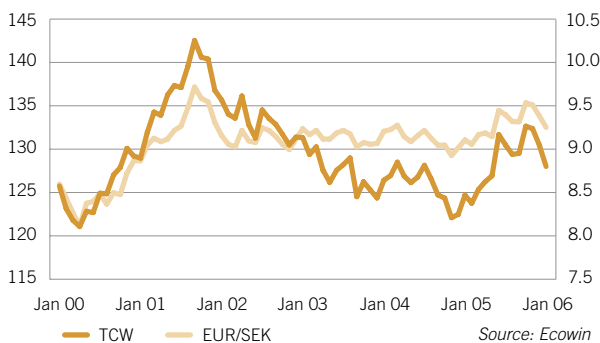


INTEREST RATE SPREAD VS GERMANY – 10-YEAR
Basis points

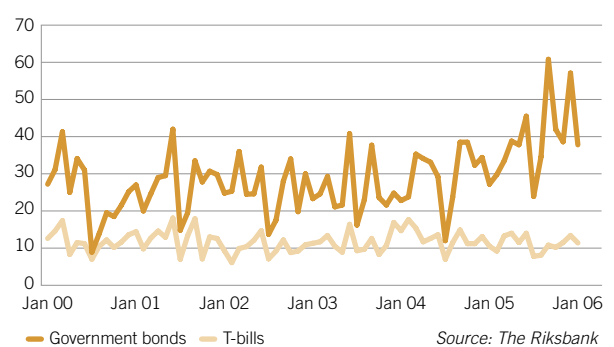


HISTORICAL EXCHANGE RATES
TCW – Trade-weighted index

EUR/SEK

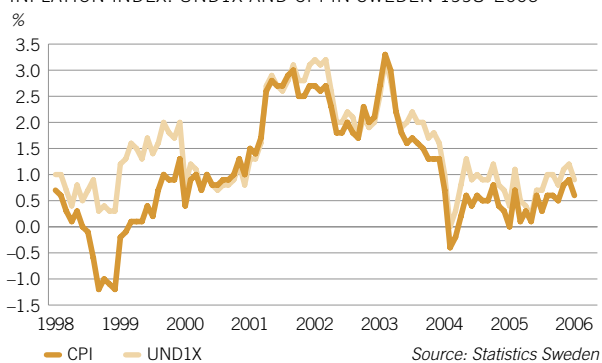


TRADING VOLUME, SWEDISH GOVERNMENT SECURITIES
Total turnover including options and forward contracts, SEK billion

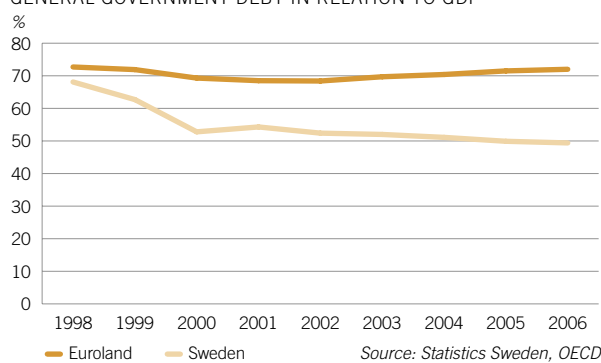




INFLATION INDEX: UND1X AND CPI IN SWEDEN 1998–2006



GENERAL GOVERNMENT DEBT IN RELATION TO GDP



NATIONAL ACCOUNTS, PERCENTAGE CHANGE

Supply and demand	2004	2005	2006	2007
Gross domestic product ¹	3.7	2.7	3.6	3.1
Imports	6.4	7.1	8.5	6.8
Household consumption expenditure	1.8	2.6	3.3	3.1
Government consumption expenditure	0.1	-0.1	1.2	0.8
Gross fixed capital formation	5.1	10.1	6.7	4.7
Stock building	-0.3	-0.1	0.1	0.0
Exports	10.8	5.7	7.9	7.0

Selected Statistics	Sep 05	Jan 06	2004	2005	2006	2007
CPI, year-on-year		0.6	0.3	1.0	1.7	2.3
Unemployment rate		6.3	6.0	5.9	5.0	4.4
Current account	7.6		6.6	6.2	5.9	6.3

¹ SEK 2,573 billion (current prices 2004).

Sources: Statistics Sweden, The Riksbank.

Forecasts: National Institute of Economic Research.

	Telephone	Reuter page
ABN Amro Bank NV	+46-8 506 155 00	PMAA
Danske Consensus	+46-8 568 808 44	PMCO
E Öhman J:or Fondkommission AB	+46-8 679 22 00	PMOR
FöreningsSparbanken	+46-8 700 99 00	PMBF
Nordea	+45-33 33 17 58	PMUB
SEB	+46-8 506 23 151	PMSE
Svenska Handelsbanken AB Publ.	+46-8 463 46 50	PMHD

GLOSSARY

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

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

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

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

Capital market ▶ Consists of the credit and stock markets

Coupon bond ▶ A bond with an annual interest payment.

Credit market ▶ Consists of the money and bond markets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Limits ▶ Quantitative limitation of amounts or risks.

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

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

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

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

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

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

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

Rating ▶ Is a certificate of, for instance, the ability of company or a country to perform its financial obligations, i.e. a certificate of credit-worthiness.

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

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

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

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

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

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

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

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

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

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

The next issue of Central Government Borrowing: Forecast and Analysis will be published on Wednesday 21 June, 2006, at 9.30 am.

The report is published three times a year.

For more information:

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Funding: Thomas Olofsson +46-8-613 47 82

Articles published earlier	Author	Issue
The proposed guidelines for 2006 in brief		2005:3
How and why the Debt Office forecasts the government's borrowing requirement	<i>Håkan Carlsson and Sofia Olsson</i>	2005:3
Government debt policy and the budget political goals	<i>Lars Hörngren</i>	2005:2
Currency hedging for government agencies	<i>Mikael Bergman</i>	2005:2
Cash Flow at Risk – a measure of market risk for interest payments forecasts	<i>Martin Lanzarotti</i>	2005:2
Last year in review		2005:1
The Debt Office borrowing scores high in client survey	<i>Maria Norström</i>	2005:1
The state's liquidity management	<i>Anna Sjulander</i>	2005:1
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