

# Formulation of annual guidelines for debt management strategy in Sweden

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# General remarks

# Why annual guidelines?

- Debt management a policy area in its own right
- Greater transparency (also helps evaluation)
- Clear distribution of responsibilities (also helps evaluation)
- Separation of debt management and monetary policy

# Who is it for?

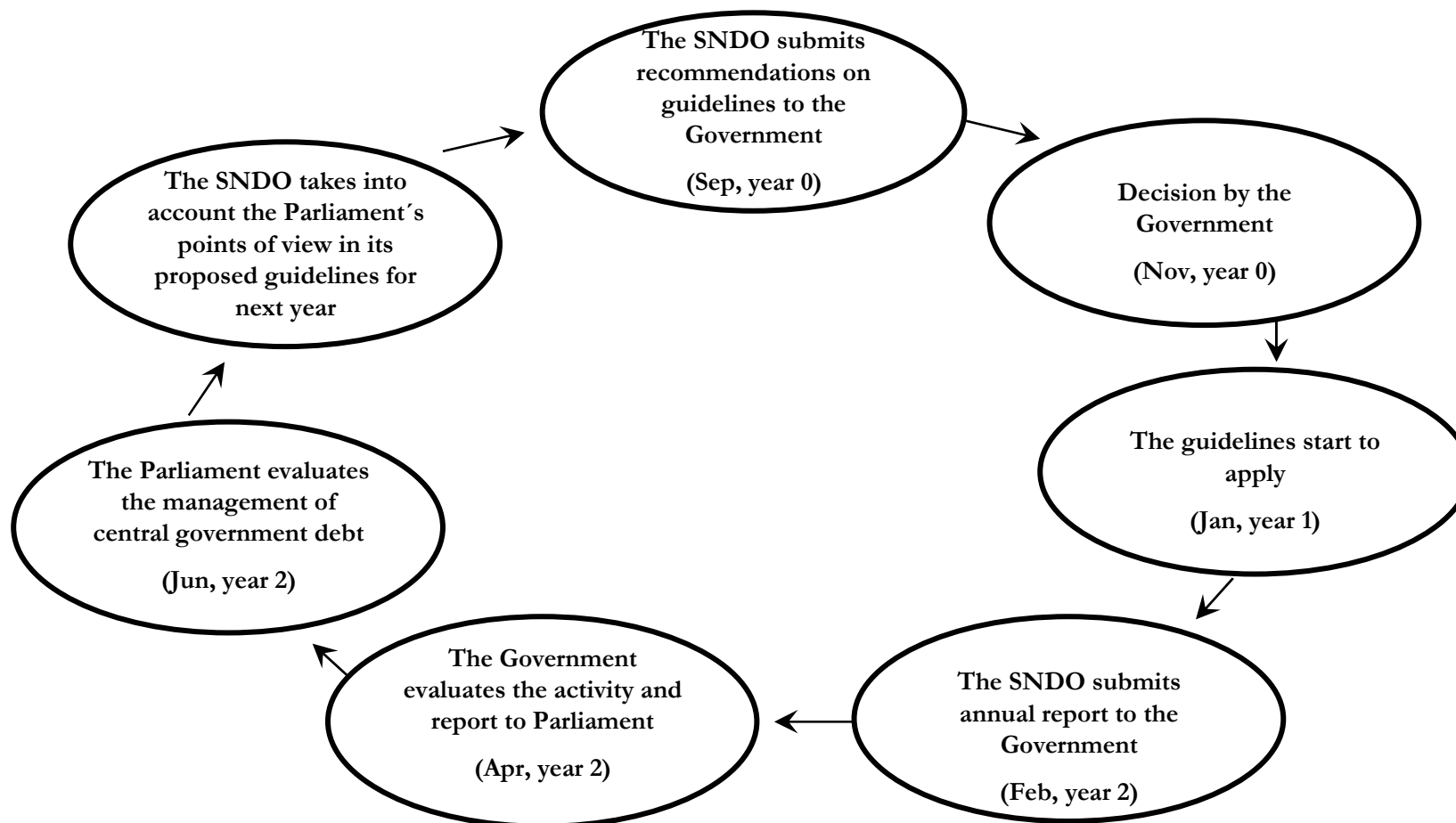
- A guideline process is probably applicable regardless of institutional set-up
- Regardless of starting point and level of ambition, there are benefits from taking a structured approach
- It should be of interest for all government debt managers – and their principals!

# The Swedish experience

# The Act on State Borrowing and Debt Management

- **Specifies the allowed purposes for borrowing**
  - To finance the budget and maturing debt
- **Establishes the objective for debt management**
  - Minimize costs while taking risks into account
- **Contains procedural rules**
  - See next slide...

# The annual guideline process



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# The concepts of costs and risks

- Market valuation or Yields at issue?
- Real or nominal costs/risks?
- Asset and Liability Management (ALM)  
/ Deficit smoothing
- Simulation models and portfolio optimization
- Debt composition and Maturity

# Debt composition

## a) Foreign currency debt (15 %)

- Offers interest rate diversification, and flexibility if borrowing needs increase
- ALM aspect (few foreign currency assets) and risk aspect (adds to swings in the deficit-to-GDP ratio)
- Annual amortizations corresponding to SEK 25 billion  $\pm$  15 billion

# Debt composition

## **b) Inflation-linked domestic debt (20 %)**

- Helpful for deficit smoothing, and reducing risk by portfolio diversification
- Periodically limited investor demand and high liquidity premiums

## **c) Nominal domestic debt (65 %)**

- Residual

# Maturity

## a) Nominal debt (3.1 years)

- Positive yield curves and deficit smoothing aspects points at short maturity
- Interest rate sensitivity and volatile short rates speaks for longer maturity
- Duration shortened by 0.4 years because of small risks, better fiscal stance and long IL-debt

# Maturity

## b) Inflation-linked debt (no target)

- Significantly longer maturity than nominal debt (currently 11.2 years)
- Hard for the SNDO to control maturity due to lack of liquidity and derivatives
- Choice of maturity should be adjusted to demand and borrowing costs

# Active debt management

## a) Strategic management

- Opportunistic funding (separation of funding currency versus benchmark exposure)
- Creating currency exposure from domestic funding

## b) Tactical management

- Views on interest rate and currency movements
- Only in the foreign currency markets

**Thank You for listening!**