2015

GUIDELINES FOR CENTRAL GOVERNMENT DEBT MANAGEMENT 2015

Decision taken at the Cabinet meeting
November 13 2014

LONG-TERM PERSPECTIVES COST MINIMISATION FLEXIBILITY

REGERINGSKANSLIET

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Summary

Direction of debt policy
The actual maturity of the central government debt is retained unchanged. The direction for the foreign currency debt is changed so that the foreign currency exposure in the central government debt will decrease gradually in the next few years. The annual rate of decrease is planned at SEK 20 billion and is limited by a ceiling of SEK 30 billion. As a result, the current steering of the share of foreign currency debt in central government debt is removed.

New principles are introduced for calculating the maturity of the central government debt and shares of the debt. Duration replaces the maturity measure of average interest rate refixing period. Central government debt measured as its nominal amount replaces the measure of consolidated cash flow for the debt in calculating the shares of the central government debt. The new calculation principles increase transparency and simplify reporting.

One consequence of changing the principles for the calculations is that the benchmarks for maturity and the inflation-linked share are changed. In practice, however the guidelines for maturity and the inflation-linked share are unchanged.

The composition of the debt is to be steered towards:

- Foreign currency debt: A reduction of up to SEK 30 billion per year
- Inflation-linked krona debt: 20 per cent
- The nominal krona debt is to make up the remaining share.

The maturity of the three types of debt is to be steered towards:

- Foreign currency debt: duration 0.125 years
- Inflation-linked krona debt: duration 6–9 years
- Nominal krona debt:
  - Instruments with a maturity of up to 12 years: duration 2.3–2.8 years
  - Instruments with a maturity of more than 12 years:
    long-term benchmark for the outstanding volume of SEK 70 billion.

Reduced foreign currency exposure
The steering of foreign currency exposure is changed from a share of 15 per cent of the central government debt to a gradual decrease in the next few years. The annual rate of decrease is planned at SEK 20 billion and is limited by a ceiling of SEK 30 billion. Changes in the krona exchange rate shall be excluded when calculating the rate of decrease.

The gradual decrease of the foreign currency exposure is justified by the lack of sufficient evidence that foreign currency exposure results in lower expected costs for central government. At the same time, exposure to other currencies creates a currency risk. Reducing the currency exposure thus reduces the risks without increasing the expected costs.

The rate of decrease is not judged to affect either the krona exchange rate or the Debt Office's access to international capital markets. Foreign currency loans are the loan instrument in which the central government has most possibility of borrowing large sums in a short space of time. To clarify that the Debt Office shall ensure that this loan preparedness remains in place a point on this matter is added to the guidelines.

The decision on the new steering of the foreign currency debt is in line with the Debt Office's proposal.

New principles for calculating maturity and shares

One condition for an attractive market in government securities is that central government debt policy is predictable and transparent. The change of principles for calculating maturity and shares is intended to further improve the management of central government debt in these respects.

One consequence of the change of maturity measure to duration (from average interest rate refixing period) is that the maturity interval for the nominal krona debt with instruments with a maturity of up to 12 years is reduced to 2.3–2.8 years (from 2.7–3.2 years) and that the maturity interval for the inflation-linked krona debt is reduced to 6–9 years (from 7–10 years). In a corresponding way the benchmark for the share of inflation-linked krona debt is reduced to 20 per cent (from 25 per cent). In practice the guidelines for maturity and for the share of inflation-linked krona debt are unchanged since it is only the measures that have been changed.

Basis for the guideline decision

The basis for the decision on the guidelines is the statutory objective that central government debt shall be managed in such a way as to minimise the long-term cost of this debt while taking account of the risk in its management. The management of the debt shall be conducted within the framework of monetary policy requirements.

A further consideration is the size of the debt and its expected development. At the end of 2013 the unconsolidated central government debt was SEK 1 277 billion (34 per cent of GDP). Forecasts by the Government, the National Financial Management Authority (ESV) and the National Institute of Economic Research (NIER) indicate that the corresponding debt at the end of 2018 will be between SEK 1 310 and 1 438 billion (28 and 31 per cent of GDP).

For Sweden the Maastricht debt was 41 per cent of GDP at the end of 2013. At the same point in time the corresponding share for the EU as a whole was 87 per cent and for the euro area it was 93 per cent.

Costs of the debt

The costs of central government debt are primarily affected by the size of the debt and the interest rate levels when the debt instruments are issued. Part of the central government debt is exposed to foreign currency, so exchange rate movements also affect costs. Similarly, in the case of the inflation-linked debt costs are affected by the development of the CPI.

Since the financial crisis in 2008 and 2009 market interests rates have fallen sharply. Along with Sweden's strong central government finances, this has meant that central government's borrowing costs have fallen to record low levels in recent years. For 2013 the interest costs for the central government debt were SEK 16 billion. In the Budget Bill for 2015 interest costs are calculated at SEK 17 billion for 2014. According to the calculations in the Budget Bill, interest costs are expected to rise successively in the period 2015−2018, reaching SEK 32 billion at the end of the period. The increase is primarily due to higher expected market interest rates.

Risks in debt management

The risk in the management of the central movement debt is defined at a general level as the debt's contribution to variations in the budget balance and the size of the debt. A lower debt, which results in lower costs, contributes to lower risk since the variation in its costs decreases (both expressed in kronor and in relation to central government finances in general). A lower central government debt to begin with also makes it easier for central government to borrow large sums in a crisis situation without a sharp rise in interest rates.

There is no single measure that describes the overall risk in the management of the debt. Instead different types of risk are reported, the most important being the interest rate refixing risk, the refinancing risk, the financing risk and the counterparty risk. The Government's and the Debt Office's strategies for borrowing and market maintenance limit the risks in the management of the debt in several different ways. However, strong and sustainable central government finances are the best insurance against both refinancing risks and financing risks.

The debt policy process

The objective of central government debt policy is adopted by the Riksdag (Swedish Parliament). In its annual guideline decision the Government takes decisions on the overall steering of debt management and thereby on the trade-off between expected cost and risk in the central government debt. The Debt Office is responsible for borrowing and management being conducted in line with the objective and within the framework of the guidelines adopted by the Government.

Under the Budget Act the Government shall adopt guidelines for the management of the central government debt no later than 15 November each year.

The Debt Office shall submit proposed guidelines no later than 1 October each year. The Riksbank (Swedish central bank) shall be given the opportunity to comment on the Debt Office's proposed guidelines.

The Government reports back to the Riksdag in an evaluation communication every other year. In the intervening years the Government reports its preliminary view on the management of the central government debt in the Budget Bill.

1 Decision on guidelines for central government debt management in 2015

Summary: The guideline decision for management of the central government debt in 2015 means that the actual maturity of the debt is retained unchanged. The steering of the foreign currency debt is changed from a fixed share of 15 per cent of the central government debt to a gradual decrease in the next few years. The rate of reduction of the foreign currency exposure shall be no more than SEK 30 billion per year. The rate of reduction shall be calculated in a way that excludes changes in the krona exchange rate.

The principles for calculating the maturity of the central government debt and shares of the debt are changed. The maturity measure of duration replaces average interest rate refixing period and the measure for calculating the shares of the central government debt is changed to their nominal amounts from the measure of the consolidated cash flows of the central government debt. The new calculation principles mean that the maturity interval for the nominal krona debt with instruments with a maturity of up to 12 years is reduced to 2.3–2.8 years (from 2.7–3.2 years) and the interval for the inflation-linked krona debt is reduced to 6–9 years (from 7–10 years). The benchmark for the share of inflation-linked krona debt is reduced for the same reason to 20 per cent (from 25 per cent). In practice, however, the guidelines for maturity and the share of inflation-linked krona debt are unchanged.

An addition is made to the guidelines to clarify that the evaluation of the management of the central government debt shall cover five-year periods. A clarification is also made that borrowing shall be conducted in such a way that the Debt Office maintains good borrowing preparedness.

The process for implementing and evaluating central government debt policy has been applied since 1998. Since then a large number of decisions have been taken and they have led to the current steering of debt management and the present composition of the central government debt. A large volume of analyses and discussions underlie these decisions.

The guidelines for 2015–2018 are set out below; the decisions for 2016–2018 are to be regarded as preliminary. In the cases where individual points in the guidelines differ from the Debt Office's proposal or earlier guideline decisions, this is stated. In order to provide an overview of the regulations that govern the management of the central government debt, the relevant parts of the Budget Act (2011:203) and the Ordinance (2007:1447) containing Instructions for the National Debt Office are presented here.

1.1 Objective for the management of the central government debt

1. The central government debt shall be managed in such a way as to minimise the cost of the debt in the long-term while taking risk in its management into account. The management of the debt shall be conducted within the framework of monetary policy requirements. *Budget Act (2011:203).*

1.2 The task of the Debt Office and the purpose of borrowing

2. The task of the Debt Office is to raise and manage loans for the central government in accordance with the Budget Act. *Ordinance (2007:1447) containing Instructions for the National Debt Office.*

3. Under the Budget Act the Debt Office may raise loans for the central government in order to:

   1. finance current deficits in the central government budget and other expenditure based on decisions of the Riksdag (the Swedish Parliament);
   2. provide credits and perform guarantees decided by the Riksdag;
   3. amortise, redeem and buy back central government loans;
   4. meet the need for central government loans at different maturities in consultation with the Riksbank; and
   5. satisfy the Riksbank's need for foreign currency reserves.

1.3 The guidelines process

4. The Debt Office shall submit proposed guidelines for central government debt management to the Government no later than 1 October each year. *Ordinance containing Instructions for the National Debt Office.*

5. The Government shall give the Riksbank the opportunity to comment on the Debt Office's proposed guidelines. *Budget Act.*

6. The Government shall adopt guidelines for the Debt Office's management of the central government debt by 15 November each year. *Budget Act.*

7. The Debt Office shall submit information for the evaluation of the management of central government debt to the Government no later than 22 February each year. *Ordinance containing Instructions for the National Debt Office.*

8. The Government shall evaluate the management of the central government debt every other year. The evaluation shall be presented to the Riksdag no later than 25 April. *Budget Act.*

9. The Debt Office shall establish principles for the implementation of the guidelines for central government debt management decided by the Government. *Ordinance containing Instructions for the National Debt Office.*

10. The Debt Office shall establish internal guidelines based on the Government's guidelines. The decisions shall concern deviation ranges for the maturity benchmarks decided by the Government for each type of debt, the use of the position mandate, the foreign currency distribution in the foreign currency benchmark and principles for market and debt maintenance.

1.4 Composition of central government debt – debt shares

The Government's decision	Debt Office proposal	Comment
11. The share of *inflation-linked krona debt* in the central government debt is to be 20 per cent in the long term.	In line with the Government's decision.	Changed share on account of new steering measure; see section 3.3

The shares of the debt types in the central government debt are to be calculated as nominal amounts at the current exchange rate including accrued compensation for inflation.		
12. The foreign currency exposure in the central government debt is to decrease. The decrease is to be not more than SEK 30 billion per year. The exposure shall be calculated in a way that excludes changes in the SEK exchange rate.	In line with the Government's decision.	A maximum amount for the reduction of the currency exposure replaces the previous steering of this share; see section 3.2.
13. The Debt Office is to set a benchmark for the distribution of the foreign currency debt across different currencies.	In line with the Government's decision.	Corresponds to current guideline.
14. In addition to inflation-linked krona debt and foreign currency debt, central government debt is to be composed of *nominal krona debt*.	In line with the Government's decision.	Corresponds to current guideline.

1.5 Maturity of the central government debt

The Government's decision	Debt Office proposal	Comment
15. The maturity of the nominal krona debt for instruments with maturities of up to twelve years is to be between 2.3 and 2.8 years.	In line with the Government's decision.	Changed maturity on account of new steering measure; see section 3.3
16. For nominal krona instruments with maturities of over twelve years, the long-term benchmark for the outstanding volume is to be SEK 70 billion.	In line with the Government's decision.	Corresponds to current guideline.
17. The maturity of the inflation-linked krona debt is to be between 6 and 9 years.	In line with the Government's decision.	Changed maturity on account of new steering measure; see section 3.3
18. The maturity of the foreign currency debt is to be 0.125 years.	In line with the Government's decision.	Corresponds to current guideline.
19. The maturity of the types of debt may deviate temporarily from the maturities given in points 15, 17 and 18.	In line with the Government's decision.	Corresponds to current guideline.
20. Maturity is to be measured as duration.	In line with the Government's decision.	New maturity measure; see section 3.3

1.6 Cost and risk

The Government's decision	Debt Office proposal	Comment
21. The trade-off between expected cost and risk is primarily to be made through the choice of the composition and maturity of the central government debt.	In line with the Government's decision.	Corresponds to current guideline.
22. The main cost measure is to be the average issue yield.	In line with the Government's decision.	Corresponds to current guideline.
23. The main risk measure is to be the average issue yield risk.	In line with the Government's decision.	Corresponds to current guideline.
24. The Debt Office is to take account of refinancing risks in the management of the central government debt.	In line with the Government's decision	Corresponds to current guideline.
25. Borrowing shall be conducted in such a way as to ensure a broad investor base and diversification in a range of funding currencies in order to maintain good borrowing preparedness.	In line with the Government's decision	Clarified guideline, see section 3.5.
26. Positions are not to be included in the calculation of debt shares and maturities.	In line with the Government's decision	Corresponds to current guideline.
27. When taking positions, market values are to be used as the measure of the costs and risks in the management of the debt.	In line with the Government's decision	Corresponds to current guideline.

1.7 Market and debt maintenance

The Government's decision	Debt Office proposal	Comment
28. The Debt Office is to contribute, through market and debt maintenance, to the effective functioning of the government securities market in order to achieve the long-term cost minimisation objective while taking account of risk.	In line with the Government's decision.	Corresponds to current guideline.
29. The Debt Office is to adopt principles for market and debt maintenance.	In line with the Government's decision.	Corresponds to current guideline.

1.8 Position-taking

The Government's decision	Debt Office proposal	Comment
30. The Debt Office may take positions in *foreign currency* and the *krona exchange rate*. Positions in foreign currency may only be taken using derivative instruments. Positions may not be taken in the Swedish fixed income market. Positions refer to transactions that are intended to reduce the costs of the central government debt while taking account of risk and that are not motivated by underlying borrowing or investment requirements. Positions may only be taken in markets that permit the management of market risk through liquid and otherwise well-developed derivatives and that are potentially a borrowing currency in the context of debt management.	In line with the Government's decision.	Corresponds to current guideline.
31. Positions in *foreign currency* are limited to SEK 300 million, measured as daily Value-at-Risk at 95 per cent probability. The Debt Office is to decide how much of this scope may be used at most in its ongoing management.	In line with the Government's decision.	Corresponds to current guideline.
32. *Positions* in the krona exchange rate may not exceed a maximum of SEK 7.5 billion. When the positions are built up or wound down, this is to be done gradually and announced in advance. The Debt Office is to decide how much of this volume that may be used at most in ongoing management in connection with exchanges between the krona and other currencies. This volume shall be of a limited size and the positions do not need to be announced in advance.	In line with the Government's decision.	Corresponds to current guideline.

1.9 Borrowing in the retail market

The Government's decision	Debt Office proposal	Comment
33. The Debt Office is to contribute through retail market borrowing to reducing the costs of central government debt compared with equivalent borrowing in the institutional market.	In line with the Government's decision.	Corresponds to current guideline.

1.10 Borrowing to meet the need for central government loans

The Government's decision	Debt Office proposal	Comment
34. The possibility of raising loans to meet the need for central government loans under Chapter 5, Section 1 of the Budget Act may only be used if required on account of threats to the functioning of the financial market. The Debt Office may have outstanding loans with a maximum nominal value of SEK 200 billion for this purpose.	In line with the Government's decision.	Corresponds to current guideline.
35. Investment of funds raised through loans to meet the need for central government loans should be guided by the principles set out in the Government Support to Credit Institutions Act (2008:814).	In line with the Government's decision.	Corresponds to current guideline.

1.11 Management of funds etc.

36. The Debt Office shall place its funds, to the extent that they are not needed for payments, in an account at the Riksbank, a bank or a credit market company, or in government securities or other debt instruments with a low credit risk. Deposits may be made abroad and in foreign currency. *Ordinance containing Instructions for the National Debt Office.*

37. The Debt Office shall cover the deficits that occur in the Government central account. *Ordinance containing Instructions for the National Debt Office.*

38. The management of exchanges between Swedish and foreign currency (currency exchanges) shall be predictable and transparent. *Ordinance containing Instructions for the National Debt Office.*

1.12 Consultation and collaboration

39. The Debt Office shall consult the Riksbank on matters concerning the components of its borrowing operations that may be assumed to be of major importance for monetary policy. *Ordinance containing Instructions for the National Debt Office.*

40. The Debt Office shall collaborate with the National Institute of Economic Research and the National Financial Management Authority on matters concerning Debt Office's forecasts of the central government borrowing requirement. *Ordinance containing Instructions for the National Debt Office.*

41. The Debt Office should obtain the Riksbank's views on how the funds borrowed to meet the need for central government loans under the Budget Act are to be invested.

1.13 Evaluation

The Government's decision	Debt Office proposal	Comment
42. Evaluation of the management of the central government debt is to be carried out in qualitative terms in the light of the knowledge available at the time of the decision. Where possible, the evaluation shall also include quantitative measures. The evaluation shall cover five-year periods.	In line with the Government's decision.	Clarification that the evaluation shall cover five-year periods; see section 3.4.

43. The evaluation of the operational management is to include borrowing and management of the different types of debt, market and debt maintenance measures and management of currency exchanges.

44. The realised cost difference between inflation-linked and nominal borrowing is to be reported for inflation-linked borrowing.

45. The cost saving compared with alternative borrowing is to be reported for retail market borrowing.

46. Positions within a position-taking mandate given are to be recorded continuously in income on an ongoing basis, and evaluated in terms of market values.

2 Basis for the Government's guidelines

Summary: The basis for the Government's decision on the guidelines is that the central government debt shall be managed in such a way as to minimise the long-term cost of this debt while taking account of the risk in its management. The management of the debt shall be conducted within the framework of monetary policy requirements.

A further consideration is the size of the debt and its expected development. At the end of 2013 the unconsolidated central government debt was SEK 1 277 billion (34 per cent of GDP). Forecasts indicate that at the end of 2018 the corresponding debt will be between SEK 1 310 and 1 438 billion (28 and 31 per cent of GDP).

The steering of the management of the central government debt is based on the statutory objective for debt policy. In the annual guideline decisions for debt management the Government steers the trade-off between cost and risk at a general level.

In general, strong government finances and low central government debt mean that the scope for risk-taking increases in return for lower expected costs. The trade-off between cost and risk is primarily made through the choice of the maturity of the central government debt. If a shorter maturity is chosen, the average cost is expected to be lower, while the risk in management rises (and the other way round). This is because it is assumed that the slope of the yield curve is positive over time, at the same time as short-term interest rates vary more. So when the interest rate on a larger part of the debt is refixed in every period, the variation in the total interest rate costs for the debt increases.

In exceptional cases the absolute level of interest rates can also be taken into account, as can the situation in loan markets and the Swedish krona exchange rate. In order to reduce the cost of the central government debt the Debt Office is able to take decisions on deviations from the benchmarks within the mandates it has been given. Derivatives are used for these deviations, which are defined as positions. These positions are evaluated separately and must not be taken in the Swedish fixed income market.

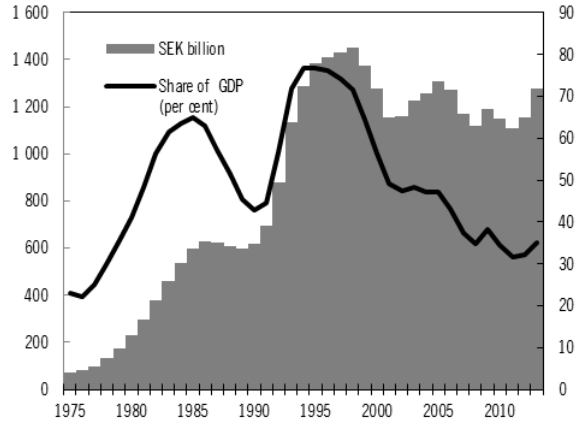
2.1 Central government debt

Development from a historical perspective

The central government debt has arisen because historically the central government budget has shown larger deficits than surpluses. Budget deficits are financed by new borrowing, while budget surpluses are used to amortise the existing debt. The central government debt is very much affected by the development of the economy and by decisions on economic policy. In some years one-time events, such as the sale of shares in state-owned companies and on-ledning to the Riksbank, also affect the development of the debt.

The unconsolidated central government debt is shown below. The Budget Bill reports the consolidated central government debt in the first place. The difference is made up of government agency holdings of government securities (SEK 41 billion at the end of 2013).

Diagram 1 Unconsolidated central government debt 1975–2013



Source: Debt Office

Central government debt has increased sharply as a percentage of GDP in two periods. Between 1976 and 1985 the central government debt increased as a share of GDP from 22 to 65 per cent and between 1990 and 1995 it increased from 43 to 77 per cent. Since 1995 central government debt has decreased gradually as a share of GDP, reaching 34 per cent at the end of 2013.[1] At the end of 2013 the unconsolidated central government debt was SEK 1 277 billion.

In 2009 and 2013 the Debt Office borrowed foreign currency, following a request by the Riksbank, in order to strengthen the currency reserve, and this increased the central government debt by around SEK 100 billion in each year. At the end of 2013 on-lending on behalf of the Riksbank amounted to SEK 193 billion (about five per cent of GDP). This on-lending does not affect the steering of the central government debt since it is a receivable for the state.

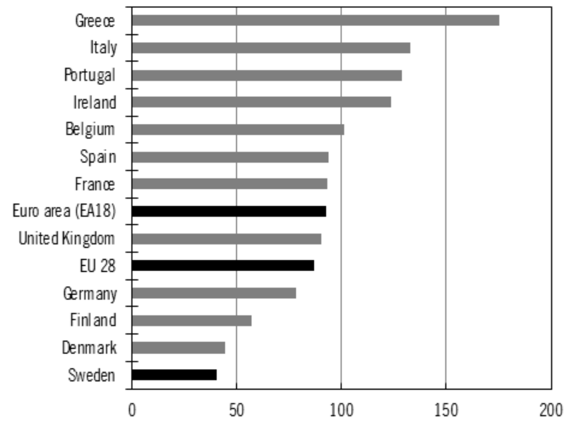
Since 2012 the Debt Office has applied a new way of measuring the central government debt. This change means that as of that year the unconsolidated central government debt is generally slightly higher. At the start of 2012 this difference was SEK 50 billion.

Comparison from an international perspective

In general the indebtedness of EU countries is compared on the basis of the 'Maastricht debt', a debt measure that refers to general government consolidated gross debt. The public sector is organised in different ways in different countries so this broader measure of debt increases cross-country comparability. In the case of Sweden, this definition means that the central government debt and the local authority sector's capital market debts are added together while the AP Funds' holdings of Swedish government bonds are deducted.

For Sweden the Maastricht debt was 41 per cent of GDP at the end of 2013. At the same point in time the corresponding share for the EU as a whole was 87 per cent, and for the euro area it was 93 per cent.

Figure 2. Maastricht debt in 2013 as a share of GDP



Source: Eurostat 64/2014, 23 april 2014

Future development of the central government debt

The future development of the central government debt is strongly dependent on economic developments in Sweden and internationally as well as on decisions on economic policy. It goes without saying that it is difficult to forecast the development of the central government debt over a number of years. Several forecasts of the development of the central government debt are therefore presented below. In addition to the Government, the following agencies make forecasts of public finances: the National Financial Management Authority (ESV), the National Institute of Economic Research (NIER) and the Debt Office. These forecasts are made for different purposes. The forecasting methods and time horizons also differ.

The Government's forecasts are an important part of the political process since they form the basis for Riksdag decisions on taxes and expenditure. The Government's forecast has

[1] In connection with the introduction of ENS 2010 GDP was increased by SEK 135 billion for 2013. As a result the debt ratio at the end of 2013 decreased from 35 to 34 per cent.

been taken from the Budget Bill for 2015 (Govt Bill 2014/15:1).

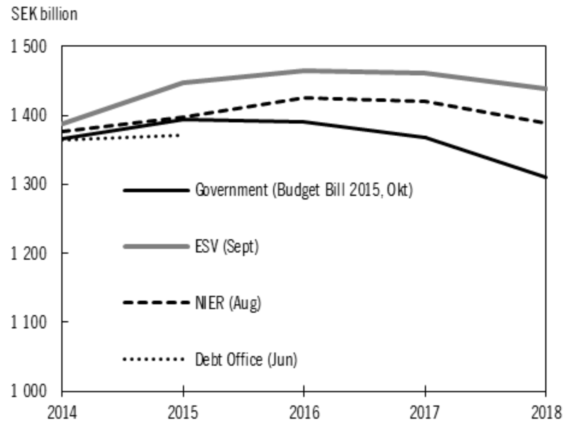
NIER forecasts focus on the development of the real economy in national accounts terms. The NIER also makes forecasts of the consolidated central government debt. The National Financial Management Authority's forecast of government agencies' holdings of government bonds has been used to calculate the unconsolidated debt. The National Institute of Economic Research's forecast has been taken from the publication *The Swedish Economy* in August 2014.

The National Financial Management Authority's forecasts provide supporting information for decisions and discussions on fiscal policy. Its forecasts are based on decisions taken and legislative proposals as well as, in some cases, measures announced by the Government and the Riksdag. The National Financial Management Authority's forecast has been taken from the publication *Prognos Statens budget och de offentliga finanserna [Forecast central government budget and public finances]* September 2014. Both the Government's and the National Financial Management Authority's forecasts are based on impact assessments given proposed or unchanged regulations and on a particular development of the macro economy. One difference is that the Government makes a standard assumption of sales income of SEK 15 billion per year.

The Debt Office's forecasts are made in cash terms and form the basis for the agency's issue planning. Since the forecasts also contain a plan for what loan instruments will be used, they help to increase transparency for players in the market. The Debt Office's forecast has been taken from the publication *Central Government Borrowing and Forecast 2014:2* from June 2014.

Figure 3 presents the forecasts made by the various agencies of unconsolidated central government debt until the end of the budget period in 2018.

Figure 3. Forecasts of the unconsolidated central government debt



Source: Government, SEV, NIER, Debt Office

The forecasts show a range for unconsolidated central government debt at the end of 2018 of between SEK 1 310 and 1 438 billion (28 and 31 per cent of GBP). This can be compared with the fact that at the end of 2013 the debt was SEK 1 277 billion, or 34 per cent of GDP. On-lending to the Riksbank amounting to SEK 200 billion is included both in the debt at the end of 2013 and in the forecasts. The question of the Riksbank's capital and currency reserve is currently being prepared in the Government Offices.

Future development of the economy according to the Budget Bill for 2015

The development of the economy has a strong impact on central government finances and therefore on the development of the central government debt. The Swedish economy is in an economic recovery. The Budget Bill for 2015 makes the assessment that growth in the Swedish economy will be moderate in 2014 but will increase in 2015 as a result of stronger international growth and greater confidence among Swedish companies and households. The low level of resource utilisation and an international recovery are expected to create conditions for relatively high GDP growth in 2016–2018, see table 1.

Table 1. GDP forecast according to the Budget Bill for 2015

	2013	2014	2015	2016	2017	2018
GDP	1.5	2.1	3.0	3.2	2.6	2.4

Fixed prices, reference year 2013
Source: Budget Bill for 2015 (Govt Bill 2014/15:1)

This forecast is based on the continued recovery of the international economy. The international recovery is expected to mainly be driven be the advanced economies with the support of expansive monetary policy and reduced fiscal restrain in these countries. As export demand rises, the production of goods is expected to increase. A better situation in the labour market in Sweden is expected to contribute to stronger growth of household consumption. Increased housing investments and investments in industry and services are also expected to make a substantial contribution to GDP growth in 2014 and 2015. As a result of increasing domestic demand, strong development is expected of the production of services in the business sector.

There are, however, risks of a weaker development. In summer and autumn 2014 geopolitical tensions have increased in various parts of the world. If the geopolitical crises around the world, in Ukraine for instance, deteriorate seriously, the effects on the world economy in general and also on the Swedish economy may be substantial. There is also a substantial risk of weaker economic development in the euro area. Monetary policy tightening in the US could result in a higher level of interest rates, which could then put a damper on the recovery. In Sweden high household indebtedness and the development of house prices are a risk in the forecast. The forecast assumes that housing prices will continue to rise in the next few years, but at a moderate pace.

Conclusion

The forecasts of the unconsolidated central government debt indicate that in 2018 the debt will be slightly lower as a share of GDP than it is today. However, the forecasts are associated with risks of a weaker development. Overall, the scope for risk-taking in the management of the central government debt is judged to be the same as before. This means that there are no reasons to alter the trade-off between cost and risk on the basis of the scope for risk-taking in the management of the debt.

2.2 Loan markets

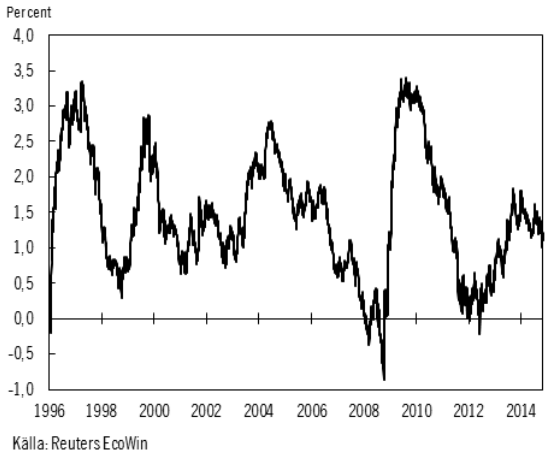
The yield curve slope

The slope of the yield curve affects the trade-off between cost and risk. When the yield curve has a steep positive slope, the cost saving from borrowing at shorter maturities increases. However, shorter borrowing means that an interest rate rise has a quicker impact on interest costs since the debt is refinanced more often. This increases the risk of variations in interest costs.

The Debt Office must not take positions in the Swedish fixed income market. The reason is to avoid concerns that the Debt Office could exploit information about its own future actions to take active positions.

One way of reporting the yield curve slope is to describe the difference between the interest rate level of ten-year government bonds and the level of three-month treasury bills. At the end of October the ten-year government bond interest rate was 1.15 percentage points higher than the interest rate for three-month treasury bills. As is seen in figure 4, the difference has been relatively constant in the latter part of 2013 and in 2014 after having returned to a more historical average after the financial crisis.

Figure 4. Difference between Swedish government loan ten-year and three-month interest rates as of 1996

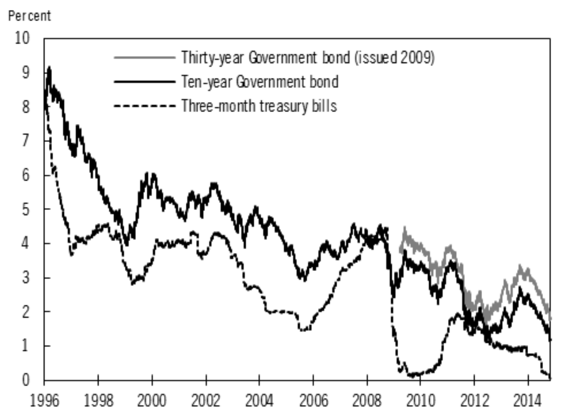


The yield curve level

The yield curve level is of less importance in the long-term choice of maturity. Considering that increases and decreases in the interest rate offset each other in the long run, the gain from having a long-term debt when interest rates rise is reduced by a loss that can be said to arise when interest rates fall again. However, in certain extraordinary cases, the interest rate level has affected the steering of maturities. This happened, for example, in spring 2009 when, the Debt Office was given the possibility of issuing a 30-year bond, partly with the aim of locking in low interest rates.

Interest rates on, for example, US, German and Swedish government bonds have shown a falling trend in the past year. One contributory factor has been geopolitical unrest, which has increased the demand for relatively safe investments. In Germany and Sweden the interest rate fall has also been driven by the fact that inflation has been lower than expected. Figure 5 shows that both short and long Swedish interest rates fell in 2014.

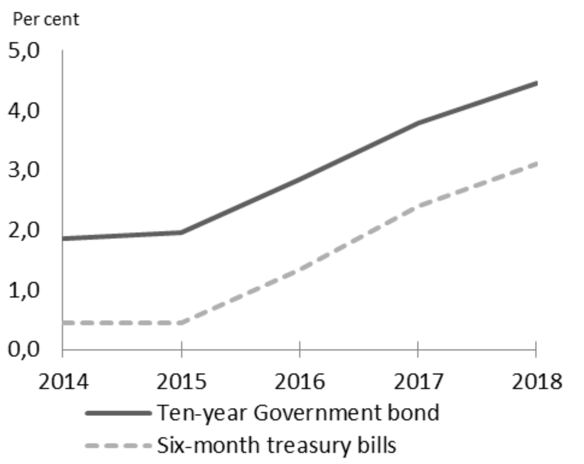
Figure 5. Swedish government interest rate as of 1996



Source: Reuters EcoWin

Government forecast of interest rate developments
In the Budget Bill for 2015 the Government expects the Riksbank to continue to pursue an expansive monetary policy over the next few years. For 2016–2018 GDP growth is expected to be relatively high in Sweden. Along with a gradual recovery of global activity, this is expected to lead to rising interest rates on government securities in the forecast period, see figure 6.

Figure 6. Government forecast of Swedish government interest rate, annual average 2014–2018



Source: Budget Bill for 2015 (Govt Bill 2014/15:1)

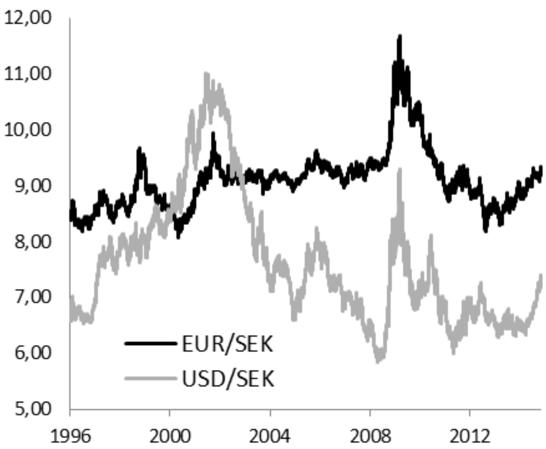
Conclusion
The situation in loan markets does not give any reason to change the previous trade-off between cost and risk in the management of the central government debt.

2.3 The Swedish krona

The size of the currency debt expressed in Swedish kronor affects the value of the Swedish krona in relation to currencies against which the foreign currency debt has exposure. In exceptional cases the guidelines for debt management have been affected by the expected development of the Swedish krona. The last time this happened was in May 2009 when the krona was judged to be severely undervalued in connection with the financial crisis. The mandate for positions in the krona exchange rate was raised at that time from SEK 15 billion to SEK 50 billion.

The historical development of the Swedish krona
During the financial crisis in 2008 and 2009 the krona weakened sharply when investors moved into the major currencies. As financial markets stabilised and when the signals about economic developments became more positive the krona strengthened in summer 2009. The next year the krona was traded at much the same levels as before the financial crisis. At the start of the European debt crisis in 2011 the krona was only weakened marginally. In the latter part of 2013 and in 2014 the krona has weakened in relation to the euro and the dollar. The weakening of the krona in this period can mainly be explained by weaker than expected economic statistics in Sweden, especially surprisingly low inflation.

Figure 7. Development of the krona as of 1996

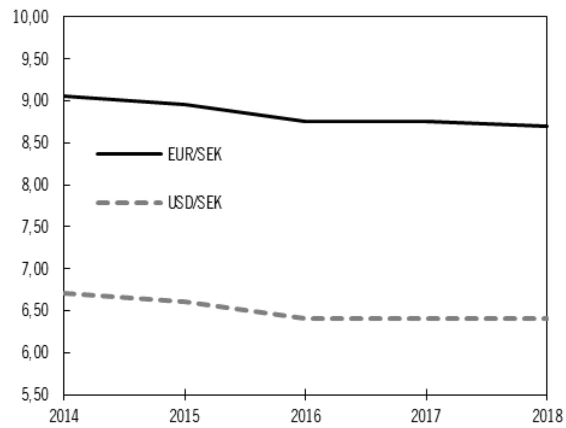


Source: Reuters EcoWin

Government forecast of the development of the krona

In the Budget Bill for 2015 the Government expects the krona to gain slightly in strength against the euro and the dollar in 2015. Thereafter the krona exchange rate is expected to be largely unchanged during the rest of the calculation period.

Figure 8. Government forecast for the krona at year-end



Source: Budget Bill for 2015 (prop. 2014/15:1)

Conclusion

Assessments of the development of the krona do not affect this year's guidelines. Within the framework of the position-taking mandates assigned to it the Debt Office is able to take account of expectations regarding the development of the krona in order to reduce the cost for the central government debt.

2.4 The Riksbank's comments on the Debt Office proposal

The Government shall give the Riksbank the opportunity to state its opinion on the proposal of the National Debt Office for guidelines for the management of the central government debt (Chapter 5, Section 6 of the Budget Act).

The Riksbank's opinion regarding the Debt Office's proposed guidelines for the administration of the central government debt in 2015-2018 states that the Riksbank has no objections since the proposals presented are considered to be compatible with the requirements set by monetary policy. In its opinion the Riksbank welcomes the fact that the guidelines stress the importance borrowing being conducted in such a way that good borrowing preparedness is ensured in various currencies. This is deemed to be important in order to ensure that the Debt Office will continue to have the ability, in the future, to borrow large volumes in foreign currencies, for example in order to strengthen the Riksbank's foreign currency reserve.

3 Reasons for the Government's decision

3.1 Trade-off between cost and risk in debt management

The steering of the management of the central government debt is based on the objective for debt policy. In the trade-off between cost and risk, account is taken of the size and expected development of the central government debt. In general, strong government finances and a low central government debt increase the scope for risk-taking in return for lower expected costs. In exceptional cases the absolute level of interest rates can also affect the guidelines, as can the situation in loan markets and the Swedish krona exchange rate.

At the end of 2013 the unconsolidated central government debt was SEK 1 277 billion (34 per cent of GDP). Out of this, SEK 193 billion was on-lending to the Riksbank, which corresponded to about five per cent of GDP. Forecasts from the Government, the National Financial Management Authority and the National Institute of Economic Research indicate that at the end of 2018 the central government debt will be between SEK 1 310 and 1 438 billion (including the on-lending to the Riksbank). As a share of GDP this corresponds to 28 and 31 per cent respectively. However, the forecasts are associated with risks of a weaker development. Overall, the scope for risk-taking in the management of central government debt is judged to be the same as before.

According to the guidelines the trade-off between cost and risk is primarily to be made through the choice of the composition and maturity of the central government debt (point 21). The guidelines state that the main cost and risk measure is the average issue yield (points 22 and 23). It is the exposure of the central government debt to various risks that is regulated, not the financing of the debt. However, there is an exception in point 16, which relates to a long-term benchmark for the volume of nominal krona instruments with maturities of over twelve years.

The Government's decision to reduce foreign currency exposure in the central government debt by no more than SEK 30 billion per year (excluding changes in the krona exchange rate) means that the probability of variations in costs, and therefore in risk, will decrease as the currency risk in the debt declines (section 3.2).

Costs of the debt

The costs of central government debt are primarily influenced by the size of the debt and the interest rate levels when the debt instruments are issued. Exchange rate movements also affect the cost of the debt since part of the debt is exposed to foreign currencies. Similarly the inflation-linked debt is affected by the development of the CPI.

The financial crisis in 2008 and 2009 led to sharp falls in market interest rates. Central banks all over the world reduced their key interest rates in order to counter the sharp economic downturn. Along with Sweden's strong central government finances, this has meant that central government's borrowing costs have fallen to record low levels in recent years. For 2013 the interest on the central government debt in cost terms was SEK 16 billion In the Budget Bill for 2015 interest costs are calculated at SEK 17 billion for 2014. For the period 2015–2018 the calculations indicate that interest costs are expected to increase successively and reach SEK 32 billion at the end of the period. The increase is mainly due to expectations of higher market interest rates.

Risks in debt management

The risk in the central government debt is defined as a general level as the debt's contribution to variations in the budget balance and the central government debt. A lower central government debt, which results in lower costs, contributes to a lower risk since the variation in the costs (expressed in kronor) decreases. A lower initial central government debt also makes it easier for central government to borrow large sums in a crisis without a sharp rise in interest rates.

There is no single measure that describes the overall risk in the management of the debt. Instead different types of risk are reported, the most important being the interest rate refixing risk, the refinancing risk, the financing risk and the counterparty risk.

The general measures of both cost and risk are based on the average issue yield. The issue yield means the interest rate (or yield) at which the Debt Office borrowed at the time of the issue. The average issue yield is calculated by weighing together all the individual issue yields with their outstanding volumes.

The interest rate refixing risk means the risk that the interest rate on the debt will rise rapidly on account of higher market interest rates. The greater the share of the debt that consists of short and floating rate loans, the more sensitive is the debt to changes in market interest rates. Short borrowing is generally cheaper than long borrowing, which means that a trade-off must be made between expected cost and risk. The trade-off in this year's guidelines is unchanged compared with before.

The refinancing risk refers to the risk that it will turn out to be difficult or costly to replace maturing loans with new ones. In general, the refinancing risk appears at the same time as the need for new borrowing rises sharply (financing risk). The refinancing risk reflects the time remaining to maturity, i.e. when the debt needs to be refinanced. The guidelines state that the Debt Office is to take account of refinancing risks in the management of central government debt (point 24). This guideline decision makes an addition in order to ensure good borrowing preparedness in foreign currencies (point 25 and section 3.5).

The Debt Office takes account of the refinancing risk in several different ways in its strategies for borrowing and market maintenance. It does so by, for example, ensuring infrastructure, an investor base and liquidity in the borrowing market. The bulk of the borrowing is done in government bonds that are spread over several loans with different maturity dates. The borrowing is spread continuously across small, regularly held auctions. A large part of the borrowing is carried out in the 10-year government bond, where the investor base is largest. Since 2009 the Debt Office also has nominal krona borrowing at longer maturities than twelve years, which means that the dates when the debt reaches maturity are spread over a longer period of time. The Debt Office's borrowing in foreign currency reduces the refinancing risk and the financing risk since the channel to the international capital markets is kept open. The international capital market makes it possible to borrow large volumes in a short space of time.

In the evaluation of its management of the central government debt the Debt Office has to report how it has lived up to the requirement to take account of refinancing risks.

At the end of 2013 the average interest rate refixing period for the whole of the central government debt was five years. The average time to maturity was also around five years. Strong and sustainable central government finances limit both the refinancing risk and the financing risk.

3.2 Reduced foreign currency exposure

New system for steering the foreign currency debt

The exposure in the foreign currency debt is to decrease. The decrease is planned at SEK 20 billion per year and is limited by a ceiling of SEK 30 billion per year. The rate of decrease shall be calculated in such a way as to exclude changes in the krona exchange rate as far as practically possible. Over and above changes in the krona exchange rate, there are other, more technical, reasons that make it difficult to steer foreign currency exposure on a calendar year basis. The ceiling of SEK 30 billion adopted for the rate of decrease provides scope for some flexibility in this steering. This creates scope to avoid transactions whose sole purpose is to fine tune the rate.

The rate of the decrease may be altered depending on what decision is taken on the proposal regarding hedging the foreign currency reserve of the Riksbank by entering forward contracts with the Debt Office. The proposal regarding hedging the foreign currency reserve is contained in the inquiry report on the Riksbank's financial independence and balance sheet (SOU 2013:9).

The reason why the decrease is not expressed as a smaller share is that the size of the central government debt would then have an impact on the actual size of the decrease. A reduction expressed in terms of a nominal amount gives a direct check of the size of the decrease in absolute terms. The steering of the debt share, in which foreign currency exposure has been steered towards 15 per cent of the central government debt and which has been applied in the period 2008–2014, is hereby replaced. In practice the system for steering this debt means a return to the order that was applied up until 2008.

No lower cost and risk with currency exposure

In its proposed guidelines in recent years the Debt Office has analysed whether there are reasons to have foreign currency exposure in the strategic portfolio of central government debt. Its analysis shows that the foreign currency exposure in the central government debt should be gradually wound down since it is not expected to lead to a lower risk or a reduced cost. A smaller foreign currency debt reduces the currency risk and thereby the expected variation in interest costs. This conclusion applies to the *exposure* of the debt in foreign currency and not to its *funding*. The decision to reduce the foreign currency exposure does not affect the Debt Office's possibility of borrowing in foreign currency.

The rate of reduction

The decision on the size of the rate of reduction is based on the rate obtained by letting the present foreign currency exposure mature. This gives a sum of about SEK 20 billion per year over the coming four-year period. At present about 60 per cent of the foreign currency exposure is made up of bond borrowing in kronor (long borrowing) that has been swapped to short debt in foreign currency. This rate is also assessed as suitable if the foreign currency debt is not to become much smaller in the next few years than the foreign currency reserve (the part of it that is not loan-financed via the Debt Office). This will make it possible to avoid large fluctuations in foreign currency transactions in the event that the proposal on the hedging of the foreign currency reserve is realised. At the end of 2013 the foreign currency debt was SEK 35 billion larger than the comparable part of the foreign currency reserve.

Setting a ceiling of SEK 30 billion for the reduction creates scope for deviations between outcomes and planned reductions. The adopted rate of decrease of the foreign currency exposure is not expected to have any effect on the krona exchange rate. From a historical perspective the rate of decrease adopted is to be viewed as limited. The amount is accommodated readily within the control range of ±2 percentage points within which the foreign currency debt is allowed to fluctuate within the steering of the debt share that has been applied since 2008. The size of the reduction can also be compared with the SEK position of SEK 50 billion that was sold spread over a period of less than 12 months in 2010 and 2011. Spreading the reduction over several years reduces the risk that the exchanges are carried out at an unfavourable point in time with respect to the SEK exchange rate.

Several years of analysis behind the decision

The background to the analytical work on foreign currency exposure in the strategic debt portfolio is the commission given to the Debt Office in spring 2010. That commission was to analyse what shares different types of debt should have in the case of much higher and much lower central government debt and how maturities should be managed in these cases. The commission was given because the debt shares were based on an analysis carried out by the Debt Office in 2004 when central government debt was 50 per cent of GDP.

It its proposed guidelines for 2012 the Debt Office presented a qualitative analysis of the issue. In its proposed guidelines for 2013 the arguments related to the foreign currency debt were summarised in the following five points:

- There are no theoretical grounds to believe that there is a systematic cost advantage in having foreign currency debt rather than krona debt (in a maturity-matched comparison).
- The variation in cost for foreign currency borrowing is higher than for borrowing in Swedish kronor on account of the variation in the exchange rate.
- Having some exposure in foreign currency can reduce the risk in the central government debt through diversification in the sense that dependence on the level of interest rates in individual countries, including Sweden, decreases.
- The foreign currency debt is a flexible instrument in the sense that central government can borrow very large sums in a short space of time. However, one condition for this to be applicable is that the foreign currency debt is not too large to begin with.
- There may be reason to always have a certain amount of foreign currency borrowing in order to ensure access to the international capital market.

In the analysis for the proposed guidelines in 2013, which was based on historical data, it is concluded that it would not have been possible to further reduce the cost variation for the central government debt by having a certain share of foreign currency debt. This analysis showed that the cost variation would have been very low with a portfolio only consisting of krona debt.

The Debt Office's proposed guidelines for 2014 and 2015 present in-depth analyses of the cost and risk aspects associated with the foreign currency debt. One starting point for the analysis of whether it is possible to reduce the expected cost of the central government debt by having exposure in foreign interest rates is the uncovered interest rate parity condition. The uncovered interest rate parity condition implies that if the interest rate is lower for a particular foreign currency than the interest rate in kronor, the Swedish krona is expected to depreciate by the equivalent of the interest rate differential. Given that expectations are correct on average over time, it follows that it will cost the same on average in the long-term to borrow in all currencies. In order to be able to reduce costs through foreign currency exposure, it must therefore be the case that the uncovered interest rate parity condition does not hold. Empirical studies have shown that this is so, i.e. that the uncovered interest rate parity condition does not hold. Low interest rate currencies, which should appreciate according to theory, tend to depreciate instead.[2] Strategies that try to take advantage of this phenomenon are known as 'carry strategies'. 'Carry strategies', can be described in simple terms as borrowing money in low interest rate currencies to invest it in high interest rate currencies, In general carry strategies make use of a large selection of currencies, while the Debt Office is restricted for the strategic portfolio to Swedish kronor as its investment currency (high interest currency).

As part of its analytical work the Debt Office has carried out empirical studies using historical data for the period 1993–2013, where exposure in Swedish kronor has been exchanged for exposure in euros, Swiss francs and Japanese yen. This analysis shows that the average cost saving for the whole period is zero for the strategies in which krona exposure was exchanged for exposure in euros and Swiss francs, while the average cost saving is just under two per cent for the strategy with the exposure in Japanese yen. However, the annual variation in the cost saving is large for all three strategies. This means that the result is strongly dependent on the period of time studied. Using historical data it is therefore difficult to find sufficiently strong proof that there is a long-term, systematic expected cost saving from foreign currency exposure.

The Debt Office's conclusion gains strength from the audit carried out by the ESV for the government communication *Utvärdering av statens upplåning och skuldförvaltning 2009–2013 (Evaluation of central government borrowing and debt management 2009–2013) (Govt Communication 2013/14:196).* That report draws the conclusion that currency movements tend to be the most important factor for how profitable it is to borrow in foreign currency. 'The ESV study of the past ten-year period shows that short-term foreign interest rates have, on average, been 2/3 of a percentage point

[2] See for example Froot & Thaler (1990) and Engels (1996).

lower than Swedish rates, but that in individual years the exchange rate has changed by ten per cent or more.[3]

Both the Debt Office and the ESV conclude that the positive basis swap spread that reduced the cost of the foreign currency debt during the financial crisis and in the subsequent three years has decreased gradually and is approaching its historical average of around zero.

The financing risk is not affected by this decision

The analytical work has highlighted two types of reasons for raising foreign currency loans. The first type is the financing risk and preparedness reasons stated in points 4 and 5 above. The second type relate to the possibility of spreading borrowing across more types of debt in situations where the borrowing need is increasing sharply since a further type of debt reduces the risk that the Swedish government bond interest rate will be forced up by a sharp increase in supply. See further section 3.5.

3.3 New principles for calculating maturity and shares

The Government decides to change the principles for calculating the maturity and shares of the central government debt. Duration replaces the previous maturity measure of average interest rate refixing period (ARP). For calculating shares of the central government debt, nominal amounts replace the previous measure consolidated cash flows (CCF).

Purpose of the change

In order to create an attractive market for government securities it is important that central government debt policy is as predictable and transparent as possible. Experience has shown that the present measures ARP and CCF have deficiencies in terms of transparency. The measures are only used by the Debt Office and are relatively complicated, which makes it more difficult for outside parties to analyse what effects a particular loan strategy will have on maturity and shares. Another disadvantage is that types of debt with long maturities take a disproportionately large share since all future payments are summed without being discounted.[4]

The new maturity measure of duration and the share measure of nominal amount are internationally accepted terms. Nominal amount is also used for other reporting of the central government debt, which makes the reporting more uniform. The change is expected to increase transparency while simplifying reporting.

Benchmarks changed but actual maturities and actual share of inflation-linked krona debt unchanged

One consequence of the change of maturity measure to duration (from ARP) is that the maturity range for the nominal krona debt with instruments with a maturity of up to 12 years is reduced to 2.3–2.8 years (from 2.7–3.2 years) and that the maturity range for the inflation-linked krona debt is reduced to 6–9 years (from 7–10 years). The maturity of the foreign currency debt is so short that the difference between the measures is negligible. As a result the benchmark for the maturity of the foreign currency debt is not changed.

The maturity interval of the nominal krona debt with instruments with a maturity of up to 12 years is thus reduced by 0.4 years, with the difference between the maturity measures accounting for 0.25 years. There is also the effect of moving foreign currency exposure at a floating interest rate to floating krona exposure since the foreign currency exposure is planned to decrease by SEK 20 billion in 2015. That corresponds to a shortening of the maturity of the nominal krona debt by 0.1 years.

The maturity interval for the inflation-linked krona debt is reduced by one year, which corresponds to the difference between the measures. The reason why the interval for the inflation-linked krona debt is reduced more than the interval for the nominal krona debt is that the inflation-linked krona debt has longer

[3] This calculation is based on the interest rates in the various currencies in the foreign currency debt, which consists since 2009 of 45 per cent EUR, 20 per cent CHF, 15 per cent JPY, 10 per cent USD and 5 per cent each in GBP and CAD.

[4] A treasury bill with short maturity is therefore given much less weight than a long bond with the same nominal amount.

maturity and is therefore affected more by the discounting of cash flows.

The benchmark for the share of inflation-linked krona debt is reduced to 20 per cent (from 25 per cent). The reason is the same as for the interval reduction, i.e. the fact that the long maturity of the inflation-linked krona debt has a greater effect when cash flows are discounted.

In practice the guidelines for maturity and for the share of inflation-linked krona debt are unchanged since it is only the measures that have been changed.

Background

The process for implementing and evaluating central government debt policy was introduced in 1988. Since the process began to be applied, a large number of decisions have been taken and they have led to the current steering of debt management and the present composition of the central government debt.

The present maturity measure ARP was introduced in 2006 when it replaced the maturity measure of duration. The reason for leaving the duration measure at that time was that it was difficult to steer duration to the exact decimal values that applied at that time for the steering of maturity. Duration is a measure that is affected by market interest rates since the measure is calculated using present value discounting on the basis of current market interest rates.

In recent years the steering of maturity has been made more flexible by the replacement of exact decimal values by control ranges for the nominal krona debt with instruments with maturities up to 12 years and for the inflation-linked krona debt. The more flexible system of steering means that it is deemed to be possible to handle changes in duration that follow from changes in the market interest rate within the control range. If interest rates rise or fall sharply over a long period, the Debt Office can propose in its coming proposed guidelines that the Government adjust the control range. It should also be noted that the variations that follow from seasonal changes in the size of the central government debt are greater than the changes that follow from changes in the market interest rate.

The present measure for debt shares, CCF; was brought into the guidelines for 2007. The purpose of the measure was to better reflect the risk exposure of the central government debt when outstanding coupon payments and inflation compensation were included over and above the nominal amounts. The disadvantage of the CCF measure is that it is less transparent. Nominal amount (including accrued compensation for inflation) is used in other reporting of the central government debt. The application of the same principle in the guidelines increases transparency and makes the reporting more uniform. One positive side-effect is that system management and reporting will also be simpler.

3.4 Clarification concerning the evaluation period

The Budget Act (2011:203) lays down that the Government shall deliver a written communication to the Riksdag every other year evaluating the management of the central government debt (Chapter 5, Section 7). Texts setting out the reasons for the Government's guideline decisions state that the evaluation of the management of the central government debt shall take place over a five-year period. An addition is made to point 41 of the guidelines to clarify this; "The evaluation of the debt management shall be carried out in the light of the knowledge available at the time of the decision. Where possible, the evaluation shall also include quantitative measures. The evaluation shall cover five-year periods."

3.5 New guideline on borrowing preparedness

The Debt Office's possibilities of borrowing in foreign currency are not limited by the decision to reduce the foreign currency exposure. Sections 3.1 and 3.2 describe the importance of ensuring that central government has effective access to the international capital market. This reduces the financing risk since foreign currency loans are the loan instrument in which central government has most possibility of borrowing large sums in a short space of time.

To clarify that the Debt Office shall ensure that this borrowing preparedness is in place, the following addition is made to point 25 of the guidelines: “Borrowing shall be conducted in such a way as to ensure a broad investor base and diversification in a range of funding currencies in order to maintain good borrowing preparedness”.

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