Guidelines for central government debt management 2025

Decision taken at the government meeting
7th November 2024

Government Offices of Sweden

Summary

The starting point for the Swedish Government's guidelines decision is the objective of central government debt policy adopted by the Riksdag (Swedish Parliament). The objective is that central government debt shall be managed so as to minimise the long-term cost of the debt while taking the risk associated with its management into account, and shall be conducted within the framework of the requirements of monetary policy.

Central government debt increased as a share of Gross Domestic Product (GDP) in 2023. It is expected that central government debt will continue to increase as a share of GDP early in the forecast period, and then decrease in 2026–2027. Even in absolute terms, central government debt is expected to increase initially. Central government debt will then decrease in billions of SEK in 2027.

The guidelines decision for 2025 means the following changes to the steering of debt management compared with the preceding year:

• The Swedish National Debt Office will continue to issue inflation-linked bonds, but the outstanding stock is to be gradually reduced. At the end of 2029, the inflation-linked debt is to amount to a target level of approximately SEK 80 billion (nominal amount without inflation compensation).

• Term to maturity is to be measured as average time to refixing (ATR).

• In guideline point 24, 'debt shares' is changed to 'composition'.

The composition of the central government debt is to be steered towards:

• Inflation-linked krona debt is to be gradually reduced, amounting to a target level of approximately SEK 80 billion by the end of 2029.

• Foreign currency debt (i.e. foreign currency exposure) is to continue to be gradually phased out and attain the target value of zero as of (1 January) 2027.

• Nominal krona debt is to continue to make up the remaining share of the central government debt after inflation-linked krona debt and foreign currency debt.

The term to maturity (in terms of average time to refixing) of the central government debt is to continue to be steered towards 3.5–6 years.

The Swedish National Debt Office's proposed guidelines and amendments to Sveriges Riksbank Act (2022:1568) among other factors formed the basis for this guidelines decision.

In connection with the preparation of the Government's guidelines decision, the Riksbank has been afforded the opportunity to provide its opinion on the Debt Office's proposal. The Riksbank has raised no objections.

The Government's guidelines decision for 2025 largely accords with the Debt Office's proposed guidelines.

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1 Guidelines decision for central government debt management 2025

The guidelines for 2025–2027 are set out below. For 2026 and 2027, the guidelines are preliminary, which follows the same principle as applied in the Government's budget proposal in the Budget Act (2011:203). 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 and the National Debt Office Instructions Ordinance (2023:909) are presented here.

The Government's guidelines decision largely accords with the Debt Office's proposed guidelines for 2025–2027.

1.1 Objective for the management of central government debt

1. Central government debt shall be managed so as to minimise the long-term cost of the debt while taking the risk associated with its management into account. Debt management shall be conducted within the framework of the requirements of monetary policy (Chapter 5, Section 5 of the Budget Act).

1.2 The Debt Office's task and purposes of the borrowing

2. The Debt Office shall provide loans to and accept funds on account from, primarily, central government agencies (Section 3 of the National Debt Office Instructions Ordinance).

Previous wording	*Adopted wording*
3. The Debt Office may raise loans for central government in order to:	3. The Debt Office may raise loans for central government in order to:
• finance current deficits in the central government budget and other expenditure based on decisions of the Riksdag;	• finance current deficits in the central government budget and other expenditure based on decisions of the Riksdag;
• provide credits and fulfil guarantees decided on by the Riksdag;	• provide credits and fulfil guarantees decided on by the Riksdag;
• amortise, redeem and purchase central government loans;	• amortise, redeem and purchase central government loans;
• in consultation with the Riksbank, meet the need for central government	• in consultation with the Riksbank, meet the need for central government

Previous wording	Adopted wording
loans at different maturities*; and* • *meet the Riksbank's need for currency reserves* (Chapter 5, Section 1 of the Budget Act).	loans at different maturities (Chapter 5, Section 1 of the Budget Act). *The Debt Office shall raise loans for central government to meet the Riksbank's need for borrowing in order to:* • *fulfil its obligations in relation to the International Monetary Fund; and* • *fund the foreign currency reserve. (Chapter 6, Section 4 and Chapter 10, Section 4 of the Sveriges Riksbank Act [2022:1568]).*

1.3 Guidelines process

Previous wording	*Adopted wording*
4. The Debt Office shall submit proposed guidelines for central government debt management to the Government by 1 October each year (Section 26f of the National Debt Office Instructions Ordinance).	4. The Debt Office shall submit proposed guidelines for central government debt management to the *Government Offices* by 1 October each year (Section *30* of the National Debt Office Instructions Ordinance).

5. The Government shall request an opinion from the Riksbank on the proposal of the National Debt Office (Chapter 5, Section 6 of the Budget Act).

6. No later than 15 November each year, the Government shall adopt guidelines for the management by the National Debt Office of the central government debt (Chapter 5, Section 6 of the Budget Act).

Previous wording	*Adopted wording*
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 (Section *26f* of the National Debt Office Instructions Ordinance).	7. The Debt Office shall submit information for the evaluation of the management of the central government debt to the *Government Offices* by 22 February each year (Section *30* of the National Debt Office Instructions Ordinance).

8. Every second year, the Government shall deliver a written communication to the Riksdag evaluating the management of the central government debt. The evaluation shall be presented to the Riksdag by 25 April (Chapter 5, Section 7 of the Budget Act).

Previous wording	*Adopted wording*
9. The Debt Office shall decide on principles for how to implement the guidelines adopted by the Government for central government debt management (Section *15* of the National Debt Office Instructions Ordinance).	9. The Debt Office shall decide on principles for how to implement the guidelines adopted by the Government for central government debt management (Section *41* of the National Debt Office Instructions Ordinance).

10. The Debt Office is to adopt internal guidelines based on the Government's guidelines. The decisions are to concern the use of the mandate for position-taking, the term to maturity of individual debt types, the currency distribution in the foreign currency debt, and principles for market support and debt maintenance.

1.4 Composition of central government debt

Previous wording	*Adopted wording*
11. The *share* of inflation-linked krona debt is to be *20% of the central government debt over the long term. The shares of the debt types in the central government debt* are to be calculated *as nominal* amounts *at the present exchange rate including* accrued inflation compensation.	11. *The outstanding stock of* inflation-linked krona debt is to be *gradually reduced. This type of debt* is to be calculated *in nominal* amounts *excluding* accrued inflation compensation. *At the end of 2029, the inflation-linked debt is to amount to a target level of approximately SEK 80 billion*.

12. The foreign currency exposure of the central government debt is to be gradually phased out and attain the target value of zero as of 2027. The foreign currency exposure may, however, vary as a result of the Debt Office making currency exchanges in accordance with point 35.

13. The Debt Office is to set a target level for the distribution of the foreign currency debt among different currencies.

14. In addition to inflation-linked krona debt and foreign currency debt, central government debt is to consist of nominal krona debt.

1.5 Term to maturity of central government debt

15. The term to maturity of the central government debt is to be between 3.5 and 6 years.

16. The Debt Office is to determine a term-to-maturity interval for the nominal krona debt, the inflation-linked krona debt and the foreign currency debt.

17. The term to maturity of the central government debt may deviate temporarily from the maturity interval stated in point 15.

Previous wording	*Adopted wording*
18. Term to maturity is to be measured as *duration*.	18. Term to maturity is to be measured as *average time to refixing (ATR).*

1.6 Cost and risk

19. The trade-off between expected cost and risk is to be made primarily through the choice of the composition and term to maturity of the central government debt.

20. The main measure of cost is to be the average issue yield. The cost is to be calculated using the valuation principle of amortised cost, taking accrued inflation and exchange rate changes into account.

21. The main measure of risk is to be the variation in the average issue yield.

22. The Debt Office is to take account of refinancing risks in the management of the central government debt, including by issuing instruments with more than twelve years to maturity.

23. Borrowing is to be conducted in a way that ensures a broad investor base and diversification in a range of funding currencies in order to maintain good borrowing preparedness.

Previous wording	*Adopted wording*
24. Positions are not to be included when calculating the *debt shares* and term to maturity.	24. Positions are not to be included when calculating the *composition* and term to maturity.

25. When taking positions, market values are to be used as the measure of cost and risk in the management of the debt.

1.7 Market support and debt maintenance

26. Through its market support and debt maintenance, the Debt Office is to contribute to the effective functioning of the government securities market in order to achieve the objective of long-term cost minimisation while taking account of risk.

27. The Debt Office is to adopt principles for market support and debt maintenance.

1.8 Position-taking

28. 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, or to reduce the risks for the central government debt while taking account of cost; 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 derivative instruments that are also potentially a borrowing currency in the context of debt management.

29. Positions in foreign currency are limited to SEK 300 million, measured as daily Value-at-Risk at 95% probability.

The Debt Office is to decide how much of this scope may be used at most in day-to-day debt management.

30. Positions in the krona exchange rate are limited to a maximum of SEK 7.5 billion. When the positions are built up or phased out, this is to be done gradually and announced in advance.

The Debt Office is to decide how much of this volume may be used at most in its day-to-day debt management in connection with exchanges between the krona and other currencies. This volume is to be of a limited size and the positions do not need to be announced in advance.

1.9 Borrowing to meet the need for government loans

31. The possibility of raising loans to meet the need for government loans under Chapter 5, Section 1 of the Budget Act may only be used if necessary in the event of a threat 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.

32. The investment of funds raised through loans to meet the need for government loans should be guided by the principles set out in the Preventive Government Support to Credit Institutions Act (2015:1017) and concerning the Stability Fund.

1.10 Management of funds etc.

Previous wording
33. The Debt Office shall place its funds, to the extent that they are not needed for outgoing 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. Investments may be made abroad and in foreign currency (Section *5* of the National Debt Office Instructions Ordinance).

Adopted wording
33. The Debt Office shall place its funds, to the extent that they are not needed for outgoing 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. Investments may be made abroad and in foreign currency (Section *22* of the National Debt Office Instructions Ordinance).

Previous wording
34. The Debt Office shall cover the deficits that occur in the central government cheque account (Section *7* of the National Debt Office Instructions Ordinance).

Adopted wording
34. The Debt Office shall cover the deficits that *can occur* in the central government cheque account (Section *24* of the National Debt Office Instructions Ordinance).

Previous wording
35. The *management* of exchanges between Swedish and foreign currency shall be characterised by predictability and clarity (Section *6* of the National Debt Office Instructions Ordinance).

Adopted wording
35. The *Debt Office's management* of exchanges between Swedish and foreign currency (currency exchanges) is to be predictable and transparent (Section *23* of the Ordinance containing Instructions for the National Debt Office).

1.11 Collaboration

Previous wording	Adopted wording
36. The Debt Office shall *consult with* the Riksbank on matters concerning *those parts* of its borrowing operations that can be of major importance for monetary policy (Section *12* of the National Debt Office Instructions Ordinance).	36. The Debt Office shall *afford* the Riksbank the *opportunity to provide an opinion before the Debt Office makes decisions* on matters concerning its borrowing operations that can be of major importance for monetary policy (Section *29* of the National Debt Office Instructions Ordinance).

Previous wording	Adopted wording
37. The Debt Office shall collaborate with the *National Institute of Economic Research (NIER) and the Swedish National Financial Management Authority (ESV)* in matters relating to the Debt Office's forecasts of the central government borrowing requirement (Section *11* of the National Debt Office Instructions Ordinance).	37. The Debt Office shall collaborate with the *Swedish National Financial Management Authority (ESV) and the National Institute of Economic Research (NIER)* in matters relating to the Debt Office's forecasts of the central government borrowing requirement (Section *28* of the National Debt Office Instructions Ordinance).

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

1.12 Evaluation

39. The management of the central government debt is to be evaluated in qualitative terms in light of the knowledge available at the time of the decision. Where possible, the evaluation is also to include quantitative measures. The evaluation is to cover five-year periods.

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

41. For inflation-linked borrowing, the realised cost difference between inflation-linked and nominal borrowing is to be reported.

42. Gains and losses are to be recorded continuously for holdings within a position-taking mandate and evaluated in terms of market values.

2 Basis for the Government's guidelines

2.1 Objective and steering

In its annual guidelines decisions, the Government steers the trade-off between cost and risk at a general level in the management of central government debt on the basis of the statutory objective of central government debt policy. The objective of central government debt policy is to manage the central government debt 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 debt is to be managed within the framework of monetary policy requirements.

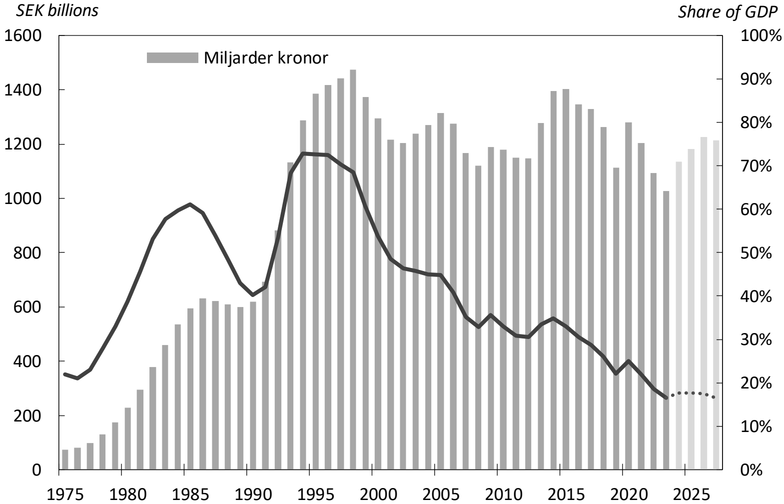
The trade-off is mainly made by choosing the term to maturity of the central government debt and its composition. Historically, a shorter term to maturity had led to a lower average cost than a longer term to maturity. Other important parameters that affect the cost of the central government debt are the size and expected development of the central government debt and interest rate levels at the time when debt instruments are issued. Since part of the central government debt is exposed to foreign currencies, exchange rate movements also affect the cost of the central government debt, and the costs of the inflation-linked debt affects the development of inflation (measured as the consumer price index).

Within its given mandates, the Debt Office may take positions in foreign currency and the krona exchange rate. These positions aim to reduce the costs of the central government debt while taking account of risk, or to reduce the risks for the central government debt while taking account of cost. Only derivative instruments may be used for these positions. These positions are evaluated separately, and they must not be taken in the Swedish fixed income market.

2.2 Size of the central government debt

The central government debt is affected by the development of the economy and by decisions on economic policy. Individual events can also affect the development of the central government debt; examples are the sale of shares in state-owned enterprises and on-lending to the Riksbank.

Figure 2.1 Unconsolidated central government debt[1]



[1]Unconsolidated central government debt includes government securities held by central government authorities.

Source: Swedish National Debt Office and the Budget Bill for 2025 (Govt Bill 2024/25:1).
Note: Outcome 1975–2023, Government forecast 2024–2027

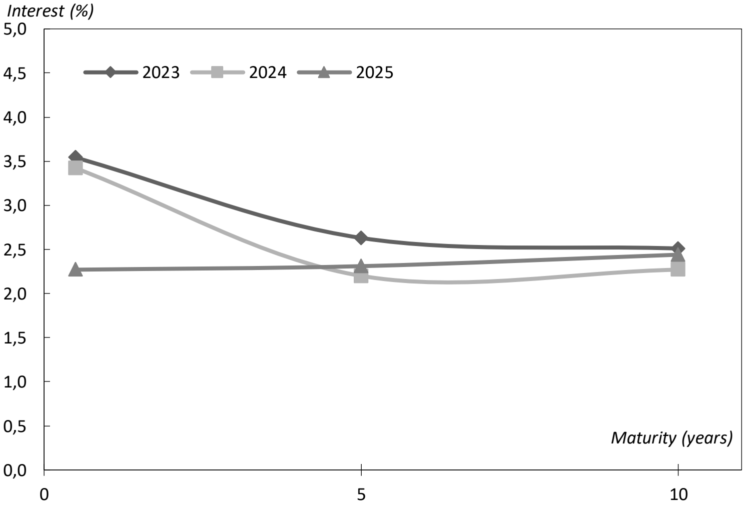
Central government debt as a share of GDP has shown a declining trend since the mid-1990s. After having grown temporarily during the pandemic year 2020, the previous trend of declining central government debt and borrowing requirements has continued. Figure 2.1 shows that the debt ratio fell by two percentage points to 17% of GDP in 2023. The projected development in the budget balance contributes to the expectation of an increase in central government debt as a share of GDP to 18% in 2024. It is not expected to decline until 2027, returning to 17% of GDP. At the same time, central government debt is expected to increase slightly in SEK billion during the forecast period. At the end of 2024, central government debt is expected to amount to SEK 1 136 billion, and thereafter increase by approximately SEK 45 billion per year over the next two years, to then decrease by just over SEK 10 billion in 2027 (Govt Bill 2024/25:1).

2.3 Development of interest rates

Central government's cost for borrowing at different maturities can be described, in simplified terms, with the aid of the yield curve for Swedish government securities, which shows the correlation between interest rates and maturities. The slope of the yield curve affects the trade-off between cost and risk. When the slope of the yield curve is positive, the interest rate for borrowing at short maturities (Treasury bills) can be lower than that for borrowing at long maturities (government bonds). This therefore increases the cost saving, in relative terms, from borrowing at short maturities, and vice versa. At the same time, a rise in interest rates has a quicker impact on interest expenses when borrowing has been at short maturities, as borrowing at shorter maturities increases the risk of variations in interest expenses.

The historically low government bond rates began to rise at the turn of the year 2021 to 2022 in line with the Riksbank’s decision to tighten monetary policy by means of rapid interest rate rises. This had a tangible impact on government bond rates for all maturities, in particular for the shortest maturities. The difference between government bond rates with short and long maturities thus decreased, resulting in a relatively flat yield curve. During summer 2022, the yield curve inverted, i.e. government bond rates with short maturities were higher than government bond rates with long maturities. During autumn 2023, market expectations shifted to an expectation of rate reductions as inflationary pressure had eased. During 2024, government bond rates have declined as a consequence of the Riksbank’s interest rate cuts and expectations of the policy rate level in the future. However, the inversion of the yield curve has largely persisted since then, albeit at a lower rate level.

Figure 2.2 Yield curve for Swedish government securities, annual average



Source: Budget Bill for 2025 (Govt Bill 2024/25:1).
Note: The graph shows the annual average market rates for the 2023 outcome and forecasts for 2024 and 2025. Rates refer to 6-month Treasury bills, 5-year government bonds, and 10-year government bonds. The annual average is an average of all daily closing rates up to the current month. For the current month and onwards, it is a forecast monthly average.

The development in market rates is normally less important for the Debt Office’s overall trade-off between cost and risk. In the trade-off between cost and risk, and between risks, structural changes such as the development of different types of premiums (e.g. term premiums) and the size of the central government debt over time are the factors that play a role.

2.4 Somewhat improved liquidity in government securities

The term ‘liquidity’ refers to the general possibility of concluding a transaction quickly, at a reasonable cost, and with little impact on prices. As a bond issuer, the Debt Office is active in the primary market and the bonds are then sold to investors in the secondary market. If liquidity in the secondary market decreases, pricing in the market may decline, which could in turn lead to more volatile prices and increased uncertainty for all actors. In the long term, this can risk leading to higher borrowing costs for central government and difficulties in attracting investors.

The issue of liquidity in the credit markets has been the subject of discussion and analysis on many occasions in recent years.

In summer 2023, the Financial Stability Council (Committee on Financial Stability [Fi2013:09]) published the report *Obligationsmarknaderna – en kartläggning* (The bond markets – a survey). All in all, the analysis points to a deterioration in the functioning of the bond markets, including the secondary market for government bonds, although the survey also includes quite a lot of variation and uncertainty. However, during autumn 2023 there were signs of a turnaround to somewhat improved liquidity in the government securities market, which has continued during 2024. Both surveys and quantitative measures show that liquidity in the secondary market for nominal government bonds has stabilised. In the Riksbank’s Financial Markets Survey of April 2024, market participants perceived a clear improvement in the liquidity for nominal government bonds since autumn 2023. The Debt Office’s annual survey of perceived liquidity in terms of volume and spread (difference between bid and offer prices, which are two important aspects of liquidity) at the end of 2023 shows that market participants perceived an improvement compared to 2022. However, the market participants who responded to the survey still scored it at low levels, and still score liquidity in the secondary market at an unsatisfactory level. The Financial Supervisory Authority’s liquidity index – a quantitative measure based on a number of indicators which are weighed together in an aggregate measure of market liquidity – also shows that liquidity in the secondary market for nominal government bonds has stabilised, albeit at a low level.

2.5 The Swedish krona

The size of the foreign currency exposure expressed in Swedish kronor is affected by the value of the Swedish krona in relation to the currencies that the central government debt has exposure to. Foreign currency exposure therefore means that the interest expense in Swedish kronor increases if the Swedish krona weakens and vice versa, and the risk involved with foreign currency exposure is therefore also affected by the volatility of the currency market. The exchange rate for the Swedish krona is affected by demand in the international currency market.

So far in 2024, the Swedish krona has weakened against the Euro and the US dollar. However, in 2025 the krona is expected to strengthen again against both the Euro and the US dollar (Govt Bill 2024/25:1). Volatility in the foreign exchange markets has remained high in 2024. Even the krona has shown greater price movements than normal, mainly against the Euro, but less than in 2022 and 2023. Increased concern and volatility in the financial markets usually lead to a weakening of the krona against larger and more liquid currencies for a period of time.

2.6 The Riksbank's opinion on the Debt Office's proposal

Under the Budget Act, the Government is required to obtain proposed guidelines from the National Debt Office and request an opinion from the Riksbank on the proposal of the Debt Office (Chapter 5, Section 6). The Riksbank raised no objections to the Debt Office's proposal for guidelines for the management of the central government debt for the period 2025–2027.

3 Reasons for the Government's Decision

3.1 Trade-off between cost and risk in debt management

The trade-off between cost and risk is set in the annual guidelines and, according to them, is primarily to be made through the choice of the composition and term to maturity of the central government debt (point 19). The main measure of cost is the average issue yield (point 20) and the main measure of risk refers to the variation in this measure (point 21).

In the guidelines, the Government steers exposure to various risks, while giving the Debt Office flexibility about how to implement the financing. The Debt Office can therefore borrow in debt instruments with the maturities that are best in the circumstances and keep the risks within the guidelines via derivative instruments. In recent years, the Government has refined this steering so as to clarify the overall level of risk. This flexibility is of particular importance in keeping borrowing costs down when the borrowing requirement increases, especially if the increase is temporary, as in 2020, when the Debt Office could have borrowed large sums at short maturities without deviating from the term-to-maturity interval.

In this year's guidelines proposal, the Debt Office has analysed the current composition of the central government debt and stated that it has not identified any cost advantage of inflation-linked debt being a 20% share. The analysis also shows that the diversification effect is limited – inflation-linked bonds do not appreciably lower the total cost variation. In previous proposed guidelines, the Debt Office has stated that it has not identified any distinct and lasting cost advantage to inflation-linked versus nominal borrowing. When updating the analysis for this year's proposed guidelines, the Debt Office reached the same conclusion (see also Section 3.2).

3.2 Issue of inflation-linked bonds continues, but outstanding stock to be gradually reduced

In previous proposed guidelines, the Debt Office has stated that it has not identified any distinct and lasting cost advantage to inflation-linked versus nominal borrowing. In this year's proposed guidelines, the Debt Office sets out an updated analysis and comes to the same conclusion. The analysis also shows that the diversification effect is limited – inflation-linked bonds do not appreciably reduce the total cost variation, i.e. do not lower the total risk in the debt portfolio.

In the yearly report Central Government Debt Management – Basis for Evaluation, the Debt Office regularly reports the calculated cost of inflation-linked borrowing. The calculation is based on certain assumptions including the cost of borrowing in inflation-linked bonds is compared to a hypothetical nominal borrowing at the same maturity. In its latest report (2024), the Debt Office reports that, due to the high inflation, inflation-linked borrowing in 2022 cost SEK 19.8 billion more than nominal borrowing. In 2023, the inflation-linked debt also gave rise to a negative result – an extra cost – of SEK 11 billion. The large additional cost in 2022 and 2023 has cancelled out most of the accumulated positive results since the Debt Office introduced inflation-linked bonds in 1994.

Given the current conditions of a low central government debt and a deterioration in the market liquidity for government bonds, the Debt Office also makes the assessment that it is difficult to maintain a liquid secondary market for both nominal and inflation-linked bonds. Nominal government bonds are the Debt Office's largest and most important funding source, because they are the instrument with which the Debt Office has the best prospects of minimising the borrowing cost over time. There is therefore reason to prioritise nominal government bonds over other debt instruments such as inflation-linked bonds, which becomes even more relevant when the central government debt is small.

In view of the above, there are arguments in favour of reducing inflation-linked debt. There are, however, reasons for retaining this type of debt as a smaller share of the central government debt. One reason is that the inflation-linked debt could be a cost-minimising element in the future. Another reason is that the Debt Office may need to drastically increase borrowing at a future time. Borrowing in different debt types has the potential to reach more investors. Maintaining a presence in the inflation-linked bond market would facilitate a future significant increase in borrowing if it were to become necessary. Inflation-linked borrowing could then help to ease pressure on the market for nominal government bonds and Treasury bills.

In addition, since the development in both the central government debt and inflation lie outside the control of the Debt Office, measuring the development in inflation-linked debt in volume rather than as a share of central government debt would also facilitate the steering.

In the guidelines decision for 2025, the Government established that the share of the outstanding stock of inflation-linked krona debt is to be gradually reduced. This type of debt is to be calculated in nominal amounts and exclude accrued inflation compensation. At the end of 2029, the inflation-linked debt is to amount to a target level of approximately SEK 80 billion.

The change in the composition of the central government debt means that the outstanding inflation-linked debt is to be reduced from 20% of central government debt over the long term. The main reason for the proposed change is that the current share does not contribute to either reducing the overall costs or the risks associated with the central government debt. The inflation-linked debt is to be steered towards a target level expressed as a nominal amount instead of as a share of the central government debt, and exclude accrued inflation compensation.

In this year's proposed guidelines, the Debt Office describes how a decrease from the current SEK 177 billion to approximately SEK 80 billion by 2029 will be due to the loans that will mature as planned during the period. In nominal terms, these redemptions lead to the outstanding volume decreasing to SEK 56 billion in 2029. At the same time, the Debt Office plans to issue inflation-linked bonds in the range of SEK 20 billion to SEK 30 billion in the period, causing the outstanding volume to increase and thus end up at the target value of approximately SEK 80 billion by the end of 2029.

After the decrease, the inflation-linked share will be around 10%. That is in line with several other countries, such as Denmark, France and the US. The current inflation-linked debt share of 20% is comparatively high from an international perspective.

3.3 Steering of foreign currency exposure remains unchanged

A significant aspect of the trade-off between cost and risk is central government debt's foreign currency exposure. The currency exposure is being phased out on the grounds that it brings a higher risk without offering any cost advantages over time.

Foreign currency exposure fluctuated marginally during the period 2020–2023, as the phasing out of the foreign currency debt since 2017 was paused pending the Debt Office's analysis. The movements in foreign currency exposure that occurred were largely caused by the strengthening of the Swedish krona in 2020 and its subsequent weakening in 2021–2023. At its highest, foreign currency debt amounted to SEK 116 billion (measured at present exchange rates) at the beginning of 2023, corresponding to approximately 10.4% of the total central government debt. Foreign currency debt then began to decline in 2023 in accordance with the guideline to gradually phase out the central government debt's foreign currency exposure and attain the target value of zero as of 2027. The phasing out means that the Debt Office is selling SEK for mainly Euro and Swiss francs, which are the currencies the central government debt has exposure to.

As of 30 August 2024, foreign currency debt amounted to approximately SEK 58 billion and accounted for just under 6% of central government debt.[1]

Given the objective of central government debt policy, the Government does not consider that there is reason to change the steering of central government debt's foreign currency exposure in order to attain the target value of zero from 1 January 2027.

3.4 New measure of term to maturity but steering remains unchanged

The term to maturity of the central government debt is to be between 3.5 and 6 years.

In recent years, the guidelines have been adjusted to refine this steering in order to clarify the overall level of risk. This refined steering, and especially the common term to maturity for all of central government debt, enables the Debt Office to adapt borrowing to both current demand and temporary fluctuations in the borrowing requirement, thereby keeping borrowing costs down. This flexibility has been particularly important in years with uncertainty, with large fluctuations in the borrowing requirement. The purpose of having a maturity interval is to set appropriate conditions for borrowing planning and among other things manage forecast deviations –not to manage changes in the measure of term to maturity due to interest rate movements.

Since the Government's guidelines decision for 2015, duration has been used as the measure for steering the term to maturity of the central government debt. The Debt Office considers that the practical implications of the impact from interest rate movements may have been underestimated when duration was introduced as the measure for steering the debt's term to maturity. In this year's proposed guidelines, the Debt Office therefore proposes a transition from measuring term to maturity as duration to measuring it as the average time to refixing (ATR). Like duration, ATR is a measure of term to maturity for interest rate refixing risk – but is not affected by changes in the market interest rate which can lead to undesirable steering signals. ATR is calculated as the weighted average remaining time until the interest rate is to be refixed. The weights are based on nominal amounts at the current exchange rate including accrued inflation. Because discounting is not used in this weighting method, ATR is not affected by the interest rate level. Discounting is used in the current measure for steering the term to maturity – the Macaulay Duration – which is the present-value-weighted average repayment time of a debt instrument and takes into account all cash flows including coupons. The present value is calculated by discounting the terminal value by the current interest rate. Duration is thus affected by interest rate level: when interest rates rise, the

[1] Report "Sweden's Central Government Debt August 2024", Swedish National Debt Office, p. 4.

present values of the cash flows that lie further into the future decrease more than for those closer in time. The cash flows in the near future are thus weighted up relative to those that lie further into the future and the duration becomes shorter. The reverse happens when interest rates drop. Although the measure captures the refixing risk by expressing the average remaining time until the interest rate is to be refixed, it can also change as a result of the interest rate environment while the composition of the central government debt stays unchanged.

A measure of term to maturity that is affected by changes in market interest rates can have undesirable and unpredictable consequences for the debt management. If interest rates rise, the Debt Office may need to borrow at longer maturities to compensate for the decline in the duration (and vice versa), which is not a desirable feature of the steering system. The purpose of choosing the term to maturity is to control refixing risk, i.e. the risk of large fluctuations in the interest expenses for the central government debt due to the debt needing to be refixed. This can be done by steering the composition of bonds with short and long maturities. Therefore it is more appropriate to have a steering measure that is not affected by changes in market interest rates.

The Government emphasises the importance of a measure of term to maturity that is functional for steering the composition of the central government debt. In the guidelines decision for 2025, the Government establishes that the maturity measure shall be average time to refixing (ATR). The term to maturity of central government debt is to continue to be between 3.5 and 6 years.

3.5 Basis for the evaluation

Together with the proposal to decrease the inflation-linked debt, in this year’s proposed guidelines the Debt Office has proposed a more comprehensive evaluation of both the strategic and operative management of the central government debt. The Debt Office also proposes adding a new point in the guidelines stipulating how changes to the guidelines are to be evaluated. Both proposals require the evaluation to be carried out in accordance with the principles set out in guideline point 39. In terms of the evaluation of reduced inflation-linked debt, the Debt Office proposes that it should continue to report the difference in cost between inflation-linked and nominal borrowing in the future, but that the Debt Office should also take into account the future expected savings and the risk in the central government debt. In order to keep the evaluation points in the guidelines at a general level, the Debt Office therefore proposes removing the current point 41, which deals specifically with inflation-linked borrowing.

The Government appreciates the Debt Office’s thorough analyses and its work to continuously develop the analysis. However, the Government considers that a major review of what information the Debt Office should provide for evaluation and the format of this information should be carried out, so that clearer conclusions can be drawn. Therefore in the guidelines decision for 2025, none of the changes proposed by the Debt Office with regard to evaluation should be made.