The legal framework for debt management: The case of Sweden

Lars Hörngren
lars.horngren@riksgalden.se
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Sound debt management starts with a sound budget process

The a much stricter budget act was adopted after a severe fiscal crisis in Sweden in the 1990s – some key features

- The parliament authorizes (for one year at a time) the Government to borrow to finance:
  1. The budget and other expenditures decided by the parliament
  2. Repayment of maturing debt
  3. Government guarantees and loans decided by the parliament
- Ceiling on total expenditures in the annual budget – a top-down approach
- Expenditures are divided into some 25 expenditure areas, each with its own ceiling – interest payments are excluded
- If expenditures increase too much, the Government must go to the parliament and propose solutions
- No ceiling on the size of the debt or the budget deficit – budget control is exercised through the accounting system, not by constraining borrowing

Governance of debt management

- The Government automatically delegates the authority to borrow to the Swedish National Debt Office (SNDO)
- The Government is instructed in the Budget Act to set annual guidelines for debt management based on an objective set in the Act
- The Government decides the guidelines based on a proposal from the SNDO and after hearing comments from the central bank

Governance of debt management

- The Government reports back to the parliament every second year
- The parliament decides by a formal vote whether the objective has been met
- **All documents are open to the public**
- **Transparency** an essential means to ensure that debt management is aligned with the statutory objective

Debt management objective

- The guidelines are based on the objective of debt management (also set in the Budget Act):
  - "Minimize the long-term cost of debt with due regard to risk and the demands of monetary policy"
- Not an operational target, but sets out the key dimensions:
  - Long-term cost
  - Risk
  - (Monetary policy)
- Monetary policy is not an operative constraint on debt management in Sweden, so in effect the objective has two dimensions

Guidelines for 2014

	Debt share	Average maturity*
Nominal debt	60 percent	2.7–3.2 years**
Inflation-linked debt	25 percent	7–10 years
Foreign currency debt	15 percent	0.125 years

* Measured in terms of time to interest rate refixing

**Plus 70 billion kronor with maturities over 12 years

The role of the SNDO

- A separate debt agency makes is easier to create a professional organization focused on debt management
- The SNDO makes the analyses of the trade-offs between costs and risks and presents them in guideline proposals – the Government decides how to balance costs and risks
- The SNDO has full independence to decide how to finance the debt (what bonds to issue etc.)
- The guidelines deal with exposure – derivatives allow separation between financing and exposure