Guidelines for central government debt management 2024

Decision taken at the government meeting
9th November 2023

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 decreased as a share of GDP (gross domestic product) in 2022. Central government debt is expected to continue to decrease as a share of GDP but to temporarily increase somewhat in billions of SEK during the forecast period 2023–2026.

The guidelines decision for 2024 makes no changes to the steering of debt management compared with the preceding year.

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

- Inflation-linked krona debt is to be 20% of the central government debt in the long term.
- Nominal krona debt is to make up the remaining share of the central government debt after inflation-linked krona debt and foreign currency debt.
- Foreign currency debt – foreign exchange exposure is to be gradually phased out and attain the target value of zero as of 2027.
- The term to maturity (in terms of duration) of the central government debt is to be steered towards 3.5–6 years.

The Swedish National Debt Office's proposed guidelines 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. On the other hand, the Riksbank has views on the Debt Office's phasing out of the central government debt's foreign currency exposure (for more information, see Section 3.3).

The Government's guidelines decision for 2024 largely accords with the Debt Office's proposed guidelines.

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1 Guidelines decision for central government debt management 2024

The guidelines for 2024–2026 are set out below. For 2025 and 2026, 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 (2011:203) and the National Debt Office Instructions Ordinance (2007:1447) are presented here.

The Government's guidelines decision largely accords with the Debt Office's proposed guidelines for 2024–2027.

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 2 of the National Debt Office Instructions Ordinance).

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;
- provide credits and fulfil guarantees decided on by the Riksdag;
- amortise, redeem and purchase central government loans;
- in consultation with the Riksbank, meet the need for central government loans at different maturities; and
- meet the Riksbank's need for currency reserves
  (Chapter 5, Section 1 of the Budget Act).

1.3 Guidelines process

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).

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).

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).

8. Every second year, the Government shall deliver a written communication to the Riksdag evaluating the management of the central government debt. The written communication shall be submitted to the Riksdag no later than 25 April (Chapter 5, Section 7 of the Budget Act).

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).

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

1.4 Composition of central government debt – debt shares

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.

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. However, foreign currency exposure may vary as a consequence of the Debt Office's 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.

18. Term to maturity is to be measured as duration.

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.

24. Positions are not to be included when calculating the debt shares 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 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.

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.

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).

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).

35. The management by the Debt Office of exchanges between Swedish and foreign currency shall be characterised by predictability and clarity (Section 7 of the National Debt Office Instructions Ordinance).

1.11 Consultation and collaboration

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).

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).

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.

Previous wording

43. The phasing out of the foreign currency exposure of the central government debt is to be evaluated in relation to a steady pace of reduction over the period 2023–2026. The evaluation is to follow the same principles that apply for positions within the position-taking mandate (point 42). Only transactions that are carried out for the purposes of phasing out the foreign currency exposure of the central government debt are to be included in the evaluation.

Adopted wording

43. The phasing out of the foreign currency exposure of the central government debt is to be evaluated in relation to a steady pace of reduction over the period 2023–2026; *however this does not steer the actual pace of the phasing out that has been decided by the Debt Office.* The evaluation is to follow the same principles that apply for positions within the position-taking mandate (point 42). Only transactions that are carried out for the purposes of phasing out the foreign currency exposure of the central government debt are to be included in the evaluation.

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 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.

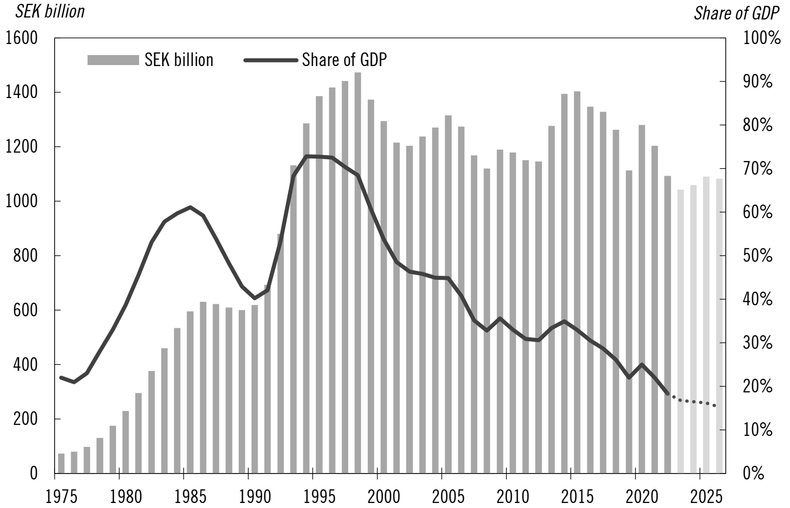
The trade-off is mainly made by choosing the term to maturity of the central government debt and its composition. Historically, a shorter term to maturity had led to a lower average cost than a longer term to maturity. Other important parameters that affect the cost of the central government debt are 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 derivatives 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 2024 (Govt Bill 2023/24:1)

Note. Outcome 1975–2022, Government forecast 2023–2026

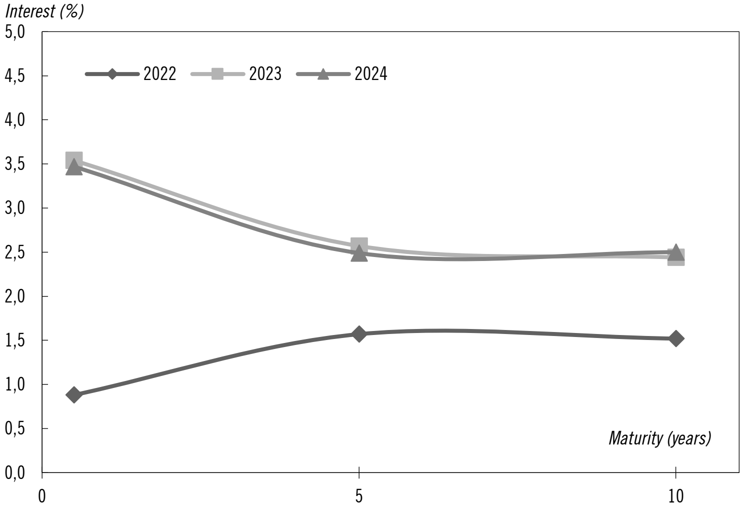
Central government debt as a share of GDP has shown a declining trend since the mid-1990s. After having grown temporarily during the pandemic year 2020, the previous trend of declining central government debt and borrowing requirements has continued. Figure 2.1 shows that central government debt fell by four percentage points to 18% of GDP in 2022. The projected development in the budget balance contributes to the expectation of a further decline in central government debt as a share of GDP to 15% by the end of 2026. However, central government debt is expected to increase slightly in SEK billion during the forecast period. At the end of 2023, central government debt is expected to amount to SEK 1 043 billion, and thereafter increase by approximately SEK 15–30 billion per year over the next two years, to then decrease by approximately SEK 10 billion in 2026 (Govt Bill 2023/24:1).

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) is 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.

During the recovery following the COVID-19 pandemic, inflationary pressure arose as a result of high energy prices and supply shocks. Given that inflation continued to rise, the historically low government bond rates since the turn of the year 2021 to 2022 have risen in line with the Riksbank's decision to tighten monetary policy by means of rapid interest rate rises and expectations of the policy rate level in the future. This has had a tangible impact on interest rates for all maturities, in particular for interest rates with the shortest maturities. The difference between interest rates with short and long maturities has 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. The inversion of the yield curve has largely persisted since then.

Figure 2.2 Yield curve for Swedish government securities, annual average



Source: Budget Bill for 2024 (Govt Bill 2023/24:1)
Note. The graph shows the annual average market rates for the 2022 outcome and forecasts for 2023 and 2024. 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 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. For example, it is mentioned in the Government's evaluation of central government borrowing and debt management 2017–2021 (Comm. 2021/22:104).

At its meeting in June 2022, the Financial Stability Council (Committee on Financial Stability [Fi2013:09]) discussed the shortage of liquidity in several bond markets, including the secondary government bond market. Last summer, the Council 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, although the survey also includes quite a lot of variation and uncertainty. In light of what emerged from the survey, the Council proposes that work to increase knowledge of the problems regarding liquidity and the functioning of the bond market should continue.

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 foreign currency 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.

The Swedish krona weakened against several important currencies at the start of the pandemic in 2020, but was since strengthened, partly due to less volatility in financial markets up until the beginning of 2022, when the krona weakened again. So far in 2023, the krona has weakened further against the Euro and the US dollar. In 2024, the krona is expected to strengthen again against both the Euro and the US dollar (Govt Bill 2023/24:1). Volatility in the foreign exchange markets – which increased in 2022 as a result of Russia's invasion of Ukraine, and which led to increased economic uncertainty – has remained high in 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 2024–2027. In its consultation response, the Riksbank expressed views on the Debt Office’s phasing out of the central government debt’s currency exposure (see Section 3.3).

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 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).

The decline in global and Swedish interest rates in recent years has contributed to substantially reduced costs for the central government debt. However, the interest rate situation changed at the beginning of 2022, and interest rates have since risen in pace with a rising rate of inflation, resulting in rapid monetary policy tightening, both internationally and in Sweden. At the same time, central government debt has continued to decrease, partly as a result of surpluses in the central government budget.

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 proposed guidelines, the Debt Office has analysed the composition and maturity of the central government debt in order to explore whether the results using the current analysis framework warrant proposing any changes to the guidelines. This involves both analysing expected cost advantages of inflation-linked versus nominal borrowing and analysing term premia. The Debt Office’s analysis of the long-term conditions has no impact on this year’s guidelines proposal, but forms the basis for continued analyses of how central government debt should be managed, which may mean that the steering of the central government debt's composition may be adjusted in the future (for more information, see Section 3.2).

3.2 Share of inflation-linked krona debt remains unchanged

The share of inflation-linked debt has fluctuated around the long-term target of 20% in recent years.

Since the beginning of 2022, the share of inflation-linked debt has exceeded the long-term target because no real bonds are maturing before 2025 and borrowing has also been left unchanged. The next real bonds to mature will mature in 2025. After that, bonds will mature for several consecutive years, which means that the share will move towards the long-term target.

In spring 2023, the Debt Office conducted a survey of the market's view of real bonds. The results indicate that the demand for real bonds is currently low and has been low for many years due to poor market liquidity and lower pricing than for nominal bonds, but there is still some interest in real bonds as they provide diversification and have no equivalent substitutes.

The Debt Office's analysis of the conditions for debt management in the longer term shows, among other things, that a continued decline in central government debt would mean that the guidelines need adjusting to a new situation. With a small central government debt, it is reasonable to reasonable to place less emphasis on diversifying the debt between debt instruments and instead focus on maintaining the most important borrowing channels for securing low-cost future borrowing. In this year's guidelines proposal, the Debt Office has announced a need to continue to develop its analysis ahead of coming guideline proposals, and to link this to future projections.

By issuing inflation-linked bonds, the Debt Office can reach investors who do not want to risk inflation eroding the value of their bonds. This borrowing needs to be large enough to enable liquid trading, but must not crowd out nominal bonds so that liquidity in that market deteriorates. The Government sees no reason to change the steering of the share of inflation-linked debt in this year's guidelines decision while awaiting the Debt Office's analysis.

3.3 Currency exposure phased out by 2027

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.

The Debt Office's multi-year analysis ahead of its proposed guidelines for 2015–2018 showed that the currency exposure could not systematically contribute to reducing the cost of the central government debt. Therefore, the assessment was made that there was no reason to take a currency risk if it did not result in any expected saving. In the guidelines decision for 2015, the Government therefore decided that currency exposure would gradually decrease, which it did annually until 2019.

According to the Debt Office's proposed guidelines for 2020–2023, there were signs of a structural shift in financial markets. The assessments of the advantages and disadvantages of currency exposure in the central government debt could therefore have changed, so there was reason to analyse whether the strategic currency exposure of the central government debt should be changed. Pending the Debt Office's analysis, the Government therefore decided to halt the decrease in currency exposure.

In last year's guidelines proposal, the Debt Office presented its analysis of the central government debt's currency exposure, which began in 2020. The end result was that the foreign currency exposure of the central government debt should be phased out because it entails a higher risk without providing systematic cost benefits. At the time of the final analysis by the Debt Office in September 2022, the currency exposure amounted to just over SEK 100 billion. The Debt Office proposed a gradual phasing out over four years, which would mean an average reduction of roughly SEK 25 billion per year based on the exchange rate at the time, with the option to adjust this pace within the specified time period.

The phasing out of the central government debt's foreign currency exposure resumed in January 2023 and will continue until December 2026, in order to attain the target value of zero from 1 January 2027. The rate of phasing out during this period is not limited by the guidelines. The phasing out entails the Debt Office selling SEK for the main currencies that the central government debt has exposure to, being primarily the Euro and Swiss franc.[1] In this year's guidelines proposal, the Debt Office draws the same conclusion as last year regarding the central government debt's foreign currency exposure.

In its statement of opinion on the proposal, the Riksbank highlights reasons for considering pausing or at least reducing the pace of phasing out of the central government debt's currency exposure. The Riksbank also considers that investors may find it difficult to understand why the Debt Office is selling Swedish kronor while the Riksbank is buying Swedish kronor. The Riksbank also points out that the phasing out, taking into account the amounts and time period, is not expected to have any major direct effects on the exchange rate.

In view of the Riksbank's consultation response, the Debt Office was asked to supplement this year's guidelines proposal with the documentation and related analysis that form the basis for the proposal to phase out the currency exposure. In its response with supplementary information, the Debt Office clarifies the reasons for continuing to phase out the foreign currency exposure according to plan. That the Debt Office currently sells kronor and buys foreign currency is a consequence of last year's decision to phase out the foreign currency exposure of the central

[1] As of 1 January 2023, the Euro and Swiss franc comprised 67% and 33% of the currency exposure, respectively. Financial and Risk Policy 2023, Swedish National Debt Office, p. 13.

government debt. The decision is based on analysis demonstrating that the foreign currency exposure poses higher risk without being expected to generate any cost advantage over time, and it was made on the basis of the statutory objective for central government debt management. The fact that the Riksbank and the Debt Office have contradictory needs in terms of trading in kronor has to do with these agencies' foreign currency risks falling on different sides of the central government's overall balance sheet. The Riksbank's currency risks are on the asset side, as they pertain to the foreign currency reserve. The Debt Office's currency risks are on the liabilities side since some part of the central government debt is exposed to foreign currency. Whereas the Riksbank decreases its currency risk through buying kronor and selling foreign currency, the Debt Office does the opposite to decrease its foreign currency risk. All in all, the Debt Office assesses that four years is a prudent period for the phase-out of the central government debt's currency exposure. The transactions are considered to be so small in relation to the market turnover that they do not affect the krona rate, and the period of time is sufficiently long to prevent the entire phase-out occurring when the krona is temporarily weak. Simultaneously, it avoids the risk of higher costs remaining for a long time.

In order to reduce the risk of the phase-out occurring during a period when the krona is temporarily weak, it is carried out over four years, within which the Debt Office has the discretion to adjust the pace. The Debt Office is therefore able to determine the pace of the phase-out within the specified time period.

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 within the framework of the requirements of monetary policy. Based on the objective of central government debt policy, the Government does not consider that there is reason to change the steering of the central government debt's foreign currency exposure to attain the target value of zero from 1 January 2027.

3.4 Steering of term to maturity remains unchanged

Measured as duration, 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 streamline this steering in order to clarify the overall level of risk.

This streamlined steering, and especially the common term to maturity for all of the central government debt, enables the Debt Office to adapt borrowing both to current demand and to temporary fluctuations in the borrowing requirement, thereby keeping borrowing costs down. This flexibility has been important particularly in the past year since uncertainty and fluctuations in the borrowing requirement have been greater than in previous years.

Therefore the Government does not consider that there are reasons to change the steering of the term to maturity.