



# **Ninth UNCTAD Debt Management Conference**

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## **Debt Portfolio: Composition and Risk Management**

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD



# Debt Composition and Risk Management

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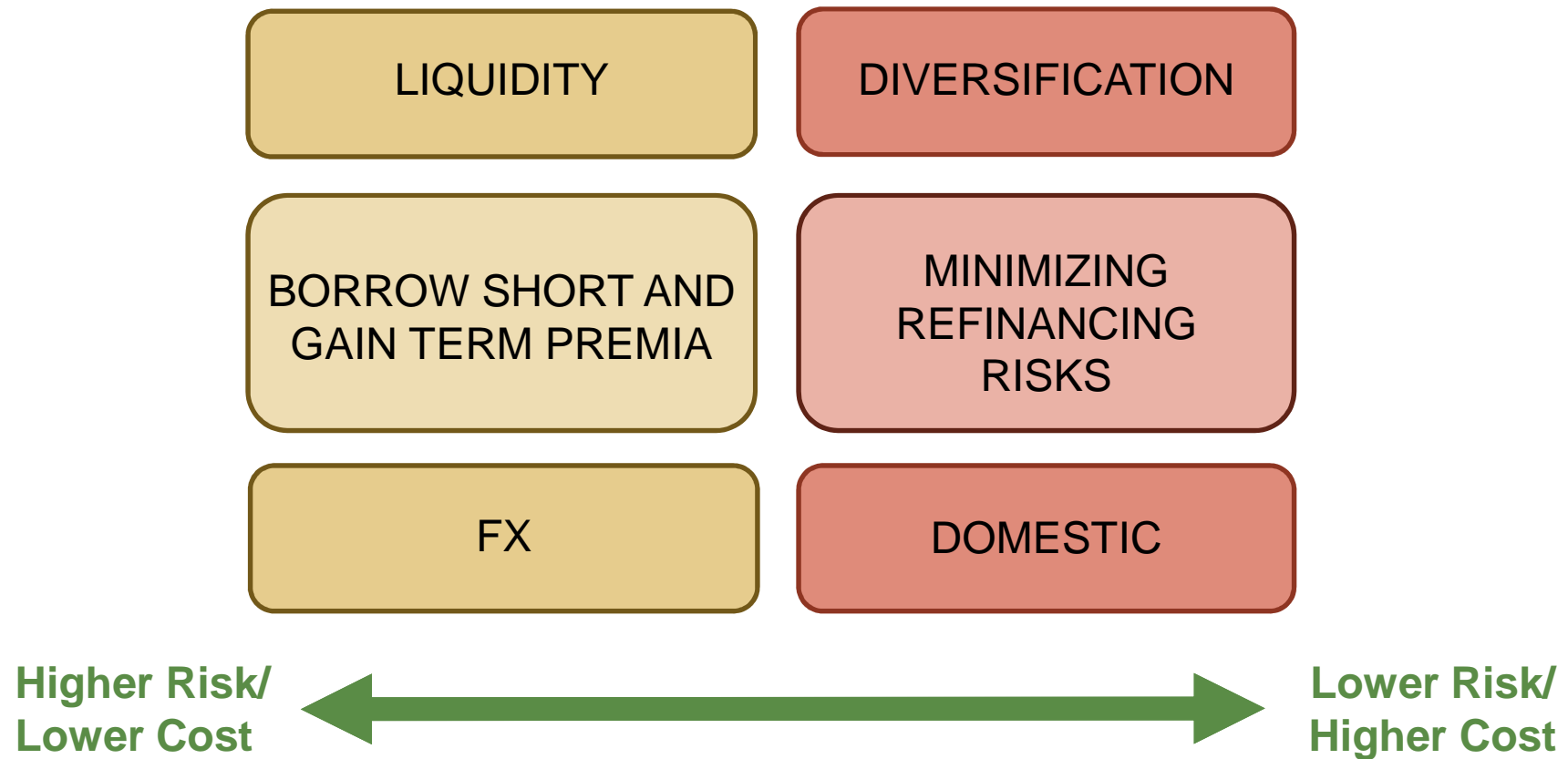
# Agenda

- The cost/risk choices:
  - Diversification and liquidity
  - Duration
  - Foreign currency
- Sweden's Economic and Fiscal Context
- Sweden's Debt Portfolio

**”To minimize costs with respect to risk”**

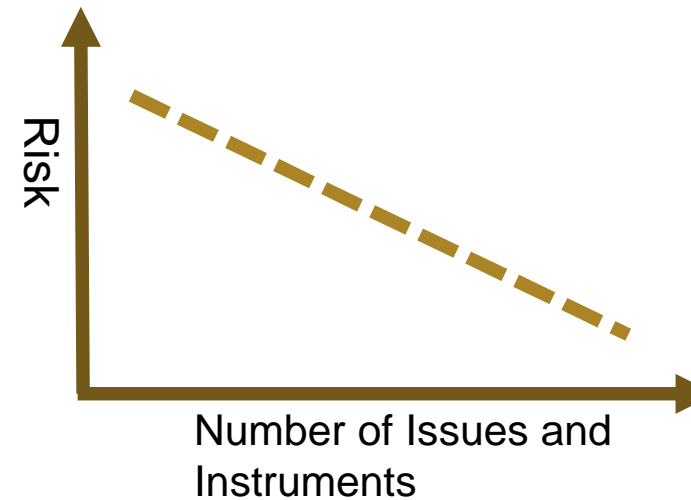
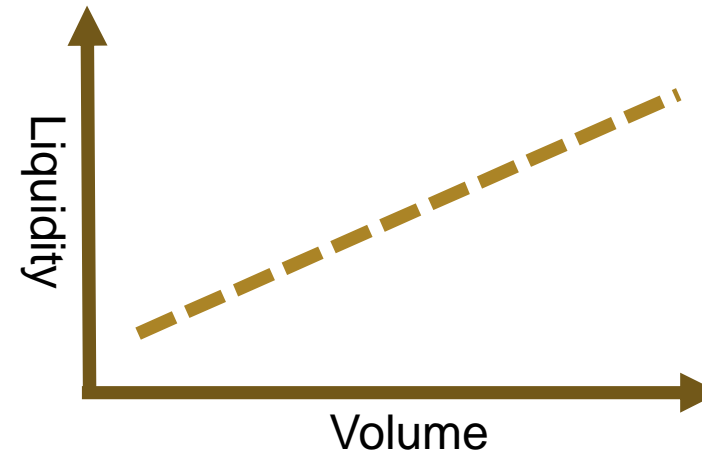
*The stated goal set by the Swedish government for the Swedish Debt Office*

# Schematic Overview of Sweden's Current Cost/Risk Choices



# Diversification and Liquidity

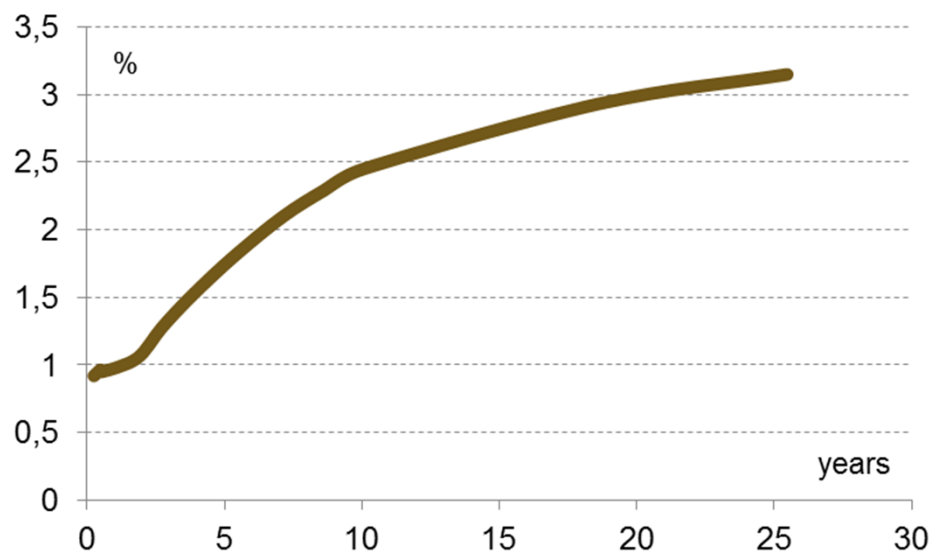
- Investors pay a premium for liquidity.
- Concentration raises the refinancing risk for the issuer.
- Sweden maintains larger volumes in a few selected benchmark issues. Duration is then shortened to desired level using swaps.



# Borrow Short for Lower Cost but with Higher Risk

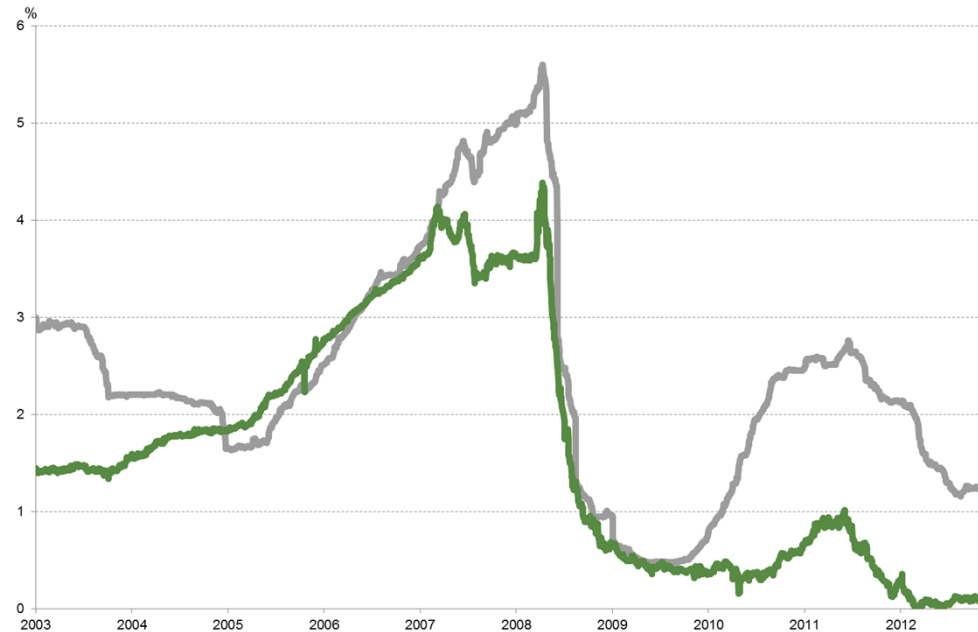
- Term structure is structurally upward sloping
- Shorter duration leads to higher volatility in interest rate costs
- Shorter duration leads to increased refinancing risks
- Sweden uses interest rate swaps to address the refinancing risks while keeping duration at desired level.

Swedish benchmark curve



# Foreign Currency Lower Cost

- Diversified portfolio
- Low cost currencies
- No structural drift in SEK



*Swedish 3m yield (grey) vs yield in fx portfolio (green)*



# Swedish Portfolio Strategy

1990's – a rapidly increasing debt and unstable fiscal situation

- Large volumes in multiple issues
- Foreign currency borrowing
- Inflation linked bonds

2000's – a shrinking level of debt and stable finances

- Borrowing concentrated in a few strategic benchmark issues.
- Interest rate swaps shorten duration
- Currency borrowing cheap

2000's



1990's

LIQUIDITY

DIVERSIFICATION

BORROW SHORT AND  
GAIN TERM PREMIA

MINIMIZING  
REFINANCING  
RISKS

FX

DOMESTIC

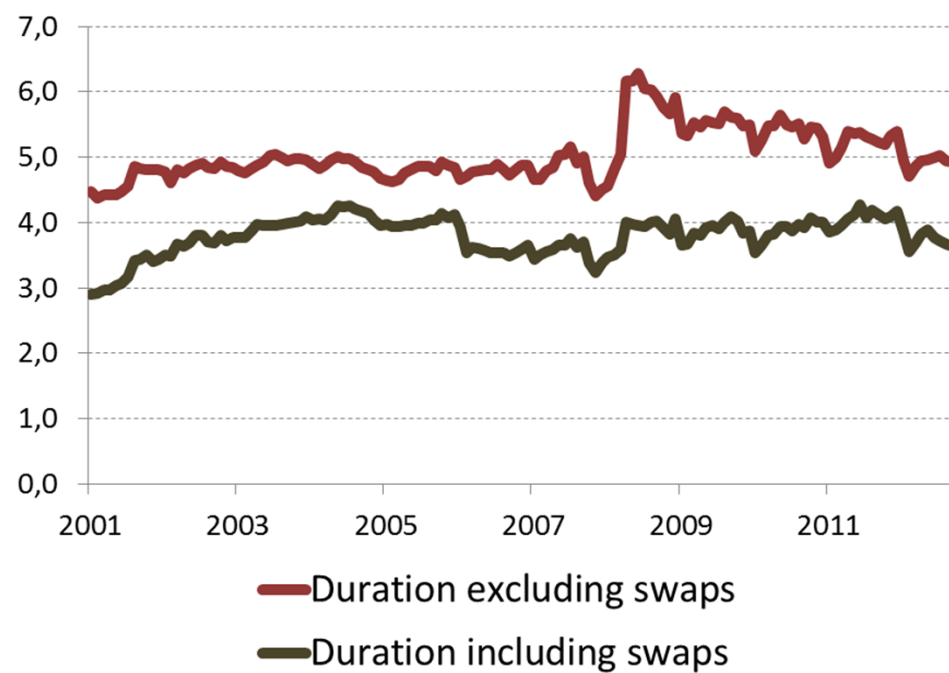
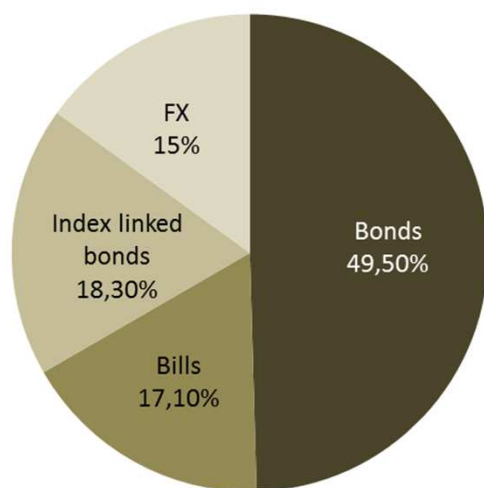
Higher Risk/  
Lower Cost



Lower Risk/  
Higher Cost

# Swedish Debt Portfolio

- Diversified
- Low cost
- Derivatives shorten duration



# Conclusion

- The optimal cost / risk profile is highly dependent on the fiscal and macro economic situation.
- Cheaper funding available but comes with higher risks.
- Derivatives used to alter the cost / risk profile