Guidelines for Public Debt Management: A Swedish Perspective

Lars Hörngren
lars.horngren@riksgalden.se
October 30, 2012
The Guidelines after ten years

• An important document when they were published

• They still give a sound and balanced perspective on the key issues in debt management

• Cover also factors that recently have made debt management such a challenge in mature countries

• Experiences from non-mature countries have turned out to be of broader relevance than expected

• Regulators in mature countries should listen to the Guidelines’ advice on market development
The Guidelines and the SNDO

• Not a neutral observer: The SNDO commented on drafts and provided a country study

• “Comply or explain” not applied, but the SNDO would not have much to explain: No coincidence as the Guidelines are based on OECD experiences and practices

• The SNDO plays by the book more than most:
  • Statutory objective
  • Transparent procedures for decisions on the debt portfolio
  • Regular assessments by the parliament
  • Debt policy objectives and functions separated from other policy areas, in particular, monetary policy
  • Well developed debt management operations (Etc.)
The SNDO as a feasibility test

• “Can debt management be done according to the Guidelines in practice?”

• The broad answer is Yes

• But just 30 years ago Sweden was way behind:
  • No regular bond market
  • Only captive investors and regulated interest rates
  • Debt management an instrument of monetary policy

• Progress might have faster if we had been able to consult the Guidelines in the 1980s!
Limitations in the SNDO’s approach

• Some of our experiences are not easily transferable

• For example, not sensible to fully separate debt policy and monetary policy in countries with less developed markets and institutions

• But separation is something to strive for: Debt policy should be seen as a policy area in its own right, as emphasized in the Guidelines

• Only then can debt managers be held accountable and accountability improves performance
Room for improvements

• Much remains to be done to improve debt management in Sweden, within the broad principles of the Guidelines

• Evaluation is important, but robust and meaningful benchmarks are hard to find

• The SNDO only this year decided to adopt a consistent measure of cost (based on accrued interest cost)

• This made us conclude that foreign currency debt is more risky than previous analyses indicated
A luxury problem

• What to do when the debt becomes too small to support liquid markets?

• A reason to issue more debt than required by regular funding needs?

• Australia, Denmark, Norway and others have said yes

• Not an urgent issue, but the Government’s ambition to run a structural surplus could bring it back
A real problem?

• New financial regulations that force banks and others to hold government debt are under way

• Relief for some, but a concern for countries with small debts

• A motive to change the tasks or objectives of debt managers?

• Is there a market failure that justifies extra debt issuance? Lack of safe long-term assets?

• Could justify creation of a debt-financed sovereign wealth fund, not managed by the issuer of debt

• A complementary task with a complementary objective, not a reason to change the approach in the Guidelines
The Guidelines and debt crises in the EU

• Some observations from an outsider (Sweden is not a euro country):
  • The crises are not due to a failure by debt managers to follow the Guidelines – policy mistakes have been made, but in other areas
  • Over-indebted private sectors and current account imbalances are key factors, but they are beyond the remit of debt managers
  • The euro is different: From a debt management perspective, it is like a foreign currency even for euro countries
  • Design flaws of the euro area that no one saw
  • Even if euro debt managers had realized this (which they probably did not), what they could have done about it?
The Guidelines and debt crises in the EU

• “Sound debt management policies are no panacea or substitute for sound fiscal and monetary management. If macroeconomic policy settings are poor, sound debt management may not by itself prevent any crisis.”

  (The Guidelines, p. 3)

• Is the euro compatible with sound fiscal and monetary management?

• The struggle to give a positive answer to this question continues