

Central government debt management

Performance and financial audit

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FULL REPORT (FI)



FULL REPORT (EN)



What we assessed and why

Central government debt management has two main objectives: first, to safeguard the state's liquidity in all circumstances and, second, to do this at an acceptable cost-risk level. Debt management is a critical function, both for safeguarding the state's liquidity and for society's general resilience in times of crisis.

The COVID-19 crisis caused great uncertainty in the financial markets. Governments needed to borrow heavily to survive the crisis. Interest rates on long-term government bonds increased for a short while, and there was some deterioration in market liquidity. This made it difficult to obtain new long-term financing, as it was uncertain whether large lots could be traded cost-effectively.

We audited the central government's debt management, i.e. the borrowing of on-budget central government entities, central government cash-management, and the associated risk-management. Through borrowing, the state repays government debt that is maturing and covers any deficit in the budget.

The purpose of the audit was to assess whether the debt is managed properly, i.e. we assessed the arrangements and risk management associated with debt management, and the prerequisites for effective operations.

What we found

While central government debt amounted to €124.8 billion at the end of 2020, it was at around €139.3 billion by the end of 2021. In 2020, government net debt grew by €19 billion. During the year, the government debt portfolio undergoes many changes, e.g. when central government takes on new debt, which can also fall due during the fiscal year, or when daily transactions in derivatives or cash-management operations take place.

All debt management work is carried out by the State Treasury, which is controlled and overseen by the Ministry of Finance (MoF). The necessary cooperation between these two bodies has been effective and close. However, both bodies perceive risk management only within the context of their own functions. This has led to an unclear situation regarding overall responsibility for managing the risks related to the debt management process. For processes transcending organisational and unit boundaries, particular attention should be paid to responsibility transfers from one body to another.



The COVID-19 pandemic had the greatest impact on Finland's debt management at the early stages of the crisis, when there was widespread disruption in the financial markets. The State Treasury responded swiftly to the crisis and decided, for example, not to implement some of the planned debt management measures, such as new issuances and derivative operations. The MoF also authorised the State Treasury temporarily to exceed the interest-rate risk limits under the debt management rule, i.e. the constraints to which debt management would normally be subject. This enabled the State Treasury to obtain financing in an appropriate manner.

The State Treasury had to resort to somewhat exceptional measures, making private placements, i.e. bilateral taps on benchmark bonds. More financing was thus obtained through bilateral negotiations with several primary dealer banks. Although the move paid off, private placements should only be resorted to in exceptional circumstances in the future.

What we concluded

Two cornerstones of the chosen central government debt management strategy are safeguarding liquidity and managing the interest-rate risk position of debt. Liquidity is safeguarded by means of a funding strategy where the good liquidity of euro-denominated debt issued on the capital market is based on benchmark-size stock of debt and the primary dealer system. In addition, the objectives of funding include the diversification of instruments and investors.

The government debt management strategy has mainly proven viable, even in challenging economic circumstances. The debt management regulation and the associated flexibility made it possible to adjust to sudden shocks, and it has been possible to rely on the resources needed to finance central government measures. Even during the COVID-19 crisis, the main objective of debt management – safeguarding liquidity – was achieved.

The MoF and the State Treasury need to make the drafting of the budget a more transparent process. In recent years, changes in debt management practices have not been fully reflected in the budget, and costs have been difficult to interpret. At the same time, central government structures do not provide the best support for risk management in the case of general cross-organisational processes, such as debt management. In terms of risk management, it is essential for internal audit reports to be submitted to the controlling body in the appropriate way.