

Managing Government Guarantees

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The Swedish Experience

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Regulatory framework

- The state budget act.
 - A decision is needed from the parliament (the Riksdag) to take on risk.
 - A guarantee fee corresponding to the financial risk and other costs must be charged.
- The guarantee ordinance.
 - Covenants etc.
- EC rules on state aid.

Integration with budget

- Guarantee fees are collected in a guarantee reserve (including subsidies).
- Costs following a call on a guarantee will charge the guarantee reserve.
- Additional funds (if needed) is available with access to unlimited borrowing.
- Disclosure.
 - Common outlines for all agencies regarding accounting and reporting.

Risk assessment and pricing

- The decision to take on risk and the pricing of a guarantee is in general separated.
- Complex and diversified undertakings calls for a pricing toolbox (best practise).
 - Rating methodology.
 - Structural models (i.e. option pricing).
 - Monte Carlo simulation.