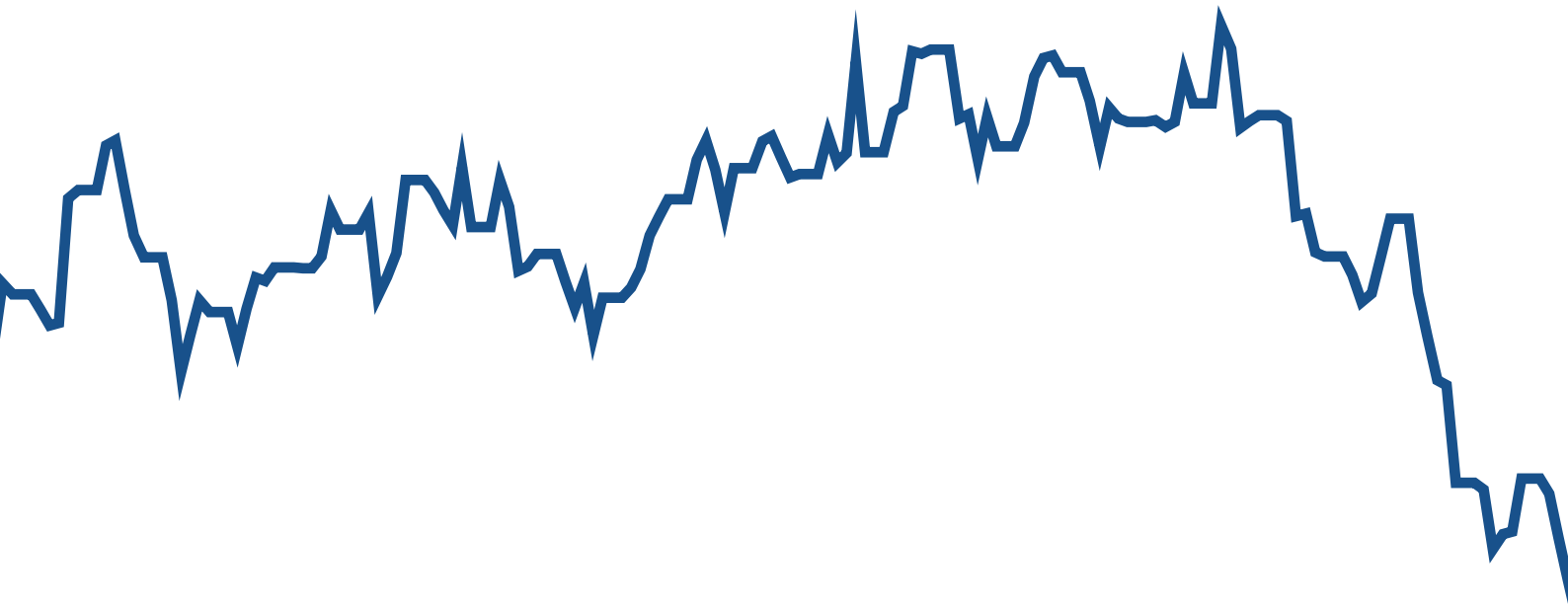
March 2024

Federal Treasury

Activity report 2023



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
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Swiss Confederation

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The Federal Treasury activity report explains the strategies and results with respect to the Confederation's debt management, liquidity management and foreign exchange management in 2023. It is tailored primarily to the Federal Council, the Finance Delegation, and the Swiss Federal Audit Office. Once they have acknowledged it, the report will also be made accessible to interested members of the public.

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103

billion

in debt is managed by the Federal Treasury. 86 billion of this is market debt (money market debt register claims and bonds).

1.20

percent

was the interest on the bonds issued in 2023.

10.5

years

is the average term to maturity of the Confederation's market debt.

Summary

Unlike hoped for, 2023 was also marked by crises and exceptional situations. Following the COVID-19 pandemic and the power shortage in the wake of Russia's war of aggression against Ukraine, the capital markets were shaken by the collapse of several banks in 2023. While four small to medium-sized regional banks collapsed in the United States, a systemically important big bank was hit in Switzerland: the takeover of Credit Suisse by UBS was announced on March 19. For months, the bank had been battling a loss of confidence and massive liquidity outflows following a number of scandals, write-downs and changes in management. In mid-March, the bank's liquidity situation became so acute that the Swiss government had to provide guarantees and the SNB liquidity totaling over CHF 200 billion in order to enable the takeover of CS by UBS, and thus avoid massive damage to the Swiss economy and prevent an impending global banking crisis.

Despite the record financial guarantees provided by the federal government, this did not affect its ability to raise funds. On the contrary, the authorities' resolute intervention and the way in which the crisis was managed instilled confidence. The rating agencies confirmed the Confederation's highest credit rating and in the April auction, the federal government placed two bonds with record-high negative swap spreads of almost minus 100 basis points. The emergency takeover therefore did not drive up the federal government's financing costs.

Calm quickly returned to the Swiss financial market. The high inflation figures and the central banks' swift and bold interest rate hikes returned to the forefront of events. The return to positive interest rates gave a noticeable boost to issuing activity on the Swiss capital market. 2023 was the strongest issuing year since 2010, with over CHF 80 billion new issues. The volume of bonds outstanding reached new record levels and stood at over CHF 600 billion at the end of the year, with domestic borrowers accounting for just over CHF 470 billion, or almost four fifths. The federal government was also very active, and raised a total of over CHF 8 billion in long-term funds on the market. The volume of Confederation bonds outstanding amounted to around CHF 72 billion at the end of 2023, an increase of almost CHF 4 billion year on year.

The turnaround in interest rates brought liquidity planning and cash management back to the forefront. The move away from negative interest rates meant that cash inflows and outflows deviated significantly from previous patterns, making liquidity management more difficult. At the beginning of the year, the volume of money market debt register claims had to be increased sharply to over CHF 20 billion at relatively short notice. At the end of the year, the outstanding volume of money market debt register claims stood at around CHF 14 billion and was therefore within the target range.

Higher interest rates also led to higher financing costs due to the strongly inverted yield curve, particularly for money market debt register claims. The average interest rate payable on money market debt register claims was around 1.4%, while the Confederation bonds issued in 2023 yielded only 1.2%. At the same time, the higher interest rates also increased the revenue generated on liquidity.

The inverted yield curve for much of the year also hampered the implementation of the debt strategy, which stipulates an average term to maturity of 12 years for newly placed bonds. The aim is to minimize interest expenditure for a given risk appetite. However, last year, the duration of newly placed bonds was around 15 years and thus above the target. This deviation was due to various factors. On the one hand, demand for short-dated Confederation bonds was relatively weak over the year as a whole. A higher issuance volume in this maturity segment would have been possible only with significant price concessions. On the other hand, due to the marked inversion of the yield curve, it also made little economic sense from an issuer perspective to issue short-dated bonds and thus take on higher interest rate risks without being compensated by correspondingly lower costs, i.e. lower yields.

During the year under review, the green Confederation bond that was launched in the previous year was also reopened. At the end of the year, the volume already stood at just under CHF 1.5 billion. The first Green Bond Allocation and Impact Report was published in fall 2023. It provides an account of how the procured funds are distributed among the various eligible areas of expenditure and what positive environmental impacts they have contributed to. Not only was the green Confederation bond launched in 2022, but the first Federal Treasury Forum was also held. The forum complements the issuance program published at the same time for the following year, and is primarily aimed at the banks participating in the auctions. After all the positive feedback, it was only logical to hold the forum again. In addition to the 2024 issuance program and the activity of the Federal Treasury, the focus this time was on the challenges facing the Swiss financial center.

103

billion

in debt is managed by the Federal Treasury. 86 billion of this is market debt (money market debt register claims and bonds).

Guidelines and targets

The central Treasury, run by the Federal Finance Administration (FFA), ensures the Confederation's ability to fulfill its payment obligations at all times (Art. 60 para. 1 of the Financial Budget Act). The three main tasks of the Federal Treasury stem from this statutory mandate:

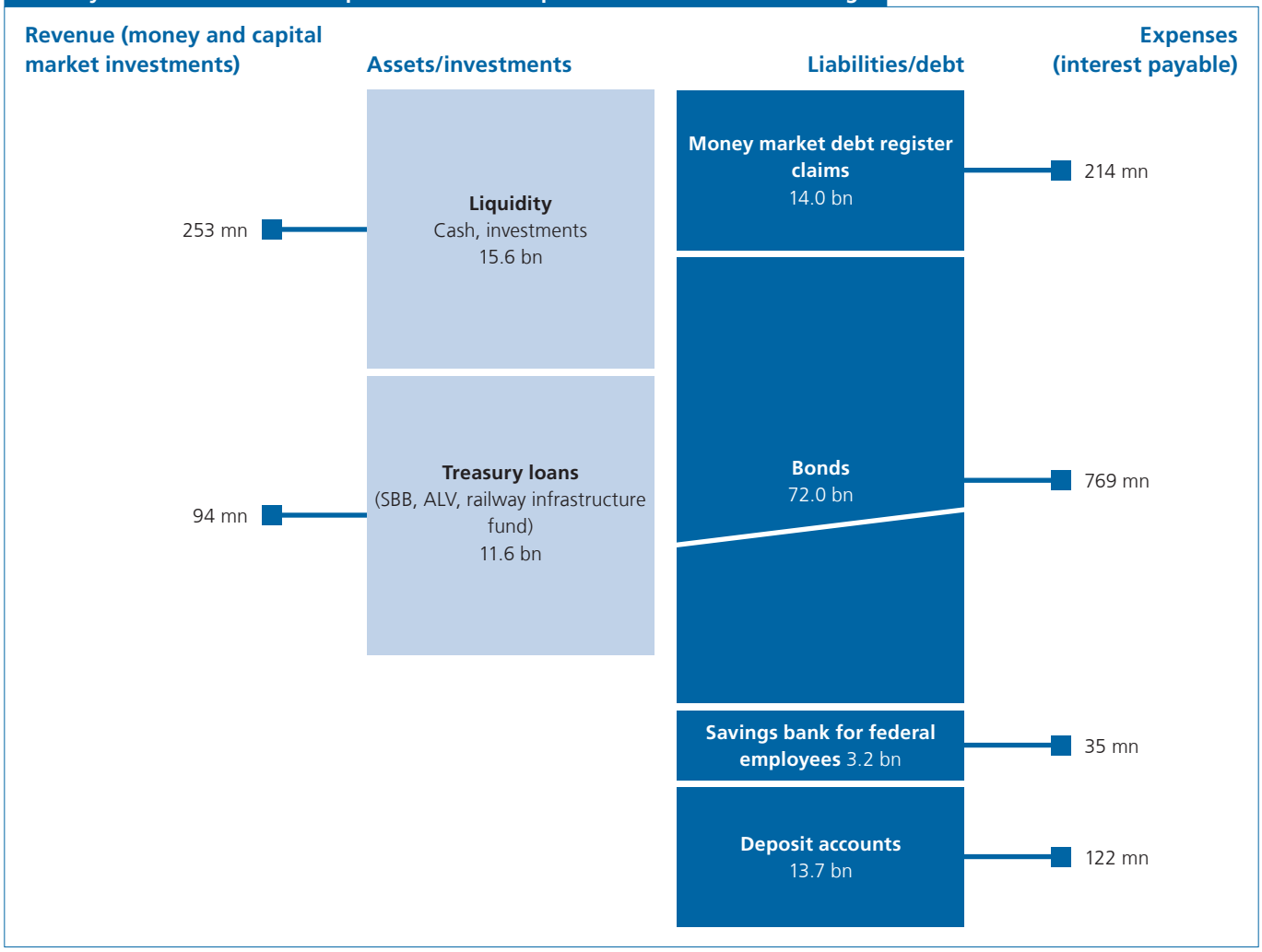
— *Debt management:* coverage of the funding needs by means of funding in the money and capital market at the lowest possible cost and with an acceptable degree of risk

— *Liquidity management:* assurance of an appropriate level of liquidity to even out liquidity fluctuations; low-risk short-term investment of liquidity at usual market interest rates or short-term coverage of liquidity shortfalls

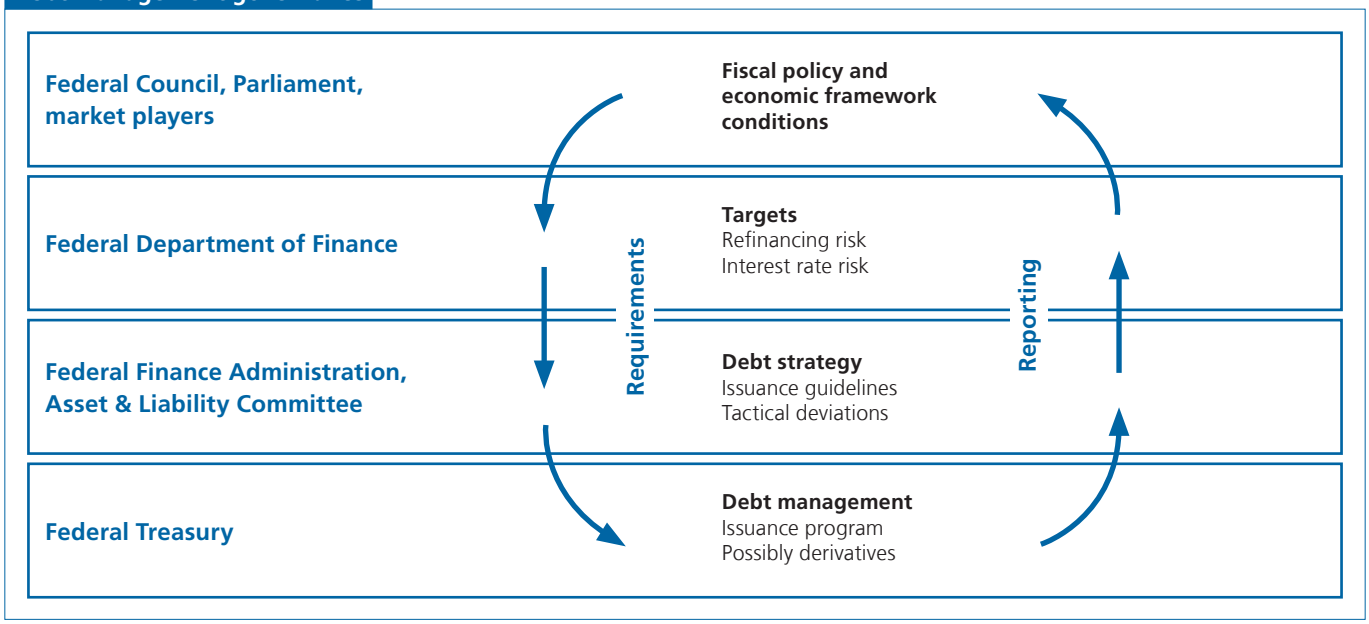
— *Foreign exchange management:* central procurement and management of foreign currencies to ensure planning certainty

The Federal Treasury ensures the Confederation's ability to fulfill its payment obligations at all times

Treasury statement of financial position and its impact on the 2023 federal budget



Debt management governance



The Federal Treasury manages a significant proportion of the Confederation's balance sheet. Its activities involve substantial expenditure and receipts. Since the Confederation is a net borrower, this mostly concerns debt management with interest payable.

The Federal Treasury has little leeway regarding the volume of debt, as the funding requirements depend primarily on the development of the federal budget and thus on fiscal policy. Nevertheless, the Federal Treasury's debt management has a significant impact on interest payable: since the interest rates for short maturities are generally lower than those for long ones, the Federal Treasury can reduce the average interest burden by issuing more short-term debt instruments. However, this increases the interest rate risk and refinancing risk, as the debt needs to be renewed more frequently. Conversely, it can reduce these risks by issuing long-dated instruments, but this leads to higher interest expenditure on average.

The interest rate risk is a relevant variable for fiscal policy, as unexpected changes in interest expenditure affect the leeway for budgeting other expenditure. Consequently, the Federal Treasury has a risk limit which it may not exceed for debt management. This risk budget is part of the FFA's targets in performance management. They are agreed with the Department on an annual basis. Within these risk guidelines, the FFA's Asset & Liability Management Committee (ALCO) specifies a debt strategy which the Federal Treasury has to implement with its issuing activity. Monitoring and reporting are carried out by an independent middle office (Risk Control).

Liquidity and foreign exchange management are also associated with risks, which are controlled by the ALCO and monitored by Risk Control.

Targets

	Limit	Actual 2022	Actual 2023
Refinancing risk: the FFA helps ensure that the Confederation's refinancing risk is bearable.			
Maturity profile of money and capital market debt under 1 year (%, maximum)	30	23	20
Maturity profile of money and capital market debt under 5 years (%, maximum)	60	38	38
Maturity profile of money and capital market debt under 10 years (%, maximum)	85	60	59
Interest rate risk: the FFA helps ensure that the interest rate risk is bearable for the federal budget in the short and medium term.			
Accumulated interest rate risk for following 4-year period: additional interest expense that will not be exceeded in 9/10 cases (CHF mn)	500	358	387

Debt management risks

The Confederation is confronted by two inherent risks when managing its debt:

Interest rate risk: in the event of a rise in interest rates, debt has to be issued at a higher rate of interest. This leads to higher interest expenditure, i.e. to a burden for the federal budget. The interest rate risk can be quantified using statistical simulations.

Refinancing risk: as a result of declining creditworthiness on the part of the Confederation or major financial market turmoil, (re)financing in the market could result in higher/unfavorable market interest rates, or, in an extreme situation, could even prove impossible. This could jeopardize the objective of ensuring the Confederation's ability to fulfill its payment obligations. The maturity profile of outstanding debt as well as ratings are key indicators for the refinancing risk.

1.20

percent

was the interest on the bonds issued in 2023.

2023 Treasury activity

Developments on the Swiss capital market

Inflation and the resulting expectations regarding the monetary policy of central banks continued to dominate the capital markets in 2023. Capital market participants focused in particular on how the US Federal Reserve and the European Central Bank (ECB) would orientate their monetary policies. As inflation proved to be relatively stubborn over the course of the year, particularly in the US and the eurozone, there were increasing calls for key interest rates to remain higher for longer. This and the uncertainty as to whether the central banks would be able to achieve a lasting reduction in inflation rates with their restrictive monetary policy manifested itself in greater volatility on the bond markets, where, for example, the 10-year US Treasury yield rose to almost 5% during the summer months, marking a new "post-financial crisis high".

Although inflation was generally more moderate in Switzerland, it was also relatively high at 3.4% in the first quarter of 2023. The SNB subsequently continued its interest rate tightening cycle and gradually raised the SNB policy rate to 1.75%. Inflationary pressure in Switzerland eased noticeably in the second half of the year. The appreciation of the Swiss franc, which curbed imported inflation, also played a part in this. By the end of 2023, inflation had fallen to 1.7% and was thus back within the SNB's target range. As a result, the yield on 10-year Confederation bonds fell steadily as well. Whereas it was still at around 1.6% in January 2023, it gradually fell to around 0.7% in December 2023. In addition to the decline in inflation, poor economic data in both Switzerland and the eurozone was also responsible for this fall in yields, as this provided a further boost to the prospect of interest rate cuts in the near future.

Another widely reported topic in 2023 was the banking turmoil, which began in the first quarter with the collapse of the US bank Silicon Valley Bank. Only a short while later, another event occurred that overshadowed everything else, especially from a Swiss perspective: the demise of Credit Suisse (CS) and the takeover of CS by UBS. In order to avoid massive damage to the Swiss economy and to prevent a global banking crisis, substantial liquidity assistance was made available within just a few days.

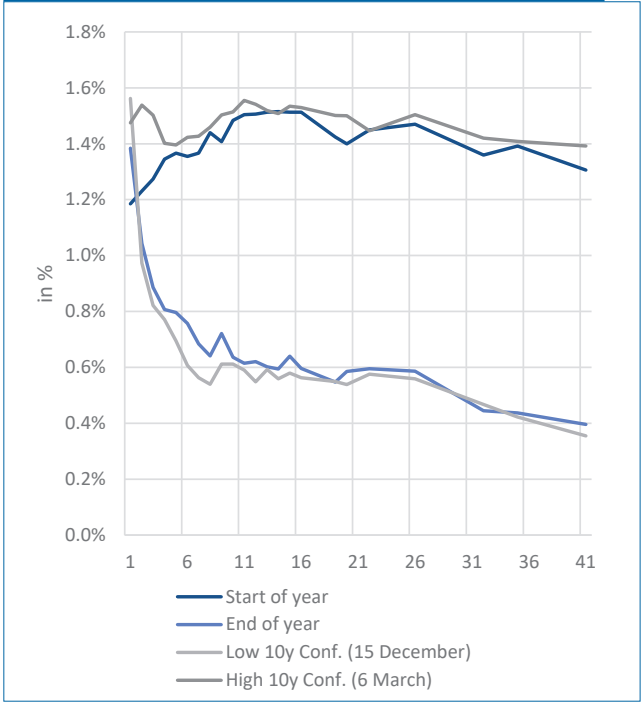
The takeover of CS also brought credit default swaps (CDS) back into the public eye for the first time since the financial crisis. Not only those of the banks, but also those of the Confederation. Although CDS spreads are of limited relevance for the federal government due to the lack of market liquidity, their movement was nevertheless remarkable. From a historical perspective, CDS premia have always been relatively low for Switzerland compared with other European countries. In the days between March 17 and 20, 2023, they more than doubled, albeit from a low starting position. Premia subsequently remained at this level before normalizing again in August 2023 following UBS's announcement that it would forego all federal guarantees, and were even lower at the end of the year than before the CS takeover. In retrospect, this historic event for Switzerland had no direct effect on the federal government's financing costs, as shortly after the takeover of CS by UBS, several rating agencies confirmed both the highest credit rating and a stable outlook for Switzerland.

Market participants on the Swiss primary bond market were not rattled by the events mentioned above. On the contrary: 2023 was a very strong issuance year. Issuance volumes amounted to around CHF 80 billion, with the domestic segment accounting for around 68%. In turn, the foreign segment was able to continue the growth trajectory it has been on since 2021, albeit at a comparatively low level, and increased its volume by around 43% year on year to around CHF 26 billion. This increase was likely due in particular to currency swaps, which have become more attractive again for foreign issuers.

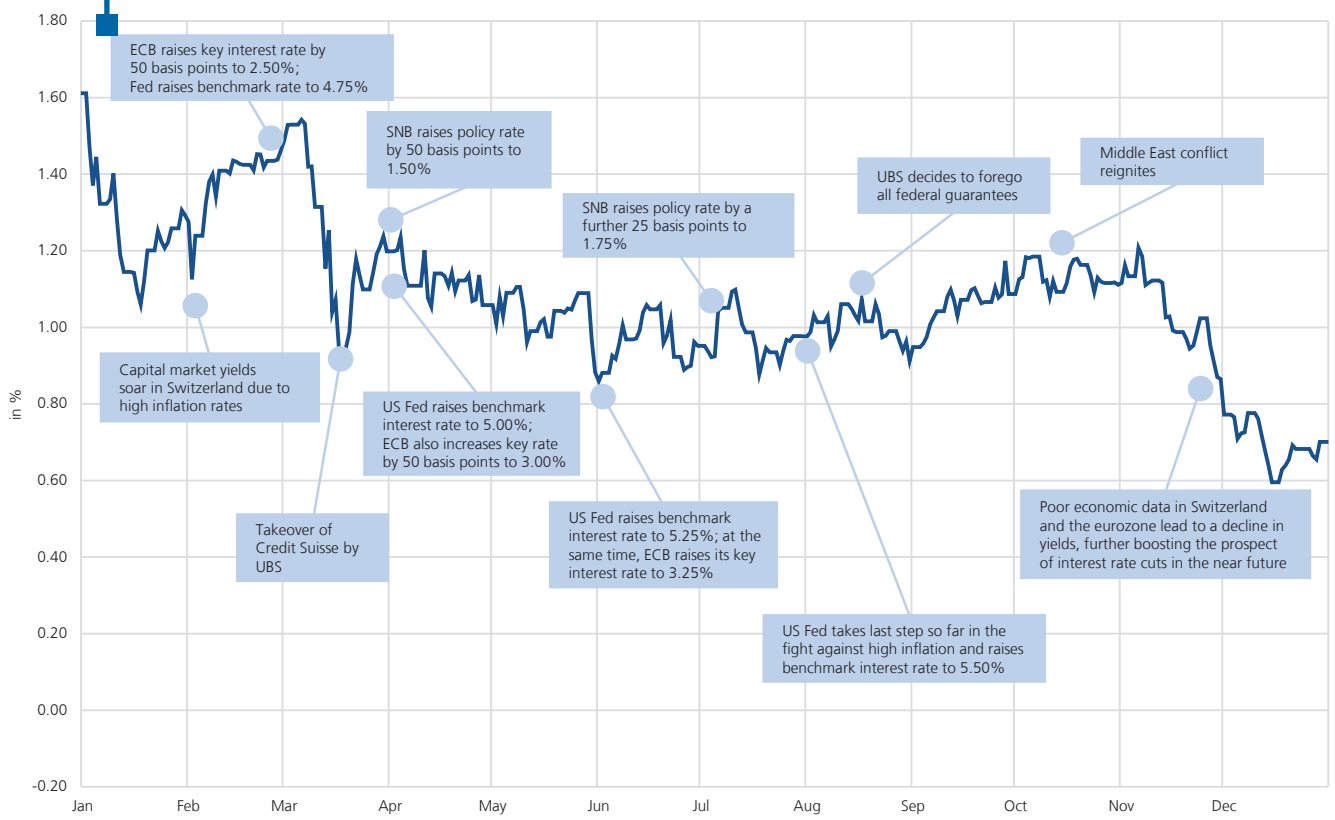
During the year, the yield on 10-year Confederation bonds rose from 1.6% to 0.7%

As in 2022, the two Pfandbrief institutions were the largest issuers on the Swiss bond market in 2023 (together approximately. 18 bn), followed by the federal government. The same pattern was also seen in the volume of bonds outstanding, which stood at around CHF 609 billion at the end of December 2023 and is clearly dominated by Pfandbriefbank (approximately 90 bn), Pfandbriefzentrale (approximately 80 bn) and the federal government (approximately 72 bn; including own tranches sold, but excluding residual holdings of own tranches).

Confed. bond yield curve (term to maturity & yield)

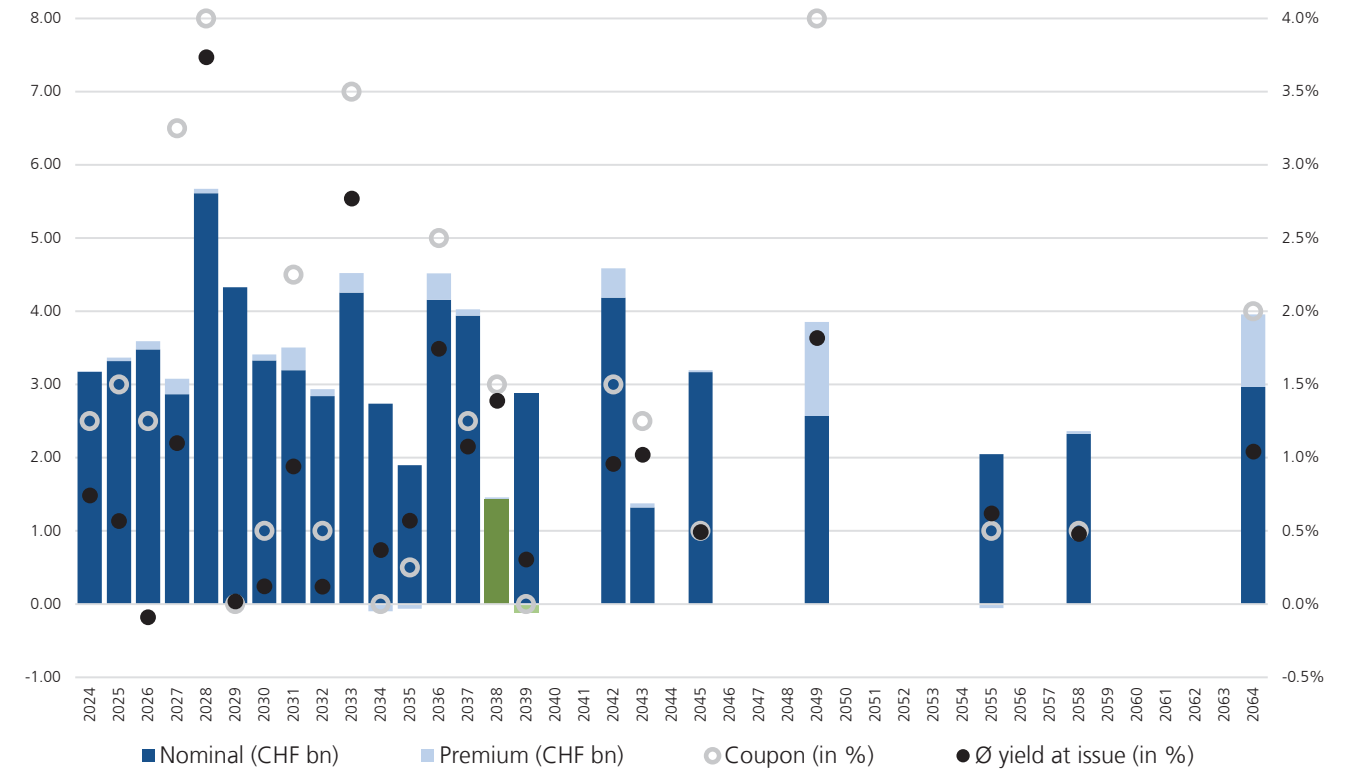


Development of government bond interest rates

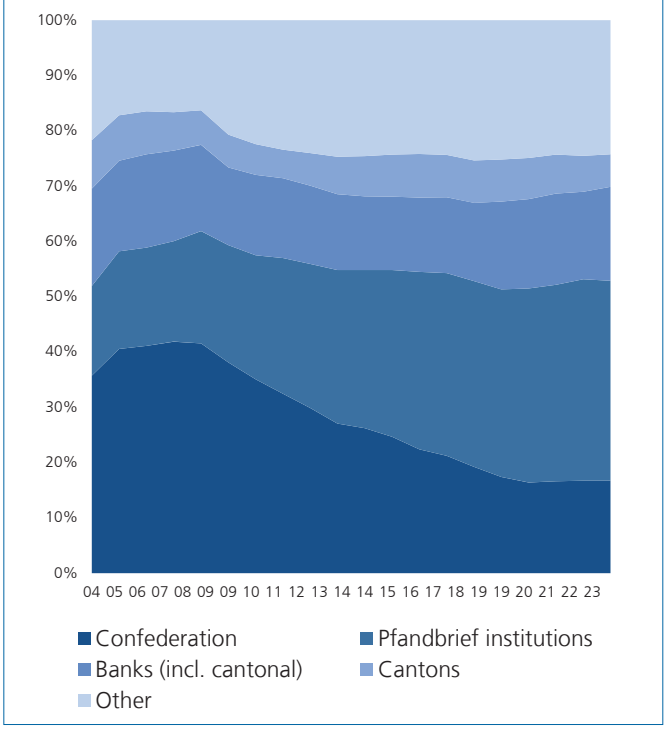


Source: Bloomberg

Outstanding bonds in nominal terms and at amortized cost

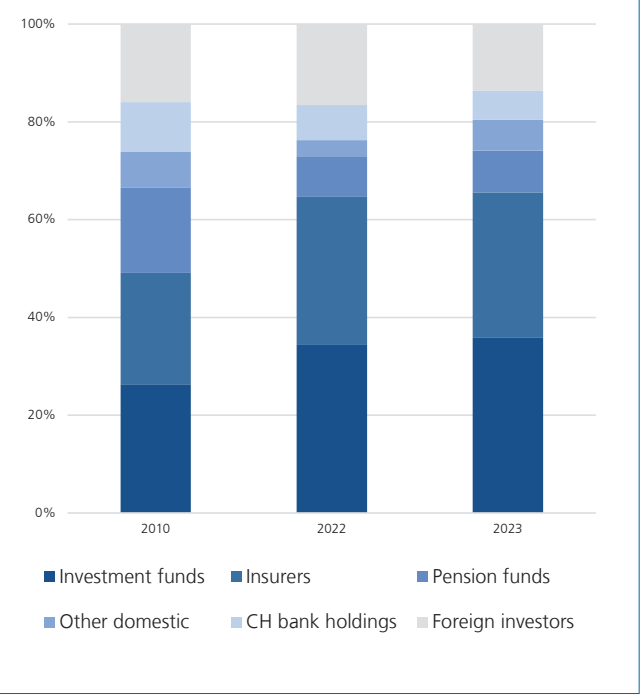


Outstanding bonds in CHF domestic segment



Source: SIX

Confederation bond investor base



Source: SNB, own calculations

Funding requirements and liquidity trend

At the beginning of 2023, the federal government had liquid assets totaling CHF 16.7 billion. In addition to the credit balance on the SNB sight deposit account, these also included short-term money market investments. The ranges adopted by the ALCO for optimal liquidity management also envisaged a relatively high level of liquidity of between CHF 15 billion and CHF 20 billion at the end of 2023. The high liquidity reserves are still necessary in order to be able to meet the potential obligations arising from the rescue mechanism for the electricity industry at all times. Based on the Federal Act on Subsidiary Financial Aid to Support Systemically Critical Companies in the Electricity Industry (FiRE-CA), the Federal Treasury must be in a position to provide up to CHF 10 billion to bridge the industry's liquidity gap at short notice until the end of 2026.

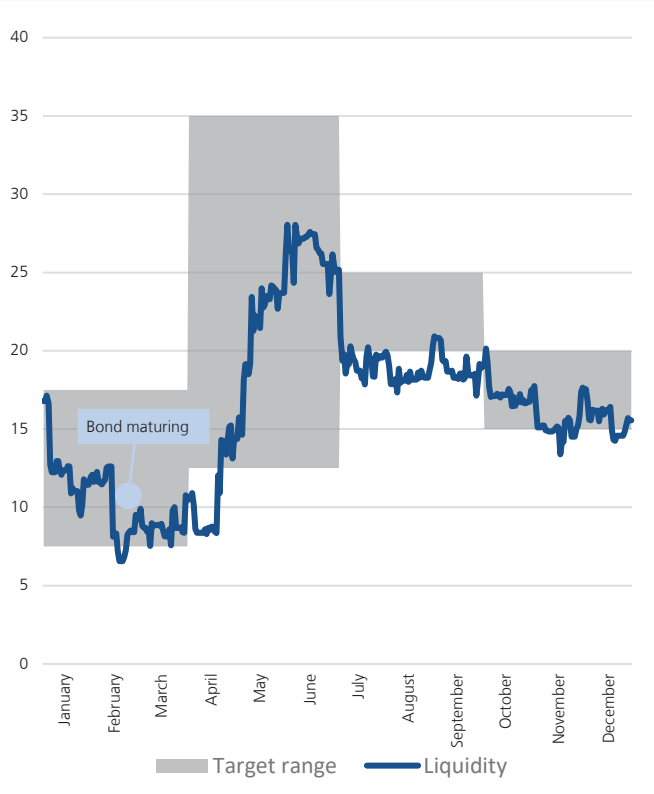
Because of the interest rate turnaround, the seasonal liquidity pattern fluctuated quite significantly

In order to keep liquidity within the desired range, the Federal Finance Administration's issuance program envisaged gross issues on the capital market worth CHF 8 billion. At the same time, the volume of money market debt register claims was to be kept within a range of CHF 12 billion to CHF 18 billion over the course of the year. The net debt increase of CHF 3.4 billion was intended mainly to cover the expected cash outflows due to the turnaround in interest rates. In particular, the remaining funds of the Substitute Occupational Benefit Institution totaling CHF 2 billion should be mentioned. These were invested interest-free with the federal government during the negative interest rate phase and have been gradually drawn down since the interest rate turnaround in 2022.

Aggregate net cash flows federal budget in bn

Calculation: daily change in SNB sight deposit account less financing activities

2023 liquidity trend in bn



Overall, the Federal Treasury's planning, which served as the basis for the 2023 issuance program, proved to be accurate. At the end of the year, liquidity amounted to around CHF 15.3 billion and was therefore within the defined range. At the same time, issuing activity on the money and capital markets deviated only slightly from the published issuance calendar. Confederation bonds of CHF 8.3 billion were placed on the market, and the volume of money market debt register claims amounted to just under CHF 14 billion at the end of the year.

However, the seasonal liquidity pattern was not in line with expectations. It deviated significantly from previous years in the first two quarters. This was due to the SNB policy rate being raised into positive territory, which had an impact well into 2023. In particular, significantly more withholding tax refund requests were made at the beginning of the year than in previous years. In addition, subsidies and financial assistance were also drawn down much earlier and, at the same time, the cantons once again made full use of the statutory deadlines for depositing direct federal tax. As a result, net cash outflows in the first few months were not the usual CHF 5 billion, but around CHF 10 billion, and it took considerably longer for liquidity to again reach the planned level. It was not until the summer months that the liquidity pattern returned to normal and short-term liquidity planning regained its relevance.

■ Investment activity

Liquidity

As part of its liquidity management, the Federal Treasury may invest and borrow funds in the money market. With the SNB's policy rate rising into positive territory, which already began in September 2022 and reached its temporary peak in June 2023, the Federal Treasury began investing short-term funds again. Three instruments are at the center of this. The sight deposit account at the SNB provides the Federal Treasury with a risk-free investment opportunity that bears interest at the SNB policy rate up to a certain threshold. In its daily liquidity planning, the Federal Treasury aims to utilize this limit on the sight deposit account to the fullest extent possible. In addition, fixed-term deposits with maturities of between one week and six months are concluded with the SNB at standard market conditions. Access to the Swiss repo market provides a third instrument for investing funds. This instrument is used in particular for investing unexpected liquidity that temporarily exceeds the threshold on the sight deposit account.

At the beginning of the year, SNB fixed-term deposits totaling CHF 12.7 billion were outstanding. These fixed-term deposits also include the CHF 1 billion that must be held at the SNB at all times to cover possible intraday liquidity shortfalls. Over the course of the year, the outstanding volume of fixed-term deposits fluctuated between CHF 2.0 billion and CHF 23.5 billion, and ended the year at CHF 10.1 billion. The yield achieved was always based on the prevailing OIS SARON swap rate for the corresponding maturity.

If the available liquidity on the sight deposit account at the end of the day exceeds the threshold for interest at the SNB policy rate, the Federal Treasury executes overnight repo transactions. The funds placed are repaid on the next business day. The CHF repo market accepted the Federal Treasury as a participant very swiftly, and reciprocal activation in the SIX Repo Ltd system was agreed with a wide range of counterparties within a very short space of time. In 2023, repo transactions were executed on 80 days. The volumes traded ranged between CHF 30 million and CHF 1.915 billion, and amounted to an average of CHF 540 million. The interest rate agreed in each case was slightly below the SNB policy rate, but significantly higher than the interest rate paid by the SNB for balances on the sight deposit account above the threshold (SNB policy rate -50bp).

Furthermore, only one canton was granted a short-term loan extending beyond the end of the year; it amounted to CHF 0.15 billion.

Repo transactions

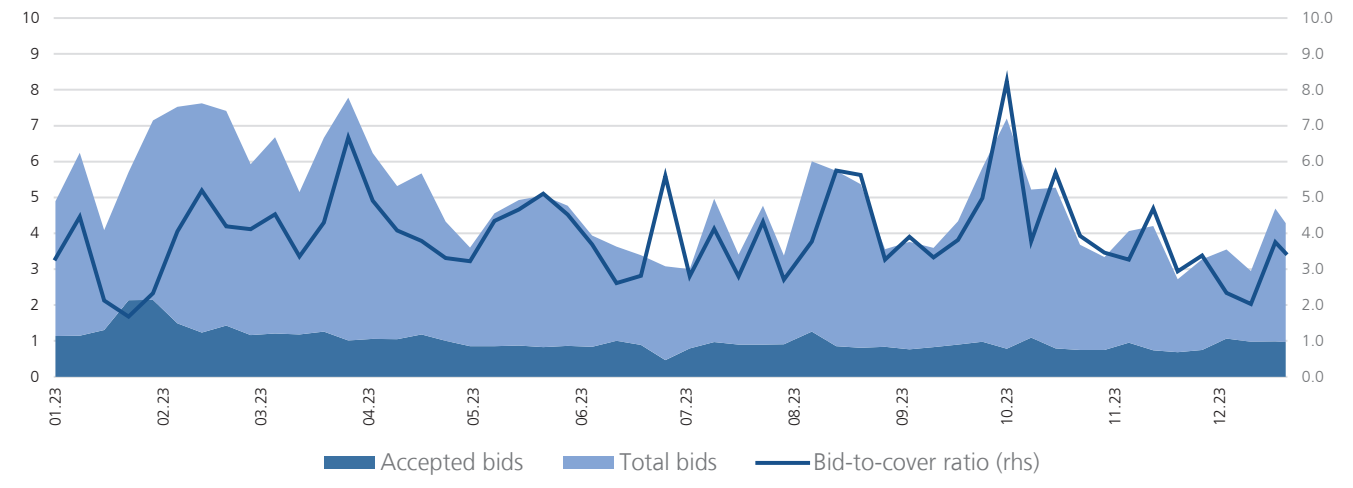
Repos (repurchase agreements) are financial transactions in which a lender provides cash to a borrower for a specified period of time in exchange for collateral (e.g. bonds). They essentially consist of two transactions, a spot and a forward transaction. In the first leg, the borrower sells collateral to the lender (spot transaction). At the same time, the parties agree on the repurchase of the collateral at a future date (forward transaction). In a conventional repo transaction, the lender receives interest at the repo rate in addition to the amount lent when the transaction is completed in the final leg. Repos normally have terms of between one day and 12 months. They are an important component of the interbank market and provide the financial system with liquidity. Moreover, the SNB uses repo trading to implement its monetary policy strategy by keeping the short-term repo rate – the Swiss Average Rate Overnight (SARON) – close to its policy rate. An important feature of repos compared with other financial transactions is the considerable reduction in credit risk achieved through the exchange of collateral and the margin calls that are at least daily. The Federal Treasury joined the repo market at the beginning of 2019.

Treasury loans

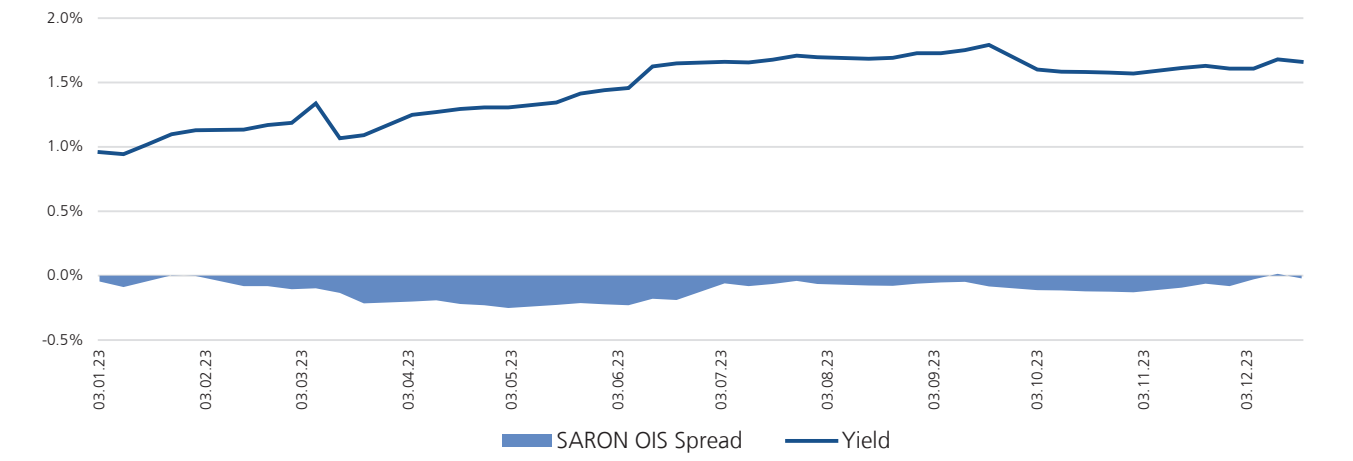
The Federal Treasury may affiliate administrative units of the decentralized Federal Administration that maintain separate accounts to the central Treasury for the management of their liquidity. This also applies to organizations which, based on special legislation, may have funds invested and managed by the Federal Treasury. The Federal Treasury enters into treasury agreements with the eligible entities. In certain cases, the treasury agreements provide that the administrative units may also take out loans from the Federal Treasury. The interest rate on such loans is generally based on the prevailing OIS SARON swap rate for the relevant term, plus a margin. During the year under review, this option was used almost exclusively by SBB and the railway infrastructure fund (RIF). Outstanding loans to SBB rose from CHF 6.3 billion to CHF 6.5 billion during the year, while those to the RIF decreased from CHF 5.8 billion to CHF 5.1 billion. As a result, treasury loans totaling CHF 11.6 billion were outstanding at the end of the year.

Money market debt register claims

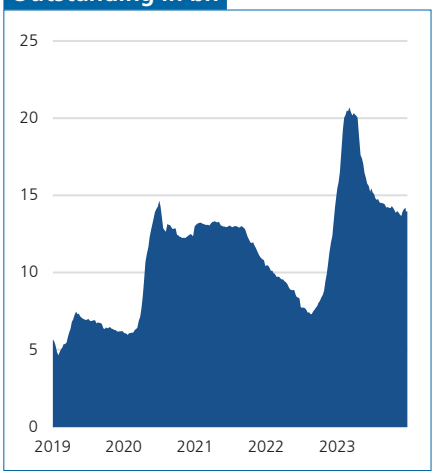
Auctions in bn



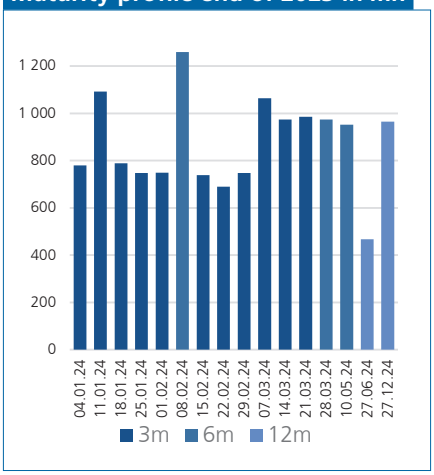
Yields in % (3m money market debt register claims)



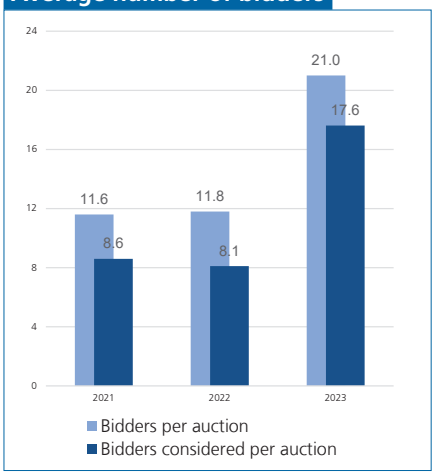
Outstanding in bn



Maturity profile end of 2023 in mn



Average number of bidders



Funding in the money market

Money market debt register claims

Due to their short maturities and weekly auctions, money market debt register claims are an ideal instrument for managing the Confederation's short-term liquidity and responding to short-term payment peaks. These peaks were the reason why money market debt register claims once again became the focus for the Federal Treasury in 2023. According to the issuance program for 2023, the volume of money market debt register claims should be within the range of CHF 12 billion to CHF 18 billion over the course of the year (range in 2022: 8 bn to 14 bn). While the outstanding volume of money market debt register claims totaled around CHF 15 billion at the beginning of the year, it was still around CHF 14 billion at the end of the year, meaning that the target range was complied with at this time.

However, substantial withholding tax refund requests and early drawdowns of subsidies and financial assistance, for instance, led to a significant increase in the federal government's funding requirements in the first quarter and at the beginning of the second. This was due in particular to the SNB's interest rate turnaround initiated in fall 2022, the effects of which were still being felt into 2023. To ensure that liquidity did not fall below a critical threshold, the Federal Treasury intensified its issuing activity for money market debt register claims. The outstanding volume of money market debt register claims at the beginning of the year was increased from around CHF 15 billion to more than CHF 20 billion within just a few auctions, thereby temporarily exceeding the range announced in the issuance program (12 bn to 18 bn).

The increased issuing activity subsequently had an impact also on the average bid volumes. These also grew from around CHF 3.7 billion to almost CHF 6.5 billion within a few weeks. Over the course of the year, bid volumes returned to normal and averaged around CHF 3.8 billion. The relative financing costs (spread to OIS SARON swap rate) also reflected the intensified issuing activity. The swap spread fell by some 10 basis points to a total of zero basis points during the first few auctions of the year. However, this movement was short-lived. Toward the end of the first quarter, the swap spread widened again to almost -30 basis points. Over the course of the year, relative financing costs averaged around -11 basis points.

The absolute financing costs increased significantly once again in view of the SNB's policy rate hikes. While money market debt register claims with a maturity of three months could still be allocated at average yields of 1.1% in the first quarter, they reached an average of up to 1.7% in the third quarter, before falling slightly to an average of 1.6% in the fourth quarter. The average yield across all money market debt register claims achieved over the course of the year was 1.5% (volume-weighted around 1.4%). The SNB's repeated policy rate hikes also had a noticeable effect on the interest expense caused by money market debt register claims. While they contributed to a net reduction in expense of CHF 37.0 million in 2022 thanks to negative interest rates (interest receipts of 47.8 mn, interest expense of 10.8 mn), they resulted in interest expense of around CHF 214 million in 2023.

Money market debt register claims

Money market debt register claims (T-bills) are interest-bearing debt instruments that are issued at a discount by the FFA. These are tradable debt register claims entered in a main register kept by SIX SIS Ltd. Money market debt register claims have maturities of three, six or twelve months. A total of 16 money market debt register claims are always outstanding (11 three-month ones, 3 six-month ones and 2 twelve-month ones). The auctions are held weekly on Tuesdays on the platform of SIX Repo Ltd (rate tender with Dutch or single rate allocation procedure). No nominal interest rate is specified in the case of money market debt register claims; the interest is in the form of a discount at the time of issuance. This means that money market debt register claims are normally issued at a price that is less than 100% of the nominal value. Redemption is then at 100%.

The regular issuance of these money market instruments is an important pillar of the Confederation's refinancing. A liquid primary market for money market debt register claims that functions well enables the Confederation to raise even larger volumes of borrowed capital at favorable conditions at any time.

Absolute financing costs rose considerably once again in view of the policy rate hikes

Funding in the capital market

The issuance program presented at the end of November 2022 put the federal government's funding requirements for 2023 at around CHF 8 billion in nominal terms. The planned issuance volume was to be raised in full in the Swiss capital market in eleven auctions and through the opportunistic sale of own tranches. Historically, this gross issuance requirement was extremely high and was last exceeded by the federal government at the turn of the millennium. The reason for this high issuance volume was partly due to the CHF 4.6 billion bond that matured in 2023 and partly due to the payment of CHF 2 billion to the BVG Substitute Occupational Benefit Institution, which gradually withdrew the funds it was able to invest with the federal government without interest during the negative interest rate phase, following the turnaround in interest rates.

In total, the Confederation auctioned 24 Confederation bonds on eleven auction dates in 2023, with the volume issued amounting to CHF 8.1 billion in nominal terms. In addition, own tranches with a face value of CHF 200 million were sold. At year-end, the Confederation's outstanding bond volume thus totaled around CHF 72 billion (including own tranches sold, but excluding residual holdings of own tranches) and was therefore around CHF 3.7 billion higher than a year earlier (previous year: 68.3 bn). The average yield on the Confederation bonds issued in 2023 was 1.20% (previous year: 0.89%), while the average term to maturity was 15.1 years (previous year: 20.2 years).

The average yield on the Confederation bonds issued in 2023 was 1.20%

Confederation bonds

Confederation bonds are the Confederation's most important instrument for covering its long-term funding requirements. The auctions generally take place on the second Wednesday of every month and are carried out on the platform of SIX Repo Ltd: upon issuance, only the nominal interest rate (coupon) and maturity are defined, while the issue amount and issue price (and thus the yield) are determined on the basis of the bids submitted by the platform participants (banks and Swiss insurance companies, as well as fund management companies and operators of collective investment schemes under the CISA). Like with money market debt register claims, the Federal Treasury allocates the bonds according to the single rate ("Dutch") procedure, i.e. uniformly at the lowest acceptable price. The SNB is responsible for the technical and administrative processing of the auctions.

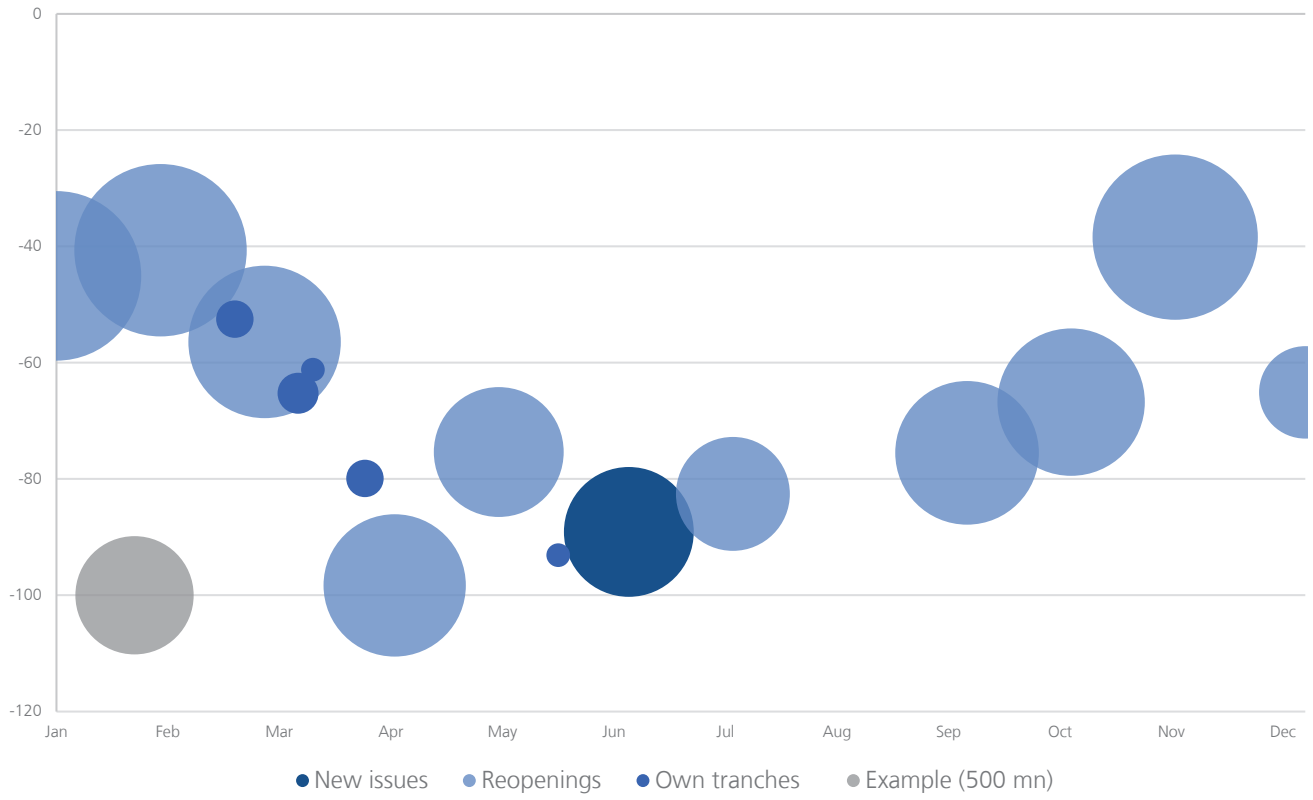
Confederation bonds are listed on the Swiss stock exchange (SIX Swiss Exchange). Effective since summer 2022, they are no longer issued as global certificates, but rather as uncertificated securities in the form of intermediated securities. The Confederation holds a limited volume of securities as proprietary holdings (first time not yet placed). These so-called own tranches are created in addition when auctions are held, and, if needed, can be sold directly on the market between the ordinary auction dates. An overview of the own tranches available can be found on the FFA and SNB websites.

Confederation bonds contain a reopening clause. As a result, a bond can be reopened with several auctions, thereby increasing its liquidity on the secondary market. The outstanding Confederation bonds, with their respective terms to maturity and yields, form the yield curve for Swiss government bonds. These yields constitute the risk-free reference interest rates for market participants, which allows for an efficient primary and secondary market not just for bonds, but also for associated interest rate derivatives.

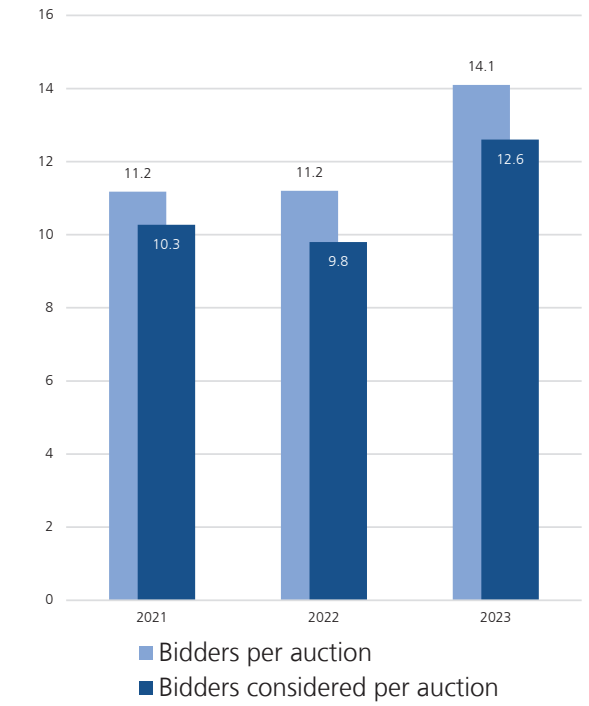
The new green Confederation bonds launched in 2022 are treated in the same way as conventional bonds from an issuing perspective. This means that green bonds will also be regularly reopened in the issuance process after the initial issue in order to ensure secondary market liquidity. Moreover, the Federal Treasury can choose to issue additional green Confederation bonds. The target volume included in the issuance calendar includes both conventional and green Confederation bonds.

Development of the primary market for Confederation bonds

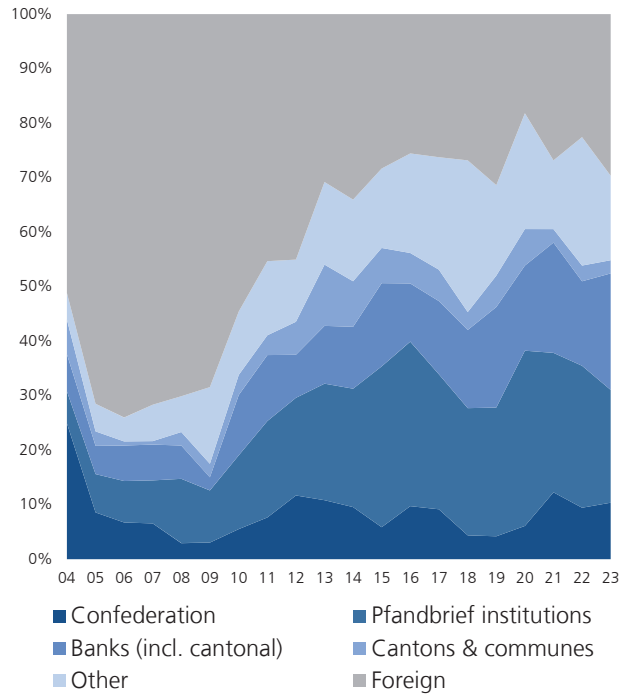
Volume-weighted auction swap spread (in bp)



Average number of bidders



Share of Confederation bonds on CHF primary market



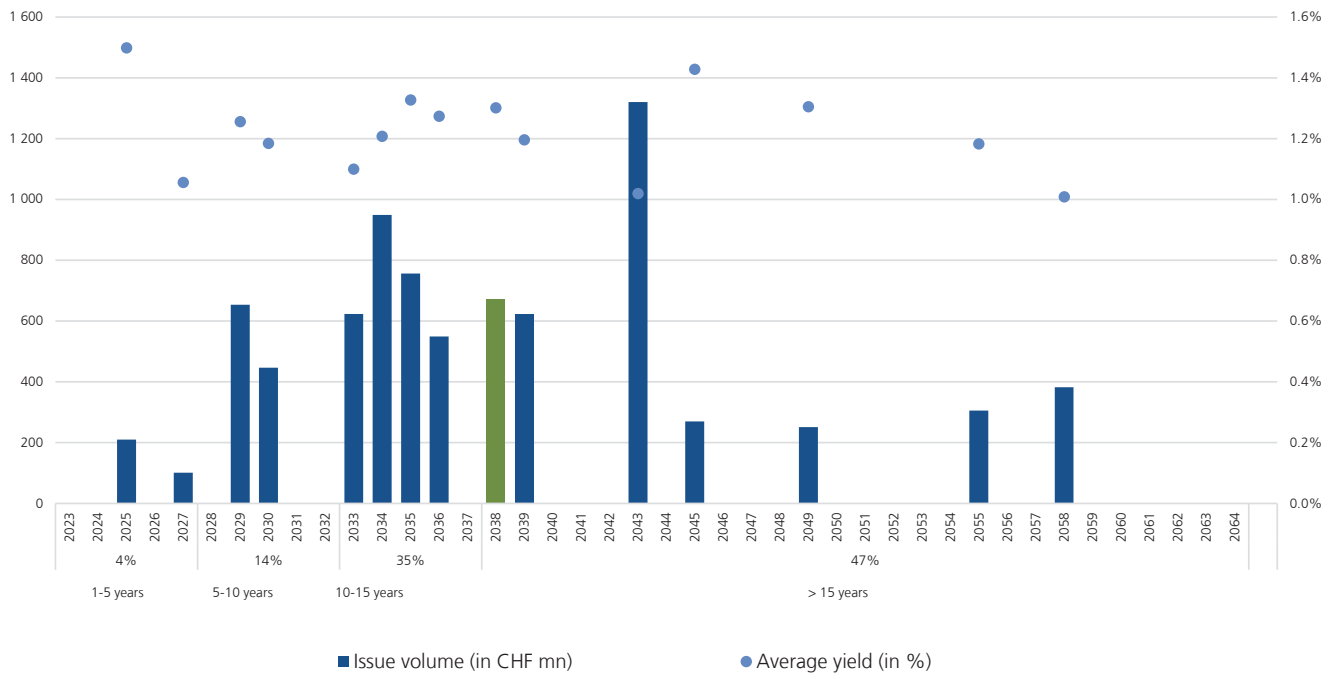
Source: SNB

2023 bond auctions

Auction results

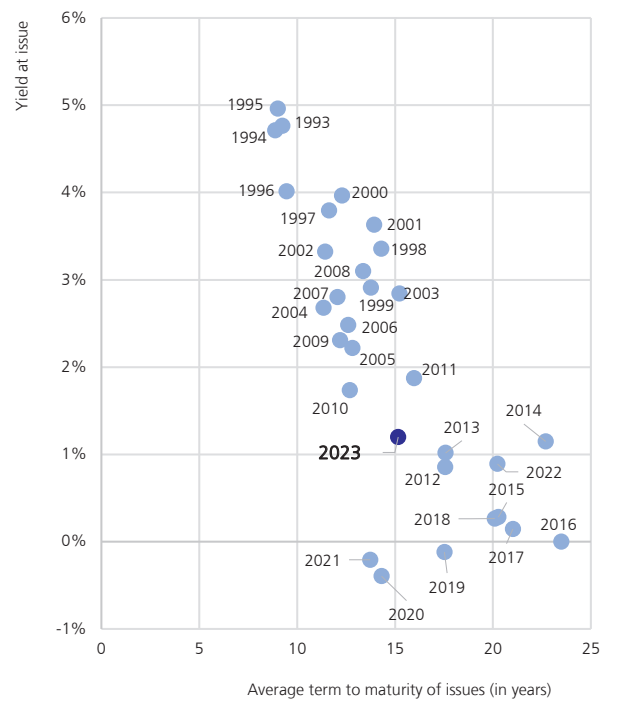
Auction	Issue	Coupon	Maturity	Issue volume (in CHF mn)	Total outstanding (in CHF mn)	Yield	Spread to swap	Bid-to-cover
11.01.2023	Conf. 27.05.15/30	0.500%	27.05.2030	318.3	3200.1	1.261%	-40.5	1.3
11.01.2023	Conf. 23.06.21/35	0.250%	23.06.2035	458.6	1568.1	1.417%	-38.2	1.3
11.01.2023	Conf. 06.01.99/49	4.000%	06.01.2049	250.7	2570.8	1.305%	-63.4	1.5
08.02.2023	Conf. 22.06.16/29	0.000%	22.06.2029	509.1	4183.0	1.291%	-37.6	1.3
08.02.2023	Conf. 08.03.06/36	2.500%	08.03.2036	283.8	3890.9	1.466%	-45.6	1.5
08.02.2023	Conf. 28.06.17/45	0.500%	28.06.2045	269.8	3170.1	1.428%	-41.2	2.1
08.03.2023	Conf. 24.07.13/25	1.500%	24.07.2025	210.0	3320.6	1.499%	-58.9	2.3
08.03.2023	Conf. 26.06.19/34	0.000%	26.06.2034	274.8	2062.2	1.454%	-54.3	1.9
08.03.2023	Conf. 26.10.22/38	1.500%	26.10.2038	346.1	1112.2	1.482%	-56.6	2.3
12.04.2023	Conf. 27.06.07/27	3.250%	27.06.2027	100.8	2865.5	1.056%	-90.9	2.6
12.04.2023	Conf. 08.04.03/33	3.500%	08.04.2033	623.3	4256.0	1.100%	-99.5	1.6
10.05.2023	Conf. 23.06.21/35	0.250%	23.06.2035	297.7	1895.8	1.188%	-78.5	1.2
10.05.2023	Conf. 24.05.17/55	0.500%	24.05.2055	305.4	2047.7	1.183%	-72.3	1.5
14.06.2023	Conf. 28.06.23/43	1.250%	28.06.2043	602.4	602.4	1.165%	-89.1	1.5
12.07.2023	Conf. 22.06.16/29	0.000%	22.06.2029	144.3	4327.3	1.135%	-82.7	2.5
12.07.2023	Conf. 26.06.19/34	0.000%	26.06.2034	319.5	2381.7	1.115%	-82.5	1.4
13.09.2023	Conf. 26.10.22/38	1.500%	26.10.2038	325.3	1437.4	1.109%	-75.5	2.0
13.09.2023	Conf. 28.06.23/43	1.250%	28.06.2043	412.4	1014.8	1.094%	-75.5	1.6
11.10.2023	Conf. 27.05.15/30	0.500%	27.05.2030	128.5	3328.6	0.996%	-61.8	1.2
11.10.2023	Conf. 08.03.06/36	2.500%	08.03.2036	265.9	4156.7	1.069%	-77.2	1.2
11.10.2023	Conf. 30.05.16/58	0.500%	30.05.2058	382.1	2323.5	1.009%	-61.2	1.2
08.11.2023	Conf. 26.06.19/34	0.000%	26.06.2034	355.0	2736.6	1.101%	-42.6	2.0
08.11.2023	Conf. 24.07.19/39	0.000%	24.07.2039	621.7	2873.9	1.196%	-36.0	1.3
13.12.2023	Conf. 28.06.23/43	1.250%	28.06.2043	305.4	1320.2	0.630%	-65.1	1.2
Total				**8110.3**		**1.200%**	**-62.9**	**1.7**

Maturities and yields

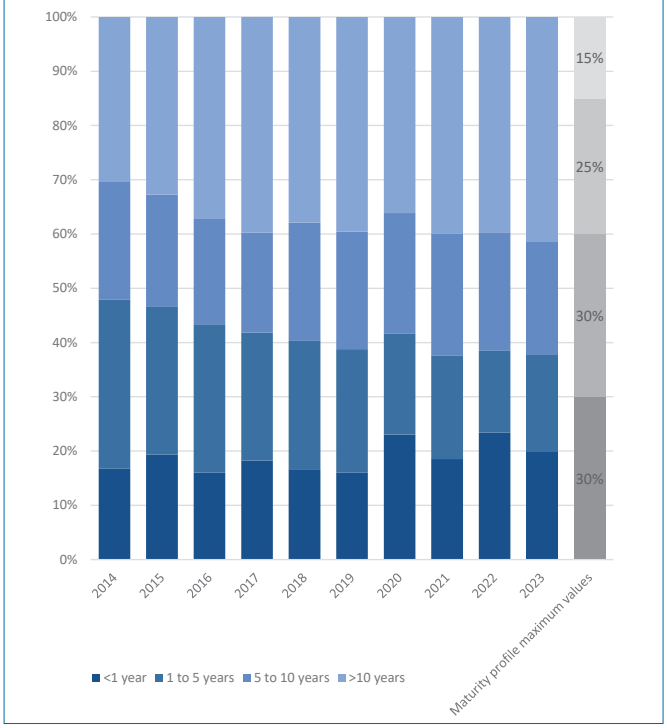


Duration and term to maturity

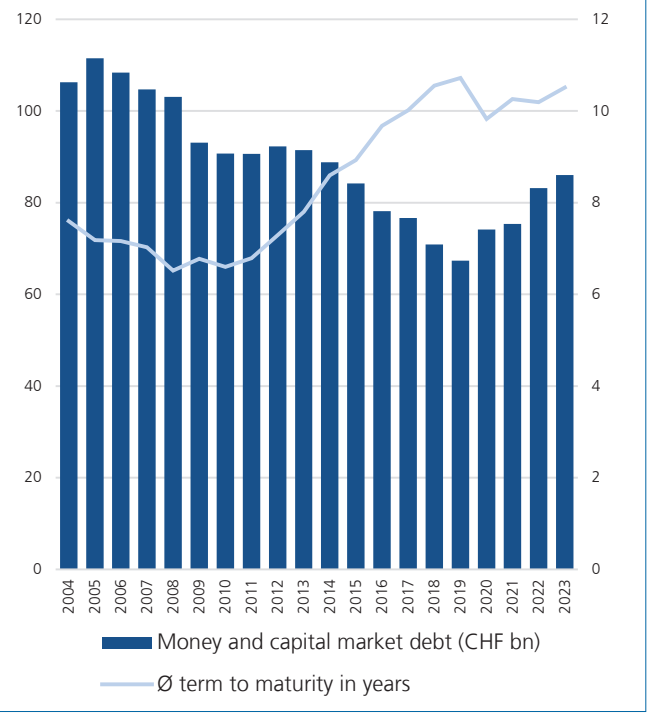
Duration and yield of Confederation bonds



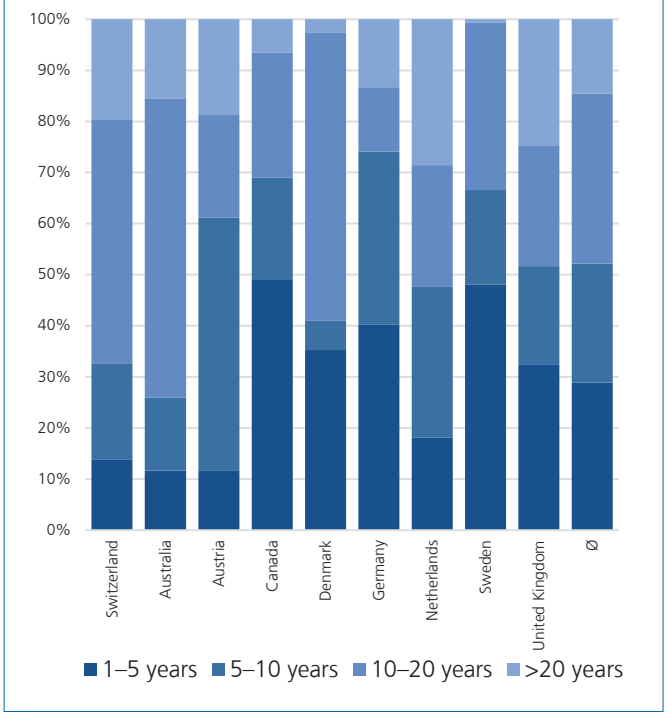
Maturity profile of federal market debt



Term to maturity of federal market debt

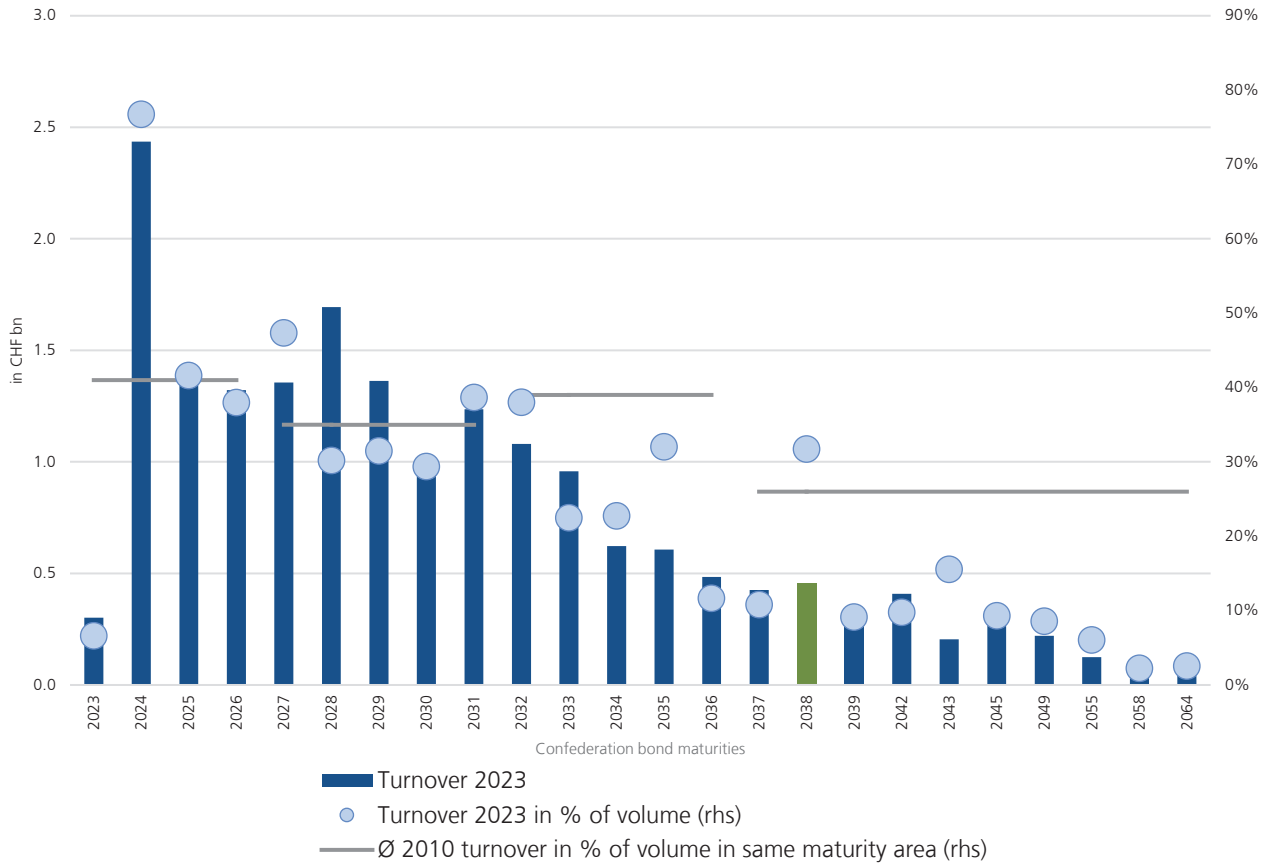


Duration of government bonds (issued in 2023)

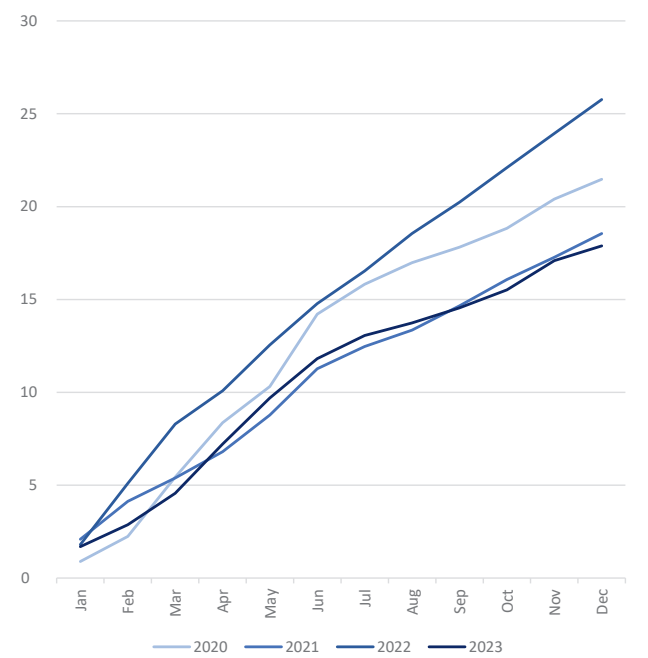


Development of the secondary market for Confederation bonds

Confederation bond trading volumes on the secondary market



Cumulative trading volumes in bn



Daily trading activity by maturity segment

Source: SIX

Issuing principles of the Federal Treasury

1. The Confederation is committed to an efficient Swiss capital market that functions well, thereby ensuring regular and reliable refinancing opportunities. By issuing bonds, it makes sure that the most important maturities of 1 to 13 years are covered with liquid bonds. In the case of extremely long maturities, intermittent anchor points are to be placed on the yield curve with individual bonds.

2. The Confederation's debt portfolio comprises around 20 underlying bonds. There is only one bond per maturity.

3. The issuance program, together with auction dates and the gross and net annual funding requirements, is publicly communicated in December of the previous year.

4. Bond auctions take place on a monthly basis, with a summer break in August. Two dates are optional (usually October and December).

5. A bond with a maximum volume of CHF 5 billion is to mature per year. A minimum volume of CHF 2 billion is sought with the 10-year benchmark bond.

6. If possible, bonds should mature in the months of May to September; new underlying bonds are launched accordingly during this period.

7. Reopenings are possible for all bonds with a term to maturity of more than one year.

8. Pricing at auctions (allocation) is based on the funding requirement, investor demand, absolute interest rates, bid and offer prices, and the swap spread of the underlying bond.

9. Subject to a federal funding requirement, own tranches can be acquired from the Federal Treasury between the auction dates at market conditions (pricing same as for bond auctions). Maturities that are not (or no longer) covered by auctions in the respective year are preferred.

10. Bonds with a shorter term to maturity can be redeemed within the framework of liquidity management.

Auction review

The Federal Treasury conducted eleven auctions in 2023. The two optional dates in October and December were both used. Due to the extremely high issuance volume, three different bonds were issued simultaneously on four auction dates. Two bonds were auctioned on five other dates. In addition, the 20-year benchmark bond maturing in 2043 was issued in June. No additional bonds were auctioned on this date, in order to focus on this new issue.

The Federal Treasury issued bonds with a face value of CHF 8.3 billion through the auctions (2022: 6.8 bn). The average volume-weighted auction yield was 1.20% (2022: 0.89%). After very high premia were regularly collected in previous years due to the extremely low capital market yields, the generally higher interest rate environment resulted in a discount of around CHF 0.1_billion in 2023 (2022: premium of 0.2 bn).

The bonds auctioned will mature between 2025 and 2058, and therefore cover all maturity ranges of the yield curve. The average term to maturity (duration) of the bonds auctioned, i.e. excluding the own tranches sold, was 15.1 years (2022: 21.5 years). As shown by the issues' relatively long average term to maturity, the largest volume (3.8 bn) was raised in the long and ultra-long segments, with maturities of over 15 years. The 10 to 15-year maturity segment accounted for around CHF 2.9 billion, and the segment up to 10 years for just over CHF 1.4 billion. In the year under review, the Confederation bond yield curve showed a relatively strong inversion over long stretches (longer maturities had lower yields than shorter maturities), which meant that issuing longer maturities made sense from a yield perspective. Furthermore, although investors were unable to achieve a term premium, investor demand tended to be higher for long maturities. This is likely due to the fact that individual benchmark investors are still slightly underweighted in Confederation bonds after the long period of negative interest rates, and many investors also wanted to extend the duration. The average term to maturity was also well above the international average.

Last year, the Asset & Liability Committee (ALCO) decided to end the tactical deviation from the issuance strategy defined as optimal, due to the now favorable interest rate environment. As a result, the Federal Treasury was required to achieve shorter average terms to maturity for issues. This was because the issuance strategy defined as optimal stipulates that issues should have an average interest commitment of twelve years with a money market debt register claim share of 15% of the total debt volume. If these issuance guidelines are followed in the long term, the debt portfolio should reach a state in which the maximum limit for interest rate risks is fully utilized and interest costs are simultaneously minimized.

The realized average term to maturity of just over 15.1 years was slightly above this target. There are various explanations for this deviation. On the one hand, demand for short-dated Confederation bonds was relatively weak over the year as a whole, which was likely due to the fact that there are several alternatives to Confederation bonds in this segment that offer a higher yield and also offer very good creditworthiness. On the other hand, the yield curve was strongly inverted for long periods in 2023. From an issuer's perspective, it therefore made little economic sense to issue short-dated bonds and thus take on higher interest rate risks without being compensated by correspondingly lower costs – i.e. lower yields. Although the debt strategy could therefore not be fully adhered to, the Federal Treasury nevertheless succeeded in shortening the average term to maturity for new issues compared with previous years. Furthermore, the issuance target was also very high this year. In future, the Federal Treasury anticipates significantly lower issuance target, which should make it easier to implement the optimal debt strategy.

Relative financing costs remained at a favourable level

Compared with the previous year, the federal government's relative financing costs (measured by the yield spread to the swap rate) remained at a favourable level, even though the issuance volume in 2023 was again significantly higher than the pre-pandemic levels. The average volume-weighted spread for the year was -63 basis points (2022: -60bp which was also significantly lower than during the years prior to the pandemic, when issuance volumes were substantially lower. The new issue of the 20-year benchmark bond maturing in 2043, which attracted considerable interest with a total bid amount of CHF 1 billion, even managed to achieve a spread of around -89 basis points.

The investor structure of Confederation bonds changed only slightly compared with the previous year. The proportion held by foreign investors increased from around 17% to 19%. However, the largest share of Confederation bonds remained with domestic investors at just over 74% (2022: 76%). Swiss banks' proprietary holdings remained unchanged year on year at 7%. The average number of participants in the auctions and the average number of counterparties considered increased slightly compared with the previous year, which was likely due in part to the significantly higher funding requirements in 2023. The bid-to-cover ratio (the ratio between bids received and allocated volume) changed only marginally. At 1.7, the ratio was roughly at the same level as in previous years. The average demand per bond issued in 2023 was around CHF 533 million, up a considerable 25% on the previous year (2022: 425 mn). At around CHF 338 million, the average allocation volume also increased by just over 25% (2022: 270 mn). This development came as no surprise given the Confederation's historically high issuance target. In contrast, trading in Confederation bonds on the secondary market was unable to match the above-average level seen in the previous year. Volumes fell to around CHF 18 billion in 2023 (2022: 26 bn).

Sale of own tranches

Slightly more own tranches were sold again in 2023 compared with the previous year. Overall, own tranches with a nominal value of CHF 200 million (2022: 120 mn) were placed in six transactions. The discount associated with own tranches was around CHF 8 million. The maturities of the own tranches traded ranged from 2032 to 2055, and were therefore focused on both the middle and long end of the yield curve. The volume-weighted average yield was 1.16%, and the average term to maturity was 16.4 years (2022: 0.71%; 28.1 years). All own tranches were placed in the first half of the year.

As in the previous year, the use of own tranches was rather sporadic, primarily because the Federal Treasury was able to meet its funding requirements with the auctions. In addition, the Federal Treasury felt that it was on course to achieve its planned issuance target of CHF 8 billion over the course of the year. Although own tranches were used less frequently in recent years, they will continue to be sold at market conditions at the request of counterparties between auction dates, provided a federal funding requirement exists.

Green Bond Allocation and Impact Report

The "green" Confederation bond segment was also tapped in 2023, and the existing green bond maturing in 2038 was reopened. This was successfully launched in 2022 with the aim of strengthening Switzerland's commitment to sustainability and establishing the Swiss financial center as a leading global provider of sustainable financial services. The funds raised with green bonds may be allocated solely to federal expenditure that has a positive environmental impact, such as the promotion of public transportation, the preservation of biodiversity and the construction of eco-friendly buildings, for example.

The first Green Bond Allocation and Impact Report was published in fall 2023. It provides an account of how the proceeds are distributed among the various eligible areas of expenditure. It also contains information on the output results and impacts, and sets out the positive environmental effects of green expenditure. The report can be downloaded from the website of the Federal Finance Administration in English, French and German.

Foreign exchange management

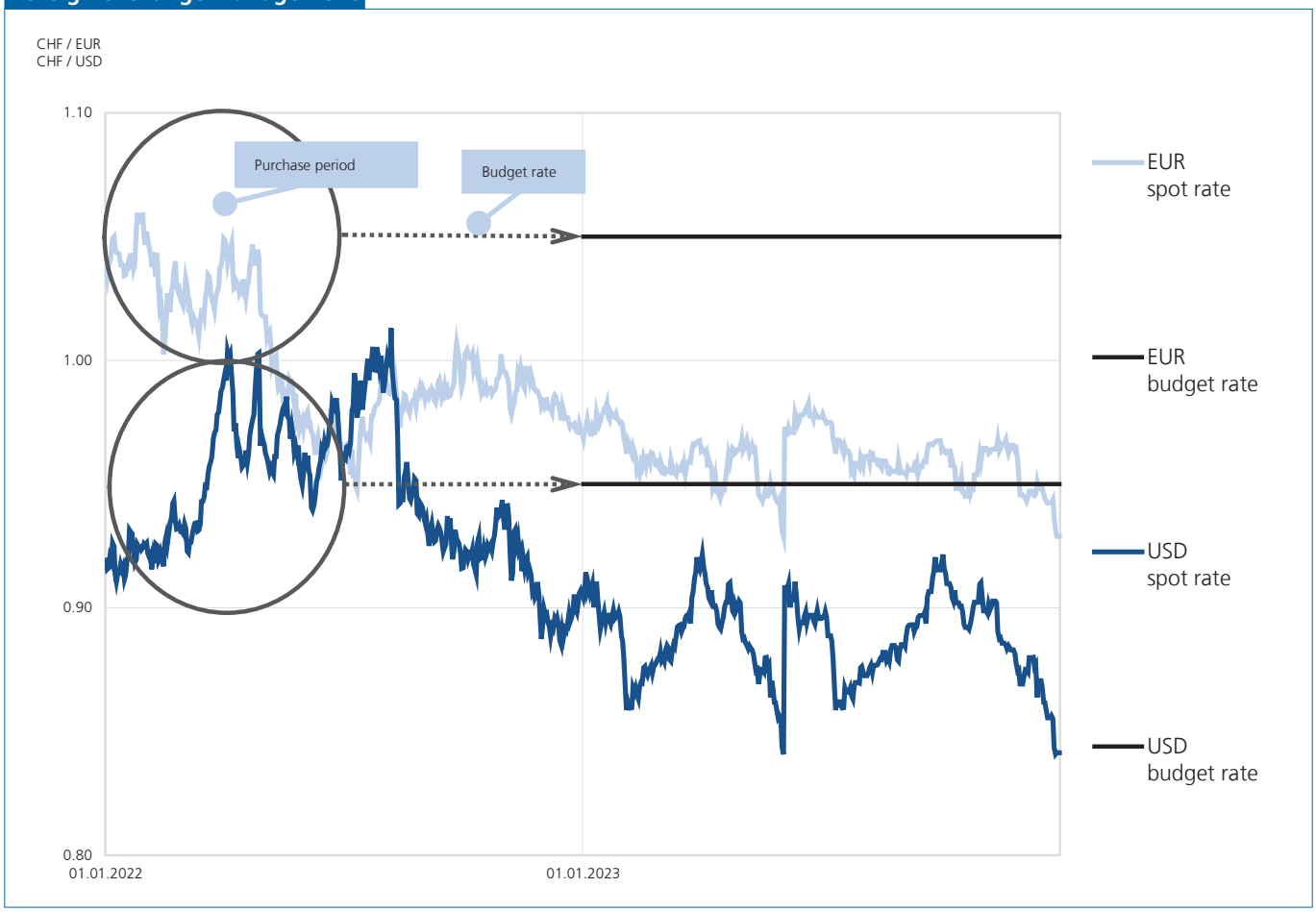
Since 1998, the Federal Treasury has been managing and systematically hedging the Federal Administration's foreign currency demand. From the FFA's perspective, exchange rate developments generally cannot be predicted. Accordingly, the Federal Treasury pursues a passive approach and does not apply active strategies involving changing exposure to rising or falling exchange rates. Hedging gives the administrative units planning certainty, and overruns of approved credits due to negative forex fluctuations can be avoided. The Federal Treasury distinguishes between budgetary transactions and special transactions.

Budgetary transactions

In the case of budgetary transactions, the administrative units' budgeted euro (EUR) and US dollar (USD) requirements for the coming year are hedged. Foreign currencies are purchased forward in parallel with the budget process (February to July). The budgeted volumes are purchased on an ongoing basis in batches of 5 to 10 million. By following this approach, an average exchange rate that corresponds to market developments is achieved, i.e. the budget rate more or less corresponds to the average exchange rate for the first two quarters. The FFA makes the purchased foreign currencies available to the administrative units at the exchange rates fixed in the budget.

A total of 666 million euros and USD 964 million was purchased forward in 2022 for the 2023 budget year. On that basis, the budget exchange rates for 2023 were set at 1.05 for CHF/EUR and 0.95 for CHF/USD. During the hedging phase, the euro started at a high of CHF 1.06 in February 2022, fell to CHF 1.00 in March and then climbed back to CHF 1.06 in June. It then depreciated to CHF 0.95 by September and ended the year at CHF 0.99. The average spot rate in 2023 was CHF 0.97/EUR, which was below the purchase rate in 2022. In retrospect, hedging resulted in opportunity costs of just over CHF 39 million. The USD started the 2022 procurement year at a low of CHF 0.92 in February, then rallied sharply to CHF 1.01 by mid-June, only to trade at CHF 0.94 by mid-August. At the beginning of November,

Foreign exchange management



Source: Bloomberg

it reached CHF 1.01 again and closed the year at CHF 0.92. The average spot rate in 2023 was 0.90 for CHF/USD, which was lower than the purchase rate. USD hedging thus resulted in opportunity costs of approximately CHF 43 million.

Only around 90% of the euro amount budgeted by the administrative units in 2022 was utilized in 2023. By contrast, the expected payments in USD were slightly exceeded. Although there were also fewer USD payments than planned, the unbudgeted additional requirements outweighed this overall. Since the introduction of currency hedging in 1998, around CHF 34 billion in euros and USD has been purchased within the framework of budgetary transactions – in other words, the equivalent of 1.3 billion francs' worth of euros and USD on average each year. Hedging over this period resulted in opportunity costs for the Confederation of around CHF 265 million, or 0.8% of the hedged volume.

In the year under review, a total of 691 million euros and USD 869 million was purchased forward for the 2024 budget year, with budget rates of 0.95 for CHF/EUR and 0.85 for CHF/USD.

A total of 666 million euros and USD 964 million was purchased forward for the 2024 budget year

Special transactions

Special transactions are predetermined payments in foreign currencies made over a period of several years within the framework of a credit line. Like the budget requirements, they are fully hedged in a bid not to exceed the CHF amount of the credit line due to negative forex fluctuations and to ensure planning certainty for the administrative units.

During the year under review, one USD special transaction and two euro special transactions totaling around CHF 727 million were carried out for the areas of defense and education, research and innovation (SERI). As of the end of 2023, a total of 26 special transactions with an aggregate value of CHF 8.0 billion (USD, euro and SEK) were open, which was less than a year earlier (CHF 9.3 bn).

Relative to a non-hedging strategy, opportunity costs of around CHF 205 million, or 1.4% of the hedged volume, have accrued for all payments arising from special transactions falling due (2000 to 2023).

10.5

years

is the average term to maturity of the Confederation's market debt.

Presentation and evaluation of the risk situation

The Confederation's general risk policy is defined by the Federal Council. The Confederation is prepared to assume risks in a controlled and deliberate manner, provided that this is unavoidable for the achievement of objectives or the execution of tasks. Risks should be minimized (instructions on the Confederation's risk policy).

Aside from interest rate and refinancing risks, forex and counterparty risks must also be taken into account by the Federal Treasury when performing its main tasks.

■ Interest rate risk

The interest rate risk for the Federal Treasury is determined by the existing maturity profile and the planned new transactions. It is managed mainly through issuing activity. The debt strategy stipulated by the ALCO determines the issuing activity and thus the maturities of new transactions.

Dynamic simulation analyses are used to analyze the effects of various issuance strategies and different interest rate scenarios. A cost-at-risk approach is used to examine the development of interest payable and its fluctuations. Information is thus obtained to optimize the debt strategy from a cost and risk perspective. Moreover, the degree to which interest payable may fluctuate can be estimated, also with regard to the budget and financial plan.

The interest rate risk is closely linked to the refinancing risk. High short-term maturities entail high interest rate and refinancing risks, and long maturities dampen them.

A projection of interest rate costs shows the trend of interest payable under various interest rate scenarios with an unchanged issuance strategy. In the process, the development of debt in accordance with the budget and financial plan is factored in. The interest rate paths are generated using a stochastic interest rate model. The mean is derived from this, as are the 10% and 90% quantiles of the statistical distribution of interest payable.

Analysis of the interest rate risk

A prospective approach is used to simulate and analyze various issuance strategies with different interest rate trends over a period of up to ten years. On the one hand, selected deterministic interest rate scenarios are used. On the other, stochastic interest rate models are also used to generate a large number of interest rate paths. This enables a random distribution of potential interest payable to be calculated for different debt portfolios for a given planning period. This in turn makes it possible to establish average expected interest payable, as well as possible deviations and their probability (cost-at-risk approach). Based on this data, different issuance strategies can be compared with respect to the expected interest payable (cost dimension) and its future fluctuation ranges (risk dimension).

The baseline scenario (mean) is derived from the macroeconomic assumptions and corresponding interest rates of the federal government's economic forecasts expert group. It is assumed that interest rates will normalize, and that long-term interest rates will rise slightly. This scenario serves as the baseline and is supplemented with the 10% and 90% quantiles of the distribution of interest rate costs for each month over the 10-year simulation horizon. The extreme scenario involves an exceptionally sharp and rapid rise of 4 percentage points in interest rates (interest rate shock). In addition, the effects of interest rates remaining at the current level (constant interest rates) are also determined.

Interest payable is a form of expenditure that cannot be directly influenced by the Federal Council or Parliament. Accordingly, an increase has to be offset by either additional receipts or reduced expenditure in order to comply with the debt brake requirements. Based on the baseline scenario, the Federal Treasury expects more or less stable interest payable over the next four years. In the event of an interest rate shock, however, interest payable would rise very rapidly and sharply, posing a major challenge to the federal budget. This scenario is unlikely at the moment. In such a case, the additional interest receipts from the investment of liquidity would partly offset the increase in interest payable. Relative to the previous year, the utilization of the risk budget rose by CHF 29 million on an annual average to CHF 387 million.

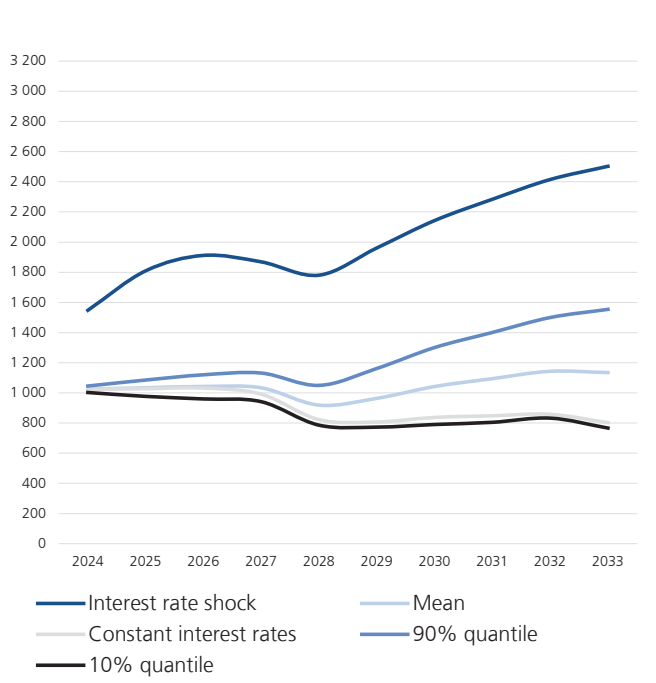
Following the end of the negative interest rate regime in the second half of 2022, the optimal debt strategy was reapplied and also reviewed once again. The aim is to shorten the average duration of newly issued bonds again somewhat and to exploit the maximum permissible interest rate risk to a greater extent where possible. However, in the context of the yield curve inversion that occurred during 2023 and intensified toward the year-end, bonds with longer maturities tended to be preferred. In an inverted interest rate environment, long maturities lead to lower interest costs with a lower interest rate risk. The optimal debt strategy will be reapplied in full once the interest rate environment has normalized.

Highest interest rate risk permissible

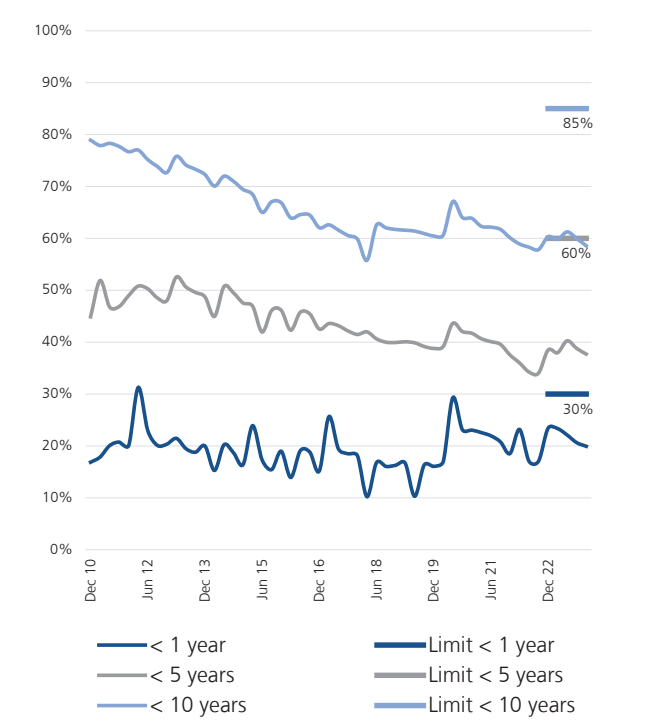
The cumulated risk budget for interest rate risks is CHF 500 million for four years. This takes into account the Confederation's fiscal policy risk capacity and risk tolerance, i.e. the extent to which an increase in interest expenditure can be offset in another way without radical measures. This means that the fluctuations in interest expense forecast for the budget and financial plan time horizon may deviate from the mean by a maximum of CHF 500 million on a cumulative basis (90% quantile less mean). In the worst case, the corresponding risk can also occur within a year. The annual average for the interest rate risk was CHF 387 million in 2023.

The utilization of the risk budget increased, but it is still not fully utilized

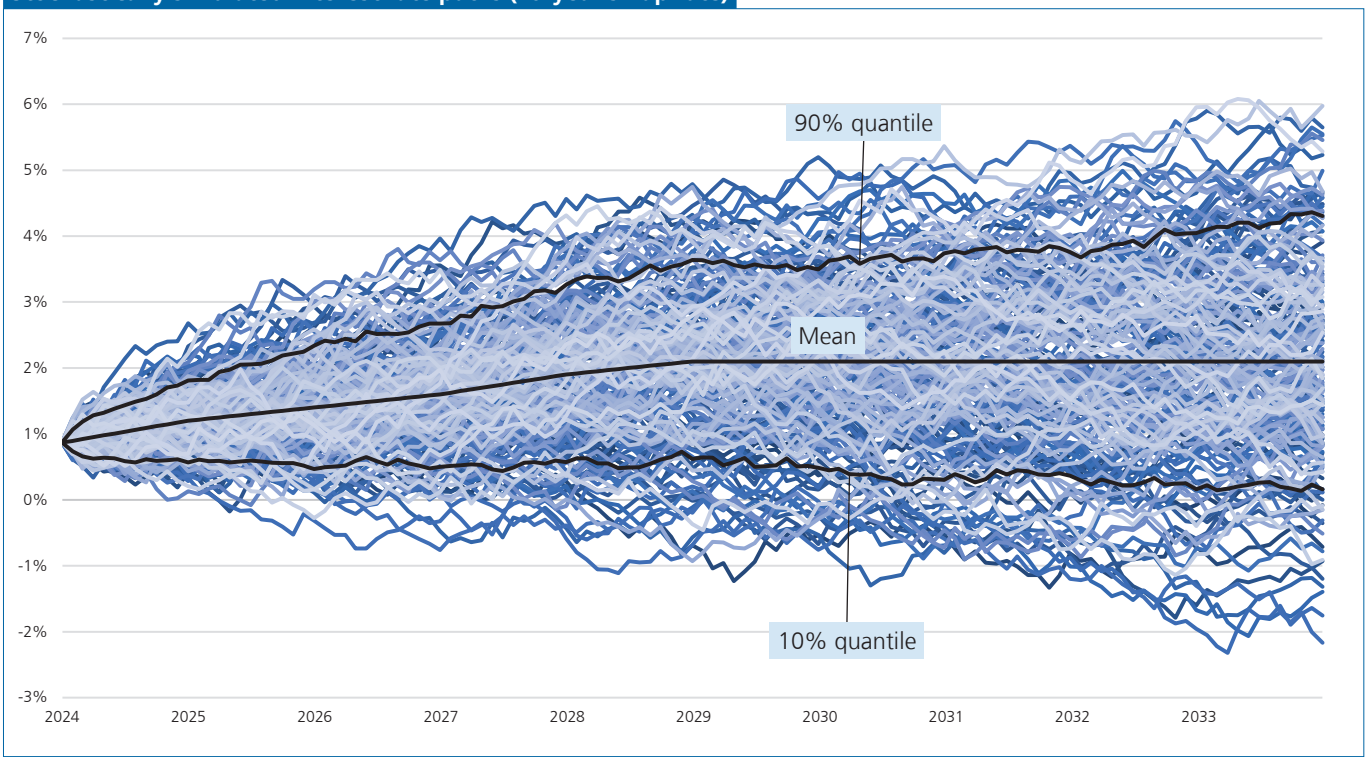
Interest expense projection in mn



Maturity profile of outstanding market debt



Stochastically simulated interest rate paths (10-year swap rate)



Refinancing risk

The maturity profile of outstanding market debt and the Confederation's rating are important refinancing risk indicators.

The current maturity profile of money and capital market debt shows a moderate refinancing risk overall. The refinancing share of the maturities < 1 year fell by 3 percentage points year on year and thus amounted to 20% of the Confederation's market debt at the end of 2023. This drop was due partly to the lower amount of money market debt register claims (-1 bn) and partly to the lower volume of the bond maturing in 2024 compared to the one maturing in 2023 (-1.4 bn). The share of the maturities < 1 year therefore remained well below the maximum permissible value of 30%. The refinancing shares of the maturities < 5 years and < 10 years barely changed relative to the previous year. As of the end of 2023, they amounted to 38% and 59% of market debt, respectively, and were thus well below the upper limits of 60% and 85%. This is well below the targets (or maximum shares) set out in the service level agreement between the FDF and the FFA. The maturity structure of the debt portfolio could thus be shortened significantly within these specifications.

The proportion of debt due to be refinanced within 12 months decreased; refinancing risks were down

The average term to maturity of the debt portfolio rose slightly from 10.2 to 10.5 years versus the previous year. This was attributable to the reduction in the volume of money market debt register claims (from 14.9 bn to 14.0 bn), combined with the lengthening of the bond portfolio from 12.4 to 12.5 years and the increase in the volume of bonds outstanding from CHF 68.3 billion to CHF 72.0 billion.

The Confederation's creditworthiness is given the highest rating by all relevant rating agencies. Even under unfavorable market conditions, the Confederation is able to raise the necessary funds on the money and capital market.

Forex risk

The Federal Treasury purchases foreign currencies for the administrative units. The foreign currency requirements for the budget year for the main currencies of euro and USD and the future payment obligations arising from special transactions that are already known are fully hedged. The primary objective when managing forex risks is to ensure adherence to the budget and the predictability of expenditure. Overruns of approved credits due to negative forex fluctuations are to be avoided. Since the Confederation constantly has certain foreign currency requirements, it is generally exposed to exchange rate developments.

Forex risk

Due to the uncertainty regarding future exchange rate trends, the procurement costs for covering administrative units' foreign currency requirements are uncertain and subject to risk. The value of existing, non-assigned foreign currency positions can change as a result of exchange rate fluctuations.

Overruns of approved credits due to negative forex fluctuations can be avoided with hedged forex risks

From the FFA's perspective, exchange rate developments essentially cannot be predicted. Accordingly, forex risks are systematically hedged using a passive approach. As a result, the Confederation is not exposed to any substantial forex risks for the budget and special transactions reported to the Federal Treasury.

In 2023, various factors made it challenging to procure foreign currencies and limit the corresponding risks. On the one hand, the foreign currency requirements last year sometimes resulted in high subsequent requests from the administrative units (e.g. vaccine payments, Federal Council jet), and on the other hand, the exact timing of payment obligations was often unclear (contribution payment of around EUR 60 mn for EU funds will not be made until 2024 instead of 2023). Overall in 2023, the hedged amounts exceeded the actual payment obligations by EUR 67 million in the case of the euro, while in the case of the dollar, USD 22 million had to be subsequently purchased last year.

During its meeting in December 2023, the ALCO decided to hedge only 90% of the administrative units' foreign currency requirements. The aim of this measure is to avoid the over-hedging in euros and USD that was frequently observed in the past.

With the two special defense transactions (F-35A, Patriot) that were hedged in the third quarter of 2022, both the volume and duration of hedging for the USD exchange rate risk are unusually high. The Federal Treasury hedged the required foreign currency using short-dated forwards and will roll them through to the individual payment dates using FX swaps. While this strategy enables the Confederation to protect itself against future exchange rate fluctuations, it also leads to an additional interest rate risk; in particular, the Confederation is exposed to the risk of a change in the interest rate differential between the United States and Switzerland (and, to a lesser extent, the interest rate differential between the eurozone and Switzerland).

The interest rate differential risk arising from FX swaps is now quantified on a quarterly basis and reported to the ALCO. This risk is quantified using a stochastic model of the interest rate differential. The statistical breakdown of the procurement costs with the FX swap strategy is compared with the known procurement costs with full hedging of the foreign currency requirements until the payment date.

Although the FX swap strategy carries an interest rate differential risk, it is nevertheless more favorable in most cases than full hedging through to the payment date, as the latter is associated with considerable illiquidity costs.

Counterparty risk

Counterparty risks for the Confederation arise primarily as a result of short-term deposits (liquidity) and positive replacement values from outstanding currency and interest rate derivatives. These receivables are exposed to default risk. Treasury loans are granted to institutions affiliated with the Confederation and therefore are not part of the counterparty limit system; the amount of the loans is managed by means of treasury agreements. A credit limit concept forms the basis for avoiding losses and risk concentrations. The credit limits are established on the basis of predefined criteria, namely rating, equity, financial strength (in the case of cantons), diversification and instrument type. Risk Control regularly reviews the set counterparty limits and monitors compliance with the limits on a daily basis. The development of permitted counterparties' credit quality is continually reviewed (e.g. rating changes, interim financial statements and other reports). The limits were complied with at all times in 2023.

Liquidity amounted to CHF 15.6 billion at the end of 2023. It was placed almost entirely with the SNB (as fixed-term deposits or on the SNB sight deposit account), and thus carries no risk.

The positive replacement values from outstanding currency and interest rate derivatives fell from CHF 17 million last year to CHF 0.6 million at the end of December 2023. On the one hand, derivatives positions (e.g. currency and interest rate hedging instruments) are entered into with counterparties that have signed a Credit Support Annex, or CSA, with the FFA. On the other, such derivatives transactions are also conducted with cantonal banks which have a state guarantee without a CSA. ISDA master agreements with CSAs are in place with key counterparties, resulting in a daily exchange of cash collateral and thereby mitigating the negative impact of the potential default of one or more counterparties.

The Confederation's counterparty risks are minimized by means of daily margin calls

Outlook

After a year of consolidation and a return to normal in terms of interest rate policy, the focus will be on liquidity management and planning in 2024. Payment patterns are expected to normalize on the basis of the previous year, making liquidity planning more accurate and reliable again. In 2023, the Federal Treasury gradually expanded its activities on the repo market. After a large number of repo counterparties were connected and investments of up to CHF 2 billion were made with a term of one day on around 80 days, the Federal Treasury now also intends to act as a repo cash taker in 2024. This will be an additional, diversifying financing instrument in the short-term area. Securities that can be delivered as collateral are required for this. The Federal Treasury has been holding so-called own tranches for many years. These are Confederation bonds that were prepared for issue in an auction, but ultimately were not placed. If necessary, these own tranches could then be sold separately on request between the auction dates, and this final step in the placement process could then be carried out quite easily. One advantage of this was that, unlike bonds that are proprietary holdings, own tranches were not included in gross debt – an aspect that played a certain role in the 1990s and 2000s in particular. For some years now, proprietary holdings of debt instruments have been derecognized in accordance with IPSAS, and therefore no longer increase gross debt. Consequently, the own tranche construct is now to be replaced by proprietary holdings of bonds, thereby creating collateral that can be used for the repo market. In addition, proprietary holdings can in principle be offered for lending to interested market participants via repo transactions, which could improve liquidity in Confederation bond trading. Furthermore, just like the current own tranches, proprietary holdings can be sold to third parties if need be.

The budgetary situation is still tight. Over the next few years, the federal government will be several billion francs short of achieving a balanced budget. However, this does not mean that issuing activity will be stepped up accordingly, as structural deficits have to be eliminated in order to comply with the debt brake. The overall deficit in the 2024 budget, including the extraordinary budget balance, is CHF 2.6 billion. This will be financed primarily by means of an increase in the volume of bonds and a reduction in the liquidity buffer. Bond issues totaling CHF 5 billion are planned for 2024. On a net basis, i.e. taking account of the bond maturing in June, the volume of bonds outstanding will rise by CHF 1.8 billion to just under CHF 74 billion in nominal terms. The volume of outstanding money market debt register claims will be kept in a range between CHF 10 billion and CHF 16 billion, and will thus remain roughly at the previous year's level. The lower bond issuance volume should simplify the implementation of the issuance strategy, as smaller allocations can be made per auction date. This should also enable shorter-dated bonds to be placed, and the average duration of around 12 years should be achieved more easily. Moreover, the inversion of the Confederation bond yield curve (i.e. shorter maturities yield more than long-dated bonds) should gradually decrease over the course of the year, making shorter maturities more attractive again from an issuer perspective.

The first Green Bond Allocation and Impact Report was published last year for the first green Confederation bond that was issued in October 2022, and the report is due to be updated again in 2024. Overall, the green Confederation bond was reopened twice, for a total of almost CHF 700 million. This issuance volume will now be reallocated to the various eligible green expenditure areas for fiscal 2023. This second report should be available in the third quarter.

Digitalization will remain a key theme in 2024 and is set to be pursued further. This also includes the SWIFT move to ISO 20022 and thus the migration of MT messages to the MX format. The various specialized applications need to be adapted accordingly.

We are looking forward to an exciting and challenging 2024, which we hope will be without any new crisis situations for a change.