

Central Government Borrowing

Forecast and analysis 2018:2

19 June 2018

The Debt Office's assignment

Financial management for central government

- Banking services for the central government
- Managing central government debt
- Guarantees and loans

Financial stability

- Deposit insurance
- Bank crisis management (resolution)
- Financial Stability Council



A strong economy and larger budget surpluses

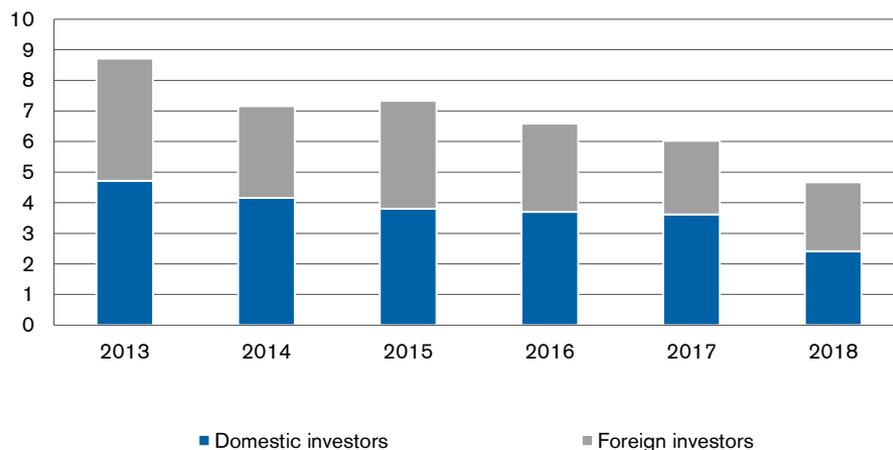
- Strong Swedish economy gets closer to a cyclical turning point
 - Minor revisions compared to the previous forecast
- Larger budget surplus in 2018 and 2019
 - Budget surplus in 2018 increases by SEK 10 billion compared to the previous forecast
 - Larger budget surplus in 2019 due to upward revision of net flows of capital investment in tax accounts
- Lower borrowing requirement due to upward revision of the budget balance
- Still, issue volumes in SEK are left unchanged
 - Reduced issue volumes would worsen market liquidity further
 - Foreign-currency bond borrowing for the Riksbank decreases
 - Cash used for refinancing part of on-lending to the Riksbank
- Government debt continues to decrease

Deteriorating liquidity of government bonds

- Liquidity has deteriorated gradually in recent years because of several factors: market regulations, lower issue volume and bond purchases by the Riksbank
- Turnover nearly halved in five years
- Liquidity has deteriorated further since February report

Daily turnover in nominal government bonds

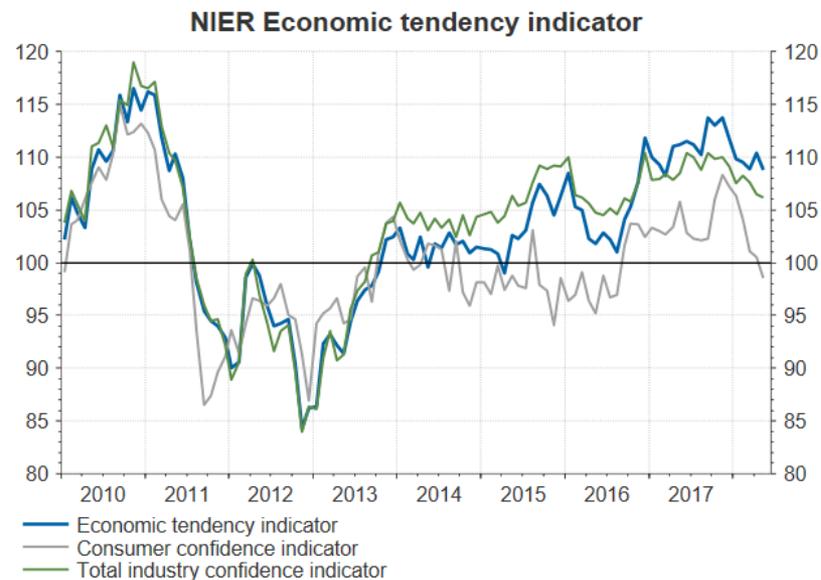
SEK billion



Note: Average daily turnover
Source: Riksbank

Strong Swedish economy close to cyclical turning point

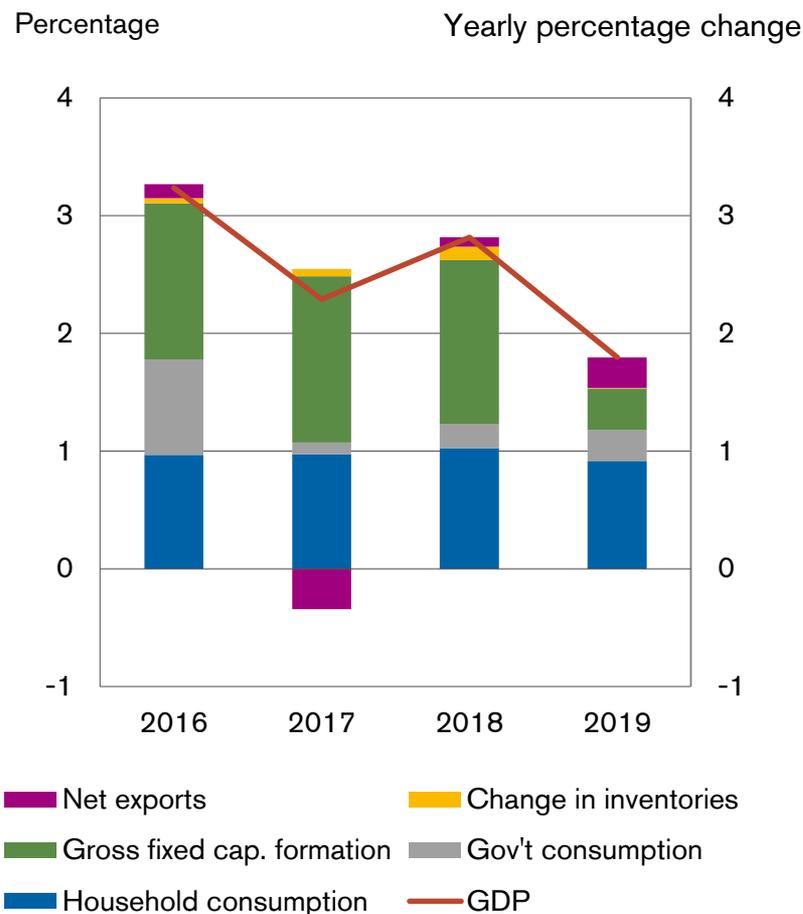
- Economy shows continued strength
 - International economy stronger than expected
 - Capacity utilisation and other indicators are at high levels
 - However, situation differs between sectors
- Assessment of current situation an important part of forecasts for exports and investment
- On the whole, same outlook as in 2018:1
 - GDP growth revised upwards by 0.1 percentage point in 2018 and 2019



Källa: Thomson Reuters Datastream

Slower growth due to capacity constraints

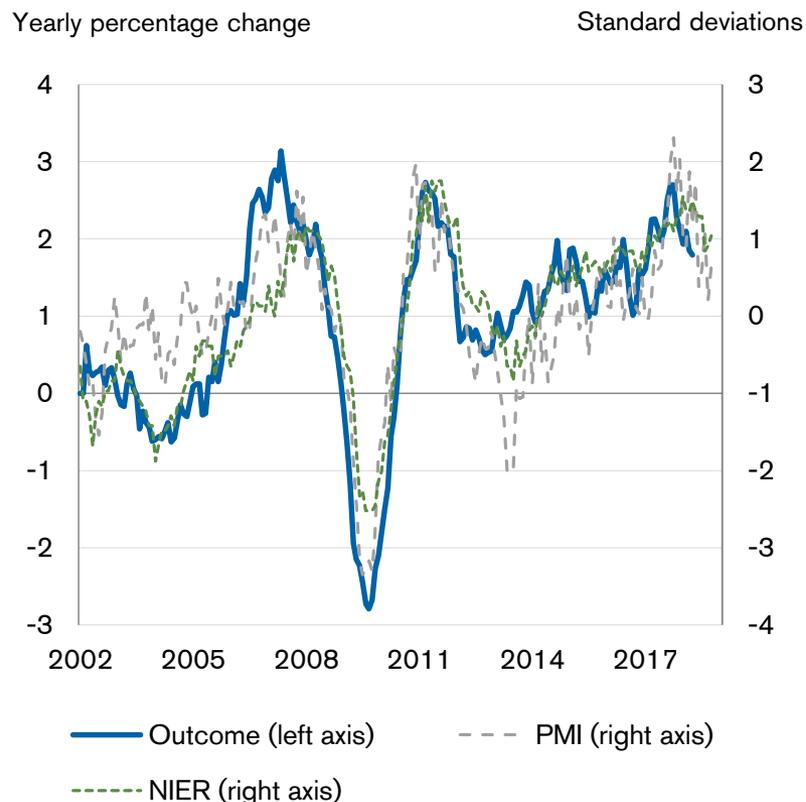
- GDP to grow quickly H1 2018
 - Good conditions for exports despite weak outcome
 - Businesses still need to invest
 - Residential investment expected to fall in 2018 and 2019
- Growth to slow second half of this year
 - Falling residential investment
 - Capacity constraints



Signals of dampening labour market getting clearer

- Growth in employment and labour force continues to be strong, but slowing
 - Unemployment continues to fall
- Indicators pointing towards continued slow-down
- Wage increases on the rise, but still modest compared to previous cyclical peaks

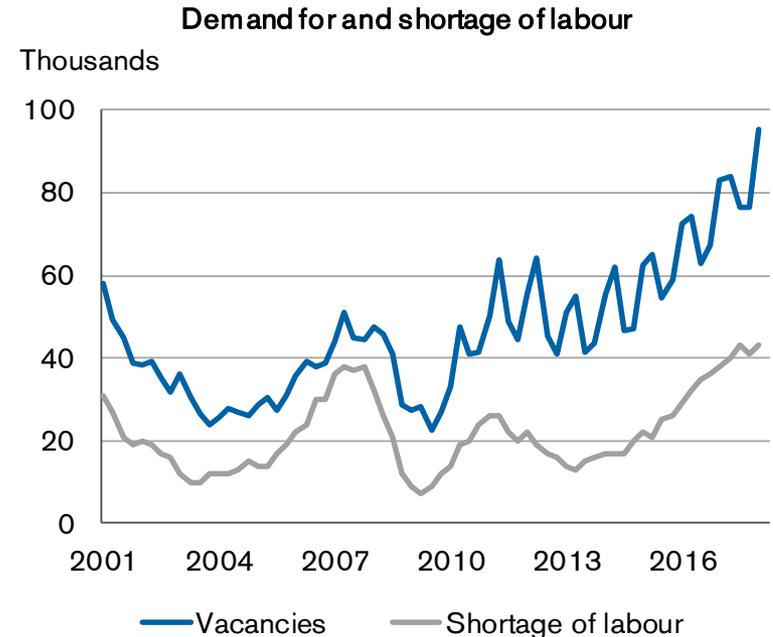
Employment: outcome and indicators



Economic outlook

Summary and risks

- Swedish economy continues to display strength
 - Outcomes in line with previous forecast
 - Indicators supports positive near term outlook
- Minor revisions compared to previous forecast
 - Revisions to GDP small, somewhat larger for a couple of sub-components
 - Forecasts for labour market, wages and inflation more or less unchanged
- **Balanced risks**
 - Diverging monetary policy internationally and situation in Italy
 - Less insecurity surrounding the housing market but effects from increasing supply and the tightening of the amortisation requirement still not clear
 - Turning points in the business cycle are difficult to forecast, resource utilisation hard to pin point

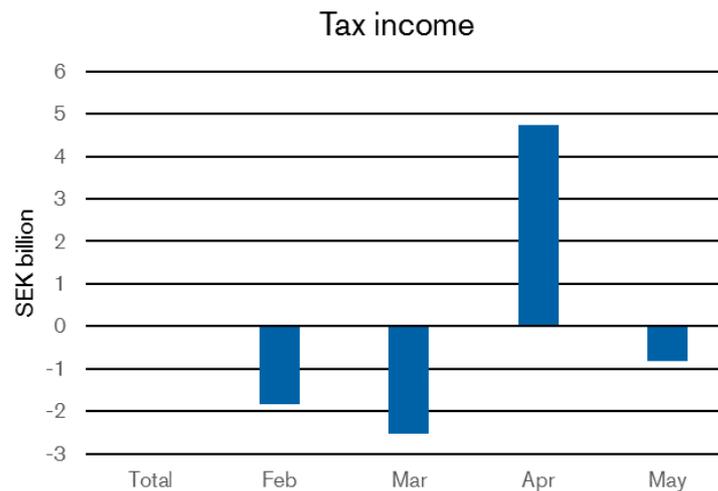
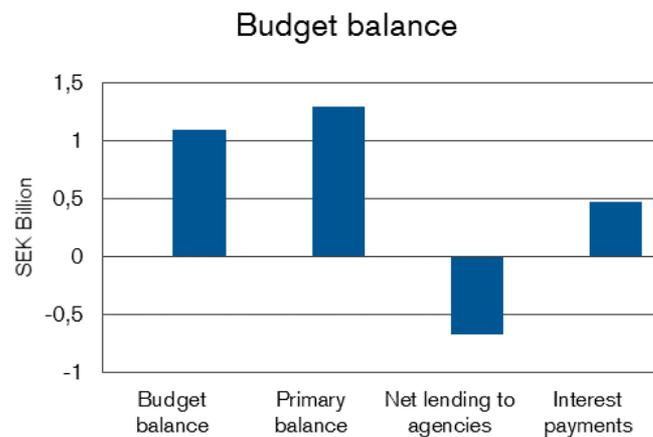


Yearly percentage change	2017	Diff	2018	Diff	2019	Diff
GDP	2.3	-0.2	2.8	0.1	1.8	0.1
Labour force	2.0	0.0	1.1	-0.1	0.8	0.0
Employment	2.3	0.0	1.4	0.2	0.6	0.0
Unemployment	6.7	0.0	6.3	-0.3	6.5	-0.3

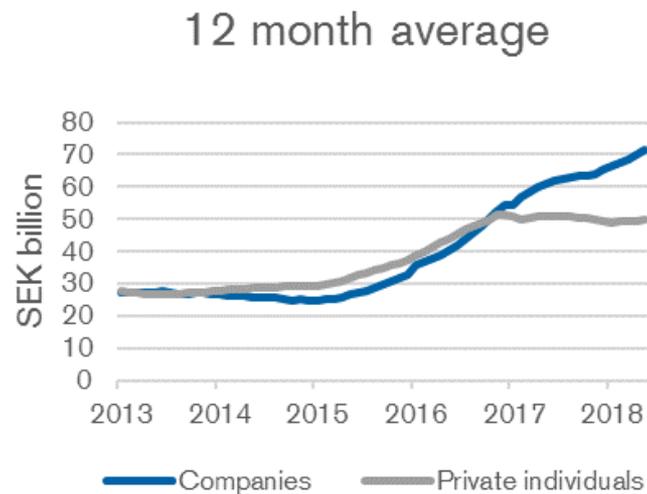
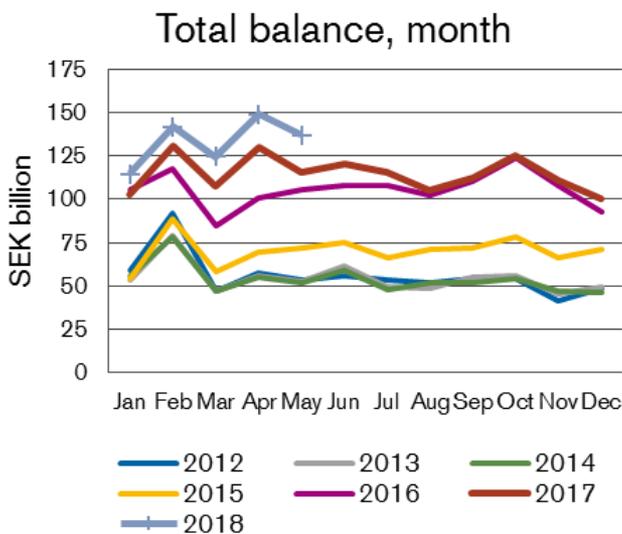
Large surpluses in the central government budget

- The growth of the Swedish economy is continuing to lead to strong central government finances.
- The surplus in the central government budget is estimated at SEK 90 billion in 2018 and SEK 69 billion in 2019.
 - Slightly higher tax income and higher dividends on state-owned shares in 2018.
 - Next year, changed assessment regarding capital investments in tax accounts .
- Capital investments in tax accounts cause an additional cost of SEK 1.7 billion in 2015-2019.
- Central government net lending is estimated at 1.2 per cent as a proportion of GDP in 2018 and 0.8 per cent in 2019.

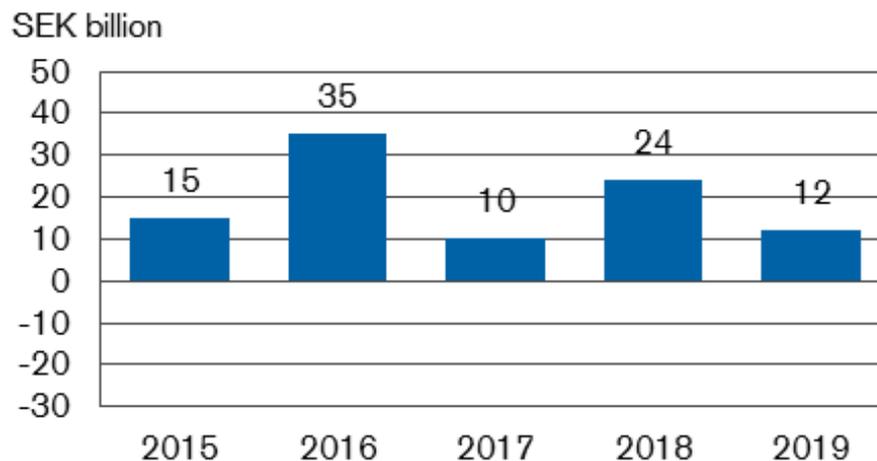
Deviations of monthly forecasts, Feb-May



Total tax account balance and moving 12-month average



SNDO assessment of capital investments in tax accounts



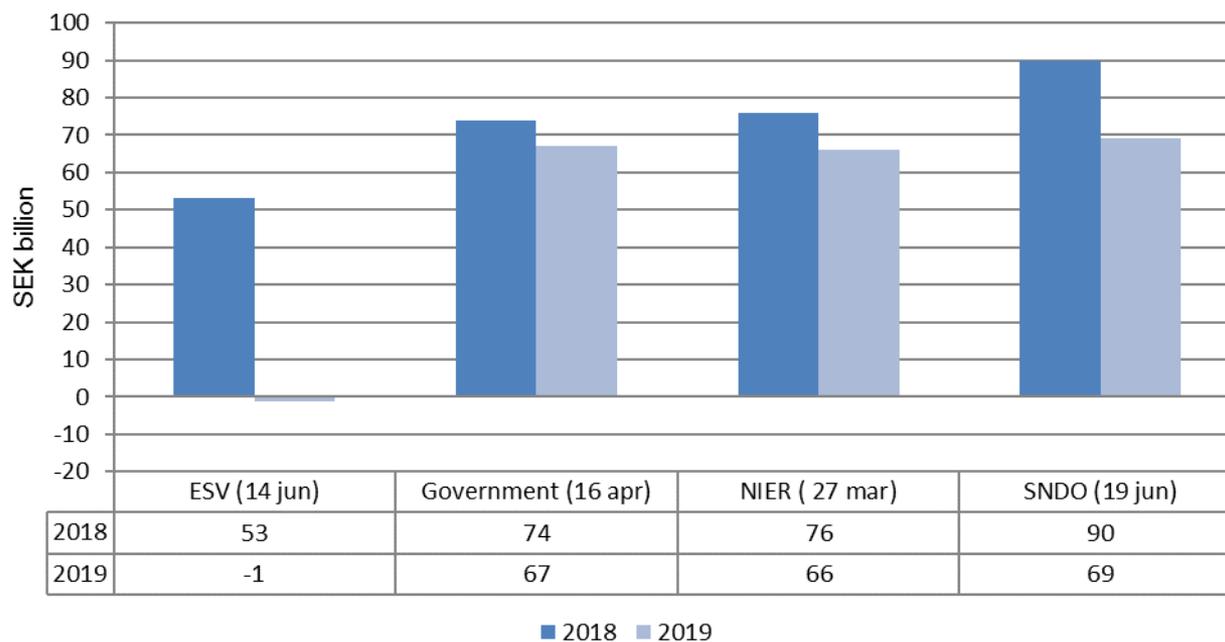
Forecast changes

<i>SEK billion</i>	2018	2019
Forecast February 2017	80	45
Primary balance	9	29
<i>Of which:</i>	0	0
Tax income	6	29
Dividends	3	3
Government grants to local governments	0	0
Labour market	-1	1
Social insurance	1	2
Migration	-1	0
International aid	0	0
Other	1	-5
SNDO Net lending	0	-9
<i>Of which:</i>		
On-lending	-2	-8
Interest payments	0	3
Forecast June 2018	90	69
<i>Sum of changes</i>	<i>10</i>	<i>23</i>

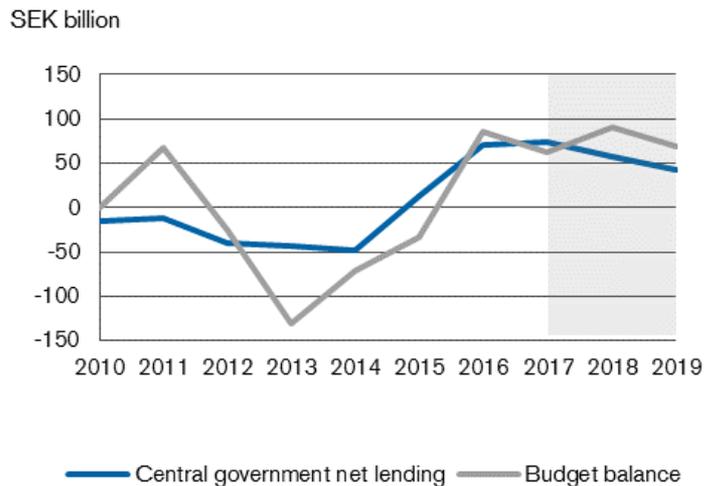
Small underlying changes in the tax forecast

SEK billion	2018	2019
Payroll taxes	2	3
Consumption taxes	0	0
Corporate taxes	1	1
Supplementary taxes	3	24
Total	6	29

Forecast comparisons



Central government net lending



<i>SEK billion</i>	2015	2016	2017	2018	2019
Budget balance	-33	85	62	90	69
Delimitations	29	36	7	0	6
Sale of limited companies	0	0	0	2	0
Extraordinary dividends	-9	-2	0	0	0
Parts of Debt Office's net lending	17	16	-2	1	2
Other delimitations etc.	21	22	8	-2	4
Accruals	16	-50	5	-32	-33
Taxes	16	-38	4	-35	-39
Interest payments etc.	0	-12	1	3	6
Central government net lending	13	71	74	58	42
Per cent of GDP	0.3	1.6	1.6	1.2	0.8

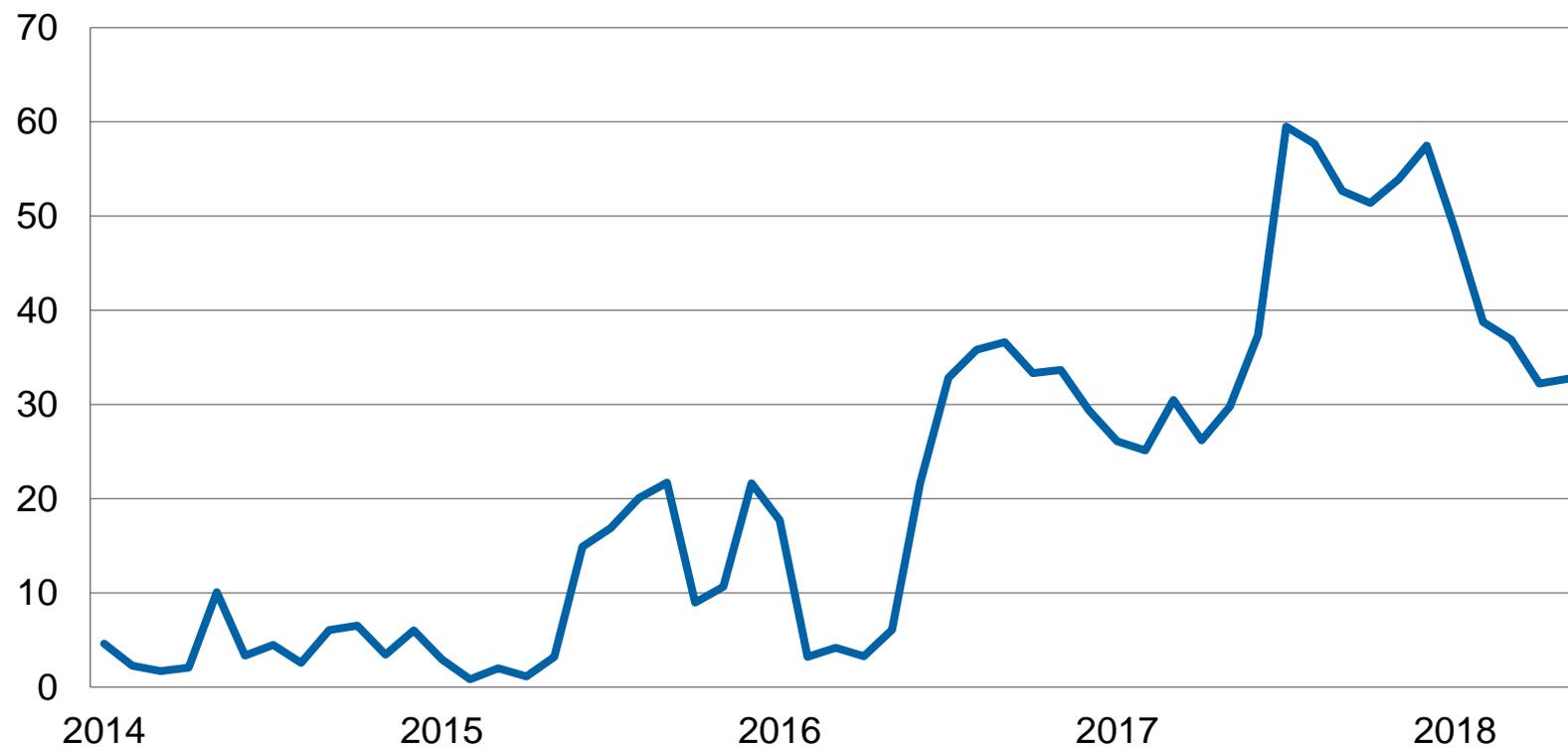
No scope for lower issue volumes

Borrowing forecast

	2017	2018		2019	
SEK billion	Outcome	Jun	(Feb)	Jun	(Feb)
Money market funding	122	29	(15)	85	(83)
T-bills	88	20	(20)	20	(20)
Liquidity management	35	9	(-5)	65	(63)
Bond funding	124	128	(145)	83	(99)
Government bonds	51	32	(32)	30	(30)
Inflation-linked bonds	12	9	(9)	9	(9)
Foreign currency bonds	61	88	(105)	44	(61)
central government	0	0	(0)	0	(0)
on behalf of the Riksbank	61	88	(105)	44	(61)
Total gross funding	246	156	(160)	167	(183)

Continued strong demand for Debt Office repos

Government repos, monthly average
SEK billion



Cash to partly refinance lending to Riksbank

- Cash surplus (assets in liquidity management) remains high in 2018 and 2019...
- ...but lower than in the previous forecast
- Cash holdings to be used for refinancing part of on-lending to the Riksbank
- Leads to lower issuance of foreign currency bonds on behalf of the Riksbank
- Assets in liquidity management are assessed to be SEK 75 billion by the end of 2018 and SEK 35 billion in 2019 (compared to SEK 100 and SEK 50 billion in the February forecast)
- As assets in liquidity management decline, government debt will decrease at higher pace

Central government debt nears 20 per cent of GDP

