RIKSGÄLDEN

19 June 2018

CENTRAL GOVERNMENT BORROWING

Forecast and analysis 2018:2

The Debt Office's assignment

The Debt Office is the Swedish government's financial manager. The mission includes central government borrowing and debt management. The aim is to do this at the lowest possible cost while avoiding excessive risk.

In *Central Government Borrowing – Forecast and Analysis*, which is usually published three times a year, the Debt Office presents forecasts for the macroeconomic development and the central government finances in the coming two years. On the basis of these forecasts, the Debt Office estimates how much the government needs to borrow and sets up a plan for borrowing which is also included in the report.

On the fifth working day of each month, the central government budget balance (the net of all incoming and outgoing payments) is published for the previous month in a press release. The outcome is compared with the forecast from *Central Government Borrowing – Forecast and Analysis* and any deviations are explained. In connection with the monthly outcome, the Debt Office also presents the debt development in the report Sweden's *Central Government Debt*.

Preface

In *Central Government Borrowing - forecast and analysis 2018:2* the Debt Office presents forecasts for central government finances and borrowing in 2018 up until 2019. An assessment of the macroeconomic development is given in the first section. The following section presents annual and monthly forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for borrowing, which is discussed in the last section of the report.

Hans Lindblad
Director General

Contents

Summary

The Swedish economy is continuing to grow at a good pace and the central government budget is expected to show a surplus of SEK 90 million this year and SEK 69 billion next year. Despite the strong budget balance – and therefore a lower borrowing requirement – the Debt Office leaves bond borrowing in kronor unchanged. Foreign currency borrowing on behalf of the Riksbank decreases, however, since part of lending to the Riksbank is refinanced with cash.

- Growth in Sweden is expected to remain high this year. Investments and household consumption make substantial contributions to GDP growth. Next year, however, business sector investments are expected to grow more slowly at the same time as housing investments decrease. The forecast for GDP growth is 2.8 per cent in 2018 and 1.8 per cent in 2019.
- The labour market continues to be characterised by the group of people born abroad accounting for the main part of the increase in both employment and the labour force. Employment growth tails off as economic activity slackens; this contributes to unemployment levelling out and then slowly turning upwards.
- The budget balance for 2018 increases by SEK 10 billion compared with the February forecast and is estimated at SEK 90 billion. Slightly higher tax income on account of a revised macro picture and higher dividends on state-owned shares explain most of the change.
- For 2019 the budget balance is estimated at SEK 69 billion. This is an increase of SEK 23 billion, which is largely due to a change in the assessment of the flow from capital investments in tax accounts. Expectations of interest rate increases from the Riksbank have been postponed compared with the assessment made in February. This means that the previous expected outflow of SEK 12 billion is instead assessed as an inflow of SEK 12 billion. Capital investments in tax accounts are an expensive form of borrowing for the government and means an additional cost of approximately SEK 1.7 billion for 2015-2019.
- Central government net lending, which is not affected by capital placements, is expected to be 1.2 per cent of GDP in 2018 and 0.8 per cent in 2019.
- Despite the stronger budget balance bond borrowing in Swedish kronor is left unchanged. The Debt Office's assessment is that a reduction of the issue volume from its already historically low level would further worsen liquidity in the market. This would then lead to higher costs and poorer borrowing preparedness for central government in the long term.
- But foreign currency borrowing on behalf of the Riksbank decreases since part of lending to the Riksbank is expected to be refinanced with liquid funds instead of new foreign currency bonds.
- The central government debt decreases to SEK 1 127 billion at the end of 2019, corresponding to 22 per cent of GDP. This means that general government debt (the Maastricht debt) reaches the 'debt anchor' of 35 per cent.

The boom in the Swedish economy is expected to continue a while longer

Growth in Sweden is expected to remain high this year. Household consumption and investments make substantial contributions to GDP growth. Next year, however, business sector investments are expected to grow more slowly at the same time as housing investments decrease. The Debt Office's forecast for GDP growth is 2.8 per cent in 2018 and 1.8 per cent in 2019. The labour market continues to be characterised by the fact that the group of people born abroad accounts for the main part of the increase in both employment and the labour force. Employment growth tails off as economic activity slackens; this contributes to unemployment levelling out and then slowly turning upwards.[1]

International economy gains strength

The recovery of the global economy is continuing and the prospects for both the US and the euro area have strengthened since the Debt Office's previous forecast in February. The growth of the world economy is being favoured by low interest rates and low risk premiums on financial markets.

Good financial conditions are supporting the development of the real economy internationally

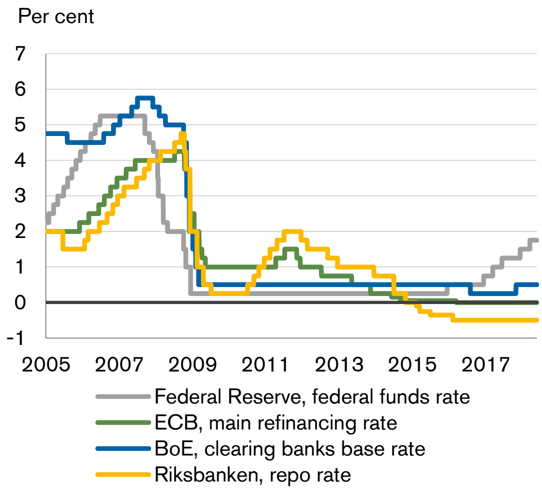
In broad terms, the situation in financial markets is unchanged since the Debt Office's previous forecast. Monetary policy is moving slowly in a less expansionary direction, but central banks are at different stages of their monetary tightening, see figure 1. In the US market expectations of the future policy interest rate rose at the start of the year, while the opposite happened in Europe. The Federal Reserve raised its policy interest rate for the sixth time in March and market expectations point to at least two more increases during the course of 2018.[2] Market participants expect the ECB to end its asset purchases and to then start increasing its interest rate in 2019. From a global perspective, it is assumed that monetary policy will remain expansive in both 2018 and 2019.

Stock markets were periodically characterised by greater unrest in the early part of the year. At times, concern about higher than expected inflation in the US, about barriers to trade and the implications of the political turbulence in Italy have all resulted in large price movements. However, after particularly large price movements at the beginning of February, the unrest appears to have decreased slightly. But, on the whole, stock markets are characterised by a relatively good appetite for risk, see figure 2, which is partly explained by high corporate profits.

[1] Information until and including 30 May has been taken into account in work on the forecast.

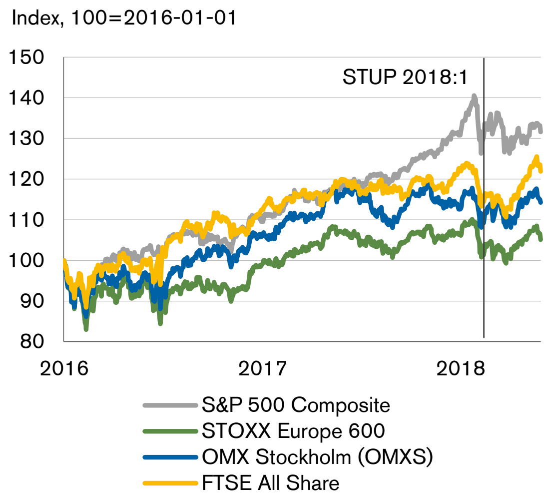
[2] CME Group Fed Watch Tool, based on market pricing of Fed Fund futures.

Figure 1. Policy rates



Sources: Thomson Reuters Datastream.

Figure 2. Stock market indices in USA and Europe



Sources: Thomson Reuters Datastream.

Expectations of an ever less expansionary monetary policy in the US have contributed to continued rises in yields on US government bonds since the previous forecast. The yield on government bonds with a maturity of ten years has risen by just less than 1.5 percentage points in two years. In Europe, market participants have instead adjusted their expectations of monetary policy tightening downwards, which has resulted in slightly lower government bond yields. But even though government bond yields in Europe continue to be low in general, they have risen from a longer-term perspective. The risk premiums in interest rate markets are still relatively low, but political developments in Italy have generated concerns about the stability of Italian central government finances, for example. This has mainly increased risk premiums on Italian government securities and securities linked to Italian banks. With generally low risk premiums in asset markets there is still an elevated probability of price falls. Large falls in prices and rapidly rising risk premiums can, for example, lead to banks having problems in their market financing, which then throttles lending to households and businesses.

Financial conditions also favourable in Sweden

As is the case globally, financial conditions in Sweden are favourable for the development of the real economy. Even though volatility has risen in the stock market and currency market in recent months, the aggregate stress on Swedish financial markets is only slightly higher than normal from a historical perspective.[3] Since last autumn housing prices have been a source of some concern about the development of the economy. However, outcomes for recent months suggest that the fall

[3] *Measured by a "stress indicator" that includes volatility on the stock exchange and the currency market and risk premiums on the interbank and housing bond market.*

in prices has moderated, see figure 3. The expectations of both market participants and analysts concerning policy rate increases by the Riksbank have also been deferred. Market participants are currently expecting an increase at the start of 2019, followed by a slowly rising interest rate.[4] This means that the loan interest rates met by households and business can be assumed to remain very low throughout the forecast period.

Higher investments contribute to good international growth

The recovery of the global economy is continuing and growth prospects in, for instance, the US and the euro area have strengthened further since the previous forecast. Growth in the world economy was strong in the second half of 2017, amounting to more than 4 per cent. Trade-weighted international GDP growth was more than 2 per cent at the end of 2017, which is higher than the average growth in the past 20 years.[5] One important explanation of this development was a recovery of investments. Growth is broad based, in terms of both countries and sectors.

The good growth is assumed to continue in 2018 and 2019, bolstered by favourable financial conditions, and investment continue to show strong growth. An investment-driven international recovery is favourable to Sweden since a large part of Sweden's exports consists of investment goods.

The US economy is getting stronger. GDP growth was 2.9 per cent in the first quarter of 2018 compared with the same period in the preceding year, see figure 4, and unemployment is still falling. The IMF judges unemployment to now be below the long-term sustainable level. Both households and businesses continue to be optimistic about the future, even though business confidence has fallen in recent months.

The IMF judges that resource utilisation in the US will be higher than normal in both 2018 and 2019. Investments are expected to grow strongly and household consumption will benefit from the low level of unemployment. The tax reform adopted, and especially lower corporate tax and the temporary investment allowance, are assumed to make a positive contribution to GDP growth in combination with higher public expenditure.[6] However, the tariffs announced, parts of which have been implemented, are not expected to have a noteworthy impact on growth. The Debt Office's assessment is that GDP growth in the US will be 2.9 per cent in 2018 and 2.7 per cent in 2019. This is an upward revision of 0.3 and 0.4 percentage points respectively.

The economic recovery in the euro area is also continuing and prospects there have strengthened somewhat. Even though growth slowed in the first quarter, there are many indications that the economy will continue to gain strength. Investments are rising rapidly and unemployment has fallen to levels last seen before the financial crisis. As in the US, leading indicators point to optimism among both households and businesses, even though business confidence deteriorated at the start of 2018. But the financial concern surrounding Italy shows that there are still considerable structural imbalances in the euro area.

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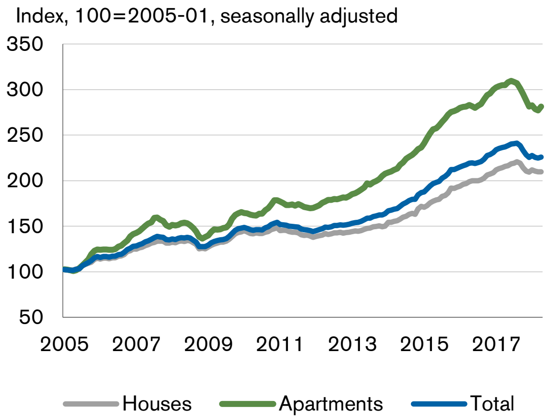
[4] *According to the pricing of Riksbank futures.*

[5] *Trade-weighted using total competitiveness weights (TCW).*

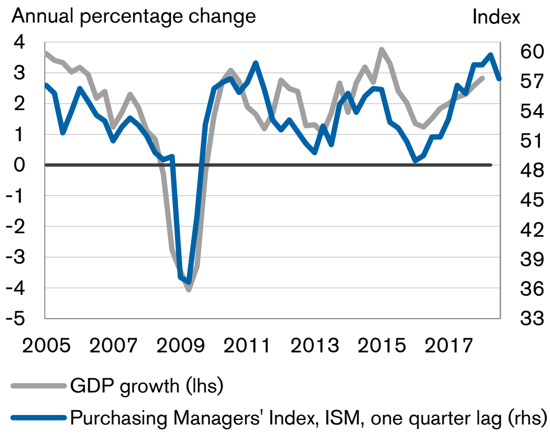
[6] *The IMF calculates that the effect of these fiscal policy measures means that GDP will be 1.2 per cent higher in 2020, all else equal (World Economic Outlook April 2018).*

Figure 3. Swedish housing prices, HOX-index



Note: Nasdaq OMX Valueguard-KTH Housing Index.
Source: Valueguard.

Figure 4. GDP and purchasing managers' index in USA



Note: Data for purchasing managers' index refers to quarterly averages. The last observation is based only on data for April.
Sources: National sources and ISM - Institute for Supply Management.

Investments are nevertheless expected to continue to rise rapidly and the IMF judges that GDP growth will exceed its potential level during the forecast period. Despite this, growth will be moderate from a historical perspective since potential growth is assumed to be lower after the financial and euro crisis. The low inflation rate is assumed to rise slowly, indicating that monetary policy will remain very expansionary during the forecast period. GDP growth in the euro area is expected to be 2.4 per cent in 2018 and 2.0 per cent in 2019, which is an upward revision of 0.1 percentage point for each year.

China's GDP growth is now much lower than it has been historically. In the first quarter of 2018 the Chinese economy grew by 6.8 per cent compared with the same period in the preceding year; this can be compared with an average growth of just over 9 per cent since 2000. The lower growth is the result of rebalancing from an investment-driven economy to a more consumption-driven economy. Measures to moderate rapid credit growth in combination with a gradually less expansionary economic policy mean that there will be a further slight fall in growth in the forecast period. China's GDP growth is expected to be 6.6 per cent in 2018 and 6.4 per cent in 2019.

Investments and household consumption drive GDP growth in Sweden

Growth in the Swedish economy has been high for several years and this is expected to to be the case in 2018 as well. Investments continue to make a large contribution to GDP growth this year and household consumption continues to grow steadily. At the same time, Swedish export industry is being favoured by a stronger investment climate internationally. The situation in financial markets also continues to be favourable for the real economy in Sweden. Resource utilisation measured in terms of GDP is rising, which means that the slack in the economy is decreasing. The strained situation is also seen in the labour market. The proportion of businesses stating that they are experiencing a shortage of labour remains high and the difference between the actual and potential number of hours worked has continued to rise. This leads to the judgment that the Swedish economy is coming even closer to an economic turnaround and that the peak of the cycle will be passed during the forecast period. Historically, wages have risen quickly when the economy is approaching a turnaround, but the Debt Office expects that the deviations from historical correlations that have occurred in recent years will continue and that wage and price rises will continue to be relatively low during the forecast period.

Table 1. GDP and its components, constant prices, forecast

Percentage change[1]	2017	2018	2019
GDP	2.3	2.8	1.8
Household consumption	2.2	2.3	2.1
General gov't consumption	0.4	0.8	1.0
Gross fixed cap. formation	5.9	5.6	1.4
Change in inventories[2]	0.1	0.1	0.0
Exports	3.6	4.3	4.2
Imports	4.8	4.5	4.0
Net exports[2]	-0.3	0.1	0.3
GDP (calendar adjusted.)	2.5	2.9	1.8

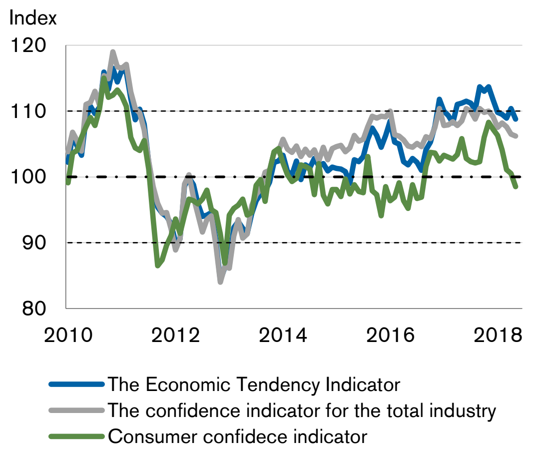
Table 2. GDP and its components, constant prices, forecast

Percentage change	2017	2018	2019
GDP	-0.2	0.1	0.1
Household consumption	-0.2	0.1	0.2
General gov't consumption	-0.1	-0.4	0.0
Gross fixed cap. formation	-1.4	1.3	0.1
Change in inventories[2]	0.1	0.1	0.0
Exports	0.0	-0.5	0.6
Imports	-0.2	-0.1	0.6
Net exports[2]	0.1	-0.2	0.0
GDP (calendar adjusted.)	-0.2	0.1	0.1

[1] Actual change compared with previous year.
[2] Change as percentage of GDP previous year.
Sources: Statistics Sweden and the Debt Office.

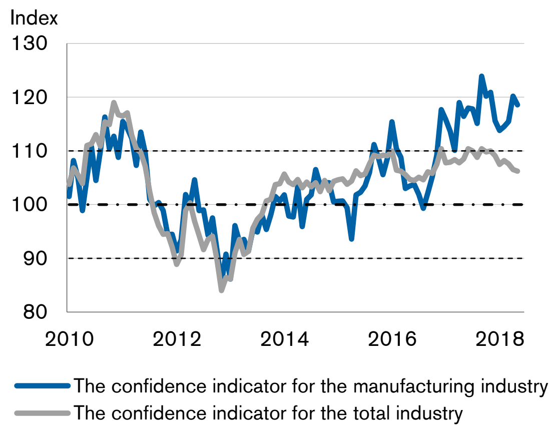
In the first quarter of this year GDP grew by 0.7 per cent compared with the preceding quarter. Growth was mainly driven by strong investments while foreign trade made a negative contribution to growth. It was mainly investments in housing and in other buildings and structures that increased, but there was also a strong increase in intangible investments. The weaker contribution from foreign trade is explained by a decrease in exports at the same time as imports grew at their average historical rate. In all, the GDP outcomes for both the fourth quarter of last year and the first quarter of this year were in line with the Debt Office's February forecast, see figure 7.

Figure 5. Confidence indicators for households and businesses



Note: The Economic Tendency Indicator has been standardised to mean 100 and standard deviation 10.
Source: National Institute of Economic Research.

Figure 6. Confidence indicators for the total industry sector and the manufacturing industry



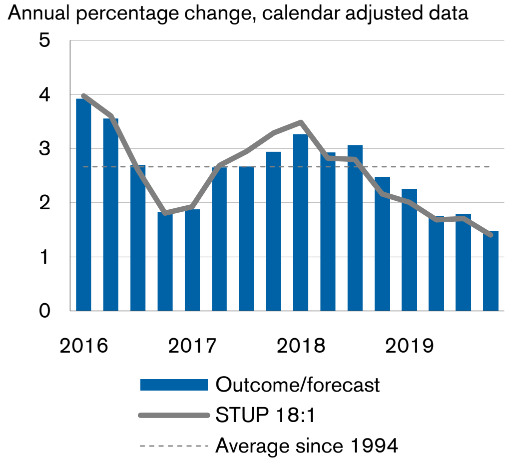
Note: The Economic Tendency Indicator has been standardised to mean 100 and standard deviation 10.
Source: National Institute of Economic Research.

The mood in the Swedish economy deteriorated at the end of 2017 according to the summary confidence indicator of the National Institute for Economic Research (NIER). The decline has moderated since then and the indicator still shows that the mood is stronger than normal, see figure 5. This picture is supported by other such measures, e.g. the Purchasing managers' index, showing that the economy is in a growth phase. However, the mood varies between different parts of the economy. Optimism in manufacturing is much stronger than in the business sector as a whole, see figure 6. In retail trade and in the services sector optimism is much lower. The household confidence indicator has also fallen in the spring and is now slightly weaker than normal.

Slight upward revision of GDP forecast but cyclical turnaround close at hand

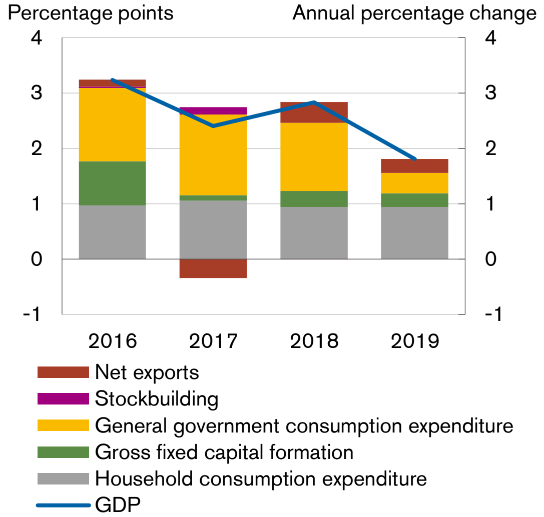
The Debt Office's assessment is that GDP growth will continue to be good in the first half of 2018, see figure 7. After that growth is expected to slacken, mainly on account of slower growth of investments than before. Despite this, investments still make the largest contribution to GDP growth in 2018, see figure 8. Compared with the February forecast, growth of domestic demand is now higher and the contribution from foreign trade lower. The fundamental assessment is that the prospects for growth are largely unchanged. Household consumption is expected to continue to show stable growth and the need for investments in the business sector offsets weaker housing investments during the forecast period. Swedish export industry benefits from the improvement of the investment climate in Europe and a weaker krona. Taken together, this leads to GDP being expected to grow by 2.8 per cent in 2018 and 1.8 per cent in 2019, which is a marginal upward revision by 0.1 percentage point for each year, see table 2.

Figure 7. GDP, outcome and forecast



Sources: Statistics Sweden and the Debt Office.

Figure 8. Contribution to GDP



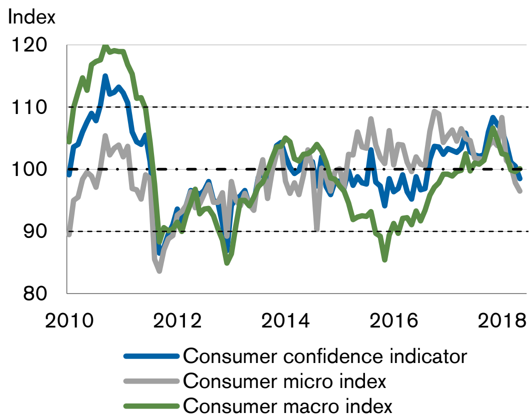
Sources: Statistics Sweden and the Debt Office.

Household consumption continues to show stable growth

Household consumption grew around a historical average throughout 2017 and gave a considerable contribution to GDP growth last year, see figure 7. In the first quarter of 2018 household consumption continued to grow at a good rate. Household's housing costs grew more than in a normal year on account of the cold late winter period that increased energy consumption. Moreover, Easter was in the first quarter this year, and that contributed to higher food consumption. Despite this, developments in the housing market seem to have affected households. Signs of this can be seen in households' replies to the NIER's household confidence indicator. Questions concerning private finances, for example their view of their own financial situation and plans to buy expensive goods, are brought together in a microindex that has fallen since last autumn. In addition, households reply that they are less and less likely to renovate their home in the coming year. Households' assessments of the Swedish economy, which are brought together in a macroindex, have also fallen in 2018. Households' total confidence indicator is now below 100, which corresponds to a normal mood, after having shown a stronger situation for about 1½ years, see figure 9.

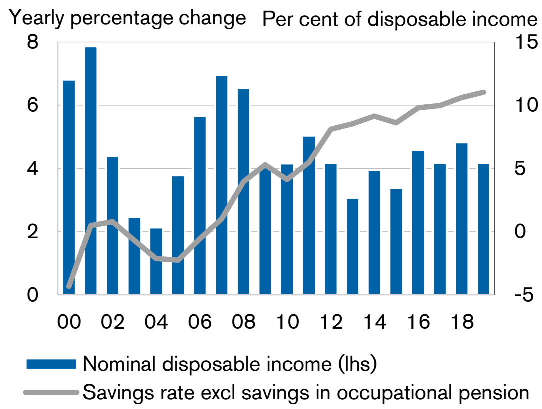
The fall in house prices seems to have moderated at the start of 2018, see figure 3. If prices do not begin to fall again, household confidence and households' consumption plans are expected to improve in the longer term and to support continued stable consumption growth. Apart from the situation in the housing market, there has been no noteworthy change in the conditions for households' consumption since the previous forecast. Households' disposable income is still expected to grow at a relatively high rate in 2018, compared with growth over the past five years, see figure 10. This increase is mainly a result of strong employment growth, but fiscal policy measures targeted at households have also contributed. The Debt Office's view of consumption growth has been revised slightly upwards for 2018 and 2019 compared with the previous forecast. Household consumption is now expected to grow by 2.3 per cent in 2018 and 2.1 per cent in 2019.

Figure 9. Consumer confidence indicator incl. micro and macro index



Source: National Institute of Economic Research.

Figure 10. Household's nominal disposable income



Sources: Statistics Sweden and the Debt Office.

Public consumption is driven by fiscal policy and demography this year and next year

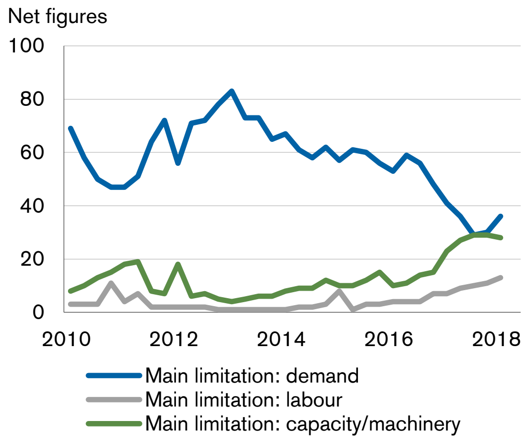
Public consumption grew more slowly than expected in both the fourth quarter of 2017 and the first quarter of 2018. The forecast for 2018 has therefore been revised downwards by 0.4 percentage points. Despite this, the underlying drivers of consumption growth from the previous forecast are still in place. The costs of refugee reception are expected to decrease since the number of asylum seekers has decreased since 2015, at the same time as demographic developments with more young and older people in the economy mean that the demand for welfare services is increasing. Public consumption is therefore judged to grow at an average historical rate in 2019. Public consumption is expected to grow by 0.8 per cent in 2018 and 1.0 per cent in 2019.

Business sector investments offset lower housing investments in 2018

Investment growth has been high for several years and has therefore made a large contribution to GDP growth, see figure 8. The first quarter outcome showed that there is still a need for investments in the business sector, where investments grew strongly after a weak final quarter in 2017. The continuing investment growth in the business sector is in line with the high level of capacity utilisation and the fact that in the past year companies in the manufacturing industry have reported that capacity and machinery are an increasing obstacle to more production, see figure 11. Moreover, since the previous forecast international investment needs have increased at the same time as the Swedish exchange rate has weakened, which benefits Swedish export industry. To be able to meet the strong demand, companies in the manufacturing industry are expected to invest at a high rate in 2018. In 2019 the need for investments will have slackened to some extent and investments are therefore expected to grow more slowly.

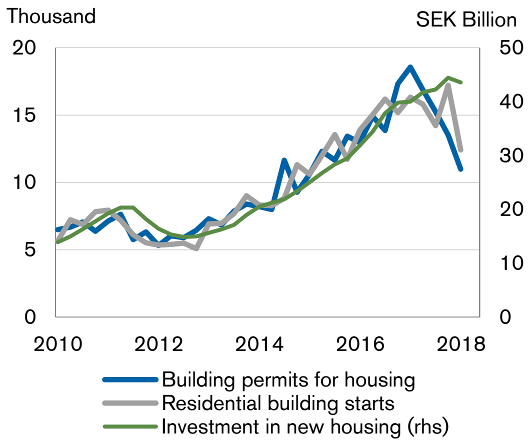
Housing investments have accounted for a considerable part of investment growth in recent years and they also continued to increase in the first quarter of 2018. This development is a result of the start of a large number of housing projects in 2017, which means that housing investments will remain at a high level for another couple of quarters. It takes five quarters from when the building of a dwelling starts until the whole housing investment appears in the national accounts. Since the second half of 2017, the number of building permit applications has decreased and fewer new projects have been started, and this is probably linked to the weaker development of the housing market since autumn 2017, see figure 12. There is some lag in this reporting, which means that statistics for previous periods are often revised, making it difficult to interpret both the construction statistics available and what the consequence will be for investments ahead. Housing investments include renovation investments in addition to investments in new-built housing. In the past two quarters the outcomes for housing investments have been in line with the Debt Office's forecast, and the assessment made is that they will decrease in both 2018 and 2019. Overall, the forecast for investments has been revised upwards for 2018 but is largely unchanged for 2019. Investments are now expected to grow by 5.6 per cent in 2018 and 1.4 per cent in 2019.

Figure 11. Main limitation to production



Source: National Institute of Economic Research.

Figure 12. Building permits, building starts and investment in new housing



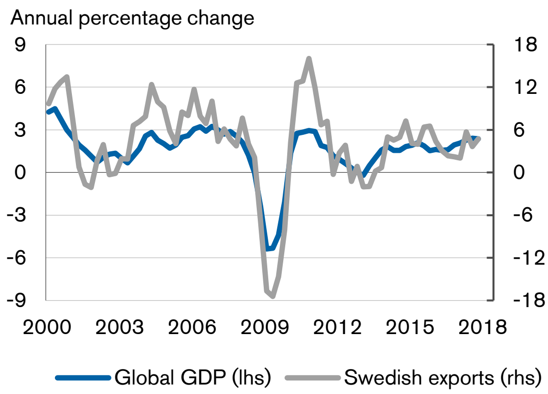
Note: Own seasonal adjustment.
Source: Statistics Sweden and the Debt Office.

International investment needs increase Swedish exports

After strong growth in the fourth quarter of last year exports decreased slightly in the first quarter of 2018. At the same time imports increased, meaning that foreign trade made a negative contribution to GDP growth. It was mainly the export of services that contributed to the weak export outcome, and the services side was also weak for imports. In contrast, imports of goods increased, especially imports of investment goods and energy.

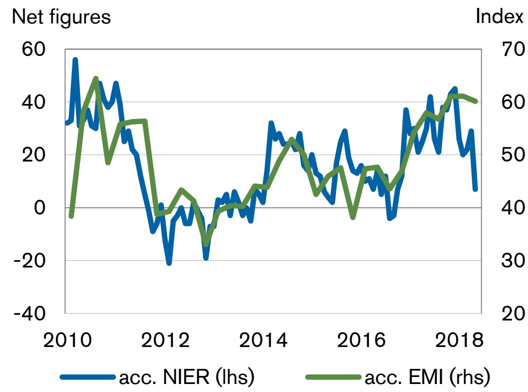
The prospects for rising exports in the future have strengthened since the February forecast. Swedish exports follow international developments, see figure 13, and the forecast for international growth has been revised upwards. Stronger growth and a higher need for investments benefit Swedish export industry. The Swedish krona has weakened in the spring, which also favours Swedish exports. Export order intake were good in 2017, and despite a decline in the first half of 2018 companies are still reporting that the order intakes are rising, see figure 14. However, as a result of the weak outcome in the first quarter of 2018 the forecast for exports has been revised downwards for 2018 while the good prospects justify an upward revision for 2019, and exports are now expected to grow by 4.3 per cent in 2018 and 4.2 per cent in 2019. This is 0.5 percentage points lower in 2018 and 0.6 percentage points higher in 2019, see table 2.

Figure 13. Global growth and Swedish exports



Note: Global GDP is TCW-weighted.
Sources: Statistics Sweden, national sources and the Debt Office.

Figure 14. The rating of export orders



Sources: National Institute of Economic Research and Business Sweden.

The increase in imports of goods in the first quarter of 2018 is partly due to higher domestic investments and the export industry's need for input goods for its production. Since both business sector investments and Swedish export goods have a relatively high import content, imports are expected to continue to increase rapidly during the forecast period. Compared with the February forecast, imports have been revised downwards more than exports for 2018, which means that the contribution from foreign trade will be lower this year, see table 2. Imports are expected to grow by 4.5 per cent in 2018 and 4.0 per cent in 2019. Net exports make a positive contribution to GDP growth of 0.1 and 0.3 percentage points in the forecast years.

Clear signals of slowdown in the labour market

The picture of an ongoing slowdown in the labour market still stands, but compared with the previous forecast the labour market performed better than expected in the first quarter of 2018. Employment has increased rapidly for an unusually long time, but several forward looking indicators are now giving clearer and clearer signals of a slowdown.

The labour force is only growing thanks to the group of people born abroad

The labour force grew marginally more slowly than expected in the first quarter and the overall picture is of a gradual decrease in the growth rate. This development is to be regarded as normal in a period when the economy is slowing down. However, the reason for the slowdown this time is not mainly to do with an apparent worsening of the chances of finding a job or with fewer people therefore entering the labour force. Instead it is largely to do with the decrease in the inflow of people born abroad since the peak after the great wave of asylum seekers in 2015, an event that has been addressed in a number of previous Central government lending reports. However, the inflow is still at a very high level from a longer-term perspective.

In the first four months of 2018 the number of domestic born in the labour force decreased by about 20 000, while the number of foreign born increased by about 40 000. The Swedish Migration Agency's statistics of new residence permits up to and including April confirm the picture from the previous forecast, i.e. at least 100 000 new residence permits in 2018. The Debt Office's forecast of the growth of the labour force is 1.1 per cent for 2018 and 0.8 per cent for 2019, which is a downward revision of 0.1 percentage point for 2018. See table 3 and table 4.

Table 3. Key numbers: labour market, prices and wages

Percentage change	2017	2018	2019
Labour force	2.0	1.1	0.8
Employment	2.3	1.4	0.6
Unemployment [1]	6.7	6.3	6.5
CPIF	2.0	1.8	2.0
Hourly wage (NA)	2.7	3.4	3.2
Wage sum	4.7	5.0	4.2

Table 4. **Key numbers: labour market, prices and wages; revisions compared to previous forecast**

Percentage change	2017	2018	2019
Labour force	0.0	-0.1	0.0
Employment	0.0	0.2	0.0
Unemployment [1]	0.0	-0.3	-0.3
CPIF	0.0	-0.1	0.1
Hourly wage (NA)	-0.5	-0.1	-0.2
Wage sum	-0.3	0.3	-0.1

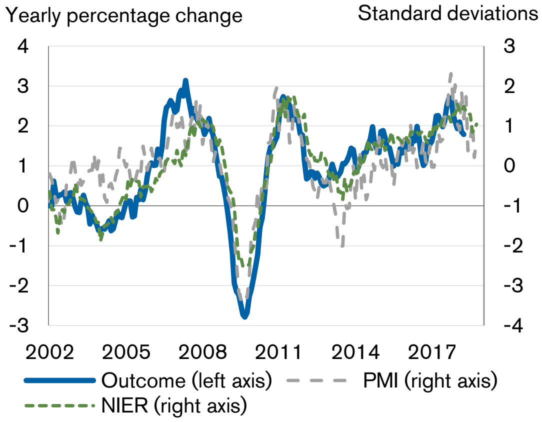
[1] Per cent of the labour force
Sources: Statistics Sweden and The Debt Office.

Employment has grown faster than expected

Employment grew faster than expected in the first quarter, mainly on account of unexpectedly strong employment growth for people born in Sweden. However, this strong outcome is judged to be a temporary matter, in terms of both total employment and employment for people born in Sweden. For some time, the economy has been in a position with a gradual cyclical weakening. Therefore, a weakening recoil after a quarter of surprisingly strong growth is expected in the second quarter. As a result, the forecast of employment growth in the second quarter is slightly lower than the results of the Debt Office's short-term indicator models. However, it is well in line with the overall picture of declining employment growth obtained by, for instance, combining the sub-indexes for employment in the Purchasing Managers Index, see figure 15.

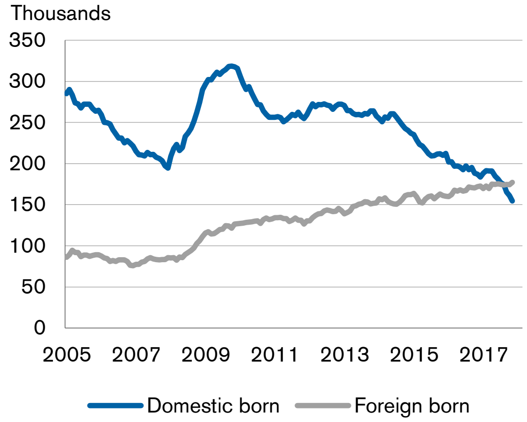
As regards the composition of employment, the pattern is also expected to return to what has applied in recent years, i.e. most of the growth will be in the group of foreign born. An interesting development can be seen regarding residence permits for labour market reasons, which have increased gradually over about two years from just over 1000 per month to around 2000 per month. The increase may appear moderate, but should be set in relation to the fact that the quarterly increase in total employment during the forecast period is expected to fall from just under 10 000 to just under 5000. Drawing far-reaching conclusions on the basis of information that is volatile should be avoided, but the rising trend in residence permits for labour market reasons may play a greater role than is apparent at first sight. The forecast for 2018 is slightly higher than in the previous report, mainly in the light of the stronger than expected outcome for employment in the first quarter. Employment is expected to grow by 1.4 per cent in 2018 and 0.6 per cent in 2019, which is an upward revision of 0.2 percentage points for 2018.

Figure 15. Employment: outcome and indicators



Note: Outcome is LFS monthly statistics for 15-74 year and the leading indicators had been normalised and lead by 6 months.
Sources: Statistics Sweden, SILF/Swedbank, National Institute of Economic Research and The Debt Office.

Figure 16. Number of unemployed, domestic and foreign born



Note: The series are 3 month moving averages of the seasonally adjusted series.
Sources: Statistics Sweden and The Debt Office

Unemployment is still falling

Unemployment measured as the relative unemployment rate fell more than expected in the first quarter, mainly on account of unexpectedly strong employment growth. In terms of the number of people who are unemployed, the start of 2018 has meant that foreign borns now outnumber those born in Sweden, see figure 16. This is even though people born in Sweden account for almost 80 per cent of the total labour force. This is also reflected in the fact that the relative unemployment rate for people born abroad (about 15 per cent) is much higher than for the group of people born in Sweden (just over 3.5 per cent). In line with the previous forecast, unemployment is expected to level out and rise weakly during the forecast period, since the labour force is expected to grow marginally faster than employment in 2019. Unemployment is expected to be 6.3 per cent in 2018 and 6.5 per cent in 2019, which is a downward revision of 0.3 percentage points for both years.

Low outcomes for both wage rises and inflation

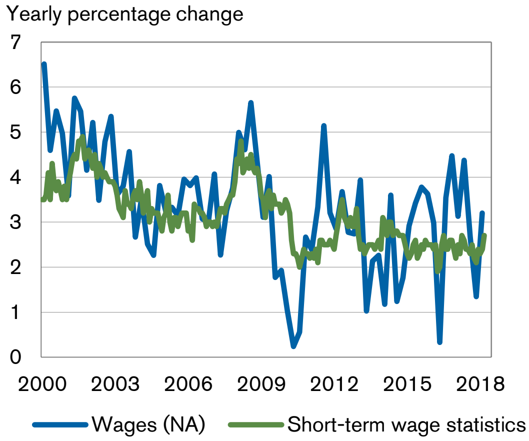
Wages still rising slowly

The outcome for wages according to the National Accounts (NA) was weaker than expected in 2017, but the rate of growth has still been in a rising trend for about the past five years, but at a slow pace, see figure 17. Rising wage increases are to be expected against the background of higher and higher resource utilisation, especially because companies are reporting increasing labour shortages. The development of wages according to short-term wage statistics does not show the same increasing rate of growth as NA wages do, and has been relatively unchanged at around 2.5 per cent in the past five years.

Payroll growth was slightly weaker than expected in the last quarter of 2017. A faster increase than expected in the number of hours worked was fully countered by slower than expected growth of NA wages. However, the slightly weaker payroll outcome at the end of 2017 is judged to be a temporary matter, as is supported by, for example, the preliminary outcomes in the first quarter of

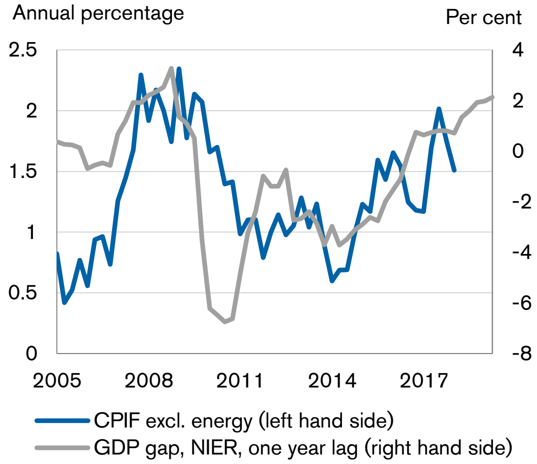
2018. In broad terms, the forecast as a whole is largely unchanged from the previous forecast, but the forecast for 2018 has been revised upwards by 0.3 percentage points in line with the first quarter outcomes.

Figure 17. Wage developments



Note: Wages (NA) are wages according to the National Accounts.
Sources: Statistics Sweden and The Mediation Office.

Figure 18. Underlying inflation and resource utilisation



Note: Quarterly data.
Sources: Statistics Sweden, National Institute of Economic Research and the Debt Office.

Inflation is being raised slightly by the weak krona

CPIF inflation has been close to two per cent for just over a year. One important explanation why consumer prices are rising faster than before has been the development of prices of services. However, prices of services are now rising at a slower rate, which indicates weaker underlying inflationary pressure. In the initial part of the year CPIF inflation has also been slightly weaker than expected by the Debt Office in its previous forecast.

However, in broad terms, inflation prospects continue to be unchanged compared with before. Continued high resource utilisation in the Swedish economy during the forecast period is expected to contribute to inflation remaining at about 2 per cent, see figure 18. But despite the high resource utilisation there are no signs of a marked increase in inflation. Unit labour costs continue to rise at a relatively moderate rate given the high resource utilisation. Moreover, the Debt Office's model estimates point more towards slightly lower inflation in the future.

In the initial part of the year the Swedish krona weakened, probably on account of downward adjustments of expectations about the future repo rate in combination with periods of unrest in financial markets. The weakening of the krona will, with some lag, affect prices and contribute to a slight rise in CPIF inflation at the end of 2018. However, the assessment that the Riksbank will gradually begin raising interest rates in the first half of 2019 means that effects of a strengthening of the krona will moderate inflation at the end of the forecast period. The Debt Office's forecast is that CPIF inflation will average 1.8 per cent in 2018 and 2.0 per cent in 2019.

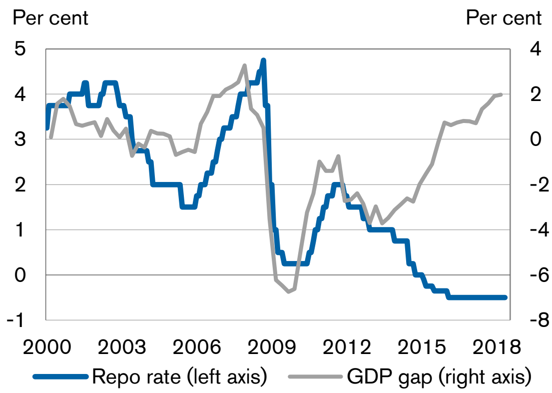
The risk picture is balanced

The diverging development of monetary policy internationally is becoming more and more distinct, with the most important difference being between the US and the euro area. In pace with the rising interest rate differences and the discrepancy between the quantitative easing programmes of different central banks there is an increasing risk of effects on, for instance, the development of exchange rates. A closely related risk for the Swedish economy concerns exports. A clearly weaker krona has, from the perspective of export companies, reinforced the positive effects of the international economy growing faster. Against this backdrop, it is possible that export growth in the near future may be stronger than in the forecast. Business sector investments are also closely linked to this, and they grew more weakly than expected at the close of 2017. However, they are also partly dependent on the international economy, so a stronger economic situation there can also mean stronger investments in Sweden in the short term. In the longer term there are, instead, question marks about the sustainability of the international economic situation and, for example, whether the expected reinforcement of domestic business sector investments will be capable of offsetting lower housing investments to the extent assumed in the forecast. A nearer-term international risk concerns the situation in Italy. Recent developments of greater political uncertainty have led to rising risk premiums on, for example, CDS contracts and higher yields on ten-year government bonds. On account of the size and importance of the country for the euro area as a whole, there is also a possibility that developments in Italy may mean that the tightening of monetary policy planned by the ECB may be deferred or be put into effect at a slower pace.

Developments in the housing market have been much as expected since the previous report, with a stabilisation of prices and a continued decline in building permits and housing starts. In itself, this has reduced risks slightly. Moreover, the decline in prices since the summer of 2017 has taken place during a period when there has been no noteworthy change in developments of household disposable income or interest rates, the fundamental factors usually used to describe house price developments. Instead the decline in prices can probably largely be explained by a rapid increase in the supply of new-built housing and an adjustment to the tougher amortisation requirement. The remaining uncertainty about developments in the housing market is largely due to the still large supply of new-built homes and the tougher amortisation requirement along with the further effects they may have on housing construction and the development of prices.

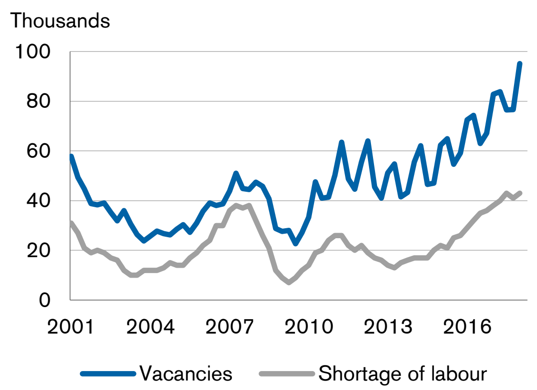
The challenge of forecasting a cyclical turnaround still characterises the risk picture. In general terms the Swedish economy developed roughly in line with the expectations in the previous forecast, but in the respects where it deviated it was in line with the upside risk judged to exist in the short term. One possible explanation of why the strength of the economic situation has been underestimated is that historical correlations between various economic and financial variables have changed character since the outbreak of the financial crisis. For example, it took the US Federal Reserve much longer than normal to raise its interest rate once unemployment had begun to fall and, similarly, the Riksbank has not increased the repo rate as the GDP gap has become more and more positive in recent years, see figure 19. Another example is that the rate of wage growth is significantly lower in Sweden than at previous cyclical peaks, measured as the GDP gap or the shortage of labour reported. The changes in these correlations have been analysed and discussed for a long time, both in Sweden and internationally, and a number of explanations have been presented of why, for example, the rate of wage growth is so low despite many indicators pointing to high resource utilisation.[7] For a number of years, Sweden has had a high and lasting growth rate for both the labour force and employment, mainly on account of strong demand for labour and a greater inflow of people born abroad. At the same time pay has increased at a moderate rate at best. For a number of years, companies have both reported a rising shortage of labour and advertised job vacancies at a faster pace than in previous economic upturns, see figure 20. Nevertheless, employment has continued to grow at a high rate. One possible explanation of this is that the positive supply shock in the form of a greater inflow of people born abroad has coincided with matching working better than expected. One possibility is that this development will continue in the future, which would mean that the strength of the economy will continue to surprise, especially regarding the labour market.

Figure 19. Policy rate and resource utilisation



Sources: Riksbank and the National Institute of Economic Research.

Figure 20. Demand for and shortage of labour



Sources: Statistics Sweden and National Economic Research.

[7] See. for example, IMF (2018), "More Slack than Meets the Eye? Recent Wage Dynamics in Advanced Economies", IMF Working Paper WP/18/50.

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. This is an increase of SEK 10 billion for 2018 and SEK 23 billion for 2019 compared with the February forecast. Slightly higher tax income and higher dividends on state-owned shares explain the difference in 2018. Next year the change is mainly due to a different assumption about capital investments in tax accounts. Expectations of interest rate increases from the Riksbank have been postponed compared with the assessment made in February. Therefore the Debt Office now assumes a continued rise in capital investments until and including the first half of 2019.[8]

Small changes in forecast conditions

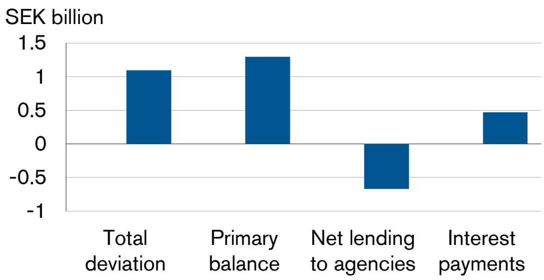
The changes in the macroeconomic conditions on which the calculations of the budget balance are based are small. The growth rate of GDP in current prices is a good approximation of the growth of the largest tax bases and it is estimated at 5.0 per cent in 2018 and 3.8 per cent in 2019, which is slightly stronger than in the previous forecast. In the short term macroeconomic developments have most impact on central government tax income via tax bases such as payroll and consumption. These are growing slightly more than in the previous forecast, resulting in higher income from tax on work and consumption.

Taxes on capital normally also vary with the economic cycle, but are much more volatile and harder to estimate on the basis of individual macroeconomic variables. Household capital gains are judged to be slightly higher than in the previous forecast, but they decrease gradually over the forecast period. Tax on corporate profits is also judged to grow slightly more than in the previous forecast.

The outcomes of the budget balance in the period February to May have been in line with the forecast from February and give no reason to make substantial forecast revisions. The accumulated deviation between outcome and forecast is about SEK 1 billion. Both the tax income and the expenditure of central government have been close to forecast. The negative interest rates have meant that payment patterns have changed considerably from what they have been like historically. This applies especially to tax payments, which are in general, made earlier than in the past.

[8] *Information until and including 7 June has been taken into account in the forecast of the budget balance.*

Figure 1. Deviations of monthly forecasts, February - May 2018



In recent years the budget balance also has been much affected by capital investments in tax accounts. The low level of interest rates has resulted in an incentive to use tax accounts as a form of investment. In its February forecast the Debt Office assumed that these deposits would continue in 2018, but that rising interest rates would result in some outflow in the second half of 2019. Expectations of interest rate increases from the Riksbank have been postponed compared with the assessment made in February.[9] The Debt Office has therefore adjusted its assumptions about capital investments and now expects a continued inflow until and including the first half of 2019.

Higher budget balances in 2018 and 2019

The budget balance for 2018 increases by SEK 10 billion compared with the February forecast and is estimated at SEK 90 billion. Slightly higher tax income on account of a revised macro picture and higher dividends on state-owned shares explain most of the change.

For 2019 the budget balance is estimated at SEK 69 billion. This is an increase of SEK 23 billion, which is largely due to a change in the assessment of the flow from capital investments in tax accounts. The previous expected outflow of SEK 12 billion is instead assessed to be an inflow of SEK 12 billion. This contributes to a reinforcement of the budget balance by SEK 24 billion compared with the February forecast.

As in its previous forecast the Debt Office assumes that fiscal policy reforms will have a negative impact on the budget balance of SEK 15 billion in 2019. At present the Debt Office makes no assessment of how much this will affect expenditure or income.

A strong economic situation means that central government net lending remains high and is estimated as 1.2 per cent as a proportion of GDP in 2018. As the economy begins to weaken, net lending falls to 0.8 per cent in 2019.

[9] *See also page 6.*

Table 1. Budget balance forecast

SEK billion	2017	2018	2019
Primary balance	**69**	**104**	**96**
SNDO Net lending	**3**	**-2**	**-8**
of which on-lending	-4	-11	-3
Interest payments	**-10**	**-12**	**-20**
Budget balance	62	90	69

Note: Budget balance is equal to net borrowing requirement with opposite sign

Figure 1. Central government net lending and budget balance, 2010-2019

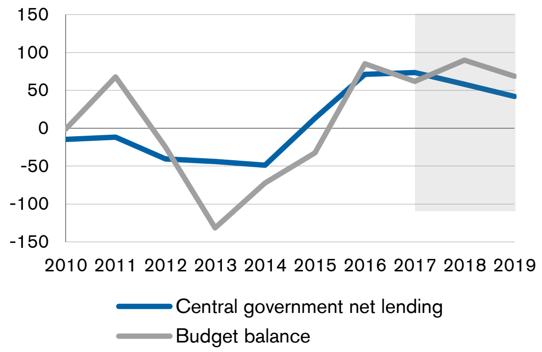


Table 2. The largest forecast changes

SEK billion	2018	2019
Forecast February 2018	80	45
Primary balance	**9**	**29**
Of which:	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**
Of which:		
On-lending	-2	-8
Interest payments	**0**	**3**
Forecast June 2018	90	69

Note: The table shows changes in terms of budget balance. A positive amount means that the budget balance improves and vice versa.

Capital investments in tax accounts also continue to increase in 2019

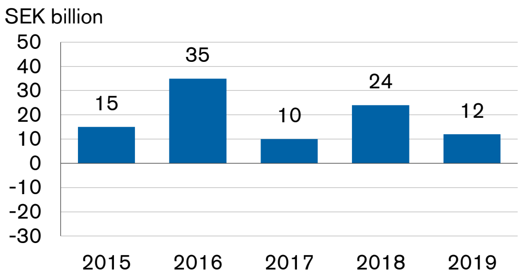
The low interest rate situation has meant that tax accounts are being used as a form of savings by both private individuals and legal persons. To reduce the inflow, the interest rate on tax accounts was reduced from 0.56 per cent to 0 per cent as of 1 January 2017. Despite this, tax accounts are still an attractive form of investment, especially for legal persons. The incentives for companies to invest money in tax accounts are greater than for private individuals. Private individuals are able to obtain a positive interest rate in a savings account with deposit guarantee. For companies, which face negative interest rates on investments, tax accounts are attractive since the interest rate is higher, but there are also other advantages. The risk in investing money in a tax account is the same as for buying T-bills. Tax accounts are also a much more liquid asset than T-bills and other fixed-income instruments. Depositing a particular sum in a tax account or making a withdrawal is a relatively quick matter. In practice the account functions as a bank account with an unlimited deposit guarantee from central government.

A relevant interest rate with which to compare the tax account interest rate is Stibor. The Debt Office makes the assessment that as long as Stibor for three months is below zero and the position regarding tax accounts is not changed, deposits by companies will continue. For 2018 the Debt Office expects deposits from companies to total SEK 24 billion, which is unchanged from in the previous forecast.

One way of reading future interest expectations is to look at forward contracts for Stibor. According to these, Stibor for three months will pass zero per cent at the end of 2019 and approach 0.25 per cent at the start of 2020. This is about six months later than indicated by pricing in February. The Debt Office therefore expects the inflow of capital investments to continue up to and including the first half of 2019.

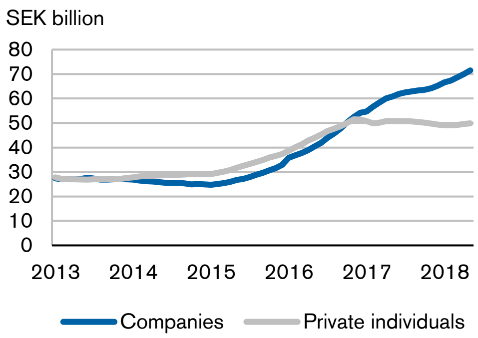
The assessment both of what will happen to interest rates and of how they will affect deposits in tax accounts is uncertain. A faster increase in interest rates could result in earlier and greater withdrawals, while unchanged interest rates could lead to further deposits by companies.

Figure 2. The Debt office´s assessment of excess deposits in tax accounts



Note: The figure shows the net of excess deposits.
Source: Statistics Sweden, Swedish tax agency, SNDO

Figure 3. Balance in tax accounts, 12 month moving average



Capital investments in tax accounts cause an additional cost of SEK 1.7 billion in 2015-2019

Increased deposits in tax accounts reduce the central government borrowing requirement. This also applies to pure capital investments, even though they are, in practice, not actual income for central government. Which deposits are capital investments can be estimated on the basis of total deposits less what is debited by the Swedish Tax Agency and what can be considered as a normal level of funds on deposit.

Capital investments in tax accounts are an expensive and involuntary form of loan for central government. The Debt Office estimates that capital investments in tax accounts result in an additional cost for central government of approximately SEK 1.7 billion for 2015–2019, compared with if the Debt Office had borrowed the same sum directly in the market. The calculation is based on the difference between the interest rate on 3-month T-bills and the tax account, and on assumptions about deposits and withdrawals of extra funds in tax accounts (see figure 2 on page 23).

Capital investments in tax accounts have also created extra uncertainty in the management of the central government debt since the central government borrowing requirement has become harder to forecast. They have crowded out other borrowing, which has contributed to lower issue volumes and worsened liquidity in the market for government securities.

The outcome for the budget balance is also misleading to anyone wanting to analyse the state of public finances. There is a risk that excess deposits in tax accounts will be interpreted as real tax income. In addition, the central government debt reported will be lower than it actually is since balances in tax accounts are, in practice, a debt for central government. However, Statistics Sweden adjusts the Maastricht debt for capital investments, which means, for example, that the debt anchor is not affected.

Strong economic situation leads to high income from corporate taxes

Central government income from corporate taxes has been revised upwards slightly for both 2018 and 2019 compared with the February forecast, see table 3.

The Swedish economy has been growing strongly for several years, and this has resulted in good profit growth in the business sector. Domestic demand is continuing to grow at a good pace, mainly driven by high investments and consumption. The international recovery – not least in the EU, where investment growth is expected to continue to rise – is now estimated to be slightly stronger than in the assessment made in February. This is expected to lead to rising demand and profitability for export companies.

This bright picture is supported by forward indicators, where, for example, the export managers index, the purchasing managers index and the NIER's confidence survey are at levels above their historical average. The optimism is greatest in manufacturing, which is benefiting from the good investment climate in Europe. Taken together, this strengthens the picture of positive profit growth for some more time to come. The forecast for profit growth in 2018 has therefore been revised upwards slightly from the February forecast.

The assessment of profit growth in 2019 is unchanged compared with the previous forecast. As growth in the economy weakens at the end of the forecast period, profit growth falls back. Profits are then estimated to grow slightly more slowly than their historical average. However, the upward revision for 2018 means that the level of corporate profits in 2019 will still be slightly higher than in the February assessment.

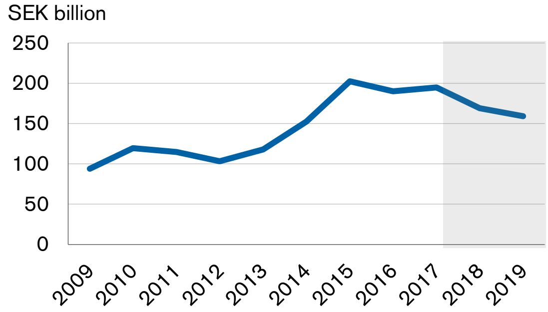
Slightly higher income from payroll taxes

Central government income from payroll taxes will be SEK 2 billion higher in 2018 and SEK 3 billion higher in 2019 than in the previous forecast. This is primarily because the payroll is expected to be 0.3 per cent higher in both 2018 and 2019.

Table 3. Tax income, change from previous forecast

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

Figure 4. Household capital gains



Source: Swedish tax agency and the Debt Office.

No change in development of consumption taxes

Income from consumption taxes will be unchanged in both 2018 and 2019 compared with the previous forecast. The outcome for VAT and other consumption-based taxes has been in line with the forecast so far this year. At the same time, only minor changes have been made in the underlying assumptions.

High capital gains for households

The Debt Office expects households' capital gains in 2017 to be around SEK 195 billion. This is SEK 7 billion more than in the previous forecast and SEK 5 billion more than in 2016. The weakening of the housing market that started in the autumn is not judged to have had time to have any substantial effect on capital gains for the year. Statistics from *Svensk Mäklarstatistik [Swedish Real Estate Agent Statistics]* show that the total sales value of owner-occupied and cooperative homes sold increased by approximately 10 per cent compared with 2016. How this affects the gains reported is not certain, but historically the correlation between gains and sales value has been strong. Some support for this assessment is also provided by the income statements from the Swedish Tax Agency available so far this year. For 2018 and 2019 the Debt Office makes the assessment that gains from home sales will decrease. This is an effect of the slackening of prices that has occurred, but also that the turnover in the housing market is judged to be lower.

The Debt Office also makes the assessment that gains from the sale of securities will decrease, which is an effect of more and more people switching to saving in investment savings accounts (ISAs). In aggregate, households' capital gains decrease in 2018 and 2019, but from high levels.

Rising dividends on state-owned shares

The strong economic situation also means that profits in companies with state ownership are developing well. This means that central government income from share dividends is rising. Dividend income is estimated to be just under SEK 3 billion higher in both 2018 and 2019 than in the previous forecast. This is mainly explained by higher dividends from LKAB. This company reported strong earnings for 2017, mainly on account of rising market prices of iron ore products. This meant that the company delivered a dividend for the first time since 2015. The dividend was SEK 2.9 billion, which was much higher than the Debt Office's forecast. Demand is expected to remain good and production volumes are estimated to rise in 2018. This means that the forecast for the dividend to be paid in 2019 has also been revised upwards.

In total, central government income from share dividends is estimated at just under SEK 15 billion in 2018 and around SEK 17 billion in 2019, see table 4.

Table 4. Dividends on state owned shares

SEK billion	2018	2019
Akademiska hus AB	1.6	1.6
LKAB	2.9	3.5
Telia Company	3.7	4.0
Vattenfall AB	2.0	4.0
Sveaskog AB	0.9	0.9
Other corporations	3.5	3.3
Total	14.6	17.3

Slightly lower expenditure for social insurance

Expenditure for social insurance is estimated to be SEK 1 billion lower in 2018 and SEK 2 billion lower in 2019 compared with the previous forecast. The outcome has been slightly lower this year, and this explains the change. Next year attendance allowance, for instance, is expected to be slightly lower than in the previous forecast.

Net lending by the Debt Office is unchanged in 2018, but higher in 2019.

For 2018 net lending by the Debt Office is expected to total just over SEK 2 billion. Compared with the previous forecast on-lending to the Riksbank has increased on account of a weaker krona. But this is offset by higher deposits from government agencies and public enterprises, which mean that aggregate net lending is unchanged from the February forecast.

Net lending in 2019 is expected to be almost SEK 8 billion. This is an increase of SEK 9 billion from the previous forecast. The increase in 2019 is also largely explained by higher on-lending to the Riksbank on account of the weaker krona. The loan to Ukraine previously forecast for 2018 has now been postponed until 2019. That increases the forecast of net lending in 2019 by just under SEK 1 billion.

Net lending by the Debt Office

Net lending by the Debt Office to government agencies and other parties is an item on the expenditure side of the central government budget. This means that if Debt Office net lending increases, the budget balance is weakened. This can also be expressed by saying that the net borrowing requirement increases.

Net lending to government agencies and other parties is not financed by appropriations and does not come under the expenditure ceiling. Net lending consists of the change of all lending from and deposits in the central government's internal bank in the Debt Office. Net lending covers both ongoing central government activities – such as student loans, deposits in the premium pension system and lending to infrastructure investments – and temporary items, such as on-lending to the Riksbank and to other countries. The temporary items may be decided at short notice and they contribute to strong variations in net lending from year to year.

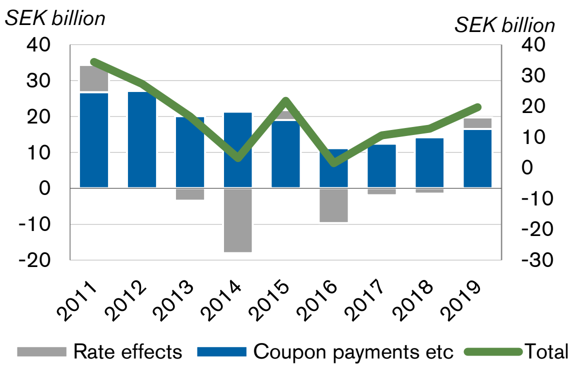
Net lending by the Debt Office affects the budget balance and central government debt. In contrast, central government net lending is only affected by certain parts of the Debt Office's net lending. For example, the payment and amortisation of student loans and capital advances to banks affect net lending by the Debt Office, but not central government net lending.

Reduced switches lead to lower interest payments next year.
Central government interest payments are estimated at SEK 13 billion this year and SEK 20 billion next year, see table 5 below. Compared with the previous report the forecast has been revised down by around SEK 3 billion for next year. This is mainly due to lower capital losses as a result of reduced switch volumes of inflation-linked bonds. For 2018 the forecast is largely unchanged.

Table 5. Interest on central government debt

SEK billion	2018	2019
Interest on loans in SEK	11.8	16.0
Interest on loans in foreign currency	-0.2	0.0
Realised currency gains and losses	0.7	3.5
Interest payments	**12.3**	**19.6**

Figure 5. Interest payments, 2011-2019



Between 2018 and 2019 interest payments increase by around SEK 7 billion. The increase is mainly explained by currency exchange losses arising when a foreign currency bond matures and by capital losses in conjunction with switches of inflation-linked bonds. As part of these switches the Debt Office buys back an inflation-linked bond maturing in 2020. This bond was introduced in 1996 and has a great deal of accrued inflation compensation that is paid in conjunction with the buy-backs. If the switches go as planned, the inflation compensation paid will, as a result, be lower at maturity in 2020.

Change between years

The table shows how the budget balance changes between 2015 and 2019 and how different parts affect this change. The budget balance increases by SEK 28 billion between 2017 and 2018. A strong economic situation, combined with capital investments in tax accounts, leads to an increase of SEK 76 billion in tax income. This is partly offset by rising expenditure, in the area of social insurance for instance.

Between 2018 and 2019 the budget balance is weakened by an estimated SEK 21 billion. One important explanation is the weakening of the economy, which means that tax income grows at a much slower rate. In addition, the inflow of capital investments to tax accounts is estimated to halve compared with 2018. Expenditure for migration and development assistance increased strongly between 2015 and 2017, but falls back in 2018 and 2019, mainly on account of a lower inflow of asylum seekers.

SEK billion	**2015**	**2016**	**2017**	**2018**	**2019**
Budget Balance	-33	85	62	90	69
Change from previous year	40	118	-24	28	-21
Primary balance	**47**	**101**	**-31**	**35**	**-8**
Of which:					
Tax income	76	145	4	76	21
Government grants to local governments	-7	9	-12	-5	-6
Labour market	0	1	0	-7	3
Social insurance	-6	0	4	-12	-1
Migration & International aid	-10	-26	-5	13	8
Sales of state-owned assets	0	0	0	2	-2
Share dividends	7	-7	-4	6	3
EU contribution	4	5	2	-5	-6
Other	-18	-27	-20	-32	-29
Debt Office's net lending excl. on-lending	**19**	**1**	**7**	**2**	**-14**
On-lending	**-7**	**-4**	**10**	**-7**	**8**
Interest on government debt	**-19**	**20**	**-9**	**-2**	**-7**

The Debt Office uses cut-off rates in calculating central government interest payments and in measuring the Riksbank's foreign currency loans. The cut-off date for this forecast is 31 May 2018.

Table 6. Cut-off rates for interest rates, per cent

Duration	3 mth	6 mth	2 y	5 y	10 y	30 y
Government bonds	-0.8	-0.8	-0.6	-0.2	0.5	1.5
Inflation-linked bonds	-2.4	-2.4	-2.5	-2.1	-1.5	-0.4
Swap interest rate SEK	-0.4	-0.4	-0.2	0.4	1.2	
Swap interest rate EUR	-0.3	-0.2	-0.1	0.3	0.9	1.5
Swap interest rate USD	2.3	2.4	2.7	2.8	2.9	

Table 7. Cut-off rates for currency exchange

Spotrates	**2018-01-31**
SEK/EUR	10.31
SEK/USD	8.83
SEK/CHF	8.69
SEK/JPY	0.08
SEK/GBP	11.75
SEK/CAD	6.81

Central government net lending

Central government net lending shows a more even development than the net borrowing requirement and the budget balance, which are cash flow measures. As a proportion of GDP, this lending is estimated at 1.2 per cent in 2018 and 0.8 per cent in 2019. This is a slightly stronger development than in the previous forecast, and is mainly due to higher economic activity.

Net lending is generally a better indicator of the underlying central government finances than the budget balance. Net lending accrues payments to the point in time when the economic activity took place.

Net lending is also adjusted for payments that do not affect central government's financial wealth. If, for example, central government sells financial assets such as shares, this does not affect net lending. Central government merely redistributes assets in its balance sheet, i.e. shares are exchanged for cash. However, when the payment is made, the budget balance is affected and the central government debt decreases. Amortising the central government debt does not affect the net asset position of central government either since its assets decrease just as much.

In the same way, net lending is not affected by lending to the Riksbank. This is because, in its balance sheet, central government receives an asset (a claim on the Riksbank) that corresponds to the increased indebtedness incurred in order to finance lending to the Riksbank. On the other hand, the budget balance and central government debt are affected.

Nor is central government net lending affected by capital investments in tax accounts. They are counted as deposits instead of tax income.

Table 8. Central government net lending

SEK billion	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

Monthly forecasts

The budget balance varies strongly between months. The following table presents monthly forecasts until and including May 2019.

Much of the variation between months is explained by how tax income, tax refunds and on-lending by the Debt Office are spread over the year. Some individual payments also impact on the monthly pattern, one example being the annual payment of premium pension funds.

The large deficit in December is normal and part of the explanation is payment of premium pension funds, excess tax and interest payments on the central government debt.

Table 9. Budget balance per month, SEK billion

	Primary balance	Net lending	Interest on central government debt	Budget balance
Jun-18	-21.0	5.3	-3.2	-18.9
Jul-18	7.1	5.6	0.7	13.3
Aug-18	22.2	4.8	0.4	27.3
Sep-18	1.7	3.9	0.8	6.4
Oct-18	2.6	3.8	0.8	7.3
Nov-18	24.0	4.2	-0.8	27.5
Dec-18	-37.5	-37.1	-8.1	-82.7
Jan-19	3.4	2.2	1.3	6.9
Feb-19	50.4	2.9	1.0	54.4
Mar-19	-3.2	3.0	-2.9	-3.1
Apr-19	3.2	2.6	-2.7	3.0
May-19	47.4	2.0	-3.6	45.9

Sensitivity analysis

The Debt Office does not produce any overall sensitivity analysis for the budget balance. Instead a partial analysis of the effects that changes in certain key variables have is presented. The table shows an estimate of what different changes mean for the budget balance on a one-year term.

Increase by one per cent/percentage point	Effect on budget balance
Gross wages [1]	7
Household consumption in current prices	3
Unemployment (ILO 15-74) [2]	-3
Interest rate level in Sweden [3]	-5
International interest rate level [3]	-2
Asylum seekers, increase of 10 000	

[1] Local government taxes on employment are paid to local authorities with a one-year time lag. This means that the effect on the budget balance in one year's time is bigger than the permanent effect.
[2] Includes effects on unemployment insurance benefits, the job and development guarantee programme and the job guarantee scheme for young people.
[3] This relates to an effect on interest payments on government debt.

Forecast comparisons

The Debt Office forecasts a higher budget balance for 2018 than the other forecasters. Much of the difference is explained by differences in the assessments made of capital investments in tax accounts. Unlike the other forecasters, the Debt Office assumes an inflow of SEK 24 billion in 2018.

For 2019 the Debt Office, the National Institute of Economic Research (NIER) and the Government expect relatively large surpluses. The Swedish Financial Management Authority (ESV) differs in expecting a deficit in the central government budget. This is also largely explained by the differing assessments of capital investments in tax accounts. The ESV expects that market interest rates will rise enough in 2019 for capital investments to end completely and therefore expects an outflow of around SEK 50 billion next year.

	Debt Office (19 June)		Government (16 April)		NIER (27 March)		ESV (14 June)	
SEK Billion	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Budget balance	90	69	74	67	76	66	53	-1
of which:								
Sale of central government assets	2	0	5	5	2	0	2	0
Adjusted budget balance	88	69	69	62	74	66	51	-1

Borrowing in government bonds left unchanged at a very low level

Despite the stronger budget balance – and therefore the lower borrowing requirement – bond borrowing in Swedish kronor is left unchanged. The Debt Office's assessment is that a reduction of the issue volume from its already historically low level would further worsen liquidity in the market. Foreign currency borrowing on behalf of the Riksbank decreases since part of lending to the Riksbank is refinanced with cash.

Lower borrowing requirement but unchanged issue volume

The central government borrowing requirement, including refinancing of maturing loans, is estimated at SEK 156 billion in 2018 and SEK 167 billion in 2019, see table 1. This is a total reduction of SEK 19 billion compared with the previous forecast. The reduced borrowing requirement, which is mainly due to an assessment that companies will continue investing capital in their tax accounts in 2019, does not lead to a change in bond borrowing in kronor. Instead foreign currency borrowing decreases since some of the Riksbank loans will be refinanced with cash rather than new bonds.

Table 1. Gross borrowing requirement

SEK billion	2017	2018	2019
Net borrowing requirement	-62	-90	-69
Business day adjustment etc. [1]	4	4	0
Retail borrowing & collateral, net [2]	14	11	5
Money market redemptions [3]	144	122	29
T-bills	84	88	20
Liquidity management	60	35	9
Bond redemptions, net switches and buy-backs	145	109	202
Government bonds	69	5	99
Inflation-linked bonds	15	3	17
Foreign currency bonds [4]	62	101	87
Total gross funding requirement	246	156	167

[1] Borrowing is reported by business date while net borrowing requirement is reported by settlement date.
[2] Net change in retail borrowing and collateral.
[3] Initial stock maturing within 12 months. Commercial paper is included in Liquidity management.
[4] Calculated with the original issuance exchange rate.

This means that the issue volume of government bonds stays at SEK 1.5 billion per auction, corresponding to SEK 30 billion per year, see table 2. This is the lowest annual rate of borrowing since 2000. However, borrowing in foreign currency bonds decreases compared with the previous forecast. In May the Debt Office used the cash surplus to refinance a maturing loan to the Riksbank instead of issuing a new dollar bond. In its new forecast the Debt Office makes the assumption that half of the on-lending to the Riksbank in 2019 will be refinanced in the same way. This helps to reduce the large cash surplus that arose in 2017, see the in-depth box on page 41.

Table 2. New borrowing forecast

	2017	2018		2019	
SEK billion	Outcome	Jun	(Feb)	Jun	(Feb)
Money market funding [1]	122	29	(15)	85	(83)
T-bills	88	20	(20)	20	(20)
Liquidity management [2]	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)

[1] Outstanding stock as at year-end. Commercial paper is included in Liquidity management.

No scope for a further reduction of issue volumes

As in its previous forecast, the Debt Office makes the assessment that a reduction of the issue volume from its present level risks worsening liquidity further, which would result in higher borrowing costs and greater risk in the form of poorer borrowing preparedness. So this is not consistent with the objective of minimising the long-term costs of the central government debt while taking account of risk.

Moreover, reduction of bond borrowing would be countered by greater demand for the Debt Office's standing repo facility. This means that neither the cash surplus nor the central government debt would decrease to the same extent as bond borrowing, see the in-depth box on page 41.

It has happened in the past that the Debt Office has bought back government securities as an alternative to reducing the issue volume. Buying back krona bonds today would probably reinforce the effect of making the market function less well and increasing demand for repos. Experience also shows that buy-backs can be expensive. On the other hand, the Debt Office could buy foreign currency bonds if investors show an interest in selling.

Liquidity of government bonds continues to deteriorate

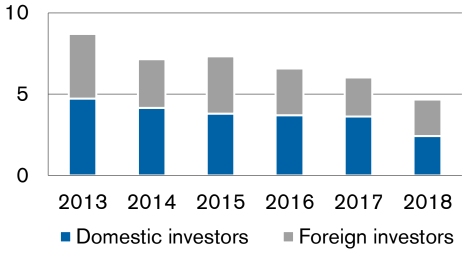
In recent years the liquidity of the government bond market has deteriorated gradually. This deterioration is explained by several interacting factors: financial market regulations, a lower issue volume on account of stronger central government finances and bond purchases by the Riksbank. The Riksbank now owns about half the outstanding government bonds with maturities of up to ten years, see figure 3.

Statistics from the market show that activity has decreased gradually and that foreign investors have increasingly left the market. Daily turnover of government bonds nearly halved in five years and has decreased by almost a third this year compared with 2017, see figure 1. This low level of activity has made the market less deep and therefore less attractive to investors who need to be able to turn around large volumes quickly.

Since 2014 the share of government bonds owned by foreign investors has decreased sharply, see figure 2. This is worrying since the Debt Office strives after a broad investor base because this helps to create good borrowing preparedness and lower costs in the long term.

Figure 1. Turnover, government bonds

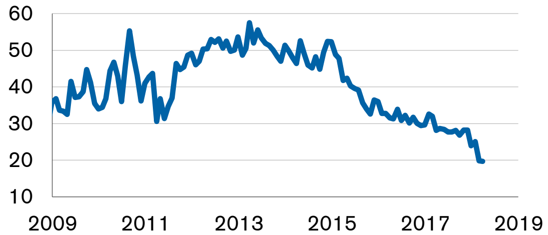
SEK billion



Note: Average daily turnover
Source: Riksbank

Figure 2. Foreign holdings, government bonds

Per cent of outstanding stock



Source: Statistics Sweden

A further sign that the market is not functioning without support is the strong demand for the Debt Office's standing repo facility. The Debt Office's assessment is that its unlimited repo facility remains central to the functioning of the market. The volume of repos has decreased slightly since February but is still at a high level historically, see figure 4. Seasonal variations in recent years suggest that demand may rise again in the summer, when fewer participants are active in the repo market.

Chart 1. Stock of government bonds

SEK billion, 31 May 2018

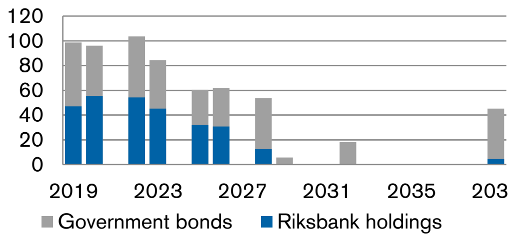
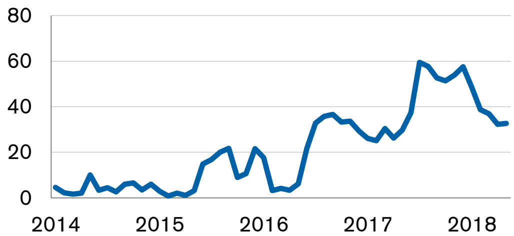


Chart 2. Government bond repos

SEK billion, monthly average



The Debt Office's assessment is that since its February forecast liquidity in the government bond market has deteriorated further. The picture communicated by investors is that trading functions relatively well as long as small amounts are being traded and the market is stable. In the case of large volumes, large interest rate movements or events that suddenly increase the need to buy or sell government securities, price transparency is felt to be poorer. It is mainly the shortage of specific bonds that makes it difficult for primary dealers to manage risk and quote prices. This means that the situation in the market quickly becomes strained even with small disturbances. This happened, for example, at the end of May in conjunction with the political uncertainty in Italy.

The Debt Office is open to taking further measures to ease the situation for primary dealers and welcomes suggestions as to what can be done to get the market to function better. The Debt Office could, for example, offer extra switches between government bonds when there is a need for this.

Issue volume of government bonds remains unchanged

In the February forecast the issue volume of government bonds was reduced to SEK 30 billion per year. The Debt Office expects borrowing to remain at that low level throughout the forecast period. The bulk of the issues will be made in the ten-year segment in order to build up the outstanding volume of newer bonds. The other auctions will mainly be held in the five-year maturity, but other maturities may be also offered to support liquidity of the bonds.

Table 3. Important dates 2018

Date	Time	Activity
24 Oct	09.30	Borrowing forecast 2018:3
8 Nov	09.30	Info on switches to SGB 1061
29 Nov–3 Dec	11.00	Switches to SGB 1061

Table 4. Reference bonds

Date of change	2-year	5-year	10-year
Current reference bonds	1047	1057	1060
19 Dec 2018			1061
19 Jun 2019	1054	1058	

A new government bond, SGB 1061, maturing in 2029, was introduced at the end of May. After switch auctions in conjunction with its introduction the volume of the bond was just under SEK 11 billion. This was slightly less than planned, but sufficient for the bond to qualify as an underlying bond in the futures market. The Debt Office is going to offer more switches to this bond so as to increase the outstanding stock before it becomes a ten-year reference bond, see the fact box below and the tables above.

Reference bonds

The reference bond in electronic trading is the bond that is closest to two, five or ten years in terms of maturity. Reference bonds are only changed on the IMM date (third Wednesday in March, June, September and December) provided the new bonds are the bonds that are closest in terms of maturity to two, five or ten years on the subsequent IMM date. The underlying bond in a forward contract will always be the same as a reference bond during the last three months of the contract. The date of change of reference bonds refers to the settlement date. The first trading day for a new reference bond is normally the Monday preceding an IMM date.

Larger volume of interest rate swaps

The Debt Office is increasing the planned volume of interest rate swaps from SEK 5 billion to SEK 15 billion this year and next year so that the duration of the nominal krona debt will not get too long in relation to the Government's guidelines. Average duration is then expected to be just under the upper limit of the steering interval during the forecast period, see figure 5. A lower borrowing requirement and falling market interest rates have meant that the maturity of the nominal krona debt has become longer.[10]

Future developments very much depend on how far lending to the Riksbank is handled with cash, see the section on foreign currency borrowing below. The forecast for duration is based on the assumption that half of lending to the Riksbank will be taken from cash next year. Depending on the development of cash surpluses, the volume of swaps may need to be adjusted in coming forecasts.

For many years the Debt Office has used interest rate swaps to shorten the duration of the nominal krona debt and thereby reduce its expected cost. This strategy has been based on the fact that, historically, short-term borrowing has been cheaper than long-term borrowing. In recent years that cost advantage has decreased. On this basis the Government has decided to gradually extend the duration of the nominal krona debt. This is why the Debt Office has recently reduced the volume of new interest rate swaps and the outstanding stock of swaps has decreased. Even though the Debt Office is now increasing its forecast of new swaps, the redemptions are larger. The outstanding stock will therefore continue to decrease, see table 5.

Figure 3. Nominal SEK debt duration

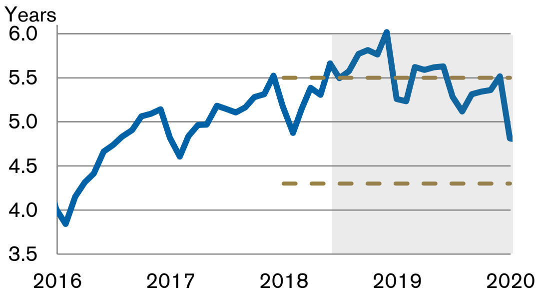


Table 5. Change in outstanding swaps

	2018		2019	
SEK billion	Jun	(Feb)	Jun	(Feb)
Interest rate swaps [1]	15	(5)	15	(5)
Swaps total	15	(5)	15	(5)
Swaps maturing	29	(29)	41	(41)
Swaps, net change	-14	(-24)	-26	(-36)

[1] Interest rate swaps from fixed to floating rate in SEK.

Unchanged borrowing in T-bills and inflation-linked bonds

Borrowing in T-bills is the same as in the previous forecast. The Debt Office is issuing SEK 5 billion in T-bills per month both this year and next year. This means that the outstanding stock of T-bills will be SEK 20 billion during the forecast period.

Borrowing in inflation-linked bonds also remains at the same level as before. This means an issue volume of SEK 500 million per auction and an annual rate of SEK 9 billion. This borrowing will continue to focus on the ten-year maturity segment to top up the volume of the most recent bonds. Other maturities may also be issued in order to promote liquidity in the market.

The inflation-linked share of the central government debt rises in the short term

The proportion of inflation-linked debt is to be steered towards 20 per cent in the long term according to the Government's guidelines. In the short term the Debt Office has small possibilities of influencing this proportion through issues and switches, so it varies with the level of the central

[10] *Maturity is steered in terms of duration. Duration is a way of measuring the average fixed interest period in the debt.*

government debt. As the central government debt is expected to decrease in the next few years, the proportion of inflation-linked debt increases until bonds mature, see figure 6.

The Debt Office has the practice of offering switches to reduce the outstanding volume of short inflation-linked bonds. The purpose of the switches is to avoid letting excessive volumes mature since this can put a strain on the market and create reinvestment risks for investors. It can also be a way of maintaining the share of inflation-linked debt when it has been below its benchmark.

Figure 4. Proportion of inflation-linked debt

Per cent

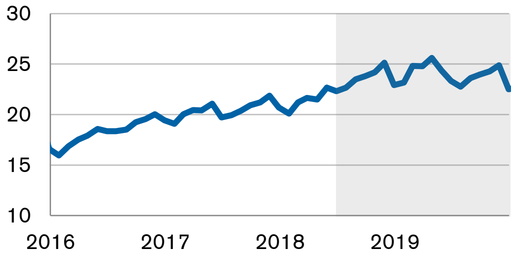
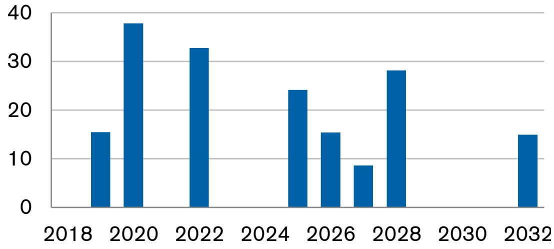


Figure 5. Outstanding inflation-linked bonds

SEK billion, 31 May 2018



The outstanding volume of the shortest bond, SGB IL 3110, which matures in 2019, has been reduced to SEK 15 billion through switches. The next inflation-linked bond to mature is SGB IL 3102 in December 2020. Then the Debt Office plans to let a larger volume mature since the inflation-linked share is above its long-term benchmark. The situation of having large cash surpluses is also an argument for letting a slightly larger volume mature. The Debt Office will offer switches next year so that the outstanding volume can decrease to around SEK 25 billion.

Switch facility to remain in place

To support liquidity in the market for inflation-linked bonds the Debt Office continuously offers primary dealers the opportunity to make switches between inflation-linked bonds at a certain premium. The facility is limited to SEK 500 million per primary dealer and week. Since new supply of inflation-linked bonds is so small, these switches can make it more difficult for the Debt Office to steer the outstanding stocks of inflation-linked debt. This has raised the question of further limiting this facility. However, the Debt Office judges that the possibility of making switches is important for the functioning of the market and intends to retain the present volume for the time being.

Cash can partly replace foreign currency bonds for the Riksbank

In May a USD 2.25 billion bond that had previously been issued on behalf of the Riksbank matured. Instead of replacing the bond with a new one, part of the cash surplus in kronor was transformed into USD by means of swaps. This enabled the Riksbank to borrow USD on the same terms as if the Debt Office had borrowed direct in USD. Since the Debt Office did not issue a new bond, bond borrowing in foreign currency will be lower this year than was assumed in the February forecast.

Next year consideration may again be given to using cash to refinance on-lending to the Riksbank. This will be decided on each individual occasion. In this forecast the Debt Office has made an assumption that half of the refinancing requirement in foreign currency will be replaced by cash in 2019. This would mean that the Debt Office would issue foreign currency bonds corresponding to

SEK 44 billion next year and that the bond stock would decrease to around SEK 230 billion, see figures 8 and 9.

Figure 6. On-lending to the Riksbank

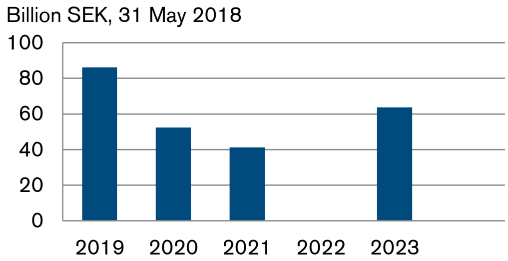
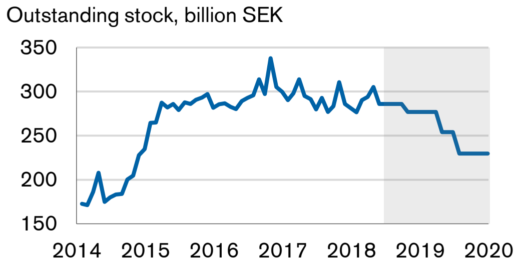


Figure 7. Stock of foreign currency bonds

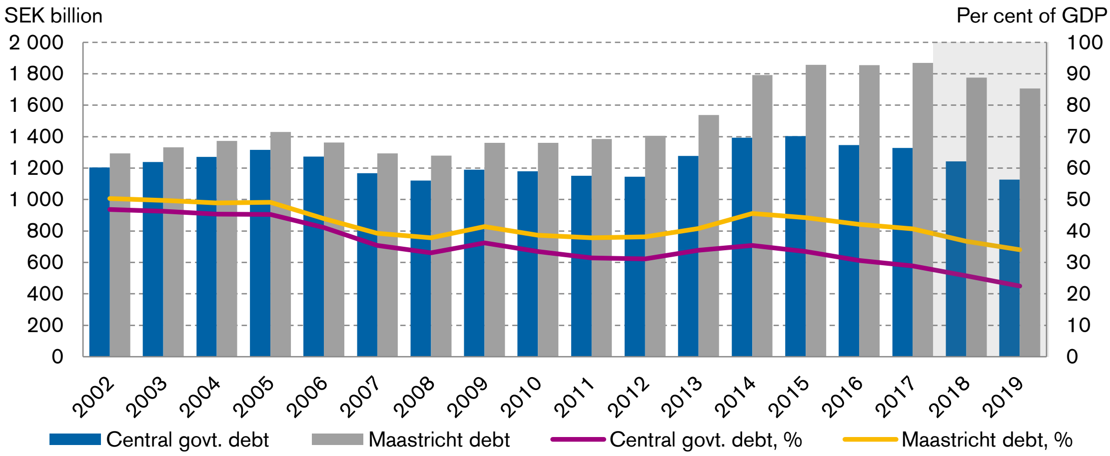


Continued fall in central government debt

The central government debt is expected to decrease to SEK 1,127 billion at the end of 2019, which is SEK 24 billion lower than in the February forecast, see figure 10. This corresponds to a GDP share of 22 per cent. The main reason for the decrease from the previous forecast is the assumption that part of the foreign currency borrowing for refinancing to the Riksbank will be replaced by cash. For the same reason, assets in liquidity management are slightly lower than in the previous forecast even though the budget surplus has been revised upwards further.

The Debt Office's forecast for the development of the central government debt means that the debt according to the Maastricht measure will reach the 'debt anchor' of 35 per cent of GDP at the end of the forecast period. See the fact box below for more information about different measures of central government debt.

Figure 8. Development of the central government debt



The Debt Office reports the unconsolidated central government debt. The Maastricht debt covers the whole of the public sector and is a measure of the consolidated debt. See the fact box Different measures of government debt in statistics.

Table 6. Net borrowing and the central government debt

SEK billion	2015	2016	2017	2018	2019
Net borrowing requirement (budget balance with opposite sign)	33	-85	-62	-90	-69
Business day adjustment etc.[1]	0	-7	4	4	0
Net borrowing per business day	32	-92	-58	-86	-68
A. Nominal amount including money market assets	1 353	1 261	1 203	1 117	1 049
Inflation compensation	19	21	23	27	25
Exchange rate effects	29	40	11	24	18
B. Nominal amount to current exchange rate incl. inflation compensation and money market assets	1 401	1 321	1 237	1 168	1 092
Assets under management	3	26	91	75	35
C. Central government debt	1 403	1 347	1 328	1 243	1 127
Assets under management	-3	-26	-91	-75	-35
On-lending	-247	-263	-238	-255	-256
D. Central government debt incl. on-lending and assets	1 154	1 059	999	913	836
Nominal GDP	4 200	4 405	4 600	4 829	5 014
C. Central government debt, % of GDP	33	31	29	26	22
D. Central government debt incl. on-lending and money market assets, percentage share of GDP	27	24	22	19	17

[1] Borrowing is reported by business day while net borrowing requirement is reported by settlement date.

Different measures of central government debt

There are different ways of measuring central government's debt. The Debt Office reports the *central government unconsolidated debt*. This measure shows central government gross debt and includes all loans raised by the Debt Office on behalf of central government, irrespective of who owns the claims on the central government. The debt is reported at its nominal terminal value according to the principles applied in the EU.

Some government agencies own government bonds and T-bills. This kind of intra-government ownership is deducted in the *central government consolidated debt*. That measure gives an overall picture of the financial position of central government and is used in the Government's budget bill and in the annual report for the central government. The consolidated debt is calculated by the Swedish National Financial Management Authority.

One debt measure often used in international comparisons is *general government consolidated gross debt*, which is also called the *Maastricht debt*. This debt is larger than the central government debt since it covers the whole of the public sector, i.e. including municipalities, county councils and the pension system. Its calculation is based on conditions in the Maastricht Treaty. According to the EU's government debt criterion the Maastricht Debt must not exceed 60 per cent of GDP. The Maastricht Debt is also the measure that is used in the budgetary framework and that forms the basis for the debt anchor of 35 per cent that the Parliament has decided will be in force as of 2019. General government consolidated gross debt is published by Statistics Sweden.

In depth box

The cash surplus and its effect on government debt

The Debt Office expects to continue to have large cash surpluses that are invested in assets in liquidity management in 2018 and 2019. Since assets are not deducted in reporting the central government debt, these cash surpluses mean that the debt is higher than it would have been if the money had instead been used to amortise the debt. As an increasing number of bonds mature, the debt will be amortised and the cash surplus will gradually decrease.

The cash surplus was built up in 2017 when central government tax income was much higher than forecast, partly because of investments of capital in tax accounts. Despite a reduced issue volume, the Debt Office had, at the end of the year, borrowed more than was needed to finance central government expenditure and maturing loans. Increased demand for the Debt Office's standing repo facility also contributed to more money being received.

The trade-offs made in the issue plan contribute to lower cost and risk

In the assessment of the Debt Office, letting the cash surplus decrease gradually instead of further reducing bond borrowing makes a contribution to the objective of long-term cost minimisation. The alternative of reducing issue volumes would further worsen liquidity in the market and therefore lead both to higher long-term costs and to poorer borrowing preparedness. Also, the surplus would not decrease in the short-term anyway since the low supply of government bonds would lead to greater demand for the Debt Office's standing repo facility.

Drastic measures would be required to reduce the cash surpluses in the short term, such as limiting the standing repo facility or buying back outstanding bonds. Against the background of the situation in the market, with a shortage of government securities and worsened liquidity, such measures would risk having serious consequences for the functioning of the market. This argues for instead letting the cash surpluses decrease when a larger volume of loans matures in 2019 and 2020.

Nor are the cash surpluses judged to result in an additional cost or greater credit risk.

The cash surplus postpones the reduction of central government debt

If central government has a budget surplus in a particular year and assets in liquidity management (the cash surplus) are unchanged, the reduction of the central government debt will normally be around the same size as the budget balance.[1] But if assets in liquidity management increase during a year, the decrease in the debt is less than the budget balance. That was what happened in 2017 when the budget surplus of SEK 62 billion generated a debt reduction of only SEK 19 billion.

On the other hand, when the cash surplus begins to be wound down, the decrease in the debt will be larger than the budget balance. In aggregate, over 2018 and 2019, the central government debt decreases by SEK 201 billion, according to the Debt Office's most recent forecast, while the accumulated budget surplus for these years is SEK 158 billion.

[1] The change in the central government debt is also due to upward adjustment of accrued inflation in the inflation-linked debt and revaluation of the foreign currency debt at new exchange rates.

Market information

Auction dates and outstanding amounts as of 31 May 2018

Table 7. Government bonds, auction dates

Announcement	Auction date	Settlement date
15-Aug-18	22-Aug-18	24-Aug-18
29-Aug-18	05-Sep-18	07-Sep-18
12-Sep-18	19-Sep-18	21-Sep-18
26-Sep-18	03-Oct-18	05-Oct-18
10-Oct-18	17-Oct-18	19-Oct-18
24-Oct-18	31-Oct-18	02-Nov-18
07-Nov-18	14-Nov-18	16-Nov-18
21-Nov-18	28-Nov-18	30-Nov-18
08-Nov-18	29-Nov-18*	03-Dec-18
08-Nov-18	30-Nov-18*	04-Dec-18
08-Nov-18	03-Dec-18*	05-Dec-18
05-Dec-18	12-Dec-18	14-Dec-18

*Exchange auction

Table 8. Outstanding government bonds

Maturity	Coupon %	Bond no.	SEK Million
12-Mar-19	4.25	1052	98 550
01-Dec-20	5.00	1047	96 054
01-Jun-22	3.50	1054	103 631
13-Nov-23	1.50	1057	84 477
12-May-25	2.50	1058	60 376
12-Nov-26	1.00	1059	61 891
12-May-28	0.75	1060	53 747
12-Nov-29	0.75	1061	5 610
01-Jun-32	2.25	1056	18 000
30-Mar-39	3.50	1053	45 250
Total government bonds			627 586

Table 9. T-bills, auction dates

Announcement	Auction date	Settlement date
27-Jun-18	04-Jul-18	06-Jul-18
22-Aug-18	29-Aug-18	31-Aug-18
19-Sep-18	26-Sep-18	28-Sep-18
17-Oct-18	24-Oct-18	26-Oct-18
14-Nov-18	21-Nov-18	23-Nov-18
12-Dec-18	19-Dec-18	21-Dec-18

Table 10. Outstanding T-bills

Maturity date	Sek million
20-Jun-18	20 000
18-Jul-18	5 000
15-Aug-18	5 000
19-Sep-18	5 000
Total T-bills	35 000

Table 11. Inflation-linked bonds, auction dates

Announcement	Auction date	Settlement date
09-Aug-18	16-Aug-18	20-Aug-18
23-Aug-18	30-Aug-18	03-Sep-18
06-Sep-18	13-Sep-18	17-Sep-18
20-Sep-18	27-Sep-18	01-Oct-18
04-Oct-18	11-Oct-18	15-Oct-18
18-Oct-18	25-Oct-18	29-Oct-18
01-Nov-18	08-Nov-18	12-Nov-18
15-Nov-18	22-Nov-18	26-Nov-18
29-Nov-18	06-Dec-18	10-Dec-18

Table 12. Outstanding inflation-linked bonds

Maturity	Coupon %	Bond no.	SEK Million
01-Jun-19	0.125	3110	15 455
01-Dec-20	4.00	3102	37 791
01-Jun-22	0.25	3108	32 781
01-Jun-25	1.00	3109	24 131
01-Jun-26	0.125	3112	15 432
01-Dec-27	0.125	3113	8 608
01-Dec-28	3.50	3104	28 145
01-Jun-32	0.125	3111	14 936
Total Inflation-linked bonds			177 279

Rating

Rating company	Debt in SEK	Foreign currency debt
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA
Fitch	AAA	AAA

Primary dealers

Primary dealer	Government bonds	Inflation-linked bonds	T-bills	Telephone
Barclays	•			+44 207 773 8379
Danske Markets	•	•	•	+46 8 568 808 44
Handelsbanken Markets	•	•	•	+46 8 463 46 50
NatWest Markets	•			+44 207 805 0363
Nordea Markets	•	•	•	+45 3333 1609
				+46 8 614 91 07
SEB	•	•	•	+46 8 506 231 51
Swedbank	•	•	•	+46 8 700 99 00

Next report

Central government borrowing – forecast and analysis is published three times a year	
Preliminary date for the next report, 2018:3	24 October 2018
For more information: Göran Robertsson, Head of Debt Management Mattias Persson, Chief Economist	 +46 8 613 46 06 +46 8 613 46 99

The Swedish National Debt Office is the central government financial manager and the national resolution and deposit insurance authority. The Debt Office thus plays an important role in the Swedish economy as well as in the financial market.

RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Visit: Olof Palmes gata 17 | Postal: SE-103 74 Stockholm, Sweden | Phone: +46 8 613 45 00
E-mail: riksgalden@riksgalden.se | Web: riksgalden.se