RIKSGÄLDEN

20 February 2019

CENTRAL GOVERNMENT BORROWING

Forecast and analysis 2019:1

Reg. no RG 2019/149

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 calculates 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 for the previous month is published 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 2019:1* the Debt Office presents forecasts for central government finances and borrowing in 2019 up until 2020. 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

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Summary

- The Swedish economy will continue to slow down during the forecast period. Growth prospects have moderated and the Swedish economy is entering a slowdown phase. A sharp fall in housing construction dampens investments, which have been the strongest driver of the economy for a number of years. GDP is expected to grow by 1.6 per cent in both 2019 and 2020. The labour market slows down in line with the economy, leading to a moderate increase in unemployment, which reaches 6.7 per cent in 2020.
- Weaker economic growth means that tax income will be lower than in the Debt Office's previous forecast. Along with a slightly more expansionary budget than estimated, this means the budget balance falls in both 2019 and 2020. The Debt Office expects the budget balance to be SEK 40 billion in 2019 and to be SEK -30 billion for 2020. This is SEK 22 billion and 18 billion lower than in the previous forecast. Capital investments in tax accounts are assumed to be virtually unchanged in 2019, but a withdrawal of SEK 30 billion is assumed for 2020 when market interest rates are expected to rise. Central government net lending is expected to be 0.8 per cent of GDP for 2019 and 0.5 per cent for 2020.
- Planned central government borrowing in Swedish kronor remains at the same level as in the previous forecast despite a smaller surplus than expected in 2018 and poorer budget prospects for this year and next year. The Debt Office is responding to the downward revision of the budget balance by letting its cash surplus decrease instead. At the same time, foreign currency borrowing increases because the Debt Office returns to the plan of using foreign currency bonds to refinance all lending to the Riksbank.

Table 1. Key figures for the economy, government finances and borrowing

Previous forecast in italics	2017	2018		2019		2020	
Swedish economy and government finances							
GDP (%)	2.1	2.3	*2.4*	1.6	*1.9*	1.6	*1.8*
Unemployment (% of labour force)	6.7	6.3	*6.3*	6.5	*6.5*	6.7	*6.6*
Budget balance (SEK billion)	62	80	*96*	40	*62*	-30	*-12*
Central government net lending (% of GDP)	1.7	1.3	*1.5*	0.8	*1.3*	0.5	*1.1*
Central government debt (% of GDP)	29	26	*26*	23	*23*	23	*22*
Central government borrowing, SEK billion							
Government bonds	51	32	*32*	30	*30*	40	*40*
Inflation-linked bonds	12	9	*9*	9	*9*	9	*9*
Money market funding (outstanding stock at year-end)	88	20	*20*	20	*20*	40	*40*
Foreign currency bonds	61	88	*88*	90	*44*	56	*56*
on behalf of the Riksbank	61	88	*88*	90	*44*	56	*56*

Slowdown increasingly apparent

The Swedish economy will continue to slow down during the forecast period. Growth prospects have moderated and the Swedish economy is entering a slowdown phase. A sharp fall in housing construction dampens investments, which have been the strongest driver of the economy for a number of years. GDP is expected to grow by 1.6 per cent in both 2019 and 2020. The labour market slows down in line with the economy, leading to a moderate increase in unemployment, which reaches 6.7 per cent in 2020.[1]

Weaker growth internationally

As a result of poorer economic prospects, the world economy is now expected to grow more slowly in the coming years than in the Debt Office's previous forecast in October.[2] Growth weakens and will be moderate from a historical perspective. GDP growth in the US is assumed to slow down, but the US economy will still continue to develop well for some time to come, partly as a result of an expansionary fiscal policy. In the euro area it has become ever clearer that there has been a weakening of the strength of the economy. Conditions in financial markets are judged to gradually become less expansionary.

Poorer economic prospects spread unrest in financial markets

For several years, financial conditions have been favourable to the real development of the global economy, to a large extent driven by a very expansionary monetary policy. The Debt Office still makes the assessment that financial conditions will continue to be expansionary, but will gradually become less so. Since the previous forecast volatility and risk premia in financial markets have increased on account of concern about the global economic situation. At the same time, policy rates are expected to be lower than previously predicted.

Monetary policy has continued to become gradually less expansionary. But, as a result of the poorer prospects for the global economy, policy rates are now expected to be lower than previously anticipated. On the whole, both central banks and market participants have adjusted their interest rate expectations downwards since October.

The Federal Reserve has raised its policy rate for the ninth time since 2015. The target range for the policy rate is 2.25–2.50 per cent. However, the Federal Reserve has adjusted its view of the future policy rate downwards. In December, the median forecast by FOMC[3] members showed two more increases in 2019 instead of the previous three. In conjunction with its policy meeting in January the Federal Reserve also indicated caution about further increases in the interest rate and that the pace of the reduction of its balance sheet may be altered depending on the development of the economy.

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[1] *Information until and including 23 January has been taken into account in work on the forecast.*

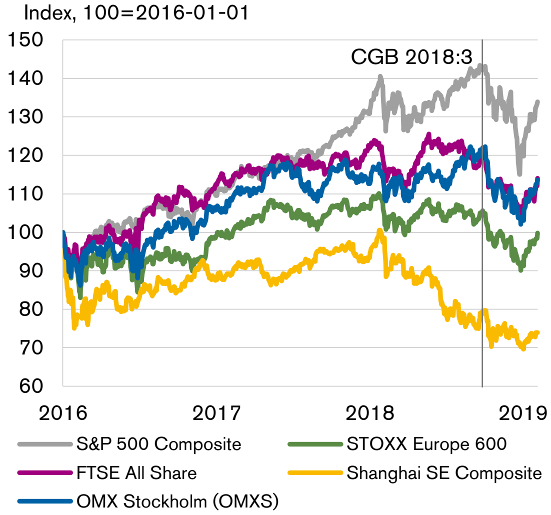
[2] *Central Government Borrowing. Forecast and analysis 2018:3.*

[3] *The Federal Open Market Committee makes the monetary policy decisions.*

The European Central Bank ended its net purchases of securities at the turn of the year and intends, as before, to keep its deposit rate unchanged over the summer at least. For the time being its objective is to maintain the size of its securities portfolio by reinvesting maturities. The development of interest rate expectations indicates that the process of making monetary policy less expansionary will be lengthier than foreseen in the autumn. So, monetary policy globally will continue to stimulate investments and consumption in the coming two years.

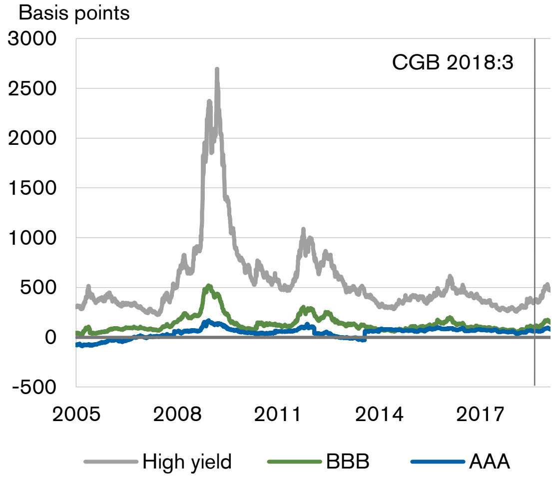
At the end of 2018 financial markets were influenced by concern about poorer cyclical development of the world economy. This has resulted in a general reassessment of the pricing of financial assets. Share prices have fallen and risk premia in the interest rate market have risen, see figures 1 and 2. Alongside the concern about the economic situation, there are still risks to the global economy that include the trade conflict between the US and China, Brexit and economic developments in a number of emerging markets. However, market developments have been more positive at the start of 2019 as the Federal Reserve have been clear that they are going to be cautious about further tightening of monetary policy. But it is still likely that markets will continue to display volatility. An environment with higher volatility and higher risk premia may, for example, make companies more cautious about new investments.

Figure 1. Stock market indices



Note: Vertical line indicates final date for information taken into account in previous forecast; 2018-09-26.
Sources: Thomson Reuters Datastream and the Debt Office.

Figure 2. Credit spreads, differences in yield on corporate and government bonds, euro area



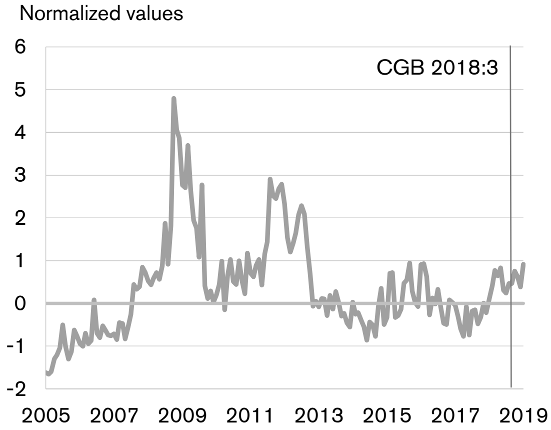
Note: Vertical line indicates final date for information taken into account in previous forecast; 2018-09-26.
Sources: Thomson Reuters Datastream and the Debt Office.

From a historical perspective, however, risk premia in financial markets are still low. The long period of low risk premia means that there is an elevated risk of falling asset prices. Developments at the end of 2018 are an indication of this phenomenon. One result of large falls in prices, rapidly rising risk premia and high volatility can be that banks start having problems with their market financing; this could have a particularly strong impact on certain European banks. This could, in turn, negatively impact lending to households and companies.

Continuation of low interest rates in Sweden

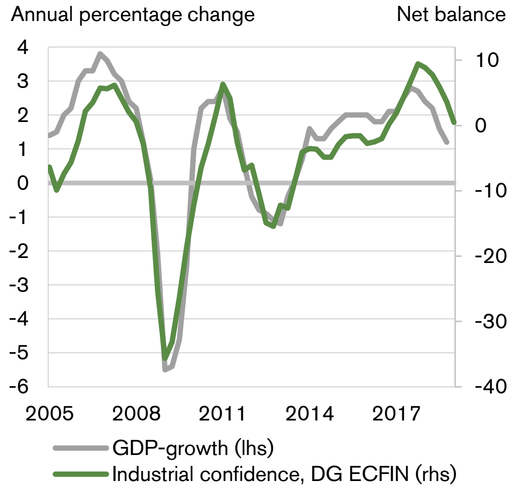
Financial conditions in Sweden largely follow international developments. So, recent months have been very much characterised by falling share prices and downward adjustments of expectations about future policy rates. The aggregate level of stress in financial markets in Sweden is above the historical average, see figure 3. The volatile development of the stock market is the main reason for the higher level of stress. In autumn 2017 falls in house prices in Sweden and the consequences for the construction industry were a source of concern among market participants. House prices seem to have stabilised now, but the construction industry is undergoing a transition as a consequence of a housing market with a large supply of newly produced housing and weaker demand.

Figure 3. Financial stress index, Sweden



Note: The stress index includes stock market- and exchange rate volatility as well as risk premias in interbank- and mortgage bond markets. Values are interpreted in terms of standard deviations. Vertical line indicates final date for information taken into account in previous forecast; 2018-05-30.
Sources: Thomson Reuters Datastream and the Debt Office.

Figure 4. GDP and industrial confidence, euro area



Note: Values for industrial confidence are quarterly averages, except for the first quarter 2019 which is based on data for January only.
Sources: Eurostat, The Directorate-General for Economic and Financial Affairs, European Commission (DG ECFIN) and the Debt Office.

The repo rate has been -0.50 per cent since the start of 2016. In December the Riksbank raised the repo rate to -0,25 per cent, but took the opportunity to adjust its interest rate path downwards at the same time. Market participants have also reduced their expectations of the policy rate and their assessment is that the interest rate will not reach zero per cent for around a year.[4] This means that the lending rates met by Swedish households and businesses can also be assumed to remain very low during the forecast period. Financial conditions in Sweden are therefore expected to continue to favour the real economy, but gradually less so.

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

Bleaker international prospects

The situation in the world economy continues to be relatively good, but both new outcomes and leading indicators point to poorer prospects and weaker growth in the future. Following a strong performance in 2017, growth slowed down in 2018. On an annual basis, trade-weighted international growth fell from 2.4 per cent in the third quarter of 2017 to 1.7 per cent in the third quarter of 2018.[5] This slowdown is partly a result of the global economy being in a late phase of the economic cycle in which resource utilisation begins to be more strained.

The distribution of growth has also become more uneven. The US is continuing to perform strongly while the euro area seems to have passed its peak growth. As financial conditions gradually become less expansionary, this is expected to dampen future growth. The import tariffs that the US and China have introduced so far are judged to also have some negative effects on international growth.

In an overall assessment, the growth of the world economy is expected to be weaker than in the previous forecast. But, despite this, the economic situation remains fairly good during the forecast period. The aggregate figures conceal a large spread in growth. For instance, the economic slowdown will be clearer in advanced economies.

Fiscal policy continues to favour US growth for some time to come

Growth in the US continues to be strong, but confidence in the future among companies has become less assured. In the third quarter, growth was three per cent compared with the same quarter in the preceding year. Unemployment is also at a historically low level. This strong growth is partly a result of the large expansionary fiscal policy measures implemented in 2017/2018. But confidence among companies has deteriorated markedly in recent months and investment growth has been weaker than before, which is probably partly a result of the trade conflict between the US and China. However, American households remain optimistic on account of the strong performance of the labour market. Household consumption accounts for about two-thirds of GDP in the US and is therefore of great importance for the US economy.

It is assumed that household consumption will now take over the role as the engine of the US economy from investments. Companies are expected to be more restrictive in their investment decisions. The effects of a less expansionary monetary and fiscal policy also contribute to the decline in growth during the forecast period. A clear deceleration of growth is expected next year as resource utilisation is put under increasing strain. Despite this, production is expected to exceed its potential level during the forecast period.[6] The Debt Office's assessment is that GDP growth in the US will be 2.9 per cent in 2018, 2.3 per cent in 2019 and 1.8 per cent in 2020. Compared with the previous forecast, growth in both 2019 and 2020 has been revised downwards by 0.2 percentage points.

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

[6] *Based on the IMF's assessment of potential production.*

Peak growth passed in the euro area

Growth in the euro area continues to surprise negatively and peak growth now seems to have been passed. GDP growth in the second half of 2018 was weak, and part of this can be explained by temporary factors. For instance, car production in Germany was weak on account of adjustment problems in connection with the changeover to new measurement methods for fuel consumption and exhaust emissions[7].

There are several signs of weakness in the euro area. The French economy is being adversely affected by the extensive protests. Domestic demand in Italy is being restrained by high interest rates on Italy's government debt that both increase the government's interest expenditure and reduce the value of Italian banks' large holdings of government securities, restraining lending to households and companies. Italian banks are also still having problems related to a high share of non-performing loans. Both companies and households in the euro area have also become less optimistic about economic developments, but, in an overall assessment, leading indicators continue to be slightly above normal levels, see figure 4.

Investments are assumed to continue to contribute to growth. There is still a pent-up need for investments in the euro area after several years of low investments in the wake of the financial crisis in 2008. But growth will be weakened since resource utilisation is close to normal. A strong labour market results in a gradual rise in core inflation, but from low levels. Economic growth is supported by the continuation of a very expansionary monetary policy. GDP growth in the euro area is expected to be 1.5 per cent in 2019 and 1.6 per cent 2020. This is a downward revision by 0.4 percentage points for 2019 and 0.1 percentage point for 2020.

Unchanged economic prospects for China

The Debt Office's view of the Chinese economy is largely unchanged from the previous forecast. The Chinese economy continues to grow by 6–7 per cent on an annual basis; in the fourth quarter of 2018 the economy grew by 6.4 per cent compared with the same quarter in the previous year. There are signs of weaker domestic demand since new regulations have moderated credit growth, for example. But economic policy has become slightly more expansionary at the same time in response to this and the negative effects of the American import tariffs. Measures taken by the Chinese regime include infrastructure investments and lower reserve requirements for banks. Negative effects of higher US import tariffs have also been moderated by a weaker exchange rate. But the risks linked to the financial sector in China continue to be elevated.

It is assumed that the rebalancing towards a more consumer-driven economy with gradually more moderate growth rates will continue. Trade barriers and tighter financial regulatory frameworks are also assumed to contribute to lower growth in China in the future. China's GDP growth is expected to be 6.2 per cent in both 2019 and 2020. These forecasts are unchanged from the autumn.

[7] *The Worldwide harmonised Light vehicle Test Procedure (WLTP) has been developed to better capture present day driving patterns.*

The Swedish economy slows down in line with the international trend

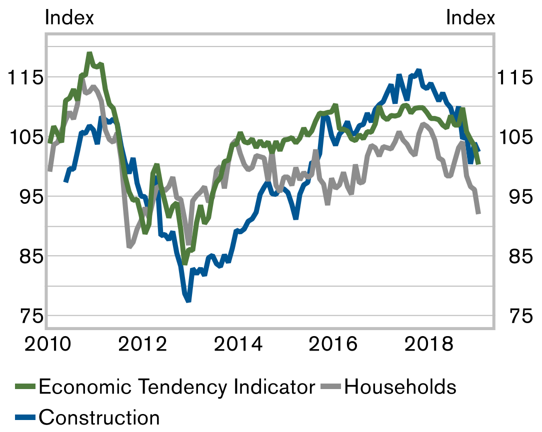
Growth prospects have darkened and the Swedish economy is entering a slowdown phase. Housing construction is falling sharply. This dampens investments, which have been the strongest driver of the economy for a number of years. At the same time, developments in recent months with falls in asset prices and declining forward indicators raise questions about the resilience of the economy. Sweden's GDP fell in the third quarter of last year, and this was largely a temporary effect of amended regulations for vehicle taxation. The fall in GDP is therefore not expected to be the beginning of a deeper economic slowdown. However, GDP growth was lower than its trend according to the Debt Office's forecast.

Various measures of capacity utilisation are currently at high levels, especially in the labour market, where labour is in great demand and shortage figures are high. Internationally, there are signs of slightly faster wage growth. Despite this, wage growth is still weak in Sweden and price and wage rises will also remain relatively low in the future according to the Debt Office's forecast.

Temporary negative Swedish GDP growth

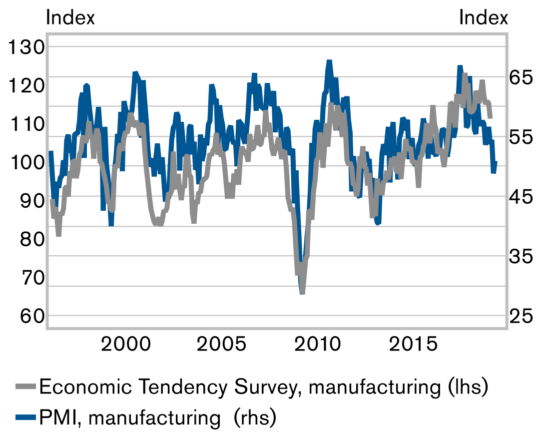
In the third quarter Sweden's GDP fell by 0.2 percentage points compared with the preceding quarter. This was the first time GDP had shrunk since the second quarter of 2013, and the fall was driven by household consumption and stock investments. At the same time, growth slackened in both the euro countries and EU countries. In Germany, which is Sweden's largest single market for goods exports, GDP was unchanged. The introduction of new rules for the measurement of fuel consumption and exhaust emissions has created major problems for the car industry in the EU and not least for German carmakers.

Figure 5. Confidence indicators for households, construction and Economic Tendency Indicator



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

Figure 6. Confidence indicators for the manufacturing industry



Note: The confidence indicators have been standardized to mean 100 and standard deviation 10.
Sources: National Institute of Economic Research and Swedbank.

The new EU rules in the car industry may also have affected the Swedish economy. But the most important explanation of the fall in GDP is bound up with the 'bonus-malus' system in vehicle taxation that entered into force on 1 July last year. It has had a great impact on purchases of new passenger cars and light trucks by both households and companies. Even apart from temporary factors, households' consumption growth has slackened and retailing has shown a weak development. Moreover, the decline in housing investments gathered pace in the third quarter, and they are now lower than a year ago. Weaker domestic demand was countered by foreign trade, where imports decreased while exports rose weakly, resulting in a positive contribution to growth. Overall, the outcome for GDP was weaker than the Debt Office's October forecast.

Contradictory signals from industry with a negative tendency

Metrics of the temperature in the Swedish economy have fallen back on a broad front since the autumn. However, the Economic Tendency Indicator of the NIER (National Institute of Economic Research), which has fallen for four straight months, is still at level that signals growth roughly in line with historical averages. As regards the various components of the Indicator, the trend is consistently downward.

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

Percentage change[1]	2018	2019	2020
GDP	2.3	1.6	1.6
Household consumption	1.4	1.5	2.1
General gov't consumption	0.6	0.5	1.0
Gross fixed cap. formation	4.6	0.9	1.2
Change in inventories[2]	0.2	0.0	0.0
Exports	2.6	3.8	3.6
Imports	2.5	2.8	3.6
Net exports[2]	0.1	0.5	0.2
GDP (calendar adjusted.)	2.4	1.6	1.4

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

Table 3. GDP and its components, revisions compared to previous forecast

Percentage points	2018	2019	2020
GDP	-0.1	-0.3	-0.1
Household consumption	-0.9	-0.7	-0.1
General gov't consumption	-0.3	-0.6	-0.1
Gross fixed cap. formation	1.0	-0.5	-0.2
Change in inventories[2]	-0.1	0.0	0.0
Exports	-0.8	-0.5	-0.5
Imports	-1.5	-1.2	-0.4
Net exports[2]	-0.3	0.3	0.0
GDP (calendar adjusted.)	-0.1	-0.3	-0.1

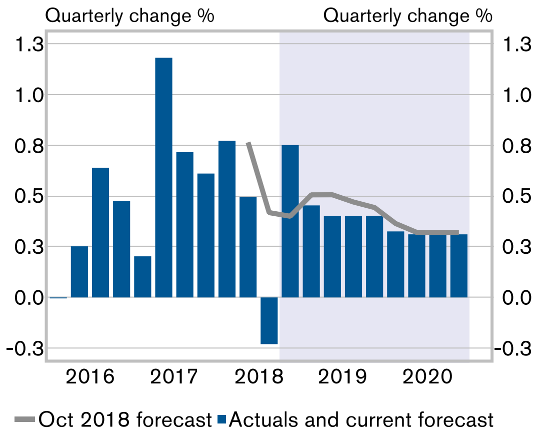
The mood is still best in manufacturing. For the construction industry confidence has shown a falling tend since autumn 2017, but present levels still exceed a historical average. This is explained by the prospects being much brighter for civil engineering than in house-building. The confidence indicator for households has fallen sharply since the autumn, mainly driven by a more pessimistic view of the Swedish economy. Several factors may have contributed: falling stock exchange prices, political uncertainty, the housing market and general worry about the economic situation are all likely explanations.

Alternative measures, such as the purchasing managers index, show that the mood has deteriorated in both manufacturing and the services sector since the autumn and that the deterioration is greatest in manufacturing. The contrast here is great compared with what is signalled by the Economic Tendency Indicator. In terms of historical trends, the purchasing managers index for manufacturing seems to lead the Economic Tendency Indicator by roughly a quarter. Since the decline in the purchasing managers index has coincided with the decline in corresponding indexes for Germany and the US, this may reflect the approach of an international slowdown in manufacturing.

Maturing cycle and slowing growth

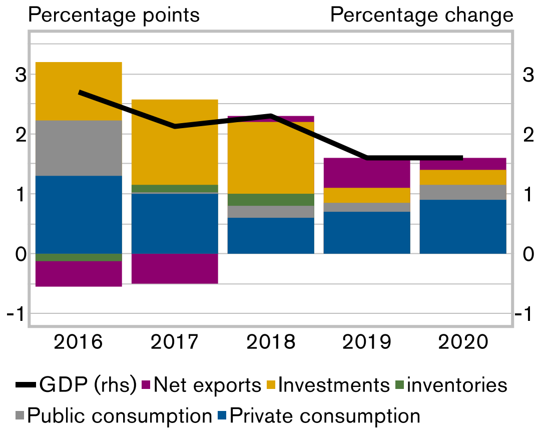
GDP growth recoils in the fourth quarter according to the Debt Office's forecast. This means that parts of the fall in the third quarter are reversed. These fluctuations conceal the fact that, after several years of high growth, the Swedish economy is on its way into a more mature phase of the economic cycle with slacker growth. This slowdown is due to both international and domestic factors. Low growth internationally dampens both business investments and exports, at the same time as there is a pronounced fall in housing construction in 2019 especially. As a result, investments shift from having been one of the most important engines in the economy to making modest contributions to growth. GDP growth slows from 2.3 per cent in 2018 to 1.6 per cent in both 2019 and 2020.

Figure 7. GDP growth and recent forecasts



Sources: Statistics Sweden and the Debt Office.

Figure 8. Contribution to GDP



Sources: Statistics Sweden and the Debt Office.

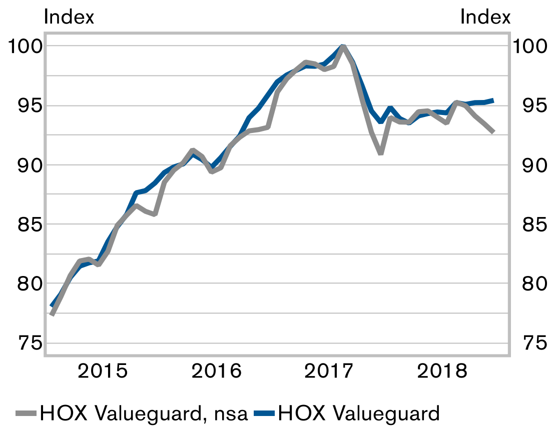
Housing market slows investments

Investments are on the way to slowing down markedly. When international demand for Swedish goods and services is dampened, the business sector's need for investments decreases. In addition, Statistics Sweden's investment survey indicates considerable doubt in many sectors and weaker industrial investments in 2019. This, in turn, probably reflects greater uncertainty about the direction of the global economy. At the same time, capacity utilisation is high in manufacturing, order books are well-filled, the krona is weak and profitability is good. This suggests that industry needs to invest for some time to come.

It is the cooler housing market that has most impact on investments. Housing investments, which grew at two-figure rates on average in 2013 to 2017, have started to fall rapidly. During their period of strong growth, housing investments as a share of GDP were pushed up from about 3.5 per cent to 6 per cent. The increase in the supply of housing eventually saturated the demand for newly produced housing, especially in dearer price segments. In combination with the amortisation requirements introduced in 2016 and tightened in 2018, this contributed to house prices in December last year being around 4 per cent below their peak levels in 2017. Lower house prices in combination with great uncertainty about the future development of prices can be expected to lead to large falls in housing construction, especially in 2019. This picture is supported by the decrease in building permit applications and housing starts. At most, the negative contribution of housing investments to GDP growth is expected to be 0.4 percentage points this year. Compared with their peak level in 2017, housing investments decrease by 15 per cent up until the end of 2020 according to the Debt Office's assessment.

Public investments are expected to continue to grow. In recent years rapid population growth has increased demand for public services, and this is reflected in rapid growth of public investments, especially in the local government sector. This trend is expected to continue in the coming years. Despite this, the aggregate growth of investments decreases from just under 5 per cent in 2018 to just over 1 per cent on average in 2019/2020. This means that investments make low contributions to growth in the future.

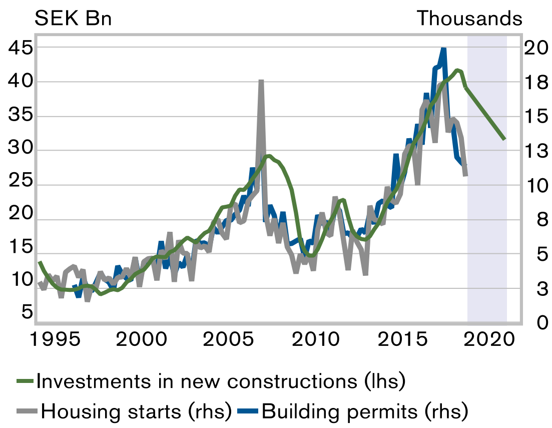
Figure 9. Swedish home prices



Note: Own seasonal adjustment. Aug 2017 peak in home prices are set to 100.

Sources: Valueguard and the Debt Office.

Figure 10. Building permits, housing starts and investments in new constructions



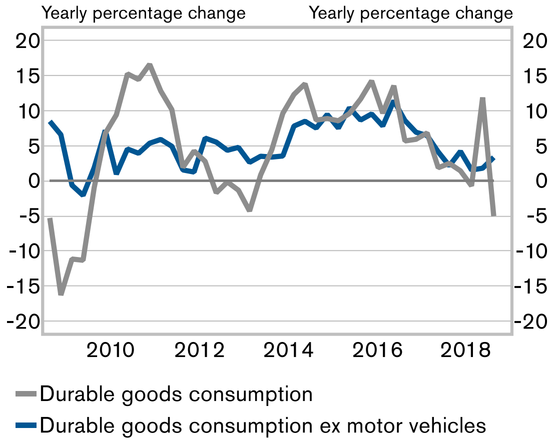
Note: Own seasonal adjustment. Shaded area refers to Debt Office forecast.
Sources: Statistics Sweden and the Debt Office.

Cautious households make moderate increase in consumption

Household consumption has fluctuated strongly in recent quarters. In particular, household consumption of passenger cars and light trucks has been affected by the increase in vehicle tax on petrol and diesel vehicles as of 1 July 2018. The housing market also seems to have made an impact on confidence indicators and consumption behaviour. Household consumption of consumer durables, even exclusive cars, has weakened gradually. Historically household consumption of consumer durables follows the housing market well. When the housing market is strong, household consumption of consumer durables usually also increases rapidly. There is also a correlation, at the level of aggregated consumption, between house prices and household consumption, as is shown in figure 12. Moreover, viewed over the past year, retailing has moved sideways and indicators of household confidence have fallen to levels that argue against a clear rebound of consumption.

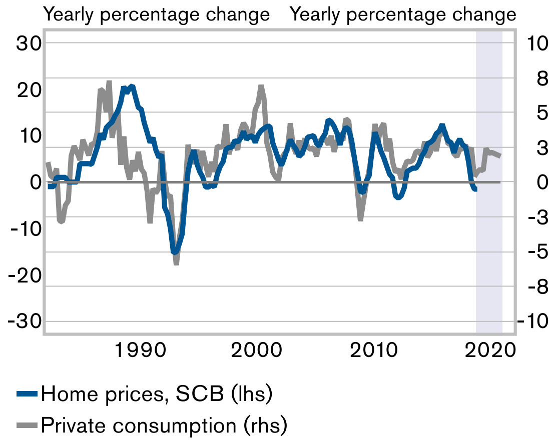
However, several factors also argue for decent growth of consumption in the future. The labour market is strong and incomes are growing. Economic policy is expansionary, as regards both monetary and fiscal policy. Interest rates are still low, housing prices have stabilised and at the start of 2019 the tax on work and pensions was reduced. The tax reductions targeted at households contribute to a good pace of income growth this year and purchasing power is also being reinforced by the fall in oil prices. In 2020 employment and income growth weaken, but household consumption will still be robust; households reduce their savings in order to maintain relatively even consumption growth. In all, household consumption grows by 1.4 per cent in 2018, 1.5 per cent in 2019 and 2.1 per cent in 2020.

Figure 11. Durable goods consumption



Sources: Statistics Sweden and the Debt Office.

Figure 12. House prices and private consumption



Sources: Statistics Sweden and the Debt Office.

Demography drives public consumption

Migration has been an important driver of public consumption since the refugee crisis in 2015. The costs of migration have decreased gradually and are expected to continue doing so in both 2019 and 2020. In addition, there has been a shift in public consumption in recent years from central government to the municipalities. Public consumption in central government has fallen relatively sharply at the same time as local authorities have shown consumption growth roughly in line with the historical average. However, in the third quarter municipalities and county councils reduced their consumption at the same time as central government, after eight quarters of falling or unchanged quarterly growth, increased its consumption expenditure. This meant that public consumption, in aggregate, was unchanged in the third quarter of 2018 compared with previous quarters.

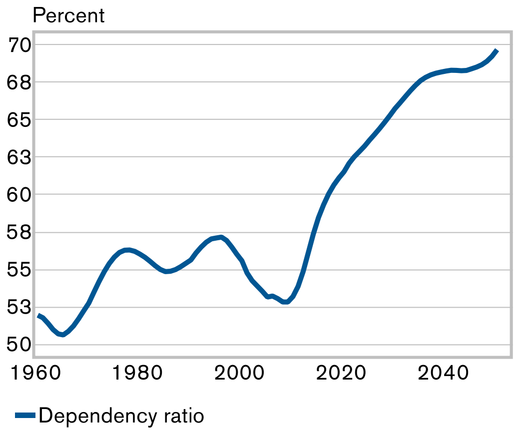
Looking to the future, demographic trends, with more young and older people in the economy, mean increasing demand for welfare services. According to the new central government budget for 2019, there will be spending on areas including the police and defence and targeted government grants for health care. The budget also contains savings in labour market policy and other areas. For 2018 and 2019 public consumption is assessed as being slightly above its historical average.

Exports slow in line with the international trend

Foreign trade increases GDP during the period. The indicators of export orders received vary somewhat, but, taken together, they show a fairly good order situation. Business Sweden's export managers index has fallen a bit, but is still at historically high levels. Statistics Sweden's indicator has been strengthened at the same time as orders received have fallen according to the purchasing managers index. The monthly statistics at the end of last year suggest that goods exports will continue to grow in the short term. Looking ahead, however, the export forecast has been revised downwards on account of weaker demand in important export markets. The weak krona and well-filled order stocks counter a clearer slowdown. Exports are expected to grow by 2.6 per cent in 2018, 3.8 per cent in 2019 and 3.6 per cent in 2020.

After a long period of stable growth, imports fell in the third quarter of last year. Imports grow in the forecast period, but at a lower rate than in the Debt Office's previous forecast. This assessment reflects the fact that both business sector investments and Swedish export goods have a relatively high import content – and investments and exports have been revised downwards since the previous forecast.

Figure 13. Young and old as a percentage of working-age population



Source: World Bank.

Figure 14. World export growth and Swedish exports

Sources: Netherlands Bureau for Economic Policy Analysis, Statistics Sweden and the Debt Office.

Employment rises more slowly

For a couple of years, developments in the labour market have been characterised by both the labour force and employment often rising more than forecasters in general have expected. But more and more indicators are now pointing to a slowdown, regarding both the demand for and supply of labour.

The growth of the labour force slows gradually.

The labour force ended last year by growing rapidly, even though the growth rate was lower than in 2017. The increase has taken place among both people born in Sweden and people born abroad, with the latter group accounting for the clearly largest contribution to this growth. In the coming two years, developments are expected to continue to be driven by the group of people born abroad and, in all essential respects, by more and more people being given residence permits in Sweden. If the level of the number of residence permits in the second half of 2018 is also maintained during the forecast period, this is likely to mean that the labour force will grow roughly in line with its historical average, i.e. by just under 1 per cent per year.

For some years the contribution from people born in Sweden has been greater than expected, partly because labour force participation among older people (aged 55 to 64 years) has continued to rise.

But this effect is expected to taper off in the future as the economy weakens. In an overall assessment, this means that the Debt Office's forecast for labour force growth is 1.3 per cent in 2019 and 0.7 per cent in 2020. This is an upward revision of 0.4 percentage points for 2019, see table 4 and table 5.

Table 4. Key numbers: labour market, prices and wages

Percentage change	2017	2018	2019	2020
Labour force	2.0	1.4	1.3	0.7
Employment	2.3	1.8	1.0	0.5
Unemployment [1]	6.7	6.3	6.5	6.7
CPIF	2.0	2.1	1.9	1.7
Hourly wage (NA)	2.7	3.0	3.2	3.3
Wage sum	4.7	4.9	4.0	3.7

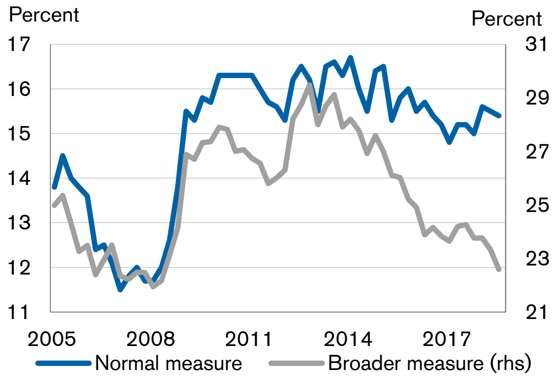
[1] Per cent of the labour force
Sources: Statistics Sweden and The Debt Office..

Table 5. Key numbers: labour market, prices and wages; revisions compared to previous forecast

Percentage points	2017	2018	2019	2020
Labour force	0.0	0.2	0.4	0.0
Employment	0.0	0.2	0.4	-0.1
Unemployment [1]	0.0	0.0	0.0	0.1
CPIF	0.0	-0.1	-0.3	0.0
Hourly wage (NA)	0.0	-0.2	-0.1	-0.1
Wage sum	0.0	-0.3	-0.2	-0.2

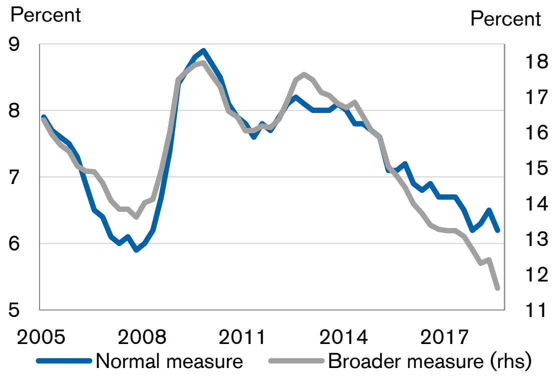
Indicators point to a clear slowing of employment growth.
Employment increased rapidly in the final quarter of last year, and for 2018 as a whole employment increased by 1.8 per cent. The annual growth rate has shown a falling trend for about the past year. This trend will probably continue, as is clearly indicated by forward indicators such as GDP growth and companies' hiring plans. Almost all sectors also state they are having historical difficulties in finding the right personnel according to the NIER's business survey, which would thus also point to a slower rate of increase in the future. In addition, the Labour Force Survey indicates that resource utilisation also continues to rise among people born abroad. If the usual unemployment measure is broadened to also include underemployed and latent unemployed people, a strikingly different picture emerges of how unemployment has developed, and therefore of resource utilisation, see figure 15 and figure 16.

Figure 15. Unemployment, foreign born



Note: Normal measure is unemployed as percentage of the labour force. Broader measure is unemployed, underemployed and latent unemployed as a percentage of the labour force and latent unemployed.
Sources: Statistics Sweden and own calculations.

Figure 16. Unemployment, total population



Note: Normal measure is unemployed as percentage of the labour force. Broader measure is unemployed, underemployed and latent unemployed as a percentage of the labour force and latent unemployed.
Sources: Statistics Sweden and own calculations.

The rapid decrease in the group of underemployed and latent unemployed people thus means that resource utilisation, measured in this way, has increased relatively quickly compared with the usual, and narrower, definition of unemployment. If a comparison is made with the lowest level of unemployment before the financial crisis, it is seen that resource utilisation measured using the usual measure is slightly lower (higher unemployment now), while, when measured using the broader measure, it is substantially higher (lower unemployment now). The conclusion is that the supply of readily available labour has decreased rapidly in recent years. This usually leads to both rising wage pressure and lower employment growth. As regards wages, however, a moderate rate of growth is also expected to continue during the forecast period (see the section on wages below), while the dampening effect on employment is expected to be more pronounced.

The Debt Office's forecast is that employment will increase more and more slowly, as GDP growth slows and the demand for labour decreases. The increase is expected to be 1.0 per cent in 2019 and 0.5 per cent in 2020 which is a revision of 0.4 percentage points for 2019 and -0.1 percentage point for 2020, see table 4 and table 5.

Unemployment turns upwards when the economy turns downwards

Unemployment appears to have levelled out in 2018 and the level in the fourth quarter is close to the level for the year as a whole, 6.3 per cent, which is in line with the forecast in the previous report. This development is also in line with historical correlations since the labour market usually follows cyclical fluctuations with a certain lag. When the economy slows down more clearly during the forecast period, unemployment should consequently be expected to rise.

In addition to these normal correlations, the large number of asylum-seekers with residence permits in previous years also affects developments, and this has also been addressed in earlier reports. The reason is that asylum immigration leads to temporary measurement errors because the persons concerned are registered first – and almost immediately – in the register of the total population while they only gradually come into the survey panels that form the basis for Statistics Sweden's labour force survey, over a period of several years. This leads initially to an overestimate of employment, which then gradually tapers off.[8] This tapering effect will be largest in 2019, assuming that asylum immigration will not increase in the future. This means, all else equal, that unemployment during the forecast period will be one or possibly two tenths higher than it would otherwise have been. The Debt Office's forecast is that unemployment will be 6.5 per cent in 2019 and 6.7 per cent in 2020, which is a revision of 0.1 per cent for 2020, see table 4 and table 5.

Wages and prices increase at a gentle pace

Wage sum grows more slowly when the economy slows down.

The outcomes for recent months from short-term wage statistics follow the trend for several years of virtually unchanged annual rates of increase around 2.5 per cent. The picture given of wage drift, i.e. wage rises over and above what is given by central collective agreements, is largely the same with only a weakly rising trend in recent years. As pointed out in previous reports, several factors contribute to the moderate wage increases; especially low central agreements, low expectations of

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[8] *See Central Government Borrowing – Forecast and analysis 2017:2, including a more detailed explanation of the measurement error.*

future wage increases and low productivity. The general cost pressure internationally has, in fact, been relatively low; but for about a year the world's large economies have seen ever faster wage increases, with a clear acceleration in the past year. In an overall assessment, wages are expected to rise by 3 per cent in 2019 and 2020.

Last year ended with a marked slowdown in the rate of wage sum growth. However, this slowdown is judged to be larger than implied by the dampening of the economy and neither the rate of wage growth nor the increase in the number of hours worked indicates that it is a more pronounced and lasting weakening. But the payroll will grow more slowly in the forecast period. While there is a marginal increase in the rate of wage growth, this is countered by a more distinct slowdown in the number of hours worked, a slowdown that is taking place because of slower employment growth in the future at the same time as average working hours decrease. The Debt Office's forecast is that the payroll will increase by 4.0 per cent in 2019 and 3.7 per cent in 2020, which is a revision of -0.2 percentage points for both years, see table 4 and table 5.

Moderate price rises in coming years

Higher resource utilization, a weaker krona and rapidly rising energy prices have contributed to rising CPIF inflation[9] in recent years. While CPIF inflation has continued to exceed two per cent since the previous forecast, it has, however, been lower than expected. In December inflation was 2.2 per cent. The weaker than expected price increases are partly due to falls in fuel prices as a result of falling oil prices, but price increases have also been weak generally. UND24, which is a measure of underlying inflation, indicates that the long-term inflationary pressure is moderate, see figure 17.[10]

Two main factors are judged to contribute to CPIF inflation being lower in the future. First, energy prices are assumed to rise much more slowly than before. The oil price has fallen sharply since October, partly because of poorer global economic prospects and the trade conflict between the US and China, see figure 18. Oil futures suggest a largely unchanged oil price for the coming two years.[11] Electricity futures also suggest weaker price growth ahead.[12] A reduction of electricity grid charges is also likely in 2020.

Second, the Swedish krona is expected to strengthen slightly during the forecast period. The Riksbank's assessment is that the krona's long-term equilibrium level is 5–15 per cent stronger than its present level.[13] This appreciation will be slow since Swedish GDP and monetary policy are both expected to develop roughly in line with the international level. For instance, market expectations suggest that the Riksbank's next rate increase will not be made until the European Central Bank is expected to increase its deposit rate.

The dampening effects of energy prices and the exchange rate will be countered to some extent by lagging effects of higher than normal resource utilisation. There are now signs that wage growth will

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[9] *Consumer price index with a fixed interest rate (CPIF).*

[10] *UND24 is calculated by the Riksbank and has been designed so that goods and services that vary a great deal in price are given a lower weight in the index.*

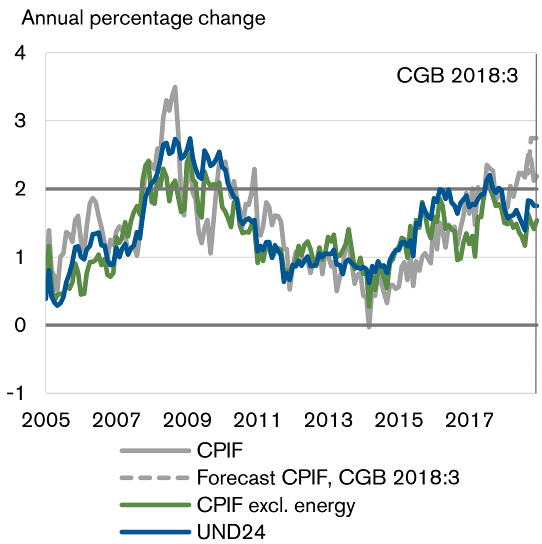
[11] *Brent oil futures, CME Group.*

[12] *Nordic electricity futures, Nasdaq OMX.*

[13] *For more information, see Monetary policy report, October 2018, Riksbank.*

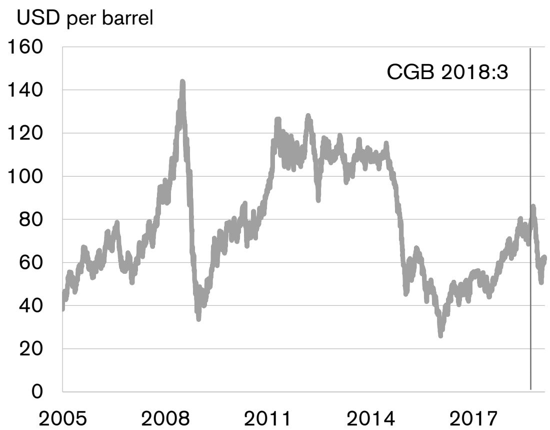
increase slightly in coming years. A gradual rise in international inflation on account of more strained resource utilisation is also expected to have a positive impact on Swedish import prices.

Figure 17. Different measures of inflation



Note: UND24 is calculated by the Riksbank and is contructed such that goods and services which vary a lot in price recieve a lower weight in the index. Vertical line indicates final date for information taken into account in previous forecast; 2018-09-26.
Sources: Statistics Sweden, the Riksbank and the Debt Office.

Figure 18. Brent oil, price



Note: Vertical line indicates final date for information taken into account in previous forecast; 2018-09-26.
Source: Thomson Reuters Datastream.

In an overall assessment, CPIF inflation is expected to fall in the first half of the year and to then be around its historical average[14] for the rest of the forecast period. Model estimates also indicate a moderate trend in inflation. The Debt Office's forecast is that CPIF inflation will average 1.9 per cent in 2019 and 1.7 per cent in 2020.

Downside risks dominate

Two general, related observations show why downside risks dominate. First, since the previous report a large part of the statistical outcomes regarding the development of the economy have been weaker than expected, both in Sweden and internationally. In several cases these surprises have been explained – on good grounds – as being due to various temporary effects, for instance the temporary effect on Swedish private consumption of the bonus/malus-system for new cars. One troublesome fact is that a sufficiently large number of chance occurrences are, first, no longer a matter of chance, and, second, risk reinforcing one another and thereby leading to an economic downturn of greater force than we currently perceive.

A second observation is that a number of indicators have fallen substantially in recent months, both in Sweden and internationally; one example being purchasing managers' indexes. In several cases,

[14] *Since 1995 CPIF inflation has averaged around 1.6 per cent.*

however, these indicators have previously been at relatively high levels and have then been analysed against the background that the previous levels did not match the actual, lower activity in the economy. One example is Swedish GDP growth that has, for some time, been below the level signalled by the NIER's Economic Tendency Indicator. The question is now: is the fall in these indicators a correction regarding the gap down to the actual development or is it a distinct, actual deterioration in various actors' assessment of the situation?

These two observations, the temporary factors and indicators that are falling, can be viewed in the light of the fact that cyclical turnarounds – both in Sweden and internationally – are often quick and severe and are also hard to place precisely in time, as discussed in previous reports.[15] One clear risk in the present situation is that the correct interpretation of the two observations made above is more negative than in the forecast's main scenario and that sufficient weight is not being given to the negative signals that have come.

The above situation is also a good description of the international macroeconomic situation, which is still marked by the uncertainty around, for example, the trade conflict between the US and China and the process around the exit of the UK from the EU. In addition, developments in financial markets also point to worse times ahead. The American yield curve has clearly changed character and is well on the way to inverting, i.e. interest rates are higher for short maturities than for long maturities. Moreover, different types of risk measure are rising at the same time as stock exchange indexes are currently at lower levels than six months ago.

At the same time, there are positive signs, not least the performance of the labour market where employment continues to increase more than expected at the same time as the labour force is also increasing at a good pace. Even though the labour market is not a leading indicator, but more like the opposite, it does at least provide support for income growth. In addition, households have been relatively cautious and have been increasing their savings for a couple of years while the economic situation has strengthened. It should be noted that this development has gone against previous historical correlations since household savings have been countercyclical over time, i.e. savings have normally decreased when the economy has got stronger. So, from this perspective, households now have some scope to increase their consumption even if their incomes do not increase.

[15] *See, for example, Central government borrowing – Forecast and analysis 2017:2.*

Surplus in 2019, but deficit in 2020

Weaker economic growth means that tax income will be lower than in the Debt Office's previous forecast. Along with a slightly more expansionary budget than estimated, this means the budget balance falls in both 2019 and 2020. The Debt Office expects the budget balance to be SEK 40 billion in 2019 and to be SEK -30 billion for 2020. This is SEK 22 billion and 18 billion lower than in the previous forecast. Capital investments in tax accounts are assumed to be virtually unchanged in 2019, but a withdrawal of SEK 30 billion is assumed for 2020 when market interest rates are expected to rise. Central government net lending is expected to be 0.8 per cent of GDP for 2019 and 0.5 per cent for 2020.

Lower budget balances in 2019 and 2020

Since the previous forecast the Debt Office has revised its forecast of macroeconomic developments downwards. This means that tax income is estimated to increase more slowly than previously forecasted. The effect on the budget balance is estimated at around SEK 12 billion for 2019, mainly because taxes based on wages and consumption decrease. The budget and the budget reservation adopted by the Riksdag (Swedish Parliament) mean that the balance is weakened by just under SEK 5 billion more for 2019 than expected by the Debt Office in October.

Table 6. Budget balance forecast 2019-2020, outcome 2018

	2018	2019		2020	
SEK billion	**Outcome**	**Feb**	**(Oct)**	**Feb**	**(Oct)**
Primary balance[1]	98	70	(90)	14	(29)
SNDO net lending[2]	-4	-10	(-8)	-16	(-14)
Of which on-lending	-11	-4	(-3)	-4	(-3)
Interest payments	-13	-20	(-20)	-28	(-27)
Budget balance[3]	**80**	**40**	**(62)**	**-30**	**(-12)**
Budget balance excl. capital investments in tax accounts	65	37	(56)	0	(39)

[1]The primary balance is the net of the central governments income and expenditure excluding interest payments and the SNDO net lending.
[2]The SNDO net lending entails the net of government agencies and others loans and deposits in the Debt office. The net lending includes both current central government operations and temporary occurrences which can be decided on short notice.
[3]The budget balance corresponds to the net borrowing requirement with the opposite sign. Information until and including the 7th of February 2019 have been taken into account in the forecast.

The Debt Office has based its forecast on the decisions made by the Riksdag in the Budget Bill (transitional budget) for 2019 plus the budget reservation from the Moderate Party and the Swedish Christian Democrats. In its previous forecast the Debt Office assumed that fiscal policy reforms would have a negative impact on the budget balance of SEK 10 billion in 2019 and a further SEK 15 billion in 2020. In addition, the Debt Office had assumed that a tax reduction for pensioners would be implemented in 2019. The decisions now made means that taxes are primarily being reduced on work at the same time as expenditure will be slightly higher. In monetary terms, this means a weakening of the budget by just under SEK 5 billion more than assumed by the Debt Office in October.

The Debt Office has chosen to take account of the agreement reached between the Swedish Social Democratic Party, the Green Party, the Centre Party and the Liberal Party by assuming SEK 5 billion in new unfinanced fiscal policy reforms over and above those already decided for 2019 and by having an unchanged assumption of SEK 15 billion for 2020. As usual, the Debt Office does not make any assumption about how these reforms will be split between expenditure and income.

The weakening of the budget balance estimated for 2020 compared with 2019 is largely due to the Debt Office assuming that the capital investments placed in tax accounts will decrease when market interest rates rise. Since the previous forecast the Riksbank has increased the repo rate by 0.25 percentage points, but the market is, however, pricing future increases at a slower pace. The foremost reason for this is that the economy has slowed down. In its previous forecast the Debt Office assumed withdrawals totalling SEK 50 billion from tax accounts for 2020, and this has been revised to SEK 30 billion. The new assessment is based on present expectations of the development of interest rates and how the flows in tax accounts have developed. Even though the interest rate is crucial to a great extent, many may see tax accounts as favourable for other reasons – for instance the low credit risk and good accessibility. There is very great uncertainty in the assessment of future capital investments in tax accounts, see page 26 for further information.

Central government net lending, which is not affected by capital investments in tax accounts, shows a more even development than the budget balance and is estimated at 0.8 per cent as a percentage of GDP in 2019 and 0.5 per cent for 2020. The decline in savings reflects the economic slowdown that the Debt Office sees ahead.

Figure 19. Deviations monthly forecast, October 2018 – January 2019

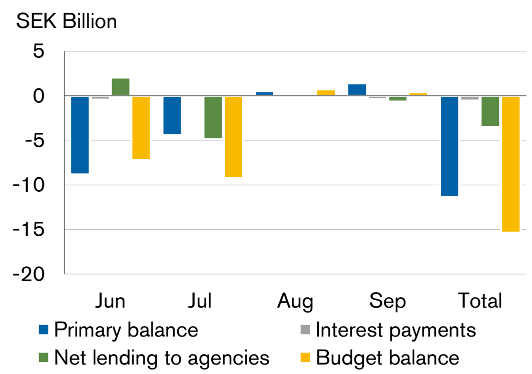
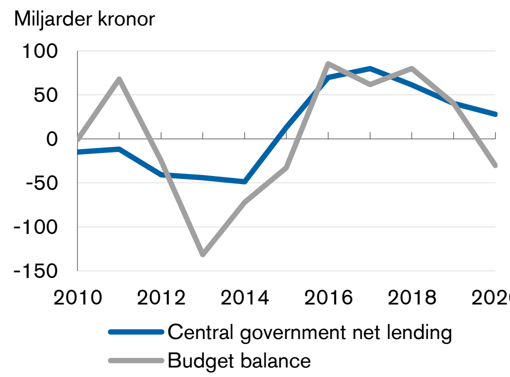


Figure 20. Central government net lending and budget balance, 2010-2020



Source: Statistics Sweden and the Debt Office.

Budget outcome in December and January in line with forecast

The budget balance outcome in the period October 2018 to January 2019 was a total of SEK 15 billion lower than forecast, see figure 1. In October and November, the budget balance was

SEK 7 and 9 billion respectively lower than forecast. The budget balance in December and January was roughly in line with the forecast. The deviation in October is largely explained by tax income being lower than forecast. The difference between the forecast and outcome in November is mainly explained by higher net lending. The entire deposit of the Swedish Export Credits Guarantee Board funds in an account with the Debt Office was made in December, while it was spread over both months in the forecast.

Capital investments in tax accounts are judged to have increased at a slightly lower rate than estimated in the October forecast. Tax income from companies has been in line with the forecast while tax income from wages has been weaker than in the forecast. In aggregate, tax income has been SEK 6 billion lower than in the previous forecast.

Lower tax income on account of declining GDP growth

GDP growth in current prices provides a good estimate of tax base growth. In both 2019 and 2020 GDP growth is expected to be lower than in the previous forecast. GDP growth has been revised downwards by 0.9 percentage points for 2020. GDP growth is expected to be 3.9 per cent this year and 3.0 per cent in 2020. This lower growth means that tax income increases more slowly, and this has an impact on the budget balance, which is therefore expected to be lower than in the previous forecast.

Lower growth of household consumption and investments affects the central government budget balance through lower income from consumption taxes and construction VAT. A weaker economic situation also leads to tax income from wages being expected to increase more slowly. At the same time as central government income decreases during the forecast period, inflation is also expected to be lower. This leads to lower expenditure for central government compared to the previous forecast since payments in several transfer systems are adjusted upwards in line with the price base amount.

Lower tax income leads to a lower primary balance

The primary balance decreases by SEK 21 billion in 2019 compared with the October forecast. The most important reason is that tax income decreases by SEK 24 billion, which is attributable in roughly equal measure to poorer macroeconomic performance and lower taxes on work. Expenditure increases slightly compared with the previous forecast on account of decisions made by the Riksdag. At the same time, the Debt Office had assumed unfinanced reforms of SEK 10 billion in its previous forecast that largely offset the tax reductions and expenditure increases approved. This means that the difference from the previous forecast is less than the sum of tax reductions and expenditure increases.

For 2020 the Debt Office expects the primary balance to decrease by SEK 15 billion compared with the previous forecast. Tax income decreases by SEK 8 billion, but when capital investments in tax accounts are excluded, it is SEK 28 billion lower. The weaker economic situation means that expectations of future interest rate increases are lower than before, and the Debt Office has therefore reduced its assumption of withdrawals of capital investments in tax accounts from SEK 50 billion to SEK 30 billion. Tax bases are growing more slowly but the tax reductions implemented in 2019 also affect tax income in 2020. On the expenditure side there is mainly a redistribution between types of expenditure. In aggregate, the expenditure increase compared with the previous forecast is around SEK 5 billion.

Lower income from payroll taxes

Central government income from payroll taxes is estimated to decrease by SEK 20 billion in 2019 and SEK 18 billion in 2020, compared with the previous forecast. Much of this is due to the tax reductions implemented such as the expanded earned income tax credit and the higher threshold for state income tax. But the lower income is also due to poorer macroeconomic performance. In the closing months of last year payroll taxes grew much more weakly than forecast. This means that the tax base from 2018 that is projected into 2019 is lower, and at the same time the rate of payroll growth has been reduced for both 2019 and 2020.

Table 7. The largest forecast changes

SEK billion	2019	2020
Forecast October 2018	**62**	**-12**
Primary balance	**-21**	**-15**
Of which:		
Tax income excl. capital investments in tax accounts	-21	-28
Capital investments in tax accounts	-3	20
Dividends	-2	-3
Government grants to local governments	-3	-2
Labour market	4	8
Social insurance	-1	0
Migration	1	1
International aid	0	0
Other	5	-11
SNDO net lending	**-1**	**-3**
Of which:		
On-lending	-1	-1
Interest payments	**0**	**-1**
Forecast February 2019	**40**	**-30**
Sum of changes	*-22*	*-18*

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

Lower income from consumption taxes

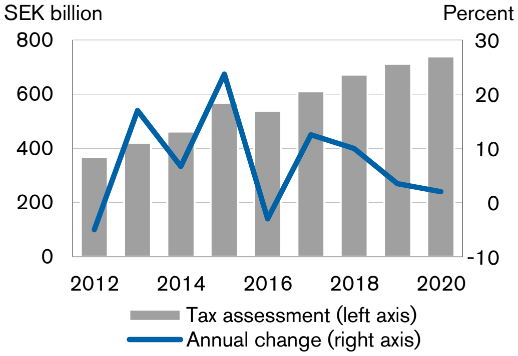
Income from consumption taxes is estimated to decrease by SEK 5 billion in 2019 and SEK 9 billion in 2020, compared with the previous forecast. This is because the growth rate for private consumption and investments has been revised downwards for 2019 and 2020, so income from VAT will be lower. In addition, changes to regulations mean that income from selective taxes will be lower.

Table 8. Tax income, change from previous forecast

SEK billion	2019	2020
Payroll taxes	-20	-18
Consumption taxes	-5	-9
Corporate taxes	2	-3
Supplementary taxes	-1	21
Total	-24	-8

Note: The table shows changes in terms of budget balance.

Figure 21. Corporate gains



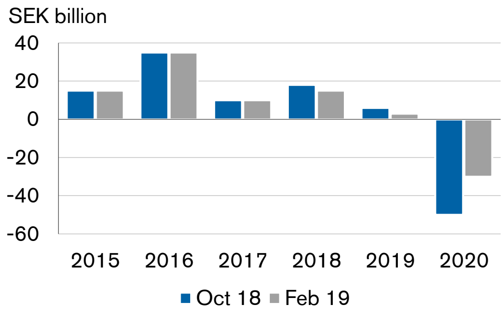
Source: Swedish tax agency and the Debt Office.

Lower withdrawals from tax accounts in 2020

Capital investments in tax accounts are estimated to increase by SEK 3 billion in the first six months of this year and to then be unchanged for the rest of the year. This is SEK 3 billion less than assumed by the Debt Office in the previous forecast. The inflow to tax accounts was slightly lower than expected by the Debt Office in the closing part of 2018, but there are still judged to be good incentives for placing money in tax accounts, especially for companies.

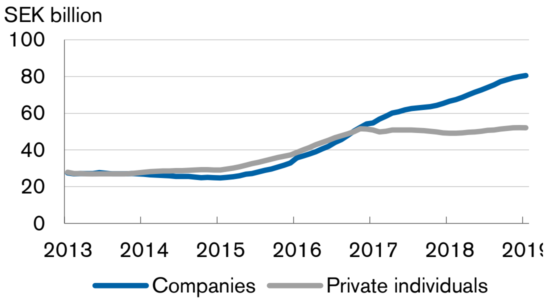
For 2020 the Debt Office expects capital investments in tax accounts to decrease by SEK 30 billion compared with SEK 50 billion in its previous forecast. The background to the assumption of a decrease in capital investments is expectations of higher interest rates. A relevant interest rate with which to compare the tax account interest rate, especially for companies, is Stibor for 3 months. Future interest rate expectations can be estimated using forward contracts for Stibor. Interest rate expectations are now lower than at the time of the Debt Office's most recent forecast, which is the main reason for the assumption that withdrawals will be smaller than previously forecast.

Figure 22. The Debt office´s assessment of net capital investment flows to the tax accounts



Source: Statistics Sweden, Swedish tax agency and the Debt Office.

Figure 23. Balance in tax accounts, 12 month moving average



Source: Swedish tax agency.

It is not certain at which interest rate it will be sufficiently attractive to move money from tax accounts to other investment alternatives. The Debt Office makes the assessment that, in addition to the interest rate conditions for tax accounts, the low credit risk and the ease of making large deposits and withdrawals have meant that balances have increased. As before, the Debt Office's assessment is that at around 0.25 per cent for Stibor most companies start to consider that it is profitable enough to withdraw money from tax accounts. This assessment is uncertain, and many companies and private individuals may turn out to have other preferences. Great uncertainty is also associated with the assumption of what amounts will be withdrawn and how they will be spread over time.

Capital investments in tax accounts

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 companies.

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 insurance. 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 relatively quick matter. In practice the account functions as a bank account with an unlimited deposit guarantee from central government.

Capital investments in tax accounts are a dear 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 around SEK 1.7 billion for 2015-2020, compared with if the Debt Office had borrowed the same sum directly in the market.

The Debt Office considers that it is important to limit the possibility of investing capital in tax accounts. An investigation should be conducted of whether it is possible to find a design that removes the incentive to invest large sums without putting tax collection at risk on that account. One possibility may be to have a floor interest rate of zero per cent that only applies up to a certain monetary limit so as to avoid private individuals and small businesses being affected by negative rates. For more information, see Central government debt management – Proposed guidelines 2019-2022.

Declining profit growth for companies

Central government income from corporate taxes is estimated to be slightly higher for 2019 and SEK 3 billion lower for 2020 compared with the October forecast, see table 3.

Corporate tax was reduced in January this year. The tax base was broadened at the same time by limiting the possibility of making interest deductions. The overall effect on tax revenue is marginal in 2019 and slightly larger in 2020.

The strong growth in recent years has led to higher profits in the business sector. Forward indicators, such as the export managers index, are still above their historical average. This strengthens the picture of continued profit growth during the forecast period. However, corporate profits are expected to decline as GDP growth gets lower and demand from some of Sweden's major export markets decreases. The forecast of profit growth in 2019 is unchanged compared with the previous forecast. For 2020 profit growth has been revised downwards slightly from the previous forecast.

Falling capital taxes for households

Capital taxes for households amounted to around SEK 80 million for 2017. They are expected to decrease gradually up until 2020 and to then be around SEK 60 billion. This is mainly because households' capital gains are estimated to decrease during the forecast period. This assessment is partly based on the decrease in sales seen in the housing market in terms of total sales value. Deductions for interest expenditure are also expected to be higher as a result of slightly higher interest rates.

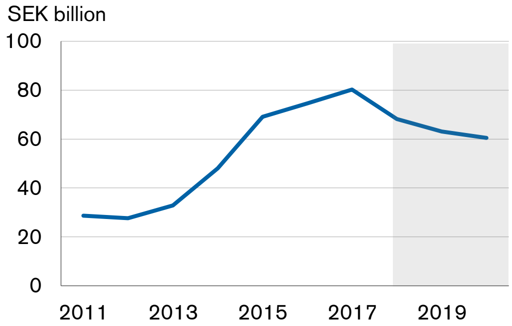
Stable share dividends from state-owned enterprises

Profits in state-owned enterprises are expected to continue to rise during the forecast period. This leads to continued income from share dividends for central government. Dividend income is expected to be slightly lower for 2019 and 2020 than in the October forecast. Higher iron ore prices and a weak krona favour exports of iron ore. LKAB's dividend has been revised downwards slightly since the previous forecast because company has signalled that they need to search for new ore resources and may therefore need to reinvest parts of their profits. Lower economic growth in some of the countries to which Sweden chiefly exports iron ore, such as Germany or the UK, may have a negative impact on LKAB's earnings.

Table 9. Dividends on state owned shares

SEK billion	2018	2019	2020
Akademiska hus AB	1,6	1,6	1,6
LKAB	2,9	3,6	3,6
Telia Company	3,7	3,8	3,7
Vattenfall AB	2,0	2,0	2,5
Sveaskog AB	0,9	1,1	1,0
Other corporations	3,5	3,6	3,4
Total	**14,6**	**15,7**	**15,8**

Figure 24. Households tax on capital



Source: Swedish tax agency and the Debt Office.

In total, central government income from share dividends is estimated at just under SEK 16 billion in 2019 and 2020. The forecasts for dividends from state-owned enterprises are associated with uncertainty and may be affected by decisions to sell assets.

Unchanged expenditure in social insurance

Expenditure in social insurance is judged to increase by SEK 1 billion in 2019 and to be unchanged in 2020 compared with the previous forecast. The Debt Office mainly bases its forecasts in social insurance on the expenditure forecasts of Swedish Social Insurance Agency (Försäkringskassan). During the forecast period, increases are expected in expenditure for parent insurance, attendance allowance and sickness benefit in particular. This is offset by lower expenditure in activity and sickness compensation. Historically the level of sickness absence has varied a great deal in Sweden. The variation is difficult to explain on the basis of factors such as public health, demography and the economic situation. This makes the forecast for sickness benefit uncertain.

Higher defence expenditure

Defence expenditure goes up during the period compared with the previous forecast. The increase in defence expenditure is assessed at SEK 2 SEK billion for 2019 and SEK 3 billion for 2020. The increased funding for defence in the forecast period mainly concerns the budget reservation from the Moderate Party and the Swedish Christian Democrats approved by the Riksdag.

Lower labour market-related expenditure

Labour market-related expenditure is lower for both 2019 and 2020 than in the previous forecast. This expenditure is expected to be just over SEK 4 billion lower in 2019 and just under SEK 8 billion lower in 2020. The lower expenditure is a result of lower appropriations to Swedish Public Employment Service (Arbetsförmedlingen) and labour market-related programmes in the budget reservation from the Moderate Party and the Swedish Christian Democrats. Expenditure for unemployment benefit is largely unchanged compared with the previous forecast. Compared with 2018 the forecast means that expenditure will increase by just under SEK 1 billion in 2019 and that in 2020 it will increase by just under SEK 2 billion compared with 2019.

Net lending by the Debt Office leads to a lower budget balance in both 2019 and 2020

The Debt Office's net lending to government agencies and other parties is estimated to be just over SEK 1 billion higher in 2019 and just under SEK 3 billion higher in 2020 than in the previous forecast. This means that there will be a corresponding decrease in the budget balance, as shown in Table 2. One explanation of the higher net lending is that the weaker krona exchange rate makes on-lending to the Riksbank higher in Swedish kronor. Other factors increasing net lending in 2020 include higher lending to the Swedish Board of Student Finance (CSN). Lower lending to Swedish Transport Administration (Trafikverket*)* compared with the previous forecast offsets the increase in both periods.

In total, net lending is expected to be SEK 10 billion in 2019 and SEK 16 billion in 2020, see table 10. The largest items in lending are lending to the Swedish Board of Student Finance and Swedish Transport Administration and on-lending to the Riksbank. The largest deposit items, which reduces net lending, are payments to the resolution reserve and the credit reserve of CSN. The main reason why net lending increases by just over SEK 6 billion between 2019 and 2020 is increased lending to Swedish Transport Administration and also to the Swedish Board of Student Finance.

Table 10. The Debt Office's net lending to government agencies and others

SEK billion	2018	2019	2020
Lending	**19.5**	**13.0**	**19.1**
Of which:			
Swedish board of student finance	6.1	6.3	8.1
Swedish Transport Administration	-1.6	1.4	5.1
On-lending to the Riksbank	11.1	4.1	3.7
Other	3.9	1.2	2.3
Deposits	**15.0**	**3.4**	**3.0**
Of which:			
Swedish board of student finance, credit reserve etc.	1.1	1.6	1.9
Resolution reserve	8.9	5.7	3.2
Premium pension system, net[1]	0.1	-3.2	-2.5
Other	4.8	-0.7	0.3
Net lending	**4.5**	**9.6**	**16.2**

[1] Premium pension refers to the net of pension fees, payments to funds and management fees.

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, which is 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 affect net lending by the Debt Office, but not central government net lending.

Changes between years

The table shows how the budget balance changes between 2016 and 2020 and how different parts affect this change.

The budget balance decreases by SEK 40 billion between 2018 and 2019. Tax income grows more slowly when the economy slows down. Between 2019 and 2020 the budget balance is expected to weaken by SEK 71 billion and to turn into a deficit of SEK 30 billion. The main factors behind this decline are the slowdown in the economy and an assumed outflow of capital investments from tax accounts amounting to SEK 30 billion for 2020.

SEK billion	2016	2017	2018	2019	2020
Budget Balance	**85**	**62**	**80**	**40**	**-30**
Change from previous year	118	-24	18	-40	-71
Of which:					0
Primary balance	**101**	**-31**	**29**	**-28**	**-55**
Tax income	145	4	66	8	-16
Government grants to local governments	9	-12	-5	-9	-4
Labour market	1	0	-1	1	2
Social insurance	0	4	-13	-3	1
Migration & International aid	-26	-5	14	6	3
Sales of state-owned assets	0	0	2	-2	0
Share dividends	-7	-4	6	1	0
EU contribution	5	2	-9	-4	-4
Other	-27	-20	-31	-27	-36
Debt Office's net lending excl. on-lending	**1**	**7**	**-1**	**-12**	**-7**
On-lending	**-4**	**10**	**-7**	**7**	**0**
Interest on government debt	**20**	**-9**	**-3**	**-6**	**-9**

Interest payments on the central government debt

Central government interest payments are estimated at SEK 20 billion this year and SEK 28 billion next year, see table 6. The forecast for this year is in line with the previous report. For 2020 the forecast has been revised upwards by just under SEK 1 billion. This is explained by slightly higher capital losses in connection with swaps of inflation-linked bonds and slightly higher exchange rates.

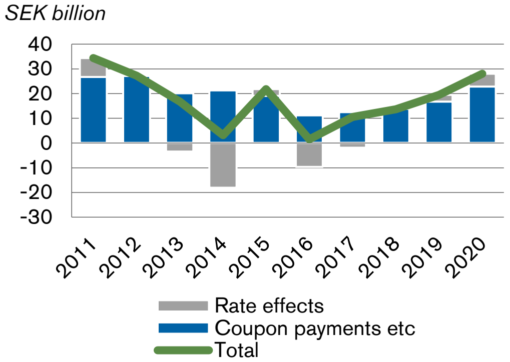
Between 2019 and 2020 interest payments increase by around SEK 9 billion. The reason for the increase is that an inflation-linked bond, SGB IL 3102, matures in December 2020. In conjunction with that maturity the Debt Office will pay around SEK 10 billion in accrued inflation compensation.

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 was 31 January 2019.

Table 11. Interest payments on central government debt

SEK billion	2019	2020
Interest on loans in SEK	16.5	25.6
Interest on loans in foreign currency	0.0	0.0
Realised currency gains and losses	3.2	2.3
Interest payments	19.6	27.9

Figure 25. Interest payments, 2011-2020



Central government net lending

Net lending is generally a better indicator of the underlying central government finances than the budget balance. This is partly because net lending accrues payments to the point in time when the economic activity took place. The budget balance and the net borrowing requirement are cash flow measures. This means that central government net lending shows a more even development over time than these measures.

Table 12. Central government net lending

SEK billion	2016	2017	2018	2019	2020
Budget balance	**85**	**62**	**80**	**40**	**-30**
Delimitations	**34**	**19**	**5**	**15**	**21**
Sale of limited companies	0	0	2	0	0
Extraordinary dividends	-2	0	0	0	0
Parts of Debt Office's net lending	16	-2	6	11	13
Other delimitations etc.	20	20	-2	4	8
Accruals	**-50**	**-1**	**-23**	**-15**	**37**
Taxes	-38	-1	-24	-18	26
Interest payments etc.	-12	1	1	3	11
Central government net lending	**70**	**80**	**62**	**40**	**28**
Per cent of GDP	**1.6**	**1.7**	**1.3**	**0.8**	**0.5**

Net lending is estimated at 0.8 per cent in 2019 and 0.5 per cent in 2020 as a proportion of GDP. This is SEK 0.5 and 0.6 percentage points respectively lower than in the previous forecast. It is also a downturn compared with 2018, when net lending is estimated to have been 1.3 per cent as a proportion of GDP. The downturn compared with both 2018 and the previous forecast reflects the forecast downturn in the economy.

Net lending is also adjusted for payments that do not affect central government's financial wealth. If, for example, central government sells financial assets, this does not affect net lending since there is only a reallocation of assets in its balance sheet. But when the payment is made, the budget balance is affected.

Nor is central government net lending 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. But savings in tax accounts ought not to affect net lending, since they are counted as deposits instead of tax income.

Monthly forecasts

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

Table 13. Budget balance per month, SEK billion

SEK billion	Primary balance	Net lending	Interest on central government debt	Budget Balance
Feb-19	44.0	3.0	0.9	48.0
Mar-19	-7.2	2.5	-2.7	-7.4
Apr-19	0.9	2.5	-1.9	1.5
May-19	42.2	1.9	-3.9	40.2
Jun-19	-23.4	5.0	-4.8	-23.2
Jul-19	7.3	2.5	0.2	10.0
Aug-19	21.1	3.8	0.8	25.7
Sep-19	2.3	2.6	0.1	4.9
Oct-19	-1.0	2.1	1.2	2.3
Nov-19	16.8	3.1	-3.1	16.7
Dec-19	-39.8	-40.1	-7.1	-87.0

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. For example, the large deficit in December is explained by the payment of premium pension funds, excess tax and interest payments on the central government debt.

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	-2

[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 lower budget balance for 2019 than the Government and the National Institute of Economic Research (NIER). The Swedish National Financial Management Authority (ESV) forecasts a slightly lower balance for 2019 than the Debt Office. Part of the differences can be explained by the Government's forecast being based on the transitional budget from 15 November. The ESV already expects an outflow of capital investments from tax accounts in 2019, while the Debt Office makes the assessment that the inflow will continue at a low rate in 2019 and then turn into an outflow in 2020. For 2020 both the ESV and the NIER expect a budget balance close to zero, while the Debt Office expects a budget deficit of SEK 30 billion. This can also be explained by capital investments in tax accounts. The Debt Office makes the assessment that around SEK 30 billion will flow out of tax accounts in 2020. The ESV makes a different assessment and expects the outflow to begin in 2019 and become stronger in 2020.

	Debt Office (20 February)		Government (15 November)		NIER (19 December)		ESV (24 January)	
SEK billion	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
Budget balance	40	-30	79	54	62	1	24	3
Of which:								
Sale of central government assets	0	0	5	5	0	0	0	0
Adjusted budget balance	**40**	**-30**	**74**	**49**	**62**	**1**	**24**	**0**

Lower budget balance to be handled using cash funds

Planned central government borrowing in Swedish kronor remains at the same level as in the previous forecast despite a smaller surplus than expected in 2018 and poorer budget prospects for this year and next year. The Debt Office is responding to the downward revision of the budget balance by letting its cash surplus decrease instead. At the same time, foreign currency borrowing increases because the Debt Office returns to the plan of using foreign currency bonds to refinance all lending to the Riksbank.

Krona borrowing unchanged while cash surplus shrinks

The issue volume of government bonds stays at SEK 30 billion this year and SEK 40 billion in 2020, see table 1. Borrowing in inflation-linked bonds and T-bills is also unchanged since the previous forecast. Instead, the downward revision of the budget balance is handled in liquidity management, where the Debt Office has had a large cash surplus to invest since 2017; see below.

At the same time, foreign currency borrowing increases this year. This is because the Debt Office returns to its original plan of using foreign currency bonds to refinance on-lending to the Riksbank, instead of making some use of cash funds. The step of using cash for the Riksbank loans is no longer needed since the lower budget balance means that the cash surplus will decrease anyway.

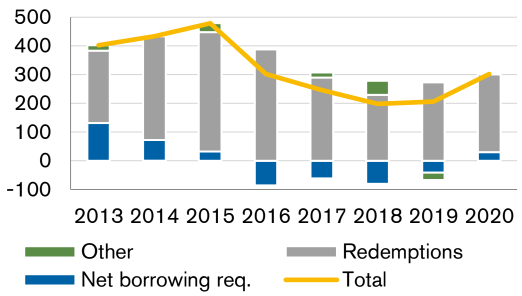
Table 1. Government borrowing

	2018		2019		2020	
SEK billion	Outcome	(Oct)	Feb	(Oct)	Feb	(Oct)
Money market borrowing[1]	**70**	**(23)**	**77**	**(81)**	**197**	**(186)**
T-bills	20	(20)	20	(20)	40	(40)
Liquidity management instruments	50	(3)	57	(61)	157	(146)
Bond borrowing	**128**	**128**	**129**	**(83)**	**105**	**(104)**
Government bonds	32	(32)	30	(30)	40	(40)
Inflation-linked bonds	9	(9)	9	(9)	9	(9)
Foreign currency bonds	88	(88)	90	(44)	56	(56)
Total gross borrowing	**198**	**(151)**	**206**	**(164)**	**302**	**(290)**

[1]Outstanding stock as at year-end. Liquidity management instruments are in net figures and include commercial paper. Previous forecast in parentheses.

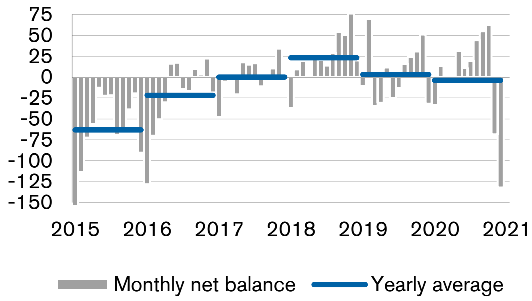
For most of 2018 the Debt Office had a surplus to invest in liquidity management even though issue volumes of government securities were drawn down to a minimum. The cash surplus arose in 2017 when tax income was greater than forecast, partly because of capital investments in tax accounts. This meant that the Debt Office borrowed more than was needed to finance central government expenditure. Moreover, the increased demand for the Debt Office's standing repo facility meant that even more cash was received. At the same time, the volume of loans maturing and needing to be replaced was unusually small in 2018, and this contributed to the borrowing requirement being low in relation to historical levels, see figure 1.

Figure 1. Total borrowing requirement



The net borrowing requirement is the budget balance with the opposite sign. “Other” includes an adjustment because the net borrowing requirement is reported by settlement date while borrowing is reported by trade date.

Figure 2. Balance in liquidity management



Net balance of loans and placements in the central government liquidity management. Positive amounts correspond to cash surpluses. The forecast assumes an average daily repo volume of SEK 25 billion.

Now that the borrowing requirement is increasing more than the Debt Office previously expected, the cash surplus will shrink at a faster rate. Figure 2 shows that the average balance in liquidity management is estimated at close to zero both this year and in 2020. However, as shown in the figure, relatively large investment needs will still arise in periods as payments vary strongly. This applies, for example, to most of 2020 until a larger volume of bonds matures in December.

Continued focus on ten-year government bonds

Borrowing in government bonds follows the same plan as in the previous forecast. This means that the issue volume per auction will stay at SEK 1.5 billion for the whole of 2019, and then be raised to SEK 2 billion. The Debt Office’s strategy is to act in a clear and predictable way and to avoid large or rapid revisions of the supply of government bonds, which are central government's most important source of funding. If the budget balance varies or deviates from the forecast, this is addressed in the short term in liquidity management. Bond borrowing is then adapted gradually to the long-term borrowing requirement.

Since the issue volume of government bonds is still small, borrowing needs to be focused on the ten-year segment in order to build up the stock of newer bonds. In addition, a small part of the auctions is planned to be in five-year bonds, but other maturities may also be issued in order to support market liquidity. The next new government bond will be introduced in 2020.

Table 2. Important dates 2019

Date	Time	Activity
8–11 Mar	11.00	Switches of SGB IL 3102
15 Mar	09.30	Terms of switches of SGB IL 3102
5–8 Apr	11.00	Switches of SGB IL 3102
18 June	09.30	Government borrowing 2019:2

Table 3. Reference bonds

Date of change	2-year	5-year	10-year
Current reference bonds	1047	1057	1061
19 June 2019	1054	1058	

Reference bonds in electronic trading

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 changed on the IMM dates (International Money Market): the third Wednesday in March, June, September and December. New reference bonds are those closest to two, five or ten years to maturity 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.

Unchanged borrowing in T-bills

Borrowing in T-bills stays at SEK 5 billion per month for the whole of 2019 and some way in to next year. The Debt Office still expects to double the number of auctions in the second half of 2020 as the borrowing requirement increases sharply in December, partly because a larger volume of bonds matures. This means that the outstanding stock of T-bills will grow from SEK 20 billion to SEK 40 billion in 2020. If the borrowing requirement would increase for a short period, the Debt Office could also issue commercial paper as a complement to the T-bills in the same way as before.

The issue volume of inflation-linked bonds remains unchanged

The borrowing planned in inflation-linked bonds also remains unchanged and, as in the case of government bonds, the ten-year maturity has priority in auctions in order to increase the volume of the newest issues. The Debt Office expects to issue inflation-linked bonds totalling SEK 9 billion in both 2019 and 2020.

As previously announced, the Debt Office is going to offer switches so as to reduce the outstanding volume of SGB IL 3102. The switches are being planned so that around SEK 25 billion will remain when the bond matures.

Under the government guidelines, the proportion of inflation-linked debt is to be 20 per cent of the total central government debt in the long term. For most of the forecast period its share is above that, but it returns to the benchmark at the end of 2020 when SGB IL 3102 matures, see figure 3.

Figure 3. Inflation-linked debt, % of total debt

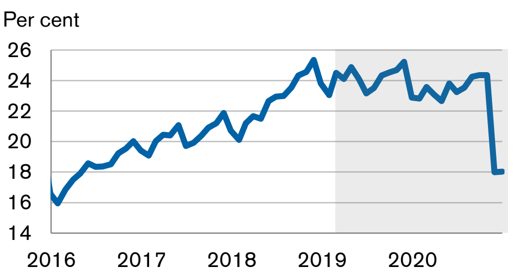
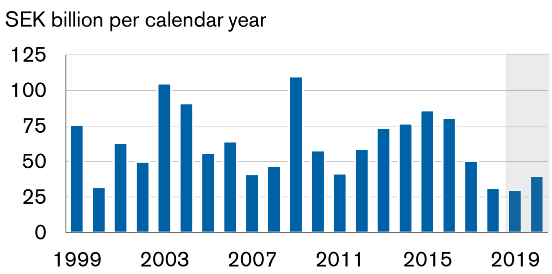


Figure 4. Annual supply of government bonds



Since the borrowing requirement has been so limited in recent years, the question has been raised of whether the share of inflation-linked debt should be reduced so as to enable the Debt Office to give even more priority to borrowing in nominal government bonds. As shown in figure 4, the supply of nominal government bonds has been drawn down to a historically low level, and this has contributed to deteriorating liquidity in the market, see below. A less liquid market risks leading to higher long-term borrowing costs for central government.

The Debt Office is going to analyse the question of how the inflation-linked debt can contribute to the objective of minimising cost while taking account of risk and whether there are reasons to review the size of its share. The result of this analysis will be presented in the Debt Office's proposed guidelines for debt management, which are published at the end of September.

Unchanged volume of interest rate swaps

The planned volume of interest rate swaps is SEK 5 billion per year in 2019 and 2020. This is the same level as in the October forecast and means that the outstanding stock of swaps will continue to decrease during the forecast period, see table 4. The Debt Office has used interest rate swaps for many years to shorten the maturity of the nominal krona debt, but in recent years the volume has decreased on account of the strategic decision to extend debt maturity. Moreover, the new swaps have shorter maturities than before.

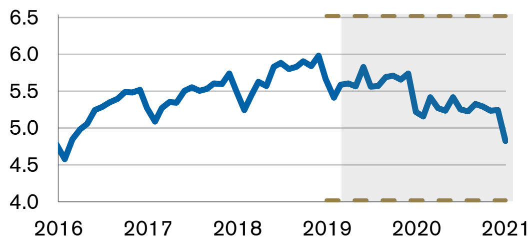
Starting this year, the maturity of the krona debt is steered using a common benchmark for both nominal and inflation-linked debt in the Government's guidelines. With the planned volume of swaps, the duration of the krona debt as a whole is estimated to be roughly in the middle of the steering interval, see figure 5.

Table 4. Changes of outstanding swaps

	2018	2019		2020	
SEK billion	Outcome	Feb	(Oct)	Feb	(Oct)
New swaps[1]	15	5	(5)	5	(5)
Maturing swaps	29	41	(41)	31	(31)
Net change	-14	-36	(-36)	-26	(-26)

[1] SEK interest rate swaps from fixed to floating rate

Figure 5. Duration of krona debt (years)



Increased foreign-currency borrowing for refinancing for the Riksbank

In the coming two years, foreign currency borrowing will solely be conducted to refinance the loans raised on behalf of the Riksbank. The Debt Office plans to issue foreign currency bonds corresponding to SEK 90 billion and SEK 56 billion respectively this year and next year.

For 2019 this is a doubling compared with the October forecast since the Debt Office then made the assumption that half of the refinancing need for the Riksbank would be met by swapping cash funds into foreign currency. Since the increased borrowing requirement now means a decrease in cash funds, the Debt Office is returning to its original plan of issuing foreign currency bonds. For 2020 the amount is unchanged from October.

Green government bond part of political agreement

Under the 73 point-programme agreed by the Social Democratic Party, the Centre Party, the Liberal Party and the Green Party, a trial of government-issued green bonds will be carried out as a commission to the Debt Office in 2019. This means that Sweden could become the seventh country in Europe to issue a green bond.

A green bond differs from a traditional bond in that the funds borrowed are to be used to finance environmental and climate investments. Issuers include companies and banks as well as local authorities and national governments. Poland was the first country in Europe to issue a green government bond; and since then France, Belgium, Lithuania and Ireland have followed suit. The Netherlands has also produced a framework and is next in line.

The Debt Office is preparing for a coming commission from the Government by looking both at how other issuers go about doing this and at what avenues are open on the basis of the specific requirements that the Swedish State has to take into account.

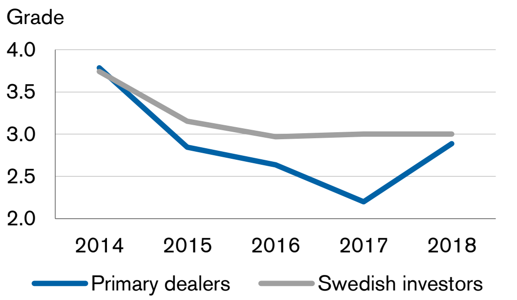
Before a green bond can be issued, a special framework must have been put in place. The requirements include a classification of what expenditure in the central government budget is to be regarded as green as well as independent auditors and special procedures for monitoring and reporting.

The Debt Office will return to the question of how a green bond will affect the borrowing plan as a whole when the Government has formulated the conditions for the commission.

Liquidity in government securities market remains strained

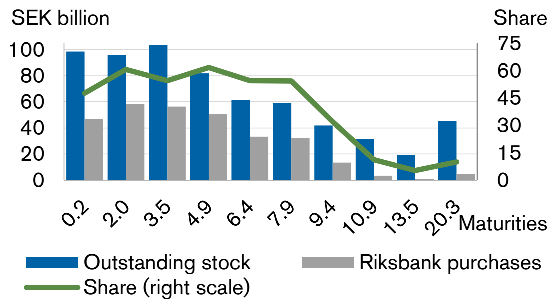
Liquidity in the government securities market has deteriorated in recent years in the wake of new regulation of financial markets and a reduction in supply from the Debt Office at the same time as the Riksbank has bought bonds for monetary policy purposes. The Debt Office's assessment is that the situation continues to be strained but that trading functions despite this since market participants have adapted to the poorer conditions by, for instance, trading lower volumes per transaction.

Figure 6. Perceived liquidity in government bond market



Grades on a scale from 1 to 5. Grades higher than 4 are interpreted as excellent, below 3 as unsatisfactory.

Figure 7. Riksbank purchases of government bonds in different maturities



Source: Riksbank and Debt Office
Holdings on 31 December 2018.

In the survey conducted for the Debt Office at the end of 2018 primary dealers gave liquidity in the market for government bonds a higher grade than a year earlier, but the grade was still at a level that should be interpreted as unsatisfactory, see figure 6. The results of that survey also show that primary dealers consider that the facility in which the Debt Office offers repos in government securities is of central importance for the functioning of the market.

The Riksbank's purchases of government securities were identified by both primary dealers and investors as one of the main reasons for the deterioration in liquidity. At the end of 2018 the Riksbank owned almost half of the outstanding stock of government bonds, see figure 7.

Central government debt decreases in the forecast period

The central government debt is estimated at SEK 1 176 billion at the end of 2020, which is a decrease of SEK 86 billion compared with December 2018, see table 5. This corresponds to 23 per cent of GDP, to be compared with 26 per cent in 2018.

Table 5. From net borrowing requirement to central government debt

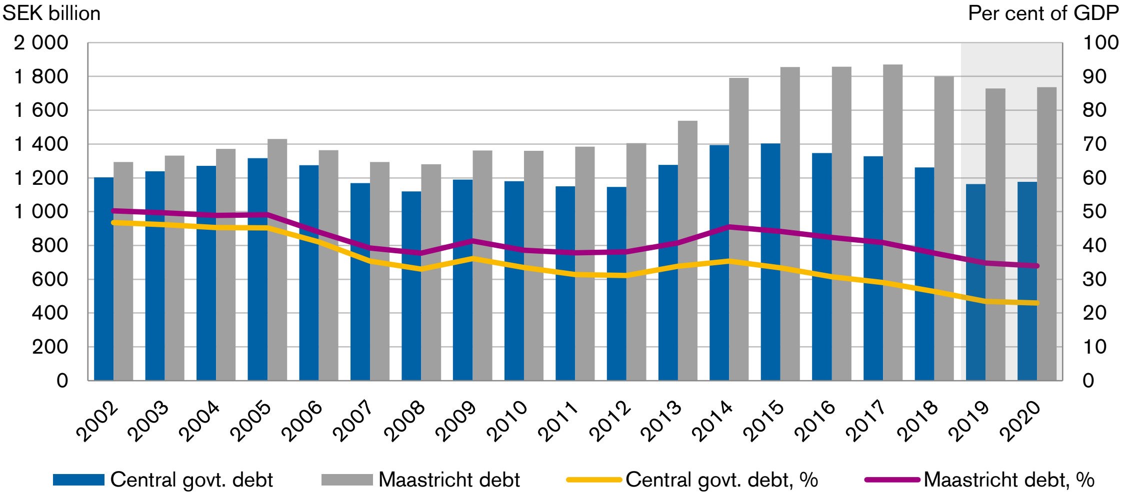
SEK billion	2016	2017	2018	2019	2020
Net borrowing requirement (budget balance with opposite sign)	-85	-62	-80	-41	30
Business day adjustment etc.[1]	-7	4	37	-31	0
Net borrowing per business day	-92	-58	-43	-72	30
A. Nominal amount including money market assets	**1 261**	**1 203**	**1 160**	**1 088**	**1 119**
Inflation compensation	21	23	28	28	17
Exchange rate effects	40	11	26	22	16
B. Nominal amount to current exchange rate incl. inflation compensation	**1 321**	**1 237**	**1 215**	**1 138**	**1 151**
Assets under management	26	91	47	25	25
C. Central government debt	**1 347**	**1 328**	**1 262**	**1 163**	**1 176**
Assets under management	-26	-91	-47	-25	-25
On-lending	-263	-238	-259	-261	-261
D. Central government debt incl. on-lending and assets under management	**1 059**	**999**	**956**	**877**	**890**
Nominal GDP	4 372	4 565	4 778	4 966	5 116
C. Central government debt, % of GDP	**31**	**29**	**26**	**23**	**23**
D. Central government debt incl. on-lending and money market assets, % av BNP	**24**	**22**	**20**	**18**	**17**

[1]A difference occurs as borrowing is reported by trade date and the net borrowing requirement by settlement date.

The decrease in the central government debt is due not only to the budget surplus in 2019 but also to the use of the cash surplus in liquidity management to pay maturing loans. As shown in the table, assets in liquidity management exceeded SEK 90 billion at the end of 2017. Since then they have decreased, and they are expected to reach more normal levels at the end of 2019.

Given the Debt Office's forecast of the development of the central government debt, the debt using the Maastricht measure is expected to reach the debt anchor of 35 per cent of GDP at the end of 2019, see figure 8. The Maastricht debt covers the whole of the public sector and is a measure of the consolidated debt, see the fact box below for more information about different measures of debt.

Figure 8. Development of 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 consolidated debt. See the fact box below.

Different measures of government debt in statistics

There are different ways of measuring government 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 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 debt criterion the Maastricht debt must not exceed 60 per cent of GDP. The Maastricht debt is also the measure that is used in Sweden's 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.

Market information

Table 1. Government bonds, auction dates

Announcement	Auction date	Settlement date
06-Mar-19	13-Mar-19	15-Mar-19
20-Mar-19	27-Mar-19	29-Mar-19
03-Apr-19	10-Apr-19	12-Apr-19
17-Apr-19	24-Apr-19	26-Apr-19
30-Apr-19	08-May-19	10-May-19
15-May-19	22-May-19	24-May-19
12-Jun-19	19-Jun-19	24-Jun-19

Table 2. Outstanding government bonds

Maturity date	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	81 885
12-May-25	2.50	1058	62 376
12-Nov-26	1.00	1059	59 164
12-May-28	0.75	1060	42 013
12-Nov-29	0.75	1061	32 900
01-Jun-32	2.25	1056	19 500
30-Mar-39	3.50	1053	45 250
Total government bonds			**641 323**

Outstanding volume as of 31 January 2019.

Table 3. T-bills, auction dates

Announcement	Auction date	Settlement date
27-Feb-19	06-Mar-19	08-Mar-19
27-Mar-19	03-Apr-19	05-Apr-19
30-Apr-19	07-May-19	09-May-19
05-Jun-19	12-Jun-19	14-Jun-19
03-Jul-19	10-Jul-19	12-Jul-19

Table 4. Outstanding T-bills

Maturity date	SEK million
20-Feb-19	5 000
20-Mar-19	5 000
17-Apr-19	5 000
19-Jun-19	5 000
Total T-bills	**20 000**

Outstanding volume as of 31 January 2019.

Table 5. Inflation-linked bonds, auction dates

Announcement	Auction date	Settlement date
28-Feb-19	07-Mar-19	11-Mar-19
08-Feb-19	08-Mar-19*	12-Mar-19
08-Feb-19	11-Mar-19*	13-Mar-19
14-Mar-19	21-Mar-19	25-Mar-19
28-Mar-19	04-Apr-19	08-Apr-19
15-Mar-19	05-Apr-19*	09-Apr-19
15-Mar-19	08-Apr-19*	10-Apr-19
25-Apr-19	02-May-19	06-May-19
09-May-19	16-May-19	20-May-19
05-Jun-19	13-Jun-19	17-Jun-19

*Switch auction

Table 6. Outstanding inflation-linked bonds

Maturity date	Coupon %	Bond no.	SEK million
01-Jun-19	0.125	3110	15 450
01-Dec-20	4.00	3102	38 236
01-Jun-22	0.25	3108	34 407
01-Jun-25	1.00	3109	24 981
01-Jun-26	0.125	3112	16 032
01-Dec-27	0.125	3113	11 216
01-Dec-28	3.50	3104	27 441
01-Jun-32	0.125	3111	16 508
Total inflation-linked bonds			**184 271**

Outstanding volume as of 31 January 2019.

Table 7. Rating

Rating company	Krona debt	Foreign currency debt
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA
Fitch	AAA	AAA

Table 8. Primary dealers

Primary dealer	Government bonds	Inflation-linked bonds	T-bills	Telephone no.
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

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Next report

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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.

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