RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

23 oktober 2019

# CENTRAL GOVERNMENT BORROWING

Forecast and Analysis 2019:3

## 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 that 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 2019:3*, the Debt Office presents forecasts for central government finances and borrowing in 2019 through 2021. An assessment of the macroeconomic development is given in the first section. The following section presents 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

Hindered by the slowdown in the manufacturing industry, global growth is weak in the coming years despite low interest rates. After several years of strong growth, the Swedish economy has also slowed and growth is expected to be low this year and the next. At the same time, inflation is moderate and unemployment rises. A slow recovery is expected towards the end of the forecast period. Nevertheless, there are increased risks of the trend worsening, mainly due to global economic development.

The slowdown in the Swedish economy causes central government income from taxes to grow more slowly as expenditure increases. At the end of the forecast period, a net outflow of capital investments from tax accounts is also expected, which contributes to further reducing the budget balance. This year, the budget balance is expected to still be a surplus, bolstered by the Riksbank's loan repayments. However, the surplus shifts to a deficit for both 2020 and 2021.

The worsened budget prospects along with large bond redemptions cause the borrowing requirement to increase in the forecast period. Therefore, starting in January 2020, the Debt Office will progressively increase the auction volume of government bonds. Borrowing in treasury bills also increases from the end of next year. Upon introducing a new government bond in March 2020, the Debt Office plans larger auctions in order to build up the volume of new bonds. Offering outright auctions instead of only switches is intended to support market liquidity.

**Key figures for the economy, government finances and borrowing**

| *Previous forecast in italics* | 2019 | | 2020 | | 2021 |
|---|---|---|---|---|---|
| **Swedish economy and government finances** | | | | | |
| GDP (%) | 1.3 | *1.8* | 1.1 | *1.4* | 1.6 |
| Unemployment (% of labour force) | 6.7 | *6.5* | 7.1 | *6.7* | 7.2 |
| Budget balance (SEK billion) | 113 | *121* | -17 | *-19* | -27 |
| Central government net lending (% of GDP) | 0.8 | *0.9* | 0.5 | *0.5* | 0.2 |
| Central government debt (% of GDP) | 22 | *22* | 21 | *21* | 21 |
| | | | | | |
| **Central government borrowing, SEK billion** | | | | | |
| Government bonds | 30 | *30* | 51 | *30* | 60 |
| Inflation-linked bonds | 8 | *9* | 9 | *9* | 9 |
| Treasury bills (outstanding stock at year-end) | 20 | *20* | 40 | *30* | 68 |
| Foreign currency bonds | 19 | *19* | 60 | *59* | 49 |
| on behalf of the Riksbank | 19 | *19* | 60 | *59* | 49 |

# Marked slowdown in the Swedish economy

Hindered by the sluggish development in the manufacturing industry, global growth remains weak in the coming years despite low interest rates. After several years of a boom, the Swedish economy has also slowed, and growth is expected to be weak this year and the next. At the same time, inflation is moderate and unemployment rises. A slow recovery in growth is expected towards the end of the forecast period, but the risk of a worsening trend has increased, mainly in light of the global macroeconomic development.[1]

## Slow growth internationally despite increasingly lower interest rates

World economic growth has slowed, and developed economies such as the US and the euro area are now growing more slowly. The negative impact on world trade and the manufacturing industry from both the trade conflict between the US and China and uncertainty surrounding the UK's withdrawal from the EU has become increasingly apparent. In light of this, monetary policy has become more expansionary at the international level, which has contributed to falling interest rates and more favourable financial conditions than in June. This provides support for growth and prevents the downturn in the business cycle from becoming as deep as it would have been otherwise. However, leading indicators and market interest rates point to an increased risk of recession in several developed economies, including the US and Germany.

### Global growth remains weak

In 2019, GDP growth in several of the largest economies has continued to slow. The slowdown that began in 2018 has been affected by the trade conflict between the US and China as well as the fact that monetary policy up to this year was less expansionary in several countries. Thus far, the US economy has been relatively resilient, while there has been weak development in the euro area since the end of 2017. Growth in the Chinese economy has gradually declined since the beginning of 2018. Despite the fact that both domestic demand has slackened and exports have fallen, growth in China has still been in line with the official growth target of 6–6.5 per cent.

In periods ahead, global growth is expected to increase somewhat, mainly driven by growth in emerging markets. Among other things, Argentina and Turkey are expected to recover after the economic crisis of recent years. In China, various types of economic stimulus are expected to mitigate the effects of the trade conflict.

Slower growth is expected for both the US and euro area in the coming years (see Table 1). Growth is supported by the more expansionary monetary policy and lower market interest rates. In several of the developed economies, the assessment is that there is scope for a more expansionary fiscal

[1] Information up to and including 23 September has been taken into account in preparing the forecast.

policy. It is presumed that growth in the euro area, for example, will benefit from some fiscal stimulus ahead while the effects of earlier fiscal stimulus in the US are expected to subside.

### The trade conflict impacts the manufacturing industry in the US and Europe

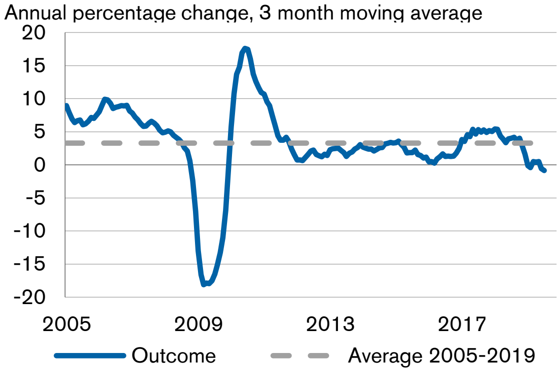
In the wake of the trade conflict and uncertainty surrounding the UK's withdrawal from the EU, world trade is now decreasing on an annual basis (see Figure 1). This has affected both the US and the euro area, where exports have slackened. Industrial production has also dwindled and confidence indicators have fallen (see Figure 2). In the US, both investments and net exports contributed negatively to GDP growth in the second quarter. In periods ahead, exports and investments in both the US and euro area are expected to develop poorly in pace with lower international demand and a deteriorated situation in the manufacturing industry.

**Table 1. GDP-growth in some selected areas, forecast**

| Percentage change | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **Euro area** | 1.9 | 1.1 (-0.2) | 1.2 (-0.2) | 1.4 |
| **United states** | 2.9 | 2.3 (-0.3) | 1.8 (0.0) | 1.7 |
| **China** | 6.6 | 6.1 (0.0) | 6.0 (-0.2) | 6.0 |

Note: Revisions compared to the previous forecast in brackets.
Sources: National agencies and the Debt Office.

**Figure 1. World Trade volume, goods**




Sources: CPB Netherlands Bureau for Economic Policy Analysis and the Debt Office.

The decline in industrial production is particularly evident in Germany, which is one of Sweden's most important trading partners. Industrial production there has fallen by around 5 per cent since the beginning of 2018. The problems are mostly concentrated to the automotive industry. That industry is significant for Germany's economic development, accounting for approximately 10 per cent of the country's total production.

The problems in the German automotive industry are due to, among other things, the trade conflict and weaker development in China, which have led to weaker demand for German cars. This is occurring at the same time as the entire global automotive industry undergoes a structural transformation from fossil fuels to electric power. Accordingly, there is a risk that the weak development in German industrial production may be prolonged.

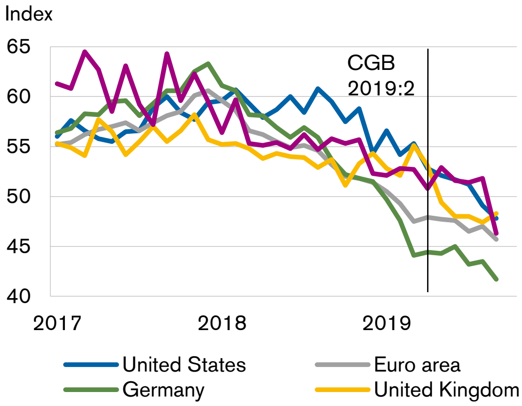
In comparison with the automotive industry, the services industry has developed better in the US and Europe. Nevertheless, confidence indicators point towards poorer future prospects and the worsened development in the manufacturing industry spreading to other parts of the economy.

Households in both the US and the euro area, however, have a positive outlook on the future of economic development, which is likely a reflection of the labour market still being strong with relatively good wage growth. Household consumption is therefore expected to continue to develop comparatively well for some time to come. However, a gradual weakening in employment is expected to lead to lower consumption ahead.

### More expansionary monetary policy to support economic growth

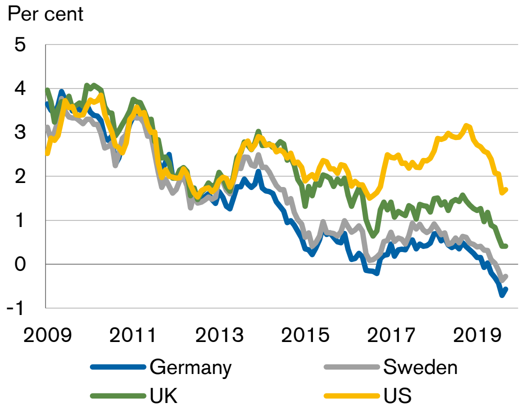
In order to accommodate the economic slowdown, leading central banks such as the US Federal Reserve (Fed) and the European Central Bank (ECB) have lowered policy rates since mid-2019. Several emerging markets have followed suit, and market participants expect more expansionary monetary policy at the global level. For example, forward interest rates indicate that the Fed will continue to lower its policy rate until the end of 2020, when it is expected to be just over 1 per cent.

**Figure 2. Purchasing managers' index for manufacturing**




Sources: ISM, Markit and Swedbank.

**Figure 3. Yields on 10-year government bonds**




Source: Macrobond.

In Sweden, the Riksbank continues to implement expansionary monetary policy. The interest rate path has been gradually revised downward, but there are still indications of a rate increase towards the end of the year. However, market participants expect that the repo rate will be left essentially unchanged during the forecast period. Furthermore, the Riksbank plans to buy government bonds for a nominal amount totalling SEK 45 billion from July 2019 to December 2020, in order to maintain the level of its government securities holdings. Altogether, these factors mostly indicate that the borrowing rates for Swedish households and businesses will remain very low in the coming years.

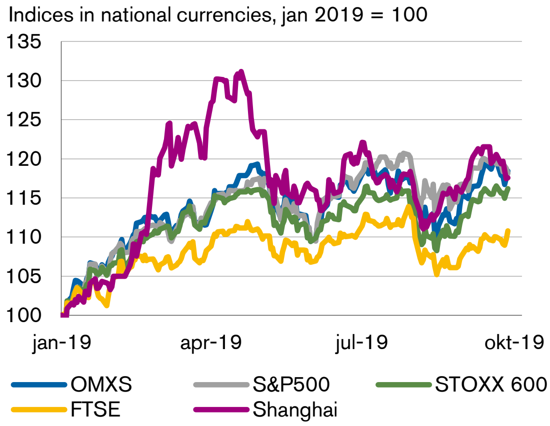
As monetary policy has become increasingly expansionary in many countries, there has been greater discussion as to whether there is scope for additional monetary policy stimulus, for example in the event of a recession. Parallel to and because of this discussion, the debate on the role of fiscal policy has also gained momentum.  The ECB has, for example, called on politicians directly to implement measures. Germany's finance minister has, at the same time, assured that there is a good contingency plan for worse times. The same discussion is also being had among economists with affiliations to both academia and international organisations such as the International Monetary Fund (IMF).

### Market interest rates point to increased risk of recession

Government bond yields have fallen drastically in 2019 because of poorer economic prospects and expansive monetary policy (see Figure 3). However, the real economic development this year has not been as negative as implied by the money market and leading indicators, which has contributed to rising share prices so far this year both in Sweden and internationally (see Figure 4).

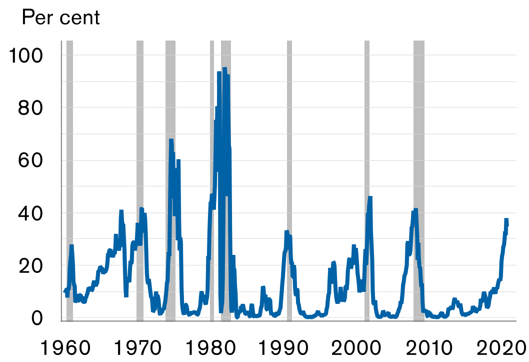
The fall in interest rates has entailed negative rates in most maturities in many countries. In Sweden, government bond yields since the summer have been negative for all terms of maturity up to ten years. The yield on US government bonds with a ten-year maturity has almosed halved since November last year, while the yield on government bonds with a shorter term to maturity has not decreased to the same extent. The drastic decline in long-term yields caused the US yield curve to invert at the beginning of the summer, i.e. yields for shorter maturities were higher than for longer maturities. This has, in turn, prompted economic unease. Historically, slope of the yield curve has been a highly accurate indicator of recession, and it now points towards a significantly increased risk of recession in the US (see Figure 5).

**Figure 4. International stock markets**




Source: Macrobond.

**Figure 5. Probability of a US economy recession within 12 month**




Note: Model based on the slope of the US yield curve (10-year government bond yield minus yield on 3-month Treasury Bill). The shaded areas in the figure mark periods when the US exonomy has been in recession.
Sources: Federal Reserve Bank New York and Macrobond.

In the search for yield, the rates on riskier bonds have also decreased. One of many examples is that the interest rate differential, or spread, between Italian and German government bonds, which has been elevated since spring 2018, has fallen significantly in recent months. In Denmark, yields on mortgage bonds have become negative. Yields on corporate bonds in the US and Europe have declined approximately in line with the yields on comparable government bonds. The difference in interest between corporate bonds and government bonds, which is a measure of the risk premium on corporate bonds, remains low in comparison with the historical average.

## The tasks of the Debt Office are affected by the low interest rate situation

In recent months, government bond yields in a number of countries have become negative for most maturities. It is unique that the yield curve shows this pattern. In addition, there have been signals from several central banks that monetary policy will continue to be expansionary in the coming years, which implies that the low interest rate situation will be sustained in the longer term.

However, there has been a declining trend in interest rates over several decades. This is in part due to structural changes in, for example, demographics, saving in emerging markets, and public sector investments. These changes have affected preferences for saving and investment at the global level, which have caused the global neutral real interest rate[2]to fall. That, in turn, has caused interest rates to gradually decline to ever lower levels.[3]

Low rates in the longer term would affect the Debt Office's assignment in several ways: through the impact on central government debt management and forecasts for the government borrowing requirement. There are, however, differences between how these areas are affected and reason to believe the effects will emerge over different lengths of time.

*Central government debt management.* The slope of the yield curve affects which maturities are most advantageous for central government borrowing. The declining trend in the interest rates globally along with a more pessimistic outlook towards the coming business cycle have affected the yield curve mainly through lower interest rates. In addition, asset purchases under the expansionary monetary policy and investors' search for yield have pushed down rates along the entire yield curve and affected both turnover and liquidity in the government securities market.

*Forecast for the central government borrowing requirement.* A lower neutral interest rate influences the effects of monetary policy, given a certain policy rate, and the conditions for fiscal policy. This, in turn, has consequences for forecasts for the macroeconomic development, including GDP growth and the pace at which prices increase, that form the basis for the central government borrowing requirement.

*The central government budget.* The low or negative interest rates reduce the central government's borrowing costs, but this affects how much money is deposited in tax accounts. In recent years, there has been an increase in private individuals and companies using deposits in tax accounts as a form of investment. This, in turn, becomes an expensive and involuntary type of loan for central government. To counter the inflow to tax accounts, the interest rate on the accounts was reduced to zero. Nevertheless, tax accounts remain an attractive investment option mainly for businesses. Continued negative interest rates, along with banks stating that they will introduce negative rates on deposit accounts, could cause the inflow to tax accounts to continue.

[2] The neutral real interest rate is the interest rate level compatible with balanced resource utilisation.
[3] See, for example, Rachel, L., och Smith, T., *Secular drivers of the global real interest rate. Working Paper No. 571.* Bank of England (2015).

## Weak growth in the Swedish economy

After several years of strong growth, the Swedish economy has slowed. This became evident when the revised GDP outcome showed that growth was already low in the first quarter of the year. Thereby, there has been almost no growth in the Swedish economy in the first half of 2019.

Various indicators also point to a slowing of growth. The Riksbank's measure of resource utilisation, the RU indicator, has fallen in the last three quarters and both the National Institute of Economic Research's (NIER) Economic Tendency Indicator and the Purchasing Managers' Index (PMI) show the same trend (see Figure 6). The drop in the Economic Tendency Indicator is mainly due to the worsened situation in the manufacturing industry, but households have also become more pessimistic about future economic development. The PMI also shows a slowdown throughout the business sector and less optimism within both manufacturing and services.

In the previous forecast, the Debt Office assessed the economy to be in a slowdown phase, which now appears to have occurred earlier and progressed further than expected. This has contributed to a lower forecast for GDP growth for both 2019 and 2020. After these two years of relatively weak growth, the economy is expected to grow somewhat faster when domestic demand increases, supported by monetary policy that continues to be expansionary. However, growth is still under the historical average. GDP is expected to grow by 1.3 per cent in 2019, 1.1 per cent in 2020, and 1.6 per cent in 2021 (see Tables 2 and 3).

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

| Percentage change[1] | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **GDP** | **2.3** | **1.3** | **1.1** | **1.6** |
| Household consumption | 1.6 | 1.0 | 1.6 | 1.9 |
| General gov't consumption | 0.4 | 0.7 | 0.7 | 1.0 |
| Gross fixed cap. formation | 4.6 | -1.0 | 0.6 | 1.3 |
| Change in inventories[2] | 0.4 | -0.1 | 0.0 | 0.0 |
| Exports | 3.1 | 4.0 | 2.7 | 3.5 |
| Imports | 3.6 | 1.9 | 2.8 | 3.4 |
| Net exports[2] | -0.2 | 1.0 | 0.1 | 0.1 |
| **GDP (calendar adjusted)** | **2.4** | **1.3** | **0.9** | **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 change | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **GDP** | **0.0** | **-0.6** | **-0.3** | **-** |
| Household consumption | 0.4 | -0.3 | -0.5 | - |
| General gov't consumption | -0.5 | 0.0 | -0.3 | - |
| Gross fixed cap. formation | 0.6 | -1.9 | -0.7 | - |
| Change in inventories[2] | 0.0 | 0.0 | 0.1 | - |
| Exports | -0.8 | -0.2 | -0.4 | - |
| Imports | -0.1 | -0.6 | -0.8 | - |
| Net exports[2] | -0.3 | 0.1 | 0.1 | - |
| **GDP (calendar adjusted)** | **0.0** | **-0.6** | **-0.3** | **-** |

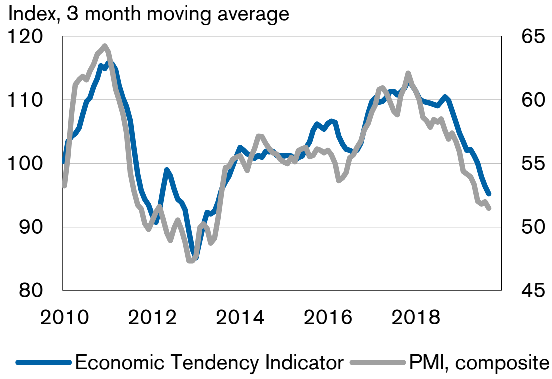
### Net exports sustain Swedish growth in 2019

In the first half of 2019, foreign trade has compensated for the increasingly weaker domestic demand. Despite both a deterioration in the state of the global economy and the ongoing trade conflict between the US and China causing world trade to decrease, Swedish exports have been affected less negatively than the international situation may imply.

Due to a weak Swedish krona, a large share of trade in the rest of the Nordic region, and a relatively high proportion of services exports, Sweden has not been affected to the same extent as, for example, Germany. In Sweden, services exports account for 30 per cent of the export total while the corresponding share for Germany is just under 18 per cent. In the coming years, however, growth in Swedish exports is expected to slow again, to be more in line with the weak growth internationally and the deteriorated situation in the Swedish manufacturing industry (see Figure 2).

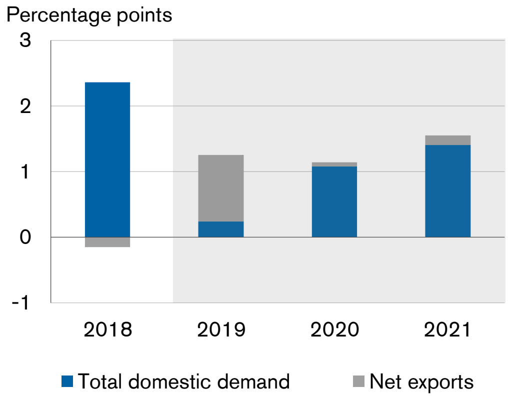
Imports have developed weaker than expected in the first half of 2019, which means that the overall contribution from net exports will be high for the current year (see Figure 7). This contribution decreases in 2020 and 2021 as the level of imports adjusts to the prevailing export growth and a recovery in domestic demand.

**Figure 6. Economic Tendency Indicator and Purchasing Managers' Index**




Note: PMI (right axis) refers to both the manufacturing industry and the service sector.
Sources: NIER and Swedbank/Silf.

**Figure 7. Domestic demand and foreign trade**




Sources: Statistics Sweden and the Debt Office.

**Weak domestic demand as investments and household consumption slow down**

Since just over a year ago, there has been a pronounced decrease in domestic demand in the economy. Pressure to invest in the business sector has abated, clearly as a result of declining housing investments. Simultaneously, there has been a relatively sluggish increase in both household and public consumption.

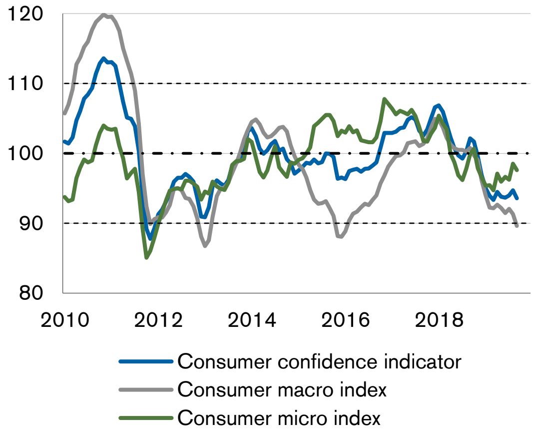
The weak development in domestic demand is sustained for the duration of 2019 and stays relatively weak in 2020. Investments increase again in 2021 because of, among other things, an increase in public sector investments. There is also a renewed increase in the need for business investments, while housing investments cease to decline.

*More pessimistic view of Swedish economy hinders household consumption*

Growth in household consumption developed weakly at the end of 2018 and beginning of 2019, entailing that growth for the whole of 2019 will be relatively low, despite expectations of some recovery in the second half of the year. Two reasons for the weak growth are lower car sales following revised tax regulations and lower consumption abroad due to the weaker krona. In addition, households' have become more pessimistic in 2019 towards the Swedish economy and the labour market, which is apparent in the Economic Tendency Survey's Macro Index (see Figure 8). This more negative outlook is expected to follow the general decline of the business cycle in 2020 and lead to more restrained household spending. Households are not expected to moderate their saving in order to increase their consumption. Rather, household savings are expected to stay at the same historically high level throughout the forecast period (See Figure 9.) In pace with the improvement in the economy, consumption picks up in 2021, growing close to a historical average.

**Figure 8. Consumer confidence indicator**

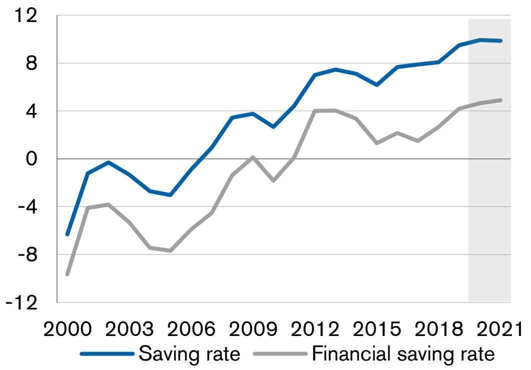
Index, mean=100, 3 months moving average




Note: The micro index summarizes households' view of their own economy and the macro index their view of developments in the Swedish economy.
Source: NIER

**Figure 9. Household's saving rate**

Per cent of disposable income




Note: Refers to savings excl. savings in occ. pensions. Non-profit institutions serving households (NIPISH) included.
Sources: Statistics Sweden and the Debt Office.

*Revised household consumption statistics show lower savings*

The five-year review of the National Accounts conducted in conjunction with the outcome for the second quarter of 2019 boosted household consumption statistics, which affects the savings picture historically. This caused the savings measured in 2010 and onwards to fall by a couple of percentage points. Households' financial savings, which excludes real savings in mainly single-family homes, also includes amortisation. These payments are estimated, with the aid of statistics from Finansinspektionen (the Swedish Financial Supervisory Authority), to be around 2 per cent of disposable income[4]. When amortisation is excluded, the part of household savings that can more easily be used for consumption is no longer as high and thereby constitutes less of a buffer for households in times of lower income. For a long time, there was a historical pattern of household savings increasing when the economy was poor and decreasing when it was better. This pattern was broken when the saving rate continued to increase even after 2015 when there was an upturn in the Swedish economy. As a result, it is now more difficult to assess how households will adjust their consumption in relation to their saving.

*Demographic development in the coming years affects public consumption*

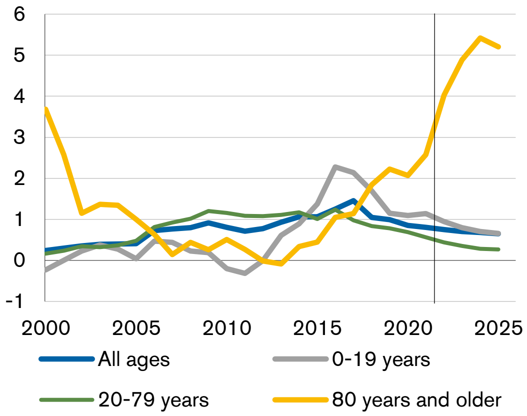
Total public consumption is expected to grow in line with the historical average throughout the forecast period. However, consumption increases gradually during the forecast period, because of, among other things, the significant challenge posed by the growing shares of young and old people in the population. This trend gradually intensifies in the coming years. Healthcare costs and care costs for the elderly over 80 are high and there will be increased pressure on consumption within municipalities and county councils. In terms of number of people, the largest increase is in the group

[4] See the the in-depth box *How high are Swedish household savings*, Central Government Borrowing – Forecast and analysis 2019:2. Swedish National Debt Office.

who are able to work – but, as the costs are so much higher in the older group, there is an impact on public finances. This group is expected to grow increasingly faster, especially in the years following the forecast period (see Figure 10).

**Figure 10. Demographic development in Sweden**

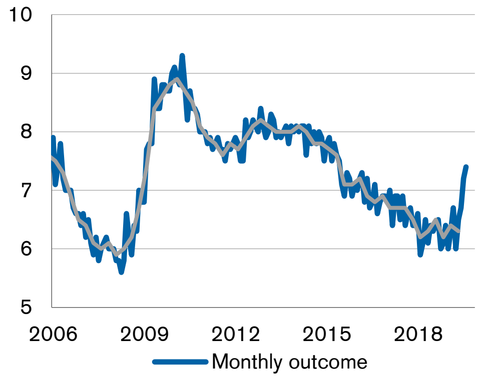
Annual percentage change




Note: Population projection from 2019. The end of the forecast period is 2021.
Source: Statistcs Sweden.

**Figure 11. Unemployment rate**

Percentage of the labour force




Source: Statistics Sweden.

## Employment falls and unemployment rises

The labour market has continued to weaken and indicators such as a labour shortage show that the peak of the labour-market cycle has been passed. The latest results of the Labour Force Survey (LFS) also indicate that the labour market has deteriorated rapidly with, for example, a distinct increase in unemployment (see Figure 11). It is, however, difficult to combine parts of the picture presented in the LFS with data from other statistical sources, entailing some degree of uncertainty in the analysis and forecast (see the in-depth box *Some uncertainty in the portrayal of the labour market* at page15).

Altogether, as measured in the LFS, unemployment is expected to rise considerably in the forecast period, although mainly as a consequence of the increase that has already occurred to 6.7 per cent this year, 7.1 per cent in 2020 and 7.2 per cent in 2021 (see Table 4).

### Large employment decrease concentrated to the local government sector

The labour-market development is divided in two. The labour market in the private sector has thus far followed the cyclical development in the rest of the economy and slowed down. This decrease is in line with the previous forecast, and the NIER's confidence indicators point to the downward trend continuing next year.

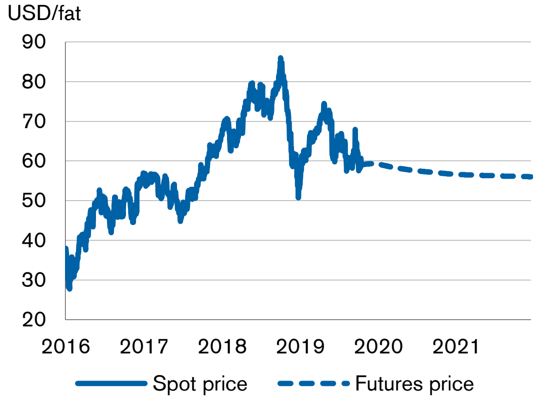
In the local government sector, which also includes county councils, there has been a pronounced fall in employment, according to the LFS. The decrease deviates from the situation in the rest of the labour market and is difficult to explain. The development is also unexpected considering the demographic challenges described in the previous chapter on public consumption. Uncertainty about the present situation affects forthcoming assessments to some extent. As the rest of the statistics do not definitively support the steep decrease in the LFS, the Debt Office's assessment is that the LFS in periods ahead will show that the decline in local government sector employment abates and then grows slowly the following year. Altogether, employment increases slowely during the forecast period.

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

| Percentage change | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Labour force | 1.4 | 0.8 | 0.5 | 0.4 |
| Employment | 1.8 | 0.3 | 0.1 | 0.3 |
| Unemployment[1] | 6.3 | 6.7 | 7.1 | 7.2 |
| CPIF | 2.1 | 1.7 | 1.7 | 1.8 |
| Hourly wage (NA) | 2.2 | 2.7 | 2.9 | 3.0 |
| Wage sum | 4.8 | 3.8 | 3.1 | 3.4 |

[1]Per cent of the labour force.
Sorces: Statistics Sweden, The Swedish Tax Agency and the Debt Office.

**Figure 12. Brent oil, price and futures price**




Note: Futures prices as of October 16, 2019.
Sources: Intercontinental Exchange (ICE) and the Debt Office.

## Foreign-born group continues to contribute to labour-force growth

Just as with employment, labour force development has been weaker than expected. This is mainly due to the considerably negative contribution in recent quarters from the group of people born in Sweden. The group of people born abroad has developed more in line with expectations and is expected to continue to contribute positively to the labour force. This development corresponds well with the fact that issuance of new residence permits continues to be at historically high levels and the proportion of those who receive them for labour-market reasons continues to increase. The contribution from the group born abroad is expected to remain positive in the coming years, which contributes to the labour force increasing at a solid pace and employment continuing to rise in the forecast period.

## Slower payroll growth due to dampened state of the economy

Wages are expected to continue to grow somewhat faster in the coming years, primarily as a consequence of the new contracts to be concluded in the upcoming wage round in 2020. The change in the rate of increase is relatively small, though. The effect on payroll development of the somewhat higher wage increases is more than offset by a distinct decrease in the number of hours worked. This causes payroll growth to taper off both this year and the next, after which it increases again in 2021. This is in line with the overall picture of the economy.

## Few signs of higher inflation

In the coming years, inflation is expected to continue to fall short of the inflation target of 2 per cent. Despite the strong economy of recent years and high resource utilisation, wages have increased relatively slowly and the rates of increase are expected to be moderate during the forecast period. In addition, inflation expectations have recently fallen somewhat and indicate inflation will be slightly under 2 per cent in periods ahead. Model estimates also indicate a moderate rate of inflation in the longer term. The Debt Office forecasts CPIF inflation for the coming years at levels just over the historical average (see Table 4).

Energy prices in recent years have contributed to increasing the rate of inflation, which they are expected to continue doing in the near term. In the slightly longer term, they are expected to dampen the inflation rate instead. This is due to, among other things, a declining oil price in the forecast period, as indicated by oil futures pricing (see Figure 12).

Looking ahead, the development of the krona is expected to reduce inflationary pressure. Money market participants, for example, expect the Swedish krona to gain strength slowly against both the US dollar and the euro during the forecast period.[5] This likely reflects an expectation of a more expansionary monetary policy in Sweden than internationally in the coming years.

## Some uncertainty in the portrayal of the labour market[6]

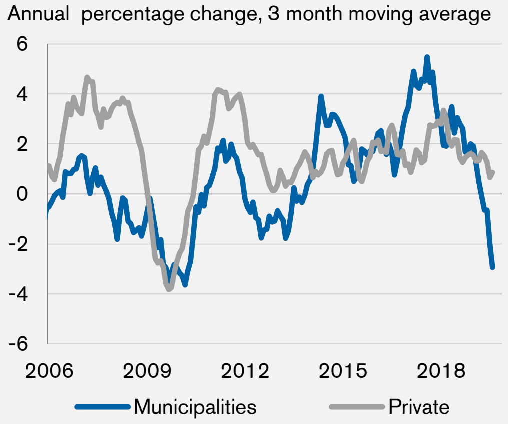
In recent months, the Labour Force Survey (LFS) has shown a steep drop in employment in the local government sector. This development is in stark contrast to the significantly larger private sector in which employment continues to increase (see Figure 13).

**Why is there a sharp decrease in the local government sector?**
There are several potential explanations for the local government development in the LFS, but none of them sufficiently explains the size of the fall or the speed with which it has occurred. One possible explanation is that there has been a marked decrease in labour market policy programmes over the year, for example the “Extra Services”.

[5] Prospera, September 2019.

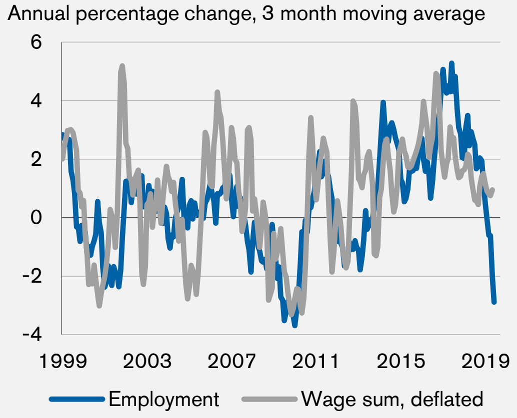
[6] After the deadline for new information in this report was passed, Statistics Sweden published a press release stating that it has identified shortcomings in the data collection for the LFS. These deficiencies have affected the quality of the statistics and will lead to future revisions. For example, the assessment is already being made that unemployment is currently overestimated.

**Figure 13. Employment in two sectors**




Note: In the municipal sector, employment in county councils is included.
Source: Statistics Sweden.

**Figure 14. Employment and deflated wage sum in local government**




Note: Wage sum is deflated by local government wage growth.
Sources: The National Tax Agency, Statistic Sweden and the Debt Office.

The potential effect of the decrease is, however, significantly less that the total decline in employment by around 50,000 people, corresponding to 4 per cent, that occurred in the sector in one year. The decaying measurement error in the LFS, which stems from how newly arrived asylum seekers who have received residence permits are included in the statistics, is also insufficient as an explanation both in regard to size and point in time.[7] The same conclusion is made for pension withdrawals. The general strained state of the economy at the local government level and the abandonment of the extra services, which appeared in conjunction with the wave of asylum seekers in 2015, are both potentially plausible explanations for the reduced employment. However, it is less likely that they, within just a few months, would lead to a decrease on par with the rate of deterioration measured during the global financial crisis of 2008–2009.

**The picture presented in the Labour Force Survey is not fully supported by the other statistics**

The rapid and drastic decline according the LFS deviates from what other labour market statistics portray, such as the redundancy and unemployment statistics from Arbetsförmedlingen (the Swedish Public Employment Service). What is more conspicous, however, is that those statistics also appear to deviate from the payroll development. Slowdowns in employment are usually matched by a corresponding slowdown in payroll growth (adjusted for wage increases) – which occurred in 1999–2000, 2007–2009, and 2011–2012 (see Figure 14). Moreover, the payroll results derive from actual disbursements, which entails less uncertainty than surveys.

[7] See the in-depth box *LFS overestimates employment due to newly arrived migrants* in Central Government Borrowing – Forecast and Analysis 2017:2. Swedish National Debt Office, on the measurement error in the LFS.

The outcome of recent months shows that payroll development in municipalities and county councils is difficult to correlate with the steep decline in employment. Given how the correlation looked in the past, the development of the deflated wage sum indicates that employment in municipalities and county councils would be roughly unchanged compared with a year ago, instead of having fallen by the corresponding 40,000 employed. This simple method for estimating the possible error is subject to great uncertainty, but still implies that that the discrepancy between other statistics is relatively large. Naturally, the situation could change in coming months. Currently, however, it is reasonable to believe that the picture of the local government sector presented by the LFS is somewhat more pessimistic than the actual development.

## Risk of weaker development worsening further

In summary, the Swedish economy has developed weaker than expected in the Debt Office's assessment from the previous forecast. The slowing of both GDP growth and the labour market has occurred faster than expected. In addition, confidence indicators and labour shortage figures indicate that the abatement will continue. Overall, this has led to downward revisions in the forecasts. In the current year and the next, weak growth is expected for the Swedish economy followed by somewhat of a recovery in 2021. However, there is a risk that the forecasts will need to be revised due to several factors.

**International risks dominate**

One of the largest risk factors is in connection with the low interest rate environment. Several central banks have lowered policy rates from already low or even negative levels at the same time as they indicate additional monetary policy easing to counteract a worsening economic development. Market interest rates have also fallen to very low levels. The development brings up the issue of how long and to what extent sustained low rates can stimulate the economy. The low rates have also given rise to increased risk taking in the financial markets when investors have sought out riskier assets in the search for yield. If the economy develops worse than expected, rapidly rising risk premia and falling assets prices could result. This could, in turn, intensify an economic downturn. At the same time, the more expansionary monetary policy could lead to higher-than-expected growth. It is also possible to stimulate the economy through more expansionary fiscal policy, which is being discussed in Germany, and also mentioned by government representatives.

The slowdown in world trade has come in the wake of a global downturn in economic activity. However, the slowing has likely been intensified by both the ongoing trade conflict between the US and China and the remaining uncertainty as to how the UK's withdrawal from the EU will transpire. Viewed in terms of Swedish exports, a persistent weakening of the krona has partially counteracted this effect. The outcome of the trade conflict, Brexit, the development of the deteriorated relations between Iran and the US and other geopolitically strained situations can, along with the krona's development, affect Swedish exports in the future. All the risks mentioned have the potential to significantly change the situation for the worse in the relatively short term. At the same time, a more favourable development than expected could lead to higher growth. If this were to happen, there would likely be a slow improvement, for example in keeping with how improved trade relations tend to gradually lead to increased trade volumes.

The analysis of the Swedish labour market entails some degree of uncertainty because the rapid and drastic deterioration presented in the Labour Force Survey (LFS), mostly in the local government sector, is not fully supported by other available statistics. In addition, there is relatively limited statistical data reflecting the development in the local government sector, which adds to the uncertainty in the overall assessment.

In the short term, payroll development primarily in the local government sector is the most important indication of the extent of the slowdown in local government sector employment. Above all, it is an indication of how it will affect the central government borrowing requirement. And there are still no signs of local government sector payroll growth diminishing to the extent indicated by the decrease in employment in recent months according to the LFS. The large discrepancy between the two variables is a source of uncertainty in the labour market analysis.

# Large budget surplus this year shifts to deficit in 2020 and 2021

Due to the economic slowdown in Sweden, the central government's income from taxes grows more slowly while expenditure rises. At the end of the forecast period, a net outflow of capital investments in tax accounts is also expected, which contributes to further reducing the central government budget balance. For the present year, the budget balance is still expected to show a surplus, bolstered by the Riksbank's loan repayments. The surplus subsequently shifts to a deficit in both 2020 and 2021.[8]

## Low growth and tax cuts lead to lower budget balance

The development of the central government primary balance is characterised by a slowdown in the economy. Growth in government income from taxes is therefore estimated to slow significantly compared with the most recent years, while expenditure rises. The largest effects are from value added tax income on housing investments and capital taxes. In addition to a weaker macroeconomic development, the primary balance is also affected by the Budget Bill for 2020, which altogether amounts to around SEK 24 billion in unfunded reforms. This, along with an expected outflow of capital investments from tax accounts in 2021 contributes to a decrease in the primary balance during the forecast period.

Net lending by the Debt Office has a positive effect on the budget balance in 2019 as the Riksbank will not be refinancing large loans that have matured. There is a marked decrease in interest payments on central government debt between 2020 and 2021 due to the high nominal yield on the bonds maturing in 2020.

Considering all these factors, the Debt Office expects a central government budget surplus of SEK 113 billion for 2019, which then shifts to a deficit of SEK 17 billion in 2020 and SEK 27 billion in 2021 (see Table 1).

[8] Information until and including the 10th of October 2019 have been taken into account in the forecast.

**Tabell 1. Central government budget balance, forecast 2019-2021**

| | 2019 | | 2020 | | 2021 |
|---|---|---|---|---|---|
| **SEK billion** | Oct | (Jun) | Oct | (Jun) | Oct |
| **Primary balance**[1] | 70 | (75) | 31 | (30) | -1 |
| SNDO Net lending[2] | 65 | (66) | -23 | (-19) | -21 |
| of which on-lending | *67* | *(67)* | *-8* | *(-6)* | *-8* |
| Interest payments | -22 | (-20) | -25 | (-30) | -4 |
| **Budget balance**[3] | **113** | **(121)** | **-17** | **(-19)** | **-27** |
| **Budget balance excl. capital investments in tax accounts** | **113** | **(121)** | **-17** | **(1)** | **-2** |

[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. The Table shows net lending and interest payments with opposite sign compared to Tables 4 and 5. Information up until 10th of October has been used.

## Lower income shrinks the primary balance

In the forecast period, a weak development for government tax income contributes to a gradual decline in the primary balance. For 2021, the balance is burdened by an expected decrease in capital investments in tax accounts and the assumption of unfunded reforms. At the same time, overall central government expenditure increases at the same rate as previously.

### Payroll tax cuts contribute to a reduction in central government income

The Budget Bill for 2020 contained several proposals for tax cuts on wages, the largest of which was to abolish the austerity tax and to provide a tax reduction for pensioners. At the same time, the weaker development in the labour market leads to slower growth in income from payroll taxes. Due to both these effects, central government tax income is lower than previously estimated (See Tables 2 and 3).

A large part of the aggregate tax income from wages goes to local governments via municipal tax[9]. The amounts to be disbursed by the central government to local governments next year will be lower than calculated, which is primarily because of the lower payroll growth. This means that tax income for the central government does not decrease to the same extent in 2020 as it would have otherwise.

### Income from consumption taxes decreases as domestic demand falls

In the coming year, household consumption diminishes and investments develop very poorly, with housing investments in particular falling. As opposed to investments in many other sectors, housing investments are at the end of the production chain and thereby are hit by the full effect of value added tax charges. Because housing investments are also volatile, they have a significant effect on value added tax income, both when they rise and fall. Altogether in the forecast period, the

[9] In the short term, the income to local governments from municipal tax is predetermined by the fact that the central government collects all taxes continually and pays out fixed amounts to municipalities. After two years, local taxes and state taxes are settled.

deterioration of the economy is expected to lead to a weaker-than-expected increase in value added tax income than in recent years. The weaker development for value added tax is partially offset by a relatively strong development in selective taxes (excise duties), driven primarily by regulatory changes with increased and new environmentally related taxes. However, total income from consumption taxes is expected to decrease (see Table 3).

### Central government income from corporate taxes slows in line with the economy

The strength of the economy in recent years has led to relatively quick growth in profits in the business sector. As the economy now slows, corporate profits and thereby central government income from corporate taxes are expected to grow more slowly (see Table 3). Forward-looking indicators such as Business Sweden's Export Managers' Index (EMI) have fallen in recent quarters. At the same time, the Purchasing Managers' Index (PMI) shows that the entire business sector, especially the manufacturing industry, has become more pessimistic about future economic development. Exports are therefore expected to grow more slowly in periods ahead, restraining profit development in the business sector. At the end of the forecast period, both export and GDP – and thereby profits – are expected to gradually increase at a faster rate.

**Tabell 2. The largest forecast changes**

| **SEK billion** | **2019** | **2020** |
|---|---|---|
| **Forecast June 2019** | **121** | **-19** |
| **Primary balance** | **-5** | **1** |
| *Of which:* | | |
| Tax income excl. capital investments in tax accounts | -3 | -16 |
| Capital investments in tax accounts | 0 | 20 |
| Dividends | 0 | 0 |
| Government grants to local governments | 0 | -4 |
| Labour market | 4 | -1 |
| Social insurance | 0 | -1 |
| Migration | 0 | 0 |
| International aid | -1 | 0 |
| Other | -5 | 4 |
| **SNDO Net lending** | **-1** | **-4** |
| *Of which:* | | |
| On-lending | 0 | -1 |
| **Interest payments** | **-1** | **4** |
| **Forecast October 2019** | **113** | **-17** |
| ***Sum of changes*** | **-7** | **2** |

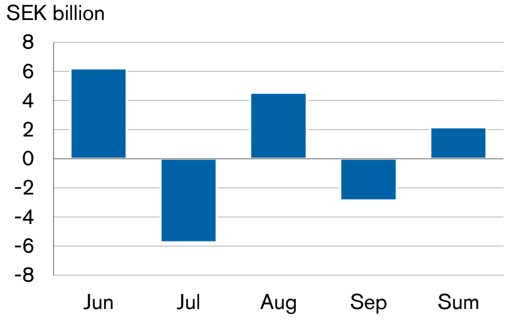
Note: The table shows changes in terms of budget balance. A positive amount means that the budget balance improves and vice versa.

**Tabell 3. Tax income, change from previous forecast**

| SEK billion | 2019 | 2020 |
|---|---|---|
| Payroll taxes | 5 | 1 |
| Consumption taxes | -2 | -4 |
| Corporate taxes | -1 | -2 |
| Supplementary taxes | -5 | 10 |
| **Total** | **-3** | **4** |

Note: The table shows changes in terms of budget balance

**Figur 1. Central government tax income, deviation outcome – forecast**

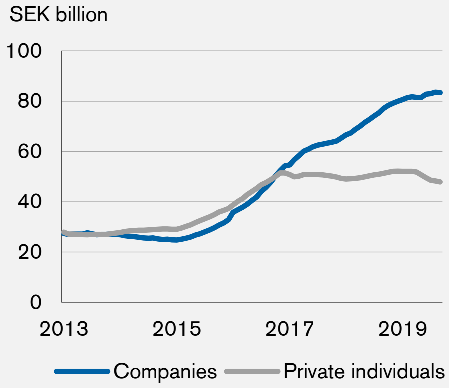



Sources: Swedish tax agency and the Debt Office.

## Low interest rates and capital investments in tax accounts

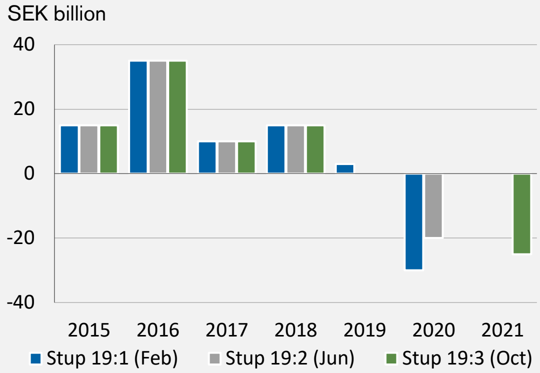
Since 2015, there has been a significant inflow of what the Debt Office refers to as capital investments in tax accounts, which are currently estimated at around SEK 75 billion. This inflow is due to the positive difference in interest rates, which still exists, on tax accounts and other comparable investments options. On 1 January 2017, the interest rate on tax accounts was lowered from 0.56 per cent to 0 per cent, causing deposits by private individuals to level off. Investments from companies, however, continued to increase. This is likely due to the difference in how businesses and private individuals have encountered negative interest rates.

**Figur 2. Balance in tax accounts**




Source: Swedish tax agency

**Figur 3. The Debt's offices assessment of net capital investment flows to the tax accounts**




Note: The figure shows the net flow of capital investments to the tax accounts.
Sources: Statistics Sweden, Swedish tax agency and the Debt Office.

When the Debt Office makes forecasts for deposits and withdrawals of capital investments from tax accounts, an important factor is assessing forthcoming interest rate developments. Since 2015, market expectations have been for interest rates to rise within one or two years. Therefore, it has been reasonable to presume that at some point in the forecast period there would be a significant amount of withdrawals from tax accounts when rising interest rates made other investment options more advantageous. At present, market pricing indicates that it will be some time before interest rates increase and become distinctly positive. After this summer, for example, forward interest rates have indicated that market participants do not expect short-term interest rates to rise in the coming two years.

Other factors may also lead to both the increase and decrease of capital investments in periods ahead. In recent years, there has been strong growth in the Swedish economy that has affected liquidity for businesses. When the state of the economy deteriorates, which is the assessment in the forecast, companies' deposits in tax accounts may possibly decrease in response to the worsened liquidity for businesses. But it is also possible that interest rates on other investment options will be affected – for example by more and larger customer groups encountering negative interest rates on bank deposits, which has been the case in Denmark. A development of this kind would likely entail an increase in deposits in tax accounts instead.

The Debt Office's assessment is that the level of capital investments in tax accounts will remain unchanged next year, compared with the previous forecast's expectation of withdrawals amounting to SEK 20 billion. In 2021, withdrawals totalling SEK 25 billion are expected (see Figure 3). The forecast is, however, associated with a large degree of uncertainty.

If tax accounts continue to be used for capital investments further regulatory changes may be called for. These regulatory changes may serve to restrict keeping large sums in tax accounts beyond what is required for paying taxes. Deposits in tax accounts can become a detriment to the functioning of the money market and are also an expensive form of borrowing for the central government. Instead of 0 per cent interest on tax accounts, the Debt Office could have otherwise borrowed at negative interest in the market. Given current interest rate levels and market participants' expectations for the forecast period, the increased borrowing cost corresponds to an extra cost for central government of SEK 0.3 billion per year until 2021.

**Only marginal increase in social insurance expenditure**

Expenditure in social insurance is expected to remain at essentially the same level in 2019 and 2020 as in the previous forecast (see Table 2). The forecast for sickness benefit expenditure has been revised downwards, mainly because of a lower inflow of people into the social security system. However, the forecast for the parental benefit has been raised, partly because Försäkringskassan (the Swedish Social Insurance Agency) changed its forecast model for estimating parental benefit payments.

The Budget Bill for 2020 proposed improving basic coverage for pensioners. [10] This proposal was already included in the previous forecast. New for this forecast is that insurees living abroad in EU countries still receive a national basic pension in 2020. This increases forecast expenditure by around SEK 0.5 billion this year. Additionally, somewhat more accommodating rules for state assistance compensation are proposed, but this is assessed to only have a marginal effect on expenditure.

Low price and wage pressure hinder the general cost increase for social insurance, as large parts of it are adjusted upwards with price base amounts and wage increases. This means that expenditure in social insurance in 2021 is expected to increase somewhat compared with 2020 (see Table A5 in the Appendix).

**Labour-market related expenditure is temporarily lower in 2019**

Labour market-related expenditure for 2019 is expected to be SEK 4 billion lower than in the previous forecast, mainly because of lower-than-expected outcomes.

In the Budget Bill for 2020, however, Arbetsförmedlingen (the Swedish Public Employment Service) receives some additional funding. Together with the increase in unemployment benefit fund (a-kassa) expenditure, labour market-related expenditure is expected to be SEK 1 billion higher in 2020 compared with the previous forecast. Unemployment benefit expenditure is expected to rise in 2021.

**A lower EU fee ahead but a high degree of uncertainty**

The forecast for Sweden's fee to the European Union for 2019 and 2020 is lowered from the level in the previous forecast in June. This is because Sweden received repayments from the EU during the year. The forecast for 2020 is also lower than in June. This is a result of the EU Commission having recalculated the fees for different countries in the budget for 2020, by which Sweden's fee was lowered. The EU fee is expected to increase every year during the forecast period. This forecast, however, is associated with great uncertainty because the work on a new long-term budget is still ongoing.

## Increase in the Debt Office's net lending

Net lending by the Debt Office to government agencies is expected to increase compared with the previous forecast, which contributes to weakening the budget balance, mostly in 2020 (see the in-depth box *Net Lending by the Debt Office* on page 26). The revision is partly due to an expansion of Trafikverket's (the Swedish Transport Administration) line of credit at the Debt Office in the Budget Bill for 2020. It is also partly due to the currency exchange effects impacting the foreign currency

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[10] S2019/00462/SF, Improved basic coverage for pensioners, Ministry of Social Affairs

loans the Debt Office has raised on behalf of the Riksbank. The weaker krona means that the loans maturing next year will become more expensive to refinance. Each of these two changes is expected to increase the Debt Office's net lending by over SEK 1 billion. In addition, deposits from the premium pension system are expected to be lower as a result of slower payroll growth. Compared with the previous forecast, aggregate net lending is SEK 1 billion higher for 2019 and SEK 4 billion higher for 2020 (see Table 2).

The Debt Office's net lending is expected to amount SEK -65 billion in 2019, SEK 23 billion in 2020, and SEK 21 billion in 2021 (see Table 4). Net lending this year is affected by the Riksbank repaying large loans. For 2020, net lending increases, mainly from increased lending to CSN (the Swedish Board of Student Finance) and Trafikverket. In the Budget Bill for 2020, Trafikverket's lending framework is reduced for 2021, which contributes to a decrease in net lending compared with the previous year.

**Tabell 4. The Debt Office's net lending**

| SEK billion | 2019 | 2020 | 2021 |
|---|---|---|---|
| Lending | -57.4 | 25.8 | 24.0 |
| *Of which:* | | | |
| Swedish board of student finance | 6.9 | 8.0 | 8.7 |
| Swedish Transport Administration | -0.5 | 6.4 | 4.5 |
| On-lending to the Riksbank | -67.4 | 7.9 | 8.0 |
| Other | 3.7 | 3.5 | 2.8 |
| Deposits | 4.5 | 2.7 | 2.7 |
| *Of which:* | | | |
| Swedish board of student finance, credit reserve etc. | 1.3 | 1.9 | 2.0 |
| Resolution reserve | 5.8 | 3.3 | 3.4 |
| Premium pension system, net[1] | -0.5 | -2.8 | -3.1 |
| Other | -1.6 | 0.3 | 0.3 |
| **Net lending** | **-64.5** | **23.2** | **21.4** |

[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 is an item on the expenditure side of the central government budget. This means that if the Debt Office's 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 (treasury), at the Debt Office. Net lending covers both continual 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 can cause major temporary variations in net lending, as they can entail large sums and may be decided at short notice.

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.

## Interest payments on central government debt decrease in 2021

Declining interest rates are gradually impacting the stock of outstanding government bonds, which becomes apparent as coupon payments decrease between 2020 and 2021. The decrease between the years is also due to the Debt Office paying out inflation compensation for the inflation-linked bonds maturing in 2020. Central government interest payments are greater this year and the next, at just over SEK 20 billion per year, to reach SEK 4 billion in 2021 (see Figure 4 and table  5).

The forecast for this year is revised upwards by around SEK 1 billion compared with the previous report. This is due to planned switch auctions of inflation-linked bonds in which the Debt Office buys back bonds with a relatively low nominal yield. Since market rates have fallen, the repurchase price is higher. The long-term cost is not affected, though, because the Debt Office is simultaneously issuing new bonds at a lower interest rate.

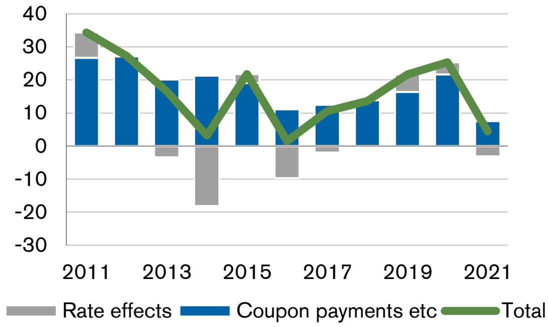
For 2020, the forecast is revised downwards by SEK 4 billion. This is mainly due to the Debt Office increasing the issuance volume of nominal government bonds while market interest rates have fallen, which, in aggregate, provides higher issue premiums.

The Debt Office uses cut-off rates in calculating central government interest payments and in measuring the Riksbank's foreign currency loans. The cut-off date for this forecast is 30 September 2019.

**Tabell 5. Interest payments on central government debt**

| SEK billion | 2019 | 2020 | 2021 |
|---|---|---|---|
| Interest on loans in SEK | 17.3 | 21.0 | 1.0 |
| Interest on loans in foreign currency | -0.6 | -0.1 | 0.3 |
| Realised currency gains and losses | 4.9 | 4.3 | 3.2 |
| **Interest payments** | **21.6** | **25.3** | **4.4** |

**Figur 4. Interest payments, 2011-2021**




Source: The Debt Office.

## Weaker budget balance – tax accounts dominate the risk scenario

Growth in both the economy and the labour market has slowed more than expected, affecting the forecast for the budget balance.

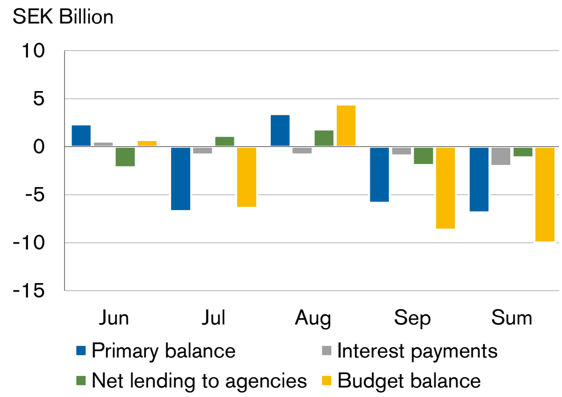
This year, the surplus has been revised downwards by SEK 7 billion because of expenditure and lower income from taxes (see Figures 1 and 5). The Debt Office expects a somewhat lower deficit next year than previously estimated. The lower-than-expected deficit is due to the Debt Office no longer expecting an outflow of capital investments from tax accounts next year. This positive effect outweighs the negative effects of the macroeconomic development. The year 2021 is new to the forecast and was not included in the previous assessment.

### The risk scenario is dominated by the risk of more rapid and larger outflows from tax accounts

There are uncertainties that can affect the budget balance ahead and which are also difficult to allow for in the forecasts. These mainly regard capital investments in tax accounts, particularly the significance of the interest rate development on the inflows and outflows. If interest rates rise more or faster than anticipated, businesses and private individuals may choose to withdraw their deposits to a greater extent, or earlier, than presumed in the forecast. Either of these occurrences would weaken the budget balance. Instead, the budget balance may be boosted if the expected outflows do not materialise or there is an increase in inflows – for example because additional customer groups are met with negative interest rates from banks. Capital investments in tax accounts are also largely affected by the preferences of companies and private individuals, which further increases the difficulty of the assessment.

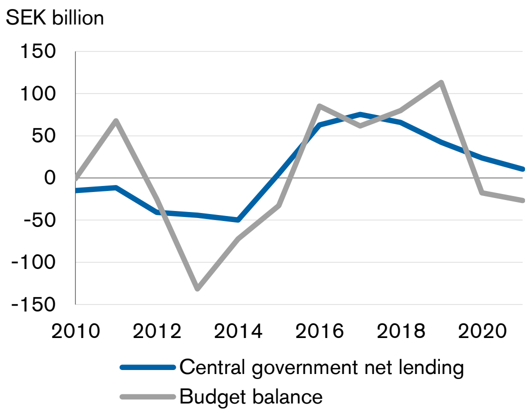
On the expenditure side, Sweden's EU fee could increase if the UK leaves the EU. This would also negatively affect the budget balance. The Debt Office's current forecast does not contain an assessment of how Brexit could affect the EU fee. Sweden is also faced with the demographic challenge of a high birth rate at the same time as the elderly population increases. This could lead to the state having to transfer resources to local governments, thereby weakening the central government budget balance. The Debt Office's assessment is that a future development of this kind currently falls outside the forecast period.

**Diagram 5. Deviations monthly forecast, June 2019 – September 2019**




Note: The figure shows the deviations in budget balance terms. Lower net lending to agencies increases the budget balance.

**Diagram 6. Central government net lending and budget balance, 2010-2021**




Sources: Statistics Sweden and the Debt Office.

## Central government net lending

The four budget policy objectives within the fiscal policy framework are divided into the following areas: surplus target, expenditure ceiling, debt anchor, and keeping local government finances in balance. Central government net lending is followed up on within the parameters of the surplus target. Under the current surplus target, net lending for the general government sector as a percentage of GDP is to amount to one-third on average over a business cycle. The expenditure ceiling entails that the Government shall propose a ceiling for central government and retirement pension scheme expenditure with a three-year horizon. The Riksdag (Swedish Parliament) government then establishes the ceiling. The debt anchor is a target value, or benchmark, set for the size of the general government consolidated gross debt in the medium-term (see also the in-depth box *Different measures of central government debt in the statistics,* on page 40). The current debt anchor is 35 per cent of GDP. The fourth budget policy objective is for all local governments to have budgets in balance.

Central government net lending is the difference between income and expenditure distributed over a period of time. Accordingly, net lending distributes payments between the points in time that the financial activity occurred. The budget balance is instead a cash measure, which means it measures incoming and outgoing payments of liquid resources. Net lending is generally a better indicator of the underlying central government finances than the budget balance.

Net lending can also be defined as the change in the central government's financial wealth excluding changes in value. This means that payments not affecting the state's financial wealth are excluded. The sale of financial assets, on-lending to the Riksbank, and capital investments in tax accounts thereby do not affect net lending. If the central government sells financial assets, assets are reallocated in the balance sheet, which does not affect net lending. However, the budget balance increases with the total sales. When the Debt Office raises loans on behalf of the Riksbank, the central government receives a claim on the Riksbank corresponding to the increase in the central government budget from financing that loan. Net lending for the central government is not affected, while the budget balance decreases by the corresponding amount. Within the framework for net lending, capital investments in tax accounts are measured as deposits instead of as income from taxes. Capital investments in tax accounts thus do not affect net lending, although they boost the budget balance.

According to the Debt Office's forecast, central government net lending is expected to reach 0.8 per cent of GDP this year, 0.5 per cent next year, and 0.2 per cent in 2021 (see Figure 6). This is 0.1 per cent lower than the previous forecast for 2019 and unchanged for 2020 (see Table A1 in the Appendix).

# Increased borrowing next year

Poorer budget outlook, along with large bond redemptions, cause the government borrowing requirement to increase. Starting in January 2020, the Debt Office therefore gradually raises the government bond auction volume. Borrowing in treasury bills also increases from the end of next year. Upon introducing a new government bond in March 2020, the Debt Office plans a couple of larger auctions to build up the volume of the new bond. The purpose of offering outright auctions instead of only switches is to support market liquidity.

## Government bonds are prioritised as borrowing increases

As presented in the previous chapter, a central government budget surplus in 2019 is expected to shift to a deficit next year and in 2021. In addition, there are large bond redemptions at the end of 2020, which increases the total government borrowing requirement. To accommodate the larger borrowing requirement, the Debt Office will progressively raise the issuance volume of nominal government bonds and treasury bills to more historically normal levels. Inflation-linked and foreign-currency borrowing will remain unchanged (see Table 1).

**Tabell 6. Borrowing according to new forecast**

| | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| SEK billion | Oct | (Jun) | Oct | (Jun) | Oct | (Jun) |
| **Money market funding** | **82** | **(68)** | **170** | **(182)** | **124** | **-** |
| T-bills | 20 | (20) | 40 | (30) | 68 | - |
| Liquidity management | 62 | (48) | 130 | (152) | 57 | - |
| **Bond funding** | **57** | **(57)** | **120** | **(97)** | **118** | **-** |
| Nominal government bonds | 30 | (30) | 51 | (30) | 60 | - |
| Inflation-linked bonds | 8 | (9) | 9 | (9) | 9 | - |
| Foreign currency bonds | 19 | (19) | 60 | (59) | 49 | - |
| **Total gross borrowing** | **138** | **(125)** | **290** | **(279)** | **242** | **-** |

Note: Money market funding equals the outstanding stock as at year-end. Liquidity management includes commercial paper.

The size of next year's green bond issuance by the Debt Office is not yet determined and is therefore not presented in the above plan. However, the green bond will not affect the planned borrowing in government securities. The issuance will instead lead to a reduced need for funding within the liquidity management that corresponds to the amount which the Debt Office will borrow in the green bond (read more in the in-depth box on green-bond issuance on page 37).

Prior to this forecast, the Debt Office examined the prospect of issuing ultra-long bonds in light of the low interest rate environment. The Debt Office's assessment is that there is currently no scope for issuing an ultra-long bond because of the limited borrowing requirement and need for preserving liquidity in the existing government securities market (see the in-depth box on thispage). Therefore, this issuance plan does not include such a bond.

## No ultra-long bond in this issuance plan

The historically low interest rates have raised the matter of whether the Swedish central government should issue a bond with a very long term to maturity. Other countries such as Austria and Italy have issued ultra-long bonds in light of the low level of interest rates.

It may also be of interest for the Swedish government to lock in low interest rates over the long term, i.e. extend the duration of the central government debt. The duration has been gradually extended in recent years. This has been based on the fact that there is now expected to be less of a structural cost advantage when borrowing in short maturities relative to long maturities than there has been historically.

Examining the prospect of locking in an interest rate over the long term requires analysing the real interest rate and inflationary development over the same period. The Debt Office has initiated an analysis of this kind, which includes the factors discussed in the in-depth box on page 8.

The duration can be extended in different ways. One of these is to issue bonds with a very long term to maturity. If there would be great demand for such bonds, it could entail a cost advantage compared with borrowing in shorter-term bonds. Another way to extend the duration of the central government debt is to use derivatives. Interest rate swaps can be used to extend the duration without affecting the strategy for the underlying borrowing. An advantage of using swaps is also that there are quoted market prices for longer maturities.

In recent years, there has been limited demand for bonds in Swedish kronor with very long maturities.[1] Increased demand for long maturities, for example due to changes to the regulation governing how life insurance liabilities are discounted, could create more favourable conditions for introducing a new long-term bond.

Currently, however, the supply of government bonds is small and the Debt Office must focus on issuing in the outstanding maturities in order to preserve market functioning. A new long-term bond risks crowding out the issuance of ten-year government bonds in a situation in which liquidity is already strained. The issuance plan must also allow scope for a green bond, which the Government has commissioned the Debt Office to issue by next year at the latest.

Therefore, this forecast does not contain any planned measures for extending the duration of the central government debt, but the Debt Office will continue to analyse the prospect of locking in the low interest rates. This analysis includes exploring demand for long-term bonds.

[1] Issuing an ultra-long foreign currency bond is not deemed an option because it would not be possible to hedge the currency exposure risk over the long term.

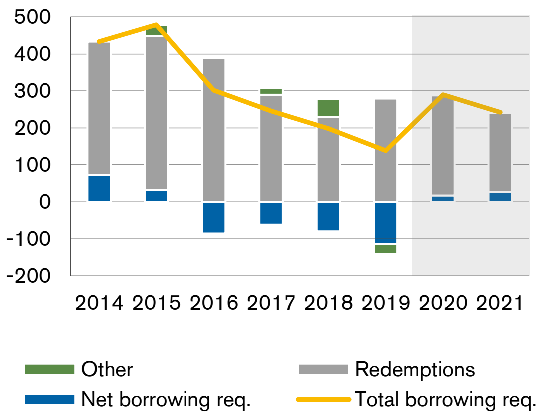
**Larger auctions when new nominal government bond is introduced**

The total borrowing requirement is expected to be higher in coming years than in 2019, which provides scope for increasing nominal government bond borrowing as early as the beginning of next year (see Figure 1). Prioritising nominal government bond issuance is in keeping with the strategy to protect liquidity in that market, which is the central government's most important borrowing channel. Given the large volume of government bonds maturing at the end of next year, it is imperative to replenish the supply of bonds to prevent the stock from shrinking too much.

Starting in January 2020, government bond borrowing increases gradually when the auction volume is raised from the current SEK 1.5 billion to SEK 2 billion per auction. After the summer, it increases again, to SEK 2.5 billion. In January 2021, the volume is raised further to SEK 3 billion per auction, which corresponds to an annual rate of SEK 60 billion and a twofold increase from the historically low level in 2019 (see Figure 2).

**Figrue 1. Total borrowing requirement**

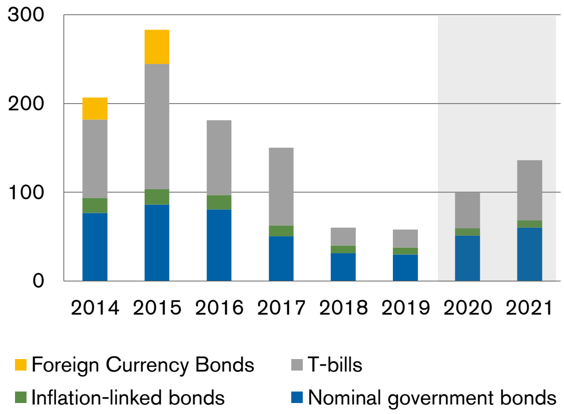
SEK billion




Note: The net borrowing requirement is the budget balance with the opposite sign. "Other" includes an adjustment as net borrowing requirement is reported by settlement date while borrowing is reported by trade date.

**Figure 2. Issuance volumes**

SEK billion




Note: Borrowing excluding financing of on-lending to the Riksbank. The amount of T-bills refers to the outstanding stock as at year-end.

As previously, the focus will be on issuing in the ten-year segment. However, as borrowing increases, there will be an opportunity to issue more than previously in other maturities.

## Reference bonds in the electronic interbank market

The reference bond 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 of a futures 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 in the electronic interbank market is normally the Friday preceding an IMM date.

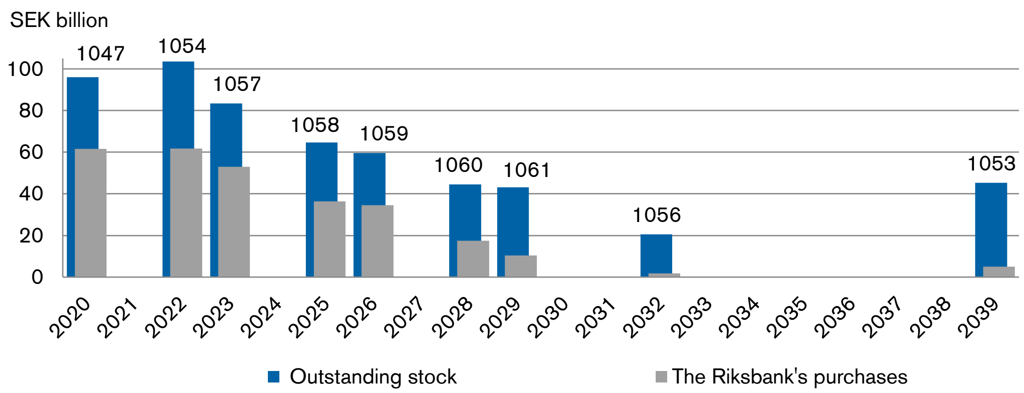
| Current reference bonds | 2-year | 5-year | 10-year |
|---|---|---|---|
| Government bond | 1054 | 1058 | 1061 |

On 25 March 2020, the Debt Office is introducing a new bond that matures in 2031: SGB 1062. The Debt Office usually offers switches from existing bonds with similar terms to maturity in order to quickly build up the volume of the new issues. This time, however, the plan is to issue a larger part in regular auctions.

The limited borrowing requirement in recent years has meant that the outstanding volume of bonds in the ten-year segment is relatively small. Therefore, there is not as much outstanding volume to switch from as previously (see Figure 3). The fact that the Riksbank owns a large share of the limited stock makes it difficult for the central government to buy back a sufficiently large volume in such switches in order to build up the outstanding volume of the new bond. If the outstanding stock of the existing bonds decreases further, there is a risk of market liquidity worsening further.

Therefore, the Debt Office is planning only one switch auction from the current benchmark bond SGB 1061 (see Table 2). To build up the volume of SGB 1062, the Debt Office instead plans to raise the volume of the first two auctions after the introduction, from SEK 2 billion to SEK 5 billion.

**Figure 3. Outstanding government bonds and Riksbank purchases as of 30 September 2019**



**Switches from SGB IL 3104 at the introduction of a new inflation-linked bond**

The issuance volume of inflation-linked bonds remains at SEK 0.5 billion per auction up to and including 2021. This corresponds to an annual rate of SEK 8.5 billion. The fact that the volume remains unchanged despite the borrowing requirement increasing is because the share of inflation-linked debt is too high in relation to the Government's guidelines. With the current borrowing pace, the share is expected to reach the target value of 20 per cent of the debt at the end of next year when SGB IL 3102 matures. Further upward revisions of the borrowing requirement in periods ahead would provide scope for also increasing the issuance volume of inflation-linked bonds.

For 2019, the annual volume of inflation-linked bonds will be just under SEK 8 billion, as a couple of auctions have not been fully subscribed. The Debt Office interprets this to mean that the market situation has become more strained with a deterioration of price transparency, which creates problems for investors and primary dealers. The large stock of SGB IL 3104 in relation to other bonds could potentially worsen the situation over time.

Many investors have a limit of 30 per cent for exposure in a single issue. Several years ago, the bond constituted such a large proportion that it created problems for investors that follow inflation-linked indices, which, in turn, put severe strain on market liquidity. Measures are needed for reducing that stock and building up the volume of new issues, in order for the market to function several years ahead.

Therefore, the Debt Office will primarily offer switches from SGB IL 3104 when introducing a new ten-year inflation-linked bond in February 2020: SGB IL 3114. If the switches cannot be implemented as planned because of low participation, there is a risk that the volume of bonds will once again exceed 30 per cent of the index. Therefore, the Debt Office wishes to emphasise the importance of investors and primary dealers taking responsibility for participating in the switch auctions and, in so doing, ensuring that the market continues to function.

**Figure 4. Share of inflation-linked debt**

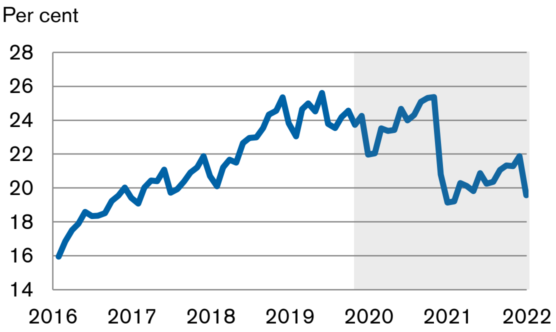


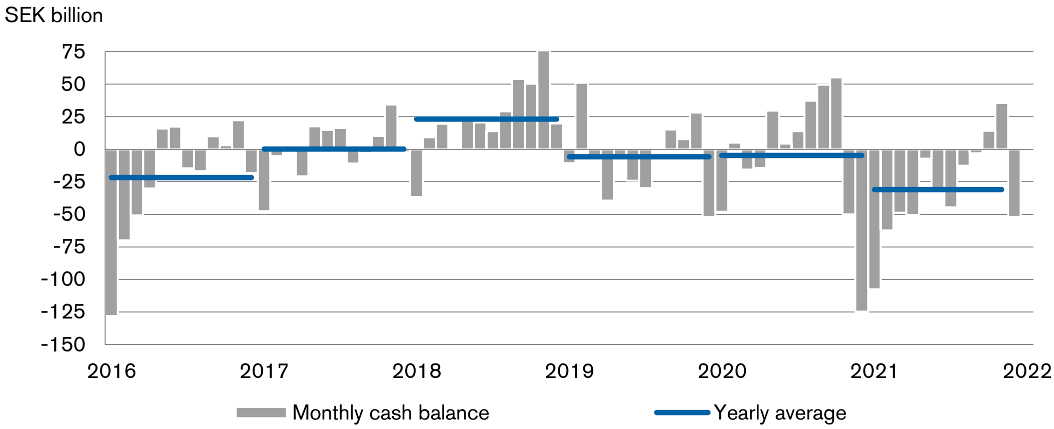

**Table 2. Important dates**

| Date | Time | Activity |
|---|---|---|
| 15–19 Nov | 11.00 | Switches from SGB IL 3102 |
| 12 Dec | 09.30 | Terms for switches to SGB IL 3114 |
| 6 Feb | 11.00 | Introduction of SGB IL 3114 |
| 7-11 Feb | 11.00 | Switches to SGB IL 3114 |
| 13 Feb | 09.30 | Terms for switches to SGB IL 3114 |
| 18 Feb | 09.30 | Borrowing forecast 2020:1 |
| 21 Feb | 09.30 | Terms for switch to SGB 1062 |
| 20-24 Mar | 11.00 | Switches to SGB IL 3114 |
| 25 Mar | 11.00 | Introduction of SGB 1062 |
| 26 Mar | 11.00 | Switch to SGB 1062 |

**The stock of treasury bills increases at the end of 2020**

Borrowing in treasury bills remains at the current level with an auction of SEK 5 billion per month up to and including October next year. Thereafter, the pace increases as the Debt Office returns to holding auctions every other week while increasing the auction volume to SEK 7.5 billion per auction. Thereby, the outstanding stock grows to SEK 40 billion at the end of 2020 and SEK 68 billion at the end of 2021.

**Figure 5. Balance in liquidity management**




Note: Positive amounts correspond to cash surpluses. Repo volume is assumed to be SEK 10 billion on average until August 2020 and SEK 5 billion thereafter. The forecast does not include the green bond. The green bond issue will lead to a higher balance (all else equal).

The increase is planned for next year at the earliest because there will then be a major shift in the net of central government payments as large bonds mature. As a result, Debt Office expects the cash management balance to return to more historically normal levels, with an average deficit instead of a surplus. Figure 5 shows the amount that remains to invest or finance as part of liquidity management after borrowing in bonds and treasury bills.

### Volume of interest rate swaps remains the same

The planned volume of interest rate swaps remains at SEK 5 billion per year up to and including 2021, in which the Debt Office receives fixed, and pays floating, interest in kronor. The stock of outstanding interest rate swaps thereby continues to decrease (see Table 3). The term to maturity, of around three years, is also the same as previously.

The use of interest rate swaps has decreased in recent years as a result of the Government's decision to progressively extend the interest rate refixing period in the guidelines for central government debt management. The change is due to the Debt Office's analysis that there is no longer the same expected savings to be had from borrowing in short maturities compared with long maturities as there has been historically. Figure 6 shows how duration has developed.

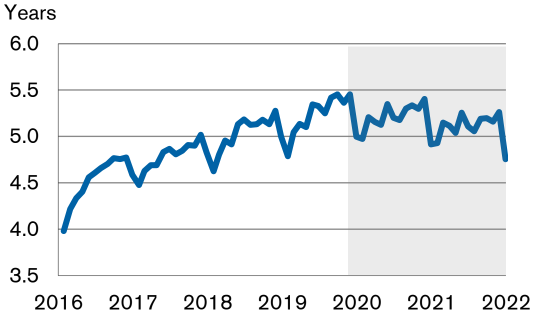
No further extension of the duration of central government debt has been proposed ahead of next year's guidelines. However, the Debt Office has proposed merging the steering of the terms to maturity for the krona and foreign currency debt. It is proposed that the duration of the total debt be between 3.5 and 6 years. The proposal is not considered to entail any practical change in how the debt is managed. Instead, it is intended to provide the Government with a better overview of the debt. In order to maintain transparency in the management, it is proposed that the Debt Office's Board of Directors establish a maturity interval for each type of debt.

**Table3. Change in outstanding swaps**

| | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| SEK billion | Oct | (Jun) | Oct | (Jun) | Oct | (Jun) |
| New swaps [1] | 5 | (5) | 5 | (5) | 5 | (-) |
| Maturing swaps | 41 | (41) | 31 | (31) | 44 | (-) |
| **Net change** | **-36** | **(-41)** | **-26** | **(-31)** | **-39** | **(-)** |

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

**Figure 6. Central government debt duration**




**Foreign currency bonds for the Riksbank**

The Debt Office expects to continue to issue foreign currency bonds in order to refinance loans raised on behalf of the Riksbank. Beyond this, there are no plans for foreign-currency bond borrowing.

In the spring, the Riksbank decided to not renew all loans maturing in 2019, which caused on-lending to the Riksbank to decrease. In the coming years, however, the Debt Office expects all outstanding loans that are maturing to be replaced with new ones. This entails that foreign-currency bond borrowing is expected to correspond to SEK 60 billion in 2020 and SEK 49 billion in 2021.

## A green bond complements the regular borrowing

The Debt Office has been commissioned by the Government to carry out an issue of green bonds in 2020 at the latest. The green bonds will be a supplement to the traditional government bonds and provide investors with an opportunity to partake in funding central government initiatives to achieve Sweden's environmental and climate policy objectives.

**Distinctly green expenditure for achieving environmental and climate policy goals**

Proceeds from the green bond shall fund expenditure items in the Swedish government budget that are linked to sustainable investments and projects. Green expenditure items will be selected on the basis of Sweden's environmental and climate policy objectives.

The Debt Office is working together with the Government Offices to develop a framework for the green bonds. This framework will define what constitutes green expenditure items and stipulate how they are chosen, reported and followed up on. Investors shall be able to easily follow what the bonds' proceeds go towards and evaluate their effects from an environmental and climate perspective.

**The issuance volume is determined on the basis of the parameters of the Government's mandate**

In accordance with the mandate from the Government, the issuance volume shall:

- be based on the objective of central government debt policy
- be well accommodated within the scope of green expenditure in the central government budget.

The first point entails that the issuance volume cannot be so large as to crowd out the supply of traditional government bonds to an extent that deteriorates liquidity in that market. On the basis of this limitation, the Debt Office assesses that the green bond can be issued in 2020 without impacting the planned borrowing in traditional government bonds.

According to the second point, the issuance volume – regardless of how large the borrowing requirement is – must be smaller than the total green expenditure in the central government budget. The green expenditure must exceed the issuance volume in order to ensure there is a margin in case some expenditure items are removed.

Consequently, the size of the issuance depends partly on the development of the budget balance – and thereby the borrowing requirement – and partly on the total budget expenditure items defined as green under the framework currently being developed. The final decision on the issuance volume will also take into account prevailing market conditions at the time the bond is issued.

## Central government debt levels out

Central government debt is expected to reach SEK 1,115 billion at the end of 2021, which is essentially the same level as that for 2019 and 2020. As a share of GDP, this corresponds to 22 per cent for this year and 21 per cent for the coming two years. Measured according to the Maastricht debt measure, the debt is expected to reach 35 per cent of GDP and remain at that level until the end of the forecast period (see Figure 7). The Maastricht measure refers to the general government consolidated gross debt and is commonly used in international comparisons (see the fact box on the next page).

**Figure 7. Development of government debt**

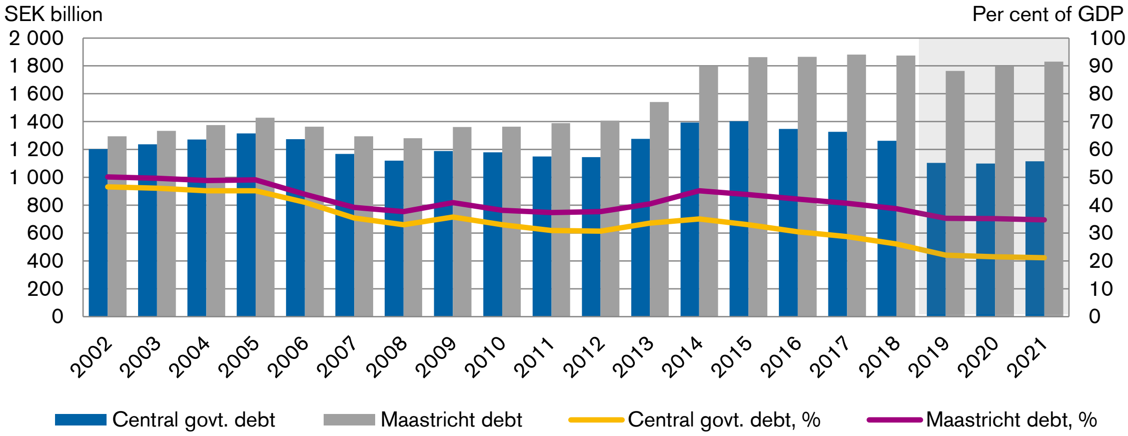



**Table 4. From net borrowing requirement to central government debt**

| SEK billion | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Net borrowing requirement (budget balance with opposite sign) | -62 | -80 | -113 | 17 | 27 |
| Business day adjustment etc [1] | 4 | 37 | -33 | 0 | 0 |
| Net borrowing per business day. | -58 | -43 | -146 | 18 | 27 |
| **A. Nominal amount including money market assets** | **1 203** | **1 160** | **1 014** | **1 032** | **1 059** |
| Inflation compensation | 23 | 28 | 26 | 15 | 16 |
| Exchange rate effects | 11 | 26 | 39 | 27 | 15 |
| **B. Nominal amount to current exchange rate incl. inflation compensation** | **1 237** | **1 215** | **1 079** | **1 073** | **1 090** |
| Assets under management | 91 | 47 | 25 | 25 | 25 |
| **C. Central government debt** | **1 328** | **1 262** | **1 104** | **1 098** | **1 115** |
| Assets under management | -91 | -47 | -25 | -25 | -25 |
| On-lending | -238 | -259 | -201 | -201 | -201 |
| **D. Debt incl. on-lending and assets under management** | **999** | **956** | **877** | **872** | **888** |
| Nominell BNP | 4 565 | 4 778 | 4 993 | 5 114 | 5 272 |
| **C. Central government debt, % of GDP** | **29** | **26** | **22** | **21** | **21** |
| **D. Debt incl. on-lending and money market assets, % of GDP** | **22** | **20** | **18** | **17** | **17** |

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

## 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 treasury 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 Budget Bill and in the annual report for the central government. The consolidated debt is calculated by the Swedish National Financial Management Authority (ESV).

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 used in Sweden's budgetary framework and which forms the basis for the debt anchor of 35 per cent that the Riksdag (Parliament) has decided will be in force as of 2019. General government consolidated gross debt is published by Statistics Sweden.

# Appendix

## Tables, forecast

### Table A1. Central government net lending

| SEK billion | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **Budget balance** | **62** | **80** | **113** | **-17** | **-27** |
| **Delimitations** | **30** | **-9** | **-52** | **31** | **20** |
| Sale of limited companies | 0 | 2 | 0 | 0 | 0 |
| Extraordinary dividends | 0 | 0 | 0 | 0 | 0 |
| Parts of Debt Office's net lending | -2 | 6 | -63 | 20 | 18 |
| Other delimitations etc. | 32 | -16 | 11 | 11 | 1 |
| **Accruals** | **-17** | **-5** | **-19** | **10** | **17** |
| Taxes | -17 | -6 | -26 | 2 | 19 |
| Interest payments etc. | 1 | 1 | 7 | 8 | -1 |
| **Central government net lending** | **75** | **66** | **42** | **24** | **10** |
| **Per cent of GDP** | **1.6** | **1.4** | **0.8** | **0.5** | **0.2** |

### Table A2. Budget balance per month, SEK billion

| SEK billion | Primary balance | Net lending | Interest on central government debt | Budget Balance |
|---|---|---|---|---|
| Oct-19 | 0.1 | 29.1 | 1.0 | 30.2 |
| Nov-19 | 16.8 | 3.1 | -3.1 | 16.9 |
| Dec-19 | -41.2 | -40.1 | -5.9 | -87.2 |
| Jan-20 | -2.9 | -0.4 | 1.1 | -2.3 |
| Feb-20 | 45.6 | 2.5 | -0.8 | 47.3 |
| Mar-20 | -6.1 | 1.1 | -6.1 | -11.1 |
| Apr-20 | -6.8 | 1.9 | 0.5 | -4.3 |
| May-20 | 41.4 | -0.9 | -1.6 | 38.8 |
| Jun-20 | -31.1 | 4.7 | -4.0 | -30.4 |
| Jul-20 | 5.4 | 4.1 | 0.2 | 9.7 |
| Aug-20 | 19.2 | 3.3 | 0.6 | 23.0 |
| Sep-20 | 4.4 | 2.0 | 0.2 | 6.6 |
| Oct-20 | -4.0 | -1.9 | 1.5 | -4.4 |
| Nov-20 | 11.9 | 2.6 | -1.7 | 12.8 |
| Dec-20 | -46.0 | -42.0 | -15.1 | -103.1 |

**Table A3. Sensitivity analysis for budget balance**

The Debt Office does not usually produce an overall sensitivity analysis for the budget balance. Instead, a partial analysis of the effects from changes in certain key macroeconomic variables is presented. The table shows an estimate of the effects that different changes have for the budget balance on a one-year term. The effects can be combined in order to make an assessment of an alternative scenario in which several macroeconomic variables develop differently.

| 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.

**Table A4. Dividends on state owned shares**

| SEK billion | 2019 | 2020 | 2021 |
|---|---|---|---|
| Akademiska hus AB | 1.7 | 1.6 | 1.6 |
| LKAB | 3.2 | 3.2 | 2.7 |
| Telia Company AB | 3.8 | 3.7 | 3.7 |
| Vattenfall AB | 2.0 | 2.0 | 2.0 |
| Sveaskog AB | 1.1 | 1.0 | 1.0 |
| Other corporations | 3.1 | 3.1 | 2.8 |
| **Total** | **14.8** | **14.6** | **13.8** |

### Table A5. Budget balance changes between 2017 and 2021

| SEK billion | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **Budget Balance** | **62** | **80** | **113** | **-17** | **-27** |
| Change from previous year | -24 | 18 | 33 | -131 | -9 |
| **Primary balance:** | | | | | |
| Of which | -31 | 29 | -27 | -39 | -32 |
| Tax income | 4 | 66 | 5 | 2 | 7 |
| Government grants to local governments | -12 | -5 | -9 | -8 | 0 |
| Labour market | 0 | -1 | 6 | -5 | -1 |
| Social insurance | 4 | -14 | -2 | -1 | 1 |
| Migration & International aid | -5 | 14 | 6 | 3 | 0 |
| Sales of state-owned assets | 0 | 2 | -2 | 0 | 0 |
| Share dividends | -4 | 6 | 0 | 0 | -1 |
| EU contribution | 2 | -9 | 1 | -6 | -10 |
| Other | -20 | -31 | -33 | -24 | -28 |
| **Debt Office's net lending excl. on-lending** | **7** | **-1** | **-10** | **-12** | **2** |
| **On-lending** | **10** | **-7** | **78** | **-75** | **0** |
| **Interest on government debt** | **-9** | **-3** | **-8** | **-4** | **21** |

### Table A6. Forecast comparison

| | Debt Office (23 Oct) | | | Government (18 Sep) | | | NIER (9 Oct) | | | ESV (4 Sep) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2019** | **2020** | **2021** | **2019** | **2020** | **2021** | **2019** | **2020** | **2021** |
| **Budget balance SEK billion** | **113** | **-17** | **-27** | **130** | **47** | **38** | **106** | **-15** | | **108** | **2** | **48** |
| of which: | | | | | | | | | | | | |
| Sales of state assets | | | | 5 | 5 | 5 | | | | | | |
| **Adjusted budget balance** | **113** | **-17** | **-27** | **125** | **42** | **33** | **106** | **-15** | | **108** | **2** | **48** |

# Market information

### Table A7. Government bonds, auction dates

| Announcement | Auction date | Settlement date |
|---|---|---|
| 16-Oct-19 | 23-Oct-19 | 25-Oct-19 |
| 30-Oct-19 | 06-Nov-19 | 08-Nov-19 |
| 13-Nov-19 | 20-Nov-19 | 22-Nov-19 |
| 27-Nov-19 | 04-Dec-19 | 06-Dec-19 |
| 11-Dec-19 | 18-Dec-19 | 20-Dec-19 |
| 08-Jan-20 | 15-Jan-20 | 17-Jan-20 |
| 22-Jan-20 | 29-Jan-20 | 31-Jan-20 |
| 05-Feb-20 | 12-Feb-20 | 14-Feb-20 |
| 19-Feb-20 | 26-Feb-20 | 28-Feb-20 |
| 04-Mar-20 | 11-Mar-20 | 13-Mar-20 |
| 18-Mar-20 | 25-Mar-20 | 27-Mar-20 |
| 26-Feb-20 | 26-Mar-20* | 30-Mar-20 |
| 15-Apr-20 | 22-Apr-20 | 24-Apr-20 |
| 29-Apr-20 | 06-May-20 | 08-May-20 |
| 27-May-20 | 03-Jun-20 | 05-Jun-20 |

*Exchange auction

### Table A8. Nominal government bonds

| Maturity date | Coupon % | Bond no. | SEK million |
|---|---|---|---|
| 01-Dec-20 | 5,00 | 1047 | 96 054 |
| 01-Jun-22 | 3,50 | 1054 | 103 631 |
| 13-Nov-23 | 1,50 | 1057 | 83 385 |
| 12-May-25 | 2,50 | 1058 | 64 626 |
| 12-Nov-26 | 1,00 | 1059 | 59 664 |
| 12-May-28 | 0,75 | 1060 | 44 513 |
| 12-Nov-29 | 0,75 | 1061 | 43 150 |
| 01-Jun-32 | 2,25 | 1056 | 20 500 |
| 30-Mar-39 | 3,50 | 1053 | 45 250 |
| **Total government bonds** | | | **560 773** |

Rem.: Outstanding volume as of 30 September 2019.

### Table A9. Inflation-linked bonds, auction dates

| Announcement | Auction date | Settlement date |
|---|---|---|
| 07-Nov-19 | 14-Nov-19 | 18-Nov-19 |
| 18-Oct-19 | 15-Nov-19* | 19-Nov-19 |
| 18-Oct-19 | 18-Nov-19* | 20-Nov-19 |
| 18-Oct-19 | 19-Nov-19* | 21-Nov-19 |
| 21-Nov-19 | 28-Nov-19 | 02-Dec-19 |
| 05-Dec-19 | 12-Dec-19 | 16-Dec-19 |
| 16-Jan-20 | 23-Jan-20 | 27-Jan-20 |
| 30-Jan-20 | 06-Feb-20 | 10-Feb-20 |
| 12-Dec-19 | 07-Feb-20* | 11-Feb-20 |
| 12-Dec-19 | 10-Feb-20* | 12-Feb-20 |
| 12-Dec-19 | 11-Feb-20* | 13-Feb-20 |
| 13-Feb-20 | 20-Feb-20 | 24-Feb-20 |
| 27-Feb-20 | 05-Mar-20 | 09-Mar-20 |
| 12-Mar-20 | 19-Mar-20 | 23-Mar-20 |
| 13-Feb-20 | 20-Mar-20* | 07-Apr-20 |
| 13-Feb-20 | 23-Mar-20* | 08-Apr-20 |
| 13-Feb-20 | 24-Mar-20* | 09-Apr-20 |
| 26-Mar-20 | 02-Apr-20 | 06-Apr-20 |
| 07-May-20 | 14-May-20 | 18-May-20 |
| 20-May-20 | 28-May-20 | 01-Jun-20 |

* Exchange auction

### Table A10. Inflation-linked bonds

| Maturity date | Coupon % | Bond no. | SEK million |
|---|---|---|---|
| 01-Dec-20 | 4,00 | 3102 | 27 573 |
| 01-Jun-22 | 0,25 | 3108 | 32 098 |
| 01-Jun-25 | 1,00 | 3109 | 28 618 |
| 01-Jun-26 | 0,125 | 3112 | 19 450 |
| 01-Dec-27 | 0,125 | 3113 | 13 185 |
| 01-Dec-28 | 3,50 | 3104 | 27 335 |
| 01-Jun-32 | 0,125 | 3111 | 16 851 |
| **Total inflation-linked bonds** | | | **165 110** |

Rem.: Outstanding volume as of 30 September 2019.

**Table A11. T-bills, auction dates**

| Announcement | Auction date | Settlement date |
|---|---|---|
| 06-Nov-19 | 13-Nov-19 | 15-Nov-19 |
| 04-Dec-19 | 11-Dec-19 | 13-Dec-19 |
| 30-Dec-19 | 08-Jan-20 | 10-Jan-20 |
| 29-Jan-20 | 05-Feb-20 | 07-Feb-20 |
| 26-Feb-20 | 04-Mar-20 | 06-Mar-20 |
| 25-Mar-20 | 01-Apr-20 | 03-Apr-20 |
| 06-May-20 | 13-May-20 | 15-May-20 |
| 03-Jun-20 | 10-Jun-20 | 12-Jun-20 |

**Table A12. Treasury bills**

| Maturity date | SEK million |
|---|---|
| 16-Oct-19 | 5 000 |
| 20-Nov-19 | 5 000 |
| 18-Dec-19 | 5 000 |
| 18-Mar-20 | 5 000 |
| **Total T-bills** | **20 000** |

Rem.: Outstanding volume as of 30 September 2019.

**Table A13. Rating**

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

**Table A14. 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 |

## Contact

Mattias Persson, Chief Economist och Deputy Head of Debt Management, 08 613 46 99

## 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.**

RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Besöksadress: Olof Palmes gata 17 | Postadress: 103 74 Stockholm | Telefon: 08 613 45 00
E-post: riksgalden@riksgalden.se | Webb: riksgalden.se