



Central Government Borrowing

Forecast and analysis 2018:3

25 October 2018

The Debt Office's assignment

Financial management for central government

- Banking services for the central government
- Managing central government debt
- Guarantees and loans
- Financing system of the disposal of nuclear waste



Financial stability

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

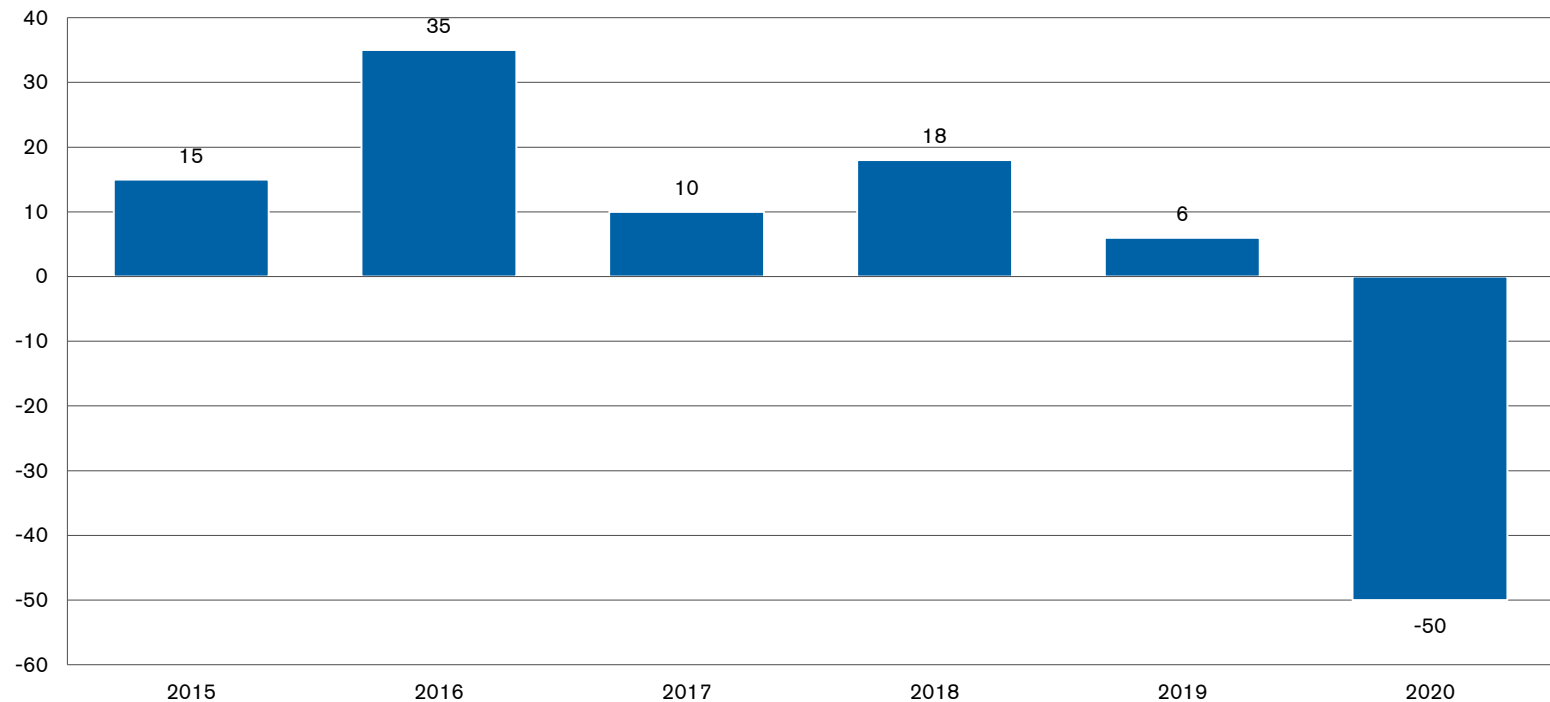
Still strong government finances but increased borrowing in 2020

- Continued good growth in Swedish economy
 - Moderate slowdown in coming years.
- Government budget surplus of SEK 96 billion (2018) and SEK 62 billion (2019)
- Government budget deficit of SEK 12 billion in 2020
 - Capital investments in tax accounts expected to decrease by SEK 50 billion due to higher interest rates.
- Central government net lending is positive also in 2020
- Borrowing requirement increases in 2020
 - Volume of maturities rises and budget surplus turns into a deficit
- Issuance volume increases 2020 – in government bonds and T-bills
- Central government debt continues to decrease

Outflow of capital investments from tax accounts in 2020

Net flow of capital investments in tax accounts

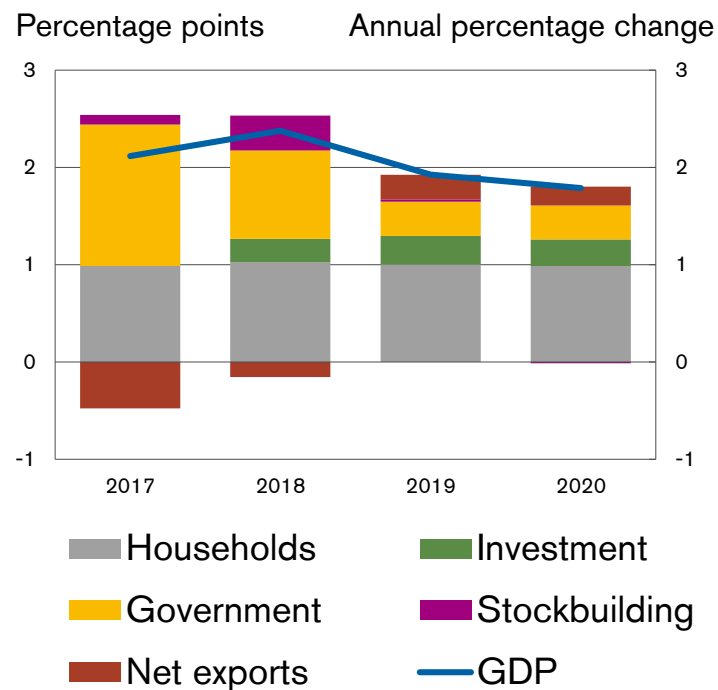
SEK billion



The economy peaks in 2018 – mild slowdown follows

- Continued favourable international economic conditions but Europe is weaker.
- Good Swedish GDP growth in 2018 despite weaker 2nd half
- Below-trend growth in 2019-2020
 - Large declines in housing investments
 - ...but still large investment needs in other business sectors.
- Household consumption prop up growth thus providing a soft landing

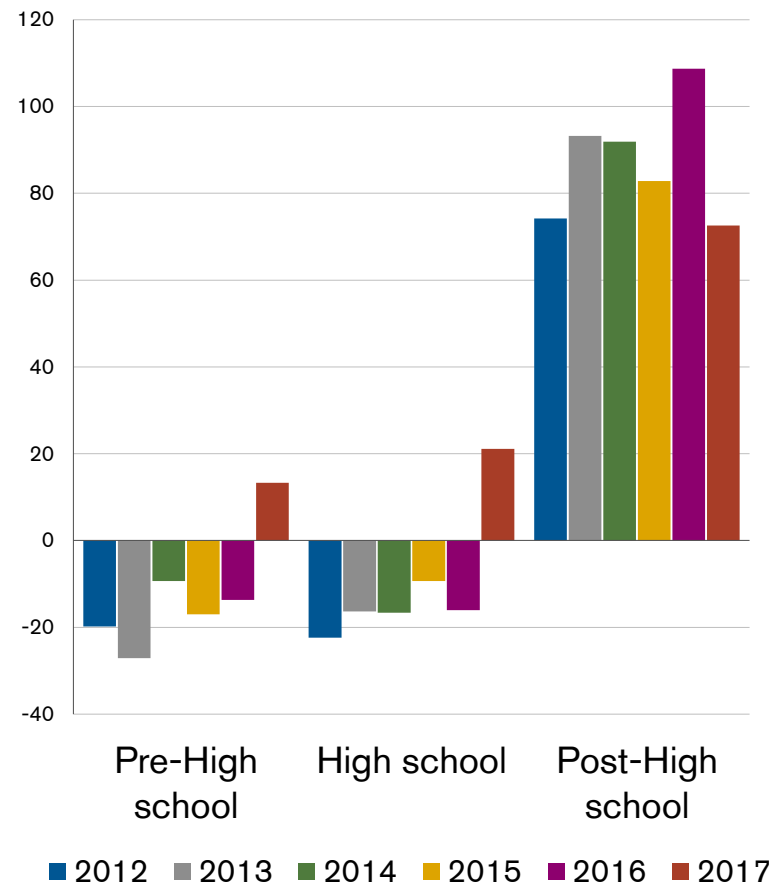
Contributions to GDP growth



More employed but unemployment increases

- Some slowdown in the labor market, but still rapidly increasing labour force and employment
- People born abroad still dominate development
- Employers have lowered education requirements for new employees
- Slightly rising unemployment when economy is growing slower
 - Decreasing effect of previous measurement error contributes to higher unemployment too.
- Wages and inflation increase slightly faster in the future

Thousands



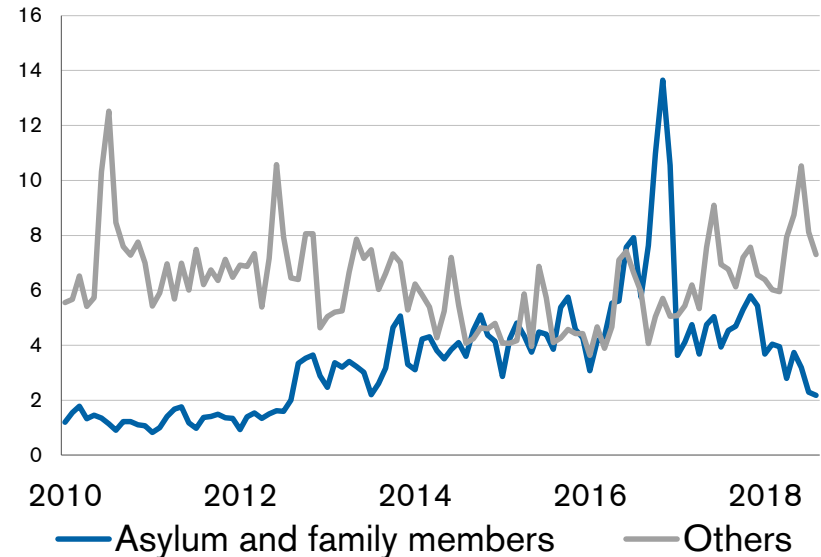
The economic outlook

Summary and risk picture

- Continued good growth in Swedish economy
 - Moderate slowdown in coming years
- Small revisions since the previous report
 - Marginal revisions for GDP, greater between some subcomponents
 - Forecasts for labour market, wages and inflation largely unchanged
- Still a balanced risk picture
 - Trade war and currency unrest in the world?
 - A longer economic upswing?
 - Labour market development is unusually dependent on migration

New residence permits in Sweden per month

Thousands per month



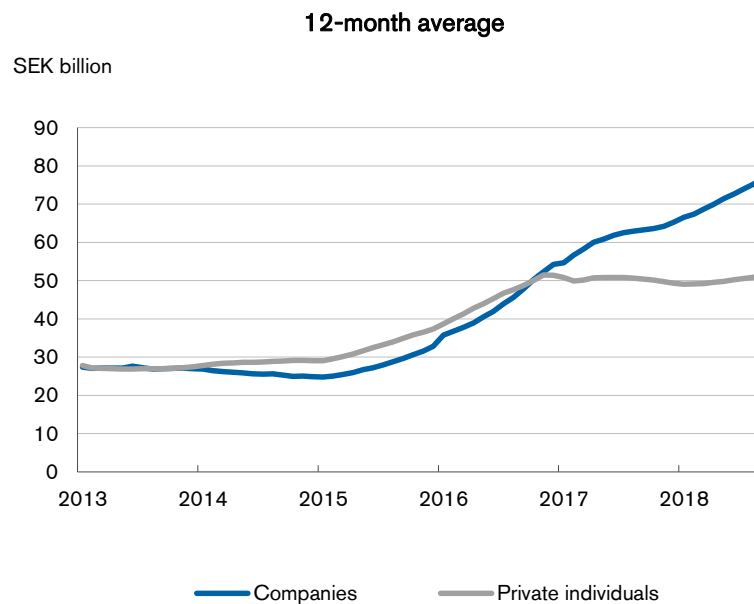
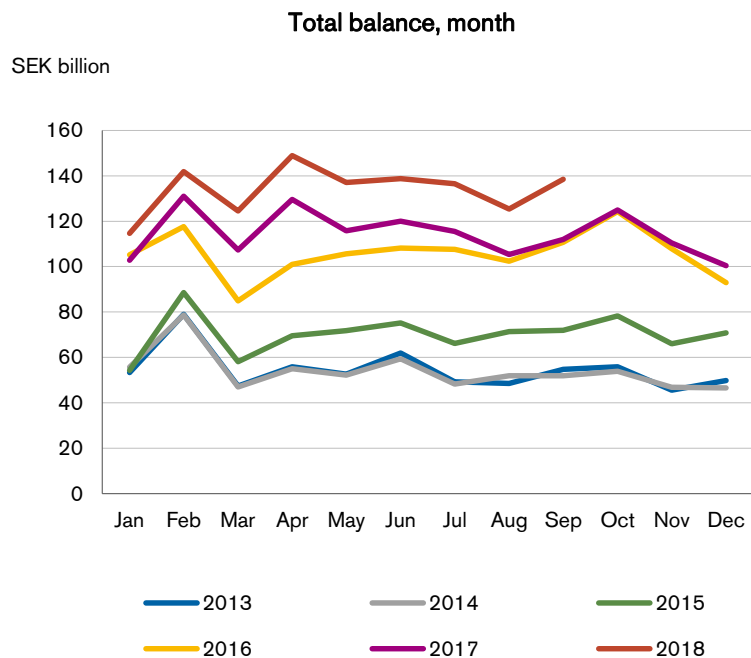
Yearly percentage change	2017	Diff	2018	Diff	2019	Diff	2020	Diff
GDP	2.1	-0.2	2.4	-0.4	1.9	0.1	1.8	-
Labour force	2.0	0,0	1.2	0.1	0.9	0.1	0.6	-
Employment	2.3	0,0	1.6	0.0	0.7	0.1	0.5	-
Unemployment	6.7	0,0	6.3	0.0	6.5	0.1	6.6	-

Strong central government finances, small budget deficit in 2020

- The large surpluses in 2018 and 2019 are expected to turn into a small deficit in 2020
- The surplus in the central government budget is estimated at SEK 96 billion in 2018 and SEK 62 billion in 2019
 - Small revisions from previous forecast
- The first forecast for 2020 points to a budget deficit of SEK 12 billion
 - Outflow of capital investments from tax accounts (SEK 50 billion)
 - High degree of uncertainty regarding timing, preferences and interest rate development
- The underlying central government finances remain strong and show a steady development
 - The budget surplus excluding capital investments on tax accounts decreases gradually
 - Central government net lending is estimated at 1.5 per cent as a proportion of GDP in 2018, 1.3 per cent in 2019 and 1.1 per cent in 2020
- Capital investments on tax accounts cause an additional cost of SEK 1.7 billion in 2015-2019

Capital investments on tax accounts continue

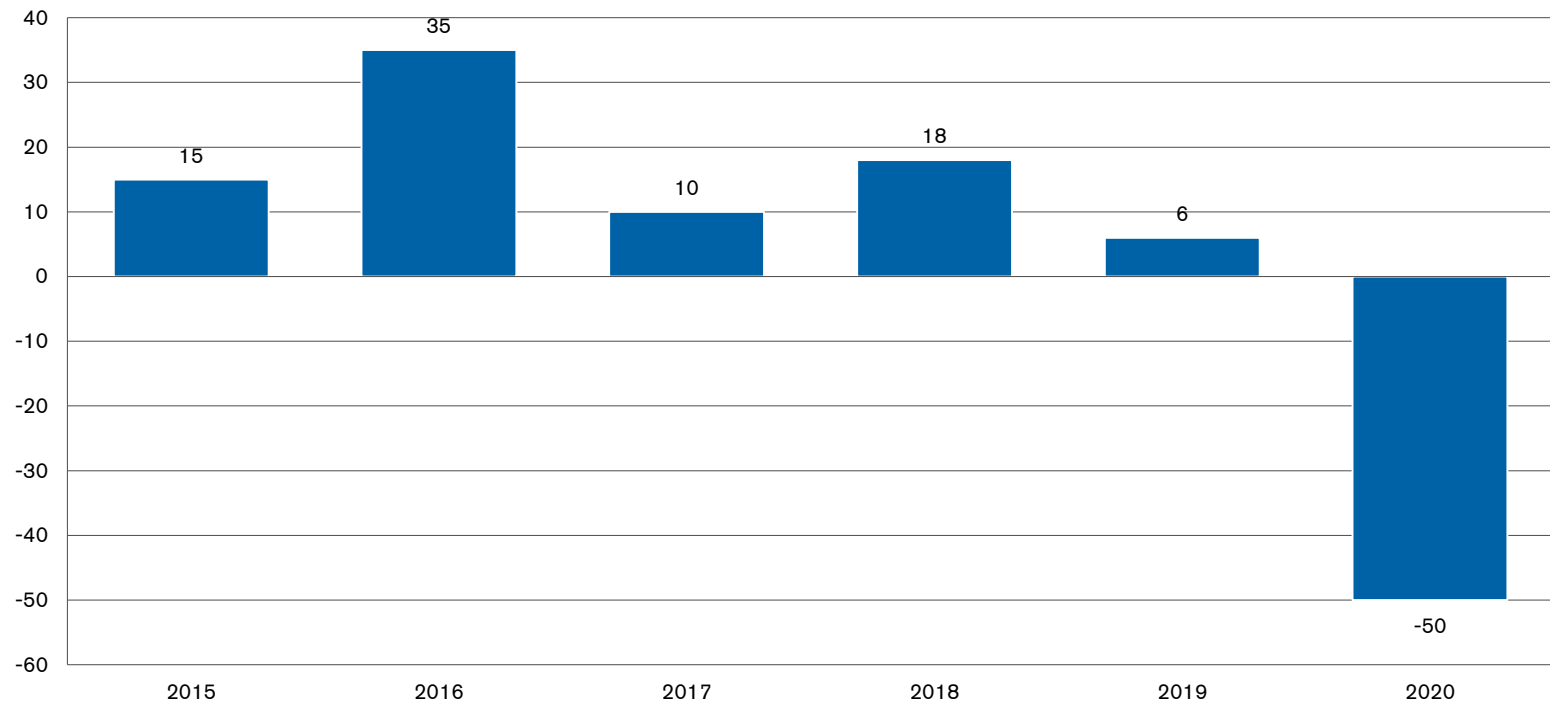
Total tax account balance and moving 12-month average



Outflow of capital investments from tax accounts in 2020

Net flow of capital investments in tax accounts

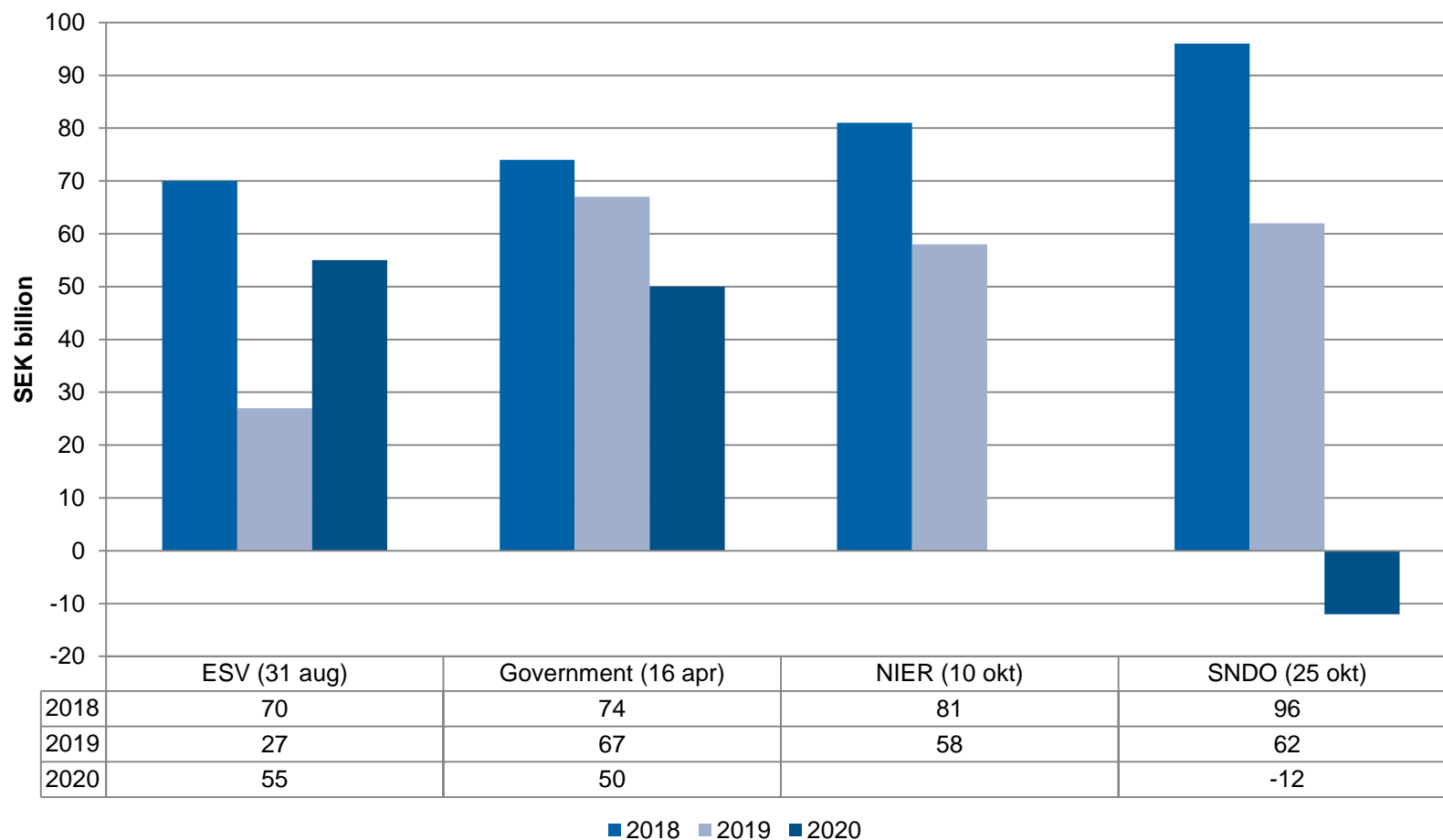
SEK billion



Small changes compared with previous forecast

<i>SEK billion</i>	2018	2019
Forecast June 2018	90	69
Primary balance	6	-6
<i>Of which:</i>		
Tax income excl. capital investments in tax accounts	4	8
Capital investments in tax accounts	-6	-6
Dividends	0	0
Government grants to local governments	0	0
Labour market	1	0
Social insurance	0	-1
Migration	-1	0
International aid	0	-1
Other	9	-6
SNDO Net lending	0	-1
<i>Of which:</i>		
On-lending	0	-1
Interest payments	-1	0
Forecast October 2018	96	62
<i>Sum of changes</i>	<i>6</i>	<i>-6</i>

Forecast comparisons



Increased issuance volume in sight

- Issuance plan for 2018 and 2019 is unchanged...
- ...but in 2020 borrowing increases
- Volume of maturities rises and budget surplus turns into a deficit
- Government bond issuance to increase for the first time in five years
- Borrowing in T-bills also seen higher in 2020
- Central government debt continues to decrease

Borrowing requirement increases in 2020

SEK billion	2017	2018	2019	2020
Net borrowing requirement	-62	-96	-62	12
Business day adjustment etc.	4	4	0	0
Retail borrowing & collateral, net	14	12	5	1
Money market redemptions	144	122	23	81
T-bills	84	88	20	20
Liquidity management	60	35	3	61
Bond redemptions, net switches and buy-backs	145	108	198	196
Government bonds	69	5	99	103
Inflation-linked bonds	15	2	12	23
Foreign currency bonds	62	101	87	70
Total gross borrowing requirement	246	151	164	290

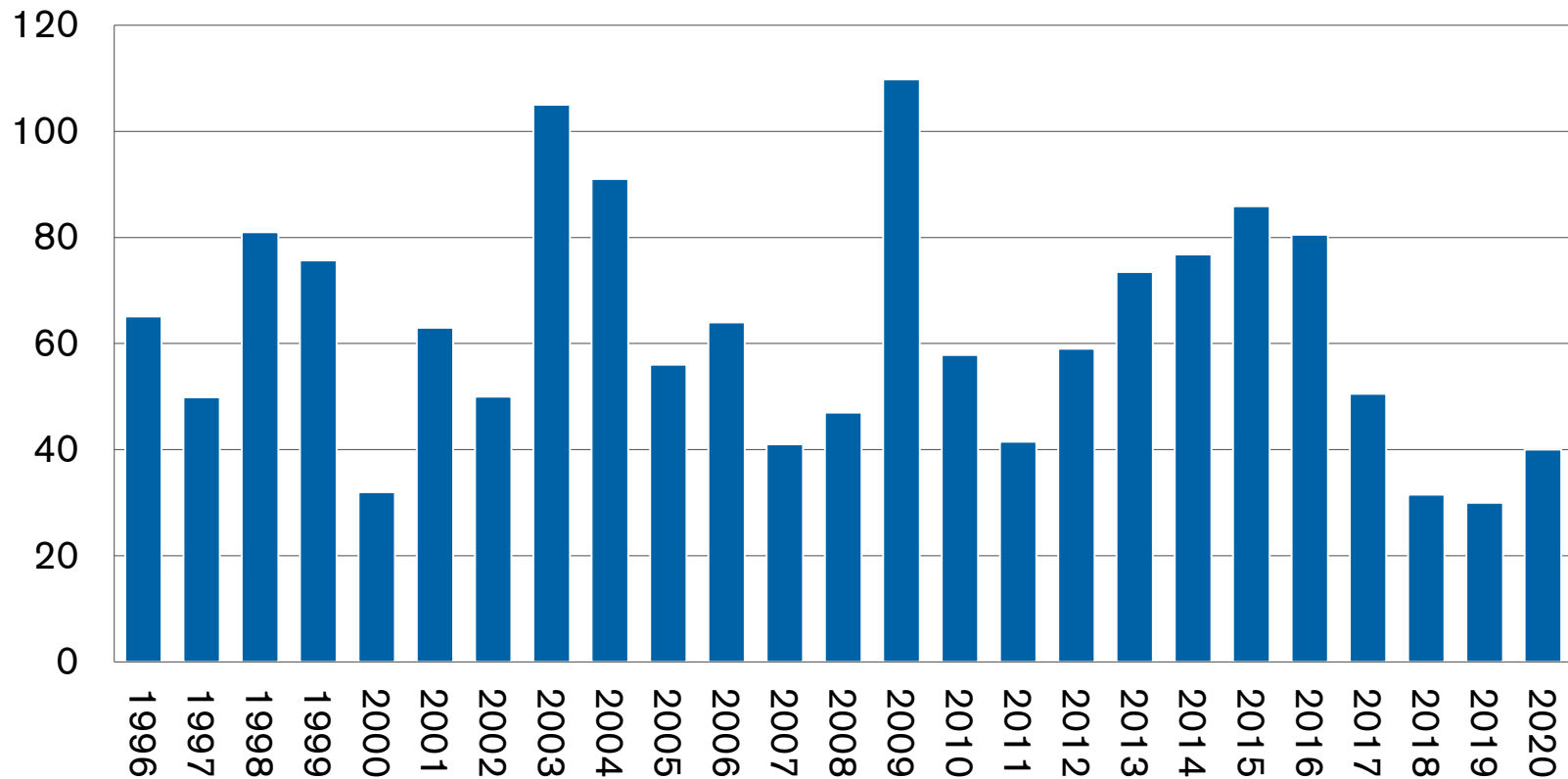
Debt Office raises issue volumes in 2020

	2017	2018		2019		2020	
<i>SEK billion</i>	<i>Outcome</i>	<i>Oct</i>	<i>(Jun)</i>	<i>Oct</i>	<i>(Jun)</i>	<i>Oct</i>	<i>(Jun)</i>
Money market funding¹	122	23	(29)	81	(85)	186	(-)
T-bills	88	20	(20)	20	(20)	40	(-)
Liquidity management	35	3	(9)	61	(65)	146	(-)
Bond funding	124	128	(128)	83	(83)	104	(-)
Government bonds	51	32	(32)	30	(30)	40	(-)
Inflation-linked bonds	12	9	(9)	9	(9)	9	(-)
Foreign currency bonds	61	88	(88)	44	(44)	56	(-)
Central Government	0	0	(0)	0	(0)	0	(-)
on behalf of the Riksbank	61	88	(88)	44	(44)	56	(-)
Total gross funding	246	151	(156)	164	(167)	290	(-)

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

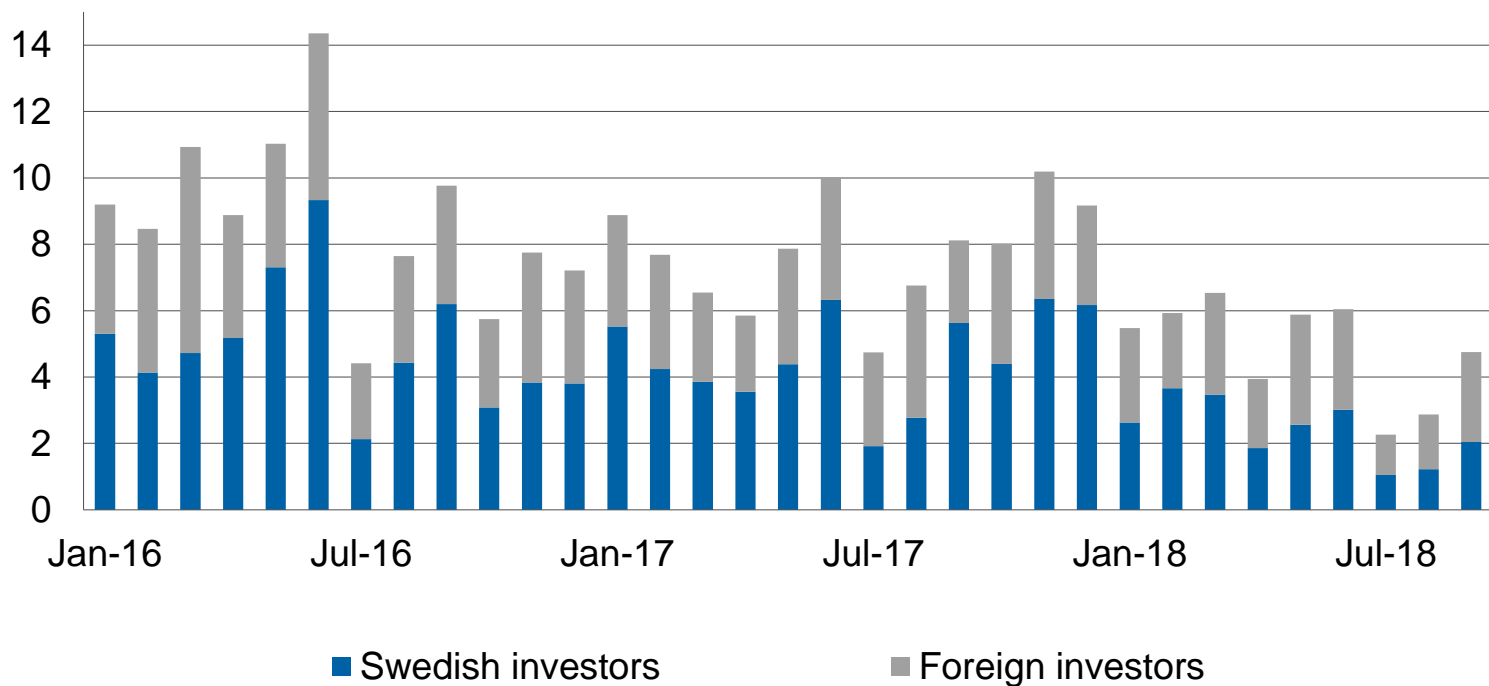
Government bond supply rises from low level

Issue volume per calendar year, SEK billion



Increased activity in the secondary market

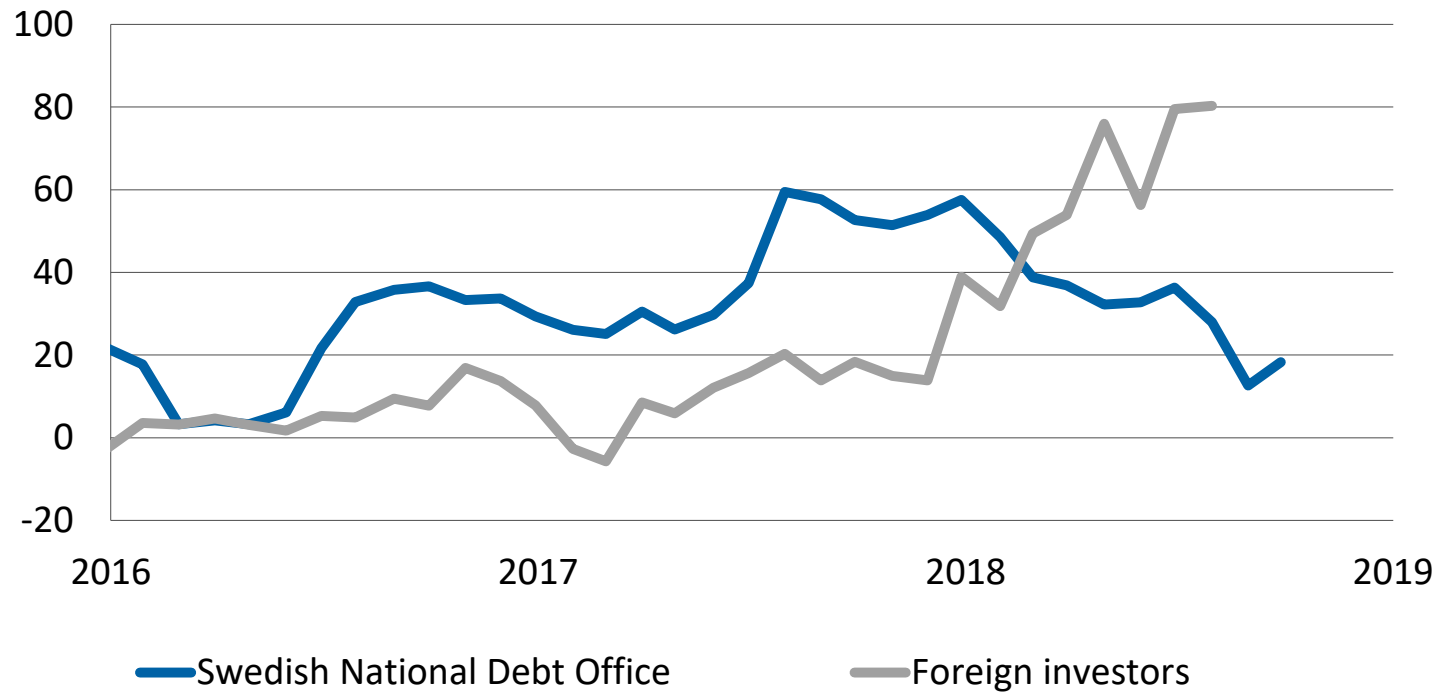
SEK billion



Source: The Riksbank

Increased activity in the repo market

SEK billion



Source: Swedish National Debt Office and Statistics Sweden

Government debt continues to decrease

