RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

2023-05-25

Central government borrowing

Forecast and analysis 2023:2

Reg.no RG 2023/151

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 over time while taking account of risk.

In Central Government Borrowing – Forecast and Analysis, 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 the borrowing requirement and sets up a borrowing plan that is also included in the report. The Debt Office borrows to cover deficits in the central government budget (the net borrowing requirement) and to repay maturing loans.

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 2023:2, the Debt Office presents forecasts for central government finances and borrowing for 2023 and 2024. An assessment of the macroeconomic development is provided in the first section. The next section presents forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for the borrowing plan, which is discussed in the last section of the report.

The report takes into account developments up to 10 May 2023.

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Debt Office Director General

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Summary

Although the budget balance has developed more strongly than expected so far this year, the Debt Office still sees a budget deficit for the central government in 2023. Next year, expenditure will increase and the deficit will grow. To meet the greater deficit and upcoming bond maturities, the Debt Office will gradually increase the government bond borrowing, starting in August.

The Debt Office expects the Swedish economy to shrink this year in light of the persistent high inflation and rising interest rates. Next year, the economy is expected to grow again, albeit at a moderate pace. Compared with the previous forecast, household consumption in current prices and higher payroll have a positive effect on the budget balance ahead.

As a result of the stronger-than-expected budget balance since the February forecast, the Debt Office now foresees a smaller budget deficit for the full year. Next year, higher expenditure instead contributes to a greater deficit than in the previous forecast. In addition, the state may need to make a capital contribution to the Riksbank. However, such a contribution is not included in the forecast because both its timing and amount are uncertain.

The Debt Office will start slowly increasing the supply of nominal government bonds this year. The issuance volume will be raised from SEK 2 billion to SEK 2.5 billion per auction as of August, then to SEK 3 billion at the turn of the year. At the same time, the stock of treasury bills will be lower than in the previous forecast, mainly because the auction volume has already been reduced as a result of the stronger budget outcome. But the Debt Office is also redistributing some of the treasury-bill funding to nominal government bonds. The plan for inflation-linked bonds and foreign currency bonds remains unchanged.

The central government debt measured in kronor will increase next year but remain at 18 per cent of GDP.

Table 1. Swedish economy – key figures

	2022 outcome	2023	2024
GDP growth (annual rate in %)	2.6	-0.7 (-0.7)	1.3 (1.3)
Unemployment (% of labour force)	7.5	7.7 (7.9)	8.3 (8.3)
CPIF inflation (annual rate in %)	7.7	6.0 (5.0)	1.6 (1.0)

Note: Previous forecast in parentheses.

Table 2. Central government finances – key figures

	2022 outcome	2023	2024
Budget balance (SEK billion)	164	-15 (-42)	-51 (-41)
Central govt. debt (SEK billion)	1,093	1,081 (1,117)	1,130 (1,159)
Central govt. debt (% of GDP)	18	18 (18)	18 (19)
General govt. debt (% of GDP)	33	31 (31)	32 (31)

Note: Previous forecast in parentheses.

Table 3. Central government borrowing – key figures

SEK billion

	2022 outcome	2023	2024
Nominal government bonds	46	45 (40)	60 (50)
Inflation-linked bonds	9	9 (9)	9 (9)
Green bonds	0	0 (0)	0 (0)
T-bills, stock at year-end	65	135 (158)	148 (178)
Foreign currency bonds	0	21 (21)	0 (0)

Note: Previous forecast in parentheses.

Slowdown in Swedish economy

This year, the Swedish economy is expected to shrink as high inflation and rising interest rates squeeze both households and businesses. The assessment for next year is that economic growth will resume at a moderate pace once the inflation has subsided and real incomes start to rise again. Compared with the previous forecast, household consumption measured in current prices is stronger throughout the forecast period, while investment is distinctly lower in 2024. Payroll has been revised up for the forecast years, which affects the budget balance positively. Altogether, the revisions have a positive effect on the budget balance compared with our previous forecast.

The economy is getting weaker in Sweden and internationally. After more than a decade of low inflation and stable interest rates, prices increased at an unexpectedly rapid pace in the last year. Central banks the world over have adjusted monetary policy to mitigate the price upswing. The altered conditions have exposed vulnerabilities and contributed to this spring's financial turbulence and failing banks in the US and Europe. Aggressive measures from government agencies have curbed the distress. We expect tighter credit terms and conditions to remain to some degree, making it more difficult and costly for households and businesses to borrow. This contributes to the low global growth during the forecast period. At the same time, the largest economies have been resilient, and our growth forecast this year is revised up for both the US and the euro area.

The economic development in Sweden appears weaker this year than in either the euro area or the US, as the more contractionary monetary policy dampens demand. Compared with the assessment from February, the real economic picture is largely the same, but we have revised up inflation as well as GDP in current prices. Household consumption in current prices is now expected to be stronger in both 2023 and 2024. Investment in current prices is also higher this year but distinctly lower next year. Payroll is higher than in the previous forecast, despite rising unemployment.

Weak demand internationally

Last year's very high inflation is receding as a confluence of lower prices for energy, commodities, and shipping curbs the price pressure. Measured as an annual average, inflation will be high this year as well, and the underlying inflation has proved to be slow-moving in many areas, not least in the euro area. Last year's interest rate hikes contribute to keeping down demand in the forecast years, particularly because there is a lag before the effects of the contractionary measures materialise and because the actions already taken are now gradually having a greater effect on the real economy. So far, the largest economies have been quite resilient, and as a result of greater outcomes than expected we have revised up growth for 2023 both in the euro area and the US.

According to our forecast, the euro area economy will grow by 0.4 per cent in 2023 and 1 per cent in 2024 (see Table 4). The fact that the outlook is somewhat brighter now than in the previous assessment is partly due to energy prices having been significantly lower than feared. In the beginning of 2023, indicators also point to increased activity, mainly in the service sector. The full effect of last year's contractionary monetary policy has yet to be seen. In addition, the scope of European household consumption continues to decrease this year, which together with weak investment holds back growth.

Table 4. International forecasts

Percentage change

GDP	2021	2022	2023	2024
Euro area	5.3 (5.3)	3.5 (3.5)	0.4 (-0.2)	1.0 (1.3)
US	5.9 (5.9)	2.1 (2.1)	1.1 (0.6)	0.7 (1.1)

Note: Previous forecast in parentheses. The forecasts for the euro area and the US are the Debt Office's.

Source: The Debt Office

The US economy has also been resilient. Employment is increasing at a rapid pace despite unemployment being near its lowest levels historically. The labour market has resisted the adverse impact that the high price increases have had on household purchasing power. In our assessment, growth is cut in half this year, to 1.1 per cent, and the trend for next year is even weaker. Inflation in the US, which began rising earlier than in Europe, is also the first to decline.

Our assessment of import in the US and euro area is used to calculate Sweden's export market growth. We expect export market growth to increase by approximately 2 per cent this year, which is an upward revision compared with the previous forecast. Next year, growth goes up by approximately 2.5 per cent. This can be compared with the historical average for export market growth of almost 4 per cent. The upward revision of the growth this year is mainly because GDP in the euro area is no longer shrinking in our forecast.

Headwind in Swedish economy

The Swedish economy was weak at the end of last year but stabilised in the beginning of 2023. We forecast decreased economic growth in Sweden this year followed by modest growth next year.

Overall, household consumption and construction investments are the main drivers of the decrease. Despite the rate of inflation subsiding, the annual average stays high for this year too. This worsens household purchasing power. Real wages will not increase again until next year. The rapid tightening of monetary policy initiated in April of 2022 dampens demand, and as a whole GDP falls by 0.7 per cent this year and rises by 1.3 per cent in 2024, according to our forecast.

The National Institute of Economic Research's (NIER) confidence indicators also point to tougher times ahead. All sectors except the manufacturing industry state that the economic situation is either weaker or much weaker than usual, even though there has been somewhat of an upturn in recent months. The construction industry has seen further decline since the previous report. In April, the purchasing managers' index for the construction industry indicated shrinking activity for the ninth consecutive month. Order intake, which is a prospective measure, regressed to the lowest level since the spring of 2020. This means that the labour market, which has so far been resilient, is likely approaching a decline. Starting in the second half of this year, we expect employment to fall and unemployment to then shift upwards.

Table 5. GDP and its components in constant prices, forecast

Percentage change

	2021	2022	2023	2024
GDP	5.4	2.6 (2.4)	-0.7 (-0.7)	1.3 (1.3)
Household consumption	6.3	2.1 (3.2)	-1.2 (-2.0)	1.2 (1.4)
General govt. consumption	2.8	0.0 (-1.4)	1.3 (3.9)	1.5 (1.1)
Gross fixed cap. formation	6.0	5.2 (5.9)	-4.5 (-3.7)	-0.1 (1.9)
Changes in inventories[1]	0.4	1.0 (1.1)	-0.3 (0.6)	0.2 (0.0)
Exports	10.0	6.6 (4.4)	2.0 (-1.1)	2.8 (2.7)
Imports	11.5	8.7 (8.0)	0.0 (-0.3)	2.7 (2.9)
Net exports[1]	-0.1	-0.6 (-1.3)	1.0 (-0.4)	0.2 (-0.1)
GDP (calendar-adjusted)	5.3	2.7 (2.4)	-0.5 (-0.5)	1.3 (1.3)

Note: [1]Contribution to GDP growth, percentage points. Previous forecast in parentheses.

Sources: Statistics Sweden and the Debt Office

Higher GDP in current prices

It is primarily the various components of GDP in current prices that are used in the calculations of the budget balance in the next chapter. While the revisions in real economic terms are small on the whole, the deflators used to calculate GDP and its components in current prices have been revised up slightly, mainly in regard to 2023. This reflects the fact that inflation is expected to abate somewhat more slowly than we previously assessed (see more on page 12).

Household consumption and investment (gross fixed capital formation) are the most important GDP components for the central government's income from taxes, because they affect VAT and excise duties. Household consumption in current prices has been revised up for the forecast years while investment in current prices has been revised up for this year but down for next year. The tax bases for VAT and excise duties thereby help strengthen the budget balance this year. For 2024, the revisions are in different directions, but investment is predominant and the budget balance is therefore negative.

Table 6. GDP and its components in current prices, forecast

Percentage change

	2021	2022	2023	2024
GDP	8.4	8.5 (8.9)	3.8 (2.9)	2.9 (2.4)
Household consumption	8.4	9.5 (10.8)	4.5 (3.1)	2.8 (2.5)
General govt. consumption	5.8	5.4 (5.0)	6.9 (8.1)	4.4 (4.0)
Gross fixed cap. formation	9.8	14.5 (15.3)	-2.3 (-3.5)	-0.8 (1.9)
Changes in inventories[1]	0.4	1.1 (1.1)	-0.2 (0.8)	0.2 (0.0)
Exports	14.4	23.3 (21.0)	3.8 (-2.7)	-0.1 (0.3)
Imports	15.3	30.1 (28.4)	2.4 (-2.2)	-1.2 (0.2)
Goods imports	16.4	34.4 (33.4)	2.0 (-2.5)	-1.9 (0.6)

Note: [1]Contribution to GDP growth, percentage points. Previous forecast in parentheses.

Sources: Statistics Sweden, the National Institute of Economic Research, and the Debt Office

Households reduce consumption

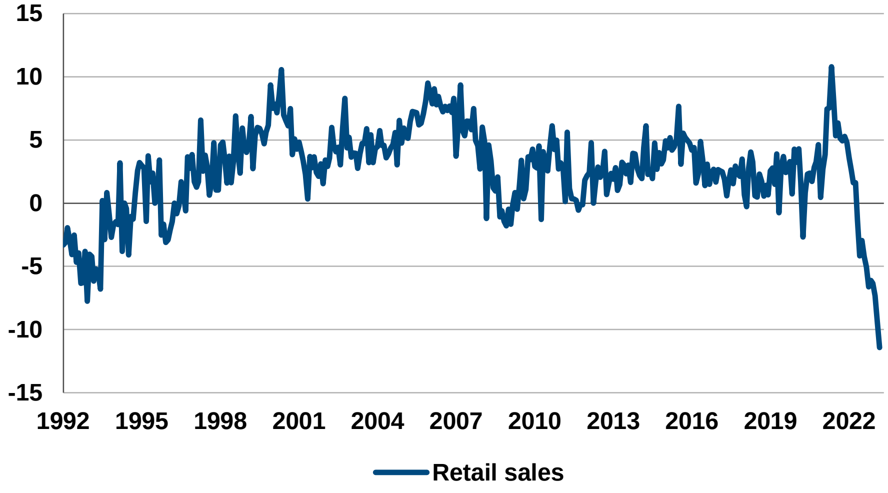
In real economic terms, household consumption fell during the second half of last year as rapidly rising prices and increasing interest costs eroded purchasing power. The decrease was mitigated by the fact that the labour market remained steady and households reduced their saving considerably.

We expect consumption to remain weak in the coming quarters. Consumer confidence has risen slightly in recent months but still remains at very low levels, driven mainly by a pessimistic view of personal finances. At the same time, reduced taxes and increased transfer payments to households mean that the decrease in households' real disposable income is milder than that for real wages, which see double-digit decreases in 2022 and 2023 as a whole. Real disposable income falls more than consumption this year. This means that households will have to resort to using additional savings.

To date, it is mainly the consumption of goods that has fallen, and retail sales in volume drops by double digits (se Figure 1). For this year, consumption of services is expected to decrease, which contributes to household consumption falling by 1.2 per cent altogether for the year, according to our forecast. Next year, purchasing power improves again when the wage increases exceed inflation. There is then also a slight recovery in consumption.

Figure 1 Decline for retail

Annual percentage change, fixed prices



Source: Statistics Sweden

The combination of high indebtedness and, over time, rising short fixed-interest periods means that households are more sensitive to interest rates than in previous periods of contractionary monetary policy. As interest rates rise, the room for other consumption decreases. According to the Riksbank, a policy rate of 2 per cent today is equivalent to 8 per cent in the mid-1990s in terms of its effect on household interest expenses. In addition, an average Swedish household is more indebted and has shorter fixed-interest periods than the average household in many other countries. This is an explanation for why the economic situation in Sweden is expected to be comparatively weaker. Furthermore, there was a sharper drop in Swedish housing prices last year than in many other countries.

Household consumption increased by almost 10 per cent last year, measured in current prices. In 2023, consumption in current prices continues to increase, despite decreasing in volume. In current prices, household consumption has been revised up by 0.8 of a percentage point on average in 2023 and 2024. The price situation that households are now encountering involves consumption patterns having changed as food and housing take up an increasingly larger portion of the consumption basket.

Sharp decrease in construction investments

For the construction sector, the outlook is sombre. Rising construction- and financing costs hindered housing prices and building projects last year, and the decline continues this year. The rapid upswing in apartment prices has been reversed entirely. House prices have also gone down, but they are still at a distinctly higher level than directly prior to the pandemic. Housing prices, which dropped by 13 per cent last year are expected to continue to fall this year according to, for instance, the Riksbank's assessment.

The number of construction projects that have commenced has gone down by half, compared with the peak in 2021. This indicates large decreases in construction investments during the forecast years.

The pace of investment gradually slowed over last year, and indicators such as the purchasing managers' index and the National Institute of Economic Research's (NIER) Economic Tendency Survey show that the development is expected to be weak. At the same time, high capacity utilisation, increased defence initiatives, and investments in new energy production indicate that the decrease in investment will nevertheless be moderate. As a whole, real gross fixed capital formation is expected to fall by 4.5 per cent this year and to show lateral movement in 2024. The decline this year is mostly driven by weak construction investments.

Investment in current prices affects the budget balance through, among other things, construction VAT. Despite the fact that we have revised down investment in constant prices this year, the revision is counteracted by the investment deflator, and we assess that the drop in investment in current prices will be lower for 2023 than in the February forecast. Gross fixed capital formation in current prices falls next year, declining by 1.5 per cent on average altogether in the 2023–2024 period.

General government consumption grows

The development of general government consumption was faint last year, as a combination of lower healthcare needs (patients) and high sick-leave absence (staff) led to a weak trend at the regional level. This year, the Government is carrying out measures that contribute to general government consumption in volume growing slightly faster than the historical average. The defence expansion is also a contributing factor, as are increased resources for law enforcement and the legal system. The demography also contributes to increased consumption at the regional level. The population in the age group of 80 and older is increasing relatively quickly, which calls for greater healthcare initiatives. The number of grade school and high school students also goes up in the forecast years.

Less dismal export outlook

In real economic terms, the export development was surprisingly strong last year. Compared with the previous forecast, the outlook is less dismal since demand in Sweden's most important export countries has been revised up. In contrast, order intake is weak – and the assessment is that export will be weak in the first half of the year. In the near term, export companies may benefit from the major investments that are needed, particularly in the areas of defence, climate, and energy in Europe. Altogether, the slowdown in Swedish export is less than previously assumed, mainly this year.

Measured in current prices, export last year is assessed to have increased at the fastest rate since the mid-1990s, driven by rapidly rising export prices. In 2023 and 2024, export is dampened substantially, but compared with our previous forecast it has been revised up, primarily for this year. The way in which export value develops has a bearing on corporate tax.

Inflation shifts downwards relatively fast

Inflation in Sweden abates from its peak in December of last year, but it is still much higher than the inflation target. In April, the annual inflation rate in CPIF was 7.6 per cent. CPI, which also includes households' interest costs, was at the same time 10.5 per cent. Most factors point towards inflation continuing to subside. One explanation is that last year's spike in energy prices drops out of the comparative figures as the futures market indicates that electricity prices will be lower in the coming year. Fuel prices are also expected to increase more slowly in periods ahead.

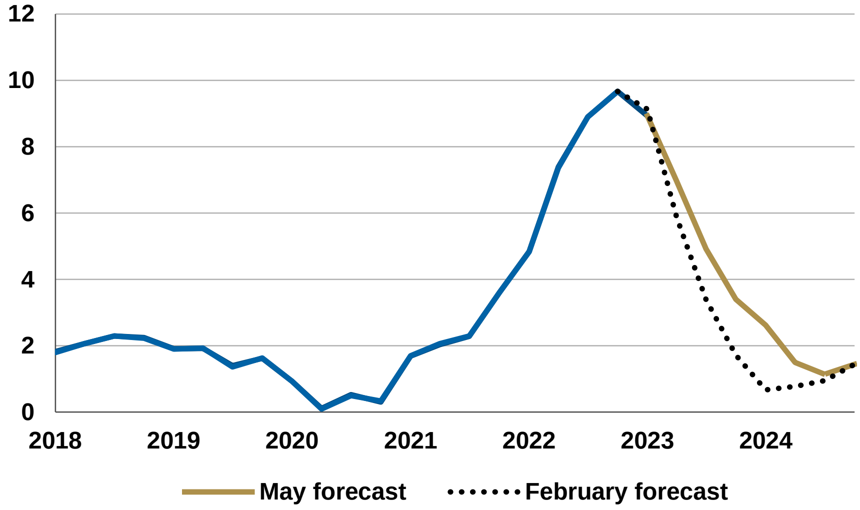
At the end of the year, we expect CPIF inflation to approach 2 per cent (see Figure 2). Besides energy, other drivers of the upswing have tapered off or have started to move in the opposite direction, such as commodities and global shipping prices. The rate of increase in Swedish producer prices, which in recent years has closely correlated with that of consumer prices, has fallen back sharply. The world market price of many agricultural produces has also gone down. As demand slows down too, the potential for increases in prices to consumers shrinks as well. Despite being higher than the historical average, the contractual wage increases are considered to be commensurate with the Riksbank's inflation target.

Other factors point to a slightly slower process. Within retail, the price plans remain at high levels while certain costs are now rising faster as a result of the rapid price increases last year. Examples of this are fees for refuse collection, fee increases for tenant-owner associations, and rent increases.

The latest outcomes show strong underlying price pressure, and changes in prices calculated over shorter periods show that prices are still going up relatively fast at the retail level. This affects the inflation dynamics and points towards a more protracted course of events ahead than we previously foresaw. Measured as an annual average, CPIF inflation is expected to be 6.0 per cent this year and 1.6 per cent in 2024. Compared with the February forecast, CPIF inflation has been revised up by 1.0 percentage point for 2023 and 0.6 of a percentage point for 2024. A high price level therefore continues to weigh on households.

Figure 2 CPIF inflation abates

Annual percentage change



Sources: Statistics Sweden and the Debt Office

Weaker labour-market development ahead

The Swedish labour market developed strongly during 2022 with high employment growth and falling unemployment. This year, however, the situation worsens as GDP falls and unemployment starts to rise. Payroll, which has increased at a good pace in recent years, grows slower in the forecast period.

Employment regresses this year

In 2022, employment growth was high. Towards the end of the year, there was a slight shift and the year ended with more moderate employment growth. In the beginning of 2023, the labour market has developed strongly and proved to be more resilient than we had assessed in February. According to the employment plans in the Economic Tendency Survey, however, trends differ by industry – with much weaker development in the retail and construction industries.

As the decline in economic activity hits the labour market, employment growth tapers off and unemployment goes down slightly in periods ahead. When the economy improves, a gradual recovery occurs. At the end of 2024, employment increases in line with the historical average.

Unemployment starts to rise

Unemployment measured according to the Labour Force Survey (LFS) fell sharply over last year, from 8.8 per cent in 2021 to 7.5 per cent in 2022. According to the LFS, this year's strong start for the labour market also brought a slight decrease in unemployment in the first quarter.

Given that the employment trend ahead is now expected to be considerably weaker, our forecast shows unemployment increasing to 7.7 per cent in 2023 and 8.3 per cent in 2024. Since the labour market was stronger than expected in the beginning of 2023, the unemployment forecast for this year has been revised down slightly. The forecast for 2024 remains unchanged.

All else being equal, the downward revision of unemployment this year boosts the central government budget balance as a result of lower labour market expenditure.

Slower payroll growth

Payroll grew by just over 6 per cent last year, which is above the historical average of 4 per cent. The growth then slows down, to almost 4.8 per cent this year and 3.8 per cent in 2024. Compared with the assessment in February, payroll growth is stronger mainly this year but also next year.

Payroll refers to the product of hours worked and hourly wages. The upward revision of payroll growth this year is primarily due to a raised forecast of hours worked as a result of the year's strong start for the labour market. But the revision is also due to a larger increase in hourly wages than in the February assessment. On 31 March, the negotiating parties from the industries entered into a two-year collective bargaining agreement entailing wage increases of 4.1 per cent the first year and 3.3 per cent the second year. The agreements concluded under the sectoral collective agreement are largely in keeping with what is known as the collective agreement's "mark". The Debt Office's hourly wage forecast is therefore revised up for both years, and wages increase by just under 4 per cent in both 2023 and 2024. The concentration to the first part of the period evens out over the years, since the agreements take effect from the first of April each year.

The stronger payroll development than in the previous forecast has a positive effect on payroll tax and thereby raises the central government budget balance, all else being equal.

Predominantly downside risks

Our assessment is that there are predominantly downside risks in regard to the economic development. The unease in the international financial system that took hold earlier this spring may gain renewed momentum and lead to financial distress and adverse effects on global growth. The debt-ceiling issue in the US is again in focus and could, if the heavily polarised Congress fails to reach a consensus, have an adverse impact on financial markets and on growth. According to the most recent calculations from the US Department of the Treasury, the money will run out at the beginning of June.

Geopolitical tensions remain high and risk affecting the world economy more than we can currently foresee, for example through new disruptions to the energy market or via international trade.

The uncertainty in regard to the domestic economy is also a factor. Swedish households have reduced their saving substantially since 2021. The lower savings buffer could, however, entail a bigger drop in consumption further ahead, which is a downside risk in the forecast. Swedish households' sensitivity to interest rate fluctuations is high. This could mean that we might be underestimating the impact that the rate changes have on consumption, especially considering that we have not yet seen the full effects of the measures implemented. There is also a risk that we are underestimating the effect of falling housing prices on consumption.

Regarding inflation, the decline in the underlying inflation has moved slower than expected. The uncertainty as to how long the price increases will last keeps the risks on the upside until the summer, whereas predominantly downside risks prevail in the longer term.

Despite weak growth for some time now, the labour market has held up well, and unemployment dropped slightly further in the beginning of the year. In our assessment, there is an upside risk in the forecast of the labour market continuing to develop more strongly than expected.

Fiscal deficit for central government

The Debt Office's new forecast shows central government finances getting weaker, and a budget deficit is expected for both this year and the next. The budget balance in 2023 will be higher than we previously expected, mainly because the outcome in the beginning of the year has been stronger than forecast. But the slowdown in the economy dampens tax income in periods ahead while expenditure increases. The budget balance in 2024 has been revised down compared with the February forecast.

The central government budget balance goes from a large surplus in 2022 to a deficit both this year and the next (see Table 7). The reversal is partly due to a decrease in certain temporary factors that have had a positive effect on the balance, including the large influx of revenue from congestion rent (so-called congestion revenue) to Svenska kraftnät, and the Riksbank's repayment of foreign currency loans. However, the way in which the economy has developed – with falling GDP, rising interest rates, and high inflation – also weighs on the budget balance in the forecast period via slower growth of tax income and a rapid rise in expenditure. Expenditure is also increasing as a result of initiatives in areas such as defence. The deficit will be SEK 15 billion in 2023 and SEK 51 billion in 2024.

Table 7. Central government budget balance, forecast for 2023 and 2024

SEK billion

Central government budget balance	**2022**	**2023**		**2024**	
	Outcome	May	(Feb)	May	(Feb)
Primary balance[1]	78	23	-9	-31	-8
Debt Office net lending[2, 3]	112	-11	-12	2	-18
Interest on central government debt[3]	-27	-27	-21	-22	-15
Budget balance[4]	**164**	**-15**	**-42**	**-51**	**-41**
Central government net lending	2	-29	-55	-37	16

[1] The primary balance is the net of income and expenditure excluding interest payments and Debt Office net lending.

[2] Debt Office net lending mainly consists of the net of government agencies' loans and deposits in the central government's internal bank.

[3] The table shows Debt Office net lending and the interest on central government debt in terms of how they affect the budget balance. The signs are therefore the opposite of those shown in Tables 10 and 11.

[4] The budget balance with the opposite sign is the central government net borrowing requirement.

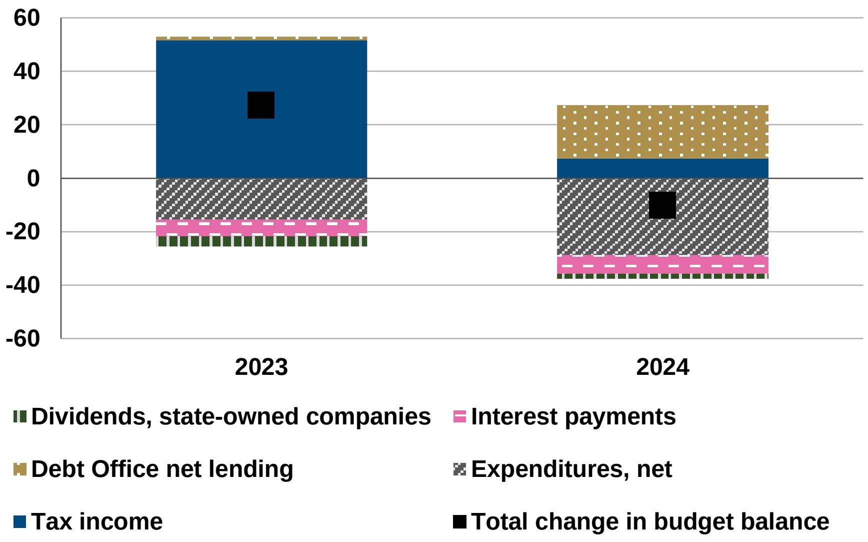
Sources: The Debt Office and Statistics Sweden

The Debt Office has revised up the budget balance this year by approximately SEK 30 billion (see Figure 3). This is primarily because the outcome since the February forecast was SEK 38 billion higher than expected, mostly since tax income was more positive than foreseen. It is also due to a more favourable macro picture ahead. The upward revision is counteracted by higher expenditure. In 2024, the budget balance has been revised down by SEK 10 billion, mainly as a result of increased expenditure. The increase in central government expenditure reflects the higher prices and wages. A change in method also affects the level of expenditure. In addition, interest expenses will be higher in both forecast years. The revision of the budget balance in 2024 is counteracted by lower net lending by the Debt Office (see Table 8).

The central government may need to contribute capital to the Riksbank, but such a capital contribution is not included in the forecast because both the timing and the amount are uncertain. For a description of a capital contribution to the Riksbank, see the in-depth section "Capital contribution to the Riksbank".

Figure 3 Forecast changes, budget balance

SEK billion



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

Source: The Debt Office

Table 8. Forecast changes, budget balance

SEK billion

	2023	2024
Budget balance according to previous forecast	**-42**	**-41**
Primary balance	**32**	**-23**
Tax income excluding capital placements in tax accounts	52	7
Capital placements in tax accounts	5	5
State share dividends	-4	-2
Legal system and defence	-1	-2
Labour market	2	0
Social insurance	-6	-6
Education	4	3
Migration and international aid	1	1
Other	-20	-29
Debt Office net lending	**1**	**20**
Interest on central government debt	**-6**	**-7**
Budget balance according to new forecast	**-15**	**-51**

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

Source: The Debt Office

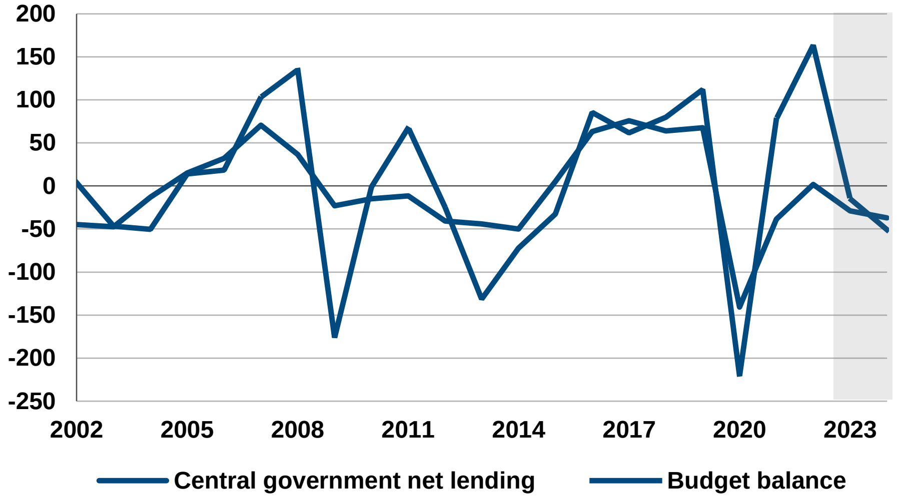
Central government net lending shows deficit

The Debt Office expects central government net lending to be SEK -29 billion this year and SEK -37 billion next year (see Table 7 and figure 4). For 2023, central government net lending is slightly lower than the budget balance and for 2024 it is slightly higher. As a share of GDP, the forecasts for central government net lending correspond to -0.5 per cent and -0.6 per cent.

Central government net lending normally develops more evenly than the budget balance. In recent years, major differences between the budget balance and the net lending have been due to, among other things, the loans that the Riksbank has repaid to the central government. These improve the budget balance but not central government net lending. Variations in Svenska kraftnät’s deposits at the Debt Office have also had a major effect. Other significant differences are due to accrual effects regarding taxes such as from the deferral of tax payments via payment respites, and from capital placements in tax accounts.

Figure 4 Central government net lending and budget balance

SEK billion



Sources: Statistics Sweden and the Debt Office

In-depth

Capital contribution to Riksbank

The Riksbank has incurred losses on its securities holdings and may therefore require a capital contribution from the state. This would mean that the budget balance becomes lower. The current forecast for the budget balance does not contain any assumptions regarding capital contributions or dividends from the Riksbank.

Since 2015, the Riksbank has built up a large asset portfolio by purchasing securities. Interest rates have risen since the spring of 2022, causing the market value of the bond holdings to drop. For 2022, the Riksbank reported a loss of SEK 81 billion (Annual Report for Sveriges Riksbank 2022), and states that it will therefore need to submit a petition for restoring equity no later than in conjunction with the annual report for 2023 (*The framework for the Riksbank's equity in the new Sveriges Riksbanks Act*, www.riksbank.se).

Contribution amount dependent on several factors

In the new Sveriges Riksbank Act, which entered into force on 1 January 2023, the Riksbank's target level for equity is SEK 60 billion, adjusted for inflation every year. This is the level at which the Riksbank considers itself to be self-financed. If equity falls below one-third of the target level, the Riksbank shall petition the Riksdag to restore equity. A capital contribution from the state shall normally bring the equity to the base level, which is two-thirds of the target level. If required to ensure the Riksbank's ability to self-financing in the long term, the contribution may bring equity all the way up to the target level.

With the Riksbank's accounting method, losses are realised at year-end and have an effect on equity, while gains remain unrealised and are transferred to revaluation accounts. In the revaluation accounts, gains are recorded that are due to changes in value of the holdings of bonds, currency, and gold. According to the Riksbank Act, equity does not include revaluation accounts but, in the event of equity being restored, the Riksbank shall take the balance of the revaluation accounts into consideration. A capital contribution would reduce the central government's budget balance.

Tax income revised up after strong outcomes

In our assessment, the development of tax income for 2023 and 2024 is not as weak as in the February forecast. Income from taxes is higher mainly for this year (see Table 9). The majority of the income from the different types of tax is revised up. The largest revision is for income from supplementary tax. The upward revisions are somewhat counteracted by lower consumption tax. The higher income from taxes is a result of stronger outcomes than expected so far this year in combination with the Debt Office's assessment that, among other things, there is a stronger development for corporate tax and payroll.

Although the Debt Office is revising up tax income in this forecast, the development for the central government's income from taxes is weaker in 2023 and 2024 than it has been in recent years. This is due to the weaker economic development, which dampens income from payroll tax and consumption tax, but it is also not least a result of payroll tax being dampened by higher final settlements of previous years' municipal and regional income taxes. Lower capital gains and higher interest deductions due to rising interest rates in turn dampen income from supplementary tax.

Table 9. Income from taxes, change from previous forecast

SEK billion

Type of tax	2023	2024
Payroll tax	6	4
Consumption tax	-5	-4
Corporate tax	14	8
Supplementary tax	42	4
Total change	**57**	**12**

Note: Supplementary tax consists mainly of deposits in, and withdrawals from, tax accounts, in connection with, among other things, tax debits. The table shows changes in terms of the budget balance.

Source: The Debt Office

Higher payroll increases income from payroll tax

Income from payroll tax is higher than in the previous forecast for both 2023 and 2024. This is mainly due to higher payroll causing the preliminary tax on earned income, and the employers' contributions, to be higher. The outcomes for employers' contributions in the beginning of the year have also been higher than expected.

Lower consumption tax

Consumption tax is revised down for both 2023 and 2024, mainly because the outcomes this spring were lower than expected. Income from VAT is revised down, but this is mitigated by an upward revision of household consumption for this year. For next year, the Debt Office has a significantly more pessimistic view of the investment trend than previously, which brings down the forecast for income from VAT.

Higher income from corporate taxes

Income from tax on companies is higher for both this year and the next, compared with the previous forecast. The preliminary tax payments from companies have been higher than expected since the previous forecast. At the same time, financial reports from listed companies indicate that profits having been quite resilient to the economic slowdown on the whole. A likely explanation is that companies have generally been able to compensate for increased inflation by raising prices themselves, while demand in many industries has been good. The Debt Office has therefore revised up the profit trend slightly and thereby tax incomes for the forecast period.

Strong outcomes lift income from supplementary tax this year

It is the Debt Office's assessment that income from supplementary tax will be higher, mainly for this year, than in our February forecast. Income from supplementary tax consists mainly of deposits in, and withdrawals from, tax accounts. This concerns both the flows that arise as a result of deficits and surpluses in connection with tax assessment, but it can also pertain to capital placements, for instance.

Most of the revision for 2023, almost SEK 26 billion, is due to higher outcomes than expected. The main reason is a higher level of deposits in tax accounts. The forecast revision for 2023 is also due to our assumption of higher deficits for companies in regard to final tax for 2022, which increases the supplementary preliminary tax payments this year.

Private individuals increase capital placements in tax accounts

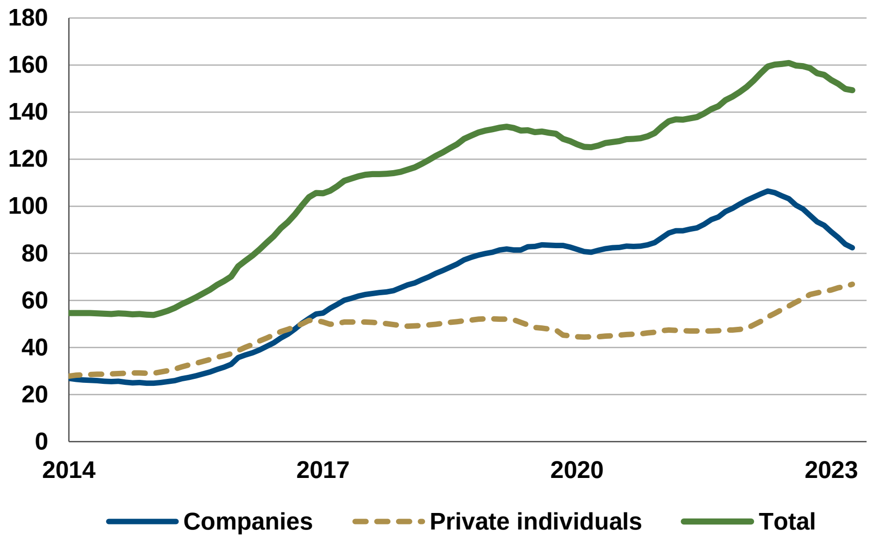
In our assessment, private individuals will increase their capital placements during the forecast period, which partly counteracts the fact that companies are reducing their placements this year. The Debt Office assesses this year's outflow to be SEK 5 billion lower in total than previously, amounting to SEK 15 billion. For next year, we expect an inflow of SEK 5 billion, instead of an unchanged level as previously assumed. These effects lift the supplementary tax during the forecast period.

The development regarding the balance of tax accounts, which we use as an indicator of the scale of capital placements, continues to show a different trend for companies than for private individuals (see Figure 5). Companies are thought to reduce their capital placements, whereas for private individuals the contrary is true.

According to ESV (the Swedish National Financial Management Authority), which produces an estimate of the scale of the capital placements, companies reduced their placements last year by SEK 20 billion, at the same time as private individuals increased their placements by SEK 10 billion. ESV's estimate is that capital placements altogether amounted to SEK 66 billion at the end of 2022, of which SEK 51 billion was attributed to companies.

Figure 5 Total balance, tax accounts

SEK billion



Note: The total balance consists, in simplified terms, of deposits in order to cover forthcoming tax debits, as well as capital placements. It is not possible to determine how much of the balance consists of capital placements, but ESV calculates a so-called ex post outcome. Twelve-month moving average.

Sources: The Swedish Tax Agency and the Debt Office

The Debt Office considers tax accounts to remain a competitive placement alternative mostly for private individuals, but also for many smaller businesses, during the forecast period. Large corporations, especially financial institutions, are presumed to be able to make placements at favourable terms in the market, for example as deposits in banks or via treasury bills and commercial paper. The return on these placements is generally higher than it is with tax accounts. However, for smaller businesses and for private individuals, the option is mainly bank accounts with deposit rates that have risen much more slowly than both market rates and the interest income on tax accounts.

A higher-than-expected level of deposits in tax accounts in February to April indicates that capital placements are decreasing at a slower pace than we previously foresaw. The balance statistics for tax accounts also indicate that private individuals are increasing their capital placements.

It is the Debt Office's assessment that companies will reduce their capital placements this year by SEK 20 billion, at the same time as private individuals instead increase their capital placements by SEK 5 billion. Next year, private individuals increase their capital placements by an additional SEK 5 billion, whereas the level of placements by companies remains unchanged.

Lower dividends of state shares

Dividends of state shares decrease by SEK 4 billion this year and by SEK 2 billion next year compared with the previous forecast. This year the change is mainly due to a lower-than-expected dividend from LKAB. Next year as well, the downward revision is mostly due to the expectation that LKAB's dividend will be lower.

Primary expenditure increases again in 2024

The central government's primary expenditure will decrease marginally this year compared with 2022 and then increase next year. The reduction is due, among other things, to the pandemic support being phased out, but also to a transfer from CSN's credit reserve and payments from the EU's recovery fund helping to keep expenditure down. Next year, expenditure will increase significantly as a result of for instance higher prices and wages, and investment in defence. Compared with the previous forecast, the National Debt Office has revised up the central government's primary expenditure for both 2023 and 2024 (see Table 8).

Social insurance spending has been revised up for both 2023 and 2024, as a result of the higher hourly wage trend and price-base amounts. This leads to higher costs within the majority of compensation areas, such as the national basic pension, sickness and activity compensation, and sick pay. The Government is also extending and raising the temporary supplementary allowance to the housing allowance for families with children, which increases the expenditure by SEK 0.7 billion in 2023. In addition, the expenditure for high sick pay costs concerning 2022 is higher than in the February forecast.

The central government's tax disbursements are also higher in this forecast, largely as the result of a change in method. This is also due to higher payroll tax within the central government sector, which equates to an equally large item of expenditure. The central government pays tax on, among other things, wages and transfer payments, but this is budget neutral for the state.

Education spending by the central government increases during the forecast period, but it is revised down for both this year and the next, compared with the February forecast. The downward revision is mainly due to a new assessment of CSN's levels of student loan disbursements, which is more in line with the agency's most recent budget basis. This change reduces the central government's primary expenditure, while at the same time increasing the lending to CSN as part of the Debt Office's net lending. The Swedish National Agency for Education's disbursements also appear to be lower than we previously expected, mainly for this year.

The forecast for payments to Sweden from the EU's recovery fund during 2023 and 2024 is unchanged from February. These payments reduce the primary expenditure. The Debt Office expects that Sweden will receive SEK 18 billion in December 2023 and SEK 10 billion in 2024. However, the payments expected for December could occur at the beginning of next year. That would weaken the budget balance by SEK 18 billion for 2023 and strengthen it by SEK 18 billion for 2024, compared with the forecast.

In-depth

Fiscal policy in the forecast

Since the February forecast, the Government has submitted the 2023 Spring Fiscal Policy Bill and the 2023 spring amending budget to the Riksdag. The budget contains proposals for fiscal policy measures that entail expenditure increases totalling almost SEK 4 billion. On 20 June, the Riksdag will decide on the guidelines for the fiscal policy and the spring amending budget.

Examples of some of the larger measures in the budget are an extension and increase for the temporary supplementary allowance to the housing allowance for families with children – and higher expenditure for compensation for high sick pay costs, since employers reported higher-than-expected sick pay costs for the April–December 2022 period. The budget also contains expenditure within defence, education, and the legal system.

Since the February forecast, the Government has also submitted an additional extra amending budget to the Riksdag, which the Riksdag then approved. The budget contained proposals to donate military equipment to Ukraine, which increase central government expenditure by SEK 0.7 billion this year.

The Debt Office has taken the above into account in the forecast, and the Budget Bill for 2023 has also been accounted for since previously. In addition to this, we do not assume any further unfunded fiscal policy measures. Increased appropriation levels and certain changed tax rules were announced in the Budget Bill for 2023, and these will continue to have an effect in 2024. The expenditure increases exceeded the SEK 30 billion in unfunded measures that the Debt Office had assumed for 2024 in its October 2022 forecast.

Net lending weighs on budget balance this year

Net lending by the Debt Office to government agencies and other parties contributes negatively to the budget balance in 2023 and slightly positively to the balance in 2024. Compared with February, net lending decreases by SEK 1 billion this year and by SEK 20 billion next year. The revision for 2024 is mainly due to a new assessment regarding deposits from Svenska kraftnät.

In the last two years, net lending has made an unusually strong contribution to the budget balance. This has mainly been due to two temporary factors. The first is the loans raised by the Debt Office on behalf of the Riksbank, for financing the foreign currency reserves, being paid back, which has caused net lending to decrease to the corresponding extent. In total, the repayment of the loans strengthens the budget balance by SEK 182 billion for the 2021–2023 period. Next year, the loans will be repaid and the Debt Office's net lending will once again become positive, weighing on the budget balance. The other explanation is that Svenska kraftnät's deposits at the Debt Office have been unusually high as a result of the large influx of revenue from congestion rent due to the high price differences between the different electricity price areas.

This year, however, the net lending shifts to making a negative contribution to the budget balance, despite the Riksbank's repayment of the last remaining foreign currency loans and the influx of congestion revenue. This is due to the disbursements of electricity price support, which is financed by Svenska kraftnät's congestion revenue. The electricity price support paid out in February reduced Svenska kraftnät's deposits by SEK 17 billion. The Debt Office expects further support for households and businesses totalling SEK 41 billion to be paid out in May and in August. Altogether, electricity price support is expected to amount to SEK 58 billion for 2023, which is unchanged since the February forecast.

The influx of congestion revenue has been high, albeit significantly lower than last year. In the February forecast, the Debt Office assumed that Svenska kraftnät's deposits would decrease by almost SEK 10 billion next year as a result of either increased investment or a new form of support. Now we expect Svenska kraftnät's deposits to instead increase by approximately SEK 15 billion, which contributes to lower net lending in 2024.

CSN's transition to a new calculation model for interest on student loans, which occurred at the turn of the year, entails that CSN's credit reserve was depleted in March and that the existing funds were transferred to the central government budget. The transfer did not affect the budget balance, but it leads to higher net lending this year (and at the same time a stronger primary balance by the corresponding amount).

The regular net lending to CSN for its disbursements of loans increases during the forecast period. At the same time, the higher interest rates lead to larger disbursements of funds within the premium pension system, resulting in lower deposits mainly this year.

For a description of how net lending affects central government finances, see the Facts section "Debt Office net lending – a special expenditure item" on page 26.

Table 10. Debt Office net lending

SEK billion

	2022	2023	2024
Lending, of which	**-47**	**-33**	**24**
CSN (Swedish Board of Student Finance)	10	13	16
Swedish Transport Administration	6	1	1
Lending to outside the government[1]	-8	0	0
On-lending to the Riksbank	-61	-63	0
Other[2]	6	15	8
Deposits, of which	**65**	**-44**	**27**
CSN, credit reserve etc.	1	-10	2
Resolution reserve	4	6	6
Premium pension, net[3]	6	5	0
Deposits from outside the government[4]	0	0	2
Other[2]	55	-46	17
Net lending	**-112**	**11**	**-2**
Net lending excluding on-lending to the Riksbank	**-51**	**74**	**-2**

[1] Lending to outside the government refers to lending in SEK to actors outside the realm of government agencies, such as state-owned companies.

[2] Lending and deposits to Svenska kraftnät is included in the "Other" category.

[3] Premium pension refers to the net of paid-in pension fees and disbursement of funds, and other administrative costs.

[4] Deposits from outside the government refers to deposits from actors outside the realm of government agencies, such as the EU account.

Source: The Debt Office

Facts

Debt Office net lending – a special expenditure item

Net lending by the Debt Office to government agencies and other parties is an item on the expenditure side of the central government budget. This means that increased net lending by the Debt Office weakens the budget balance. 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. It consists of the change in all lending and depositing in the central government's internal bank (treasury), at the Debt Office. Net lending covers ongoing central government activities – such as student loans, deposits in the premium pension system, and lending to infrastructure investments – as well as items such as on-lending to the Riksbank and other countries. These items may be decided at short notice, and they can contribute to strong variations in net lending from year to year.

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

Higher interest payments

Higher market interest rates mean that the central government's interest payments are higher in the new forecast that in the previous one. The Debt Office now expects interest payments to amount to SEK 27 billion in 2023 and SEK 22 billion in 2024 (see Table 11). This entails an upward revision of SEK 6 billion and SEK 7 billion, respectively. The forecast currency losses on the Debt Office's currency exposure remain unchanged.

It is mainly the interest payments on the Debt Office's net lending to agencies and other parties that increase compared with the forecast from February. Historically, the lending has been larger than the deposits, but in recent years the deposits have increased substantially because of, among other things, congestion revenue. Fixed interest rates are used for the majority of the lending to agencies (primarily lending to CSN) whereas mainly floating interest rates apply to the deposits (for example those from Svenska kraftnät). Rising interest rates and an increased volume of deposits create higher interest payments on the Debt Office's deposits.

Table 11. Interest on central government debt

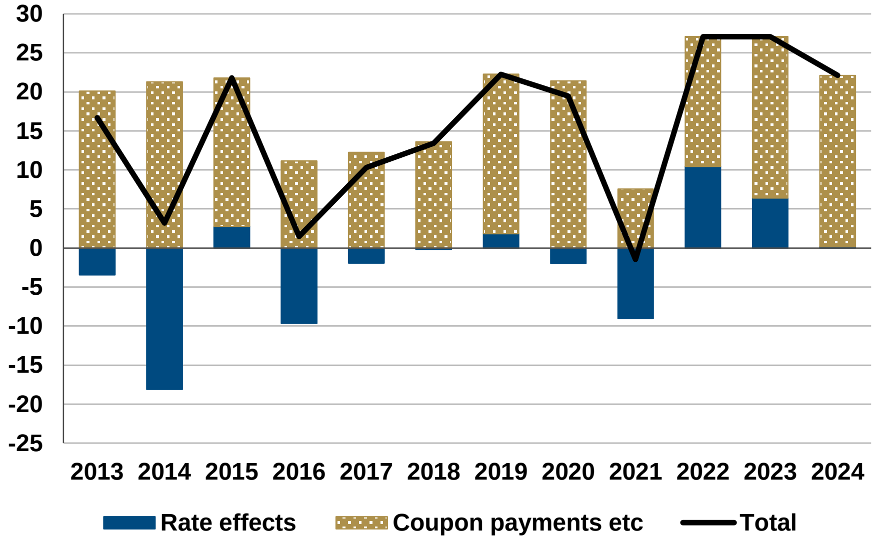
SEK billion

	2023	2024
Interest on loans in SEK	20	20
Interest on loans in foreign currency	2	2
Realised currency gains and losses	5	0
Interest on central government debt	**27**	**22**

Source: The Debt Office

Figure 6 Interest payments 2013–2024

SEK billion



Source: The Debt Office

The interest payments decrease by approximately SEK 5 billion between 2023 and 2024 (see Figure 6). This is primarily due to an assumption of lower exchange rate effects for 2024 because the Debt Office’s foreign currency exposure has largely had a maturity of up to one year.

The Debt Office uses implicit forward interest rates in calculating the central government’s interest payments. The calculation was made using the yield curves on 28 April 2023. For the calculation of exchange rate effects, we use cut-off rates.

Less certain budget balance due to inflation

The macroeconomic development is of great importance for the budget balance and normally has the largest effect on income from taxes. This becomes more complex when there is a sharp and rapid increase in prices, which has been the case in the past year.

Despite a decline in household consumption in constant prices, income from VAT may continue to increase as a result of rising prices. At the same time, there is a delay before a significant portion of the central government's expenditure increases, because it takes time until for instance various agreements are renegotiated and the level of transfer payments is adjusted. It is difficult to estimate how the economy will be affected by the high inflation, and it is uncertain how long it will take for the various effects to have an impact on the budget balance.

The budget balance is also affected by large payments of a temporary nature. Such temporary factors pertaining to this forecast are primarily: the influx of congestion revenue to Svenska kraftnät, capital placements in tax accounts, and a potential capital contribution to the Riksbank. All of these could have a major impact on the budget balance, the extent of which remains very uncertain.

Increased supply of bonds

The Debt Office is increasing nominal government bond borrowing this year in order to meet the greater budget deficit next year and upcoming bond maturities. The short-term borrowing decreases compared with the previous forecast, but the plan for inflation-linked and foreign currency bonds remains intact. The central government debt increases next year, although it does not change as a share of GDP.

The new forecast for the budget balance entails a SEK 27 billion decrease in the central government net borrowing requirement for this year and a SEK 10 billion increase for next year, compared with the previous forecast. Since the budget outcome has so far been SEK 38 billion stronger than in the previous forecast, the Debt Office has already adjusted down the volume of treasury bills and other short-term borrowing more than the forecast revision.

The Debt Office expects the total borrowing requirement, which also includes the refinancing of maturing loans, to be SEK 333 billion for 2023 and SEK 306 billion for 2024. This is a decrease from the previous forecast, due to the volume of maturing loans will be falling as the borrowing in treasury bills is reduced. Tables 12 and 13 show how the borrowing requirement is financed.

Table 12. Borrowing plan

SEK billion

	2022	2023		2024	
	Outcome	*May*	*(Feb)*	*May*	*(Feb)*
Money market funding	**154**	**259**	**(288)**	**237**	**(267)**
T-bills	65	135	(158)	148	(178)
Liquidity management instruments	89	124	(131)	90	(90)
Bond funding	**55**	**74**	**(69)**	**69**	**(59)**
Nominal government bonds	46	45	(40)	60	(50)
Inflation-linked bonds	9	9	(9)	9	(9)
Green bonds	0	0	(0)	0	(0)
Foreign currency bonds	0	21	(21)	0	(0)
Total gross borrowing	**209**	**333**	**(358)**	**306**	**(326)**

Note: Borrowing in the money market corresponds to outstanding stock at the end of December. Previous forecast in parentheses.

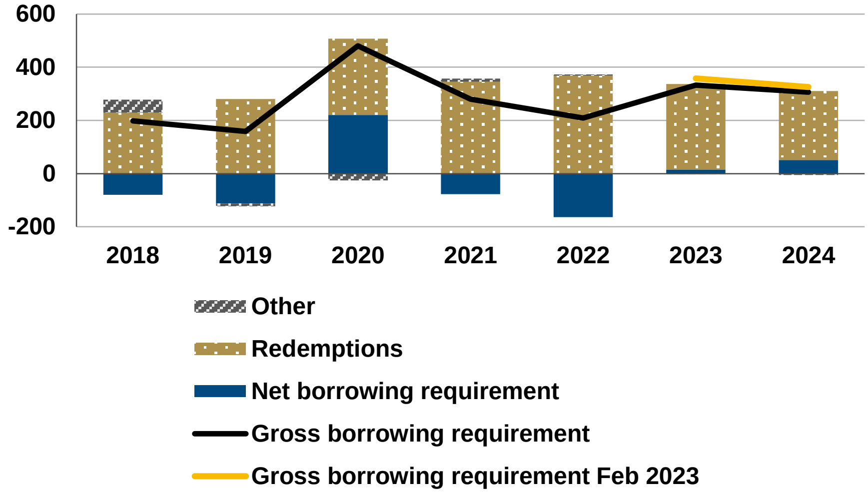
Source: The Debt Office

In the new plan, the Debt Office is gradually raising the issuance volume of nominal government bonds, starting in August 2023. At the same time, we are reducing the supply of treasury bills compared with the previous forecast. This is mainly because the Debt Office has issued a smaller volume than planned since February, but we are also to some extent redistributing issuance from T-bills to nominal government bonds.

The issuance volume of inflation-linked bonds is unchanged, and as previously planned we expect to issue a bond in foreign currency this year.

Figure 7 Total gross borrowing requirement

SEK billion

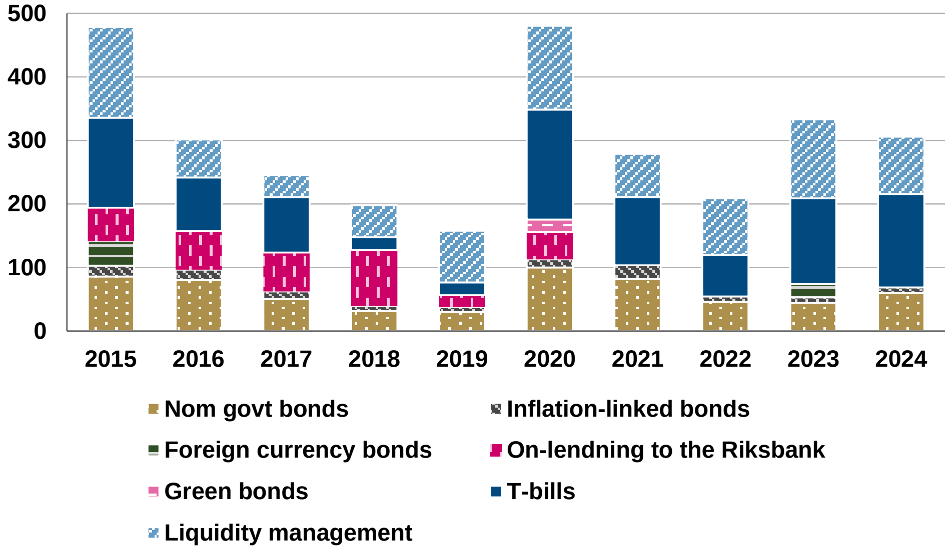


Note: The net borrowing requirement is the budget balance with the opposite sign. The post "Other" includes for example an adjustment due to the net borrowing requirement being reported by settlement date whereas borrowing is reported by trade date.

Source: The Debt Office

Figure 8 Borrowing by instrument

SEK billion



Note: Borrowing per calendar year. The amount of treasury bills and liquidity management instruments refers to outstanding stock at year-end.

Source: The Debt Office

A potential capital contribution to the Riksbank would create an expenditure for the central government that would increase the net borrowing requirement, all else being equal. We would then, as a matter of course, finance the net borrowing requirement in adherence to our borrowing strategy.

Facts

Borrowing policy forms basis of issuance planning

The Debt Office maintains a borrowing policy for, among other things, which debt instruments we use and how we prioritise between instruments and maturities.

Nominal government bonds: the most important source of funding

Nominal government bonds are the Debt Office's largest and most important funding source. Over time, we therefore prioritise these over other instruments. We offer regular issues through auctions according to a pre-determined borrowing plan. Selling smaller volumes on many occasions reduces the risk of the state needing to borrow large volumes at times when market conditions are unfavourable. At the same time, we offer investors continual access to government bonds via the primary market.

An important part of the strategy for minimising borrowing costs over the long term is to act in a predictable manner and to build up sufficient volume in certain prioritised maturities to ensure good liquidity. This means that the Debt Office adjusts the borrowing in government bonds to short-term conditions in the market only to a limited extent. We also endeavour to maintain relatively even maturities (redemptions) in the stock of bonds, in terms of both size and time.

Inflation-linked bonds are complement to nominal bonds

By issuing inflation-linked bonds, the Debt Office can attract investors that want to protect themselves against inflation. The inflation-linked bond issuance should be large enough to enable liquid trading of these bonds, yet not so large that it crowds out nominal government bonds and worsens liquidity in that market.

For inflation-linked bonds as well, the Debt Office also regularly issues by auction and strives for even maturities. In order to facilitate reinvestment at maturity, we offer switches to bonds with longer terms to maturity, with the aim of limiting the outstanding volume of maturing bonds. In recent years, however, interest in making switches in connection with maturities has been limited.

Bonds in foreign currency contribute to good borrowing preparedness

In the international capital market, the Debt Office is able to reach a larger group of investors and borrow large amounts within a short span of time. There are therefore reasons for issuing bonds in foreign currency even when the borrowing requirement is small, in order to maintain the readiness to borrow large amounts as necessary. We also issue securities with shorter maturities in foreign currency.

Because the Debt Office is a small player in the international capital market, as opposed to the Swedish krona market, there are greater opportunities for flexibility and adapting the borrowing to prevailing market conditions in the international arena.

Treasury bills to balance fluctuations in borrowing requirement

Using treasury bills, the Debt Office can borrow in short maturities in the krona market. We regularly issue T-bills through auctions and can also sell them within the liquidity management operations. In the planned borrowing, we mainly use T-bills to balance fluctuations in the borrowing requirement. In this way, the Debt Office can maintain stability in the government bond borrowing.

Supply of nominal government bonds increases

The Debt Office is increasing the volume of nominal government bonds per auction from SEK 2 billion to SEK 2.5 billion as of August. At the turn of the year, the auction volume will then be raised by a further SEK 3 billion. This means that the annual issuance volume of nominal government bonds will amount to SEK 44.5 billion in 2023 and SEK 60 billion in 2024. As previously communicated, we plan to issue a new ten-year bond next year.

The Debt Office plans to carry out the majority of the auctions in the ten-year segment and in the two-year and five-year reference bonds (see Table 13). This is in line with our strategy of borrowing in a transparent and predictable manner with a focus on building up reference bonds.

Table 13. Reference bonds

Date of change	2-year	5-year	10-year
Current	1058	1060	1065
20 Dec 2023	1059	1061	

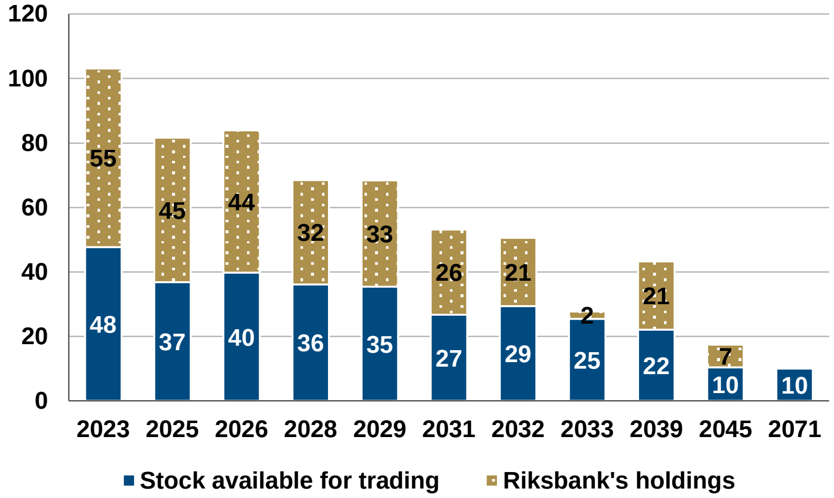
Note: The reference bond in the electronic interbank market is the bond that is closest to two, five, or ten years in term to maturity. Reference bonds are changed on the IMM (International Money Market) dates: the third Wednesday in March, June, September, and December. The date of change of reference bonds refers to the settlement date.

The Riksbank still owns a large portion of the outstanding stock of government bonds, after its bond purchases in recent years. Figure 9 shows outstanding nominal government bonds and the Riksbank's holding of each bond. In April, the Riksbank began selling off its holdings of nominal and inflation-linked bonds withlonger terms to maturity (maturing from 2027 onwards). The sales target is SEK 3.5 billion per month.

According to the Riksbank's most recent Financial Markets Survey, conducted in March and published in May, the majority of market participants think that the sales will improve market functioning and the liquidity of both nominal and inflation-linked bonds. The Riksbank's sales do not affect the way in which we plan our borrowing.

Figure 9 Outstanding stock of nominal government bonds and the Riksbank's holdings

SEK billion, year of maturity



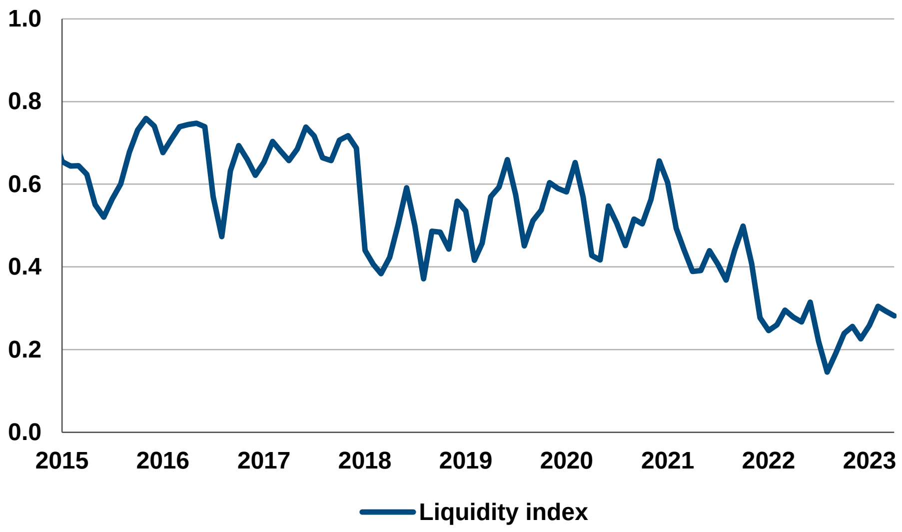
Note: Outstanding volume expressed as nominal amount per government bond with year of maturity according to the X axis. The Riksbank's holdings are reported in accordance with the Debt Office's economic approach (trade date accounting) for the central government debt.

Sources: The Riksbank and the Debt Office

Liquidity in the secondary market for government securities has been strained for some time now, and the majority of respondents to the Riksbank's Financial Markets Survey consider the liquidity to be poor or very poor. For nominal government bonds, the results were slightly better than in the survey from last autumn. Finansinspektionen's (the Swedish Financial Supervisory Authority) liquidity measure also indicates a slight improvement in recent months (see Figure 10). A well-functioning government securities market with good liquidity is important for attracting investors and keeping down the cost of the central government debt over time.

Figure 10 Liquidity index for secondary market

Index



Note: Liquidity measure as an aggregation of various individual indicators for nominal government bonds with benchmark status. Higher values correspond to higher liquidity. Two-month moving average.

Source: Finansinspektionen

Facts

Market participants' view of inflation-linked bonds

The Debt Office continually analyses the market conditions for our bonds. In connection with the report *Central Government Borrowing – Forecast and Analysis 2023:1*, we published a questionnaire to examine the market's view of inflation-linked bonds. The purpose was to gain a greater understanding of the trends for the inflation-linked bond market and long-term demand. The Debt Office will use this information to analyse how to best achieve our objectives.

We received responses from both primary dealers and Swedish investors. The responses indicate that demand for inflation-linked bonds is currently low. Most respondents consider demand to have been low for many years. One of the main reasons given is poor market liquidity, which among other things worsens the conditions for bond turnover. Most respondents also consider the pricing of inflation-linked bonds to be functioning much worse than it is for nominal bonds.

Many expressed interest in inflation-linked bonds as an instrument, since most view them as contributing to diversification and having no comparable substitute. However, some consider real estate and infrastructure to have similar characteristics.

Most think that for inflation-linked bonds to be an attractive trading option, and for demand to increase, structural changes and improved market liquidity are needed. Factors that many respondents consider to be important for a functioning market are lower cost for trading inflation-linked bonds, and opportunities for a good price picture. Some think that the supply should be increased, although this is contingent on the market's functioning improving first.

The responses that the Debt Office has received from market participants support our assessment that the market for inflation-linked bonds is not functioning satisfactorily. We have previously observed that activity in the market has changed, among other things through lower demand in auctions and decreased turnover in the secondary market. Despite interest in this debt instrument, the poor market liquidity is keeping the demand from materialising.

The Debt Office will use the results of the survey as part of its long-term analysis of how the central government debt should be composed based on the objective of minimising the cost of the debt while taking account of risk. Other countries are conducting similar analyses of inflation-linked bonds. Canada and New Zeeland are two examples, and they have reached different conclusions about the role that inflation-linked bonds should have in the borrowing. We must analyse this issue on the basis of several different aspects and the conditions that are specific to Sweden.

Unchanged issuance volume of inflation-linked bonds

The planned issuance volume of inflation-linked bonds remains at SEK 500 million per auction throughout the forecast period. This entails an annual volume of SEK 8.5 billion in 2023 and 2024.

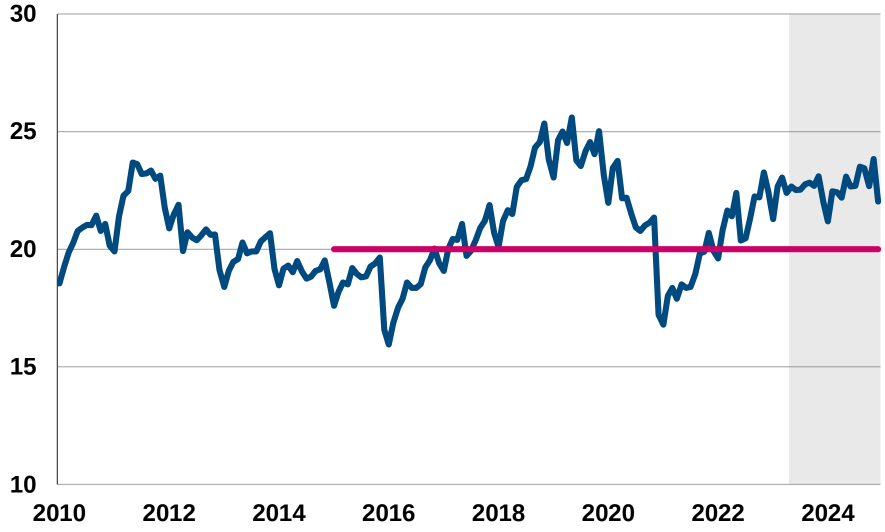
The Debt Office is currently conducting analysis to gain a better understanding of the market demand for inflation-linked bonds (see the section above). As we previously communicated, we have therefore postponed the introduction of a new ten-year bond.

Under the Government's guidelines, the proportion of inflation-linked debt is to be 20 per cent of the total central government debt over the long term. The inflation-linked share's development is affected by several factors such as issuance volume, rate of inflation, planned switches, maturities of inflation-linked bonds, and the size of the central government debt. The continual market-maintaining switches also affect the inflation-linked debt share.

During the forecast period, the share of inflation-linked debt is slightly above the target because there are no maturing inflation-linked bonds, while the borrowing remains unchanged (see Figure 11). The next inflation-linked bond maturity does not occur until 2025. After that, there are inflation-linked bonds maturing several years in a row, and the share thereby proceeds towards the long-term target.

Figure 11 Inflation-linked debt as share of central government debt

Per cent of total central government debt



Note: The forecast shows the last day of each month, whereas outcomes are shown as the monthly mean. The pink line shows the long-term target for the share of inflation-linked debt. The share is calculated at the nominal amount using the current exchange rate including accrued inflation compensation.

Source: The Debt Office

Plan remains for issuing foreign currency bond

The Debt Office still plans to issue a foreign currency bond this year. The planned issuance volume corresponds to SEK 21 billion.

Issuing bonds in foreign currency in the international capital market is a flexible form of borrowing that the Debt Office can easily adjust as the borrowing requirement changes. Foreign currency borrowing is conducive to good borrowing preparedness because the Debt Office can borrow large amounts in the international capital market within a short amount of time (see the borrowing policy on page 32).

The foreign currency borrowing does not involve a currency exposure in the central government debt, because we manage the foreign currency exposure by using derivatives.

Stock of treasury bills decreases

In the new borrowing plan, the supply of treasury bills has gone down. This is mainly because the Debt Office has reduced the issuance volume when the outcomes of the central government budget balance have been stronger than expected, but also because the planned issuance volume is lower for both 2023 and 2024.

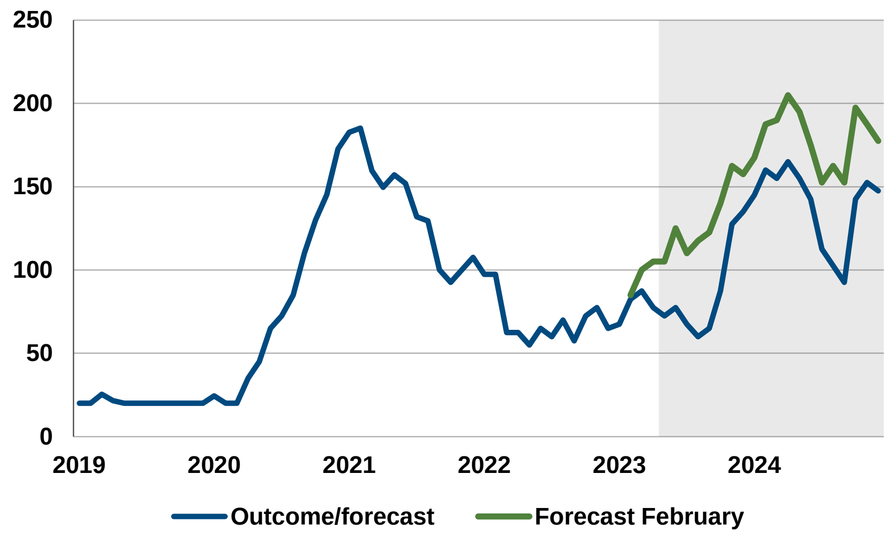
The planned volume in the individual auctions varies within the range of SEK 5 billion to SEK 20 billion. The Debt Office plans the volumes in the individual auctions of treasury bills on the basis of seasonal patterns in the central government's payments, and maturities. We can later make further adjustments ahead of every individual auction if necessary, depending on how the outcome of the payments develops. This means that the planned volumes we publish in the auction schedule may ultimately differ from the decisions we make one week prior to an auction.

The stock of treasury bills is planned to be SEK 135 billion at the end of 2023, and SEK 148 billion at the end of 2024. This can be compared with SEK 158 billion for 2023, and SEK 178 billion for 2024, in the previous forecast.

In March, the Debt Office issued a new 12-month treasury bill and returned to an extended treasury-bill policy (see the Facts section below).

Figure 12 Stock of treasury bills

SEK billion



Source: The Debt Office

Facts

More maturities in treasury bills

In March 2023, the Debt Office extended the longest maturity for treasury bills to 12 months. Thereby the number of outstanding maturities in T-bills will increase from four to six during 2023.

The Debt Office will issue a new 12-month bill every three months maturing on an IMM date (the third Wednesday in March, June, September, and December). In the other months, a new three-month bill will be introduced.

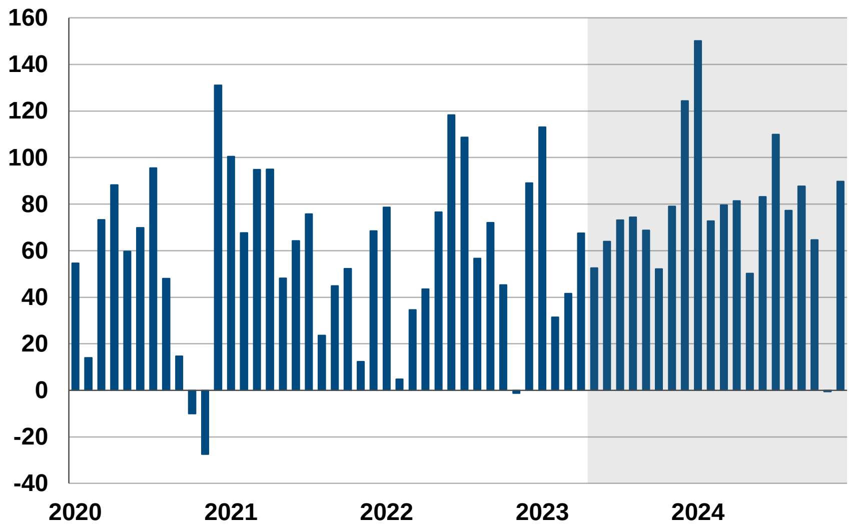
The Debt Office is also able to issue treasury bills on a discretionary basis (tap issues) within the framework of the liquidity management operations. This applies to T-bills with the two shortest maturities and with tailored maturities (liquidity bills).

Within the liquidity management operations, the Debt Office finances the borrowing requirement that remains after the planned issues of treasury bills and bonds. This includes issuing T-bills on a discretionary basis (tap issues), and commercial paper in foreign currency. In this forecast, the volume of liquidity management instruments is in line with the previous forecast and includes assumptions regarding the utilisation of the repo facility.

The amounts borrowed as part of liquidity management are continually adjusted to the development of the budget balance and the regular borrowing (see Figure 13).

Figure 13 Liquidity management

SEK billion



Note: Nominal amount at current exchange rate including assets under management. Positive amount indicates borrowing requirement, negative amount indicates cash surplus.

Source: The Debt Office

Changed conditions for repo swaps

Repo swaps are a form of market maintenance, through which the Debt Office offers primary dealers the opportunity to borrow a government security against lending out another for one week. The Debt Office has for a period offered an increased volume and lower pricing for this market-maintaining facility. We have now decided to revert to the previous terms, in light of the growing trading volume of government securities.

At the end of 2019, the Debt Office increased this facility to an upper volume limit of SEK 4 billion per government security and primary dealer. Since June 2022, the price has been 20 basis points below the Riksbank's policy rate. The Debt Office is going to keep the facility increased until 16 August then return to a maximum volume of SEK 2 billion per government security and primary dealer, and pricing that is 30 basis points below the Riksbank's repo rate.

Volume of interest rate swaps decreases

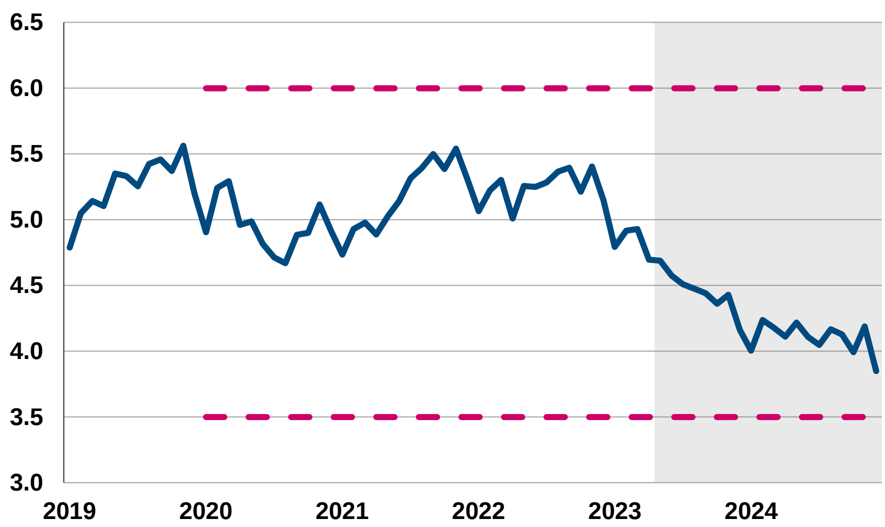
The Debt Office has used interest rate swaps to adjust the duration of the central government debt. For many years, we engaged in interest rate swaps to shorten the duration of the debt in order to reduce the expected cost. With the new borrowing plan, the maturity of the central government debt measured as duration falls within the lower part of the target range (see Figure 14). The Debt Office will therefore retain only a small volume of interest rate swaps, in order to maintain a market presence, competence, and functioning systems.

We are planning to have an average maturity of approximately five years for the swaps, although the Debt Office may engage in swaps with maturities of up to 12 years.

The swaps that we make are spread out relatively evenly over the year but also with consideration for flexibility from a commercial perspective, in terms of timing and maturity. We may deviate from the planned volume if conditions change during the year.

Figure 14 Maturity of the central government debt

Year



Note: Term to maturity is measured using Macaulay duration. The forecast shows the last day of each month, whereas outcomes are shown as the monthly mean. The dashed lines represent the steering interval for duration in the Government's guidelines for debt management.

Source: The Debt Office

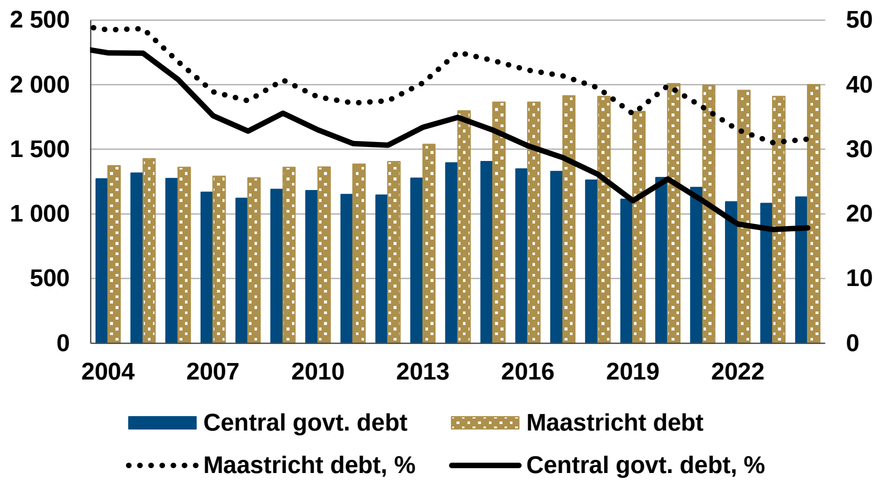
Central government debt increases but not as per cent of GDP

At the end of 2022, the central government debt was SEK 1.093 billion. The Debt Office expects the central government debt to decrease to SEK 1.081 billion by year-end 2023 and then increase to SEK 1.130 billion by year-end 2024 (see Table 14 and Figure 15). This corresponds to 18 per cent of GDP at the end of each year.

In the Debt Office's forecast, the Maastricht debt is expected to decrease from 33 per cent of GDP at the end of 2022, to 31 per cent in 2023, and then increase to 32 per cent in 2024. The Maastricht measure includes the consolidated debt for the entire public sector and is used in international comparisons and the fiscal policy framework (see the Facts section below). According to the debt anchor in the fiscal policy framework, the Maastricht debt shall be 35 per cent of GDP (±5 percentage points).

Figure 15 Central government debt – development over time

SEK billion, per cent of GDP



Note: For 2023–2024, the shares are based on the Debt Office's GDP forecast. This also applies to the Maastricht debt. Outcome data is obtained from Statistics Sweden.

Sources: Statistics Sweden and the Debt Office

Table 14. From net borrowing requirement to central government debt

SEK billion

From net borrowing requirement to central government debt	**2020**	**2021**	**2022**	**2023**	**2024**
Net borrowing requirement (budget balance with opposite sign)	221	-78	-164	15	51
Trade date adjustment etc.[1]	-25	7	1	0	-4
Net borrowing and trade date adjustment etc.	196	-71	-163	15	46
A. Net amount including money-market assets	**1.229**	**1.159**	**996**	**1.011**	**1.058**
Inflation compensation	18	24	43	60	62
Exchange-rate effects	-4	6	15	0	0
B. Net amount at current exchange rate incl. inflation compensation	**1.243**	**1.189**	**1.054**	**1.071**	**1.120**
Assets under management	38	15	39	10	10
C. Central govt. debt	**1.280**	**1.204**	**1.093**	**1.081**	**1.130**
Assets under management	-38	-15	-39	-10	-10
On-lending	-174	-127	-76	-1	-1
D. Central govt. debt incl. on-lending and assets under management	**1.069**	**1.063**	**978**	**1.071**	**1.119**
Nominal GDP	5.039	5.450	5.932	6.152	6.331
C. Central govt. debt, % of GDP	**25**	**22**	**18**	**18**	**18**
D. Central govt. debt incl. on-lending and assets under management, % of GDP	**21**	**19**	**16**	**17**	**18**

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

Source: The Debt Office

Facts

Different measures of government debt

There are different ways of measuring government debt. The Debt Office reports the *central government unconsolidated debt*. This measure shows the central government gross debt and includes all loans raised by the Debt Office on behalf of the central government, irrespective of who owns the claims on the state. 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 intragovernmental ownership is deducted in the *central government consolidated debt* (although not the Riksbank's holdings). That measure provides an overall picture of the financial position of the central government and is used in the Budget Bill and the annual report for the central government. The central government consolidated debt is calculated by ESV (the Swedish National Financial Management Authority).

One debt measure often used in international comparisons is *general government consolidated gross debt*, also called the Maastricht debt. This debt is larger than the central government debt as it covers the whole of the public sector, including local and regional governments and the old-age pension system. Its calculation is based on conditions in the Maastricht Treaty. According to EU regulation, the Maastricht debt must not exceed 60 per cent of GDP.

The Maastricht debt is also the measure that forms the basis of the debt anchor of 35 per cent of GDP, which by decision of the Riksdag (Parliament) has been in force from 2019. General government consolidated gross debt is published by Statistics Sweden.

Appendix of Tables

Table 15. Central government net lending

SEK billion

Central government net lending	2020	2021	2022	2023	2024
Budget balance	**-221**	**78**	**164**	**-15**	**-51**
Delimitations	**30**	**-116**	**-106**	**-16**	**-13**
Sale of limited companies	0	0	-1	0	0
Parts of Debt Office's net lending	34	-77	-114	1	3
Other	-4	-40	9	-17	-17
Accruals	**50**	**0**	**-56**	**2**	**27**
Taxes	41	7	-45	13	24
Interest payments etc.	9	-8	-10	-11	3
Central government net lending	**-141**	**-39**	**2**	**-29**	**-37**
Per cent of GDP	**-2.8**	**-0.7**	**0.0**	**-0.5**	**-0.6**

Table 16. Budget balance forecast per month

SEK billion

Month	Primary balance	Net lending	Interest on government debt	Budget balance
May 23	40.7	-13.7	-3.8	23.2
June 23	-28.3	5.9	-4.3	-26.6
July 23	-6,0	6.9	-0.7	0.1
August 23	27.4	-24.8	-0.3	2.3
September 23	-10.5	4.7	-2.3	-8,0
October 23	-15.5	3.9	-0.4	-12.1
November 23	28.4	6.1	-4.2	30.3
December 23	-19.9	-52.8	-3.6	-76.3
January 24	-42,0	3.7	-0.8	-39.1
February 24	51.9	1,0	-0.6	52.2
March 24	-11.8	4.5	-2,0	-9.2
April 24	-21.4	4.7	-1.9	-18.5

Table 17. Budget balance changes between years, effect on budget balance

SEK billion

Changes between years, effect on budget balance	2020	2021	2022	2023	2024
Budget balance, level	**-221**	**78**	**164**	**-15**	**-51**
Change from previous year	-333	298	86	-179	-36
Primary balance	**-239**	**176**	**76**	**-55**	**-54**
Income from taxes	-73	192	79	-2	7
Grants to local governments	-38	5	-4	0	-4
Labour market	-7	-4	9	-1	-4
Social insurance	-26	1	-11	-2	-8
State share dividends	4	-1	29	-26	7
Other	-99	-17	-26	-25	-52
Debt Office's net lending	**-97**	**101**	**39**	**-123**	**13**
Interest on government debt	**3**	**21**	**-29**	**0**	**5**

Table 18. Budget balance forecast comparison

SEK billion

Forecast	Budget balance	Sale of state assets	Adjuster budget balance
Debt Office (25 May)			
2023	-15	0	-15
2024	-51	0	-51
Government (13 April)			
2022	-1	5	-6
2023	-17	5	-22
NIER (29 March)			
2023	-5	0	-5
2024	-79	0	-79
ESV (24 March)			
2023	-4	0	-4
2024	-22	0	-22

Table 19. State share dividends

SEK billion

Company	2021	2022	2023	2024
Akademiska hus AB	2.1	2.5	2.9	2.7
LKAB	5.9	12.4	7.5	8,0
Telia Company AB	3.2	3.3	2.4	3.3
Vattenfall AB	4.0	23.4	4.0	9.0
Sveaskog AB	0.9	1.3	1.2	1.2
Other companies	1.5	3.3	2.3	2.8
Total	**17.6**	**46.2**	**20.3**	**26.9**

Table 20. Total gross borrowing requirement

SEK billion

	2020	2021	2022	2023	2024
Net borrowing requirement (budget balance with opposite sign)	**221**	**-78**	**-164**	**15**	**51**
Trade date adjustment etc.[1]	**-25**	**7**	**1**	**0**	**-4**
Retail funding & collateral, net [2]	**-2**	**5**	**4**	**-4**	**-1**
Money market redemptions [3]	**101**	**305**	**176**	**154**	**259**
T-bills	20	173	107	65	135
Liquidity management instruments	81	132	68	89	124
Bond redemptions, net switches and buy-backs	**185**	**40**	**192**	**167**	**0**
Nominal government bonds	96	0	108	103	1
Inflation-linked bonds	19	-1	22	0	0
Green bonds	0	0	0	0	0
Foreign currency bonds[4]	70	41	61	64	0
Total gross borrowing requirement	**481**	**279**	**209**	**333**	**306**

Note: [1]A difference occurs as borrowing is reported by business date while net borrowing requirement is reported by settlement date. [2]Net change in retail funding and collater. [3] Initial stock maturing within 12 months. Liquidity management is net, including assets under management. Commercial paper is included in Liquidity management instruments. Calculated at the original issuance exchange rate.

Source: The Debt Office

Table 21. Net borrowing requirement and net borrowing requirement

SEK billion

	2020	2021	2022	2023	2024
Net borrowing requirement (budget balance with opposite sign)	221	-78	-164	15	51
Trade date adjustment etc.[1]	-25	7	1	0	-4
Net borrowing requirement	**196**	**-71**	**-163**	**15**	**46**
Retail funding & collateral, net	**2**	**-5**	**-4**	**4**	**1**
Net money market funding	**203**	**-129**	**-21**	**105**	**-22**
T-bills	153	-65	-42	70	13
Commercial paper	31	-31	0	0	0
Liquidity management instruments	19	-32	21	35	-35
Net bond market funding	**-9**	**63**	**-137**	**-93**	**68**
Nominal government bonds	4	83	-62	-59	59
Inflation-linked bonds	-6	22	-13	9	9
Green bonds	20	0	0	0	0
Foreign currency bonds	-27	-41	-61	-43	0
Total net borrowing	**196**	**-71**	**-163**	**15**	**46**

Note: [1]A difference occurs as borrowing is reported by trade date while net borrowing requirement is reported by settlement date.

Source: The Debt Office

Market information

Table 22. Nominal government bonds, auction date

Announcement date	Auction date	Settlement date
31-May-23	07-Jun-23	09-Jun-23
14-Jun-23	21-Jun-23	26-Jun-23
09-Aug-23	16-Aug-23	18-Aug-23
23-Aug-23	30-Aug-23	01-Sep-23
06-Sep-23	13-Sep-23	15-Sep-23
20-Sep-23	27-Sep-23	29-Sep-23
04-Oct-23	11-Oct-23	13-Oct-23
18-Oct-23	25-Oct-23	27-Oct-23
01-Nov-23	08-Nov-23	10-Nov-23
15-Nov-23	22-Nov-23	24-Nov-23
29-Nov-23	06-Dec-23	08-Dec-23

Table 23. Inflation-linked government bonds, auction date

Announcement date	Auction date	Settlement date
25-May-23	01-Jun-23	05-Jun-23
08-Jun-23	15-Jun-23	19-Jun-23
03-Aug-23	10-Aug-23	14-Aug-23
17-Aug-23	24-Aug-23	28-Aug-23
31-Aug-23	07-Sep-23	11-Sep-23
14-Sep-23	21-Sep-23	25-Sep-23
28-Sep-23	05-Oct-23	09-Oct-23
12-Oct-23	19-Oct-23	23-Oct-23
09-Nov-23	16-Nov-23	20-Nov-23
23-Nov-23	30-Nov-23	04-Dec-23

Table 24. T-bills, auction date

Announcement date	Auction date	Settlement date
24-May-23	31-May-23	02-Jun-23
07-Jun-23	14-Jun-23	16-Jun-23
21-Jun-23	28-Jun-23	30-Jun-23
28-Jun-23	05-Jul-23	07-Jul-23
02-Aug-23	09-Aug-23	11-Aug-23
16-Aug-23	23-Aug-23	25-Aug-23
30-Aug-23	06-Sep-23	08-Sep-23
13-Sep-23	20-Sep-23	22-Sep-23
27-Sep-23	04-Oct-23	06-Oct-23
11-Oct-23	18-Oct-23	20-Oct-23
25-Oct-23	01-Nov-23	03-Nov-23
08-Nov-23	15-Nov-23	17-Nov-23
22-Nov-23	29-Nov-23	01-Dec-23
06-Dec-23	13-Dec-23	15-Dec-23

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

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