RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Central Government Borrowing

Forecast and analysis 2017:1

In *Central Government Borrowing - forecast and analysis 2017:1* the Debt Office presents forecasts for central government finances and borrowing in 2017 and 2018. An assessment of the economic development is given in the first section. The following section presents annual and monthly forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for borrowing, which is discussed in the last section of the report.

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Director General

The Debt Office's mission

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

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

On the fifth working day of each month, the central government budget balance (the net of all incoming and outgoing payments) for the previous month is published in a press release. This 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*.

Summary

The Debt Office expects the net borrowing requirement to be SEK 20 billion in 2017. This is SEK 12 billion lower than in the previous forecast. Next year the net borrowing requirement is expected to be SEK -17 billion, which is an increase of SEK 4 billion compared with the October forecast. On account of the downward revision of the forecast of the net borrowing requirement there is a further decrease in borrowing in government bonds. The issue volume is reduced from SEK 3 billion to SEK 2.5 billion per auction and there will be slightly fewer auctions. Borrowing in inflation-linked bonds is also reduced slightly by cancelling one auction per year. The issue volume of T-bills is unchanged at an average of SEK 10 billion per year.

- The Swedish economy continues to grow at a good pace, even though growth will dampen during the forecast period. GDP is expected to grow by 2.3 per cent in 2017 and 1.9 per cent in 2018. Domestic demand will be the main driver of growth since international growth will be slower than normal.

- Both the labour force and employment are expected to continue to show strong growth and unemployment is expected to level out at 6.6 per cent in the coming two years.

- The forecast changes are relatively small. The net borrowing requirement is estimated at SEK 20 billion in 2017, which is a decrease of SEK 12 billion compared with the previous forecast. The main explanation is slightly higher tax income.

- Next year the net borrowing requirement is expected to be SEK -17 billion, which is an increase of SEK 4 billion compared with the October forecast.

- Central government net lending shows small surpluses in both forecast years and is estimated at 0.2 per cent of GDP in 2017 and 0.1 per cent in 2018.

- The central government debt is estimated at SEK 1 352 billion at the end of 2017 and 1 324 billion on 31 December 2018. This corresponds to 30 and 28 per cent of GDP at year-end.

- The borrowing requirement including refinancing of maturing loans is expected to be SEK 21 billion lower for 2017 than in the previous forecast. For 2018 the borrowing requirement is largely unchanged.

- The auction volume of government bonds decreases from SEK 3.0 to 2.5 billion per auction as of March this year. In addition, the number of auctions is reduced by two per year. This means that borrowing in government bonds will be SEK 52 billion this year and SEK 50 billion in 2018.

- Borrowing in inflation-linked bonds will also be reduced, albeit marginally, by cancelling one auction per year. The issue volume remains at SEK 750 billion per auction, corresponding to an annual rate of SEK 13 billion in 2017 and 2018.

- Borrowing in T-bills is unchanged and remains at SEK 10 billion per auction. The stock is estimated at around SEK 110 and 80 billion on 31 December 2017 and 2018 respectively.

- As in the October forecast, the Debt Office intends to only issue bonds in foreign currencies to refinance on-lending to the Riksbank.

Good growth in the Swedish economy

The Swedish economy continues to grow at a good pace, even though growth will dampen during the forecast period. GDP is expected to grow by 2.3 per cent in 2017 and 1.9 per cent in 2018. Domestic demand will be the main driver of growth since international growth will be slower than normal. Both the labour force and employment will continue to show strong growth and unemployment is expected to level out at 6.6 per cent in the coming two years.

Moderate international recovery

Higher long interest rates in the autumn

Long-term bond yields rose in autumn last year. The rise was particularly great in the US, where it was driven by expectations of a more expansive fiscal policy in combination with relatively strong macroeconomic outcomes for the US economy.

The market participants expect that central banks' key interest rates will continue to be low for some time to come. As economic growth picks up and inflation rises, monetary policy will gradually be normalised and central banks' asset purchase programmes will be wound down. As expected, the US central bank left its key interest rate unchanged at its first meeting this year, after the increase in December. The market expects a couple of hikes in 2017.

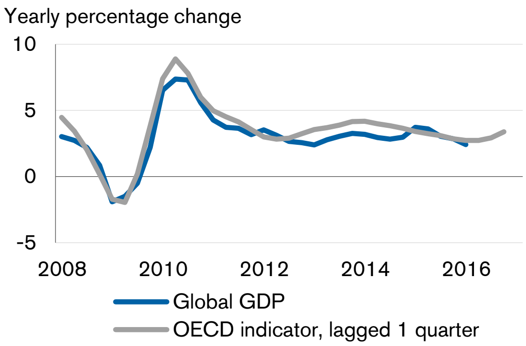
Global GDP growth is picking up

The global economic signals have been positive in recent months and the recovery of the global economy is expected to continue. GDP growth in the third quarter of last year was relatively good in several parts of the global economy. At present, several confidence indicators are above their historical average, providing support for stronger developments in the future, see figure 1.

The increase in global GDP growth this year and the next, will continue to be supported by expansive monetary policy as well as fiscal policy that will become more and more expansive. The rate of investment growth is expected to rise, especially in developed countries, as a result of a backlog of investment needs after the financial crisis.

The pickup in global growth in the coming years is chiefly due to expected improvements in the emerging economies. Both Russia and Brazil seems to have left their recessions, and growth in these countries is expected to increase this year and next year. High prices of raw materials are contributing to the strong growth in these countries. In China, the gradual slow-down is expected to continue during the forecast period. The slow-down is partly being held back by expansive fiscal policy in the country.

Figure 1 Global GDP-growth, outcome and indicator



Source: OECD, IMF and Datastream.

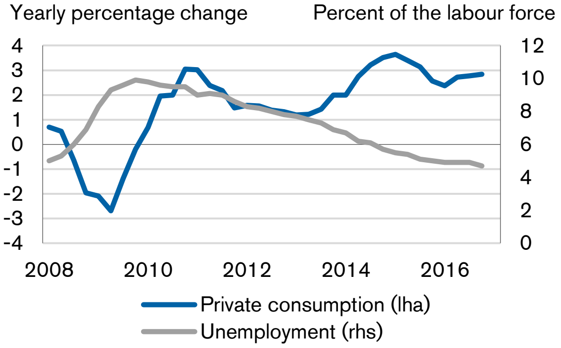
The Debt Office's assessment is that global GDP will increase by 3.4 per cent this year and 3.6 per cent next year, which is the same assessment as in the previous forecast. The prospects for the developed economies look slightly brighter today, while the outlook is slightly darker in the emerging economies.

Stronger US growth in second half of 2016

The US economy recovered in the second half of 2016, after a somewhat softer patch in the first half of the year. Growth is to a great extent being driven by private consumption, which in turn is benefitting from a strong labour market with continued very low unemployment, see figure 2.

The prospects for the US economy have brightened recently; for instance confidence among both households and businesses is higher today than in the autumn. Household investments are expected to continue to be the main driver of growth, at the same time as business investments will increase.

Figure 2 Private consumption and unemployment in the US



Source: BEA and Datastream.

Moreover, the new political administration's proposals for infrastructure investments and tax reductions for households and businesses can contribute to a fiscal stimulus in the immediate future, to the extent that the proposals are materialised. At the same time, public finances are deteriorating in the US and debt is increasing. However, there is considerable uncertainty as to what impact the fiscal policy proposals will have in the longer run.

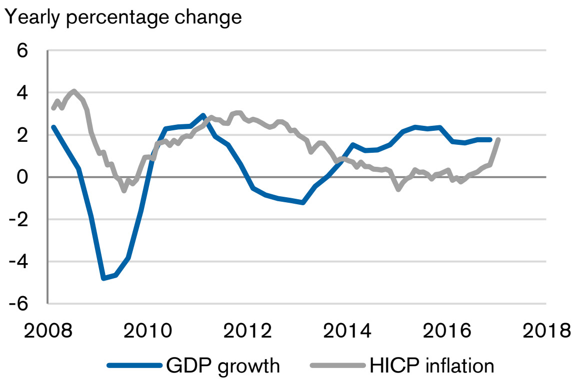
The Debt Office's forecast for GDP growth in the US is 2.3 per cent this year and 2.5 per cent next year. This is 0.1 percentage point higher for 2017 and 0.4 percentage points higher for 2018 than in the Debt Office's previous forecast.

Growth in the euro area continues to be slow

GDP growth in the euro area has been relatively stable in the past 2–3 years at around an annual rate of 2 per cent. Growth for the whole of 2016 was 1.7 per cent, after a fourth quarter performance in line with expectations. The recovery is benefitting both from an expansive monetary policy and from a fiscal policy that is less and less shaped by consolidation. Leading indicators point to a further improvement of growth prospects in 2017. Household consumption and investments are expected to drive growth. The labour market is continuing to perform well. In the past three years unemployment has fallen from more than 12 per cent to just under 10 per cent. After having hovered around zero for one and a half years, HICP inflation has begun to rise over the last six months, see figure 3.

The Debt Office's forecast for GDP growth in the euro area is 1.6 per cent both this year and the next. This assessment is marginally stronger for 2017 but unchanged for 2018 compared with the Debt Office's previous forecast.

Figure 3 Growth and inflation in the euro area



Source: Eurostat and Datastream.

Continued good growth in Sweden

The Swedish economy is strong and close to balance. GDP is judged to be slightly above its potential level and unemployment close to its equilibrium level. Growth has been good in the last couple of quarters and GDP is currently seen as growing slightly faster than its historical average.

Table 1 GDP and its components, constant prices

Percentage change[1]	2015	2016	2017	2018
GDP	4.1 (4.1)	3.4 (3.3)	2.3 (1.9)	1.9 (1.8)
Household consumption	2.7 (2.7)	2.2 (2.4)	2.2 (2.2)	2.1 (2.1)
General gov't consumption	2.5 (2.5)	3.4 (3.6)	1.2 (1.6)	1.0 (1.0)
Gross fixed capital formation	7.0 (7.2)	6.8 (7.3)	3.0 (2.1)	2.3 (1.5)
Change in inventories[2]	0.3 (0.3)	0.3 (0.2)	-0.2(-0.1)	-0.1(0.0)
Exports	5.6 (5.6)	3.2 (3.0)	3.5 (3.1)	3.9 (3.9)
Imports	5.5 (5.5)	4.3 (4.9)	2.7 (3.1)	3.6 (3.6)
Net exports[2]	0.3 (0.3)	-0.3(-0.7)	0.5 (0.1)	0.3 (0.3)
GDP (calendar adj.)	3.8 (3.9)	3.2 (3.1)	2.6 (2.2)	2.1 (1.9)

Note: Previous forecast in parenthesis.

[1] *Actual change compared with previous year.*

[2] *Change as percentage of GDP previous year.*

The performance is being supported by monetary policy still being expansive. Growth in Sweden is judged to have been 3.4 per cent in 2016 and it is expected to dampen to 2.3 per cent this year and to just under 2 per cent next year, see table 1.

The Debt Office's picture of economic growth in the coming two years is slightly more positive than in the previous forecast. In the autumn, short term growth prospects improved somewhat and GDP growth has been revised upwards by 0.4 percentage points this year and 0.1 percentage point next year. Investments and exports, in particular, are expected to grow faster than in the previous forecast.

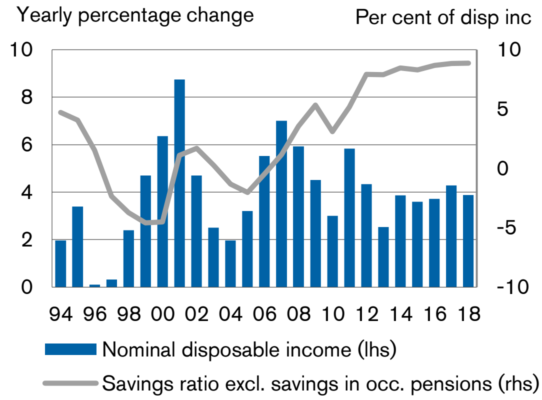
Stronger demand in the economy in the near future

On the whole, the GDP outcome for the third quarter of 2016 was in line with the Debt Office's forecast. However, domestic demand showed slightly weaker growth than expected while exports surprised positively. Despite the slightly weaker performance, growth in the coming years is expected to continue to be driven by domestic demand, with household consumption and investment making the largest contributions to GDP growth. Compared with previous forecasts, exports are now expected to make a larger contribution to GDP.

Household consumption increased in the third quarter of last year after falling slightly in the second quarter. The tendency survey of households by the National Institute of Economic Research (NIER), shows that the climate among households is bright. Consumer confidence has been higher than normal since September last year and households are taking a more optimistic than normal view of their own finances. Even though retail sales were lower than expected in December, sales rose in the autumn. Statistics Sweden's monthly consumption indicator also fell in December, in contrast to the good increases in in consumption in October and November. Also, there is still scope for households to consume since interest rates are low, disposable incomes are rising and savings in the household sector are high, see figure 4. Household consumption is therefore expected to continue to grow at a good rate during the forecast period.

Public consumption was unchanged in the third quarter of 2016. In the past year, public consumption has increased strongly on account of demographic factors and high expenditure for migration and integration. In the third quarter, central government's costs for asylum immigration decreased, while the municipalities' costs continued to increase. Lower consumption in county councils contributed to a standstill in aggregate public consumption. Public consumption is expected to increase in the coming quarters, but at a lower rate than in the past year. Compared with the Debt Office's most recent forecast, the growth rate has been revised downwards slightly.

Figure 4 Disposable income and savings ratio



Source: Statistics Sweden and Swedish National Debt Office.

Investments have increased rapidly in the past two years, mainly on account of high housing investments. In the third quarter of last year investments were unchanged, partly on account of a decrease in business investments. The growth rate of housing investments is expected to decline this year and next year; one factor being the increasingly strained resource utilisation in the construction industry. In combination with the slower growth also expected for business investments, this will lead to a downward shift in investment growth.

The fall in exports in the first half of 2016 was broken in the third quarter and export growth was relatively strong. Indicators of developments in the next few quarters also point to a stronger performance. The climate in the export industry is more optimistic than normal according to the Export Managers' Index. Export orders are increasing, both in the NIER's Economic Tendency Survey and in the Purchasing Managers' Index, and so are production plans in the industry, according to the NIER's Economic Tendency Survey. Together with the gradual global economic recovery, this will contribute to a good rate of export growth in the coming years. The increase in exports seen in the past year is expected to continue and the contribution of net exports to GDP will be positive again after being negative last year.

Labour market shows continued strength

The labour market as a whole also performed strongly in the second half of the year, despite a temporary dip at the start of the third quarter.

The labour force has grown at about 1 per cent per year for a longer period of time. This development is expected to continue and the labour force is seen growing in line with the number of people of working age. The forecast is that the labour force will increase by 1.0 per cent in 2017 and 0.8 per cent in 2018, which is similar to the assessment in the Debt Office's most recent forecast, see table 2.

Table 2 Key figures for the labour market

Percentage change.	2016	2017	2018
Labour force	1.0 (0.9)	1.0 (0.9)	0.8 (0.9)
Employment	1.5 (1.5)	1.4 (1.3)	0.9 (0.8)
Unemployment	6.9 (6.8)	6.6 (6.4)	6.6 (6.5)

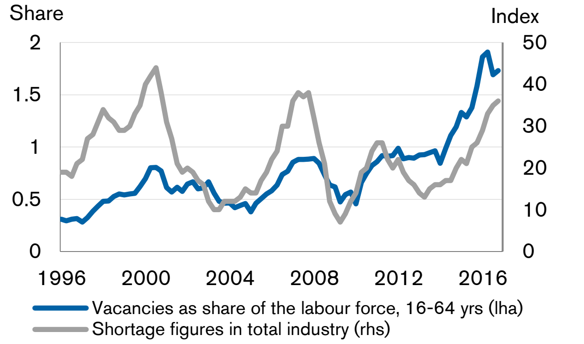
Note: Previous forecast in parenthesis.

Employment growth was strong at the end of 2016 Employment has now grown by about 1.5 per cent per year for three successive years. This growth has taken place in both the public and the private sector, but increased demand in health and social care has led to particularly strong growth in the public sector. The NIER's Economic Tendency Survey points to continued high growth of employment, a picture that also draws support from short-term econometric models. The forecast is that employment will increase by 1.4 per cent in 2017 and 0.9 per cent in 2018, which is 0.1 percentage point higher for both years than in the Debt Office's previous forecast.

Unemployment has been falling for some years since employment has been growing faster than the labour force. This difference is expected to decrease gradually during the forecast period, leading to a levelling out of unemployment. The forecast for unemployment is 6.6 per cent in both 2017 and 2018.

The functioning of the labour market, i.e. how well job vacancies and jobseekers are matched with one another, has a great impact on employment. For a couple of years the share of people born abroad among the unemployed has risen steadily. In conjunction with this the average level of education among the unemployed has also fallen. Arbetsförmedlingen (The Swedish public employment service) expects this trend to continue, which means there is reason to believe that matching in the labour market will get more and more difficult.[1]

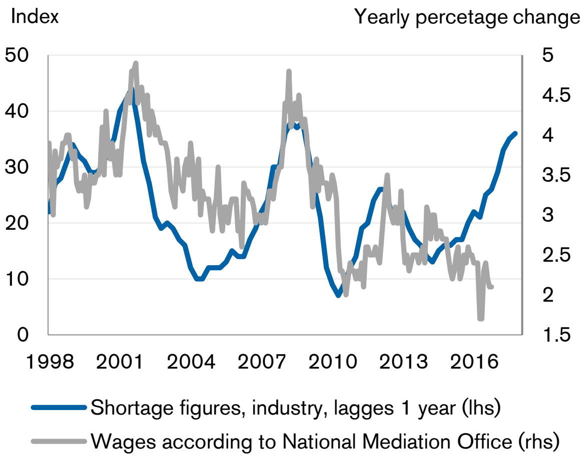
Figure 5 Vacancies and shortage figures



Source: Statistics Sweden, Arbetsförmedlingen och National Institute of Economic Research.

But employment growth is not determined solely by matching; it also depends on the number of job vacancies. One factor that probably has contributed to the sustained growth of employment in recent years is the unusually large increase in the number of vacancies, compared with shortage figures for example, in the most recent economic upturn, see figure 5. This unusual situation contributes to slightly higher uncertainty in the forecast of employment.

Figure 6 Shortage figures in the industry and wages



Source: National Institute of Economic Research and National Mediation Office.

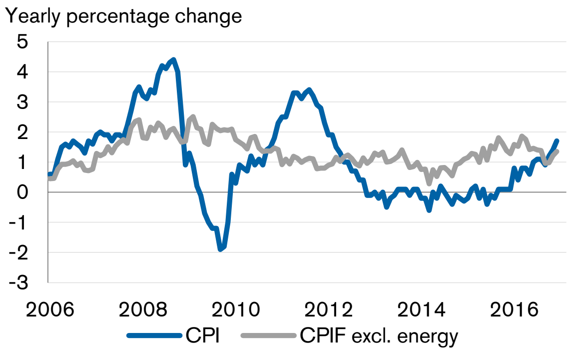
[1] *For forecasts of the average level of education among unemployed persons, see Arbetsförmedlingen's report "Labour market prospects autumn 2016" [Arbetsmarknadsutsikterna hösten 2016] published on 7 December 2016.*

Even though the situation in the labour market has gradually become more and more strained, wages are increasing at a slower and slower rate, see figure 6. Previously, when labour shortage has been at current levels, the rate of pay growth has been a couple of percentage points higher than it is today. At the same time, wage growth usually reacts with a lag, and the Debt Office's forecast is that pay growth will increase in the future. However, the rate of wage growth will still be moderate, as indicated by the central agreements, limited pay drift and the labour market partners' low expectations of pay growth over five years.

Measures of inflation presents a divided picture

For some time, the choice of inflation measure has played an important role for the picture of price pressures in the economy. The inflation rate, measured as CPI, has increased by more than two percentage points in a year and a half, from -0.4 per cent in June 2015 to 1.7 per cent in December 2016. At the same time, the inflation rate, measured as CPI with a fixed interest rate and excluding energy prices, has only increased by 0.2 percentage points in the same period, see figure 7. A large part of the increase in CPI inflation is thus attributable to energy prices, interest expenditure and exchange rate variations. As CPI inflation has risen, inflation expectations have also risen, roughly in line with historical patterns.

Figure 7 Inflation measured in two ways



Source: Statistics Sweden.

The moderate underlying inflationary pressure is expected to remain in place during the forecast period, partly because pay is expected to grow relatively slowly in the future. At the same time, the contribution of, for example, energy prices and exchanges rates to CPI inflation is expected to abate during the forecast period. The forecast for CPI inflation is 1.3 per cent in 2017 and 2.0 per cent in 2018.

Balanced risks but greater political uncertainty internationally

On the whole, the risks of a better and worse outcome than in the main scenario are balanced. In the short term, however, there is a greater risk of stronger growth, while the risk for slower growth is greater in the longer term.

Political uncertainty has increased at the international level, mainly on account of the policy realignment announced by the new US administration. The coming elections in France and the Netherlands and elsewhere and the continued handling of the UK's exit from the EU also affect this uncertainty.

Donald Trump's economic policy agenda entails major changes in several areas. The measures announced include tax cuts for private individuals and businesses, increased public investment and renegotiating or tearing up of trade agreements. In addition, there are changes in migration, foreign and security policy. There is great uncertainty about these proposals, in terms of both the extent to which they will actually be implemented and what effect they will have in the case they are implemented. Just like the risk picture viewed as a whole, there is more risk of a stronger outcome in the short term, while in the long term the risk of a weaker outcome is greater.

The domestic risks largely concern the performance of the labour market. In the short term, shortage figures and other indicators suggest that employment may grow faster than in the main scenario in the forecast. In the slightly longer term, the large migration flows in recent years are an uncertain factor. This uncertainty concerns how quickly new arrivals enter the labour market and to what extent they obtain employment.

Households' rising debt continues to constitute a risk for a private consumption, but this is balanced by the point that low interest rates and high savings can contribute to consumption being higher than expected.

Net borrowing requirement 2017-2018

In total, the changes compared with the Debt Office's previous forecast are small. The net borrowing requirement is estimated at SEK 20 billion in 2017. This is SEK 12 billion lower than in the previous forecast. Next year the net borrowing requirement is estimated at SEK -17 billion, which is an increase of SEK 4 billion compared with the October forecast. The decrease in 2017 is mainly explained by slightly higher tax income, while higher expenditure leads to a marginally higher borrowing requirement in 2018. Central government net lending shows small surpluses for both forecast years and is estimated at 0.2 per cent of GDP in 2017 and 0.1 per cent in 2018.

Misleadingly low borrowing requirement in 2016

In principle the outcome of the net borrowing requirement in 2016 was in line with the Debt Office's forecast from October. That forecast was SEK -80 billion and the outcome was SEK -85 billion. The Debt Office was the agency that had the highest forecast of central government tax income in 2016. Nevertheless the outcome for tax income was slightly higher than the Debt Office's forecast. Once again it was the supplementary tax payments that were unexpectedly high.

The net borrowing requirement is a cash flow measure that may give a misleading picture of the strength of the underlying central government finances. The Debt Office's assessment is that a large part of the net borrowing requirement and of the budget balance in 2016 can be explained by excess deposits in tax accounts and various one-time effects.

In contrast the excess deposits in tax accounts do not affect central government net lending since the excess deposits are borrowing in practice and not tax income. This means that central government net lending has a much more even development and is expected to show small surpluses in 2016 to 2018. In addition, compared with the net borrowing requirement, net lending is much less affected by various one-time effects. Central government net lending is therefore a better and more relevant indicator of central government finances. For the Debt Office, however, the net borrowing requirement is of most importance since it directly affects the central government debt and central government borrowing.

The Debt Office's assessment is that the level of excess deposits is unchanged compared with the October forecast. In all, this means that the inflow is judged to have been about SEK 40 billion in 2016, which will turn into an outflow of SEK 10 billion in 2017.

The reduction of the income interest rate to 0 per cent from the start of the year is expected to result in excess deposits by private individuals virtually disappearing. The Debt Office also expects some outflow to private individuals. However, for many businesses an interest rate of 0 per cent is still judged to be attractive so that excess deposits from legal persons may continue to some extent.

Net borrowing requirement greater than in 2016

At the same time as the effects of the excess deposits are reversed, one-time effects will disappear. This leads to a reduction of tax income compared with 2016.

Table 1 Central government net borrowing requirement

SEK billion	2016	2017	2018
Primary net borrowing requirement	**-87**	**7**	**-26**
of which net lending to agencies excl. on-lending	0	0	3
of which net lending, on-lending	14	13	15
of which sales of state assets	0	0	0
of which income and expenditure excl. sales of assets	-101	-6	-43
Interest payments	**1**	**13**	**9**
Net borrowing requirement	**-85**	**20**	**-17**

Between 2017 and 2018 the net borrowing requirement decreases by SEK 37 billion. This is mainly because tax income starts to grow again at the same time as migration and other expenditure items decrease between the years.

Expenditure was at a temporary low in 2016 and is therefore expected to show a relatively large increase in 2017. In all, this means that the borrowing requirement will increase by more than SEK 100 billion between these years.

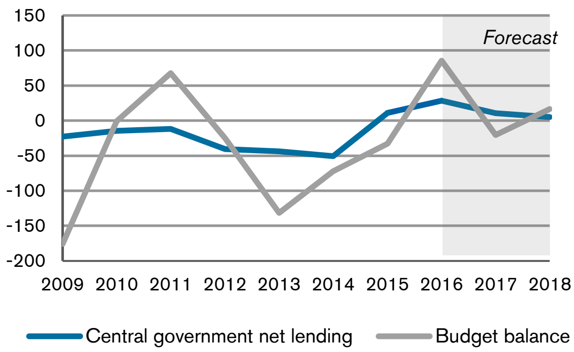
For 2018 the Debt Office has an unchanged assumption of SEK 15 billion in new unfinanced reforms.

Surplus in central government net lending

The Debt Office estimates central government net lending at 0.6 per cent as a proportion of GDP in 2016. The forecast for 2017 and 2018 is 0.2 and 0.1 per cent of GDP respectively.

Figure 2 Central government net lending and the budget balance

SEK billion



Forecast changes since October

The forecast changes since the October forecast are relatively small. The net borrowing requirement for 2017 is expected to decrease by SEK 12 billion compared with the previous assessment. This is mainly because of the estimate that household's capital gains and corporate profits will increase slightly more than previously estimated. This means that central government income from capital taxation will increase.

For 2018 the Debt Office estimates that the net borrowing requirement will increase by SEK 4 billion compared with the previous forecast. This is mainly due to higher expenditure. While expenditure for migration and social insurance goes down compared with the previous forecast, this is countered by expenditure increases in several other areas. For example, expenditure increases for schools, the police, development assistance and interest payments on the central government debt. Tax revenue in 2018 is virtually unchanged compared with the October forecast.

Continued high capital income for households

Income of capital has been revised upwards for all the years in the forecast, including 2016. As expected, the outcome of the tax assessment for 2015 showed a sharp increase in households' capital gains compared with 2014. The outcome of the tax assessment for 2016 will only become known at the end of this year. Most indications are that these gains will remain at a high level even though there is great uncertainty in the forecast. For example, it is not obvious how big an effect will result from the increased possibilities introduced to defer capital gains on home sales.

Table 2 The largest changes in forecasts[1]

SEK billion	2017	2018
Forecast October 2016	**33**	**-20**
Taxes	-13	-1
Government grants to local governments	0	0
Labour market	0	0
Social insurance	-3	-4
Migration	0	-5
International aid	1	3
Dividends	0	0
Interest payments	1	3
Net lending excl. on-lending	2	0
On-lending	1	2
Other	-1	5
Forecast February 2017	**20**	**-17**
Sum of changes	-12	4

[1] Changes in terms of net borrowing requirement. A minus sign means that the net borrowing requirement decreases and plus means that it increases.

Another uncertainty is how the investment savings accounts (ISAs) will affect capital gains from sales of securities. The greater the balances in ISAs compared with other, more traditional holdings, the smaller will the capital gains be. This is offset to at least some extent by an increase in standardised taxation. For 2015 information from the Swedish Tax Agency suggests that sales of securities were unusually large. The Debt Office's assessment is that, in many cases, the purpose of these sales was to transfer capital to ISAs. This development is expected to have continued to some extent in 2016.

Despite the low level of interest rates household's interest and dividend income continued to rise to new record levels in 2015. This is judged to be mainly due to high dividends to owners of close companies. A continued weak increase in these dividends is expected for 2016 to 2108.

Deductions for interest expenditure have been revised downwards slightly for 2017 and 2018 compared with the previous forecast.

Higher income from corporate taxes

The assessment of profit growth in the business sector has been revised upwards slightly compared with the previous forecast. Higher GDP growth with a stronger recovery in the export sector is estimated to result in higher profit levels. This is also supported by the NIER's Economic Tendency Survey, in which the climate is good in all sectors apart from retailing. Companies' overall assessment of profitability has improved since autumn 2016.

The forecast of central government income from corporate taxes has therefore been increased by SEK 5 billion per year in 2017 and 2018.

Table 3 Tax income compared with previous forecast[1]

SEK billion	2017	2018
Payroll taxes	-1	2
Consumption taxes	5	7
Corporate taxes	-5	-5
Supplementary taxes	-12	-5
Total	**-13**	**-1**

[1] *Changes in terms of net borrowing requirement. A plus sign indicates a decrease in tax income and an increase in the net borrowing requirement.*

Unchanged development of payroll taxes

Central government income from payroll taxes will rise by SEK 1 billion in 2017, but decrease by SEK 2 billion in 2018, compared with the previous forecast. Payroll growth is expected to be slightly higher this year than in the previous forecast. But, at the same time, the share of final tax charged as preliminary tax is expected to be slightly lower.

Table 4 Growth rates for tax forecast, current prices

Percentage change	2016	2017	2018
Household consumption	3.3	3.8	4.3
Wage sum	5.0	4.6	4.1
Household taxable income	4.9	4.5	4.1
Income from interest and dividends	1.3	0.9	0.9
Deduction for interest on debts	-1.7	2.6	2.5
Household capital gains, net	-5.0	-7.2	-8.3
Corporate taxable income	-3.6	7.0	5.0

Lower income from consumption taxes

Consumption taxes decrease by SEK 5 billion in 2017 and SEK 7 billion in 2018 compared with the previous forecast. Reasons for the change include slightly weaker growth of private consumption in current prices and weaker growth of selective taxes.

Unchanged dividends on state-owned shares

The assessment of central government income from share dividends is largely the same as in the previous forecast. These dividends are estimated at just over SEK 9 billion per year in 2017 and 2018.

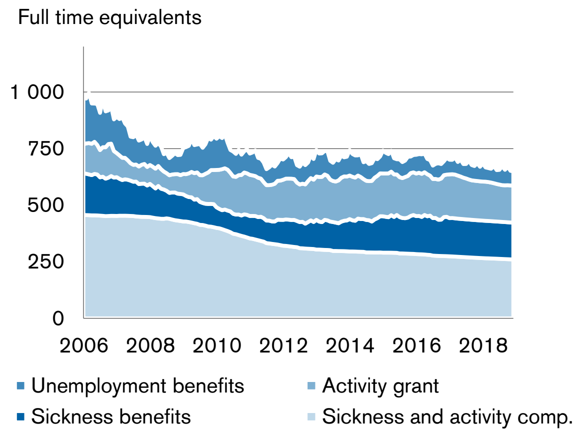
Table 5 Dividends on state-owned shares

SEK billion	2017	2018
Akademiska hus AB	1.5	1.5
LKAB	0.2	0.5
Telia Company	3.2	3.2
Vattenfall AB	0.0	0.0
Sveaskog AB	0.9	0.9
Other corporations	3.5	3.1
Total	**9.3**	**9.2**

Lower social insurance expenditure

This forecast expects social insurance expenditure to be slightly lower than in the October assessment. It is mainly expenditure for sickness benefit that has been revised downwards since sickness cases have become shorter and the inflow of new cases to this form of insurance has decreased. Alongside this, expenditure for assistance allowance is also expected to be lower than previously estimated. In all, social insurance expenditure decreases by SEK 3 billion for 2017 and SEK 4 billion for 2018 compared with the previous forecast.

Figure 3 Volumes in the transfer systems for the labour market and ill health



Lower expenditure for migration in 2018

Expenditure for migration in 2017 is virtually unchanged compared with the previous forecast. Next year this expenditure is expected to decrease by SEK 5 billion compared with the previous forecast.

The Swedish Migration Agency's assessment of the number of new asylum seekers has gradually been revised downwards for both 2017 and 2018. There were also slightly fewer asylum seekers than estimated in 2016. In aggregate, this means that the number of asylum seekers in the Swedish Migration Agency's reception system will decrease over time compared with previous assessments.

If the number of refugees changes by 10 000 persons compared with the forecasted level, this would, according to the Debt Office's calculation, change this expenditure by some SEK 2 billion on a yearly basis.

Higher development assistance

Expenditure for development assistance through Sida is estimated to increase by SEK 1 billion in 2017 and SEK 3 billion in 2018. This is mainly because lower expenditure for migration leads to a lower set-off from development assistance.

Net lending by the Debt Office

The Debt Office's net lending to government agencies etc. is expected to amount to SEK 13 billion in 2017 and SEK 17 billion in 2018. This is an increase of SEK 3 billion and 2 billion compared with the previous forecast. The main reason for the increase is that individual loans raised on behalf of the Riksbank are maturing and being refinanced at a higher USD exchange rate.

The increase in net lending in 2018 compared with this year is largely explained by the fact the Swedish Transport Administration's lending to infrastructure investments is expected to decrease slightly this year and to then increase by SEK 2 billion in 2018.

Change in the net borrowing requirement between years

The table shows how the net borrowing requirement changes between 2014 and 2018 and how different parts of the net borrowing requirement affect this change.

The net borrowing requirement increases by SEK 106 billion between 2016 and 2017, on account of both falling income and rising expenditure.

Tax income decreases by SEK 41 billion between these years. This is largely because 2016 was affected by excess deposits in tax accounts, a large one-time payment of corporate tax and tax increases. In 2017 the one-time effect disappears at the same time as the impact of excess deposits in tax accounts is reversed.

Expenditure for migration and development assistance increases strongly between 2014 and 2017, but falls back in 2018, mainly on account of a lower inflow of asylum seekers

Government grants to local authorities increase by SEK 12 billion in 2017 compared with 2016. Many other items of expenditure also increase a great deal, contributing to the increase in the net borrowing requirement between these years.

Interest payments on the central government debt vary a great deal between years. The outcome for 2016 was SEK 1 billion, a record low. They are expected to increase by SEK 12 billion this year, and then decrease again in 2018.

Between 2017 and 2018 the net borrowing requirement decreases by SEK 37 billion. The main reason is an increase of SEK 65 billion in tax income.

SEK billion	2014	2015	2016	2017	2018
Net borrowing requirement, level	**72**	**33**	**-85**	**20**	**-17**
Net borrowing requirement, change	-59	-40	-118	106	-37
Explained by;					
Taxes	-26	-76	-145	41	-65
Government grants to local governments	5	7	-9	12	0
Labour market	1	0	-1	2	-1
Social Insurance	7	6	0	7	3
Migration & International aid	4	10	26	3	-11
Sales of state-owned assets	21	0	0	0	0
Share dividends	8	-7	7	3	0
EU contribution	5	-4	-5	0	8
Debt Office's net lending excl. on-lending	29	-19	-1	1	2
On-lending	-104	7	4	-2	2
Interest on government debt	-13	19	-20	12	-4
Other	6	18	27	26	29

Higher interest payments

Central government interest payments are estimated at SEK 13 billion this year and SEK 9 billion next year. This is SEK 1 billion and 3 billion higher than in the October forecast.

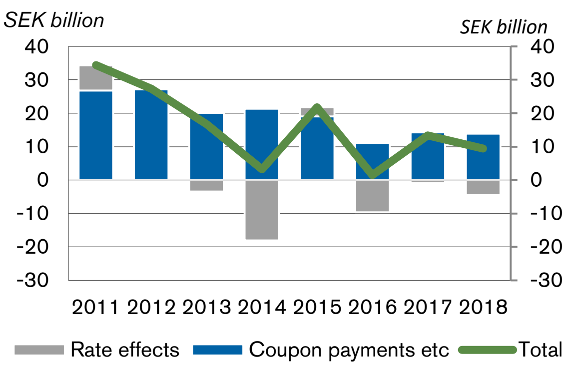
Table 6 Interest payments on the central government debt

SEK billion	2017	2018
Interest on loans in SEK	13.0	9.6
Interest on loans in foreign currency	-0.3	-0.2
Realised currency gains and losses	0.7	-0.1
Interest payments	**13.4**	**9.4**

Two chief factors explain the increase compared with the previous forecast. First, market interest rates have risen and, second, issue volumes have been drawn down. Taken together, this means that issue premiums decrease sharply in both 2017 and 2018, which increases interest payments.

Two new bonds have been introduced at the start of the year: SGB 1060 and SGB IL 3113. The Debt Office offered switches to the new bonds in conjunction with their introduction. The capital losses in connection with these switches were substantially lower than estimated in the October forecast. The main reason is higher market interest rates. In addition, the volumes in the switches to the new inflation-linked bond SGB IL 3113 were lower than forecast.

Figure 4 Interest payments



The cash flow measure of *interest payments on the central government* debt varies a great deal over time, as shown in figure 3. This measure is sensitive to the Debt Office's issue plan and to movements in market interest rates and currency exchange rates.

Interest payments increase by around SEK 12 billion between 2016 and 2017. The main reason is that issue premiums are expected to be lower in 2017. The decrease between 2017 and 2018 is mainly explained by slightly more favourable rate effects in 2018, as shown in figure 3.

The Debt Office uses cut-off rates in calculating central government interest payments and in measuring the Riksbank's foreign currency loans. The cut-off date for this forecast is 31 January 2017.

Table 7 Cut-off rates for interest rates, per cent

Duration	3 mth	6 mth	2 yr	5 yr	10 yr	30 yr
Government bonds	-0.8	-0.8	-0.5	0.0	0.8	2.3
Inflation-linked bonds	-1.7	-1.8	-2.1	-1.9	-1.3	0.2
Swap interest rate SEK	-0.5	-0.5	-0.3	0.4	1.3	0.0
Swap interest rate EUR	-0.4	-0.4	-0.2	0.2	0.8	1.5
Swap interest rate USD	0.9	1.1	1.5	2.0	2.4	0.0

Table 8 Cut-off rates for currency exchange rates

Spotrates	2017-01-31
SEK/EUR	9.44
SEK/USD	8.74
SEK/CHF	8.86
SEK/JPY	0.08
SEK/GBP	11.00
SEK/CAD	6.70

Budget balance and central government net lending

Central government net lending shows a more even development than the net borrowing requirement and the budget balance, which are cash flow measures. Central government net lending is expected to be 0.6 per cent as a proportion of GDP in 2016, 0.2 per cent in 2017 and 0.1 per cent in 2018.

There are often substantial differences between the budget balance and net lending. This applied to 2015 and, especially, to 2016. Net lending is not affected by excess deposits in tax accounts which is an important explanation of why net lending is expected to be SEK 57 billion lower than the budget balance for 2016. These excess deposits are counted as borrowing instead of tax income. The opposite applies to 2017 for which the Debt Office's forecast of the budget balance is SEK -20 billion, while net lending is expected to show a surplus of SEK 10 billion. This is also partly an effect of the expected switch from excess deposits made in tax accounts to withdrawals.

In general, net lending is a better indicator of the underlying central government finances than the net borrowing requirement and the budget balance. The budget balance is a cash flow measure that measures central government's incoming and outgoing payments. Net lending accrues payments to the point in time when the economic activity took place.

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

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

Table 9 Central government net lending

SEK billion	2014	2015	2016	2017	2018
Budget balance	**-72**	**-33**	**85**	**-20**	**17**
Delimitations	**-5**	**23**	**11**	**19**	**16**
Sale of limited companies	0	0	0	0	0
Extraordinary dividends	0	-9	-2	0	0
Parts of Debt Office's net lending	13	17	16	21	23
Other delimitations etc.	-18	15	-3	-2	-6
Accruals	**27**	**21**	**-68**	**12**	**-28**
Taxes	33	11	-47	14	-29
Interest payments etc.	-6	10	-22	-2	1
Central government net lending	**-51**	**11**	**28**	**10**	**5**
Per cent of GDP	**-1.3**	**0.3**	**0.6**	**0.2**	**0.1**

Monthly forecasts of the net borrowing requirement

The net borrowing requirement varies strongly between months. The following table presents monthly forecasts until and including December 2017.

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

The large net borrowing requirement in December is normal and is explained by the Debt Office's net lending (including the payment of premium pension funds), excess tax and interest payments on the central government debt.

Table 10 Central government net borrowing requirement per month

	Primary borrowing require-ment excl. net lending	Net lending	Interest on central govern-ment debt	Net borrowing require-ment
Feb-17	-45.7	-3.2	0.7	-48.2
Mar-17	-9.3	-3.7	5.6	-7.4
Apr-17	-1.5	2.6	-1.2	-0.1
May-17	-31.3	-4.4	1.8	-34.0
Jun-17	30.9	-5.1	4.4	30.1
Jul-17	7.9	-4.2	-0.7	3.0
Aug-17	-17.5	-0.4	1.5	-16.4
Sep-17	10.0	-2.7	-1.2	6.2
Oct-17	12.6	-2.5	-2.0	8.1
Nov-17	-14.5	1.3	0.1	-13.2
Dec-17	57.3	37.1	6.6	101.0

Sensitivity analysis

The Debt Office does not produce any overall sensitivity analysis for the net borrowing requirement. Instead a partial analysis of the effects that changes in certain key variables have is presented.

The table shows an estimate of what different changes mean for net borrowing requirement on a one-year term

SEK billion

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

[1] Local government taxes on employment are paid to local authorities with a one-year time lag. This means that the effect on the net borrowing requirement in one year's time is bigger than the permanent effect

[2] Includes effects on unemployment insurance benefits, the job and development guarantee programme and the job guarantee scheme for young people.

[3] This relates to an effect on interest payments on government debt.

Forecast comparisons

The Debt Office expects a higher net borrowing requirement in 2017 than the other agencies The differences in their assessments can probably be accounted for by differences in tax accruals, so that the tax payments in cash flow terms are lower in the Debt Office's forecast. On the other hand, the Debt Office's final forecast of the net borrowing requirement in 2016 was much lower than those of the other agencies and much closer to the outcome. It remains to be seen how the outcome for 2016 will affect the other agencies' future forecasts.

For 2018 the differences in the assessments made are small.

	Debt Office (22 Feb)		Government (20 Sep)		NIER (20 Dec)		ESV (16 Dec)	
SEK billion	2017	2018	2017	2018	2017	2018	2017	2018
Net borrowing requirement	20	-17	-7	-21	-25	-24	3	-28
of which:								
Sales of state assets	0	0	-5	-5	0	0	0	0
Adjusted net borrowing requirement	**20**	**-17**	**-2**	**-16**	**-25**	**-24**	**3**	**-28**

Lower issue volume of bonds

On account of the downward revision of the net borrowing requirement there is a further decrease in borrowing in government bonds. The issue volume is reduced from SEK 3 billion to SEK 2.5 billion per auction and there will be slightly fewer auctions. Borrowing in inflation-linked bonds will also be reduced slightly by cancelling one auction per year. The issue volume of T-bills is unchanged at an average of SEK 10 billion per auction.

The borrowing requirement decreases again

The lower net borrowing requirement this year means that central government needs to borrow less than the Debt Office planned for in October. In addition, the refinancing requirement decreases in 2017 since borrowing in the money market was slightly lower than expected in 2016. The forecast for the total borrowing requirement in 2017 has therefore been revised downwards for the fourth successive time.

Table 1 Gross borrowing requirement

SEK billion	2016	2017	2018
Net borrowing requirement	**-85**	**20**	**-17**
Business day adjustment etc. [1]	**-7**	**6**	**-1**
Retail borrowing & collateral, net [2]	**6**	**11**	**11**
Money market redemptions [3]	**284**	**144**	**195**
T-bills	141	84	110
Commercial paper	87	12	40
Liquidity management	56	48	45
Bond redemptions, net switches and buy-backs	**104**	**146**	**106**
Government bonds	53	70	5
Inflation-linked bonds	1	14	0
Foreign currency bonds[4]	49	62	101
Total gross funding requirement	**302**	**327**	**294**

[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 borrowing and collateral.

[3] Initial stock maturing within 12 months.

[4] Caluclated with the original issuance exchange rate.

The borrowing requirement including refinancing of maturing loans is expected to be SEK 327 billion this year and SEK 294 billion next year, see table 1. This is SEK 21 billion lower for 2017 than in the previous forecast. For 2018 the borrowing requirement is largely unchanged.

Up to now the Debt Office has given priority to issues of government bonds and has mainly cut back on other borrowing. Since there has been great uncertainty about tax income among other things, the Debt Office has chosen to await developments and adapt the auction volume of government bonds in small steps.

Now that the net borrowing requirement has been revised downwards again, the auction volume needs to be reduced from SEK 3 to 2.5 billion as of March this year. The number of auctions will also be reduced. All in all government bond borrowing decreases from SEK 66 billion to 50 billion per year, see table 2.

Table 2 New borrowing forecast

	2016	2017		2018	
SEK billion	Outcome	Feb	(Oct)	Feb	(Oct)
Money market funding [1]	**144**	**195**	**(202)**	**126**	**(110)**
T-bills	84	110	(110)	80	(80)
Commercial paper	12	40	(65)	0	(0)
Central Government on behalf of the	0	40	(65)	0	(0)
Riksbank	12	0	(0)	0	(0)
Liquidity management	48	45	(27)	46	(30)
Bond funding	**157**	**132**	**(147)**	**168**	**(184)**
Government bonds	81	52	(66)	50	(66)
Inflation-linked bonds	16	13	(14)	13	(14)
Foreign currency bonds	61	68	(67)	105	(105)
Central Government on behalf of the	0	0	(0)	0	(0)
Riksbank	61	68	(67)	105	(105)
Total gross funding	**302**	**327**	**(349)**	**294**	**(294)**

[1] Outstanding stock as at year-end.

Borrowing in inflation-linked bonds also decreases as a result of fewer auctions being held per year. This leads to a decrease of SEK 750 billion as an annual rate.

But the stock of T-bills is retained unchanged compared with the previous forecast. Here the Debt Office already made a major reduction in October, from SEK 15 billion to 10 billion on average per auction.

As previously, no bond borrowing in foreign currencies is planned apart from issues refinancing of on-lending to the Riksbank.

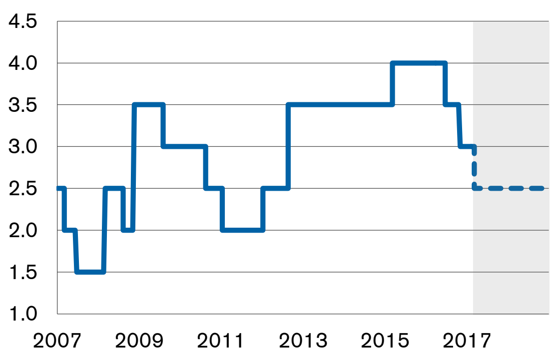
Table 3 Important dates 2017

Date	Time	Activity
18–22 May	11.00	Switches to SGB 1060
20 Jun	09.30	Borrowing forecast 2017:2

Reduced borrowing in government bonds

Borrowing in government bonds decreases to an annual rate of SEK 50 billion by reducing the auction volume to SEK 2.5 billion as of the auction on 8 March 2017, see figure 1. In addition, two auctions per year are cancelled. This reduction is necessary in the light of the lower borrowing requirement.

Figure 1 Auction volumes of government bonds



Liquidity in the government bond market has deteriorated gradually, partly due to of bond purchases by the Riksbank, see the fact box on the next page about the Riksbank's bond purchases and the Debt Office's market support. There is a risk that this development will continue when the supply of government bonds decreases further. The Debt Office's assessment is that, despite the deterioration, the market is still functioning satisfactorily and that it can continue to do so even with a smaller auction volume. As shown in the above figure, the volume has been even lower in earlier periods, most recently in 2011.

As usual, the bulk of the issues will be made in ten-year reference bonds in order to build up the volume of new bonds, see table 4. Thereafter, issues will be made in the five-year and two-year bonds. The volume in off-the-run bonds may also be topped up if this is justified in order to maintain the liquidity of these bonds. Figure 2 shows the outstanding volume of government bonds on 31 January 2017.

Table 4 Reference bonds in the electronic interbank market

Date of change (IMM date)[1]	2-year	5-year	10-year
Current reference bonds	1052	1054	1059
21 Jun 2017			1060
20 Dec 2017	1047	1057	

[1] *Please see the fact box on reference loans.*

In May the Debt Office plans to offer switches to top up the volume of the new bond SGB 1060 before it becomes the ten-year reference bond. The next new ten-year government bond will be introduced in 2018.

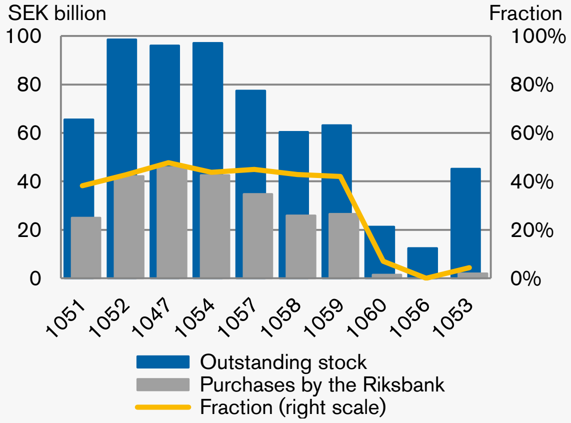
Reference bonds

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

The Riksbank's bond purchases and the Debt Office's market support

Up until January 2017 the Riksbank had purchased government bonds for SEK 259 billion, of which SEK 242 was nominal bonds. Its purchases have been concentrated on bonds with maturities of up to 10 years. The Riksbank owned just over 40 per cent of the stock of these bonds at the end of January 2017.

Outstanding bonds and the Riksbank's purchases as on January 2017

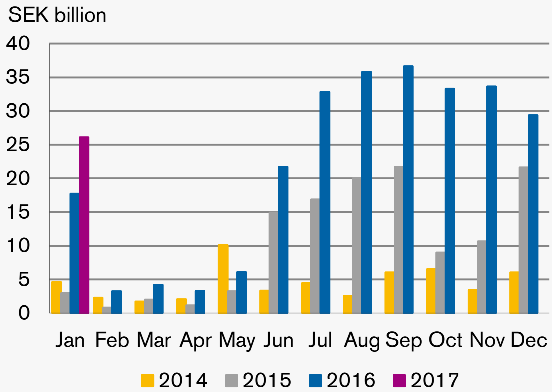


The Riksbank has decided to buy SEK 15 billion both of nominal and of inflation-linked government bonds in the first half of 2017. In addition, during 2017 the Riksbank will reinvest funds amounting to about SEK 30 billion from coupon payments and maturities.

The share of the bond stock being traded actively has decreased on account of the Riksbank's purchases. This is one reason why liquidity in the market for government bonds has deteriorated gradually. New regulations have most likely also contributed to the poorer liquidity. The Debt Office's assessment is that the market for government bonds is still functioning satisfactorily but that the situation has become more strained. One sign of this is that the volume of the Debt Office's repos with primary dealers has increased.

In the past half year the Debt Office has been repoing out government bonds for an average of between SEK 25 and 35 billion per day. This is more than in previous years.

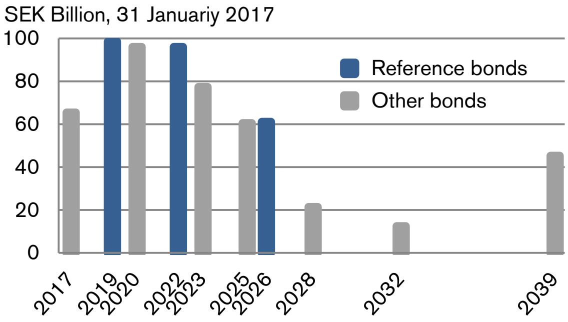
Government bond repos with the Debt Office



The repo volumes have decreased slightly in recent months but are still high compared with historical levels. These repos result in extra financing over and above the financing that the Debt Office plans for. To avoid long periods of cash surpluses the Debt Office has taken account of the greater repo volumes in its planning of other borrowing. The repos are included in the forecast of instruments in liquidity management, see table 2. Note that the figure reported in the table is the net amount, which means that the gross financing, in repos for instance, can be larger.

Repos are an important part of the Debt Office's market commitment. This commitment creates the conditions for a well-functioning repo market and consequently for a liquid government bond market. This facility is particularly important when a shortage situation arises in the market.

Figure 2 Outstanding government bonds



Unchanged auction volume of T-bills

The auction volume of T-bills will remain at SEK 10 billion per auction. Each T-bill is normally planned to reach SEK 20 billion. The Debt Office plans to issue SEK 15 billion on isolated occasions when the borrowing requirement is large.

The stock is estimated to be around SEK 110 and 80 billion on 31 December 2017 and 2018. The average size of the stock of T-bills is estimated at just under SEK 85 billion throughout the forecast period.

Commercial paper borrowing

The Debt Office uses commercial paper as a complement to T-bill borrowing in periods when the borrowing requirement is greater.

At the end of 2017 the stock of commercial paper is estimated at SEK 40 billion, which is lower than in the previous forecast. As in the October forecast, it is assumed that the outstanding volume will be zero at the end of 2018.

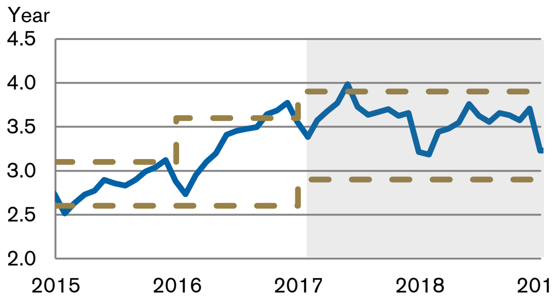
Lower volume of interest rate swaps

The planned volume of interest rate swaps decreases to SEK 5 billion per year in 2017 and 2018.

The Debt Office uses interest rate swaps to shorten the duration of the nominal krona debt. Compared with October the forecast for duration is at a lower level, see figure 3. This is mainly due to less borrowing at long maturities. Therefore the Debt Office now expects a smaller volume of swaps.

The maturity of the swaps corresponds to the average maturity of the government bonds issued. The swaps are spread relatively evenly over the year but with some flexibility in terms of timing and maturity.

Figure 3 Duration of the nominal krona debt, maturities up to 12 years



The outstanding stock of swaps decreases by SEK 34 billion in 2017 and SEK 24 billion in 2018, see table 5. The Debt Office does not normally close swaps previously entered into before they mature. The change in the stock is therefore due to the net of new and maturing swaps.

Table 5 Change in outstanding swaps

SEK billion	2016 Outcome	2017 Feb	2017 (Oct)	2018 Feb	2018 (Oct)
Interest rate swaps [1]	10	5	(10)	5	(10)
Swaps total	**10**	**5**	**(10)**	**5**	**(10)**
Swaps maturing	38	39	(39)	29	(28)
Swaps, net change	**-28**	**-34**	**-(29)**	**-24**	**-(18)**

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

Small decrease in borrowing in inflation-linked bonds

The Debt Office is making a small downward revision of borrowing in inflation-linked bonds in the new forecast. This is done by removing one auction per year. The issue volume remains at SEK 750 billion throughout the forecast period. The planned annual volume is SEK 12.75 billion for both 2017 and 2018. This is a small decrease from the level in the October forecast of SEK 13.5 billion.

In 2017 the Debt Office will issue in the ten-year segment in the first place, i.e. SGB IL 3112 and the new ten-year bond SGB IL 3113. The plan also contains a few issues of bonds SGB IL 3110 and SGB IL 3109 with two and eight years to maturity respectively. There may also be issues of other inflation-linked bonds depending on the demand situation in the market.

A ten-year inflation-lined bond was introduced in February

At the beginning of February the Debt Office introduced a new ten-year inflation-linked bond SGB IL 3113 maturing in December 2027. In connection with the introduction the Debt Office offered switches from other nearby inflation-linked bonds.

These switch auctions were not fully subscribed with the result that the bond was much smaller than the Debt Office had planned for. But the outstanding volume was large enough to be included in Nasdaq's inflation-linked index OMRXREAL. After the last switch the volume was SEK 4.5 billion. Therefore supplementary switches may be offered in the future if there is interest for this among primary dealers and investors.

The limited interest in participating in these switches raises the question of whether the Debt Office should handle the introduction of new inflation-linked bonds differently. One alternative could be to offer switches regularly during a longer period instead of concentrating switch auctions to the days after the introduction, for example one switch auction per month in the first six months. The Debt Office welcomes views and proposals on this matter.

Handling of short inflation-linked bonds

The Debt Office has a policy of not letting more than SEK 20 billion of an inflation-linked bond mature. Since inflation-linked bonds often have a larger volume than that, the Debt Office usually offers switches to longer inflation-linked bonds when about two years remain to maturity.

At the end of 2017 the Debt Office will offer switches of SGB IL 3110, which matures on 1 June 2019 to longer inflation-linked bonds.

During the final year of the bond there are no issues or switches of the bond. Instead the Debt Office offers a buyback facility, where any buybacks are made at a premium.

Under the guidelines for central government debt management the share of inflation-linked debt is to be 20 per cent of the total debt in the long term. Figure 4 shows the expected development of the inflation-linked debt share during the forecast period.

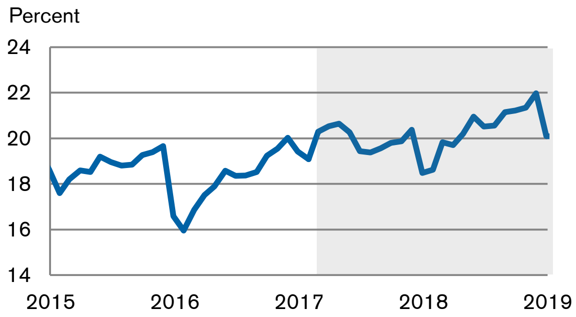
Pricing of switches of inflation-linked bonds

Primary dealers are able to switch inflation-linked bonds via the Debt Office. The switch interest rates are based on current market rates and demand plus a certain premium.

The Debt Office seeks to ensure that the inflation-linked bonds are of the same size in the long term and wishes to avoid individual bonds being too large or too small.

The Debt Office is able to increase the premium in its continuous switch facility so as to counter switches of bonds whose outstanding stock is small. For the same reason the premium can be reduced to facilitate switches of inflation-linked bonds in large loans.

Figure 4 Proportion of inflation-linked debt



Foreign currency borrowing only for the Riksbank

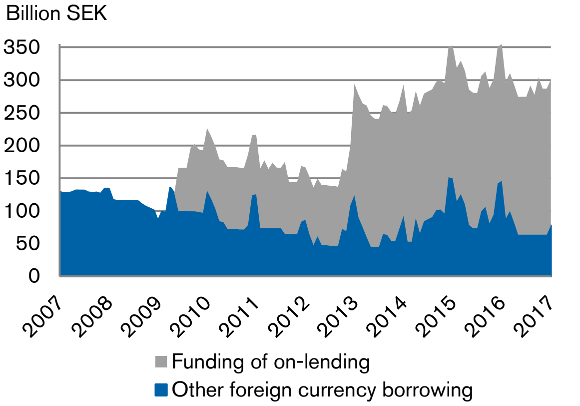
As in the October forecast the Debt Office only intends to issue bonds in foreign currencies to refinance loans to the Riksbank. This applies to the whole of the forecast period.

Borrowing to refinance maturing loans to the Riksbank is expected to be SEK 68 and 105 billion in 2017 and 2018 respectively. This is marginally higher than in the previous forecast due to exchange rate changes. Measured in foreign currency, the volume is unchanged.

On-lending to the Riksbank

On-lending to the Riksbank amounted to SEK 249 billion on 31 January. The reason why the volume has increased since the previous report is that the krona has weakened in relation to the US dollar. The Debt Office expects maturing loans to be replaced with new loans and the volume in foreign currency to be maintained during the forecast period.

Figure 5 Outstanding foreign currency loans



This borrowing is concentrated on large benchmarks in the capital market with maturities of up to five years. The choice of currency and maturity is based on the Riksbank's wishes and market conditions. Figure 5 shows outstanding bonds and commercial paper in foreign currency for on-lending to the Riksbank and on behalf of central government.

Net borrowing and central government debt

Table 6 shows how the net borrowing requirement is financed using various instruments. Positive net borrowing means that the volume issued is greater than the volume maturing or bought back in switches.

The change in the central government debt is due not only to the net borrowing requirement but also to what are called debt adjustments. Debt adjustments consist mainly of accrued inflation compensation and exchange rate effects. Since the official measure of the central government debt is the gross debt, the Debt Office's money market assets (assets in debt management) are not deducted. These assets are funds temporarily invested in the money market until they are used to pay expenditure in the central government budget or maturing loans.

Table 6 Net borrowing per calendar year

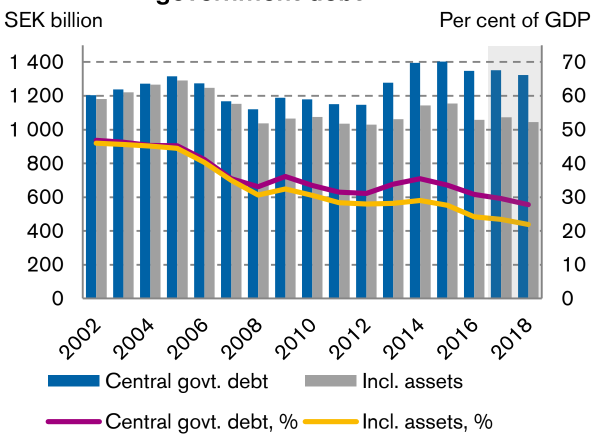
SEK billion	**2016**	**2017**	**2018**
Net borrowing requirement	-85	20	-17
Business day adjustment [1]	-7	6	-1
Net borrowing requirement	**-92**	**26**	**-17**
Retail funding & collateral, net	**-6**	**-11**	**-11**
Net money market funding	**-140**	**51**	**-69**
T-bills	-57	26	-30
Commercial paper	-75	28	-40
Liquidity management	-8	-4	1
Net bond market funding	**54**	**-14**	**63**
Government bonds	27	-18	45
Inflation-linked bonds	15	-2	13
Foreign currency bonds	11	6	5
Total net borrowing	**-92**	**26**	**-17**

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

The central government debt at the end of 2018 is estimated at SEK 1 342 billion. This corresponds to a GDP share of 28 per cent. Figure 6 and table 7 show the development of the central government debt.

The Debt Office also reports the net central government debt including assets. That figure includes not only assets in debt management but also assets in the form of claims from on-lending to foreign states and to the Riksbank. Measured in this way the debt is 22 per cent of GDP at the end of 2018.

Figure 6 Development of the central government debt



This measure, "central government debt including on-lending and assets in debt management", is used in the steering of the central government debt according to the guidelines adopted by the Government and in the Debt Office's internal risk management. On-lending is a claim for central government, but unlike assets in the money market it is not available for the payment of central government expenditure.

Table 7 Net borrowing and the central government debt

SEK billion	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Net borrowing requirement	-68	25	131	72	33	-85	20	-17
Business day adjustment etc. [1]	23	-17	0	-4	0	-7	6	-1
Net borrowing per business day	**-45**	**8**	**131**	**68**	**32**	**-92**	**26**	**-17**
A. Nominal amount including money market assets	**1 113**	**1 121**	**1 253**	**1 321**	**1 353**	**1 261**	**1 287**	**1 269**
Inflation compensation	34	31	29	25	19	21	23	25
Exchange rate effects	-21	-29	-19	30	29	40	17	4
B. Nominal amount to current exchange rate incl. inflation compensation and money market assets	**1 126**	**1 123**	**1 262**	**1 376**	**1 401**	**1 321**	**1 327**	**1 299**
Assets under management	25	23	15	18	3	26	25	25
C. Central government debt	**1 151**	**1 146**	**1 277**	**1 394**	**1 403**	**1 347**	**1 352**	**1 324**
Assets under management	-25	-23	-15	-18	-3	-26	-25	-25
On-lending	-91	-93	-201	-233	-247	-263	-254	-254
D. Central government debt incl. on-lending and assets under management	**1 035**	**1 030**	**1 061**	**1 143**	**1 154**	**1 059**	**1 073**	**1 045**
Nominal GDP	3 657	3 685	3 770	3 937	4 181	4 372	4 573	4 768
C. Central government debt, % of GDP	**31**	**31**	**34**	**35**	**34**	**31**	**30**	**28**
D. Central government debt incl. on-lending and money market assets, % of GDP	**28**	**28**	**28**	**29**	**28**	**24**	**23**	**22**

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

Measuring central government debt

The Central government debt is calculated as the value of outstanding debt instruments, mainly bonds and treasury bills, at the reporting date, calculated in accordance with established principles, see below. Within the framework of debt management are also certain assets. There are funds temporarily invested in the money market until they are used to pay expenses in the state budget or maturing loans. The assets mean that the actual liability is less than the sum of outstanding debt instruments.

Nominal amount or face value (A in the table above) is the sum of the amounts that the Debt Office is committed to paying when a debt instrument matures and receives at maturity if it is an asset. The amount is reported in SEK at the exchange rate at the time of borrowing.

The next step (in B above) is to report the nominal amounts at the current exchange rate and add the accrued inflation compensation for outstanding inflation-linked government bonds (this measure is called the uplifted amount at current exchange rate). These measures show the government debt when assets under management are taken into account.

The official measure of government debt (in C above) is defined based on principles laid down at EU level. It accounts for the Central government gross debt, without the assets. To obtain this measurement, we add the financial assets to measure B.

The Debt Office also reports "Central government debt including on-lending and assets under management" (under D above). This includes not only the assets under management but also certain other financial assets, namely on-lending to the Riksbank and foreign states. This measure is used in the management of government debt in accordance with guidelines adopted by the government and in our internal risk management. On-lending is a government claim, but not in the same manner as assets under management available for payment of government spending.

Liabilities are reported with a positive sign and assets with a negative sign. The account is based on business day.

Market information

Auction dates

Government bonds, auction dates

Announcement date	Auction date	Settlement date
01-Mar-17	08-Mar-17	10-Mar-17
15-Mar-17	22-Mar-17	24-Mar-17
29-Mar-17	05-Apr-17	07-Apr-17
12-Apr-17	19-Apr-17	21-Apr-17
26-Apr-17	03-May-17	05-May-17
10-May-17	17-May-17	19-May-17
19-Apr-17	18-May-17*	22-May-17
19-Apr-17	19-May-17*	23-May-17
19-Apr-17	22-May-17*	24-May-17
24-May-17	31-May-17	02-Jun-17
07-Jun-17	14-Jun-17	16-Jun-17
21-Jun-17	28-Jun-17	30-Jun-17

**Exchange auction*

Government bonds, outstanding amounts 31 January 2017

Maturity date	Coupon %	Bond no.	SEK Million
12-Aug-17	3.75	1051	65 526
12-Mar-19	4.25	1052	98 550
01-Dec-20	5.00	1047	96 054
01-Jun-22	3.50	1054	96 131
13-Nov-23	1.50	1057	77 477
12-May-25	2.50	1058	60 453
12-Nov-26	1.00	1059	61 205
12-May-28	0.75	1060	21 365
01-Jun-32	2.25	1056	12 500
30-Mar-39	3.50	1053	45 250
Total government bonds			634 511

Inflation-linked bonds, auction dates

Announcement date	Auction date	Settlement date
23-Feb-17	02-Mar-17	06-Mar-17
09-Mar-17	16-Mar-17	20-Mar-17
23-Mar-17	30-Mar-17	03-Apr-17
20-Apr-17	27-Apr-17	02-May-17
04-May-17	11-May-17	15-May-17
01-Jun-17	08-Jun-17	12-Jun-17

**Exchange auction*

Inflation-linked bonds, outstanding amounts 31 January 2017

Maturity date	Coupon %	Bond no.	SEK Million
01-Jun-17	0.50	3107	14 958
01-Jun-19	0.125	3110	21 744
01-Dec-20	4.00	3102	35 444
01-Jun-22	0.25	3108	30 021
01-Jun-25	1.00	3109	24 184
01-Jun-26	0.13	3112	14 380
01-Dec-28	3.50	3104	31 358
01-Jun-32	0.13	3111	8 098
Total Inflation-linked bonds			180 187

T-bills, auction dates

Announcement date	Auction date	Settlement date
22-Feb-17	01-Mar-17	03-Mar-17
08-Mar-17	15-Mar-17	17-Mar-17
05-Apr-17	12-Apr-17	18-Apr-17
19-Apr-17	26-Apr-17	28-Apr-17
03-May-17	10-May-17	12-May-17
16-May-17	23-May-17	26-May-17
31-May-17	07-Jun-17	09-Jun-17
14-Jun-17	21-Jun-17	26-Jun-17
28-Jun-17	05-Jul-17	07-Jul-17

T-bills, outstanding amounts 31 January 2017

Maturity date	SEK Million
15-Feb-17	20 000
15-Mar-17	30 000
19-Apr-17	20 000
21-Jun-17	14 385
Total T-bills	84 385

Rating

Agency	Rating
Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

Primary dealers

Primary dealers	Government bonds	Inflation-linked bonds	T-bills	Telephone
Barclays	●			+44 207 773 8275
Danske Markets	●	●	●	+46 8 568 808 44
Handelsbanken Markets	●	●	●	+46 8 463 46 50
Nordea Markets	●	●	●	+45 33 3317 58 / +46 8 614 86 55
Royal Bank of Scotland	●			+44 207 805 0363
SEB	●	●	●	+46 8 506 231 51
Swedbank	●	●	●	+46 8 700 99 00

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