RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

18 June 2019

CENTRAL GOVERNMENT BORROWING

Forecast and analysis 2019:2

The Debt Office's assignment

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

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

On the fifth working day of each month, the central government budget balance for the previous month is published in a press release. The outcome is compared with the forecast from *Central Government Borrowing – Forecast and Analysis* and any deviations are explained. In connection with the monthly outcome, the Debt Office also presents the debt development in the report *Sweden's Central Government Debt*.

Preface

In *Central Government Borrowing - forecast and analysis 2019:2* the Debt Office presents forecasts for central government finances and borrowing in 2019 up until 2020. An assessment of the macroeconomic development is given in the first section. The following section presents annual and monthly forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for borrowing, which is discussed in the last section of the report.

Hans Lindblad
Director General

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Summary

- The Swedish economy is growing at an increasingly slower rate. This trend is expected to continue in coming years as, among other things, export decreases in pace with declining international growth. In addition, housing market uncertainty is expected to dampen both investments and household consumption in the future. Altogether, this leads to a slow decline in GDP growth this year and the next by 1.8 per cent and 1.4 per cent, respectively. The labour market is slowing in line with the state of the economy, which leads to a moderate upswing in unemployment at the same time as price and wage pressure remain relatively low.
- The Debt Office estimates a higher budget balance for 2019 and 2020 than in the previous forecast. This year, the budget balance is significantly strengthened by a reduction in lending to the Riksbank. A slackening of the economy entails a lower rate of growth in tax income, which contributes to the budget balance shifting to a deficit in 2020. Capital investments in tax accounts are expected to remain unchanged in 2019, and a net outflow of SEK 20 billion is expected for 2020. The declining growth also impacts central government net lending, which falls in the forecast period.
- The stronger budget balance means that the central government borrowing requirement is lower than in the previous forecast. The Debt Office thereby does not need to increase the issuance volume of government bonds and treasury bills next year as previously planned. Foreign currency borrowing becomes significantly lower this year than planned because of the Riksbank's decision to reduce the foreign currency reserve. Altogether, this entails a continued decline in central government debt.

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

Previous forecast in italics	2018	2019		2020	
Swedish economy and government finances					
GDP (%)	2.4	1.8	*1.6*	1.4	*1.6*
Unemployment (% of labour force)	6.3	6.5	*6.5*	6.7	*6.7*
Budget balance (SEK billion)	80	121	*40*	-19	*-30*
Central government net lending (% of GDP)	1.5	0.9	*0.8*	0.5	*0.5*
Central government debt (% of GDP)	26	22	*23*	21	*23*
Central government borrowing, SEK billion					
Government bonds	32	30	*30*	30	*40*
Inflation-linked bonds	9	9	*9*	9	*9*
Money market funding (outstanding stock at year-end)	20	20	*20*	30	*40*
Foreign currency bonds	88	19	*90*	59	*56*
on behalf of the Riksbank	88	19	*90*	59	*56*

The mild slowdown continues

Growth in the Swedish economy is becoming increasingly slower. This trend is expected to continue in coming years as, among other things, export slows in pace with the decline in growth internationally. In addition, housing market uncertainty is expected to dampen both investments and household consumption. Altogether, this leads to GDP growth decreasing slowly, by 1.8 per cent this year and 1.4 per cent next year. The labour market slows in line with the economy, leading to a moderate increase in unemployment at the same time as price and wage pressure remain relatively low.[1]

More expansionary financial conditions

The Debt Office's assessment is that financial conditions internationally and in Sweden will become more expansionary in the forecast period than expected in the prior forecast in February. The central banks are giving indications of a more expansionary monetary policy than previously which continue to favour economic growth. At the same time, there is some distress in the financial markets.

The central banks indicate a more expansionary monetary policy in 2019

At the end of 2018, the financial conditions became significantly more restrictive. The central banks indicated that policy rates would continue to rise, and risk premia in financial markets increased as a result of a weaker economic outlook, lower corporate profits and concerns over the pace of mainly the Federal Reserve's (Fed) monetary policy constraints. At the beginning of 2019, however, the central banks began to give indications of slower rate increases. Altogether, the monetary policy is deemed more expansionary during the forecast period than was expected in February.

The Fed has kept its policy rate (Federal Funds Rate) unaltered at 2.25–2.5 per cent, and the central bank's median forecast in March indicated that an additional increase would be next year at the earliest. The Fed has also said that the gradual reduction in the size of its balance sheet will end in September.

The European Central Bank (ECB) has stated that policy rates will remain unchanged at least through the first half of 2020. The ECB also says that it intends to continue to maintain the size of its securities portfolio by reinvesting maturities during a prolonged period even after the policy rates have begun to rise. In conjunction with the monetary policy meeting in March, a new programme was also launched for long-term loans to credit institutions, TLTRO-III,[2] which starts in September.

Market participants have revised their interest rate expectations downward since February, and point to generally lower policy rates than indicated by the central banks. The market participants expect the Fed's next rate adjustment to be a rate decrease and that the ECB will not raise policy rates during the forecast period. The Debt Office's assessment is that monetary policy in several parts of the world will remain unaltered in both 2019 and 2020.

[1] Information up to and including 21 May has been taken into account in preparing the forecast.
[2] Targeted Longer-Term Refinancing Operations.

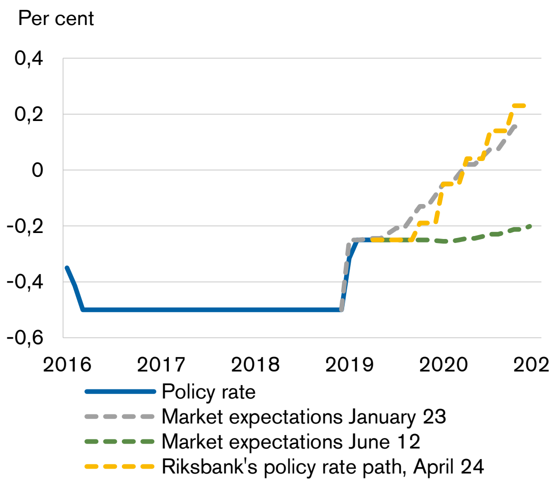
Continued expansionary monetary policy in Sweden as well

The Riksbank has also revised the interest rate path downward and indicate that the next rate increase will be at the turn of the year. Market expectations for the repo rate have declined further since the beginning of the year and now point to the repo rate remaining unchanged during the forecast period (see Figure 1).[3] This means that the lending rates available to Swedish households and businesses can also be assumed to remain very low during the forecast period.

Some distress in financial markets

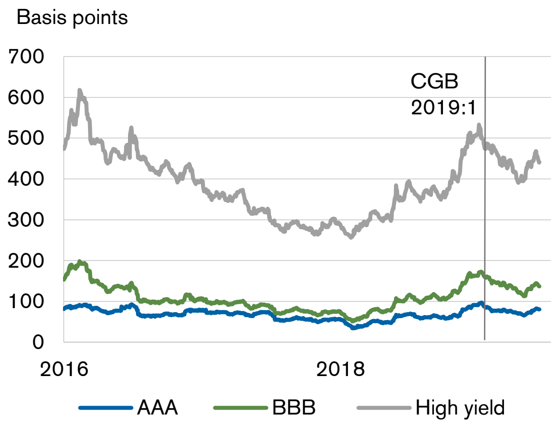
During the beginning of the year, financial market distress decreased. The stock exchange rose and risk premia fell in general, which became apparent through, for example, a decline in corporate bond interest rates in relation to rates on comparable government bonds (see Figure 2). The central banks' lower interest rate paths and a brighter outlook for a trade agreement being established between the US and China have contributed to mitigating the concerns. In May, however, there was again increased uncertainty when the trade conflict between the US and China took another turn for the worse. The stress in international financial markets is, however, deemed to be lower than in the beginning of the year. Given the global uncertainty, it is likely that the financial markets will be periodically volatile, which tends to, among other things, dampen companies' propensity to invest. An overall measure of stress in the Swedish financial markets indicates that the level is higher than the historical average (see Figure 3). This is mainly driven by stock exchange and exchange rate volatility.

Figure 1. Riksbank's policy rate and forecasts



Note: Market expectations are based on the pricing of Riksbank futures from Nasdaq OMX.
Sources: Nasdaq OMX, the Riksbank and the Debt Office.

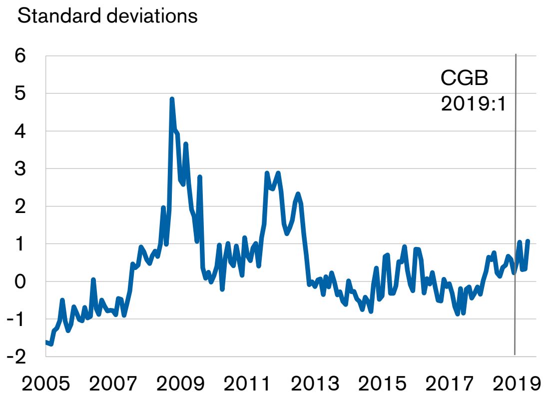
Figure 2. Credit spreads, differences in yield on corporate and government bonds, euro area



Note: Vertical line indicates final date for information taken into account in previous forecast; 2019-01-23.
Sources: Thomson Reuters Datastream and the Debt Office.

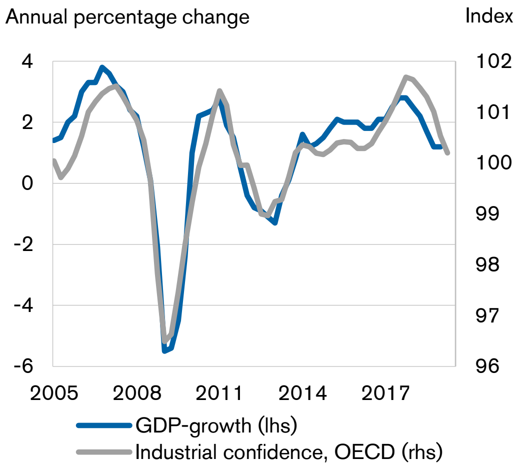
[3] According to the pricing of Riksbank futures.

Figure 3. Financial stress index, Sweden



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

Figure 4. GDP and industrial confidence, euro area



Note: Values for industrial confidence are quarterly averages, except for the second quarter 2019 which is based on data for April only.
Sources: OECD and the Debt Office.

Developed economies head toward weaker growth

Global growth is weakening this year. It will then rise in 2020, as certain emerging economies grow at a faster pace. Developed economies, however, are entering a more sustained period of weaker growth. Economic activity in the US is slowing in part as a result of a tightening of monetary policy, at the same time as fiscal policy becomes more constrained. The escalated conflict between the US and China generates uncertainty about the economic development. Weaker demand internationally is dampening growth in the euro area.

The global economy will be weaker this year

Globally, the state of the economy has deteriorated in the last year. The slowdown comes in the wake of the trade conflict between the US and China, declining corporate optimism, less expansive financial conditions and increased political uncertainty. World trade volume has decreased by just under two per cent since last autumn.[4] The weaker growth is distinct in developed economies. Despite this trend, the state of the global economy is characterised as being relatively good.

However, there are several signs that the development will continue to be dampened in large parts of the world, which is the reason that monetary policy conditions have become more expansionary. The trade conflict has escalated, and world trade continues to decline. It is difficult to foresee how the trade conflict may develop. Nevertheless, the baseline scenario is that the conflict will not worsen significantly and that a solution will be reached eventually.

[4] Refers to the change in the world trade volume between October 2018 and March 2019: based on data from CPB Netherlands Bureau for Economic Policy Analysis.

Global economic development is broadly deemed to be essentially the same as in the previous forecast. The financial conditions are presumed to continue to support the real economy in many regions. Following a weaker 2019, growth in 2020 will be stronger. The upturn is driven exclusively by stronger development in emerging economies, such as the situation in Turkey and Argentina improving after the economic turbulence of recent years. Developed economies, though, are entering a period of weaker growth. Resource utilisation internationally is judged to be essentially normal during the forecast period.

Tighter economic policy contributes to a distinct slowdown in US growth

The US economy is slowing. Growth during the first quarter was unexpectedly strong but largely driven by temporary factors such as strong net export and inventory building. Trade policy worries have led to a decline in corporate optimism. The Purchasing Managers' Indices (PMI) for both the manufacturing industry and the service sector have fallen since last autumn, but current levels still show growth. At the same time, households remain optimistic because of the strong performance of the labour market. Unemployment is at the lowest level since the end of the 1960s and consumer confidence rose to a 15-year-high in May.

Decreasing stimulus from, above all, fiscal policy contribute to a decline in growth during the forecast period. Difficulties in recruiting employees to the workforce and restrictions on the economy's supply side also dampen growth. The trade conflict between the US and China is deemed to have some negative effects on growth.

Due to a combination of lower growth and low inflation, the Fed is expected to keep the policy rate unchanged during the forecast years and to stop the reduction of the size of its balance sheet as early as this autumn. At the same time, futures pricing show the policy rate at the end of 2020 at nearly 100 points below current levels. The real economic picture does not, however, justify a fully-fledged reversal of monetary policy; GDP growth in the US is 2.6 per cent for 2019 and 1.8 per cent for 2020, according to the Debt Office's assessment. Compared with the previous forecast, growth for 2019 has been revised upward by 0.3 percentage point. The upward revision is due to the significant impact that the first-quarter GDP outcome has on the historical annual average.

The weak growth in the euro area continues

GDP growth in the euro area has deteriorated since the end of 2017. The decline can be partly explained by temporary factors. Among other things, automobile production in Germany has developed poorly since last autumn due to conversion problems in connection with the changeover to new measurement methods for fuel consumption and emissions.[5] However, other industrial production in Germany has also led to dampened growth, which indicates that the decline is not temporary.

European companies have continued to be less optimistic about the future and indicate historically average growth levels (see Figure 4). Households are more optimistic, likely as a result of the strong development in the labour market. Unemployment has not been at such a low level since 2008.

Even though the temporary factors that have dampened industrial production are now diminishing, growth remains moderate. Lower demand globally is expected to dampen investments, and a

[5] Wordwide harmonised Light vehicles Test Procedure (WLTP) has been developed to better capture present driving patterns.

weaker employment trend due to a more strained situation in the labour market reduces household consumption. The low inflation is deemed to increase slightly. The economy is supported by the continuation of a very expansionary monetary policy. GDP growth in the euro area is expected to be 1.3 per cent in 2019 and 1.4 per cent in 2020. This is a downward revision of 0.2 percentage points for both 2019 and 2020.

China maintains stable growth despite headwinds

The outlook for the Chinese economy is largely unchanged from the previous forecast. The economy has continued to grow at around the government's growth target of approximately 6.5 per cent annually. An increased focus in recent years on sustainable economic and financial development has contributed to reducing credit growth and domestic demand. At the same time, the trade conflict with the US has negative effects on export growth. However, economic policy has become more expansionary in response to the dampening effects on GDP growth. Tax reductions and additional infrastructure investments are to be expected. In addition, minimum reserve requirements for banks have been lowered in order to stimulate credit growth. The exchange rate is also a tool that can be used to promote exports, and the Chinese renminbi has weakened against the US dollar since the conflict began in spring 2018.

Provided the trade conflict does not worsen significantly, China is deemed capable of maintaining growth of around 6 per cent during the forecast period. At the same time, the risks associated with the financial sector in China continue to be elevated. China's GDP growth is expected to reach 6.1 per cent in 2019 and 6.2 per cent in 2020. The forecast for 2019 is revised downward by 0.1 percentage point.

The slowdown in the Swedish economy continues

The Swedish economy is in a downward phase in which the housing market dampens both consumption and investments. Weaker domestic demand is countered in part by foreign trade as the weakening krona aids exports. The fact that the economic policy is expansive helps to provide a gradual dampening of GDP growth, from 2.4 per cent in 2018 to 1.8 per cent in 2019 and 1.4 per cent in 2020, according the Debt Office's forecast (see Figure 7). Thereby, growth this year and the next ends up slightly lower than the trend.

Various measures of capacity utilisation are currently at higher levels, especially in the labour market where demand for labour is strong and shortage figures are high. Internationally, there are signs of slightly faster wage growth. In Sweden, though, wage growth is still weak and price and wage increases will also continue to remain relatively low, according to the Debt Office's forecast.

The Swedish manufacturing industry is resilient to the decline in Germany

Various confidence indicators show that the Swedish economy is slowing down on several fronts. Despite the decline since last autumn, the National Institute of Economic Research's (NIER) Economic Tendency Indicator still does not signal an economic downturn (see figure 5). Instead, current levels are consistent with GDP growth roughly in line with historical averages. Of the economic sectors, confidence is highest in the retail trade. Confidence is also seen in the manufacturing industry, but this has gradually declined significantly from the very high levels last autumn.

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

Percentage change[1]	2018	2019	2020
GDP	**2.4**	**1.8**	**1.4**
Household consumption	1.2	1.3	2.1
General gov't consumption	0.9	0.8	1.0
Gross fixed cap. formation	4.0	1.0	1.4
Change in inventories[2]	0.3	-0.1	-0.1
Exports	3.9	4.2	3.2
Imports	3.8	2.4	3.6
Net exports[2]	0.2	0.9	-0.1
GDP (calendar adjusted.)	**2.5**	**1.8**	**1.2**

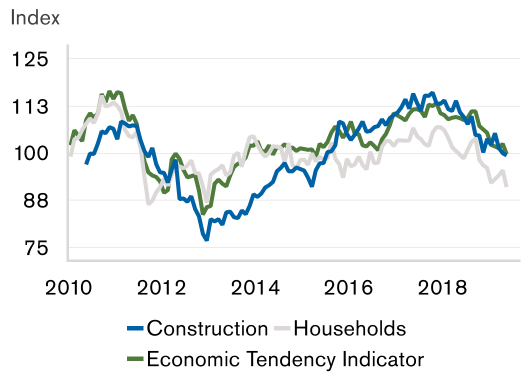
[1] Actual change compared with previous year.
[2] Change as a percentage of GDP previous year.
Sources: Statistics Sweden and the Debt Office.

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

Percentage points	2018	2019	2020
GDP	**0.1**	**0.2**	**-0.2**
Household consumption	-0.1	-0.3	-0.0
General gov't consumption	0.3	0.2	-0.1
Gross fixed cap. formation	-0.6	0.0	0.2
Change in inventories[2]	0.1	-0.1	-0.1
Exports	1.3	0.4	-0.4
Imports	1.2	-0.4	0.0
Net exports[2]	0.0	0.4	-0.2
GDP (calendar adjusted.)	**0.1**	**0.2**	**-0.2**

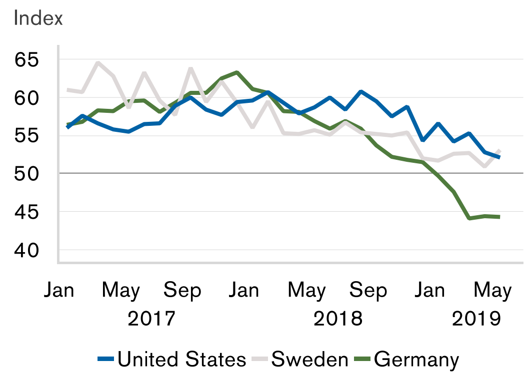
Despite the strong labour market, the view from households is pessimistic. After a few months of stabilisation, the NIER's household confidence indicator fell sharply in May, to the lowest level since the end of 2012. When looking at the various contributors to the indicator, the current depressed level is mainly due to the view of the Swedish economy over the next 12 months and the attitude toward whether or not it is advantageous to buy consumer durables (see Figure 15).

Figure 5. Confidence metrics



Note: The Economic Tendency Indicator has been standardized to mean 100 and standard deviation 10.
Source: NIER.

Figure 6. Confidence indicators for manufacturing



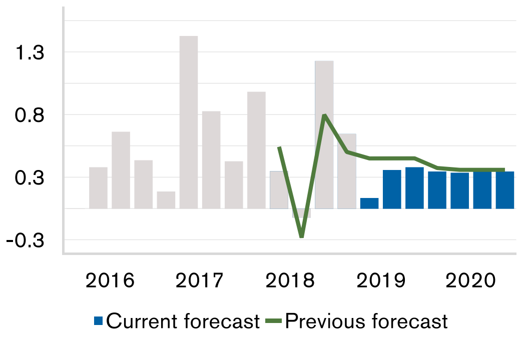
Sources: Swedbank and Macrobond.

The manufacturing industry and service sector PMIs are over 50, thereby showing growth. In the manufacturing industry, the contrast is significant compared with the situation in Germany – Sweden's most important export country – where the manufacturing industry PMI has declined to recession levels (see Figure 6). The weak krona and less exposure to the automotive industry are likely explanations for Sweden's resilience. Another explanation is that Chinese import demand has declined, hitting Germany the hardest; Germany is the EU country with the largest amount of exports to China.

Historically, confidence indicators for the manufacturing industry in Sweden and Germany have followed each other well. In the forecast, the Debt Office also expects a recovery in the German PMI rather than a sharp impending decline in the Swedish PMI. If instead the Swedish manufacturing industry deteriorates to German recession levels, the consequence will likely be weaker growth than indicated in the current forecasts.

Figure 7. GDP growth and recent forecasts

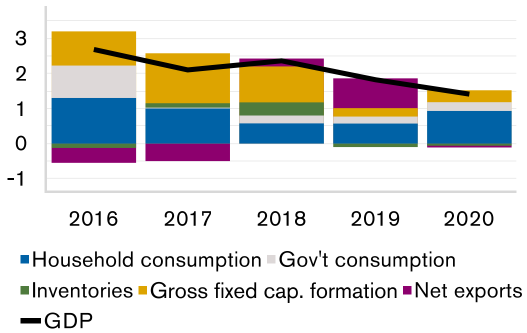
Quarterly percentage change



Sources: Statistics Sweden and the Debt Office.

Figure 8. Contribution to GDP

Percentage points



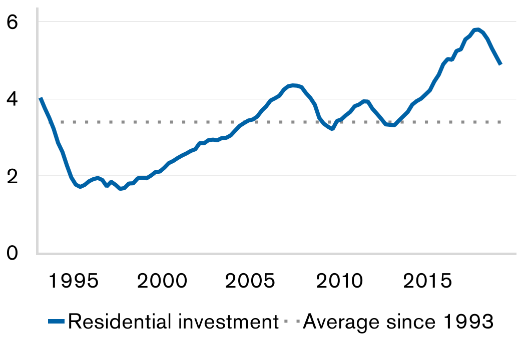
Sources: Statistics Sweden and the Debt Office.

The housing market dampens investments

Investments have declined. The investment level in the first quarter was slightly lower than a year ago. The weak development is expected to continue, especially in the business sector, where the need for investment declines in relation to lower international demand for Swedish goods and services. In addition, Statistics Sweden's investment survey indicates considerable doubt in many sectors and weaker industrial investments in 2019. At the same time, capacity utilisation is high, order books are well-filled, the krona is weak and profitability is good. This indicates some continued need for investment. The Debt Office's assessment is that there will be mild growth in business sector investments in 2019 and 2020.

Figure 9. Residential investment

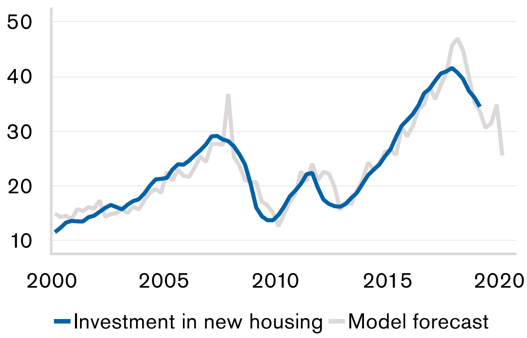
Per cent of GDP



Sources: Statistics Sweden and the Debt Office.

Figure 10. Investment in new housing

SEK Billion

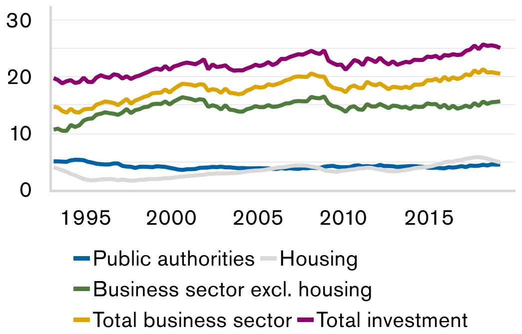


Sources: Statistics Sweden and the Debt Office.

The weak housing market has the greatest impact on investments. Housing investments grew at two-figure rates on average from 2013 to 2017. Housing investments as a proportion of GDP rose rapidly from just over 3 per cent to 6 per cent. The share has fallen to just under 5 per cent in the last year (see Figure 9). The uncertain price trend in the housing market and indicators such as the amount of construction permits and construction starts points toward continued decline, mainly in 2019 (see Figure 10). According to the Debt Office's forecast, housing investments affect GDP negatively by at most 0.5 percentage point this year.

Figure 11. Gross fixed capital formation

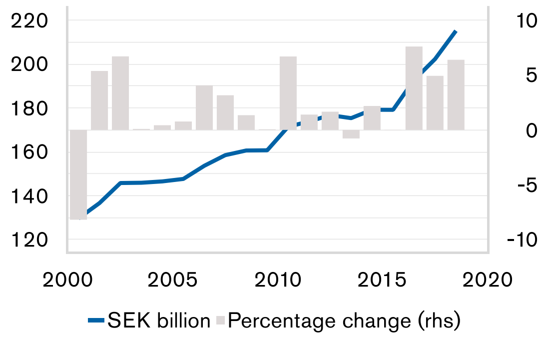
Per cent of GDP



Sources: Statistics Sweden and the Debt Office.

Figure 12. Public sector investment

SEK Billion Yearly percentage change



Sources: Statistics Sweden and the Debt Office.

In the public sector, investments are showing resilience (see Figure 12). The strong population growth of recent years has increased demand for public service. This is reflected in rapid growth of public investments, mainly in the local government sector where investments climbed in the first quarter. The trend is expected to continue in the coming years. Aggregate growth in fixed gross investments decreases, however, from just under 4 per cent in 2018 to just over 1 per cent on average in 2019/2020. The forecast means that investments make modest contributions to growth ahead (Figure 8).

How sharp will the turn in housing investments be?

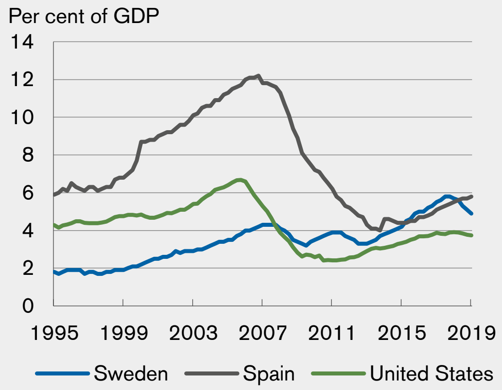
The development of housing investments in recent years has been characterised by a drastic upturn over a few years followed by a rapid decline in a few quarters. This type of boom/bust development, which often ends in a major downturn, is not unusual from an international perspective (see Figure 13). In a newly published Focus Report, a few possible explanations for this development are presented for why the situation may not be as dramatic in Sweden. [6]

One reason involves what has been built and where. In Sweden, there has been a noticeably uneven distribution in the construction of tenant-owned housing in terms of price and geography. In certain smaller sub-markets, this has led to the supply of newly produced tenant-owned housing for sale being several times higher than the corresponding supply in

[6] The Focus Report *Bostadsprisernas utveckling* (in Swedish), Riksgälden 2019.

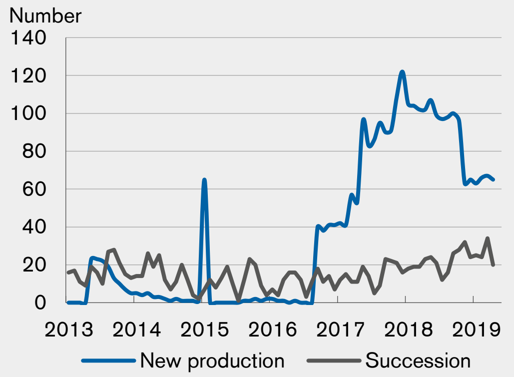
the succession market. This entails, for example, the construction of large and therefore more expensive, apartments in certain districts. In Stockholm, where almost half of all new tenant-owned apartments have been built in recent years, a large local supply of newly produced apartments has been more common (see Figure 14 for an illustrative local example). For Sweden as a whole, construction has not increased to the same extent. Therefore, it is not to be assumed that the entire market is saturated, even if this applies to certain segments.

Figure 13. Housing investments in different countries



Source: OECD.

Figure 14. Supply of larger tenant-owned housing at Gärdet in central Stockholm



Note: Supply refers to the number of apartments for sale a certain month. Large apartment means those with 4 or more rooms.
Source: Booli.

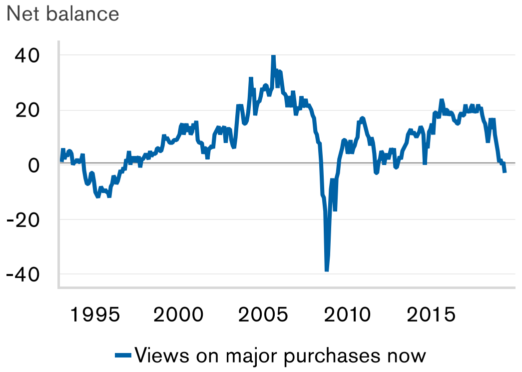
Another reason has to do with housing speculation – defined here as purchasing a residence with no intention of residing there. In countries that allow buying multiple residences and then letting them out, this risks driving up the growth rate of both prices and construction. In Sweden, *buy-to-let* purchases are explicitly limited. The speculation in the Swedish market, which the Focus Report clearly indicates, is instead limited to a smaller part of the market – new production. There is reason to assume that speculation has driven construction to a lesser extent in Sweden than in other countries where speculation is also possible in the succession market.

A couple of overall factors – speculation and the concentration of new production – indicate, when compared with similar cases in other countries, that the development in Sweden may not necessarily lead to an equally sharp decline in housing investments. Finally, rental apartments make up around half of all the apartments built, which contributes to supporting the aggregate investment level.

Households are more pessimistic

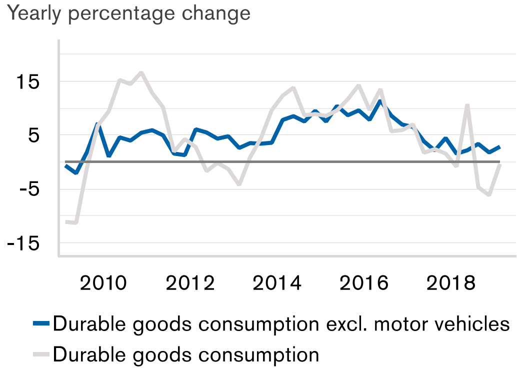
Last year, household consumption growth was at the weakest level since 2012 despite a strong labour market and rapidly rising incomes. The combination of weak consumption and strong income levels has caused the saving rate to rise to record-high levels. Also, in the first quarter, household consumption developed weakly, but calendar effects also likely contributed to reducing the development. A degree of consumer recoil is thereby expected in the second (current) quarter.

Figure 15. Households' views on major purchases



Source: NIER.

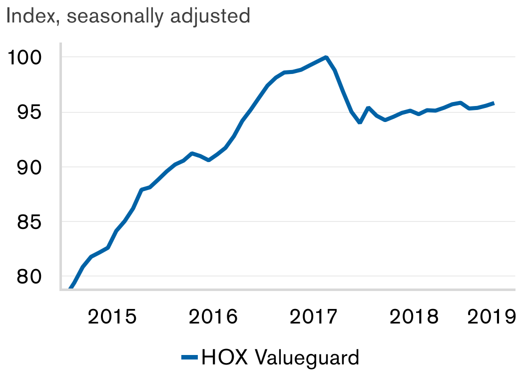
Figure 16. Durable goods consumption



Sources: Statistics Sweden and the Debt Office.

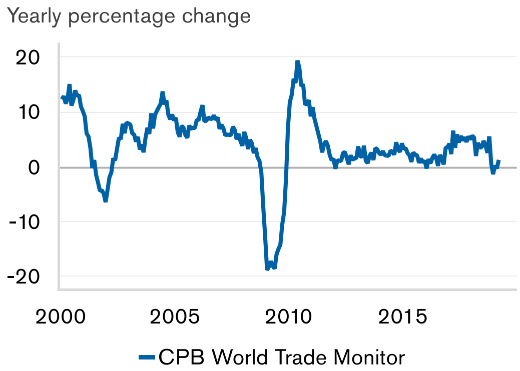
The housing market development is a likely explanation for last year's consumption and saving pattern. The housing market can affect household consumption via several channels. When prices rise, consumption can rise via wealth effects. The extent of borrowing-driven consumption with housing as collateral can also increase. The incentive to carry out renovations and other types of home improvements is likely to increase as well. Conversely, if housing prices decline, consumption may go down. Specifically, there has been a decline in households' consumption of durable goods, which had experienced a strong development in the period between 2014 and 2017 (see Figure 16).

Figure 17. Swedish home prices



Source: AB Valueguard.

Figure 18. World trade in goods



Source: Netherlands Bureau for Economic Policy Analysis.

Since the turn of the year 2017/2018, consumer confidence has swung from strong to weak levels. In May, consumer confidence was at its lowest in just over six years, according to the NIER's indicator. Pessimistic households increase the risk that the saving levels of last year will remain. At the same time, the economic policy is expansionary. Interest rates are low as targeted tax cuts in the form of a new step in the earned income tax credit, lower tax on pensions and the planned abolition of the austerity tax in 2020 will result in more spending money for households. Despite this, households' disposable income will develop more slowly when the labour market slows. Altogether, growth in household consumption is 1.3 per cent for 2019 and 2.1 per cent for 2020, according to the Debt Office's forecast.

How high are Swedish household savings?

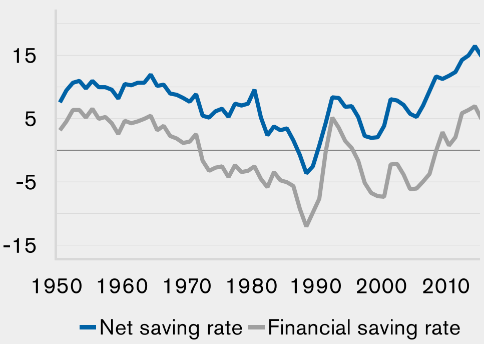
In the last ten years, the amount that Swedish households have saved has increased more and more. The saving rate is currently at a record-high level, both historically and from an international perspective (see Figure 1).[7] There are, however, different ways to define the household saving rate, and the different measures exhibit significant differences. This can, in turn, have consequences for the assessment of the scope of household consumption. The in-depth description here presents Swedish household savings on the basis of the National Accounts and further breaks down the saving rate by adjusting for households' amortisation payments.

Why has saving increased?

Historically, household savings in Sweden have followed a certain economic cyclical pattern. Saving has risen in downturns and fallen during booms. However, the pattern seems to have been broken in the 2010s. Despite a strong economy, low interest rates and a sharp rise in asset prices, saving has increased. Saving has also increased more in Sweden than among our neighbouring countries in Europe (see Figure 2). The development may be explained in several ways. A lower level of benefits in the welfare system may have led to the increased saving. There may also have been an impact from the housing market. Housing prices have risen sharply during most of the period and, together with the mortgage ceiling, this has led to an increased need to save capital for home purchases. In addition, amortisation requirements have led to some of the saving no longer being voluntary. Recently, the uncertain price trend in the housing market and stock market unrest may also have contributed to the increase in saving.

Figure 19. Household savings rate is record high

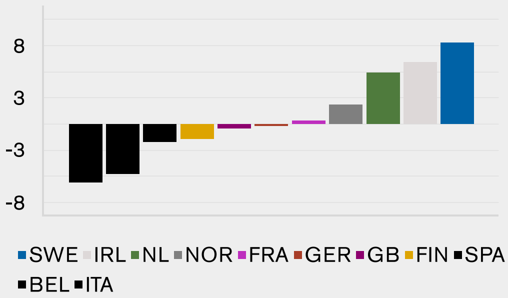
Per cent of disposable income



Note: Collective insurance saving is excluded from the financial savings rate.
Source: Statistics Sweden.

Figure 20. Change in household saving rates

Percentage points: 2010-18 averages relative to 2000-07 averages



Note: Based on gross savings rates and include collective insurance saving.
Sources: Eurostat and the Debt Office.

[7] According to a 2017 IMF study comparing the saving in developed economies, the saving rate in Sweden has increased by 7.5 percentage points in 2010–2016 compared with the years before the financial crisis, 2000–2007. This is significantly higher in Ireland, the country with the next-highest level of saving. In just over half the countries, the saving rate decreased instead.

What comprises the high household savings?

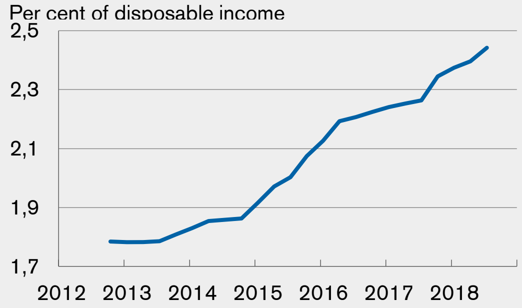
Basically, saving is calculated as the difference between households' disposable income and consumption expenditure, but there are several different definitions. For example, according to Eurostat's definition, the saving rate was 20 per cent in 2018, while the saving rate published at the same time by Statistics Sweden in the National Accounts was just under 17 per cent. The difference is that Statistics Sweden's measure excludes depreciation of fixed capital.

Saving according to the National Accounts can be divided into three sub-groups: collective insurance saving, real saving, and financial saving. The collective insurance saving is locked for households and is not free to dispose of. Real saving mainly consists of households' investments in new single-family homes and is thus also locked for households, at least in the short term. The remaining part, financial saving, amounted to 5.5 per cent of disposable income in 2018. This level is also relatively high. The National Accounts do not further report the financial saving's sub-items.

Adjusted financial saving better reflects the consumption buffer

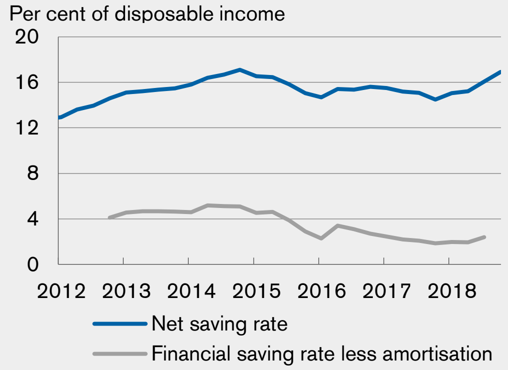
Financial saving comprises households' amortisation payments. The amortisation share of disposable income has increased from just over 1.7 per cent before the amortisation requirement to approximately 2.4 per cent at the end of 2018. Amortisation is a form of saving that is fixed and which households cannot control over the short term. Excluding amortisation from the calculation, financial saving amounted to around 2.5 per cent at the end of 2018. This adjusted measure of financial saving is the Debt Office's estimate of the proportion of the saving that households have the opportunity to turn into consumption in the short term.

Figure 21. Amortisation



Note: Numerators and denominators are calculated separately as four-quarter moving sum.
Sources: The Swedish Financial Supervisory Authority, Statistics Sweden and the Debt Office.

Figure 22. Financial savings and adjusted financial savings



Note: Collective insurance saving is excluded. Numerators and denominators are calculated separately as four-quarter moving sum.
Sources: The Swedish Financial Supervisory Authority, Statistics Sweden and the Debt Office.

The scope for adjusting saving to keep consumption growth steady is less than the total saving rate indicates

The low, but positive, adjusted financial saving indicates that households have some opportunities to adapt their savings to keep consumption growth steady. The adjustment with amortisation expenses also shows that the household consumption buffer is only a minor part of what the total saving rate implies. This can have consequences for, among other things, household consumption forecasts.

Demography is the key driving force of public consumption

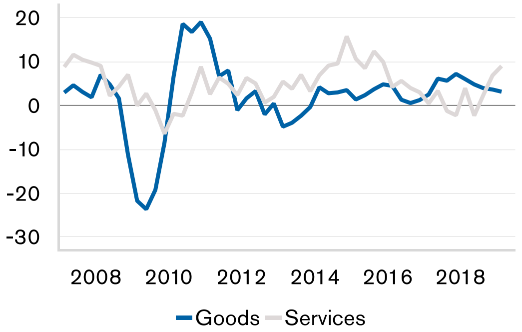
The demographic development of an increase in the number of both young and older people entails a steady rise in the demand for public welfare services. In addition, fiscal policy initiatives in regard to schools, police and defence resources and targeted government subsidies for health care boost public consumption. At the same time, expenses related to immigration went down last year and are expected to continue to decrease in the forecast period. Altogether, this means that growth for public consumption ends up close to the historical average in 2019 and 2020, according to the Debt Office's forecast.

Export slows with declining international growth

Global growth has shifted downward. The slowdown is most apparent in declining international trade and global industrial production (see Figure 18). Up to now, Swedish export has shown resilience to the international decline. In the first quarter, export grew at an annual rate just under the historical average. Over the last three quarters, primarily the export of services has developed strongly while the export of goods has subsided (see Figure 19).

Figure 23. Exports of goods and services

Yearly percentage change



Source: Statistics Sweden.

Figure 24. Export orders

Net balance

Source: NIER and the Debt Office.

Export will grow in the future, albeit at a slower pace. The weaker krona partially mitigates the effect of the weaker demand internationally; the deterioration of the krona boosts Swedish export companies' competitiveness and profits. According to the Economic Tendency Survey Indicators, export order intake in the manufacturing industry has fallen trend-wise since last autumn and is below the historical average (see Figure 20). So far, the decline has been less significant than in 2008/2009 or 2011/2012. This may relate to the fact that import demand in Sweden's most important trade regions/countries has not deteriorated as much as world trade indicates.

Altogether, export growth will be relatively good in 2019 and weaker in 2020. Foreign trade has contributed significantly to growth in the most recent quarter and is expected to do so for the whole of 2019. For 2020, however, foreign trade is expected to have a slightly negative contribution as import growth is expected to be somewhat higher.

The labour market slowdown becomes increasingly apparent

After several years of high growth in both the workforce and employment, the first quarter of this year entails an increasingly distinct slowdown, especially for employment. The outcome is in line with that of the previous forecast and involves a slight increase in unemployment. Thereby, the unemployment trend continues to reflect the present slowdown in the economy.

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

Percentage change	2018	2019	2020
Labour force	1.4	1.2	0.7
Employment	1.8	1.0	0.5
Unemployment [1]	6.3	6.5	6.7
CPIF	2.1	1.6	1.7
Hourly wage (NA)	2.2	2.6	3.0
Wage sum	4.8	4.0	3.4

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

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

Percentage points	2018	2019	2020
Labour force	-	-0.1	0.1
Employment	-	-0.1	0.0
Unemployment [1]	-	0.0	0.0
CPIF	-	-0.3	0.0
Hourly wage (NA)	-	-0.6	-0.3
Wage sum	-	-0.1	-0.3

Workforce still increasing due to immigration

For several years, the increase in the workforce has been driven almost exclusively by people born abroad. This development has also continued in the first quarter of this year and is expected to remain in the forecast period, especially as the group of people born in Sweden has declined somewhat. The increase is mainly dictated by the number of people who have immigrated to Sweden, given that the number who have emigrated from Sweden has been relatively stable.

The number of newly issued residence permits continues to be at a high level historically, which explains the approximately 1 per cent increase in the population per year. Even if the total number of residence permits remains relatively stable, this obscures the underlying development of a decrease in the number of people with grounds for asylum and an increase in the number of people employed. However, in pace with the labour market continuing to cool off, the number of foreign-born people with grounds for employment is also expected to decrease. This leads to a gradual decline in the total number of people seeking residence in Sweden. Nevertheless, population influx forecasts are associated with a particular type of uncertainty. War and international conflict could relatively quickly trigger a markedly different development.

Altogether, the development is expected to lead to a growth in the workforce of 1.2 per cent in 2019 and 0.7 per cent in 2020, which is a revision for this year by -0.1 percentage point.

Employment rises at an increasingly slower rate

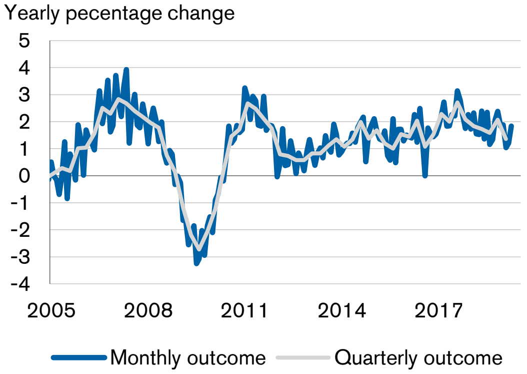
The increase in the number of people employed has gradually declined for around a year and a half, which is a trend that continued in the first quarter of this year. (See Figure 21). The outcome was in line with both the previous forecast and the picture presented by the various indicators. The current downturn is also expected to continue. This picture is supported in the short term by moderate growth of forecasts from the indicator models based, for example, on PMIs. Longer term, it is supported by the ongoing economic decline and the effects that this is expected to have in the labour market.

The forecast for the number of people employed is an increase of 1.0 in 2019 and 0.5 in 2020, which remains unchanged from the previous forecast.

Unemployment has levelled off and is expected to rise

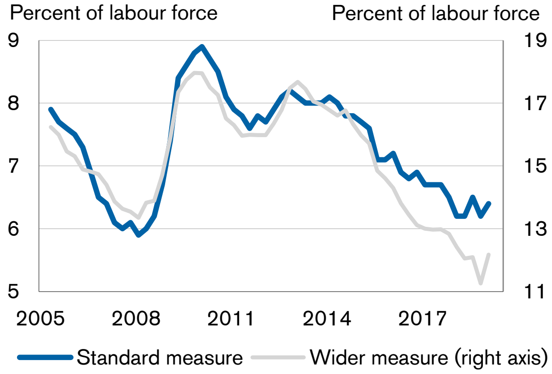
Several quarters after the economy levelled off, unemployment has also done so. This is in large part expected and in keeping with economic theory and historical patterns, even as individual quarterly outcomes can temporarily deviate from the overall picture. The outcome for the first quarter was in line with the previous forecast, with unemployment at 6.4 per cent in seasonally adjusted terms.

Figure 25. Employment according to the Labour Force Survey



Source: Statistics Sweden.

Figure 26. Unemployment, two definitions



Note: Wider measure include latent unemployed and underemployed.
Source: Statistics Sweden.

The picture of an ongoing turn in the development can also be seen if the normal measure of unemployment is expanded to include the underemployed and latent unemployed groups (see Figure 26). These two groups have a stronger connection to the labour market than the group that is unemployed. This broader measure is an alternative measure to the resource utilisation in the labour market and indicates that the situation in the previous year became strained more quickly and to a larger extent in comparison with, for example, the usual measure of unemployment. Now, the broader measure also shows an upturn.

The corresponding measure for the group of people born abroad points to an even more distinct turnaround with an increase of almost 2 percentage points in one quarter. The group is of certain interest because it has accounted for the vast majority of the increase in employment in recent years. A particular quarterly outcome is, of course, not a clear reversal, but the development is in line with and confirms the overall picture of the current slowdown.

The development in coming years is expected to be sustained as the level of employment continues to grow at a slightly slower rate than the workforce, which leads to unemployment rising at a moderate rate. The forecast for 2019 and 2020 is 6.5 and 6.7 respectively, which is unaltered from the previous forecast.

Few signs of more rapid wage increases and higher inflation

Still no outcome for wage increases indicating an acceleration

The outcomes of recent months from short-term statistics do not indicate that wages will start to increase at a faster rate. The latest outcomes have hovered around 2.5 per cent per year, just as they have for several years previously. Despite a gradually stronger economic cycle, wage increases beyond the central collective agreements – wage drift – have remained largely unchanged at around 0.5 per cent. A contributing reason is that labour market participants have low expectations for both the short and long term. At the same time, there has been a higher and more sustained increase in the workforce than in the last 50 years. Moreover, a significant change has occurred in the workforce over the last several years; those who have left the workforce have, on average, had a lower level of education that those who have entered it. These factors have likely contributed to the fact that the upward pressure on wages has failed to meet expectations.

Even if the outcomes for wages have been lower than expected, the outcome for the number of hours worked has exceeded expectations. In terms of payroll development, these two problems have roughly cancelled each other out, which means that the overall development has been approximately in line with the forecast. Wages are expected to increase slightly faster depending, for example, on the new central collective agreements to be entered into in 2020, which are expected to involve a higher level than in the agreements expiring. At the same time, growth in the number of hours worked is expected to slow in line with the economic cycle and unemployment. Altogether, this entails slower payroll growth in coming years, which roughly follows GDP growth measured in current prices. The forecast is for payroll growth of 4.0 per cent for 2019 and 3.4 per cent for 2020 – a revision by -0.1 and -0.3 percentage points, respectively.

Faster price increases will not materialize

Increasingly higher resource utilisation, a weaker krona and rapidly rising energy prices have contributed to rising CPIF inflation[8] in recent years. This year, it has averaged 2 per cent. Measures of underlying inflation also indicate that long-term inflationary pressure is currently close to 2 per cent. Since the previous forecast, however, inflation has been lower than expected. (see Figure 27).

CPIF inflation is expected to be lower in the future, and in particular during the summer. This is partly because energy prices are expected to rise at a slower rate that previously. The price of oil has had a volatile development in the first half of the year. Initially, the price rose quickly as a result of production restrictions from OPEC and geopolitical risks. Concern over the trade conflict between the US and China caused a subsequent decline in the price. Currently, the price of oil is lower than in the corresponding period the previous year (see Figure 28). The global economic slowdown during the forecast period implies a weaker development of the price. Oil futures pricing suggests a gently declining oil price in 2019 and 2020.[9] The current price of electricity is distinctly lower than the levels in conjunction with the drought last summer. Electricity futures also indicate continued low prices ahead.[10] In addition, electricity grid charges are likely to decrease in 2020.

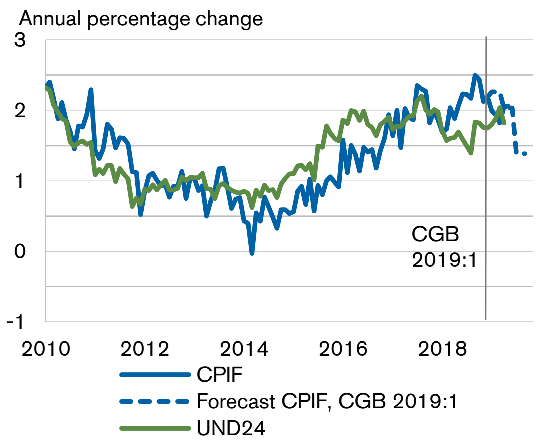
[6] Consumer Price Index with fixed interest rate (CPIF).
[7] Brent oil futures, CME Group.
[8] Nordic electricity futures, Nasdaq OMX.

The Swedish krona is also likely to mitigate the inflationary pressure in the long term as it will not continue to weaken as it has previously. However, in the short term, the development of the krona is expected to contribute to somewhat higher inflation since it has depreciated further in recent months.

Questions remain, however, as to how much of an impact the exchange rate will have on inflation. A weaker krona causes households' purchasing power to decline via higher import prices and more expensive stays abroad. Dampened demand can then contribute to counteracting inflationary impulses from the weaker krona. Companies' foreign currency hedges also weaken the correlation between the exchange rate and inflation.

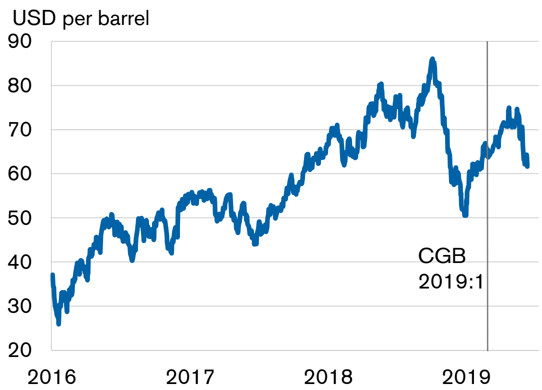
Several factors indicate that the krona will continue to be weak during most of the forecast period. Monetary policy is deemed to continue to remain largely expansionary in relation to the rest of the world. Market participants expect the repo rate to remain unchanged during the forecast period. Furthermore, the Riksbank plans to continue to purchase government securities in order to maintain the volume of bonds on the balance sheet. There also seems to be some distrust in the market toward the krona after years of weakening despite the fact that fundamental factors such as strong public finances, current account surpluses etc. have been in favour of a stronger krona.[11]

Figure 27. Inflation



Note: Vertical line indicates final date for information taken into account in previous forecast in February.
Sources: Statistics Sweden, the Riksbank and the Debt Office.

Figure 28. Brent oil, price



Note: Vertical line indicates final date for information taken into account in previous forecast; 2019-01-23.
Source: Thomson Reuters Datastream.

The dampening effects of energy prices and the exchange rate are countered to some extent by lagging effects of higher than normal resource utilisation. Inflation expectations also continue to be relatively close to 2 per cent. However, it is worth clarifying that there are still no signs of wage increases contributing to a significantly higher inflation. Also, a gradual increase in inflation internationally is expected to have a positive effect on Swedish import prices.

[11] In the Monetary Policy Report from October 2018, the Riksbank makes an estimate of the krona's long-term equilibrium level, which, compared with the current krona exchange rate, indicates that the krona should strengthen by 10–20 per cent in the long term.

In summary, CPIF inflation is expected to decrease in the next six months as a result of the base effects from last year's energy price increases. Subsequently, inflation is expected to rise to levels just below 2 per cent. Model estimates indicate a slightly higher rate of inflation. The Debt Office's forecast is that CPIF inflation will be on average 1.6 per cent in 2019 and 1.7 per cent in 2020. These are levels around or slightly above the historical average.[12]

International risks dominate

Several uncertainties can lead to the economic development becoming worse than expected. The themes that have characterised the development in recent years remain relevant. The krona becoming increasingly weaker in relation to the euro, various trade conflicts involving the US, and the UK's impending exit from the EU, as well as how a withdrawal could finally occur, all still involve uncertainty. Political uncertainty in Italy risks worsening the financial position of the government – which, in turn, has repercussions in the troubled Italian banking sector.

Risk of volatile development in financial markets and rapidly rising risk premia

Given the various uncertainties internationally, there is a significant risk of rapidly rising distress in the financial markets. Such a development has a negative impact on companies' propensity to invest.

The risk premia in the financial markets have also been at a low level historically for quite some time. This means that there is an elevated risk of a drop in asset prices. Major price drops, rapidly rising risk premia, and high volatility can, among other things, lead to banks having problems with their market financing, and certain European banks could be particularly impacted. This could, in turn, have a negative effect on lending to households and companies.

The trade conflicts risk further dampening world trade

Since Donald Trump became president, the US has been involved in several subsequent trade conflicts. The conflict with China has the potential for global impact, considering China's size and significance for the global economy. The Debt Office's baseline scenario assumes that the future situation and development will have negligible consequences. However, if the conflict were to escalate with increased tariffs and other forms of trade barriers, both financial markets and world trade could be affected in the form of falling share prices and shrinking trade volumes. If the UK's withdrawal from the EU occurs as a "hard Brexit", there would likely be consequence from a Swedish perspective.

The extent of the krona's impact on the Swedish economy is more uncertain than before

The increasingly weaker krona affects the Swedish economy in various ways. Above all, this results in foreign goods becoming more expensive in Sweden while Swedish goods abroad become less expensive, which means that inflation rises in Sweden and export increases. In recent years, however, export has not increased quite as much as the depreciating krona has implied. This is where companies' foreign currency hedges probably play a roll. However, the extent to which the transactions are hedged is unclear.

At the same time, inflation still increases more slowly than the business cycle indicates, depending on factors such as digitalisation and globalisation. The extent to which the depreciating krona could

[10] Since 1995, CPIF inflation has averaged at around 1.6 per cent.

lead to an increase in inflation remains uncertain, especially if the Swedish economy heads into a downturn. It is also possible that a weaker krona, through more expensive stays abroad and higher import prices, weakens the purchasing power of households. Thereby, demand is dampened, which can weaken inflationary impulses from the depreciating of the krona. In the end, it is also difficult to predict how the exchange rate will develop.

Domestic factors can affect the development of the economy

In terms of domestic development, the long-term development of the labour force is associated with a great deal of uncertainty. In the last five years, the group of people born abroad have mostly accounted for the entire increase, and the future immigration trend will determine the rate of growth.

Housing investments have increased significantly in the last few years but began to decline in recent quarters. This type of boom/bust pattern is often difficult to forecast. There could be relatively major consequences for the growth of the economy overall if the fall is interrupted earlier, or continues longer, than expected. Finally, it is worth noting that there are good reasons to believe that housing prices are going to grow significantly more slowly than they have in the last decades.[13] Should this be the case, it is likely that households' debt will also grow more slowly, which means that the risks associated with their indebtedness will also decrease.

[13] The Focus Report *Bostadsprisernas utveckling* (in Swedish), Riksgälden 2019.

Larger surplus in 2019, smaller deficit next year

The Debt Office expects a higher budget balance for both 2019 and 2020 than in the previous forecast. This year, the budget balance is significantly strengthened by reduced lending to the Riksbank. A decline in the economy results in a slower pace for tax income growth, which contributes to the budget balance reaching a deficit in 2020. Capital investments in tax accounts are expected to remain unchanged in 2019, and a net outflow of SEK 20 billion is expected for 2020. The declining growth also affects central government net lending, which falls during the forecast period.[14]

Forces driving the higher budget balances in 2019 and 2020

The Debt Office divides the central government budget balance into a primary balance, net lending, and interest payments on central government debt. The primary balance refers to the difference between government agencies' incoming and outgoing payments. Net lending consists of the change in all lending and borrowing in the central government's internal bank (treasury) at the Debt Office.

The budget balance is affected by several factors such as macroeconomic development, fiscal policy, and changes in net lending. Compared with the previous forecast, the budget balance was bolstered for 2019 from a surplus of SEK 40 billion to SEK 121 billion. The budget balance for 2020 will also be higher than previously, which means that the net borrowing requirement will be SEK 11 billion lower than in the previous forecast.

The Debt Office's assessment is that activity in the economy, referring to GDP at current prices, will be roughly in line with the previous forecast. On the other hand, the assessment of the composition of GDP has been adjusted slightly, which mainly affects the calculation of certain income from taxes (see page 9). The interest rate trend affects the central government's tax income through, among other things, the standard taxation of capital and interest deductions, but it also has major significance for the pattern of tax accounts being used to invest capital. On the expenditure side, the interest rate trend mainly affects interest payments on government debt. Central government net lending, which is neither affected by lending to the Riksbank nor the change in capital investments in tax accounts, reflects the economic slowdown that the Debt Office foresees. (see Figure 2).

The framework of the budget balance is determined by fiscal policy. The current forecast takes into account the Spring Fiscal Policy Bill containing a number of proposals. The effect of these on the budget balance is, however, relatively small for both this year and the next. It is uncertain which of the proposals in the agreement entered into by the Social Democratic Party, Green Party, Centre

[14] Information until and including the 5th of June 2019 have been taken into account in the forecast.

Party, and the Liberals will be presented in the Budget Bill in the autumn. The degree to which the reforms will be funded by other regulatory changes is also uncertain. For 2020, the Debt Office expects the implementation of additional non-financed fiscal policy reforms to have a negative impact on the budget balance by SEK 15 billion.

Table 1. Central government budget balance, forecast 2019-2020, outcome 2018

	2018	2019		2020	
SEK billion	**outcome**	**Jun**	**(Feb)**	**Jun**	**(Feb)**
Primary balance[1]	98	75	(70)	30	(14)
SNDO Net lending[2]	-4	66	(-10)	-19	(-16)
of which on-lending	-11	67	(-4)	-6	(-4)
Interest payments	-13	-20	(-20)	-30	(-28)
Budget balance[3]	**80**	**121**	**(40)**	**-19**	**(-30)**
Budget balance excl. capital investments in tax accounts	**65**	**121**	**(37)**	**1**	**(0)**

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

The primary driver of the boost in the budget balance for 2019 is that the Riksbank intends to pay back foreign currency loans corresponding to SEK 69 billion, which it previously borrowed from the Debt Office to strengthen the foreign currency reserve. The repayments have no impact on central government net lending.

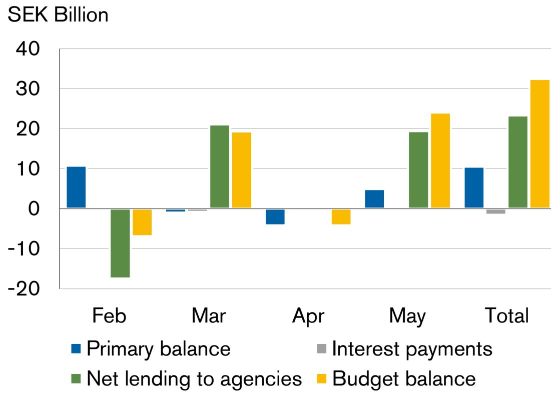
Deposits of capital in tax accounts as investments have declined among businesses as well as private individuals over the last six months. One plausible explanation for this is that the interest on alternative forms of investment has risen, in part as an effect of the rate hike by the Riksbank in December last year. At the same time as the actual interest rate level has risen, the market has begun pricing in future rate hikes at a slower pace than previously. Next year, the Debt Office has revised downward the assumption for withdrawals from tax accounts in 2020, from SEK 30 billion to SEK 20 billion.

Higher budget outcome since the previous forecast

The budget balance outcome for the period February 2019 to May 2019 was a total of SEK 32 billion higher than in recent forecasts (see Figure 1). The primary balance was SEK 11 billion higher than forecast, mainly as a result of lower-than-expected expenditure. Net lending was a total of SEK 23 billion lower than forecast, which also contributed to the budget balance being higher than estimated. The lower net lending is primarily due to the Riksbank repaying foreign currency loans to the Debt Office.

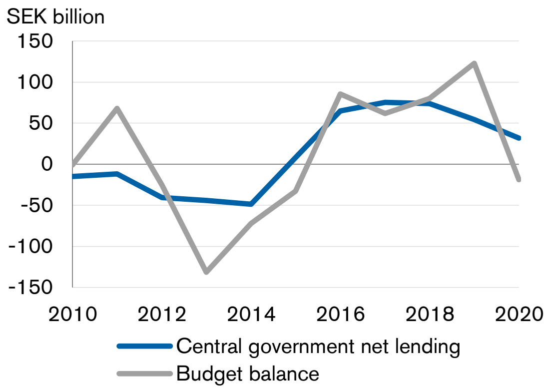
Tax income from companies has been slightly higher than the previous forecast while tax income from wages has been roughly in line with the forecasts. Aggregate tax income in the forecast period was SEK 1 billion higher than forecast.

Figure 1. Deviations monthly forecast, February 2019-May 2019



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

Figure 2. Central government net lending and budget balance, 2010-2020



Sources: Statistics Sweden and the Debt Office.

Lower income for central government in pace with declining growth

GDP growth at current prices provides an effective estimate of tax base growth. Compared with the previous forecast, GDP growth at current prices is deemed to be slightly lower for both 2019 and 2020. The current forecast assessment is for GDP growth of 3.7 per cent this year and 2.6 per cent next year. The lower growth leads to a slower increase in tax income, resulting in a lower primary balance in the last year of the forecast period.

The composition of GDP and payroll growth impact the budget balance. Payroll growth has been revised downward slightly in the current forecast, which leads to reduced income from payroll taxes. Compared with the prior forecast, household consumption is also expected to increase at a lower rate than previously, leading to lower income for central government from value-added tax (VAT) and excise duties. Investments increase more than previously, which results in higher income for the government in the form of VAT.

Slightly higher primary balance for 2019 and 2020

The primary balance is expected to increase by SEK 5 billion in 2019 and SEK 16 billion in 2020, compared with the February forecast. For 2019, the forecast is mostly affected by lower expenditure. For 2020, the increase in the primary balance is mainly due to expectations of a lower outflow of capital investments from tax accounts.

Payroll taxes in line with forecast

So far this year, central government's income from payroll taxes has largely developed as expected. Payroll growth is expected to fall to 4.0 per cent in 2019, from 4.8 percent in 2018. This is a reflection of a slightly calmer labour market. Next year, payroll is expected to increase by 3.4 per cent, which is 0.3 percentage points lower than in the previous forecast. The reduction in payroll growth primarily affects income to local government. In aggregate, payroll taxes for central government are expected to decline by SEK 1 billion in both 2019 and 2020 compared with the previous forecast.

Table 2. The largest forecast changes

Forecast February 2018	**40**	**-30**
Primary balance	**5**	**16**
Of which:		
Tax income excl. capital investments in tax accounts	3	0
Capital investments in tax accounts	-3	10
Dividends	-1	-1
Government grants to local governments	0	0
Labour market	2	0
Social insurance	2	-2
Migration	0	1
International aid	1	0
Other	2	7
SNDO Net lending	**75**	**-3**
Of which:		
On-lending	71	-3
Interest payments	**-1**	**-2**
Forecast June 2019	**121**	**-19**
Sum of changes	*80*	*11*

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

Lower income from consumption taxes

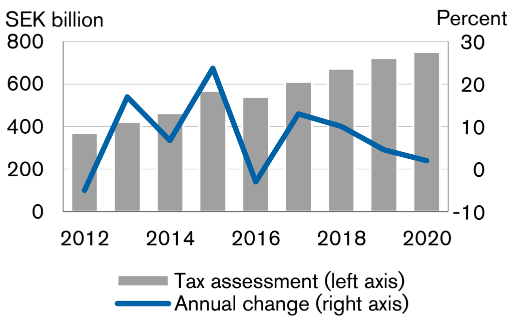
Income from tax on consumption is expected to increase by SEK 1 billion in both 2019 and 2020, compared with the previous forecast. Private consumption is expected to increase marginally slower in 2019 than in the previous forecast while a slight increase in the rate of investment is expected, entailing a negible effect on, above all, value-added tax. This notwithstanding, higher excise duties in the Spring Fiscal Policy Bill account for the increase.

Table 3. Tax income, change from previous forecast

SEK billion	**2019**	**2020**
Payroll taxes	1	1
Consumption taxes	-1	-1
Consumption taxes	-3	-1
Supplementary taxes	3	-10
Total	**0**	**-10**

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

Figure 3. Corporate gains



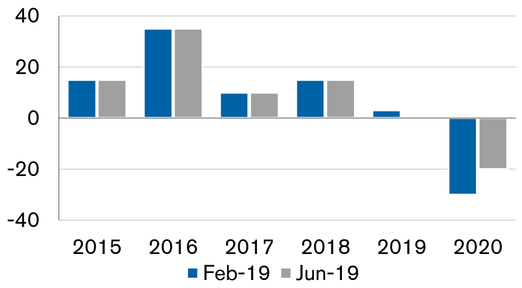
Sources: Swedish tax agency and the Debt Office.

Decrease in capital investments in tax accounts

Deposits of capital in tax accounts appear to have come to a standstill in the last six months. The Debt Office's assessment is that the level of capital investments will remain the same in 2019. For

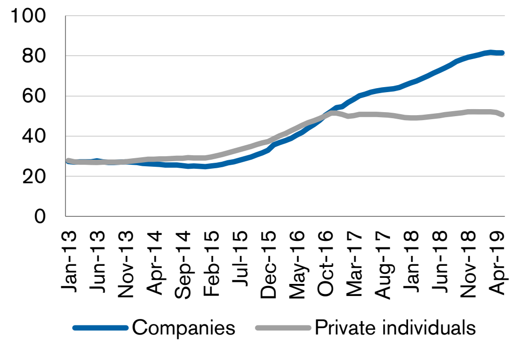
2020, a net outflow of SEK 20 billion is expected. In the previous forecast, an inflow of SEK 3 billion was expected for 2019 and an outflow of SEK 30 was expected for 2020. The outflow assumption for 2020 is based on expectations of rising market interest rates, thereby decreasing the attractiveness of using tax accounts to invest capital. However, expectations of rate hikes from the Riksbank are significantly lower now than they were in February, which mainly accounts for the expectation of a lower outflow than in the prior forecast.

Figure 4. The Debt office's assessment of net capital investment flows to the tax accounts
SEK billion



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

Figure 5. Balance in tax accounts, 12 month moving average
SEK billion



Source: Swedish tax agency

The Debt Office has previously made the assessment that, at around 0.25 per cent for 3 months Stibor, most businesses consider it profitable to withdraw money from tax accounts. The assessment is uncertain, and many businesses and private individuals may have other preferences. Apart from the interest terms, the low credit risk and the ease with which large deposits and withdrawals can be made are likely contributors to the increase in tax account balances. The course of this development remains highly uncertain.

Capital investments in tax accounts

The low interest rate situation has led to tax accounts being used as a form of savings by both private individuals and legal persons. To reduce the inflow, the interest rate on tax accounts was lowered from 0.56 per cent to 0 per cent as of 1 January 2017. Despite this, tax accounts remain an attractive form of investment, especially for companies.

The incentives for businesses to invest money in tax accounts are greater than for private individuals. Private individuals are able to obtain a positive interest rate in a savings account covered by deposit insurance. For businesses, which face negative interest rates on investments, tax accounts are attractive because the interest rate is higher, but there are also other advantages. The risk in investing money in a tax account is the same as for buying treasury bills.

Tax accounts are also a much more liquid asset than T-bills and other fixed-income instruments. Depositing any sum or making a withdrawal in a tax account can be done quickly. In practice, the account functions as a bank account with unlimited deposit insurance from central government.

Capital investments in tax accounts are a costly and involuntary form of loan for central government. The Debt Office estimates that capital investments in tax accounts result in an additional cost for central government of around SEK 1.7 billion for 2015–2020, compared with if the Debt Office had borrowed the same sum directly in the market.

The Debt Office considers it imperative to limit the possibility of investing capital in tax accounts. An investigation should be conducted to determine whether it is possible to find a design that removes the incentive to invest large amounts without putting tax collection at risk. One possibility may be to have a floor interest rate of 0 per cent that only applies up to a certain monetary limit so as to avoid private individuals and small businesses being affected by negative rates. For more information, see *Central Government Debt Management – Proposed Guidelines 2019-2022*.

Decline in taxes of household capital income from high level

Income from the taxation of household capital income, which largely affects the supplementary tax payments, remains essentially unchanged from the previous forecast. The Debt Office expects capital gains to decline from a high level both this year and the next. The assessment is based, among other things, on the price drops that have occurred, the declining housing market turnover, and the fact that an increasingly large part of the savings is to be found in investment savings accounts (ISKs). At the same time, an increase in interest income is expected, mainly due to dividends from close companies and increased standardised income from, among other things, ISKs. The outcome for 2018 will be known when the taxation outcome is published later this year.

Declining profit growth for companies

The central government's income from corporate taxes has been revised upward slightly for 2019 and 2020, compared with the forecast published in February (see Table 3). This is due to tax income from companies being slightly higher than forecast so far this year.

The strong growth in the last year has resulted in higher corporate profits. Forward indicators, such as the EMI, have fallen in recent months but the majority of exporting companies still foresee an increase in growth rather than a decline. The weaker krona can also favour export companies. The NIER's business confidence indicator remains above the historical average, and companies have plans to increase the number of employees over the course of the next three months. Profit growth for companies is, however, forecasted to decline in pace with lower GDP growth and reduced demand from some of Sweden's largest export markets. The forecast for profit growth in 2019 is slightly higher than in the previous forecast but remains unaltered for 2020.

Continued stable share dividends from state-owned enterprises

Profits for state-owned enterprises are deemed stable in the forecast period. This leads to a sustained solid level of income for the central government. However, income from dividends is assessed to be slightly lower for 2019 and 2020 than in the February forecast.

High prices for iron ore products and a weak krona favour iron ore export. LKAB's dividend has been revised downward slightly since the previous forecast as the company seeks new ore resources[15]. Lower economic growth in several of the countries to which Sweden chiefly exports iron ore, such as Germany or the UK, may also have a negative impact on LKAB's earnings.

Table 4. Dividends on state owned share

SEK billion	2018	2019	2020
Akademiska hus AB	1.6	1.7	1.6
LKAB	2.9	3.2	3.2
Telia Company AB	3.7	3.8	3.7
Vattenfall AB	2.0	2.0	2.0
Sveaskog AB	0.9	1.1	1.0
Other corporations	3.4	3.1	3.3
Total	**14.6**	**14.8**	**14.8**

In total, central government income from share dividends is estimated at just under SEK 15 billion in 2019 and 2020. The forecasts for dividends from state-owned enterprises are associated with uncertainty and may be affected by decisions to sell off assets.

Social insurance expenditure is at a slightly lower level for 2019

Expenditure within social insurance is expected to decline by SEK 2 billion in 2019 and increase by SEK 2 billion in 2020, compared with the previous forecast.

Mainly expenditure for assistance compensation, sickness benefits, and parental insurance has been revised downward this year. A decline in the number of users of assistance compensation is expected due to a simultaneous decrease in the inflow and increase in the outflow of users. For sickness benefits, the inflow and the average duration of sickness cases are expected to be lower. Use of parental insurance has declined. To a certain extent, these declines are offset by the raised forecast for child allowance throughout the forecast period. The increase is due to the higher outcome for both the general child allowance and the large family supplement.

The expected increase in expenditure for 2020 is mainly due to a legislative proposal[16] to raise the guaranteed pension and increase the housing supplement for pensioners. This proposal is expected to increase expenditure by approximately SEK 2 billion in 2020.

Lower price and wage pressure hold back the general cost increase for social insurance. The benefits that have been adjusted upward in line with the price base amount, such as sickness and activity compensation, become lower. At the same time, a lower rate of wage growth entails weaker growth in benefits based on sickness allowance income, such as sickness and parental compensation.

The administration of social insurance can affect the distribution of payments between years. For example, Försäkringskassan (the Swedish Social Insurance Agency) changed the cut-off date for

[15] A new situation for LKAB, LKAB's annual report

[16] *S2019/00462/SF*, Förbättrat grundskydd för pensionärer ("Improved basic coverage for pensioners"), *the Ministry of Health and Social Affairs*

processing parental compensation. This means that certain funds expected to be disbursed in 2019 will be instead by paid out in 2020.

Lower labour market-related expenditure

Labour market-related expenditure is expected to be SEK 2 billion lower in 2019 than in the previous forecast. This is mainly due to the outcomes so far this year. Expenditure for labour market policy measures have been lower than forecast, which is partly offset by slightly higher expenditure for unemployment benefits. Due to an unchanged forecast for unemployment in 2020, the forecast for labour market related expenditure remains unchanged this year. The forecast entails an increase in expenditure in 2019 by almost SEK 2 billion since 2018, and stays at the same level between 2019 and 2020.

Debt Office net lending is reduced in 2019 due to lower on-lending to the Riksbank

The Debt Office's net lending to government agencies and other parties is estimated to be SEK 75 billion lower in 2019 and just under SEK 3 billion higher in 2020 than in the previous forecast. This will result in a corresponding increase and respective decrease in the budget balance, as shown in Table 2. The significantly lower level of lending in 2019 is explained by the fact that the remainder of the foreign currency loans to the Riksbank maturing in 2019 will not be refinanced after they mature. The loans amounted to SEK 69 billion. As the loans will not be refinanced, there will also be no currency effects in conjunction with refinancing during the year. Because the weaker krona had been expected to lead to increased lending, there is an additional decrease in lending than in the previous forecast.

The higher lending in 2020 is linked to currency exchange effects for the Riksbank loans maturing this year. The weaker krona is expected to lead to an increase in lending of almost SEK 3 billion.

Altogether, net lending is expected to amount to SEK -66 billion in 2019 and SEK 19 billion in 2020 (see Table 5). Compared with the previous year, this entails an increase in net lending, excluding on-lending to the Riksbank, of SEK 8 billion and SEK 11 billion, respectively. For 2019, this is mainly due to a lower level of both deposits from the Swedish Export Credits Guarantee Board and payments to the resolution reserve. For 2020, the higher net lending is instead due to an increase in lending to, among others, the Swedish Transport Administration and the Swedish Board of Student Finance.

Table 5. The Debt Office's net lending to government agencies and others

SEK billion	2018	2019	2020
Lending	**19.5**	**-60.9**	**22.7**
Of which:			
Swedish board of student finance	6.1	6.7	8.1
Swedish Transport Administration	-1.6	0.2	5.1
On-lending to the Riksbank	11.1	-67.4	6.5
Other	3.9	-0.4	3.0
Deposits	**15.0**	**4.7**	**3.2**
Of which:			
Swedish board of student finance, credit reserve etc.	1.1	1.4	1.9
Resolution reserve	8.9	5.0	3.3
Premium pension system, net[1]	0.1	-1.2	-2.3
Other	4.8	-0.5	0.3
Net lending	**4.5**	**-65.6**	**19.5**
Net lending excl. on-lending	**-6.6**	**1.8**	**13.0**

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

Net lending by the Debt Office

Net lending by the Debt Office to government agencies and other parties is an item on the expenditure side of the central government budget. This means that if Debt Office net lending increases, the budget balance is weakened. This can also be expressed by saying that the net borrowing requirement increases.

Net lending to government agencies and other parties is not financed by appropriations and does not come under the expenditure ceiling. Net lending consists of the change of all lending from, and deposits in, the central government's internal bank (treasury), at the Debt Office. Net lending covers both ongoing central government activities – such as student loans, deposits in the premium pension system and lending to infrastructure investments – and temporary items, such as on-lending to the Riksbank and to other countries. The temporary items may be decided at short notice, and they contribute to strong variations in net lending from year to year.

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

Changes between years

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

The budget balance increases by SEK 41 billion between 2018 and 2019. This is mainly due to the repayment to the Debt Office of loans taken by the Riksbank to increase the foreign currency reserve. Between 2019 and 2020, the budget balance is deemed to have weakened by SEK 140 billion and turned into a deficit of SEK 19 billion. The fact that the Riksbank is not expected to repay several loans is the primary contributing factor. At the same time, the economy is expected to slacken, leading to slower tax income growth. The Debt Office also expects an outflow of capital investments from tax accounts totalling SEK 20 billion for 2020.

SEK billion	**2016**	**2017**	**2018**	**2019**	**2020**
Budget Balance	**85**	**62**	**80**	**121**	**-19**
Change from previous year	118	-24	18	41	-140
Primary balance:	**101**	**-31**	**29**	**-22**	**-46**
Of which					
Tax income	145	4	66	10	-5
Government grants to local governments	9	-12	-5	-9	-4
Labour market	1	0	-1	2	0
Social insurance	0	4	-14	0	-1
Migration & International aid	-26	-5	14	7	3
Sales of state-owned assets	0	0	2	-2	0
Share dividends	-7	-4	6	0	0
EU contribution	5	2	-9	-2	-6
Other	-27	-20	-31	-30	-32
Debt Office's net lending excl. on-lending	**1**	**7**	**-1**	**-8**	**-11**
On-lending	-4	10	-7	78	-74
Interest on government debt	**20**	**-9**	**-3**	**-7**	**-9**

Interest payments on central government debt

Central government interest payments are estimated at SEK 20 billion for this year and SEK 30 billion next year (see Table 6). The estimate for this year is slightly higher than in the previous forecast. For 2020, the forecast has been revised upward by just under SEK 2 billion. This is mainly the result of an increase in foreign currency exchange losses.

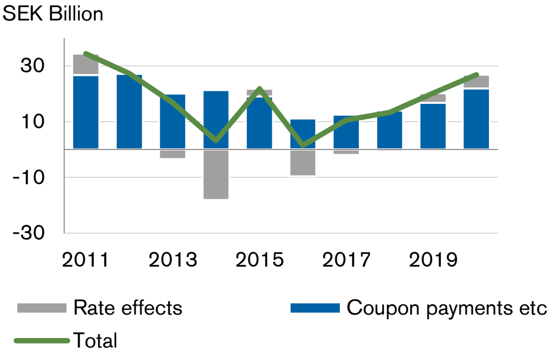
Between 2019 and 2020, interest payments increase by around SEK 9 billion. The increase is due to the inflation-linked bond SGB IL 3102 maturing in December 2020. In conjunction with that maturity, the Debt Office will pay around SEK 10 billion in accrued inflation compensation.

The Debt Office uses cut-off rates in calculating central government interest payments and in measuring the Riksbank's foreign currency loans. The cut-off date for this forecast was 31 May 2019.

Table 6. Interest payments on central government debt

SEK billion	2019	2020
Interest on loans in SEK	15.2	26.0
Interest on loans in foreign currency	0.0	0.0
Realised currency gains and losses	5.2	3.5
Interest payments	**20.4**	**29.5**

Figure 6. Interest payments, 2011-2020



Central government net lending

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

Net lending is expected to reach 0.9 per cent in 2019 and 0.5 per cent in 2020 as a proportion of GDP. This is 0.1 percentage point higher for 2019 and unchanged for 2020 from the previous forecast. It is also a decline from 2018 when the lending was estimated to have reached 1.5 per cent as a proportion of GDP. The decline in lending during the forecast period reflects the forecast downturn in the economy.

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

Central government net lending is not affected by lending to the Riksbank either. This is because central government receives an asset (a claim on the Riksbank) in its balance sheet that corresponds to the increased indebtedness incurred in financing the lending to the Riksbank. However, the budget balance and central government debt are affected.

Capital investments in tax accounts should not affect net lending as the investments are calculated as deposits instead of tax income.

Table 7. Central government net lending

SEK billion	2016	2017	2018	2019	2020
Budget balance	**85**	**62**	**80**	**121**	**-19**
Delimitations	**30**	**13**	**5**	**-57**	**27**
Sale of limited companies	0	0	2	0	0
Extraordinary dividends	-2	0	0	0	0
Parts of Debt Office's net lending	16	-2	6	-64	16
Other delimitations etc.	15	15	-2	7	11
Accruals	**-50**	**0**	**-20**	**-17**	**18**
Taxes	-38	0	-21	-21	7
Interest payments etc.	-12	1	1	4	11
Central government net lending	**65**	**75**	**74**	**47**	**26**
Per cent of GDP	**1.5**	**1.6**	**1.5**	**0.9**	**0.5**

Monthly forecasts

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

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 the monthly pattern. For example, the large deficit in December is explained by the payment of premium pension funds, excess tax, and interest payments on the central government debt. The previously mentioned loans to the Riksbank, which will not be refinanced, mature in July and October and result in a sharp boost in the budget balance for these months.

Table 8. Budget balance per month, SEK billion

SEK billion	Primary balance	Net lending	Interest on central government debt	Budget Balance
Jun-19	-26.2	5.0	-4.4	-25.5
Jul-19	7.1	27.3	0.2	34.6
Aug-19	21.2	3.8	0.7	25.7
Sep-19	2.3	2.6	0.1	5.0
Oct-19	-2.9	29.2	1.2	27.5
Nov-19	15.8	3.1	-3.2	15.7
Dec-19	-39.1	-40.0	-6.8	-85.8

Sensitivity analysis

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

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

[1] Local government taxes on employment are paid to local authorities with a one-year time lag. This means that the effect on the budget balance in one year's time is bigger than the permanent effect.
[2] Includes effects on unemployment insurance benefits, the job and development guarantee programme and the job guarantee scheme for young people.
[3] This relates to an effect on interest payments on government debt.

Forecast comparisons

The Debt Office forecasts a slightly lower budget balance for 2019 than the Government and the National Institute of Economic Research (NIER) do. The Swedish National Financial Management Authority (ESV) forecasts a lower balance for 2019 than the rest of the forecasters. The difference between the forecasts by the ESV and the Debt Office is in part due to the ESV's expectation of an outflow of capital investments from tax accounts in 2019.

For the last year of the forecast period, 2020, the Debt Office, the Government, and the NIER expect a budget deficit, while the ESV forecasts a relatively small budget surplus. There is a large spread in the forecasts for 2020 between the forecasters. Even the forecast timing of the outflow of capital investments from tax accounts differs. The ESV's assessment is that the outflow from tax accounts will increase in 2020, and it thereby expects a larger outflow from tax accounts during the year than the Debt Office does. The Government also forecasts a significantly larger outflow from tax accounts during the last year of the forecast period.

	Debt office (18 June)		Government (10 April)		NIER (27 March)		ESV (7 March)	
SEK billion	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
Budget balance	121	-19	131	-1	126	-17	108	11
Of which:								
Sale of central government assets	0	0	5	5	0	0	0	0
Adjusted budget balance	**121**	**-19**	**126**	**-6**	**126**	**-16**	**108**	**11**

Postponed increase in issuance volume

The stronger budget balance means that the central government borrowing requirement declines from the level in the previous forecast. Therefore, the Debt Office does not need to increase the issuance volume of government bonds and treasury bills next year as previously planned. Borrowing in foreign currency is significantly lower this year than planned, as a result of the Riksbank's decision to reduce the foreign currency reserve. Overall, this entails a continued decline in the government debt.

Borrowing stays at historically low level

Due to the improved budget outlook, the planned increase in issuance volume of government bonds has been pushed forward. Borrowing thereby remains at SEK 30 billion on an annual basis during 2020, instead of being raised to SEK 40 billion (see Table 1). The increase in borrowing in treasury bills is also postponed, causing the stock of T-bills to grow to SEK 30 billion next year instead of SEK 40 billion. Inflation-linked bond borrowing stays at the same level as in the previous forecast.

Foreign-currency borrowing falls sharply as only one of the loans to the Riksbank maturing in 2019 needs to be refinanced. The other three maturing loans will not be renewed following the Rikbank's decision to reduce the foreign currency reserve by USD 8 billion.

In the borrowing plan presented below, the Debt Office has not yet taken into account the upcoming mandate to issue green bonds. This assignment is forthcoming under the 73 point-programme agreement by the Social Democratic Party, the Green Party, the Centre Party, and the Liberals. After the Government has presented the mandate, the Debt Office will revert with details about how issuance of green bonds will be handled.

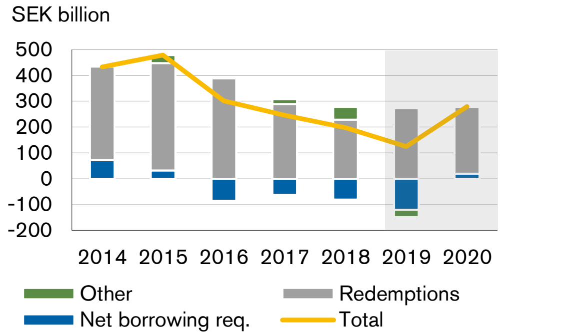
Table 1. Government borrowing

	2019		2020	
SEK billion	Jun	(Feb)	Jun	(Feb)
Money market borrowing[1]	**68**	**(77)**	**182**	**(197)**
T-bills	20	(20)	30	(40)
Liquidity management instruments	48	(57)	152	(157)
Bond borrowing	**57**	**(129)**	**97**	**(105)**
Government bonds	30	(30)	30	(40)
Inflation-linked bonds	9	(9)	9	(9)
Foreign currency bonds	19	(90)	59	(56)
Total gross borrowing	**125**	**(206)**	**279**	**(302)**

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

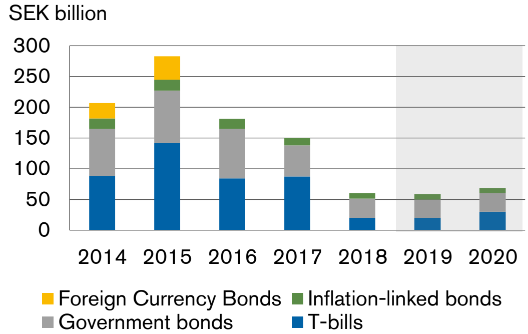
In recent years, the central government's total borrowing requirement has been small (see Figure 1). Next year, the borrowing requirement will increase, but it will still remain under the long-term historical average. The Debt Office has adjusted its borrowing by significantly lowering the issuance volume of government securites (see Figure 2).

Figure 1. Total borrowing requirement



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

Figure 2. Issuance volumes

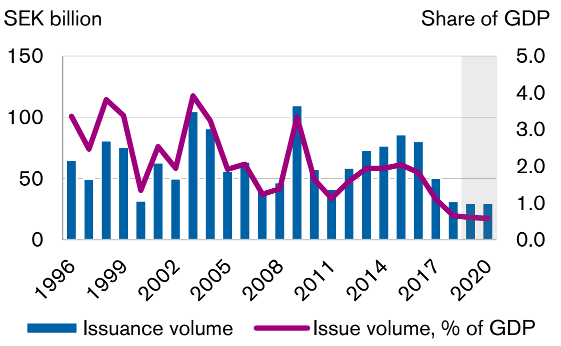


Rem.: Borrowing excluding financing of on-lending to the Riksbank. The amount of T-bills refers to the outstanding stock as at year-end.

The Debt Office's strategy is to prioritise issuance of government bonds when the borrowing requirement is small. In line with this, the Debt Office has primarily reduced foreign-currency borrowing and borrowing in T-bills in recent years. Nevertheless, the issuance volume of government bonds needed to be lowered to a historically low level (see Figure 3).

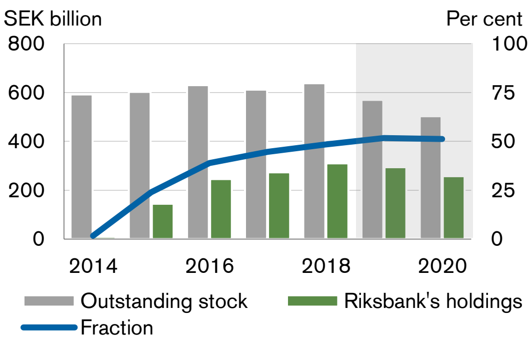
At the same time as the supply of government bonds has decreased, the Riksbank has purchased an increasingly large amount of the outstanding bonds. Due to the decision in April for additional purchases, the Riksbank's government bond holdings continue to increase in 2019 to over half of the total stock (see Figure 4). The share is higher in some individual issues, upward of 70 per cent of the outstanding volume. The purchases are one of the factors explaining the deteriorating liquidity in the market for government bonds in recent years. Investors and primary dealers have indicated that the market continues to function as long as there are no disturbances, but that the situation remains strained.

Figure 3. Borrowing in government bonds



Rem.: Yearly issue volume of nominal government bonds.

Figure 4. Riksbank's holdings of nominal government bonds



Rem.: Amounts as at December each year.
Source: Riksbank and the Debt Office

Continued focus on ten-year government bonds

The upward revision of the forecast for the budget balance entails that the issuance volume of government bonds will not be increased next year but remain at SEK 1.5 billion per auction throughout the forecast period. The limited supply means that the Debt Office continues to focus on borrowing in government bonds in the ten-year maturity segment in order to build up the outstanding stock of newer bonds. A small part of the auctions is planned to be in five-year bonds, but other maturities may also be issued to support market liquidity. The next new government bond will be introduced in 2020.

Table 2. Important dates 2019

Date	Time	Activity
23 Aug	09.30	Terms of switches of SGB IL 3102
20–24 Sep	11.00	Switches of SGB IL 3102
18 Oct	09.30	Terms of switches of SGB IL 3102
23 Oct	09.30	Government borrowing 2019:3
15–19 Nov	11.00	Switches of SGB IL 3102

Table 3. Reference bonds

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

Reference bonds in the electronic interbank market

The reference bond is the bond that is closest to two, five or ten years in terms of maturity. Reference bonds are changed on the IMM dates (International Money Market): the third Wednesday in March, June, September, and December. New reference bonds are those closest to two, five or ten years to maturity on the subsequent IMM date.

The underlying bond of a futures contract will always be the same as a reference bond during the last three months of the contract. The date of change of reference bonds refers to the settlement date. The first trading day for a new reference bond in the electronic interbank market is normally the Friday preceding an IMM date.

Borrowing in T-bills stays unchanged until November 2020

Borrowing in T-bills remains at SEK 5 billion per month for all of 2019 and most of 2020. In November next year, the issuance volume is raised and the outstanding stock increases from SEK 20 billion to SEK 30 billion. This is SEK 10 billion less than in the previous forecast, as the Debt Office expected to increase the pace of borrowing earlier in 2020.

There are large variations in the central government borrowing requirement, both between months and individual days. Figure 6 on page 42 shows how the balance in liquidity management varies over time. In order to counteract fluctuations, the Debt Office may sell liquidity bills or re-open existing issues by tap sales on individual occasions when the borrowing requirement is large. Liquidity bills are T-bills with a maturity tailored to meet the Debt Office's needs and investor demand.

Unchanged issuance volume in inflation-linked bonds

The planned volume of inflation-linked bonds remains the same as in the February forecast, entailing SEK 8.5 billion per year in 2019 and 2020. In the same manner as for nominal bonds, the inflation-linked borrowing focuses on building up the volume in the newer issues.

The Debt Office also plans to continue to offer switches to reduce the outstanding volume of SGB IL 3102, so that the outstanding amount will be around SEK 25 billion when the bond matures at the end of 2020. In conjunction with the bond reaching maturity, the share of inflation-linked debt is estimated to reach the long-term benchmark of 20 per cent of the central government debt.

The Debt Office introduces limitations in the switch facility for inflation-linked bonds

The current issuance volume of inflation-linked bonds is small, both from a historical perspective and in relation to the outstanding stock. Despite this, the Debt Office has chosen to maintain the maximum volume that primary dealers can switch between inflation-linked bonds under the facility. Thus, these continual switches can have a relatively large effect in relation to issuance and pose a challenge to the Debt Office's aim of building up the outstanding stock of the new bonds.

To reduce this risk, the Debt Office is introducing a limitation on the market-maintaining switch facility for newly introduced bonds. The limitiation entails that the Debt Office does not buy back a new bond under the switch facility if the nominal amount outstanding is less that SEK 5 billion. However, the Debt Office may sell such a bond under the switch facility in order to increase the growth rate of the volume.

Unchanged volume of interest rate swaps

The planned volume of interest rate swaps remains at SEK 5 billion per year in 2019 and 2020. This means that the outstanding stock of interest rate swaps will continue to decline (see Table 4).

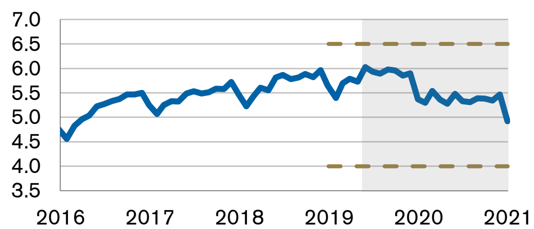
The Debt Office has previously used interest rate swaps to a large extent in order to shorten maturities and thereby lower the expected cost. The volume is currently small since the expected savings from reducing maturities is judged to have decreased. The maturities of the swaps are also shorter than previously. With the planned volume of the swaps, the duration of the krona debt is estimated to be approximately in the middle of the steering interval indicated in the Government's guidelines (see Figure 5).

Table 4. Changes of outstanding swaps

	2019		2020	
SEK billion	Jun	(Feb)	Jun	(Feb)
New swaps[1]	5	(5)	5	(5)
Maturing swaps	41	(41)	31	(31)
Net change	**-36**	**(-36)**	**-26**	**(-26)**

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

Figure 5. Duration of krona debt



Smaller volume of foreign currency loans to the Riksbank in 2019

Bond borrowing in foreign currency is currently conducted exclusively to refinance loans on behalf of the Riksbank. At the beginning of March, the Riksbank announced that it does not intend to renew the foreign currency loans maturiting in the remainder of 2019. After the USD 2 billion loan to the Riksbank was refinanced by the Debt Office in February, three other loans maturing this year remained, totalling USD 8 billion. These will not be refinanced and therefore on-lending to the Riksbank is reduced, resulting in a corresponding budget balance increase and central government debt decrease. Central government net lending, however, remains unaffected.

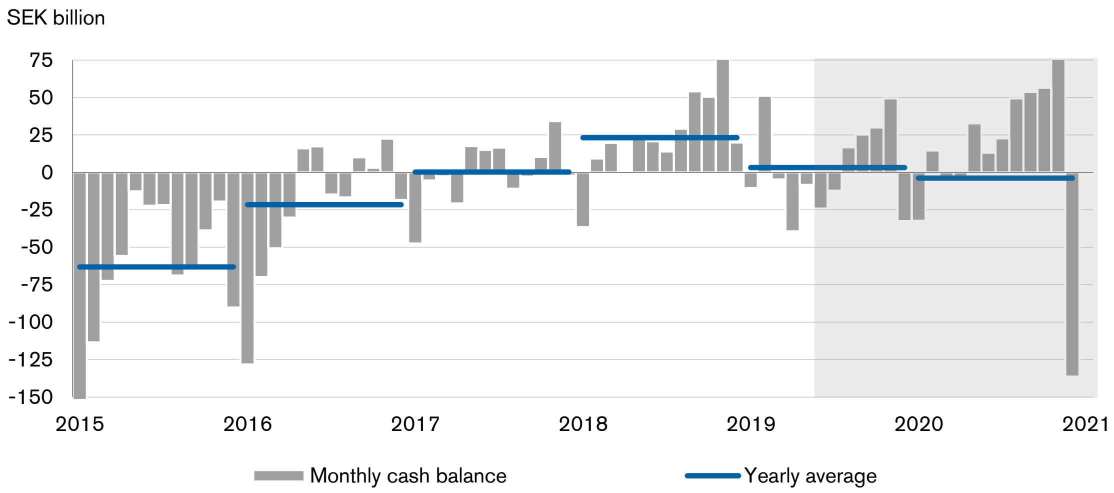
Next year, the Debt Office plans to issue foreign currency bonds corresponding to SEK 59 billion, which is line with the previous forecast.

Central government debt continues to decrease

The central government debt is expected to decrease to SEK 1,089 billion at the end of 2020. This level is SEK 87 billion lower than in the February forecast and corresponds to a 21 per cent share of GDP.

The decrease is due to both the central government budget surplus and the cash surplus in liquidity management being used to pay maturing loans. The strong outcome for the central government budget in recent years has led to the Debt Office having a cash surplus to invest in liquidity management for prolonged periods despite a sharp decline in issuance volumes (see Figure 6). The surplus is not expected to shift to a more sustained deficit until December 2020, in conjunction with a large volume of governent and inflation-linked bonds maturing.

Figure 6. Balance in liquidity management



Rem: Net balance of loans and placements in the central government liquidity management. Positive amounts correspond to cash surpluses. The forecast assumes an average daily repo volume of SEK 15 billion.

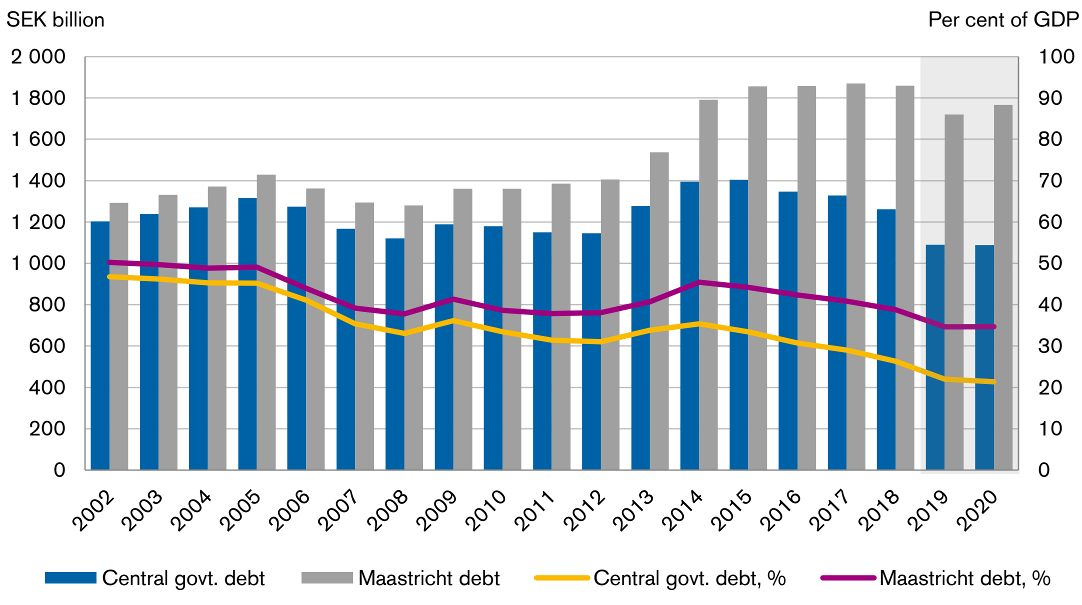
Given the Debt Office's forecast for the development of the central government debt, the debt using the Maastricht measure is expected to reach the debt anchor of 35 per cent of GDP at the end of 2019 (see Figure 7). The Maastricht debt covers the whole of the public sector and is a measure of the consolidated debt. For more information, see the fact box below about different measures of debt.

Table 5. From net borrowing requirement to central government debt

Miljarder kronor	2016	2017	2018	2019	2020
Net borrowing requirement (budget balance with opposite sign)	-85	-62	-80	-121	19
Business day adjustment etc.[1]	-7	4	37	-34	0
Net borrowing per business day	-92	-58	-43	-155	19
A. Nominal amount including money market assets	**1 261**	**1 203**	**1 160**	**1 006**	**1 025**
Inflation compensation	21	23	28	28	17
Exchange rate effects	40	11	26	32	22
B. Nominal amount to current exchange rate incl. inflation compensation	**1 321**	**1 237**	**1 215**	**1 065**	**1 064**
Assets under management	26	91	47	25	25
C. Central government debt	**1 347**	**1 328**	**1 262**	**1 090**	**1 089**
Assets under management	-26	-91	-47	-25	-25
On-lending	-263	-238	-259	-196	-196
D. Central government debt incl. on-lending and assets under management	**1 059**	**999**	**956**	**869**	**867**
Nominal GDP	4 372	4 565	4 778	4 965	5 096
C. Central government debt, % of GDP	**31**	**29**	**26**	**22**	**21**
D. Central government debt incl. on-lending and money market assets, % av BNP	**24**	**22**	**20**	**17**	**17**

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

Figure 7. Development of government debt



Different measures of government debt in statistics

There are different ways of measuring government debt. The Debt Office reports the *central government unconsolidated debt*. This measure shows central government gross debt and includes all loans raised by the Debt Office on behalf of central government, irrespective of who owns the claims on the central government. The debt is reported at its nominal terminal value according to the principles applied in the EU.

Some government agencies own government bonds and T-bills. This kind of intra-government ownership is deducted in the *central government consolidated debt*. That measure gives an overall picture of the financial position of central government and is used in the Government's budget bill and in the annual report for the central government. The consolidated debt is calculated by the Swedish National Financial Management Authority.

One debt measure often used in international comparisons is *general government consolidated gross debt*, which is also called the *Maastricht debt*. This debt covers the whole of the public sector, i.e. including municipalities, county councils and the pension system. Its calculation is based on conditions in the Maastricht Treaty. According to the EU's debt criterion the Maastricht debt must not exceed 60 per cent of GDP. The Maastricht debt is also the measure that is used in Sweden's budgetary framework and that forms the basis for the debt anchor of 35 per cent that the Parliament has decided will be in force as of 2019. General government consolidated gross debt is published by Statistics Sweden.

Market information

Table 1. Government bonds, auction dates

Announcement	Auction date	Settlement date
07-Aug-19	14-Aug-19	16-Aug-19
21-Aug-19	28-Aug-19	30-Aug-19
04-Sep-19	11-Sep-19	13-Sep-19
18-Sep-19	25-Sep-19	27-Sep-19
02-Oct-19	09-Oct-19	11-Oct-19
16-Oct-19	23-Oct-19	25-Oct-19
30-Oct-19	06-Nov-19	08-Nov-19
13-Nov-19	20-Nov-19	22-Nov-19
27-Nov-19	04-Dec-19	06-Dec-19
11-Dec-19	18-Dec-19	20-Dec-19
07-Aug-19	14-Aug-19	16-Aug-19

Table 2. Outstanding government bonds

Maturity date	Coupon %	Bond no.	SEK million
01-Dec-20	5.00	1047	96 054
01-Jun-22	3.50	1054	103 631
13-Nov-23	1.50	1057	82 885
12-May-25	2.50	1058	63 126
12-Nov-26	1.00	1059	59 164
12-May-28	0.75	1060	44 013
12-Nov-29	0.75	1061	38 650
01-Jun-32	2.25	1056	20 500
30-Mar-39	3.50	1053	45 250
Total government bonds			**553 273**

Rem.: Outstanding volume as of 31 May 2019.

Table 3. Inflation-linked bonds, auction dates

Announcement	Auction date	Settlement date
15-Aug-19	22-Aug-19	26-Aug-19
29-Aug-19	05-Sep-19	09-Sep-19
12-Sep-19	19-Sep-19	23-Sep-19
23-Aug-19	20-Sep-19*	24-Sep-19
23-Aug-19	23-Sep-19*	25-Sep-19
23-Aug-19	24-Sep-19*	26-Sep-19
26-Sep-19	03-Oct-19	07-Oct-19
10-Oct-19	17-Oct-19	21-Oct-19
07-Nov-19	14-Nov-19	18-Nov-19
18-Oct-19	15-Nov-19*	19-Nov-19
18-Oct-19	18-Nov-19*	20-Nov-19
18-Oct-19	19-Nov-19*	21-Nov-19
21-Nov-19	28-Nov-19	02-Dec-19
05-Dec-19	12-Dec-19	16-Dec-19

*Switch auction

Table 4. Outstanding inflation-linked bonds

Maturity date	Coupon %	Bond no.	SEK million
01-Dec-20	4.00	3102	32 805
01-Jun-22	0.25	3108	34 157
01-Jun-25	1.00	3109	26 545
01-Jun-26	0.125	3112	18 516
01-Dec-27	0.125	3113	13 651
01-Dec-28	3.50	3104	27 761
01-Jun-32	0.125	3111	16 938
Total inflation-linked bonds			**170 373**

Rem.: Outstanding volume as of 31 May 2019.

Table 5. T-bills, auction dates

Announcement	Auction date	Settlement date
03-Jul-19	10-Jul-19	12-Jul-19
31-Jul-19	07-Aug-19	09-Aug-19
28-Aug-19	04-Sep-19	06-Sep-19
25-Sep-19	02-Oct-19	04-Oct-19
06-Nov-19	13-Nov-19	15-Nov-19
04-Dec-19	11-Dec-19	13-Dec-19
30-Dec-19	08-Jan-20	10-Jan-20

Table 6. Outstanding T-bills

Maturity date	SEK million
19-Jun-19	5 000
17-Jul-19	5 000
21-Aug-19	5 000
18-Sep-19	5 000
Total T-bills	**20 000**

Rem.: Outstanding volume as of 31 May 2019.

Table 7. Rating

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

Table 8. Primary dealers

Primary dealer	Government bonds	Inflation-linked bonds	T-bills	Telephone no.
Barclays	•			+44 207 773 8379
Danske Markets	•	•	•	+46 8 568 808 44
Handelsbanken Markets	•	•	•	+46 8 463 46 50
NatWest Markets	•			+44 207 805 0363
Nordea Markets	•	•	•	+45 3333 1609
				+46 8 614 91 07
SEB	•	•	•	+46 8 506 231 51
Swedbank	•	•	•	+46 8 700 99 00

Contact

Göran Robertsson, Head of Debt Management, +46 8 613 46 06

Mattias Persson, Chief Economist, +46 8 613 46 99

Next report

The preliminary publishing date for *Central Government Borrowing – Forecast and Analysis 2019:3* is 23 October 2019.

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

RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Visit: Olof Palmes gata 17 | Postal: SE-103 74 Stockholm, Sweden | Phone: +46 8 613 45 00
E-mail: riksgalden@riksgalden.se | Web: riksgalden.se