



Central Government Borrowing

– Forecast and analysis 2018:1

21 February 2018

The Debt Office's assignment

Financial management for central government

- Banking services for the central government
- Managing central government debt
- Guarantees and loans

Financial stability

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



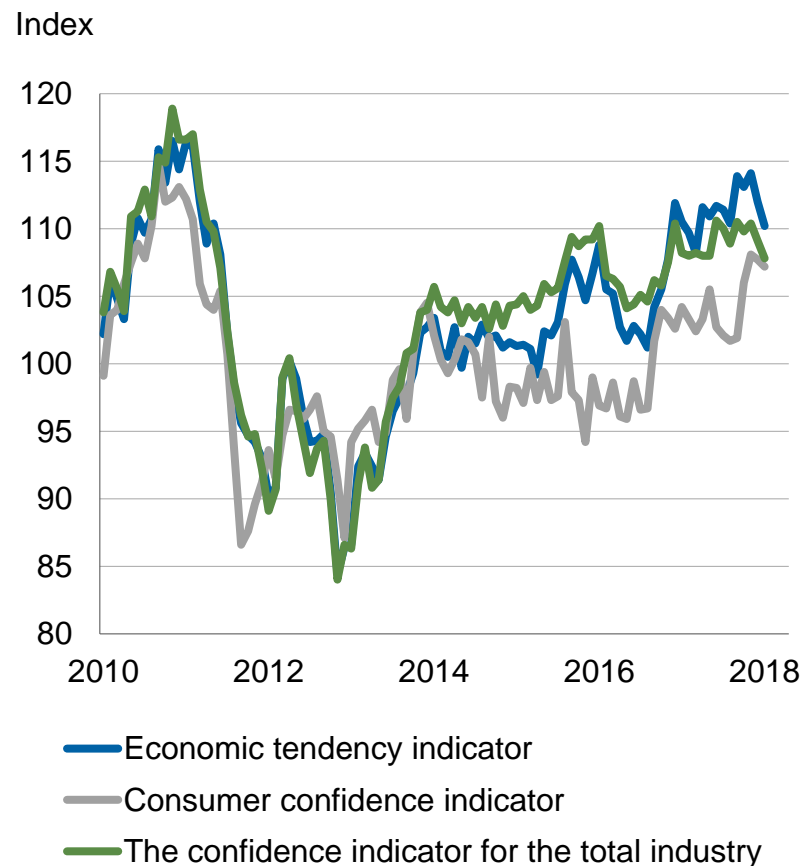
Larger budget surplus leads to lower bond issuance

- Strong Swedish economy close to cyclical peak
 - Minor revisions compared to previous forecast
- Larger budget surplus in 2018, but somewhat lower in 2019
 - Larger budget surplus in 2018 due to higher tax income and larger inflow of capital investments in tax accounts
 - Marginal revisions to the budget balance in 2019
- Lower borrowing requirement due to better than expected outcome and upward revision of the budget balance
- The SNDO assesses that the auction volume in nominal bonds reaches a lower bound under current circumstances
 - Lowered to SEK 1.5 billion
 - Repo facility more important than ever
- Government debt continue to decrease

Strong Swedish economy close to cyclical peak

- High GDP growth last year
- Confidence is high among households and companies
- Labour market is still strong
- Higher than expected international growth
- Capacity utilization is high

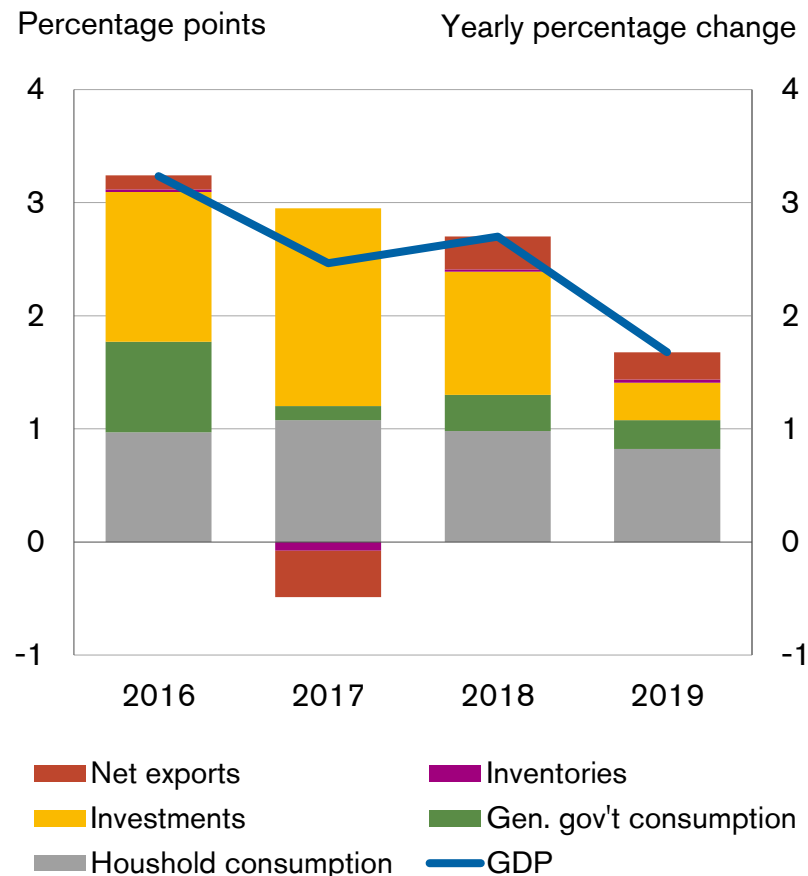
NIER's Economic Tendency Indicator



Growth dampens in the wake of strained resource utilization

- GDP continues to grow rapidly the coming two quarters
 - Exports has been revised up
 - Composition of investments has changed
 - Residential investment is expected to decrease in 2018 and 2019
- Lower residential investment and strained resource utilization causes growth to dampen in the second half of 2018

Contributions to GDP growth



The economic outlook

Summary and risks to the forecast

- Swedish economy continues to display strength
 - Recent outcomes in line with previous forecast
 - Indicators supports overall picture of continued solid growth over coming quarters
- Minor revisions compared to previous forecast
 - Marginal revisions to GDP, but some alteration of composition
 - Labour market forecasts practically unchanged
- Business cycle turning points hard to forecast
 - International growth may be stronger in the near term
 - Housing market developments important, especially for residential investment

Yearly percentage change	2017	Diff	2018	Diff	2019	Diff
GDP	2.5	-0.3	2.7	0.2	1.7	0.0
Labour force	2.0	0.1	1.2	-0.1	0.8	0.0
Employment	2.3	0.0	1.2	0.0	0.6	0.0
Unemployment	6.7	0.1	6.6	-0.1	6.8	0.0

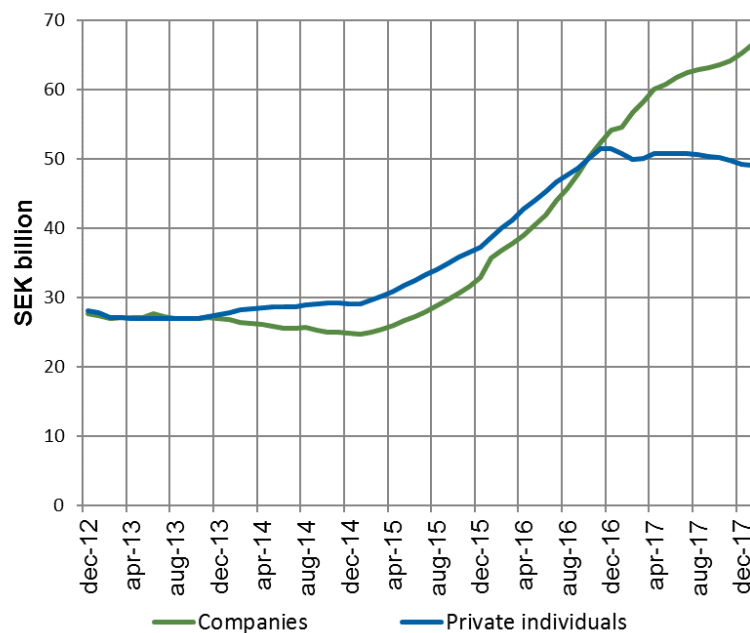
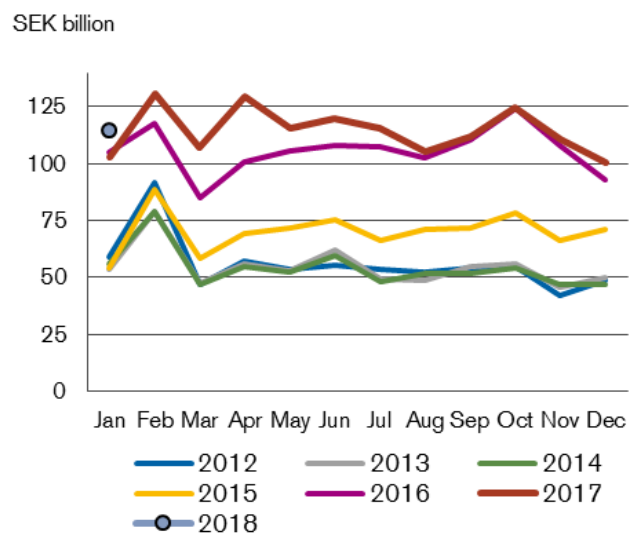
Budget balance

Forecast changes compared with October

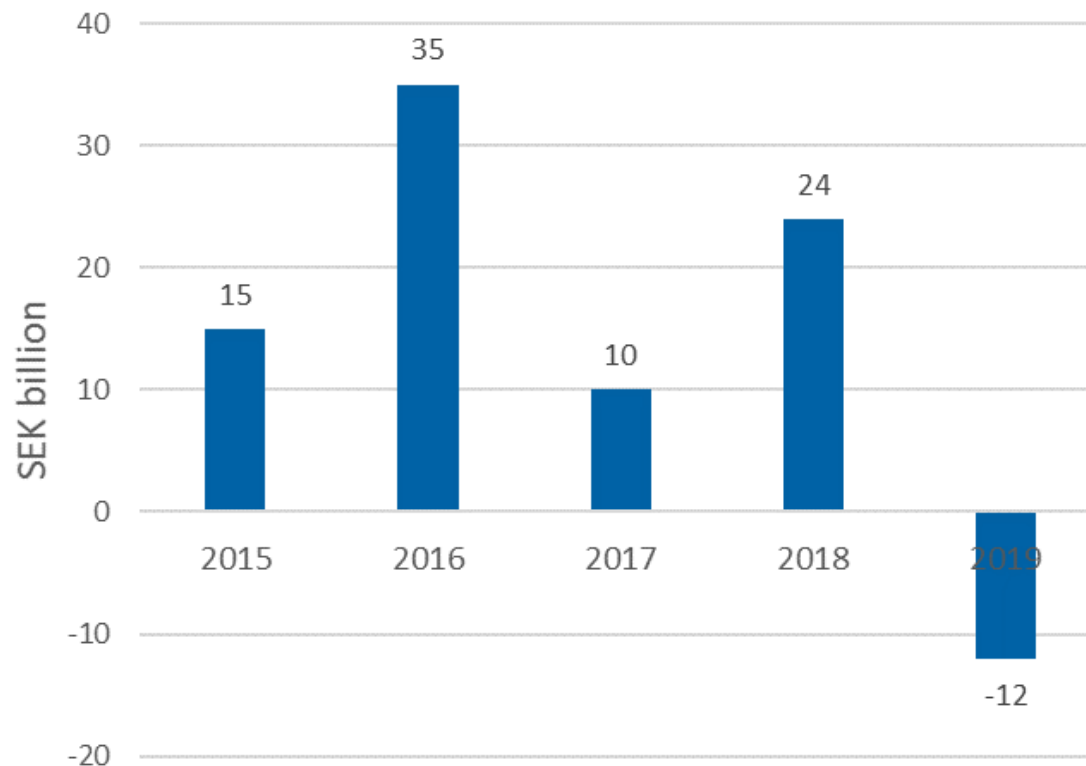
<i>SEK billion</i>	2018	2019
Forecast October 2017	47	55
Primary balance	31	-10
<i>Of which:</i>		
Tax income	30	-6
Dividends	2	3
Government grants to local governments	0	0
Labour market	-1	0
Social insurance	3	4
Migration	1	0
International aid	0	0
Other	-5	-11
SNDO Net lending	4	2
<i>Of which:</i>	0	0
On-lending	0	2
Interest payments	-1	-2
Forecast February 2018	80	45
<i>Sum of changes</i>	33	-10

Tax account balance

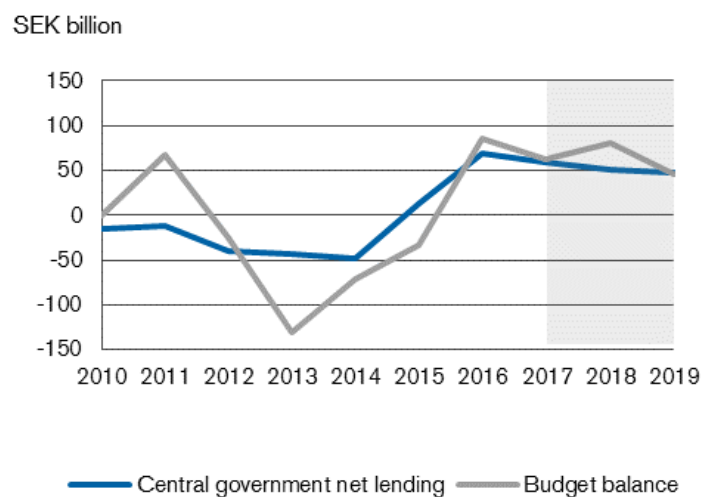
Total balance and moving 12-month average



SNDO assessment of capital investments in tax accounts



Central government net lending slowly decreases



<i>SEK billion</i>	2015	2016	2017	2018	2019
Budget balance	-33	85	62	80	45
Delimitations	29	36	-4	0	13
Sale of limited companies	0	0	-2	3	3
Extraordinary dividends	-9	-2	0	0	0
Parts of Debt Office's net lending	17	16	-2	3	3
Other delimitations etc.	21	22	-1	-6	8
Accruals	16	-52	2	-29	-11
Taxes	16	-41	2	-32	-15
Interest payments etc.	0	-12	1	3	4
Central government net lending	12	69	59	51	48
Per cent of GDP	0.3	1.6	1.3	1.1	1.0

Central government budget

Summary

- Larger surplus 2018 compared to previous forecast
 - Higher tax income
 - Larger inflow of capital investments in tax accounts
 - Higher dividends on state-owned shares
 - Sale of Apoteksgruppen AB
 - Lower expenditure on social insurance

- Marginally lower surplus 2019 compared to previous forecast
 - Out-flow from tax accounts
 - Decreasing household capital gains
 - Assumption of unfinanced fiscal reforms of SEK 15 billion (unchanged)

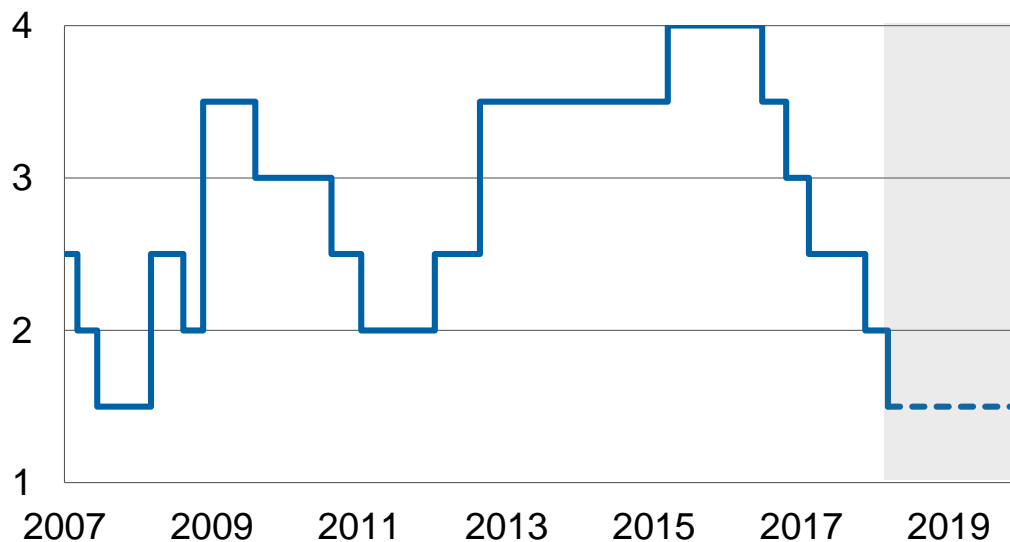
Lower borrowing requirement 2018–2019

- Borrowing requirement decreases compared to previous forecast
 - SEK 160 billion in 2018 (SEK 66 billion lower)
 - SEK 183 billion next year (SEK 50 billion lower)
- Reduction due to stronger budget outcome than expected in 2017 and raised forecast for 2018 budget surplus
- Borrowing adjusted by reduction in issuance volume of government bonds

Bond borrowing at lowest level since 2007

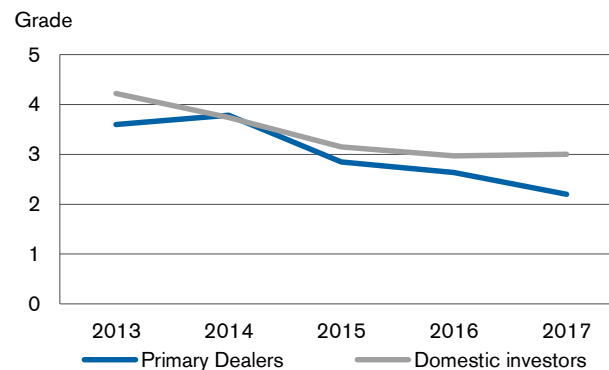
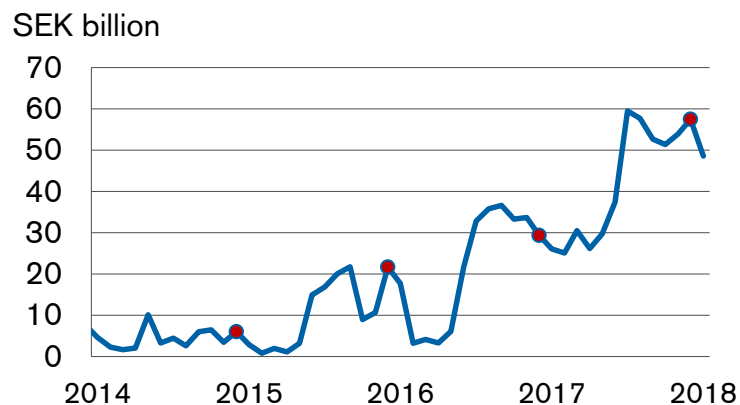
- Auction volume reduced from SEK 2.0 billion to SEK 1.5 billion
- Annual volume down from SEK 40 billion to SEK 30 billion
- Fifth reduction in two years

SEK billion



Unrestricted repo facility important to market

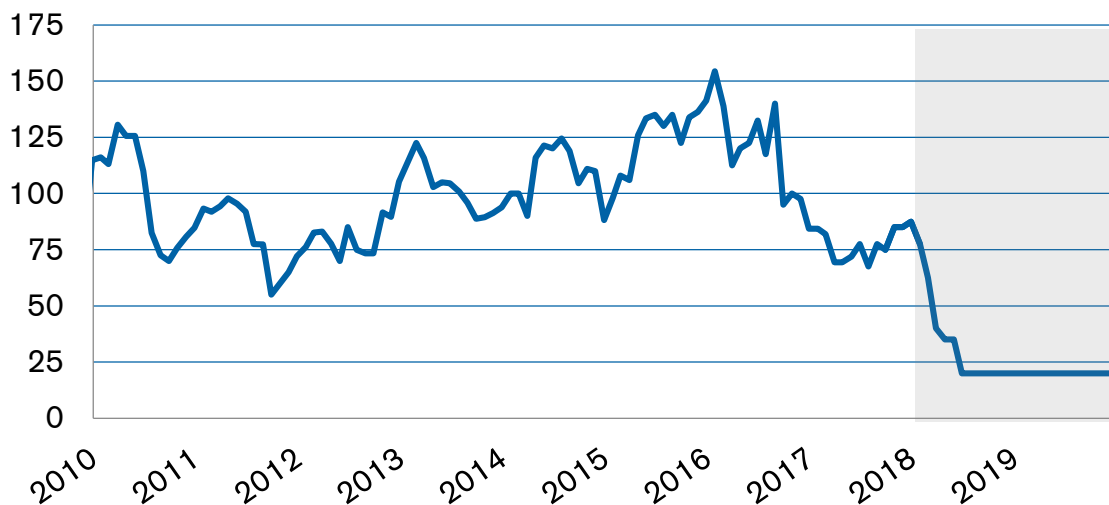
- Significant increase in demand for market-supporting repos
- Market makers and investors perceive that liquidity has deteriorated



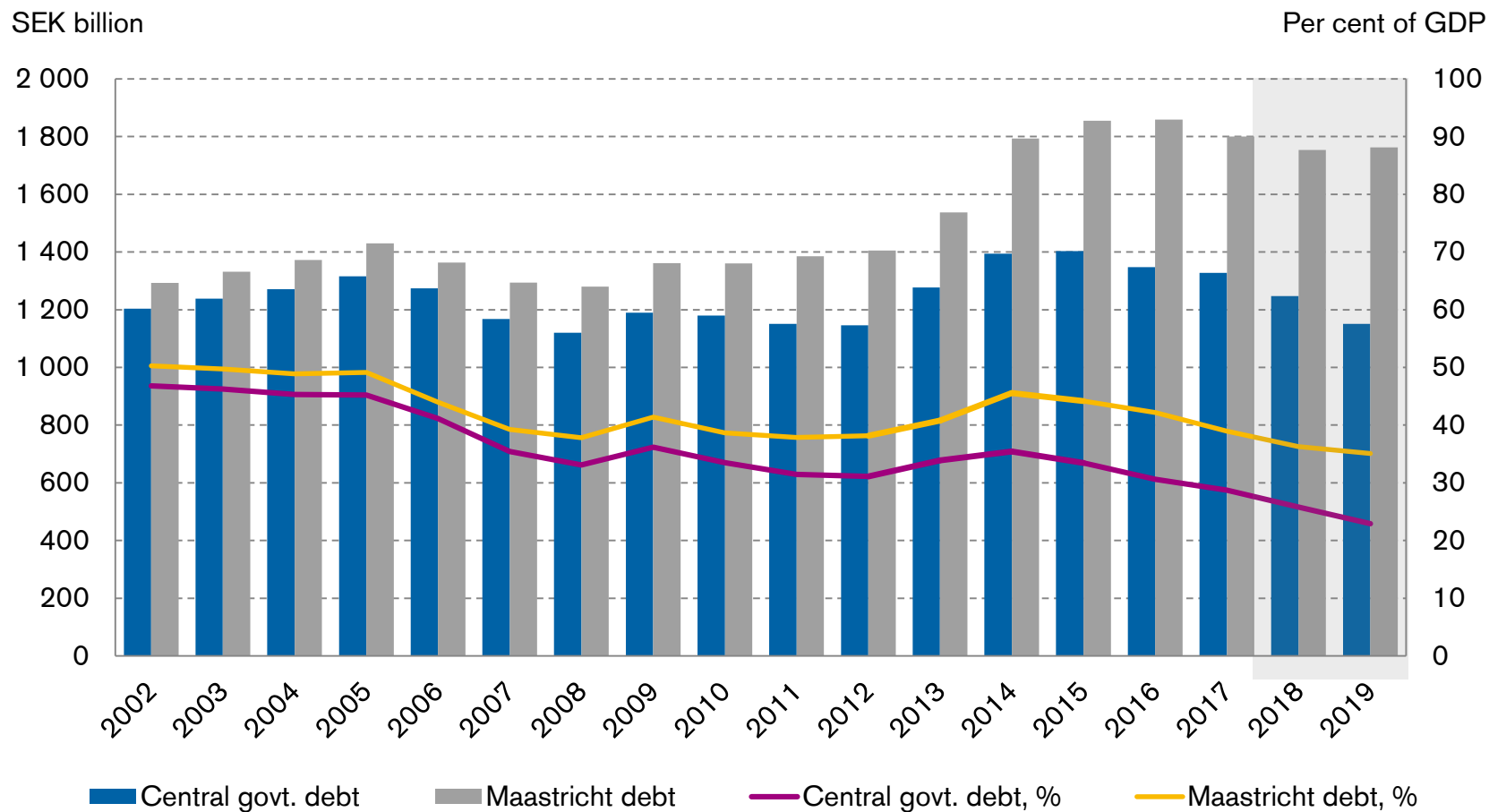
Borrowing in other instruments is unchanged

- Inflation-linked bond volume remains at SEK 8.5 billion a year
- Foreign currency government bonds only for the Riksbank
- Issuance of T-bills remains at a low level

T-bills, outstanding amount, SEK billion



Government debt continues to decrease



Extra slides

Excess cash in 2017–2019

- Excess cash for longer than usual
 - Stronger outcome than expected in 2017
 - Larger budget surplus in new forecast
- Government debt decreases at a slower pace than the budget balance strengthens in the short run because liquidity management assets are not deducted from the debt
- Excess cash to decrease in the long run, leading to more rapidly falling government debt

Borrowing requirement, total

<i>SEK billion</i>	2017	2018	2019
Net borrowing requirement	-62	-80	-45
Business day adjustment etc. ¹	4	2	1
Retail borrowing & collateral, net ²	14	9	6
Money market redemptions ³	144	122	15
T-bills	84	88	20
Liquidity management	60	35	-5
Bond redemptions, net switches and buy-backs	145	106	206
Government bonds	69	5	99
Inflation-linked bonds	15	0	21
Foreign currency bonds ⁴	62	101	87
Total gross funding requirement	246	160	183

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

² Net change in retail borrowing and collateral.

³ Initial stock maturing within 12 months. Commercial paper is included in Liquidity management.

⁴ Calculated with the original issuance exchange rate.

Funding in new forecast

	2017	2018		2019	
<i>SEK billion</i>	<i>Outcome</i>	<i>Feb</i>	<i>(Oct)</i>	<i>Feb</i>	<i>(Oct)</i>
Money market funding ¹	122	15	(75)	83	(121)
T-bills	88	20	(20)	20	(20)
Liquidity management ²	35	-5	(55)	63	(101)
Bond funding	124	145	(150)	99	(112)
Government bonds	51	32	(40)	30	(40)
Inflation-linked bonds	12	9	(9)	9	(9)
Foreign currency bonds	61	105	(102)	61	(63)
<i>Central Government</i>	0	0	(0)	0	(0)
<i>on behalf of the Riksbank</i>	61	105	(102)	61	(63)
Total gross funding	246	160	(226)	183	(233)

¹ Outstanding stock as at year-end.

² Commercial paper is included in Liquidity management.