



Central Government Borrowing Forecast and Analysis 2007:1

CENTRAL GOVERNMENT BORROWING REQUIREMENT

Annual forecast for 2007	1
Annual forecast for 2008	2
Comparisons	4
Monthly forecasts	4
Central government debt	4

NEWS

Strong economic growth and increased surplus in 2006	11
The Debt Office scores higher	14

FUNDING

The funding requirement	6
Nominal krona borrowing	6
Inflation-linked borrowing	8
Foreign currency borrowing	9
Summary	10

MARKET INFORMATION

Swedish government debt	17
Financial market	20
Swedish economy	21
Primary dealers	21

Decrease in central government debt

Central government finances continue to strengthen. We now estimate this year's budget surplus at SEK 112 billion mainly due to larger tax revenue and smaller payments to local authorities. We have then assumed that income from privatisation will be in line with the Government's assessment in the Budget Bill, SEK 50 billion. The new forecast will mean an improvement of SEK 30 billion compared with our forecast in November 2006.

We anticipate that the level of economic activity will slacken somewhat during 2008 with a reduction in tax revenue from corporate profits and household capital gains. The wages bill will rise sharply due to the improvement of the labour market and payments of taxes to local authorities will accordingly increase. We have also assumed, in the light of the development of the economy, that the Government will carry out the further income tax cuts that have been announced. All in all, this means that we estimate a budget surplus of SEK 82 billion next year (including the privatisation income of SEK 50 billion calculated by the Government for this year).

The budget surpluses will lead to a reduction in central government debt. On the basis of our forecast, it will fall this year from SEK 1,270 billion to SEK 1,146 billion and next year to SEK 1,065 billion. As a proportion of GDP, this corresponds to 38 and 34 per cent respectively.

The budget surpluses mean that the state receives more than is needed to redeem old maturing loans. We will thus have a negative gross borrowing requirement. This will naturally affect borrowing in all types of debt, although in the first place, borrowing in T-bills will be reduced. Bond borrowing will be affected to a smaller extent. The issue volume in nominal bonds will be SEK 2 billion per auction from March.

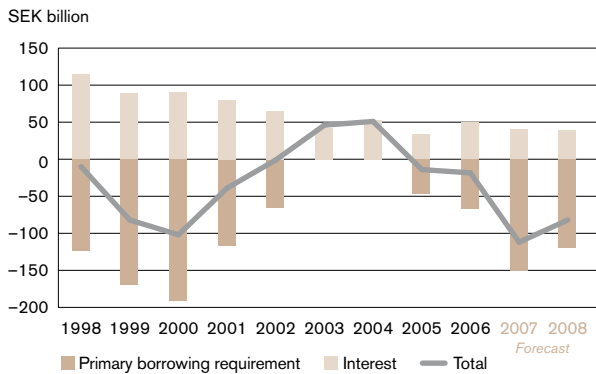
The articles in this report review the past year and provide a summary of the study of investors and dealers performed by Prospera on our behalf. It is gratifying that the assessments received by the Debt Office have been very positive. We will, of course, endeavour to continue to live up to these high expectations.

*Bo Lundgren
Director General
Swedish National Debt Office*

Central government borrowing requirement

The Swedish economy is in a robust growth phase and central government finances have strengthened further compared with our previous forecast. In 2007, we estimate a budget surplus of SEK 112 billion, i.e. a negative borrowing requirement. This strengthening compared with the November forecast is largely due to increased tax revenue. Next year, the level of economic activity is expected to continue to be high, even if some slackening will lead to the surplus decreasing to SEK 82 billion. These forecasts include sales income of SEK 50 billion per year. The expected sales income means that the forecast uncertainty is larger than usual. Central government debt decreases to SEK 1,146 billion at the end of 2007 and to SEK 1,065 billion at the end of 2008. This corresponds to around 38 and 34 per cent as a share of GDP. Central government financial net lending, which is not affected by sales income, is expected to total around SEK 50 billion both years.

Figure 1. Central government borrowing requirement 1998–2008



ANNUAL FORECAST FOR 2007

We expect that the positive development for central government finances at the end of 2006 will continue during 2007. We expect a borrowing requirement of SEK –112 billion in 2007 (i.e. a budget surplus). This is a strengthening of SEK 30 billion compared with our previous forecast. Sales income of SEK 50 billion is included in the forecast, as last time.

Table 1. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT AND CENTRAL GOVERNMENT DEBT 2006–2008

SEK billion	2006	Forecast 2007	Forecast 2008
Primary borrowing requirement	-68	-152	-120
Interest on central government debt	49	40	39
Borrowing requirement, net	-18	-112	-82
Debt adjustments			
Revaluation, currency loan	-23	2	0
Short-term investments	4	-26	0
Change in central government debt	-39	-124	-82
Debt at year-end	1,270	1,146	1,065

The primary borrowing requirement

We are revising downwards the primary borrowing requirement (all state payments excluding interest on central government debt) by SEK 28 billion, from SEK –124 to –152 billion compared with the forecast in November (the surplus increases). See Table 2.

The level of economic activity is developing even more strongly than at the time of the previous forecast. Important tax bases such as the wages bill and household consumption have been further revised upwards, and are expected to reach rates of increase that have not been seen since the years around the turn of the century.

Employment is expected to rise by around two per cent in 2007 and by one per cent in 2008. However, open unemployment will not decrease at the same rate, since the supply of labour increases at the same time and fewer people will take part in labour market programmes. The improvement in the labour market together with tax cuts leads to a strong increase in household disposable income.

Table 2. PRIMARY BORROWING REQUIREMENT 2007, CHANGE FROM PREVIOUS FORECAST *

SEK billion	
Taxes, net	-15
Payments to local authorities	-7
Dividend on state owned shares	-3
National Labour Market Board (AMS)	-2
Net lending	-2
Other	1
Total	-28

* The amounts state the effect on the borrowing requirement. Thus, for instance, "Taxes -15" means that income is estimated to be higher.

Tax revenue increases by SEK 15 billion kronor compared with the previous forecast. The largest part consists of wage and consumption-based taxes. In addition, we consider that

Swedish corporate profits will be somewhat larger than previously calculated, in particular for the income year 2006. This means that companies are expected to make larger supplementary tax payments for 2006, at the same time as preliminary tax for 2007 increases.

As the accounts for state-owned companies become available, we can note that profits are also increasing for these companies. This will lead to an increase in dividends on the state's shares compared with the previous forecast. In particular, dividends will increase from Vattenfall AB and Telia-Sonera AB.

Payments to local authorities will decrease by SEK 7 billion compared with the previous estimate. The final settlement of local government taxes for 2005 was slightly more favourable for the central government, at the same time as advance payment for this year was lower than estimated. Furthermore, repayments of value-added tax are expected to be lower.

Due to the stronger development of employment, disbursements from the National Labour Market Board are expected to decrease by SEK 2 billion.

The Debt Office's net lending to central government agencies, public enterprises and state-owned companies is estimated at SEK 9 billion, which is SEK 2 billion less

than in the preceding forecast, which is due to the agencies making larger amortisations than estimated at the beginning of the year.

Interest payments on the central government debt

Interest payments are expected to be SEK 40 billion, which is a reduction of SEK 2 billion compared with the November forecast. This is due to smaller capital losses in the foreign currency debt than we previously estimated.

ANNUAL FORECAST FOR 2008

The Debt Office's first forecast for the borrowing requirement for 2008 is SEK –82 billion. The forecast includes SEK 50 billion in sales income. The level of economic activity is expected to continue to be strong, although there will be some slackening compared with 2007. We expect that the strong development of tax on capital (mainly tax on household's capital gains and tax on corporate profits) which we have seen in recent years will slacken. Moreover, we expect that the Government will carry out further tax cuts, probably in the form of an expanded "job tax deduction". At the same time, the sharp rise in the wages bill will lead to a marked increase in payments of local government tax from the central government to the local government sector. All in all, this means an increase in the borrowing requirement (a decrease in the budget surplus) compared with 2007.

SALES OF STATE ASSETS

In our previous forecast, we assumed income from privatisation of SEK 50 billion for 2007. This was because the Government announced in the Budget Bill that it intended to sell state assets for SEK 50 billion per year from 2007 to 2009. Sales income shall be used to amortise the central government debt.

No new information has been received, which leads to change our assessment for 2007. We make the same assessment for 2008 and assume SEK 50 billion in sales income that year as well. The Debt Office has no additional information on the sales process than that generally available. Our assessment is therefore as uncertain as anyone else's.

For us, it is of no significance which companies are sold. The difficulty lies in dealing with the uncertainty

about the size of the amounts and when these are expected to be received. The shorter the planning horizon, the more difficult it becomes to plan central government debt management. The uncertainty is, of course, substantial and we may have to make large revisions of our forecast due to the sales income. Beside the uncertainty around the time of sales, the amounts in a particular calendar year may differ considerably from SEK 50 billion.

As regards the monthly forecast for 2007, we assume that it is more probable that sales will take place during the second half of the year than the first since the sales process can take time. We have therefore allocated the income between September and December 2007. However, it is fully possible that it will be 2008 before any income is received by the state.

The primary borrowing requirement

The primary borrowing requirement (all payments excluding interest on central government debt) is expected to be SEK –120 billion. Compared with 2007, this is a weakening of SEK 32 billion. This is largely due to a slackening of the strong increase in tax revenue.

Taxes on capital are very sensitive to the business cycle and the amount of tax revenue has varied greatly historically. It is therefore very difficult to forecast capital taxes. Corporate profits and household capital gains have developed very strongly in recent years. Central government income from these taxes has risen every year since 2002. We now make the assessment that the development of profits will slow down during 2007, and decrease in 2008. Accordingly, central government income from capital taxes will be lower than in 2006 and 2007, even if it continues to be at a historically high level.

Dividends on the state's shares are expected to fall back slightly compared with the very high levels in 2007. The size of the state's income from share dividends also depends on how the planned sales of the share portfolio develop.

We expect the Government to carry out the increase of the "job tax deduction" announced in the Budget Bill. This corresponds to a tax cut of around SEK 8 billion for 2008. Furthermore, the cuts in wealth and property taxes introduced from 1 January 2007 will have a cash effect first during 2008.

A further important explanation for the increased borrow-

ing requirement in 2008 is that we expect that payments of taxes to local authorities will rise more between these years. The strong development of employment with a sharp increase in the wages bill means that the local government tax base is growing more quickly than previously estimated. This means that the advance payment to the local government sector will be larger. Moreover, we make the assessment that the advance payment for 2006 was based on a forecast for the wages bill that was too low. The unexpectedly strong development in 2006 means that the local authorities will be compensated by a positive final settlement in 2008.

The Debt Office's net lending to central government agencies, public enterprises and state-owned companies is estimated at SEK 11 billion.

Interest payments on the central government debt

Interest payments are expected to be SEK 39 billion, which is SEK 1 billion lower than in 2007. Central government debt is decreasing during the forecast period, which leads to a fall in interest payments. This is counteracted by a rise in market rates, and that the interest rate on new loans is no longer on average below the rate on maturing loans. Interest payments are also affected by different price effects depending on how the Debt Office borrows and how exchange and interest rates develop. If central government debt stabilises at the forecast level at the end of the period and interest rate levels remain approximately at their existing level, interest payments will continue to be below SEK 40 billion per year. As late as 2000, interest payments were around SEK 90 billion.

CONDITIONS UNDERLYING THE FORECAST

The forecast is based on the expenditure frameworks and tax rules adopted in the budget and spring fiscal policy bills.

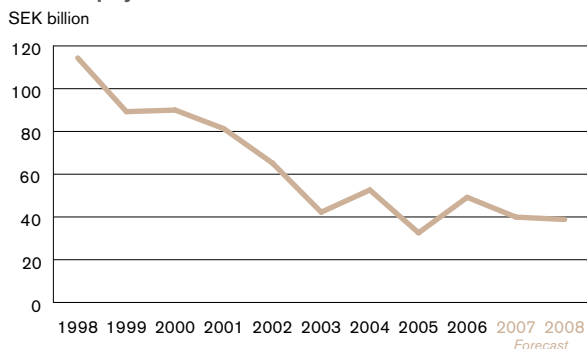
In the areas where the forecast for the borrowing requirement requires macroeconomic assessments, the Debt Office bases itself on the National Institute of Economic Research's (NIER) macro scenario. In this forecast, we are using the macro scenario presented by NIER in December 2006.

The level of economic activity continues to be high. NIER estimates GDP growth of 3.6 per cent this year and 3.2 per cent in 2008. The improvement in the

labour market is continuing, which can be seen in the statistics on increased employment. In combination with a rising rate of wage increases, the improved employment means that the wages bill is expected to rise by over 6 per cent this year and by 5 per cent next year. Household consumption is also expected to increase while investment will remain at a high level.

The Debt Office's forecast for interest payments on central government debt is based on the interest rates and exchange rates current at the time of the forecast. The stop date for the current forecast was 31 January 2007. We have also weighed in the outcome of the borrowing requirement until the end of January.

Figure 2.

Interest payments 1998–2008**COMPARISONS****Central government financial net lending compared with the budget balance**

According to our estimates, financial net lending will amount to SEK 45 billion in 2007. The expected sales of state assets do not affect financial net lending, which is the main explanation for the difference in relation to the budget balance. There will be a further slight rise in financial net lending in 2008 to SEK 52 billion, despite a weakening of the budget balance by SEK 30 billion. This is explained by the accrual of taxes, which increases financial net lending in 2008, but decreases it in 2007. This accrual means that tax revenue is added to the income year it is attributable to instead of the year in which the tax has been paid in.

Table 3. CENTRAL GOVERNMENT NET FINANCIAL LENDING 2004–2008

SEK billion	2004	2005	Forecast 2006	Forecast 2007	Forecast 2008
Budget balance	-51	14	18	112	82
Adjustment items	37	-8	-10	-67	-30
Sale of limited companies	0	-7	0	-50	-50
Transfer from National Pension Insurance Fund	-4	-2	0	0	0
Lending, net repayment	15	6	-1	1	3
Capital and currency losses	19	-3	12	0	1
Accruals, other	7	-2	-21	-18	17
Net financial lending	-14	7	9	45	52

Comparisons with other forecasts of the borrowing requirement

The Debt Office's forecast for the current year is a borrowing requirement of SEK -112 billion this year and a borrowing requirement of SEK -82 billion in 2008. The borrowing requirements for both 2007 and 2008 are lower than estimated by other forecasters.

The Debt Office's and the Government's forecasts include sales income of SEK 50 billion for both 2007 and 2008. Even adjusted for different assumptions about sales income and interest, we estimate a lower borrowing requirement than other forecasters.

Table 4. COMPARISON BETWEEN BORROWING REQUIREMENT FORECASTS

SEK billion	Debt Office		Government		NIER		ESV**	
	07	08	07	08	07	08	07	08
Primary borrowing requirement	-152	-120	-106	-103	-65	-59	-86	-59
Interest on central government debt	40	39	43	41	45	43	45	41
Borrowing requirement	-112	-82	-63	-62	-20	-16	-41	-18
Borrowing requirement adjusted for interest rates*	-112	-82	-67	-65	-75	-70	-96	-71

* Forecasts by other agencies with the Debt Office's forecast of sales income and interest rates on central government debt.

** ESV = National Financial Management Authority.

MONTHLY FORECASTS

The Debt Office publishes annual forecasts three times a year. Between regular forecasts, the Debt Office only makes revisions of the annual and monthly forecasts in exceptional cases. The revised forecast is then presented at the same time as the announcement of the outcome of the monthly borrowing requirement five working days after the end of each month.

The forecast for the borrowing requirement in February 2007 is SEK -38.2 billion. This is SEK 5.6 billion lower compared with the previous forecast. This change can be explained by our estimating larger incoming tax payments than previously. The large surplus in May can be explained by expected dividends from state-owned companies, such as Telia-Sonera.

Table 5. CENTRAL GOVERNMENT BORROWING PER MONTH

SEK billion	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Primary borrowing requirement	-39.5	-4.0	-15.9	-46.2	3.3	-8.4	-3.6	-14.1	-10.4
Interest on central government debt	1.3	4.4	0.7	7.4	1.4	1.0	6.6	1.0	1.1
Borrowing requirement	-38.2	0.4	-15.2	-38.9	4.7	-7.4	3.0	-13.1	-9.3

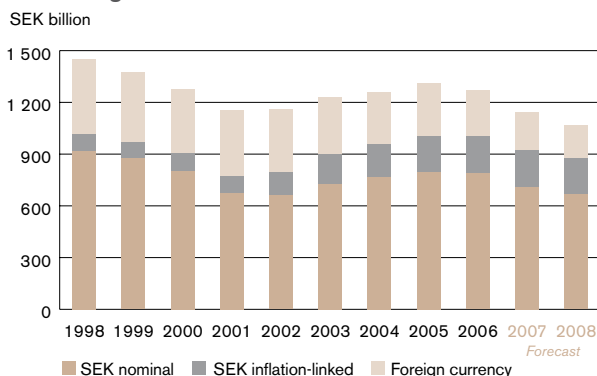
CENTRAL GOVERNMENT DEBT

At the end of January 2007, central government debt amounted to SEK 1,249 billion. This is a reduction since the end of the year of SEK 21 billion. Central government

debt is affected by the net borrowing requirement, short-term investments and debt dispositions. The Debt Office makes no forecasts of debt dispositions or short-term investments and central government debt is accordingly expected to change to the same extent as the borrowing requirement.

At the end of 2007, central government debt is expected to amount to SEK 1,146 billion and at the end of 2008 to SEK 1,065 billion. This is equivalent to around 38 and 34 per cent respectively as a percentage of GDP.

Figure 3.
Swedish government debt 1998–2008



SENSITIVITY ANALYSIS

All forecasts include elements of uncertainty. The Debt Office does not produce any overall uncertainty analysis for the borrowing requirement. Instead we present a partial analysis of the effects that some important macro variables have on the borrowing requirement if they change, roughly estimated one year ahead. If one wishes to make an assessment of an alternative scenario, where a number of variables develop differently, these effects must be added.

SENSITIVITY ANALYSIS

SEK billion

Increase by one per cent/
percentage point

Effect on the borrowing requirement

Wages bill ¹	-5
Household consumption, current prices	-2
Open unemployment	4
Interest rate level in Sweden	4
International interest rates	1
Exchange rate	0.5

¹ Local taxes from employment are disbursed to local government with a one-year time lag. As a result, the effect on the central government borrowing requirement in a one-year time perspective – the time horizon in the table – is greater than the permanent effect.

Funding

The issue volume of nominal government bonds is being reduced to SEK 2 billion per auction from March 2007. As far as we are able to judge at present, this issue volume can be maintained in 2008. Borrowing in inflation-linked bonds will continue at an annual rate of SEK 5–10 billion. The Debt Office is amortising the foreign currency debt at an annual amortisation pace of SEK 40 billion. Foreign currency borrowing is estimated at SEK 10 billion in 2007.

THE FUNDING REQUIREMENT

The net borrowing requirement is estimated at SEK –112 and SEK –82 billion (budget surplus) for 2007 and 2008 respectively. Compared with the forecast from November, the budget forecast will be SEK 30 billion larger in 2007. The most important explanation is that we are expecting larger tax revenue than we did at the time of our last forecast.

Compared with 2006, the surplus is expected to increase by SEK 94 billion. A large part of this increase is due to income from sale of state assets. The forecast thus depends to a great extent on sales income that is uncertain both as regards the amount and the timing. Our starting point and ambition is to avoid any forecast deviations leading to abrupt changes in borrowing; neither in our loan policy nor in our bond borrowing.

Table 1. FUNDING 2006–2008

SEK billion	2006	2007	2008
Net borrowing requirement	–18	–112	–82
Change in cash equivalent holdings and retail market borrowing ¹	–38	7	–13
Maturing bonds and buybacks ²	70	73	57
Government bonds	36	57	30
Foreign currency bonds	34	16	27
Total	13	–33	–38
T-bill borrowing, net ³	–78	–95	–94
Bond borrowing, gross ⁴	91	62	56
Foreign currency bonds	20	7	7
Inflation-linked bonds ⁵	7	7	7
Nominal government bonds ⁶	64	48	42
Funding in government securities	13	–33	–38

¹ Change in outstanding deposits, liquidity bills and repos. Retail market borrowing is assumed to be unchanged in 2007 and 2008.

² No buybacks are planned in 2007 and 2008 beside buybacks in connection with exchanges.

³ Net of issues (excluding exchanges) and maturities.

⁴ Nominal amounts. Premiums and discounts (including inflation compensation) and exchange rate differences are included in interest rate payments in the net borrowing requirement.

⁵ Issue volume per auction, average.

⁶ Issue volume per auction, average.

The Debt Office also needs to obtain funding for maturing loans. During the next two years, the budget surplus is expected to be larger than maturing bond loans, resulting in a negative gross borrowing requirement. To maintain the maturity of the debt, we will continue to issue a relative large number of bonds. This means that we have to make a relatively large reduction in T-bill borrowing.

Table 1 shows an assessment of the allocation of funding between bonds and T-bills as well as the allocation of bond borrowing between nominal government bonds, inflation-linked bonds and foreign currency bonds.

Table 2. IMPORTANT DATES 2007

Date	Time	Activity
1 March	11.00	Final exchange of 3001
27 March	09.30	Press release on exchange of loan 1040
29 March	11.00	Exchange of 3101
7-10 May	16.30	Exchanges of loan 1040 for T-bills
24 May	11.00	Exchange of 3101
18 June	09.30	<i>Central Government Borrowing – Forecast and Analysis 2007:2</i>
23 August	11.00	Final exchange of 3101
4 September	09.30	Press release on exchanges to loan 1052
24 October	09.30	<i>Central Government Borrowing – Forecast and Analysis 2007:3</i>
14 November	16.20	Conditions and coupon fixing for loan 1052
21 November	11.00	First issue of loan 1052
22-27 November	11.00	Exchanges to 1052

NOMINAL KRONA BORROWING

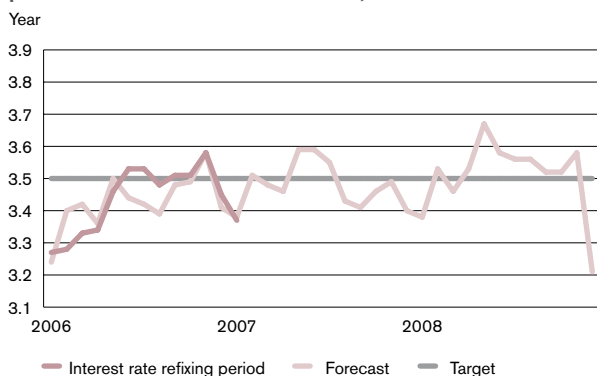
Nominal government bonds

Issue volume reduced to SEK 2 billion

The issue volume in government bonds is being reduced from SEK 2.5 to 2 billion from the auction on 7 March 2007. This is in light of the reduced borrowing requirement. We expect that it will be possible to retain this issue volume for the rest of the year and during 2008. In 2008, however, we expect to reduce the number of issue dates to 21, compared with 23 in 2007. This reduction aims to reduce bond borrowing without having to reduce the issue

volume at auctions. Our forecast for the interest rate refixing period is shown in Figure 1. The interest rate refixing period is calculated at 3.5 years on average during 2007 and 2008. The maturity is at present well in line with our forecast from November.

Figure 1.
Forecast and outcome for the interest rate refixing period of the nominal krona debt, 2006–2008



The target for interest rate refixing period in the nominal krona debt is 3.5 ± 0.3 years. The monthly outcome is published on the fifth bank day each month in the press release on the outcome of the central government borrowing requirement.

As shown in Table 3, the reduced bond borrowing entails that the outstanding volume of nominal government bonds will decrease in the next two years.¹ The table also presents the exposure in bond rates, taking into consideration planned swaps. These are discussed in more detail in the sections on T-bills and currency borrowing.

Table 3. CHANGE IN OUTSTANDING GOVERNMENT BONDS, NET INCLUDING SWAPS

SEK billion	2006	2007	2008
Nominal government bonds, issues	64	48	42
Maturities, buybacks and exchanges	-81	-84	-116
Change in nominal government bond stock	-17	-36	-74
Swaps, net	-11	18	1
Nominal government bonds and swaps, Net change	-27	-17	-74

New ten-year bond in November 2007

The next ten-year bond, loan 1052, will be introduced on 21 November 2007 and mature on 12 March 2019. There will be an opportunity to exchange previously issued government bonds for this loan during the following five bank days. The new loan will be a ten-year reference loan in the electronic interbank market on the third Wednesday of March 2008.²

Thereafter no new ten-year loan will be introduced before 2010 at the earliest since the outstanding loan 1047 will be a new ten-year reference loan in 2009.

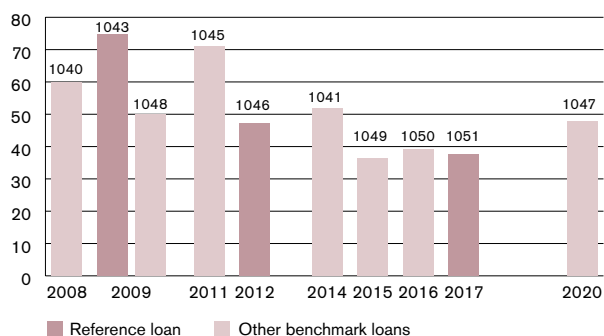
We expect to be able to continue to issue reference loans with two, five and ten-year maturities. About half of the issues will be made in the ten-year loan. We expect to make a few issues in the two and fourteen-year maturities and the remainder in the five-year segment.³

Table 4. REFERENCE LOANS IN THE ELECTRONIC INTERBANK MARKET *

Date for exchanges of reference loans (IMM-date)	2-year	5-year	10-year
Today	1043	1046	1051
21 March 2007			
20 June 2007	1048		
19 September 2007			
19 December 2007			
19 March 2008			1052
18 June 2008		1041	

* The above dates for change of reference loans refer to the settlement date. The first transaction date for a new reference loan is normally the Friday before the IMM date.

Figure 2.
Nominal government bonds (benchmark loans)
SEK billion



T-bills and interest rate swaps

Reduced borrowing in T-bills

Funding in T-bills is expected to decrease by SEK 17 billion in 2007 compared with 2006 and then to be largely unchanged during 2008. The outstanding stock is expected to decrease by around SEK 50 billion in 2007 after having decreased by SEK 34 billion in 2006.

¹ Information about outstanding stocks in the different types of debt is published in the Debt Office's monthly report The Swedish Central Government Debt.

² The choice of reference loan in the electronic trade is determined by the loans that are closest in maturity to two, five or ten years. Reference loans are only changed, however, on IMM dates (the third Wednesday in March, June, September and December) with the criteria that the loans in terms of maturity shall be closest to two, five or ten years on the following IMM date. In this way, an underlying loan in the forward contracts will always be the same as a reference loan during the last three months of the contract.

³ See the fact box about our issue decisions in Central Government Borrowing – Forecast and Analysis 2005:3.

TABLE 5. CHANGE IN OUTSTANDING T-BILLS, NET INCLUDING INTEREST-RATE SWAPS

SEK billion	2006	2007	2008
T-bill borrowing, net *	-78	-95	-94
Exchanges of government bonds to T-bills	44	43	98
Change in T-bill stock	-34	-51	4
Interest rate swaps, net	9	16	21
T-bill stock and swaps, Net change	-25	-35	25

* Net of issues (excluding exchanges) and maturities.

During the past five years, the T-bill stock has fluctuated around slightly more than SEK 250 billion. In 2007, we expect the stock to be at least SEK 200 billion. If we continue to have large surpluses in central government finances in the coming years, the T-bill stock will continue to decrease. It will then be more difficult to maintain the current policy of at least six outstanding T-bills with satisfactory quality. Already in 2007, some auctions will be relatively small and their contribution to liquidity will therefore be limited. A change in our borrowing policy is not currently under consideration although we wish already now to indicate that this may eventually be necessary. A change in the policy will in this case be preceded by a dialogue with the market.

SEK 30 billion in swaps

The Debt Office can also create short-term borrowing by issuing bonds and then using interest rate swaps to shorten the time to maturity. Provided that the difference between the swap rate and the government bond rate is sufficiently large, this borrowing technique will also reduce the central government funding costs. This technique also makes it possible to provide more liquidity to the bond market without increasing the total time to maturity of the debt. Good liquidity in the bond market should also contribute to reducing borrowing costs.

During 2007 and 2008, about SEK 30 and SEK 40 billion respectively of bond borrowing will be swapped for short interest-rate exposure in kronor or foreign currency. Interest rate swaps can also be used as part of the foreign currency borrowing. An interest rate swap will then be combined with a currency swap in such a way that the exposure in kronor is replaced by exposure in foreign currency. See footnote 5.

The outstanding stock of swaps is expected to decrease slightly in 2007 due to a larger volume of maturing swaps compared with previous years.

If market conditions change, the actual swap volume can deviate from the forecast. Swaps will continue to be made at a relatively even pace during the year.

Table 6. CHANGE IN OUTSTANDING SWAPS

SEK billion	2006	2007	2008
Interest rate swaps *	11	27	37
Currency swaps **	23	3	3
Swaps total	34	30	40
Swaps, maturities	-24	-48	-41
Swaps, Net change	11	-18	-1

* Interest rate swaps from long to short interest rate exposure in SEK.

** Interest rate swaps from long to short interest rate exposure combined with currency swaps to foreign currency.

INFLATION-LINKED BORROWING

Unchanged issue volume of SEK 5–10 billion

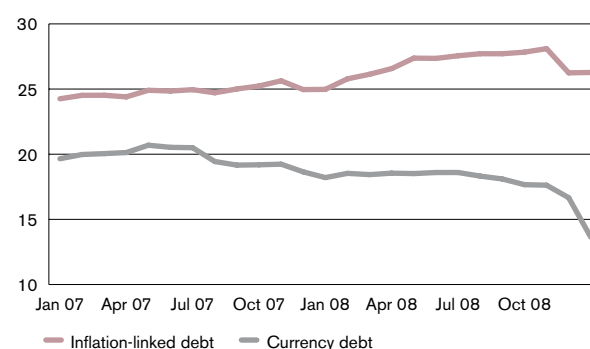
During 2006 we have issued SEK 7 billion in inflation-linked bonds. The share of the inflation-linked debt is at present around 24 per cent of the central government debt. This means that the proportion is now in line with the target decided upon by the Government for the share of inflation-linked debt. The maturity of the inflation-linked debt is to be 10.4 years at the end of the year with a permitted deviation interval of ± 0.5 years. The interval has been set in such a way as not to be an impediment to the flexibility that we need in our handling of inflation-linked borrowing.

In the light of the large budget surpluses in 2007 and 2008, the proportion of inflation-linked borrowing is also tending to grow with limited issue volumes. To contribute liquidity to the market, we will none the less continue to issue at an annual pace of SEK 5–10 billion in 2007. As Figure 3 shows, we expect there to be only a marginal increase in the proportion of inflation-linked debt until the end of 2008.

Figure 3.

The share of inflation-linked debt and currency debt measured as a proportion of the aggregate central government cash flows

Per cent



The benchmarks for how central government debt is to be allocated between different types of debt are stated in terms of all future cash flows (nominal debt plus coupons and expected inflation compensation). This can also be expressed as the market value of the debt calculated with zero interest rates and expected inflation compensation. We refer to this as the aggregate central government cash flows.

The volume at the ordinary auctions during 2007 will normally be SEK 500 million. However, deviations can occur on occasions when market conditions are special, for instance, on coupon maturity.

During the calendar year of 2007, we plan 14 sales auctions and five exchange auctions. The auction calendar for spring 2007 is shown in Market information on page 22.

Loans 3106, 3105, 3102 and 3104 will be issued in 2007. This borrowing will be distributed relatively evenly between these loans. The choice of bond for each particular auction will mainly comply with an internal and pre-determined issue plan.

Central Government Borrowing– Forecast and Analysis 2006:3 contained a brief discussion about how funding would be arranged in the somewhat longer term. One possibility is to make successive extension exchanges to avoid excessively large volumes maturing on the same occasion thus creating major refinancing requirements. In the autumn, we will take up again the more long-term inflation-linked borrowing and the role that we can assume as regards contributing to liquidity in the market. Suggestions and points of view are welcome.

Exchanges of 3101 and 3001

In 2007, exchanges of loan 3101 for longer inflation-linked bonds will be offered. These exchanges will be neutral from the point of view of price risk.⁴

The exchanges will take place according to the timetable in Table 7. It should be noted that the exchange volumes at particular auctions will not be adjusted upwards even if previous exchanges have not been fully subscribed. To date around SEK 3 billion of 3101 which has been offered has not been made use of and therefore the total planned exchange volume will be SEK 18 billion.

TABLE 7. EXCHANGES OF 3101 FOR LONGER INFLATION-LINKED BONDS

Buyback of loan 3101, approx. SEK billion		
29 March 2007	8	Price risk neutral
24 May 2007	6	Price risk neutral
23 August 2007	4	Price risk neutral
Total	18	

Note: Choice of bond sold in exchanges is announced a week before the auction.

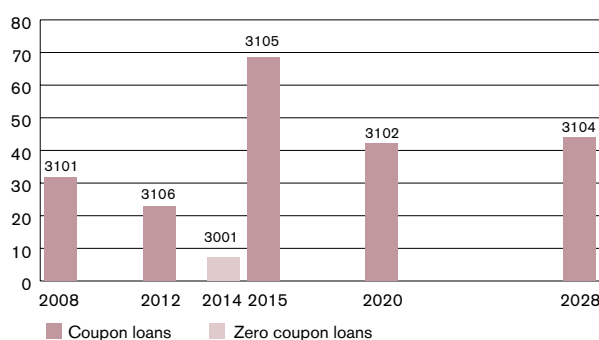
⁴ Exchanges that are neutral in terms of price risk mean the market value of purchase and sales volume multiplied by the modified duration of the respective bond are to be equal.

After the last exchange in August 2007, no further exchange or buyback opportunities for loan 3101 will be offered. However, our dealers will also be able thereafter until maturity to make market maintenance repos with us. The premium we take for these repos will be increased slightly after the last exchange of 3101. The terms can be found on our website.

We will offer the last exchange opportunity for zero coupon bond 3001 on 1 March. Two exchange dates were offered in 2006. The terms for the final exchange date were announced on 22 January. The outstanding volume in 3001 is now SEK 6.5 billion.

The actual extent of the exchanges will depend on investor interest. Investors will not be offered any financial incentives to exchange the loans. This means that we will reduce the exchange volume if the offers are not in line with market pricing. It should also be noted that the prerequisite for our being able to rely on the market's indicative pricing in exchanges is that this actually reflects the market participants' overall valuation of, for instance, the inflation path and the consistency between nominal and inflation-linked interest rate levels. There is a more detailed account of our policy for pricing on our website.

Figure 4. Inflation-linked government bonds SEK billion



FOREIGN CURRENCY BORROWING

According to the Government's guidelines, the foreign currency debt is to be amortised at an annual pace of SEK 40 billion. In 2007, foreign currency loans corresponding to around SEK 51 billion will mature. This means that we will need to borrow over SEK 10 billion in foreign currency next year to achieve the target for the pace of amortisation. We expect foreign currency borrowing of the same size in 2008 as well.

Table 8. FOREIGN CURRENCY BORROWING 2006–2008

SEK billion	2006	2007	2008
Foreign currency borrowing requirement, gross	44	10	10
Foreign currency amortisation	-19	-40	-40
Maturities and exchange rate differences	62	51	50
Foreign currency bonds *	30	16	27
Exchange rate swaps **	21	38	25
Short-term currency loans, net	4	0	0
Realised exchange rate differences	6	-3	-1
Foreign currency borrowing, gross	44	10	10
Bonds in foreign currency	20	7	7
Foreign currency swaps, gross **	23	3	3

* Valued at acquisition prices.

** Interest rate swaps from long to short interest rate exposure combined with foreign currency swaps to foreign currency.

We can borrow in foreign currency by issues of bonds in krona that are swapped to exposure in foreign currency (krona/swap borrowing)⁵ or by issues of bonds in foreign currency (direct currency borrowing). The allocation of currency borrowing between direct currency borrowing and krona/swap borrowing depends on the interest rate terms that can be obtained.

During 2006, we borrowed the equivalent of SEK 20.4 billion in direct foreign currency borrowing. Among other loans, two dollar loans (eurodollar) of SEK 1 billion each have been issued: one in February maturing in 2011 and one in May maturing in 2009. In addition, we borrowed the equivalent of SEK 23 billion in krona/swap borrowing. In 2007, the borrowing requirement has been allocated in a standardised way between direct currency borrowing and krona/swap borrowing, see Table 8. This allocation was based on demand and cost experiences in recent years. Even though foreign currency borrowing is limited, there is scope for issuing a benchmark loan in foreign cur-

⁵ Foreign currency borrowing in the form of krona/swap borrowing means that the interest rate on government bonds in kronor is exchanged for short interest-rate exposure in foreign currency at the same time as the amount borrowed is exchanged to foreign currency.

After bond borrowing, we make a swap where we receive a fixed swap rate in kronor, which is higher than the bond rate (exposure in the long bond rate is eliminated), in order to instead pay variable interest in foreign currency. The transaction is a combined interest rate and foreign currency swap (base swap). Within the framework of the swap, we exchange at the same time the krona amount from the bond borrowing to foreign currency with our swap counterpart. We thus make a bond loan in kronor, have the amount exchanged to foreign currency and pay variable interest in foreign currency.

In the swap agreement, we agree at the same time, on maturity, to exchange the same amount in foreign currency back to kronor at the same exchange rate as in the original exchange. We can pay the bond maturity with the krona amount. To be able to exchange the amount back to kronor, we must first purchase the foreign currency before we can exchange to kronor. This creates a foreign currency exposure since we do not know the future exchange rate when we make the swap. Krona/swap borrowing thus gives the same currency exposure as if we issue a bond directly in foreign currency.

rency. However, this kind of loan will only be issued if the conditions are sufficiently good. The actual allocation may deviate from the assumptions in Table 8.

The share of the foreign currency debt is at present 19.1 per cent of the debt measured as a share of the aggregate central government cash flows (see footnote 1 above). We expect to continue to amortise the foreign currency debt at an annual pace equivalent to SEK 40 billion in 2008 provided that the exchange rate of the krona is at reasonable levels. The pace of amortisation will be maintained until the debt share is 15 per cent, which is the Government's target for the foreign currency share of the central government debt. Our assessment is that the share will be close to 15 per cent towards the end of 2008.

SUMMARY

The relatively large budget surplus means that borrowing in most instruments will decrease. The issue volume in nominal government bonds will be reduced to SEK 2 billion per auction from 7 March. As far we are now able to assess, this issue volume will be retained in 2008 as well. Bond borrowing will be allocated so that approximately half will take place in the ten-year maturity. In addition, we expect to make a few issues in the two and fourteen-year segment, and remaining issues in the five-year maturity. A new ten-year bond maturing on 12 March 2019 will be introduced on 21 November 2007.

T-bill borrowing is expected to decrease by SEK 17 billion in 2007 compared with 2006. This reduction is a consequence of the reduced borrowing requirement. We expect to make swaps corresponding to around SEK 30 and 40 billion respectively during 2007 and 2008.

Inflation-linked borrowing is also expected to correspond to an annual pace equivalent to SEK 5–10 billion. In 2007, investors will be invited to continue exchanges of the shortest inflation-linked bond 3101 for longer inflation-linked bonds. A final exchange of the zero coupon loan 3001 for other inflation-linked bonds will be offered on 1 March 2007.

The Debt Office has amortised the foreign currency debt at an annual pace of SEK 40 billion since the turn of the year. Foreign currency borrowing is expected to amount to the equivalent of SEK 10 billion in 2007 and 2008.

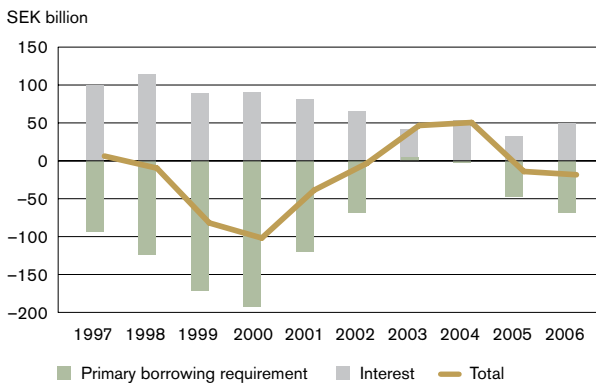
Strong economic growth and increased surplus in 2006

The central government budget yielded a surplus of SEK 18 billion in 2006. This contributed to reducing the central government debt by SEK 39 billion to SEK 1,270 billion, which corresponds to approximately 45 percent of the gross domestic product. The percentage of inflation-linked debt increased and the percentage of foreign currency percentage decreased. The composition of the debt thus further approached the percentages that the Government has established as desirable in the long term.

CENTRAL GOVERNMENT FINANCES

The balance of the central government's budget is defined to be equal to the inverse of the borrowing need of the central government. When the budget shows a surplus, the borrowing need is thus negative and the central government is amortizing its debt. The borrowing need may be divided into a primary borrowing need (or surplus) and interest payments on the central government debt. In 2006, the primary surplus was SEK 67 billion, 20 billion more than in 2005. Interest payments were SEK 49 billion, an increase by SEK 17 billion compared to 2005. The changes thus almost cancelled out each other and the aggregate surplus merely increased from SEK 14 to 18 billion. See Figure 1.

Figure 1
The central government's borrowing need 1997–2006



Increased tax receipts

The main factor behind the increase of the primary surplus is that tax receipts increased, just like in 2005. Employment rose and household consumption increased, yielding greater receipts of salary-based taxes and VAT. Also receipts of capital taxes rose. In addition, dividends from state-owned companies increased.

Also disbursements increased, but more slowly than the receipts. The increase generally followed the change of the expenditure cap in the central government budget.

Compensation levels increased slightly in the sickness and parental insurance, the child subsidies increased and agricultural subsidies were somewhat greater than in 2005. Increases were counteracted by a reduction of the total number of compensable sick days.

The primary borrowing need also includes the Debt Office's net lending to governmental authorities and companies. This amounted to SEK 30 billion in 2006, which is 17 billion more than last year. A partial explanation for the increase is a one-time effect of SEK 25 billion. This is attributable to the time for disbursement of premium pension means from the central government to the funds that the participants in the PPM system had chosen being moved. In prior years, premium pension means were disbursed in January two years after the accrual year but from 2006, disbursement is made in December, one month earlier. Since the payment time moved from one year to another, 2006 is affected by two PPM disbursements. Adjusted for the additional PPM payment, net lending increased by SEK 8 billion.

Greater interest payments

Interest payments during 2006 were SEK 49 billion, an increase of 17 billion compared to 2005. The central government's interest payments frequently vary from year to year due to technical and temporary factors. In 2006, these jointly caused an increase in interest payments, especially in comparison to 2005. The great change between the years is primarily attributable to a reversal in the exchange rate effects. In 2006 losses were SEK 6 billion. The corresponding number for 2005 was a profit of SEK 10 billion, i.e., a change of SEK 16 billion between the years.

Current interest payments decreased somewhat compared to 2005. This is attributable to the low interest rate levels from the past few years having an impact on the interest payments, as old loans with high coupon rates become due and are replaced by new loans with coupon rates at present interest rate levels. Interest rates rose

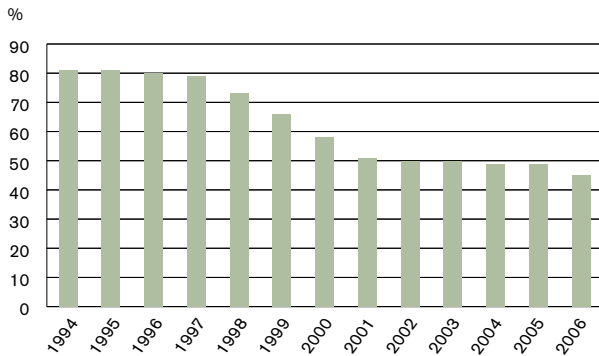
somewhat compared to 2005, especially for loans with short maturities, but the impact was not sufficient in order to outweigh the effect of the lower coupons.

Issuance premiums decreased by SEK 5 billion, since we issued loans with coupon rates closer to market rates and a smaller volume of inflation-linked bonds.

A reduction in the central government debt

The central government debt was SEK 1,270 billion at the end of 2006. This corresponds to approximately 45 percent of the GDP, which is some 4 percentage points lower than at the end of last year. See Figure 2.

Figure 2
Central government debt as a percentage of GDP 1994–2006



Measured in krona terms, the debt fell by SEK 39 billion. The budget surplus contributed to the debt being reduced by SEK 18 billion. That the central government debt decreased by even more is attributable to other factors also affecting the amount of the debt. The most important factor in 2006 was that the krona strengthened in relation to other currencies. Since the foreign currency debt is valued at current exchange rates, a strengthening of the krona reduces the foreign currency debt, calculated in krona. Revaluation of the foreign currency debt reduced the central government debt by SEK 23 billion.

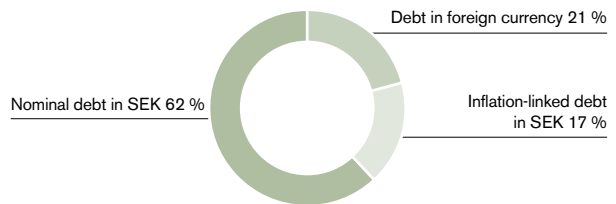
Composition of the central government debt

The Government's guidelines for the management of central government debt for 2006 stated that in the long term, the central government debt should have a percentage of inflation-linked debt of 20 percent, a percentage of foreign currency debt of 15 percent and that the remainder of the debt would be comprised of nominal debt in krona.¹ At year-end, the percentage of inflation-linked

¹ In the guidelines for 2007, the Government decided, at the Debt Office's suggestion, to change the measure of the composition of the debt. This also occasioned certain technical adjustments in the benchmark values. See the article "The proposed guidelines for 2006 in brief" in Central government borrowing: Forecast and Analysis 2006:3.

debt was 17 percent, one percentage point higher than at the end of 2005. The percentage of foreign currency debt was 21 per cent, 2 percentage points lower than at year-end the prior year. See Figure 3. The composition of the debt has thus changed in a direction stated by the Government to be desirable.

Figure 3
Composition of the central government debt



The average maturity of the central government debt (measured as interest rate fixing period) was at year-end 4.9 years. The maturity of the debt in nominal krona and foreign currency was 3.0 years. This was somewhat lower than the benchmark in the guidelines for 2006, which was set at 3.1 years. The deviation reflects that it is not possible to manage the maturity of the nominal krona debt exactly. The maturity of the inflation-linked debt was 11.1 years.

BORROWING IN 2006

Even when the central government budget yields a surplus, the Debt Office must borrow, since old loans mature and must be repaid. During 2006 loans of SEK 35 billion (including changes in cash balances etc.) matured. Since the budget surplus was 18 billion, the gross borrowing requirement was SEK 17 billion. The gross borrowing requirement, in combination with the guidelines for the composition and maturity of the debt, govern how much the Debt Office borrows and in what instruments.

Nominal krona debt

Borrowing in nominal krona bonds increased from SEK 56 billion in 2005 to 64 billion in 2006. The increase was partially attributable to the maturity at the beginning of the year being somewhat lower than the benchmark. The issuance volume in each auction was changed only once during the year. This was in March, when the volume increased from SEK 2 to 3 billion.

Financing through Treasury bills decreased by SEK 47 billion compared to 2005. The Treasury bill stock decreased by SEK 34 billion. This was an adaptation to the average maturity being below the benchmark at the beginning of the year and to the reduction of the central government debt.

Inflation-linked krona debt

In 2006, the Debt Office issued inflation-linked bonds for close to SEK 7 billion. This was less than in prior years but corresponds to the forecast we presented in March. The reduction reflects a lower net borrowing requirement than we had heretofore calculated and that demand was weak. Almost the entire offered volume was however sold in the auctions.

Foreign currency debt

In 2006, the Debt Office borrowed an amount corresponding to SEK 44 billion in foreign currencies. We repaid SEK 62 billion, which means that we amortised SEK 18 billion on the foreign currency debt.

The difference in relation to the benchmark of the Government's guidelines – SEK 25 billion – is attributable to the Debt Office from November 2005 until June 2006 amortising at an annual rate corresponding to SEK 10 billion. The decision to reduce the amortisation payments was based on our assessment that the krona was exaggeratedly weak. When the decision was made, the value of the krona in terms of the currency index TCW was approximately 134 (the higher the index value, the weaker the krona). In June, when the rate of amortisation was increased, index was around 127. The krona has thereafter continued to be strong. The reduced rate of amortisation should therefore have led to lower costs for the central government.

ACTIVE MANAGEMENT IN FOREIGN CURRENCY

In addition to the assignment to finance and manage the central government debt, the Debt Office is able to conduct active management in foreign currencies. This means that we try to predict interest rates and exchange rates and, using derivative instruments, create positions that yield a profit if our assessment proves correct. The goal is to lower the central government's costs without taking too great risks.

Active management yielded a profit of SEK 339 million in 2006. The profit was entirely a result of interest rate positions. In the aggregate, during the years 2002–2006 the surplus was SEK 1,475 million.

The Debt Office also retains external managers who work with the same assignments as we do. The aim is both to have external expertise, and to obtain a benchmark against which we can evaluate our own management. Both in 2006 and for the longer period we had a better result than the external managers. Since they have been selected among leading international firms, and we also replace those with a systematically poor result, this indicates that the Debt Office handled its active management well.

The Debt Office scores higher

Investors and primary dealers are of the opinion that the Debt Office has improved in most areas. The improvement is especially apparent with respect to our information and our performance in the inflation-linked bond market. For the first time, all surveyed categories gave us the grade excellent in the overall assessment. Still, contacts with investors may be improved, even if the grade has improved significantly. This is shown by the survey of the Debt Office's borrowing that Prospera has carried out on our behalf. The survey is part of our efforts to develop and improve our operations.

Good relations with investors and primary dealers are an important part of the Debt Office's borrowing policy. Good investor relations contribute to creating a broad and stable investor base with good liquidity for our funding instruments. Our investor relations shall, just like our borrowing policy in general, be characterized by openness, transparency and predictability. The primary dealers are important as a part of our distribution system for government securities. Ultimately, our borrowing policy aims to achieve low borrowing costs, and in that connection, it is crucial that both end-investors and intermediaries are satisfied with our performance.

For the third year in a row, Prospera has surveyed the view of investors and primary dealers of the Debt Office's funding. The survey is targeted at Swedish and international investors in Swedish government securities and at primary dealers and other sellers¹ of government bonds. The factors we have emphasized are our information, borrowing techniques, execution of auctions, professionalism in our conduct, and the functioning of the market. The survey is a tool in our efforts to further improve the management of the Swedish government debt. The interviews were carried out during the period 26 October until 12 December 2006.²

¹ Investment banks in London that trade Swedish government securities.

² The response frequency was 99 percent, which must be considered very good. In total, 29 Swedish investors, 20 foreign investors, 7 primary dealers and 6 other sellers of Swedish government bonds were interviewed.

The survey is available in pdf format on our web site, www.riksgalden.se.

COMMUNICATION AND INFORMATION MOST IMPORTANT

The awareness of the Debt Office has increased and the general view of us is more positive. Several areas covered in the survey are considered more significant to Swedish investors and primary dealers than was the case a year ago. The results also indicate that we have improved in these areas.

In the survey, all factors that form the basis for the assessment (see the fact box) are considered very important to confidence. It is above all important that the Debt Office provide clear information about the Central Government's borrowing requirement and financing, that we act clearly and consistently in case of a reduction of offered auction volumes and that the information provides good predictability about the issuance plans. The number one priority for confidence is the information about the Central Government's borrowing requirement and financing.

The most important results are set forth in the diagrams below. The columns show how the interviewees assess the significance of the different factors, while the curves show how they assess the Debt Office. In the diagrams, the factors are ranked according to importance. The factors covered by the survey are set forth in the box below.

FACTS: AREAS COVERED BY THE SURVEY

Communication and information

- a Clear information on borrowing requirements/funding
- b Good contacts with investors and primary dealers

Borrowing

Good selling techniques for:

- c1 nominal bonds
- c2 inflation-linked bonds
- c3 treasury bills

Appropriate timing/ time intervals for auctions

- d1 nominal bonds
- d2 inflation-linked bonds
- d3 treasury bills

Good information on volumes and other terms

- e1 nominal bonds
- e2 inflation-linked bonds
- e3 treasury bills

Clear/consistent cutting of auction volumes

- f1 nominal bonds
- f2 inflation-linked bonds
- f3 treasury bills

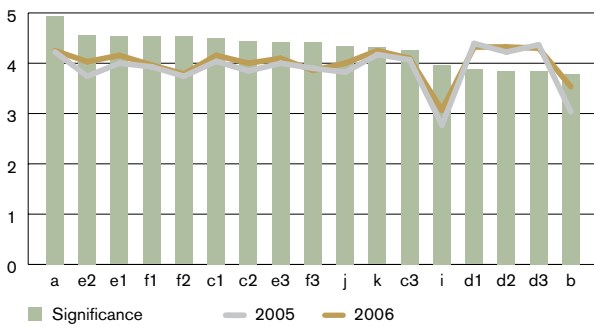
General

- i Sensitivity to market requirements

Professional conduct

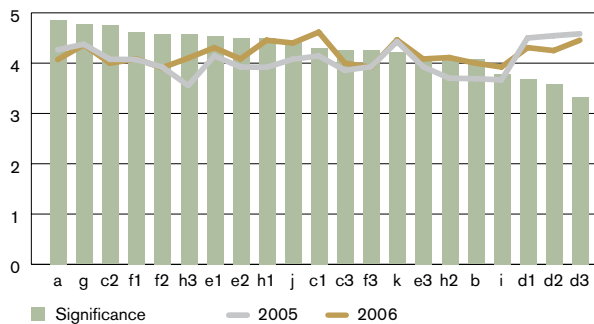
- j International comparison
- k Comparison to Swedish mortgage institutions

Figure 1.
Assessment of the Debt Office – Swedish investors
 Swedish investors 2005 vs. 2006



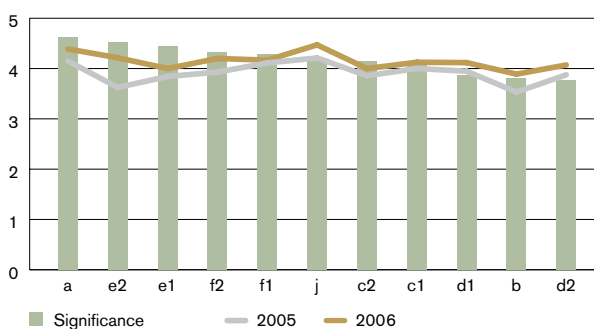
The grading scale is from 1 to 5. Values over 4 are interpreted as excellent or very significant, respectively, and values under 3 as poor or unimportant, respectively.

Figure 2.
Assessment of the Debt Office – primary dealers
 Primary dealers 2005 vs. 2006



The grading scale is from 1 to 5. Values over 4 are interpreted as excellent or very significant, respectively, and values under 3 as poor or unimportant, respectively.

Figure 3.
Assessment of the Debt Office – foreign investors
 Foreign investors 2005 vs. 2006



The grading scale is from 1 to 5. Values over 4 are interpreted as excellent or very significant, respectively, and values under 3 as poor or unimportant, respectively.

PROFESSIONALISM, GOOD INFORMATION BUT DEFICIENT CONTACTS AND SENSITIVITY

The information is clear and provides good predictability
 The information about borrowing requirement and financ-

ing is generally considered excellent and to provide good predictability. The same is true for the information about issue volumes and terms.

The Debt Office's professionalism is generally assessed very highly by international comparison, and in relation to Swedish mortgage institutions. The grade has improved over last year.

The selling of government securities works well, both with respect to frequency and selling techniques as to how we act in case of reductions of auction volumes. During 2006, a very clear change in the attitude to the Debt Office's actions in the inflation-linked bond markets has taken place. This is now considered to be excellent. One reason may be that we have discussed the plans for the inflation-linked bond market on a more detailed level in the Central Government borrowing reports and that we followed our issuance plans more closely.

Our primary dealers appreciate even more than before the market support repos that we offer in order to reduce the risk of market squeezes.

Lacking sensitivity to the wishes of the market

Swedish investors are still of the opinion that our sensitivity to their wishes is deficient. One possible explanation may be that we have not responded to the investors' demand for long-term government bonds.

Judging from the answers, we still do not meet with investors sufficiently often. It seems however as if contacts have significantly improved. One of the reasons may be that in 2006 we have had several well-attended information and discussion meetings with investors and primary dealers.

Secondary market gets mixed reviews

Fewer investors are participating in the primary market in comparison to prior years. This trend was evident also in last year's survey. This may mean that the investors to a greater extent have found the secondary market sufficient for trading government bonds. Investors and primary dealers are of the opinion that the liquidity in the secondary market for nominal bonds and treasury bills is good.

Just as last year, however, the inflation-linked bond market gets consistently low marks. Liquidity and information on prices are not considered satisfactory and the interest rate spread, i.e. the difference between the bid and ask rates, is too wide.

THE ROAD TO CONTINUOUS IMPROVEMENT

Investors and primary dealers are of the opinion that the Debt Office has improved in many areas and the comments are in most respects good or satisfactory. This is inspiring – not in the least because we seem to have moved in the right direction in later years. Our ambition is however to continue our efforts to improve our activities in the areas where we are perceived as weak.

One such area for improvement is that many investors would like to see an improvement in their contacts with the Debt Office. Against the background of the surveys of prior years, we have continued our efforts to invite dialogue and discussions with investors and primary dealers about our borrowing. We have among other things had information meetings in connection with the publication of the Central Government borrowing report. We will continue to act for a closer and more systematic dialog.

We will also develop our information further. One example is our comprehensive effort to develop and improve our web site, an important information channel for our investors and primary dealers. Our new web site will be launched at the end of March of 2007.

Once again we have been criticized for deficient sensitivity. This is, as stated before, a multi-dimensional issue. We can and should however not take into consideration wishes that are not consistent with our aims to borrow as cheaply as possible on behalf of the Government.

There are however wishes and opinions regarding our operations, to which we should listen, and take into consideration. This may, e.g., concern selling techniques and communication. As long as they are compatible with our aims and our mission, we try as far as possible to meet these wishes. Sometimes, the wishes may however point in different directions, and on such occasions we are naturally unable to please everyone.

In order to improve our transparency and predictability, feedback on our funding policy is important. We will continue our efforts to develop our operations as well as the relations with our investors and other counterparties.

*Maria Norström
Funding Manager*

Market information

Source: The Swedish National Debt Office, unless otherwise stated

NOMINAL BONDS, OUTSTANDING AMOUNTS, 31 JANUARY 2007

Maturity Date	Coupon %	Loan no.	SEK million
2008-05-05	6.50	1040	59,787
2009-01-28	5.00	1043	74,625
2009-12-01	4.00	1048	49,990
2011-03-15	5.25	1045	71,037
2012-10-08	5.50	1046	47,196
2014-05-05	6.75	1041	51,747
2015-08-12	4.50	1049	36,489
2016-07-12	3.00	1050	38,987
2017-08-12	3.75	1051	37,521
2020-12-01	5.00	1047	47,701
Total benchmarks			515,080
Non-benchmarks			43,232

T-BILLS, OUTSTANDING AMOUNTS, 31 JANUARY 2007

Maturity Date	SEK million
2007-02-21	30,076
2007-03-21	69,417
2007-04-18	30,096
2007-05-15	9,999
2007-06-20	44,384
2007-09-19	45,669
2007-12-19	37,313
Total T-bills	266,954

INFLATION-LINKED BONDS, OUTSTANDING AMOUNTS, 31 JANUARY 2007

Maturity Date	Coupon %	Loan no.	SEK million
2008-12-01	4.00	3101	31,793
2012-04-01	1.00	3106	22,794
2014-04-01	0.00	3001	7,302
2015-12-01	3.50	3105	68,558
2020-12-01	4.00	3102	42,028
2028-12-01	3.50	3104	44,108
2028-12-01	3.50	3103	3
Total inflation-linked bonds (incl. inflation compensation)			216,586

RATING

	Debt in SEK	Foreign currency debt
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA

NOMINAL BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2007-02-28	2007-03-07	2007-03-12
2007-03-14	2007-03-21	2007-03-26
2007-03-28	2007-04-04	2007-04-11
2007-04-11	2007-04-18	2007-04-23
2007-04-25	2007-05-02	2007-05-07
2007-05-08	2007-05-15	2007-05-21
2007-05-23	2007-05-30	2007-06-04
2007-06-05	2007-06-13	2007-06-18
2007-06-20	2007-06-27	2007-07-02
2007-07-25	2007-08-01	2007-08-06
2007-08-08	2007-08-15	2007-08-20
2007-08-22	2007-08-29	2007-09-03
2007-09-05	2007-09-12	2007-09-17
2007-09-19	2007-09-26	2007-10-01
2007-10-03	2007-10-10	2007-10-15
2007-10-17	2007-10-24	2007-10-29
2007-10-31	2007-11-07	2007-11-12
2007-11-14	2007-11-21	2007-11-26
2007-11-28	2007-12-05	2007-12-10

T-BILLS, AUCTION DATES

Announcement date	Auction date	Settlement date
2007-03-07	2007-03-14	2007-03-16
2007-03-21	2007-03-28	2007-03-30
2007-04-04	2007-04-11	2007-04-13
2007-04-18	2007-04-25	2007-04-27
2007-05-02	2007-05-09	2007-05-11
2007-05-16	2007-05-23	2007-05-25
2007-05-30	2007-06-05	2007-06-08
2007-06-13	2007-06-20	2007-06-25
2007-06-27	2007-07-04	2007-07-06
2007-07-18	2007-07-25	2007-07-27
2007-08-01	2007-08-08	2007-08-10
2007-08-15	2007-08-22	2007-08-24
2007-08-29	2007-09-05	2007-09-07
2007-09-12	2007-09-19	2007-09-21
2007-09-26	2007-10-03	2007-10-05
2007-10-10	2007-10-17	2007-10-19
2007-10-24	2007-10-31	2007-11-02
2007-11-07	2007-11-14	2007-11-16
2007-11-21	2007-11-28	2007-11-30
2007-12-05	2007-12-12	2007-12-14

INFLATION-LINKED BONDS, AUCTION DATES

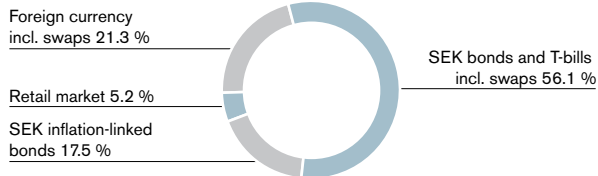
Announcement date	Auction date	Settlement date
2007-02-22	2007-03-01*	2007-03-06
2007-03-08	2007-03-15	2007-03-20
2007-03-22	2007-03-29*	2007-04-03
2007-04-19	2007-04-26	2007-05-02
2007-05-03	2007-05-10	2007-05-15
2007-05-16	2007-05-24*	2007-05-29
2007-05-31	2007-06-07	2007-06-12
2007-08-16	2007-08-23*	2007-08-28
2007-08-30	2007-09-06	2007-09-11
2007-09-13	2007-09-20	2007-09-25
2007-09-27	2007-10-04	2007-10-09
2007-10-11	2007-10-18	2007-10-23
2007-10-25	2007-11-01	2007-11-06
2007-11-08	2007-11-15	2007-11-20
2007-11-22	2007-11-29	2007-12-04
2007-12-06	2007-12-13	2007-12-18

* Exchange auction

Debt structure

Total debt SEK 1,249 billion

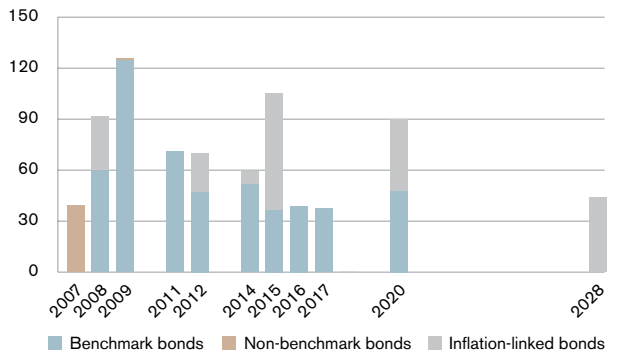
31 January 2007



Maturity profile, SEK nominal and inflation-linked bonds

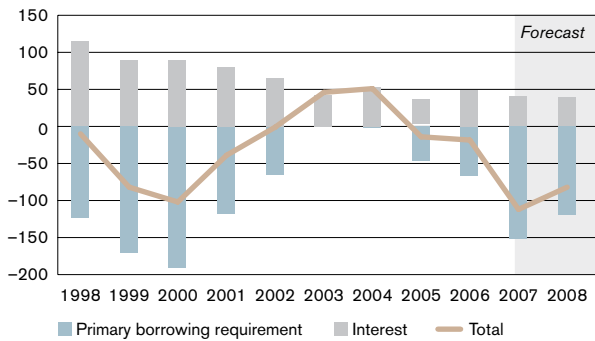
SEK billion

31 January 2007



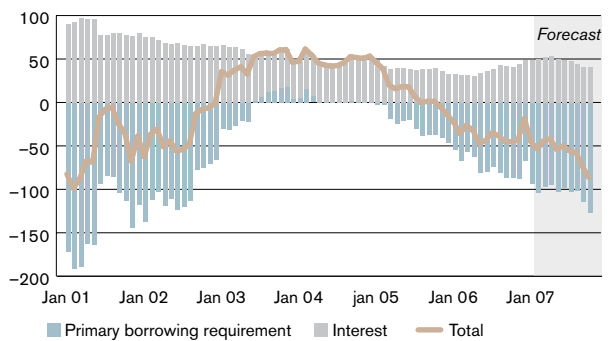
Central government net borrowing requirement, 1998–2008

SEK billion

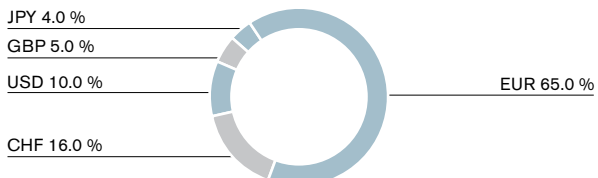


Central government net borrowing requirement, 12 months

SEK billion

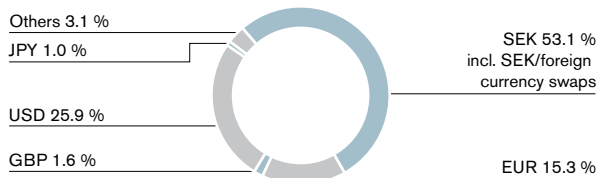


Benchmark for the foreign currency debt composition

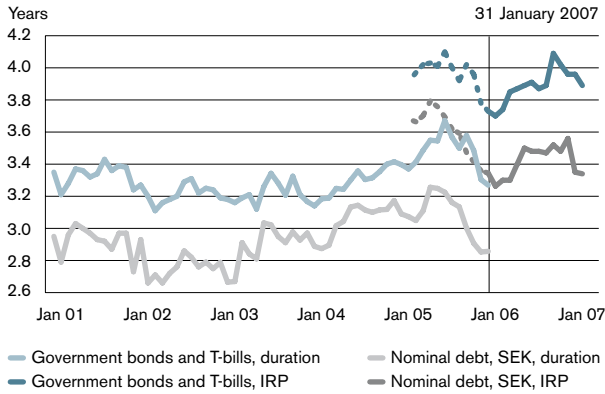


Funding in foreign currencies

31 January 2007

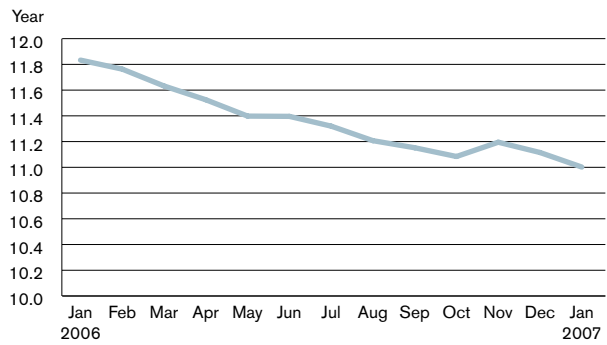


Interest-rate refixing period (IRP) and duration of nominal debt

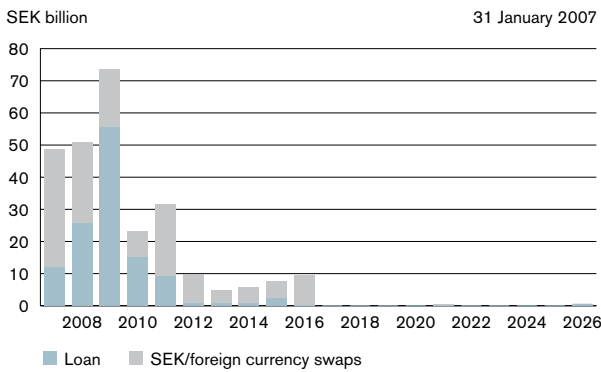


On 1 January 2006 the measure of maturity was changed from duration to interest-rate refixing period (IRP).

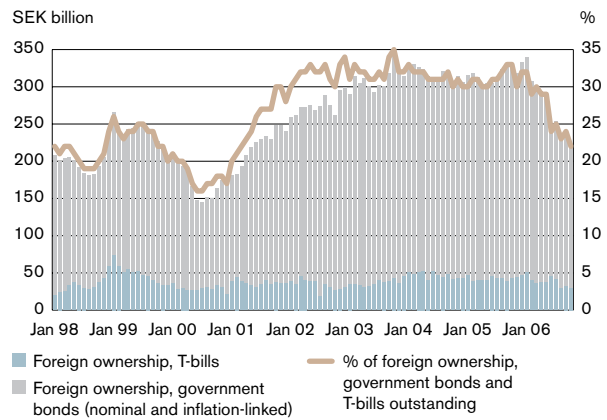
Interest-rate refixing period (IRP) of index-linked debt



Maturity profile, foreign currency loans excluding callable bonds

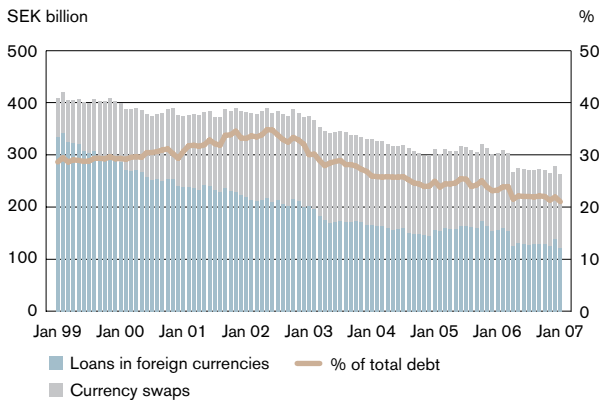


Foreign ownership of government bonds and T-bills

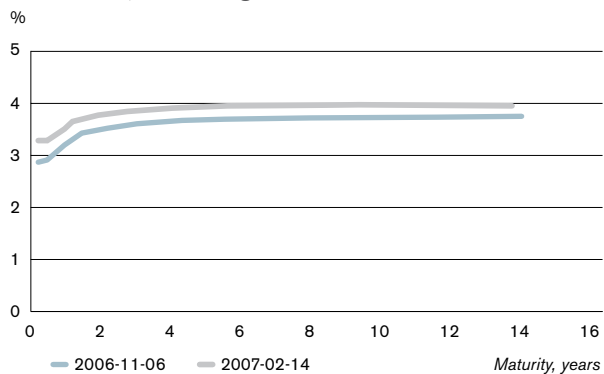


Source: The Riksbank

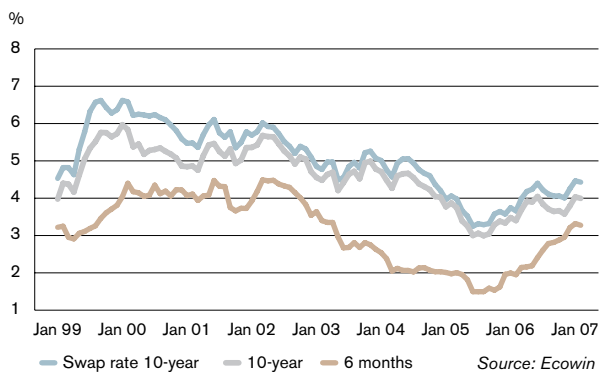
Central government debt exposure in foreign currencies



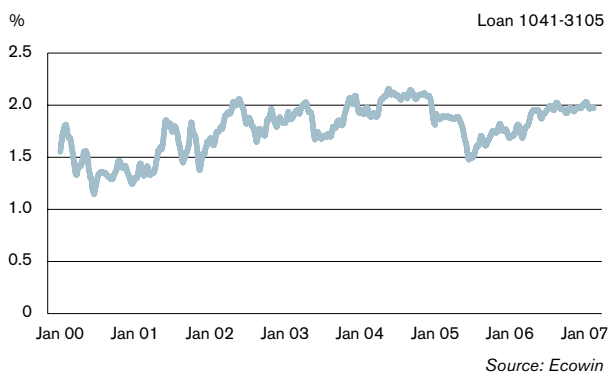
Yield curve, Swedish government securities



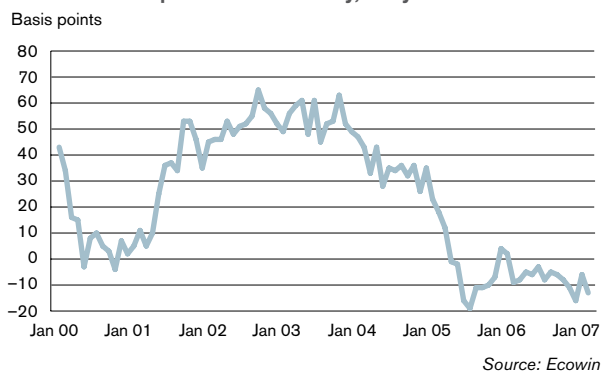
Historical interest rates



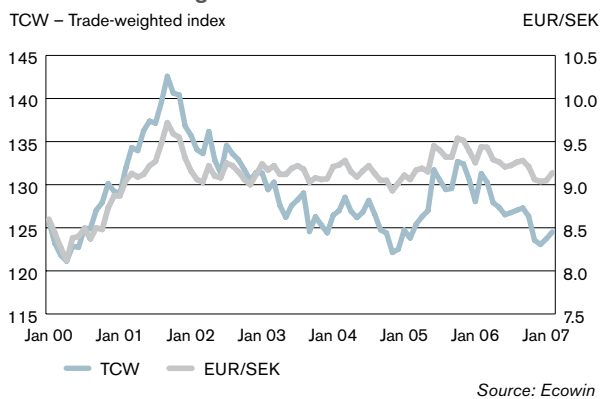
Break-even inflation



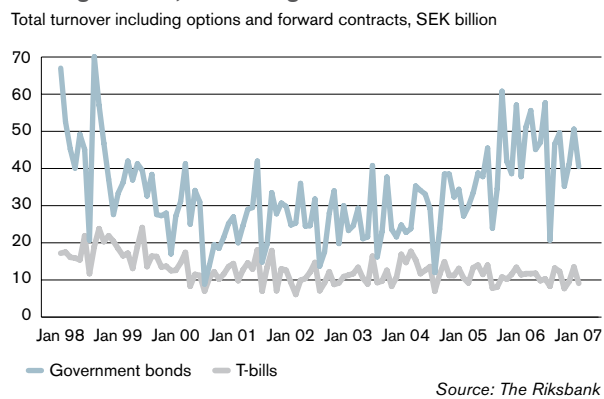
Interest rate spread vs Germany, 10-year



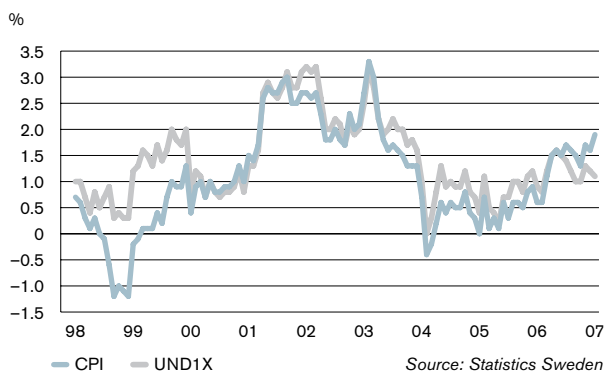
Historical exchange rates



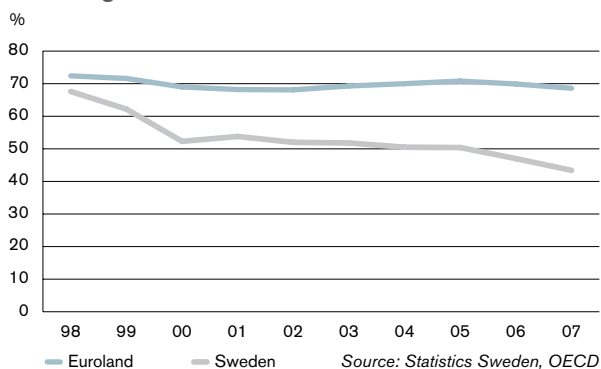
Trading volume, Swedish government securities



**Inflation index:
UND1X and CPI in Sweden**



General government debt in relation to GDP



NATIONAL ACCOUNTS, PERCENTAGE CHANGE

Supply and demand	2006	2007	2008
Gross domestic product ¹	4.3	3.6	3.2
Imports	7.5	8.2	6.0
Household consumption expenditure	2.9	3.9	3.3
Government consumption expenditure	1.5	1.5	1.2
Gross fixed capital formation	8.1	6.3	4.5
Stock building	0.0	0.2	0.0
Exports	8.6	6.9	6.1

Selected Statistics	Sept 06	Jan 07	2006	2007	2008
CPI, year-on-year		1.9	1.8	1.9	2.2
Unemployment rate		5.3	5.4	5.0	4.5
Current account	7.2		7.1	6.8	6.8

¹ SEK 2,671 billion (current prices 2005).
Sources: Statistics Sweden, The Riksbank.
Forecasts: National Institute of Economic Research.

Primary dealers	Telephone	Reuter page
ABN Amro Bank NV	+46-8 506 155 00	PMAA
Danske Consensus	+46-8 568 808 44	PMCO
E Öhman J:or Fondkommission AB	+46-8 679 22 00	PMOR
Swedbank	+46-8 700 99 00	PMBF
Nordea	+45-33 33 17 58	PMUB
SEB	+46-8 506 23 151	PMSE
Svenska Handelsbanken AB Publ.	+46-8 463 46 50	PMHD

The next issue of Central Government Borrowing: Forecast and Analysis will be published on Monday 18 June, 2007, at 9.30 am.

The report is published three times a year.

For more information:

Borrowing requirement and government debt: Lars Hörngren +46-8-613 47 36 or +46-8-613 47 40
Funding: Thomas Olofsson +46-8-613 47 82

Articles published earlier	Author	Issue
The proposed guidelines for 2007 in brief		2006:3
Cheaper banking services for the central government through new framework agreements	<i>Per Franzén</i>	2006:3
Maturity and risk	<i>Gunnar Forsling and Erik Zetterström</i>	2006:3
Borrowing in the event of large surpluses	<i>Thomas Olofsson</i>	2006:2
Concentrated activities lead to efficient financial management	<i>Johan Palm</i>	2006:2
2005 in retrospect		2006:1
New benchmark for the foreign currency debt	<i>Richard Falkenhäll</i>	2006:1
The Debt Office scored high again this year	<i>Maria Norström</i>	2006:1
The proposed guidelines for 2006 in brief		2005:3
How and why the Debt Office forecasts the government's borrowing requirement	<i>Håkan Carlsson and Sofia Olsson</i>	2005:3
Government debt policy and the budget political goals	<i>Lars Hörngren</i>	2005:2
Currency hedging for government agencies	<i>Mikael Bergman</i>	2005:2
Cash Flow at Risk		
– a measure of market risk for interest payments forecasts	<i>Martin Lanzarotti</i>	2005:2
Last year in review		2005:1
The Debt Office borrowing scores high in client survey	<i>Maria Norström</i>	2005:1
The state's liquidity management	<i>Anna Sjulander</i>	2005:1
Credit cards and purchasing cards - a good deal for the state	<i>Anita Schönbeck</i>	2005:1
The proposed guidelines in brief		2004:3
Retail borrowing in Sweden and comparisons to other countries	<i>Malin Holmlund</i>	2004:3
The lending of the state should be regulated	<i>Sara Bergström and Christina Hamrén</i>	2004:2
A new budget target for long-term sustainable central government finances	<i>Per Franzén</i>	2004:2
Common maturity dates for nominal bonds		2004:1
Inflation-linked bonds – an instrument for risk diversion	<i>Joy Sundberg and Thomas Wigren</i>	2004:1
Active management of the foreign currency debt – an asset on the liability side	<i>Lars Boman</i>	2004:1
New risk indicator for central government debt – Cost-at-Risk	<i>Anders Holmlund</i>	2004:1
The inflation-linked market is growing – Italy is now issuing inflation-linked bonds		2003:3
Strategic EUR/USD position closed – foreign currency- and interest gain of 4.5 billion		2003:3
Market development work in Sweden and a few other European countries	<i>Anders Holmlund</i>	2003:3
Pricing of state guarantees in practice	<i>Niclas Hagelin and Magnus Thor</i>	2003:3
The state payment system and new framework agreements	<i>Lennart Sundquist</i>	2003:3
Small borrowers in the euro zone	<i>Eric Morell and Thomas Wigren</i>	2003:2
Borrowing strategy if Sweden joins the currency union	<i>Thomas Olofsson</i>	2003:2
State guarantees – proposal for an even better rule system	<i>Lars Hörngren</i>	2003:2
Risks and derivatives	<i>Anne Gynnerstedt and Per-Olof Jönsson</i>	2003:2



Visiting address: Norrlandsgatan 15 • Postal address: SE-103 74 Stockholm, Sweden

Telephone: +46 8 613 45 00 • Fax: +46 8 21 21 63 • E-mail: riksgalden@riksgalden.se • Internet: www.riksgalden.se