RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Central Government Borrowing

Forecast and Analysis 2008:1

CENTRAL GOVERNMENT BORROWING REQUIREMENT

FUNDING

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MARKET INFORMATION

Central government debt 30 per cent in 2009

In recent years, deficits in the central government budget have been replaced by surpluses. A high level of corporate profits together with a strong development of the labour market and large capital gains has led to increased tax revenue and reduced central government expenditure. Although tax rates were reduced at the same time, central government finances showed a surplus last year of SEK 103 billion, SEK 18 billion of which was income from privatisation. Central government debt decreased to around 38 per cent of GDP.

Lower growth during 2007 and this year are leading to a weaker development. Our forecast for 2008 is a surplus of SEK 101 billion including privatisation income of SEK 50 billion. This is SEK 15 billion less than in our forecast of October 2007. The reduction is mainly due to lower tax revenue and higher social insurance expenditure.

The slowdown in economic activity will have a greater impact on central government finances next year. In our first forecast for 2009, we expect a budget surplus of SEK 60 billion including income from privatisation of SEK 50 billion. We also assume that the Government will carry out non-financed tax cuts and/or expenditure increases of SEK 15 billion.

Central government debt, which amounted to SEK 1,449 billion in 1998, is expected to total SEK 1,069 billion at the end of 2008 and SEK 1,009 billion at the end of 2009. This corresponds to around 33 per cent and 30 per cent of GDP in the respective year. The debt ratio has not been so low since the late 1970s.

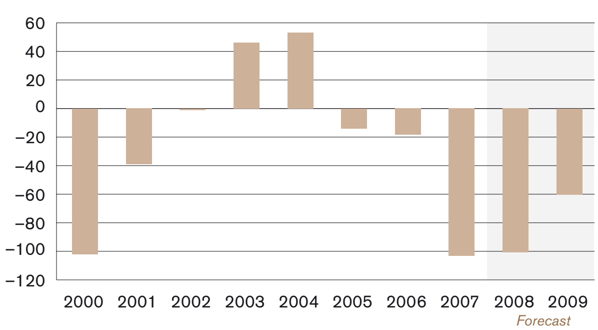
Due to the slightly lower budget surplus compared with our previous forecast, we will increase the issue volume of government bonds from SEK 1.5 billion to SEK 2.5 billion from March onwards. The T-bill stock is expected to be slightly greater in 2008 than we previously estimated, while inflation-linked borrowing and foreign currency borrowing will be largely unchanged in relation to the assessment in the previous central government borrowing report.

Bo Lundgren
Director General

Central government borrowing requirement

The level of activity in the domestic economy continues to be high although it has slackened since our forecast in October. We estimate a budget surplus of SEK 101 billion for 2008. This is a reduction of SEK 15 billion from our previous forecast. Next year, the slowdown of activity in the international economy will have a greater impact on central government finances. The budget surplus will then shrink to SEK 60 billion. This reduction compared with 2008 is mainly due to falling corporate profits and lower capital gains for households. We also anticipate a more expansive fiscal policy during 2009. These forecasts include sales income of SEK 50 billion per year. Central government debt will decrease to SEK 1,069 billion at the end of 2008 and to SEK 1,009 billion at the end of 2009. This corresponds to around 33 per cent and 30 per cent of GDP respectively. Central government net lending, which is not affected by sales income, is estimated at SEK 50 billion in 2008 and SEK 13 billion in 2009. This amounts to 1.6 per cent and 0.4 per cent of GDP in the respective year.

Figure 1. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT 2000–2009



A surplus in the central government budget means that the net borrowing requirement is negative.

Annual forecast for 2008

Swedish central government finances are highly responsive to the level of economic activity. Economic growth has been very high for some years, which has favoured central government finances by rapidly rising tax revenue and a weak increase in expenditure. Economic growth was dampened during 2007 and will probably further slacken slightly in 2008. However, the inherent lags will mean that the effect of the ongoing slowdown of economic activity on the borrowing requirement will not be particularly dramatic during 2008. The strong increase in employment in the past few years will cease although the labour market will stabilise at a high level. In combination with a favourable development of household income, this means that important tax bases such as gross wages and private consumption will continue to grow at a stable rate in 2008.

Since our last forecast, the National Institute of Economic Research (NIER) has adjusted GDP growth down for both 2007 and 2008, partly because of weaker net exports. We consider that NIER's growth estimate is slightly higher than can be expected. NIER itself considers that the downward risks in the forecast predominate. The macroeconomic variables that we mainly compare with NIER are gross wages and private consumption, which are described in more detail in the box "Conditions underlying the forecast".

We estimate that the borrowing requirement in 2008 will be SEK −101 billion, i.e. a budget surplus. This forecast includes, as last time, sales income of SEK 50 billion. For further information on the forecast on sales of state-owned assets, see the box "Sales of state assets".

Table 1. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT AND CENTRAL GOVERNMENT DEBT

SEK billion	2007	Forecast 2008	Forecast 2009
Primary borrowing requirement	−150	−139	−93
Interest on central government debt	47	38	33
Net borrowing requirement*	**−103**	**−101**	**−60**
Debt adjustments	16	12	0
Revaluation, currency loan	4	2	0
Short-term investments	−15	−11	0
Change in central government debt	−102	−99	−60
Central government debt at year-end	**1,168**	**1,069**	**1,009**

* *A surplus in the central government budget means that the net borrowing requirement is negative.*

The primary borrowing requirement

The primary borrowing requirement (all state payments excluding interest on central government debt) is expected to be SEK −139 billion. This is SEK 13 billion higher than our previous forecast.

Table 2. PRIMARY BORROWING REQUIREMENT 2008, CHANGE FROM PREVIOUS FORECAST*

SEK billion

Taxes	5
Swedish Social Insurance Agency	4
EU contribution	1
Other	3
Total	**13**

* *The amounts show the effect on the borrowing requirement. Thus, for instance, "Taxes 5" shows that income is expected to be lower.*

Tax revenue will be SEK 5 billion lower than in the previous forecast. This is mainly due to lower income from taxes on capital. Capital taxes from households and companies vary historically greatly from year to year, unlike taxes on labour and consumption that have a more stable development path.

Corporate profits have risen sharply in recent years. At the aggregated level, wages have developed relatively weakly in relation to GDP, which has led to a high profit share in the economy. Capital costs have also been low. We are now seeing a gradual reversal of the situation with increasing wage costs and lower productivity development. Together with a weaker foreign demand, this will lead to a slight decrease in corporate profits during 2008. However, profits are still at a high level in a historic perspective.

Household capital taxes depend largely on the development of asset prices, in particular the prices of securities and housing. The sharp rates of increase in recent years on the stock and housing markets have led to large gains for households and rapidly increasing tax revenue for the state. From mid-2007, the international credit turbulence has led to a reversal of this trend. The Stockholm stock exchange, Stockholmsbörsen, showed an overall fall for the whole year 2007 and January 2008 was also a weak month. At the same time, the housing market has cooled down. This means that central government income from household capital taxes will be lower than the record levels we have seen in recent years.

HOW REPO TRANSACTIONS BY AGENCIES AFFECT THE BORROWING REQUIREMENT

Some agencies, in particular the Premium Pension Authority, the Swedish Nuclear Waste Fund and the Deposit Guarantee Board, have assets invested in Swedish government securities. Since April 2007, the Premium Pension Authority and the Swedish Nuclear Waste Fund are repoing parts of these holdings of government securities. This means that they sell government securities while, at the same time, entering into a contract to repurchase the same government securities in the future. The agency making the repo is paid in cash. In practice, this is a collateral-backed loan. Since the agency provides collateral, they obtain good terms on the loan, in the form of low interest. The next step for the agencies is to invest the cash that they receive when entering into the repo in an account at the Debt Office. All agencies have to deposit their credit balances in accounts at the Debt Office. The variable interest rate on the agencies' accounts is close to the Riksbank's repo rate. The agencies are able to make a secure gain since they borrow more cheaply than the Riksbank´s repo rate by providing government securities as collateral and then investing the cash at close to the Riksbank´s repo rate with the Debt Office.

The role of the Debt Office is to be the agencies' bank. We are not involved in the repo transaction. The agencies do this on the market like any other player.

When the repos are entered into, the central borrowing requirement is reduced since the agencies deposit cash at the Debt Office at the same time. Conversely, the borrowing requirement increases when the repo is terminated since the agency then withdraws its cash from its account. This has meant that the borrowing requirement has varied considerably more from month to month than previously. However, the agencies close their repos over the turn of the year and the annual borrowing requirement is accordingly not affected. The effect on the net borrowing requirement for a particular month is the change in the agencies' total volume of repos during the month compared with the previous turn of the month.

The Debt Office makes forecasts for the repo transactions based on the information we have available from the agencies. We make forecasts at a daily level, which are used internally in liquidity management, and we make forecasts at monthly level, which are published externally in "Central Government Borrowing – Forecast and Analysis". We have continuous contact with the agencies' asset manager to update our forecasts. However, these forecasts are very uncertain since the agencies can change their plans at short notice.

The volume of agency repos has gradually increased to over SEK 20 billion. This means that the net borrowing requirement has decreased by as much. However, the agencies close the repos on certain occasions subject to their investment rules. Since they rapidly enter into new repos, it can be interpreted as reducing the Debt Office's financing requirements both in the short and the long term.

Dividend on state-owned shares is estimated at SEK 24 billion, which is unchanged compared with the previous forecast. The proposed dividends which the companies in question have presented to date are well in line with our forecast. In previous years, extra dividends have been paid by companies later in the year, for example by Sveaskog. It is difficult for us to assess whether this will also be the case this year, but there should be scope for this in view of the companies' equity ratios. However, we have not included this in our forecast.

Payments from social insurance will be SEK 4 billion higher than previously estimated. This is mainly due to increasing pension payments. Other disbursements are in principle unchanged compared with the previous forecast.

The Debt Office's net lending to central government agencies, public enterprises and state-owned companies is expected to amount to SEK 11 billion, which is SEK 1 billion lower than in our previous forecast. This downward adjustment can largely be explained by slightly higher repayments of student aid during 2008.

The Premium Pension Authority and the Swedish Nuclear Waste Fund will both continue to carry out repo transactions during the year in the course of their management. The payment for these repos will be deposited in an account at the Debt Office which will affect net lending. As a result of this, net lending will keep varying more from month to month than previously. However, there will be no effect on net lending for the whole year since the agencies will close their repos over the turn of the year. See the box "How repo transactions by agencies affect the borrowing requirement" for more information.

Interest payments on central government debt

Interest payments are expected to be SEK 38 billion, which is SEK 1 billion more than the previous forecast.

Annual forecast for 2009

The level of international economic activity will have a greater impact on central government finances next year. Sweden is a small open economy which is affected to a great extent by events in the rest of the world. The borrowing requirement is expected to be SEK –60 billion, which is an increase compared with 2008 of SEK 41 billion (lower surplus). It is primarily taxes on capital that continue to decrease slightly at the same time as taxes on wages and consumption rise more slowly than before. Expenditure continues to grow due to higher upward index adjustments. Table 3 shows how the various central government payments change from year to year and how this affects the borrowing requirement. Apparently small percentage changes have a relatively large impact on the borrowing requirement if they interact.

We expect that the Government will carry out non-financed reforms in the range of SEK 15 billion in 2009. The large surpluses in recent years have meant that the goal for general government net lending has been complied with by a broad margin. At the same time, a low rate of development of central government expenditure has entailed large margins under the expenditure ceiling. We therefore make the assessment that the Government will consider that there is scope for fiscal policy stimulation during 2009. It may also be easier for the Government to justify stimulating the economy if the level of economic activity is weaker.

We are estimating SEK 50 billion in sales income for 2009 as well. See the box "Sales of state assets" for further information on the forecast on sales of state assets.

Table 3. EFFECT ON THE CENTRAL GOVERNMENT BORROWING REQUIREMENT, CHANGES FROM PREVIOUS YEAR

SEK billion	2007	2008	2009
Taxes	–54	–38	–19
Payments to local government	46	45	47
Sale of state-owned assets	–18	–32	0
Share dividends	–9	10	4
Labour market	–16	–3	–2
Swedish Social Insurance Agency	0	16	10
EU contribution	0	4	–11
Reforms	0	0	15
Take-over of loan from Venantius	–4	0	0
Net lending by the Debt Office	–31	12	–1
Interest on central government debt	–2	–9	–5
Other	3	–3	3
Total	**–85**	**2**	**41**
Net borrowing requirement	**–103**	**–101**	**–60**

The primary borrowing requirement

We estimate the primary borrowing requirement (all state payments excluding interest on central government debt) at SEK –93 billion. This is an increase of SEK 46 billion compared with 2008.

The most important explanation of the change compared with 2008 is that tax revenue will grow at a considerably lower rate. This is mainly due to a decrease in the cyclically sensitive income from capital taxes. Corporate profits and household capital gains will both decrease relatively little. The change in tax revenue will none the less be quite large compared with the strong increases in profits we have seen in recent years.

As previously mentioned, the forecast includes SEK 15 billion in non-financed reforms during 2009. However, we are not making any forecast of the type of fiscal policy stimulation which this may entail, but are only adjusting the borrowing requirement in standardised terms.

The weaker development of income is counteracted somewhat by Sweden receiving a discount on its EU contribution. The contribution for 2009 will be SEK 11 billion lower than this year. The Council of the European Union has decided on a new system of EU funding from 2007 onwards. Among other things, this means that the countries which are net contributors will have a reduced VAT charge. Sweden will also have an annual discount on the GNI charge. The new system will be put into operation in 2009, but apply retroactively from 2007. The discount will therefore be particularly high in 2009. However, the new system must be approved by all member states before it comes into force. There is therefore a considerable risk that it will take more time and that the discount will be postponed.

Dividends on state-owned shares are calculated at SEK 20 billion, which is SEK 4 billion less than in 2008. This reduction is explained by our including sales of state-owned shares, which reduces the ownership share and thus leads to lower dividends. The total effect on the borrowing requirement will be less since interest payments will decrease when the central government debt shrinks.

Net lending by the Debt Office to central government agencies, public enterprises and state-owned companies is expected to amount to SEK 10 billion.

Interest payments on central government debt

Interest payments are estimated at SEK 33 billion. This is SEK 5 billion lower than in 2008. This reduction is due to shrinking central government debt and increasing exchange rate gains from year to year.

SALES OF STATE ASSETS

In previous forecasts, we have assumed sales of state assets of SEK 50 billion per year. We have not seen any reason to depart from the assessment of the government.

This time we are also including SEK 50 billion in the forecast for 2008 and also for the new forecast year of 2009. The outcome for 2007 was SEK 18 billion from sale of shares in TeliaSonera. We have thus decided not to add on the SEK 32 billion, which was not realized last year, this year or next year. We interpret the Government's rate of sales of SEK 50 billion per year as a political ambition and a target rather than a fixed timetable.

The Debt Office does not receive any additional information about the sales than what is generally available. Our assessments are therefore as uncertain as those of others. What controls our action is only how we can deal with the existing uncertainty in the best way in funding the central government debt.

We monitor the development of the companies continuously. We believe that the turbulence in the international finance sector and the fall on the stock exchanges will mean that it will take longer to carry out all the sales of companies on the list than would otherwise have been the case. In particular, it should be more difficult in the present situation to find purchasers for Nordea and SBAB, but also for Vasakronan.

We expect the Government to sell Vin & Sprit during 2008. In addition, the payment for the state's share of OMX of SEK 2 billion is to be made in February.

As regards the value of Vin & Sprit, the envisaged consensus has been around SEK 40 billion. No one knows what the final price will be. We consider that the estimated value of Vin & Sprit and the selling price for OMX is not too far off from the SEK 50 billion we have in our forecast. This also provides scope for an additional sale taking place during 2008 or that the price for Vin & Sprit will be higher than expected.
It is possible that the sale will take time, if, for example, the price situation is worse than expected or due to political and legal difficulties.

If Vin & Sprit is sold, around half of the value of the remaining companies will consist of shares in TeliaSonera. The one-year limit that the Government committed itself to for selling more shares on the stock exchange, at the time of the previous sale in 2007, will elapse in the spring of 2008. TeliaSonera ought to be the company on the sales list whose activity is least affected by the turbulence in the financial sector. We therefore make the assessment that it will probably be TeliaSonera if there is a sale during 2009. Of course, other companies may come into question if the state of the market changes, which can happen rapidly.

We consider that SEK 50 billion is a reasonable expected value for sales during 2009. We make the assessment that the probability is greatest for a sale of TeliaSonera during 2009 at the same time as there is some possibility for the other companies as well.

CONDITIONS UNDERLYING THE FORECAST

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) most recent macro scenario. In this forecast, we are using the macro forecast presented by NIER in its publication "The Swedish Economy" in January 2008. This forecast also takes into account information received after NIER published its forecast.

In January, NIER indicated that the Swedish economy would slow down. GDP in fixed prices is to grow by 3.0 per cent this year and by 2.8 per cent in 2009. Employment is expected to continue to increase during the period although the increase in 2009 is expected to be weak. The rate of wage increases is rising gradually during the forecast period at the same time as inflation is high during 2008 to slacken off slightly in 2009.

Based on NIER's macro forecast, we are making our own assessment of the basis for calculation which affects the central government borrowing requirement. This includes the bases for tax on work, capital and consumption. We expect that gross wages, the single largest tax base, will rise by 6 per cent in 2008 and by 5 per cent in 2009. The discrepancy compared with NIER is mainly explained by available statistics for the development of gross wages for 2007 indicating that a lower outcome for 2007 than in NIER's forecast. As regards household consumption in current prices, we have assumed that it will increase at approximately the same rate as gross wages.

Otherwise, we are taking into account in our forecast, the expenditure limits and tax rules proposed by the Government in various bills. However, in this respect we make our own calculations of the financial effects for the state and assess the point in time at which these measures affect central government payment flows. See, for example, "Sales of state assets".

The Debt Office's forecast of interest payments on central government debt is based on the interest rates and exchange rates at the time of the forecast. The stop date for the current forecast was 31 January 2008. We have also taken into consideration the outcome for the borrowing requirement until the end of January.

Central government net lending

Central government net lending is expected to amount to SEK 50 billion in 2008 to decrease to SEK 13 billion in 2009. This corresponds to 1.6 per cent and 0.4 per cent of GDP. The Government's set target is for general government net lending (i.e. including the old age pension scheme and the local government sector) to amount to 1 per cent of GDP on average over a business cycle. Since both the old age pension scheme and the local government sector are expected to show a surplus during 2008 and 2009, the Government has a good possibility of achieving the set target.[1]

Table 4. CENTRAL GOVERNMENT NET LENDING 2005–2009

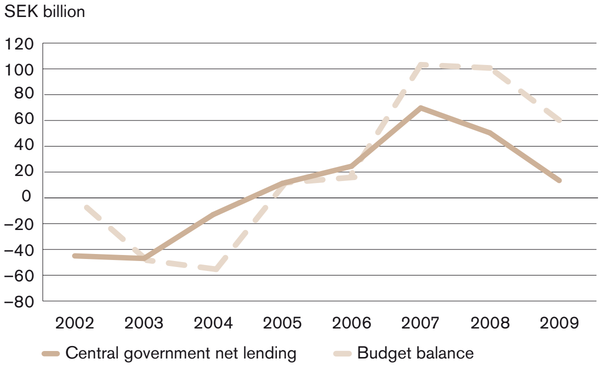
SEK billion	2005	2006	2007	Forecast 2008	Forecast 2009
Budget balance	**14**	**18**	**103**	**101**	**60**
Adjustment items	−3	6	−33	−50	−47
Sale of limited companies	−7	0	−18	−50	−50
Transfer from AP funds	−2	0	0	0	0
Lending, net repayment	3	22	2	−3	1
Price and exchange rate losses	−3	12	7	3	0
Accruals	16	−4	−13	0	2
Other	−11	−24	−11	0	0
Net lending	**11**	**25**	**70**	**50**	**13**
Per cent of GDP	*0.4*	*0.8*	*2.3*	*1.6*	*0.4*

The difference between the central government budget balance (the converse of the borrowing requirement) and central government net lending depends in principle on their having different definitions of what is to be included, and that they register economic events at different times. For instance, the accrual item makes adjustments for the budget balance reporting in-payments and disbursements at the same time as net lending reports income and expenses. For 2008 and 2009, the different definition has a clear effect on the central government budget balance which is expected to be SEK 50 billion higher per year from sales of state-owned companies. These sales do not affect central government net lending, however, since an exchange of shares for cash does not have any effect on net lending.

Figure 2 shows that the development of central government net lending complies well with the development of the budget balance. The adjustment items which exist in particular years are less in amount than the impact of the level of economic activity. Both net lending and the budget balance increased by over SEK 100 billion during the upswing between 2003 and 2007.

[1] *For details on net lending in the old age pension scheme and the local government sector, see the latest forecast from NIER.*

Figure 2. CENTRAL GOVERNMENT NET LENDING AND BUDGET BALANCE



Monthly forecasts

The Debt Office publishes monthly 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 borrowing requirement five working days after the end of each month.

Table 5. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT PER MONTH

SEK billion	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Primary borrowing requirement	−50.5	−2.4	−27.1	−14.9	−34.3	−8.6	−19.5	−13.6	6.5
Interest on central government debt	1.8	5.4	−0.8	5.7	1.1	0.8	3.7	0.3	1.8
Net borrowing requirement	**−48.6**	**3.0**	**−27.8**	**−9.2**	**−33.2**	**−7.8**	**−15.8**	**−13.3**	**8.3**

Variations from month to month are largely explained by variations in tax revenue, dividends from state-owned shares, repo transactions by agencies, and sales of state-owned shares.

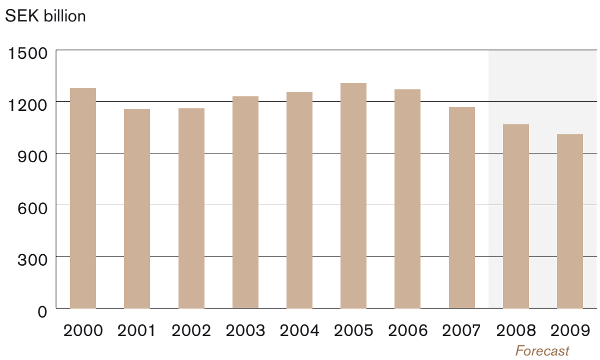
Repo transactions by agencies affect the borrowing requirement by SEK 24 billion in May, SEK −16 billion in June and SEK −8 billion in July.

Sales of state-owned shares are expected to affect the borrowing requirement by SEK −2 billion in February, SEK −24 billion in June, SEK −12 billion in September and SEK −12 billion in December. We make the assessment that this is a distribution that is appropriate to deal with the uncertainty that exists about when the sales will take place.

Central government debt

At the end of January 2008, the central government debt amounted to SEK 1,145 billion. This is a reduction since the turn of the year of SEK 23 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-related dispositions. We usually estimate that short-term investments amount to SEK 0 at the turn of the year. This means that they will decrease by SEK 0.2 billion by the turn of the year. Otherwise, we expect the central government to change at the same rate as the net borrowing requirement. The central government debt is thus expected to amount to SEK 1,069 billion at the end of 2008 and to SEK 1,009 billion at the end of 2009. This is equivalent to around 33 and 30 per cent of GDP. [1]

Figure 3. GOVERNMENT DEBT, 2000–2009



[1] *This calculation is based on the National Institute of Economic Research's most recent forecast of GDP. Central government debt refers to unconsolidated central government debt.*

SENSITIVITY ANALYSIS

The Debt Office does not produce any overall sensitivity 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. The table shows a rough estimate of these effects one year ahead. These effects must be added if it is wished to make an assessment of an alternative scenario where a number of variables develop differently.

SENSITIVITY ANALYSIS
SEK billion
Increase by one per cent/percentage point
Effect on borrowing requirement

Gross wages [1]	−5
Household consumption, current prices	−2
Open unemployment	5
Interest rate level in Sweden	4
International interest rate level	2
TCW-index	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 (the time horizon in the table) is greater than the permanent effect.*

Funding

The issue volume in nominal government bonds is increasing from SEK 1.5 billion to SEK 2.5 billion per auction. Borrowing in inflation-linked bonds is unchanged at an annual pace of SEK 3 billion. Foreign currency borrowing is estimated at SEK 12 billion in 2008 and SEK 40 billion in 2009.

The funding requirement

The net borrowing requirement is estimated at SEK –101 billion and SEK –60 billion (budget surpluses) for 2008 and 2009 respectively. For 2008, this entails a reduction of the budget surplus of SEK 15 billion compared with the forecast from October. The outcome for the surplus in 2007 was SEK 32 billion lower than the October forecast.

The Debt Office also needs to obtain funding for maturing loans. Altogether, funding in bonds and net funding in T-bills (government securities) is estimated at SEK –6 billion in 2008 and SEK 101 billion in 2009. In 2008, the budget surplus will accordingly be larger than maturing bond loans. In 2009, the volume of maturing bond loans is greater than the budget surplus and the funding requirement will be positive. The reason for bond maturities being so large in 2009 is that two loans mature during the same year, one in January and one in December. It is accordingly a calendar-related effect rather than an accelerating volume of maturities.

Table 1. FUNDING 2007–2009

SEK billion	2007	2008	2009
Net borrowing requirement [1]	**–103**	**–101**	**–60**
Change in cash equivalent holdings and retail market borrowing [2]	–36	–12	–11
Maturing bond loans and buybacks	79	106	172
Government bonds	62	79	112
Foreign currency bonds	17	27	59
Total	**–59**	**–6**	**101**
T-bill borrowing, net [3]	**–110**	**–61**	**25**
Bond borrowing, gross [4]	**51**	**55**	**76**
Foreign currency bonds	5	3	20
Inflation-linked bonds [5]	5	3	3
Nominal government bonds [6]	41	49	53
Funding in government securities	**–59**	**–6**	**101**

1 *A surplus in the central government budget means that the net borrowing requirement is negative.*

2 *Change in outstanding deposits, liquidity bills and repos. Retail market borrowing is assumed to be unchanged in 2008 and 2009.*

3 *The net of issues (excluding exchanges) and maturities.*

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

	2007	2008	2009
5 *The issue volume per auction, average.*	*0.5*	*0.5*	*0.5*
6 *The issue volume per auction, average.*	*1.9*	*2.3*	*2.5*

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

The previous section on the central government borrowing requirement contains a discussion of the very high level of uncertainty attached to the forecasts of income from sale of state assets. We have taken into consideration the entire sales programme in our funding forecast as regards the assessment of the necessary amount of borrowing in nominal government bonds. The uncertainty as regards the time aspect of allocation is not so important here. The uncertainty as regards timing will mainly affect the allocation in time of T-bill borrowing and liquidity management.

Table 2. IMPORTANT DATES IN 2008

Date	Time	Activity
13 March 2008	11.00	Exchanges from 3105 to 3102 and 3104
18 June 2008	09.30	Central Government Borrowing – Forecast and Analysis 2008:2
2 October 2008	11.00	Exchanges from 3105 to 3102 and 3104
8-9 December 2008	11.00	Buyback of a limited part of loan 1048

Nominal krona borrowing

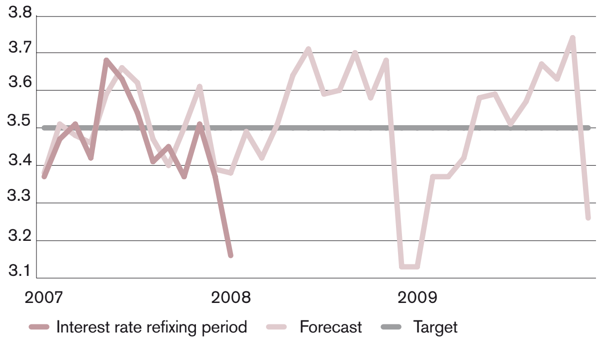
Nominal government bonds

Issue volume increases to SEK 2.5 billion

The Debt Office will issue government bonds for SEK 2.5 billion per auction from the issue in March. This in crease of SEK 1 billion kronor per auction is due to a slightly higher borrowing requirement during 2007 and 2008 than we previously calculated with. The larger bond borrowing is needed to avoid the interest rate refixing period becoming too short. We expect to retain the same issue volume for the rest of the year and during 2009. The number of issue dates is 21 per year.

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 2008 and 2009, which is in line with the benchmark established by the Debt Office. The maturity is developing approximately in line with the October forecast.

Figure 1. FORECAST AND OUTCOME FOR THE INTEREST RATE REFIXING PERIOD OF THE NOMINAL KRONA DEBT, 2007–2009



The target for the 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.

The short interest rate refixing period in December 2008 is due to large seasonal net borrowing requirements in that month at the same time as both inflation-linked and foreign currency loans mature in December 2008. Extensive short funding in December means that the maturity will be temporarily very short to be extended again during the spring of 2009.

Despite increased issue volumes, the outstanding volume of nominal government bonds will decrease in the coming two years.[1] However, this decrease is relatively limited compared with the reduction of the central government debt. This reflects our aim to give priority to bond borrowing in order to maintain a liquid bond market. The following table also shows the exposure in bond rates taking into consideration planned swaps. These are discussed in more detail in the section on T-bills and foreign currency borrowing.

Table 3. CHANGE IN OUTSTANDING GOVERNMENT BONDS INCL. SWAPS

SEK billion	2007	2008	2009
Nominal government bonds, issues	41	49	53
Maturities, buybacks and exchanges	−77	−60	−107
Change in nominal government bond stock	−36	−11	−54
Swaps, net[1]	13	-3	19
Nominal government bonds and swaps, net change	**−23**	**−14**	**−36**

[1] *Net of new and maturing swaps.*

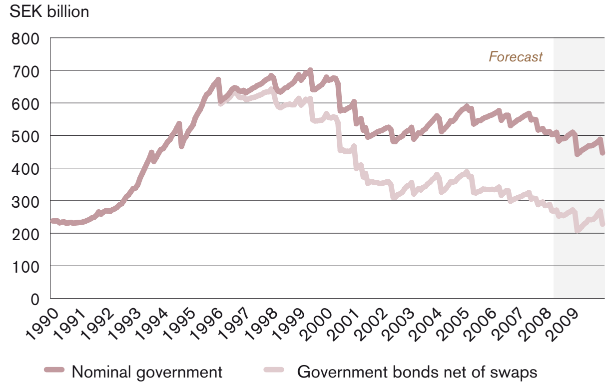
Issues

We will continue to issue reference loans with two-, five- and ten-year maturities. Slightly over half of the issues will be made in the ten-year loan. We expect to make a few issues in the two- and thirteen-year maturities and the rest in the five-year segment.[2] An issue may be made in another maturity if it is justified to maintain liquidity.

[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] *For more information, see the fact box on our issue decisions in Central Government Borrowing – Forecast and Analysis 2005:3.*

Figure 2. GOVERNMENT BONDS AND SWAPS



A new ten-year bond, loan 1052, was introduced on 21 November 2007. This loan matures on 12 March 2019. The new loan will be a ten-year reference loan in the electronic interbank market on the third Wednesday of March 2008.[3] No new ten-year loan will be introduced until 2010 at the earliest since loan 1047 (December 2020) will be a new ten-year reference loan in December 2009.

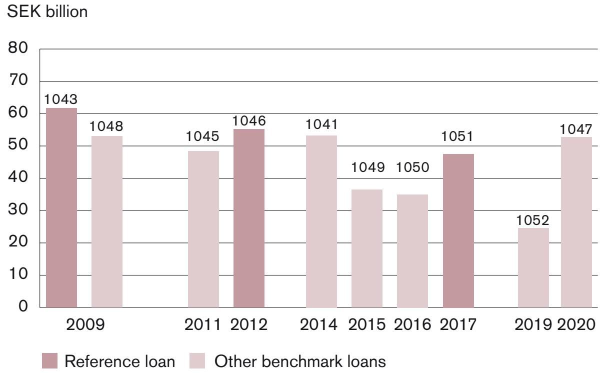
We will continue to offer limited buybacks, around a fifth of the stock, of nominal government bonds when there is less than a year to maturity. We offered a buyback of loan 1043 (January 2009) for a total of SEK 15 billion on 4 and 5 February 2008. We will offer a similar buyback of loan 1048 (December 2009) of approximately the same size on 8 and 9 December 2008.

Table 4. REFERENCE LOANS IN THE ELECTRONIC INTERBANK MARKET*

Date for exchanges of reference loans (IMM date)	2-year	5-year	10-year
19 March 2008	1048	1046	1052
18 June 2008	1045	1041	
17 Sep 2008			
17 Dec 2008			

* *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 3. NOMINAL GOVERNMENT BONDS (BENCHMARK LOANS)



[3] *Reference loans in the electronic trade are the loans that are closet 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.*

T-bills and interest rate swaps

Increased borrowing with T-bills

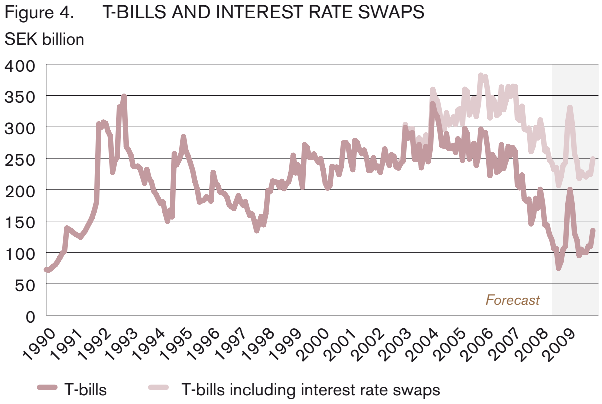
Funding in T-bills (the net of issues and maturities) is expected to increase by SEK 49 billion during 2008 compared with 2007. This increase is less compared with the previous forecast when we estimated an increase of SEK 73 billion kronor in 2008. The reason is that the reduction in 2007 was not as large as we expected in the previous forecast.

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

SEK billion	2007	2008	2009
T-bill borrowing, netto *	–110	–61	25
Exchanges of government bonds to T-bills	27	0	0
Change in T-bill stock	–84	–61	25
Interest rate swaps, net	14	19	-19
T-bill stock and swaps, net change	**-70**	**–41**	**6**

* *Net of issues (excluding exchanges) and maturities.*

Figure 4. T-BILLS AND INTEREST RATE SWAPS



During the past five years the T-bill stock has fluctuated around SEK 250 billion. In the previous forecast, the stock was estimated to be in the range of SEK 100 billion in 2008. It now looks as if it will be around SEK 125 billion. The issue volume per auction is estimated at an average of around SEK 15 billion kronor during 2008 and 2009, although there will be large variations between issues since the borrowing requirement varies strongly from month to month.

A new policy for T-bill borrowing has been applied from the turn of the year with four outstanding maturities of up to six months. Previously, we had six maturities up to twelve months. The last twelve-month bill was issued in December 2007.

SEK 44 billion and SEK 23 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 government funding costs. This technique also makes it possible to provide more liquidity in the bond market without increasing the total time to maturity. Good liquidity in the bond market should also contribute to reducing borrowing costs.

During 2008 and 2009, about SEK 44 billion and SEK 23 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 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. During 2008, the swap volume is expected to be slightly greater than previously stated.

The outstanding stock of swaps is expected to increase slightly in 2008 and then decrease again in 2009; see table 6. The outstanding stock depends on the swap volume which is mainly determined by our maturity targets and old outstanding swaps which are now maturing.

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	2007	2008	2009
Interest rate swaps *	19	35	3
Foreign currency swaps**	11	9	20
Swaps total	**30**	**44**	**23**
Swaps, maturities	–43	–41	–41
Swaps, net change	**-13**	**3**	**–19**

* *Interest rates 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

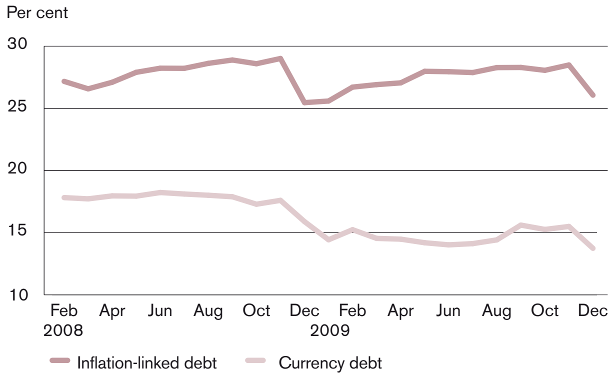
Issue volume of approximately SEK 3 billion

During 2007, we issued SEK 5 billion in inflation-linked bonds. In the future, we expect to issue at an annual pace of around SEK 3 billion. This is the same pace as we stated in the previous forecast.

The share of inflation-linked debt is at present around 28 per cent of central government debt. This means that the proportion is now greater than that decided upon by the Government. The maturity of inflation-linked debt at the end of the year shall be 10.6 years with a deviation interval of ±0.5 years. The interval has been set in such a way as provide us with the flexibility we need in our management of inflation-linked borrowing.

In the event of large budget surpluses, the share of inflation-linked debt will increase even if we refrain from issues. As

Figure 5. THE SHARE OF INFLATION-LINKED AND FOREIGN CURRENCY DEBT OF CENTRAL GOVERNMENT DEBT



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.

shown by figure 5, we expect that inflation-linked debt will remain at 28 per cent. This is slightly lower compared with the previous forecast, the reason being that we are now assuming a slightly larger borrowing requirement.

The control of the share of debt for inflation-linked bonds around a benchmark is problematic for a type of debt such as inflation-linked bonds. We have previously noted this, in our proposed guidelines on central government debt management during 2008, among other places. Means are lacking, for instance, derivative instruments, which could be used to keep the share at a relatively constant level at a reasonable cost during periods when the state budget is showing large deficits or surpluses; see the following section on measures to control the inflation-linked share.

The Debt Office aims for a long-term approach in borrowing and effective markets for central government debt instruments. We have therefore continued to borrow in the inflation-linked market, even though in small volumes, to contribute to liquidity.

During 2008, we are planning six sales auctions and two exchange auctions. During 2008, the issues will be relatively evenly spread between 3106, 3105, 3102 and 3104. The choice of bond for each particular auction will mainly comply with an internal issue plan which has been adopted in advance.

Exchanges and buybacks of inflation-linked loans

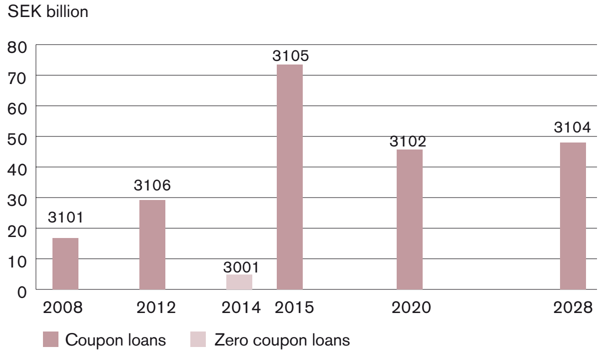
During the autumn of 2007, we considered a number of alternatives in our borrowing policy which aimed to avoid large maturities and, as far as possible, comply with the target of a 25 per cent inflation-linked share in a cost-effective way. We have decided to continue with one of the alternatives.

From 2008, we will offer *exchange rate risk-neutral extension exchanges*[4] from 3105 to 3102 and 3104 for the equivalent of SEK 10 billion of loan 3105. These exchanges will take place on 13 March and 2 October 2008. If the exchanges work satisfactorily, we expect to continue with these up to the end of 2013. However, we will allow at least SEK 25 billion of 3105 to mature.

In the more long-term calculations of the development of the share, we have assumed an issue volume of SEK 3 billion per year. We also expect to make exchanges equivalent to SEK 10 billion in 2009 and 2010. Subsequently the exchange volumes will be decreased to SEK 5 billion per year until the end of 2013.

The whole of loans 3101 and 3106 will continue to maturity, i.e. we will not offer any exchanges or buybacks.

Figure 6. INFLATION-LINKED GOVERNMENT BONDS



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 2008, foreign currency loans corresponding to around SEK 52 billion will mature. This means that we will need to borrow SEK 12 billion in foreign currency this year to achieve the target for the pace of amortisation. The Debt Office will change over to percentage control in 2009. This means that we will borrow a sufficient amount to keep the foreign currency debt around 15 per cent. Given our forecast for the development of the debt, we expect to make a foreign currency amortisation of SEK 36 billion in 2009.

We can borrow in foreign currency by issues of krona bonds which are swapped for exposure in foreign cur-

[4] *Exchange rate neutral exchanges means that that the market value of the purchase and sale volume will be multiplied by the modified duration for the respective bond to be the same.*

Table 7. FOREIGN CURRENCY BORROWING 2007-2009

SEK billion	2007	2008	2009
Foreign currency borrowing requirement, gross	16	12	40
Foreign currency amortisation	−42	−40	−36
Maturities and exchange rate differences	58	52	76
Foreign currency bonds *	20	24	59
Currency swaps **	38	26	19
Short-term currency loans, net	-3	3	0
Realised exchange rate differences	3	-1	−3
Foreign currency borrowing, gross	16	12	40
Foreign currency bonds	5	3	20
Currency swaps, gross **	11	9	20

* *Valued at acquisition prices.*

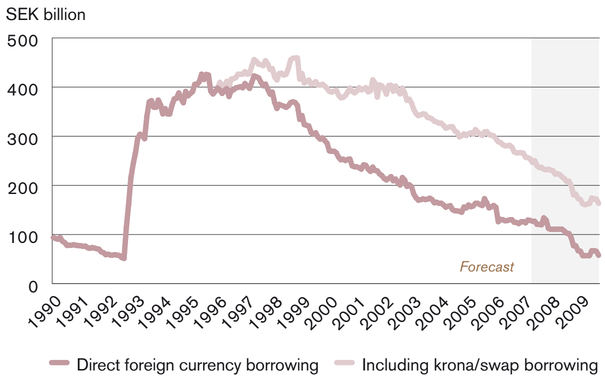
** *Interest rate swaps from long to short interest rate exposure combined with foreign currency swaps to foreign currency.*

rency (krona/swap borrowing)[5] or by issues of foreign currency bonds (direct foreign currency borrowing). The allocation of foreign currency borrowing between direct foreign currency borrowing and krona/swap borrowing depends on the interest terms that can be obtained. The small borrowing requirement and the priority we give to bonds issued in krona will also greatly restrict our ability to issue bonds in foreign currency in 2008. However, the larger borrowing requirement in 2009 will mean that there is some need for issuing larger bond volumes in foreign currency.

The allocation between krona/swap borrowing and direct foreign currency borrowing during 2009 has been made in a standardised way. The actual allocation can therefore deviate from the assumptions in table 8. Since we have large maturities of direct foreign currency loans in both 2008 and 2009, the stock of bonds issued in foreign currency will rapidly decrease and provide an equivalent scope for borrowing in nominal krona bonds.

The share of foreign currency debt is at present 17 per cent, see figure 5 above. We expect to continue to amortise the foreign currency debt at the equivalent of an annual pace of SEK 40 billion in 2008 as well, provided that the exchange rate for the krona is at reasonable levels. When the share is 15 per cent, the size of foreign currency borrowing will be determined by the total funding requirement and the

Figure 7. DEVELOPMENT OF FOREIGN CURRENCY DEBT



foreign currency borrowing required to retain the share in the range of 13–17 per cent, in accordance with the control system decided upon by the Government in 2006. Our assessment is that the share will be close to 15 per cent at the turn of the year 2008/2009.

Summary

The issue volume in nominal government bonds is increasing to SEK 2.5 billion per auction. As far as we are now able to assess, this issue volume will be retained in 2009.

Bond borrowing will be allocated so that slightly over half will be made in the ten-year maturities. In addition, we expect to make a few issues in the two- and five-year segment, and the remaining issues in the five-year maturity.

T-bill borrowing is expected to increase by SEK 49 billion during 2008 compared with 2007 when a sharp decrease took place. We expect to make swaps corresponding to around SEK 44 billion and SEK 23 billion respectively during 2008 and 2009.

We expect a borrowing volume for inflation-linked bonds at around an annual pace of SEK 3 billion. During 2008, we will offer exchanges from 3105 to 3102 and 3104 for the equivalent of SEK 10 billion of loan 3105.

The Debt Office is amortising the foreign currency debt at an annual pace of SEK 40 billion. Foreign currency borrowing is expected to amount to the equivalent of SEK 12 billion during 2008. In 2009, we will change over to percentage control. Foreign currency borrowing is estimated at SEK 40 billion during 2009.

Prospera has carried out an evaluation of the Debt Office's borrowing for the fourth consecutive year at our request. The positive impression of the Debt Office has successively strengthened since 2004 when the first survey took place. The positive result is being maintained and is very similar to last year's result. The survey is available in pdf-format on www.riksgalden.se.

[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 krona, which is higher than the bond yield (the exposure in the long bond yield is eliminated), to instead pay a variable interest rate in foreign currency. This 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 accordingly issue a bond loan in kronor, exchange the amount 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.

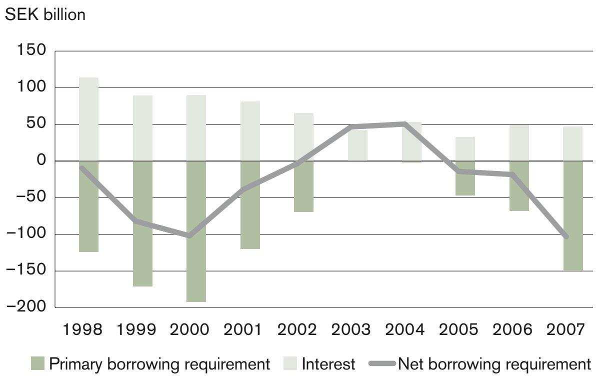
Large surplus and shrinking borrowing in 2007

The central government budget gave a surplus of SEK 103 billion in 2007. Central government debt decreased by SEK 102 billion to SEK 1,168 billion. This corresponds to around 38 per cent of GDP, 7 percentage points less than in 2006. The allocation between inflation-linked debt, foreign currency debt and nominal debt continued to approach the shares decided upon by the Government. The large surplus led to a reduction in issuance of all types of debt.

Strong central government finances

The budget surplus of SEK 103 billion was the greatest ever. It increased by SEK 85 billion compared with 2006; see figure 1. The change between the years was affected by some temporary factors but none the less reflects a marked improvement in central government finances.

Figure 1. CENTRAL GOVERNMENT BORROWING REQUIREMENT 1997–2007



A surplus in the central government budget means that the net borrowing requirement is negative in the figure.

The high level of economic activity continued to have a positive effect on central government finances. Increased employment and consumption meant that tax revenue continued to rise. However, the rate of increase slowed from 2006 because of tax reductions.

During the spring, the state sold part of its shareholding in Telia Sonera. This gave an income for the state of SEK 18 billion. Dividends from the state's shares were SEK 34 billion, an increase of SEK 12 billion compared with the previous year. The high level of economic activity also affected central government expenditure, which rose considerably less than in 2006. In particular, expenditure decreased for unemployment and ill health.

Net lending to central government agencies and state-owned companies fell by SEK 1 billion, which can be compared with an increase of SEK 30 billion in 2006. The great difference is mainly due to payment of premium pension funds being shifted over the year-end, leading to a one-off effect of SEK 25 billion during 2006.

Interest payments amounted to SEK 47 billion. Compared with 2006, this is a reduction of SEK 2 billion, which can mainly be explained by lower foreign currency losses. Foreign currency losses decreased to SEK 2 billion in 2007 from SEK 6 billion in 2006. The size of foreign currency gains and losses depends on when loans mature and exchange rate movements since the loan was raised.

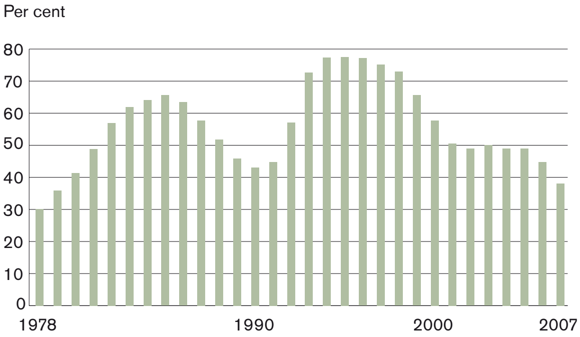
The fact that current interest payments did not decrease at the same rate as central government debt is due to higher market rates in 2007, in particular for short maturities. Short interest rates rose since the Riksbank and central banks in other countries increased their key policy rates.

Short interest rates affect interest payments more quickly than long rates. This is because we have a large proportion of T-bills and variable interest payments through interest rate swaps in the Swedish krona debt and an interest rate refixing period of less than 2 months in the foreign currency debt.

Central government debt continued to decrease

The central government debt was SEK 1,168 billion at the end of 2007. This corresponds to around 38 per cent of GDP. The debt ratio has not been so low since the end of the 1970s; see figure 2. Forecasts indicate that the debt will continue to diminish in coming years, both in terms of kronor and in relation to GDP.

Figure 2. CENTRAL GOVERNMENT DEBT IN RELATION TO GDP, 1978–2007



During 2007, the central government debt decreased by SEK 102 billion. The debt reduction was thus smaller than the budget surplus. This is because other factors also affect the debt. These include the revaluation of the foreign currency debt to current exchange rates and changes in the Debt Office's cash balance. These items can each be large amounts although in 2007 they largely offset one another.

Higher average running yield

The central government budget and borrowing requirement are affected by interest payments. However, a measure of costs often provides a more accurate picture of how central government debt affects central government finances. The goal for central government debt management is therefore expressed in terms of costs.

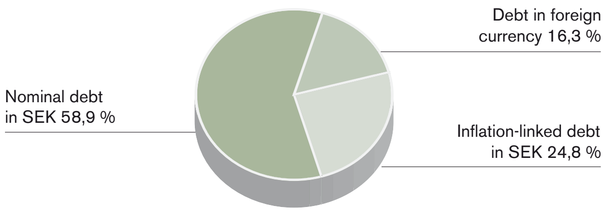
We use the average running yield as a measure of the costs of the debt. This corresponds to the average interest rate that the state has undertaken to pay on the debt instruments we have issued. At the end of 2007, the average running yield for the whole debt was 4.0 per cent. A year earlier it was 3.7 per cent. The fact that it has increased between the years is due also in this case to higher market rates for instruments with short maturities, both in Swedish kronor and foreign currency.

An interest rate of 4 per cent on a debt of SEK 1,168 billion corresponds to an interest cost of SEK 47 billion per year. This is the same figure as interest payments during 2007. Even if costs and payments should be broadly the same in the long term, it is a coincidence that the figures are so close in any particular year.

The debt portfolio close to the target shares

According to the Government's guidelines for central government debt management, the debt should in the long run have an inflation-linked share of 25 per cent, a foreign currency share of 15 per cent and a nominal krona share of 60 per cent.[1] At the turn of the year, the share of inflation-linked debt was 24.8 per cent. The foreign currency debt accounted for 16.3 per cent. The foreign currency share is thus approaching the benchmark of 15 per cent. The remainder consists of nominal krona debt; see figure 3.

Figure 3. COMPOSITION OF CENTRAL GOVERNMENT DEBT



The average interest rate refixing period was 4.5 years at the turn of the year. This is 0.4 years less than at the end of 2006 and 0.2 years shorter than the benchmark in the Government's guidelines. The shortening of the time to maturity decided upon by the Government has accordingly taken place.

The fact that maturity ended up slightly lower at the end of the year reflects that we had an uncommonly large proportion of short borrowing. This is partly due to seasonal factors, although also to the fact that our borrowing plan was based on the assumption that the state would receive SEK 50 billion from privatisation. As income from privatisation amounted to just SEK 18 billon, we were obliged to increase short-term borrowing, which can be rapidly adapted to changed borrowing requirements.

Reduced borrowing in all types of debt

The large budget surplus and the shrinking central government debt led the Debt Office to reduce borrowing in all types of debt. The decrease was particularly sharp for T-bill borrowing. This reflects our decision to give priority to the nominal bond market, which we regard as a more important long-term source of finance.

[1] *From 2007, the shares in the guidelines are measured using a new measure that includes all the cash flows of the debt. The debt shares here differ therefore from those reported in the section on market information. The ordinary measure unconsolidated central government debt is used there.*

Nominal krona debt

The Debt Office borrowed SEK 41 billion in nominal government bonds in 2007, compared with SEK 64 billion in 2006. The large budget surplus led us to reduce the issue volume in the auctions. At the beginning of the year, it was SEK 2.5 billion per auction, but during the latter half of the year we only offered SEK 1.5 billion. The Debt Office primarily issues bonds with two-, five- and ten-year maturities. To avoid the individual loans being so small that they are difficult to buy and sell on the market, we decided in the future to issue a new loan with a ten-year maturity only every eighteenth month instead of every twelfth month as before.

Funding through T-bills fell by SEK 32 billion compared with the previous year. The T-bill stock decreased by SEK 84 billion.

An alternative to issuing T-bills is to use interest rate swaps, contracts that entail that we exchange the fixed interest rate on a long bond and instead pay variable interest. We thus issue more long bonds than we would otherwise have done, which improves the performance of the bond market. In this way, we make use of our relative strength as a borrower in long maturities, and can reduce the cost of borrowing. During 2007, we created short borrowing in Swedish kronor for SEK 19 billion by interest rate swaps, SEK 8 billion more than in 2006.

Inflation-linked krona debt

During 2007, the Debt Office issued SEK 5 billion in inflation-linked bonds, SEK 2 billion less than in 2006. At the beginning of the year, we planned to borrow between SEK 5 billion and 10 billion in inflation-linked bonds. In June, the forecast was reduced to SEK 5 billion because of the lower borrowing requirement.

The shrinking debt means that it is difficult to keep the inflation-linked share at the desired level. At the end of 2007, the share was very close to the benchmark, although it was over 25 per cent at other times during the year. This pattern will be repeated in the future. This is due to the inflation-linked debt having long maturities and it would be unreasonably expensive to try to exactly adjust the share by active buybacks. The inflation-linked share will accordingly vary around the benchmark of 25 per cent.

Foreign currency debt

During 2007, the Debt Office created foreign currency debt corresponding to SEK 20 billion. SEK 62 billion of foreign currency debt was repaid, which means that we amortised SEK 42 billion of the foreign currency debt. The difference in relation to the benchmark in the Government's guidelines, SEK 40 billion, is mainly due to exchange rate movements that prevent us from exactly controlling the amortisation amount expressed in kronor. Unlike the previous year, we did not make use of the possibility of actively diverging from the amortisation mandate. This is because we considered that the value of the krona moved within an interval that appears reasonable even in the long term.

The Debt Office can create foreign currency debt either by issuing loans in foreign currency or ensuring that we obtain payment obligations in foreign currency with the aid of swaps. During 2007, the terms of foreign currency swaps were particularly favourable. We therefore chose to create the main part of the foreign currency debt through swaps.

Focus on the surpluses

Borrowing in 2007 was affected by the large surplus in central government finances. In this situation, a key issue is how the reduction of debt is to be allocated between the loan instruments. In a first step, we chose to give less priority to the T-bill market in favour of nominal bonds. According to the present forecasts, the debt will keep shrinking. We will therefore need to continue to prioritise between instruments in the next few years. This work will, like central government debt management as a whole, be guided by an endeavour to obtain the lowest possible long-term cost. At the same time, we must take care of the infrastructure in the government security market, partly to ensure that we are able to increase borrowing again if there should be a rapid change in the prospects for central government finances.

Market information

Source: Swedish National Debt Office, unless otherwise stated

NOMINAL GOVERNMENT BONDS, OUTSTANDING VOLUMES, 31 JANUARY 2008

Maturity date	Coupon %	Loan no.	SEK million
2009-01-28	5.00	1043	76,658
2009-12-01	4.00	1048	53,001
2011-03-15	5.25	1045	48,354
2012-10-08	5.50	1046	55,203
2014-05-05	6.75	1041	53,248
2015-08-12	4.50	1049	36,489
2016-07-12	3.00	1050	34,987
2017-08-12	3.75	1051	47,525
2019-03-12	4.25	1052	23,000
2020-12-01	5.00	1047	51,202
Total benchmarks			479,667
Non-benchmarks			32,151

NOMINAL GOVERNMENT BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2008-02-27	2008-03-05	2008-03-10
2008-03-26	2008-04-02	2008-04-07
2008-04-09	2008-04-16	2008-04-21
2008-04-23	2008-04-30	2008-05-06
2008-05-07	2008-05-14	2008-05-19
2008-05-21	2008-05-28	2008-06-02
2008-06-04	2008-06-11	2008-06-16
2008-06-18	2008-06-25	2008-06-30
2008-08-06	2008-08-13	2008-08-18
2008-08-20	2008-08-27	2008-09-01
2008-09-03	2008-09-10	2008-09-15
2008-09-17	2008-09-24	2008-09-29
2008-10-01	2008-10-08	2008-10-13
2008-10-15	2008-10-22	2008-10-27
2008-10-29	2008-11-05	2008-11-10
2008-11-12	2008-11-19	2008-11-24
2008-11-26	2008-12-03	2008-12-08

T-BILLS, OUTSTANDING VOLUMES, 31 JANUARY 2008

Maturity date	SEK million
2008-02-20	50,703
2008-03-19	65,609
2008-04-16	25,056
2008-06-18	23,406
2008-09-17	15,740
2008-12-17	20,010
Total T-Bills	200,524

T-BILLS, AUCTION DATES

Announcement date	Auction date	Settlement date
2008-02-20	2008-02-27	2008-02-29
2008-03-05	2008-03-12	2008-03-14
2008-03-19	2008-03-26	2008-03-28
2008-04-02	2008-04-09	2008-04-11
2008-04-16	2008-04-23	2008-04-25
2008-04-30	2008-05-07	2008-05-09
2008-05-14	2008-05-21	2008-05-23
2008-05-28	2008-06-04	2008-06-09
2008-06-11	2008-06-18	2008-06-23
2008-06-25	2008-07-02	2008-07-04
2008-07-30	2008-08-06	2008-08-08
2008-08-13	2008-08-20	2008-08-22
2008-08-27	2008-09-03	2008-09-05
2008-09-10	2008-09-17	2008-09-19
2008-09-24	2008-10-01	2008-10-03
2008-10-08	2008-10-15	2008-10-17
2008-10-22	2008-10-29	2008-10-31
2008-11-05	2008-11-12	2008-11-14
2008-11-19	2008-11-26	2008-11-28
2008-12-03	2008-12-10	2008-12-12

INFLATION-LINKED GOVERNMENT BONDS, OUTSTANDNING VOLUMES, 31 JANUARY 2008

Maturity date	Coupon %	Loan no.	SEK million
2008-12-01	4.00	3101	16,696
2012-04-01	1.00	3106	29,162
2014-04-01	0.00	3001	4,788
2015-12-01	3.50	3105	73,459
2020-12-01	4.00	3102	45,595
2028-12-01	3.50	3104	47,964
2028-12-01	3.50	3103	4
Total inflation-linked bonds			217,668

INFLATION-LINKED GOVERNMENT BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2008-03-06	2008-03-13*	2008-03-18
2008-03-20	2008-03-27	2008-04-01
2008-05-15	2008-05-22	2008-05-27
2008-08-28	2008-09-04	2008-09-09
2008-09-25	2008-10-02*	2008-10-07
2008-10-09	2008-10-16	2008-10-21
2008-11-20	2008-11-27	2008-12-02

** Exchange auction*

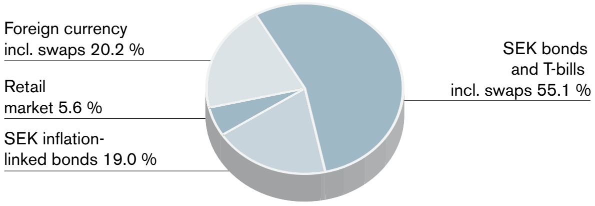
RATING

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

DEBT STRUCTURE

Total debt SEK 1 145 billion

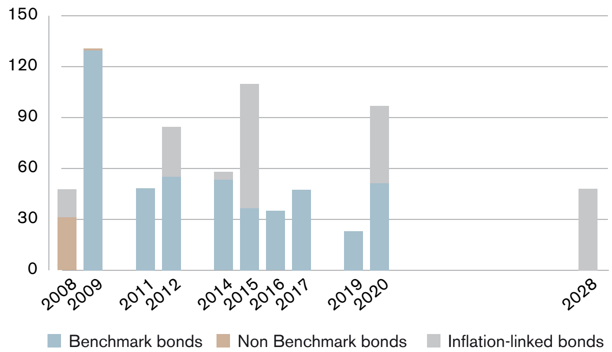
31 January 2008



MATURITY PROFILE, SEK NOMINAL AND INFLATION-LINKED BONDS

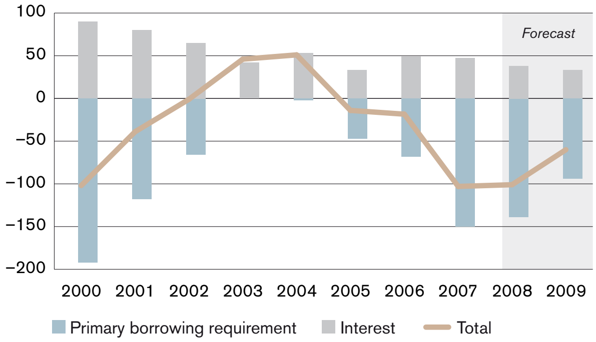
SEK billion

31 January 2008



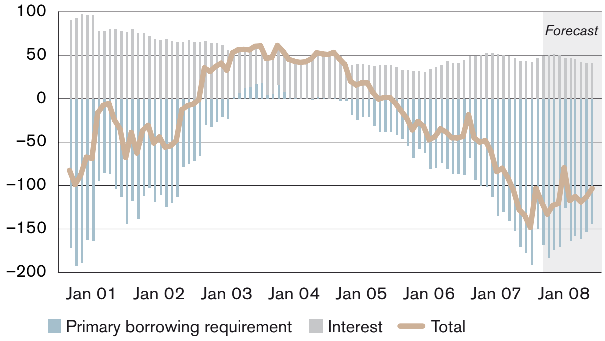
CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 2000-2009

SEK billion

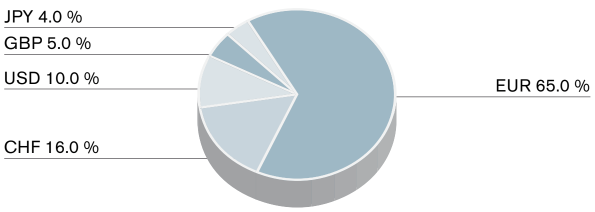


CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 12 MONTHS

SEK billion

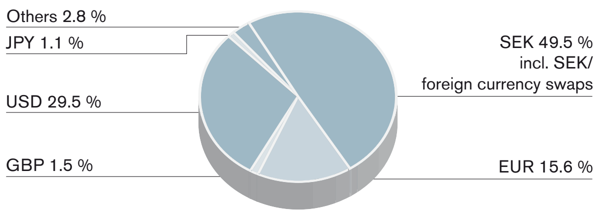


BENCHMARK FOR THE FOREIGN CURRENCY DEBT COMPOSITION

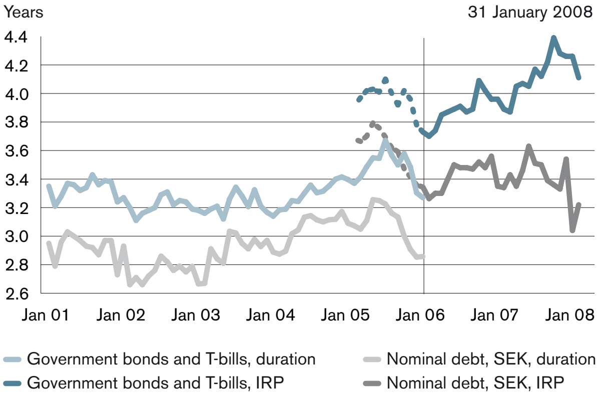


FUNDING IN FOREIGN CURRENCIES

31 January 2008

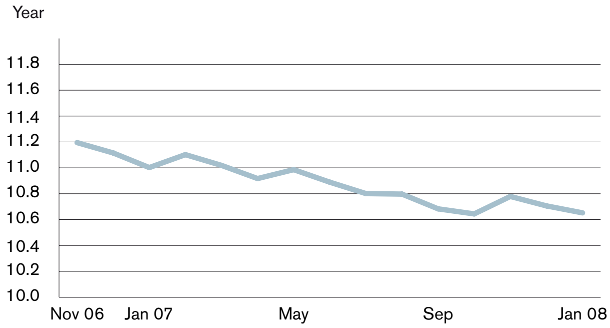


INTEREST-RATE REFIXING PERIOD (IRP)
AND DURATION OF NOMINAL DEBT

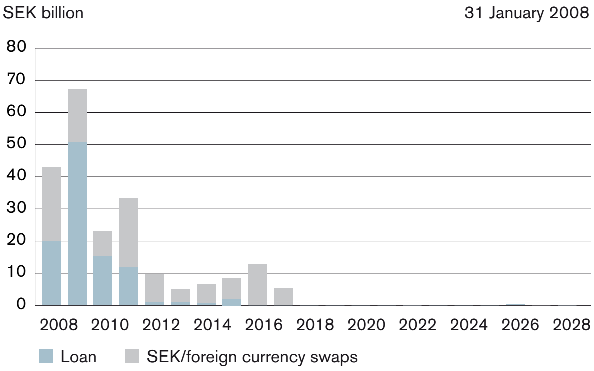


On 1 January 2006 the measure of maturity was changed from duration to interest-rate refixing period (IRP).

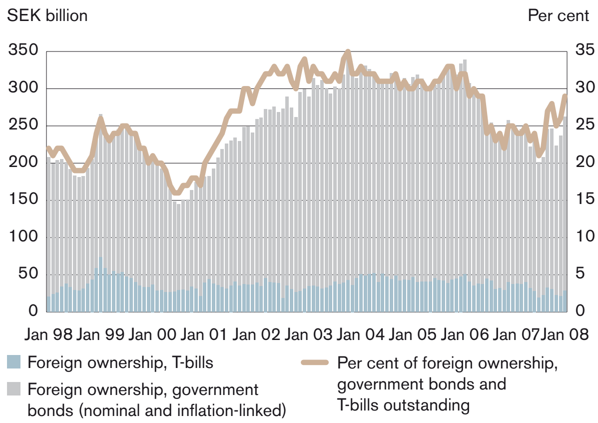
INTEREST-RATE REFIXING PERIOD (IRP)
OF INFLATION-LINKED DEBT



MATURITY PROFILE, FOREIGN CURRENCY
LOANS EXCLUDING CALLABLE BONDS

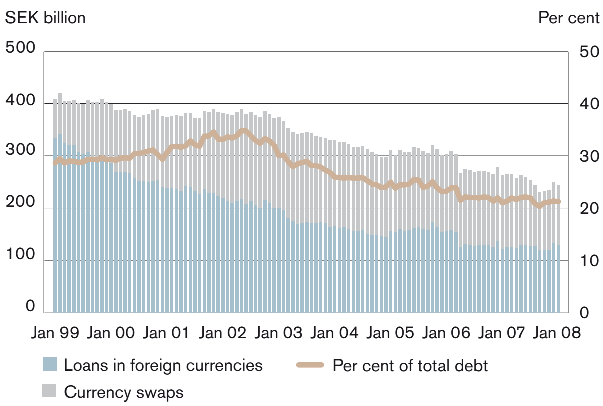


FOREIGN OWNERSHIP OF GOVERNMENT BONDS
AND T-BILLS



Source: The Riksbank

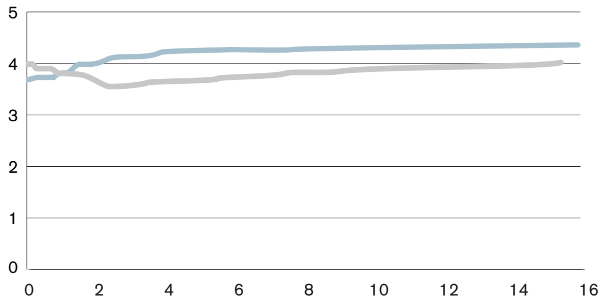
CENTRAL GOVERNMENT DEBT EXPOSURE
IN FOREIGN CURRENCIES



FINANCIAL MARKET

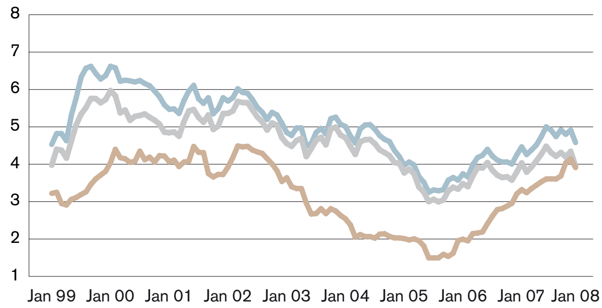
YIELD CURVE, SWEDISH GOVERNMENT SECURITIES

Per cent



HISTORICAL INTEREST RATES

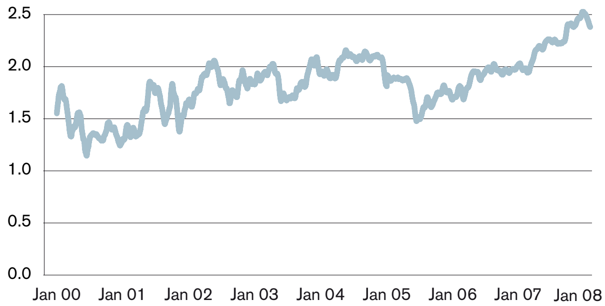
Per cent



Source: Ecowin

BREAK-EVEN INFLATION

Per cent

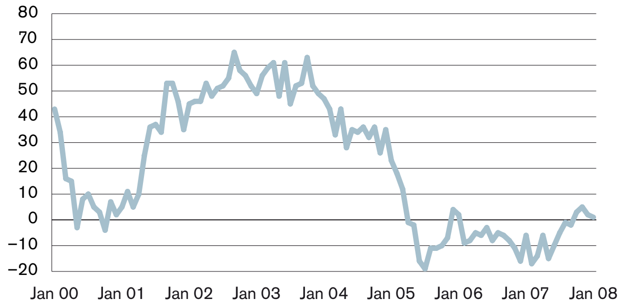


1041 - 3105 (2000-01-01 to 2004-12-31)
1049 - 3105 (2005-01-01 and forward)

Source: Ecowin

INTEREST RATE SPREAD VS GERMANY, 10-YEAR

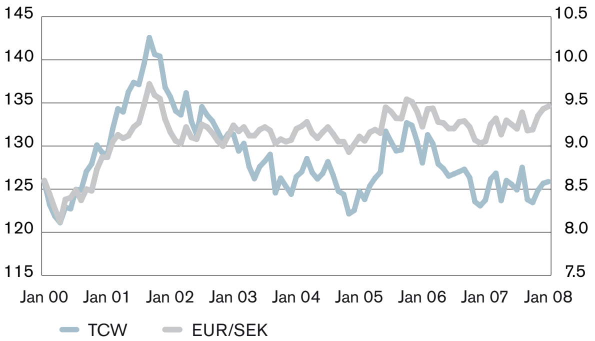
Basis points



Source: Ecowin

HISTORICAL EXCHANGE RATES

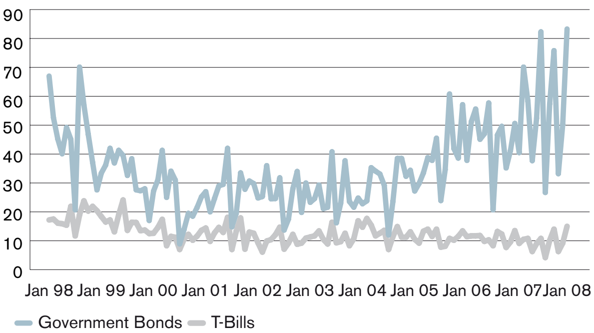
TCW - Trade-weighted index EUR/SEK



Source: Ecowin

DAILY TURNOVER, SWEDISH GOVERNMENT SECURITIES

Total turnover including options and forward contracts, SEK billion

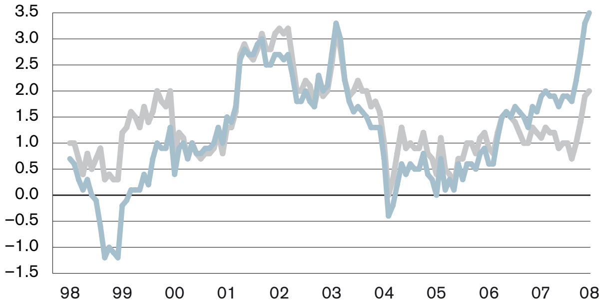


Source: The Riksbank

S W E D I S H E C O N O M Y

INFLATION: CPIX AND CPI IN SWEDEN

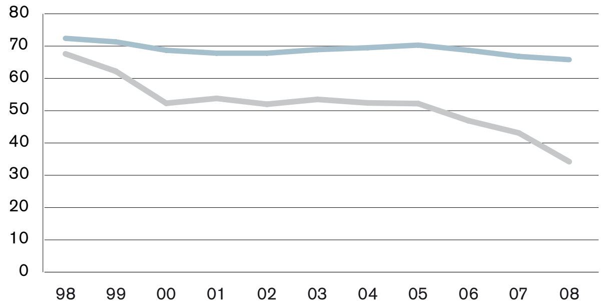
Per cent



Source: Statistics Sweden

GENERAL GOVERNMENT DEBT IN RELATION TO GDP

Per cent



Source: Statistics Sweden, OECD

NATIONAL ACCOUNTS, PERCENTAGE CHANGE

Supply and demand	2007	2008	2009
Gross domestic product [1]	2.7	3.0	2.8
Imports	8.1	6.0	5.8
Household consumption expenditure	3.2	3.3	3.6
Government consumption expenditure	0.5	1.3	1.5
Gross fixed capital formation	8.6	5.7	2.9
Stock building	0.4	−0.6	−0.1
Exports	5.0	6.4	5.4

Selected Statistics	Oct 07	Dec 07	2007	2008	2009
CPI. year-on-year		3.5	2.2	3.7	2.8
Unemployment rate		5.6	6.1	5.6	5.6
Current account	5.6		6.5	6.8	6.9

[1] ***SEK 2 900 billion (current prices 2006)***
Source: Statistics Sweden
Forecasts: National Institute of Economic Research

P R I M A R Y D E A L E R S

Primary dealers	Nominal government bonds	Inflation-linked government bonds	T-bills	Telephone	Reuter page
ABN Amro	●		●	+46 8 506 155 00	PMAA
Barclays Capital	●			+44 207 773 8275	
Danske Markets/Consensus	●	●	●	+46 8 568 808 44	PMCO
Handelsbanken Markets	●	●	●	+46 8 463 46 50	PMHD
Nordea	●	●	●	+45 33 33 17 58	PMUB
SEB	●	●	●	+46 8 506 23 151	PMSE
Swedbank	●	●	●	+46 8 700 99 00	PMBF
Öhman	●	●		+46 8 679 22 00	PMOR

Glossary

Benchmark bond ▸ Bonds in which the Debt Office has undertaken to maintain liquidity. Normally have an outstanding volume of at least SEK 20 billion.

Bond ▸ Current (transferable) debt instrument that provides one or more payments of agreed amounts. The agreed amounts can be fixed in kronor or depend on some factor, for instance, inflation; see *inflation-linked bond*. Certain bonds have a number of payments in the form of recurrent interest payments and are then referred to as coupon bonds. A bond without interest payments is called a zero coupon bond. See also *T-bill*.

Bond market ▸ The market for securities with times to maturity longer than a year. Nominal and inflation-linked government bonds are traded in the bond market.

Break even-inflation ▸ The difference between the nominal and inflation-linked interest rate at the time of issue of an inflation-linked loan. It states how high inflation must be on average for the cost of an inflation-linked and a nominal loan to be of equal size. If inflation is higher than break-even inflation, the inflation-linked loan will be more expensive for the state and vice versa.

Capital market ▸ Consists of the credit and stock markets.

Coupon bond ▸ A bond with an annual interest payment.

Credit market ▸ The market for borrowed capital. An umbrella term for the bond and money market.

Derivative instrument ▸ Financial asset, whose value depends on the value of another asset. The most common derivative instruments are options, futures and swaps.

Duration ▸ Measure of the remaining maturity of a bond taking into consideration both the time to maturity and the coupon rate. A shorter maturity and a higher coupon rate will give a lower duration. Duration can also be viewed as a risk measure, which measures how much the market value of an interest security is affected by changes in the market interest rate.

Fixed-income market ▸ Instruments are traded here that provide a predetermined yield (interest). The fixed-income market consists of the bond and money markets.

Fixed interest rate ▸ Interest rate fixed at a particular level by agreement during the period of agreement.

Float ▸ The time from when money has been withdrawn from an account until it has been deposited in the account that it has been sent to. The banks can use the money during this time to earn interest.

Floating interest rate ▸ An interest rate that varies during the period to maturity.

Forward (forward contract) ▸ Agreement on purchase and sale at a specified price at a specified time in the future.

Government bond ▸ An umbrella term for the bonds issued by the Debt Office on the bond market. Includes both inflation-linked and nominal bonds.

Inflation ▸ General price increases that decrease the purchasing power of money. Usually measured with the aid of a consumer price index.

Inflation-linked bond ▸ A bond where the holder receives a fixed interest rate and compensation for inflation during the maturity. This means that the yield and the amount invested are protected against inflation, so that any inflation does not reduce the value of the bond during the period of saving.

Interest rate refixing period ▸ The average period until the cash flows provided by the central government debt are to be paid. Cash flows arise when interest and loans fall due for payment.

Issue ▸ Sale of new government securities. Usually takes place by auctions.

Limits ▸ Quantitative limitation of amounts or risks.

Liquidity bills ▸ T-bills with customised times to maturity.

Nominal bond ▸ A bond which gives a predetermined amount in kronor on maturity. Nominal government bonds also give a fixed annual payment, a coupon rate.

Money market ▸ The market for interest-bearing securities with times to maturity of up to a year. T-bills are traded in the money market.

Rating ▸ Is a certificate of, for instance, the ability of company or a country to perform its financial obligations, i.e. a certificate of creditworthiness.

Real interest rate ▸ An interest rate, the value of which is protected against inflation, Cf *inflation-linked bond.*

Reference loan ▸ A reference loan is a benchmark bond traded as a 2, 5 or 10-year bond. Also called super benchmark. The Debt Office concentrates borrowing in these maturities, Cf *benchmark bond.*

Repo (repurchase agreement) ▸ Agreement on sale of a security where the seller at the same time undertakes to buy back the security after a set period for an agreed price. The repo can also be reversed, i.e. a purchase agreement in combination with future sale.

Swap ▸ Agreement between two parties on exchanging flows with one another during an agreed period, for instance, exchange of fixed interest for floating interest.

T-bill ▸ A short-term government security without interest during the period to maturity. The yield consists of the difference between final payment and the payment the T-bill is purchased for.

The next issue of Central Government Borrowing: Forecast and Analysis will be published on Wednesday 18 June 2008, at 9.30 am.

The report is published three times a year.

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