RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Central Government Borrowing

Forecast and Analysis 2009:1

In *Central Government Borrowing – Forecast and Analysis 2009:1*, we present forecasts for central government finances and funding in 2009 and 2010. In the first section, we present annual and monthly forecasts for central government finances and the underlying analysis. These forecasts serve as the basis for funding, which is dealt with in the second section of the report. The calculations were completed on 16 February 2009.

In the article "Central Government Debt – a multifaceted concept" , we discuss how financial assets affect the official debt measure and debt management.

SWEDISH NATIONAL DEBT OFFICE'S MISSION

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

In *Central Government Borrowing – Forecast and Analysis*, which is published three times a year, we present forecasts for central government finances in the coming two years. On the basis of these forecasts, we estimate how much the state needs to borrow and produce a plan for funding which is also included in the report.

On the fifth working day of each month, we publish the outcome of the central government budget balance (the net of all incoming and outgoing payments) for the previous month. We compare the outcome with the forecast from *Central Government Borrowing – Forecast and Analysis* and explain any deviations. In connection with the monthly outcome, we also present the debt development in the report *The Swedish Central Government Debt.*

Summary

The global financial crisis has now clearly affected the Swedish economy and central government finances. The budget surpluses of recent years turn into deficits in 2009 and 2010. These deficits will be about as large as we forecast in our preliminary revision in January, apart from the fact that we have now also taken on-lending to the Swedish Export Credit Corporation into account. The deterioration in central government finances is mainly due to this on-lending, lower tax income and the fact that there will be no income from sales of state assets.

Our forecast indicates a deficit of SEK 135 billion in 2009. Excluding the on-lending to the Swedish Export Credit Corporation and Iceland, the deficit is SEK 78 billion. Next year, the budget deficit will shrink to SEK 65 billion. In the most recent ordinary forecast from November, we estimated deficits of SEK 23 billion and SEK 35 billion for 2009 and 2010.

We estimate that the Swedish economy will shrink by 2.0 per cent in 2009 and then recover next year. We estimate growth of 2.0 per cent in 2010, led by increased productivity and demand in the export sector. The state of the labour market will continue to be weak throughout the forecast period.

On-lending and lower tax income
The crisis measures presented by the Government since last autumn have led to a sharp increase in the budget deficit. The most important measures are on-lending to the Swedish Export Credit Corporation, Iceland and Latvia as well as the capital contribution programme for banks. We assume that the Swedish Export Credit Corporation will borrow SEK 50 billion and that SEK 25 billion of the capital contribution programme will be utilised.

On-lending to the Swedish Export Credit Corporation, Iceland and Latvia means that we will have a corresponding financial claim which will reduce the state's future payment obligations in net terms. We therefore also report the central government debt adjusted for such financial claims.

Tax income will be considerably lower than we estimated in our previous ordinary forecast. This is mainly due to lower income from wage-based taxes and falling corporate profits. Rising unemployment leads to very moderate growth of gross wages. We estimate that gross wages will increase by less than 2 per cent in current prices during 2009 and slightly over 2 per cent in 2010. These are the lowest growth rates since the crisis in the 1990s.

At the beginning of this year, businesses adjusted their in-payments of preliminary tax downwards very sharply. This indicates that profits last year were lower than expected and that the levels will fall further during 2009. We expect the development for businesses to stabilise during 2010 as demand from abroad rises.

Increased borrowing
The central government borrowing requirement increases due to a deterioration in government finances. Adjusted for on-lending, however, the increase is limited to SEK 161 billion.

Funding in nominal government bonds will be SEK 106 billion in 2009, which is SEK 32 billion more than in the November forecast. This increase can be partly met with a new bond with a long maturity.

For the time being, we are retaining the borrowing rate in nominal government bonds at SEK 3.5 billion per auction. If interest in the new long bond is low or the costs become too high for the state, the volume in our regular auctions may be increased to SEK 5 billion. If it were to be possible for us to issue a large volume of the new bond, a reduction of the auction volume may come into question instead. The timing of any change depends on when the decision on the new bond is made.

Funding in T-bills is increasing in line with our previous forecast. The stock will fluctuate around SEK 140 billion. We sell T-bills for an average of SEK 10–20 billion per auction during 2009 and 2010.

Bond funding in foreign currency will be around SEK 77 billion in 2009 and SEK 18 billion in 2010. The high level of funding is due to on-lending to the Swedish Export Credit Corporation and to Iceland and Latvia. This forecast is very uncertain since the major part of funding with bonds in foreign currency is intended for on-lending.

We will continue to issue inflation-linked bonds to a limited extent. In 2010, we increase the volume of funding from SEK 3 billion to SEK 6 billion.

The development of central government debt
Central government debt will be SEK 1,179 billion at the end of 2009 to increase to SEK 1,244 billion at the end of 2010. This corresponds to 38 per cent of GDP for both years.

Compared with 2008, central government debt will only increase by SEK 60 billion this year. The fact that the increase is less than the budget deficit motivates is mainly due to a reduction in our short-term investments during the year. We have assumed that the short-term investments, which totalled SEK 66 billion at year-end, will be 0 at the end of 2009. However, long-term financial assets rise to SEK 57 billion.

Large deficit in 2009

Our new forecasts for the budget balance in 2009 and 2010 are deficits of SEK 135 billion and SEK 65 billion respectively. For 2009, this is a very rapid and sharp change in central government finances. As recently as last year, the budget showed a record surplus. This change is largely due to extensive crisis measures providing support to the financial and export sectors. The government will lend SEK 57 billion to the Swedish Export Credit Corporation and Iceland. Furthermore, the weak state of the economy means that tax revenue will decline sharply and that the state cannot count on any further sales income. For 2010, we expect the economy to stabilise, in particular by productivity-led growth in the export sector. However, the state of the labour market will be weak throughout the forecast period.

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

SEK billion	2008	Forecast 2009	Forecast 2010
Central government debt at the beginning of the year	**1,168**	**1,119**	**1,179**
Primary borrowing requirement excluding on-lending and sales	–92	50	29
On-lending*	0	57	10
Sales of state-owned assets	–77	0	0
Primary borrowing requirement (total)	**–168**	**106**	**39**
Interest on central government debt	**33**	**28**	**26**
Net borrowing requirement	**–135**	**135**	**65**
Debt adjustments	31	–9	0
Short-term investments (annual change)	55	–66	0
Change in central government debt	**–49**	**60**	**65**
Central government debt at year-end**	**1,119**	**1,179**	**1,244**
The Debt Office's financial assets***	–66	–57	–67
Central government debt including the Debt Office's financial assets	**1,053**	**1,122**	**1,177**

* *Refers to lending to the Swedish Export Credit Corporation and other states.*
** *Unconsolidated central government debt according to the official definition.*
*** *Financial assets include short-term investments and on-lending.*

Last year's record budget surplus has changed into a substantial deficit this year, when the global financial crisis and the downturn have had an impact on central government finances. This large change is mainly due to the on-lending to the Swedish Export Credit Corporation and reduced tax revenue. Moreover, last year's sales of state-owned assets will not continue this year. We expect some recovery of central government finances in 2010.

The crisis culminates

The global financial crisis has now had clear effects on the Swedish economy. Demand has fallen very rapidly both in the export sector and in the domestic market. The labour market has become weaker and there has been a sharp increase in the number of redundancy notices. Although these notices have not yet led to any dramatic rise in unemployment, it will grow rapidly during the year.

COMPARISON WITH THE DEBT OFFICE'S ADJUSTED FORECAST IN JANUARY

On 15 January 2009, the Debt Office published a preliminary adjustment of the forecast from 4 November. We normally do not adjust our forecasts between ordinary forecast occasions. However, the development from November to mid-January was so exceptional that we were obliged to provide an indication of how much the borrowing requirement and funding would increase in 2009 and 2010.

The revised forecasts we published in January were deficits of SEK 87 billion and SEK 65 billion respectively for 2009 and 2010. This adjustment was based on rough estimates and not on our ordinary forecast model.

The difference from the forecast we are now publishing for 2009 depends mainly on changed assessments of one-off effects due to the crisis measures decided upon. The greatest single change is that we have now included a loan of SEK 50 billion to the Swedish Export Credit Corporation.

Note that references in this report to the "previous forecast" are to the last ordinary report, i.e. *Central Government Borrowing – Forecast and Analysis 2008:3.*

The downturn accelerated in the latter half of 2008. We expect the first two quarters this year also to be very weak. The economy will gradually stabilise in the latter half of 2009, although it will take considerably longer before there is an improvement in the labour market.

Sweden's development depends on the rest of the world but our prospects are good
The future development of the Swedish economy depends very much on global events. Compared with the crisis in the 1990s, which had domestic origins, the current crisis is due to external factors.

Sweden is a small open economy and accordingly more sensitive to external shocks than many other countries. We are therefore affected rather a lot by the sharp decline in demand in other countries. However, on the other hand, this means that when the upturn does come it may be faster and more pronounced in Sweden than in the rest of Europe.

Other aspects that argue in favour of this are that we have a good starting point with strong government finances and a relatively low debt ratio. We now have a fiscal policy framework, an independent central bank, a floating exchange rate and large surpluses in the current account. Furthermore, the low interest rate levels means that interest expenditure on the central government debt is not a great burden on the budget compared with the crisis in the 1990s. In round figures, interest expenditure is SEK 70 billion lower per year now than it was then. Taken together, this means that the Swedish economy is considerably more robust than it was in the 1990s.

Weak global growth with recovery in 2010
The world economy is in a sharp downturn. According to the International Monetary Fund (IMF), global growth will be 0.5 per cent in 2009. This is a rate of growth that can be compared with that during the oil crises of the 1970s. Growth in the industrial countries is expected to be –2.0 per cent and the rest of the world 3.3 per cent. Some recovery will take place next year and the IMF expects world growth to increase to 3.0 per cent.

A recovery in the global economy assumes that the financial markets will stabilise and that the provision of loans to companies and households starts to function more normally. Only then can the real economy accelerate. To stabilise the financial sector, states throughout the world have adopted extensive packages of fiscal policy measures in addition to easing monetary policy. Among other things, this money is intended to strengthen balance sheets in the financial sector and to eventually stimulate lending to companies and households. Ultimately, this will mean that investments and consumption again accelerate.

The United States tips the balance
Developments in the United States are crucial for the rest of the world economy. Our forecast is based on the US economy stabilising during 2009. The problems started in the United States and it is probable that it will be the first country to emerge from the crisis. Stabilisation of the United States is also a prerequisite for recovery in the rest of the world.

The United States has adopted the most powerful measures, both with regard to fiscal and monetary policy. In comparison with Europe, these measures were also adopted considerably earlier. For example, the US interest cuts had already started by 2007. The United States is also permitting a sharp growth in the budget deficit. The US measures will probably have an effect. The US economy will then stabilise and gradually strengthen. Growth will be created outside the financial sector.

Great uncertainty
It is difficult to assess the future economic development. There are a number of uncertainty factors that can both lead to stronger and weaker development. For example, large central government borrowing requirements can squeeze out private investment. Moreover, the extent of the budget deficits in the world can lead to a rise in long interest rate levels. Protectionist tendencies, for example, in the United States can lead to a decrease in world trade.

The current downturn is governed to a great extent by psychological factors such as confidence between financial actors and the future expectations of households and companies. These psychological factors can rapidly swing upwards in the same way as they turned downwards, which can lead to a faster recovery.

The state of the Swedish economy
We make the assessment that growth in Sweden was close to zero during 2008 and will be –2.0 per cent in 2009. The level of growth in 2009 is in line with the average for the industrial countries according to IMF's forecast.

For 2010, we estimate a growth rate of 2.0 per cent. This is a recovery from a very low level. Growth will be led by productivity increases and increased demand for the export sector. However, we expect the labour market to continue to be weak during 2010.

Gloomy labour market
We expect unemployment to be an annual average of 7.7 per cent in 2009 rising to 8.7 per cent during 2010. The state of the labour market is a cause of concern. The number of redundancy notices has increased markedly in recent months and the number of new vacancies

has fallen. It is probable that the rate of redundancy notices will remain high throughout 2009. To date, redundancy notices have mainly been concentrated in industry, while the services sector will also be affected in the future.

Although we expect some economic recovery during 2010, it will not have a significant effect on the labour market initially. The state of the labour market will be strained throughout the forecast period. It is difficult to estimate how great a part of the redundancy notices will actually lead to redundancies. Historical data does not provide any clear answer as to the size of the ratio between redundancy notices and redundancies (the redundancy ratio) in our current economic environment.

Productivity-led growth in 2010

Apace with increasing demand from other countries, productivity in the business sector will improve considerably compared with the past two years. This is a result of companies having fewer employees next year. They will have spare production capacity, which means that they can increase production without new recruitment. Other factors

CHANGES IN ITEMS IN THE NET BORROWING REQUIREMENT

The table shows the different parts of the net borrowing requirement that have changed most between 2007 and 2010. The table is based on the cash flow principle. A minus means a decrease and a plus an increase in the net borrowing requirement.

CHANGES BETWEEN YEARS, CHANGE IN RELATION TO THE NET BORROWING REQUIREMENT

SEK billion	2007	2008	2009	2010
Taxes	–49	–50	78	–37
Payments to local government	33	60	31	–21
Sale of state assets	–18	–59	77	0
Dividends on the state's shares	–10	9	4	3
Labour market	–17	–4	10	3
Social Insurance Office	–1	18	5	12
EU contribution	0	5	–11	7
Forecast fiscal policy	0	0	0	40
Net lending by the Debt Office (including crisis measures)	–31	–21	108	–68
Interest on central government debt	–2	–11	–5	–2
Miscellaneous	11	21	–25	–7
Total change from previous year	–85	–32	270	–70
Net borrowing requirement	–103	–135	135	65

For example, "Taxes" in the column for 2008 means that taxes increase by SEK 50 billion compared with 2007. For 2009, they decrease by SEK 78 billion compared with 2008. The greatest effect between the years is attributable to taxes, sale of state assets, payments to local government and net lending by the Debt Office.

This year, sales of state assets decrease at the same time as there is a sharp increase in net lending. Furthermore, there will be a large drop in tax revenue compared with 2008. This explains the major part of the deterioration of central government finances of SEK 270 billion between 2008 and 2009.

Next year, local government payments will decrease by SEK 21 billion after having increased by over SEK 30 billion in earlier years. Furthermore, the crisis measures in net lending will not be as large as in 2009. Taxes will again grow at a slow rate after having fallen sharply in 2009. These are the most important explanations for the net borrowing requirement not continuing to increase despite the state of the economy being poorer this year.

Normally, central government finances are affected by a change in the state of the economy with a lag of between 4 and 8 quarters. The economy had already started to deteriorate during 2007 and this continued in 2008, although it was not until this year that it had any significant effect on the net borrowing requirement. In the same way, there will be a delay before the net borrowing requirement falls again after the economy has improved.

that indicate a positive development for companies during 2010 are falling prices for raw materials and improved access to credit. The weak krona is also an advantage for the export sector.

Weak consumption – high savings ratio
Consumption developed weakly in 2008 and will be weak this year as well. We expect the increase in household consumption in current prices to be 2.1 per cent this year and 3.3 per cent in 2010. Household disposable income will develop relatively well during 2009 despite the weak state of the economy. This means that the savings ratio for households is at historically high levels. There will probably therefore be scope for relatively sharp increases in consumption when households dare to take a more positive view of the future. Households are favoured by recent cuts in mortgage rates, tax cuts and low inflation.

Sharp turnaround in central government finances

The crisis is leading to a very sharp turnaround in central government finances. Compared with 2008, the budget balance has weakened by almost SEK 270 billion during 2009, to a deficit of SEK 135 billion. This is mainly due to falling tax revenue, on-lending and the disappearance of sales income. For 2010, the deficit will be SEK 65 billion. The reduction in 2010 is mainly due to less extensive crisis measures, lower payments to local government and a weak increase in tax revenue.

On-lending increases the Debt Office's net lending
We estimate the Debt Office's net lending at SEK 86 billion in 2009 and at SEK 18 billion in 2010. This is SEK 76 billion and SEK 9 billion respectively more than in our November forecast. The reason for the sharp increase is that we expect additional lending due to the crisis measures presented by the Government since last autumn. This mainly concerns on-lending to the Swedish Export Credit Corporation, Iceland and Latvia and the capital contribution programme for banks.

The Government has decided to grant the state-owned company Swedish Export Credit Corporation a loan facility of up to SEK 100 billion at the Debt Office. The increased loan limit is to support Swedish companies in financing export transactions in the difficult situation in the credit market. The possibility of raising loans applies in the current decision only until the end of the year. It is very uncertain what amount the Swedish Export Credit Corporation will borrow during 2009. We consider that the loan limits are generous, although the company will none the less make use of a considerable portion. Our forecast is that half will be used, i.e. SEK 50 billion.

The Government has also decided on a capital contribution programme for banks. This programme consists of at most SEK 50 billion. It runs until 17 August, although it will probably be extended. The intention is to enable banks to strengthen their capital base in order to safeguard financial stability and the ability of Swedish companies and households to obtain loans. The capital contribution will be provided in the form of share capital or hybrid capital.

As with the on-lending to the Swedish Export Credit Corporation, it is very uncertain what extent of the capital contribution programme will be used. We have estimated that half of the programme will be used during 2009, i.e. SEK 25 billion. The situation of the banks may deteriorate rapidly, which could mean that they need to use a considerably greater amount but it can also improve, which would reduce the amount. We regard it as improbable that the programme will be used during 2010.

Sweden is also going to lend money to Iceland and Latvia. This year, we expect Iceland to borrow SEK 6.5 billion. During 2010, we expect Sweden to lend SEK 10 billion to Latvia. This is the major part of the EUR 1.8 billion, which Sweden, Norway, Denmark and Finland have promised to lend as part of the agreement between the IMF and Latvia.

On-lending corresponds to equally large claims
The additional lending due to the crisis measures will correspond to equally large claims on the borrowers. This means that there will not be any effect on either central government net debt or central government net lending. However, the state budget and the net borrowing requirement will be affected as well as the official measure of central government debt. Interest payments on central government debt will not be affected either since borrowers will pay interest to the Debt Office corresponding to our costs.

Furthermore, the on-lending to the Swedish Export Credit Corporation and Iceland totalling SEK 57 billion will correspond to a financial receivable that reduces the state's future payment obligations in net terms. We are therefore also reporting a measure that we refer to as Central government debt including the Debt Office's financial assets; see table 1 on page 2.

The difference between the two measures consists of assets within the framework of our liquidity management, for example bank deposits and investments in mortgage securities, and receivables from other states and, for example, the Swedish Export Credit Corporation or companies in the vehicle industry. In this way, we will obtain a more accurate measure of the debt since borrowing for these purposes does not cover current budget deficits but is

on-lending which will be repaid. Different debt measures are discussed in more detail in the article Central Government Debt – a Multifaceted Concept.

Recession leads to lower tax revenue
Tax revenue will be considerably lower than we estimated in our previous forecast. This is mainly due to lower income from wage-based taxes and falling corporate profits.

Increased unemployment leads to a very moderate growth in gross wages. We estimate that gross wages will grow by less than 2 per cent in 2009 and by slightly over 2 per cent in 2010. These are the lowest growth rates since the crisis in the 1990s.

The Government has made it possible for companies to obtain a two-month respite in payment of employer's contributions and preliminary withheld tax with the intention of alleviating the liquidity problems that follow in the wake of the credit crisis. This means in practice that companies can postpone two months' payments in a year. This leads to payments being lower this year but higher next year when the respite ceases.

The companies' credit cost for the respite is not to be less than the normal market rate. The companies that apply for a respite must pay interest plus a special respite fee. This means that the respite will not be used by companies that are able to acquire liquidity through the market. It is therefore very difficult estimate how great use will be made of the possibility of respite. In our forecast, we estimate that in-payments this year will decrease by SEK 5 billion due to the respite. This means on the other hand that they will increase by SEK 5 billion next year.

The crisis means that corporate profits will fall slightly more than we estimated in our previous forecast. At the start of the year, companies had adjusted downwards their in-payments of preliminary tax very sharply and rather more than expected. This means that corporate profits were lower than expected in 2008 and will fall further during 2009.

During 2010, we expect that development will stabilise for companies. Profit levels and the export sector will increase apace with the recovery in demand from other countries. Since companies have spare production capacity, the development of productivity will be high. The export sector will also benefit from the weak krona.

Lower payments to local government
Rising unemployment and the low growth in gross wages will mean a drastic fall in tax revenue to local government. In all, payments to local government in 2010 will fall by over SEK 30 billion compared with the previous forecast. Advance payment for 2010 will fall and the final settlement for 2008 will be negative for local government. It cannot be excluded that this will mean that local government must be compensated by higher central government grants in 2010. There is room for these measures in our forecast for new fiscal policy stimulation in 2010.

Fiscal policy stimulation in 2010
We expect the Government to carry out new increases in expenditure and/or tax cuts in the range of SEK 40 billion during 2010. This is SEK 10 billion more than in our previous forecast. We are not making any detailed forecast as to the type of stimulation that might come into question.

Lower interest payments despite rising central government debt
Interest payments on central government debt are estimated at SEK 28 billion in 2009 and SEK 26 billion in 2010. This is SEK 6 billion and SEK 8 billion less than in our previous forecast despite the increase in central government debt. The last time that interest payments were so low was in 1981. Viewed in relation to GDP, interest payments are only a fifth of what they were in 1981, however.

The Debt Office uses stop rates for calculation of interest payments. The stop date this time was 30 January 2009. The difference in market rates and exchange rates is dramatic compared with our previous estimate. Market rates for short maturities have fallen most, both in Sweden and internationally. For example, the interest rate for a 3-month T-bill was 3.6 per cent in the previous forecast and is now 1.2 per cent. The international development is similar. Since a large part of the central government debt has floating interest, interest rate changes for short maturities have a rapid impact on interest payments.

Interest rates for longer maturities have also fallen compared with our previous forecast, although not by as much as for short maturities. For Swedish government bonds with a five-year maturity, they have fallen by just over 1 percentage point. The market price of a bond moves in the opposite direction to the change in interest rates. At the same time, the increased net borrowing requirement means that we will issue larger volumes of government bonds. These two factors work together to lead to a considerable increase in premiums in the issue of nominal bonds in Swedish kronor compared with our previous forecast. The premium for a bond is the difference between the market price on issue and the nominal amount of the bond.

The premiums are treated as interest income in the budget. The large premiums also mean that the forecast for interest payments will be more uncertain than before. The total

premiums depend on our issuance plan, as well as the level of interest rates. Depending on the bonds we issue, the premiums may be higher or lower than expected.

The weaker krona counteracts the two above effects from lower interest rates. Exchange rate differences on foreign currency loans will be bigger than previously estimated. The US dollar has become around SEK 1.50 more expensive and the euro SEK 1 more expensive than in our previous forecast. This means larger exchange rate losses, mainly during 2009, but also in 2010.

Increasing expenditure for unemployment
Rising unemployment means higher expenditure for unemployment insurance and labour market programme measures. Compared with 2008, payments from the Employment Service increase by SEK 7 billion. Compared with the previous forecast, expenditure increases by SEK 4 billion both in 2009 and 2010. We calculate that the state of the labour market will be under strain throughout the forecast period.

Lower dividends on the state's shares
We calculate the dividends on state shares at SEK 22 billion in 2009, which is SEK 1 billion lower than in the previous forecast. Dividends from Nordea and Vattenfall will be slightly lower than we estimated. At the same time, payment for Beam Spirits & Wine has been made, which was included in the sale of Vin & Sprit. This payment is treated as dividend. It was included as sales income in our previous forecast.

For 2010, we estimate dividends at SEK 18 billion, which is SEK 5 billion lower than in the previous forecast. The difference is mainly explained by our estimating reduced dividends from Nordea, Vattenfall and LKAB than before.

THE AGENCIES' REPO TRANSACTIONS

Some agencies, in particular the Premium Pension Agency, the Swedish Nuclear Waste Fund and the Deposit Guarantee Board have assets invested in Swedish government securities. Since April 2007, the Premium Pension Agency and the Swedish Nuclear Waste Fund are repoing parts of these holdings. 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 agencies making the repo are paid in cash. In practice, this is a collateral-backed loan. Since the agencies provide collateral, they obtain good terms on the loan in the form of a low interest rate. 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. 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 repo rate by providing government securities as collateral and then investing the cash at close to the repo rate.

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.

Repos lead to greater variations in the central government net borrowing requirement
When the repos are entered into, the net borrowing requirement is reduced since the agencies deposits cash at the Debt Office at the same time. Conversely, the net borrowing requirement increases when the repo is terminated since the agency then withdraws its cash from its account. This has meant that the net borrowing requirement has varied considerably more from month to month than previously. However, the agencies close their repos over the year-end and the annual net borrowing requirement is accordingly not affected. The effect 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 this report. 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 almost SEK 30 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, this means that the Debt Office's funding requirement is affected for the duration of this activity.

Monthly forecasts

The Debt Office publishes annual forecasts three times a year. At the same time, monthly forecasts are presented for the coming nine months.

Table 2. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT PER MONTH

SEK billion	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Primary borrowing requirement	−70,2	4,6	−10,7	−27,8	54,6	−2,7	−9,3	32,3	12,8
Interest on central government debt	−0,9	4,2	−1,3	5,7	−0,7	0,7	3,1	−0,5	0,5
Net borrowing requirement*	**−71,1**	**8,8**	**−12,0**	**−22,1**	**53,9**	**−2,0**	**−6,2**	**31,7**	**13,4**

** The net borrowing requirement shows what the Government needs to borrow to finance the budget deficit. When there is a budget surplus, the net borrowing requirement is negative.*

Variations from month to month are largely explained by variations in tax revenue, tax refunds and repo transactions by agencies (see Box on p. 7 for information about agency repos).

Repo transactions by agencies reduce the borrowing requirement by SEK 32 billion in February, increase it by SEK 11 billion in June and reduce it by SEK 11 billion in July.

SENSITIVITY ANALYSIS

The Debt Office does not produce any overall sensitivity analysis for the net borrowing requirement. Instead, we produce 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.

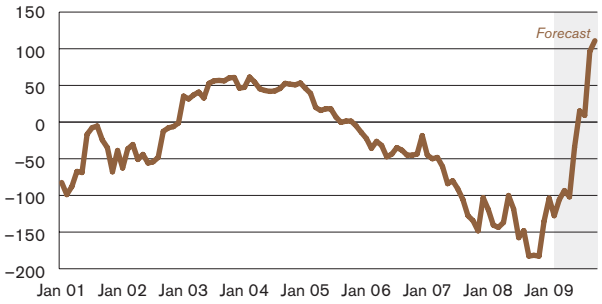
SENSITIVITY ANALYSIS
SEK billion

Increase by one per cent/percentage point.	Effect on net borrowing requirement
Gross wages [1]	−5
Household consumption in 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 in a time horizon of one year (the time horizon in the table is greater than the permanent effect).*

Table 1. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT 2000–2009, 12-MONTH FIGURES

SEK billion



We make a standardised calculation that on-lending will increase the net borrowing requirement by SEK 25 billion in June and by as much in September.

Central government debt

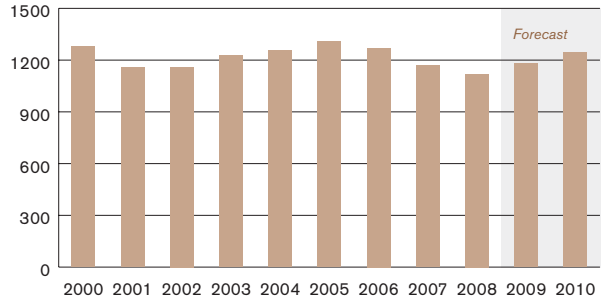
The central government debt will be SEK 1.179 billion at the end of 2009 to increase to SEK 1,244 billion at the end of 2010. This corresponds to 38 per cent of GDP for both years.

Compared with 2008, central government debt will increase by SEK 60 billion this year. The fact that the debt is increasing less than the borrowing requirement is mainly explained by a reduction in the Debt Office's short-term investments during the year. We have assumed that the short-term investments, which amounted to SEK 66 billion at year-end, will be zero at the end of 2009; see Table 1 on p.2.

The central government debt including the Debt Office's financial assets, which are discussed on page 5, increases by SEK 69 billion to SEK 1,122 billion in 2009. It will be SEK 1,177 billion at the end of 2010.

Table 2. CENTRAL GOVERNMENT DEBT 2000–2010

SEK billion



Increased borrowing

Funding in nominal government bonds increases to SEK 106 billion in 2009, which is SEK 32 billion more than in our November forecast. The increase in funding can wholly or partly take place with a new bond with a long maturity. For the time being, we are therefore retaining our issue volume for nominal government bonds at SEK 3.5 billion per auction. Funding in T-bills will in principle comply with our previous forecast, with the exception of a slightly higher volume around the year-ends. Since we may need to borrow in foreign currency for on-lending to the Swedish Export Credit Corporation, funding in foreign currency bonds will increase sharply. In our forecast we estimate SEK 77 billion in 2009, which is a very uncertain assessment. Funding in inflation-linked bonds will increase from SEK 3 billion to SEK 6 billion during 2010.

The central government funding requirement will be large this year and next year due to the rapid change in the state of the economy, and to on-lending to the Swedish Export Credit Corporation, among others. Adjusted for on-loaning, the funding requirement will be SEK 179 billion in 2009.

Funding in nominal government bonds will be higher compared with our previous ordinary forecast although in line with the revised forecast in January. This increase is limited by the fact that funding in bonds has already been increased last year to counter the deterioration in central government finances during 2009.

We have given our primary dealers the task of investigating the possibilities of issuing a new nominal government bond with a long maturity in a syndicated sale.[1] It is too early to say whether there is sufficient interest to meet the whole of the increased funding requirement in bonds. Our issue volumes in nominal government bonds will be adapted to the extent that there remains a funding requirement. For the time being, we are retaining the volume at SEK 3.5 billion per auction.

The larger central government debt means that we must increase foreign currency funding during 2009 and 2010 to steer the foreign currency debt towards its target. Funding in foreign currency bonds may, however, increase a lot more than this since the Swedish parliament, the Riksdag has granted the Swedish Export Credit Corporation a loan facility of SEK 100 billion at the Debt Office. This will be a form of on-lending which is corresponded to by a claim on the recipient of the loan. The share of foreign currency debt is therefore not affected.

T-bill funding will be slightly larger compared with the previous ordinary forecast. Index-linked funding will increase from SEK 3 billion to SEK 6 billion in 2010.

Sharp rise in funding requirement

The funding requirement will be SEK 236 billion this year and SEK 144 billion in 2010. This entails an increase of SEK 218 billion from 2008 to 2009. The large change is mainly due to the deterioration of the budget balance by SEK 270 billion.

The funding requirement is also due to refunding of maturing bonds, both in Swedish kronor and foreign currency. Maturities are considerably larger in 2009 than in 2010. This is due to there being two nominal bonds maturing in 2009, one in January and one in December, and none in 2010. If we disregard this distribution effect, there will only be a marginal increase in the funding requirement from 2008 to 2009.

The slower increase in the funding requirement compared with the deterioration in the budget is mainly due to a change in the cash equivalent holdings within the framework of liquidity management. At the start of 2009, we had a cash surplus in foreign currency from the sale of Vin & Sprit. In addition, bond funding had already been increased during 2008 to counter deterioration in central government finances this year. At the end of 2009, we expect to have a normal cash deficit that we will fund by short-term borrowing. A sharp change thus takes place in the cash balance that limits the long-term funding requirement.

[1] *Syndication takes place by the primary dealers jointly investigating demand among investors and then making recommendations to us on maturities, sales volume and price. Provided that we find the terms attractive, we will then give the group a mandate to carry out the sale. During the sale period, investors will be able to make the bids that they previously indicated to the group. The indicative volume and price will be announced in advance. The Debt Office will then decide on the allocation.*

On-lending to the Swedish Export Credit Corporation and to Iceland is estimated at SEK 57 billion in 2009 and is corresponded to by equally large financial receivables. The funding requirement will thus be SEK 179 billion adjusted for financial receivables. This is a more correct measure of the funding requirement in terms of the size of the future payment commitments accumulated by the state. With the corresponding adjustment, the increase in the borrowing requirement will be SEK 161 billion between 2008 and 2009.

Table 1 shows the funding requirement and long-term funding allocated to different instruments.[2]

Table 1. FUNDING 2008–2010

SEK billion	2008	2009	2010
Net borrowing requirement	–135	135	65
Change in cash equivalent holdings and retail market borrowing [1]	57	–78	44
Maturing bond loans and buybacks	96	180	35
Of which			
Government bonds	*68*	*120*	*17*
Foreign currency bonds	*28*	*59*	*18*
Funding requirement	**18**	**236**	**144**
T-bill borrowing, net [2]	–32	50	15
Bond borrowing, gross [3]	50	186	129
Of which			
Foreign currency bonds, share steering	*0*	*20*	*8*
Foreign currency bonds, on-lending	*0*	*57*	*10*
Inflation-linked bonds	*3*	*3*	*6*
Nominal government bonds	*47*	*106*	*105*
Funding	**18**	**236**	**144**
Funding adjusted for on-lending	**18**	**179**	**134**

[1] *Change in outstanding deposits, liquidity bills and repos. Retail market borrowing is assumed to be unchanged from 1 January 2009.*
[2] *The net of issues (excluding exchanges) and maturities.*
[3] *Nominal amounts. Premiums and discounts (including inflation compensation) and exchange rate differences on issues are included in the net borrowing requirement as interest payments.*

Table 2. IMPORTANT DATES 2009

Date	Time	Activity
5 March 2009	11.00	Exchanges from 3105 to 3102 and 3104 Sale of a new long bond
16 June 2009	09.30	Central Government Borrowing – Forecast and Analysis 2009:2
24 Sep 2009	11.00	Exchanges from 3105 to 3102 and 3104

[2] *The forecast for central government borrowing refers to long-term gross funding. It consists of net borrowing that covers budget deficits by calendar year, refunding of maturing bonds and long-term borrowing in T-bills (long-term change in the outstanding T-bill stock). For the sake of simplicity, we will use the terms funding and funding requirement below only with reference to long-term gross funding. At the same time, there are current maturities and refunding of, for example, T-bills, which are not touched upon in this forecast.*

Increase in nominal government bonds

Funding in nominal bonds will increase to SEK 106 billion in 2009. In our previous ordinary forecast, we estimated SEK 74 billion. The increase of SEK 32 billion can be wholly or partly met by borrowing in a new long bond.

In a press release on 17 February 2009, we informed that we are at present investigating the feasibility of issuing a 30-year bond in a syndication. The primary dealers have been given the task of making recommendations to us on the date, volume and price based on interest from investors. We have specified a volume of between SEK 15 billion and SEK 30 billion as reasonable. A larger volume may come into question if there is great interest and the interest on the loan is sufficiently low.

For the time being, we will maintain the present sales volume for government bonds of SEK 3.5 billion kronor per auction. If there is a low level of interest in the new long bond or if the costs for the state are too high, the auction volume of our other government bonds may instead be raised to SEK 5 billion. If it proves possible for us to issue a large volume, a reduction of the auction volume may come into question instead. The time point of any change in auction volume depends on when the decision for the new bond will be made.

During 2010, funding will be at almost the same level as in 2006: SEK 105 billion. The nominal government bond stock will increase in 2010 after having decreased for three consecutive years. At the end of 2010, the stock will be about the same size as in 2005. The auction volume in 2010 will be SEK 4.5 billion per auction.

Table 3 shows the change in stocks and exposure in bond rates adjusted by swaps. Swaps mean that we shorten the interest rate refixing period. Swaps are discussed in more detail in the section on T-bills and foreign currency funding.

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

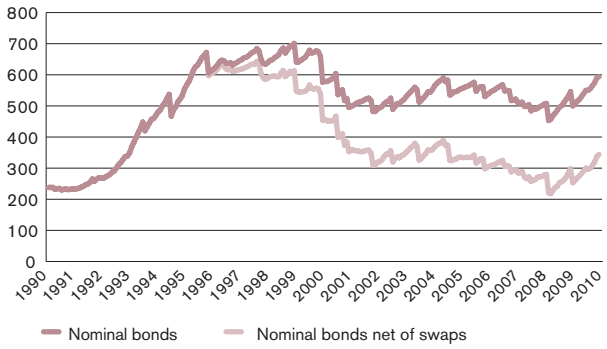
SEK billion	2008	2009	2010
Nominal government bonds, issues	47	106	105
Maturities, buybacks and exchanges	–51	–114	–11
Change in nominal government bond stock	**–4**	**–8**	**94**
Swaps, net [1]	–5	–11	–3
Nominella statsobligationer och swappar, nettoförändring	**–9**	**–19**	**91**

[1] *Net of newly-issued and maturing swaps.*

For 2009 och 2010, the Government has decided that the interest rate refixing period in the nominal krona debt

Figure 1. NOMINAL GOVERNMENT BONDS AND SWAPS

SEK billion



should be 3.5 years. If we issue a new long bond, the maturity of the nominal debt will be longer than this. We have requested the Government that the maturity benchmark should be extended by the same amount in this case.

Priority given to long bonds

We normally issue bonds with two-, five- and ten-year maturities to support liquidity in the most traded bonds. Priority will be given to bonds with a ten-year maturity; slightly over half of the issues will be made in this maturity. We will also sporadically issue bonds in the new long maturity if this maturity comes into question.

We will not introduce any new ten-year bond until 2010 at the earliest. The outstanding loan 1047, which matures in December 2020, will become a new ten-year reference loan in December 2009. See Figure 2 and Table 4 respectively for outstanding reference loans and exchanges of these loans.

THE DEBT OFFICE'S ISSUES

A week before every auction, we notify which bond or T-bill will be issued. In the case of T-bills, we also notify the volume. This decision is based on an internal issue plan based on our most recently published forecast of the borrowing requirement.

Dealers and investors are given an opportunity to present their views before auction decisions. These views are of considerable value since we obtain an overall picture of market demand. However, it is never possible for any single participant to influence our issue decisions.

Normally, we follow our established issue plan. However, should we receive clear indications that we should deviate from the issue plan, we are able to do so.

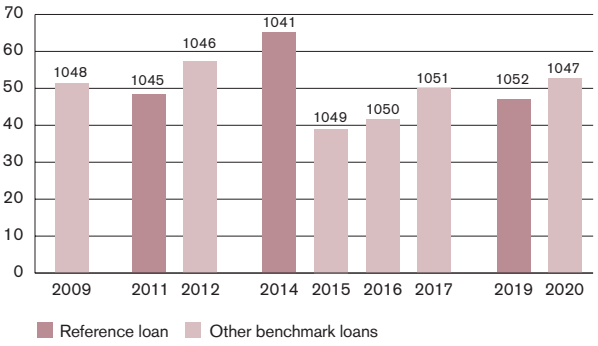
Table 4. REFERENCE LOANS IN THE ELECTRONIC INTERBANK MARKET

Date for exchanges of reference loans (IMM date)	2-year	5-year	10-year
16 Dec 2009	1046	1049	1047
15 Dec 2010		1050	

Reference loans in the electronic trade are the loans that are closest in maturity to two, five or ten years. Reference loans are only changed on IMM dates (the third Wednesday in March, June, September and December) provided that the new loans are the loans that are closest in maturity to two, five or ten years on the following IMM date. Accordingly, an underlying loan in a forward contract will always be the same as a reference loan during the last three months of the contract. The dates in the table for change of reference loans. refer to settlement dates. The first trade date for a new reference loan is normally the Friday prior to the IMM date.

Figure 2. OUTSTANDING NOMINAL GOVERNMENT BONDS (BENCHMARK LOANS) 31 JANUARY 2009

SEK billion



Increased funding in T-bills

Part of the increased funding will be in T-bills. This reflects the fact that adaptation to the large surplus during 2008 was mainly made in bills. However, this increase will not be greater than we estimated in our previous ordinary forecast. The stock will fluctuate around SEK 140 billion.

On average, we issue T-bills for SEK 10–20 billion per auction during 2009 and 2010. The volume will vary since the short-term funding requirement changes from month to month. As a rule, we have a large short-term funding requirement in December and January. During 2009, we expect the T-bill stock to increase by around SEK 70 billion to around SEK 190 billion. It will then decrease to SEK 110 billion to be slightly over SEK 200 billion at the end of 2010.

No further sales of extra bills will take place. During the spring of 2009, we will have a dialogue with the market on how the T-bill market can be promoted. Our market undertaking in T-bills in the form of repos is part of this. At present, this undertaking is frozen.

The auction dates are shown in the section on market information.

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

SEK billion	2008	2009	2010
T-bill borrowing, net [1]	–32	50	15
Interest rate swaps, net	22	–22	–18
T-bill stock and swaps, net change	**–10**	**28**	**–3**

[1] *Net of issues (excluding exchanges) and maturities.*

T-BILL POLICY

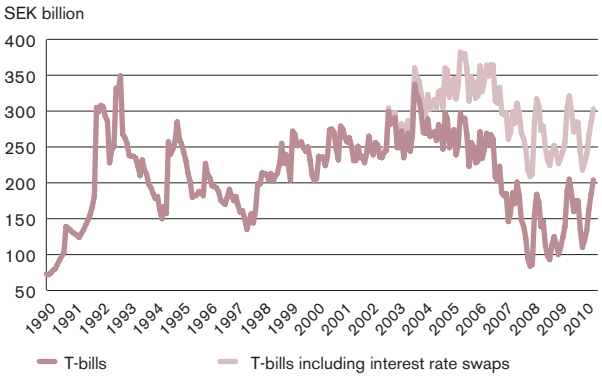
Every third month, we issue a new six-month bill, maturing on an IMM date (the third Wednesday of March, June, September and December). In each of the other months, we introduce a new three-month bill.

Accordingly, on every occasion, there are four outstanding maturities of up to six months. There is also, as a rule, a bond with a shorter maturity than twelve months in the market.

Normally, we borrow the whole issued amount in the new T-bill which we introduce in the auction. Otherwise, the allocation between T-bills is governed by our funding requirement. If we need to issue T-bills in the shortest maturities, we normally do so on an on tap basis.

We also have on tap issues in T-bills with tailor-made maturities (liquidity bills) and in the two shortest ordinary maturities within the framework of our liquidity management.

Figure 3. T-BILLS AND INTEREST RATE SWAPS



Stable swap borrowing

Overall, we increase the volume of new swaps from SEK 36 billion in 2008 to SEK 52 billion in 2009. In principle, this volume is unchanged compared with the loan plan adopted in connection our previous ordinary forecast. For 2010, we expect a slightly smaller volume of new swaps, SEK 35 billion.

Since we are expecting to increase the benchmark for maturity if we issue a new long bond, the volume of swaps will not be affected by whether this takes place or not.

The outstanding stock of swaps increases slightly during 2009 to be in principle unchanged in 2010; see Table 6. The development of the swap stock depends on the relationship between new and maturing swaps. Swaps are made relatively evenly over the year although with commercial flexibility both as regards time and maturity. We may deviate from the forecast if there is a change in the funding requirement during the year.

Table 6. CHANGE IN OUTSTANDING SWAPS

SEK billion	2008	2009	2010
Interest rate swaps [1]	31	0	5
Currency swaps [2]	5	52	30
Swaps total	**36**	**52**	**35**
Swaps, maturities	–31	–41	–32
Swaps, net change	**5**	**11**	**3**

[1] *Interest rate swaps from long to short interest rate exposure in SEK.*
[2] *Interest rate swaps from long to short interest rate exposure combined with currency swaps to foreign currency.*

SWAPS

We can create short interest rate exposure by issuing bonds and then using interest rate swaps to shorten the interest rate refixing period. This technique also makes it possible to contribute to liquidity in the bond market without increasing the aggregate maturity of the debt. Provided that the spread between the swap rate and the government bond rate is sufficiently large, this borrowing technique reduces the state's borrowing costs. Good liquidity in the bond market should also contribute to reducing borrowing costs.

We use interest rate swaps as part of our foreign currency borrowing. We then combine an interest rate swap with a currency swap so that the exposure in kronor is replaced by exposure in foreign currency.

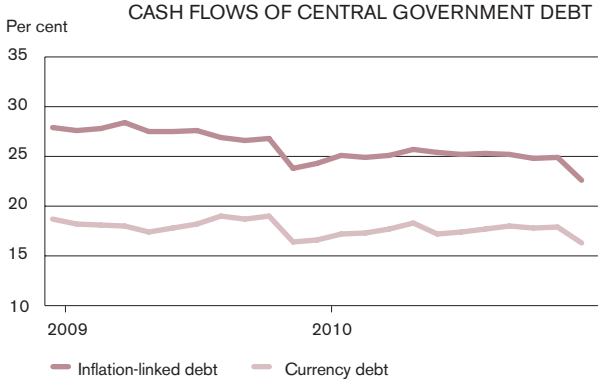
Inflation-linked funding on its way back

We continue to issue inflation-linked bonds to a limited extent. The issue volumes are kept stable over time despite the fact that the inflation-linked share may deviate from the Government's target of 25 per cent of central government debt. The reason for this is that we aim for a long-term approach and a well-functioning market for government securities. Furthermore, the Government has decided that the share shall be steered towards the benchmark in the long term. In 2010, we increase the borrowing volume from SEK 3 billion to SEK 6 billion.

As shown by Figure 4, inflation-linked debt will be 27 and 25 per cent respectively during 2009 and 2010. This is considerably lower compared with our previous ordinary forecast, mainly due to the increase in central government debt.

The maturity of inflation-linked debt shall be 10.1 and 9.6 years respectively at the end of 2009 and 2010 with a deviation interval of ±0.5 years. This interval has been set to give us the flexibility we need in our management of the inflation-linked funding. On 30 January, the maturity was 10.5 years.

Figure 4. THE SHARE OF INFLATION-LINKED AND FOREIGN CURRENCY DEBT OF THE AGGREGATE CASH FLOWS 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. The debt shares here differ from those reported in the section on market information, where the debt is valued at its nominal value on maturity.

During 2009 and 2010, the issues will be allocated approximately evenly between loans 3106, 3105, 3102 and 3104. The choice of bond for each auction will be in accordance with an internal issuance plan decided in advance.

STEERING OF THE INFLATION-LINKED SHARE

It is difficult to steer the inflation-linked share other than very roughly. This is due to the limited liquidity in the inflation-linked market and that we have small maturities in the coming years. Moreover, there is not a sufficiently developed market for inflation-linked derivatives.

Larger adjustments, to rapidly reduce the share to the desired level, would therefore be expensive for us. We have therefore accepted large fluctuations in the share.

From 2008 onwards, we are offering extension exchanges which are price risk neutral from bond 3105 to the considerably longer bonds 3102 and 3104.

We also expect to make exchanges corresponding to SEK 10 billion per year during 2009 and 2010. The exchange volume will subsequently be reduced to SEK 5 billion per year until 2013. However, we will let at least SEK 25 billion of 3105 to mature. We will not offer any exchanges or buybacks in connection with the maturity of loan 3106.

Large bond funding in foreign currency

Bond funding in foreign currency will be SEK 77 billion in 2009 and SEK 18 billion in 2010; see Table 7. The large borrowing is due to a relatively extensive on-lending to the Swedish Export Credit Corporation as well as Iceland and Latvia. To date this year, we have already borrowed the equivalent of SEK 32 billion of foreign currency bonds. In relation to our forecast, there accordingly remains around SEK 45 billion.

Table 7. FOREIGN CURRENCY FUNDING[1] 2008–2010

SEK billion	*2008*	*2009*	*2010*
Foreign currency bonds, funding	0	77	18
Of which			
Share steering	0	20	8
On-lending	0	57	10
Maturities, bonds	-28	-59	-18
Change in foreign currency bonds	**-28**	**18**	**0**
Short-term funding, including forwards, net	-1	0	0
Change in foreign currency debt	**-29**	**18**	**0**
Foreign currency swaps, net	-17	33	21
Change in foreign currency debt, including swaps, net	**-46**	**50**	21

[1] *Nominal values.*

In addition to on-lending, foreign currency funding is mainly governed by the refunding requirement and the budget balance, in such a way that the share is 15 per cent of the central government debt. Since the central government debt is now increasing, the foreign currency debt must increase.

Foreign currency funding can also take place by swapping bonds issued in kronor to foreign currency exposure. Since we need to borrow a total of SEK 129 billion and SEK 48 billion respectively in foreign currency during 2009 and 2010, there are reasons to do a large part of this by issuing bonds in foreign currency. Otherwise, we would put too much strain on the swap market. The allocation of foreign currency funding between bonds in foreign currency and swapped krona bonds also depends on the market conditions. For this reason, borrowing can deviate significantly from our forecast.

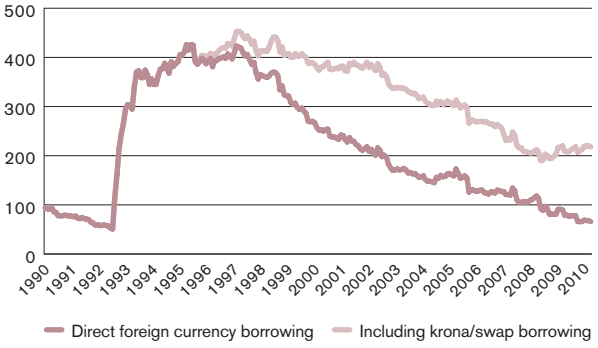
Since the major part of funding in bonds in foreign currency is intended for on-lending, the forecast is very uncertain. It may involve a considerably smaller amount, but also more, depending on the extent to which the Swedish Export Credit Corporation makes use of the loan facility.

The Swedish krona is at present weak. This means, everything else being equal, that the proportion of foreign currency debt will be larger since this debt is expressed in kronor. The foreign currency debt may be within the control interval of ± 2 per cent that the Government has decided upon. Thus, we do not need to reduce foreign currency borrowing when the krona is weak. The planned foreign currency funding means that the share will be slightly larger than 15 per cent at the current exchange rate.

Swaps in foreign currency funding

Part of the foreign currency funding will be carried out by swapping bonds in kronor to exposure in foreign currency; see the Box for how this takes place. We will borrow in foreign currency by currency swaps for SEK 52 billion and SEK 30 billion respectively during 2009 and 2010. As has already been shown, this allocation depends on the terms and can therefore deviate from the forecast. If foreign currency funding with swap turns out to be less than our issuance plan, the volume of interest rate swaps in krona funding will increase to a corresponding extent.

Figure 5. DEVELOPMENT OF FOREIGN CURRENCY DEBT
SEK billion



EVALUATION

Prospera has made an evaluation of the Debt Office's funding and debt management on our behalf for the fifth consecutive year. The positive impression has successively strengthened since 2004 when the first survey was carried out, and the good result is being maintained. Our measures in connection with the financial turbulence receive a very high rating. The area with greatest potential for improvement is contacts with Swedish investors. Investors still consider that there is insufficient responsiveness to their wishes. This year's survey also shows that more investors are active in the primary market and that our website is used to a greater extent than before. We are grateful for the suggested improvements we have received.

The survey is available in pdf-format at www.riksgalden.se

FOREIGN CURRENCY FUNDING

There are two ways of borrowing in foreign currency. We can either issue bonds in foreign currency or we can swaps bonds in Swedish kronor to exposure in foreign currency

How we allocate funding between direct foreign currency funding and krona/swap funding depends on the interest rate terms we obtain.

Currency funding in the form of krona/swap transactions means that the interest rate on government bonds in kronor is replaced by a short interest rate exposure in foreign currency, at the same time as the amount borrowed is exchanged to foreign currency.

In a krona/swap transaction, we first borrow in the Swedish bond market. We then make a swap in which we receive a fixed swap rate that is higher than the bond rate. At the same time, we pay a floating rate in foreign currency. Now we no longer have any exposure in the bond rate. This transaction is a combined interest rate and currency swap (basis swap).

Within the framework of the swap, we then exchange the kronor we have received into foreign currency with our counterparty. The result is that we have issued a bond in kronor but receive the amount and pay floating interest in foreign currency.

When the swap matures, we exchange the amount borrowed with our swap counterparty. By agreement, this will be done at the same rate as in the initial currency exchange. We can then pay the maturing bond with the krona amount. To be able to exchange the amount back to kronor, we must first purchase the foreign currency. This creates a currency exposure since we do not know the future exchange rate when we make the swap.

Borrowing through currency swaps accordingly provides the same currency exposure as if we had issued a bond directly in foreign currency.

Central Government Debt – a multifaceted concept

Central government debt can be measured in several ways. Radically different figures can be arrived at depending on how the instruments that make up the debt are valued and the extent to which assets are taken into account. How state assets are treated has greatest significance. This issue becomes more important the greater the amount of assets, although it also matters if the amount of assets changes rapidly. Since mid-2008, the Debt Office has handled unusually large assets. Most of these have now been wound up, although we may receive new assets for other reasons during 2009. In this article, we attempt to clarify the significance of the official debt measure for the picture obtained of central government finances and for central government debt management.

One way of measuring central government debt is to only take debts into consideration. This is usually referred to as a gross measure. This is how debt is measured in the context of the EU, for example. It also serves as the basis for the official debt measure reported by the Debt Office.

In other contexts, an attempt is made to include a greater or lesser portion of the assets owned by the state. In this way, we obtain a net measure. Since the state has considerable assets of many different kinds, different net debt measures vary greatly. Such net measures are the most relevant for certain purposes, although not to describe the activities of the Debt Office. Our main responsibility is debt management. Assets, such as shares in state-owned companies, are mainly taken care of within other areas of state activity.

However, it does happen that we deal with assets in central government debt management as well. When we raise large loans, we often receive considerably more money than is required at that particular time to cover the current cash deficits that we have to fund. Large loans of this kind are common in foreign currency borrowing. We must then deal with the surplus for a shorter or longer period of time. Our undertaking in relation to the primary dealers in repoing government securities in short-term deficit situations also means that, in practice, we raise funds that are not needed for payment purposes in the short term.

A third example is borrowing in T-bills where, according to our loan policy, there should always be at least four outstanding maturities. To make sure there is acceptable liquidity in these maturities, we must sometimes issue bills that do not correspond to short-term funding requirements. Furthermore, assets arise in the middle of most months, when tax payments are made. These surpluses only exist for a few days.

These examples shed light on how cost-effective cash management and measures to create liquidity in our instruments entail that there will be surpluses from time to time that are managed as assets. However, there are also examples of surpluses that are considerably more long-term.

Greater gap between gross and net

During 2008, we received greater assets than normal, both in foreign currency and in kronor. We decided to keep the payment for the state's shares in Vin & Sprit in foreign currency to cover future maturities and interest payments in the foreign currency debt. We also received assets in connection with the issue of large volumes of T-bills during the autumn of 2008 since the borrowed funds were invested in mortgage bonds.

The unusually large assets have meant that the difference between gross and net has become quantitatively more important than before. In this way, central government debt as officially measured has increased without this corresponding to an increase in the actual debt. Debt according to the official measure was SEK 66 billion greater on 31 December 2008 than it would have been if we had only borrowed to fund the actual debt. The difference during the autumn of 2008 was even larger at times: in September, for instance, it was SEK 152 billion.

[1] *These events are described in more detail in an article in Central Government Borrowing – Forecast and Analysis, 2008:3*

As shown by the section on central government finances earlier in this report, the Debt Office has been given the task of making foreign currency loans to the Swedish Export Credit Corporation, Iceland and Latvia. Lending to banks and automotive companies may also come into question. This lending leads to an increase in the borrowing requirement, while the state receives assets at the same time. This again increases the difference between gross and net debt. However, the way that these assets are treated for debt measurement also affects debt management. In this context, some interesting demarcation issues arise.

In this article, we describe to begin with the design of the official debt measure. We then discuss how financial assets affect the debt measure and debt management. Debt measurement is a large topic. We therefore restrict ourselves mainly to measures that are relevant for describing the activities of the Debt Office. It should also be noted that the state (via the Debt Office) as a step in dealing with the financial crisis has increased its guarantee commitments, primarily to banks. Guarantees should be taken into account in an analysis of the state's total financial position, although it is not appropriate to include them in a measure of central government debt. They are therefore not discussed in this article.

The official debt measure

The central government debt is a result of the state having spent more money in the past than it has received. All in all, it has therefore had to borrow over the years. However, it is not possible to find out how large the debt is on the basis of the difference between disbursements and revenue. Debt measurement is about finding out how large the future commitments of the state are. The debt must therefore be measured on the basis of the financial loan instruments which the state has outstanding at a particular point in time.

Given this, the important questions are therefore which loan instruments are to be included and how these are to be valued. Let us start with how the official debt measure, which we report at the end of every month, is defined. This measure aims to describe the state's financial gross debt.

The first question then is which instruments are included. The Debt Office mainly borrows by issuing interest-bearing securities in kronor and in foreign currency. The first self-evident step when calculating the central government debt is therefore to add up the value of our outstanding loans.

However, we do not just borrow. We also use derivative instruments of various types, for example, futures and swaps, to affect the debt. To put it simply, our debt management is based on our borrowing in the way we consider to be least expensive and most efficient, and then complementing with derivative instruments to obtain the debt portfolio that best complies with our goal: to keep costs at a minimum while taking into account risk. We may, for example, issue a long-term loan with a fixed interest rate in kronor and then use derivatives to ultimately obtain payment obligations in euro at a variable interest rate.

Derivative instruments must therefore be included to obtain a correct picture of the size (and composition) of the central government debt. The debt is also measured in this way now, although derivatives were not included in the official debt measure until 2003.

Nominal valuation

The next question is how to value the loan instruments in the debt. In connection with the change of the debt definition in 2003, we changed over to a uniform principle on how these instruments were to be valued. Since then, we (mainly) value debt instruments at what is referred to as nominal final value. This means that the loan instrument has a value that corresponds to the amount we have to pay on the maturity date. This is simple for the loans in the nominal krona debt; a nominal SEK 100 loan has a value of SEK 100.

Beside the nominal krona debt, the state also has foreign currency debt and inflation-linked debt. Here valuation requires certain additional steps and assumptions.

Foreign currency loans (generally) have a fixed nominal final value expressed, for example, in dollars or euro. However, the central government debt is measured in kronor. To obtain the nominal final value in kronor, the exchange rate must therefore be taken into consideration. The principle applied here is that we use the exchange rate at the time of valuation. This means that the value of the debt also changes when the value of the krona changes in relation to the currencies included in the debt. Viewed from the perspective of our wishing to obtain the final value of the instrument, this can be interpreted as an assumption by us that the exchange rate when the loan matures will be the same as that at the time of valuation.

A feature of inflation-linked bonds is that they have a fixed final value in real terms. The state has accordingly undertaken to pay an amount with a particular purchasing power when the loan matures. We do this by continuously adjusting the value of the loan upwards by the registered inflation rate (measured by the consumer price index) in the form of what is referred to as inflation compensation.

When valuing an inflation-linked loan, we include the accumulated inflation compensation up to the time of valuation.

If we again interpret this on the basis of the principle that we wish to obtain the nominal final value of the loan, this means that we assume that the rate of inflation from the valuation date until the maturity of the loan is zero. This is analogous to how we view the exchange rate, although it is still a less innocuous assumption. Since the exchange rate between the kronor and the dollar may often just as likely move upwards as downwards, the assumption of an unchanged dollar exchange rate is reasonable. However, there is an official target of 2 per cent inflation and a zero inflation rate is normally improbable.

One alternative would be to adjust the value upwards by 2 per cent per year until the maturity date. We have chosen not to do this, partly because the change of the debt definition that took place in 2003 was also guided by making our debt measure coincide with how debt is measured in the context of the EU.[2] The rule there is that future inflation compensation is not taken into account and this accordingly also governed our measure.

Measured in this way, central government debt amounted to SEK 1,118.9 billion on 31 December 2008. A summary description of this measure is available in Table 1.

Table 1. CENTRAL GOVERNMENT DEBT

	mdkr
Nominal debt in SEK	**639.2**
Nominal bonds	509.5
Interest rate and currency swap	–228.4
T-bills	139.0
Interest rate swaps	133.6
Retail market	80.8
Liquidity management debt instruments	49.6
Liquidity management assets	–47.7
Foreign exchange forwards in SEK etc.	2.9
Inflation-linked debt in SEK	**207.3**
Foreign currency debt	**206.3**
Bonds etc. in foreign currencies	112.6
Currency swaps	113.5
Liquidity management assets	–18.1
Foreign exchange forwards in SEK etc.	–1.7
Central government debt incl.Debt Office's financial assets	**1,053.0**
decuctions: Financial assets	–65.9
Central government debt	**1,118.9**

[2] *In the context of the EU, interest is focused on a measure called general government debt in relation to GDP. This includes local government and the pension system as well as central government debt. Our debt measure is intended to show the contribution of central government to the general government debt measure.*

The unconsolidated central government debt
In certain contexts, this measure is referred to as non-consolidated central government debt. The background is that certain central government authorities hold government bonds. If one wishes to obtain a measure for the amount of central government debt in relation to actors outside central government, it is reasonable to deduct holdings by government authorities of this kind. In, for example, the Budget Bill, the Government therefore primarily uses a measure called consolidated central government debt where the Debt Office's debt measure is reduced by government securities held by authorities, which are usually in the range of SEK 50 billion.

The Debt Office prefers (with the approval of the Government) to report a debt measures which is independent of whether the securities we issue are owned by actors within or outside central government. One reason for this, apart from it providing a better picture of our activities, is that information on holdings by authorities is not available as quickly and as often as information about our own outstanding debt instruments. It is thus not possible to report the consolidated debt every month and absolutely not only five working days after the end of the month, as we do in the case of the official debt measure.

Debt measurement and assets in practice

The measure we use to control management of the central government debt differs from the official measure, partly by it including assets that we manage within central government debt management. This means, for example, that if we have cash assets in kronor, these reduce the share of nominal krona debt. If we have cash assets in foreign currency, these reduce the foreign currency share. Our inclusion of assets is not least due to the fact that there would otherwise arise large and misleading fluctuations in the shares. We might then be obliged to make transactions to correct changes that were of no significance for the state's costs and risks, or which would be just as bad, be unable to make transactions which would reduce costs and risks.

This means, for example, that the foreign currency assets that we received from the sale of Vin & Sprit were deducted from future maturities and interest payments in foreign currency. They thus served as a kind of early amortisation of the foreign currency debt, which led to a reduction of the foreign currency debt before the old loans were repaid.

The increased volume of T-bills was matched by assets in the form of mortgage bonds. As we deducted the assets in the measure that controls debt management, the debt shares were not affected. Since we moreover invested the

additional assets so that they would mature at the same time as the additional bills, the maturity of the debt was not affected either.

The rest of central government debt management continued therefore as if nothing had happened, which served its purpose. We avoided, for example, adjusting the maturity of the regular nominal krona debt, which would otherwise have been far too short when we increased the share of short borrowing. When the additional T-bills mature, the debt will remain at the same benchmarks as before, without our having to carry out any further transactions.

New assets raise new questions

Although these assets were acquired due to extraordinary circumstances, they were included in the regular central government debt management. In future, new extraordinary transactions are expected. Among other things, we will have the responsibility of extending foreign currency loans in a way that we have not previously done. The Riksdag has decided to provide Swedish Export Credit Corporation with a loan framework of SEK 100 billion. Furthermore, the state will provide foreign currency loans to Iceland and Latvia. These involve long-term loans with maturities of up to ten years or more. The total amounts involved are not clear although it is unavoidable that we will have to increase foreign currency borrowing to be able to provide these loans.

Borrowing in kronor may also be affected by transactions connected with the state making loans or acquiring other assets. One example is that the Government decided that the Debt Office shall be able to make capital contributions to banks of up to SEK 50 billion. Rescue loans to the vehicle industry are another example.

In common for all these transactions is that the increased borrowing is to be used to fund lending (or share purchase). The state accordingly receives assets which are held by the Debt Office. What effect will these transactions have on the central government debt then?

The answer is simple as regards the official debt measure. Since it does not take assets into consideration, the debt will increase regardless of what the funds are used for. However, the difference will increase between the central government gross debt and the financial net debt, see Table 1 on page 2.

Effects on central government debt management

We will count the lending as an asset when calculating the foreign currency share in the same way as we handle more short-term currency assets. This is in line with our previous treatment of assets, for example the mortgage bonds which the Debt Office received in connection with the reorganisation of the pension system. The foreign currency share will thus not be affected by the size of the foreign currency loans that we raise to fund further lending. Consequently, other foreign currency borrowing will not be affected either.

This application of the principle of taking assets into consideration means that the state's exposure to currency risk is in principle unaffected by our borrowing for additional foreign currency lending. This appears reasonable from the viewpoint of the goal of conducting debt management while taking into account risk.

It also serves its purpose according to the goal of having efficient debt management. If we did not take into consideration the fact that the state receives assets in foreign currency, we would if, for example, Swedish Export Credit Corporation makes use of its loan framework, have to reduce our other foreign currency borrowing and increase borrowing in kronor by a corresponding extent. This would make our krona borrowing difficult to anticipate, which would probably increase the state's borrowing costs. On the other hand, our foreign currency borrowing will be more variable. However, in general, it is easier to vary foreign currency borrowing, since we are a smaller actor in these markets and there are a number of loan instruments that we can use.

What view should then be taken of assets in kronor, for example, capital contributions to banks or rescue loans to the vehicle industry? The answer here is less evident.

On the one hand, using the same arguments as above, it can be said that if the state receives long-term receivables and these are funded with long-term liabilities, then nothing has happened to risk exposure (apart from any credit risks in the assets in question). Accordingly, debt management otherwise should continue as if nothing had happened. This argues in favour of deducting this type of assets as well, in particular in case they are debt claims that give the state interest incomes and repayments according to the same principles as our own debt instruments. The calculation of the debt excluding on-lending in the section above on the budget balance is based on this approach.

On the other hand, the state, as shown above, already has large financial assets, which do not have any direct impact on central government debt management. There is an indirect effect through the guidelines for central government debt management being affected by the state's overall financial position. Large financial assets make central government finances more robust and – other things equal

– provide scope for higher risk-taking in central government debt management.

This relation is based on qualitative assessments, however, and does not have any quantitative effects on debt management on an ongoing basis. It would therefore be remarkable to include these assets, especially if they are equity assets, in the measure used to control our action within the framework of the set guidelines. The fact that the assets are formally included in the Debt Office's balance sheet should not have any significance for the issue of principle, since it is due to organisational decisions without any significance for government finances. That the Government, for example, has chosen to designate the Debt Office as support authority for banks in crisis should not affect central government debt management.

This reasoning at the same time raises a larger question: Does the traditional distinction for which debts and assets are included in the current debt management serve its purpose?

This issue has never been analysed in any detail. One explanation may be that as long as there is no significant change in the size of the assets, then the assessment of the state's ability to bear risk which is made in the annual guidelines decisions suffices. In this way, we can work on the basis of the debt instruments we create and the assets we manage ourselves in debt management, which considerably simplifies debt management.

In the situation that the Swedish economy presently is in, both liabilities and assets change quickly. However, also in this situation, it is probably an overambitious idea to attempt to incorporate automatic adjustments in the control of central government debt in the design of the debt measure. Automatic control of this kind would risk being blunt and could quite conceivably drive central government debt in the wrong direction on the basis of the goal of keeping costs to a minimum while taking into account risk. If there is a fundamental change in conditions, it is rather the guidelines for central government debt management that should be reconsidered. What this could mean in the present situation, is, however, a matter for discussion in another context.

Lars Hörngren
Chief Economist

Market information

Source: Swedish National Debt Office, unless otherwise stated

NOMINAL GOVERNMENT BONDS, OUTSTANDING VOLUMES, 31 JANUARY 2009

Maturity date	Coupon %	Loan no.	SEK million
2009-12-01	4.00	1048	51,251
2011-03-15	5.25	1045	48,354
2012-10-08	5.50	1046	57,225
2014-05-05	6.75	1041	65,251
2015-08-12	4.50	1049	38,991
2016-07-12	3.00	1050	41,489
2017-08-12	3.75	1051	50,026
2019-03-12	4.25	1052	47,005
2020-12-01	5.00	1047	52,701
Total benchmarks			452,293
Non-benchmarks			1,009

T-BILLS, OUTSTANDING VOLUMES, 31 JANUARY 2009

Maturity date	SEK million
2009-02-18	42,506
2009-03-18	50,217
2009-04-15	35,031
2009-06-17	17,996
Total T-bills	145,750

INFLATION-LINKED BONDS, OUTSTANDING VOLUMES 31 JANUARY 2009

Maturity date	Coupon %	Loan no.	SEK million
2012-04-01	1.00	3106	31,128
2014-04-01	0.00	3001	5,068
2015-12-01	3.50	3105	70,603
2020-12-01	4.00	3102	49,119
2028-12-01	3.50	3104	49,655
2028-12-01	3.50	3103	4
Total inflation-linked bonds			205,577

RATING

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

NOMINAL GOVERNMENT BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2009-03-04	2009-03-11	2009-03-16
2009-03-18	2009-03-25	2009-03-30
2009-04-01	2009-04-08	2009-04-15
2009-04-15	2009-04-22	2009-04-27
2009-04-29	2009-05-06	2009-05-11
2009-05-12	2009-05-19	2009-05-25
2009-05-27	2009-06-03	2009-06-08
2009-06-10	2009-06-17	2009-06-23
2009-08-12	2009-08-19	2009-08-24
2009-08-26	2009-09-02	2009-09-07
2009-09-09	2009-09-16	2009-09-21
2009-09-23	2009-09-30	2009-10-05
2009-10-07	2009-10-14	2009-10-19
2009-10-21	2009-10-28	2009-11-02
2009-11-04	2009-11-11	2009-11-16
2009-11-18	2009-11-25	2009-11-30
2009-12-02	2009-12-09	2009-12-14

T-BILLS, AUCTION DATES

Announcement date	Auction date	Settlement date
2009-03-11	2009-03-18	2009-03-20
2009-03-25	2009-04-01	2009-04-03
2009-04-08	2009-04-15	2009-04-17
2009-04-22	2009-04-29	2009-05-04
2009-05-06	2009-05-13	2009-05-15
2009-05-20	2009-05-27	2009-05-29
2009-06-03	2009-06-10	2009-06-12
2009-06-17	2009-06-24	2009-06-26
2009-06-24	2009-07-01	2009-07-03
2009-08-05	2009-08-12	2009-08-14
2009-08-19	2009-08-26	2009-08-28
2009-09-02	2009-09-09	2009-09-11
2009-09-16	2009-09-23	2009-09-25
2009-09-30	2009-10-07	2009-10-09
2009-10-14	2009-10-21	2009-10-23
2009-10-28	2009-11-04	2009-11-06
2009-11-11	2009-11-18	2009-11-20

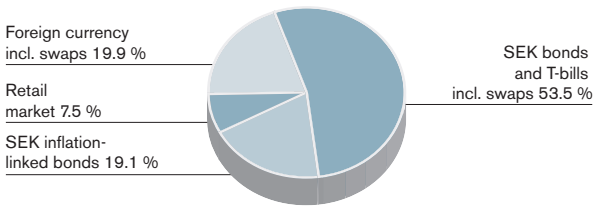
INFLATION-LINKED BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2009-03-12	2009-03-19	2009-03-24
2009-05-07	2009-05-14	2009-05-19
2009-08-20	2009-08-27	2009-09-01
2009-09-17	2009-09-24*	2009-09-29
2009-10-01	2009-10-08	2009-10-13
2009-11-12	2009-11-19	2009-11-24

** Exchange auction*

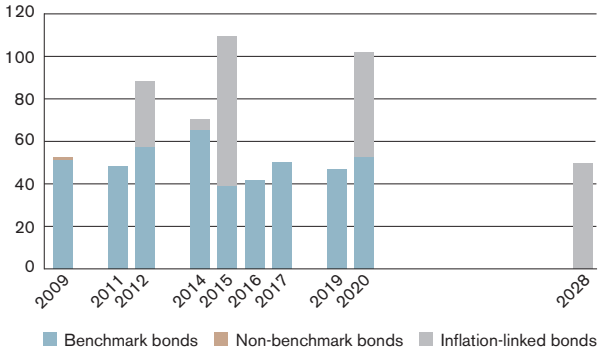
DEBT STRUCTURE

Total debt SEK 1,074.8 billion — 31 January 2009



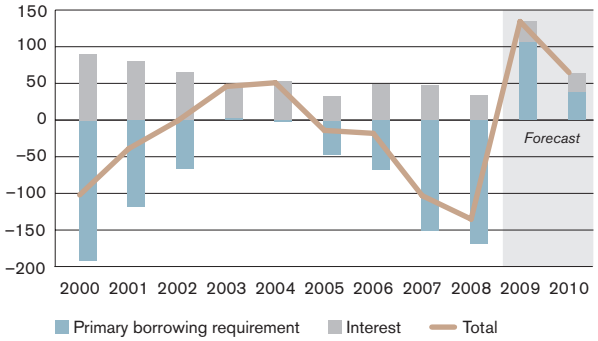
MATURITY PROFILE, SEK NOMINAL AND INFLATION-LINKED BONDS

SEK billion — 31 January 2009



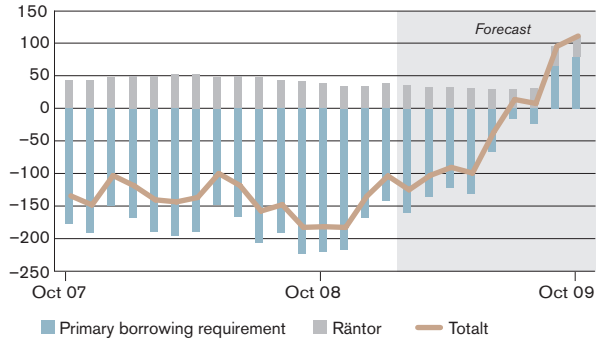
CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 2000–2010

SEK billion

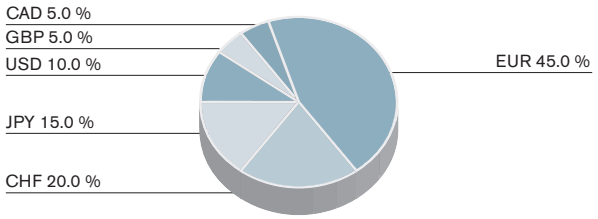


CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 12 MONTHS

SEK billion

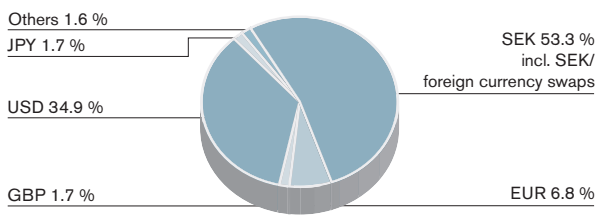


BENCHMARK FOR THE FOREIGN CURRENCY DEBT COMPOSITION

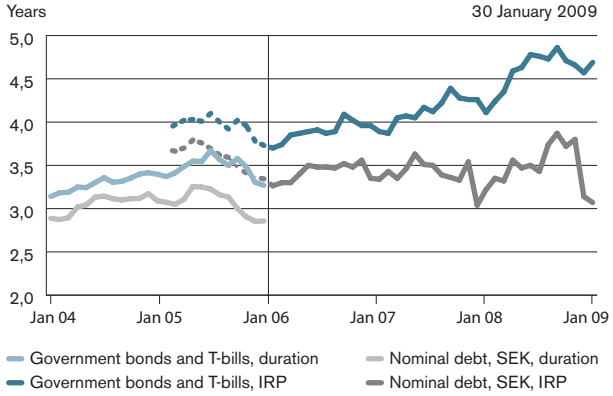


FUNDING IN FOREIGN CURRENCIES

31 January 2009

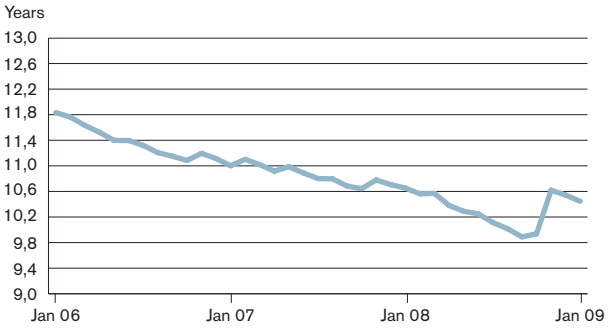


INTEREST-RATE REFIXING PERIOD (IRP)
AND DURATION OF SEK NOMINAL DEBT

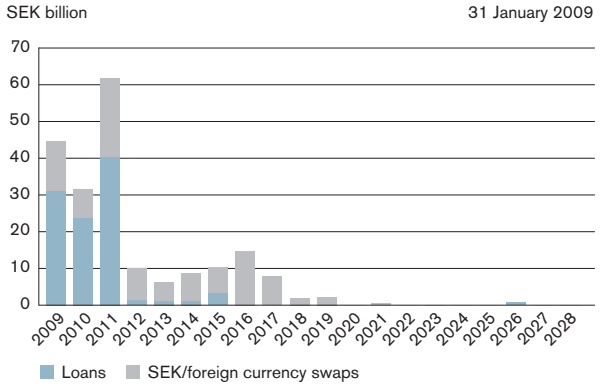


On 1 January 2006 the measure of maturity was changed from duration to interest-rate refixing period (IRP).

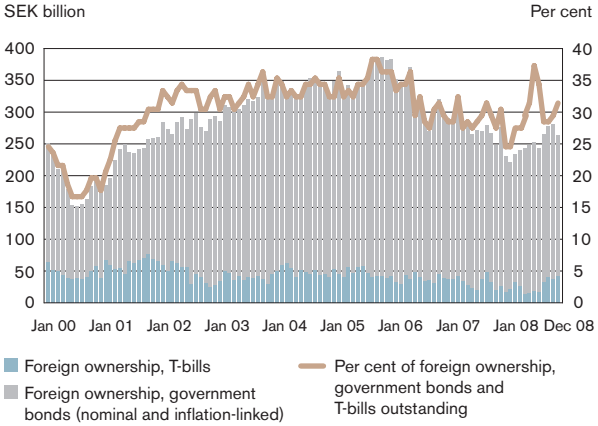
INTEREST-RATE REFIXING PERIOD (IRP)
OF INFLATION-LINKED DEBT



MATURITY PROFILE, FOREIGN CURRENCY
LOANS EXCLUDING CALLABLE BONDS

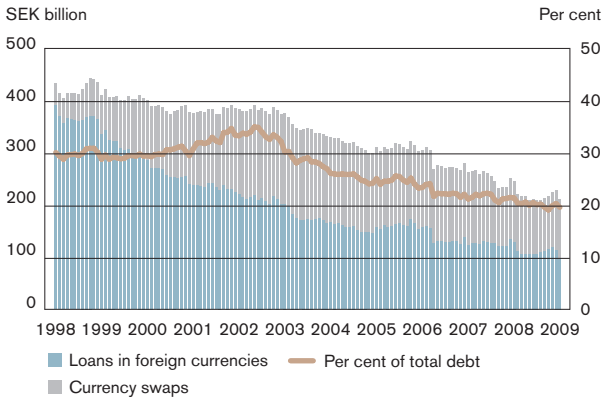


FOREIGN OWNERSHIP OF GOVERNMENT BONDS
AND T-BILLS INCLUDING REPO POSITIONS



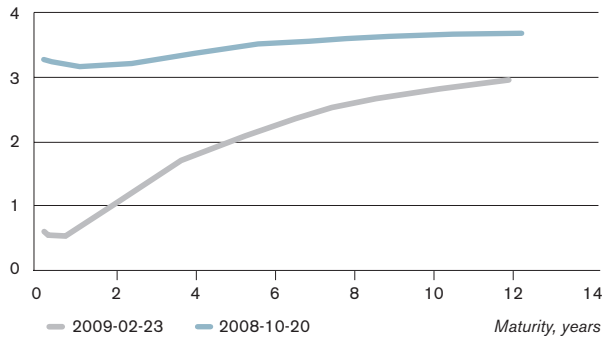
Source: The Riksbank

CENTRAL GOVERNMENT DEBT EXPOSURE
IN FOREIGN CURRENCIES



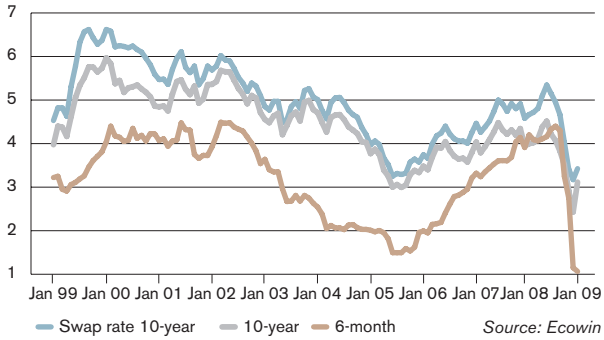
YIELD CURVE, SWEDISH GOVERNMENT SECURITIES

Per cent



HISTORICAL INTEREST RATES

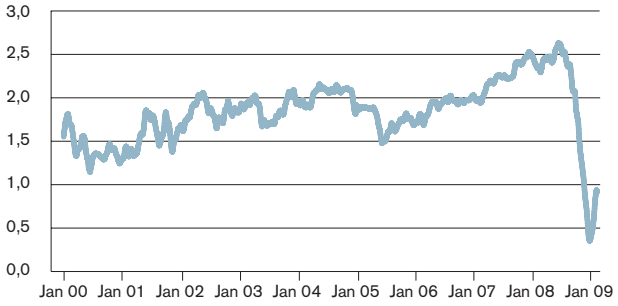
Per cent



Source: Ecowin

BREAK-EVEN INFLATION

Per cent

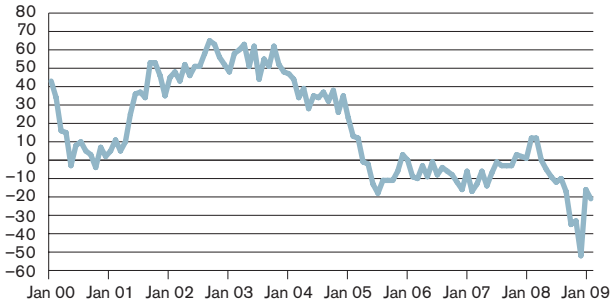


1041 - 3105 (2000-01-01 to 2004-12-31)
1049 - 3105 (2005-01-01 and forward)

Source: Ecowin

INTEREST RATE SPREAD VS GERMANY, 10-YEAR

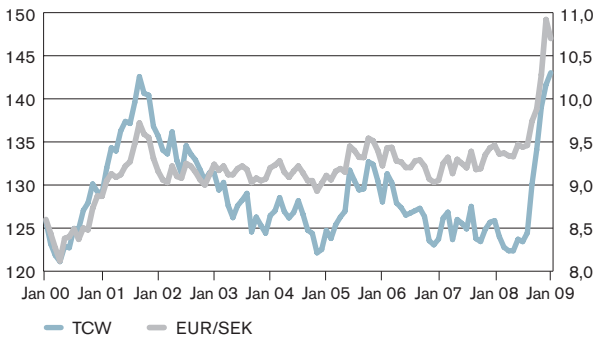
Basis points



Source: Ecowin

HISTORICAL EXCHANGE RATES

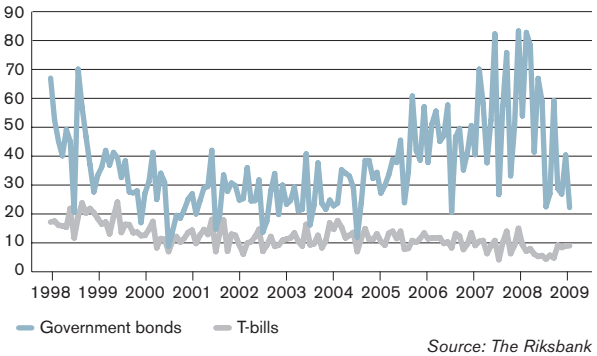
TCW – Trade-weighted index EUR/SEK



Source: Ecowin

DAILY TURNOVER, SWEDISH GOVERNMENT SECURITIES

Total turnover including options and forward contracts, SEK billion

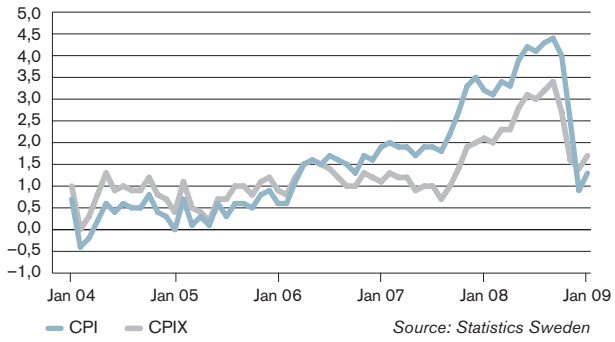


Source: The Riksbank

SWEDISH ECONOMY

INFLATION: CPIX AND CPI IN SWEDEN

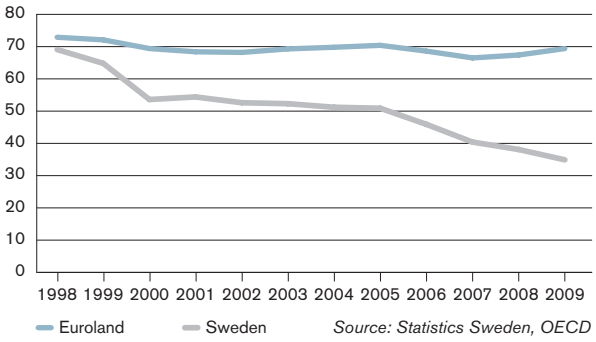
Per cent



Source: Statistics Sweden

GENERAL GOVERNMENT DEBT IN RELATION TO GDP

Per cent



Source: Statistics Sweden, OECD

PRIMARY DEALERS

Primary dealers	Nominella government bonds	Inflation-linked government bonds	T-bills	Telephone	Reuter page
Royal Bank of Scotland	●		●	+44 207 6785965	
Barclays Capital	●			+44 207 773 8275	
Danske Markets/Consensus	●	●	●	+46 8 568 808 44	PMCO
Nordea	●	●	●	+45 33 33 17 58 / +46 8 614 86 55	PMUB
SEB	●	●	●	+46 8 506 231 51	PMSE
Handelsbanken Markets	●	●	●	+46 8 463 46 50	PMHD
Swedbank	●	●	●	+46 8 700 99 00	PMBF

Central Government Borrowing – Forecast and Analysis is published three times a year.

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Funding:	Thomas Olofsson	+46 8 613 47 82

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Large surplus and shrinking borrowing in 2007		2008:1
Proposed guidelines 2007		2007:3
The role of the Debt Office in times of credit-market turmoil	*Anna Sjulander and Thomas Olofsson*	2007:3
Will we benefit from changing auction format?	*Erik Zetterström*	2007:2
Strong economic growth and increased surplus in 2006		2007:1
The Debt Office scores higher	*Maria Norström*	2007:1
The proposed guidelines for 2007 in brief		2006:3
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The Debt Office borrowing scores high in client survey	*Maria Norström*	2005:1
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