RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Central Government Borrowing

Forecast and Analysis 2009:2

In *Central Government Borrowing – Forecast and Analysis 2009:2*, 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.

In the article *Not even an economic disaster in the Baltic States would generate great costs for the Swedish government*, we discuss how large central government expenditure for any support measures to the Swedish banks might be.

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 this 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 intensified downturn in the economy is gradually affecting central government finances. The impact will be relatively small in 2009 but greater in 2010. This year the budget balance is also affected by capital contributions to banks and on-lending to the Riksbank and Iceland. The budget deficits in combination with large bond maturities lead to an increase in central government borrowing, in particular in foreign currency bonds. At the same time, we are reducing the auction volume for nominal government bonds since we have already increased funding during the spring to meet the deterioration in central government finances.

According to our new forecast, the budget deficit will be SEK 198 billion this year and SEK 72 billion in 2010. This means an increase of SEK 63 billion and SEK 7 billion respectively compared with the latest forecast. The deterioration this year is mainly due to increased on-lending. The underlying budget balance developed more strongly than expected during the spring, although we see some weakening during the latter half of the year.

More than half of this year's deficit is explained by on-lending in the wake of the financial crisis. The Debt Office will lend the equivalent of SEK 100 billion in foreign currency to the Riksbank and SEK 7 billion to Iceland. At the same time, we now assume that the Swedish Export Credit Corporation will not need to borrow the SEK 50 billion we previously estimated. The forecast for 2010 includes a loan of SEK 8 billion to Latvia.

On-lending is corresponded to by claims of the same size on the borrowers and thus does not affect central government financial net lending or the central government debt including the Debt Office's financial assets. However, the official debt measure is affected.

The financial crisis could also entail expenditure for bank support. We still expect that SEK 25 billion of the capital contribution programme will be used this year. However, this is an assumption for the purpose of calculation rather than an assessment. This programme enables the state to contribute capital to solvent banks. To date SEK 5.6 billion has been paid in connection with Nordea's share issue.

Economic downturn will be felt in 2010

The downturn will have a greater impact on the budget balance next year than we expected in March. Tax revenue will be SEK 19 billion lower compared with the previous forecast, while expenditure for unemployment will increase by SEK 5 billion. At the same time, we have reduced the assumption on new fiscal policy measures in 2010 from SEK 40 billion to SEK 25 billion. Part of this scope has already been taken into use in the form of increased central government grants to municipalities and county councils.

We expect that GDP will fall by 4 per cent in 2009 and then grow by 2 per cent in 2010. The growth figure should be regarded as a recovery from an extremely low level rather than a forecast of swift recovery. Unemployment will continue to increase next year.

Increased borrowing, lower auction volume

The funding requirement will be SEK 321 billion this year, of which a total of SEK 107 billion in foreign currency for on-lending to the Riksbank and Iceland. Next year, we estimate a funding requirement of SEK 136 billion, of which SEK 18 billion is for on-lending.

The on-lending means that bond funding in foreign currency will increase sharply. It will be SEK 152 billion in 2009 and SEK 38 billion in 2010.

We are reducing the auction volume in nominal government bonds from SEK 3.5 billion to SEK 3 billion from 5 August and plan to retain this level during 2010. This reduction is made possible by increased foreign currency funding and the 30-year bond which we issued earlier this year. The aggregate funding in nominal government bonds in 2009 is slightly increased compared with the previous forecast.

Funding in T-bills will also be somewhat greater than we previously estimated. We will sell T-bills for an average of SEK 20 billion per auction during 2009 and 2010.

Funding in inflation-linked bonds will increase from SEK 3 billion to SEK 10 billion in 2010.

Increase in central government debt

The central government debt will grow to SEK 1,227 billion by the end of 2009 and to SEK 1,300 billion at the end of 2010. This corresponds to 40 and 41 per cent of GDP.

Central government debt including the Debt Office's financial assets will be SEK 1,121 billion and SEK 1,285 billion in 2009 and 2010 respectively. This corresponds to 36 and 38 per cent of GDP.

Limited costs for bank support

The global financial crisis has had a large impact on the financial system in Sweden, and lending by Swedish banks in Ukraine and the Baltic States is causing particular anxiety. However, the government will only have to intervene in the event of a truly worst-case scenario, which appears unlikely. And even then the expenditure for support measures will not be as high as shown by the IMF's figures. For instance, it is unreasonable to expect high costs owing to the Guarantee Programme, given that the government will not allow any bank to fail.

Larger budget deficits in 2009 and 2010

Our new forecast for the budget balance in 2009 and 2010 shows deficits of SEK 198 billion and SEK 72 billion respectively. The economic downturn has intensified, leading to falling tax revenue and rising unemployment expenditure. The impact will be relatively small this year but greater than expected in 2010. On-lending increases by SEK 50 billion in 2009 compared with the previous forecast.

The deficit for 2009 increases by SEK 63 billion compared with the previous forecast. The major part of the change is due to increased on-lending. The Riksbank will borrow SEK 100 billion to strengthen the foreign currency reserve. At the same time, we now expect that the Swedish Export Credit Corporation will not need to borrow the SEK 50 billion which we previously assumed. This means that net on-lending will rise by SEK 50 billion.

During the spring, the budget balance has developed stronger than we expected. However, we believe that there will be some deterioration in the latter half of the year. All in all, the total change in the budget balance excluding on-lending will therefore be quite small.

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

SEK billion	2008	Forecast 2009	Forecast 2010
Central government debt at the beginning of the year	**1,168**	**1,119**	**1,227**
Central government debt at the beginning of the year	−92	61	41
Sales of state-owned assets	−77	0	0
Interest on central government debt	**33**	**31**	**24**
Net borrowing requirement excluding on-lending	**−135**	**91**	**65**
On-lending [2]	0	107	8
Net borrowing requirement	**−135**	**198**	**72**
Debt adjustments	31	−24	0
Short-term investments (annual change)	55	−66	0
Change in central government debt	**−49**	**108**	**72**
Central government debt at the end of the year[3]	**1,119**	**1,227**	**1,299**
The Debt Office's financial assets [4]	−66	−107	−114
Central government debt including the Debt Office's financial assets	**1,053**	**1,121**	**1,185**

1 *The net borrowing requirement shows what the government needs to borrow to fund budget deficits. When there is a budget surplus, the net borrowing requirement is negative.*
2 *Refers to lending to the Riksbank and other states.*
3 *Unconsolidated central government debt according to the official definition.*
4 *Financial assets including short-term investments and on-lending.*

The deficit for 2010 increases by SEK 7 billion kronor compared with the previous forecast. The economic downturn will reduce tax revenue by SEK 19 billion. Expenditure for unemployment increases by SEK 5 billion. At the same time, we have scaled back our assumption on fiscal policy measures from SEK 40 billion to SEK 25 billion. Part of this scope has already been taken into use in the form of increased central government grants to municipalities and county councils which will be paid out during 2009. During 2010, on-lending amounts to SEK 8 billion for loans to Latvia.

The state of the Swedish economy

The Swedish economy has been hit hard by the global downturn. This is largely the result of reduced demand in the export sector which makes up a substantial part of the Swedish economy. There was a large drop in output at the end of 2008 and this trend has persisted in early 2009. This has led to record large redundancy notices and increased unemployment. We have had two quarters with a sharply negative development of GDP. It is probable that the current quarter will also be very poor. We estimate that GDP will shrink by 4 per cent in 2009. In 2010, we expect positive growth of 2 per cent.

The downturn started at the beginning of 2008 and continued throughout the year. It accelerated last autumn when Lehman Brothers was declared bankrupt. The world economy has been in free fall for over two quarters. Lehman's bankruptcy more or less caused a financial meltdown, which led to substantial and swift real economic effects globally. We make the assessment that the current low level of output is not a new normal situation.

In order to stabilise the financial sector, states throughout the world have introduced extensive fiscal policy measures in addition to an easing of monetary policy. This money has, inter alia, been used to strengthen balance sheets in the financial sector. Financial markets have stabilised although stability is based on central government support. Financial institutions are now finding it much easier to manage their liquidity than in last autumn, although it is still difficult for non-financial companies to obtain loans.

Various economic indicators have stabilised and in some cases have turned upwards. Still, they remain at low levels. The stabilisation of the financial markets will probably produce real economic effects during the latter half of 2009.

Since the drop in GDP has been so sharp, it will not take particularly much to turn growth to positive rates next year. In the case of Sweden, growth will be driven by increased international demand, which will favour the export sector. However, there will not be any improvement in the labour market in the near future. On the contrary, unemployment will continue to rise next year. There will be a substantial improvement in corporate productivity. As regards central government finances, they are normally affected with a lag of between four and eight quarters. Growth during 2010 is of rather small importance for the budget balance that year.

We are not expecting any quick and sustainable recovery, rather a pick-up from an extremely low level. The extensive support measures that states have undertaken throughout the world will be a burden on the global economy for a long time to come. There has been a drastic deterioration in central government finances in many countries in the past year. This will mean higher taxes and less scope for private consumption and investments.

Beyond our forecast horizon, we believe that there will be low growth in the Swedish economy and a continued deficit in central government finances. In an international perspective, Swedish central government finances are strong despite the rising deficit.

Large deficits in 2009 and 2010

Central government finances are weakening further. The budget deficit increases to SEK 198 billion this year and SEK 72 billion next year. The deterioration from the previous forecast is mainly due to increased on-lending in 2009 and falling tax revenue in 2010.

On-lending increases by SEK 50 billion in 2009

In all, we estimate on-lending of SEK 107 billion in 2009 and SEK 8 billion in 2010. This is an increase of SEK 50 billion this year and a reduction of SEK 2 billion next year.

The change in 2009 is due to our now expecting to lend SEK 100 billion to the Riksbank at the same time as the Swedish Export Credit Corporation will probably not borrow the SEK 50 billion which we previously assumed.

Table 2. LARGEST CHANGES FOR 2009 COMPARED WITH PREVIOUS FORECAST*

SEK billion

Taxes	–7
Dividends	1
Public Employment Service	1
Municipalities	7
Social Insurance Office	–2
Miscellaneous	1
Primary balance	**2**
Net lending to government agencies	8
On-lending	50
Interest	3
Total change net borrowing requirement	**63**

* *The table is based on cash flow. A minus means that the borrowing requirement decreases and a plus means that it increases.*

We will borrow the equivalent of SEK 100 billion in foreign currency on behalf of the Riksbank to restore the currency reserve. SEK 65 billion of this amount will be added to the currency reserve before the summer. The background to this is that the Riksbank has used part of the currency reserve, inter alia, for loans to Swedish banks and foreign central banks. We assume that the remainder of the loan will be made during the autumn.

The state-owned company Swedish Export Credit Corporation is able to raise loans of up to SEK 100 billion at the Debt Office. The purpose of this loan frame, which applies only until the end of the year, is to support Swedish companies when financing export transactions. We assumed earlier that the Swedish Export Credit Corporation would use half of the loan frame, although we underlined that this assumption was very uncertain. We now expect the company to wholly refrain from using the loan frame.

Sweden will also lend money to Iceland and Latvia. We expect Iceland to borrow SEK 7 billion this year and that Latvia will borrow SEK 8 billion next year. The loan to Latvia is part of the approximately EUR 2 billion which Sweden, Norway, Denmark and Finland have promised to lend as part of an agreement between the IMF and Latvia.

On-lending will be corresponded to by equally large claims on the borrowers. This means that there will be no effect on the central government debt including the Debt Office's financial assets or central government financial net lending. However, the state budget and the official measure of central government debt will be affected. Interest payments on central government debt are not affected, however, since the borrowers will pay interest to the Debt Office that corresponds to our costs.

We have not assumed any repayment of the Riksbank's loan during the forecast period. Should a repayment be made, the budget balance will improve by that amount.

Net lending to agencies etc. by the Debt Office

The Debt Office's net lending to agencies excluding on-lending is estimated at SEK 38 billion in 2009. The change from the previous forecast is SEK 8 billion; see Table 2. This is mainly due to certain agencies, including the Premium Pension Authority, reducing their account balance during the spring.

As last time, we assume that SEK 25 billion of the capital contribution programme for banks will be made use of in 2009. During the spring, the state has participated in Nordea's new issue with SEK 5.6 billion. This money was paid from the stability fund at the Debt Office. For further information about the financial situation of Swedish banks, see the article *Not even an economic disaster in the Baltic States would generate great costs for the Swedish government.*

A further reduction of tax revenue in 2010

The weaker development of the economy during the spring, which is reflected in the sharp reduction of GDP for the first quarter, will gradually have an impact on central government finances. The impact will be relatively small in 2009 but greater than expected in 2010.

Up until the end of May, tax revenue has been SEK 11 billion higher than forecast. This is mainly explained by higher payments of corporate tax. Our assessment is that a large part of these payments regard previous years. The deterioration in the labour market gradually has an impact on wage-based taxes at the end of 2009. Tax revenue decreases by SEK 19 billion in 2010 compared with the previous forecast. This is in particular due to wage and consumption-based taxes.

During the first months of the year, gross wages have developed in line with our previous forecast or even somewhat stronger. However, the weaker labour market with fewer hours worked is now starting to have an effect on the growth of gross wages. We therefore assume that gross wages will develop considerably weaker during the latter half of 2009. Together with the weaker development of the economy this year, we are accordingly making a downward adjustment of gross wages in current prices. The rate of growth is now just below 1 per cent annually in 2009 and 1 per cent in 2010. We estimate that the number of hours worked will develop somewhat better in 2010 than in 2009, although at the same time, the hourly wage will increase less due to the renegotiation of many wage agreements.

Private consumption will develop more weakly than we previously assumed. We assume now an increase of consumption in current prices of 1 per cent in 2009 and just over 2 per cent in 2010. The effect of lower income from consumption-based taxes is counteracted by reduced reimbursement of value-added tax to companies due to reduced investments and falling exports.

Companies have adjusted their preliminary tax during the first half of the year. At the same time, more tax has been paid than we estimated. There is a lot to indicate that a large part of the extra tax revenue relates to previous years.

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).*

The National Institute of Economic Research (N.I.E.R.) published its latest report on the macroeconomic development in The Swedish Economy in March 2009. If we were to base ourselves on growth in variables such as gross wages, consumption, investments and exports which were then published, our net borrowing requirement would rise by around SEK 10 billion in 2009 and SEK 22 billion in 2010.

THE DEBT OFFICE'S CALCULATION ASSUMPTIONS

Procent	2009	2010
Gross wages [1]	0.8	1.0
Private consumption [1]	1.1	2.4
Investments [1]	–11.8	–4.0
Exports [1]	–9.8	1.7
Unemployment new definition	8.5	11.0
Unemployment old definition	6.5	8.5

[1] *Annual percentage changes, current prices.*

This may, for example, be due to corporate profits being higher in 2008 than we previously assumed.

We estimate that corporate profit levels will fall in 2009 compared with 2008 to the same extent as before. During 2010 we assume that the conditions for companies will stabilise slightly although this will take place from a very low level. Since companies have spare production capacity, the development of productivity will be strong.

Table 3. LARGEST CHANGES FOR 2010 COMPARED WITH PREVIOUS FORECAST*

SEK billion

Taxes	19
Dividends	3
Social Insurance Office	–5
Public Employment Service	5
Miscellaneous	–10
Primary balance	**10**
Net lending to government agencies	1
On-lending	–2
Interest	–2
Total change net borrowing requirement	**7**

* *The table is based on cash flow. A minus means that the borrowing requirement decreases and a plus means that it increases.*

The downturn is now also visible in the labour market

We now estimate unemployment at 8.5 per cent in 2009 and 11.0 per cent in 2010 on an annual average according to the new definition (16–64 years old, including full-time students). However, in our assessment of the impact of unemployment on central government finances, the previous definition, which excludes full-time students, is more relevant. Our forecast of unemployment according to this definition is 6.5 per cent in 2009 and 8.5 per cent in 2010.

Payments of unemployment benefits during the first half of the year have been in line with our previous forecast. They have even been slightly lower. This is partly because fewer unemployed are entitled to unemployment benefits, partly because a large proportion of those who have become unemployed during the spring were temporary employees and many have a lower benefit level. Apace with the rise in unemployment, more permanent employees will be affected, as well as individuals with higher benefit levels. Just as in our previous forecast, we estimate that the number of unemployed will rise during the autumn and next year. The weaker state of the economy during the spring of 2009 will mean that the increase in 2010 will be greater than previously estimated. There will therefore be a further impact on central government finances.

Payments to labour market programmes have been low to date this year. The total effect on the state budget of the deterioration in the labour market will be highly dependent on the extent to which the labour market programmes get started.

The number of redundancy notices has been at historically high levels at the end of 2008 and the beginning of 2009. Notices are still high but had halved in May compared with the top notation in October 2008. According to the Employment Service, a considerably larger proportion of those given notice since the end of 2008 have been registered as unemployed compared with those given notice during the first half of 2008. This would mean that the so-called redundancy rate has increased. The calculation of expenditure for unemployment will be very sensitive to changes in both the economy and in how large a part of those given notice actually become unemployed.

Funds made available for local government in 2009

Local government tax revenue will decline in 2010 from 2009, due to low growth in gross wages, growing unemployment and a negative final settlement for 2008. In the Spring Fiscal Policy Bill, the Government proposed increased central government grants which are to serve as temporary cyclical support. These funds total SEK 7 billion and will be paid in December 2009 but regard 2010.

Lower payments from the Social Insurance Office

Payments from the Swedish Social Insurance Office will be SEK 5 billion lower in 2010 than we estimated in the previous forecast. Payments for pensions will be lower due to a low development of the income index and because balancing has come into effect in the old age pension scheme. The low development of the income index is largely due to low inflation in the previous year, and balancing has come into effect because of the sharp fall in the value of the AP Funds' assets in 2008. According to the Social Insurance Office's own calculations, the index for pensions will entail an upward adjustment of 4.5 per cent in 2009 to then fall by 3.5 per cent in 2010. In our forecast, we have taken into account the proposal that exists for changes in how the balance figure is to be calculated. It is proposed that the AP Funds' assets be valued on the basis of an average of the three most recent years instead of just the past year. This means that pensions in our forecast decline by somewhat less next year.

Fiscal policy stimulation in 2010

We expect the government to carry out new expenditure increases and/or tax cuts in the range of SEK 25 billion during 2010. This is SEK 15 billion less than in our previous forecast. This is partly explained by SEK 7 billion already having been made use of by increased central government grants to municipalities and county councils. We are not making a detailed forecast of the types of stimulus that may come into question. However, it is probable that there can be further compensation to the local government sector and to pensioners.

CHANGES IN THE NET BORROWING REQUIREMENT

The table shows the parts of the net borrowing requirement that have changed most between 2007 and 2010. The table is based on the cash flow principle. Minus means a reduction in the net borrowing requirement and plus means that it increases.

SEK billion	2007	2008	2009	2010
Taxes	−54	−50	73	−13
Payments to local government	46	60	37	−30
Sale of state assets	−18	−59	77	0
Dividends on the state's shares	−9	9	5	4
Labour market	−16	−5	8	9
Social Insurance Office	0	18	4	8
EU contribution	0	5	−11	7
Forecast fiscal policy	0	0	0	15
Takeover of loan from Venantius	−4	0	0	0
Debt Office's net lending	−31	−21	166	−127
Interest on central government debt	−3	−11	−3	−7
Miscellaneous	4	22	−24	9
Total change from previous year	**−85**	**−32**	**332**	**−126**

	2006	2007	2008	2009	2010
Net borrowing requirement	−18	−103	−135	198	72

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 73 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; see the sections on on-lending and net lending by the Debt Office. Furthermore, there will be a large drop in tax revenue compared with 2008. This explains the major part of the difference of SEK 332 billion between 2008 and 2009.

Next year, local government payments will decrease by SEK 30 billion after having increased by over SEK 37 billion in 2009 and SEK 60 billion in 2008. Furthermore, Debt Office's net lending is not as large as in 2009, which is, inter alia, due to lower on-lending. Taxes will again grow at a slow rate after having fallen sharply in 2009.

Lower dividends on the state's shares

We calculate dividends on the state's shares at SEK 20 billion for 2009, which is SEK 1 billion lower than in the previous forecast. We are also reducing the forecast for dividends for 2010 by SEK 3 billion to SEK 16 billion.

Low interest payments despite rising central government debt

Interest payments on central government debt are expected to be SEK 31 billion in 2009 and SEK 24 billion in 2010. This is SEK 3 billion more and SEK 2 billion less respectively than in the previous forecast. The Debt Office is using stop rates for calculations of interest payments. The stop date on this occasion was 29 May 2009.

Interest payments increase in 2009 due to reduced issue premiums. The premium for a bond is the difference between the market price on issue and the nominal amount of the bond. Premiums are treated as interest income in the state budget. The total premiums depend, besides on our issuance plan, on the level of interest rates. Since our previous forecast, market rates for government bonds with a 10-year maturity have risen by around 0.6 percentage points, which reduces premiums this year by around SEK 3 billion.

For 2010, we estimate smaller exchange rate losses than before since the krona is strengthening against the dollar.

Budget balance compared with central government financial net lending

We estimate that central government financial net lending will amount to SEK −50 billion in 2009 and to SEK −66 billion in 2010. As shown by Figure 1, net lending deteriorates in all three years after 2007. However, the budget balance improved in 2008 to fall sharply in 2009 in our estimates. The large differences between central government financial net lending and the budget balance are mainly caused by sale of state-owned financial assets and the Debt Office's net lending to agencies.

Table 4. CENTRAL GOVERNMENT FINANCIAL NET LENDING 2006–2010

SEK billion	2006	2007	2008	Forecast 2009	Forecast 2010
Budget balance	**18**	**103**	**135**	**−198**	**−72**
Adjustment items	**13**	**−29**	**−90**	**148**	**6**
Sale of limited companies	0	−18	−77	0	0
Parts of the Debt Office's net lending	22	2	−3	137	11
Allocation of interest & taxes	6	18	−24	14	3
Miscellaneous	−15	−31	14	−2	−7
Central government financial net lending	**32**	**74**	**45**	**−50**	**−66**
Per cent of GDP	**1,1**	**2,4**	**1,4**	**−1,6**	**−2,1**

GOVERNMENT AGENCIES' REPO TRANSACTIONS

Some government agencies, in particular the Premium Pension Authority, the Swedish Nuclear Waste Fund and the Deposit Guarantee Board have assets invested in Swedish government securities. Since April 2007, the Premium Pension Authority and the Swedish Nuclear Waste Fund are repoing parts of these holdings. 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.

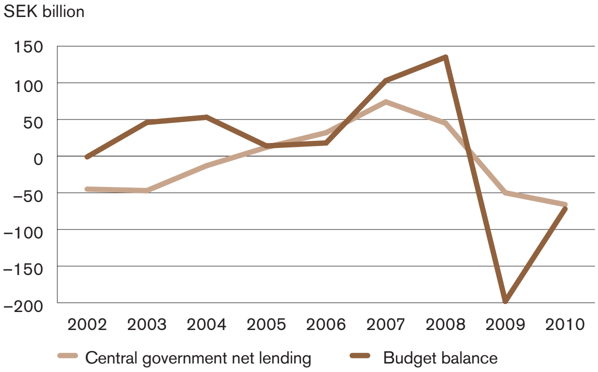
Repos lead to greater variations in the central government net borrowing requirement

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 sale of limited companies amounted to SEK 77 billion in 2008 which affected the balance but not net lending. Sales mean in this case only an exchange of type of asset from shares to cash.

Figure 1. COMPARISON BETWEEN NET LENDING AND THE BUDGET BALANCE



This year, the greatest difference between net lending and the budget balance is an extensive lending within the Debt Office's net lending to agencies. This also includes on-lending to the Riksbank and other states. As the state receives an equally large claim on the borrowers, it does not affect the state's aggregate wealth and thus not either net lending.

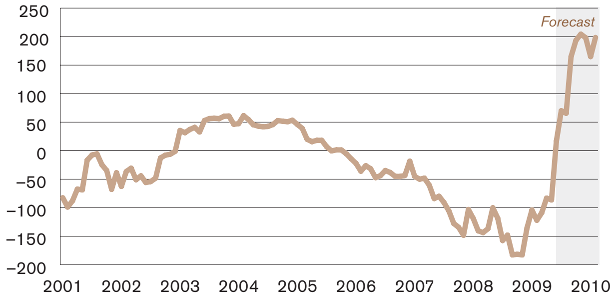
The budget balance improved in 2010 compared with 2009 primarily as an effect of a reduction in the Debt Office's net lending to agencies. However, net lending continued to decrease, which is due to poorer economic development.

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.

Figure 2. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 12-MONTH FIGURES

SEK billion



Variations from month to month are largely explained by variations in tax revenue, tax refunds and repo transactions by agencies (se Box on p. 8 for information about agency repos).

Repo transactions by agencies increase the borrowing requirement by SEK 9 billion in June, reduce it by SEK 9 billion in July, increase it by SEK 17 billion in December and reduce it by SEK 17 billion in January.

Table 5. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT

SEK billion	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Primary borrowing requirement	88.0	1.2	−7.3	45.7	27.1	−7.6	116.5	−25.9	−40.1
Interest on central government debt	1.3	0.6	2.9	−0.5	1.3	−1.1	9.4	−0.9	−0.7
Net borrowing requirement*	**89.3**	**1.8**	**−4.4**	**45.2**	**28.4**	**−8.8**	**126.0**	**−26.8**	**−40.7**

** The net borrowing requirement shows what the government needs to borrow to fund budget defoicits. When there is a surplus, the net borrowing requirement is negative.*

Central government debt

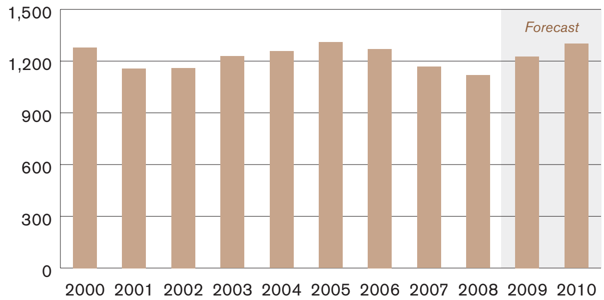
We estimate that the central government debt will be SEK 1,227 billion at the end of 2009 to rise to SEK 1,300 billion at the end of 2010. This corresponds to 40 per cent of GDP for 2009 and 41 per cent for 2010.

Compared with 2008, central government debt will increase by SEK 108 billion this year. The fact that the debt is increasing less than the borrowing requirement is due to 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.

We estimate the central government debt including the Debt Office's financial assets at SEK 1,121 billion at the end of 2009 and SEK 1,185 billion at the end of 2010. This is equivalent to 36 and 38 per cent of GDP in 2009 and 2010 respectively.

Figure 3. CENTRAL GOVERNMENT DEBT 2000–2010

SEK billion



Reduced funding in nominal government bonds

Funding in nominal government bonds is being reduced from SEK 3.5 billion to SEK 3 billion per auction and will remain at this level in 2010. The reason is increased funding in foreign currency in combination with a large 30-year loan earlier this year. Funding in nominal government bonds will be SEK 110 billion for 2009 as a whole. Funding in T-bills will increase slightly compared with our previous forecast. Since we will need to borrow in foreign currency for on-lending, in particular to the Riksbank, funding in foreign currency bonds will be SEK 152 billion in 2009. Funding in inflation-linked bonds will increase to SEK 10 billion in 2010.

The central government funding requirement will be substantial in 2009 due to the growing budget deficit and large bond maturities. As a large part of this year's budget deficit consists of on-lending, there will be a significant increase in foreign currency funding. The funding requirement will decrease sharply during 2010.

Funding in nominal government bonds is being reduced from 5 August. Despite this, funding in nominal government bonds will be slightly greater this year than we previously estimated because we issued a 30-year bond in the spring. The new long bond, together with increased bond funding in foreign currency during the spring to meet the expected deficits, makes it possible to reduce the issue volume.

Funding in foreign currencies will be extensive during 2009. We shall always have 15 per cent of the central government debt exposed in foreign currency and we estimate on-lending corresponding to SEK 100 billion in foreign currency in 2009 to the Riksbank to restore the foreign exchange reserve. Since the central government debt will be greater, we must increase foreign currency funding during 2009 to steer the foreign current debt towards the target proportion. On-lending to the Riksbank is corresponded to by a claim on the bank and does not therefore affect the share of foreign currency debt. There is no effect either on central government debt including the Debt Office's assets.

Funding in T-bills increases slightly compared with the previous forecast. We are increasing inflation-linked funding from SEK 3 billion to SEK 10 billion in 2010.

Larger funding requirement in 2009

The central government borrowing requirement will be SEK 321 billion this year and SEK 136 billion in 2010. This means an increase compared with the previous forecast of SEK 85 billion during 2009. This large change is due to an additional SEK 50 billion in on-lending. In all, on-lending amounts to SEK 107 billion and SEK 18 billion during 2009 and 2010 respectively. In 2010, the funding requirement will be SEK 8 billion lower than in the previous forecast. Part of the borrowing during 2009 will be used for funding in 2010.

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

Table 1. FUNDING 2008–2010

SEK billion	2008	2009	2010
Net borrowing requirement	–135	198	72
Change in cash equivalent holdings and retail market borrowing *	57	–55	11
Maturing bond loans and buybacks	96	178	52
Of which			
Government bonds	*68*	*119*	*17*
Foreign currency bonds	*28*	*59*	*36*
Funding requirement	**18**	**321**	**136**
T-bill borrowing, net **	–32	56	25
Bond borrowing, gross ***	50	265	111
Of which			
Nominal government bonds	*47*	*110*	*63*
Inflation-linked bonds	*3*	*3*	*10*
Foreign currency bonds, on-lending	*0*	*107*	*18*
Foreign currency bonds, excl. on-lending.	*0*	*45*	*20*
Funding	**18**	**321**	**136**
Funding adjusted for on-lending	18	214	118

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

[1] *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.*

Table 2. IMPORTANT DATES 2009

Date	Time	Activity
24 Sep 2009	11.00	Exchanges from 3105 to 3102 and 3104
Oct/Nov		Central Government Borrowing – Forecast and Analysis 2009:3

Reduced funding in nominal government bonds

The issue volume is being reduced from SEK 3.5 billion to SEK 3 billion per auction on 5 August. The same issue volume will also be retained during 2010. In the previous forecast, we expected to have to increase the volume to SEK 4.5 billion.

Funding in nominal bonds increases slightly to SEK 110 billion during 2009 as a whole. Our estimate was SEK 106 billion in our previous forecast. The increase in funding in nominal government bonds for the year as a whole is due to the introduction of the 30-year bond when we issued SEK 38 billion.

Table 3 shows the changes 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 GOVERNMENT BONDS, NET INCLUDING SWAPS

SEK billion	2008	2009	2010
Nominal government bonds, issues	47	110	63
Maturities, buybacks and exchanges	−51	−114	−11
Change in nominal government bond stock	**−4**	**−4**	**52**
Swaps, net *	−5	−9	27
Nominal government bonds and swaps, net change	**−9**	**−13**	**79**

* *Net of newly-issued and maturing swaps.*

Figure 1. FORECAST FOR THE INTEREST RATE REFIXING PERIOD OF THE NOMINAL KRONA DEBT, 2009-2010

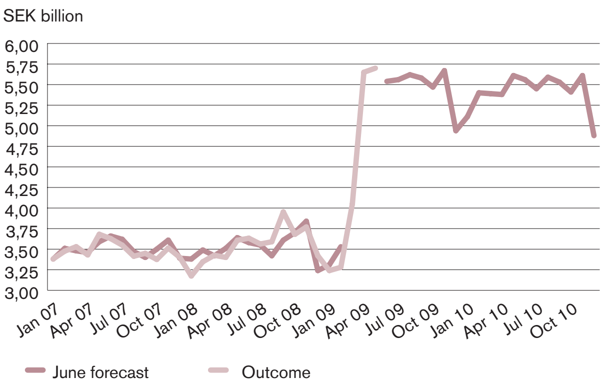
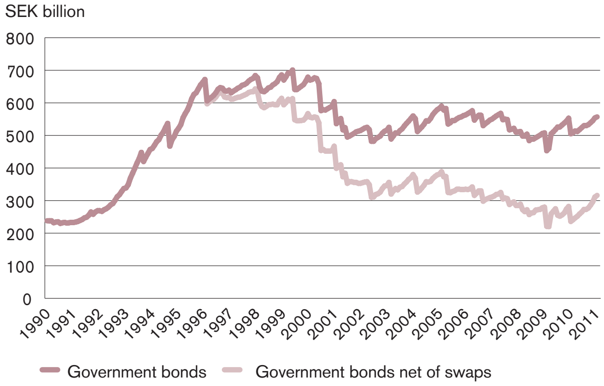


Figure 2. GOVERNMENT BONDS AND SWAPS



The Debt Office does not have any maturity target at present since the government abolished this in conjunction with our issuing a 30-year government bond. We have adapted the funding plan so that the interest rate refixing period of the nominal krona debt, excluding the 30-year loan, will be 3.5 years on average. The government will establish a new maturity target for the nominal krona debt on a later occasion.

As noted in the previous section on the development of the budget, the borrowing requirement would be greater if we worked on the basis of the scenario of economic development published by, for example, the National Institute of Economic Research and the Ministry of Finance. If we needed to borrow around SEK 30 billion more during 2009 and 2010, this would probably be funded to some extent by foreign currency bonds, inflation-linked bonds and T-bills. Half of the amount could then be funded by issue volumes in nominal government bonds being increased from SEK 3 billion to SEK 3.5 billion.

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 issuance 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 issuance plan. However, should we receive clear indications that we should deviate from the issuance plan, we are able to do so.

Long bonds given priority

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 other maturities, including the new 30-year bond.

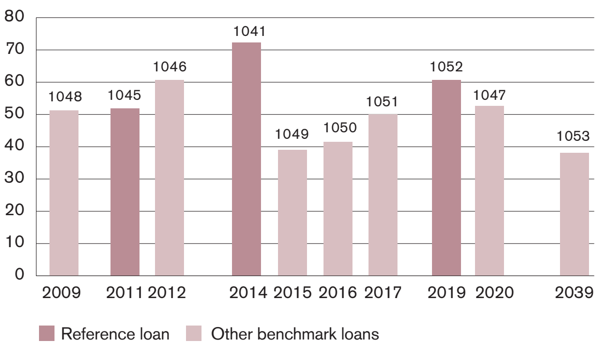
We will not introduce any new ten-year bond until 2011 at the earliest. The outstanding loan 1047, which matures in December 2020, will become a new ten-year reference loan in December 2009. See Figure 2 and Table 4 respectively for outstanding reference loans and exchanges of these loans.

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 3. OUTSTANDING NOMINAL GOVERNMENT BONDS (BENCHMARK LOANS) 31 MAY 2009



Some increase in T-bills

Part of the increased funding in 2009 will be made in T-bills. This partly reflects the fact that adaptation to the large surplus during 2008 was mainly made in bills. Now that central government debt is increasing again, there is again scope increase the outstanding stock. The stock will fluctuate around SEK 140 billion.

On average, we issue T-bills for SEK 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. At the end of 2009, we expect the T-bill stock to increase to around SEK 140 billion. It will then decrease to SEK 110 billion to be slightly over SEK 165 billion at the end of 2010.

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

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.

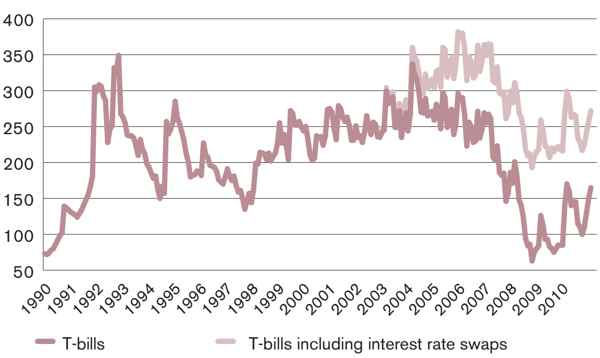
We also have on tap issues in T-bills with tailor-made maturities (liquidity bills) and in the two shortest ordinary maturities within the framework of our liquidity management.

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

SEK billion	2008	2009	2010
T-bill borrowing, net[1]	−32	56	25
Interest rate swaps, net	22	−22	−23
T-bill stock and swaps, net change	**−10**	**34**	**2**

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

Figure 4. T-BILLS AND INTEREST RATE SWAPS



Reduced swap borrowing in 2010

The swap volume is unchanged at SEK 50 billion in 2009. We expect a smaller volume of new swaps in 2010, SEK 5 billion. We are reducing swaps because the maturity of the krona debt would otherwise become too short. The swap volume next year depends on coming government decisions on a new maturity target for the nominal krona debt. The volume must therefore be regarded as tentative.

The outstanding stock of swaps is increasing slightly during 2009 to fall 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	0
Currency swaps [2]	5	50	5
Swaps. total	**36**	**50**	**5**
Swaps, maturities	–31	–41	–32
Swaps, net change	**5**	**9**	**–27**

[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.*

Inflation-linked funding on its way back

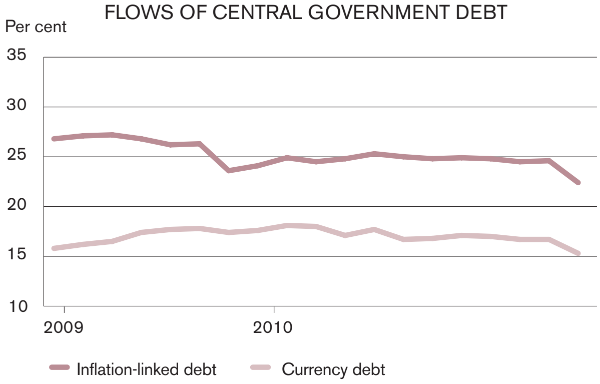
The issue volume on an annual basis is being increased from SEK 3 billion to SEK 10 billion from the end of the year. We are also increasing the number of auctions from six to ten during 2010.

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 in the long term.

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.

Figure 5. THE SHARE OF INFLATION-LINKED AND FORIGN 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.

As shown by Figure 5, inflation-linked debt will be 26 and 25 per cent respectively on average during 2009 and 2010. The forecast from last year indicated shares of over 30 per cent due to the decreasing central government debt, Now that central government debt is increasing and the shares are in line with our targets we will again be able to make use of borrowing in inflation-linked bonds.

According to our guidelines, the maturity of the inflation-linked debt should be 10.1 and 9.6 years at the end of 2009 and 2010 respectively. On 29 May, the maturity was 10.2 years.

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.

We also expect to make further exchanges of 3105 for longer inflation-linked bonds corresponding to SEK 5 billion during the autumn of 2009. During 2010, exchanges are planned corresponding to a further SEK 10 billion. The exchange volume will subsequently be reduced to SEK 5 billion per year until the end of 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 152 billion in 2009 and SEK 38 billion in 2010; see Table 7. The large borrowing is due to a relatively extensive on-lending to the Riksbank, Iceland and Latvia. To date this year, we have already borrowed the equivalent of around SEK 90 billion of foreign currency bonds.

We raised two bond loans in dollars at the beginning of the year for a total of USD 4 billion or equivalent to around SEK 34 billion. In April, we issued a bond for EUR 4 billion or the equivalent of around SEK 42 billion. We recently also issued a bond for USD 2 billion or the equivalent of around SEK 15 billion.

We have lent the equivalent of around SEK 40 billion of these loans to the Riksbank. In addition we have raised the equivalent of SEK 25 billion in commercial paper on behalf of the Riksbank. Compared with our forecast, the equivalent of SEK 35 billion thus remains to be borrowed to restore the Riksbank's currency reserve. Provided that all borrowing for the Riksbank is made in bonds, SEK 60 billion remains, which is also stated in our forecast. However, it is very possible that part of the funding will be rolled over in commercial paper. The forecast of an additional SEK 60 billion may thus be considerably lower.

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

SEK billion	2008	2009	2010
Foreign currency bonds, funding	0	152	38
Of which			
On-lending	0	107	18
Excluding on-lending		45	20
Maturities, bonds	−28	−59	−36
Change in foreign currency bonds	**−28**	**93**	**2**
Short-term funding, including forwards, net	−1	0	0
Change in foreign currency reserve	**−29**	**93**	**2**
Foreign currency swaps, net	−17	31	−4
Change in foreign currency debt including swaps, net	**−46**	**123**	**−1**

[1] *Nominal amounts.*

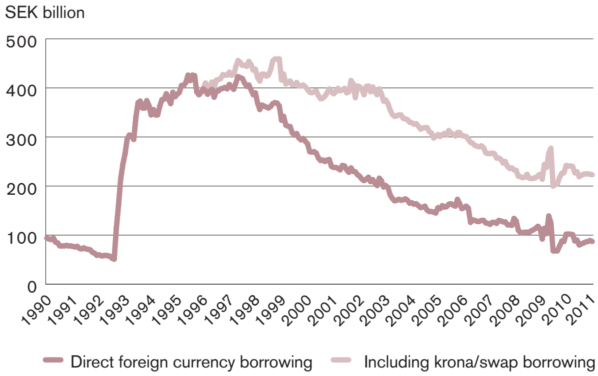
It has been assumed in the forecast for foreign currency funding during 2010 that the bonds issued for on-lending to the Riksbank will be refinanced. This must be regarded as a technical assumption for the purpose of calculation. Decisions on this will be based on the Riksbank's need of maintaining the size of the currency reserve. On the assumption of refinancing of maturing bond loans, there will be additional funding in foreign currency bonds equivalent to around SEK 10 billion. This is on top of the SEK 8 billion of on-lending to Latvia.

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 202 billion in foreign currency during 2009, there are reasons to do a large part of this by issuing bonds in foreign currency. Otherwise, we would put too much strain on both the swap market and the government bond market. During 2010, we also need to reduce swap borrowing to avoid the interest rate refixing period becoming too short.

The allocation of foreign currency funding between bonds in foreign currency and swapped krona bonds also depends on the loan terms available in the market. For this reason, borrowing can deviate significantly from our forecast.

The Swedish krona is at present very 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.

Figure 6. DEVELOPMENT OF FOREIGN CURRENCY DEBT



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 50 billion and SEK 5 billion respectively during 2009 and 2010. As has already been shown, this allocation depends on the loan terms and can therefore deviate from the forecast. If foreign currency funding with swap turns out to be less than our funding plan, the volume of interest rate swaps in krona funding will increase to a corresponding extent.

The total foreign currency funding with foreign currency bonds, commercial paper and swapped government bonds will be SEK 202 billion in 2009 and SEK 43 billion in 2010.

Position for a stronger krona

During the first quarter of 2009, the Debt Office built up a position for a stronger krona in relation to the euro of SEK 15 billion. After a government decision on changed guidelines, we have now decided to increase the position to SEK 50 billion. This position will be gradually built up until 1 November this year.

To date, these positions have been taken by our purchasing SEK forwards. The additional currency exposure which has been built up in this way is not included when we calculate the foreign currency share of central government debt, which should be 15 per cent.

Since we will have borrowed substantial amounts in foreign currency during the year, part of the foreign currency funding will be exchanged for SEK. Forward positions will then be replaced by spot exchanges.

The position against the euro is strategic, which means that we can sustain it. A future winding-up of this position will take place over a very long period.

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.

Not even an economic disaster in the Baltic States would generate great costs for the Swedish government

The global financial crisis has had a large impact on the financial system in Sweden, and lending by Swedish banks in Ukraine and the Baltic States is causing concern. However, the government will only have to intervene in the event of a truly worst-case scenario, which appears unlikely. And even then the expenditure for support measures will not be as high as shown by the IMF's figures. For instance, it is unreasonable to expect high costs owing to the Guarantee Programme, given that the government will not allow any bank to fail.

Lehman Brothers went into bankruptcy in the autumn of 2008. The uncertain situation that prevailed at that time had an enormous effect on the global financial market. No one trusted the institutions any more, and the perception of counterparty risks went through the roof. Sweden was also adversely affected, although Swedish banks had very limited exposure to 'toxic assets'. Interest rates on the interbank market shot through the roof and the T-bill market stopped functioning as a consequence of everyone wishing to hold safe government securities. The Swedish financial system was put under intense pressure.

Support measures across the world

In Sweden, as in many other countries around the world, central governments responded with a battery of measures. The measures taken in Sweden focussed on reassuring depositors and on reinstating confidence in the banks, particularly those that are system-critical. Measures launched included an extended Deposit Guarantee, the European Guarantee Programme and the Capital Infusion Scheme. A rapid decision was made to introduce a new act to support banks in crisis, based on the crisis legislation passed during the 1990s. The Government was given the mandate to take such measures as may be required to preserve financial stability.

The Debt Office issued additional T-bills in the autumn to improve the function of the market. This payment was mainly used for reverse repos with mortgage bonds as security, which also strengthened the market. The Riksbank also increased its lending to banks on a substantial scale.

These programmes have had the desired effect and the Swedish banking market is currently functioning significantly better than during the preceding six months. However, the Swedish and international economic outlook has taken a nosedive. The implications of this for Swedish banks are currently unclear. The loan exposure of Swedish banks in Ukraine and the Baltic States, corresponding to SEK 450bn, constitutes an especially serious matter of concern.

The IMF's estimate

The IMF published a report in March 2009 estimating the budget expenditure for the measures to aid stability in a number of countries. The IMF forecast that Swedish expenditure would amount to 4 to 12 per cent of GDP; that is, a scenario similar to that experienced in Sweden in the early 1990s. The IMF's average estimate is 7.7 per cent of GDP. Several credit rating agencies subsequently estimated budget expenditure for Swedish bank support to be 5 to 10 per cent of GDP.

Swedish banks are strong

The Debt Office has analysed Swedish banks, as have the Swedish Financial Supervisory Authority and the Riksbank. They are currently well capitalised, by historical standards, and capable of bearing great credit losses. In the authorities' key scenarios, these banks will manage their operations without any central government support. Even according to the negative scenarios, the two banks with substantial exposures in the Baltic States will manage without any central government support, provided credit losses there are spread over two years and do not all materialise in 2009.

The central government will only have to intervene in the event of a truly worst-case scenario. The first condition for such a scenario is that the Baltic States/Ukraine incur very high credit losses already this year and the second that credit losses in Sweden during 2009 at the same time amount to ten times as much as they are today. Such severe deterioration appears unlikely, especially within the Swedish economy.

Lower costs than the IMF assumes

However, even in such a case, the costs for the central government would be significantly lower than those assumed by the IMF. A large proportion of the IMF's estimate of central government losses is attributable to the guarantee programmes. However, given that the Swedish central government will ensure that the banks will never fail, the guarantees will not result in any direct costs. Aid would instead be provided in the form of capital infusion.

If it should be necessary for the central government to intervene, we also assume that the banks' tier 1 capital will only have to be reinstated to a normal level, corresponding to seven per cent of their risk-weighted assets, rather than the 11 to 12 per cent that applies at present. According to this hypothetical model and in absolute terms, national expenditure is estimated at SEK 60 billion, or around two per cent of GDP.

In order for such expenditure to become a cost, it must also be assumed that the two banks affected will subsequently be sold for zero kronor, which is an unreasonable assumption, not least bearing in mind experience from the not too distant banking crisis of the 1990s. Moreover, the Swedish Government would not have to bear the entire burden of dealing with the Swedish-owned banks in the Baltic States. Inter¬national organisations would probably provide aid for the recapitalisation of the Swedish banking subsidiaries.

Mats Gustavsson
Bank support department

Market information

Source: Swedish National Debt Office, unless otherwise stated

SWEDISH GOVERNMENT DEBT

NOMINAL GOVERNMENT BONDS, OUTSTANDING VOLUMES, 31 MAY 2009

Maturity date	Coupon %	Loan no.	SEK million
2009-12-01	4.00	1048	51,251
2011-03-15	5.25	1045	51,858
2012-10-08	5.50	1046	60,725
2014-05-05	6.75	1041	72,251
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	60,705
2020-12-01	5.00	1047	52,701
2039-03-30	3.50	1053	38,075
Total benchmarks			518,072
Non-benchmarks			0

NOMINAL GOVERNMENT BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2009-07-29	2009-08-05	2009-08-10
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, OUTSTANDING VOLUMES, 31 MAY 2009

Maturity date	SEK million
2009-06-17	28,045
2009-07-15	25,000
2009-08-19	15,000
2009-09-16	15,003
Total T-bills	83,048

T-BILLS, AUCTION DATES

Announcement date	Auction date	Settlement date
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
2009-11-25	2009-12-02	2009-12-04
2009-12-09	2009-12-16	2009-12-18

INFLATION-LINKED BONDS, OUTSTANDING VOLUMES 31 MAY 2009

Maturity date	Coupon %	Loan no.	SEK million
2012-04-01	1.00	3106	27,911
2014-04-01	0.00	3001	4,898
2015-12-01	3.50	3105	65,653
2020-12-01	4.00	3102	51,580
2028-12-01	3.50	3104	49,959
2028-12-01	3.50	3103	4
Total inflation-linked bonds			200,005

INFLATION-LINKED BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
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

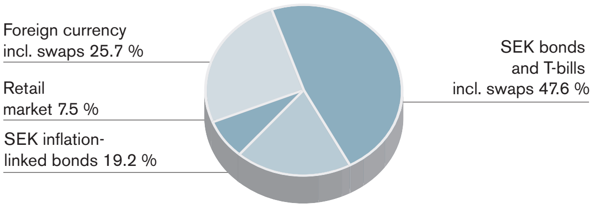
** Exchange auction*

RATING

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

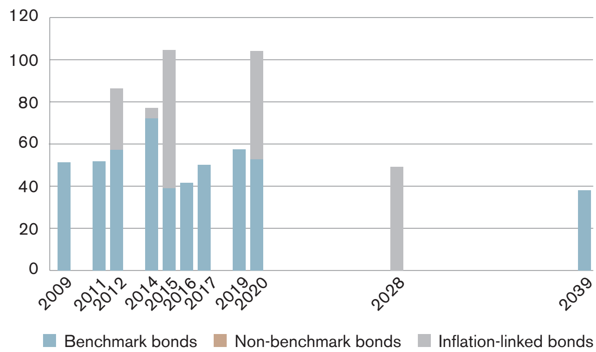
DEBT STRUCTURE

Total debt SEK 1,040.3 billion 30 April 2009



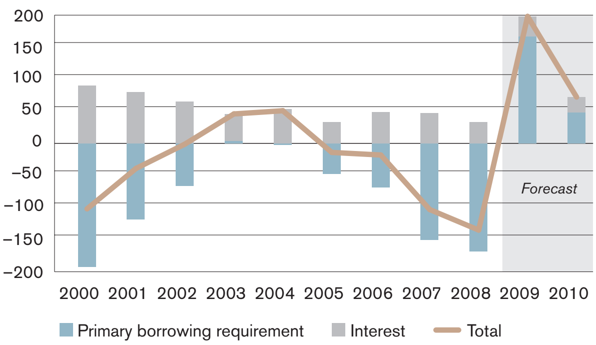
MATURITY PROFILE, SEK NOMINAL AND INFLATION-LINKED BONDS

SEK billion 30 April 2009



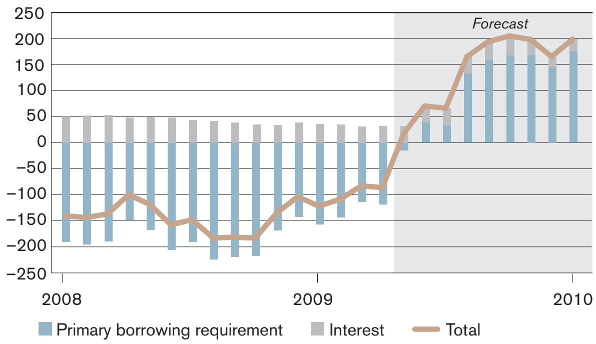
CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 2000–2010

SEK billion

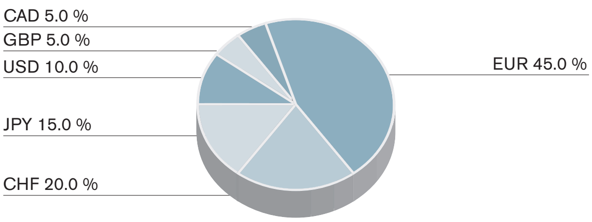


CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 12 MONTHS

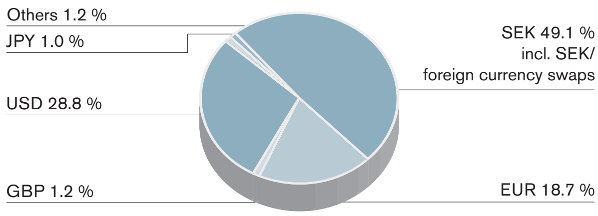
SEK billion



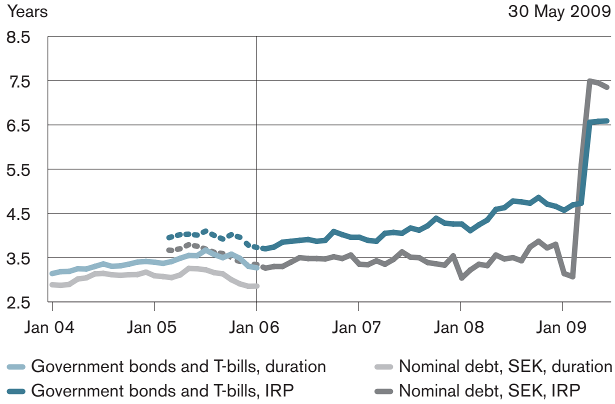
BENCHMARK FOR THE FOREIGN CURRENCY DEBT COMPOSITION



FUNDING IN FOREIGN CURRENCIES 30 April 2009

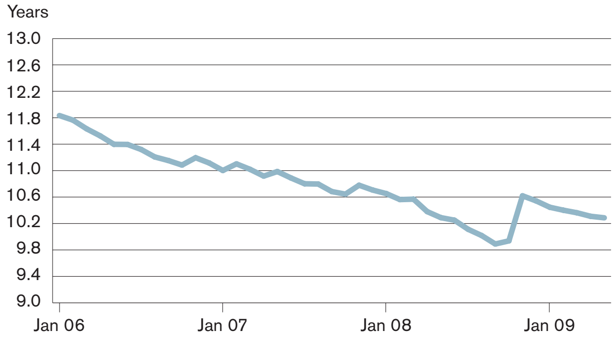


INTEREST-RATE REFIXING PERIOD (IRP) AND DURATION OF SEK NOMINAL DEBT

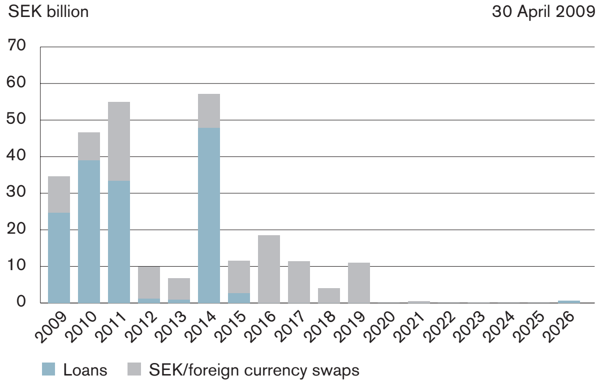


On 1 January 2006 the measure of maturity was changed from duration to interest-rate refixing period (IRP).

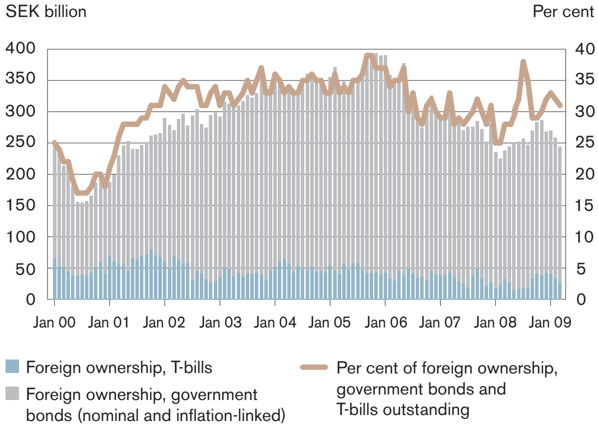
INTEREST-RATE REFIXING PERIOD (IRP) OF INFLATION-LINKED DEBT



MATURITY PROFILE, FOREIGN CURRENCY LOANS EXCLUDING CALLABLE BONDS

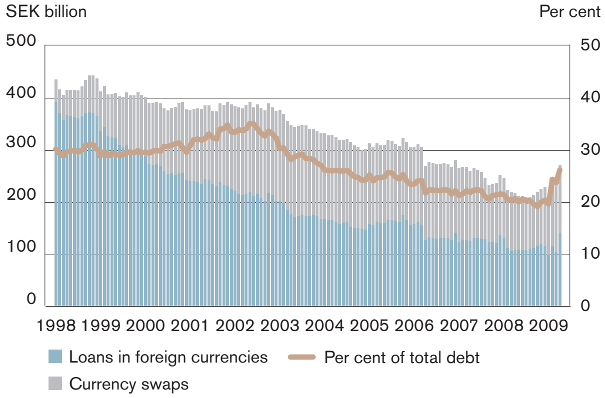


FOREIGN OWNERSHIP OF GOVERNMENT BONDS AND T-BILLS INCLUDING REPO POSITIONS



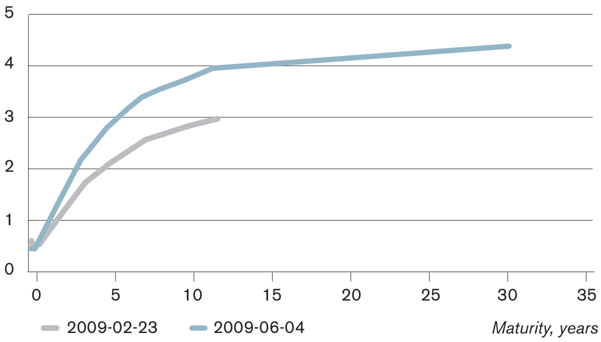
Source: The Riksbank

CENTRAL GOVERNMENT DEBT EXPOSURE IN FOREIGN CURRENCIES



YIELD CURVE, SWEDISH GOVERNMENT SECURITIES

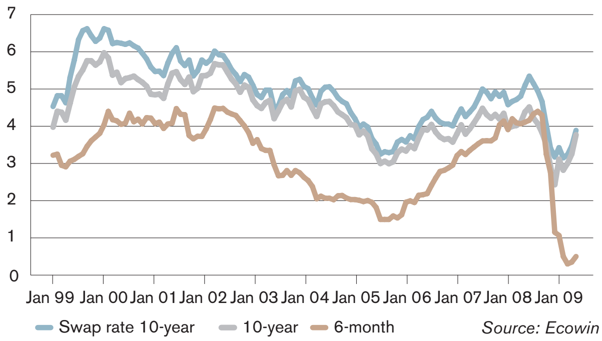
Per cent



HISTORICAL INTEREST RATES

Per cent

29 May 2009

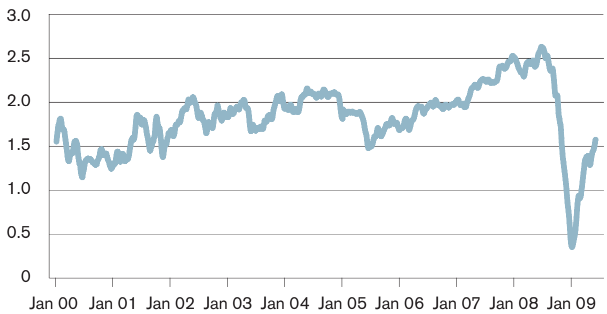


Source: Ecowin

BREAK-EVEN INFLATION

Per cent

3 June 2009

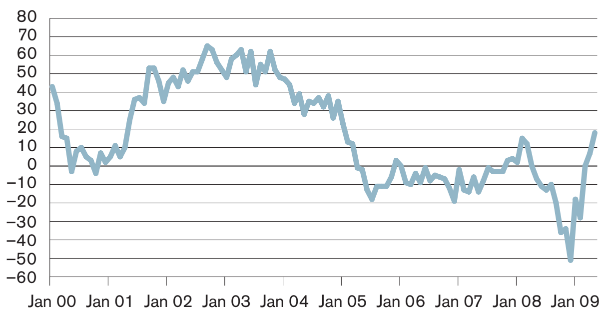


1041 - 3105 (2000-01-01 to 2004-12-31)
1049 - 3105 (2005-01-01 and forward)

Source: Ecowin

INTEREST RATE SPREAD VS GERMANY, 10-YEAR

Basis points



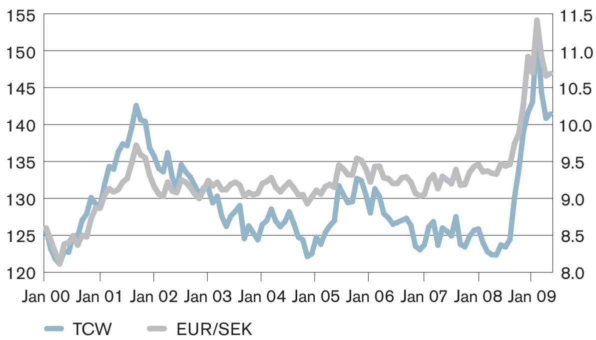
Source: Ecowin

HISTORICAL EXCHANGE RATES

29 May 2009

TCW – Trade-weighted index

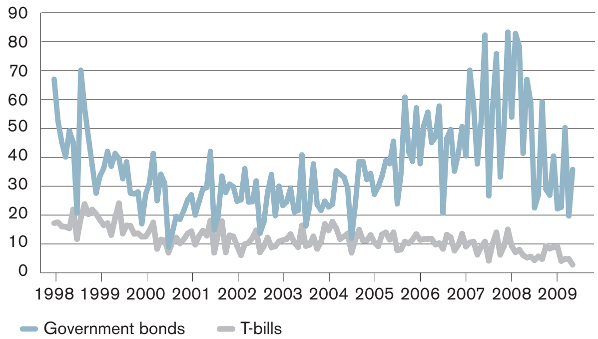
EUR/SEK



Source: Ecowin

DAILY TURNOVER, SWEDISH GOVERNMENT SECURITIES

Total turnover including options and forward contracts, SEK billion

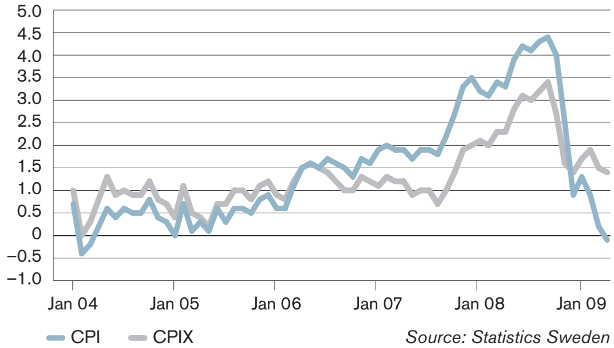


Source: The Riksbank

SWEDISH ECONOMY

INFLATION: CPIX AND CPI IN SWEDEN

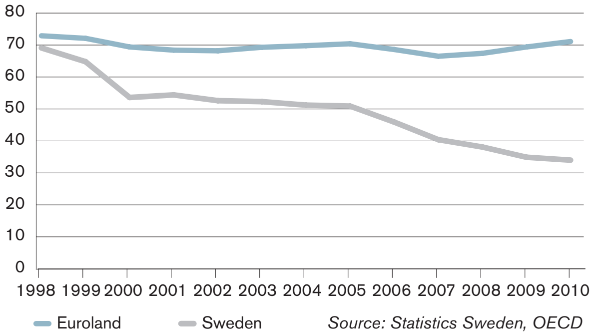
Per cent



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

Glossary

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

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

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

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

Coupon bond ▸ A bond with an annual interest payment.

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

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

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

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

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

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

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

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

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

Liquidity bill ▸ T-bill with customised time to maturity.

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

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

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

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

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

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

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

Central Government Borrowing – Forecast and Analysis is published three times a year.		
For more information:		
Central government finances and debt:	Erik Zetterström	+46 8 613 46 49
Funding:	Thomas Olofsson	+46 8 613 47 82

Articles published earlier	Author	Issue
Central government debt – a multifaceted concept	*Lars Hörngren*	2009:1
Extra issues of T-bills	*Thomas Olofsson*	2008:3
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
Cheaper banking services for the central government through new framework agreements	*Per Franzén*	2006:3
Maturity and risk	*Gunnar Forsling and Erik Zetterström*	2006:3
Borrowing in the event of large surpluses	*Thomas Olofsson*	2006:2
Concentrated activities lead to efficient financial management	*Johan Palm*	2006:2
2005 in retrospect		2006:1
New benchmark for the foreign currency debt	*Richard Falkenhäll*	2006:1
The Debt Office scored high again this year	*Maria Norström*	2006:1
The proposed guidelines for 2006 in brief		2005:3
How and why the Debt Office forecasts the government's borrowing requirement	*Håkan Carlsson and Sofia Olsson*	2005:3
Government debt policy and the budget political goals	*Lars Hörngren*	2005:2
Currency hedging for government agencies	*Mikael Bergman*	2005:2
Cash Flow at Risk – a measure of market risk for interest payments forecasts	*Martin Lanzarotti*	2005:2
Last year in review		2005:1
The Debt Office borrowing scores high in client survey	*Maria Norström*	2005:1
The state´s liquidity management	*Anna Sjulander*	2005:1
Credit cards and purchasing cards – a good deal for the state	*Anita Schönbeck*	2005:1
The proposed guidelines in brief		2004:3
Retail borrowing in Sweden and comparisons to other countries	*Malin Holmlund*	2004:3
The lending of the state should be regulated	*Sara Bergström and Christina Hamrén*	2004:2
A new budget target for long-term sustainable central government finances	*Per Franzén*	2004:2
Common maturity dates for nominal bonds		2004:1
Inflation-linked bonds – an instrument for risk diversion	*Joy Sundberg and Thomas Wigren*	2004:1
Active management of the foreign currency debt – an asset on the liability side	*Lars Boman*	2004:1
New risk indicator for central government debt – Cost-at-Risk	*Anders Holmlund*	2004:1

All articles are available on www.riksgalden.se

riksgalden.se

RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Visiting address: Norrlandsgatan 15 • Postal address: SE-103 74 Stockholm, Sweden
Telephone: +46 8 613 45 00 • Fax: +46 8 21 21 63 • E-mail: riksgalden@riksgalden.se • Internet: www.riksgalden.se

Production: The Swedish National Dept Office and Wildeco. Printed by E-print on environmental friendly paper. ISSN: 1652-6708