RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Central Government Borrowing

Forecast and Analysis 2010:2

In Central Government Borrowing – Forecast and Analysis 2010:2, we present forecasts for central government finances and borrowing in 2010 and 2011. In the first section, we present annual and monthly forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for borrowing, which is dealt with in the second section of the report.

SWEDISH NATIONAL DEBT OFFICE'S MISSION

The Debt Office is the Swedish government's financial manager. Our mission includes central government borrowing 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 government 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

Central government finances are approaching balance already this year, as the Swedish economy recovers more quickly than expected. Increased tax revenue and lower expenditure for unemployment contribute to a reduction in the budget deficit in 2010 and a further decrease next year. The smaller deficits lead to a reduction in central government borrowing.

The Debt Office's new forecast indicates a budget deficit of SEK 14 billion in 2010 and SEK 8 billion in 2011. This is a reduction of SEK 39 billion and SEK 28 billion compared with the previous forecast. Excluding on-lending, the budget is almost balanced.

The reduced deficit in 2010 compared with the previous forecast is mainly explained by increased tax revenue. At the same time, unemployment benefit disbursements will be lower. The reduction of the deficit in 2011 is mainly due to an increase in tax revenue apace with the economic recovery.

There are clear indications that the economic recovery has strengthened. Many businesses have reported rising demand while unemployment has increased less than expected. However, the macroeconomic assessment is more uncertain than usual, since it is difficult to assess the further development of the debt crisis in Europe.

Reduced borrowing in all types of debt

The unexpectedly strong development of central government finances has led to a decrease in the borrowing requirement. The Debt Office is therefore reducing borrowing in all types of debt compared with the March forecast. Central government borrowing, including refunding of maturing loans, is expected to total SEK 105 billion in 2010 and SEK 100 billion in 2011.

The issue volume in nominal government bonds will be reduced from SEK 3 billion to SEK 2.5 billion per auction from 18 August. The stock of T-bills will shrink from an estimated SEK 120 billion to an average of SEK 105 billion this year and SEK 85 billion next year. Borrowing in foreign currency bonds will also be somewhat smaller.

Borrowing in inflation-linked bonds will remain at SEK 9 billion in 2010 but decrease to SEK 6 billion in 2011. The Debt Office will introduce a new inflation-linked loan this autumn maturing in 2017.

Central government debt remains below 40 per cent

The central government debt will be SEK 1,190 billion at the end of 2010 and SEK 1,178 billion at the end of 2011, corresponding to 37 and 36 per cent of GDP.

Central government debt including the Debt Office's financial assets in foreign currency is estimated at SEK 1,085 billion at the end of 2010 and SEK 1,073 billion at the end of 2011. This corresponds to 34 and 32 per cent of GDP.

Stronger recovery than expected

The budget deficit for 2010 and 2011 will be SEK 14 billion and SEK 8 billion, a reduction from our March forecast. The macroeconomic development now looks brighter, which has also been noticeable in the surprisingly strong central government finances during the spring. The economic recovery entails both higher tax revenue and lower expenditure for unemployment.

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

SEK billion	2009	Forecast 2010	Forecast 2011
Central government debt at the beginning of the year	**1,119**	**1,189**	**1,190**
Primary borrowing requirement excluding on-lending and sales	49	−16	−22
Sales of state-owned assets	0	0	0
Interest on central government debt	31	20	30
Net borrowing requirement excl. on-lending	**80**	**4**	**8**
On-lending [2]	96	10	0
Net borrowing requirement	**176**	**14**	**8**
Debt adjustments	−44	−9	−21
Short-term investments (annual change)	−62	−4	0
Change in central government debt	**70**	**1**	**−13**
Central government debt at the end of the year [3]	**1,189**	**1,190**	**1,178**
The Debt Office's financial assets [4]	−100	−105	−105
Central government debt including the Debt Office's financial assets	**1,089**	**1,085**	**1,073**

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 to other states.*
3 *Unconsolidated central government debt according to the official definition.*
4 *Financial assets including short-term investments and on-lending in foreign currency.*

The central government budget will show small deficits this year and next, see the net borrowing requirement in table 1. Excluding on-lending, the budget is almost balanced.

The budget balance has developed more strongly in the past few months than in our previous forecast. This is an effect of the economic recovery starting earlier than we anticipated.

The budget deficit for 2010 is SEK 39 billion lower than in our previous forecast. The decrease is mainly explained by higher tax revenue. At the same time, unemployment benefit disbursements decrease.

The budget deficit for 2011 is SEK 28 billion lower than in our previous forecast. This downward adjustment is mainly due to the stronger recovery with increased tax revenue.

We do not expect there to be any on-lending next year. However, we have, as in the previous forecast, assumed that the Riksdag will decide on new expenditure increases and/or tax cuts in the range of SEK 20 billion.

Clear signs of economic recovery

The Swedish economy appears to be somewhat stronger than in our previous forecast. However, the macroeconomic development is more uncertain than usual as there are risks associated with the European debt crisis.

There are clear indications that the economic recovery has strengthened. For example, GDP rose by 3 per cent in the first quarter of 2010 compared with the same period last year. At the same time, the National Institute of Economic Research's economic tendency survey shows that the mood is more positive than before. Output has started to grow again and many companies have reported rising demand during the spring. Exports of goods have also recovered during the first months of the year. Furthermore, the labour market is stronger than expected. We expect GDP growth to be just under 3 per cent this year and slightly over 3 per cent next year.

Stronger labour market than expected

Employment has decreased considerably less in relation to the drop in GDP than what has been the case in previous recessions. This is partly due to it being possible to avoid large cuts in the public sector due to the relatively strong public finances. Another reason may be that the effects of the crisis for Sweden have been mainly concentrated to the export sector. These have not spread to the rest of the economy to the same extent as in previous crises.

Despite the high unemployment rate – over 9 per cent in the most recent statistics from Statistics Sweden – unemployment has not risen as much at the beginning of 2010 as we assumed in our previous forecast. However, we still expect unemployment to be slightly higher in 2010 than in 2009. According to the National Institute of Economic Research's economic tendency survey, firms' recruitment plans are now pointing upwards, which should lead to lower unemployment in 2011.

Consumption and exports increasing

The development of household consumption was surprisingly strong during the first quarter of 2010. Household disposable income has grown relatively strongly in recent years. It is natural for household consumption to rise in tandem with increasingly positive expectations about the future economy. We make the assessment that it will grow by 3.3 per cent this year and by 3.6 per cent in 2011. This is slightly higher than in the previous forecast.

Exports rose in the first quarter and businesses report continued rising demand from abroad. Countering this is uncertainty about the effects of the debt crisis in Europe, which may have a negative impact on exports. However, we expect the relatively strong recovery of exports to continue.

Growth with reservations

It is difficult to assess the further development of the debt crisis in Europe. A number of European countries suffer from large deficits in public finances and growing central government debt, which will require a tightening of fiscal policy in the future. Sweden's public finances are in relatively good shape although sharp cutbacks in Europe can slow down the recovery in Sweden as well.

The debt crisis may have a more negative effect on Swedish growth than we anticipate in this forecast. However, a development of this kind would not affect Swedish central government finances particularly much this year. A poorer development in Europe will mostly have an effect in 2011 and the following years, since there are lags in how growth affects the central government budget balance.

Budget moving towards balance

The budget deficit will be SEK 14 billion in 2010 and SEK 8 billion in 2011. Disregarding on-lending, the deficit will be SEK 4 billion this year and SEK 8 billion next year.

Table 2. LARGEST CHANGES FROM PREVIOUS FORECAST, 2010 [1]

SEK billion

Taxes	–21
Labour market	–2
Share dividends	–2
Other	2
Change in primary balance	**–23**
Net lending excl. on-lending	–11
Interest payments	–3
On-lending	–2
Change in net borrowing requirement	**–39**

Table 3. LARGEST CHANGES FROM PREVIOUS FORECAST, 2011 [1]

SEK billion

Taxes	–31
Municipalities	6
Share dividends	–7
Labor market	–2
Other	1
Change in primary balance	**–33**
Net lending excl. on-lending	5
Interest payments	0
On-lending	0
Change in net borrowing requirement	**–28**

[1] *The table is based on the cash flow principle. A minus means that the net borrowing requirement decreases and a plus that it increases. The net borrowing requirement is equal to the budget balance with the opposite sign.*

High outcomes justify adjustment of the forecast

Central government finances have developed very strongly during the spring. The sharp drop in GDP during 2009 has not had corresponding effects on corporate profits, employment and central government finances.

The monthly outcomes for February to May have been SEK 25 billion higher than in our forecasts, i.e. the budget surplus has been higher than estimated. This discrepancy is mainly due to large tax payments and low interest payments on the central government debt.

Unexpectedly large tax revenue

During the past four months, tax revenue has been SEK 14 billion higher than in our previous forecast. This relates to higher payments from all tax types as well as to taxes from several different years. Businesses and households have made supplementary payments for previous years' income, at the same time as they have paid more than expected for the current year.

We are adjusting upwards our forecast of corporate profits as well as income from wage- and consumption-based taxes. In all, tax revenue will increase by SEK 21 billion in 2010 and by SEK 31 billion in 2011 compared with the March forecast.

Payments of wage-based taxes increase due to the stronger labour market. The growth in gross wages has been mainly affected by more hours worked. Despite this, we believe that the number of hours worked will fall slightly in 2010 compared with 2009. It is only in 2011 that we see the economy recovering by more hours worked than the year before. At the same time, most wage agreements have now been negotiated. These wage agreements are expected to lead to a moderate increase in the hourly wage during 2010 and a slightly stronger development of the hourly wage in 2011. Consequently, we are adjusting the growth rate of gross wages to an annual rate of 2.0 per cent in 2010 and 3.0 per cent next year.

The preliminary tax payments from businesses have been higher than expected during the first months of the year. In particular, businesses have paid a surprisingly large amount of tax for previous years. This indicates that corporate profits fell considerably less during 2009 than expected.

There is also a lot that indicates rising profits during 2010. The construction and manufacturing industries report an upswing both in order inflow and output. The retail trade reports rising sales volumes and not least sales of new cars are increasing.

Household consumption rose by over 3 per cent in the first quarter. One important explanation is increased car purchases. The positive signals, together with increases in the corporate investment rate, are leading us to adjust our forecast of household consumption upwards both for this year and next year. This means that central government revenue from value-added tax increases compared with our previous forecast.

Lower expenditure for unemployment

We are expecting unemployment of 9.2 per cent in 2010 and 8.8 per cent in 2011 on an annual average according to the new definition (those aged 16–64 including full-time students). However, unemployment excluding full-time students is more relevant for our assessment of the impact of unemployment on central government finances. Our forecast for this is 6.8 per cent in 2010 and 6.6 per cent in 2011.

We assumed in our previous forecast that unemployment would continue to rise during the initial months of the year and then flatten out and start to fall at the end of the year. According to the Employment Service's statistics for the first four months of the year, it now looks as if development will be stronger. We have therefore adjusted our forecast downwards by around one percentage point for both 2010 and 2011. However, we still believe in rising unemployment in 2010 compared with 2009, which, together with higher average benefit and more people receiving unemployment benefit, will lead to an increase in expenditure of approximately SEK 2 billion between these years.

Unemployment benefit disbursements have been lower than forecast during the spring, which reinforces the picture of a stronger labour market. Together with the revised forecast for unemployment for 2010, this means that disbursements of unemployment benefit falls by SEK 4 billion compared with the previous forecast. Disbursements for 2011 decrease by around SEK 2 billion compared with the previous forecast.

Part of the lower disbursements of unemployment benefit is corresponded to by slightly higher disbursements of activity support from the Social Insurance Agency. This means that slightly more of the unemployed have been activated in some form of labour market programme compared with our forecast in March. We have therefore adjusted the forecast upwards by just over SEK 1 billion. However, this adjustment is relatively small as unemployment benefits have in principle been as forecast. We estimate that there will be around 190,000 people in programmes.

Purchase of labour market programmes seems to have started in a better way than in 2009. Disbursements have been in line with our forecast, possibly slightly higher than estimated. If this were to lead to even more people being activated in programmes, it might appear as if unemployment fell, although this does not necessarily entail a reduction in central government expenditure.

Weak municipal tax base

The brighter outlook on the labour market leads to a somewhat higher growth in gross wages than in the previous forecast. This will mean that central government tax disbursements to municipalities and county councils in 2011 will be higher than in the previous forecast. However, municipal tax revenue continues to develop weakly between the forecast years. Moreover, the municipalities will have a large negative final settlement for previous years, i.e. the preliminary disbursements to the municipalities have been too large during 2009.

Increase in dividends

Dividends on the state's shares are expected to be SEK 15 billion this year, which is SEK 1 billion more than in the previous forecast. Next year, dividends will rise to SEK 23 billion, which is SEK 7 billion more than the March forecast. This change during 2011 is largely due to sales income from Apoteket being paid as a dividend, of just under SEK 6 billion, during 2011. See the section on the Debt Office's net lending to authorities for more information about how the sales payment affects the net borrowing requirement.

Fiscal policy measures and sales income in 2011

Regardless of the result of the election in September, we still expect the Riksdag to make decisions on new expenditure increases and/or tax cuts in the range of SEK 20 billion during 2011.

We have taken into consideration the measures presented in the Spring Fiscal Policy Bill regarding 2010 in our estimates. In the case of proposals that relate to 2011, we have not allocated them in our calculations but they are included in the SEK 20 billion of fiscal policy measures we have assumed.

The Government has included a technical assumption for purposes of calculation in the Spring Fiscal Policy Bill of

SEK 25 billion of sales income for 2011 and onwards. It is not specified which companies would be sold. The Riksdag has previously decided to authorise the Government to sell the whole or a part of the state's holding in Nordea, SBAB and Telia Sonera. We consider that it is too uncertain if, and in such case when, sales of state-owned companies will take place during 2011 to include this in the forecast.

Net lending by the Debt Office to authorities, etc.
The Debt Office's net lending (excluding on-lending in foreign currency) is estimated at SEK -1 billion in 2010 and SEK 11 billion in 2011.

In 2010, net lending decreases by SEK 11 billion compared with the previous forecast. This is mainly due to the state-owned company Apoteket AB temporarily depositing the payment for sale of pharmacies to private-owned pharmacy companies, just under SEK 6 billion, in an account at the Debt Office. Furthermore, lending to central government authorities and government-owned companies will be lower than previously estimated.

The Debt Office's net lending to authorities increases by SEK 5 billion compared with the previous forecast. The foremost explanation for this increase is the termination of the temporary deposit of Apoteket's sales payment.

Apoteket's annual general meeting in 2011 will decide on transfer of money to the state. When this decision has been made, the money will be withdrawn from the account at the Debt Office and paid to the state as a dividend income. This means that the state's net borrowing requirement decreases in 2010 when the sales payment is deposited, despite the fact that the dividend has not yet been paid to the state. When the dividend has been paid in 2011, the net borrowing requirement will not be affected as it will only involve a reallocation between the Debt Office's net lending and central government current in-payments.

On-lending
We expect on-lending to Iceland and Latvia of SEK 11 billion in 2010. This is a reduction of SEK 1 billion which is due to the strengthening of the Swedish krona in relation to the euro compared with the previous forecast.

On-lending to the Riksbank has decreased by SEK 1 billion in SEK due to a foreign currency loan maturing and being replaced by a foreign currency loan at a lower dollar exchange rate. We expect the Riksbank to retain the same volume of loans at the Debt Office throughout the forecast period. Should the Riksbank amortise loans, the budget balance will improve to a corresponding extent.

CHANGES IN ITEMS IN THE NET BORROWING REQUIREMENT

The table shows which parts of the net borrowing requirement that change the most between 2007 and 2011. The table is based on the cash flow principle. Minus means that the net borrowing requirement decreases and plus that it increases. For example, "Taxes" in the column for 2008 means that taxes increased by SEK 50 billion compared with 2007.

SEK billion	2007	2008	2009	2010	2011
Taxes	−54	−50	81	−48	−46
Payments to local government	46	60	45	−28	10
Sale of state assets	−18	−59	77	0	0
Share dividends	−9	9	5	5	−2
Labour market	−16	−5	1	5	3
Social Insurance Agency	0	18	4	5	9
EU contribution	0	5	−8	5	−1
Forecast fiscal policy	0	0	0	0	20
Takeover of loan from Venantius	−4	0	0	0	0
Debt Office's net lending	−31	−21	41	−14	2
On-lending	0	0	96	-86	-10
Interest on central government debt	−3	−11	−2	−11	10
Other	4	22	−29	6	−2
Total change from previous year	**−85**	**−32**	**311**	**−163**	**−6**

	2006	2007	2008	2009	2010	2011
Net borrowing requirement	−18	−103	−135	176	14	8

Taxes, sales of state-owned assets, payments to municipalities and the Debt Office's net lending have the greatest effects between years. Taxes and sales of state-owned assets decreased by a total SEK 158 billion in 2009 compared with 2008. At the same time, on-lending and the Debt Office's net lending increased sharply. Together, this explains the major part of the difference of SEK 311 billion between 2008 and 2009.

This year, payments to municipalities will decrease by SEK 28 billion after having increased by SEK 45 billion in 2009 and SEK 60 billion in 2008. (The effects are strengthened by payments being made in 2009 that relate to 2010). Furthermore, on-lending will not be as great as in 2009. Taxes will increase after having fallen sharply in 2009.

Next year, the net borrowing requirement will decrease compared with 2010, despite our expectation of fiscal policy measures of SEK 20 billion. This reduction is due to taxes increasing by SEK 46 billion. Moreover, on-lending to Iceland and Latvia disappears in 2011.

On-lending is corresponded to by equally large receivables. This means that the central government debt including the Debt Office's financial assets will not be affected. Central government net lending will not be affected either. However, the budget balance will be affected, as well as the official measure of central government debt. Interest payments on central government debt do not increase as interest income from on-lending covers the Debt Office's costs.

Lower interest payments

Interest payments on central government debt are expected to be SEK 20 billion in 2010, which is SEK 3 billion lower than in our previous forecast. They are expected to rise to SEK 30 billion next year, which is unchanged compared with our previous forecast.

The outcome for interest payments between February and May has been SEK 6 billion lower than in the March forecast. This is mainly explained by lower interest rates and borrowing requirement. Interest payments for longer maturities have fallen compared with the previous forecast. The reduction is just over 0.5 percentage points for Swedish government bonds with a maturity of five and ten years respectively. Foreign interest rates are also lower than in our previous forecast. At the same time, the stronger outcome for the borrowing requirement has led to lower interest payments.

Changed borrowing plans lead, however, to the forecast for interest payments for the rest of 2010 and 2011 increasing in comparison with our previous forecast.

The Debt Office is using cut-off rates for calculation of interest payments. The cut-off date for this forecast is 31 May.

The budget balance compared with central government net lending

Central government net lending will amount to SEK –33 billion in 2010 and SEK –20 billion in 2011.

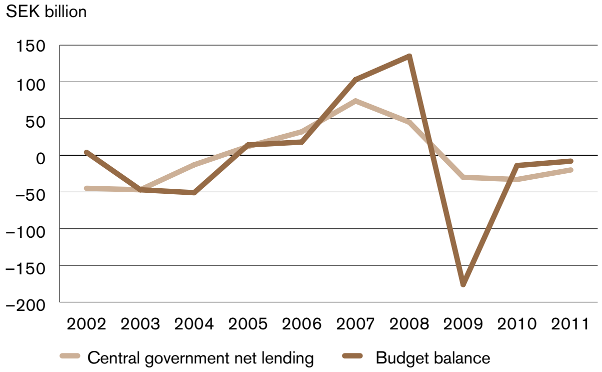
The differences between central government net lending and the budget balance can be considerable. This is because the budget balance is based on cash flow and includes, for example, sales of state-owned assets and on-lending within the Debt Office's net lending to agencies.

Central government net lending generally provides a better picture of the underlying development than the budget balance, which is affected by temporary payments. We make a rough estimate of net lending based on the forecast of central government cash payments.

Table 4. CENTRAL GOVERNMENT NET LENDING 2006-2011

SEK billion	2006	2007	2008	2009	Forecast 2010	Forecast 2011
Budget balance	**18**	**103**	**135**	**–176**	**–14**	**–8**
Adjustment items	**13**	**–29**	**–91**	**146**	**–19**	**–12**
Sale of limited companies	0	–18	–77	0	0	0
Parts of Debt Office's net lending	22	2	–5	116	6	4
Accrual of interest and taxes	6	16	–25	40	9	–2
Other	–15	–29	16	–10	–34	–14
Central government net lending	**32**	**74**	**45**	**–30**	**–33**	**–20**
Percent of GDP	**1.1**	**2.4**	**1.4**	**–1.0**	**–1.0**	**–0.6**

Figure 1. CENTRAL GOVERNMENT NET LENDING AND BUDGET BALANCE



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.

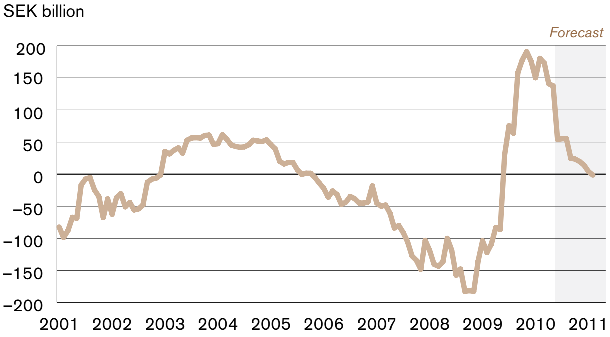
Table 5. CENTRAL GOVERNMENT NET BORROWING REQUIREMENT PER MONTH

SEK billion	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Primary borrowing requirement	18.4	–5.2	–15.9	8.5	15.3	–9.2	100.2	–27.9	–48.6
Interest on central government debt	0.5	0.3	4.1	1.6	2.8	–1.2	11.8	–2.0	–0.9
Net borrowing requirement *	**18.9**	**–4.8**	**–11.8**	**10.1**	**18.1**	**–10.4**	**112.1**	**–29.8**	**–49.5**

* *The net borrowing requirement shows what the government needs to borrow to fund budget deficits. When there is a 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. Repo transactions by agencies increase the net borrowing requirement by SEK 11 billion in June and reduce it by SEK 11 billion in July, increase it by SEK 21 billion in December and reduce it by SEK 21 billion in January.

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



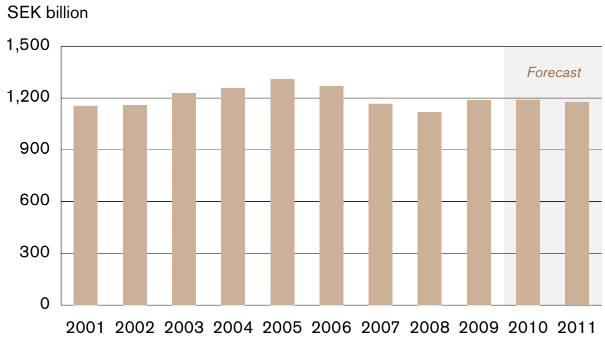
Central government debt

Central government debt will be SEK 1,190 billion and SEK 1,178 billion at the end of 2010 and 2011, corresponding to 37 and 36 per cent of GDP.

Compared with 2009, central government debt will increase by SEK 1 billion this year. We have assumed that the short-term investments will be zero at the end of 2010; see table 1.

We estimate that the central government debt including the Debt Office's financial assets in foreign currency at SEK 1,085 billion and SEK 1,173 billion at the end of 2010 and 2011. This is equivalent to 34 and 32 per cent of GDP.

Figure 3. CENTRAL GOVERNMENT DEBT 2001–2011



SENSITIVITY ANALYSIS AND CALCULATION ASSUMPTIONS

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 net borrowing requirement if they change. The table shows a rough estimate of these effects one year ahead. In order to make an assessment of an alternative scenario where a number of variables develop differently, these effects may be added.

SENSIVITY 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
Unemployment, old definition	4
Interest rate level in Sweden	4
International interest rate level	2
TCW index	0.5

[1] *Municipal taxes on employment are paid to municipalities with a one-year time lag. This means that the effect on the net borrowing requirement in one year's time is bigger than the permanent effect.*

THE DEBT OFFICE'S CALCULATION ASSUMPTIONS

Per cent	2010	2011
Gross wages [1]	2.0	3.0
Household consumption [1]	3.3	3.6
Investments [1]	1.6	6.5
Exports [1]	5.7	6.3
Unemployment, new definition	9.2	8.8
Unemployment, old definition	6.8	6.6

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

Reduced funding

The issue volume in nominal government bonds decreases to SEK 2.5 billion per auction in 2010 and 2011. The T-bill stock will be smaller than we expected in the previous forecast and will average SEK 105 billion this year and SEK 85 billion next year. Inflation-linked funding will remain at SEK 9 billion in 2010 but decrease to SEK 6 billion in 2011. This autumn, we are introducing a new inflation-linked loan maturing in 2017. Funding in foreign currency bonds will be slightly less than in the previous forecast.

The unexpectedly strong development of central government finances has led to a sharp reduction in the borrowing requirement. We are therefore reducing funding in all types of debt compared with the March forecast.

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

Table 1. FUNDING 2009–2011

SEK billion	2009	2010	2011
Net borrowing requirement	176	14	8
Change in cash equivalent holdings and retail market borrowing [a]	−138	48	−43
Maturing bonds and buybacks	181	42	134
Of which			
Government bonds	*121*	*7*	*64*
Foreign currency bonds	*59*	*36*	*70*
Funding requirement	**218**	**105**	**100**
T-bill borrowing, net [b]	−24	10	−35
Bond borrowing, gross [c]	243	95	135
Of which			
Nominal government bonds	*110*	*58*	*53*
Inflation-linked bonds	*3*	*9*	*6*
Foreign currency bonds, on-lending [d]	*81*	*21*	*56*
Foreign currency bonds, excluding on-lending	*49*	*6*	*20*
Funding	**218**	**105**	**100**

[a] *Change in outstanding deposits, liquidity bills, repos and commercial paper. Retail market borrowing is assumed to be unchanged from 31 May 2010.*

[b] *The net of issues (excluding exchanges) and maturities.*

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

[d] *Including refunding of previous on-lending.*

The funding requirement for 2010 is now reduced by half compared with last year. This reduction is partly explained by the economic recovery but also mainly by our having raised large foreign currency loans for on-lending to the Riksbank during 2009. We are not expecting any new borrowing on behalf of the Riksbank in the future, although we have assumed that we will continuously refund existing loans that mature.

The forecast for on-lending in 2010 includes a total of SEK 11 billion in loans to Latvia and Iceland. At present, it is hard to determine the extent to which these loan facilities will be used, but we have decided to keep the loans in our forecast until we have more information.

Reduced funding in all types of debt

Central government borrowing amounts to SEK 105 billion in 2010 and SEK 100 billion in 2011. For 2010, this means that funding decreases by as much as SEK 45 billion compared with our previous forecast. The largest reduction is made in T-bills.

Table 2 shows the change in the issuance plan compared with our March forecast.

Table 2. FUNDING COMPARED WITH THE PREVIOUS FORECAST

	2010		2011	
Funding forecast in SEK billion	Jun	(Mar)	Jun	(Mar)
Nominal government bonds	58	(63)	53	(63)
Inflation-linked bonds	9	(9)	6	(9)
T-bills, net [a]	10	(49)	−35	(−38)
Foreign currency bonds, on-lending [b]	21	(23)	56	(46)
Foreign currency bonds, excl. on-lending	6	(6)	20	(25)
Funding total	**105**	**(150)**	**100**	**(105)**

[a] *Net of issues and maturities*

[b] *Including refunding and on-lending*

Foreign currency borrowing for on-lending will be greater next year than we expected in March. This is due to our replacing a loan to the Riksbank equivalent to SEK 10 billion by a new loan that will mature next year. Excluding on-lending to the Riksbank, central government net borrowing will decrease by SEK 15 billion in 2011 compared with the March forecast.

[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 3. IMPORTANT EVENTS IN 2010

Date	Time	Activity
2 September	09.30	Press release on exchange to new inflation-linked bond 3107, 1 June 2017
16 September	16.20	Conditions for 3107
23 September	11.00	First issue of 3107
24, 27, 28 September	11.00	Exchanges to 3107
November		Central Government Borrowing – Forecast and Analysis 2010:3

Reduced issue volume in nominal government bonds

The issue volume in nominal government bonds decreases from SEK 3 million to SEK 2.5 billion per auction from 18 August this year. On an annual basis, the issue volume will then amount to SEK 53 billion.

Table 4 shows the change in stock and exposure in bond rates adjusted by swaps. We swap part of the exposure in long interest rates for short rates and interest in foreign currency. Swaps are discussed in more detail in the section on T-bills and foreign currency funding.

Table 4. CHANGE IN OUTSTANDING GOVERNMENT BONDS, INCLUDING SWAPS

SEK billion	2009	2010	2011
Nominal government bonds, issues	110	58	53
Maturities, buybacks and exchanges	–114	–6	–62
Change in nominal government bond stock	–5	53	–10
Swaps, net [1]	–19	2	29
Nominal government bonds and swaps, net change	–24	55	19

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

The maturity target for the nominal krona debt applies to instruments with maturities of up to 12 years. The benchmark for this component of the debt is 3.2 years in terms of the interest rate refixing period. A volume restriction of SEK 60 billion applies for maturities of over 12 years.

The interest rate refixing period for the nominal krona debt with maturities of up to 12 years will average 3.2 years in 2010 and 2011. Figure 1 shows the forecast for the interest rate refixing period on a monthly basis.

As in previous years, we have large short-term refunding requirements in the month of December. The maturity will accordingly be shorter at the end of the year. As the maturity shortening is temporary, we do not need to undertake any measures to adjust the maturity.

Priority given to funding in nominal government bonds

Forecast uncertainty is unusually great as regards the net borrowing requirement, partly due to the difficulty of assessing the effects of the debt crisis in Europe. We see risks of discrepancy, both on the up-side and the down-side of the forecast. If we were to make a further downward adjustment of the forecast of the borrowing requirement, we would give priority to nominal government bond issuance and reduce other funding in the first place.

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 also intend to sporadically issue the 30-year bond 1053.

Loan 1047 will remain a ten-year reference loan during 2010. We will introduce a new ten-year bond next year.

Table 5. EXCHANGES OF REFERENCE LOANS IN THE ELECTRONIC INTERBANK MARKET

Date for exchanges of reference loans (IMM date)	2-year	5-year	10-year
15 dec 2010		1050	

The reference loan in the electronic trade is the loan that is closest to two, five or ten years in terms of maturity. Reference loans are only changed on the IMM date (the third Wednesday in March, June, September and December) provided the new loans are the loans that are closest in terms of maturity to two, five or ten years on the subsequent IMM date. In this way, the underlying loan in a forward contract will always be the same as a reference loan during the last three months of the contract. The date of change of reference loans refers to the settlement date. The first trading day for a new reference loan is normally the Friday preceding an IMM date.

Figure 1. FORECAST FOR THE INTEREST RATE REFIXING PERIOD OF THE NOMINAL KRONA DEBT, 2010–2011

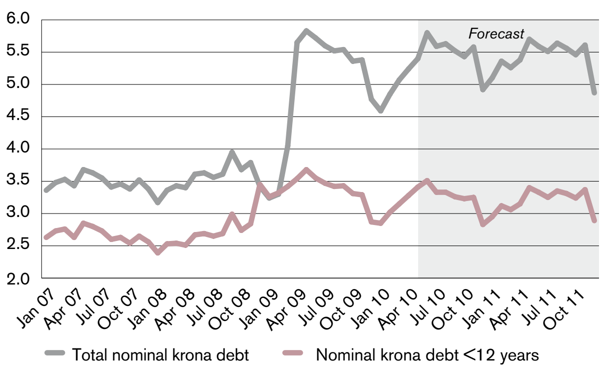
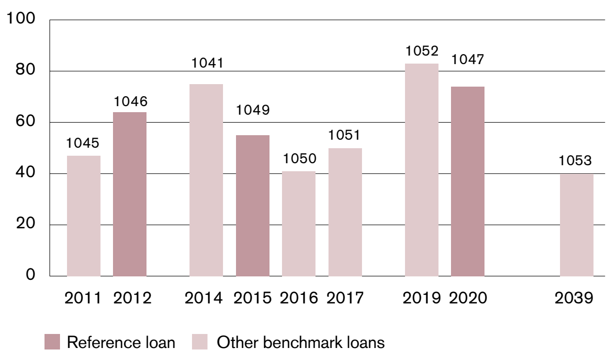


Figure 2. OUTSTANDING NOMINAL GOVERNMENT BONDS (BENCHMARK LOANS) ON 31 MAY 2010



THE DEBT OFFICE'S ISSUES

A week before every auction, we notify which bond or T-bill will be issued and the volume on offer. This decision is based on an internal issue plan based on our most recently published forecast of the funding 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 decisions.

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

Largest reduction in T-bills

A large part of the adjustment to the lower borrowing requirement is achieved through reduced borrowing in T-bills. The T-bill stock decreases from an estimated average of SEK 120 billion to an average of SEK 105 billion this year and SEK 85 billion next year. It will be SEK 125 billion at the end of 2010 and SEK 90 billion at the end of 2011. In March, we expected that the stock would increase to SEK 165 million during 2010 and to SEK 130 billion at the end of 2011.

T-BILL POLICY

Every third month, we issue a new six-month bill, maturing on an IMM date (the third Wednesday in 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 that we introduce in the auction. The allocation between T-bills is governed by the funding requirement. If we need to issue T-bills in the shortest maturities, we normally do so on tap.

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

The supply of T-bills varies with the short-term funding requirement. The funding requirement is very unevenly distributed over the months of the year. Despite this, our ambition is to continuously supply the market with bills.

On average, we will issue SEK 10 billion in T-bills per auction during 2010 and 2011. The auction date can be found in the section on market information.

Table 6. CHANGE IN OUTSTANDING T-BILLS, NET INCLUDING SWAPS

SEK billion	2009	2010	2011
T-bill borrowing, net[1]	−24	10	−35
Interest rate swaps, net	−13	7	−12
T-bill stock and swaps, net change	**−37**	**17**	**−47**

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

Unchanged swap funding

We use interest rate swaps to create short interest rate exposure and to adjust the interest rate refixing period of the debt. The total swap volume depends on market conditions and the maturity target.

Our forecast for new interest rate swaps in the krona borrowing is largely unchanged. This year, we estimate SEK 30 billion of new interest rate swaps. In 2011, the swap volume will amount to SEK 6 billion, which is slightly more than in the March forecast.

The outstanding stock of interest rate swaps remains at approximately the same level in 2010 to then decrease by SEK 29 billion in 2011; see table 7.

The development of the swap stock depends on the relationship between new issues and maturing swaps. Swaps are made evenly distributed over the year with flexibility both as regards the date and maturity. We may deviate from the plan if the borrowing requirement changes during the year.

Table 7. CHANGE IN OUTSTANDING STOCKS

SEK billion	2009	2010	2011
Interest rate swaps[1]	5	30	6
Foreign currency swaps [2]	50	0	6
Swaps total	**55**	**30**	**12**
Swaps, maturities	−36	−32	−41
Swaps, net change	**19**	**−2**	**−29**

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

Figure 3. NOMINAL GOVERNMENT BONDS AND SWAPS

SEK billion

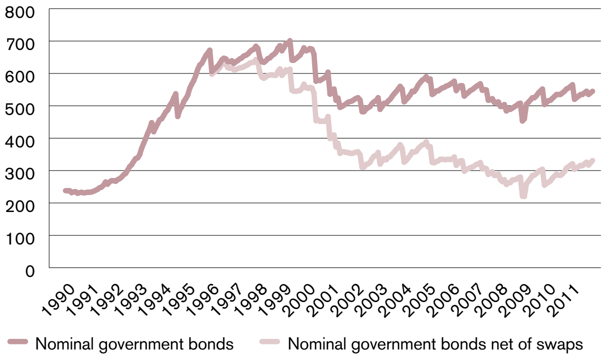
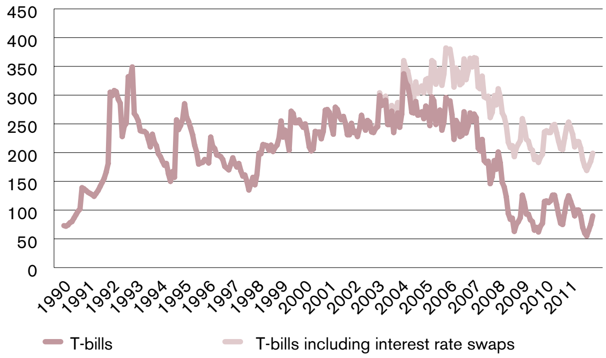


Figure 4. T-BILLS AND INTEREST RATE SWAPS

SEK billion



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 borrowing costs. Good liquidity in the bond market should also contribute to reducing borrowing costs in the long term.

We also 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.

Slightly reduced inflation-linked funding

Funding in inflation-linked bonds remains at SEK 9 billion for 2010 but decreases to SEK 6 billion in 2011. We will continue to issue SEK 750 million per auction.

As the issue volume of inflation-linked bonds is already small, we have limited options to adjust inflation-linked funding when the borrowing requirement decreases. Accordingly, the inflation-linked debt increases as a proportion of the total central government debt. As shown by figure 5, the proportion of inflation-linked debt will exceed 27 per cent for a large part of the forecast period.

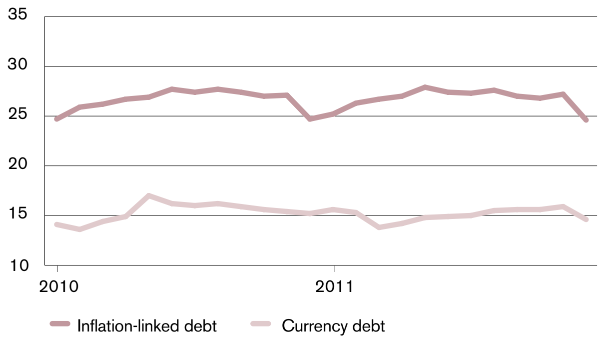
Our assessment is that it would be far too expensive to reduce the inflation-linked debt by, for example, pure buybacks. This is the case not least as the shortest inflation-linked bond, 3106 matures within slightly less than two years.

Loan 3106 accounts for just under 2 per cent of the total central government debt.

The maturity of the inflation-linked debt decreases slightly during the year and will be around 9.3 years in December 2010.

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

Per cent



The benchmarks for how central government debt is to be allocated between the different types of debt is 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 call this measure the aggregate cash flows of central government debt. The debt shares here differ from those reported in the Market Information section, where the debt is valued at its nominal value at maturity.

New seven-year bond in the autumn

In the light of loan 3106 maturing soon, we are introducing a new inflation-linked bond, loan 3107, on 23 September. This loan will mature on 1 June 2017. During the following three days, we will offer exchanges of loans 3105 and 3102 for the new bond.

In the forecast, we have estimated exchanges of the same nominal volume in the loans we buy back as in loan 3107. We normally use risk-neutral exchanges. The difference in this case is small but the advantage of nominal exchanges is that the inflation-linked debt will decrease slightly due to the loans we buy back having large accrued inflation compensation. We will provide detailed information in September, please refer to table 3.

During 2010, we issue all outstanding loans although we prioritise loan 3107 since we want to build up the volume of the new loan. The choice of bond for each auction mainly complies with an internal issuance plan decided in advance.

Next year, issues in loan 3106 will cease. We will not offer any exchanges or buybacks in connection with the loan maturing.

We intend to continue to offer exchanges of loan 3105 in the coming years with a view to reducing the outstanding volume of the loan. We are planning as before to exchange around SEK 5 billion per year during the years 2011 to 2013. This plan may be adjusted depending on market conditions.

We have previously offered extension exchanges to loans 3102 and 3104. As we are introducing new inflation-linked loans, we will be less dependent on exchanges to the loans already outstanding.

New longer inflation-linked loan next year

The current structure of the inflation-linked debt with few large outstanding loans gives us little flexibility in funding. It may also be difficult to handle large volumes when loans mature, while there is a reinvestment risk for our investors. As we wrote in our report in March, we are therefore considering eventually allocating the inflation-linked debt to several smaller loans.

During the spring, we have engaged in discussions with investors and dealers on what it would mean for the inflation-linked bond market. The points of view that we have received to date provide support for this change;

- A more complete real yield curve should promote liquidity in the market, in particular if we, as far as it is possible, match maturity in the inflation-linked bonds with nominal bonds.
- With additional loans, it is possible to achieve a desired duration exposure in different ways. This reduces the risk of poor liquidity occurring in the market due to large buying or selling in a particular loan.
- The reinvestment risk decreases for investors in inflation-linked bonds.

As a first step in the direction of allocating the inflation-linked debt to more loans, we are planning to issue a new inflation-linked bond next autumn. The new loan will be longer than loan 3107.

We will continue to work on the strategy for the inflation-linked debt and welcome continued discussion on this topic.

Reduced foreign currency funding

Last year, we issued SEK 130 billion in foreign currency bonds. The major part of the bonds, SEK 80 billion, was raised for on-lending to the Riksbank. We also borrowed just under SEK 1 billion on behalf of Iceland.

This year, foreign currency funding will be considerably smaller. During 2010, we plan to issue a total of SEK 27 billion in foreign currency bonds. This is slightly less than in our previous forecast.

SEK 6 billion of the total foreign currency funding in 2010 is needed for regular funding of deficits and maturities. Lending to Latvia and Iceland accounts for SEK 7 billion and SEK 4 billion respectively. In addition, there is refunding of maturing loans raised on behalf of the Riksbank of SEK 10 billion.[1]

Next year, bond funding in foreign currency will increase to SEK 76 billion as we expect to refund loans to the Riksbank totalling SEK 56 billion.

Table 8. FOREIGN CURRENCY FUNDING[a] 2009–2011

SEK billion	2009	2010	2011
Foreign currency bonds, funding	130	27	76
Of which			
On-lending[b]	81	21	56
Excluding on-lending	49	6	20
Maturities, bonds	−59	−36	−70
Change of bonds in foreign currency	**71**	**−9**	**6**
Short-term funding, including forwards, net	0	0	0
Change in foreign currency debt	**71**	**−9**	**6**
Currency swaps, net	32	−9	−17
Change in foreign currency debt, including swaps, net	**103**	**−17**	**−11**

[a] *Nominal amounts.*
[b] *Including refunding of previous on-lending.*

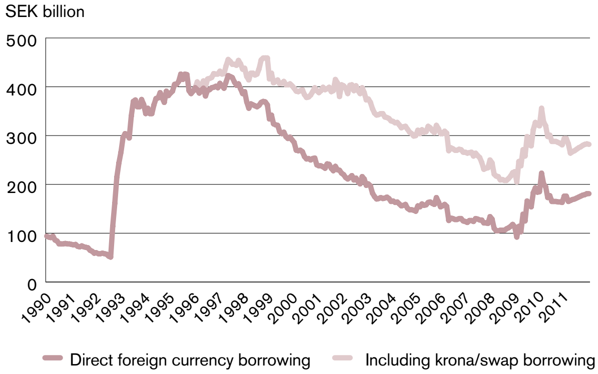
Swaps in foreign currency funding

Part of the foreign currency funding will be made by swapping bonds in kronor for exposure in foreign currency; see the Box for details of how this takes place. We do not expect to make any currency swaps during 2010. The forecast for 2011 is SEK 6 billion in foreign currency funding via swaps.

[1] *In the forecast of foreign currency funding, we make a technical calculation assumption that the bonds issued for on-lending to the Riksbank will be refunded. A decision on this will be based on the Riksbank's need to maintain the size of the foreign currency reserve.*

The total foreign currency funding, including foreign currency swaps is estimated at SEK 27 billion in 2010 and SEK 82 billion in 2011.

Figure 6. DEVELOPMENT OF THE FOREIGN CURRENCY DEBT



Position for a stronger krona

Since the first quarter of 2009, the Debt Office has built up a position for a stronger krona in relation to the euro. This position is equivalent to SEK 50 billion.

The position for a stronger krona is strategic and is handled outside the ongoing central government debt management. The currency exposure that arises is therefore not included in the calculations of the foreign currency share.

The fact that the position is strategic also means that we can sustainably retain it. A future unwinding of the position will be made over a long period.

FOREIGN CURRENCY BORROWING

There are two ways of borrowing in foreign currency. We can either issue bonds in foreign currency or we can swap krona bonds to exposure in foreign currency.

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

Foreign 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 (base 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 loan in kronor but receive the amount and pay variable interest in foreign currency.

When the swap matures, we exchange the amount borrowed with our swap counterparty. By agreement, this is to be done at the same rate as in the initial currency exchange. We can then pay the maturing bond with the krona amount.

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

Market information

Source: Swedish National Debt Office, unless otherwise stated

SWEDISH GOVERNMENT DEBT

NOMINAL GOVERNMENT BONDS, OUTSTANDING VOLUMES, 30 APR 2010

Maturity date	Coupon %	Loan no.	SEK million
2011-03-15	5.25	1045	46,858
2012-10-08	5.50	1046	63,724
2014-05-05	6.75	1041	75,251
2015-08-12	4.50	1049	52,490
2016-07-12	3.00	1050	41,489
2017-08-12	3.75	1051	50,026
2019-03-12	4.25	1052	82,703
2020-12-01	5.00	1047	70,698
2039-03-30	3.50	1053	39,575
Total benchmarks			522,815
Non-benchmarks			450
Total government bonds			523,265

NOMINAL GOVERNMENT BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2010-06-09	2010-06-16	2010-06-21
2010-08-11	2010-08-18	2010-08-23
2010-08-25	2010-09-01	2010-09-06
2010-09-08	2010-09-15	2010-09-20
2010-09-22	2010-09-29	2010-10-04
2010-10-06	2010-10-13	2010-10-18
2010-10-20	2010-10-27	2010-11-01
2010-11-03	2010-11-10	2010-11-15
2010-11-17	2010-11-24	2010-11-29
2010-12-01	2010-12-08	2010-12-13

T-BILLS, OUTSTANDING VOLUMES, 30 APR 2010

Maturity date	SEK million
2010-05-19	24,992
2010-06-16	45,581
2010-07-21	27,497
2010-09-15	27,497
Total T-bills	125,567

T-BILLS, AUCTION DATES

Announcement date	Auction date	Settlement date
2010-06-16	2010-06-23	2010-06-28
2010-06-23	2010-06-30	2010-07-05
2010-08-04	2010-08-11	2010-08-13
2010-08-18	2010-08-25	2010-08-27
2010-09-01	2010-09-08	2010-09-10
2010-09-15	2010-09-22	2010-09-24
2010-09-29	2010-10-06	2010-10-08
2010-10-13	2010-10-20	2010-10-22
2010-10-27	2010-11-03	2010-11-05
2010-11-10	2010-11-17	2010-11-19
2010-11-24	2010-12-01	2010-12-03
2010-12-08	2010-12-15	2010-12-17

INFLATION-LINKED BONDS, OUTSTANDING VOLUMES, 30 APR 2010

Maturity date	Coupon %	Loan no.	SEK million
2012-04-01	1.00	3106	29,171
2014-04-01	0.00	3001	4,945
2015-12-01	3.50	3105	64,655
2020-12-01	4.00	3102	52,409
2028-12-01	3.50	3103	4
2028-12-01	3.50	3104	52,495
Total inflation-linked bonds			203,679

INFLATION-LINKED BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
2010-09-02	2010-09-09	2010-09-14
2010-09-16	2010-09-23	2010-09-28
2010-09-16	2010-09-24*	2010-09-29
2010-09-16	2010-09-27*	2010-09-30
2010-09-16	2010-09-28*	2010-10-01
2010-10-14	2010-10-21	2010-10-26
2010-11-11	2010-11-18	2010-11-23
2010-11-25	2010-12-02	2010-12-07

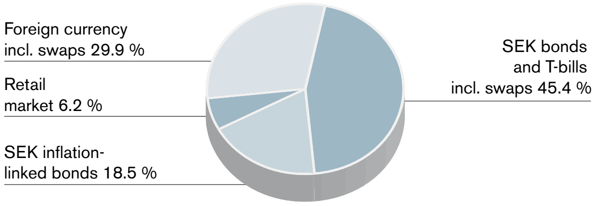
** Exchange auction*

RATING

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

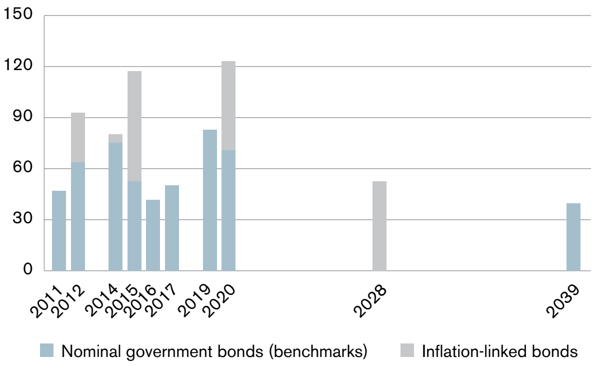
DEBT STRUCTURE

Total debt SEK 1,104.0 billion 30 April 2010



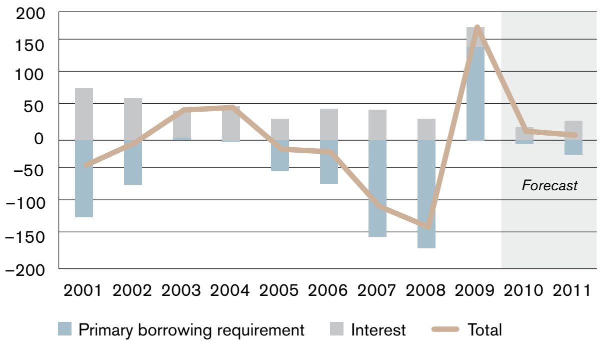
MATURITY PROFILE, SEK NOMINAL AND INFLATION-LINKED BONDS

SEK billion 30 April 2010



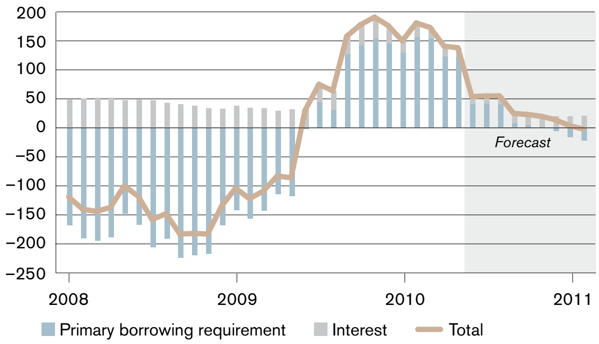
CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 2001–2011

SEK billion

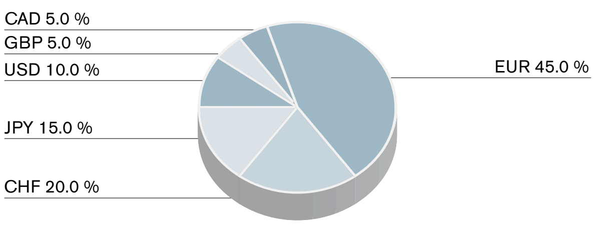


CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 12 MONTHS

SEK billion

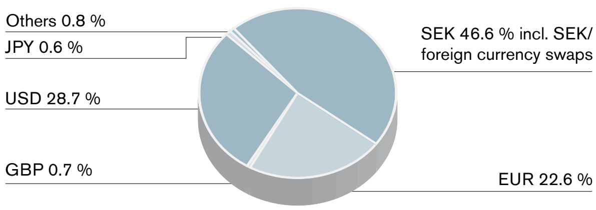


BENCHMARK FOR THE FOREIGN CURRENCY DEBT COMPOSITION

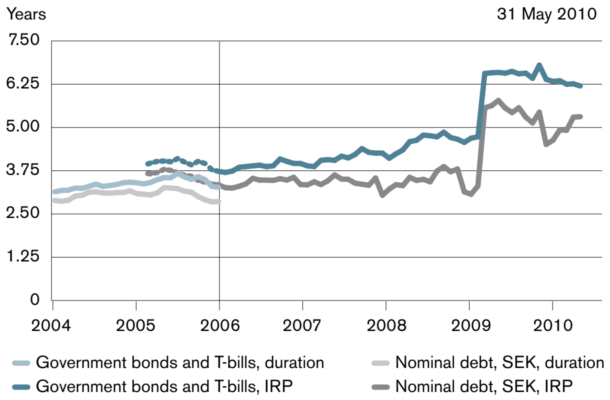


FUNDING IN FOREIGN CURRENCIES

31 May 2010

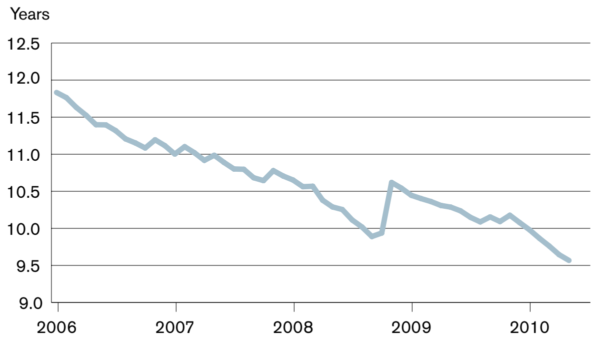


INTEREST-RATE REFIXING PERIOD (IRP)
AND DURATION OF SEK NOMINAL DEBT

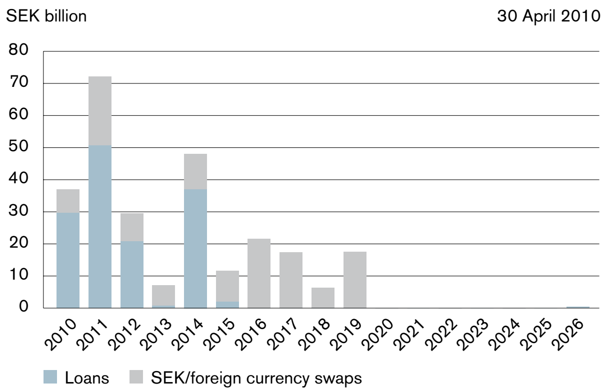


On 1 January 2006 the measure of maturity was changed from duration to interest-rate refixing period (IRP).

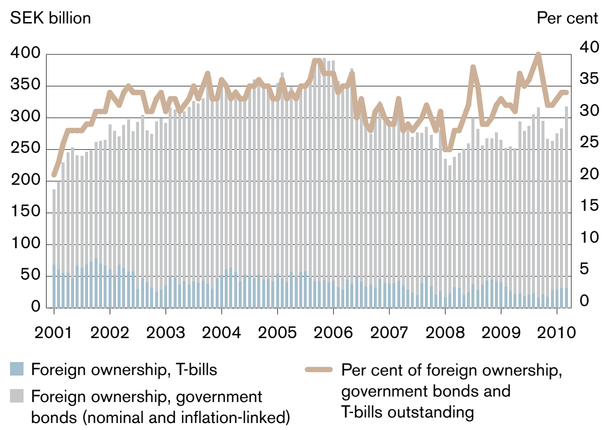
INTEREST-RATE REFIXING PERIOD (IRP)
OF INFLATION-LINKED DEBT



MATURITY PROFILE, FOREIGN CURRENCY
LOANS EXCLUDING CALLABLE BONDS

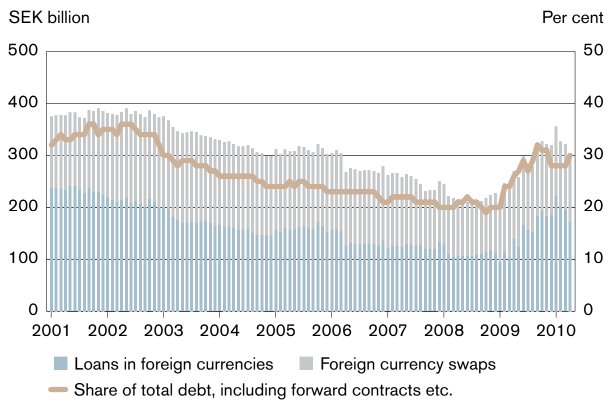


FOREIGN OWNERSHIP OF GOVERNMENT BONDS
AND T-BILLS INCLUDING REPO POSITIONS



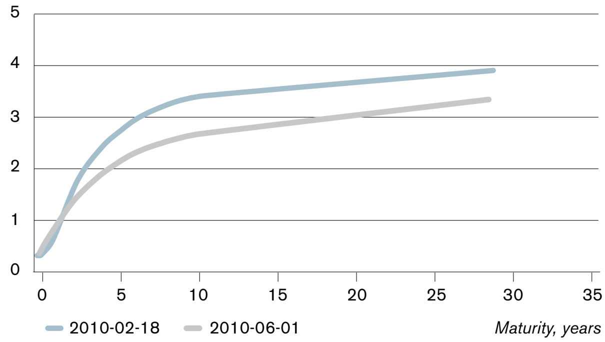
Source: Statistics Sweden

CENTRAL GOVERNMENT DEBT EXPOSURE
IN FOREIGN CURRENCIES



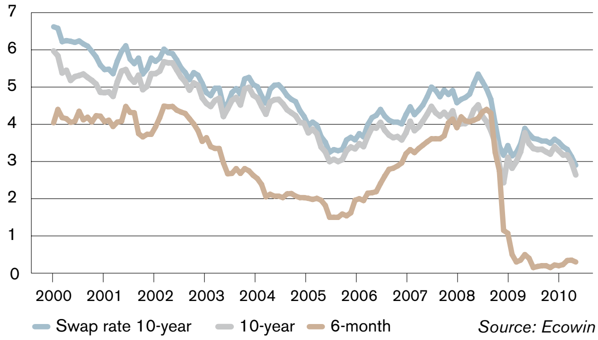
YIELD CURVE, SWEDISH GOVERNMENT SECURITIES

Per cent



HISTORICAL INTEREST RATES

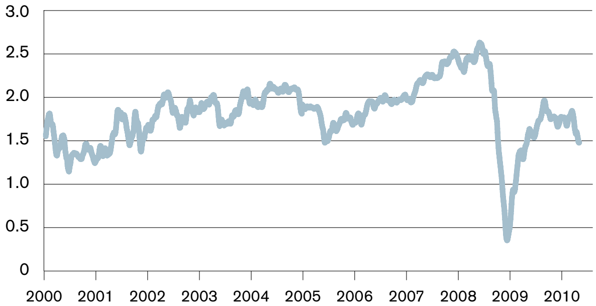
Per cent 31 May 2010



Source: Ecowin

BREAK-EVEN INFLATION

Per cent 31 May 2010

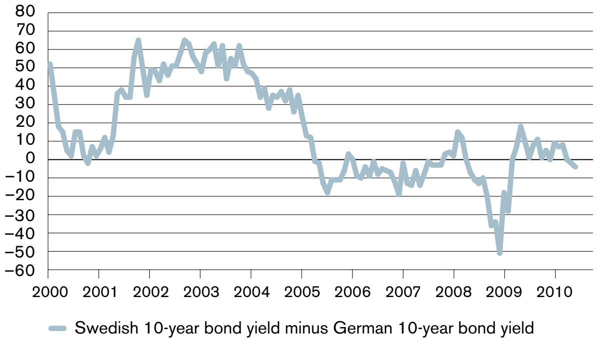


1041 - 3105 (2000-01-01 to 2004-12-31)
1049 - 3105 (2005-01-01 and forward)

Source: Ecowin

INTEREST RATE SPREAD VS GERMANY, 10-YEAR

Basis points

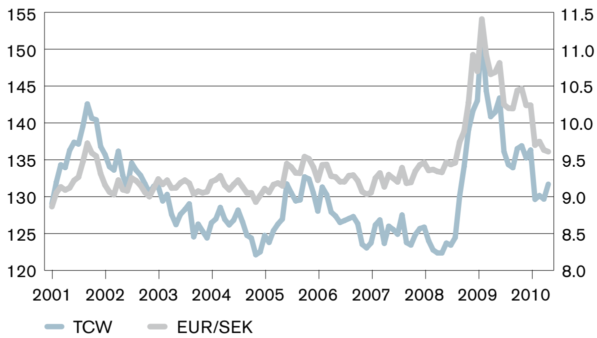


Source: Ecowin

HISTORICAL EXCHANGE RATES

TCW – Trade-weighted index 31 May 2010

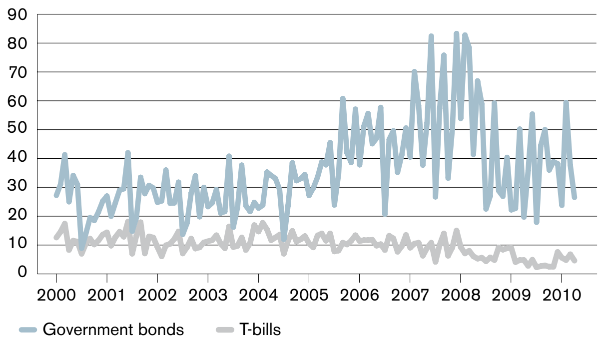
EUR/SEK



Source: Ecowin

DAILY TURNOVER, SWEDISH GOVERNMENT SECURITIES

Total turnover including options and forward contracts, SEK billion

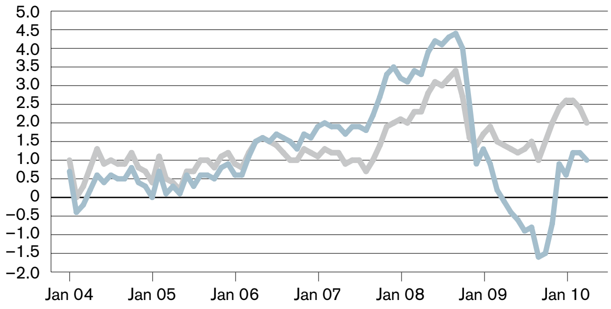


Source: The Riksbank

SWEDISH ECONOMY

INFLATION: CPIX AND CPI IN SWEDEN

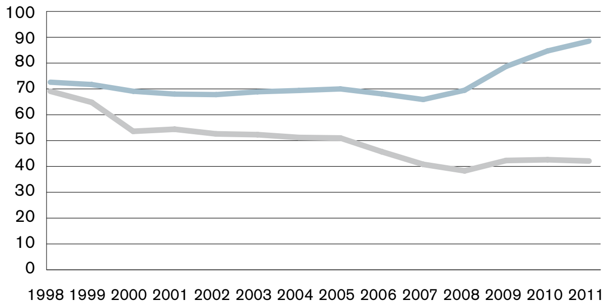
Per cent



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	●		●	+46 8 506 198 76	
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.

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 real interest rate and compensation for inflation during the maturity. This means that any inflation does not reduce the value of the bond.

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.

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.

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.

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