

# Central Government Borrowing

*Forecast and Analysis 2012:3*

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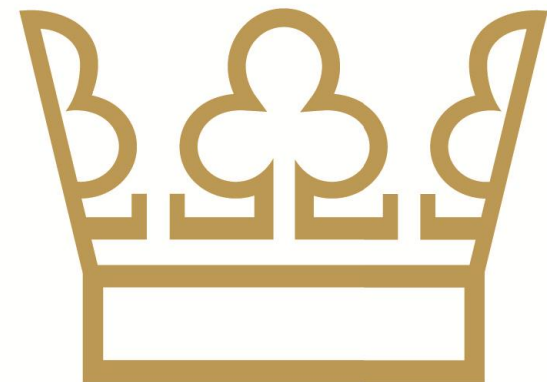
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In *Central Government Borrowing – Forecast and Analysis 2012:3*, we present forecasts for central government finances and borrowing in 2012 until 2014. In the first section, we present annual and monthly forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for borrowing, which is dealt with in the second section of the report.

Bo Lundgren  
*Director General*

#### 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 usually 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 borrowing 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 as a press release. 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

*Our new forecast for the central government budget shows a deficit of SEK 28 billion this year and SEK 55 billion next year. For 2014 we expect a deficit of SEK 56 billion. This will increase the central government borrowing requirement. We will allocate the increased funding between all our government securities. It means that funding will increase in government bonds, inflation-linked bonds, T-bills and foreign currency borrowing.*

Our assessment is that the Swedish economy is on solid ground and is holding up relatively well despite the crisis in the Eurozone. Sweden has strong central government finances, a well-established fiscal framework, its own currency, a competitive export sector and current account surpluses.

However, the weak economy has an impact on central government finances. We estimate that gross domestic product, GDP, will grow by 1 per cent this year, 1.6 per cent next year and 2.2 per cent in 2014. The forecast is essentially unchanged for this year while it is 0.7 percentage points lower for next year compared with our previous forecast.

The economic slowdown affects the budget balance which shows a deficit of 28 billion this year, 55 billion next year and 56 billion in 2014. It is mainly lower tax income that weakens central government finances.

Our forecast is based on an assumption that the government will implement new policy reforms of SEK 25 billion in 2014. There is no assumption about further sales of state-owned assets in the forecast.

The central government debt is expected to be SEK 1 163 billion at the end of 2012 and SEK 1 217 billion at the end of 2013. This corresponds to 32.4 and 32.9 per cent of GDP. The on-lending to the Riksbank amounts to about 3 per cent of GDP over the forecast period. The central government debt is essentially unchanged in relation to GDP between 2011 and 2014. Debt in relation to GDP is among the lowest in the EU.

As a result of the weaker economic outlook we estimate that the borrowing requirement will increase next year.

We estimate that borrowing increases by more than 40 billion in 2013 compared with our previous forecast. Redemptions are considerably larger in 2014 than in 2013. Therefore funding increases during 2014 compared to 2013 in spite of a lower net borrowing requirement.

During the past few years we have concentrated funding to government bonds with a view to promote liquidity in the market. Now that the borrowing requirement is higher, we choose to distribute the increased funding over all instruments. Consequently we do not make any larger revision of the issue volume in government bonds.

Borrowing in government bonds amounts to SEK 74 billion next year. That is an increase of SEK 11 billion compared with our forecast in June. During 2014, we plan to issue government bonds for SEK 84 billion. Borrowing in inflation-linked bonds increases to a yearly rate of SEK 9 billion.

Demand is strong for both government and inflation-linked bonds and we hope a larger supply may contribute to improving liquidity further in the domestic bond market.

The T-bill stock has been at a minimum for several years as a result of our giving priority to government bonds when the borrowing requirement was small. Now we see room for increased borrowing in T-bills. We expect the T-bill stock amounts to SEK 135 billion by the end of 2014.

In recent years we have only issued bonds in foreign currency to finance on-lending to the Riksbank. We now plan to borrow the equivalent of SEK 7 billion in 2013 and SEK 27 billion in 2014 in foreign currency bonds besides on-lending to the Riksbank.

# Deficit in central government finances

The central government net borrowing requirement for this year will be SEK 28 billion, which is a reduction of SEK 5 billion compared to the June forecast. Next year, the borrowing requirement increases to SEK 55 billion, which is an increase of SEK 40 billion compared with June. Our first forecast for 2014 indicates a borrowing requirement of SEK 56 billion. We estimate that GDP will grow by 1.0 per cent this year, 1.6 per cent next year and 2.2 per cent in 2014.

## Central government net borrowing requirement increases

Our new forecast for 2012 is a borrowing requirement of SEK 28 billion. In 2013, the borrowing requirement rises to SEK 55 billion. Our first forecast for 2014 points to a borrowing requirement of SEK 56 billion. The forecast includes an assumption of policy reforms amounting to SEK 25 billion. We do not assume any additional sales of state assets.

The central government debt is estimated to be SEK 1 162 billion at the end of 2012, SEK 1 216 billion at the end of 2013 and SEK 1 267 billion at the end of 2014. This represents 32 per cent of GDP in 2012 and 33 per cent for 2013 and 2014. On-lending amounts to about 3 per cent of GDP throughout the forecast period. Further information about the development of central government debt is presented in the section regarding funding.

TABLE 1 CENTRAL GOVERNMENT NET BORROWING REQUIREMENT <sup>1</sup> AND CENTRAL GOVERNMENT DEBT

SEK Billion	2011	2012	2013	2014
<b>Primary borrowing requirement</b>	<b>-102</b>	<b>1</b>	<b>41</b>	<b>36</b>
of which net lending to agencies excl. on-lending	7	-3	4	4
of which on-lending	-4	5	2	0
of which sales of state assets	-23	0	0	0
of which other primary borrowing	-82	-1	35	32
<b>Interest payments on central government debt</b>	<b>34</b>	<b>27</b>	<b>14</b>	<b>20</b>
<b>Net borrowing requirement</b>	<b>-68</b>	<b>28</b>	<b>55</b>	<b>56</b>

Economic growth is expected to be moderate in the near term due to the international economic downturn. We expect GDP to grow by 1.0 per cent this year, 1.6 per cent next year and 2.2 per cent in 2014. For this year, the assessment is essentially unchanged. For next year, our forecast is revised down by 0.7 percentage points, mainly due to lower exports. Sweden's economy and government finances are still performing relatively well compared with many other countries. This is illustrated by the level of government debt remaining essentially unchanged as a percentage of GDP between 2011 and 2014.

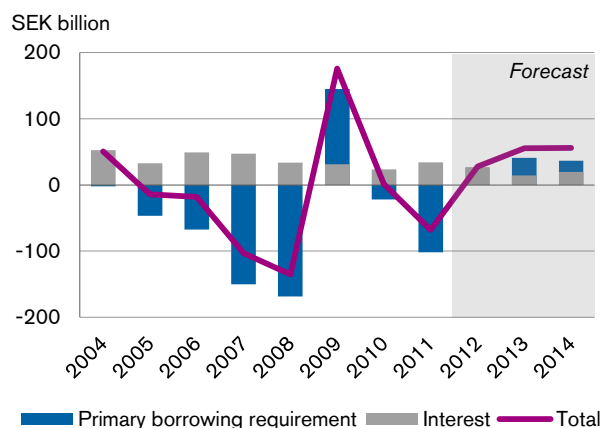
The net borrowing requirement decreases by SEK 5 billion in 2012 compared with the previous forecast. This is mainly due to positive one-off effects in the Debt Office's net lending in December. Monthly outcomes for the borrowing requirement has been slightly higher than forecast since June. This is mainly due to higher tax refunds in connection with the 2011 income year.

In 2013 the borrowing requirement increases by SEK 40 billion compared with the previous forecast. It depends largely on weaker prospects for economic activity leading to lower tax income, mainly regarding taxes on capital. Central government income also decreases because the government has proposed a reduction in corporate tax rate from next year. This is partly offset by lower interest payments on central government debt.

The proposals in the Budget Bill affect the forecast for 2013 by SEK 7 billion. We estimate the impact of the proposed reforms to SEK 22 billion. In our forecast from June, we forecasted SEK 15 billion.

Towards the end of the forecast period, economic growth will increase, but the borrowing requirement remains at about the same level in 2014. This is partly due to our assumption on fiscal easing totalling SEK 25 billion. In addition, interest payments on government debt increases by 5 billion between the years.

FIGURE 1 CENTRAL GOVERNMENT NET BORROWING REQUIREMENT 2004-2014



## Slower growth in the Swedish economy

After a relatively strong first half of 2012, it looks like the international economic downturn is about to catch up with Sweden. Growth is about to slow down, even though the 4th quarter still may show positive growth as the comparative figures from last year are weak. The growth will remain moderate over the next year. As the turmoil in the euro area declines, growth in Sweden will increase towards the end of the forecast period.

TABLE 2 NATIONAL ACCOUNTS, GDP

Percentage change	2012	2013	2014
GDP	1.0	1.6	2.2
Household consumption	1.7	2.1	2.6
General government consumption	1.2	1.0	0.9
Gross fixed capital formation	3.0	3.0	3.7
Changes in inventories incl. valuables <sup>1</sup>	-0.9	-0.1	0.0
Exports	0.9	2.0	4.2
Imports	0.4	2.6	4.7

<sup>1</sup> Change in per cent of GDP previous year

International growth is held back, particularly by the protracted euro crisis and low demand in Europe. The need to consolidate both private and public balance sheets is vast. The countries in the euro area with the greatest need for strengthening demand have limited opportunities to stimulate the economy because interest rates are high.

However, the risks for a far worse economic development has declined due to ECB's commitment to unlimited support purchases of government bonds from countries seeking support from the European Stability Mechanism (ESM). Although important decisions on crisis management have been made, political uncertainty remains concerning the management of troubled banks, a possible bank union and the future development of the euro-cooperation. A sluggish political decision-process means that there is a risk that the economic downturn could be deeper and longer than necessary.

In addition to fiscal problems, many countries suffer from low competitiveness, high unemployment and large current account deficits. Although the real economic factors will gradually improve, there is a long way to go before the imbalances within the euro area are levelled. There is also a need for favourable external factors such as improved growth in the U.S. and Asia.

Our assessment is still that the Swedish economy is on solid ground and is holding up relatively well despite the debt crisis in the euro area. Sweden has strong government finances, a well-established fiscal framework, its own currency, a competitive export sector and current account surpluses (although the contribution to GDP growth will be moderate to negative in the near future). Also, there is no need for budget cuts in the current situation.

This year and next year growth will be sustained by domestic demand, particularly household consumption, even if it develops moderately by historical standards. The export sector will face much tougher conditions than in the last two years. Demand is weaker while the krona has strengthened considerably. The stronger krona also makes it less favourable for companies to locate production in Sweden.

### Households will uphold consumption

We expect that Swedish households on average will have a fairly decent consumption growth over the forecast period. In the short term, consumption depends to a large extent on expectations about the future and in the long run mainly on income growth. Household's disposable income rises by nearly 4 per cent this year and just over 3 per cent in 2013 and 2014.

During 2012, consumer confidence has hovered around the historical average. The debt crisis in the world and relatively high unemployment is likely to have a restraining effect on households' expectations. However, unemployment does not rise significantly, and those who have jobs will benefit from increased incomes, low interest rates and low inflation.

Important asset prices such as housing and stock markets have had a steady development since the beginning of the year which also supports household consumption.

### Weak development in the labour market

The economic turmoil has so far not given any clear impact on labour market statistics. Employment increased slightly in the first half of this year and the unemployment rate was 7.8 per cent in August (seasonally adjusted). During the period January to August unemployment rate was on average 7.6 per cent compared with 7.5 per cent for the full year 2011. In recent months there has been an increasing number of indications that the labour market is in decline. Companies' hiring plans have gradually decreased and the number of redundancy notices is increasing. We anticipate that production and demand will grow slower in the second half of this year which will affect companies' need for labour. Against this background, we believe that unemployment will rise slightly during the remainder of the year and early next year. The increase is relatively moderate, and we expect some improvement from the second half of 2013.

TABLE 3 LABOUR MARKET AND WAGES

Percentage change if nothing else is indicated	2012	2013	2014
Employment	0.3	0.2	0.9
Unemployment <sup>1</sup>	7.7	7.9	7.6
Hours worked	0.2	0.3	0.8
Hourly wages	3.3	3.0	2.7
Wage sum	3.5	3.3	3.6

<sup>1</sup> 15-74 years, per cent of labour force

The weak labour market leads to a slow increase in the number of hours worked this year and next. The wage sum will still grow by about 3.5 per cent per year over the forecast period, due to stable increases in hourly wages. This is slightly below the historical average.

## Net borrowing requirement increases 2013 and 2014

The weak economy and the uncertainty in the rest of the world affect central government finances especially through decreasing tax income. Our new forecast for the net borrowing requirement 2012 is SEK 28 billion. We estimate a borrowing requirement of SEK 55 billion for 2013 and SEK 56 billion for 2014.

We have assumed fiscal easing totalling SEK 25 billion for 2014. However, the forecast does not include any income from sales of state assets for 2013 or 2014.

TABLE 4 CHANGES SINCE LAST FORECAST 2012-2013

SEK billion	2012	2013
<b>Forecast June 2012</b>	<b>32</b>	<b>15</b>
Changes in terms of net borrowing requirement <sup>1</sup>		
Taxes	7	46
Labour market	-1	1
Social insurance	2	3
Net lending excl. on-lending	-14	3
On-lending	-4	-3
Interest payments	1	-5
Other	4	-5
Sum of changes	-5	40
<b>Forecast October 2012</b>	<b>28</b>	<b>55</b>

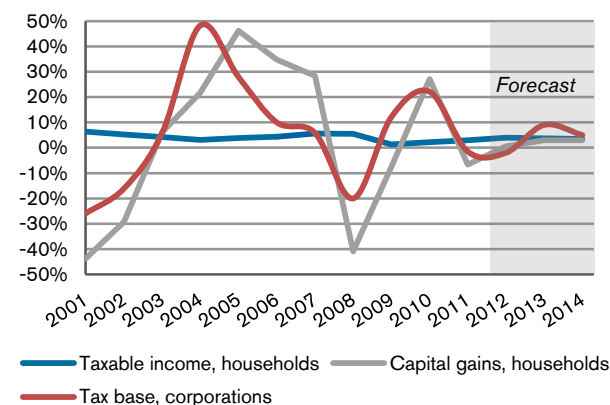
<sup>1</sup> A minus means that the net borrowing requirement decreases and plus means that it increases. The net borrowing requirement is equal to the budget balance with the opposite sign.

### Lower tax income

The weak economic outlook leads to a big downward revision of tax income. Compared with our previous forecast, tax income decreases by SEK 46 billion in 2013, mainly due to lower taxes on capital. Tax on households' capital gains and tax on corporate profits are the most volatile taxes and deterioration in growth, domestic as well as global, can lead to fast and large changes in these incomes.

The large tax bases wage sum and household consumption continue to grow, according to our forecast, although at a relatively moderate pace. These tax bases are less volatile and it takes longer before a decline in growth has an impact. This is particularly evident in the wage sum, which according to our assessment grows by more than three per cent per year during the forecast period, despite the fact that the number of hours worked grows slowly.

FIGURE 2 TAX BASES



However, central government is not entitled to most of tax on wage income over time, as it is passed on to municipalities. Linked to this, there can be cash effects on the central government budget due to differences between the calculations which are the basis for payments to the municipalities and the wage based taxes that are actually paid. The fact that only part of the wage taxes is passed on to central government, makes central government income as a whole more volatile.

### Lower corporate profits decrease central government income

Central government income from corporate taxes decreases by SEK 21 billion next year compared with previous forecast. This is due to both lower profit levels and decreased tax rate.

The prolonged recession leads to a very moderate development of business profits. The weak growth, particularly in Europe, means lower demand on Swedish export products, but orders from the domestic market are also low.

The Economic Tendency Survey of the National Institute of Economic Research also indicates decreasing activity in the business community. Confidence indicators for manufacturing industry as well as construction companies and private service companies are below the historical average.

Altogether, this points to somewhat decreasing profit levels for businesses during 2012. At the same time, preliminary tax assessment for the 2011 income year indicates that we have overestimated corporate taxes also for 2011. It appears as if corporate taxes will reach approximately the same level as in 2007. Even if the variation between years has been large, this means that central government revenue from corporate taxes has not grown at all since the beginning of the financial crisis.

As the growth in the economy increases somewhat during 2013 and 2014 profits rise again, but at a very moderate pace.

### *Reduced corporate tax rate*

In the Budget Bill for 2013 the government has proposed that tax on business profits is lowered from 26.3 per cent to 22 per cent. The proposal is partly financed through limitations in interest deductions. We estimate that cash based taxes from businesses will decrease by approximately SEK 13 billion due to the proposals. The rest of the change can be explained by lower profits.

TABLE 5 ASSUMPTIONS TAX FORECAST, CURRENT PRICES

<i>Percentage change</i>	2012	2013	2014
Households consumption	2.8	3.1	3.6
Wage sum	3.5	3.3	3.6
Households disposable income	3.7	3.0	3.2
Household savings <sup>1</sup>	3.7	3.6	3.2
Investment	3.5	3.5	4.2
Exports	-0.3	0.5	2.8

<sup>1</sup> Own saving as share of disposable income

### *Lower wage taxes*

The size of the wage taxes is mainly determined by taxable income. The preliminary tax assessment for 2011 shows a somewhat lower development of taxable income than we previously estimated. This means that also the levels for the forecasted years are affected, which leads to lower wage based tax income.

In addition, we have revised the wage sum for 2013 downwards due to fewer hours worked, as the labour market weakens, compared with previous forecast. In the Budget Bill for 2013 an increase in the expanded basic deduction for pensioners has been proposed, which leads to lower tax income by slightly more than SEK 1 billion. Altogether these changes lead to a revision downwards of wage taxes in 2013 by just over SEK 8 billion.

During 2014 the wage sum grows somewhat faster than in 2013 due to a stronger labour market with more hours worked as a consequence.

### *Somewhat lower consumption taxes*

Compared with our previous forecast income from VAT remains basically unchanged for 2012 as well as for 2013. Despite the fact that we have revised household consumption for 2013 downwards by 0.7 percentage points, VAT income only decreases marginally. This can be explained by the fact that VAT refunds increase about the same, mainly due to lower exports. For 2014 VAT income (net) increase by SEK 1 billion compared with 2013.

Income from excise taxes decrease by SEK 2 billion in 2013, compared with our previous forecast. This is due to lower consumption but also due to outcome indicating a lower level of excise taxes for 2012 by SEK 1 billion. For 2014 income increases by SEK 1 billion compared with 2013.

### *Lower supplementary taxes and higher refunds of excess taxes*

Households' tax on capital is determined, among other things, by the level of capital gains, interest income and deductions of interest expenses. The preliminary tax assessment indicates that we have underestimated interest income as well as interest expenses for 2011. This is the main explanation behind the differences between outcome and forecast in tax income we have had during 2012.

We now estimate lower supplementary tax payments during 2013 compared with previous forecast. It is mainly due to lower capital gains from households as well as corporations. Households' interest expenses declines somewhat between the years, but the higher level during 2011 spills over into the forecasted years, which partly explains increased refunds of excess taxes.

### **Lower dividends from state enterprises**

Income from dividends on state shares will be SEK 22 billion this year, only to decrease to SEK 19 billion next year. The decrease between the years is mainly due to an extra dividend of SEK 4 billion from Sveaskog AB this year. Furthermore, LKAB is expected to lower its dividend next year. The enterprise is negatively affected by the unrest in Europe, lower demand from China and sinking iron-stone prices. This is somewhat counteracted by the fact that Vattenfall and Teliasonera are expected to increase their dividends due to capital gains on sold assets.

For 2014 we estimate dividends to SEK 17 billion. The decrease compared with 2013 is explained by the lack of capital gains affecting dividends of Vattenfall and Telia Sonera.

### **Higher expenditure on unemployment next year**

Unemployment expenditure has been surprisingly low this year. Compared with our previous forecast disbursements of unemployment benefits and activity support has therefore been revised downwards by SEK 1 billion. We estimate that on average 267 000 full year-equivalents will receive unemployment benefits during 2012. This is a marginal increase compared with previous year.

There are many indications that the labour market will gradually deteriorate during the rest of this year and the beginning of next year. This causes a modest increase in labour market expenditure, both in the unemployment insurance and the labour market programmes, compared with this year. In addition, there will be a slight increase in expenditure due to proposals in the Budget Bill for 2013.

Towards the end of the forecast period unemployment is expected to fall again. As a consequence labour market related expenditure also decreases somewhat. The recovery, however, is estimated to be slow.

TABLE 6 VOLUMES TRANSFER SYSTEMS

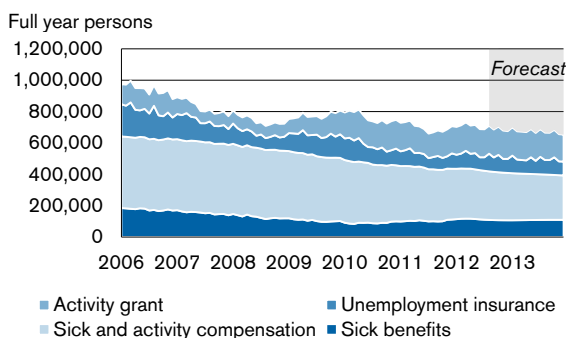
Full-year equivalents	2012	2013	2014
Sickness benefit	116	116	114
Activity/Sickness compensation	327	307	289
Unemployment insurance	93	97	92
Activity support	175	178	169
<b>Total</b>	<b>711</b>	<b>698</b>	<b>663</b>

### Social insurance expenditure increases slowly

Compared with our previous forecast social insurance expenditure has been revised upwards by SEK 2 billion for 2012 and by SEK 3 billion for 2013. This is partly explained by higher expenditure on sickness benefits. In addition, the government proposes an increase in the housing supplement for pensioners together with increased appropriation to the Swedish Social Insurance Agency. According to our estimate this raises expenditure by just above SEK 0.5 billion per year starting from 2013.

In recent years there has been a marked decrease in the total amount of persons receiving sickness or unemployment benefits, which can be seen in Figure 3. This development is expected to continue over the forecast period despite a slight increase in volumes in labour market related transfer systems. Over time, the decrease in volumes has led to significantly lower expenditures in the central government budget.

FIGURE 3 VOLUMES IN CERTAIN TRANSFER SYSTEMS



Source: Statistics Sweden and own calculations

### Net lending by the Debt Office to agencies, etc.

The Debt Office's net lending is estimated at SEK 2 billion for this year which is SEK 18 billion lower than in the previous forecast. This is mainly due to increased deposits from the Nuclear Waste Fund. We estimate the Nuclear Waste Fund to deposit slightly more than SEK 10 billion in savings accounts at the Debt Office. The money deposited by the Nuclear Waste Fund is normally invested in bonds. Moreover, The Swedish Export Credits Guarantee Board has increased its deposits since our previous forecast.

In addition, on-lending decreases by slightly less than SEK 4 billion. This is, among other things, caused by the fact that Iceland has amortized an additional SEK 2 billion since the previous forecast. Overall Iceland has amortized SEK 3 billion this year. Furthermore on-lending to the Riksbank decreases by slightly more than SEK 2 billion, due to a stronger Swedish Krona compared with the June forecast. This means that we replace loans in foreign currencies to an increasingly stronger exchange rate, causing on-lending to decrease in terms of SEK.

For 2013 and 2014 the Debt Office's net lending is estimated at SEK 6 billion and SEK 4 billion. The forecast for 2013 is more or less unchanged. The decrease between years is mainly explained by the fact that we do not expect any further on-lending in 2014. Next year we expect on-lending to Ireland to increase by approximately SEK 3 billion.

On-lending is corresponded to by claims of the same size, and thus does not affect central government debt including the Debt Office's financial assets. Central government net lending is not affected either. However, the budget balance is affected as well as the official measure of central government debt. Interest payments on central government debt do not increase as the borrower pays interest to the Debt Office that corresponds to our costs.

### Low interest payments on central government debt 2013

Interest payments on central government debt are estimated at SEK 27 billion this year. This is approximately SEK 0.5 billion more than in the previous forecast, which is mainly explained by lower issues sold at premium. For 2013 and 2014 interest payments are estimated at SEK 14 billion and SEK 20 billion respectively.

Compared with our previous forecast interest payments for 2013 have been revised downwards by slightly more than SEK 5 billion. This is mainly due to higher issues sold at premium, higher expected exchange rate gains, and lower interest on loans in foreign currencies.

In 2014 interest payments increase by approximately SEK 5 billion compared with 2013. The main reason is that we pay accrued inflation compensation due to buybacks of inflation-linked bonds in connection with the introduction of a new inflation-linked ten year bond during spring 2014. In addition, current coupon payments increase as a consequence of the higher borrowing requirement. The effect is partly counteracted by exchange rate gains on a maturing bond denominated in euros which was issued during 2009.



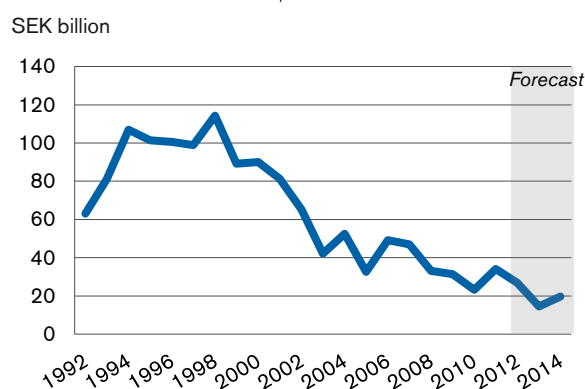
TABLE 7 INTEREST PAYMENTS ON CENTRAL GOVERNMENT DEBT 2012-2014, SEK BILLION

SEK billion	2012	2013	2014
Interest payments	26.9	14.5	19.7
-Interest on loans in SEK	26.0	15.7	29.9
-Interest on loans in foreign currency	2.3	0.5	0.5
-Realised currency gains and losses	-1.4	-1.6	-10.6

Low interest rates and falling central government debt has caused interest payments to fall to historically low levels in recent years. In the mid-nineties interest payments were almost 20 per cent of central government expenditure. The corresponding figure today is approximately 2-3 per cent.

The Debt Office uses cut-off rates for estimation of interest payments. The cut-off date for this forecast is 30 September.

FIGURE 4 INTEREST PAYMENTS ON CENTRAL GOVERNMENT DEBT 1992-2014, CURRENT PRICES



### CHANGES IN THE NET BORROWING REQUIREMENT BETWEEN YEARS

The table shows how different parts of the net borrowing requirement change between 2009 and 2014. The table is based on the cash flow principle. Minus means that the net borrowing requirement decreases and plus that it increases. For example -75 in the column for "Taxes" 2011 means that taxes increased by SEK 75 billion compared with 2010.

SEK billion	2009	2010	2011	2012	2013	2014
Net borrowing requirement, level	176	1	-68	28	55	56
Net borrowing requirement, change	311	-175	-69	95	28	1
<b>Explained by;</b>						
Taxes	83	-56	-75	4	-13	-51
Tax payments to local governments	28	-22	0	52	33	16
Government grants to local governments	16	-6	12	-3	4	-1
Labour market	10	8	-2	3	1	-1
Social Insurance	-6	-1	-5	4	0	1
Sales of state-owned assets	77	0	-23	23	0	0
Share dividends	-23	-1	-11	2	5	3
EU contribution	-8	10	-3	4	0	1
Debt Office's net lending excl. on-lending	41	-17	5	-10	7	0
On-lending	96	-99	-1	9	-4	-1
Interest on government debt	-2	-8	11	-7	-12	5
Other	0	18	21	15	6	30

Taxes, sales of state-owned assets, local government disbursements and the Debt Office's net lending have the greatest effect between years.

Between 2011 and 2012 the net borrowing requirement increases by SEK 95 billion. This is mainly due to the fact that we do not assume any further sales of state-owned assets for 2012, large disbursements to the local governments and low growth in tax income.

Next year the net borrowing requirement increases by another SEK 28 billion. This is explained by low growth in tax income, mainly in terms of taxes on capital. The greater part of the lower taxes on capital is explained by lower corporate profits. Wage based taxes increase at a moderate pace, but the main part goes to the local governments. In addition, the increased borrowing requirement is explained by increased government grants to local governments, increased net lending to public authorities and declining dividends on state shares.

Between 2013 and 2014, the borrowing requirement will remain nearly unchanged, despite the fact that tax revenues are growing slightly faster as a result of improved economic conditions. This is counteracted primarily by our assumption on fiscal policy reforms of SEK 25 billion in 2014 which is included in "Other" in the table. In addition, interest payments on central government debt will increase, while dividends on state shares decrease somewhat further.

## Budget balance and central government net lending

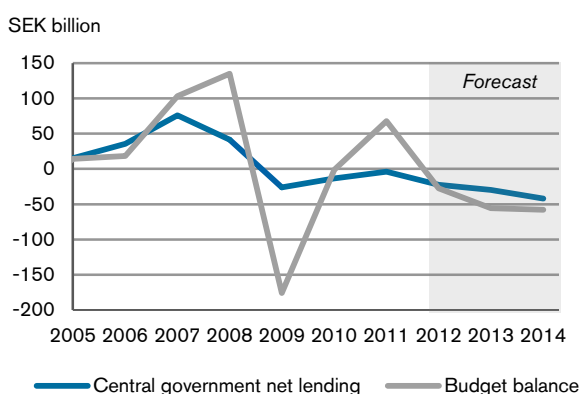
Central government net lending is estimated to be -0.6 per cent of GDP in 2012, -0.8 per cent of GDP in 2013 and -1.1 per cent of GDP in 2014.

TABLE 8 CENTRAL GOVERNMENT NET LENDING 2010-2014

SEK billion	2010	2011	2012	2013	2014
<b>Budget balance</b>	<b>-1</b>	<b>68</b>	<b>-28</b>	<b>-56</b>	<b>-58</b>
<b>Adjustment items</b>	<b>-13</b>	<b>-72</b>	<b>5</b>	<b>26</b>	<b>16</b>
Sale of limited companies	0	-23	0	0	0
Parts of Debt Office's net lending	-3	-5	-6	1	0
Accruals etc.	-10	-44	11	24	16
<b>Central government net lending</b>	<b>-14</b>	<b>-4</b>	<b>-23</b>	<b>-30</b>	<b>-42</b>
<b>Per cent of GDP</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-1.1</b>

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

FIGURE 5 CENTRAL GOVERNMENT NET LENDING AND BUDGET BALANCE



Government financial 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 government financial lending based on the forecast of central government cash payments.

## Monthly forecast for the net borrowing requirement

The net borrowing requirement varies sharply between different months; see table 9 for monthly forecasts for 2012 and 2013.

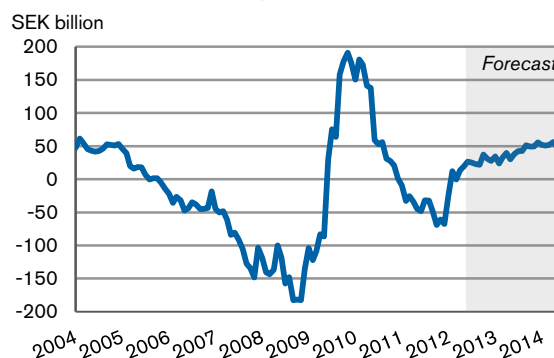
TABLE 9 CENTRAL GOVERNMENT NET BORROWING

SEK billion	Primary borrowing requirement	Interest on central government debt	Net borrowing requirement
<b>2012</b>			
Oct	7.2	5.3	12.5
Nov	-11.4	-0.4	-11.8
Dec	79.9	7.6	87.5
<b>2013</b>			
Jan	22.7	-1.4	21.3
Feb	-42.3	-0.9	-43.3
Mar	-2.7	2.5	-0.2
Apr	-17.0	-0.3	-17.4
May	-39.3	4.3	-35.0
Jun	34.7	1.8	36.5
Jul	6.1	0.5	6.5
Aug	-15.9	4.8	-11.1
Sep	7.5	-1.8	5.7
Oct	11.1	-0.7	10.5
Nov	-10.3	-1.5	-11.8
Dec	86.4	7.2	93.6

Variations from month to month are largely explained by variations in tax income, tax refunds and repo transactions by agencies. Also some large individual payments affect the monthly pattern.

The large borrowing requirement in December is normal for this month and is attributable to the Debt Office's net lending (including the payment of premium pensions), excess tax and interest payments on central government debt, which are high this month every year.

FIGURE 6 CENTRAL GOVERNMENT NET BORROWING REQUIREMENT, 12-MONTH FIGURES



## 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 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.

<i>SEK billion</i>	Effect on net borrowing requirement
Increase by one percentage point	
Gross wages <sup>1</sup>	-5
Household consumption in current prices	-3
Unemployment (ILO 15-74) <sup>2</sup>	2
Interest rate level in Sweden <sup>3</sup>	4
International interest rate level <sup>3</sup>	2

<sup>1</sup> *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*

<sup>2</sup> *Includes effects on unemployment insurance benefits, the job and development guarantee programme, the job guarantee scheme for young people and unemployment fees.*

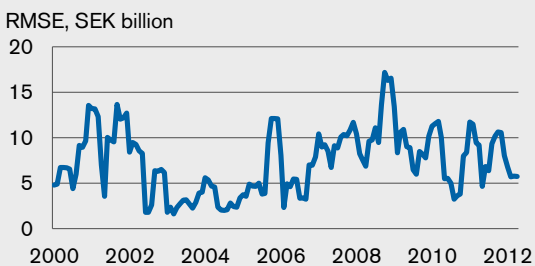
<sup>3</sup> *This relates to an effect on interest payments on government debt.*

The Debt Office publishes the outcome of the central government net borrowing requirement on the 5th business day of each month. Three times a year, we publish forecasts on the net borrowing requirement for a number of months ahead. In the monthly outcome, we usually comment on the deviations from our forecast, and which parts of the central government payments that deviated most. Here we wish to analyse historical deviations between the outcome of the borrowing requirement and the forecasts in a more systematic way. The purpose is to present a picture of how large the deviations have been over time and also what deviations that can reasonably be expected ahead. Unfortunately we cannot make any comparisons of forecast accuracy with others, because there is currently no other agency that makes monthly forecasts on the net borrowing requirement/budget balance.

A common measure to evaluate forecast accuracy is "rmse", the root mean square error. We have chosen to define it as

$$rmse = \sqrt{(e_1^2 + e_2^2 + e_3^2 + e_4^2) / 4}$$

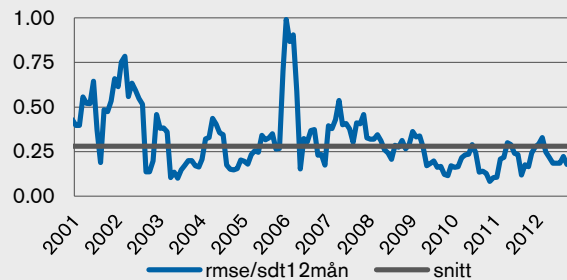
Where e = outcome net borrowing requirement month (1-4) - latest published forecast month (1-4). The reason we have chosen four periods is that we update our forecasts every 4 months (three times a year). Basically the measure can be interpreted as a mean of the absolute error, which means that the values are always positive. The difference from an ordinary absolute error is that the rmse is slightly higher because it also penalizes variation in the size of the errors.



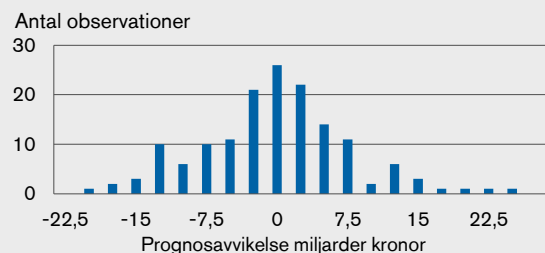
The outcome is compared with latest published forecast. We rarely revise the monthly forecasts, but in the event that it has, the comparisons are made with the revised forecast. The graph above shows how rmse has evolved over time. One explanation for the increase in deviations from 2007 is that State Agencies began using repo transactions. The best period for the forecast accuracy according to rmse was around 2003-2004. The average for rmse was then SEK 3.5 billion compared to SEK 7.3 billion over the entire period.

<sup>1</sup> State agencies may make repo-transactions which affects the net borrowing requirement.

The measure does not take into account whether it has been more difficult to make forecasts in certain periods than others. The net borrowing requirement varies greatly within a calendar year due to seasonal variations in government payments. Seasonal variations have increased significantly in recent years. The net borrowing requirement also varies between years, for example, due to variations in the business cycle. To account for variations in the net borrowing requirement over time, we normalize rmse by dividing by the standard deviation of the outcome. The measure can be interpreted as the absolute error relative to the variation in the outcome. The normalized rmse is shown in the graph below. The average for the entire period is 0.3. The explanation for the normalized rmse being compressed mainly after 2007 is that the variations in the outcome of the net borrowing requirement increased. The peak around 2005/2006 is explained by two large errors during a period when the variation in the net borrowing requirement was relatively low.



The mean of the forecast errors for the entire period is SEK -1.5 billion, which means that on average we have overestimated the net borrowing requirement by the same amount. The forecasts have thus not reflected the expected value. This probably reflects that the level of the yearly forecasts has been too high, rather than an inaccurate distribution between months. The average for the absolute error was SEK 6.1 billion. It can be interpreted as a combination of errors in the level and distribution between months. A reasonable conclusion is that much of the forecast deviations have been an issue of distributions between months. A histogram of the forecast errors is shown below.



<sup>2</sup>  $Nrmse = \frac{rmse}{std_{12-mån}}$

# Diversified funding

Borrowing in government bonds increases to SEK 74 billion in 2013 and SEK 84 billion in 2014. We raise the issue volume of inflation-linked bonds to SEK 9 billion per year. The T-bill stock grows and reaches a level of SEK 135 billion by the end of 2014. During 2013 and 2014, we issue a total volume of SEK 34 billion in foreign currency bonds in addition to funding of on-lending to the Riksbank.

## Increased borrowing requirement

In view of weaker public finances we revise our central government borrowing forecast for next year. Borrowing increases by just over SEK 40 billion in 2013 compared to our previous forecast.

We have not yet published any forecast for 2014. Redemptions are considerably larger in 2014 than in 2013. Therefore funding increases during 2014 compared to 2013 in spite of a lower net borrowing requirement; see table 1.

TABLE 1 GROSS BORROWING REQUIREMENT 2011–2014

SEK billion	2011	2012	2013	2014
<b>Net funding requirement</b>	<b>-68</b>	<b>28</b>	<b>55</b>	<b>56</b>
<b>Business day adjustment<sup>1</sup></b>	<b>11</b>	<b>6</b>	<b>-6</b>	<b>-8</b>
<b>Retail borrowing &amp; collateral, net<sup>2</sup></b>	<b>-9</b>	<b>-10</b>	<b>6</b>	<b>7</b>
<b>Money market redemptions<sup>3</sup></b>	<b>178</b>	<b>159</b>	<b>206</b>	<b>170</b>
T-bills	85	72	100	105
Commercial paper	54	43	48	10
Liquidity management	39	45	58	55
<b>Bond redemptions</b>	<b>117</b>	<b>122</b>	<b>39</b>	<b>136</b>
Government bonds	47	64	10	78
Inflation-linked bonds	0	20	0	5
Foreign currency bonds	70	39	30	53
<b>Exchanges &amp; buy-backs, net</b>	<b>9</b>	<b>3</b>	<b>2</b>	<b>10</b>
Government bonds	4	1	0	3
Inflation-linked bonds	5	2	1	7
Foreign currency bonds	0	0	0	0
<b>Total gross funding requirement</b>	<b>238</b>	<b>309</b>	<b>303</b>	<b>371</b>

<sup>1</sup> Adjustment for the difference between settlement day and business day. The net borrowing requirement is cash flow-based (settlement day) as opposed to funding and outstanding debt.

<sup>2</sup> Net change in retail borrowing and collateral

<sup>3</sup> Initial stock maturing within 12 months

During the past few years we have concentrated funding to government bonds with a view to promote liquidity in the market. Now that the borrowing requirement is higher, we choose to distribute the increased funding over all instruments. Consequently we do not make any larger revision of the issue volume in government bonds. We increase funding in T-bills, inflation-linked bonds and, not

the least, in foreign currency. Table 2 shows the revisions since to our June forecast.

During 2013, we expand the issue volume of government bonds by increasing the number of auctions slightly. In January 2014 we also increase the issue volume per auction to SEK 4 billion.

Borrowing in inflation-linked bonds increases to a yearly rate of SEK 9 billion from SEK 6 billion as from the first auction in November. Demand is strong for both government and inflation-linked bonds and we hope a larger supply may contribute to improving liquidity further in the domestic bond market.

The T-bill stock has been at a minimum for several years as a result of our giving priority to government bonds when the borrowing requirement was small. Now we see room for increased borrowing in T-bills. We expect that the T-bill stock will amount to SEK 135 billion by the end of 2014.

In recent years we have only issued bonds in foreign currency to finance on-lending to the Riksbank. We now plan to borrow the equivalent of SEK 7 billion in 2013 and SEK 27 billion in 2014 in foreign currency bonds in addition to on-lending to the Riksbank.

TABLE 2 BORROWING COMPARED WITH PREVIOUS FORECAST

SEK billion	2012		2013		2014	
	Oct	(Jun)	Oct	(Jun)	Oct	(Jun)
<b>Money market funding</b>	<b>206</b>	<b>(195)</b>	<b>170</b>	<b>(148)</b>	<b>241</b>	-
T-bills	100	(100)	105	(90)	135	-
Commercial paper	48	(35)	10	(10)	40	-
of which to the Riksbank	13	(0)	0	(0)	0	-
Liquidity management	58	(60)	55	(60)	66	-
<b>Bond funding</b>	<b>102</b>	<b>(116)</b>	<b>133</b>	<b>(101)</b>	<b>130</b>	-
Government bonds	59	(59)	74	(63)	84	-
Inflation-linked bonds	7	(6)	9	(6)	9	-
Foreign currency bonds	37	(51)	50	(32)	37	-
of which to the Riksbank	37	(51)	43	(32)	10	-
<b>Total gross funding</b>	<b>309</b>	<b>(311)</b>	<b>303</b>	<b>(261)</b>	<b>371</b>	-

<sup>1</sup> Outstanding stock as of year-end.

## Two new bonds in 2014

In early 2014, we plan to introduce a new government bond and a new inflation-linked bond. Both loans will have a ten-year maturity.

TABLE 3 IMPORTANT DATES

Date	Time	Activity
29 Nov	11.00	Exchanges to SGB 1049 4.5% 12 Aug 15 Central Government Borrowing - Forecast and Analysis 2013:1
20 Feb	09.30	Analysis 2013:1
7 - 8 Mar	11.00	Exchanges to SGB 1057 1.5% 13 Nov 23 Central Government Borrowing - Forecast and Analysis 2013:2
18 Jun	09.30	Analysis 2013:2
23 Oct	09.30	Analysis 2013:3
24 Oct	11.00	Exchanges from SGB IL 3.5% 3105 1 Dec 15

## Increased government bond borrowing

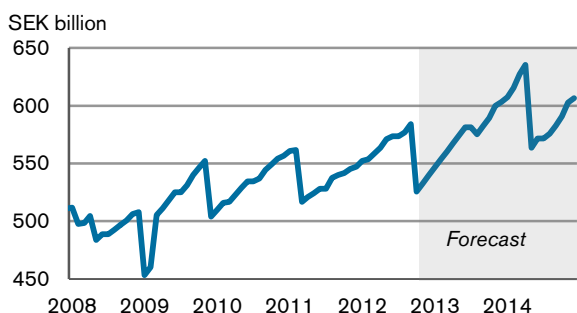
The issue volume in nominal government bonds will increase to SEK 74 billion during 2013. That is SEK 11 billion more compared with our forecast in June. Adjustment to the greater funding will be made by increasing number of auctions from 18 to 21.

During 2014 the borrowing will increase further to SEK 84 billion as we increase the auction issue volume to SEK 4 billion.

We will primarily borrow in the 10-year segment. Compared to our previous forecast we will issue somewhat more in other maturities as well.

We do not expect to refinance any loans to the Riksbank in the SEK market.

FIGURE 1 OUTSTANDING STOCK OF GOVERNMENT BONDS



## Exchanges to the new 10-year bond

On 17 October this year we introduced a new 10-year bond, SGB 1057 1.5% 13 Nov 23. In connection to the introduction it was possible to exchange previously issued government bonds for this loan. The new bond will be a 10-year reference loan in the electronic interbank market on the third Wednesday in March 2013.

In early March, before the new bond becomes the 10-year reference loan, we plan to offer exchange auctions to SGB 1057 1.5% 13 Nov 23. The offer applies to exchanges to the existing ten year reference loan SGB 1054 3.5 % 1 Jun 22. In the forecast we have assumed exchanges for SEK 10 billion.

## Exchanges to the new 2-year reference loan

As we wrote in June we have planned to offer exchanges to the coming 2-year reference loan SGB 1049 4.5% 12 Aug 15. As the shortest bond matured at the beginning of October, the stock of government bonds with maturities up to two years is smaller than for a long time. The demand for the shortest government bond SGB 1041 6.75% 5 May 14 is high and the interest to sell that loan in exchange for the longer bond SGB 1049 4.5% 12 Aug 15 is probably limited.

We offer this type of exchange auctions as market maintenance to promote liquidity in the reference loans. The volume in the exchanges is dependent on the interest. We expect preliminary to offer exchanges for SEK 5 billion in SGB 1049 4.5% 12 Aug 15 but if the demand is weak the exchange might be cancelled.

FIGURE 2 FORECAST FOR THE INTEREST RATE REFIXING PERIOD OF THE NOMINAL KRONA DEBT FOR MATURITIES OF UP TO 12 YEARS

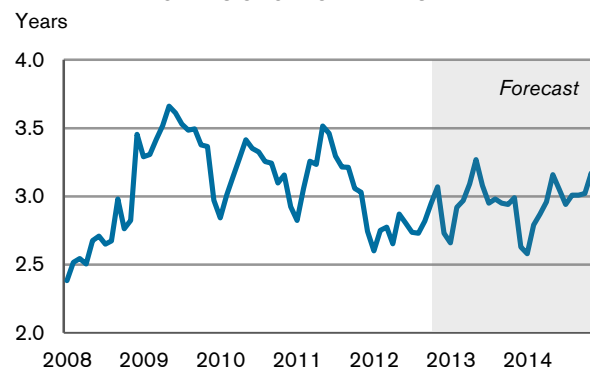
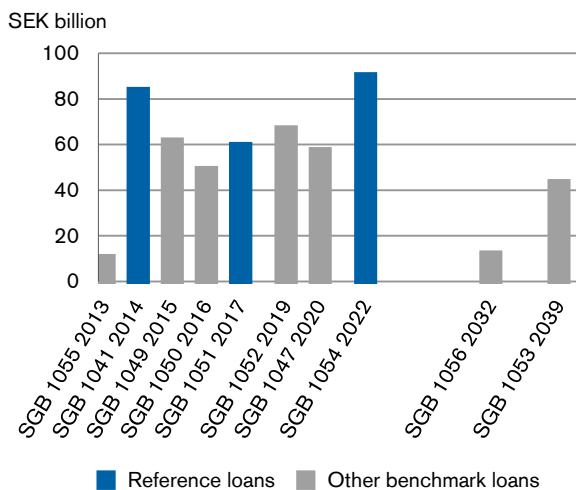


TABLE 4 CHANGE OF REFERENCE LOANS IN THE ELECTRONIC INTERBANK MARKET

Date of change (IMM date) <sup>1</sup>	2-year	5-year	10-year
Current reference loans	1041	1051	1054
19 December 12	1049		
20 March 13		1052	1057
18 December 13	1050		

<sup>1</sup> The reference loan in electronic trading 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 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. 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 3 OUTSTANDING GOVERNMENT BOND (BENCHMARKS) ON 8 OCT 2012



### New 10-year bond 2014

In the spring of 2014 we are planning to offer a new government bond SGB 1058. We expect preliminary the bond to mature 12 May 2025. The loan 1058 is expected to be a reference loan to be issued in June 2014. As previously, we will offer exchanges to the new government bond in connection with the introduction.

### Borrowing in long-term bonds

According to the government's guidelines, the target for the outstanding volume of government bonds with maturity longer than 12 years is SEK 60 billion. Today the stock of long-term bonds amounts to SEK 53 billion. Demand for our longest bonds varies. We follow the market closely and at times when demand is strong we may increase the outstanding volume of the longest bonds in our auctions.

The 30-year bond that we issued in 2009 is now closer to a maturity of 25 years. Investors who require long duration in their portfolios may want to replace this bond for a longer one. Provided that this would be of interest to our investors, we could introduce a new 30-year bond in a couple of years and offer exchanges from the current longest bond *SGB 1053 3.75% 30 Mar 39*. The introduction of such a bond could also provide an opportunity to increase the total outstanding volume of long-term bonds.

### The T-bill stock increases in 2014

We now see room for a larger T-bill stock. Borrowing in T-bills increases mainly in 2014. In 2014 we expect an average outstanding volume of SEK 126 billion which can be compared with an average 80 billion this year. In 2013 the T-bill stock amounts to just below SEK 90 billion on average.

At present we issue a T-bill volume of SEK 10 billion per auction. During the back end of 2013, the auction volume increases to SEK 15 billion. The issue volume may vary between months as the borrowing requirement fluctuates considerably over the year.

Ever since the financial crisis the Swedish T-bill market has been less liquid, partly due to the fact that we have reduced borrowing in this instrument. Lately, we have seen indications that the situation in the market has improved somewhat. We hope that a larger supply of T-bills may contribute to improving market liquidity further. Demand for T-bills will most likely continue to vary. At times when demand is weak we may temporarily replace part of our planned issue volume with borrowing in commercial paper.

### Auction principles

We have had occasional requests to consider a different allocation method in the T-bill auctions, for example use uniform pricing. This would be a way to reduce uncertainty for our investors when placing bids. Price discovery can be unsatisfactory and the spread between the highest and the lowest bid is wider than in our bond auctions.

We have no plans to introduce uniform pricing but should there prove to be a strong demand for a different auction format we are open to such a discussion. We always welcome any views on how we may contribute to improving the market for T-bills.

### Borrowing in commercial paper

Borrowing in commercial paper increases this year as we expect to refinance a bond to the Riksbank in commercial papers instead of in bonds. We have assumed that this commercial paper funding will be replaced by a new bond issue in 2013.

Our forecast for 2013 is unchanged. We expect the stock of commercial paper to amount to SEK 48, 10 and 40 billion by the end of 2012, 2013 and 2014 respectively.

### Slightly increased swap borrowing

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

We plan a total swap volume of SEK 20 billion in 2012. In 2013 the volume increases to SEK 40 billion, which is slightly higher compared to our previous forecast. The outstanding stock of interest rate swaps increases slightly until 2014; see table 5.

The development of the swap stock depends on the rela-

tionship between new and maturing swaps. We distribute swap transactions relatively evenly over the year although with commercial flexibility both as regards date and maturity. We may deviate from the plan if the funding requirement changes during the year.

TABLE 5 CHANGE IN OUTSTANDING SWAPS

SEK billion	2011	2012	2013	2014
Interest rate swaps <sup>1</sup>	21	0	20	10
Cross currency swaps <sup>2</sup>	22	20	20	15
<b>Swaps total</b>	<b>43</b>	<b>20</b>	<b>40</b>	<b>25</b>
Swaps maturing	-31	-20	-29	-25
<b>Swaps, net change</b>	<b>12</b>	<b>0</b>	<b>11</b>	<b>0</b>

<sup>1</sup> Interest rate swaps from fixed to floating rate in SEK.

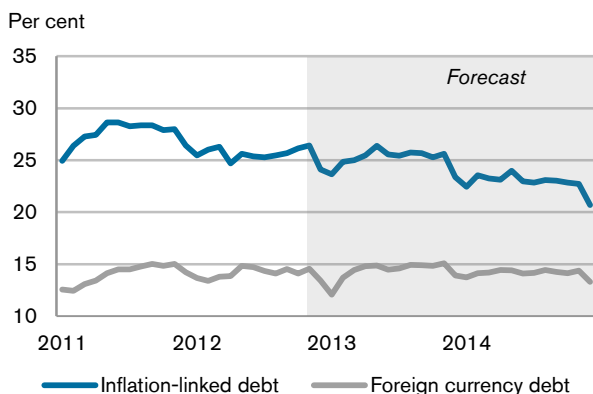
<sup>2</sup> Cross currency swaps from fixed SEK rate to floating rate in foreign currency.

## Larger issue volume in inflation-linked bonds

Borrowing in inflation-linked bonds increases from SEK 6 billion to SEK 9 billion per year. As of the auction on 8 November we raise the issue volume to SEK 750 million from SEK 500 million per auction. In 2013 we will primarily issue in the newer bonds *SGB IL 3107 0.5% 1 Jun 17* and *SGB IL 3108 0.25% 1 Jun 22*.

The average time to maturity of the inflation-linked bond stock is expected to be 7.6 years during the forecast period. The share of Inflation-linked debt declines slightly during the forecast period. We will make a more long-term assessment of the issue volume necessary to reach the target of 25 per cent for the share of inflation-linked debt. As a result of such analysis, borrowing in inflation-linked bonds may be adjusted upwards later on.

FIGURE 4 SHARE OF INFLATION-LINKED AND FOREIGN CURRENCY DEBT<sup>1</sup>



<sup>1</sup> 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). We call this measure the aggregate cash flows of central government debt.

## New ten-year inflation-linked bond in 2014

During the spring of 2014 we will introduce a new inflation-linked bond with a ten-year maturity, loan 3109. The maturity date of the new bond will be close to that of the new ten-year government bond 1058. As usual we plan to offer exchanges to the new inflation-linked bond when the bond is introduced.

## Policy for short-term inflation-linked bonds

In our last report in June we raised the issue of how to handle inflation-linked bonds approaching maturity. Large inflation-linked volumes that mature causes re-investment risk for our investors and can be difficult for the market to handle. Our assessment is that volumes in the order of SEK 25 billion can mature without putting too much strain on the market.

Several of our inflation-linked issues are considerably larger than that. We therefore aim to facilitate management for investors and primary dealers by offering exchanges well before the large bonds mature. Those who do not wish to hold inflation-linked bonds to maturity will then have the possibility to exchange the maturing bond for longer-term issues.

Experience shows that it is difficult for us to price and maintain market commitments for short inflation-linked bonds. When the bonds become shorter than one year we will not take any further measures to reduce the outstanding volume. By then the exchange facility ceases where primary dealers may exchange smaller volumes of inflation-linked bonds with the Debt Office. The idea is that the volume that remains when time to maturity is one year will be redeemed.

The exchange facility will thus not comprise bonds shorter than one year. However, we consider the possibility of offering a last resort in the form of a pure buy-back facility where primary dealers can sell a limited volume to the Debt Office. In that case buy-backs would be made against a considerable premium since this would not be a regular buy-back offer.

It is worth noting that it will not be possible for primary dealers to continuously quote prices on the shortest bonds to the same extent as on longer bonds.

## Exchanges in loan 3105

In line with the policy described above we will offer to exchange a total of SEK 20 billion of bond *SGB IL 3105 3.5% 1 Dec 15* before the end of 2014. The lion share of these exchanges will take place in 2014. In the exchange auctions we primarily plan to sell the bonds *SGB IL 3107 0.5% 1 Jun 17* and *SGB IL 3108 0.25% 1 Jun 22*.

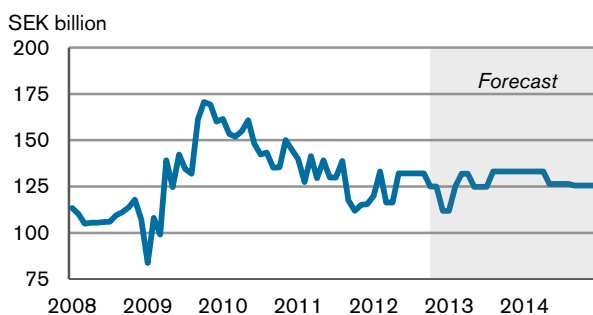


We offer the exchange auctions as a pure market commitment measure. The offer stands provided that exchanges can be made at market rates and consequently do not imply any extra cost for the central government.

### Long-term inflation-linked bonds

Last autumn we discussed the issue of a 30-year inflation-linked bond. Demand then proved to be small. We assess that the interest in a new long-term inflation-linked bond is still limited and have no plans to introduce such an issue at the moment. Should demand increase however, we may issue a 30-year inflation-linked bond later on.

FIGURE 5 OUTSTANDING BONDS IN FOREIGN CURRENCY



### Bond borrowing in foreign currency increases next year

Bond borrowing in foreign currency will decrease compared to last forecast to SEK 37 billion in 2012. The reason behind the decrease is that maturing loans to the Riksbank to a greater extent is financed through commercial paper than what was assumed in June.

During 2013 the bond borrowing will increase to SEK 50 billion. The commercial paper that was issued in 2012 matures in 2013 and is refinanced with bonds in foreign currency. We also plan a bond for 1 USD billion during 2013 for our own account.

During 2014 bond borrowing will decrease compared to 2013. The reason is that maturing loans to the Riksbank will be fewer in 2014 than in 2013.

The bond borrowing in foreign currency not including on-lending to Riksbanken will however increase in 2014 compared with 2013. The reason is a combination of the fact that a currency loan of 43 billion is nominally maturing during 2014 and an increased borrowing need.

On-lending to Ireland will be financed through swapping government bond borrowing with foreign currency.

### Swaps in foreign currency borrowing

Part of the foreign currency funding will be achieved by swapping kronor for exposure in foreign currency; see the box on page 17 for details of how this will take place.

To maintain the target for the share in foreign currency of 15 per cent, we need to carry out cross currency swaps for SEK 20 billion during 2012 and 2013, respectively. This is an increase compared to the last forecast. During 2014 we will need to carry out currency swaps for SEK 15 billion.

### Central government debt increases slightly

Table 6 illustrates how the net borrowing requirement is financed through different instruments. Even though government bond borrowing will increase in 2012, the issue volume will still be smaller than the volume maturing. Net borrowing will consequently be negative. In 2013, on the other hand, net financing will be positive as redemptions are small.

TABLE 6 NET FUNDING PER CALENDAR YEAR

SEK billion	2011	2012	2013	2014
Net borrowing requirement	-68	28	55	56
Business day adjustment <sup>1</sup>	11	6	-6	-8
<b>Net funding requirement</b>	<b>-56</b>	<b>34</b>	<b>49</b>	<b>48</b>
<b>Retail funding &amp; collateral<sup>2</sup></b>	<b>9</b>	<b>10</b>	<b>-6</b>	<b>-7</b>
<b>Net money market funding</b>	<b>-18</b>	<b>47</b>	<b>-36</b>	<b>71</b>
T-bills	-13	28	5	30
Commercial paper	-12	5	-38	30
Liquidity management	6	13	-3	11
<b>Net bond market funding</b>	<b>-47</b>	<b>-23</b>	<b>92</b>	<b>-16</b>
Government bonds	-9	-6	64	3
Inflation-linked bonds	1	-16	8	-3
Foreign currency bonds	-39	-2	20	-16
<b>Total net funding</b>	<b>-56</b>	<b>34</b>	<b>49</b>	<b>48</b>

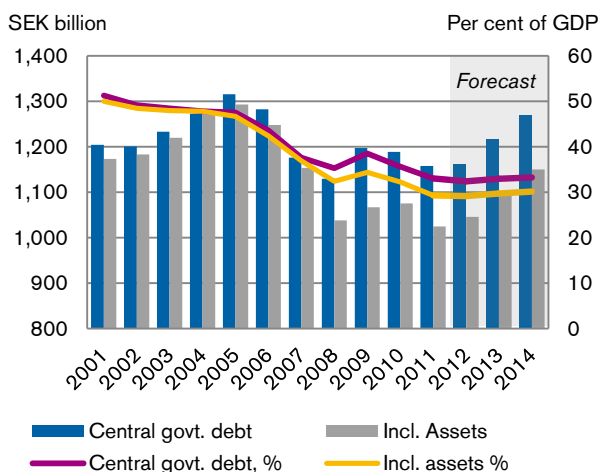
<sup>1</sup> Adjustment for the difference between settlement day and business day. The net borrowing requirement is cash flow-based (settlement day) as opposed to funding and outstanding debt.

<sup>2</sup> Net change in retail borrowing and collateral

T-bills will contribute to net financing but net borrowing in inflation-linked bonds will be negative since the shortest inflation-linked bond matures in 2012.

By the end of 2012 we expect central government debt to amount to SEK 1 163 billion or 32.4 per cent of GDP. The debt increases somewhat in 2013 and 2104. Table 7 accounts for how the central government debt is calculated from the borrowing. The change in the debt not only depends on the net borrowing requirement but also on 'debt adjustments'.

FIGURE 6 CENTRAL GOVERNMENT DEBT DEVELOPMENT



The debt adjustments refer to discrepancies between business and payment days, accrued inflation compensation and exchange rate effects. As the central government debt only accounts for gross debt the money market assets are added.

We also account for the central government debt including on-lending and money market assets. Here, not only assets in debt management but also other financial assets, such as on-lending to the Riksbank and foreign states, are included.

Using this measure the debt will, at the end of 2012, be SEK 1 046 billion or 29.2 per cent of GDP. By 2014, the debt will have increased somewhat in terms of per cent of GDP to 30.1 per cent.

This measure is used in the steering of debt management in accordance with our guidelines determined by the government and in our internal risk management. On-lending is an asset for the central government, but not in the same way as assets in the money market available to cover government expenditure.

On-lending to foreign states and the Riksbank is expected to comprise SEK 94 billion at the end of 2014 based on the current krona exchange rate.

TABLE 7 NET BORROWING AND CENTRAL GOVERNMENT DEBT

SEK billion	2007	2008	2009	2010	2011	2012	2013	2014
Net borrowing requirement	-103	-135	176	1	-68	28	55	56
Business day adjustment <sup>1</sup>	-3	-20	-20	25	11	6	-6	-8
<b>Net funding requirement</b>	<b>-106</b>	<b>-155</b>	<b>156</b>	<b>26</b>	<b>-56</b>	<b>34</b>	<b>49</b>	<b>48</b>
<b>Retail funding &amp; collateral <sup>2</sup></b>	<b>-7</b>	<b>19</b>	<b>-4</b>	<b>-2</b>	<b>9</b>	<b>10</b>	<b>-6</b>	<b>-7</b>
<b>Net money market funding</b>	<b>-40</b>	<b>-133</b>	<b>98</b>	<b>-32</b>	<b>-18</b>	<b>47</b>	<b>-36</b>	<b>71</b>
T-bills	-84	-32	-24	-30	-13	28	5	30
Commercial paper	16	-10	20	29	-12	5	-38	30
Liquidity management	28	-91	102	-31	6	13	-3	11
<b>Net bond market funding</b>	<b>-58</b>	<b>-40</b>	<b>62</b>	<b>59</b>	<b>-47</b>	<b>-23</b>	<b>92</b>	<b>-16</b>
Government bonds	-39	-3	-4	53	-9	-6	64	3
Inflation-linked bonds	-5	-14	-4	11	1	-16	8	-3
Foreign currency bonds	-14	-24	70	-4	-39	-2	20	-16
<b>Total net funding</b>	<b>-106</b>	<b>-155</b>	<b>156</b>	<b>26</b>	<b>-56</b>	<b>34</b>	<b>49</b>	<b>48</b>

<sup>1</sup> Adjustment for the difference between settlement day and business day. The net borrowing requirement is cashflow-based (settlement day) as opposed to funding and outstanding debt.

<sup>2</sup> Net change in retail borrowing and collateral

## 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 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 decisions.

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

## SWAPS

We can create short interest rate exposure by issuing bonds and then using interest rate swaps to shorten the interest rate re-fixing 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 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 for 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.

## 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 or December). We introduce a new three-month bill in the other months.

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

Normally, we borrow the whole issued amount in the new T-bill that we introduce in the auction. Allocation between T-bills is governed by the borrowing 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.

## 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 borrowing and krona/swap borrowing depends on the interest rate terms we obtain.

Foreign currency borrowing 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 converted into 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 convert 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 a floating rate 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.

Thus borrowing through currency swaps entails the same currency exposure as if we had issued a bond directly in foreign currency.

# Market information

## OUTSTANDING GOVERNMENT BONDS, 30 SEP 2012

Maturity date	Coupon %	Loan no.	SEK Million
08-okt-12	5.50	1046	63 724
30-aug-13	1.50	1055	9 500
05-maj-14	6.75	1041	82 750
12-aug-15	4.50	1049	60 490
12-jul-16	3.00	1050	47 989
12-aug-17	3.75	1051	58 526
12-mar-19	4.25	1052	65 807
01-dec-20	5.00	1047	56 326
01-jun-22	3.50	1054	85 648
01-jun-32	2.25	1056	11 000
30-mar-39	3.50	1053	42 250
<b>Total government bonds</b>			<b>584 010</b>

## OUTSTANDING T-BILLS, 30 SEP 2012

Maturity date	SEK Million
17-okt-12	10 404
21-nov-12	22 995
19-dec-12	25 000
20-mar-13	15 000
<b>Total T-bills</b>	<b>73 399</b>

## RATING

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

## OUTSTANDING INFLATION-LINKED BONDS, 30 SEP 2012

Maturity date	Coupon %	Loan no.	SEK Million
01-apr-14	0.00	3001	5 837
01-dec-15	3.50	3105	59 653
01-jun-17	0.50	3107	22 654
01-dec-20	4.00	3102	38 288
01-jun-22	0.25	3108	14 803
01-dec-28	3.50	3104	52 527
<b>Total Inflation-linked bonds</b>			<b>193 762</b>

## GOVERNMENT BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
24-okt-12	31-okt-12	05-nov-12
07-nov-12	14-nov-12	19-nov-12
21-nov-12	28-nov-12	03-dec-12
22-nov-12	29-nov-12*	04-dec-12
05-dec-12	12-dec-12	17-dec-12
02-jan-13	09-jan-13	14-jan-13
16-jan-13	23-jan-13	28-jan-13
30-jan-13	06-feb-13	11-feb-13
13-feb-13	20-feb-13	25-feb-13
27-feb-13	06-mar-13	11-mar-13
28-feb-13	07-mar-13*	12-mar-13
01-mar-13	08-mar-13*	13-mar-13
13-mar-13	20-mar-13	25-mar-13
27-mar-13	03-apr-13	08-apr-13
10-apr-13	17-apr-13	22-apr-13
25-apr-13	02-maj-13	07-maj-13
08-maj-13	15-maj-13	20-maj-13
22-maj-13	29-maj-13	03-jun-13
05-jun-13	12-jun-13	17-jun-13

\*Exchange auction

## T-BILLS, AUCTION DATES

Announcement date	Auction date	Settlement date
17-okt-12	24-okt-12	26-okt-12
31-okt-12	07-nov-12	09-nov-12
14-nov-12	21-nov-12	23-nov-12
28-nov-12	05-dec-12	07-dec-12
12-dec-12	19-dec-12	21-dec-12
21-dec-12	02-jan-13	04-jan-13
09-jan-13	16-jan-13	18-jan-13
23-jan-13	30-jan-13	01-feb-13
06-feb-13	13-feb-13	15-feb-13
20-feb-13	27-feb-13	01-mar-13
06-mar-13	13-mar-13	15-mar-13
20-mar-13	27-mar-13	02-apr-13
03-apr-13	10-apr-13	12-apr-13
17-apr-13	24-apr-13	26-apr-13
30-apr-13	07-maj-13	10-maj-13
15-maj-13	22-maj-13	24-maj-13
28-maj-13	04-jun-13	07-jun-13
12-jun-13	19-jun-13	24-jun-13
26-jun-13	03-jul-13	05-jul-13

## INFLATION-LINKED BONDS, AUCTION DATES

Announcement date	Auction date	Settlement date
18-okt-12	25-okt-12	30-okt-12
01-nov-12	08-nov-12	13-nov-12
15-nov-12	22-nov-12	27-nov-12
24-jan-13	31-jan-13	05-feb-13
07-feb-13	14-feb-13	19-feb-13
07-mar-13	14-mar-13	19-mar-13
04-apr-13	11-apr-13	16-apr-13
18-apr-13	25-apr-13	30-apr-13
16-maj-13	23-maj-13	28-maj-13

Primary dealers	Nominal government bonds	Inflation-linked government bonds	T-bills	Telephone	Reuter page
Nykredit Markets	●	●	●	+46 8 557 674 00	NYKR
Royal Bank of Scotland	●	●	●	+46 8 506 198 76	
Barclays	●			+44 207 773 8275	
Danske Markets	●	●	●	+46 8 568 808 44	PMCO
Nordea Markets	●	●	●	+45 33 3317 58 / +46 8 614 86 55	PMUB
SEB	●	●	●	+46 8 506 231 51	PMSE
Handelsbanken Markets	●	●	●	+46 8 463 46 50	PMHD
Swedbank	●	●	●	+46 8 700 99 00	PMBF

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

*Next Report:*  
2013:1

20 February 2012

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