RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Central Government Borrowing

Forecast and analysis 2014:2

In *Central Government Borrowing - forecast and analysis 2014:2* the Debt Office presents forecasts for central government finances and borrowing in 2014 up until 2015. An assessment of the economic development is given in the first section. The following section presents annual and monthly forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for borrowing, which is discussed in the last section of the report.

Hans Lindblad
Director General

The Debt Office's mission

The Debt Office is the Swedish government's financial manager. The 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, the Debt Office presents forecasts for central government finances in the coming two years. On the basis of these forecasts, the Debt Office estimates how much the government needs to borrow and sets up a plan for borrowing which is also included in the report.

On the fifth working day of each month, the central government budget balance (the net of all incoming and outgoing payments) is published for the previous month in a press release. The outcome is compared with the forecast from *Central Government Borrowing - forecast and analysis* and any deviations are explained. In connection with the monthly outcome, the Debt Office also presents the debt development in the report *Sweden's Central Government Debt*.

Summary

- The Debt Office expects Sweden's GDP to grow by 2.7 per cent in 2014 and 3.0 per cent in 2015. This is an increase of 0.1 percentage points in 2014 and 0.3 percentage points in 2015 compared with the previous forecast. Growth will mainly be driven by consumption and investment.

- The net borrowing requirement is estimated at SEK 61 billion this year. This is SEK 6 billion lower than in the previous forecast. The revision is mainly due to higher tax income.

- Next year the net borrowing requirement will decrease to SEK 11 billion. This is SEK 6 billion lower than in the previous forecast. Tax income increases at a faster rate between the years as the economy gains strength, at the same time as expenditure grows at a moderate pace.

- Central government net lending is expected to be -1.4 per cent of GDP in 2014. Next year net lending will improve to -0.3 per cent of GDP.

- At the end of 2014 and 2015 the central government debt is estimated to be SEK 1 365 and 1 372 billion respectively. This corresponds to a GDP share of 36 per cent in 2014. In 2015 the share decreases to SEK 35 per cent.

- Borrowing in government bonds is unchanged at SEK 77 billion per year in 2014 and 2015. The volume per auction remains SEK 3.5 billion. The Debt Office is planning to offer exchanges to the coming five-year reference loan SGB 1047 in November this year.

- At present there are no plans to replace the 25-year government bond with a new bond with longer maturity.

- Borrowing in inflation-linked bonds is unchanged compared with the previous forecast.

- The Debt Office will increase borrowing in foreign currency bonds in 2014 and 2015 compared with the previous forecast. The reason is that the Riksbank has chosen to replace commercial paper with bonds to some extent.

- Borrowing in T bills decreases in 2014 compared with the February forecast. Instead borrowing in commercial paper increases by the corresponding volume.

Continued global recovery

The recovery in the world economy is continuing. As a result of stronger international growth, the Swedish economy is also expected to grow more rapidly than in the past two years. The Debt Office expects GDP growth of 2.7 per cent in 2014 and 3.0 per cent in 2015.

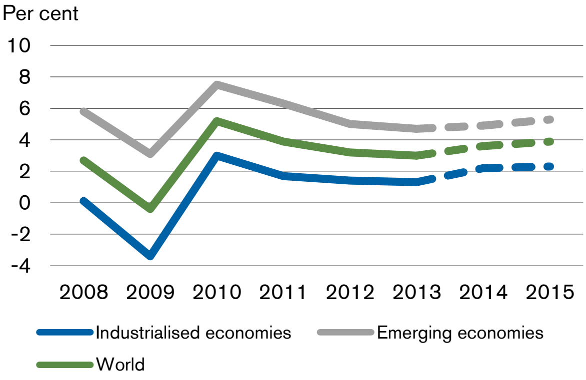
Increased global growth

The global economy is growing roughly as expected. The IMF expects global GDP growth to be 3.6 per cent this year and 4.0 per cent next year. This is an increase from 3.0 per cent in 2013 and is in line with the historical average.

The industrialised economies are expected to increase their growth from previous low levels, while the growth expected in developing economies will decrease slightly.

In the industrialised countries there are good prospects of a relatively broad cyclical recovery, and this can take place without increased price pressure as there is a great deal of free capacity. At the same time emerging economies are grappling with external imbalances. Their credit markets are strained, and uncertainty about economic policy is creating risks of capital outflows and falling exchange rates.

Figure 1 Global GDP growth



Source: IMF

The US economy is accelerating

The US economy has come furthest in the recovery and the prospects for continued relatively stable economic growth are good. One explanation is that the severe fiscal tightening last year is over and that the associated political uncertainty is therefore lower. The IMF expects growth to be 2.8 per cent this year and to reach 3.0 per cent in 2015.

After a temporary slowdown in the first quarter caused by the unusually severe winter, recent economic statistics have pointed to a continued recovery.

The US central bank (the Fed) considers that there is free capacity in the economy, which means, along with a relatively weak labour market, that the recovery can take place without rising price pressure. The recovery is sufficiently strong to enable the Fed to gradually reduce its asset purchase programme, but still so fragile that a very expansive monetary policy will need to be pursued for longer than normal.

Positive growth in the euro zone

In the euro zone growth is expected to be weakly positive this year. The IMF has adjusted its forecast upwards to 1.2 per cent for 2014 and 1.5 per cent for 2015. In relative terms the economic recovery is stronger in the northern part of the euro zone, where Germany is growing most and is expected to reach growth of 1.7 per cent this year. Germany is benefiting from an expansive monetary policy, improved economic confidence, high productivity and relatively high employment. Southern Europe is expected to show growth again, even thought the assessment is that it will come no further than a very moderate 0.5 per cent.

Even though many of the problems in the most indebted countries remain, there are signs of a cautious recovery. Unemployment has stopped rising and has begun to fall in some countries while economic confidence in the future is increasing. Some of these countries are now showing primary surpluses in their public finances. However, continued savings programmes, slow expansion of credit and remaining problems in the banking sector are hampering growth.

The European Central Bank (ECB) notes that the economy is growing now and that the channels of monetary policy are functioning better.

At the same time inflation is very low. This is due not only to effects of the consolidation after the economic crisis such as very low wage pressure, but also to the strong currency. If the exchange rate this spring persists, the ECB risks not even being able to reach its inflation target of just under 2 per cent in the medium term.

The expectations built up during the spring that the ECB would introduce measures to ease monetary policy were realised at the beginning of June. The key interest rate was reduced and the deposit rate was made negative. The programme of long loans to banks has been extended to 2018. However, conditions will be attached to the new loans. The purpose is to get lending to companies moving.

Despite attracting great attention, the unrest in Ukraine this spring has had a limited impact on global financial markets.

Growth in developing countries but credit markets under strain

Overall, growth in the developing countries appears to be stabilising and the IMF forecasts real growth of 4.9 per cent that is expected to rise to 5.3 per cent in 2015. The prospects vary from country to country, but in general the development of export growth has been positive while domestic credit markets remain under strain.

China faces the challenge of reducing its credit expansion while avoiding a clear slowdown of its economy. The IMF's assessment is that growth will be 7.5 per cent in the next few years and that in the medium term China will succeed in implementing economic reforms that will make continued sustainable growth at these levels possible.

Risks in the economic recovery

Even though, up to now, developments in Ukraine have had a moderate impact on financial markets, an escalation of the conflict is a risk factor. Deflation risks and deeper stagnation than estimated in the euro zone may also have a negative impact on economic developments for a long time to come.

In the US the risks of setbacks in the economic recovery have decreased. The risks are more balanced and it is not unlikely that price pressure will arise earlier than expected if the labour market continues to improve at the same rate as in the past six months.

The Swedish economy

The Debt Office expects Sweden's GDP to grow by 2.7 per cent in 2014 and 3.0 per cent in 2015. This is an increase of 0.1 percentage points in 2014 and 0.3 percentage points in 2015 compared with the previous forecast. The increase is mainly due to higher consumption and investment.

An increase in international demand will benefit the Swedish economy. The situation for important countries for Swedish exports such as Germany, Norway, the UK and the US has continued to improve. But it is the domestic economy with private consumption and investments that will be the motor of the Swedish economy in the forecast period.

Overall, the outcome for the national accounts for the first quarter of the year was roughly in line with the Debt Office's expectations. In contrast, investments increased more than expected and drove growth along with private consumption. But strong domestic demand means that imports grow faster than exports. As a result net exports made a weakly negative contribution to GDP growth.

Table 1 National accounts, constant prices[1]

Percentage change	2013	2014	2015
Household consumption	2.0	2.8	2.6
General government consumption	2.0	1.1	1.0
Gross fixed capital formation	-0.6	5.5	6.5
Changes in inventories incl valuables [1]	0.1	0.1	0.1
Exports	-0.4	4.0	5.0
Imports	-0.8	4.7	5.5
Net exports	0.2	-0.1	0.1
GDP	1.6	2.7	3.0
GDP calendar adjusted	1.6	2.8	2.7

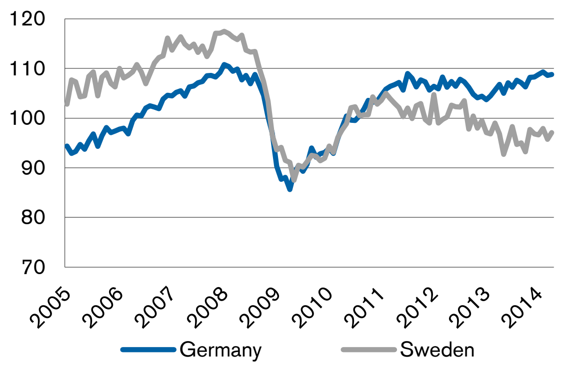
[1] *Actual change compared with previous year*

Consumption is continuing to contribute to relatively strong economic growth for Sweden. The Debt Office expects households to further increase the pace of their consumption this year. Moreover, investments will contribute more than in recent years. Exports will also rise more after a couple of weak years. However, imports will also increase, which means that the contribution of net exports to growth is expected to be low.

The NIER's Economic Tendency Survey shows that the confidence indicator for total industry is above the historical average in all sectors except for manufacturing. The retail sector is performing particularly strongly and reports sharp sales growth. However, household expectations are roughly in line with the historical average. They may have been affected negatively during the spring by the Ukraine crisis and perhaps also by the debate about amortisation requirements and the development of house prices. Despite this, the strong retail growth indicates that household optimism has increased.

The development of the industrial production index has been patchy during the year, indicating that the recovery of the industrial sector is still progressing slowly. After a recovery from the financial crisis, industrial production has even fallen slightly in recent years. It has also decreased compared with Germany whose positive development has continued, see figure 2. On the other hand, the production of services has developed strongly recently and this positive trend is expected to continue.

Figure 2 Industrial production in Sweden and Germany



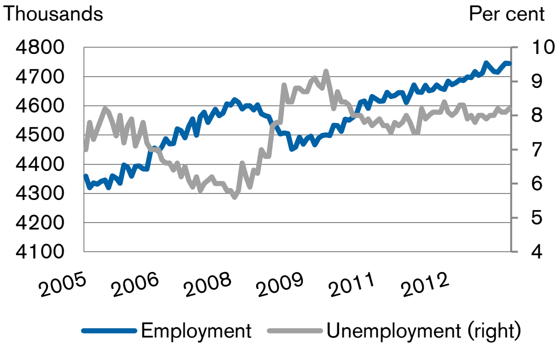
Source: Datastream

The most recent Export Managers' Index showed the highest level since 2011. It is mainly current indicators that have become stronger while future expectations remain at positive levels. Businesses report improvements of sales and of order bookings and profitability.

Labour market

According to the Labour Force Surveys the number of people in employment has continued to rise in the initial part of 2014. At the same time, unemployment has been slightly higher than most analysts expected. According to the 'flow statistics' in the Surveys the increase in unemployment is explained to a high degree by an inflow of people who were previously outside the labour force. A higher supply of labour strengthens the long-term production capacity of the economy.

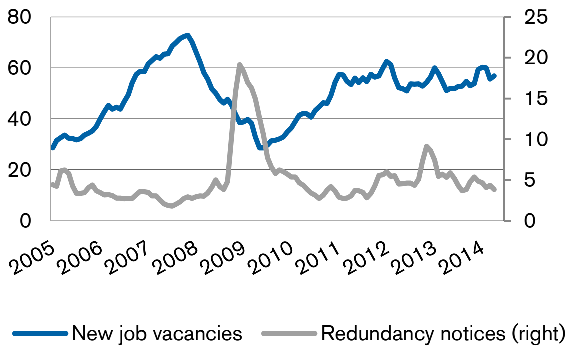
Figure 3 Employment and unemployment, the Labour Force Surveys



Source: Statistics Sweden

Forward indicators point to a strengthening of the labour market in the future as growth picks up. The number of new job vacancies reported is at a high level and redundancy notices have also fallen back after an upturn at the end of 2012, see figure 4. According to the NIER's Business Tendency Survey businesses are also relatively optimistic in their hiring plans even though there has been something of a decline in recent months.

Figure 4 Redundancy notices and new job vacancies reported, thousands (seasonally adjusted)



Source: Datastream

The Debt Office's forecast is that employment will rise by about 1 per cent per year this year and next year. At the same time, unemployment is expected to fall slightly, but the decline will be relatively slow given that the labour force will also continue to grow. Wage sum, which is one of the most important tax bases, is assessed to increase by about 4 per cent this year.

Table 2 Key ratios for the labour market

Percentage change	2013	2014	2015
Labour force	1.1	0.9	0.6
Employment	1.0	1.1	1.1
Unemployment [1]	8.0	7.9	7.4
Average hours worked	-0.6	0.1	0.1
Hours worked	0.4	1.2	1.2
Hourly wages	2.4	2.7	3.0
Wage sum	2.8	3.9	4.2
Productivity	1.3	1.6	1.5

[1] 15-74 years, per cent of labour force

Consumption

Household consumption is expected to rise by 2.8 per cent this year and 2.6 per cent next year. This is an increase of 0.3 percentage points this year, but is 0.1 percentage points lower for 2015 than in the previous forecast.

In the first quarter of this year consumption grew by 2.1 per cent. The Debt Office expects the increase to be slightly higher in the rest of the year. This is due in part to strong statistics from the retail sector and Statistics Sweden's consumption indicator in recent months. Another reason is that the comparative figures are affected by the fact that Easter was in the first quarter last year while it was in the second quarter this year. In addition, income from value added tax has been slightly higher than the Debt Office expected in the spring, which also indicates higher consumption, see also the section on the net borrowing requirement.

Households' finances have been strengthened by wage increases, tax reductions, low interest rates and low inflation. Moreover, their total asset position is very good after prices rises for homes and financial assets. At the same time, savings have been at high levels. Consumption is mainly affected by households' expectations of the future in the short term and by the development of incomes in the long term.

One part of the explanation for the high savings levels may be that the willingness to consume is different for different households. The households that have had the highest income improvements, from both employment and capital, already have a high level of consumption. This means that part of their rise in income goes to savings.

Disposable income and savings

Households' disposable incomes will rise at a good rate in 2014 and 2015. Real disposable income is estimated to rise by 2.6 per cent this year and 2.2 per cent next year. The savings ratio will fall gradually between 2013 and 2015 as household confidence is expected to become stronger.

Table 3 Disposable income and savings ratio

	2013	2014	2015
Real disposable income[1]	2.6	2.6	2.2
Savings ratio (excl. occupational pension)	6.1	5.3	4.9
Savings ratio	12.3	11.4	11.0
Nominal disposable income[1]	3.3	3.5	3.6

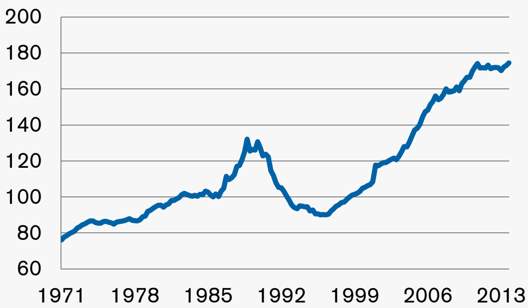
[1] Yearly percentage change

The payroll is expected to rise by 3.9 per cent in 2014 and 4.2 per cent in 2015. Households' disposable income is also strengthened by the tax reductions adopted by the Riksdag (Swedish Parliament) for 2014. In contrast, transfers from the public sector will grow slowly this year, partly because national retirement pensions are being written down by 2.7 per cent since the 'brake' in the pension systems comes into operation.

Household indebtedness and financial stability

Household indebtedness is often discussed in the debate on financial stability. In the past 20 years the debts of Swedish households have increased as a share of disposable income from just less than 100 per cent to about 175 per cent, see the figure below. Households' debts mainly consist of mortgage loans. Much of the sharp increase in indebtedness can be explained by noting that more households own their homes today than 20 years ago. High demand for housing, low interest rates and lower taxation of housing are other factors that have contributed to higher indebtedness.

Indebtedness, % of disposable income



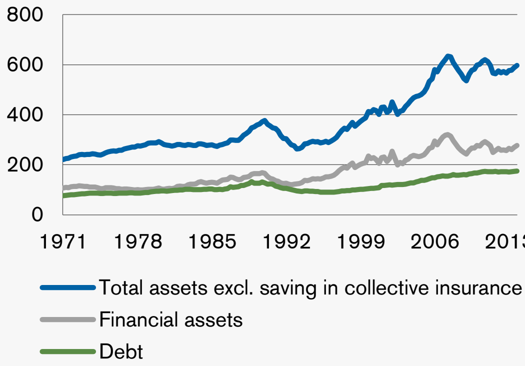
Sources: Statistics Sweden and Riksbanken

High indebtedness among households can entail a risk to financial stability in two ways. First, banks may suffer considerable loan losses if households end up at a situation where they are unable to pay their loans at the same time as the value of their home is falling. Historically, however, the value of loan losses linked to bank lending to housing has been small in Sweden. Second, high indebtedness means that households are more sensitive to income losses, high interest rates and falls in housing prices. If their debt is seen as too high in relation to their income or assets, households can choose to save and amortise more and to consume less.

If this reduction of consumption is sufficiently large and sustained, it may contribute to weaker macroeconomic development. This may, in turn, also entail a threat to the financial stability of the banks. The risk that household indebtedness may lead to such a development must be assessed both in the light of an overall analysis of households' finances and against the background of the action taken in recent years in order to counter risks linked to high indebtedness among households.

An analysis of households' finances must, alongside households' debts, also take account of the development of households' assets. At the same time as their debt ratio has increased households' assets have also risen strongly, see the figure below. Their assets have grown more than their debts and the net wealth of households (assets–liabilities) is about four times as large as disposable income. The figure also shows that households' financial assets amount to about 260 per cent of disposable income, which is considerably more than households' debts.

Assets and liabilities, % of disposable income

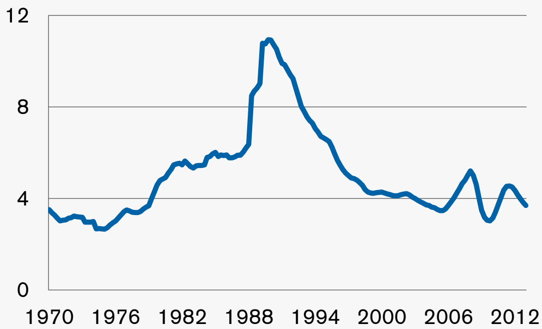


Sources: Statistics Sweden and Riksbanken

In addition, the analysis must take account of what margins households have in their private finances and what ability they have to withstand interest rate increases and other stresses. Finansinspektionen *(the Swedish Financial Supervisory* Authority*)* follows continuously how banks make their assessments of borrowers. These audits show that households with new mortgages generally have good margins in their finances and therefore good ability to pay. Not borrowing for ongoing consumption is of way for households to make sure of having good margins in their finances. It is therefore important to aim for a good amortisation culture and for savings and amortisation that correspond at least to wear and tear on the home.

The figure below shows households' interest costs as a share of disposable income. This ratio has been low and relatively constant for a long period of time, The fact that it has not increased despite growing debt is attributable to lower levels of interest rates. Interest rates are low today. If and when interest rates rise in the future, the higher indebtedness will lead to an increase in households' interest costs. It is therefore important that households have good margins in their finances.

Interest costs, percentage of disposable income



Sources: Statistics Sweden and Riksbanken

In recent years a number of measures have been taken to counter the rising indebtedness and reduce the vulnerability of households, Finansinspektionen introduced a mortgage cap in 2010. The risk weighting of mortgages was increased in 2013 and will, according to a proposal from Finansinspektionen be further increased in autumn 2014. Moreover, in dialogue with Finansinspektionen the Swedish Bankers' Association has presented recommendations for higher amortisation of mortgages for highly indebted households.

As a result of these measures the average loan-to-value ratio of new loans has been stabilised, after previously having had a rising trend, and the share of new loans with a high average debt ratio has decreased and more households are amortising their loans. It is likely that the full effect of the measures has not yet been seen, especially not the higher capital requirements.

All in all, the Debt Office considers that at present there is no reason to take additional measures intended to limit households' indebtedness. Instead, the focus should be placed on carefully evaluating and analysing the effects of the action taken so far. In this context the effects on macroeconomic developments and public finances must also be taken into account.

At the same time it is not possible to rule out future needs of further action to handle any risks associated with households' indebtedness. However it is important that such measures are based on an overall assessment of the situation of households. In other words, it must include an analysis of households' debt and assets and also of their financial margins.

Net borrowing requirement decreases

The Debt Office expects a net borrowing requirement of SEK 61 billion for 2014. This is SEK 6 billion lower than in the forecast from February. An improvement of the economy will lead to a decrease in the net borrowing requirement to SEK 11 billion in 2015. Compared with the previous forecast this is a reduction of SEK 6 billion.

The Debt Office expects the net borrowing requirement, which corresponds to the budget balance but has the opposite sign, to be SEK 61 billion this year. This is SEK 6 billion lower than in the previous forecast. The revision is mainly due to higher tax income. Tax income has been higher than expected in the spring and the Debt Office expects this trend to continue for the rest of the year. The increase is driven by a slightly stronger economy.

The Debt Office's forecast for 2015 is a net borrowing requirement of SEK 11 billion. This is SEK 6 billion lower than in the previous forecast. Tax income increases at a faster rate between years when the economy strengthens at the same time as expenditure grows at a moderate pace.

The Debt Office has assumed that no new un-financed reforms or sales of state assets will be carried out during the forecast period.

Table 4 Central government net borrowing requirement

SEK billion	2013	2014	2015
Primary borrowing requirement	**115**	**57**	**-8**
of which net lending to agencies excl. on-lending	12	15	2
of which net lendning, on-lending	106	2	1
of which net lendning, sales to Stability fund[1]	-21	0	0
of which sales of state assets	-21	0	0
of which other primary borrowing	39	39	-10
Interest payments on central government debt	**16**	**4**	**19**
Net borrowing requirement	**131**	**61**	**11**

[1] The total sale income from Nordea in 2013 was SEK 41 billion, of which 52 per cent, corresponding to SEK 21 billion, goes to the Stability Fund. In addition the state sold Vectura for SEK 1 billion.

The central government debt is expected to be SEK 1 365 billion and 1 372 billion at the end of 2014 and 2015 respectively. This represents 36 and 35 per cent of GDP respectively. The central government debt is presented in more detail in the section on borrowing.

Forecast changes in net borrowing requirement

The Debt Office calculates that tax revenue will increase by SEK 14 billion this year and SEK 13 billion next year compared with the previous forecast. Stronger growth of the payroll and consumption tax bases means that income from, for example, payroll taxes and value added tax will increase. As the economy recovers income from corporate taxes will also rise.

The net borrowing requirement also decreases because of a further downward revision of the forecast for interest payments on the central government debt since the February forecast.

The increased tax income and lower interest payments are countered to some extent by higher expenditure, including a higher EU contribution in 2014.

Table 5 Major forecast changes[1]

SEK billion	2014	2015
Forecast February 2014	**67**	**17**
Taxes	-14	-13
Labour market	0	0
Social insurance	0	1
Dividends	-2	1
Interest payments	-5	-3
Net lending excl. on-lending	2	1
On-lending	1	1
Other	12	5
Sum of changes	-6	-6
Forecast June 2014	**61**	**11**

[1] A minus sign 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.

Higher income from corporate tax

Compared with the previous forecast the assessment of profit growth in companies has been revised upwards. As a result government income from corporate tax increases by SEK 4 and 3 billion for 2014 and 2015 respectively.

The situation in the business sector has become slightly stronger since the previous forecast was made. The NIER's Economic Tendency Survey shows that all sectors, apart from manufacturing, are above their historical average. However, there are also positive signals for industry. For example, export order bookings have increased for the manufacturing industry as a whole in the past three months and most sectors have reported an increase. This is also supported by the most recent Export Managers' Index which showed its strongest level since 2011.

The reports from listed companies for the first three months show certain optimism and indicate that profits are going to rise compared with 2013.

Both domestic and international demand is growing slightly more strongly than in the assessment from February. Relatively low initial resource utilisation means that companies have the possibility to increase production without corresponding cost increases, which is advantageous to the development of profits.

In all, this means that the Debt Office is making a slight upward revision of profit growth for 2014. In 2015 a continued economic recovery will result in profits increasing slightly more quickly than the historical average.

Table 6 Assumptions for tax forecast, current prices

Percentage change	2013	2014	2015
Households consumption	2.7	3.6	3.9
Wage sum	2.8	3.9	4.2
Investment	-0.9	6.2	7.2
Exports	-3.1	4.3	5.0

Slightly higher payroll taxes

Income from payroll taxes will rise by SEK 4 billion in 2014 and SEK 3 billion in 2015, compared with the previous forecast. Payroll taxes have developed slightly more strongly than estimated in the spring. This is due to a slightly higher payroll in combination with the payment of a larger share of final tax as preliminary tax.

Payroll growth has been revised upwards from 3.8 to 3.9 per cent this year while it is unchanged at 4.2 per cent for next year.

Table 7 Tax income compared with previous forecast[1]

SEK billion	2014	2015
Payroll taxes	-4	-3
Consumption taxes	-3	-4
Corporate taxes	-4	-3
Supplementary taxes	-3	-2
Total	**-14**	**-13**

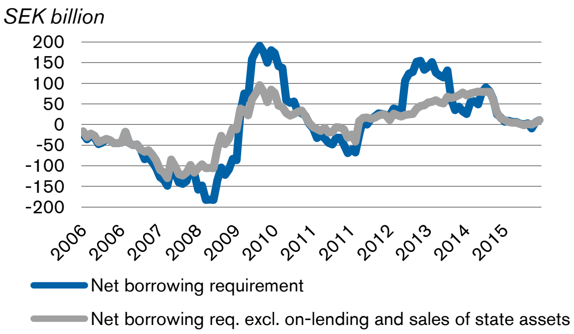
[1] Changes in terms of net borrowing requirement. A plus sign indicates a decrease in tax income and an increase in the net borrowing requirement.

Consumption taxes

Income from VAT has been revised upwards by just less than SEK 5 billion for both 2014 and 2015 compared with the previous forecast as a result of stronger growth of consumption. In addition, investment increased in the first quarter, which also had a positive impact on income from VAT.

In contrast, income from excise taxes has grown more weakly than expected, countering the increase in VAT. This is probably because the mild winter has resulted in lower income from energy taxes.

Figure 5 Net borrowing requirement, 12 month figures



Dividends on state-owned shares

This year state income from share dividends is expected to be SEK 12 billion. Compared with the previous forecast dividends increase by SEK 1 billion. This is explained by the extra dividend of SEK 1.1 billion paid by LKAB.

Dividend income is expected to total SEK 18 billion for 2015. The main reason for the increase on 2014 is that Vattenfall is once again expected to pay a dividend at a level corresponding to the average of the past few years.

Change between years, net borrowing requirement

The table shows how the net borrowing requirement changes between 2011 and 2015 and how different parts of the net borrowing requirement affect the change.

The net borrowing requirement decreases by SEK 70 billion between 2013 and 2014. The single most important explanation is that on-lending to the Riksbank is expected to be unchanged in principle in 2014 while it increased by SEK 104 billion in 2013. Tax income is expected to increase by SEK 27 billion between these years.

Sales of state assets amounted to SEK 42 billion in 2013 with SEK 21 billion of this going to the Stability Fund within the Debt Office's net lending. For 2014 it is assumed that no sales will take place and this contributes to an increase of SEK 42 billion in the borrowing requirement compared with 2013.

Between 2014 and 2015 the borrowing requirement decreases by SEK 50 billion. The improvement of the economy gradually has a greater impact on the net borrowing requirement, mainly through increased tax income. Tax income increases by SEK 58 billion compared with 2014. This is because the tax bases grow when the economy improves.

The Debt Office has assumed that no new unfinanced reforms or sales of state assets will be carried out during 2015.

SEK billion	2011	2012	2013	2014	2015
Net borrowing requirement, level	**-68**	**25**	**131**	**61**	**11**
Net borrowing requirement, change	-69	93	106	-70	-50
Explained by;					
Taxes	-65	48	14	-27	-58
Government grants to local governments	12	-3	4	5	0
Labour market	-2	2	5	3	-4
Social Insurance	-5	4	2	6	5
Sales of state-owned assets	-23	23	-21	21	0
Share dividends	-10	5	1	8	-6
EU contribution	-3	5	1	5	-2
Debt Office's net lending excl. on-lending	5	-11	-4	25	-14
On-lending	-1	9	101	-104	-1
Interest on government debt	11	-7	-11	-12	14
Other	10	19	15	1	15

Higher contribution to the EU

Sweden's contribution to the EU increases by SEK 3 billion compared with the previous forecast. The outcomes in the spring have been much higher than in the corresponding months last year. The explanation is that Sweden is temporarily paying a higher contribution pending a decision on Sweden's rebate for 2014–2020. The rebate obtained will probably be activated as of 2016 with retroactivity for 2014 and 2015.

Small changes in expenditure for the labour market and ill health

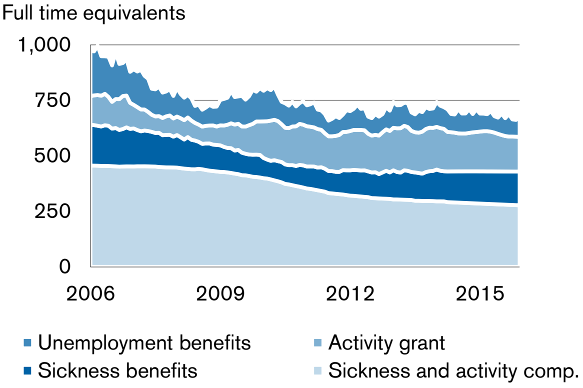
Compared with the February forecast expenditure for the labour market and ill health has only been revised marginally. Net social insurance expenditure is expected to be about SEK 1 billion higher next year. This is mainly explained by higher expenditure for sickness benefit and sickness and activity compensation.

Table 8 Volumes in transfer systems

Full-year equivalents	2013	2014	2015
Sickness benefit	129	141	149
Activity/Sickness compensation	313	304	295
Unemployment insurance	96	97	84
Activity support	192	178	168
Total	**730**	**720**	**695**

Between 2013 and 2015 expenditure for sickness benefit is expected to increase by almost 20 per cent. The increase is mainly explained by a high inflow of new cases, but there is also some increase in the duration of sickness cases. In sickness and activity compensation expenditure will continue to decrease during the forecast period.

Figure 6 Volumes, labour market and ill health



Source: Statistics Sweden and own calculations

Labour-market related expenditure is largely unchanged between 2013 and 2014 and is expected to fall slightly in 2015 when the economy strengthens. State income of around SEK 2 billion from the unemployment insurance fee disappears this year since the Riksdag has decided to abolish the fee as of 2014.

Net lending by the Debt Office

The Debt Office's net lending to government agencies, etc. is expected to amount to SEK 17 billion this year. This is an increase of SEK 3 billion compared with the February forecast. The increase is mainly due to increased lending to Swedish National Grid, a public enterprise, that is currently making major investments to strengthen the Swedish national grid. In addition, borrowing from the Swedish Pensions Agency decreases on account of slightly higher payments of inheritance gains and fund rebates.

Next year net lending is estimated at SEK 2 billion. This is an increase of SEK 2 billion compared with the previous forecast and is due, like this year, to increased lending to Swedish National Grid.

Interest on the central government debt

Interest payments are estimated at just over SEK 4 billion this year and SEK 19 billion next year. This is SEK 5 billion and 3 billion lower than in the previous forecast.

The main explanation for the downward revision of interest payments this year is higher premiums in connection with the issue of nominal government bonds. In the new issue plan the Debt Office expects to issue more of SGB 1047, which has a relatively high coupon rate.

At the same time the issue volumes in the ten-year government bond have been drawn down, see the section on borrowing.

The unusually low level of interest payments this year is due, in part, to an exchange gain on a EUR loan that matured in May and to premiums in connection with the issue of SGB 1047, which becomes the new five-year reference loan in December.

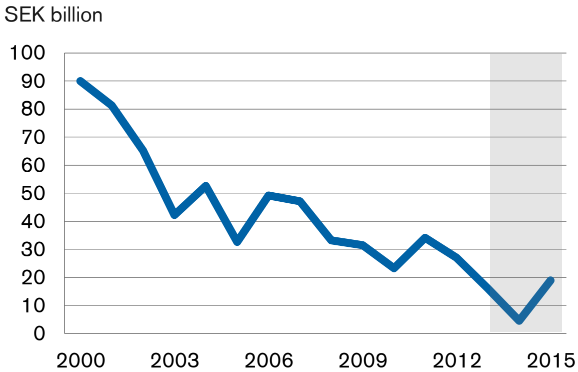
Table 9 Interest payments on the central government debt

SEK billion	2013	2014	2015
Interest on loans in SEK	25.2	10.9	18.7
Interest on loans in foreign currency	1.1	0.9	0.8
Realised currency gains and losses	-10.3	-7.3	-0.6
Interest payments	**16.0**	**4.4**	**18.8**

There is a relatively large increase in interest payments between 2014 and 2015. This is due both to lower expected exchange gains and sale premiums in 2015 and to a relatively large payment of inflation compensation when the inflation-linked bond SGB IL 3105 matures in December 2015.

Compared with the previous forecast interest payments for 2015 have been revised downwards by about SEK 3 billion. This is mainly due to lower capital losses in connection with exchanges because the introduction of a new ten-year inflation-linked bond has been moved to 2016 in the new issue plan. In addition, slightly higher sale premiums contribute to lower interest payments in 2015 compared with the previous forecast.

Figure 7 Interest payments on central government debt, current prices



The Debt Office uses cut-off rates in calculating interest payments and valuating the Riksbank's foreign currency loans. The cut-off date for this forecast is 30 May.

Table 10 Cut-off rates interest, per cent

Duration	3 mån	6 mån	2 år	5 år	10 år	30 år
Government bonds	0.6	0.5	0.5	1.1	1.9	2.8
Inflation-linked bonds	-0.5	-0.5	-0.5	-0.2	0.4	1.2
Swap interest rate SEK	0.9	0.8	0.9	1.5	2.2	
Swap interest rate EUR	0.3	0.4	0.4	0.8	1.6	2.5
Swap interest rate USD	0.2	0.2	0.5	1.6	2.7	

Table 11 Cut-off rates currency

Spotrates	2014-05-30
SEK/EUR	9.1
SEK/USD	6.7
SEK/CHF	7.5
SEK/JPY	0.1
SEK/GBP	11.2
SEK/CAD	6.1

Budget balance and central government net lending

The Debt Office estimates central government net lending at -1.4 per cent of GDP in 2014. For 2015 net lending will improve to -0.3 per cent of GDP.

Net lending decreases between 2013 and 2014 despite the improvement of the economy. This is due, in part, to tax reductions and accrual effects.

In 2015 net lending improves again, which is an effect of more rapid growth of tax income as the economy improves.

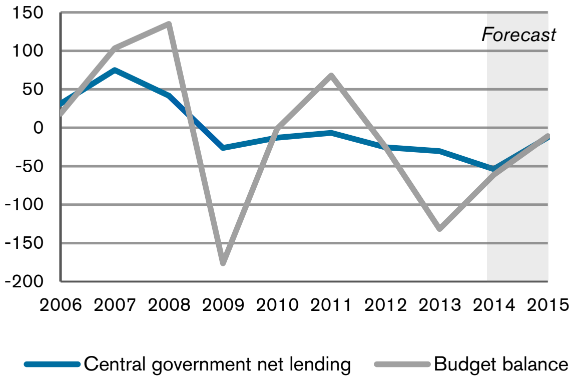
Table 12 Central government net lending

SEK billion	2011	2012	2013	2014	2015
Budget balance	**68**	**-25**	**-131**	**-61**	**-11**
Adjustment items	**-75**	**-7**	**101**	**7**	**-2**
Sale of limited companies	-23	0	-21	0	0
Parts of Debt Office's net lending	-5	8	97	7	6
Accruals etc.	-47	-15	24	0	-8
Central government net lending	**-7**	**-32**	**-30**	**-54**	**-13**
Per cent of GDP	**-0.2**	**-0.9**	**-0.8**	**-1.4**	**-0.3**

Net lending is a better indicator of the underlying central government finances than the net borrowing requirement and the budget balance. The budget balance is a cash flow measure that measures the state's incoming and outgoing payments. Net lending accrues payments to the point in time when the economic activity took place.

Figure 8 Central government net lending and the budget balance

SEK billion



Net lending is also adjusted for payments that do not affect the state's financial wealth. If, for example, the state sells financial assets such as shares this does not affect net lending. The state merely redistributes assets in its balance sheet, i.e. shares are exchanged for cash. However, when the payment is made, the budget balance is affected and the central government debt decreases. Amortising the central government debt does not affect the net asset position of the state either since the assets decrease just as much.

In the same way, net lending is not affected by lending to the Riksbank. This is because in its balance sheet the state receives an asset (a claim on the Riksbank) that corresponds to the increased indebtedness incurred in order to finance lending to the Riksbank. On the other hand, the budget balance and central government debt are affected.

Monthly forecasts of net borrowing requirement

The net borrowing requirement varies strongly between months. The following table presents monthly forecasts for 2014 and 2015.

Much of the variations between months is explained by the distribution of tax income, tax refunds, government agency repo transactions and on-lending by the Debt Office over the year. Some individual payments also impact on the monthly pattern, one example being the annual payment of premium pension rights.

The large net borrowing requirement in December is normal for that month and is explained by the Debt Office's net lending (including the payment of premium pension funds), excess tax and interest payments on the central government debt.

Table 13 Central government net borrowing requirement per month

	Primary borrowing requirement excl. net lending	Net lending	Interest on central government debt	Net borrowing requirement
Jun-14	37.1	-3.6	1.2	34.7
Jul-14	13.8	-3.6	1.8	12.0
Aug-14	-8.0	-3.0	3.5	-7.4
Sep-14	6.7	-2.7	-2.1	1.9
Oct-14	13.8	7.5	-3.3	18.0
Nov-14	-9.2	-12.9	0.2	-21.9
Dec-14	42.0	27.5	7.4	77.0
Jan-15	-6.0	-1.4	-2.6	-10.0
Feb-15	-46.5	-2.1	-1.6	-50.2
Mar-15	-7.7	-3.2	3.9	-7.0
Apr-15	-3.9	-2.4	-2.9	-9.1
May-15	-31.8	-0.2	0.4	-31.6

Sensitivity analysys

The Debt Office does not produce any overall sensitivity analysis for the net borrowing requirement. Instead a partial analysis of the effects that changes in certain key variables have is presented. The table shows an estimate of what different changes mean for net borrowing requirement on a one-year term.

SEK billion Increase by one per cent/ percentage point	Effect on net borrowing requirement
Gross wages [1]	-5
Household consumption in current prices	-3
Unemployment (ILO 15-74) [2]	3
Interes rate level in Sweden [3]	5
International interest rate level [3]	2

[1] Local government taxes on employment are paid to local authorities 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

[2] Includes effects on unemployment insurance benefits, the job and development guarantee programme and the job guarantee scheme for young people.

[3] This relates to an effect on interest payments on government debt.

Forecast comparisons

The various government agency estimates of the net borrowing requirement in 2014 vary between SEK 51 billion in the government's forecast and SEK 83 billion in the NIER forecast. The Government's slightly lower forecast is explained by the fact that the Government makes a standard assumption of SEK 15 billion in sales revenue. Adjusted for this the difference to the Debt Office's forecast is small. The main explanation for the difference between the Swedish Financial Management Authority's forecast and the Debt Office's forecast is that the Debt Office estimates higher tax income.

For 2015 all the forecasters assume that the economic recovery will lead to a reduction of the net borrowing requirement.

	Debt office (17 Jun)		Government (9 Apr)		NIER (26 Mar)		ESV (16 Jun)	
SEK billion	2014	2015	2014	2015	2014	2015	2014	2015
Net borrowing requirement	61	11	51	-1	83	23	79	44
of which:								
Sales of state assets	0	0	-15	-15	0	0	0	0
Fiscal easing	0	0	0	0	0	0	0	0
Adjusted net borrowing requirement	**61**	**11**	**66**	**14**	**83**	**23**	**79**	**44**

Government bond issuance unchanged

Borrowing in government bonds will remain at SEK 77 billion per year in both 2014 and 2015. The issue volume of inflation-linked bonds is also unchanged at SEK 17 billion this year and SEK 18 billion next year. Foreign currency borrowing on behalf of the state is also unchanged while borrowing in T-bills decreases slightly compared with the previous forecast.

Changes since the February forecast

Table 14 shows how planned borrowing has changed since February.

Table 14 Borrowing compared with the February forecast

SEK billion	2014 Jun	2014 (Feb)	2015 Jun	2015 (Feb)
Money market funding [1]	**253**	**(257)**	**259**	**(272)**
T-bills	110	(140)	150	(150)
Commercial paper	96	(77)	59	(77)
of which Central Government	89	(59)	59	(59)
of which on-lending to the Riksbank	7	(18)	0	(18)
Liquidity management	48	(40)	50	(46)
Bond funding	**177**	**(163)**	**174**	**(165)**
Government bonds	77	(77)	77	(77)
Inflation-linked bonds	17	(17)	18	(18)
Foreign currency bonds	83	(69)	79	(70)
of which Central Government	27	(26)	27	(26)
of which on-lending to the Riksbank	56	(43)	52	(44)
Total gross funding	**430**	**(420)**	**433**	**(438)**

[1] *Outstanding stock on 31 December.*

Borrowing in both government bonds and inflation-linked bonds is unchanged compared with the previous forecast. One piece of news is that the Debt Office is planning to offer exchanges to the coming five-year reference loan SGB 1047.

Borrowing in foreign currency bonds for on-lending is higher than in the February forecast. The reason is that the Riksbank has chosen to replace commercial paper to some extent with bonds.

In contrast, borrowing in T-bills is slightly lower than in the February forecast. There is a corresponding increase in borrowing in commercial paper.

At present there are no plans to replace the 25-year government bond with a new bond with longer maturity. On the basis of views from primary dealers and investors the Debt Office has made the assessment that the interest in such a loan is very limited.

Gross borrowing requirement

The deficit in the central government budget (the net borrowing requirement) will be marginally lower this year and next year than expected by the Debt Office in February, see the previous chapter. In addition to covering the deficit in the central government budget, the Debt Office needs to borrow to finance loans reaching maturity and buy-backs in exchanges. Table 15 displays the gross borrowing requirement.

Table 15 Gross borrowing requirement

SEK billion	2013	2014	2015
Net funding requirement	**131**	**61**	**11**
Business day adjustment [1]	**1**	**-1**	**-3**
Retail borrowing & collateral, net [2]	**18**	**13**	**17**
Money market redemptions [3]	**206**	**180**	**253**
T-bills	105	94	110
Commercial paper	77	39	96
Liquidity management	24	47	48
Bond redemptions	**39**	**167**	**151**
Government bonds	10	78	72
Inflation-linked bonds	0	3	25
Foreign currency bonds	30	86	54
Exchanges & buy-backs, net	**5**	**11**	**4**
Government bonds	1	11	3
Inflation-linked bonds	4	0	0
Foreign currency bonds	0	0	0
Total gross funding requirement [4]	**402**	**430**	**433**

[1] *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.*

[2] *Net change in retail borrowing and collateral*

[3] *Initial stock maturing within 12 months*

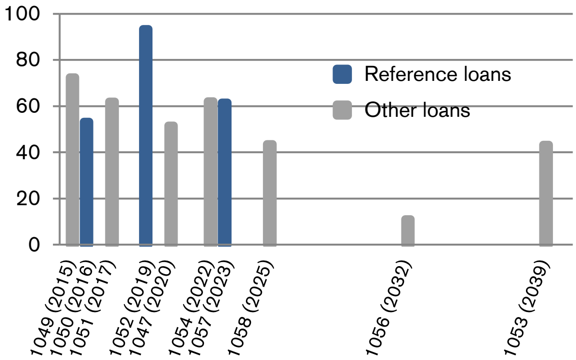
[4] *Refers to borrowing requirement in the institutional market*

The borrowing requirement in the institutional market is SEK 5 billion higher viewed over the forecast period than in the February forecast. This is partly because retail borrowing is lower. First, saving in accounts is expected to decrease more quickly than assumed in February and, second, there is a slight decrease in the stock of lottery bonds. The borrowing requirement also increases as a net effect of planned exchanges to SGB 1047.

In 2015 the possibility of having a savings account with the Debt Office will come to an end. The forecast assumes that retail borrowing will decrease by SEK 6 billion this year and SEK 12 billion next year. Retail borrowing will be replaced by borrowing in the institutional market.

Figure 9 Outstanding government bonds

Billion SEK, 30 May 2014



Unchanged volume of government bonds

Borrowing in government bonds is unchanged at SEK 77 billion per year in 2014 and 2015. The volume per auction will remain at SEK 3.5 billion.

The Debt Office will mainly borrow in the ten-year maturity but will also borrow in the five-year maturity. There will also be issues of two-year bonds. Since the borrowing requirement is quite large, there is not the same need as before to concentrate borrowing in the ten-year segment in order to build up the volume in new loans. This issue plan contains a few more issues in the five-year maturity and a few less issues in the ten-year maturity than the issue plan in February. The purpose is to increase the outstanding stock of SGB 1047 before the bond becomes a five-year reference bond in December.

SGB 1047 will become a five-year reference bond in the electronic interbank market in December 2014. In November the Debt Office will therefore offer exchanges to SGB 1047. More information will be presented in a press release in 10 September, see table 17 for important dates.

The Debt Office also plans to issue a new ten-year bond during the first half of next year.

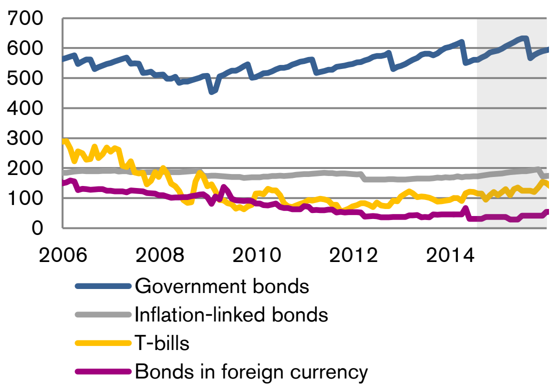
Table 16 Reference bonds in the electronic interbank market

Date of change (IMM date)[1]	2-year	5-year	10-year
Current reference bonds	1050	1052	1057
18 June 2014			1058
17 December 2014	1051	1047	

[1] *The reference loan in electronic trading is the bond that is closest to two, five or ten years in terms of maturity. Reference bonds are only changed on the IMM date provided the new bonds are the bonds 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 bond during the last three months of the contract. The date of change of reference bonds refers to the settlement date. The first trading day for a new reference bond is normally the Friday preceding an IMM date.*

Figure 10 Stock of government securities and foreign currency bonds[1]

Nominal amount, billion SEK



[1] *Foreign currency bonds excluding loans on behalf of the Riksbank*

Figure 10 shows how the stock of government bonds has changed since January 2006. The figure illustrates the Debt Office's policy of giving priority to issues of government bonds ahead of other borrowing so as to maintain a liquid government bond market. The stock has been between SEK 500 and 600 billion and is now at about the same level as at the beginning of the period. At the same time there has been a substantial decrease in borrowing in both T-bills and foreign currency bonds (over and above loans to the Riksbank).

Table 17 Important dates in 2014

Date	Time	Activity
10 Sep	09.30	Press release on exchanges to SGB 1047
6 Oct		Implementation of T+2 in the Swedish bond market
22 Oct	09.30	Preliminary: Central government borrowing - forecast and analysis 2014:2
13-14 Nov	11.00	Exchanges to SGB 1047 5.00% 1 Dec 2020

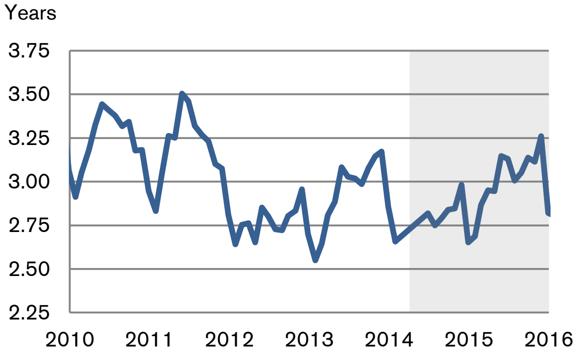
[1]Settlement two days after the trade date in trading in bonds instead of three days.

Insufficient demand for a new 30-year bond

The Debt Office has gathered requests and views from primary dealers and investors on the question of a new 30-year bond. The replies show that the demand for a new 30-year bond is very limited. This means that sufficient conditions are not in place to introduce such a bond.

As recently, sporadic issues may be made in the existing 25-year bond SGB 1053 as well as in the 18-year bond SGB 1056 when there is demand in the market.

Figure 11 The interest rate refixing period of the nominal SEK debt, maturities up to 12 years



Reduced borrowing in T-bills

Borrowing in T-bills is lower in 2014 than in the February forecast. The forecast means that the stock of T-bills will be SEK 109 billion on average in 2014 and just over SEK 130 billion in 2015.

The Debt Office adapts borrowing in T-bills to some extent to the variation between months in the state's borrowing requirement. In general the borrowing requirement is greatest in December. The decrease in 2014 is because the Debt Office is evening out borrowing compared with previous forecasts so as to facilitate the market in T bills. This means that the issue volumes at the end of the year will be lower than planned. Depending on conditions in the T-bill market a corresponding adjustment may also be made for 2015.

In December 2014 the Debt Office now expects a stock of SEK 110 billion, which is SEK 30 billion lower than in the previous forecast. At the end of 2015 the stock is expected to be SEK 150 billion, which is the same level as in the February forecast.

Treasury bill policy

Every third month, the Debt Office issues a new six-month bill, maturing on an IMM date (the third Wednesday in March, June, September or December). A new three-month bill is introduced 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, the whole issued amount is borrowed in the new T-bill that is introduced in the auction. The allocation between T-bills depends on the borrowing requirement.

If there is an issue of T-bills in the shortest maturities, it is normally done in the liquidity management, beside the auctions. The Debt Office issues T-bills with tailor-made maturities (liquidity bills) within the framework of the liquidity management.

Slightly larger commercial paper borrowing

Borrowing in commercial paper will be slightly larger in 2014 than was assumed by the Debt Office in February.[1] The reason is the lower borrowing in T bills. Over and above commercial paper on behalf of the Riksbank the outstanding volume is expected be SEK 89 billion at the end of 2014. In 2015 the stock will decrease to SEK 59 billion.

Borrowing in commercial paper on behalf of the Riksbank is lower than in the previous forecast and is replaced by bond borrowing, see table 14.

[1] Commercial paper is short securities under English law that the Debt Office issues in foreign currency.

Reduced volume of interest rate swaps

The volume of interest rate swaps from long to short interest rates is lower than in the previous forecast. This is because the maturity decreases as the Debt Office issues slightly more five-year bonds than in the previous forecast. However, the volume that is combined with basis swaps to provide foreign currency exposure is unchanged.

Table 18 Change of outstanding swaps

SEK billion	2013	2014	2015
Interest rate swaps [1]	11	20	20
Cross currency swaps [2]	18	10	5
Swaps total	**28**	**30**	**25**
Swaps maturing	29	25	28
Swaps, net change	**0**	**5**	**-3**

[1] Interest rate swaps from fixed to floating rate in SEK.

[2] Cross currency swaps from fixed SEK rate to floating rate in foreign currency.

The maturity of the swaps corresponds to the average maturity of the government bonds issued. The swaps are spread relatively evenly over the year but with commercial flexibility regarding both time and maturity. The Debt Office may deviate from the planned volume if the borrowing requirement changes during the year.

The outstanding stock of swaps increases in both 2014 and 2015, see table 14. The Debt Office does not normally close swaps previously entered into. The change in the stock is therefore due to the net of new and maturing swaps.

Borrowing in inflation-linked bonds unchanged

Borrowing in inflation-linked bonds is unchanged at SEK 17 billion this year. The borrowing in 2015 is expected to be SEK 18 billion. This is the same volume as in the previous forecast. The auction volume will remain at SEK 1 billion throughout the forecast period.

This year the Debt Office will mainly issue in the new ten-year inflation-linked bond SGB IL 3109. The plan also includes auctions in SGB IL 3107 and SGB IL 3108.

New ten-year inflation-linked bond postponed until 2016

The Debt Office expects to postpone the new ten-year inflation-linked bond announced to 2016 (in the previous report its introduction was planned in 2015). Its maturity will be close to the next ten-year bond. The reason for the postponement is to give the new ten-year government bond time to be introduced and build up a volume before the inflation-linked bond is introduced. A well-established comparable ten-year government bond ought to contribute to a smooth introduction of the ten-year inflation-linked bond.

Interest rate swaps

The Debt Office uses interest rate swaps to shorten the interest rate re-fixing period. This is done in the following way:

1. The Debt Office issues a government bond with, for example, a ten-year maturity and a particular coupon rate.

2. Debt Office obtains a fixed interest rate and pays a floating three-month interest rate (3M Stibor) in an interest rate swap for ten years.

The net cost is 3M Stibor minus the fixed swap interest rate plus the bond interest rate

The fixed interest rate on the swap is higher than the corresponding government bond interest rate. The difference is called the swap spread. So the Debt Office pays 3M Stibor minus the swap spread

Instead of a fixed ten-year bond interest rate the Debt Office pays floating three-month Stibor with a deduction for ten years.

Possible new four-year inflation-linked bond in 2015

The Debt Office expects, on a preliminary basis, to issue a new short inflation-linked bond at the start of 2015. The intended term is about 4 years, maturing in 2019. Should the introduction take place, it will be done by exchanges from SGB IL 3107.

Exchanges of SGB IL 3107, which matures in 2017, will be due in 2015-2016. The purpose is to reduce the outstanding volume to about SEK 25 billion before the bond has one year left to maturity. It is in order to facilitate these exchanges that the Debt Office is considering the possibility of issuing a new four-year inflation-linked bond. As well as being included in these exchanges the new loan will also be issued at regular auctions.

The new loan fills a gap in the real curve and contributes to the levelling out of the maturity profile of the inflation-linked debt. The target is for the new loan to achieve a volume that does not exceed SEK 25 billion, which means that exchanges will not be necessary when the loan approaches the point when it has one year left to maturity.

The Debt Office will gather views on the question of a new four-year inflation-linked bond and come back with a definitive decision in the October report.

Two settlement days from October

As of 6 October 2014 the delivery and payment of all Swedish government securities will take place two business days after completion of the transaction.

The changeover from three to two settlement days for bonds is based on the CSD Regulation, an initiative of the European Commission which harmonises the standard for the settlement of government securities in the secondary market. As of 6 October this year transactions in government securities in the EU have a settlement date two days after when the transaction took place. In Sweden the change is being made at the same time in both the primary and the secondary market.

Possible new long inflation-linked bond in 2015

The Debt Office is also considering the introduction next year of a new inflation-linked bond with a longer maturity than the longest currently outstanding.

One reason is that SGB IL 3104 (2028) has a large volume and makes up a considerable share of the inflation-linked debt. The introduction of a longer inflation-linked bond would make exchanges of SGB IL 3104 possible in order to make a reasonable reduction of its large volume.

The Debt Office will also gather wishes and views on this question and come back with a definitive decision in the October report.

Buy-back facility for loans shorter than one year

The Debt Office provides a buy-back facility for inflation-linked bonds that have less than one year left to maturity. Primary dealers can use this buy-back facility to sell a limited volume to the Debt Office. Any buy-backs are made at a premium since this is not a regular buy-back offer. The pricing is restrictive. After 1 December this year SGB IL 3105 will be shorter than one year and will then be covered by the buy-back facility.

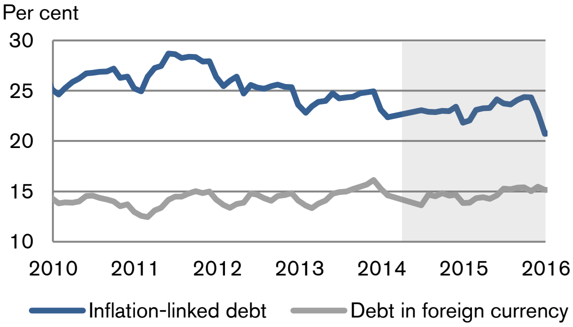
Share of inflation-linked debt

The share of inflation-linked debt will be slightly below the benchmark of 25 per cent during the forecast period. On average this share is expected to be just over 23 per cent this year and next year.

Variations in the share of inflation-linked debt depend largely on how the central government debt changes. Unlike the share of foreign currency debt, the Debt Office is not able to adapt the share of inflation-linked debt using derivatives.

The benchmark for the share of inflation-linked debt is a long-term target and the Debt Office does not have to take immediate action to achieve the target quickly. However, the Debt Office gradually adjusts the volume of borrowing at a rate that the market can absorb without any appreciable impact on the interest rate so as to steer the share towards the benchmark in the long term. The surplus target for public sector finances means that the debt is expected to fall in the long term, which will lead to a rise in the inflation-linked share.

Figure 12 Share of inflation-linked debt and of foreign currency debt[1]



[1] The benchmarks for the distribution of the central government debt between different types of debt are stated in the form of future cash flows (nominal debt plus coupons and expected inflation compensation). On-lending and money-market assets are included here.

On-lending in foreign currency

On instructions from the Riksdag and the Government the Debt Office has provided credit facilities for Iceland and Ireland. The loan to Iceland was signed in 2009 with Sweden, Denmark, Norway and Finland as the lenders. Sweden's share of the total loan was EUR 495 million. In May 2012 a loan agreement was signed between Sweden and Ireland for a total of EUR 600 million. Ireland has made use of the entire loan facility.

The Debt Office does not conduct any earmarked borrowing for on-lending to other states. The payments made by the Debt Office in connection with lending to states, government agencies and state-owned companies are handled like other payments within central government.

Lending to the Riksbank and other states is presented in the Report 'Sweden's Central Government Debt' under the heading of on-lending. On-lending is included in the budget balance and is therefore part of the Debt Office's net borrowing requirement. However, on-lending is not included in central government net lending. The asset position of central government is not affected by on-lending since central government has a claim of the same size.

In the Debt Office's steering of central government debt these claims are set off against the debts incurred in financing the on-lending. This means that debt shares and maturity measures are not affected.

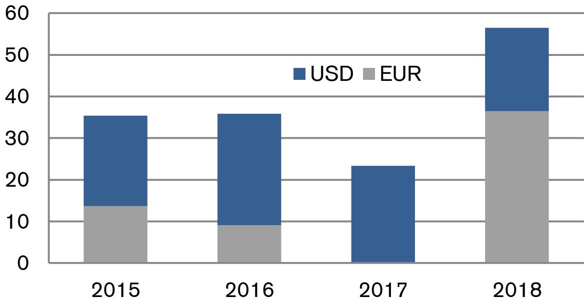
Increased foreign-currency borrowing

The Debt Office will increase borrowing in foreign currency bonds in 2014 and 2015 compared with the previous forecast. The reason is that a larger part of the on-lending to the Riksbank is being refinanced with bonds instead of commercial paper.

Figure 13 shows outstanding foreign currency bonds including borrowing for the Riksbank.

Figure 13 Foreign currency bonds

Billion SEK, 30 May 2014



The Debt Office expects to issue foreign currency bonds for the equivalent of SEK 27 billion on behalf of the state in both 2014 and 2015. This is largely unchanged compared with the previous forecast.

In addition, there is borrowing to refinance on-lending to the Riksbank. In 2014 SEK 56 billion will be issued in bonds on behalf of the Riksbank. Including on-lending the planned volume amounts to the equivalent of SEK 83 billion in 2014.

In 2015 the refinancing of on-lending will increase to SEK 52 billion. This means that the total borrowing in foreign currency bonds increases to SEK 79 billion compared with the previous forecast.

On-lending to the Riksbank

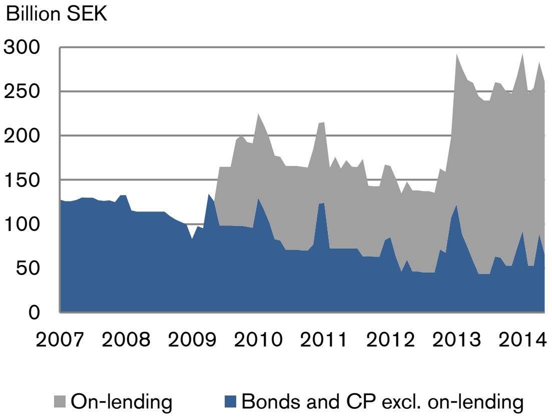
On-lending to the Riksbank amounts to more than SEK 200 billion. The Debt Office expects to replace maturing loans with new loans and expects the volume to be maintained during the forecast period. The Debt Office's borrowing in SEK is not affected since this financing takes place in foreign currency, see the fact box about on-lending.

This borrowing will be concentrated to large benchmark loans in the capital market with maturities of up to five years. The choice of currency and maturity will depend on market conditions.

In addition to the bonds, the Debt Office will refinance a stock of commercial paper corresponding to SEK 7 billion on behalf of the Riksbank in 2014. In 2015 the stock of commercial paper will be replaced with foreign currency bonds.

Figure 13 shows outstanding bonds and commercial paper in foreign currency for on-lending to the Riksbank and on behalf of the state.

Figure 14 Foreign currency borrowing



Currency exposure using swaps

Some currency exposure in the central government debt is created by the Debt Office swapping bonds in SEK to foreign currency using basis swaps, see the fact box below.

The planned volume of basis swaps for this year and next year is unchanged compared with the previous forecast. It is SEK 15 billion for 2014 and SEK 10 billion for 2015. This is the volume of basis swaps that is estimated in order to attain the benchmark for currency exposure, 15 per cent of the total debt.

Foreign currency exposure via derivatives

The Debt Office can create exposure in foreign currency in two ways:

1. By issuing foreign currency bonds or
2. By swapping bonds in SEK into foreign currency using a cross-currency swap.

Currency exposure using swaps takes place in the following stages:

- The Debt Office issues a government bond denominated in SEK.
- The fixed interest payment on the government bond is swapped to a floating rate in SEK via an interest rate swap.
- The floating rate in SEK is swapped to a floating rate in foreign currency through a basis swap.
- Within the basis swap transaction, the amount in SEK is exchanged into foreign currency in a spot transaction. The exchange is financed with the proceeds from the government bond issue. In practice the Debt Office has then 'borrowed' in foreign currency with interest payments in foreign currency.
- The final element of the basis swap is to exchange foreign currency to SEK forward, with payment due when the basis swap – and the government bond – mature. The amount and exchange rate are the same as in the spot transaction.

When the government bond and the swap both mature, the Debt Office must buy the foreign currency in order to carry out the final exchange. The purchase is made at an exchange rate that is unknown today.

Likewise, when a bond in foreign currency is due for payment, the Debt Office must buy foreign currency so as to be able to amortise the bond. Hence using a cross-currency swap gives the same foreign currency exposure as issuing a bond in foreign currency.

Central government debt to increase slightly

Table 19 shows the net borrowing requirement is financed using various instruments. In 2014 the stock of government bonds will decrease. The volume of bonds maturing is about the same as the issue volume. The stock is decreasing nevertheless, and this is because the sales volume is slightly smaller than the volume bought back in exchange auctions.

Net borrowing in inflation-linked bonds will increase this year since the volume of bonds reaching maturity is only SEK 3 billion, compared with the issue volume of SEK 17 billion.

At the end of 2014 and 2015 the central government debt is estimated to be SEK 1 365 and 1 372 billion respectively. This corresponds to a GDP share of 36 per cent in 2014. In 2015 the share decreases to SEK 35 per cent. Figure 15 shows the development of the central government debt.

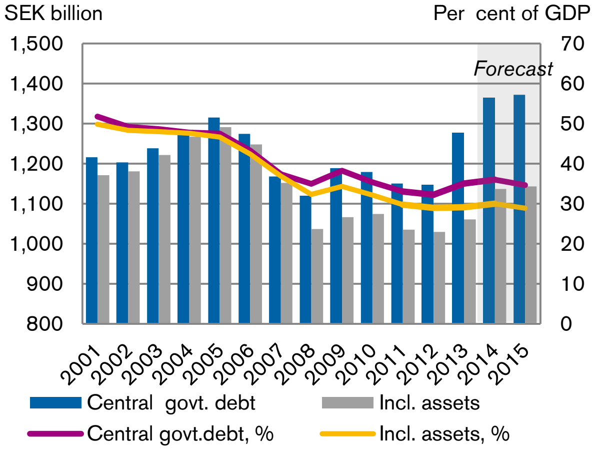
Table 19 Net borrowing per calendar year

SEK billion	2013	2014	2015
Net borrowing requirement	131	61	11
Business day adjustment [1]	1	-1	-3
Net funding requirement	**133**	**60**	**8**
Retail funding & collateral [2]	**-18**	**-13**	**-17**
Net money market funding	**-26**	**73**	**6**
T-bills	-11	16	40
Commercial paper	-37	56	-37
Liquidity management	22	1	3
Net bond market funding	**178**	**0**	**19**
Government bonds	63	-12	1
Inflation-linked bonds	7	14	-8
Foreign currency bonds	107	-2	25
Total net funding	**133**	**60**	**8**

[1] 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.

[2] Net change in retail borrowing and collateral.

Figure 15 Development of the central government debt



The change in the central government debt is due not only to the net borrowing requirement but also to 'debt adjustments'. Debt adjustments include the difference between settlement date and business date, accrued inflation compensation and exchange rate effects. Since the official measure of the central government debt is the gross debt, money market assets are not deducted. These assets are funds temporarily invested in the money market until they are used to pay expenditure in the central government budget or maturing loans.

The Debt Office also reports the net central government debt including assets. This figure includes not only assets in debt management but also assets in the form of claims from on-lending to the Riksbank and to foreign states. Measured in this way the debt is 29 per cent of GDP at the end of 2015.

This measure is used in the steering of the central government debt according to the guidelines adopted by the Government and in the Debt Office's internal risk management. On-lending is a claim for the state, but unlike assets in the money market it is not available for the payment of central government expenditure.

On-lending to the Riksbank and to foreign states is expected to be just above SEK 200 billion at the end of 2015.

Table 1 Net borrowing and the central government debt

SEK billion	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net borrowing, business day	**-107**	**-155**	**156**	**26**	**-45**	**8**	**133**	**60**	**8**
Certain debt adjustments [1]	4								
A. Nominal amount including money market assets	**1 130**	**975**	**1 131**	**1 157**	**1 112**	**1 120**	**1 253**	**1 313**	**1 321**
Inflation compensation	28	33	30	31	34	31	29	27	26
Exchange rate effects	-6	29	-1	-26	-20	-28	-19	0	0
B. Nominal amount at current exchange rate incl. inflation compensation and money market assets	**1 152**	**1 037**	**1 160**	**1 161**	**1 126**	**1 123**	**1 262**	**1 340**	**1 347**
Money market assets	16	83	29	18	25	23	15	25	25
C. Central government debt	**1 168**	**1 120**	**1 189**	**1 179**	**1 151**	**1 146**	**1 277**	**1 365**	**1 372**
Money market assets	-16	-83	-29	-18	-25	-23	-15	-25	-25
On-lending	0	0	-94	-86	-91	-93	-201	-203	-204
D. Central government debt incl. on-lending and money market assets	**1 152**	**1 037**	**1 066**	**1 075**	**1 035**	**1 030**	**1 061**	**1 137**	**1 143**
Nominal GDP	3 126	3 204	3 106	3 338	3 481	3 550	3 641	3 789	3 959
C. Central government debt, % of GDP	37	35	38	35	33	32	35	36	35
D. Central government debt incl. on-lending and money market assets, % of GDP	37	32	34	32	30	29	29	30	29

[1] Debt in the form of accounts to KAF, PPM and IGN was during 2002 transferred to debt in Government bonds and Inflation-linked bonds. The debt office took over debts in the form of bonds from Stockholmsleder AB and Göteborgs Trafikleder AB during 2005. In 2007 the Swedish National Debt office took over foreign currency debt from Venantius.

Measuring central government debt

The Central government debt is calculated as the value of outstanding debt instruments, mainly bonds and treasury bills. The value at the reporting date is calculated in accordance with established principles.

Within the framework of debt management are also certain assets. These assets are funds temporarily invested in the money market until they are used to pay expenses in the central government budget or maturing loans.

The assets mean that the actual liability is less than the sum of outstanding debt instruments. The Debt Office reports both the liabilities and assets since the aim is to achieve a fair and transparent reporting of government indebtedness.

Nominal (face value) amount (A in table 19) is the sum of the amounts that the Debt Office is committed to paying when a debt instrument matures and receives at maturity if it is an asset. The amount is reported in SEK at the exchange rate at the time of borrowing.

The next step in the calculation of public debt (B) is to report the nominal amounts at the current exchange rate and add the accrued inflation compensation for outstanding inflation-linked government bonds. This measure shows the debt when assets are taken into account.

The official measure of government debt (C) is defined based on principles laid down at EU level. It accounts for the central government gross debt, without regard to the assets. To obtain this measurement, financial assets are added to measure B.

The Debt Office also reports central government debt including on-lending and money market assets (D). This includes not only the assets in debt management but also certain other financial assets, namely on-lending to the Riksbank and foreign states.

This measure is used in the management of government debt in accordance with guidelines decided on by the government as well as in our internal risk management.

On-lending is an asset in the form of claims for the central government, but are not available for the payment of government spending in the way that money market assets are.

Liabilities are reported with a positive sign and assets with a negative one. The account is based on business day.

Market information

Auction dates

Government bonds, auction dates

Announcement date	Auction date	Settlement date
11-Jun-14	18-Jun-14	24-Jun-14
30-Jul-14	06-Aug-14	11-Aug-14
13-Aug-14	20-Aug-14	25-Aug-14
27-Aug-14	03-Sep-14	08-Sep-14
10-Sep-14	17-Sep-14	22-Sep-14
24-Sep-14	01-Oct-14	06-Oct-14
08-Oct-14	15-Oct-14	17-Oct-14
22-Oct-14	29-Oct-14	31-Oct-14
05-Nov-14	12-Nov-14	14-Nov-14
10-Sep-14	13-Nov-14*	17-Nov-14
10-Sep-14	14-Nov-14*	18-Nov-14
19-Nov-14	26-Nov-14	28-Nov-14
03-Dec-14	10-Dec-14	12-Dec-14

**Exchange auction*

Government bonds, outstanding amounts 30 May 2014

Maturity date	Coupon %	Loan no.	SEK Million
12-Aug-15	4.50	1049	72 490
12-Jul-16	3.00	1050	53 239
12-Aug-17	3.75	1051	62 026
12-Mar-19	4.25	1052	93 307
01-Dec-20	5.00	1047	51 565
01-Jun-22	3.50	1054	62 131
13-Nov-23	1.50	1057	61 514
12-May-25	2.50	1058	43 560
01-Jun-32	2.25	1056	11 000
30-Mar-39	3.50	1053	43 250
Total government bonds			554 082

Inflation-linked bonds, auction dates

Announcement date	Auction date	Settlement date
07-Aug-14	14-Aug-14	19-Aug-14
21-Aug-14	28-Aug-14	02-Sep-14
04-Sep-14	11-Sep-14	16-Sep-14
18-Sep-14	25-Sep-14	30-Sep-14
02-Oct-14	09-Oct-14	13-Oct-14
16-Oct-14	23-Oct-14	27-Oct-14
30-Oct-14	06-Nov-14	10-Nov-14
13-Nov-14	20-Nov-14	24-Nov-14
27-Nov-14	04-Dec-14	08-Dec-14

Inflation-linked bonds, outstanding amounts 30 May 2014

Maturity date	Coupon %	Loan no.	SEK Million
01-Dec-15	3.50	3105	25 086
01-Jun-17	0.50	3107	39 106
01-Dec-20	4.00	3102	27 905
01-Jun-22	0.25	3108	26 429
01-Jun-25	1.00	3109	9 495
01-Dec-28	3.50	3104	43 452
Total Inflation-linked bonds			171 473

T-bills, auction dates

Announcement date	Auction date	Settlement date
18-Jun-14	25-Jun-14	27-Jun-14
25-Jun-14	02-Jul-14	04-Jul-14
06-Aug-14	13-Aug-14	15-Aug-14
20-Aug-14	27-Aug-14	29-Aug-14
03-Sep-14	10-Sep-14	12-Sep-14
17-Sep-14	24-Sep-14	26-Sep-14
01-Oct-14	08-Oct-14	10-Oct-14
15-Oct-14	22-Oct-14	24-Oct-14
29-Oct-14	05-Nov-14	07-Nov-14
12-Nov-14	19-Nov-14	21-Nov-14
26-Nov-14	03-Dec-14	05-Dec-14
10-Dec-14	17-Dec-14	19-Dec-14
30-Dec-14	07-Jan-15	09-Jan-15

T-bills, outstanding amounts 30 May 2014

Maturity date	SEK Million
16-Apr-14	31 300
16-Jul-14	20 000
20-Aug-14	30 000
17-Sep-14	40 000
Total T-bills	121 300

Rating

	Debt in SEK	Debt in foreign currency
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA
Fitch	AAA	AAA

Primary dealers

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

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For more information:	
Thomas Olofsson, Head of Debt Management	+46 8 613 47 82

RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Visiting address: Jakobsbergsgatan 13 • Postal address: SE-103 74 Stockholm, Sweden
Telephone: 08 613 45 00 • Fax: 08 21 21 63 • E-mail: riksgalden@riksgalden.se • Internet: www.riksgalden.se