

# Central Government Borrowing

## Forecast and analysis 2014:3

Summary	1
Slow global recovery	2
Continued moderate growth in the global economy	2
Slower economic growth in Sweden	3
Net borrowing requirement in 2015 revised upwards	6
Forecast changes in net borrowing requirement	7
The budget balance and central government net lending	10
Monthly forecasts of net borrowing requirement	10
New inflation-linked bonds in 2015	12
Change since the June forecast	12
Gross borrowing requirement	12
Unchanged volume of government bonds	13
Some borrowing in T-bills to be replaced by commercial paper	14
New inflation-linked bonds to be introduced	15
Foreign currency borrowing to increase	17
Development of central government debt	18
Market information	21
Auction dates	21
Primary dealers	22



In *Central Government Borrowing - forecast and analysis 2014:3* the Debt Office presents forecasts for central government finances and borrowing in 2014 up until 2016. 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

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- The calculations for this forecast were completed on 3 December. It has therefore not been possible to base the calculations on the budget for 2015 that passed through parliament. The Debt Office has instead chosen to make a technical assumption for its calculations to the effect that this forecast is based on unchanged rules. The forecast changes presented in this report are therefore wholly due to macroeconomic factors and volume changes.
- The Debt Office expects Sweden's GDP to grow by 1.9 per cent this year and 2.2 per cent in 2015. This is a reduction of 0.8 percentage points for both 2014 and 2015 compared with the previous forecast. The main reason for the downward revision is that international developments have been weaker.
- The net borrowing requirement is estimated at SEK 60 billion this year, SEK 51 billion in 2015, and SEK 13 billion 2016. For 2015 the net borrowing requirement increases by SEK 40 billion compared with the June forecast. This is mainly due to a weaker macroeconomic development and larger volumes on the expenditure side of the central government budget.
- The Debt Office estimates central government net lending at -1.3 per cent of GDP in 2014. For 2015 net lending is estimated at -1.2 per cent and for 2016 net lending improves to -0.3 per cent of GDP.
- At the end of 2014, 2015 and 2016 the central government debt is estimated to be SEK 1 380, 1 419 and 1 431 billion respectively. This corresponds to a GDP share of 35 per cent in 2014 and 2015. In 2016 the share decreases to 34 per cent.
- Borrowing in government bonds and inflation-linked bonds is unchanged compared with the previous forecast. However, bond borrowing in foreign currencies increases temporarily in 2015 as a result of the higher net borrowing requirement.
- Next year a new ten-year government bond will be introduced. The Debt Office will also issue two new inflation-linked bonds in the first half of 2015, with maturities of 4 and 17 years respectively.
- The issue volume of T-bills is lower than previously planned at the end of 2015. Instead, borrowing in commercial paper increases.

# Slow global recovery

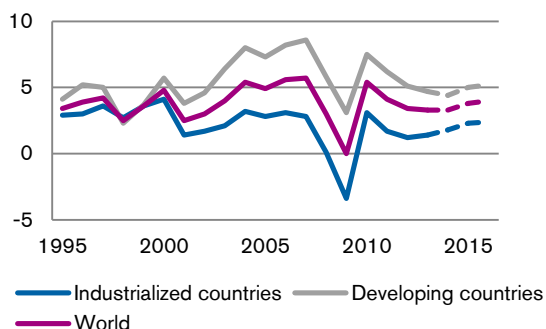
The recovery in the global economy has slowed down. As a result of this weaker international development the Debt Office is revising Swedish GDP growth downwards to 1.9 per cent this year and 2.2 per cent in 2015. For 2016 a somewhat stronger recovery is expected to result in a growth rate of 2.7 per cent.

## Continued moderate growth in the global economy

The recovery in the global economy is continuing, but at a slightly lower rate than before. The remaining effects of the finance and debt crisis have slowed the recovery in the industrialised world. In the developing countries economic activity is higher, but this part of the world economy has difficulty in again reaching the high growth rates that it is normally associated with. The IMF has recently adjusted its forecast of growth in the world in 2014 downward by 0.1 percentage point and now expects the global economy to grow by 3.7 per cent. According to the IMF the prospects for 2015 have weakened slightly and global growth is now expected to reach 3.8 per cent.

The risk that the developing countries will not return to previous high growth rates and that the recovery in the euro zone will be even more protracted has led the IMF and other analysts to also revise potential global growth downwards in the medium term. During the next five years global growth is not expected to exceed 4 per cent.

**Figure 1 Global GDP growth**



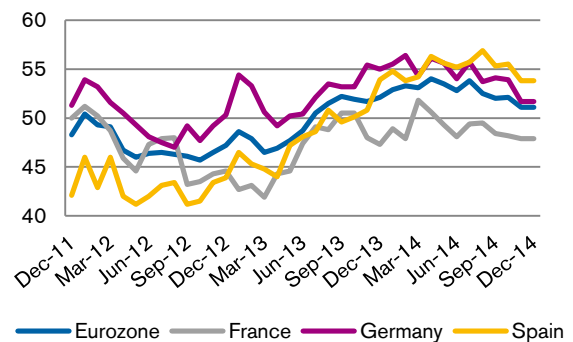
Source: IMF

### Euro area – slowdown from already low levels

Growth in the euro zone is weak and unevenly distributed within the currency area. Neither production nor investment has come close to the levels before the economic crisis. Weak demand,

high debt and low employment continue to burden production and investment. The economic slowdown has also spread on a broader front in the currency area; the development in Germany, in particular, has been weaker than expected. The IMF forecasts growth in the euro area that is 0.2 percentage points lower than previously, which corresponds to 0.8 per cent for 2014 then rising to 1.3 per cent in 2015.

**Figure 2 Purchasing managers index<sup>1</sup>**



<sup>1</sup> A figure above 50 indicates expansion in the economy. Source: Bloomberg

The inflation rate is below the ECB target. Inflation expectations have also fallen after the summer. To reduce the risk of deflation the ECB has responded with a number of unconventional measures in order to enhance the business sector's access to credit. By injecting liquidity into the bank system and by purchasing housing bonds and securitised bank loans the ECB wants to create better conditions for the granting of credit. In practice these measures also contribute to a weaker euro, which – all else being equal – ought to contribute to rising inflation and promote exports.

### United States – continued stable prospects

The recovery in the United States can now be seen in large parts of the economy. Following a weak opening to the year the US economy has picked up again and growth in the second half of the year and in 2015 is expected to be about 3 per cent according to the IMF. This is slightly higher than the

potential growth, but is still not expected to increase the underlying inflationary pressure in the near future. Coming inflation statistics will therefore play a particularly large role for how the US central bank (the Fed) is expected to act. The Fed argues that in the short term its expansive monetary policy does not create inflationary pressure since there are still relatively substantial unused resources in the economy.

Unemployment has decreased much faster than previously forecast by the Fed and is now 5.8 per cent. There are indications that some parts of the labour market are experiencing labour shortages. At the same time, there are still no signs of wage inflation and the market's inflation expectations have also fallen. According to the Fed and other analysts this is because the crisis years created a situation in which more people work part time or are completely outside the labour market. These groups are thus a potential labour resource that means that unemployment can fall without generating any wage-driven inflation.

By continuing to pursue an expansive monetary policy the central bank wants to ensure that the recovery is sufficiently robust to withstand a new tighter monetary policy regime.

### Risks

Recent geopolitical tensions in the Middle East and Ukraine represent risks to global economic development. One of these risks is disturbances to energy prices, but sanctions may also have negative effects on demand growth.

The expansive monetary policy being conducted by most central banks, in the form of very low key interest rates and purchases of financial assets, encourages investors to make investments in more risky assets. This can contribute to price rises and risks of financial bubbles.

For the industrialised part of the world economy there is the risk that lower demand growth will not be able to generate full employment against a background that includes demographic factors that are accompanied by lower investments. In this situation real interest rates would need to fall further to order to stimulate the economy. Since key interest rates are already zero, or close to zero, it is difficult for central banks to achieve sufficient monetary policy stimulus.

## Slower economic growth in Sweden

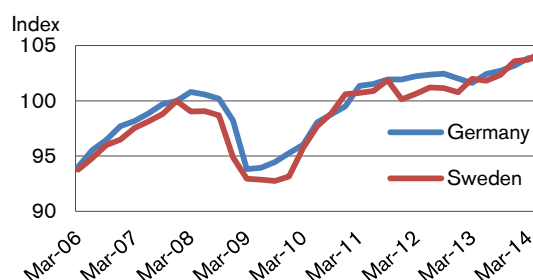
The Debt Office expects Sweden's GDP to grow by 1.9 per cent this year and 2.2 per cent in 2015. This is a reduction of 0.8 percentage points for both 2014 and 2015 compared with the previous forecast. The main reason for the downward revision is that international developments have been weaker than in the forecast from June. For 2016 a somewhat stronger recovery is expected to result in the growth rate rising to 2.7 per cent.

In the previous forecast the Debt Office expected growth to be stronger in the second half of the year. The basis for this was that increased international demand would benefit Swedish exports. However, the international recovery has halted except in the United States, and the economy has weakened, especially in the euro area. This has meant that exports have increased less than calculated and that the contribution of net exports to GDP has deteriorated.

The poorer international developments mean that the recovery has been deferred. Exports are growing more weakly than calculated, which means, along with strong import growth, that the contribution from net exports will be negative throughout the forecast period. To a great extent the increase in imports is driven by domestic demand.

The Swedish economy is strongly linked to the development of the international economy and our most important trading partners. This can be illustrated by the figure shown below that compares Swedish and German GDP. The level is expressed as an index and the last quarter of 2007 is 100 for both countries. Developments in the two countries follow one another both before, during and after the financial crisis, But the change has been different for short periods. In the medium term it is not likely that the Swedish economy can grow that much faster than the German economy.

**Figure 1 GDP for Sweden and Germany, index=100, 2007 quarter 4**



Source: Datastream and the Debt Office.

Growth will continue to be mostly driven by domestic demand. However the strong growth of consumption in 2014 will slow down slightly in 2015. This is mainly because income growth will not be as favourable as in previous years. In addition, household' expectations about the future have worsened, which can partly be explained by previously announced tax increases and the coming amortisation requirements for housing loans.

The assessment of the rate of investment has been revised downward since the previous forecast. At the moment investments are being driven by housing investments, which have grown by about 20 per cent so far this year. At the same time other investments have shown a moderate increase or have even decreased. For example, investments in machinery have decreased by about two per cent so far this year.

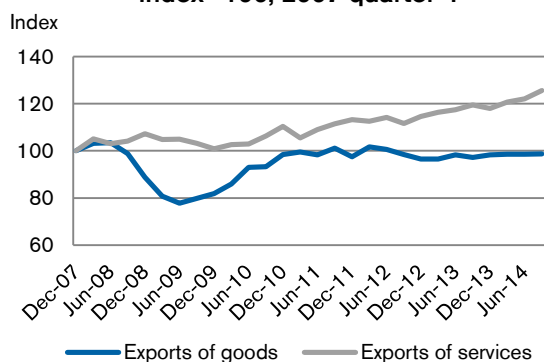
**Table 1 National accounts, constant prices<sup>1</sup>**

Percentage change	2013	2014	2015	2016
Household consumption	1.9	2.5	2.3	2.5
General government consumption	0.7	1.5	1.5	1.6
Gross fixed capital formation	-0.4	4.6	5.0	5.3
Changes in inventories incl valuables	0.0	0.2	0.1	0.0
Exports	-0.2	2.3	3.4	4.5
Imports	-0.7	4.9	4.8	5.3
Net exports	0.2	-0.9	-0.4	-0.2
GDP	1.3	1.9	2.2	2.7
GDP calendar adjusted	1.3	2.1	2.0	2.5

<sup>1</sup> Actual change compared with previous year.

The low investments in machinery are reflected in the index of industrial production, which has continued to fall in 2014. Moreover, the weak development of exports of goods has contributed to the lower rate of investment. In contrast, exports of services are continuing to rise, even though they are still at a much lower level than exports of goods.

**Figure 2 Export volume of goods and services, index=100, 2007 quarter 4**

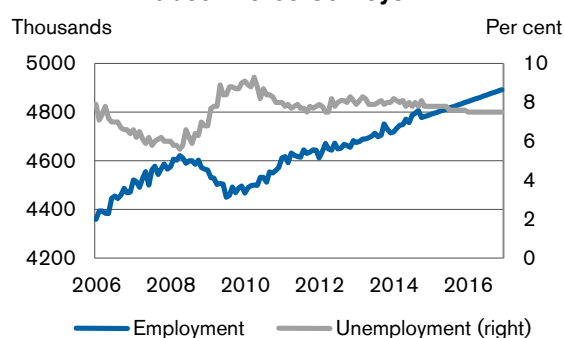


Source: Datastream and the Debt Office.

## Labour market

Employment is expected to rise by about one per cent per year during the forecast period. This is a development that is supported in the short term by indicators such as a low level of layoff notices and the number of vacant jobs being at high levels. Companies have also become more positive in their hiring plans in the past six months according to the Business Tendency Survey published by the National Institute of Economic Research (NIER). This consolidates a long period of stable employment growth despite the subdued GDP growth.

**Figure 3 Employment and unemployment, the Labour Force Surveys**

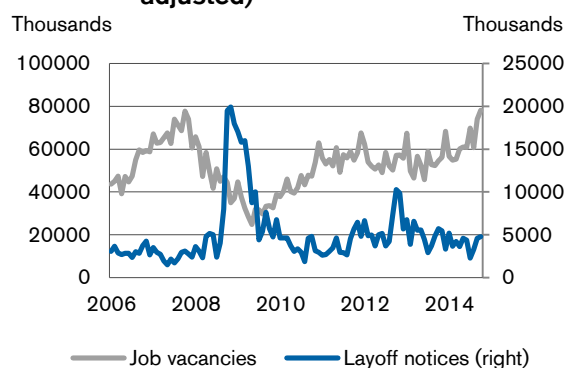


Source: Statistics Sweden and the Debt Office.

Even though employment is rising, unemployment is only expected to decline by a few tenths of a percentage point per year in the coming two years since the labour supply will continue to increase.

Many unemployed people have a weak attachment to the labour market and the number of long term unemployed has increased gradually since the financial crisis. Labour market policy is therefore facing challenges if a high level of unemployment is not to be made permanent.

**Diagram 4 Layoff notices and new job vacancies reported, thousands (seasonally adjusted)**



Source: Datastream

**Table 1 Key ratios for the labour market***Percentage change unless otherwise stated*

	2014	2015	2016
Labour force	1.1	0.8	0.8
Employment	1.2	1.0	1.0
Unemployment <sup>1</sup>	8.0	7.7	7.5
Average hours worked	0.1	0.2	0.3
Hours worked	1.3	1.2	1.3
Hourly wages	2.6	2.6	2.9
Wage sum	3.8	3.8	4.2
Productivity	0.8	0.8	1.2

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

### Consumption

Household consumption is expected to rise by 2.5 per cent this year and 2.3 per cent in 2015. This is a decrease of 0.3 percentage points both this year and next compared with the previous forecast.

Household consumption has grown strongly in the first three quarters of the year. Compared with the same period last year the increase is 2.5 per cent. The increase in consumption is, for example, seen in an increase in the retail sector of 3.7 per cent in the first ten months of the year compared with the same period last year. This is a higher rate of increase than in the years after the financial crisis but is in line with the long-term historical average. In addition, the registration of new cars has increased by 15 per cent so far this year.

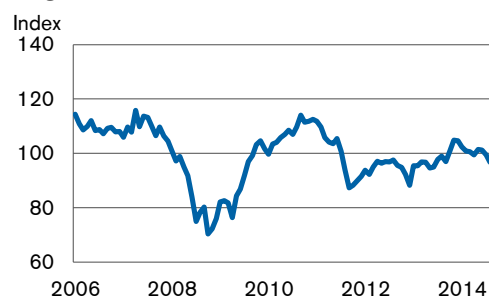
There has been a relatively large improvement in household disposable income for several years, which is due to factors including pay rises, tax reductions, low interest rates and low inflation. In addition, their asset position has improved after price rises for homes and financial assets.

According to the NIER's consumer confidence indicator, households have, in contrast, become more pessimistic during the autumn. It is primarily the view they take of their own financial situation and the Swedish economy one year ahead that has deteriorated while the present situation is seen as better.

The increased pessimism shown by households may be due in part to uncertainty about how possible future tax increases and amortisation

requirements will impact on their own financial situation. At the same time unemployment remains high, which probably means that many households see a risk regarding the development of their income in the longer term.

In the short term consumption is mainly affected by households' expectations of the future, but in the long term the development of income is crucial.

**Diagram 7 Consumer confidence indicator**

Source: National Institute of Economic Research

### Disposable income and savings

Household disposable income continues to rise at a relatively good rate for the coming two years, even though the rate of growth falls slightly in 2015. Real disposable income is estimated to rise by 1.8 per cent next year and 2.4 per cent in 2016. The savings ratio falls slightly from 2014 but is still as high as 14.8 per cent in 2015 and 2016. **Table 4 Disposable income and savings ratio**

	2014	2015	2016
Real disposable income <sup>1</sup>	2.5	1.8	2.4
Savings ratio (excl. occupational pension)	7.3	6.8	6.7
Savings ratio	15.1	14.8	14.8
Nominal disposable income <sup>1</sup>	3.4	3.3	4.1

<sup>1</sup> Yearly percentage change

The payroll is expected to rise by 3.8 per cent this year, 3.8 per cent in 2015 and 4.2 per cent in 2016. Household disposable income is also strengthened by a rise in pensions of around 1 per cent in 2015 and around 5 per cent in 2016. The increase in 2016 is due to the balancing in the pension system.

# Net borrowing requirement in 2015 revised upwards

The Debt Office expects a net borrowing requirement of SEK 60 billion this year. This is SEK 1 billion lower than in the forecast from June. Next year the net borrowing requirement is estimated at SEK 51 billion. This is an increase of SEK 40 billion compared with the June forecast. The increase is mainly due to a slower economic recovery and higher expenditure. The Debt Office's first forecast for 2016 is that the net borrowing requirement will be SEK 13 billion.



## The 2015 budget

On 3 December 2014 the Riksdag decided to approve the Alliance for Sweden's budget reservation for 2015. However, the calculations for this forecast were completed on the same date. It has therefore not been possible to base the calculations on that budget. But both the Alliance's and the Government's budget proposals are financed to approximately the same extent and therefore do not have any great impact on the assessment of the net borrowing requirement of central government. Against the background of the uncertainty prevailing before the vote, the Debt Office chose to make a technical assumption for its calculations to the effect that this forecast is based on unchanged rules. This means that the calculations concerning taxes and expenditure for 2015 and 2016 are based on the rules for 2014. The forecast changes presented in this report are therefore wholly due to macroeconomic factors and volume changes.

The Debt Office expects the net borrowing requirement this year to be SEK 60 billion. This is SEK 1 billion lower than in the previous forecast published in June. Tax income is expected to be SEK 4 billion higher than previously calculated. This is primarily offset by the fact that the Debt Office's net lending to government agencies is slightly higher than previously estimated.

Next year the Debt Office expects the net borrowing requirement to be SEK 51 billion, which is an increase of SEK 40 billion compared with the previous forecast.

The increase in the net borrowing requirement in 2015 compared with the June forecast is because the Swedish economy is recovering at a slower rate than the assessment made in June. This means that tax bases and therefore tax income will grow more slowly. Tax income decreases by SEK 12 billion compared with the previous forecast. Moreover, dividends on state-owned shares are expected to decrease by SEK 7 billion.

The remainder of the change is explained by higher expenditure, mainly on account of volume changes in transfer systems. For example, expenditure for migration increases by SEK 9 billion and expenditure for social insurance by SEK 3 billion compared with the previous forecast. In addition, there are increases in on-lending to the Riksbank and interest payments on the central government debt.

The Debt Office's first forecast for 2016 is that the net borrowing requirement will be SEK 13 billion. A gradual improvement of the economy leads to the strengthening of tax bases. At the same time, the contribution to the EU and interest payments on the central government debt decrease between the years.

**Table 6 Central government net borrowing requirement**

SEK billion	2014	2015	2016
<b>Primary borrowing requirement</b>	<b>57</b>	<b>30</b>	<b>3</b>
of which net lending to agencies excl. on-lending	21	0	1
of which net lending, on-lending	3	5	5
of which sales of state assets	0	0	0
of which other primary borrowing	33	25	-3
<b>Interest payments on central government debt</b>	<b>3</b>	<b>21</b>	<b>10</b>
<b>Net borrowing requirement</b>	<b>60</b>	<b>51</b>	<b>13</b>



The central government debt is estimated at SEK 1 380 billion at the end of 2014, SEK 1 419 billion at the end of 2015 and SEK 1 431 at the end of 2016. This corresponds to 35 per cent of GDP for 2014 and 2015 and 34 per cent for 2016. 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 increases by SEK 4 billion this year and decreases by SEK 12 billion next year compared with the previous forecast. The increase this year is mainly due to stronger growth of consumption taxes. Next year the development of the Swedish economy will be poorer than in the Debt Office's previous assessment, and this will contribute to lower growth of tax bases and tax income. Moreover, dividends on state-owned shares are expected to decrease by SEK 7 billion.

**Table 2 Major forecast changes<sup>1</sup>**

SEK billion	2014	2015
<b>Forecast June 2014</b>	<b>61</b>	<b>11</b>
Taxes	-4	12
Labour market	-1	0
Social insurance	1	3
Migration	2	9
Dividends	0	7
Interest payments	-1	2
Net lending excl. on-lending	6	-1
On-lending	1	4
Other	-3	4
Sum of changes	-1	40
<b>Forecast December 2014</b>	<b>60</b>	<b>51</b>

<sup>1</sup> Changes in terms of net borrowing requirement. A minus sign means that the net borrowing requirement decreases and plus means that it increases.

### Lower income from corporate taxes in 2015

The development of central government income from corporate taxes has been in line with the Debt Office's forecasts in 2014.

For next year the assessment of the development of corporate profits and therefore of central government income from corporate taxes is revised downward slightly. Moreover, the low level of the interest rate on government loans means a decrease in income from tax on pension fund yields compared with the previous forecast.

For the export industry uncertainty about global developments has increased since June. The weak development in the euro area, and particularly in Germany, means that the pull of international demand has been moderate up to now. This has been reflected in a weak development in the Swedish export sector.

The development of domestic demand has been stronger, with household consumption and housing investment leading to fairly good situation for retailing and the construction industry.

However, companies are relatively optimistic about the future. According to the NIER barometer, the confidence indicators are above their historical average for all sectors.

**Table 9 Assumptions for tax forecast, current prices**

Percentage change	2014	2015	2016
Households consumption	3.5	3.8	4.0
Wage sum	3.8	3.8	4.2
Investment	6.2	5.9	6.0
Exports	2.3	3.4	5.0

As the recovery of the international economy gains strength in 2016, profits are expected to rise in line with the historical average.

### Payroll taxes

Payroll taxes decrease both this year and next year compared with the previous forecast. This is due in part to weaker payroll growth. In addition, payments of local taxes to local authorities increase in 2015. The adjustment factors set for the local government tax base were higher than expected by the Debt Office. This means that the advance payment to local authorities will be higher. The final size of the tax base is settled two years after the income year. Providing that the Debt Office's forecast of income growth stands up, the local authorities will therefore have to repay money to central government in 2017.

**Table 10 Tax income compared with previous forecast<sup>1</sup>**

SEK billion	2014	2015
Payroll taxes	1	10
Consumption taxes	-6	-4
Corporate taxes	-1	3
Supplementary taxes	2	3
<b>Total</b>	<b>-4</b>	<b>12</b>

<sup>1</sup> Changes in terms of net borrowing requirement. A plus sign indicates a decrease in tax income and an increase in the net borrowing requirement.

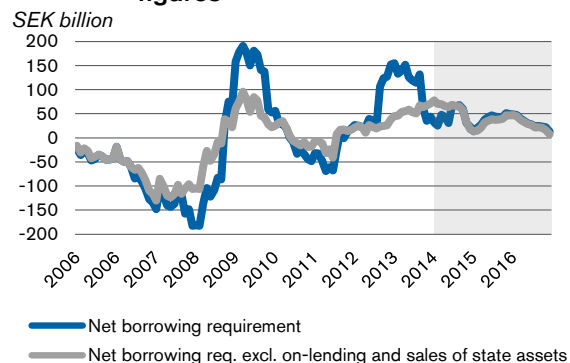
Payroll growth has been revised downwards from 3.9 per cent to 3.8 per cent this year and from 4.2 per cent to 3.8 per cent next year. For 2016 the growth rate is estimated at 4.2 per cent.

#### Increased consumption taxes

Consumption taxes increase by SEK 6 billion in 2014 and SEK 4 billion in 2015 compared with the previous forecast.

It is primarily income from value added tax that will be higher in 2014 than was calculated in June. The higher level in 2014 means that the forecast for 2015 is also revised upwards. However, these increases are offset by factors including a downward adjustment of investment growth from 7.2 per cent to 4.9 per cent for 2015.

**Diagram 3 Net borrowing requirement, 12 month figures**



#### Dividends on state-owned shares

Central government income from share dividends is more than SEK 12 billion this year. Next year it is calculated at SEK 11 billion. The reason for the difference between the years is that LKAB paid an extra dividend of SEK 1.1 billion this year, which it is not expected to do next year. For 2016 dividends are expected to amount to SEK 13 billion.

Compared with the previous forecast dividends are unchanged for this year. However, next year they have been revised downwards by SEK 7 billion. The main explanation is that Vattenfall is not expected to pay any dividend. As it did last year, the company has made extensive write-downs of asset values. Write-downs for this year decrease its profit by almost SEK 20 billion, which is expected to lead to no payment of dividend.

LKAB is also expected to decrease its dividend compared with the previous forecast. The company's profit has been affected by sharp falls in iron ore prices during the year. In addition, provisions for community development have also

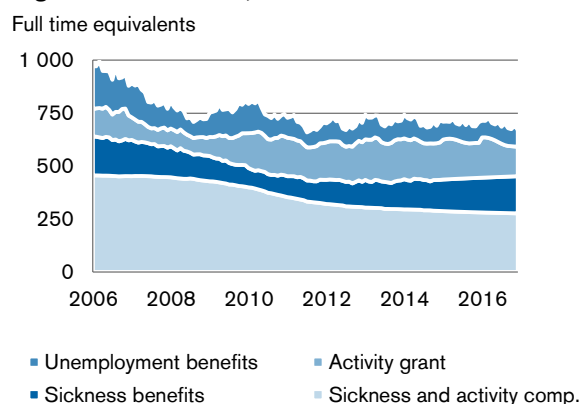
had a negative impact on its operating profit. All in all, this means that the ordinary dividend is expected to be lower than this year.

#### Migration

Expenditure for the Swedish Migration Board is expected to be SEK 2 billion higher this year and SEK 9 billion higher next year than in the previous forecast. One reason is an increase in the number of refugees seeking asylum in Sweden. Expenditure for 2016 is expected to increase by SEK 3 billion compared with 2015.

In the spring the Swedish Migration Board and other analysts expected the number of asylum seekers to be just under 60 000 this year. The Swedish Migration Board's present forecast is 83 000 persons in 2014 and 95 000 persons in 2015. The Swedish Migration Board's main expenditure in addition to its appropriation for administration consists of housing costs and payments to municipalities for refugee reception. The number of persons seeking asylum can be both higher and lower than the forecast. The assessment is subject to a great deal of uncertainty.

**Figure 4 Volumes, labour market and ill health**



Source: Statistics Sweden and own calculations

#### Increased expenditure for social insurance

After several years of moderate expenditure growth in the area of social insurance, it now looks as though this expenditure will start to rise again. Expenditure for sickness benefit is expected to increase significantly during the forecast period at the same time as the decrease in expenditure in sickness and activity compensation (former disability pension) has levelled out. According to the Swedish Social Insurance Agency the inflow to sickness benefit has increased in recent years, which is partly due to increased mental ill health. On average such sickness cases are longer than sickness cases with other diagnoses, increasing the expenditure pressure. In total, the level of

expenditure for social insurance is expected to be SEK 20 billion higher in 2016 than in 2013.

**Table 11 Volumes in transfer systems**

<i>Full-year equivalents</i>	2014	2015	2016
Sickness benefit	143	156	170
Activity/Sickness compensation	304	297	292
Unemployment insurance	93	87	85
Activity support	181	177	163
<b>Total</b>	<b>721</b>	<b>717</b>	<b>710</b>

Since the previous forecast, expenditure for social insurance has been revised upwards both this year and next year. The increase next year is mainly due to higher expenditure for sickness benefit.

### Net lending by the Debt Office

The Debt Office's net lending to government agencies etc. is expected to amount to SEK 24 billion this year. This is an increase of SEK 6 billion compared with the June forecast. The main reason for the increase is lower deposits from the Swedish Nuclear Waste Fund and increased exchange losses in connection with the refinancing of on-lending to the Riksbank.

Next year net lending is calculated at SEK 5 billion. This is SEK 3 billion higher than in the previous forecast. The main reason is that a stronger US dollar results in exchange losses in connection with the refinancing of loans raised on behalf of the Riksbank.

Net lending in 2016 is expected to be SEK 6 billion.

### Interest on the central government debt

Interest payments are estimated at just over SEK 3 billion this year and SEK 21 billion next year. This is SEK 1 billion and 2 billion lower than in the previous forecast. For 2016 interest payments are estimated at just less than SEK 10 billion.

**Table 12 Interest payments on the central government debt**

<i>SEK billion</i>	2014	2015	2016
Interest on loans in SEK	7.2	20.1	9.8
Interest on loans in foreign currency	1.6	0.9	0.8
Realised currency gains and losses	-5.5	0.0	-0.8
<b>Interest payments</b>	<b>3.3</b>	<b>21.0</b>	<b>9.8</b>

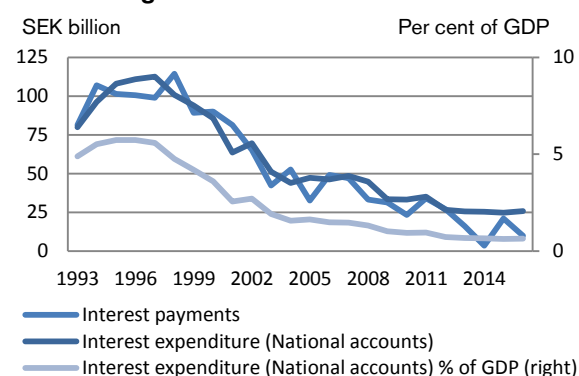
The main reason for the downward revision for this year is higher premiums at issues but this is offset to some extent by somewhat higher capital losses in connection with exchanges. In addition,

exchange gains will be lower as a result of the weakening of the krona since the June report.

The increase for next year compared with the June forecast is mainly due to higher exchange losses in connection with exchanges of inflation-linked bonds, see the section on borrowing for more information. Lower cut-off rates for interest rates contribute to higher premiums at the same time.

There is a relatively large increase in the level of interest payments between 2014 and 2015. This is due to a number of different factors. The level of premiums is unusually high in 2014, almost SEK 18 billion, compared with SEK 14 billion calculated for 2015. In addition, the level in 2014 is also affected by a relatively large exchange gain on a loan in euro that was raised in 2009 and matured in May this year. For 2015 interest payments are temporarily high because the Debt Office will pay accrued inflation compensation of around SEK 5.5 billion when the inflation-linked bond SGB IL 3105 matures in December 2015. This contributes to the fall in interest payments between 2015 and 2016.

**Figure 12 Interest payments on the central government debt<sup>1</sup>**



<sup>1</sup> Interest payments on the central government debt and interest expenditure according to the National Accounts (NA), 1993-2016, current prices.

The Debt Office uses cut-off rates in calculating interest payments and in measuring the Riksbank's foreign currency loans. The cut-off date for this forecast is 28 November.

**Table 13 Cut-off rates for interest rates, per cent**

<i>Duration</i>	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	0.0
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	0.0

**Table 14 Cut-off rates for currency**

<i>Spotrates</i>	2014-11-28
SEK/EUR	9.3
SEK/USD	7.4
SEK/CHF	7.8
SEK/JPY	0.1
SEK/GBP	11.7
SEK/CAD	6.5

The budget balance and central government net lending

The Debt Office estimates central government net lending at -1.3 per cent of GDP in 2014. For 2015 net lending is estimated at -1.2 per cent and for 2016 net lending improves to -0.3 per cent of GDP.

Net lending is at approximately the same level in 2014 and 2015. In 2016 net lending improves, which is, in part, an effect of faster growth of tax bases as the economy improves.

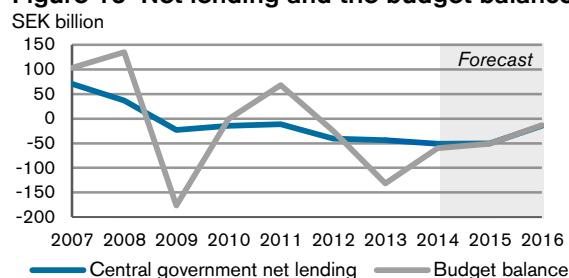
**Table 14 Central government net lending**

<i>SEK billion</i>	2012	2013	2014	2015	2016
<b>Budget balance</b>	<b>-25</b>	<b>-131</b>	<b>-60</b>	<b>-51</b>	<b>-13</b>
<b>Adjustment items</b>	<b>-16</b>	<b>87</b>	<b>9</b>	<b>1</b>	<b>-2</b>
Sale of limited companies	0	-21	0	0	0
Parts of Debt Office's net lending	7	99	12	11	11
Accruals etc.	-23	9	-3	-10	-13
<b>Central govt. net lending</b>	<b>-41</b>	<b>-44</b>	<b>-51</b>	<b>-50</b>	<b>-15</b>
<b>Per cent of GDP</b>	<b>-1.1</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-0.3</b>

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 central government's incoming and outgoing payments. Net lending accrues payments to the point in time when the economic activity took place.

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.

**Figure 13 Net lending and the budget balance**

Monthly forecasts of net borrowing requirement

The net borrowing requirement varies strongly between months. The table below presents monthly forecasts for 2015.

**Table 15 Borrowing requirement per month**

	Primary borrowing requirement <sup>1</sup>	Net lending	Interest on central government debt	Net borrowing requirement
Jan-15	0.1	0.5	-3.4	-2.7
Feb-15	-46.1	-1.7	-2.8	-50.6
Mar-15	-6.3	-3.2	3.3	-6.3
Apr-15	-5.2	-2.3	3.5	-4.0
May-15	-22.9	1.4	-0.5	-22.0
Jun-15	39.1	-4.5	5.2	39.8
Jul-15	12.1	-4.0	0.8	9.0
Aug-15	-9.2	-3.3	3.8	-8.7
Sep-15	10.5	-2.1	-2.5	5.9
Oct-15	14.1	-5.7	-3.0	5.5
Nov-15	-9.9	-2.6	1.6	-10.9
Dec-15	48.5	32.7	15.0	96.2

<sup>1</sup> Excluding net lending

Much of the variation between months is explained by the distribution of tax income, tax refunds 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



## Sensitivity analysis

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 <sup>1</sup>	-5
Household consumption in current prices	-3
Unemployment (ILO 15-74) <sup>2</sup>	3
Interest rate level in Sweden <sup>3</sup>	5
International interest rate level <sup>3</sup>	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 difference between the Debt office's and other authorities' assessments of the borrowing requirement for 2014 is relatively large. The Debt Office's forecast is SEK 60 billion, while the other forecasters range between SEK 76 billion and SEK 82 billion, excluding income from sales of state assets. The differences can mainly be explained by the fact that Debt Office expects higher tax income, but also slightly lower interest payments on central government debt.

For 2015 and 2016, the differences between the various authorities' assessments are considerably smaller, given the uncertainties that exist with a longer forecast horizon. All forecasters expect that the economic recovery will decrease the net borrowing requirement between the years. The NIER has still not published a forecast for 2016.

SEK billion	Debt office (9 December)			Government (23 October)			NIER (27 August)		ESV (2 September)		
	2014	2015	2016	2014	2015	2016	2014	2015	2014	2015	2016
Net borrowing requirement	60	51	13	67	33	-5	79	34	76	59	22
of which:											
Sales of state assets	0	0	0	-15	-15	-15	0	0	0	0	0
<b>Adjusted net borrowing requirement</b>	<b>60</b>	<b>51</b>	<b>13</b>	<b>82</b>	<b>48</b>	<b>10</b>	<b>79</b>	<b>34</b>	<b>76</b>	<b>59</b>	<b>22</b>

# New inflation-linked bonds in 2015

The greater borrowing requirement in 2015 will be financed by foreign currency bonds and borrowing in the money market. The issue volumes of government bonds and inflation-linked bonds are unchanged compared with the June forecast while part of the planned borrowing in T-bills next year is replaced by commercial paper. The Debt Office will introduce two new inflation-linked bonds in the first half of 2015.

## Change since the June forecast

Table 1 shows how planned borrowing has changed since the June forecast.

**Table 1 Borrowing compared with June forecast**

SEK billion	2014		2015		2016	
	Dec	(Jun)	Dec	(Jun)	Dec	(Jun)
<b>Money market funding<sup>1</sup></b>	<b>243</b>	<b>(253)</b>	<b>273</b>	<b>(259)</b>	<b>223</b>	<b>-</b>
T-bills	100	(110)	110	(150)	120	-
Commercial paper	95	(96)	100	(59)	40	-
central government	89	(89)	100	(59)	40	-
on-lending to the Riksbank	6	(6)	0	(0)	0	-
Liquidity management	48	(48)	63	(50)	63	-
<b>Bond funding</b>	<b>178</b>	<b>(177)</b>	<b>192</b>	<b>(174)</b>	<b>172</b>	<b>-</b>
Government bonds	77	(77)	77	(77)	77	-
Inflation-linked bonds	17	(17)	18	(18)	18	-
Foreign currency bonds	84	(83)	97	(79)	77	-
central government	25	(27)	40	(27)	22	-
on-lending to the Riksbank	59	(56)	57	(52)	55	-
<b>Total gross funding</b>	<b>421</b>	<b>(430)</b>	<b>465</b>	<b>(433)</b>	<b>394</b>	<b>-</b>

Borrowing in government bonds and inflation-linked bonds is unchanged compared with the previous forecast. However, bond borrowing in foreign currencies increases temporarily in 2015 as a result of the higher net borrowing requirement.

The issue volume of T-bills is lower than previously planned at the end of 2015. Instead, borrowing in commercial paper increases.

On 20 May next year a new ten-year government bond will be introduced. The Debt Office will also issue two new inflation-linked bonds in the first half of 2015, with maturities of 4 and 17 years respectively. In the case of the new long bond the Debt Office intends to make the introduction in the form of a syndicated exchange for SGB IL 3104.

## Gross borrowing requirement

The net borrowing requirement in 2015 increases by SEK 40 billion to SEK 51 billion compared with the previous forecast. 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 2 shows the gross borrowing requirement.

**Table 2 Gross borrowing requirement 2014–2016**

SEK billion	2014	2015	2016
<b>Net funding requirement</b>	<b>60</b>	<b>51</b>	<b>13</b>
<b>Business day adjustment<sup>1</sup></b>	<b>-2</b>	<b>-1</b>	<b>-1</b>
<b>Retail borrowing &amp; collateral, net<sup>2</sup></b>	<b>2</b>	<b>22</b>	<b>6</b>
<b>Money market redemptions<sup>3</sup></b>	<b>180</b>	<b>243</b>	<b>273</b>
T-bills	94	100	110
Commercial paper	39	95	100
Liquidity management	47	48	63
<b>Bond redemptions</b>	<b>167</b>	<b>150</b>	<b>102</b>
Government bonds	78	72	53
Inflation-linked bonds	3	23	0
Foreign currency bonds	86	54	49
<b>Exchanges &amp; buy-backs, net</b>	<b>14</b>	<b>0</b>	<b>1</b>
Government bonds	11	2	5
Inflation-linked bonds	4	-2	-3
Foreign currency bonds	0	0	0
<b>Total gross funding requirement<sup>4</sup></b>	<b>421</b>	<b>465</b>	<b>394</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. To this adds the difference in calculation on money market instrument between accounting of government debt and accounting of the net borrowing requirement.

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

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

<sup>4)</sup> Refers to borrowing requirement in the institutional market

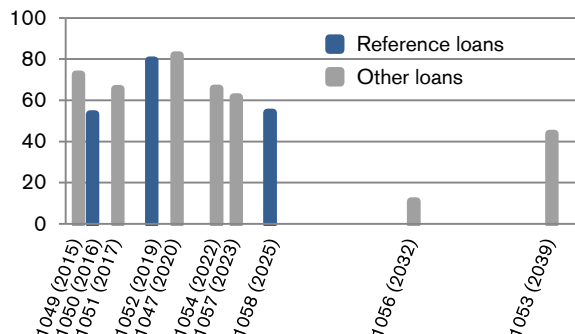
The gross borrowing requirement in 2015 increases by SEK 32 billion, which is less than the increase of the net borrowing requirement. This is mainly because the Debt Office received a larger than expected inflow of collateral for outstanding interest rate swaps in 2014, reducing the financing

requirement in the money market. This means, in turn, that the refinancing requirement in the money market in 2015 will be lower.

In 2016 the Debt Office expects the borrowing requirement to decrease again as a result of a lower net borrowing requirement and a smaller volume of maturing loans.

**Figure 5 Outstanding government bonds**

Billion SEK, 28 November 2014



## Unchanged volume of government bonds

The Debt Office will maintain borrowing in government bonds at SEK 77 billion per year during the forecast period. The volume per auction will remain at SEK 3.5 billion.

The Debt Office seeks to maintain the issue volume of government bonds at a level that reflects the borrowing requirement in the longer term. The increase in the borrowing requirement in 2015 is judged to be temporary and will therefore be handled using foreign currency bonds and borrowing in the money market.

The Debt Office also plans to issue a new ten-year bond on 20 May next year. The Debt Office mainly borrows in the ten-year maturity and after that it borrows in the five-year maturity. Issues are also made of two-year bonds.

Since the borrowing requirement is relatively large, there is not the same need as before to concentrate borrowing in the ten-year segment in order to build up the volume of new loans. This issue plan contains slightly more issues in the five-year maturity and slightly fewer in the ten-year maturity than the issue plan in June.

There may also be occasional issues 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.

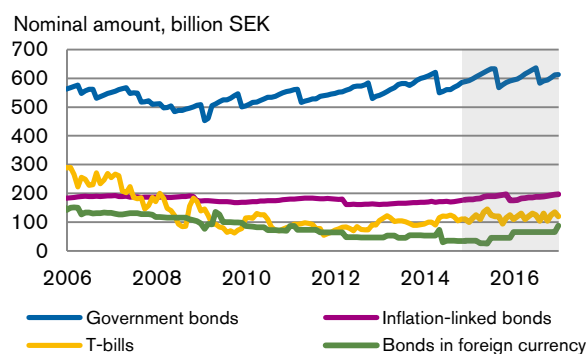
**Table 3 Reference bonds in the electronic interbank market**

Date of change (IMM date) <sup>1</sup>	2-year	5-year	10-year
Current reference bonds	1050	1052	1058
17 December 2014	1051	1047	

<sup>1</sup> 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 6 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).

**Figure 6 Stock of government securities and foreign currency bonds<sup>1x</sup>**



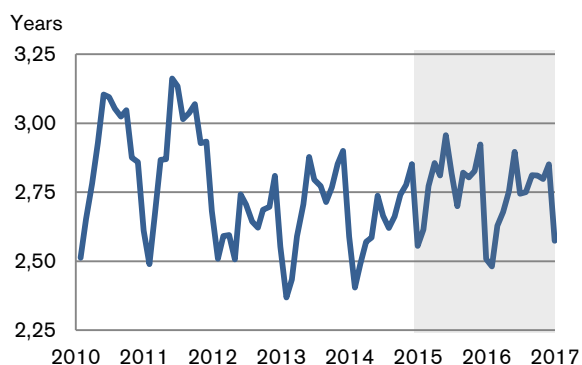
<sup>1x</sup> Foreign currency bonds excluding loans on behalf of the Riksbank.

**Table 4 Important dates in 2014 and 2015**

Date	Time	Activity
17 Dec	09.30	Information on exchanges to SGB IL 3110
5 Feb	11.00	Introduction of SGB IL 3110
6-9 Feb	11.00	Exchanges to SGB IL 3110
19 Feb	09.30	Central government borrowing - forecast and analysis 2015:1
22 Apr	11.00	Information on exchanges to SGB 1059
20 May	11.00	Introduction of SGB 1059
21-26 May	11.00	Exchanges to SGB 1059

According to new guidelines for central government debt, the duration of the nominal krona debt with maturities up to 12 years is to be between 2.3 and 2.8 years, see the fact box on page 16. Since market interest rates have fallen in the autumn, the duration of the debt has become longer. The average duration for the forecast period is therefore in the upper part of the control interval.

**Figure 7 The duration of the nominal krona debt, maturities up to 12 years**



### Some borrowing in T-bills to be replaced by commercial paper

Borrowing in T-bills in 2014 is SEK 10 billion lower than in the previous forecast. The stock is expected to be SEK 100 billion at the end of 2014.

In the June forecast the Debt Office planned relatively large issues of T-bills in November and December 2015 to cope with the seasonal increase in the borrowing requirement. At present it is doubtful whether there is demand for such large volumes. The Debt Office has therefore reduced these issues and is instead planning to increase borrowing in commercial paper to cover the larger borrowing requirement towards the end of the year.

In December 2015 the Debt Office now expects a T-bill stock of SEK 110 billion, which is SEK 40 billion lower than in the previous forecast. At the end of 2016 the stock is expected to be SEK 120 billion.

The issue volume is planned to average SEK 15 billion per auction held throughout the forecast period.

### More borrowing in commercial paper

For the present year the forecast for borrowing in commercial paper remains at the same level as

expected by the Debt Office in June. In contrast, the planned volume of commercial paper increases by more than SEK 40 billion in 2015. The reason is the lower borrowing in T-bills. The forecast for borrowing on behalf of the Riksbank is unchanged. Over and above commercial paper on behalf of the Riksbank the outstanding volume is expected to be SEK 89 billion at the end of 2014. In 2015 the stock increases to SEK 100 billion and it then falls back to SEK 40 billion in 2016.



### 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, there are always at least 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 majority of the issued amount is borrowed in the new T-bill that is introduced in the auction. The remainder is borrowed in one of the outstanding IMM T-bills.

If there is an issue of T-bills in the shortest maturities, it is 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.

### Increased volume of interest rate swaps

For the present year the volume of interest rate swaps from fixed to floating interest rates remains at the same level as in the previous forecast. Next year the volume of interest rate swaps increases slightly to SEK 30 billion.

### No cross currency swaps

As of 2015 the Debt Office will stop entering into basis swaps as a means of generating exposure in foreign currency. The reason is that exposure in foreign currency will gradually be reduced according to new guidelines for central government debt management.





## Interest rate swaps

The Debt Office uses interest rate swaps to shorten debt duration. 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. The Debt Office receives a fixed interest rate and pays a floating three-month interest rate (3M Stibor) in an interest rate swap for ten years.

As a result of the swap transaction, the Debt Office pays a floating rate instead of a fixed rate for ten years.

Since the fixed swap rate is higher than the interest rate on the government bond, the Debt Office pays 3M Stibor with a deduction that corresponds to the difference between the swap and the bond rate.

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.

**Table 5 Change of outstanding swaps**

	2014	2015	2016
<i>SEK billion</i>	Dec (Jun)	Dec (Jun)	Dec (Jun)
Interest rate swaps <sup>1</sup>	20 (20)	30 (20)	40 -
Cross currency swaps <sup>2</sup>	9 (10)	0 (5)	0 -
<b>Swaps total</b>	<b>29 (30)</b>	<b>30 (25)</b>	<b>40 -</b>
Swaps maturing	25 (25)	28 (28)	38 -
<b>Swaps, net change</b>	<b>4 (5)</b>	<b>2 (-3)</b>	<b>2 -</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.

The outstanding stock of swaps increases by SEK 4 billion in 2014 and by SEK 2 billion in both 2015 and 2016, see table 18. 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.

## New inflation-linked bonds to be introduced

Borrowing in inflation-linked bonds this year and next year is unchanged from the previous forecast, i.e. SEK 17 billion this year and SEK 18 billion in 2015. In the Debt Office's first forecast for 2016 borrowing in inflation-linked bonds is planned to remain at SEK 18 billion. The auction volume will continue to be SEK 1 billion per auction held throughout the forecast period.

The Debt Office is planning to introduce three new loans during the forecast period. In addition to the previously announced ten-year inflation-linked bond in 2016, a four-year and a 17-year inflation-linked bond are planned in 2015, see below.

In 2015 the Debt Office will, in the first place, issue in the ten-year year inflation-linked bond SGB IL 3109 along with the new four-year inflation-linked bond. In addition, there may be some sporadic issues in the new long inflation-linked bond.

In 2016 the Debt Office is planning to give priority to issues in the new ten-year inflation-linked bond in order to build up the outstanding volume.

### New four-year inflation-linked bond in 2015

In February 2015 the Debt Office will introduce an inflation-linked bond - SGB IL 3110 – maturing on 1 June 2019. In the previous report the Debt Office announced the possibility of introducing a four-year inflation-linked bond in 2015 and soundings in the autumn showed that there was interest in the market for such a bond. In connection with the introduction the volume of the loan will be built up via exchanges SGB IL 3107. The new loan will also be issued at regular auctions.

Exchanges of SGB IL 3107, which matures in 2017, will take place in 2015-2016. The purpose is to reduce the outstanding volume to about SEK 25 billion before the bond has a year left to maturity. The new four-year inflation-linked bond will be a natural candidate for exchanges and will therefore facilitate these exchanges.

The new maturity fills a gap in the inflation-linked yield 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 of around SEK 25 billion, which means that exchanges will not be necessary when the loan approaches maturity.

### **New 17-year inflation-linked bond in 2015**

The Debt Office will introduce a new inflation-linked bond maturing in 2032 in the spring of 2015. As advised in the previous report, the Debt Office has gathered comments concerning market interest in a new inflation-linked bond with a longer maturity than the present longest bond. The replies received show that there is clear interest in longer maturities in inflation-linked bonds.

The new loan will be introduced via exchanges of SGB IL 3104 (2028), which has a large volume and makes up a considerable part of the inflation-linked debt. The Debt Office expects, on a preliminary basis, that the introduction will take place in the form of a syndicated exchange. Syndication gives higher price transparency and makes it possible to exchange a larger volume at one and the same time.

The introduction of a longer inflation-linked bond facilitates exchanges of SGB IL 3104, which contributes to reducing the large volume of this bond.

After the new long loan has been introduced, it may be issued sporadically at regular auctions when there is clear demand.

### **Next ten-year inflation-linked bond to be introduced in 2016**

As previously announced, the Debt Office is planning to introduce a new ten-year inflation-linked bond in 2016. In connection with the introduction the Debt Office expects subsequent exchanges from nearby bonds, especially SGB IL 3104



## **New guidelines for shares and maturities**

### **New calculation principles**

The Debt Office is changing principles for calculating shares and maturities. The maturity measure of average interest rate refixing period is being replaced by duration. Shares will be measured using nominal amounts instead of, as at present, using the measure of consolidated cash flows of the central government debt.<sup>1</sup>

The purpose of the new calculation principles is to simplify reporting and make it more transparent. According to the Government's decision on the guidelines for 2015 the maturity of the nominal krona debt is to be between 2.3 och 2.8 years. The maturity of the inflation-linked debt is to be between 6 and 9 years. The inflation-linked debt is to be 20 per cent of the central government debt in the long term.

The new benchmarks do not, in themselves, entail any change in the composition or maturity of the debt and are instead a result of the new calculation principles.

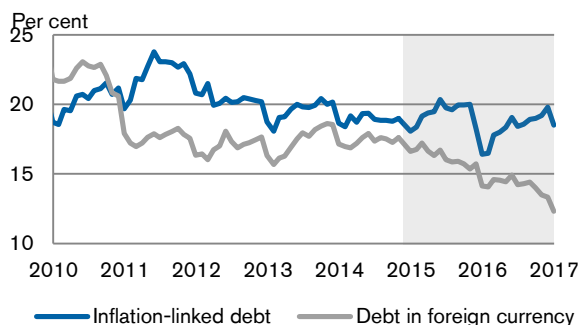
### **Reduced foreign currency exposure**

However, the composition target for foreign currency exposure disappears. Instead foreign currency exposure in the central government debt is to decrease gradually by no more than SEK 30 billion per year. In practice the Debt Office will plan the decrease at about SEK 20 billion per year. The rate of decrease corresponds roughly to the rate obtained by letting the present exposure mature.

The new direction means that the Debt Office will no longer enter into basis swaps in order to create exposure in foreign currency. The Debt Office will mainly use foreign exchange forwards to adjust the exposure to bring it in line with the target.

<sup>1</sup> Duration means Macaulay duration. Nominal amounts are calculated at the current exchange rate and include accrued compensation for inflation.

**Figure 8 Share of inflation-linked debt and of foreign currency debt<sup>1</sup>**

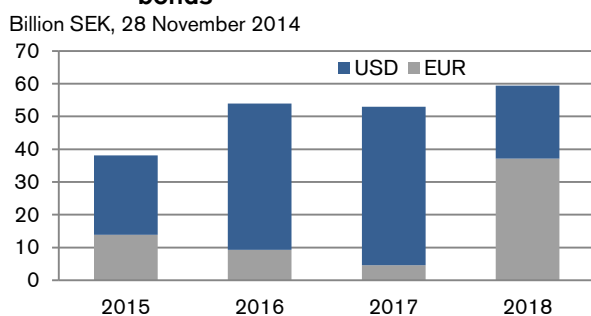


<sup>1</sup> According to the guidelines for 2015 these shares are calculated on the basis of nominal amounts at the current exchange rate and including accrued compensation for inflation. See the fact box above.

## Foreign currency borrowing to increase

Borrowing in foreign currency bonds increases in 2015 compared with the previous forecast. The Debt Office expects to issue bonds in foreign currency for the equivalent of SEK 40 billion in 2015, excluding on-lending to the Riksbank. This is SEK 13 billion more than in the June forecast. Bond borrowing on behalf of the Riksbank also increases slightly as a result of revaluation effects since the krona has weakened since June.

**Figure 9 Maturity profile of foreign currency bonds**



In 2016 bond borrowing in foreign currency on behalf of central government decreases to SEK 22 billion since the borrowing requirement is lower.

### 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 krona borrowing is not affected since this financing takes place in foreign currency, see the fact box about on-lending.

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

In addition to the bonds, the Debt Office will refinance a stock of commercial paper corresponding to SEK 6 billion on behalf of the Riksbank in 2014. In 2015 it will be replaced by foreign currency bonds.

Figure 6 shows outstanding bonds and commercial paper in foreign currency for on-lending to the Riksbank and on behalf of the state.



### On-lending

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

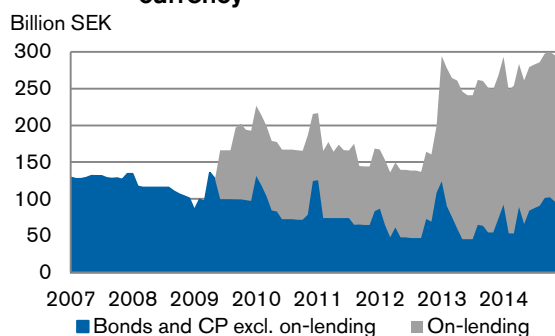
### Foreign currency exposure using swaps

Part of the outstanding currency exposure in the central government debt has been created by swapping krona borrowing into foreign currency using what are called basis swaps.

Following a proposal from the Debt Office the Government has decided that the foreign currency exposure in the central government debt is to decrease gradually, see the fact box on page xx. This means that the Debt Office will no longer enter

into basis swaps in order to create exposure in foreign currency. The planned volume of basis swaps of SEK 5 billion in 2015 in the June forecast is therefore removed.

**Figure 10 Outstanding stock in foreign currency**



## Development of central government debt

Table 6 shows how the net borrowing requirement is financed using various instruments.

**Table 6 Net borrowing per calendar year**

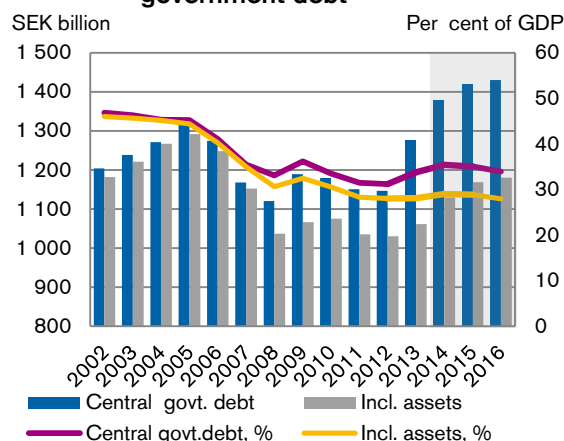
SEK billion	2013	2014	2015	2016
Net borrowing requirement	131	60	51	13
Business day adjustment <sup>1</sup>	1	-2	-1	-1
<b>Net funding requirement</b>	<b>133</b>	<b>58</b>	<b>50</b>	<b>11</b>
<b>Retail funding &amp; collateral, net</b>	<b>-18</b>	<b>-2</b>	<b>-22</b>	<b>-6</b>
<b>Net money market funding</b>	<b>-26</b>	<b>64</b>	<b>30</b>	<b>-50</b>
T-bills	-11	6	10	10
Commercial paper	-37	56	5	-60
Liquidity management	22	1	15	0
<b>Net bond market funding</b>	<b>178</b>	<b>-3</b>	<b>42</b>	<b>68</b>
Government bonds	63	-12	3	19
Inflation-linked bonds	7	10	-3	21
Foreign currency bonds	107	-2	43	28
<b>Total net funding</b>	<b>133</b>	<b>58</b>	<b>50</b>	<b>11</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. To this adds the difference in calculation on money market instrument between accounting of government debt and accounting of the net borrowing requirement.

In 2015 the net borrowing in government and inflation-linked bonds is close to zero, which means that the stocks will be unchanged in principle. In 2016, however, the stocks increase since the volume issued is greater than the outstanding loans maturing. The net borrowing in foreign currency bonds is positive in both 2015 and 2016.

At the end of 2016 the central government debt is estimated at SEK 1 431 billion. This corresponds to a GDP share of 34 per cent. Figure 7 shows the development of the central government debt.

**Figure 11 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 what are called 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 28 per cent of GDP at the end of 2016.

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 is estimated at just over SEK 200 billion at the end of 2016.

**Table 7 Net borrowing and the central government debt**

SEK billion	2009	2010	2011	2012	2013	2014	2015	2016
Net borrowing requirement	176	1	-68	25	131	60	51	13
Discrepancy between business and payment date <sup>1</sup>	-20	25	23	-17	1	-2	-1	-1
Net borrowing per business day	156	26	-45	8	133	58	50	11
Certain debt adjustments <sup>2</sup>								
A. Nominal amount including money market assets	1 131	1 157	1 112	1 120	1 253	1 311	1 361	1 373
Inflation compensation	30	31	34	31	29	25	20	24
Exchange rate effects	-1	-26	-20	-28	-19	19	13	9
B. Nominal amount to current exchange rate incl. inflation compensation and money market assets	1 160	1 161	1 126	1 123	1 262	1 355	1 394	1 406
Money market assets	29	18	25	23	15	25	25	25
C. Central government debt	1 189	1 179	1 151	1 146	1 277	1 380	1 419	1 431
Money market assets	-29	-18	-25	-23	-15	-25	-25	-25
On-lending	-94	-86	-91	-93	-201	-225	-226	-226
D. Central government debt incl. on-lending and money market assets	1 066	1 075	1 035	1 030	1 061	1 130	1 169	1 180
C. Central government debt, % of GDP	36	34	31	31	34	35	35	34
D. Central government debt incl. on-lending and money market assets, % of GDP	32	31	28	28	28	29	29	28

<sup>1</sup> Adjustment for the difference between payment and business day. We account for borrowing and central government debt by business day while net borrowing requirements based on payment day. To this adds the difference in calculation on money market instrument between accounting of government debt and accounting of the net borrowing requirement.

<sup>2</sup> 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) 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
03-Dec-14	10-Dec-14	12-Dec-14
07-Jan-15	14-Jan-15	16-Jan-15
21-Jan-15	28-Jan-15	30-Jan-15
04-Feb-15	11-Feb-15	13-Feb-15
18-Feb-15	25-Feb-15	27-Feb-15
04-Mar-15	11-Mar-15	13-Mar-15
18-Mar-15	25-Mar-15	27-Mar-15
01-Apr-15	08-Apr-15	10-Apr-15
15-Apr-15	22-Apr-15	24-Apr-15
29-Apr-15	06-May-15	08-May-15
13-May-15	20-May-15	22-May-15
22-Apr-15	21-May-15*	25-May-15
22-Apr-15	22-May-15*	26-May-15
22-Apr-15	25-May-15*	27-May-15
22-Apr-15	26-May-15*	28-May-15
27-May-15	03-Jun-15	05-Jun-15
10-Jun-15	17-Jun-15	22-Jun-15

\*Exchange auction

### T-bills, auction dates

Announcement date	Auction date	Settlement date
10-Dec-14	17-Dec-14	19-Dec-14
30-Dec-14	07-Jan-15	09-Jan-15
14-Jan-15	21-Jan-15	23-Jan-15
28-Jan-15	04-Feb-15	06-Feb-15
11-Feb-15	18-Feb-15	20-Feb-15
25-Feb-15	04-Mar-15	06-Mar-15
11-Mar-15	18-Mar-15	20-Mar-15
25-Mar-15	01-Apr-15	07-Apr-15
08-Apr-15	15-Apr-15	17-Apr-15
22-Apr-15	29-Apr-15	04-May-15
05-May-15	12-May-15	15-May-15
20-May-15	27-May-15	29-May-15
03-Jun-15	10-Jun-15	12-Jun-15
17-Jun-15	24-Jun-15	26-Jun-15
24-Jun-15	01-Jul-15	03-Jul-15

### Government bonds, outstanding amounts 28 Nov 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	65 526
12-Mar-19	4.25	1052	79 300
01-Dec-20	5.00	1047	81 804
01-Jun-22	3.50	1054	65 631
13-Nov-23	1.50	1057	61 514
12-May-25	2.50	1058	54 060
01-Jun-32	2.25	1056	11 000
30-Mar-39	3.50	1053	43 750
Total government bonds			588 314

### T-bills, outstanding amounts 28 Nov 2014

Maturity date	SEK Million
17-Dec-14	40 000
21-Jan-15	15 000
18-Feb-15	20 000
18-Mar-15	35 000
Total T-bills	110 000

### Rating

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

### Inflation-linked bonds, auction dates

Announcement date	Auction date	Settlement date
15-Jan-15	22-Jan-15	26-Jan-15
29-Jan-15	05-Feb-15	09-Feb-15
17-Dec-14	06-Feb-15*	10-Feb-15
17-Dec-14	09-Feb-15*	11-Feb-15
12-Feb-15	19-Feb-15	23-Feb-15
26-Feb-15	05-Mar-15	09-Mar-15
12-Mar-15	19-Mar-15	23-Mar-15
09-Apr-15	16-Apr-15	20-Apr-15
30-Apr-15	07-May-15	11-May-15
21-May-15	28-May-15	01-Jun-15
04-Jun-15	11-Jun-15	15-Jun-15

\*Exchange auction

### Inflation-linked bonds, outstanding amounts 28 Nov 2014

Maturity date	Coupon %	Loan no.	SEK Million
01-Dec-15	3.50	3105	23 286
01-Jun-17	0.50	3107	38 755
01-Dec-20	4.00	3102	29 420
01-Jun-22	0.25	3108	28 255
01-Jun-25	1.00	3109	14 373
01-Dec-28	3.50	3104	43 396
Total Inflation-linked bonds			177 485

## Primary dealers

Primary dealers	Nominal government bonds	Inflation-linked government bonds	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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