RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

Central Government Borrowing

Forecast and analysis 2014:1

In *Central Government Borrowing - forecast and analysis 2014:1* 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 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 2.6 per cent in 2014 and 2.7 per cent in 2015.

- The net borrowing requirement is estimated at SEK 67 billion this year. This is an increase of SEK 6 billion compared with the forecast from October. The revision is mainly due to lower tax income. It is offset to some extent by lower interest payments on the central government debt.

- Next year a gradual improvement of the economy will reduce the net borrowing requirement to SEK 17 billion. Compared with the previous forecast this is a reduction of SEK 1 billion.

- Central government net lending is expected to be -1.6 per cent of GDP in 2014. Next year net lending will improve to -0.4 per cent of GDP.

- Borrowing in government bonds will increase to SEK 77 billion as a result of one extra auction per year in 2014 and 2015. On a preliminary basis the Debt Office expects to replace a small part of the 25-year government bond with a new 30-year bond through exchanges.

- The Debt Office is planning two additional auctions of inflation-linked bonds in 2014. Issue volumes will amount to SEK 17 billion this year and SEK 18 billion next year.

- Foreign currency borrowing will also increase compared with the October forecast. However, T-bill borrowing will be unchanged.

- The central government debt is estimated to amount to SEK 1 357 and 1 368 billion at the end of 2014 and 2015 respectively. This corresponds to 36 per cent of GDP for 2014 and 35 per cent for 2015.

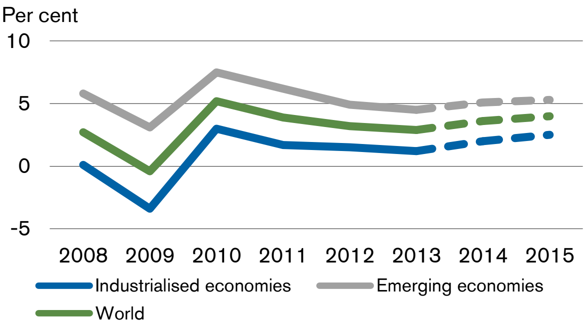
A continued, but fragile, recovery

The recovery in the world economy continues. The IMF expects global growth to be 3.7 per cent in 2014. 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 2.6 per cent in 2014 and 2.7 per cent in 2015.

Brightening of the global economy

The global economy is growing slightly faster than most analysts expected last autumn. According to the IMF global GDP growth of 3.7 per cent is expected in 2014. This is in the vicinity of the long-term trend, which means that resource utilisation will continue to be low. At the same time, growth is following dual paths. Industrialised countries are growing more quickly than before, while growth in some emerging economies appears to be weakening slightly. The upturn in economic activity in the industrialised world is taking place from moderate levels. There are good reasons to believe that the recovery here can take place without a significant increase in price pressure since there is free production capacity.

Figure 1 IMF, Global growth



Source IMF

At the same time there is increasing probability that several emerging economies are moving towards a period of weak domestic growth. Tighter credit markets and greater uncertainty about economic policy along with tapering asset purchases by the Fed risks generating capital outflows and depreciating currencies for emerging economies.

US moving toward a normal cyclical recovery

After several years of growth under the long-term trend the US economy has begun a more normal cyclical recovery. After last year's fiscal tightening and uncertainty about the budget policy situation the economy has recovered slightly more quickly than forecast by many analysts. The IMF's assessment is that real growth will rise to 2.8 per cent at the end of the year.

However, the Fed views the recovery as fragile and is continuing its asset purchase programme for government bonds and mortgage backed securities even though the central bank has reduced its monthly bond purchases in the most recent period. Given a continuation of the US recovery, the expectations are that the programme will be ended in autumn 2014. At the same time, the Fed is stressing that the current low key interest rates will be retained for longer than used to be normal.

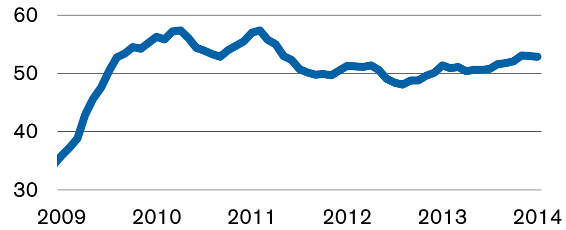
Even though the recovery of the US economy has been a positive surprise, the upturn has been moderate so far. Several economic variables indicate that there are free resources and that the economy can continue to grow without rising price pressure. Unemployment is above the historical average. But unemployment has fallen recently. However, this is due in part to a reduction in the labour supply. House prices have risen slightly but have only recovered less than half of the price fall since the crisis. Business investments and household consumption of durable goods are below the historical average despite the low interest rates.

The euro area is returning to growth

After the dramatic developments in recent years with falling growth and major imbalances, economic development in the euro area has entered a calmer period. According to the IMF, GDP for the euro area as a whole is expected to rise by about 1 per cent in real terms during the year. There is still an imbalance between the northern and southern regions. For example, Germany will grow by just under 2 per cent while growth in the countries under economic pressure will stay under 1 per cent. The economies in southern Europe have experienced some improvement in competitiveness through internal devaluation with falling relative prices. Private and public indebtedness is still high, as is unemployment, at the same time as credit contraction tendencies are curbing domestic demand. However, the improvement of competitiveness in southern Europe creates better conditions for increased exports at the same time as imports are falling slightly. Overall this contributes to a balance of trade surplus in the euro area as a whole.

Rising expectations among businesses and households are the main indications of an economic upturn, as they often come early on in a turn-round. Activity remains low. Since there are free resources the European Central Bank is expected to focus on the risk of deflation. The expectations in financial markets are that this will lead to further easing of monetary policy.

Figure 2 Purchasing managers index, world



Source JP Morgan

Some weakening in developing economies

As a whole the economies of the developing countries are continuing to grow. The IMF predicts real growth of about 5.1 per cent during the year. However, the picture is not uniform. Several of these economies have experienced continued strong credit growth paired with declining productivity. When the Fed reduces its asset purchase programme, this risks leading to capital outflows from developing countries. This can then cause contraction in their credit markets and depreciation of the currencies of these countries. For example, both Turkey and Brazil have been forced to increase interest rates in order to counter such flows.

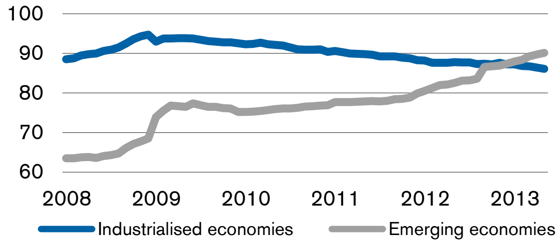
Risks in the economic recovery

There are several possible risk scenarios that could change the picture of a continuing moderate recovery. A return to a market situation in which the focus is on imbalances in the euro zone is one example.

Another risk factor is developments in the emerging economies. One important factor in this is China, which is running a fiscal and monetary policy in which the country is forced to balance between stemming too high a rate of credit growth and risking a slowdown of the economy. A strong fall in demand caused by a credit crisis would probably have less of a direct effect on the industrialised economies but would affect the other emerging economies to a higher degree.

The total volume of credits as a share of GDP is still increasing in emerging economies and developing countries while this share is falling back in the industrialised world.

Figure 3 Credits as a share of GDP



Source: IMF, JP Morgan

The Swedish economy

The Debt Office expects Sweden's GDP to grow by 2.6 per cent in 2014 and 2.7 per cent in 2015, which is much the same as in the previous forecast. For 2014 this means that the forecast for GDP growth is revised upwards by 0.2 percentage points. For 2015 the forecast is unchanged.

Table 1 National accounts, constant prices[1]

Percentage change	2013	2014	2015
GDP	1.0	2.6	2.7
Household consumption	2.0	2.5	2.7
General government consumption	1.2	0.9	1.0
Gross fixed capital formation	-1.2	4.4	5.5
Changes in inventories incl valuables [1]	-0.1	0.3	0.0
Exports	-1.5	3.5	5.0
Imports	-1.9	4.0	5.5

[1] Change expressed as a percentage of previous year's GDP.

A stronger development of the international economy is expected to also lead to a more positive development in Sweden during the forecast period. Sweden's GDP grew weakly in both 2012 and 2013. The positive growth achieved was attributable to fairly good growth of private consumption, despite the economic downturn. Swedish households have a strong financial position and the prospects of continued strong growth of consumption are good.

Sweden is a small and open economy with a large export sector. When the international economy gathers pace, this will benefit the Swedish economy. The relatively strong krona has the effect of holding back exports to some extent, especially in industries related to raw materials. Imports are increasing at the same time, partly because of strong consumption. Even if net exports are not strong, the increased activity in the economy will spread to other sectors.

Growth in the Swedish economy in the third quarter of 2013 was lower than assumed by the Debt Office in its October forecast. This was mainly due to a negative contribution from inventories. At the same time gross fixed capital formation rose more than expected, which was mainly due to a rise in investments in housing after a long period of weak development. Even though the third quarter was worse than expected, GDP for the first two quarters was revised upwards so that the outcome for the first three quarters was approximately as forecast. The Debt Office is increasing its forecast for GDP in 2013 marginally, by 0.1 per cent, to 1.0 per cent.

Growth in the Swedish economy is expected to be broader this year and next year, even though it continues to be driven by consumption to a large extent. It is primarily investments that are recovering and growing faster than GDP. As exports and industrial production recover, the investment need will increase.

Indicators such as the NIER's Economic tendency Survey, the PMI and the Export Managers' Index were at high levels for most of last year, indicating an upturn in the economy. However, it was mainly expectations for the future that pulled up these indicators. These expectations have not yet been realised. However, there are now clear signs of an upturn in orders received in certain parts of industry. The year-end reports of several listed export companies show an increase in orders received, with the exception of companies related to raw materials.

Table 2 Key ratios, labour market

	2013	2014	2015
Labour force	1.1	0.9	0.6
Employment	1.0	1.1	1.0
Unemployment[1]	8.0	7.8	7.4

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

Labour market

Despite the economic downturn, employment rose in both 2012 and 2013. The reason why unemployment has not decreased is that the number of people in the labour force has increased; one result of this increase is a higher long-term production capacity. This year and next year employment is expected to continue to rise by about 1 per cent per year. During the forecast period the labour force will grow slightly slower, leading to a fall in unemployment to 7.8 per cent this year and 7.4 per cent in 2015.

In recent months companies have, according to the NIER's Economic Tendency Survey, become more optimistic in their employment plans while the number of redundancy notices has decreased. However, there is probably a considerable quantity of free resources in companies and it will therefore take time before they start hiring on a larger scale. There are also signs that matching in the labour market is functioning less well.

Consumption

Household consumption is expected to rise by 2.5 per cent this year and 2.7 per cent next year. In the long term consumption is determined by the development of income, but it can vary in the short term, due, for example, to expectations about the future. The NIER's confidence indicator for households is slightly above its historical average. Generally speaking, households with jobs have had good income development in recent years, despite the economic downturn. However, savings remain high, indicating that households are cautious.

Disposable income and savings

Households' disposable income will develop relatively well in the coming years. Real disposable income is estimated to rise by 2.4 per cent this year and 1.9 per cent next year. Since households' consumption expenditure is growing more quickly, the savings ratio will fall back slightly towards the end of the forecast period.

Table 3 Real disposable income and savings ratio

	2013	2014	2015
Real disposable income[1]	2.8	2.4	1.9
Household savings (excl. occupational pension)	6.3	6.2	5.4
Household savings	12.4	12.1	11.3

[1]Yearly percentage change

The hourly wage is expected to rise by 2.6 per cent in 2014 and 2.9 per cent in 2015. Households' disposable income is also strengthened by the reductions of income tax adopted by the Riksdag (Swedish Parliament) for 2014. Transfers from the public sector are growing slower this year since pensions are being written down by 2.7 per cent on account of the brake in the pension system at the same time as the ceilings in the social insurance system is only being increased marginally on account of the low inflation.

Small forecast changes in net borrowing requirement

The Debt Office estimates a net borrowing requirement of SEK 67 billion for 2014. This is an increase of SEK 6 billion compared with the forecast from October. Next year the gradual improvement of the economy will reduce the net borrowing requirement to SEK 17 billion. Compared with the previous forecast this is a reduction of SEK 1 billion.

The Debt Office expects the net borrowing requirement, which corresponds to the budget balance but has the opposite sign, to be SEK 67 billion this year. This is SEK 6 billion more than in the previous forecast. The revision is mainly due to lower tax income. It is offset to some extent by lower interest payments on the central government debt.

The Debt Office's forecast for 2015 is a net borrowing requirement of SEK 17 billion; this is SEK 1 billion lower than the previous forecast. The improvement in the international economy will gradually have an effect on the Swedish economy and central government's net borrowing requirement. Tax income will increase more rapidly between the years so that the net borrowing requirement will decrease compared with 2014. The Debt Office has assumed that no new reforms or sales of state assets will be carried out next year.

Table 4 Central government net borrowing requirement

SEK billion	2013	2014	2015
Primary borrowing requirement	**115**	**57**	**-5**
of which net lending to agencies excl. on-lending	12	13	1
of which net lendning, on-lending	106	1	-1
of which net lendning, sales to Stability fund	-21	0	0
of which sales of state assets	-21	0	0
of which other primary borrowing	39	43	-5
Interest payments on central government debt	**16**	**10**	**22**
Net borrowing requirement	**131**	**67**	**17**

[1] The total revenues from sales of shares in Nordea is SEK 41 billion, of which 52 per cent, corresponding to SEK 21 billion, goes to the Stability fund.

[2] SEK 20 billion refers to the sales of shares in Nordea and SEK 1 billion to the sale of Vectura Consulting.

The central government debt is expected to be SEK 1 357 billion and 1 368 billion at the end of 2014 and 2015 respectively. This corresponds to 36 per cent of GDP for 2014 and 35 per cent for 2015.

Forecast changes in net borrowing requirement

The Debt Office assumes that tax revenue will decrease by SEK 15 billion this year and SEK 9 billion next year compared with the previous forecast. It is chiefly income from corporate tax and supplementary tax payments relating to previous years that are expected to be lower. However, income from payroll taxes will increase, especially next year. This is due, in part, to the decision not to raise the threshold for state income tax and to slightly higher payroll growth.

In 2014 the decrease in tax income is countered by lower interest payments on the central government debt.

Table 5 Major forecast changes

SEK billion	2014	2015
Forecast October 2013	**61**	**18**
Taxes	15	9
Labour market	1	0
Social insurance	0	0
Dividends	2	0
Interest payments	-7	-1
Net lending excl. on-lending	-1	-1
On-lending	1	1
Other	-4	-8
Sum of changes	6	-1
Forecast February 2014	**67**	**17**

[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.

Lower income from corporate tax

The protracted economic downturn with low demand, both from other countries and in the domestic market, has resulted in weak growth of state income from corporate tax. As growth in the economy increases in 2014 and 2015 profit levels are expected to begin rising again.

Compared with the previous forecast, income from corporate tax has been revised downwards by SEK 9 billion in 2014 and SEK 7 billion in 2015. This is because the final tax assessment outcome for 2012 showed that taxable profits fell more than in the Debt Office's assessment in October. This means that the assessment of the level in the coming years is reduced, even though the forecast for the development of profits is virtually unchanged.

Table 6 Assumptions for tax forecast, current prices

Percentage change	2013	2014	2015
Households consumption	2.6	3.5	4.3
Payrolls	2.8	3.8	4.2
Households disposable income	3.5	3.4	3.5
Household savings [1]	6.3	6.2	5.4
Investment	-1.2	5.0	6.2
Exports	-4.4	4.1	5.5

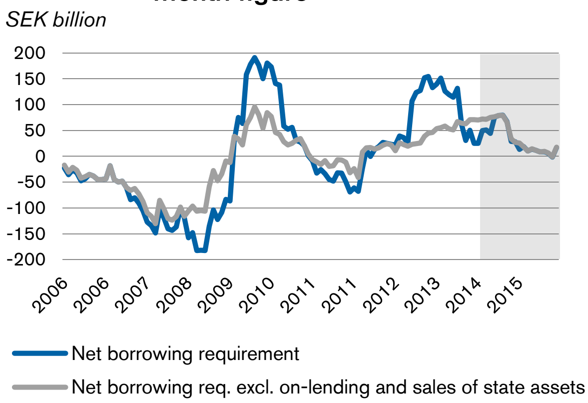
[1] Own saving as share of disposable income

Source: Statistics Sweden and own calculations.

The assessment made is that the weak development of profits has continued in 2013. The flow of year-end reports gives a mixed picture. The banks, in particular, have reported strong earnings, while the development in other sectors has been weaker. The profits reported are expected to have increased weakly between 2012 and 2013. However, this increase is mainly an effect of companies making larger than normal transfers to tax allocation reserves in 2012. Since the corporate tax rate was reduced as of January 2013 there were good reasons for companies to place profits from 2012 in reserves and to bring them back for taxation in coming years at a lower tax rate.

Both the Riksbank's Business Survey and the NIER Business Tendency Survey indicate, however, that a recovery is beginning this year, even though it will be slow initially. The external risks have decreased slightly and the prospects of rising international demand have improved. Relatively low resource utilisation initially means that companies can increase production without excessive cost increases, which is advantageous to the development of profits. This means that the Debt Office assumes a weak rise in business profits in 2014. In 2015 a quicker economic recovery will result in profits increasing slightly more quickly than the historical average.

Figure 4 Net borrowing requirement, 12-month figure



Slightly higher payroll taxes

Income from payroll taxes will rise by SEK 1 billion in 2014 and SEK 6 billion next year, compared with the previous forecast. The decision not to raise the threshold for state income tax means that tax income will be about SEK 3 billion higher next year. The Debt Office has also made a slight upward revision of the assumptions about the rate of payroll growth. The assumption for 2014 has been increased from 3.4 per cent to 3.8 per cent and for next year the increase is from 3.8 per cent to 4.2 per cent.

Table 7 Payrolls, current prices

Percentage change	2013	2014	2015
Wage sum	2.8	3.8	4.2
Hourly wages	2.3	2.6	2.9
Hours worked	0.5	1.2	1.3

The revision is due to an increase in the number of hours worked and a slight improvement in employment. At the same time, taxable earned income for 2012 was slightly lower than estimated. This means that the level of payroll taxes at the start of the forecast period is lower.

Households' capital income

The outcome of the tax assessment for 2012 shows that households' capital gains were lower than expected. Compared with 2011 capital gains fell by SEK 11 billion. The Debt Office assumes that the lower level will not affect the gains from 2013 and that there will be a return to roughly the same level as in 2011, after which capital gains will rise at roughly the same rate as nominal GDP.

The Stockholm Stock Exchange rose by a total of 38 per cent in 2012 and 2013, which should entail rising capital gains. At the same time, however, more individuals have switched to savings with standardised taxation dependent on the government borrowing rate instead of capital gains realised. As a result, a price rise for financial assets may not have the same effect on tax income as in the past.

House prices have risen in recent years. However, sales in the housing market have been slightly lower, which means that the capital gains are not realised to the same extent as before. There is great uncertainty in assessments of capital gains.

The decline in capital gains in 2012 was offset to some extent by higher interest income. Households' deductions for interest payments amounted to SEK 110 billion for 2012. The Debt Office expects the lower level of interest rates to lead to a fall of SEK 8 billion in deductions for interest payments in 2013. For 2014 the deductions are roughly unchanged since a lower interest rate level more or less cancels out an increased volume. Next year there will be a weak increase in deductions as household borrowing continues to grow.

Table 8 Tax income compared with previous forecast[1]

SEK billion	2014	2015
Payroll taxes	-1	-6
Consumption taxes	0	1
Corporate taxes	9	7
Supplementary taxes	7	8
Total	**15**	**9**

[1] Changes in terms of borrowing requirement. Plus means that the income decreases and the net borrowing requirement increases.

Consumption taxes

Income from VAT in 2013 was in line with the previous forecast. The income forecast for 2014 is also in line with the previous forecast in all essential respects. In 2015 consumption and investments are expected to continue to grow strongly, generating growing VAT revenue.

Dividends on state-owned shares

This year state income from share dividends is expected to be SEK 11 billion. This is a reduction of almost SEK 10 billion compared with 2013. The main reason is that no dividend will be paid by Vattenfall AB. The company reported a loss of SEK 13.5 billion for 2013. In the year-end report, the board therefore proposed that no dividend will be paid.

LKAB is also expected to reduce its dividend compared with the preceding year. The company paid an extra dividend of SEK 2 billion over and above its regular dividend in 2013, and earnings have also decreased from the preceding year. This was mainly due to lower delivery volumes, lower prices and a lower average dollar exchange rate.

Dividend income is expected to total SEK 17 billion for 2015. The main reason for the increase on 2014 is that Vattenfall is again expected to pay a dividend at a level corresponding to the average of the past few years.

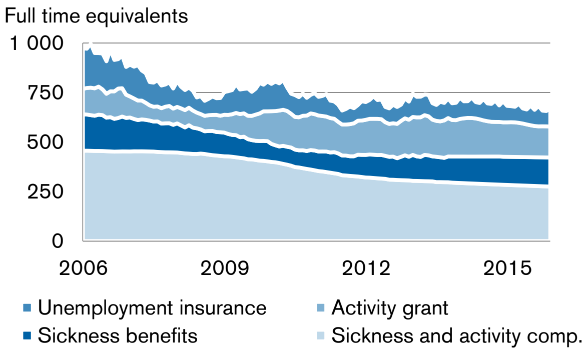
Rising social insurance expenditure

Aggregate expenditure for social insurance is, in principle, unchanged compared with the previous forecast.

However, expenditure increases slightly between years in the forecast period. The trend of falling expenditure, much of which was explained by lower expenditure for sickness benefit and sickness and activity compensation, therefore seems to have been broken. This is also shown in the table in the fact box *Changes in the net borrowing requirement between years*.

The Swedish Social Insurance Agency (Försäkringskassan) makes the assessment that the inflow of new sickness cases to the social insurance system will increase in 2014 compared with the preceding year. The number of long sickness cases, which have lasted for more than one year, is also expected to increase. Since 2010 there has been a marked increase in the inflow, especially from employees. For unemployed persons the new inflow has been relatively stable according to Försäkringskassan, but there has been a clear increase in the length of the periods of sickness leave.

Figure 5 Volumes, labour market and sickness



Source: Statistics Sweden and own calculations.

In contrast to sickness benefit the number of persons with sickness compensation continues to decease, as shown in table 9. This is largely due to low new grants of benefits and individuals transferring to old-age pension.

More participants in labour market programmes

The number of participants in the job and development guarantee has increased since the financial crisis. Last year an average of 99 000 individuals took part in the guarantee. The inflow of new individuals is assumed to exceed the outflow in the first half of the year, leading to a further slight increase in volumes. Thereafter there is a gradual decrease as the economic situation improves. In total it is estimated that an average of 184 000 full-time equivalents will take part in some form of labour market programme this year. Next year participation decreases to an annual average of 165 000 full-time equivalents.

Table 9 Volumes in transfer systems

Full-year equivalents	2013	2014	2015
Sickness benefit	128	138	144
Activity/Sickness compensation	313	302	293
Unemployment insurance	96	94	85
Activity support	190	184	165
Total	**728**	**719**	**687**

Source: Statistics Sweden and own calculations.

Despite a relatively weak labour market, payments from the unemployment insurance funds have been low. More individuals received benefit in 2013 than in 2012 but the effect on payments made was not particularly large on account of lower average benefit. This year and next year expenditure from unemployment insurance is expected to fall slightly in view of the economic recovery.

Net lending by National Debt Office

In 2013 net lending by the Debt Office totalled SEK 97 billion. This was almost SEK 2 billion more than in the previous forecast and is mainly explained by slightly higher lending to government agencies and public enterprises and slightly lower deposits from the Swedish Nuclear Waste Fund than expected.

Net lending in 2014 is expected to be almost SEK 14 billion. The large reduction in net lending between 2013 and 2014 is because the Debt Office does not expect any increase in on-lending to the Riksbank in the present year.

In 2015 net lending is expected to be SEK 0. This is SEK 0.5 billion lower than in the previous forecast and is mainly explained by lower forecast lending to government agencies and public enterprises. The reduction in the forecast between 2014 and 2015 is due, in part, to lower lending to government agencies and public enterprises, mainly the Swedish Board for Study Support (CSN), and greater exchange rate gains when refinancing loans taken on behalf of the Riksbank.

Interest on the central government debt

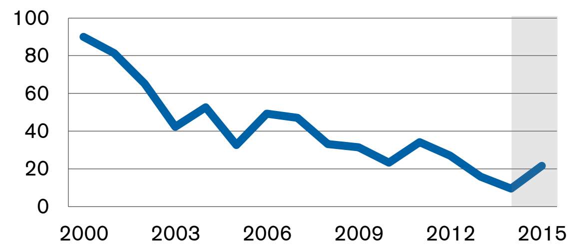
Interest payments are estimated at SEK 10 billion this year and SEK 22 billion next year. This is SEK 7 billion and SEK 1 billion lower than in the previous forecast.

Table 10 Interest payments on the central government debt

SEK billion	2013	2014	2015
Interest on loans in SEK	25.7	17.5	21.8
Interest on loans in foreign currency	1.1	0.8	0.8
Realised currency gains and losses	-10.3	-8.7	-1.1
Interest payments	**16.4**	**9.5**	**21.5**

The main explanation for the revision in 2014 is that capital losses in buy-backs related to exchange auctions in inflation-linked bonds will become lower since the interest was lower than expected in February. In addition, changes have been made in planned exchange auctions in the coming months that also result in lower buy-back volumes overall, see the section on Borrowing for further information. Alongside lower capital losses, higher issues sold at premium also contribute to lower interest expenditure than in the October forecast. This is because present interest levels give higher premiums in connection with issues of the benchmark bond SGB 1058.

Figure 6 Interest payments on central government debt, current prices



There is a relatively large increase in interest payments between 2014 and 2015. This is due both to lower expected exchange rate gains 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 1.5 billion. This is mainly due to lower capital losses in buy-backs.

The Debt Office uses cut-off rates in calculating interest payments and in valuing the Riksbank's foreign currency loans. The cut-off date for this forecast is 31 January.

Change between years, net borrowing requirement

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

The net borrowing requirement will decrease by SEK 64 billion between 2013 and 2014. The single most important reason is that on-lending increased by SEK 106 billion in 2013, but is estimated to be almost unchanged in 2014.

In addition, tax revenues are expected to increase by SEK 15 billion between the years. The reason why tax income will not increase more is implemented tax cuts. Sales of state-owned assets amounted to SEK 42 billion in 2013, of which SEK 21 billion went to the Stability Fund. This payment is included in "Debt office's net lending excl. on-lending" in the table. For 2014, it is assumed that no sales of state-owned assets are carried out, which means that the borrowing requirement increases by SEK 42 billion compared with 2013.

During 2015, the improved economy will gradually have a larger impact on the net borrowing requirement. This is mainly because of increased tax income.

This is because tax bases increase as the economy improves. Tax income is expected to increase by SEK 58 billion compared with 2014. The Debt Office has not assumed any new fiscal policy reforms or sales of state-owned assets for 2015.

SEK billion	2011	2012	2013	2014	2015
Net borrowing requirement, level	**-68**	**25**	**131**	**67**	**17**
Net borrowing requirement, change	-69	93	106	-64	-50
Explained by;					
Taxes	*-65*	*48*	*14*	*-15*	*-58*
Government grants to local governments	*12*	*-3*	*4*	*5*	*0*
Labour market	*-2*	*2*	*5*	*3*	*-4*
Social Insurance	*-5*	*4*	*2*	*6*	*3*
Sales of state-owned assets	*-23*	*23*	*-21*	*21*	*0*
Share dividends	*-10*	*5*	*1*	*10*	*-7*
EU contribution	*-3*	*5*	*1*	*2*	*1*
Debt Office's net lending excl. on-lending	*5*	*-11*	*-4*	*22*	*-12*
On-lending	*-1*	*9*	*101*	*-106*	*-1*
Interest on government debt	*11*	*-7*	*-11*	*-7*	*12*
Other	*10*	*19*	*14*	*-5*	*17*

The budget balance and central government net lending

The Debt Office estimates central government net lending at -1.6 per cent of GDP in 2014. For 2015 net lending will improve to -0.4 per cent of GDP.

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.

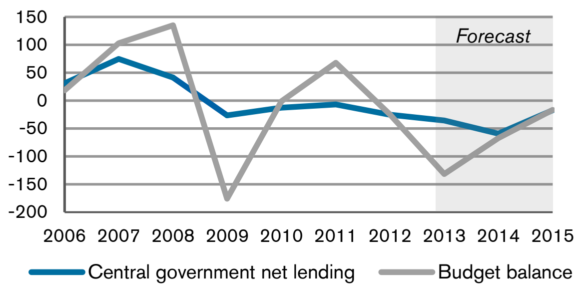
Net lending is also adjusted for payments that do not affect the central government's financial wealth. If, for example, the state sells financial assets such as shares this does not affect net lending. In actual fact the state merely redistributes assets in its balance sheet, i.e. shares are exchanged 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 wealth position of the state either since its assets decrease just as much.

Table 11 Central government net lending

SEK billion	2011	2012	2013	2014	2015
Budget balance	**68**	**-25**	**-131**	**-67**	**-17**
Adjustment items	**-75**	**0**	**96**	**8**	**-1**
Sale of limited companies	-23	0	-21	0	0
Parts of Debt Office's net lending	-5	8	97	5	4
Accruals etc.	-47	-8	19	2	-4
Central government net lending	**-7**	**-25**	**-36**	**-59**	**-17**
Per cent of GDP	**-0.2**	**-0.7**	**-1.0**	**-1.6**	**-0.4**

In the same way, net lending is not affected by lending to the Riksbank. This is because in the central government's 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 is affected.

Figure 7 Central government net lending and the budget balance



Monthly forecasts of net borrowing requirement

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

Table 12 Central government net borrowing requirement per month

SEK billion		Primary borrowing requirement	Interest payments	Net borrowing requirement
2014	Feb	-44.7	-1.8	-46.5
	Mar	7.3	6.9	14.2
	Apr	-22.6	-2.0	-24.6
	May	-21.0	-2.0	-23.0
	Jun	29.2	2.3	31.5
	Jul	9.0	0.7	9.7
	Aug	-10.9	4.6	-6.3
	Sep	4.9	-1.3	3.5
	Oct	11.4	-0.9	10.5
	Nov	-11.7	-0.5	-12.2
	Dec	77.5	6.3	83.8

Much of the variations between months are 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.

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 [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 comparison

The different forecasters estimates of the net borrowing requirement in 2014 varies between SEK 45 billion in the government's forecast and SEK 95 billion in the ESV's. The government's lower forecast is mainly explained by the fact that the government makes a standard assumption of sales income amounting to SEK 15 billion. Excluding these, the difference against the Debt Office's forecast is much smaller. The difference between the ESV's and the Debt Office's forecasts can be mainly explained by the Debt Office expecting higher tax income and significantly lower interest payments on central government debt.

For 2015, all forecasters estimate that the economic recovery will lead to a decreasing net borrowing requirement.

	Debt office (19 feb)		Government (Sep 18)		NIER (18 dec)		ESV (16 dec)	
SEK billion	2014	2015	2014	2015	2014	2015	2014	2015
Net borrowing requirement	67	17	45	1	72	31	95	37
of which:								
Sales of state assets	0	0	-15	-15	0	0	0	0
New on-lending to the Riksbank	1	-1	1	-1	1	-1	1	-1
Fiscal easing	0	0	0	0	0	0	0	0
Adjusted net borrowing requirement	**66**	**18**	**59**	**17**	**71**	**32**	**94**	**38**

Slightly larger bond borrowing

Borrowing in government bonds will increase by SEK 3.5 billion to SEK 77 billion per year compared with the previous forecast. The issue volume of inflation-linked bonds will increase by SEK 2 billion in 2014. Moreover there will be an increase in foreign currency borrowing on behalf of central government. The planned borrowing in T-bills is unchanged from the previous forecast.

Changes since the October forecast

The deficit in the central government budget (the net borrowing requirement) will be slightly larger this year and marginally smaller next year than expected by the Debt Office in October, see the previous chapter on the net borrowing requirement. In addition, the outcome for 2013 was slightly poorer than expected. Table 13 shows how planned borrowing has changed since October.

Table 13 Borrowing compared with October forecast

SEK billion	2014 feb	2014 (okt)	2015 feb	2015 (okt)
Money market funding[1]	**257**	**(244)**	**272**	**(289)**
T-bills	140	(140)	150	(150)
Commercial paper	77	(69)	77	(79)
of which Central Government	59	(51)	59	(61)
of which on-lending to the Riksbank	18	(18)	18	(18)
Liquidity management	40	(35)	46	(60)
Bond funding	**163**	**(149)**	**165**	**(161)**
Government bonds	77	(74)	77	(74)
Inflation-linked bonds	17	(15)	18	(18)
Foreign currency bonds	69	(60)	70	(70)
of which Central Government	26	(17)	26	(26)
of which on-lending to the Riksbank	43	(43)	44	(44)
Total gross funding	**420**	**(393)**	**438**	**(450)**

[1] Outstanding stock as of year-end.

Borrowing in government bonds will increase to SEK 77 billion as a result of one extra auction per year. The volume offered per auction is unchanged. The Debt Office is also planning two further auctions of inflation-linked bonds in 2014. This brings forward the planned increase in the issue volume of inflation-linked bonds.

Borrowing in foreign currency bonds will also increase compared with the October forecast, An EUR loan maturing in May 2014 will be refinanced in foreign currency to a greater extent than previously planned. In contrast, borrowing in T-bills will be unchanged compared with the previous forecast.

A new item in the forecast is that the Debt Office expects, on a preliminary basis, to replace a small part of SGB 1053 with a 30-year bond. In that case, the introduction would take place through exchanges, see the section on government bonds on page 13. The Debt Office is going to investigate what interest there is and come back with a definitive decision in the June report.

Gross borrowing requirement

Table 14 shows the total gross borrowing requirement during the forecast period. 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. During the forecast period a relatively large volume of government bonds will reach maturity.

Table 14 Gross borrowing requirement

SEK billion	2013	2014	2015
Net funding requirement	**131**	**67**	**17**
Business day adjustment [1]	**1**	**-4**	**-5**
Retail borrowing & collateral, net [2]	**18**	**5**	**18**
Money market redemptions [3]	**206**	**180**	**257**
T-bills	105	94	140
Commercial paper	77	39	77
Liquidity management	24	47	40
Bond redemptions	**39**	**167**	**150**
Government bonds	10	78	72
Inflation-linked bonds	0	3	24
Foreign currency bonds	30	86	54
Exchanges & buy-backs, net	**5**	**6**	**0**
Government bonds	1	7	4
Inflation-linked bonds	4	0	-4
Foreign currency bonds	0	0	0
Total gross funding requirement	**402**	**420**	**438**

[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.

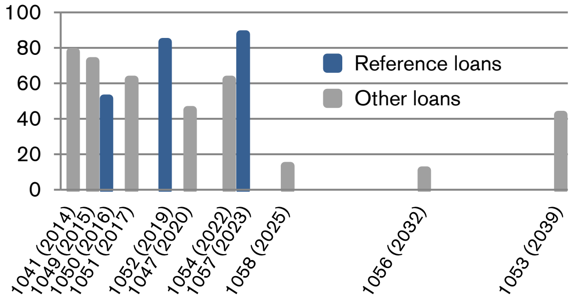
[2] Net change in retail borrowing and collateral

[3] Initial stock maturing within 12 months

In 2015 the possibility of having a savings account with the Debt office will come to an end. The forecast assumes that retail market borrowing will decrease by SEK 3 billion this year and SEK 14 billion next year. These deposits will be replaced with financing in the institutional market.

Figure 8 Outstanding government bonds

Billion SEK, 31 January 2014



An extra auction of government bonds

Borrowing in government bonds will increase to SEK 77 billion per year as a result of the Debt Office adding one auction in 2014 and in 2015 respectively. However, the volume per auction will be unchanged at SEK 3.5 billion.

The Debt Office will mainly borrow in the ten-year maturity but there will also be issues of the five- and two-year bonds. Bond SGB 1058, which was introduced in February, will become the new ten-year reference bond in June, see table 15. The Debt Office also plans to issue a new ten-year bond next year.

Table 15 Reference bonds in the electronic interbank market

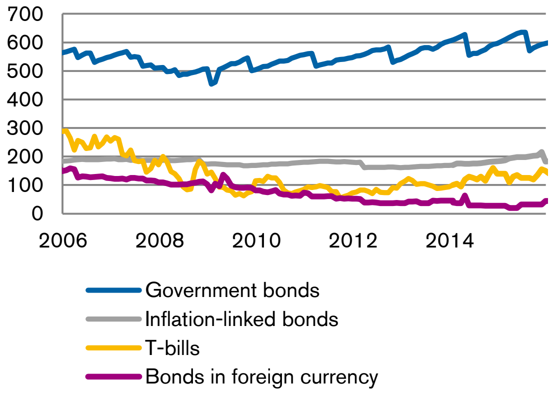
Date of change (IMM date)[1]	2-year	5-year	10-year
Current reference bonds	1050	1052	1057
18 June 2014			1058
17 December 2014	1051	1047	

[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 bonds 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 9 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 volume 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 9 Stock of T-bills and foreign currency bonds[1]

Nominal amount, billion SEK



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

Table 16 Important dates in 2014

Date	Time	Activity
6-7 March	11.00	Exchange from SGB IL 3105 3.50% 1 Dec 15
12 March	09.30	Press release on exchanges to SGB 1058 2.50% 12 May 2025
8-12 May	11.00	Exchanges to SGB 1058 2.50% 12 May 2025
15-16 May	11.00	Exchanges from SGB IL 3105 3.50% 1 Dec 15
17 June	09.30	Central government borrowing - forecast and analysis 2014:2
6 October		Implementation of T+2 in the Swedish bond market

[1] *Settlement of bond transactions will take place two days after business day instead of three days after.*

Possible new 30-year bond through exchanges

The previous 30-year bond SGB 1053 now has a remaining maturity of 25 years. There may be a value in offering bonds with maturities up to 30 years since there are investors who need long duration in their portfolios.

The Debt Office will gather in requests and views in the question of a new 30-year bond and get back with a definitive decision in the June report.

On a preliminary basis the Debt Office expects to replace a small part of SGB 1053 with a new 30-year bond. The introduction will take place through exchanges and will not involve any increase of the total volume of long-term bonds. Since the purpose is to offer investors longer duration, the exchanges will be made of the same nominal amounts in both bonds.

Demand is still limited in the longest maturity segment. It is possible that there may be interest in an issue of the new bond over and above the exchanges offered but this is not something that the Debt Office is assuming in the forecast. The Debt Office continually monitors the demand for long-term bonds. If interest increases, a limited number of auctions of long maturities may be held during the year.

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.

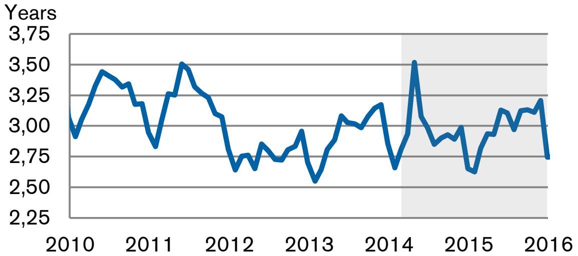
If there is an issue of T-bills in the shortest maturities, it is normally done in the liquidity management, beside the auctions. The Debt Office issues T-bills with tailor-made maturities (liquidity bills) within the framework of the liquidity management.

Unchanged plan for T-bills

The slightly larger borrowing requirement in 2014 will mainly be financed through increased bond borrowing. The Debt Office has not made any change of the planned borrowing in T-bills compared with the October forecast. The forecast means that the stock of T-bills will be around SEK 120 billion on average in 2014 and SEK 130 billion in 2015.

In December 2014 the Debt Office expects the stock to be SEK 140 billion. At the end of 2015 the stock will be slightly larger, SEK 150 billion. The Debt Office adapts borrowing in T-bills to some extent to the variation between months in the borrowing requirement. In general the borrowing requirement is greatest in December. The stock is therefore larger at the end of 2014 and 2015 than the average for these years.

Figure 10 The interest rate re-fixing period of the nominal SEK debt, maturities up to 12 years



Slightly larger commercial paper borrowing

Borrowing in commercial paper will be slightly larger in 2014 than was assumed in October. Excluding commercial paper on behalf of the Riksbank, the outstanding volume is expected be SEK 59 billion at the end of both 2014 and 2015.

Borrowing in commercial paper on behalf of the Riksbank is unchanged since the previous forecast, see table 13.

Unchanged volume of interest rate swaps

The total volume of interest rate swaps from fixed to floating interest rate will, in principle, be unchanged compared with the previous forecast. However, the volume that is combined with basis swaps to create foreign currency exposure will be lower. For 2014 this volume will decrease from SEK 25 to 10 billion. This is mainly because government bond borrowing in foreign currency will increase, see the section *Currency exposure using swaps*.

Table 17 Change of outstanding swaps

SEK billion	2014	2015
Interest rate swaps [1]	**27**	**32**
Cross currency swaps [2]	**10**	**5**
Swaps total	**37**	**37**
Swaps maturing	-25	-28
Swaps, net change	**12**	**9**

[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 swap transactions are spread relatively evenly over the year but with 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 will increase in both 2014 and 2015. 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.

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.

Borrowing in inflation-linked bonds to increase this year

Borrowing in inflation-linked bonds will increase this year from SEK 15 to 17 billion because two auctions will be added. Borrowing in 2015 is expected to be SEK 18 billion, which is the same level 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 the new ten-year inflation-linked bond SGB IL 3109. Auctions of SGB IL 3107 and SGB IL 3108 will also be held during the year.

Exchanges of 3105 to continue in March and May

In December 2013 a series of exchanges of SGB IL 3105 was started as part of the Debt Office's policy for inflation-linked bonds with a nominal value in excess of SEK 25 billion that are nearing maturity.

The Debt Office is offering exchanges for a total of SEK 10 billion in the first half of the year. The plan is to offer exchanges totalling SEK 5 billion in March and SEK 5 billion in May.

To build up the volume of the new ten-year bond SGB IL 3109 the Debt Office expects to sell this bond at these exchange auctions in both March and May. There will be both risk-neutral and cash-neutral exchanges in order to accommodate different interests.[1] Compared with the previous forecast the Debt Office expects a larger proportion of the exchanges to be cash-neutral.

Buy-back facility for bonds 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. At present the facility covers SGB IL 3001, which matures on 1 April this year. 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. Thereafter the Debt Office intends to provide a corresponding restrictive buy-back facility for this bond as well.

New ten-year inflation-linked bond in 2015

In 2015 the Debt Office plans to issue a new ten-year inflation-linked bond maturing around the same time as the next ten-year government bond.

No new long inflation-linked bond planned at present

The assessment of the Debt Office is that interest in a new long inflation-linked bond is limited, so at present there are no plans to issue such a bond.

[1] In risk-neutral exchanges the sale and purchase volumes are set so that the market risk is the same in both bonds. In cash-neutral exchanges the amount paid is the same in both bonds.

Share of inflation-linked debt

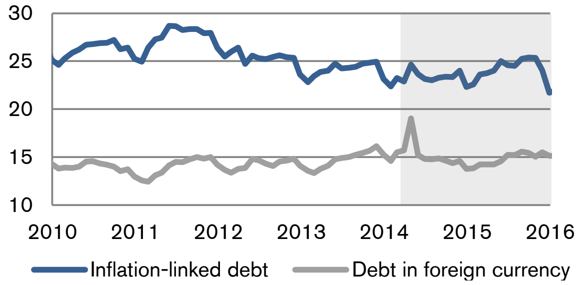
The share of inflation-linked debt will be slightly below the benchmark of 25 per cent during the forecast period. On average this share is expected to be just over 23 per cent this year. However, the forecast shows a slight increase to just over 24 per cent on average in 2015.

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 central government debt is expected to fall in the long term, which will lead to a rise in the inflation-linked share.

Figure 11 Share of inflation-linked debt and of foreign currency debt in central government debt[1]

Per cent



[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.

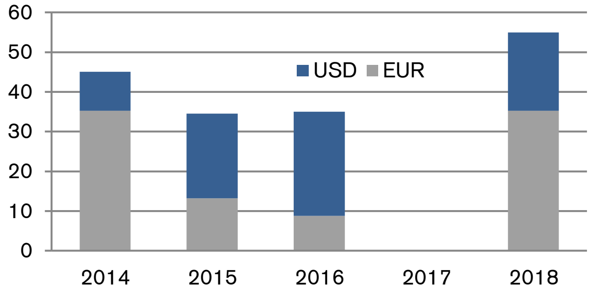
Increased foreign-currency borrowing

The Debt Office will increase bond borrowing in foreign currency in 2014 compared with the previous forecast. In May 2014 a loan of EUR 4 billion will mature. The Debt Office plans to refinance the equivalent of SEK 26 billion, compared with SEK 17 billion previously, in foreign currency bonds.

Figure 12 shows outstanding volumes in foreign currency bonds including loans to the Riksbank.

Figure 12 Foreign currency bonds

Billion SEK, 31 Januariy 2014



In total the Debt Office expects to issue foreign currency bonds for the equivalent of SEK 26 billion on behalf of the state in both 2014 and 2015.

In addition, there is borrowing to finance on-lending to the Riksbank. Including on-lending, the planned volume of foreign currency bonds corresponds to SEK 69 billion in 2014.

The forecast for 2015 is unchanged compared with October. In principle the volume is the same as the revised volume for 2014, i.e. SEK 70 billion, of which SEK 26 billion is on behalf of the state.

Benchmark for foreign currency exposure

The Debt Office has begun a review of the debt's exposure to foreign currency. In the proposal for guidelines for 2014, the Debt Office suggested that the current benchmark for foreign currency exposure of 15 per cent be replaced by a maximum limit of 15 per cent instead. The purpose was not to change the level of foreign currency debt but to increase flexibility in the debt management. For example, the Debt Office would be able to avoid replacing cross-currency swaps that reach maturity if market conditions were not favourable.

The Government chose to wait before making a change in the guidelines. The Debt Office will continue to analyse costs and risks in foreign currency debt and present the results in the proposal for guidelines for next year.

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.

On-lending to the Riksbank

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

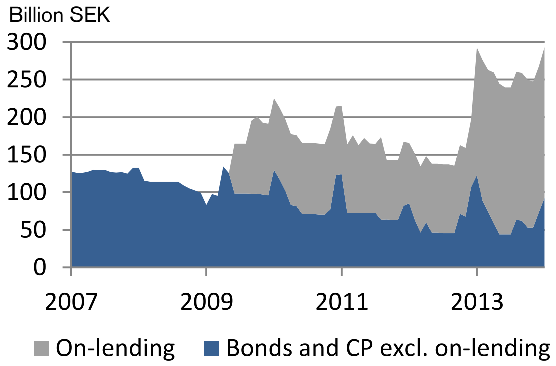
The plan for this year is to borrow SEK 43 billion in foreign currency bonds. In 2015 the Debt Office expects to issue foreign currency bonds for the equivalent of SEK 44 billion to replace maturing loans.

This borrowing will be concentrated to 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 re-finance a stock of commercial paper corresponding to SEK 18 billion on behalf of the Riksbank. The volume of commercial paper for the Riksbank is expected to remain at SEK 18 billion at the end of 2015.

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

Figure 13 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 on page 18.

The Debt Office is reducing the planned volume of basis swaps from SEK to foreign currency by SEK 15 billion to SEK 10 billion in 2014. This is because of an increase in borrowing in foreign currency bonds. This means that a smaller volume of basis swaps is needed to attain the benchmark for currency exposure, 15 per cent of the total debt.

Next year the Debt Office expects to increase the volume of basis swaps by SEK 5 billion instead compared with the previous forecast.

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 will increase in the forecast period

Table 18 shows how the net borrowing requirement is financed using various instruments. In 2014 the stock of government bonds will decrease slightly. The stock 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 amount to SEK 1 357 and 1 368 billion respectively. This corresponds to a GDP share of 36 per cent in 2014. In 2015 this share will decrease slightly to SEK 35 per cent. Figure 7 shows the development of the central government debt.

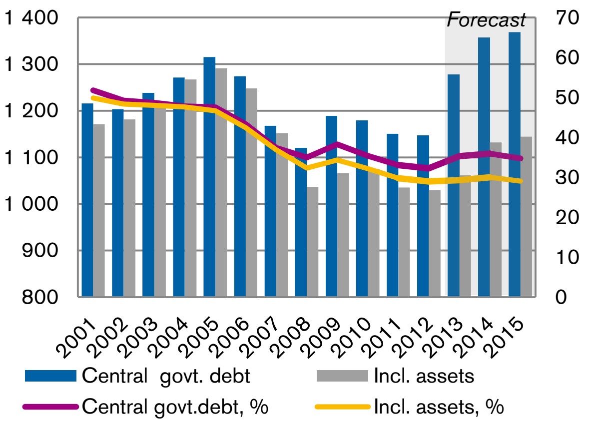
Table 18 Net borrowing per calendar year

SEK billion	2012	2013	2014	2015
Net borrowing requirement	25	131	67	17
Business day adjustment [1]	-16	1	-4	-5
Net funding requirement	**8**	**133**	**63**	**12**
Retail funding & collateral [2]	**1**	**-18**	**-5**	**-18**
Net money market funding	**36**	**-26**	**78**	**15**
T-bills	33	-11	46	10
Commercial paper	34	-37	38	0
Liquidity management	-31	22	-6	5
Net bond market funding	**-29**	**178**	**-10**	**15**
Government bonds	-7	63	-7	1
Inflation-linked bonds	-19	7	14	-2
Foreign currency bonds	-3	107	-17	17
Total net funding	**8**	**133**	**63**	**12**

[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 14 **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 under SEK 200 billion at the end of 2015.

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

SEK billion	2008	2009	2010	2011	2012	2013	2014	2015
Net borrowing, business day	**-155**	**156**	**26**	**-45**	**8**	**133**	**63**	**12**
Certain debt adjustments [1]								
A. Nominal amount including money market assets	**975**	**1 131**	**1 157**	**1 112**	**1 120**	**1 253**	**1 315**	**1 327**
Inflation compensation	33	30	31	34	31	29	27	26
Exchange rate effects	29	-1	-26	-20	-28	-19	-11	-10
B. Nominal amount at current exchange rate incl. inflation compensation and money market assets	**1 037**	**1 160**	**1 161**	**1 126**	**1 123**	**1 262**	**1 332**	**1 343**
Money market assets	83	29	18	25	23	15	25	25
C. Central government debt	**1 120**	**1 189**	**1 179**	**1 151**	**1 146**	**1 277**	**1 357**	**1 368**
Money market assets	-83	-29	-18	-25	-23	-15	-25	-25
On-lending	0	-94	-86	-91	-93	-201	-200	-199
D. Central government debt incl. on-lending and money market assets	**1 037**	**1 066**	**1 075**	**1 035**	**1 030**	**1 061**	**1 132**	**1 145**
Nominal GDP	3 204	3 106	3 338	3 481	3 550	3 617	3 775	3 941
C. Central government debt, % of GDP	35	38	35	33	32	35	36	35
D. Central government debt incl. on-lending and money market assets, % of GDP	32	34	32	30	29	29	30	29

[1] *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
19-Feb-14	26-Feb-14	03-Mar-14
05-Mar-14	12-Mar-14	17-Mar-14
19-Mar-14	26-Mar-14	31-Mar-14
02-Apr-14	09-Apr-14	14-Apr-14
16-Apr-14	23-Apr-14	28-Apr-14
30-Apr-14	07-May-14	12-May-14
12-Mar-14	08-May-14*	13-May-14
12-Mar-14	09-May-14*	14-May-14
12-Mar-14	12-May-14*	15-May-14
14-May-14	21-May-14	26-May-14
28-May-14	04-Jun-14	10-Jun-14
11-Jun-14	18-Jun-14	24-Jun-14

**Exchange auction*

Government bonds, outstanding amounts 31 January 2014

Maturity date	Coupon %	Loan no.	SEK Million
05-May-14	6.75	1041	77 750
12-Aug-15	4.50	1049	72 490
12-Jul-16	3.00	1050	51 489
12-Aug-17	3.75	1051	62 026
12-Mar-19	4.25	1052	83 307
01-Dec-20	5.00	1047	45 065
01-Jun-22	3.50	1054	62 131
13-Nov-23	1.50	1057	87 662
12-May-25	2.50	1058	13 500
01-Jun-32	2.25	1056	11 000
30-Mar-39	3.50	1053	42 250
Total government bonds			608 670

Inflation-linked bonds, auction dates

Announcement date	Auction date	Settlement date
13-Feb-14	20-Feb-14	25-Feb-14
27-Feb-14	06-Mar-14*	11-Mar-14
27-Feb-14	07-Mar-14*	12-Mar-14
13-Mar-14	20-Mar-14	25-Mar-14
27-Mar-14	03-Apr-14	08-Apr-14
17-Apr-14	24-Apr-14	29-Apr-14
08-May-14	15-May-14*	20-May-14
08-May-14	16-May-14*	21-May-14
15-May-14	22-May-14	27-May-14
05-Jun-14	12-Jun-14	17-Jun-14

**Exchange auction*

Inflation-linked bonds, outstanding amounts 31 January 2014

Maturity date	Coupon %	Loan no.	SEK Million
01-Apr-14	0.00	3001	3 249
01-Dec-15	3.50	3105	33 828
01-Jun-17	0.50	3107	34 406
01-Dec-20	4.00	3102	30 048
01-Jun-22	0.25	3108	24 831
01-Dec-28	3.50	3104	43 416
Total Inflation-linked bonds			169 778

T-bills, auction dates

Announcement date	Auction date	Settlement date
12-Feb-14	19-Feb-14	21-Feb-14
26-Feb-14	05-Mar-14	07-Mar-14
12-Mar-14	19-Mar-14	21-Mar-14
26-Mar-14	02-Apr-14	04-Apr-14
09-Apr-14	16-Apr-14	22-Apr-14
22-Apr-14	29-Apr-14	02-May-14
07-May-14	14-May-14	16-May-14
20-May-14	27-May-14	30-May-14
04-Jun-14	11-Jun-14	13-Jun-14
18-Jun-14	25-Jun-14	27-Jun-14
25-Jun-14	02-Jul-14	04-Jul-14

T-bills, outstanding amounts 31 January 2014

Maturity date	SEK Million
19-Feb-14	25 000
19-Mar-14	30 000
16-Apr-14	20 000
18-Jun-14	25 000
Total T-bills	100 000

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
Nykredit Markets	●	●	●	+46 8 557 674 00	NYKR
Royal Bank of Scotland	●	●	●	+46 8 506 198 76	
Barclays	●			+44 207 773 8275	
Danske Markets	●	●	●	+46 8 568 808 44	PMCO
Nordea Markets	●	●	●	+45 33 3317 58 / +46 8 614 86 55	PMUB
SEB	●	●	●	+46 8 506 231 51	PMSE
Handelsbanken Markets	●	●	●	+46 8 463 46 50	PMHD
Swedbank	●	●	●	+46 8 700 99 00	PMBF

Central Government Borrowing – Forecast and Analysis is published three times a year	
Next Report: 2014:2	 17 June 2014
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