

Central Government Borrowing

Forecast and analysis 2015:3



Summary	1
Higher Swedish growth this year	2
Weak global growth	2
Faster growth of the Swedish economy	3
Slightly higher net borrowing requirement	7
Forecast changes in net borrowing requirement	7
Budget balance and central government net lending	13
Monthly forecasts of the net borrowing requirement	13
Issue volumes unchanged	15
Lower borrowing requirement	15
Unchanged volume of government bonds	16
Auction volume of T-bills stays at same level	18
Unchanged volume of inflation-linked bonds	19
Foreign currency bonds	20
Net borrowing and the central government debt	21

Market information	24
Action dates	24
Primary dealers	25

In Central Government Borrowing - forecast and analysis 2015:3 the Debt Office presents forecasts for central government finances and borrowing in 2015 up until 2017. An assessment of the economic development is given in the first section. The following section presents annual and monthly forecasts for the net borrowing requirement 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 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 net borrowing requirement (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 central government net borrowing requirement is estimated to be SEK 45 billion in 2015, SEK 33 billion in 2016 and SEK 47 billion in 2017. Tax income continues to increase while expenditure, particularly for migration rises. Overall this means that borrowing in government bonds and foreign currency bonds is virtually unchanged compared with the previous forecast.

- Despite moderate growth internationally the Swedish economy will grow relatively strongly in 2015–2017. This is mainly due to strong domestic demand. The Debt Office's forecast for GDP growth is 3.1 per cent this year, 2.8 per cent in 2016 and 2.4 per cent in 2017.
- The Debt Office expects a net borrowing requirement of SEK 45 billion in 2015. This is SEK 25 billion lower than in the previous forecast. The decrease is mainly due to higher tax income.
- The net borrowing requirement in 2016 is estimated at SEK 33 billion. This is SEK 8 billion higher than in the previous forecast. The increase is mainly due to a strong increase in expenditure for migration.
- For 2017 the Debt Office expects a net borrowing requirement of SEK 47 billion.
- Central government net lending is estimated at -0.9 per cent as a proportion of GDP in 2015, -1.0 percent in 2016 and -1.1 per cent in 2017.
- The central government debt is estimated at SEK 1 442 billion at the end of 2015 and 1 469 billion and 1 511 billion respectively at the end of 2016 and 2017. This corresponds to 35 per cent of GDP for all the years.

- The auction volume of government bonds will remain at SEK 4 billion per auction throughout the forecast period. This means that borrowing in government bonds will be SEK 86 billion this year and SEK 88 billion next year, which are the same levels as in the June forecast. The issue volume in 2017 is also planned at SEK 88 billion.
- T-bill borrowing will be virtually unchanged. The Debt Office still expects to issue an average of SEK 17.5 billion per auction. The stock is expected to grow to SEK 135 billion at the end of 2016 and 2017.
- The auction volume of inflation-linked bonds is also the same as in the previous forecast. The Debt Office issues SEK 1 billion per auction, which corresponds to an annual rate of SEK 17 billion in 2015 and SEK 18 billion in 2016 and 2017.
- Borrowing in foreign currency is expected to be SEK 92 billion and SEK 75 billion in 2016 and 2017 respectively.

Higher Swedish growth this year

Global growth prospects have been revised downward slightly since the previous forecast from June. Despite moderate growth internationally the Swedish economy will grow faster than expected. This is mainly due to strong domestic demand. The Debt Office's forecast for GDP growth is 3.1 per cent this year, 2.8 per cent in 2016 and 2.4 per cent in 2017.

Weak global growth

The global recovery lost pace in the first half of 2015, mainly due to a further slowdown in the emerging economies. However, the world economy is continuing to improve, but at a slow rate. The IMF's assessment is that global growth will be a moderate 3.1 per cent in 2015 and then increase to 3.6 per cent in 2016, see figure 1. This is a marginal downward revision since the previous forecast.

Figure 1 Global GDP growth



Source: IMF

Euro area - continued slow recovery

The recovery in the euro area is continuing, but at a slow pace. An expansive monetary policy, a relatively weak euro and a less tight fiscal policy are expected to support activity in the economy. Most analysts expect growth rates of around 1.5 per cent for 2015 and 2016. This is largely unchanged compared with the previous forecast.

The picture of continued weak growth and low inflation persists. The effects of the financial crisis are still being felt and high debt, high unemployment and low investments continue to dampen demand in the economy. Like the rest of the western world, the euro area is also being hampered by demographic challenges with an ageing population.

United States - slightly lower growth

Despite weaker than expected growth in the first half of 2015, the assessment is that the US economy will continue its relatively strong growth. This development will be supported by low energy prices, stronger balance sheets and an improved housing market.

The IMF estimates growth at 2.6 per cent in 2015 and 2.8 per cent in 2016. This is a downward revision of 0.5 and 0.3 percentage points respectively compared with the previous forecast.

The US labour market will continue its strong growth, resulting in higher incomes for households. This means that private consumption will continue to grow, which is the main driver of growth.

As in Sweden, housing investment will grow strongly, while investment in industry will show a weaker development. Industry will be adversely affected by weak international demand and a strong dollar.

Emerging economies - continued slackening

The economic situation in emerging economies has become even slacker since the previous forecast. Raw materials producers have been hit hard by price falls in world markets. This is a particular burden for the countries that had a difficult economic situation even before the price falls, such as Brazil, Venezuela and Russia.

Growth in China is expected to be slightly weaker than previously estimated. This is largely due to a shift from an economy driven by investments and exports to more of consumption-driven growth. The assessment of the Chinese economy is based on the assumption that the recent unrest on financial markets and sharp stock market falls will not have any major macroeconomic effects in the longer term.

Faster growth of the Swedish economy

The Debt Office expects Sweden's GDP to grow by 3.1 per cent this year and 2.8 per cent in 2016. This is an upward revision of 0.5 and 0.3 percentage points respectively compared with the previous forecast. For 2017 the Debt Office expects a GDP growth of 2.4 per cent.

The GDP outcome for the second quarter this year was stronger than expected. This was mainly due to higher exports of services in combination with lower imports, which improved net exports. But the lower imports were probably temporary.

At present Swedish growth is mainly being driven by domestic factors such as housing investments and consumption of consumer durables. This can partly be explained by the low level of interest rates. Public consumption will grow more than the historical average during the forecast period. This is mainly because high immigration and an ageing population increase the need for public services.

Table 1 National accounts, constant prices¹

Percentage change	2015	2016	2017
Household consumption	2.4	2.4	2.2
General government consumption	2.3	2.7	2.3
Gross fixed capital formation	4.5	4.7	3.1
Changes in inventories incl valuables	0.1	0.0	0.0
Exports	3.7	4.1	4.3
Imports	3.3	4.6	4.5
Net exports	0.3	0.0	0.1
GDP	3.1	2.8	2.4
GDP calendar adjusted	2.9	2.6	2.6

¹ Actual change compared with previous year

Exports of goods will be affected adversely by the moderate growth internationally. These exports have developed weakly for several years, but are expected to rise as international growth picks up. The increasingly important exports of services are expected to show continued good growth.

Unemployment has fallen in recent months, but this is mainly due to a decline in the labour supply. The labour market is divided into two parts. The demand for labour with vocational training is high and the number of vacancies is high. At the same time, a large proportion of the unemployed do not have the qualifications in demand, resulting in matching problems that may eventually have an adverse effect on potential growth.

Matching problems in the labour market

Unemployment is high from a historical perspective and the Debt Office expects it to only fall marginally during the forecast period, even though there is strong demand for labour with vocational training. The assessment of several forecasters, such as the National Institute of Economic Research (NIER), is that equilibrium unemployment is currently around 7 per cent. This would mean that the Swedish labour market will reach that level at the end of the forecast period.

Table 2Key ratios for the labour market

	2015	2016	2017
Labour force	0.9	0.9	0.9
Employment	1.3	1.3	1.1
Unemployment ¹	7.6	7.2	7.0
Average hours worked	0.2	0.3	0.2
Hours worked ²	1.5	1.6	1.3
Hourly wages	2.7	2.7	2.8
Wage sum	4.2	4.3	4.1
Productivity	2.0	1.6	0.8

¹ 15-74 years, per cent of labour force

² Actual hours

However, the situation in some parts of the labour market is already strained and employers have difficulty recruiting people with the right skills. This is at the same time as many unemployed people have small chances of getting a job. The groups who have most difficulty are people who do not have upper secondary education, are old, have some disability or were born outside Europe.

Figure 2 Vacancies



Source: Datastream

These problems are reflected in figure 3, which shows the relationship between the job vacancy rate and unemployment, known as the Beveridge curve. After the financial crisis unemployment has gradually got higher at a given vacancy rate, indicating that matching is becoming less and less effective.

Figure 3 Beveridge curve



Source: Datastream and own calculations

The increase in employment declined in the second quarter this year, but employment is still expected to increase by more than 1 per cent per year during the forecast period. This short-term assessment draws support from factors including company hiring plans and the number of job vacancies. The labour force is expected to grow somewhat more slowly, resulting in a fall in unemployment to 7.0 per cent in 2017.

Figure 4 Employment and unemployment, thousands



Source: SCB

The slow increase of the labour force is due in part to the abolition of the duration limit for sickness benefit, higher unemployment insurance benefit and higher taxes on labour. According to the NIER the removal of the duration limit has the largest effect and is estimated to reduce the potential labour force by 0.3 per cent. Demographic factors also contribute to this weaker development. Instead, the increase in the labour force that will nonetheless come about will largely be due to immigration.

Poorer growth of disposable income and savings

Household disposable income is expected to rise more slowly than the historical average in the coming years, partly on account of tax increases.

The weaker income growth will contribute to a slight fall in household savings from their present high levels. Savings, excluding occupational pensions, are expected to amount to more than 7 per cent of disposable income in 2015 and to then decrease to 6 per cent in 2017. Despite this decease, saving will still be high from a historical perspective.

Table 3 Disposable income and savings ratio

	2015	2016	2017
Real disposable income ¹	2.8	1.5	1.7
Savings ratio (excl. occupational pension)	7.4	6.6	6.1
Savings ratio	15.0	14.3	13.9
Nominal disposable income ¹	4.0	2.9	3.2

¹ Yearly percentage change

The increase in disposable income is driven to a great extent by the expected increase in the wage sum of more than 4 per cent per year during the forecast period. Household disposable income will also be strengthened by a rise in pensions of around 1 per cent this year and 4 per cent next year and just under 3 per cent in 2017. The increase in 2016 is largely due to the balancing mechanism in the pension system. In 2017 there will also be a positive balancing effect, but it will be considerably smaller than in 2016.

Despite a long recession, nominal wages have grown well in recent years. Together with the unexpectedly low inflation, this has led to good growth of real wages. However, there is a risk that lower inflation expectations will dampen future wage growth. At the same time, it is difficult for companies that are exposed to international competition to raise their prices, and this then puts pressure on wage growth.

The coming round of collective bargaining will affect some 3 million workers covered by collective agreements. This will entail major challenges to the parties in the labour market in reaching agreements, not least in terms of how to take account of the Riksbank's inflation target.

The Debt Office's forecast is that hourly pay (according to the National Accounts) will increase

by around 2.7 per cent in 2016 and 2.8 per cent in 2017, which is slightly higher than in the previous forecast.

Stable rise in consumption

Private consumption was in line with the forecast in the first half of 2015, despite weakening in the second quarter. The Debt Office's assessment is that household consumption will grow by 2.4 per cent both this year and next year. Compared with the previous forecast this is 0.1 percentage point lower for this year and 0.1 percentage point higher for next year. For 2017 the Debt Office expects consumption to rise by 2.2 per cent.

Consumption growth is relatively moderate considering the incomes and average asset position of households. In recent years households have been favoured by rising disposable incomes, house prices and by strong stock market growth. Despite this, household savings are high. One reason could be an increase in precautionary savings. But savings are unevenly distributed and the group that has the highest level of savings probably has a low marginal willingness to consume since they already have a high level of consumption.

Figure 5 Housing prices in Sweden

Index



Source: Valueguard

In relative terms it is the consumption of durable goods, such as cars and other capital goods, that has increased most in 2014 and 2015. In contrast, growth in the consumption of non-durable goods has been weak, especially considering the strong population growth. The consumption of services is rising roughly in line with the average for total consumption although some services show stronger growth.

Public consumption will grow much faster than the historical average during the forecast period. This is because population growth is high and the proportion of older people is increasing. The population growth is largely due to immigration, which increases expenditure on refugee reception and accommodation for asylum-seekers.





Source: Datastream

Slightly lower exports

The forecast for Swedish exports has been revised slightly downward compared with the previous forecast. It is mainly exports of goods that will grow more slowly on account of low international demand. In particular the prospects for Sweden's Nordic neighbours look poorer, and this carries considerable weight since about 25 per cent of Sweden's exports of goods go to the Nordic region. The recent strengthening of the Swedish krona has also worsened the prospects for Swedish exports.

However, in exports of services the strong trend seen in recent years will continue. But, in volume terms, exports of services are still much smaller than exports of goods.

Import growth will also be weaker than in the previous assessment, which means that net exports will still be stronger.

Figure 7 The SEK exchange rate according to the KIX index



Source: Datastream

Housing construction is driving investments

The Debt Office makes the assessment that gross fixed capital formation will rise by 4.5 per cent this year and 4.7 per cent next year. This means that the forecast is unchanged for this year and 0.2 per cent lower for next year. For 2017 the Debt Office expects investments to rise by 3.1 per cent.

Figure 8 Investments, level and percentage change compared with corresponding quarter in previous year, constant prices



For the past couple of years the increase in investments has been largely due to housing construction. The growth rate last year was very high. This year it is slightly lower in percentage terms, but is still making a strong contribution to the total rise in investments.

Machine investments have performed very weakly for a long period, but in the first half of the year they did nonetheless show weakly positive growth figures on an annual basis. They are expected to continue to rise weakly in the forecast period. Capacity utilisation in industry has risen and is now just over 90 per cent, which is relatively high from a historical perspective. However, several years of low investments and weak development of industrial production probably mean that capacity is lower than it was a few years ago. The future development of industrial investments will depend in part on corporate profits, demand and the development of aggregate costs.

Risks

The Debt Office's forecast is based on the continuation of the recovery of the world economy. However, there are several uncertainties that could lead to poorer growth of both the Swedish and the international economy.

Growth in China has slowed down recently. The situation is uncertain and a sharper slowdown is not unlikely. This would result in adverse effects for the recovery of the world economy.

Geopolitical unrest in the Middle East and Ukraine, in particular, continue to be risks to global economic development.

In the euro area the situation in Greece continues to be a source of uncertainty concerning the economic recovery, despite new support packages and savings programmes. The political situation is unclear and it is far from certain that the savings programmes will be implemented in full.

The expansive monetary policy pursued by central banks has resulted in greater demand for more risky assets. On account of this, the prices of financial assets, and also of properties, have risen in most countries. It is not possible to rule out falls in asset prices, which might also impact on the real economy.

Slightly higher net borrowing requirement

The Debt Office expects a net borrowing requirement of SEK 45 billion in 2015. This is SEK 25 billion lower than in the previous forecast. One reason for this decrease is higher tax income. For 2016 the net borrowing requirement is estimated at SEK 33 billion. This is an increase of SEK 8 billion. The increase is mainly due to higher expenditure for migration. For 2017 the Debt Office expects a net borrowing requirement of SEK 47 billion.

The Debt Office expects the net borrowing requirement this year to be SEK 45 billion. This is SEK 25 billion lower than in the previous forecast published in June. Tax income has grown faster than estimated. The Government has also decided on extra dividends from Akademiska Hus AB and SJ AB. In addition, disbursements from public authorities have been lower than estimated.

Table 1	Central government net borrowing
	requirement

requirement			
SEK billion	2015	2016	2017
Primary net borrowing requirement	22	32	37
of which net lending to agencies excl. on-			
lending	5	4	4
of which net lendning, on-lending	10	13	10
of which sales of state assets	0	0	0
of which income and expenditure excl.			
sales of assets	7	15	23
Interest payments	24	1	10
Net borrowing requirement	45	33	47

The Government's Budget Bill contains both tax increases and increased expenditure as of 2016. Overall, the changes are fairly neutral with respect to the budget balance. Over and above the effects of regulations, tax income will also increase slightly on account of a better macro-economic outlook.

The higher tax income is countered by a significant increase in expenditure for migration. However, part of the expenditure increase for migration is offset by an assumed decrease in development assistance. The net borrowing requirement in 2016 is estimated at SEK 33 billion, which is SEK 8 billion higher than in the June forecast.

For 2017, which is a new forecast year, the Debt Office estimates the net borrowing requirement at SEK 47 billion. The increase from 2016 is mainly due to a higher expenditure for migration. Together with rising expenditure for interest on the central government debt, social insurance and the contribution to the EU budget, this means that total expenditure is estimated to grow slightly faster than tax income, despite a relatively strong economic development. For the development of the net borrowing requirement between the years, see page 11.

The central government debt is estimated at SEK 1 442 billion at the end of 2015 and SEK 1 469 and 1 511 billion respectively at the end of 2016 and 2017. This corresponds to 35 per cent of GDP for all the years. The central government debt is presented in more detail in the section on borrowing.

Forecast changes in net borrowing requirement

Table 2Major forecast changes1

SEK billion	2015	2016
Forecast June 2015	71	25
Taxes	-9	-24
Labour market	-1	1
Social insurance	0	2
Migration	1	31
International aid	-1	-10
Dividends	-6	-1
Interest payments	-1	-3
Net lending excl. on-lending	0	0
On-lending	0	0
Other	-9	12
Forecast October 2015	45	33
Sum of changes	-25	8

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

Slightly lower income from payroll taxes for central government

Payroll taxes will decrease by SEK 3 billion this year and SEK 1 billion next year compared with the previous forecast. However, so far this year employers' social security contributions have grown slightly more strongly than forecast. But a large part of this increase is passed onto the pension system, so it does not affect the net central government borrowing requirement.

So far this year preliminary taxes have grown more weakly than expected. The Debt Office's assessment is that this is because a lower share of tax than previously estimated is being paid in preliminary tax. This will be offset by higher supplementary tax payments next year.

Next year tax increases and greater growth of the wage sum will result in a rise in total payroll taxes. But this income will still decrease for central government since payment of local taxes to the local authorities will be much higher than previously estimated. The size of these payments depends on the indexation factors set by the Riksdag. The indexation factors set in conjunction with the Budget Bill were much higher than in the Debt Office's forecast.

Table 3Tax income compared with
previous forecast1

SEK billion	2015	2016
Payroll taxes	3	1
Consumption taxes	-8	-10
Corporate taxes	-2	-1
Supplementary taxes	-2	-13
Total	-9	-24

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

Slightly higher income from corporate taxes

Preliminary tax assessment outcomes indicate that the Debt Office's assessment of corporate profits in 2014 is standing up well. However, the forecast for the growth of profits in 2015–2017 has been revised upward slightly. Future indicators such as the NIER Business Tendency Survey and the Riksbank's Business Survey suggest that companies are relatively optimistic about the future, but that weak growth internationally continues to be a source of concern to exporters.

Table 4Growth rates for tax forecasts,
current prices

Percentage change	2014	2015	2016	2017
Household consumption	3.0	3.6	3.9	3.7
Wage sum	3.7	4.2	4.3	4.1
Household taxable income	3.3	4.3	4.4	4.1
Income from interest and dividends	5.9	-2.1	4.9	2.1
Deduction for interest on debts	-6.8	-9.3	5.0	6.7
Household capital gains, net	28.0	7.0	-10.2	-11.3
Corporate taxable income	6.7	5.5	6.5	7.0

Corporate profits will grow slightly more slowly than the historical average during the period, and this is largely explained by a weak international demand.

Increased income from consumption taxes

Consumption taxes will increase by SEK 8 billion in 2015 and SEK 10 billion in 2016 compared with the previous forecast. So far this year the outcome for value added tax and excise taxes have been higher than estimated. The higher level will also have a positive effect next year. In addition, tax increases being implemented on energy and fuel will increase tax income as of 2016.

Figure 1 Net borrowing requirement, 12month figures



Higher capital gains for households

The preliminary outcome of the tax assessment for 2014 shows that households' capital gains rose sharply compared with 2013. The increase between the years is chiefly due to higher profits on sales of owner-occupied and tenant-owner homes. The Debt Office's assessment is that capital gains will continue to rise in 2015 and will then fall gradually towards a historical average. This is an important cause of the increase in supplementary taxes of SEK 2 billion in 2015 and SEK 13 billion in 2016 compared with the previous forecast.

Larger dividends on state-owned shares this year

Central government income from share dividends is put at SEK 20 billion in 2015. Compared with the previous forecast this is an increase of just over SEK 6 billion. The increase is explained by extra dividends from Akademiska hus AB and SJ AB. Akademiska Hus is expected to pay an extra dividend of SEK 6.5 billion, of which SEK 4.5 billion will be paid to central government in 2015. The reason for the dividend is that the company's equity/assets ratio is above the target set by its owner. SJ AB has paid an extra dividend of SEK 1.7 billion.

For 2016 dividends are expected to amount to SEK 13 billion. This is an increase of SEK 1 billion compared with the June forecast. The increase is mainly due to the payment of SEK 2 billion of the extra dividend from Akademiska Hus in 2016. This will be partly offset by lower expected dividends from Vattenfall AB and LKAB.

In the first half of the year Vattenfall has recorded new impairment losses that have had a negative effect of SEK 36 billion on its operating profit. This probably means that there will be no dividend in 2016 either. The profitability of LKAB is under pressure from low iron ore prices and overproduction on the world market. The Debt Office's forecast is therefore that the dividend will only be at the same level as in 2015.

For 2017 central government income from dividends is expected to decrease to SEK 11 billion. The reason for the decrease between the years is that the forecast does not contain any extra dividends. As a rule, extra dividends are decided late in the financial year and do not have the same direct link to operating profits and dividend policy as do ordinary dividends. This makes it difficult to forecast any extra dividends in the longer term.

SEK billion	2015	2016	2017
Akademiska hus AB	5.9	3.5	1.5
LKAB	0.1	0.1	0.2
TeliaSonera AB	4.8	5.0	5.0
Vattenfall AB	0.0	0.0	0.0
Sveaskog AB	0.8	0.8	0.8
Other corporations	7.9	3.5	3.6
Totalt	19.6	12.9	11.1

Small increase in labour market expenditure

Labour market expenditure will rise slowly in the forecast period. While the increase in the highest

benefit level in unemployment insurance and activity support and various initiatives in labour market programmes will increase expenditure as of next year, this will be offset by an expected fall in unemployment towards 7.0 per cent in 2017.

Figure 2 Volumes in transfer systems for labour market and ill health

Full time equivalents



Source: Statistics Sweden and own calculations

Rising expenditure pressure in social insurance

Expenditure on social insurance has been revised upwards by around SEK 2 billion in 2016 compared with the previous forecast. This is mainly due to the reforms proposed by the Government in the Budget Bill, including the abolition of the duration limit in sickness insurance.

In recent years sickness benefit expenditure has increased sharply, as shown in figure 3. This has been offset to some extent by a fall in expenditure on sickness and activity compensation at the same time. However, that decline has slowed down, which means that aggregate expenditure will increase during the forecast period.

Figure 3 Expenditure for sickness benefits and sickness and activity compensation



Source: Sweden Social Insurance Agency and own calculations

Sharp increase in expenditure for migration

Expenditure for migration will rise by SEK 1 billion in 2015 and SEK 31 billion in 2016 compared with the previous forecast because the number of asylum-seekers is expected to rise sharply. Expenditure for 2017 is estimated to increase by SEK 12 billion compared with 2016. The forecast for migration expenditure covers compensation to municipalities for refugee reception in addition to the activities of the Swedish Migration Agency. The level of the Migration Agencies' disbursements is projected to rise from SEK 26 billion in 2015 to SEK 70 billion in 2017.

However, so far this year expenditure for migration has been in line with the forecast. Up to the end of June fewer people than estimated had applied for asylum. But the proportion of unaccompanied minors was higher than estimated and this contributed to keeping expenditure up. However, since the end of June there has been a gradual and considerable increase in the number of asylumseekers. Up until 20 October some 99 000 people had applied for asylum in Sweden, and approximately 20 000 of them were unaccompanied minors. This can be compared with the Swedish Migration Agency's full-year forecast from the end of July, which was 74 000 people, including 12 000 unaccompanied minors.

The Swedish Migration Agency published a new forecast of the number of asylum-seekers and of associated expenditure on 22 October. In this forecast the number of asylum-seekers is assumed to be 160 000 for 2015, 135 000 for 2016 and 95 000 for 2017. Unaccompanied minors are estimated to account for about 20 per cent of these asylum-seekers. The cost of receiving unaccompanied minors is considerably higher than the cost of adults and accompanying children. This is partly because higher demands are made on their form of accommodation and related staffing than on that of other asylum-seekers.

There is considerable uncertainty about how many people will apply for asylum. This depends on factors including how the situation in the countries of origin of people fleeing develops, how attractive it is to come to Sweden compared with other countries and how refugee policy develops in the EU and in Sweden.

Decrease in development assistance assumed

Under the guidelines of OECD's Development Assistance Committee (DAC) certain expenditure for refugee reception is set off against expenditure on official development assistance. This has made it possible to hold back total central government expenditure on migration and development assistance to some extent when the number of refugees has increased.

The total development assistance budget is set at around 1 per cent of gross national income (GNI). This means that the development assistance budget grows when GNI grows. But disbursements of development assistance have been relatively unchanged in the period 2012–2014, partly as an effect of a greater offset against refugee reception. The number of asylum-seekers is now at such a level that any further set-off will reduce the level of development assistance.

The Debt Office has made a technical assumption for its calculations that the regulations for setting off refugee reception will continue to be applied in the same way as before. This means that disbursements from Sida, the Swedish International Development Cooperation Agency, will decrease by SEK 10 billion in 2016 compared with the Debt office's June forecast. The level of development assistance will then be around SEK 20 billion for 2016 and 2017.

How this set-off will be handled in practice is ultimately a matter of political priorities. However, the increase in expenditure for migration means that there is no longer any margin to the expenditure ceiling for either 2016 or 2017. If the set-off against development assistance is not put into effect as assumed above, savings on at least the same scale will be needed in other areas.

Net lending by the Debt Office

The Debt Office's net lending to government agencies etc. is expected to be fairly stable at around SEK 14–16 billion per year in the period 2015–2017. The broad outlines are unchanged from the previous forecast.

During the forecast period net lending will consist to a great extent of exchange rate effects in connection with the refinancing of loans raised on behalf of the Riksbank.

Change in the net borrowing requirement between years

The table shows how the net borrowing requirement changes between 2013 and 2017 and how different parts of the net borrowing requirement affect the change.

The net borrowing requirement decreases by SEK 27 billion between 2014 and 2015. Tax income increases by SEK 58 billion between these years. This is countered to some extent by higher expenditure in areas including social insurance and migration. Interest payments also rise by SEK 20 billion, from a very low level in 2014.

Between 2015 and 2016 the net borrowing requirement decreases by SEK 13 billion. Tax income rises by SEK 67 billion, partly as a result of tax increases. Most expenditure items continue to increase with the exception of the contribution to the EU budget, where Sweden is expected to receive a rebate in 2016. The expenditure increases are due largely to greater expenditure for migration, but are also due to decisions in the Budget Bill for 2016. In addition, interest payments decrease by SEK 22 billion, see page 12. The net borrowing requirement increases by SEK 14 billion between 2016 and 2017. Tax income grows by SEK 36 billion. However, expenditure increases more rapidly, mainly on account of a continued increase in expenditure for migration. In addition, expenditure for interest on the central government debt and the contribution to EU budget increase from temporarily very low levels in 2016.

SEK billion	2013	2014	2015	2016	2017
Net borrowing					
requirement, level	131	72	45	33	47
Net borrowing					
requirement, change	106	-59	-27	-13	14
Explained by;					
Taxes	14	-26	-58	-67	-36
Government grants to					
local governments	4	5	-3	2	2
Labour market	5	1	1	1	1
Social Insurance	2	7	7	11	5
Migration & International					
aid	3	4	7	23	14
Sales of state-owned					
assets	-21	21	0	0	0
Share dividends	1	8	-7	7	2
EU contribution	1	5	-2	-7	7
Debt Office's net					
lending excl. on-					
lending	-4	29	-14	-2	1
On-lending	101	-104	7	4	-3
Interest on government					
debt	-11	-13	20	-22	8
Other	11	6	15	38	14

Low interest payments next year

Central government interest payments are expected to be just under SEK 24 billion this year, just over SEK 1 billion next year and around SEK 10 billion in 2017. For this year interest payments have only been revised downward by around SEK 1 billion. Next year interest payments are estimated to be just over SEK 3 billion lower than the previous forecast. This is mainly due to higher exchange gains against the background of a slightly stronger krona.

Table 6 Interest payments on the central government debt

SEK billion	2015	2016	2017
Interest on loans in SEK	14.0	3.2	10.9
Interest on loans in foreign currency	-0.2	0.2	0.2
Realised currency gains and losses	9.8	-2.2	-1.5
Interest payments	23.6	1.2	9.6

Interest payments vary sharply during the forecast period, as shown in figure 4. The increase this year compared with last year is because high premiums and foreign currency gains reduced interest payments by around SEK 18 billion in 2014. This year the rate effects are working in the other direction instead, resulting in an increase of some SEK 5 billion in interest payments. The level for 2015 is also affected by the payment by the Debt Office of accrued inflation compensation of more than SEK 5 billion when inflation-linked bond SGB IL 3105 matures in December 2015

Figure 4 Interest payments divided into coupon interest etc. and rate effects¹



There is no corresponding payment in 2016, and this contributes, along with more favourable rate effects, to the fall in interest payments between 2015 and 2016.

¹ This includes issues sold at a premium/discount, capital gains/losses in connection with switches/buybacks and currency exchange gains/losses realised.

In 2017 interest payments will rise again, and this will mainly be due to slightly less favourable rate effects.

The low level of interest rates and, to some extent, the decline in the central government debt have resulted in a falling trend in central government interest expenditure throughout the 21st century, both in monetary terms and as a share of GDP. This is seen in figure 5.





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

Table 7 Cut-o	Cut-off interest rates, per cent								
Duration	3 mån	6 mån	2 år	5 år	10 år	30 år			
Government bonds	-0.6	-0.6	-0.5	0.1	0.8	2.2			
Inflation-linked bonds	-1.0	-1.0	-1.1	-1.0	-0.5	0.7			
Swap interest rate SEK	-0.3	-0.3	-0.2	0.5	1.4				
Swap interest rate EUR	-0.1	0.0	0.0	0.4	1.0	1.6			
Swap interest rate USD	0.3	0.4	0.8	1.4	2.1				

Table 8	Cut-off currency exchange rates
---------	---------------------------------

Spotrates	2015-09-30
SEK/EUR	9.40
SEK/USD	8.39
SEK/CHF	8.56
SEK/JPY	0.07
SEK/GBP	12.75
SEK/CAD	6.26

Budget balance and central government net lending

The Debt Office estimates central government net lending at -0.9 per cent as a proportion of GDP in 2015, -1.0 per cent in 2016 and -1.1 per cent 2017. Net lending will improve by about 0.5 percentage points in 2015 compared with 2014. Thereafter net lending will deteriorate slightly, and one explanation is that central government expenditure will be rising more rapidly than before.

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.

able 9 Central government net lending						
2013	2014	2015	2016	2017		
-131	-72	-45	-33	-47		
87	17	10	-11	1		
-21	0	0	0	0		
99	13	19	22	20		
9	4	-9	-33	-18		
-44	-55	-35	-44	-46		
-1.2	-1.4	-0.9	-1.0	-1.1		
	2013 -131 87 -21 99 9 9	2013 2014 -131 -72 87 17 -21 0 99 13 9 4 -44 -55	2013 2014 2015 -131 -72 -45 87 17 10 -21 0 0 99 13 19 9 4 -9 -44 -55 -35	2013 2014 2015 2016 -131 -72 -45 -33 87 17 10 -11 -21 0 0 0 99 13 19 22 9 4 -9 -33 -44 -55 -35 -44		

Net lending is also adjusted for payments that do not affect central government's financial wealth. If, for example, central government sells financial assets such as shares this does not affect net lending. Central government 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 central government 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, central government receives an asset (a claim on the Riksbank) that corresponds to the increased indebtedness incurred in order to finance lending to the Riksbank. On the other hand, the budget balance and central government debt are affected.





Monthly forecasts of the net borrowing requirement

The net borrowing requirement varies strongly between months. The following table presents monthly forecasts from October 2015 until and including September 2016.

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 funds.

Table 10Central government net borrowing
requirement per month

	Primary borrowing require- ment excl. net lending	Net lending	Interest on central governm ent debt	Net borrowing require- ment
Oct-15	12.4	-4.6	-3.8	3.9
Nov-15	-12.4	-2.0	-0.2	-14.6
Dec-15	55.0	29.2	14.8	99.0
Jan-16	9.7	-1.8	-1.6	6.3
Feb-16	-47.7	-2.7	-0.5	-50.9
Mar-16	-6.3	-1.5	2.7	-5.2
Apr-16	-4.1	-2.0	-3.4	-9.5
May-16	-29.0	1.9	-0.7	-27.8
Jun-16	35.6	-4.7	1.8	32.7
Jul-16	8.4	-3.9	0.2	4.7
Aug-16	-14.3	-3.6	1.0	-16.9
Sep-16	8.6	0.4	-2.2	6.8

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	Effect on net
point	borrowing requirement
Gross wages ¹	-7
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.



All forecasters make similar assessments of the net borrowing requirement for 2015. The Government and the National Institute of Economic Research (NIER) have lowest figure with a forecast of SEK 41 billion while the Swedish Financial Management Authority (ESV) has the highest figure with a forecast net borrowing requirement of SEK 53 billion.

For 2016 and 2017 the Debt Office forecasts a higher net borrowing requirement that the other authorities. This is mostly because the Debt Office has had time to take account of the Swedish Migration Agency's most recent assessment of the expenditure for refugee reception.

	Debt (Office (2	8 Oct)	Goverr	nment (2	1 Sept)	NIER (7 Oct)		ESV (2	Sept)
SEK billion	2015	2016	2017	2015	2016	2017	2015	2016	2015	2016	2017
Net borrowing requirement of which:	45	33	47	36	10	8	41	25	53	27	15
Sales of state assets	0	0	0	-5	-5	-5	0	0			
Adjusted net borrowing requirement	45	33	47	41	15	13	41	25	53	27	15

Issue volumes unchanged

The planned issue volume of government bonds remains at SEK 88 billion per year in 2016 and 2017. Borrowing in T-bills and inflation-linked bonds is also to be unchanged. However, borrowing in commercial paper in 2015 decreases compared with the June forecast on account of lower net borrowing requirement this year. Bond issuance in foreign currency is marginally lower compared with the previous forecast.

Lower borrowing requirement

In addition to covering the deficit in the central government budget, the Debt Office needs to borrow to finance loans reaching maturity and buybacks in switches. The total gross borrowing requirement is estimated at SEK 482 billion in 2015, which is a decrease of SEK 23 billion compared with the previous forecast. The decrease is because the net borrowing requirement is expected to be lower than expected by the Debt Office in June.

Table 1 shows the total gross borrowing requirement for the forecast period.

gicqui		
2015	2016	2017
45	33	47
-1	0	0
24	9	8
256	288	238
88	119	135
124	83	40
44	85	63
157	107	155
74	55	73
29	3	20
54	49	62
482	436	448
	2015 45 -1 24 256 88 124 44 157 74 29 54	45 33 -1 0 24 9 256 288 88 119 124 83 44 85 157 107 74 55 29 3 54 49

Table 1 Gross borrowing requirement

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. In addition, the difference in calculation on money market instrument between accounting of government debt and accounting of the net borrowing requirement.

² Net change in retail borrowing and collateral.

³ Initial stock maturing within 12 months.

⁴ Refers to borrowing requirement in the institutional market.

The Debt Office will handle the lower borrowing requirement this year by borrowing less in commercial paper. This will, in turn, lead to a lower refinancing requirement in the money market next year. Therefore, the borrowing requirement in 2016 will decrease by SEK 12 billion compared with the June forecast, despite the upward revision of the net borrowing requirement forecast made by the Debt Office.

In its first forecast for 2017 the Debt Office expects a borrowing requirement of SEK 448 billion, which is slightly higher than in 2016.

In 2016 borrowing within liquidity management will be reduced. All other borrowing is largely unchanged compared with the June forecast. Table 2 shows how borrowing is distributed between different instruments. Figures in brackets give the borrowing according to the June forecast.

Table 2	Borrowing according to our new
	forecast

	20	2015		016	2017
SEK billion	Oct	(Jun)	Oct	(Jun)	Oct
Money market funding ¹	288	(309)	238	(248)	267
T-bills	119	(125)	135	(135)	135
Commercial paper,	83	(109)	40	(40)	65
Central Government	75	(100)	40	(40)	65
on-lending to the Riksbank	8	(9)	0	(0)	0
Liquidity management	85	(75)	63	(73)	67
Bond funding		(196)	198	(199)	181
Government bonds	86	(86)	88	(88)	88
Inflation-linked bonds	17	(17)	18	(18)	18
Foreign currency bonds,	91	(93)	92	(93)	75
Central Government	38	(40)	22	(22)	20
on-lending to the Riksbank	53	(53)	70	(71)	55
Total gross funding	482	(505)	436	(448)	448

¹Outstanding stock as at year-end.

Borrowing in government bonds will remain at SEK 4 billion per auction throughout the forecast period, i.e. up until December 2017. Borrowing in T-bills is planned at SEK 17.5 billion in average per auction. The issue volume of inflation-linked bonds during the forecast period is unchanged at SEK 18 billion per year.

On-lending to the Riksbank is expected to decrease slightly in 2016 in krona terms since the krona has appreciated since June.



Figure 1 Outstanding government bonds

Unchanged volume of government bonds

Borrowing in government bonds is unchanged at SEK 86 billion this year and SEK 88 billion in 2016. The issue volume in 2017 is also planned at SEK 88 billion. The auction volume per auction will therefore remain at SEK 4.0 billion throughout the forecast period.

In the first half of the year the Debt Office has, on several occasions, split the issue volume between two different maturities in order to meet the demand in different segments. This approach has been well received by the market and may continue to be a feature of issues in the future.

The Debt Office mainly borrows in the ten and five year maturities. The emphasis is on the ten-year segment. Issues are also made of two-year bonds. At the same time, individual issues will be made in other maturities when justified to maintain liquidity.

There may also be individual issues in the existing 24-year bond SGB 1053, as well as in the 17-year bond SGB 1056 when there is demand for long bonds.

In May the Debt Office introduced a new ten-year government bond, SGB 1059. This bond will become the reference loan in the electronic interbank market in December 2015.

In order to build up an additional volume the Debt Office will, in the usual way, offer switches to SGB 1059. The switches will take place on 26 to 30 November. More information will be on 4 November, see table 4 for important dates.

The Debt Office plans to issue a new ten-year government bond in 2016 as well as in 2017.

Table 3 Reference bonds in the electronic interbank market

Date of change (IMM date) ¹	2-year	5-year	10-year
Current reference bonds	1051	1047	1058
16 December 2015			1059
16 March 2015	1052		
15 June 2015		1054	

¹The reference bond 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 bond 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 2 Stock of government securities and foreign currency bonds¹

Nominal amount, billion SEK



¹ Foreign currency bonds excluding bonds issued on behalf of the Riksbank.

Figure 2 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. Fluctuations in the borrowing requirement are instead handled by adjusting foreign currency borrowing in the first place.

Table 4 Important dates 2015–2016

Date	Time	Activity
4 Nov.	09.30	Information on switches to SGB 1059
26-30 Nov	. 11.00	Switches to SGB 1059
4-7 Dec.	11.00	Switches from SGB IL 3107
10 Dec.	09.30	Information on switches to SGB IL 3112
11 Feb.	11.00	Introduction of SGB IL 3112
12-16 Feb.	. 11.00	Exchanges to SGB IL 3112
24 Feb.	09.30	Central government borrowing – forecast and analysis 2016:1
12-13 May	11.00	Switches from SGB IL 3107



The Riksbank's purchases of government bonds

The Riksbank has decided to purchase government bonds for about SEK 135 billion until and including December 2015. The purchases are being made on the secondary market and the purpose, according to the Riksbank, is to support the development of the Swedish economy so that inflation continues to increase towards 2 per cent. The Riksbank has not decided on a programme for 2016, but says that it will continue to have high continued preparedness to make monetary policy even more expansive.

At the time of writing the Riksbank had purchased just less than SEK 100 billion of government bonds, corresponding to 17 per cent of the outstanding stock, see the figure below. The Riksbank will, according to current plans, have purchased over 22 per cent of the stock by the end of the year. The task of the Debt Office is to finance the central government deficit and manage the central government debt. The objective of the management of the central government debt is to minimise the long-term costs while taking account of risk. The Riksbank's purchases of government bonds do not alter either the financing requirements of central government or the direction of the management of central government debt.

This means that the issue plan presented here has been geared to the borrowing requirements of central government and the guidelines that apply to the management of the central government debt. Thus the Riksbank's purchasing programme does not affect the Debt Office's issue planning.



Figure Outstanding government bonds and the Riksbank's purchases, on 1 October 2015

Auction volume of T-bills stays at same level

Planning includes an average auction volume of SEK 17.5 billion throughout the forecast period. As before, the Debt Office's ambition is for the stock of T-bills to grow gradually. As a first step, the issue volume was raised at the beginning of March from SEK 15 billion to SEK 17.5 billion on average per auction. If there is sufficient demand, T-bill borrowing may be further increased slightly later on.

The stock is expected to be around SEK 120 billion in December 2015. At the end of 2016 and 2017 the stock is expected to be SEK 135 billion. These are the same levels as in the previous forecast. On average during the year the stock of T-bills is expected to be about SEK 140 billion in 2016 and SEK 150 billion in 2017.



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.

The Debt Office announced in the preceding report that the policy for borrowing in T-bills is being reviewed. One possibility mentioned was to spread the stock over a larger number of issues of smaller volume. After receiving views from market players, the Debt Office has made the assessment that there is not sufficient interest to increase the number of outstanding T-bills. This means that no change will be made to the borrowing policy for the time being. The Debt Office continues to welcome views on what can be done to make the market work better.

Borrowing in commercial paper²

Borrowing in commercial paper will decrease by SEK 25 billion to SEK 75 billion on account of the lower borrowing requirement in 2015. At the end of 2016 and 2017 the stock is expected to amount to SEK 40 billion and SEK 65 billion respectively.

Borrowing in commercial paper on behalf of the Riksbank will decrease from SEK 9 to 8 billion in 2015, as an effect of the stronger krona.

Lower volume of interest rate swaps

The volume of interest rate swaps will be lower than in the June forecast. The Debt Office expects a volume of SEK 13 billion this year and SEK 5 billion per year in 2016 and 2017.

Table 5 Chang	Table 5 Change of outstanding swaps					
		2015	20	016	20	017
SEK billion	Oct	(Jun)	Oct	(Jun)	Oct	(Jun)
Interest rate swaps ¹	13	(15)	5	(20)	5	-
Cross currency swaps ²	0	(0)	0	(0)	0	-
Swaps total	13	(15)	5	(20)	5	-
Swaps maturing	28	(28)	38	(38)	39	-
Swaps, net change	-15	-(13)	-33	-(18)	-34	-

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.

Interest rate swaps shorten the duration of the central government debt. The reduction is being made in order to extend the duration in accordance with the proposed guidelines for 2016 submitted by the Debt Office to the Government at the end of September.

The background to the proposal is that the Debt Office assesses that the cost difference between short-term and long-term borrowing has decreased and is smaller than it has been historically. The proposal means an increase in the ceiling in the control interval for the duration of the nominal krona debt by 0.5 years to 3.6 years, see figure 3.

The Government does not take its decision on the guidelines until the middle of November, but the Debt Office is basing the planning of its borrowing on the proposal submitted.

² Commercial paper is short securities in foreign currency that the Debt Office issues under English law.



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 and market rates change during the year.



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.

Part of the outstanding currency exposure in the central government debt has been provided by the Debt Office swapping krona borrowing into foreign currency using what are called basis swaps. According to the guidelines for the management of the central government debt, foreign currency exposure in the central government debt is to decrease gradually. This means that the Debt Office is not planning any basis swaps in order to provide exposure in foreign currency.

The outstanding stock of swaps will decrease by SEK 15 billion this year. In 2016 and 2017 the stock will decrease by a further SEK 33 billion and SEK 34 billion respectively, see table 5. 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.

Unchanged volume of inflation-linked bonds

Borrowing in inflation-linked bonds is unchanged from the previous forecast. The planned annual volume is SEK 17.3 billion in 2015 and SEK 18 billion in 2016. In its first forecast for 2017 the Debt Office also expects to issue SEK 18 billion. The issue volume will remain at SEK 1 billion per auction throughout the forecast period.

In 2016 the Debt Office will issue in the ten-year segment in the first place, i.e. SGB IL 3109 and SGB IL 3112 (see below), along with the four-year bond SGB IL 3110. There may also be issues of other inflation-linked bonds depending on the demand situation in the market.

The Debt Office's long-term ambition is to increase the number of maturities, thus avoiding excessive concentrations of volume so that no individual bonds exceed 30 per cent of the inflation-linked bond index, see below.

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, SGB IL 3112 maturing on 1 June 2026. In connection with the introduction on 11 February the Debt Office expects subsequent switches from nearby, both shorter and longer, bonds, including SGB IL 3104.

Measures to reduce the outstanding volume of SGB IL 3104

The Debt Office plans to take measures in order to reduce the outstanding volume of inflation-linked bond SGB IL 3104. The reason is that it exceeds 30 per cent of the inflation-linked bond index. This creates problems for investors who track the index but are unable to allocate more than 30 per cent to a single issue under investment rules in place.

A first measure is to apply less restrictive pricing for a limited period in the continuous switch facility when primary dealers make switches of SGB IL 3104 to the longer SGB IL 3111.

As a complement to this, the Debt Office is considering also offering switch auctions of SGB IL 3104 for the new longer bond SGB IL 3111. These auctions could then be designed in such a way that investors would have the right to make conditional offers that would be executed providing that SGB IL 3104 gets a volume that gives an index weight of less than 30 per cent.

In addition, the Debt Office expects to switch some of SGB IL 3104 on the introduction of the new tenyear inflation-linked bond in February 2016.

Switches of SGB IL 3107 in December

Switches of SGB IL 3107, which matures in 2017, will take place in December this year and spring 2016. The purpose of the switches is to reduce the outstanding stock when the bond approaches maturity, thereby reducing the reinvestment risk for investors. In these switches the four-year inflation-linked bond SGB IL 3110 is a natural switch candidate.

The Debt Office's policy is to let a maximum of SEK 25 billion of an inflation-linked bond go to maturity. The experience of loan SGB IL 3105 showed that SEK 25 billion can be too large a volume for the market to handle in a short inflation-linked bond. Therefore the Debt Office is now offering a slightly larger *switch* volume for SGB IL 3107 so that a smaller volume is outstanding when the bond has one year left to maturity.

This forecast includes approximately SEK 10 billion in switches of SGB IL 3107, meaning that the Debt Office expects maturities of approximately SEK 16 billion in the bond.

After 1 June 2016, when SGB IL 3107 will be shorter than one year, the Debt Office will no longer offer switches of this loan. Instead, the Debt Office will, in line with the present principle, provide a restrictive buyback facility, in which any buybacks are made at a premium since this is not a question of a regular buyback offer.

Figure 4 Share of inflation-linked debt¹



¹ In the long term the inflation-linked debt is to be 20 per cent of the total debt. There is no longer a composition target for the foreign currency debt.

Foreign currency bonds

So far this year the Debt Office has issued foreign currency bonds corresponding to SEK 91 billion, of which SEK 53 billion is refinancing of on-lending to the Riksbank. This means that all borrowing for the present period has been completed.

As in the previous forecast the Debt Office expects to issue SEK 22 billion in foreign currency bonds in 2016, in addition to the on-lending to the Riksbank. The refinancing of maturing loans for the Riksbank is assessed at SEK 70 billion which is SEK 1 billion lower than in the June forecast. This decrease is a result of the somewhat stronger krona since June. Measured in foreign currency the borrowing is unchanged.

In 2017 the Debt Office expects to borrow the equivalent of SEK 75 billion in foreign currency bonds. The larger part, SEK 55 billion, is refinancing of maturing bonds for the Riksbank.

Figure 5 Maturity profile of foreign currency bonds



On-lending to the Riksbank

On 30 September on-lending to the Riksbank totalled SEK 241 billion. The decrease in volume since the previous report is due to the strengthening of the krona. The Debt Office expects that maturing loans will be replaced with new loans and that the volume in foreign currency will be maintained during the forecast period. The Debt Office's krona borrowing in the Swedish krona market is not affected since this financing takes place in foreign currency, see the fact box about on-lending.



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 other states and the Riksbank is presented in the Report 'Sweden's Central Government Debt' under the heading of onlending. 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 onlending 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 onlending. This means that debt shares and maturity measures

Figure 6 Outstanding foreign currency loans



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

Net borrowing and the central government debt

Table 6 shows how the net borrowing requirement is financed using various instruments. Positive net borrowing means that the volume issued is greater than the volume maturing and bought back in switches.

Table 6 Net borrowing per calendar year

SEK billion	2015	2016	2017
Net borrowing requirement	45	33	47
Business day adjustment ¹	-1	0	0
Net borrowing requirement	45	32	47
Retail funding & collateral, net	-24	-9	-8
Net money market funding	32	-50	29
T-bills	31	16	0
Commercial paper	-40	-43	25
Liquidity management	42	-23	4
Net bond market funding	37	91	26
Government bonds	12	33	15
Inflation-linked bonds	-12	15	-2
Foreign currency bonds	37	43	13
Total net borrowing	45	32	47

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. To this adds the difference in calculation on money market instrument between accounting of government debt and accounting of the net borrowing requirement.

At the end of 2017 the central government debt is expected to be SEK 1 511 billion. This corresponds to a GDP share of 35 per cent. Figure 7 and table 7 show the 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 consist mainly of accrued inflation compensation and exchange rate effects. Since the official measure of the central government debt is the gross debt, the Debt Office's money market assets (assets in debt management) 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 foreign states and to the Riksbank. Measured in this way the debt will be 29 per cent of GDP at the end of 2017.

This measure 'central government debt including on-lending and assets in debt management' 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 central government, but unlike assets in the money market it is not available for the payment of central government expenditure.





Table 7 Net borrowing and the central government debt

SEK billion	2010	2011	2012	2013	2014	2015	2016	2017
Net borrowing requirement	1	-68	25	131	72	45	33	47
Discrepancy between business and payment date ¹	25	23	-17	0	-4	-1	0	0
Net borrowing per business day	26	-45	8	131	68	45	32	47
A. Nominal amount including money market assets	1 158	1 113	1 121	1 253	1 321	1 366	1 398	1 445
Inflation compensation	31	34	31	29	25	20	24	28
Exchange rate effects	-28	-21	-29	-19	30	32	22	13
B. Nominal amount to current exchange rate incl. inflation								
compensation and money market assets	1 161	1 1 2 6	1 1 2 3	1 262	1 376	1 417	1 444	1 486
Assets under management	18	25	23	15	18	25	25	25
C. Central government debt	1 179	1 151	1 146	1 277	1 394	1 442	1 469	1 511
Assets under management	-18	-25	-23	-15	-18	-25	-25	-25
On-lending	-86	-91	-93	-201	-233	-247	-247	-247
D. Central government debt incl. on-lending and assets								
under management	1 075	1 035	1 030	1 061	1 143	1 171	1 197	1 240
Nominal GDP	3 520	3 657	3 685	3 770	3 918	4 1 2 2	4 223	4 324
C. Central government debt, % of GDP	34	31	31	34	36	35	35	35
D. Central government debt incl. on-lending and money								
market assets, % of GDP	31	28	28	28	29	28	28	29

¹Adjustment for the difference between payment and business day. We account for borrowing and central government debt by business day while net borrowing requirement is 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.

Measuring central government debt

The Central government debt is calculated as the value of outstanding debt instruments, mainly bonds and treasury bills, at the reporting date, calculated in accordance with established principles, see below. Within the framework of debt management are also certain assets. There are funds temporarily invested in the money market until they are used to pay expenses in the state budget or maturing loans. The assets mean that the actual liability is less than the sum of outstanding debt instruments.

Nominal amount or face value (A in the table above) 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 B above) 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 is called the uplifted amount at current exchange rate). These measures show the government debt when assets under management are taken into account. The official measure of government debt (in C above) is defined based on principles laid down at EU level. It accounts for the Central government gross debt, without the assets. To obtain this measurement, we add the financial assets to measure B.

The Debt Office also reports "Central government debt including on-lending and assets under management" (under D above). This includes not only the assets under 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 adopted by the government and in our internal risk management. On-lending is a government claim, but not in the same manner as assets under management available for payment of government spending.

Liabilities are reported with a positive sign and assets with a negative sign.



Market information

Action dates

Government bonds, auction dates

Announcement date	Auction date	Settlement date
04-Nov-15	11-Nov-15	13-Nov-15
18-Nov-15	25-Nov-15	27-Nov-15
19-Nov-15	26-Nov-15*	30-Nov-15
20-Nov-15	27-Nov-15*	01-Dec-15
23-Nov-15	30-Nov-15*	02-Dec-15
02-Dec-15	09-Dec-15	11-Dec-15
13-Jan-16	20-Jan-16	22-Jan-16
27-Jan-16	03-Feb-16	05-Feb-16
10-Feb-16	17-Feb-16	19-Feb-16
24-Feb-16	02-Mar-16	04-Mar-16
09-Mar-16	16-Mar-16	18-Mar-16
23-Mar-16	30-Mar-16	01-Apr-16
06-Apr-16	13-Apr-16	15-Apr-16
20-Apr-16	27-Apr-16	29-Apr-16
04-May-16	11-May-16	13-May-16
18-May-16	25-May-16	27-May-16
01-Jun-16	08-Jun-16	10-Jun-16
15-Jun-16	22-Jun-16	27-Jun-16

*Exchange auction

Inflation-linked bonds, auction dates

Announcement date	Auction date	Settlement date
29-Oct-15	05-Nov-15	09-Nov-15
12-Nov-15	19-Nov-15	23-Nov-15
26-Nov-15	03-Dec-15	07-Dec-15
27-Nov-15	04-Dec-15*	08-Dec-15
30-Nov-15	07-Dec-15*	09-Dec-15
21-Jan-16	28-Jan-16	01-Feb-16
04-Feb-16	11-Feb-16	15-Feb-16
05-Feb-16	12-Feb-16*	16-Feb-16
08-Feb-16	15-Feb-16*	17-Feb-16
09-Feb-16	16-Feb-16*	18-Feb-16
18-Feb-16	25-Feb-16	29-Feb-16
03-Mar-16	10-Mar-16	14-Mar-16
31-Mar-16	07-Apr-16	11-Apr-16
14-Apr-16	21-Apr-16	25-Apr-16
04-May-16	12-May-16*	16-May-16
06-May-16	13-May-16*	17-May-16
12-May-16	19-May-16	23-May-16
26-May-16	02-Jun-16	07-Jun-16
09-Jun-16	16-Jun-16	20-Jun-16

*Exchange auction

Maturity date	Coupon %	Loan no.	SEK Millior
12-Jul-16	3.00	1050	53 239
12-Aug-17	3.75	1051	65 526
12-Mar-19	4.25	1052	86 550
01-Dec-20	5.00	1047	85 554
01-Jun-22	3.50	1054	87 131
13-Nov-23	1.50	1057	75 634
12-May-25	2.50	1058	55 763
12-Nov-26	1.00	1059	20 205
01-Jun-32	2.25	1056	11 000
30-Mar-39	3.50	1053	43 750

Inflation-linked bonds, outstanding amounts 30 Sep 2015

Maturity date	Coupon %	Loan no.	SEK Million
01-Dec-15	3.50	3105	23 286
01-Jun-17	0.50	3107	26 002
01-Jun-19	0.125	3110	9 464
01-Dec-20	4.00	3102	28 617
01-Jun-22	0.25	3108	32 866
01-Jun-25	1.00	3109	20 992
01-Dec-28	3.50	3104	39 359
01-Jun-32	0.125	3111	4 752
Total Inflation-link	ked bonds		185 338

T-bills, auction dates

Announcement date	Auction date	Settlement date
28-Oct-15	04-Nov-15	06-Nov-15
11-Nov-15	18-Nov-15	20-Nov-15
25-Nov-15	02-Dec-15	04-Dec-15
09-Dec-15	16-Dec-15	18-Dec-15
05-Jan-16	13-Jan-16	15-Jan-16
20-Jan-16	27-Jan-16	29-Jan-16
03-Feb-16	10-Feb-16	12-Feb-16
17-Feb-16	24-Feb-16	26-Feb-16
02-Mar-16	09-Mar-16	11-Mar-16
16-Mar-16	23-Mar-16	29-Mar-16
30-Mar-16	06-Apr-16	08-Apr-16
16-Mar-16	23-Mar-16	29-Mar-16
30-Mar-16	06-Apr-16	08-Apr-16
11-May-16	18-May-16	20-May-16
25-May-16	01-Jun-16	03-Jun-16
08-Jun-16	15-Jun-16	17-Jun-16
22-Jun-16	29-Jun-16	01-Jul-16

T-bills, outstanding amounts 30 Sep 2015

Maturity date	SEK Million
21-Oct-15	20 000
18-Nov-15	30 000
16-Dec-15	32 500
16-Mar-16	7 500
Total T-bills	122 500

Rating

Agency	Rating
Moody's	Aaa
Standard & Poor's	AAA
Fitch	AAA

Primary dealers

Primary dealers	Nominal bonds	Inflation-linked bonds	T-bills	Telephone
Barclays	٠			+44 207 773 8275
Danske Markets	•	٠	•	+46 8 568 808 44
Handelsbanken Markets	•	٠	•	+46 8 463 46 50
Nordea Markets	٠	٠	•	+45 33 3317 58 / +46 8 614 86 55
Royal Bank of Scotland	•	٠	•	+46 8 506 198 76
SEB	•	٠	•	+46 8 506 231 51
Swedbank	•	•	•	+46 8 700 99 00

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

Next Report (preliminary date): 2016:1	24 February 2016
For more information: Thomas Olofsson, Head of Debt Management	+46 8 613 47 82









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