

Central Government Borrowing

Forecast and analysis 2016:1

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In *Central Government Borrowing - forecast and analysis 2016:1* the Debt Office presents forecasts for central government finances and borrowing in 2016 and 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'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 central government net borrowing requirement is estimated at SEK -3 billion in 2016 and SEK 31 billion in 2017. Tax income will increase strongly in 2016, partly on account of temporary effects. Expenditure on migration is expected to be lower, but expenditure on development assistance has been revised upwards to about the same extent. Overall, this means that borrowing in foreign currency bonds and T-bills decreases, while borrowing in government bonds and inflation-linked bonds is unchanged compared with the previous forecast.

- Despite moderate international growth the Swedish economy is expected to grow strongly in 2016-2017. This is mainly due to strong domestic demand. The Debt Office's forecast for GDP growth is 3.3 per cent this year and 2.5 per cent in 2017.
- The Debt Office expects a net borrowing requirement of SEK -3 billion in 2016. This is SEK 35 billion lower than in the previous forecast. The decrease is mainly due to higher tax income, which is, however, partly a result of temporary effects.
- The net borrowing requirement in 2017 is estimated at SEK 31 billion. The increase on 2016 is mainly due to tax income not growing at the same rate.
- Central government net lending is estimated at -0.4 per cent as a proportion of GDP in 2016 and -0.7 percent in 2017.
- The central government debt is estimated at SEK 1 422 billion at the end of 2016 and 1 444 billion at the end of 2017. This corresponds to 33 per cent of GDP for both 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 88 billion this year and also next year, which are the same levels as in the October forecast.
- Borrowing in T-bills will decrease. The Debt Office expects to issue an average of SEK 15 billion per auction. The stock is expected to amount to SEK 120 billion at the end of 2016 and SEK 130 billion at the end of 2017.
- The auction volume of inflation-linked bonds is unchanged from the previous forecast. The Debt Office will issue SEK 1 billion per auction, corresponding to an annual rate of SEK 18 billion both this year and in 2017.
- Due to the lower net borrowing requirement, the Debt Office expects to only issue foreign currency bonds on behalf of the Riksbank. Borrowing is estimated at SEK 60 billion this year and SEK 76 billion next year. This is an aggregate reduction of SEK 39 billion during the forecast period.

Macroeconomic developments

Global growth prospects have been revised downwards slightly since the previous forecast, mainly on account of weaker growth in the emerging economies and the United States. Despite moderate assistance from the international economy the Swedish economy will continue to grow strongly. Domestic demand will continue to drive growth with the support of a very expansive monetary policy. The Debt Office's forecast for GDP growth is 3.3 per cent in 2016 and 2.5 per cent in 2017.

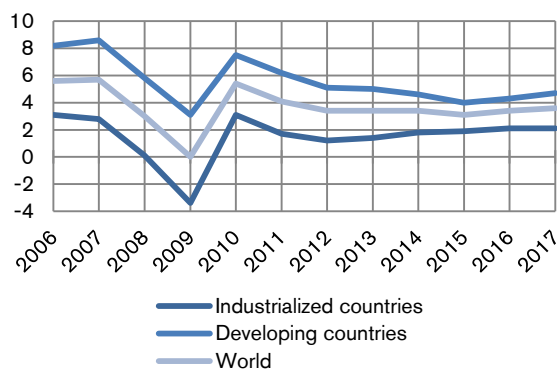
Slow global recovery

The global recovery was slow 2015, mainly due to a further slowdown in the emerging economies. Compared with the previous forecast the recovery of the world economy is expected to take slightly longer. A slowdown of world trade and weak growth of global industrial production will contribute to a slower rate of recovery. The IMF expects global growth to be 3.4 per cent in 2016 and 3.6 per cent in 2017. Compared with the October forecast this is a downward revision of 0.2 percentage points for each year.

In late 2015 and early 2016 concern about global developments, especially in the emerging economies, has resulted in marked price falls in world stock markets. There has been increased concern about economic development in several important emerging economies such as China, Russia and Brazil. At the same time, the US has started to increase interest rates after several years with a zero interest rate. In addition, the price levels of energy and raw materials, and oil in particular, have continued to fall. These low prices have an adverse impact on many emerging economies.

Figure 1 Global GDP growth

Per cent



Source: IMF.

Euro area – continued slow recovery

The recovery in the euro area is continuing, but is sluggish. Despite an expansive monetary policy and a weaker euro, the growth of investments and industrial production continues to be weak. Instead, growth is being driven by consumption. As the recovery continues, the rate of investment is expected to increase, and this will be crucial for the development of the economy in the long term.

Moreover, the euro area is being hampered, like the rest of the western world, by demographic challenges with an ageing population and weak productivity growth.

Most analysts expect growth in the euro area of just over 1.5 per cent in both 2016 and 2017. This is largely unchanged compared with the previous forecast.

United States – slightly lower growth

The US economy grew slightly more slowly than expected in 2015 and several indicators have shown weaker than expected growth recently, including the purchasing managers index, industrial production and retailing. Manufacturing continues its weak development with moderate rates of growth for both investments and production. Industry has been adversely affected by weak international demand and a strong dollar. In contrast, the sharp increase in housing investments is continuing. Confidence indicators for the services sector are also much stronger, even though they have fallen back slightly recently.

The US labour market is continuing its strong growth, resulting in higher incomes for households. This means that private consumption will continue to grow, and this is the main driver of growth. Unemployment is judged to be near its equilibrium level.

The IMF estimates growth in the US at 2.6 per cent in both 2016 and 2017. This is a downward revision of 0.2 percentage points for both years.

Emerging economies – continued slackening

Uncertainty about the development of the emerging economies has become even greater since the previous forecast. The continued falls in raw material prices have an adverse effect on many emerging economies. For example, relatively large economies such as Russia and Brazil are in deep recession. These countries had economic problems even before the price falls, and weak public finances mean that the scope for fiscal stimulus is very limited.

The slowdown in China, where the rebalancing of the economy, with less production and investment and more consumption and services, means considerably lower growth than in recent years. There continues to be great uncertainty about developments in China, and the effects of this have spread to financial markets all over the world. However, the Debt Office's forecast is based on the slowdown of the Chinese economy continuing in a controlled way.

Strong growth in the Swedish economy

The Debt Office expects Sweden's GDP to grow by 3.3 per cent this year and 2.5 per cent in 2017. This is an upward revision of 0.5 and 0.1 percentage points respectively compared with the previous forecast.

Table 1 National accounts, constant prices¹

Percentage change	2015	2016	2017
Household consumption	2.4	2.4	2.3
General government consumption	2.3	3.7	2.5
Gross fixed capital formation	6.8	4.7	3.0
Changes in inventories incl valuables ²	0.0	0.1	0.0
Exports	4.6	4.2	3.9
Imports	4.1	4.6	4.0
Net exports ²	0.4	0.0	0.1
GDP	3.7	3.3	2.5
GDP calendar adjusted	3.5	3.1	2.7

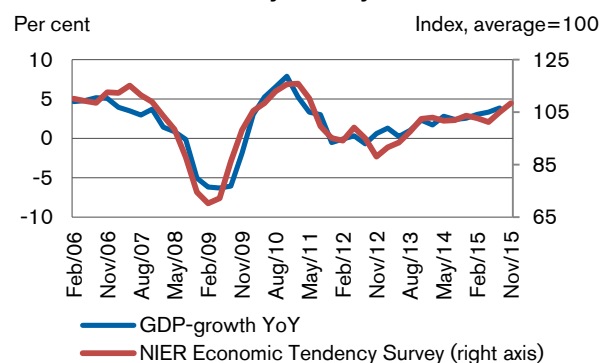
¹ Actual change compared with previous year

² Change as a percentage of GDP previous year

Growth in the third quarter of 2015 was at an annual rate of 3.9 per cent, which was considerably higher than in the Debt Office's forecast. It was mainly investments that were higher than expected.

At the same time the Economic Tendency Survey by the NIER (National Institute of Economic Research) has developed strongly, suggesting continued high growth in the fourth quarter and in early 2016. The sentiment in the business sector is positive in all industries. However, households are more pessimistic.

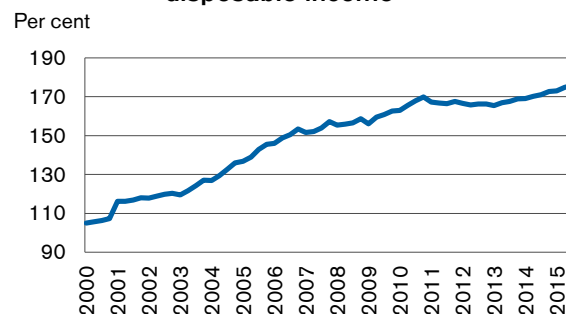
Figure 2 GDP growth and NIER Economic Tendency Survey



Source: Datastream.

In recent years the Swedish economy has shown strong growth despite a weak international economy. Growth has mainly been driven by domestic factors such as consumption of consumer durables and housing investments. Part of the explanation is the very expansive monetary policy. Car sales are at a record level and housing prices and household debt are increasing rapidly.

Figure 3 Household debt as a share of disposable income



Source: Datastream.

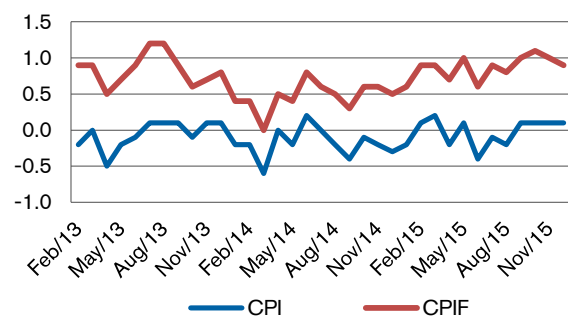
As a result of the high growth, resource utilisation in the Swedish economy has risen gradually. The NIER judges that the GDP gap had already closed at the end of 2015. At the same time, inflation has been very low for a long period.

The large inflow of refugees last autumn means that there will be further pressure on the labour market in the near future. It is primarily the demand for labour in the public sector that will increase. But the newly arrived migrants will not be available for

employment until the end of 2017 at the earliest. So, in the short term it is the present population that will drive the development of the labour market. In the longer term, after 2017, unemployment may rise again when the newly arrived groups enter the labour market. To what extent they will actually increase the capacity for production will partly be determined by how successful integration policy will be.

Figure 4 Inflation, annual rate

Per cent



Source: Datastream.

The major immigration of refugees will increase demand in the economy, chiefly via higher public consumption. The increase in consumption will be greatest in 2016. The high level will continue, but the increase will be lower in 2017.

As a small and open economy Sweden is dependent on international developments despite a favourable domestic situation. Exports of goods have performed weakly ever since the financial crisis in 2008. To some extent this has been offset by stronger growth in exports of services in recent years. Low global growth means that exports are only estimated to grow at a moderate pace even in the coming years. Weaker development in the emerging economies will be offset to some extent by stronger exports to OECD countries. At the same time, poorer developments in financial markets may have negative effects on both Swedish exports and on households' consumption and expectations about the future.

Divided labour market

The development of the labour market was favourable last year. Employment increased and unemployment fell, partly as a result of a declining labour supply. At the end of last year, unemployment was relatively close to the level assessed by the NIER as the equilibrium level. Despite a gradual improvement since 2014 unemployment is still high from a historical perspective.

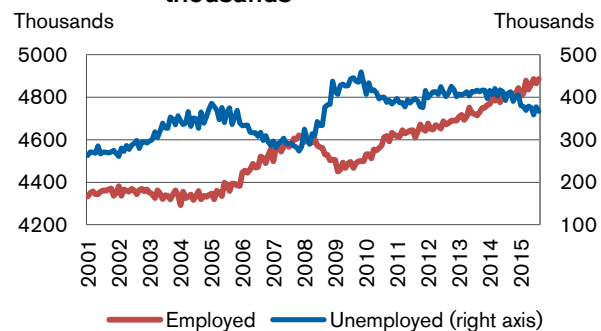
Table 2 Key ratios for the labour market

Percentage change unless otherwise stated

	2015	2016	2017
Labour force	0.8	0.9	1.2
Employment	1.4	1.7	1.4
Unemployment ¹	7.4	6.7	6.5
Average hours worked	0.0	0.1	-0.1
Hours worked	1.4	1.8	1.3
Hourly wages	2.8	2.8	3.0
Wage sum	4.2	4.6	4.3
Productivity	2.7	1.9	0.9

¹ 15-74 years, per cent of labour force

Figure 5 Employment and unemployment, thousands

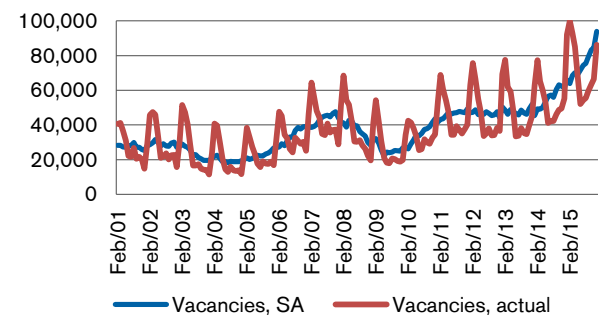


Source: Statistics Sweden.

The strong development of the economy and the high refugee immigration mean that the demand for labour is expected to be high in the coming years. The Debt Office expects employment to increase by 1.7 per cent this year and 1.4 per cent next year. This short-term assessment draws support from factors including company hiring plans and the number of job vacancies.

Figure 6 Vacancies

Vacancies

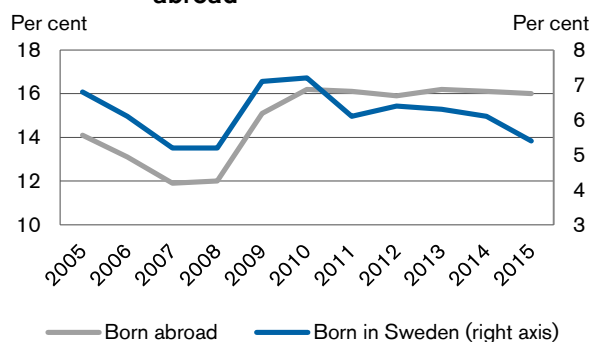


Source: Datastream.

At the same time the workforce is expected to increase by around 1 per cent per year, resulting in a fall in unemployment to 6.7 per cent this year and 6.5 per cent next year, which is probably under the equilibrium level according to the NIER and other analysts.

There are many signs that the Swedish labour market is characterised by matching problems. The situation in some parts of the labour market is strained and employers have difficulty recruiting people with the right skills. A high number of vacancies is one reflection of this. For example, workers with vocational training are in great demand. At the same time, many unemployed people have small prospects of getting a job. The groups who have most difficulty are people who do not have upper secondary education, are older, have some disability or were born outside Europe. Ultimately these matching problems may have a negative impact on potential growth.

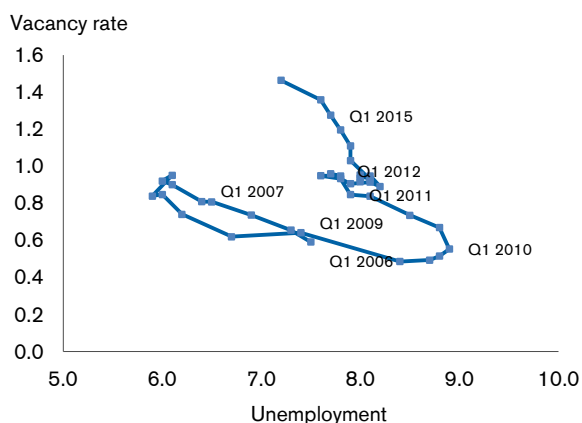
Figure 7 Unemployment for people born in Sweden and for people born abroad



Source: Statistics Sweden.

These matching problems are reflected in figure 8, which shows the correlation between the job vacancy rate and unemployment, i.e. the Beveridge curve. After the financial crisis unemployment gradually got higher at a given vacancy rate, indicating that matching became less and less effective. However, there seems to have been some improvement in the most recent quarters, mainly because unemployment for people born in Sweden has decreased.

Figure 8 Beveridge curve



Source: Datastream and own calculations.

Household disposable income growing slightly more slowly

Household disposable income is expected to grow 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. Despite this decrease, saving will still be high from a historical perspective.

The increase in disposable income is driven to a great extent by the wage sum, which is expected to increase by around 4.5 per cent per year during the forecast period. Household disposable income will also be strengthened by a rise in pensions of around 4 per cent this year and around 3 per cent next year. The increase this year 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 smaller than in 2016.

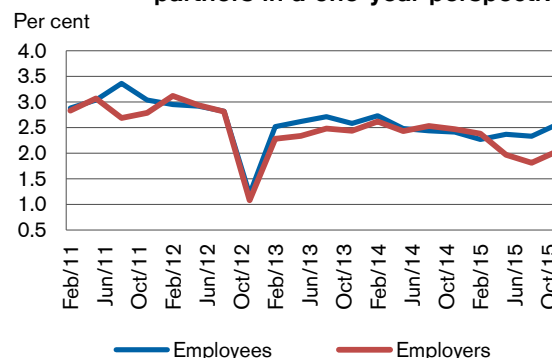
Table 3 Disposable income and savings ratio

	2015	2016	2017
Real disposable income ¹	3.1	1.5	1.8
Savings ratio (excl. occupational pension)	8.3	7.4	7.0
Savings ratio	15.8	15.1	14.7
Nominal disposable income ¹	4.2	2.6	3.4

¹ Yearly percentage change

Despite the recession, nominal wages have grown well in recent years. Together with the unexpectedly low inflation, this has led to good growth of real wages.

Figure 9 Wage expectations of the social partners in a one-year perspective



Source: TNS Sifo Prospera.

This year's round of wage negotiations is substantial and affects almost 3 million workers covered by collective agreements. Most of these agreements expire in the first half of this year. The

Riksbank's difficulties in achieving its inflation target, low inflation expectations, a tight labour market and international uncertainty will probably result in major challenges in the negotiations between the social partners. In addition, LO (the Swedish Trade Union Confederation) has decided that the LO unions will not coordinate their negotiations in 2016, further increasing uncertainty.

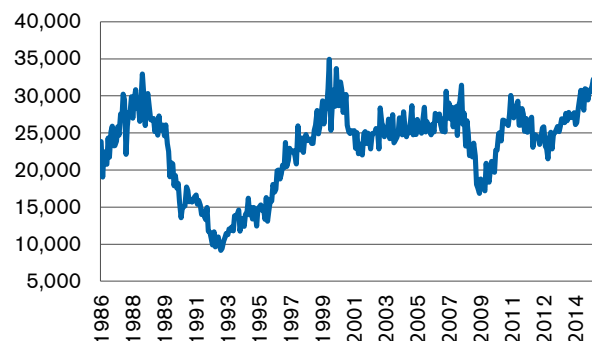
The Debt Office's forecast is that hourly wages (according to the National Accounts) will increase by around 2.8 per cent in 2016 and 3.0 per cent in 2017, which is slightly higher than in the previous forecast.

Moderate increase in household consumption

The Debt Office assesses that household consumption will rise by 2.4 per cent this year and 2.3 per cent next year. This is unchanged for 2016 and 0.1 percentage point higher for 2017. It is chiefly the consumption of durable goods, such as cars, that is driving this development. The performance of non-durable goods is expected to be more modest, especially if the strong population growth is taken into account.

Figure 10 Car sales in Sweden

Number of Sales



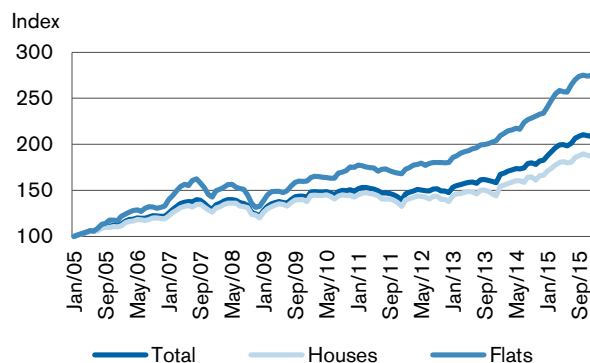
Source: Datastream.

Given the growth of household income and the strong economic situation, the overall growth of consumption is moderate. It is also reflected in the NIER's confidence indicator for households, the Consumer Tendency Survey, which shows that households are more pessimistic than usual. This is particularly true of their view of the Swedish economy, but also applies to how they view their own economic situation.

As a consequence household savings at the aggregate level are high from a historical perspective. But it may be the case that these savings are unevenly distributed. The group that has the highest savings probably has the lowest

marginal willingness to consume since their consumption is already at a high level.

Figure 11 Housing prices in Sweden



Source: Valueguard.

At the same time as households' savings are high, their debt is increasing, mainly driven by rising housing prices. This gives households ever larger balance sheets in relation to their incomes, which may be one reason for the high savings.

The increase in refugee immigration is expected to have a low direct effect on private consumption. Instead, its main effect will be on public consumption since asylum-seekers are supported initially by the Swedish Migration Agency. Consumption by foreign citizens in Sweden is recorded as exports of services and not as private consumption in the national accounts. But there may be some indirect effect on private consumption from the increased demand in the economy resulting from the increase in refugee immigration.

Strong increase in public consumption

Public consumption is expected to rise by 3.7 per cent this year and 2.5 per cent next year. Compared with the previous forecast this is 1.0 percentage point higher in 2016 and 0.2 percentage points higher in 2017.

The increase on the previous forecast is due to a new assessment of the effects of refugee immigration on the national accounts. Consumption rises in central government and the municipalities. This mainly involves expenditure for accommodation, but also includes expenditure for schools, healthcare and certain living expenses, for example. There is also a substantial increase in the Swedish Migration Agency's appropriations. Since it is expected that the largest increase in the number of asylum-seekers took place in 2015 and the large percentage increase in expenditure is expected to be in 2016, the effect for 2017 will be smaller.

Weak increase in exports of goods

Exports are expected to rise by 4.2 per cent this year and 3.9 per cent next year. Compared with the previous forecast this is 0.1 of a percentage point higher in 2016 and 0.4 percentage points lower in 2017.

Exports of goods are expected to continue to show moderate growth, while exports of services are expected to grow at a good rate. Overall, exports increase at about the same rate as the expected growth of the world market. The poorer prospects for global growth and, not least, the low raw materials prices mean that the demand for some Swedish industrial goods is expected to show weak growth.

Figure 12 SEK exchange rate according to the KIX index



Source: Datastream.

Lower investments in 2017

The Debt Office assesses that gross fixed capital formation will rise by 4.7 per cent this year and 3.0 per cent next year. Compared with the previous forecast, this is unchanged for this year and 0.1 of a percentage point lower for 2017.

In 2014 and 2015 there was strong growth in housing investments. Growth is expected to be lower in 2016 and 2017 even though the need for housing remains high. Machine investments increased in 2015 and the assessment of the Debt Office is that there is also a need among companies to increase their production capacity in the future.

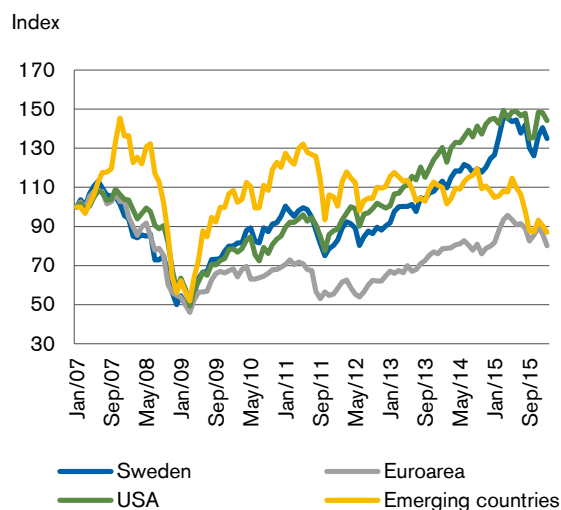
Risks

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 much sharper slowdown with major spillover effects is not unlikely. This would result in adverse effects for the recovery of the world economy.

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 properties have risen in most countries. Recently securities markets around the world have shown great volatility, based on concern for global growth. Larger and more lasting falls in asset prices cannot be ruled out, and this would also have an adverse effect on the real economy.

Figure 13 Stock market movements



Source: Datastream

Geopolitical unrest in the Middle East, in particular, and increased terror threats continue to be risks to global economic growth. The refugee flows resulting from the conflicts cause increased political tensions, primarily in the EU.

In Europe the question of the UK's continued EU membership is a source of great uncertainty. Opinion polls ahead of the coming referendum suggest that the sides are evenly balanced. A British exit would have major consequences for the European economy.

The situation in Greece continues to be a source of uncertainty for 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.

Lower net borrowing requirement in 2016

The Debt Office expects a net borrowing requirement of SEK -3 billion in 2016. This is SEK 35 billion lower than in the previous forecast. The reduction is mainly due to higher tax income. The net borrowing requirement in 2017 is estimated at SEK 31 billion, which is SEK 16 billion lower than in the previous forecast. Tax income has been much higher than forecast since October, partly due to temporary effects. The expenditure for migration is expected to be lower, but this will be offset by greater expenditure for development assistance.

The Debt Office expects the net borrowing requirement this year to be SEK -3 billion. This is SEK 35 billion lower than in the previous forecast published in October. The outcome for tax income was much stronger than expected, both at the end of 2015 and in January 2016.

The increase in tax income is judged to be related in part to the stronger economic situation and rising company profits and capital gains. Companies and private individuals are judged to have brought forward their tax payments to some extent compared with historical payment patterns.

A not insignificant part of the tax payments is assessed as being of a temporary nature, which will not recur on a regular basis. Some companies have paid in very large sums in preliminary tax. All payments to tax accounts, irrespective of what they refer to, have a direct effect on the central government budget and net borrowing requirement and on the size of the central government debt. To the extent that funds in tax accounts do not correspond to a tax debt, they will be repaid.

The outcome of the final tax assessment for 2015 and 2016 will not be known until December 2016 and December 2017 respectively. Only then will it be possible to analyse with certainty the distribution between different tax classes and what the increased payments are due to.

Expenditure for migration is expected to decrease by SEK 7 billion in 2016 compared with the previous forecast. The Debt Office's forecast for the number of asylum seekers is broadly in line with the lower of the scenarios published by the Swedish Migration Agency on 4 February 2016. In its previous forecast the Debt Office made a technical assumption to the effect that development assistance would decrease by SEK 10 billion. The

Government has now set a level for development assistance in 2017 that means that the Debt Office's forecast increases by SEK 7 billion. The Government also brought forward expenditure from 2016 to 2015 in order to decrease the pressure on aggregate expenditure this year.

Table 1 Central government net borrowing requirement

SEK billion	2015	2016	2017
Primary net borrowing requirement	11	-3	23
of which net lending to agencies excl. on-lending	1	2	1
of which net lending, on-lending	10	15	11
of which sales of state assets	0	0	0
of which income and expenditure excl. sales of assets	0	-19	11
Interest payments	21	0	8
Net borrowing requirement	33	-3	31

For 2017 the Debt Office estimates the net borrowing requirement at SEK 31 billion. The increase from 2016 is mainly because tax income is not expected to increase at the same rate as in 2016. This is partly due to a slightly lower growth rate in the economy, but the main reason is that the Debt Office does not expect any further tax payments of a temporary character. At the same time, there are expenditure increases for interest on the central government debt, migration, social insurance and the contribution to the EU. Overall, this means that total expenditure is expected to grow faster than tax income.

The central government debt is estimated at SEK 1 422 billion at the end of 2016 and 1 444 billion at the end of 2017. This corresponds to 33 per cent of GDP for both years. The central government debt is presented in more detail in the section on borrowing.

Forecast changes in net borrowing requirement

Tax income for 2016 has been revised upwards by a total of SEK 29 billion. Part of this revision relates to increased income from payroll taxes, current corporate tax and also capital gains from households. But the greater part is judged to include large one-time payments of corporate tax relating to previous years and early payments of tax as well as pure placements of liquid funds in tax accounts.

Table 2 Major forecast changes¹

SEK billion	2016	2017
Forecast October 2015	33	47
Taxes	-29	-10
Labour market	-1	-1
Social insurance	-6	-2
Migration	-7	-10
Development assistance	7	7
Dividends	0	0
Interest payments	-1	-2
Net lending excl. on-lending	-2	-3
On-lending	2	1
Other	2	3
Forecast February 2016	-3	31
Sum of changes	-35	-16

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

The outcome for tax income since the previous forecast, October up to and including January, was SEK 36 billion higher than in the forecast. Out of this sum, SEK 34 billion relates to supplementary tax payments, i.e. tax for previous years or tax that has not been debited on a preliminary basis.

Table 3 Forecast deviations in tax income October – January, SEK billion

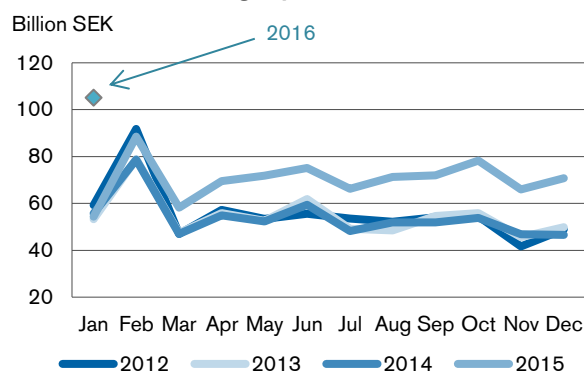
SEK billion	Outcome	Forecast	Difference
Consumption taxes	161,9	162,0	-0,1
Payroll taxes, net	62,9	63,9	-1,0
Corporate taxes	60,9	57,7	3,2
Supplementary taxes	25,7	-8,4	34,2
Total	311,4	275,2	36,3

Higher supplementary payments

The larger supplementary payments can partly be explained by early payments of tax, but another reason is the use of tax accounts to place liquid funds.

One indicator that tax accounts are being used to place liquid funds is that the number of individuals and companies requesting blocks on return payment from their tax accounts has increased in the past year. This means that the money in the tax account is not paid out automatically, but remains in the account. Another indication is a sharp increase in tax account balances in 2015 and in early 2016, see figure 1.

Figure 1 Balance in tax accounts, natural and legal persons



Source: Swedish Tax Agency

Table 4 Growth rates for tax forecast, current prices

Percentage change	2014	2015	2016	2017
Household consumption	4.6	3.6	3.6	3.9
Wage sum	3.7	4.3	4.6	4.3
Household taxable income	3.2	4.6	4.8	4.3
Income from interest and dividends	10.9	-4.6	2.7	2.1
Deduction for interest on debts	-6.2	-8.8	2.4	5.8
Household capital gains, net	31.6	7.1	-10.0	-9.5
Corporate taxable income	9.7	25.0	-5.8	5.0

In January 2016 some large individual deposits were made in tax accounts. These sums will probably be debited as corporate tax regarding 2015 in February, see the section in corporate tax.

Supplementary payments are also increasing on account of higher capital gains for households. The outcome of the tax assessment for 2014 showed a sharp increase in capital gains compared with 2013. The main explanation of this increase is higher capital gains on sales of owner-occupied and cooperative homes. The Debt Office's assessment is that capital gains also continued to rise in 2015, but at a lower rate. In 2016 and thereafter capital gains are expected to fall gradually towards a historical average.

Temporarily higher income from corporate taxes

Central government income from corporate taxes will increase strongly in 2016. One single group has increased its tax charge for income year 2015 by more than SEK 15 billion. The sum was paid in January 2016. The Debt Office does not have any more information about what the charge relates to, but makes the assessment that it is a one-time payment. So the forecast looking ahead is not affected by the increased charge.

Apart from one-time effects, the Debt Office's assessment of corporate profits, and therefore of central government income from corporate tax, has been revised upwards slightly on account of the strong growth of the Swedish economy. The NIER's Economic Tendency Survey shows that companies are more optimistic and that the situation in the business sector is much stronger than usual. But the slow recovery of the global economy will continue to be a source of concern to exporters.

Table 5 Tax income compared with previous forecast¹

SEK billion	2016	2017
Payroll taxes	-5	0
Consumption taxes	0	-1
Corporate taxes	-17	-1
Supplementary taxes	-7	-8
Total	-29	-10

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

Slightly higher income from payroll taxes in 2016

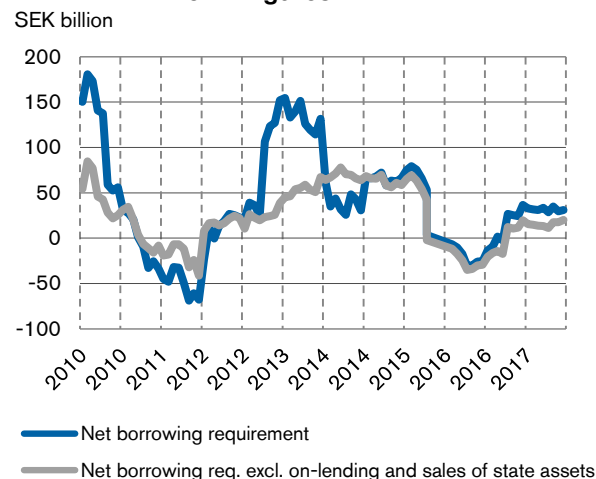
Payroll taxes increase by SEK 5 billion this year and are unchanged next year compared with the previous forecast. The improvement of the economy means that the number of hours worked and the payroll sum are expected to grow slightly faster than previously. This mainly affects payroll taxes this year since the payments of local government tax for this year have already been set. Next year the payments of local government tax will be higher at the same time as the settlement for 2015 will also be slightly higher than in the previous assessment.

Marginally higher income from consumption taxes

The forecast for consumption taxes is unchanged for 2016, but for 2017 they will increase by SEK 1 billion compared with the previous forecast. The outcome for VAT and excise taxes has developed

roughly as expected. There have only been marginal changes in the underlying assumptions for consumption growth.

Figure 2 Net borrowing requirement, 12-month figures



Dividends on state-owned shares decrease between the years

The assessment of central government income from share dividends is largely the same as in the previous forecast. These dividends are expected to be SEK 13 billion in 2016 and to then decrease to SEK 11 billion in 2017. The main reason for the decrease is that Akademiska Hus AB will deliver an extra dividend of SEK 2 billion in 2016. In all, this extra dividend is SEK 6.5 billion, SEK 4.5 billion of which was paid in 2015.

Table 6 Dividends on state-owned shares

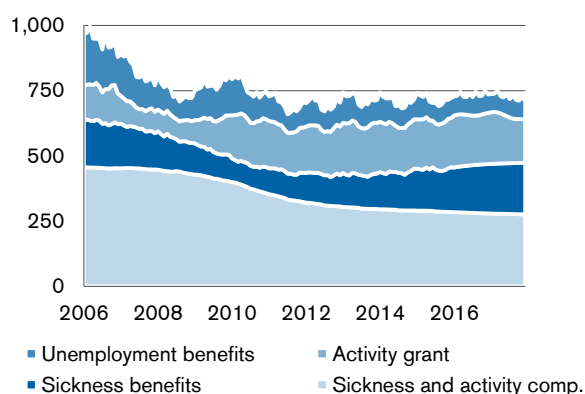
SEK billion	2016	2017
Akademiska hus AB	3.5	1.5
LKAB	0.0	0.2
TeliaSonera AB	4.8	5.0
Vattenfall AB	0.0	0.0
Sveaskog AB	0.9	0.9
Other corporations	3.4	3.6
Totalt	12.7	11.2

Later payment of assistance allowance will decrease social insurance expenditure this year

Försäkringskassan (the Swedish Social Insurance Agency) is introducing later payment of assistance allowance as of 1 October 2016. This means that an allowance for assistance provided in October, which would have been paid in the same month under the old system, will now be paid in November and December instead. This change to the rules leads to a shift in payments that reduces expenditure by more than SEK 3 billion in 2016.

Figure 3 Volumes in the transfer systems for the labour market and ill health

Full time equivalents



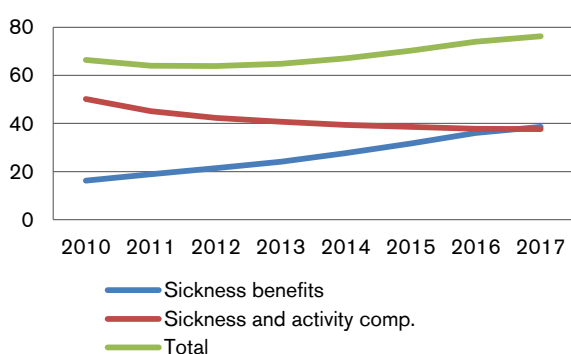
Source: Statistics Sweden and own calculations.

Sickness benefit expenditure is also expected to be lower than in the previous forecast. This is because the inflow of new sickness cases in the closing months of 2015 was lower than expected according to Försäkringskassan. The slightly lower outcome also affects the forecast for 2016 and 2017.

Despite this downward revision sickness benefit expenditure will increase sharply in the coming years, as shown by figure 4. This increase has been offset to some extent by falling expenditure for sickness and activity compensation.

Figure 4 Expenditure for sickness benefit and sickness and activity compensation

SEK billion



Source: Försäkringskassan and own calculations.

Falling unemployment gives lower labour market expenditure

Unemployment fell back last year and is expected to decrease further this year and next. As a result, expenditure for labour market policy has been revised downwards by SEK 1 billion per year in 2016 and 2017.

Lower expenditure for migration

Expenditure for migration decreases by SEK 7 billion in 2016 and SEK 10 billion compared with the previous forecast. The Debt Office has made an assessment that is roughly in line with the lower scenario for the number of asylum-seekers published by the Swedish Migration Agency on 4 February this year. The number of asylum seekers has decreased gradually from the very high levels in the autumn. At present about 100 people per day are applying for asylum in Sweden, which can be compared with more than 1000 people per day only a few months ago. One explanation for this development is the border controls requiring ID documents that have been introduced for entry into Sweden. Tighter rules for asylum and family member immigration have also been announced.

However, there is still great uncertainty about how many people will apply for asylum. The need to flee from areas of conflict has not decreased. To a great extent, the number of asylum-seekers will depend on how these challenges will be addressed at European level. The number of asylum-seekers can be much larger than forecast, but also smaller.

So far this year the level of expenditure has been slightly lower than expected. But since the increase on 2015 is very large, it is not certain how the expenditure will be spread over the year. There is some lag in the expenditure since there is a delay in municipal requests for payment from the Swedish Migration Agency.

Increase in development assistance

The Debt Office expects payments from Sida to increase by SEK 7 billion in both 2016 and 2017 compared with the previous forecast. This is a result of a technical assumption made by the Debt Office for its calculation in its previous forecast that expenditure for development assistance would decrease. Now the situation has changed and the calculation has been adjusted.

Certain expenditure for refugee reception is set off against expenditure on official development assistance (ODA) in accordance with the guidelines of OECD's Development Assistance Committee (DAC). 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 Debt Office assumed that the regulations for setting off refugee reception would continue to be applied in the same way as before. This meant an assumption of considerable savings in development assistance.

The Government has now proposed some reduction of development assistance, but by no means as large a reduction as the one assumed by the Debt Office.

Net lending by the Debt Office

The Debt Office's net lending to government agencies etc. is expected to amount to just under SEK 17 billion in 2016 year and SEK 12 billion in 2017. During the forecast period net lending will consist to a great extent of currency exchange effects in connection with the refinancing of loans raised on behalf of the Riksbank.

Net lending, excluding on-lending, is lower than in the previous forecast. This is mainly due to the introduction of new rules for the management of banks in crisis. Under the new rules a resolution reserve is established to cover expenditure on crisis measures. The banks finance the reserve by paying a resolution fee that replaces the stability fee paid up to now to the existing stability fund. The new resolution fee is higher than the stability fee. Since the funds in the resolution reserve will be placed in an account at the Debt Office, in the same way as is done with the stability fund today, the higher fee levied means a decrease in net lending.



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 35 billion between 2015 and 2016. Tax income increases by SEK 88 billion between these years. This is partly due to tax increases and temporary effects, but is also explained by the strength of the domestic economy. In addition, interest payments on the central government debt decrease by SEK 21 billion between these years.

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 increased expenditure for migration and social insurance, but are also due to decisions in the Budget Bill for 2016.

The net borrowing requirement increases by SEK 34 billion between 2016 and 2017. Tax income grows much more slowly at the same

time as expenditure increases more rapidly on account of a continued rise 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	33	-3	31
Net borrowing requirement, change	106	-59	-40	-35	34
Explained by;					
Taxes	14	-26	-66	-88	-16
Government grants to local governments	4	5	-3	2	2
Labour market	5	1	0	0	2
Social Insurance	2	7	6	6	9
Migration & International aid	3	4	9	22	11
Sales of state-owned assets	-21	21	0	0	0
Share dividends	1	8	-7	7	2
EU contribution	1	5	-4	-5	7
Debt Office's net lending excl. on-lending	-4	29	-19	1	0
On-lending	101	-104	7	5	-4
Interest on government debt	-11	-13	18	-21	7
Other	11	6	19	37	15

Continued low interest payments on the central government debt

Interest payments on central government debt is estimated at SEK 0.2 billion in 2016 and SEK 7.7 billion in 2017.

For this year interest payments have been revised downward by around SEK 1 billion. This is mainly explained by higher forecasted foreign currency gains on the foreign currency debt.

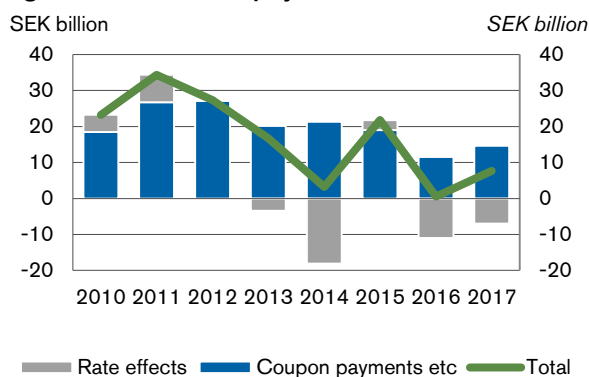
For next year central government interest payments have been revised downwards by around SEK 2 billion. This is mainly explained by lower coupon payments on nominal government bonds and lower inflation compensation when SGB IL 3107 matures in June 2017.

Table 7 Interest payments on the central government debt

SEK billion	2016	2017
Interest on loans in SEK	3.8	9.3
Interest on loans in foreign currency	-0.1	0.0
Realised currency gains and losses	-3.5	-1.6
Interest payments	0.2	7.7

The Debt Office expects interest payments to decrease by around SEK 21 billion between 2015 and 2016. This is mainly because the rate effects are expected to be slightly more favourable this year than last year. In 2015 interest payments took, for example, a charge for foreign currency losses in Swiss francs amounting to about SEK 5 billion. This was a result of the unexpected decision of the Swiss central bank (SNB) to abandon the floor in relation to the euro in January 2015. In addition, the Debt Office realised foreign currency losses in relation to the US dollar and the British pound in the first half of 2015.

Figure 5 Interest payments¹



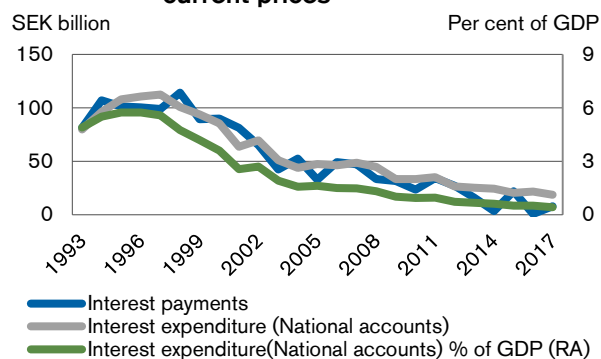
¹ Rate effects include issues sold at a premium/discount, capital gains/losses in connection with switches/buybacks and currency exchange gains/losses realised.

Apart from the currency exchange losses, the Debt Office also paid about SEK 5 billion in accrued inflation compensation when inflation-linked bond SGB IL 3105 matured in 2015. There will not be any corresponding payment in 2016.

In 2017 interest payments will increase compared with this year. One explanation of this is the inflation compensation that the Debt Office will pay when SGB IL 3107 matures. Other contributing factors are lower forecast foreign currency gains and lower issue premiums.

The low level of interest rates and the declining central government debt have resulted in a fall in central government interest expenditure since the beginning of the 21st century, both in monetary terms and as a share of GDP, see figure 6.

Figure 6 Central government interest payments and interest expenditure according to the National Accounts, current prices



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 29 January.

Table 8 Interest rates, per cent

Duration	3 mån	6 mån	2 år	5 år	10 år	30 år
Government bonds	-0.5	-0.5	-0.5	0.0	0.8	2.1
Inflation-linked bonds	-1.0	-1.0	-1.1	-1.1	-0.6	0.6
Swap interest rate SEK	-0.4	-0.4	-0.3	0.4	1.3	0.0
Swap interest rate EUR	-0.2	-0.1	-0.2	0.1	0.7	1.3
Swap interest rate USD	0.5	0.6	0.8	1.3	1.8	0.0

Table 9 Currency exchange rates

Spot rates	2016-01-29
SEK/EUR	9.28
SEK/USD	8.57
SEK/CHF	8.78
SEK/JPY	0.07
SEK/GBP	12.16
SEK/CAD	6.09

The budget balance and central government net lending

The Debt Office estimates central government net lending at -0.4 per cent as a proportion of GDP in 2016 and -0.7 per cent in 2017. Between 2014 and 2015 net lending improved by about 1.2 percentage points. Thereafter net lending will deteriorate slightly, one explanation being 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.

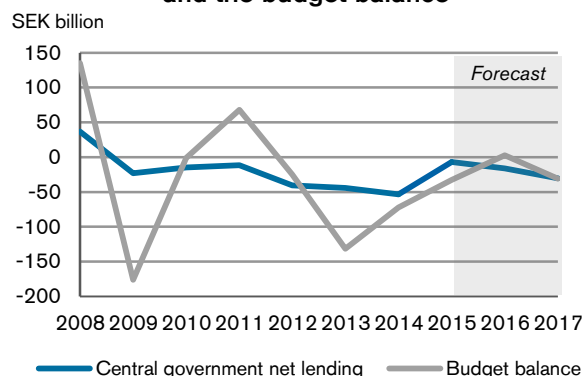
Table 10 Central government net lending

SEK billion	2013	2014	2015	2016	2017
Budget balance	-131	-72	-33	3	-31
Adjustment items	87	19	26	-18	1
Sale of limited companies	-21	0	0	0	0
Parts of Debt Office's net lending	99	13	17	26	22
Accruals etc.	9	6	9	-44	-21
Central government net lending	-44	-53	-7	-16	-30
Per cent of GDP	-1.2	-1.4	-0.2	-0.4	-0.7

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.

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 from February 2016 until and including December 2016.

Much of the variation between months is explained by how tax income, tax refunds and on-lending by the Debt Office are spread over the year. Some individual payments also impact on the monthly pattern, one example being the annual payment of premium pension funds.

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

Table 11 Central government net borrowing requirement per month

	Primary borrowing requirement excl. net lending	Net lending	Interest on central govt. debt	Net borrowing requirement
Feb-16	-42.3	-2.0	-3.1	-47.4
Mar-16	-3.1	-1.0	2.1	-2.0
Apr-16	-9.1	-2.1	-2.8	-14.0
May-16	-32.1	-1.2	-0.4	-33.7
Jun-16	36.5	-4.8	2.6	34.4
Jul-16	7.7	-3.9	-0.1	3.8
Aug-16	-17.7	-3.6	0.8	-20.5
Sep-16	8.2	0.8	-2.1	6.9
Oct-16	11.9	-5.7	-3.0	3.1
Nov-16	-18.4	6.0	1.7	-10.7
Dec-16	53.2	35.5	5.4	94.1



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	-7
Household consumption in current prices	-3
Unemployment (ILO 15-74) ²	3
Interest rate level in Sweden ³	5
International interest rate level ³	2

¹ Local government taxes on employment are paid to local authorities with a one-year time lag. This means that the effect on the net borrowing requirement in one year's time is bigger than the permanent effect

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

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



Forecast comparisons

For 2016 the Debt Office forecasts a much lower net borrowing requirement than other forecasters. This is mainly explained by higher tax income, some of which is judged to be of a temporary character (see page 9). Since the other forecasters published their forecasts in late 2015, they were not able to take account of this income.

For 2017 there is more agreement, with all authorities except the Government expecting the net borrowing requirement to increase between these years.

SEK billion	Debt Office (24 Feb)		Government (21 Sept)		NIER (21 Dec)		ESV (18 Dec)	
	2016	2017	2016	2017	2016	2017	2016	2017
Net borrowing requirement	-3	31	33	10	36	49	25	27
of which:								
Sales of state assets	0	0	-5	-5	0	0	0	0
Adjusted net borrowing requirement	-3	31	38	15	36	49	25	27

Less borrowing in foreign-currency

Borrowing in foreign currency bonds and borrowing in T-bills decreases compared with the previous forecast as a result of the lower net borrowing requirement this year and next year. The planned issue volume of government bonds will remain at SEK 88 billion per year in 2016 and 2017. The issue volume of inflation-linked bonds is also unchanged.

Lower borrowing requirement

The Debt Office has the task of borrowing to cover the deficit in the central government budget but also of financing loans reaching maturity and buybacks in switches. The total gross borrowing requirement is estimated at SEK 392 billion in 2016, which is a decrease of SEK 44 billion compared with the previous forecast. The decrease is because the net borrowing requirement is expected to be lower than estimated by the Debt Office in October. There are also some other factors that further reduce the borrowing requirement such as changes in collateral, less buybacks of inflation-linked bonds in switches and a smaller refinancing need in the money market.

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

Table 1 Gross borrowing requirement

SEK billion	2015	2016	2017
Net borrowing requirement	33	-3	31
Business day adjustment etc ¹	0	2	0
Retail borrowing & collateral, net ²	31	4	8
Money market redemptions ³	256	284	226
T-bills	88	141	120
Commercial paper	124	87	52
Liquidity management	44	56	54
Bond redemptions, net switches and buy-backs	160	104	152
Government bonds	75	55	69
Inflation-linked bonds	31	0	22
Foreign currency bonds	54	49	62
Total gross funding requirement⁴	479	392	417

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.

² Net change in retail borrowing and collateral.

³ Initial stock maturing within 12 months.

⁴ Refers to borrowing requirement in the institutional market.

Next year the borrowing requirement decreases by SEK 31 billion compared with the previous

forecast. The decrease is due to a lower net borrowing requirement and a smaller amount to be refinanced in the money market.

The Debt Office will handle the lower borrowing requirement during the forecast period by borrowing less in foreign currency bonds and reducing the issue volumes of T-bills. Borrowing in liquidity management instruments will also decrease.

Table 2 shows how borrowing is distributed between different instruments. The figures in brackets give the borrowing according to the October forecast.

Table 2 Borrowing according to new forecast

SEK billion	2015 Outcome	2016 Feb (Oct)	2017 Feb (Oct)
Money market funding ¹	284	226 (238)	244 (267)
T-bills	141	120 (135)	130 (135)
Commercial paper, of which	87	52 (40)	65 (65)
Central Government	78	40 (40)	65 (65)
on-lending to the Riksbank	9	12 (0)	0 (0)
Liquidity management	56	54 (63)	49 (67)
Bond funding	194	166 (198)	173 (181)
Government bonds	86	88 (88)	88 (88)
Inflation-linked bonds	17	18 (18)	18 (18)
Foreign currency bonds, of which	91	60 (92)	67 (75)
Central Government	38	0 (22)	0 (20)
on-lending to the Riksbank	53	60 (70)	67 (55)
Total gross funding	479	392 (436)	417 (448)

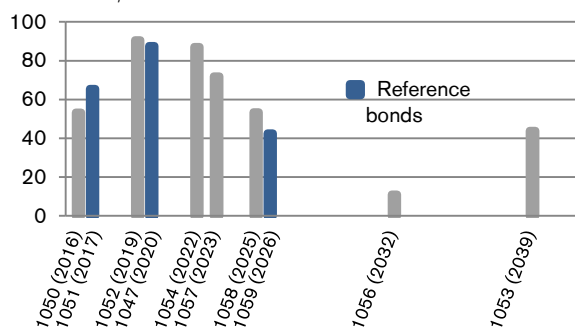
¹ Outstanding stock as at year-end.

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 15 billion per auction, with the exception of some issues of SEK 17.5 billion in periods with large borrowing requirements. The issue volume of inflation-linked bonds is unchanged during the forecast period at SEK 18 billion per year.

On-lending to the Riksbank is expected to increase marginally in 2016 in SEK terms as the krona has weakened against the US dollar since October. On-lending will increase in 2017 on account of commercial paper borrowing in 2016 that will be refinanced with foreign currency bonds the next year.

Figure 1 Outstanding government bonds

SEK Billion, 29 Jan 2016



Unchanged volume of government bonds

Borrowing in government bonds is unchanged at SEK 88 billion per year this year and in 2017. The auction volume per auction will remain at SEK 4 billion throughout the forecast period.

In most auctions last year the Debt Office split the issue volume between two different maturities in order to meet the demand in different segments. This approach was received well by the market and may be a common feature in future auctions.

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. Individual issues will be made in other maturities as well, when justified to maintain market liquidity.

There may also be individual issues in the existing 23-year bond SGB 1053, as well as in the 16-year bond SGB 1056 when there is demand for long-dated bonds.

In the second half of the year the Debt Office plans to introduce a new ten-year government bond. This bond will become reference bond in the electronic interbank market in March 2017. As usual the Debt Office will offer switches to the new bond when it is introduced and also before the bond becomes the reference bond.

The Debt Office also plans to issue a new ten-year bond in 2017.

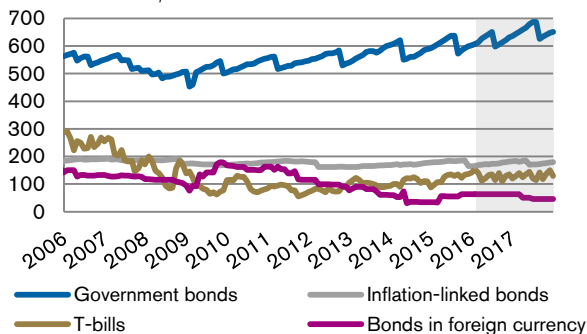
Table 3 Reference bonds in the electronic interbank market

Date of change (IMM date) ¹	2-year	5-year	10-year
Current reference bonds	1051	1047	1059
16 March 2016	1052		
15 June 2016		1054	

¹ The 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 loans 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 handled by adjusting foreign currency borrowing in the first place and, to some extent, T-bill issuance.

Table 4 Important dates 2016

Date	Time	Event
21 Apr	09.30	Information on switches from SGB IL 3107
20–23 May	11.00	Switches from SGB IL 3107
15 Jun	09.30	Central Government Borrowing – forecast and analysis 2016:2
19 Oct	09.30	Information on switches to SGB 1060
26 Oct	09.30	Central Government Borrowing – forecast and analysis 2016:3
16 Nov	11.00	Introduction of SGB 1060
17–22 Nov	11.00	Switches to SGB 1060



The Riksbank's purchases of government bonds

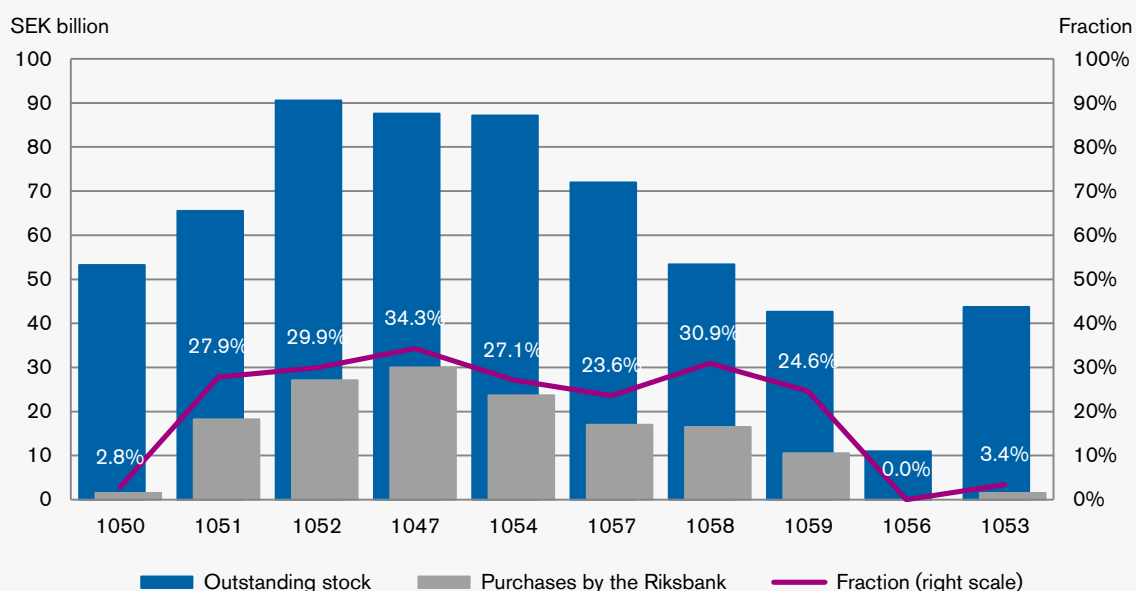
In 2015 the Riksbank purchased nominal government bonds in order to press down the level of interest rates, which is, in turn, intended to contribute to higher inflation.

The Riksbank bought bonds with a nominal value of SEK 135 billion, corresponding to 22.4 per cent of the outstanding stock of nominal government bonds. In 2016 the Riksbank intends to purchase bonds for a further SEK 65 billion and is expected, in June 2016, to hold a third of the outstanding stock.

The Debt Office finances the central government deficit and manages the central government debt. 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.

However, the Riksbank's purchases do change the size of the outstanding stock of bonds traded actively on the market. Therefore, a deterioration of liquidity in the bond market as a result of the Riksbank's purchases of government bonds cannot be ruled out.

Figure Outstanding bonds and the Riksbank's purchases as on 29 January 2016



The auction volume of T-bills decreases

Planning includes an average auction volume of T-bills of SEK 15 billion throughout the forecast period. The Debt Office plans to issue SEK 17.5 billion on isolated occasions when the borrowing requirement is large.

The stock is estimated at around SEK 120 billion in December 2016 and then to grow to about SEK 130 billion at the end of 2017. This is lower than in

the previous forecast. On average the stock of T-bills is expected to be around SEK 130 billion in 2016 and 2017.

In the longer term, the Debt Office's ambition is still for the stock of T-bills to grow. If there is sufficient demand, T-bill borrowing may increase again later on. The question of what can be done to make the market work better is still outstanding and the Debt Office continues to welcome views.



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.

Within the liquidity management, the Debt Office may issue T-bills in the shortest maturities, beside the auctions. The Debt Office may also issue T-bills with tailor-made maturities (liquidity bills).

Commercial paper borrowing

Commercial paper borrowing on behalf of central government is unchanged compared with the previous forecast. 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 increases from SEK 0 to 12 billion in 2016 compared with the October forecast since a maturing bond will be replaced with commercial paper over the year-end.

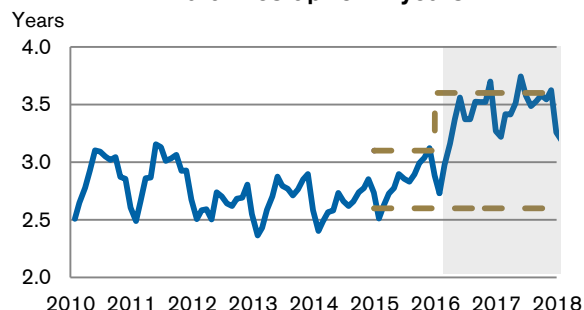
Slightly larger volume of swaps in 2017

The volume of interest rate swaps increases from SEK 5 billion to SEK 10 billion in 2017 compared with the October forecast.

The Debt Office uses interest rate swaps in order to shorten the duration of the central government debt. Floating interest rate borrowing will decrease as a result of the lower borrowing requirement, and this means that the duration of the nominal krona debt will get longer. The volume of swaps therefore needs to increase slightly to ensure that the duration will be in line with the target.

According to the guidelines the duration of the nominal krona debt is to be steered towards a level in the interval 2.6 to 3.6 years.

Figure 3 Duration of the nominal krona debt, maturities up to 12 years



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.

Part of the outstanding currency exposure in the central government debt has previously been provided by swapping SEK borrowing into foreign currency using cross currency 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 cross currency swaps in order to provide exposure in foreign currency.

Table 5 Change in outstanding swaps

SEK billion	2015	2016		2017	
		Feb	(Oct)	Feb	(Oct)
Interest rate swaps ¹	13	5	(5)	10	(5)
Cross currency swaps ²	0	0	(0)	0	(0)
Swaps total	13	5	(5)	10	(5)
Swaps maturing	28	38	(38)	39	(39)
Swaps, net change	-15	-33	-(33)	-29	-(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.

In 2016 and 2017 the outstanding stock of swaps will decrease by a further SEK 33 billion and SEK 29 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.



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.

Office plans to introduce its next ten-year inflation-linked bond in 2017.

Measures to reduce the outstanding volume of inflation-linked bond SGB IL 3104

At present the share of the inflation-linked bond index for SGB IL 3104 is just over 31 per cent. This creates problems for investors who track the index and are unable to allocate more than 30 per cent to a single issue under investment rules. The Debt Office has taken measures intended reduce the outstanding volume of the inflation-linked bond, mainly by offering switches. However, up to now interest in taking part in these switch auctions has been very limited.

For some time the Debt Office has also been applying less restrictive pricing in its continuous switch facility when primary dealers make switches of SGB IL 3104 to other inflation-linked bonds. This principle for pricing will continue to apply until 30 June this year.

When the shortest inflation-linked bond SGB IL 3107 is excluded from the index on 1 June this year, the weight of SGB IL 3104 will increase. The Debt Office is therefore considering offering further switches before this happens.

Unchanged volume of inflation-linked bonds

Borrowing in inflation-linked bonds is unchanged from the previous forecast. The planned annual volume is SEK 18 billion for both 2016 and 2017. 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 2017

In February the Debt Office introduced a ten-year inflation-linked bond, SGB IL 3112. The Debt

One possibility is to hold a switch auction with a given minimum volume of SGB IL 3104. In that case, switches would only be made if the total bid volume is large enough that the index weight falls below 30 per cent by a certain margin. The Debt Office is going to pre-sound the interest in such an auction during the spring and welcomes views on its technical design.

Switches of SGB IL 3107 in May

Switches of SGB IL 3107, which matures in 2017, will be offered in May this year. 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 even if other inflation-linked bonds may be considered.

The Debt Office has had a policy of letting a maximum of SEK 25 billion of an inflation-linked bond reach maturity. The experience of bond 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. The Debt Office is therefore offering switches of SGB IL 3107 so that a smaller volume is outstanding when the bond has

one year left to maturity. In this forecast the Debt Office has assumed switches of about SEK 5 billion of SGB IL 3107, which means that the volume will decrease to about SEK 17 billion. However, the switch volume may be slightly larger.

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. Like in the past, the Debt Office will instead provide a restrictive buyback facility, in which buybacks are made at a premium since this is not a question of a regular buyback offer.

Figure 4 Inflation-linked debt as a share of the central government debt¹



¹ In the long term the inflation-linked debt is to be 20 per cent of the debt.

Less borrowing in foreign-currency bonds

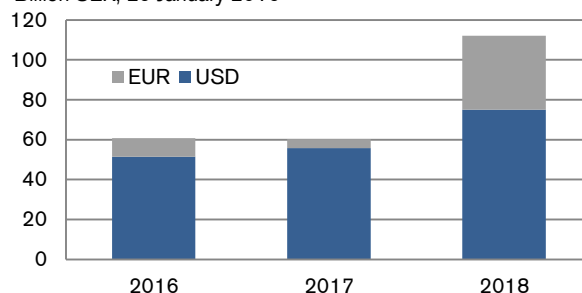
As a result of the lower borrowing requirement the Debt Office expects to only issue foreign currency bonds on behalf of the Riksbank both this year and next year. The previously planned borrowing in foreign currency bonds in addition to the financing of on-lending will consequently not take place. This means a reduction, compared with the previous forecast, of SEK 22 billion in 2016 and SEK 20 billion in 2017.

Borrowing to refinance loans to the Riksbank reaching maturity in 2016 is expected to be SEK 60 billion, which is SEK 10 billion lower than in the October forecast. The decrease is because a bond issue is postponed to 2017 and is replaced temporarily by commercial paper.

The Debt Office expects to borrow the equivalent of SEK 67 billion in 2017, which constitutes the refinancing of loans to the Riksbank reaching maturity. The volume is SEK 13 billion higher than in the previous forecast and this is mainly because of the bond issue that was moved from the previous year but also because of exchange rate effects.

Figure 5 Maturity profile of foreign currency bonds

Billion SEK, 29 January 2016



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.

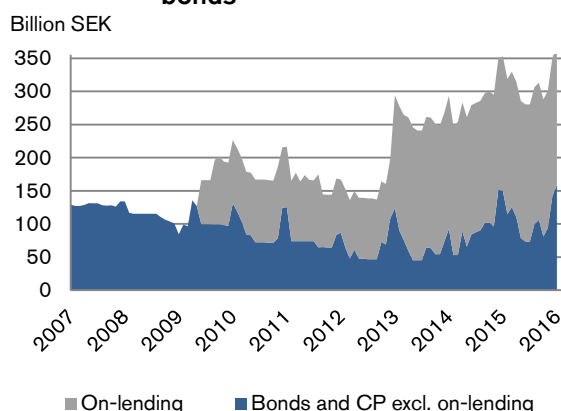
Lending to other states and the Riksbank is presented in the Report 'Sweden's Central Government Debt' under the heading of on-lending. On-lending is included in the budget balance and is therefore part of the Debt Office's net borrowing requirement. However, on-lending is not included in central government 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 liabilities incurred in financing the on-lending. This means that debt shares and maturity measures are not affected.

On-lending to the Riksbank

On 29 January, on-lending to the Riksbank totalled SEK 245 billion. The reason why the volume had increased since the previous report is that the krona has weakened slightly in relation to the US dollar. 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 borrowing in the SEK market is not affected since this financing takes place in foreign currency, see the fact box about on-lending.

Figure 6 Outstanding foreign currency bonds



This borrowing is concentrated on large benchmark bonds in the capital market with maturities of up to five years. The choice of currency and maturity is based on the Debt Office's wishes and market conditions. Figure 6 shows outstanding bonds and commercial paper in foreign currency for on-lending to the Riksbank and on behalf of the central government.

Net borrowing and 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.

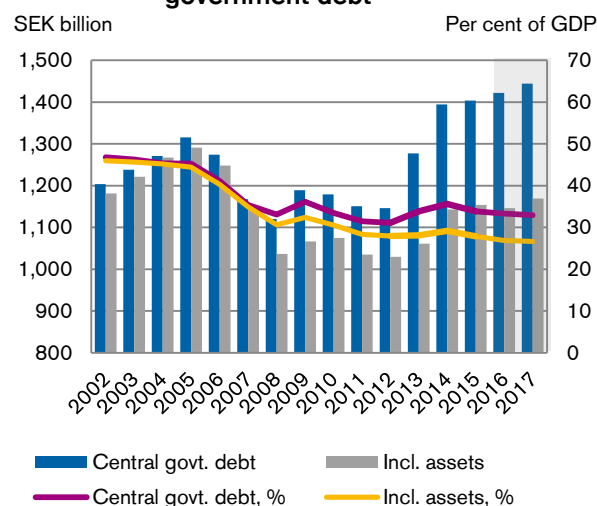
Table 6 Net borrowing per calendar year

SEK billion	2015	2016	2017
Net borrowing requirement	33	-3	31
Business day adjustment ¹	0	2	0
Net borrowing requirement	32	-1	31
Retail funding & collateral, net	-31	-4	-8
Net money market funding	29	-58	18
T-bills	53	-21	10
Commercial paper	-37	-35	13
Liquidity management	12	-2	-6
Net bond market funding	35	62	21
Government bonds	11	33	19
Inflation-linked bonds	-14	18	-4
Foreign currency bonds	37	11	6
Total net borrowing	32	-1	31

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.

The central government debt at the end of 2017 is estimated at SEK 1 444 billion. This corresponds to a GDP share of 33 per cent. Figure 7 and table 7 show the development of the central government debt.

Figure 7 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. That 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 27 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	33	-3	31
Discrepancy between business and payment date ¹	25	23	-17	0	-4	0	2	0
Net borrowing per business day	26	-45	8	131	68	32	-1	31
A. Nominal amount including money market assets	1 158	1 113	1 121	1 253	1 321	1 353	1 352	1 384
Inflation compensation	31	34	31	29	25	19	22	23
Exchange rate effects	-28	-21	-29	-19	30	29	23	13
B. Nominal amount to current exchange rate incl. inflation compensation and money market assets	1 161	1 126	1 123	1 262	1 376	1 401	1 397	1 419
Assets under management	18	25	23	15	18	3	25	25
C. Central government debt	1 179	1 151	1 146	1 277	1 394	1 403	1 422	1 444
Assets under management	-18	-25	-23	-15	-18	-3	-25	-25
On-lending	-86	-91	-93	-201	-233	-247	-250	-250
D. Central government debt incl. on-lending and assets under management	1 075	1 035	1 030	1 061	1 143	1 154	1 147	1 169
Nominal GDP	3 520	3 657	3 685	3 770	3 918	4 144	4 266	4 390
C. Central government debt, % of GDP	34	31	31	34	36	34	33	33
D. Central government debt incl. on-lending and money market assets, % of GDP	31	28	28	28	29	28	27	27

¹ Adjustment 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

Auction dates

Government bonds, auction dates

Announcement date	Auction date	Settlement date
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

Government bonds, outstanding amounts 29 Jan 2016

Maturity date	Coupon %	Loan no.	SEK Million
12-Jul-16	3.00	1050	53 239
12-Aug-17	3.75	1051	65 526
12-Mar-19	4.25	1052	90 550
01-Dec-20	5.00	1047	87 554
01-Jun-22	3.50	1054	87 131
13-Nov-23	1.50	1057	71 977
12-May-25	2.50	1058	53 372
12-Nov-26	1.00	1059	42 647
01-Jun-32	2.25	1056	11 000
30-Mar-39	3.50	1053	43 750
Total government bonds			606 746

Inflation-linked bonds, auction dates

Announcement date	Auction date	Settlement date
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
12-May-16	19-May-16	23-May-16
21-Apr-16	20-May-16*	24-May-16
21-Apr-16	23-May-16*	25-May-16
26-May-16	02-Jun-16	07-Jun-16
09-Jun-16	16-Jun-16	20-Jun-16

*Exchange auction

Inflation-linked bonds, outstanding amounts 29 Jan 2016

Maturity date	Coupon %	Loan no.	SEK Million
01-Jun-17	0.50	3107	21 737
01-Jun-19	0.125	3110	13 766
01-Dec-20	4.00	3102	30 724
01-Jun-22	0.25	3108	32 317
01-Jun-25	1.00	3109	21 939
01-Dec-28	3.50	3104	38 817
01-Jun-32	0.13	3111	6 675
Total Inflation-linked bonds			165 975

T-bills, auction dates

Announcement date	Auction date	Settlement date
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
13-Apr-16	20-Apr-16	22-Apr-16
26-Apr-16	03-May-16	06-May-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 29 Jan 2016

Maturity date	SEK Million
17-Feb-16	43 000
16-Mar-16	56 337
20-Apr-16	22 500
15-Jun-16	32 500
Total T-bills	154 337

Rating

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

Primary dealers

Primary dealers	Government bonds	Inflation-linked bonds	T-bills	Telephone
Barclays	●			+44 207 773 8275
Danske Markets	●	●	●	+46 8 568 808 44
Handelsbanken Markets	●	●	●	+46 8 463 46 50
Nordea Markets	●	●	●	+45 33 3317 58 / +46 8 614 86 55
Royal Bank of Scotland	●			+44 207 805 0363
SEB	●	●	●	+46 8 506 231 51
Swedbank	●	●	●	+46 8 700 99 00

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