



Central Government Borrowing

– Forecast and analysis 2017:1

22 February 2017

The Debt Office's assignment



Financial management for central government

- Banking services for the central government
- Managing central government debt
- Guarantees and loans



Financial stability

- Deposit insurance
- Bank crisis management (resolution)
- Financial Stability Council

The Swedish National Debt Office is the central government financial manager

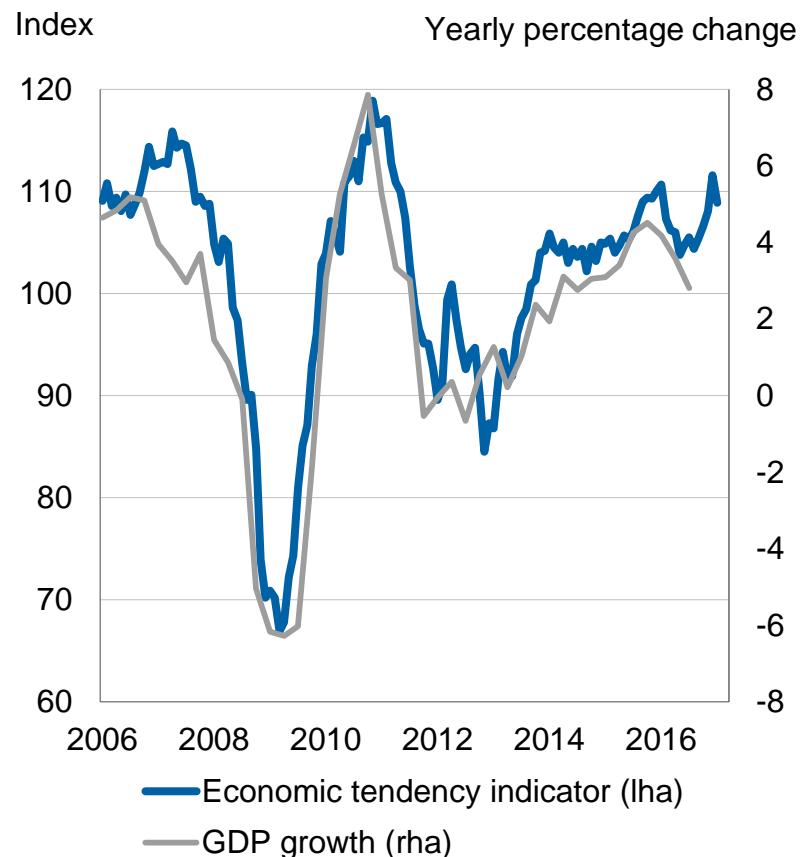
- The Debt Office handles incoming tax payments and outgoing payments as government wages, pensions, grants and student aid
- If the payments generate a surplus, we lend; if the payments generate a deficit, we borrow
- The Debt Office makes forecasts of these payments which along with maturing loans are the basis for the Debt Office's borrowing plan for the next two years
- The value of the total central government payments during one year amounts to 1.5 times the Swedish GDP

Lower surplus results in lower issue volumes

- Large surplus of SEK 85 billion in the central government budget in 2016, partly due to excess deposits
- Large excess deposits in tax accounts
 - Same assessment as the forecast in October
 - Total excess deposits are estimated to approximately SEK 50 billion
- A deficit in the central government budget in 2017 turns into a surplus in 2018
 - The central government budget balance is estimated to SEK -20 billion in 2017 and SEK 17 billion in 2018
- Small revisions compared to the October forecast
 - The central government budget balance forecast for 2017-2018 has been revised upwards by SEK 9 billion
- Borrowing in government bonds continues to decrease
- Balanced risks to the forecast
 - Greater political uncertainty internationally

Good growth in Sweden

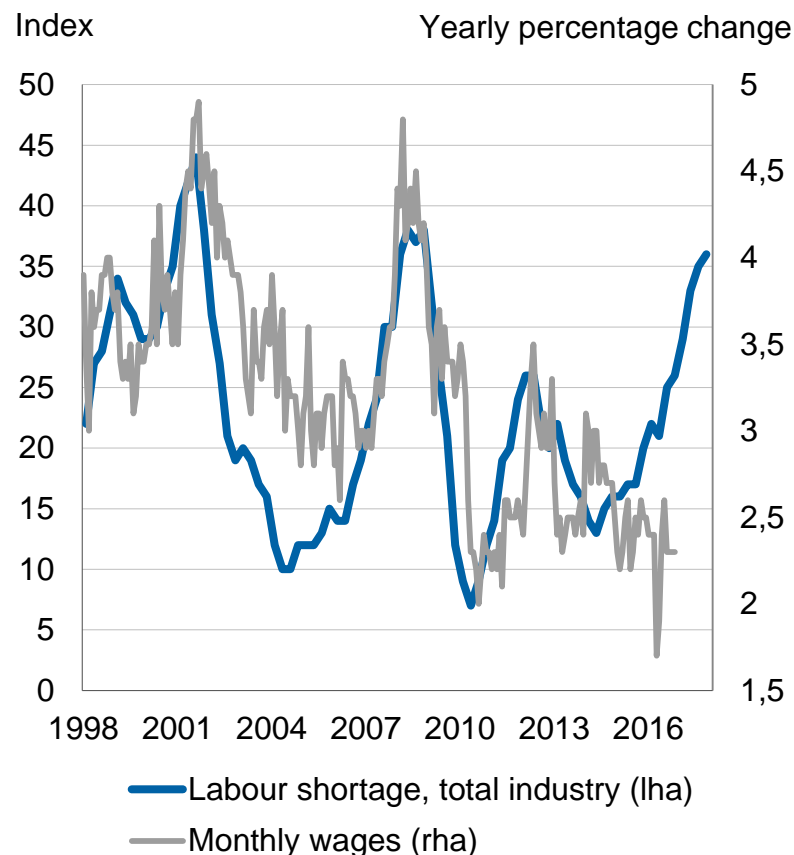
- Indicators more positive internationally
 - Moderate recovery in global GDP growth
- Brighter growth outlook in Sweden
 - Strong growth at the turn of the year
- Sustained good growth in Sweden
 - Exports and investments expected to grow somewhat stronger



Source: National Institute of Economic Research, Statistics Sweden and Datastream

Labour market is still strong

- Strong growth in employment and labour force late last year
- Shortage surveys and other indicators points to strong growth in the short term
- Unusually slow wage growth



Source: National Mediation Office, National Institute of Economic Research and Datastream

Increased political uncertainty internationally

- **Balanced risks to the forecast**
 - Short term: stronger growth more likely
 - Longer term: slower growth more likely
- **Increased political uncertainty internationally**
 - New political agenda in the US
 - Several upcoming elections in Europe
 - Handling of the UK's EU exit.
- **Domestic risks concerns labour market and household debt**
 - In the short term, employment can grow faster than expected
 - In the long term, uncertainty concerning migrants entry into the labour market and to what extent they become employed
 - Household debt continues to pose a risk to private consumption

Forecast summary

GDP and its components

Yearly percentage change	2016	Diff	2017	Diff	2018	Diff
GDP	3.4	0.1	2.3	0.4	1.9	0.1
Household consumption	2.2	-0.3	2.2	0.1	2.1	0.1
General gov't consumption	3.4	-0.2	1.2	-0.4	1.0	0.0
Gross fixed capital formation	6.8	-0.6	3.0	0.9	2.3	0.8
Change in inventories	0.3	0.0	-0.2	-0.1	-0.1	-0.1
Exports	3.2	0.2	3.5	0.4	3.9	0.0
Imports	4.3	-0.6	2.7	-0.4	3.6	0.0
Net exports ¹	-0.3	0.4	0.5	0.4	0.3	0.0
GDP, calander adj.	3.2	0.1	2.6	0.4	2.1	0.1

¹ Change as percentage of GDP previous year.

Labour market

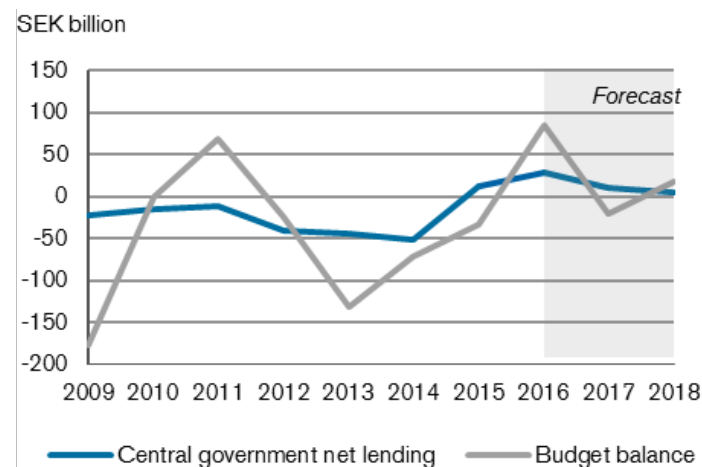
Yearly percentage change	2016	Diff	2017	Diff	2018	Diff
Labour force	1.0	0.2	1.0	0.1	0.8	-0.1
Employment	1.5	0.0	1.4	0.0	0.9	0.1
Unemployment	6.9	0.1	6.6	0.2	6.6	0.1

Summary net borrowing requirement

- Misleadingly low net borrowing requirement in 2016
 - Unchanged assumptions regarding excess deposits in tax accounts
- The forecast for 2017-2018 has been revised downwards by a total of SEK 9 billion
 - 2017: 33 → 20 (SEK billion)
 - 2018: -20 → -17 (SEK billion)
- Unchanged assumption of SEK 15 billion in new unfinanced reforms for 2018
- More even development for central government net lending

Central government net lending compared with budget balance

<i>SEK billion</i>	2014	2015	2016	2017	2018
Budget balance	-72	-33	85	-20	17
Delimitations	-5	23	11	19	16
Sale of limited companies	0	0	0	0	0
Extraordinary dividends	0	-9	-2	0	0
Parts of Debt Office's net lending	13	17	16	21	23
Other delimitations etc.	-18	15	-3	-2	-6
Accruals	27	21	-68	12	-28
Taxes	33	11	-47	14	-29
Interest payments etc.	-6	10	-22	-2	1
Central government net lending	-51	11	28	10	5
Per cent of GDP	-1.3	0.3	0.6	0.2	0.1



Tax income compared with previous forecast

<i>SEK billion</i>	2017	2018
Payroll taxes	-1	2
Consumption taxes	5	7
Corporate taxes	-5	-5
Supplementary taxes	-12	-5
Total	-13	-1

Largest changes since October

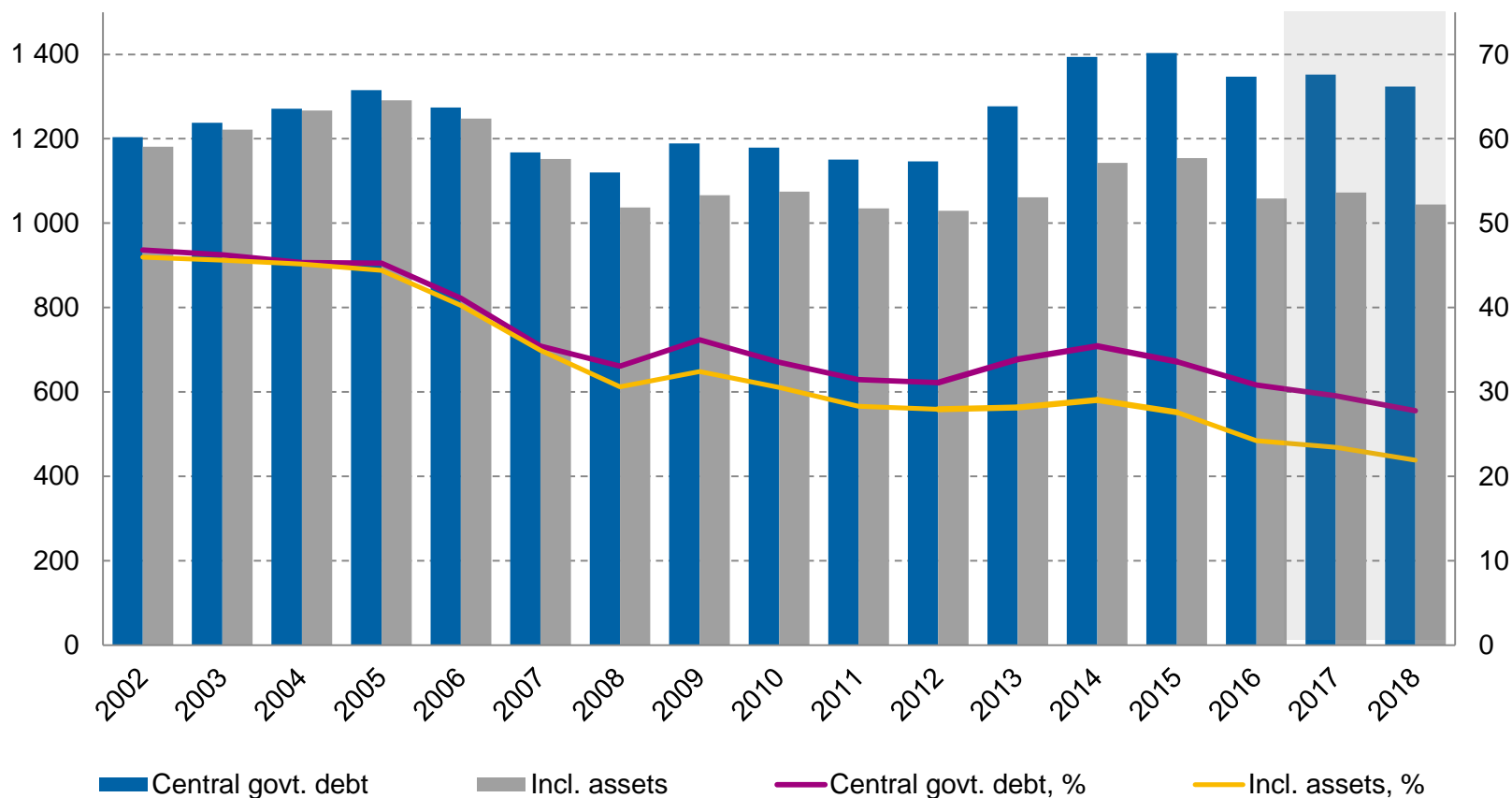
(positive numbers represent a larger borrowing requirement)

<i>SEK billion</i>	2017	2018
Forecast October 2016	33	-20
Taxes	-13	-1
Government grants to local governments	0	0
Labour market	0	0
Social insurance	-3	-4
Migration	0	-5
International aid	1	3
Dividends	0	0
Interest payments	1	3
Net lending excl. on-lending	2	0
On-lending	1	2
Other	-1	5
Forecast February 2017	20	-17
Sum of changes	-12	4

Central government debt development

SEK billion

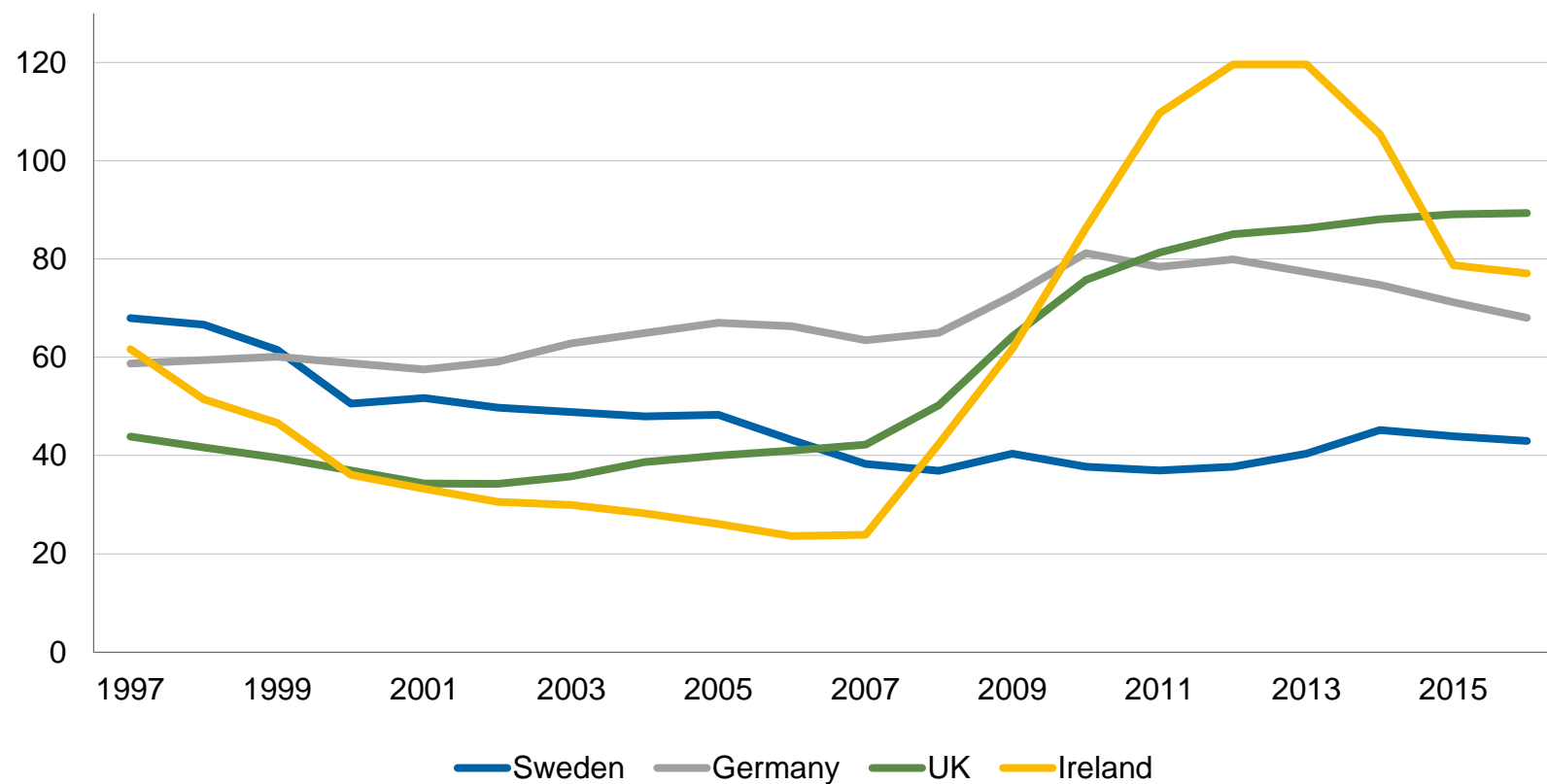
Per cent of GDP



Sweden's general government debt, an international comparison

Maastricht criterion

Per cent of GDP



Source: OECD Economic Outlook and Datastream

Lower gross borrowing requirement

- This year's total borrowing requirement decreases by SEK 21 billion compared with the October forecast
- The downward revision is due to lower net borrowing requirement and lower refinancing
 - Less money market borrowing in 2016 results in a smaller volume maturing in 2017
- The borrowing requirement forecast for 2018 is unchanged

Borrowing continues to decrease

The Debt Office reduces bond issuance

- Largest downward revision in government bonds
 - The auction volume is lowered from SEK 3 billion to 2.5 billion
 - Two auctions per year are cancelled
- Slight reduction of borrowing in inflation-linked bonds: one auction per year is cancelled

Unchanged:

- Bonds in foreign currency are only issued to refinance loans to the Riksbank
- Issue volumes of T-bills are the same as in the previous forecast

Gross borrowing requirement

<i>SEK billion</i>	2016	2017	2018
Net borrowing requirement	-85	20	-17
Business day adjustment etc. ¹	-7	6	-1
Retail borrowing & collateral, net ²	6	11	11
Money market redemptions ³	284	144	195
T-bills	141	84	110
Commercial paper	87	12	40
Liquidity management	56	48	45
Bond redemptions, net switches and buy-backs	104	146	106
Government bonds	53	70	5
Inflation-linked bonds	1	14	0
Foreign currency bonds ⁴	49	62	101
Total gross funding requirement	302	327	294

¹ A difference occurs as borrowing is reported by business date while net borrowing requirement is reported by settlement date.

² Net change in retail borrowing and collateral.

³ Initial stock maturing within 12 months.

⁴ Calculated with the original issuance exchange rate.

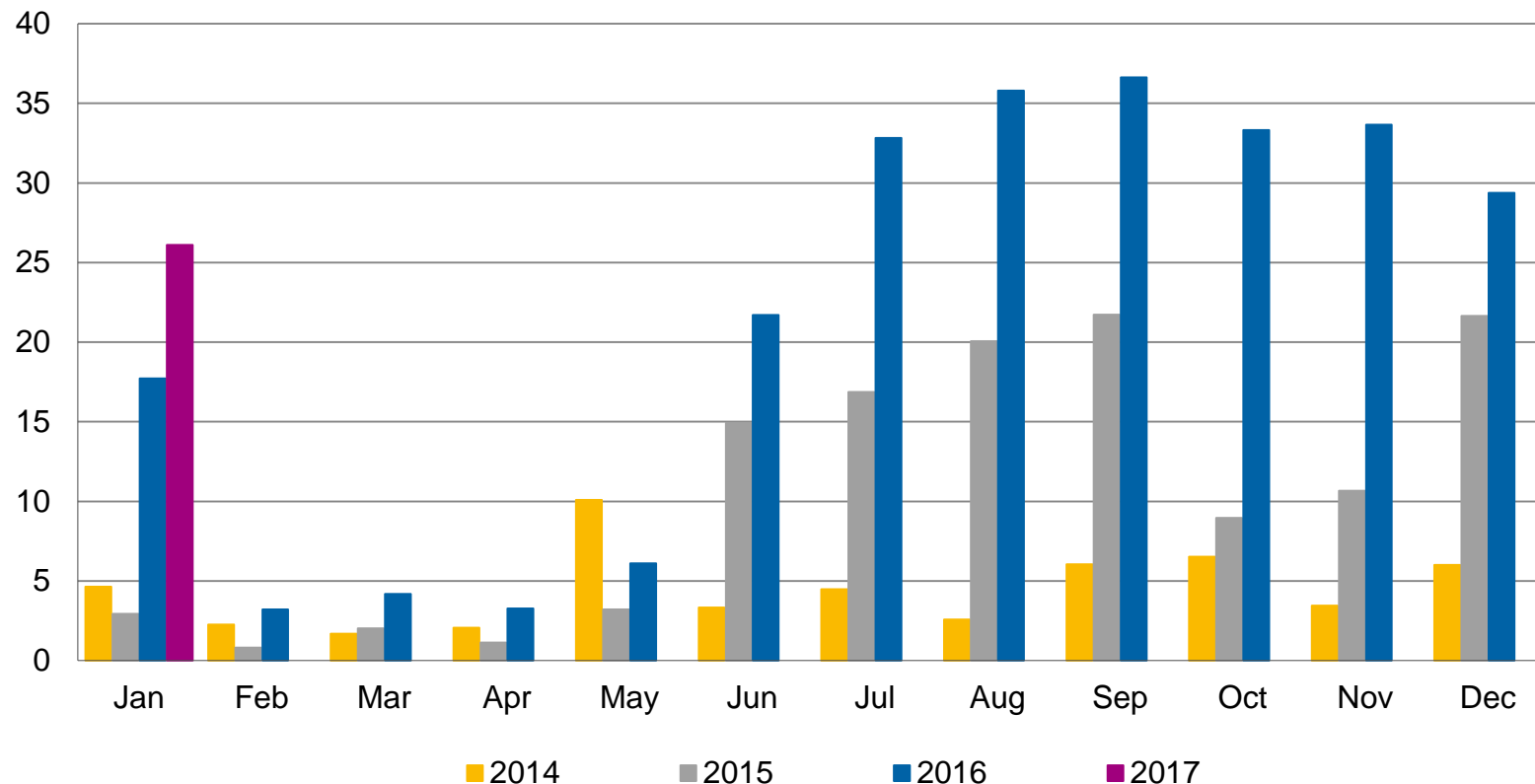
New borrowing forecast

	2016	2017		2018	
<i>SEK billion</i>	<i>Outcome</i>	<i>Feb</i>	<i>(Oct)</i>	<i>Feb</i>	<i>(Oct)</i>
Money market funding ¹	144	195	(202)	126	(110)
T-bills	84	110	(110)	80	(80)
Commercial paper	12	40	(65)	0	(0)
<i>Central Government</i>	0	40	(65)	0	(0)
<i>on behalf of the Riksbank</i>	12	0	(0)	0	(0)
Liquidity management	48	45	(27)	46	(30)
Bond funding	157	132	(147)	168	(184)
Government bonds	81	52	(66)	50	(66)
Inflation-linked bonds	16	13	(14)	13	(14)
Foreign currency bonds	61	68	(67)	105	(105)
<i>Central Government</i>	0	0	(0)	0	(0)
<i>on behalf of the Riksbank</i>	61	68	(67)	105	(105)
Total gross funding	302	327	(349)	294	(294)

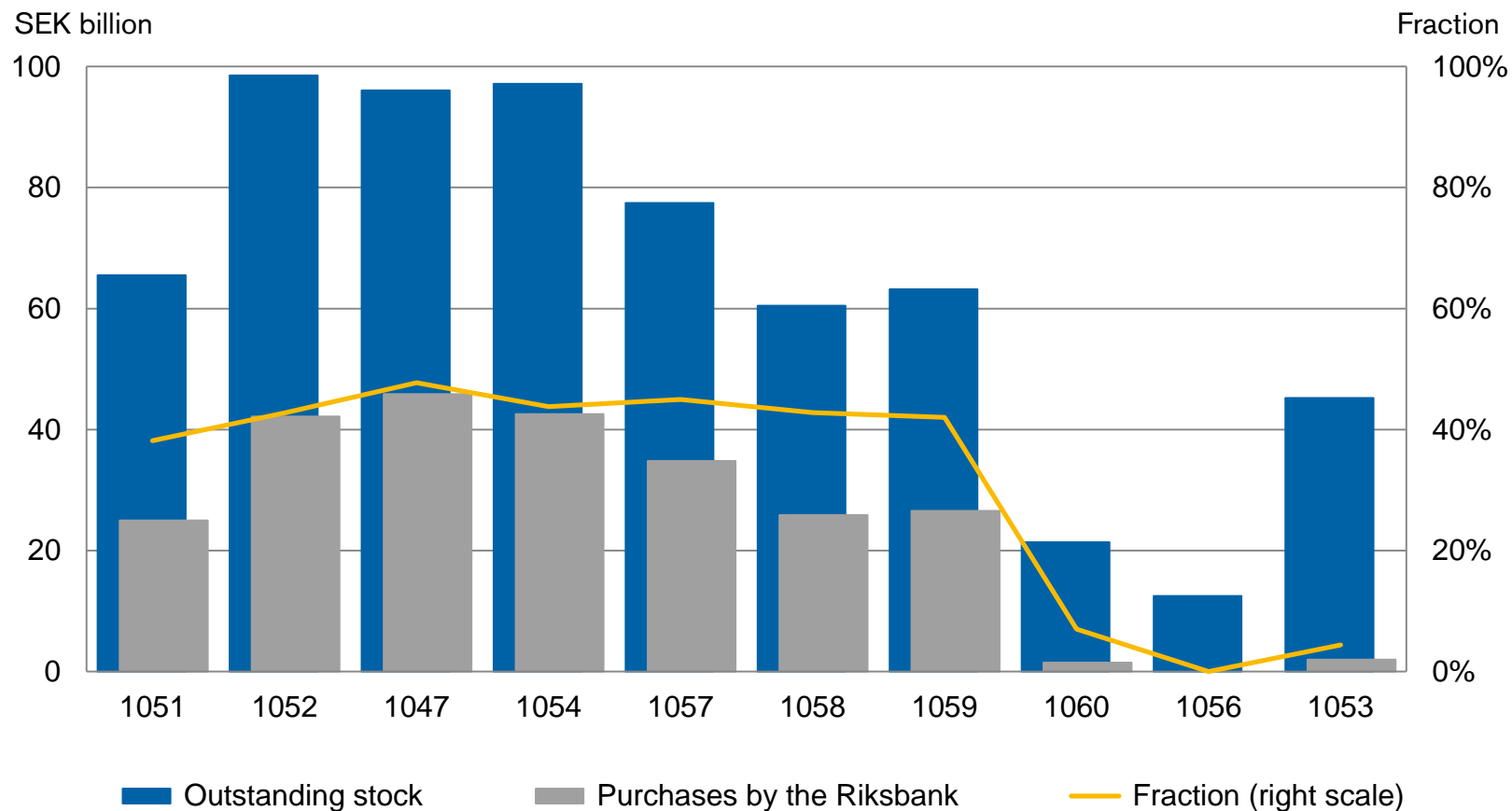
¹ *Outstanding stock as at year-end.*

Government bond repos with the Debt Office

SEK billion



The Riksbank's purchases of government bonds



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