



# Central Government Borrowing

– Forecast and analysis 2017:2

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*20 June 2017*

# Borrowing requirement decreases as the Riksbank's foreign currency reserve is assumed to be reduced

- Net borrowing requirement of SEK -124 billion in 2018
  - SEK 107 billion lower compared to February forecast
  - Entire change due to phase-out of on-lending to the Riksbank
- Net borrowing requirement of SEK 17 billion in 2017
  - SEK 3 billion lower than February forecast
- Assessment of excess deposits in tax accounts unchanged
- Foreign currency borrowing decreases sharply
  - On-lending to the Riksbank is assumed to end in 2018
  - The Debt Office intends to issue foreign currency bonds on its own behalf corresponding to about SEK 17 billion
- Unchanged issue volumes of both nominal and inflation-linked government bonds
- Balanced risks
  - House prices, building starts and household debt are downside risks

# Continued good growth in the Swedish economy

- Clearer international recovery
- Indicators stronger than actual growth
- Domestic demand and exports contribute to GDP growth equally
  - Residential investment will soften

## NIER indicator points to string growth

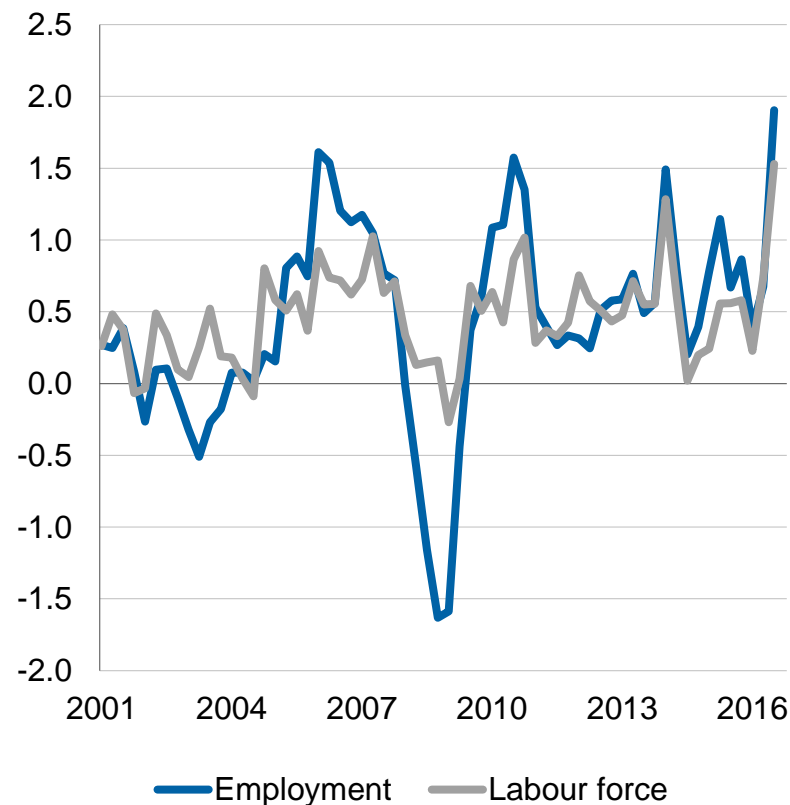


Source: Statistics Sweden, National Institute of Economic Research and Datastream

# Strong development in the labour market

- Labour force and employment have grown very fast over the last six months
- Two sides to the picture of resource utilisation in the labour market
  - Shortage figures point to high utilisation
  - Hours gap points to just under normal utilisation
- Estimation problems in LFS
  - Employment and hours worked probably overestimated
  - Affects view on resource utilisation
- Wages continue to grow at moderate pace, as does the wage sum

Percentage change over six months



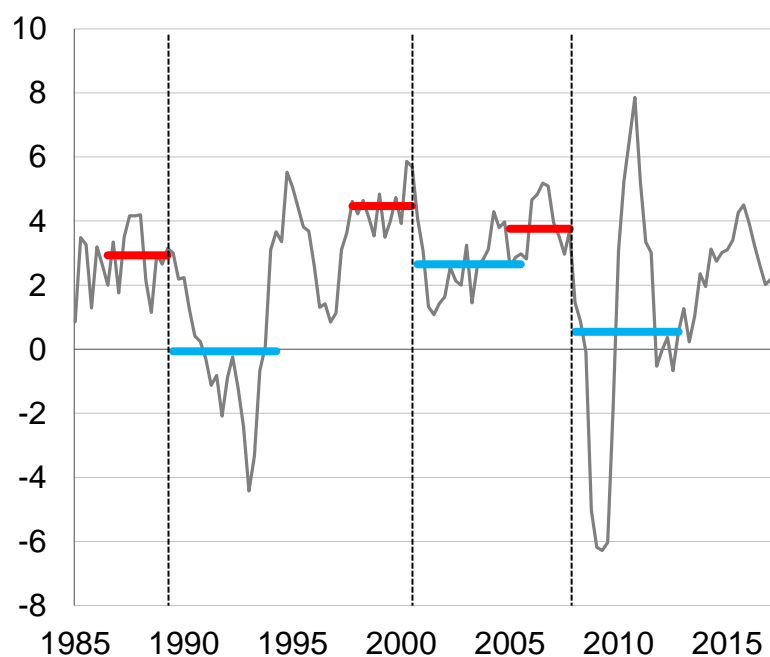
Sources: Statistics Sweden and Datastream

# Balanced risks

- International outlook
  - Some tension between hard and soft data
  - Political uncertainty and weak European banks
- The shape of the business cycle, the shorter v. the longer run
  - Indicators for both GDP and employment growth point towards strong growth in the short run
  - Business cycle turning points usually associated with clear and lasting shifts in GDP growth
- Housing market continues to be a source of concern
  - House prices, building starts and household debt

## GDP growth and business cycle turning points

Yearly percentage change



Sources: Statistics Sweden, National Institute of Economic Research, Datastream and Swedish National Debt Office

Note: Business cycle turning points defined as GDP gap peaks according to National Institute of Economic Research

# Forecast summary

## GDP and its components

Yearly percentage change	2016	Diff	2017	Diff	2018	Diff
<b>GDP</b>	<b>3.2</b>	<b>-0.3</b>	<b>2.3</b>	<b>0.0</b>	<b>2.1</b>	<b>0.1</b>
Household consumption	2.4	0.2	1.9	-0.4	2.1	0.0
General gov't consumption	2.9	-0.5	0.1	-1.1	1.0	0.0
Gross fixed capital formation	5.3	-1.4	5.2	2.2	2.9	0.6
Change in inventories	0.0	-0.2	-0.1	0.1	-0.1	0.1
Exports	3.5	0.3	3.3	-0.2	4.4	0.5
Imports	3.8	-0.5	2.9	0.2	4.3	0.7
Net exports <sup>1</sup>	0.0	0.3	0.3	-0.2	0.2	-0.1
GDP, calander adj.	2.9	-0.2	2.6	0.0	2.2	0.1

<sup>1</sup> Change as percentage of GDP previous year.

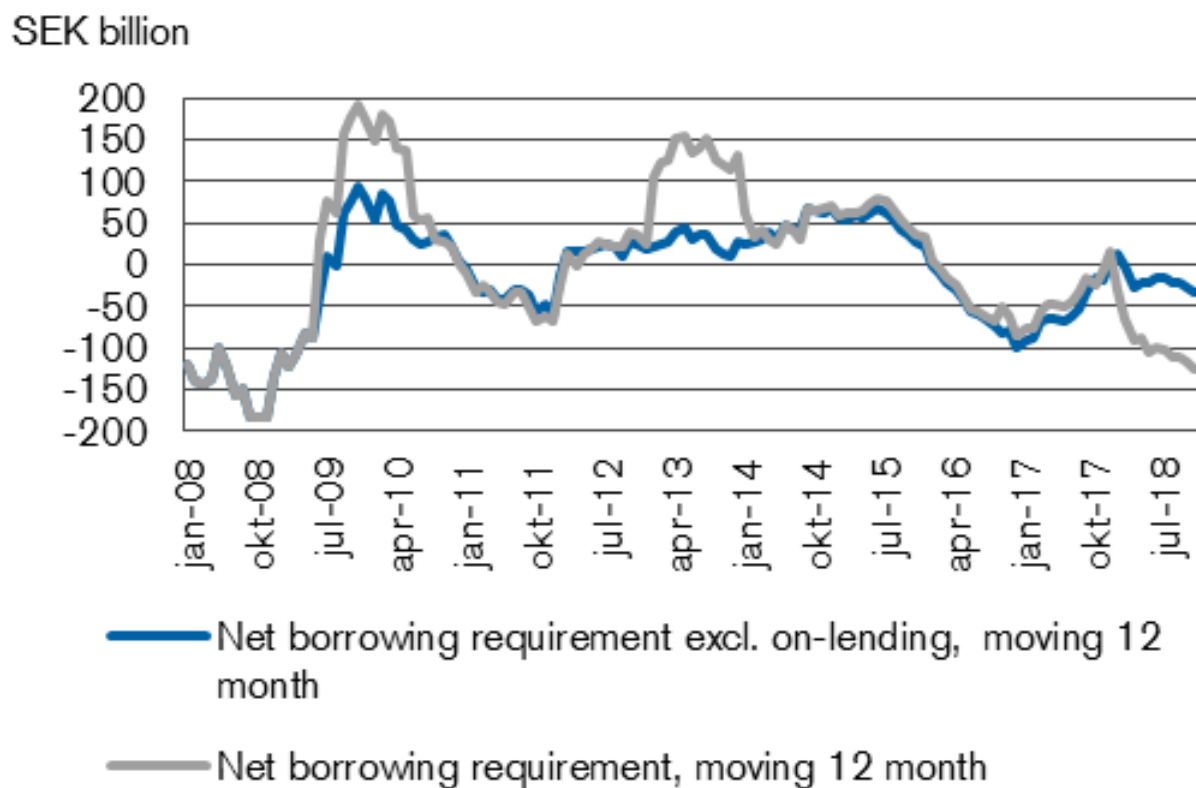
## Labour market

Yearly percentage change	2016	Diff	2017	Diff	2018	Diff
Labour force	1.0	0.0	1.6	0.6	0.8	0.0
Employment	1.5	0.0	2.1	0.7	0.8	-0.1
Unemployment	6.9	0.0	6.5	-0.1	6.5	-0.1

# The net borrowing requirement is significantly reduced in 2018

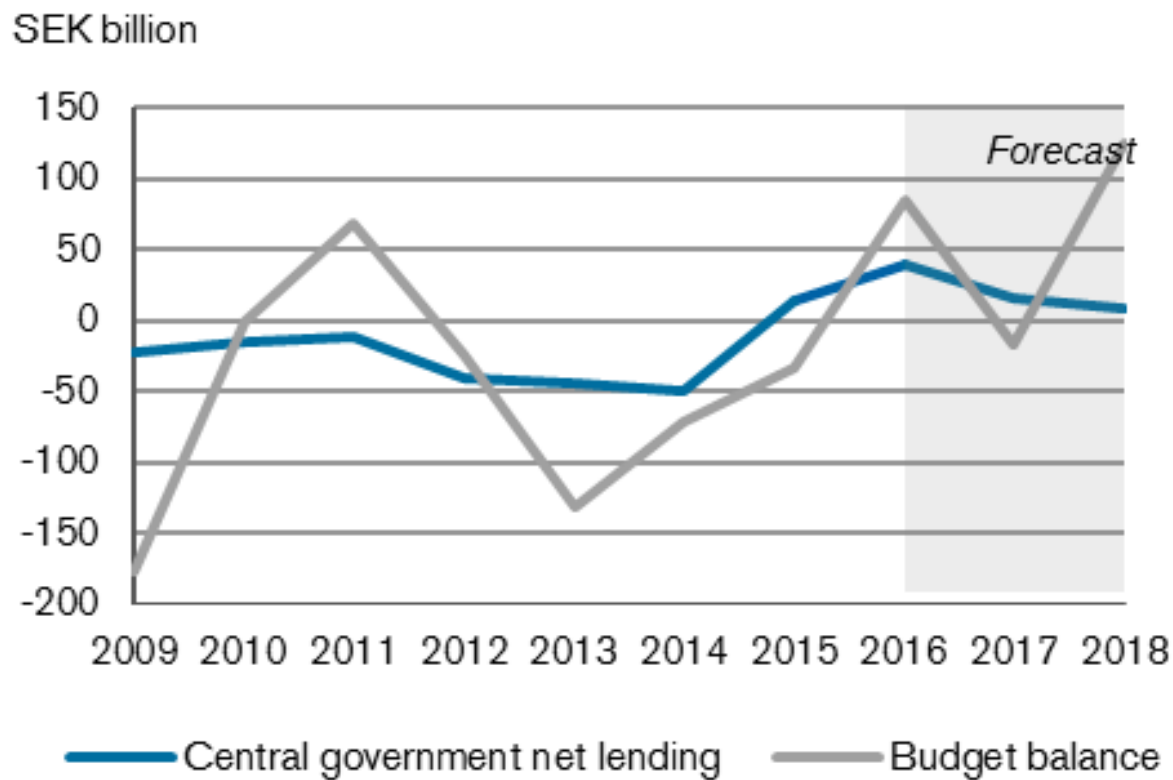
- Small changes for 2017
  - Net borrowing requirement of SEK17 billion compared with SEK 20 billion in February.
- Minor underlying changes also for 2018, but repayment of Riksbank on-lending will significantly reduce borrowing requirement.
  - New forecast is SEK -124 billion, compared with SEK -17 billion in February.
- Higher outcomes for the borrowing requirement during the spring. Estimated to be displacements between months.
- Slightly lower expenditure both years.
- Unchanged assumption on excess deposits in tax accounts.
- Unchanged assumption of SEK 15 billion in unfinanced reforms in 2018.

# On-lending to the Riksbank affects the net borrowing requirement

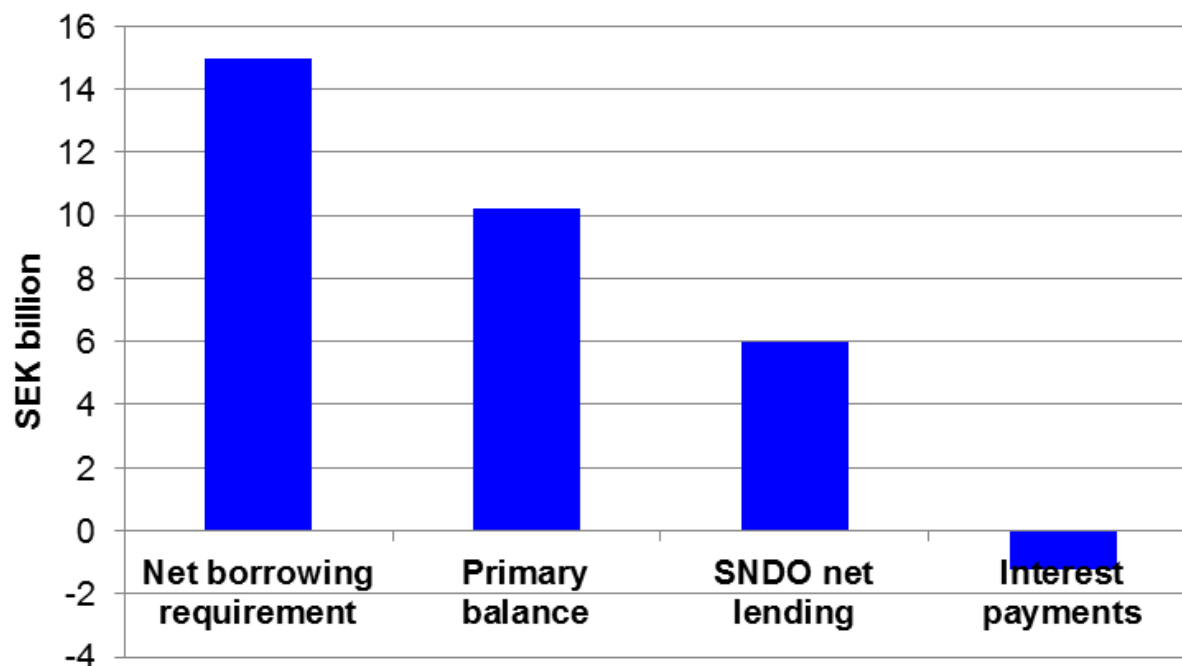




# But not central government net lending



# Accumulated difference net borrowing requirement Feb-May



# Forecast changes since February<sup>1</sup>

<i>SEK billion</i>	2017	2018
<b>Forecast February 2017</b>	<b>20</b>	<b>-17</b>
Taxes	6	2
Government grants to local governments	0	0
Labour market	-2	0
Social insurance	-2	-1
Migration	1	1
International aid	3	0
Dividends	1	-1
Interest payments	-1	1
Net lending excl. on-lending	0	1
On-lending	-1	-106
Other	-8	-4
<b>Forecast June 2017</b>	<b>17</b>	<b>-124</b>
<b>Sum of changes</b>	<b>-3</b>	<b>-107</b>

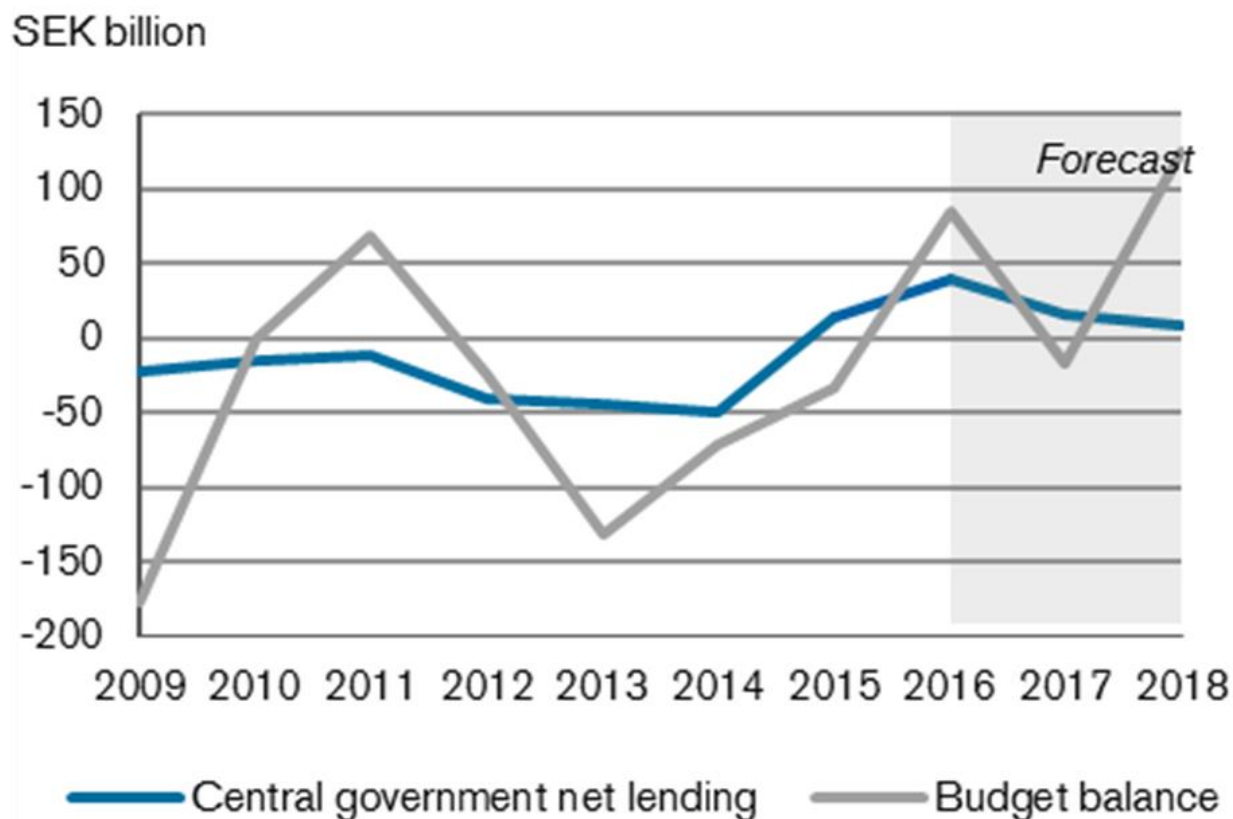
<sup>1</sup> Changes in terms of net borrowing requirement. A minus sign means that the net borrowing requirement decreases and plus means that it increases.

# Change in forecasted tax income since February<sup>1</sup>

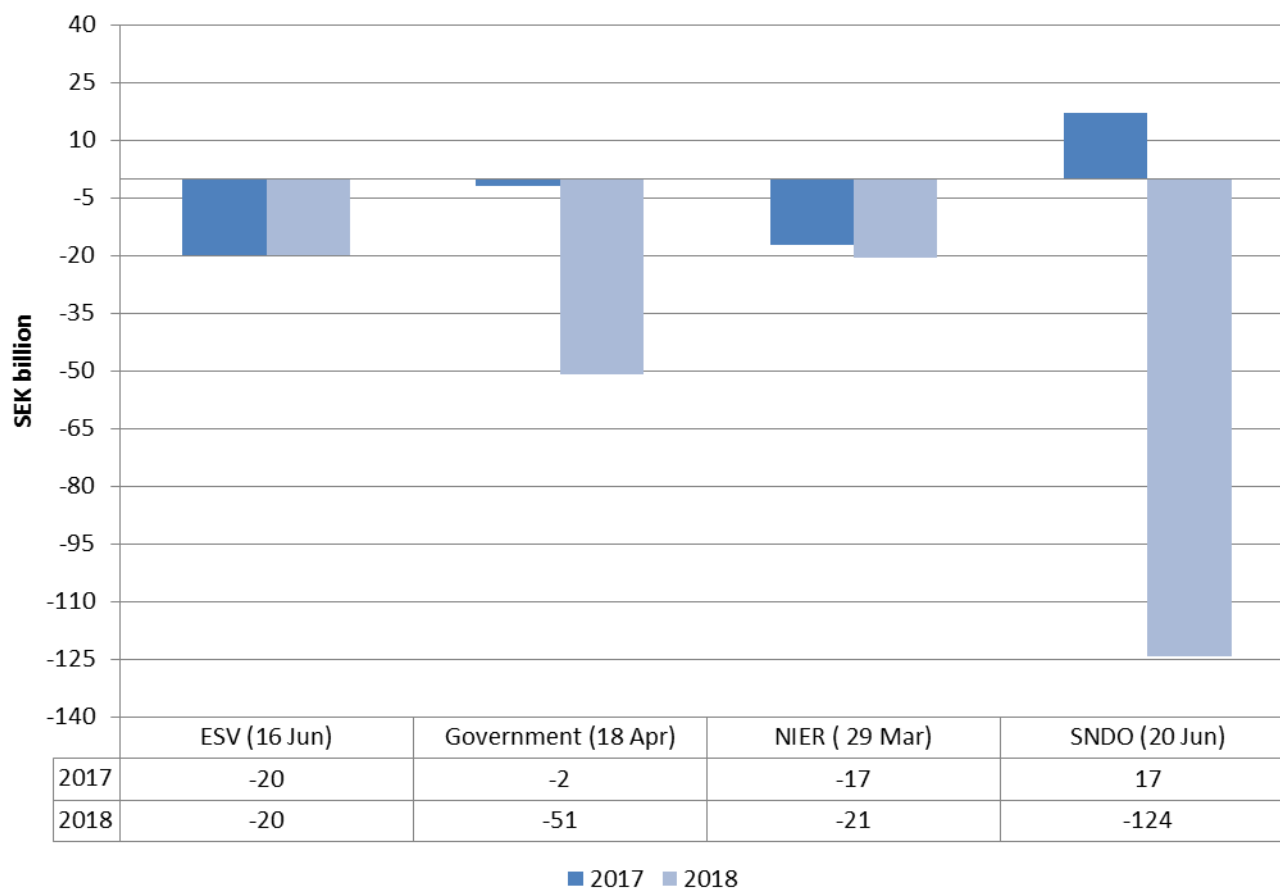
<i>SEK billion</i>	2017	2018
Payroll taxes	0	3
Consumption taxes	-3	-1
Corporate taxes	2	1
Supplementary taxes	7	-1
<b>Total</b>	<b>6</b>	<b>2</b>

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

# Large shifts in the budget balance



# Comparison with other forecasters



# Lower gross borrowing requirement 2018

- Gross borrowing requirement SEK 327 billion 2017. This is the same figure as in the forecast in February.
- Gross borrowing requirement will only reach SEK 188 billion 2018. That is a decrease by SEK 106 billion since the previous forecast.
- The Debt Office on-lending to the Riksbank is assumed to end in 2018.

# Foreign currency borrowing decreases sharply

- Foreign currency bond funding on behalf of the Riksbank is assumed to end in 2018
- The Debt Office intends to issue foreign currency bonds for Central Government in 2018
- The funding in T-bills decreases in 2018
  - In order to provide scope for the Debt Office to resume borrowing in foreign currency bonds for Central Government
- Unchanged borrowing in government bonds
- Unchanged borrowing in inflation-linked bonds



# Gross borrowing requirement

<i>SEK billion</i>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Net borrowing requirement</b>	<b>-85</b>	<b>17</b>	<b>-124</b>
<b>Business day adjustment etc. <sup>1</sup></b>	<b>-7</b>	<b>7</b>	<b>0</b>
<b>Retail borrowing &amp; collateral, net <sup>2</sup></b>	<b>6</b>	<b>12</b>	<b>11</b>
<b>Money market redemptions <sup>3</sup></b>	<b>284</b>	<b>144</b>	<b>195</b>
T-bills	141	84	110
Commercial paper	87	12	40
Liquidity management	56	48	45
<b>Bond redemptions, net switches and buy-backs</b>	<b>104</b>	<b>146</b>	<b>107</b>
Government bonds	53	69	6
Inflation-linked bonds	1	15	0
Foreign currency bonds <sup>4</sup>	49	62	101
<b>Total gross funding requirement</b>	<b>302</b>	<b>327</b>	<b>188</b>

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

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

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

<sup>4</sup> Calculated with the original issuance exchange rate.

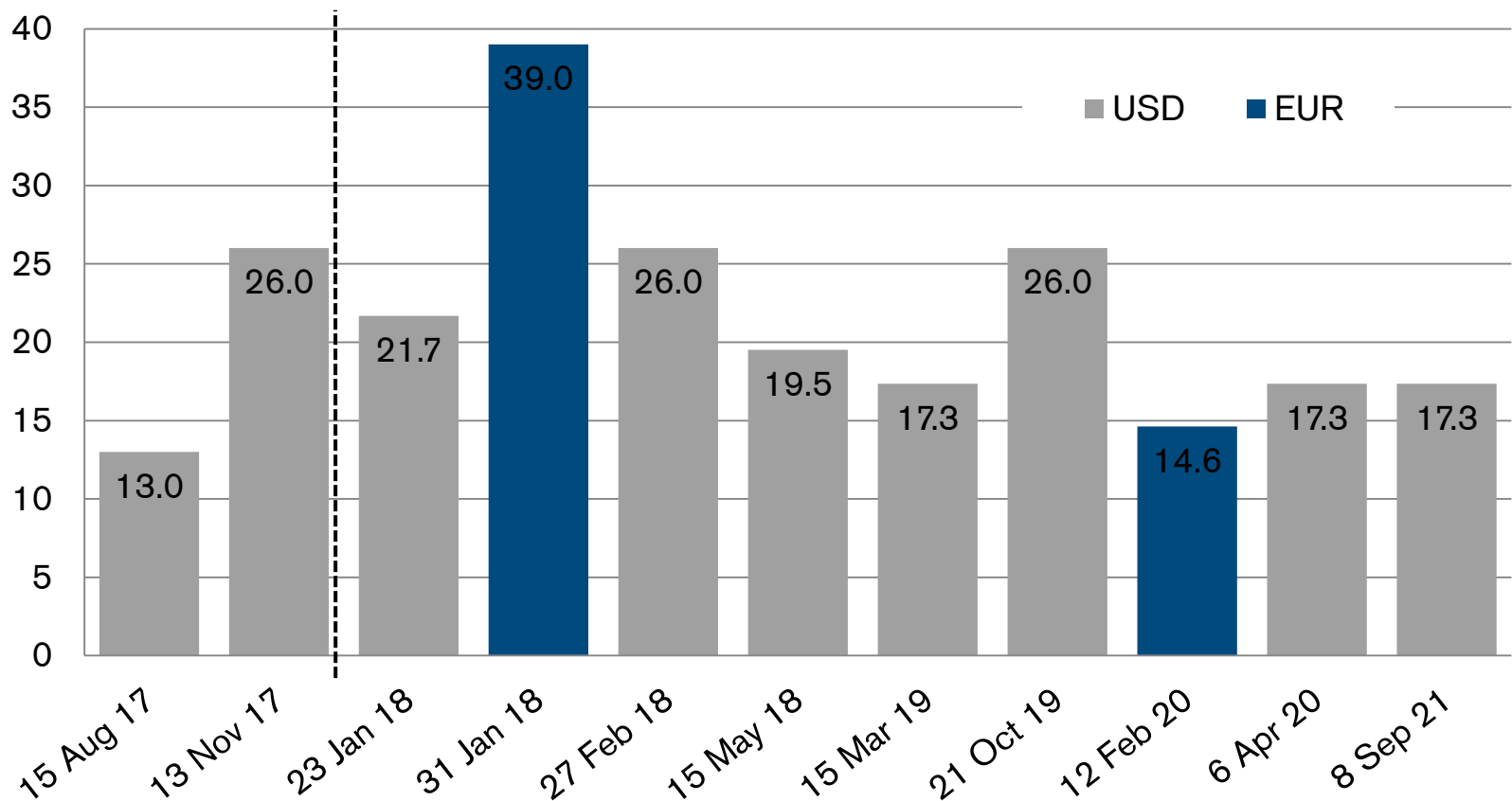
# Lower borrowing in foreign currency and treasury bills

<i>SEK billion</i>	2016	2017		2018	
	<i>Outcome</i>	<i>Jun</i>	<i>(Feb)</i>	<i>Jun</i>	<i>(Feb)</i>
<b>Money market funding<sup>1</sup></b>	<b>144</b>	<b>195</b>	<b>(195)</b>	<b>108</b>	<b>(126)</b>
T-bills	84	110	(110)	60	(80)
Commercial paper	12	40	(40)	0	(0)
<i>Central Government</i>	0	40	(40)	0	(0)
<i>on behalf of the Riksbank</i>	12	0	(0)	0	(0)
Liquidity management	48	45	(45)	48	(46)
<b>Bond funding</b>	<b>157</b>	<b>132</b>	<b>(132)</b>	<b>80</b>	<b>(168)</b>
Government bonds	81	52	(52)	50	(50)
Inflation-linked bonds	16	13	(13)	13	(13)
Foreign currency bonds	61	68	(68)	17	(105)
<i>Central Government</i>	0	0	(0)	17	(0)
<i>on behalf of the Riksbank</i>	61	68	(68)	0	(105)
<b>Total gross funding</b>	<b>302</b>	<b>327</b>	<b>(327)</b>	<b>188</b>	<b>(294)</b>

<sup>1</sup> Outstanding stock as at year-end.

# Redemptions foreign currency bonds on behalf of the Riksbank

SEK billion, 31 May 2017



# Lower central government debt 2018

