



Central Government Borrowing

– Forecast and analysis 2017:3

25 October 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

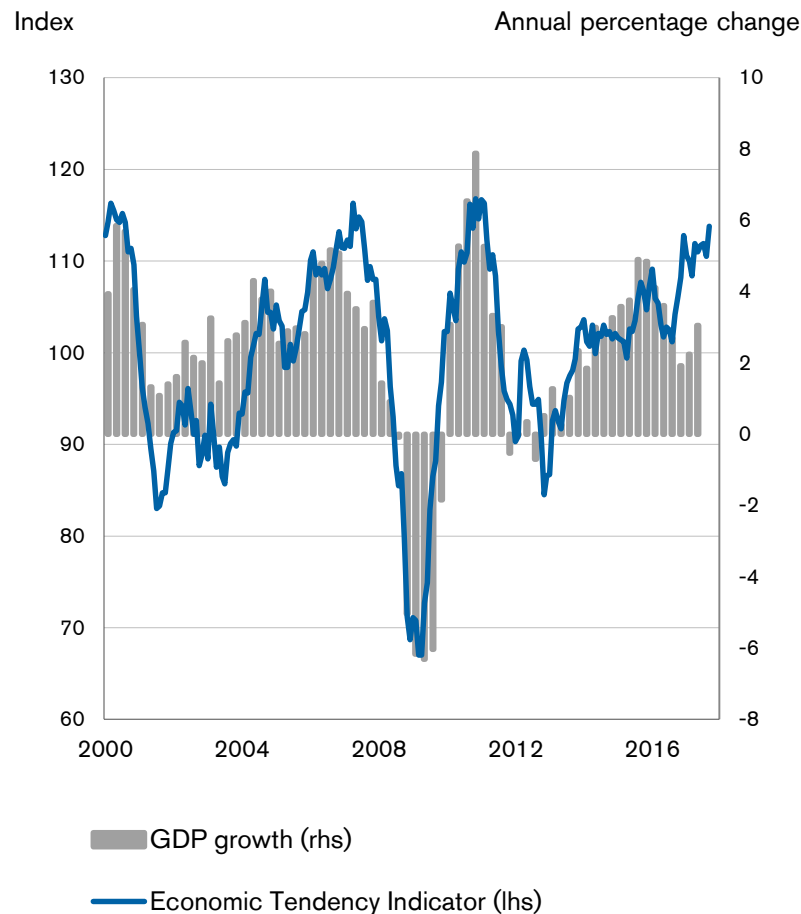
- Deposit insurance
- Bank crisis management (resolution)
- Financial Stability Council

Stronger Swedish economy reduces central government borrowing requirement

- Net borrowing requirement of SEK -28 and -47 billion in 2017 and 2018 respectively
 - Forecast for 2017 revised down, higher growth yields higher tax income and lower spending
 - Forecast for 2018 revised up since Debt Office on-lending to the Riksbank is assumed to continue
- Net borrowing requirement of SEK -55 billion in 2019
- Assessment of excess deposits in tax accounts unchanged
- Large reduction of borrowing in SEK
 - Good growth in Swedish economy leads to less borrowing in SEK
 - On-lending to the Riksbank is assumed to continue; borrowing in foreign currency increases
- Issue volumes of government bonds and inflation-linked bonds decrease, as do T-bill volumes
- Slight overweight for downside risks

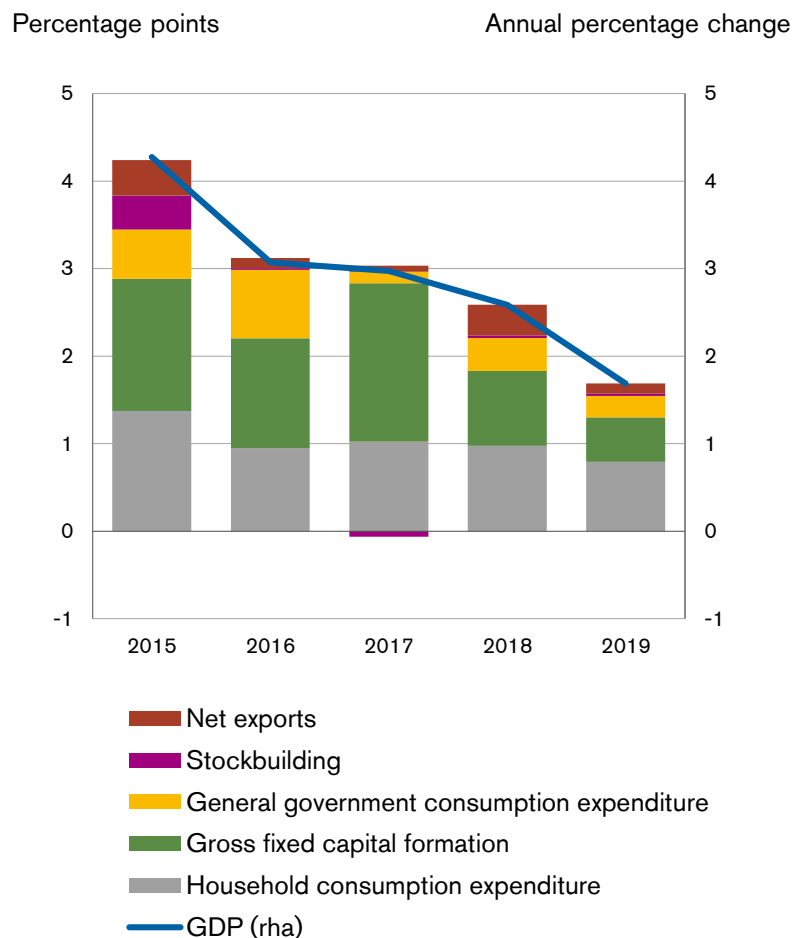
Strong growth in Swedish economy

- Outcomes and indicators point to strong economy
 - Strong GDP growth in the second quarter
 - Bouyant labour market in the third quarter
- Resource utilization higher than normal
 - Although indicators are not unanimous
- Expansionary economic policy
- Signs of business cycle turning point
 - E.g. notice of layoffs and building starts



Slower growth as resource utilisation increases

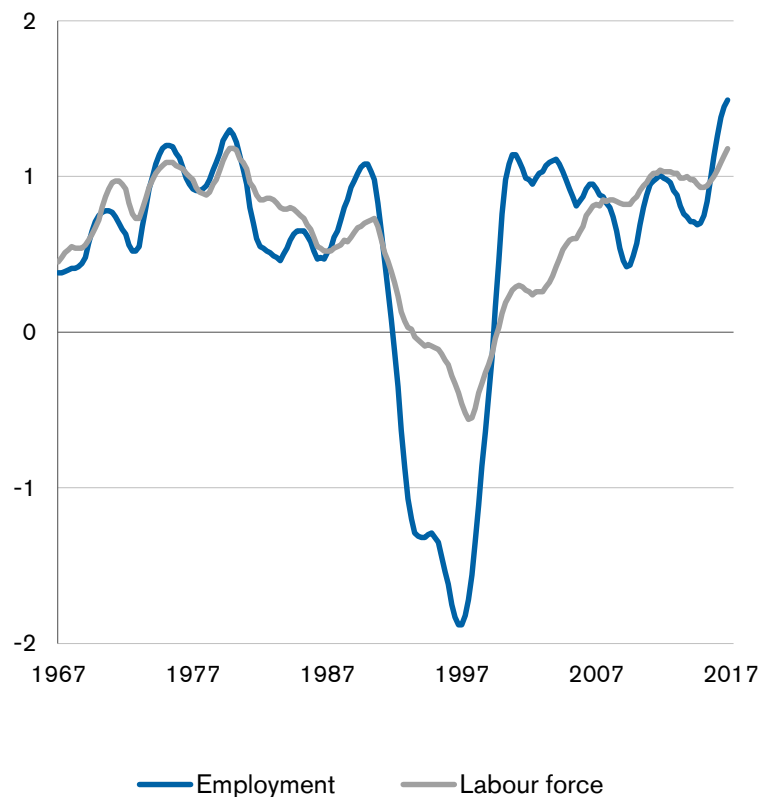
- Current position strong, GDP expected to grow above trend over next quarters
- Increasingly constrained resources means growth will dampen
- Trajectory of residential investment important for GDP growth profile
 - Growth of residential investment on par with rates seen during 1990's boom
 - Residential investments expected to level out



Historically strong labour market will cool

- Strongest labour market in 50 years
 - Measured as 7-year averages of yearly growth
- Employment and labour force will grow slower as business cycle turns
 - Foreign born almost sole driver of growth rates
 - Asylum seekers are only a part of the explanation
- Unemployment to increase somewhat
- Modest price and wage pressure over the whole forecast horizon
 - Mainly due to central wage agreements

7-year moving average of yearly percentage change



Risks and summary

- Slight overweight for downside risks
 - Business cycle turning points difficult to forecast
 - Housing market important, especially then residential investment
 - More uncertainty than normal in the labour market

GDP and its components

Yearly percentage change	2016	Diff	2017	Diff	2018	Diff	2019
GDP	3.3	0.2	2.7	0.4	2.5	0.4	1.7
Household consumption	2.2	-0.2	2.2	0.4	2.2	0.1	1.8
General gov't consumption	3.4	0.5	0.2	0.0	1.3	0.3	0.9
Gross fixed capital formation	5.7	0.4	7.1	1.9	3.3	0.4	2.0
Change in inventories	0.1	0.0	-0.1	0.1	0.0	0.1	0.0
Exports	3.4	-0.1	3.6	0.3	4.3	-0.1	3.3
Imports	3.5	-0.3	3.9	1.0	3.9	-0.4	3.4
Net exports ¹	0.1	0.1	0.1	-0.3	0.3	0.1	0.1
GDP, calander adj.	3.1	0.1	3.0	0.4	2.6	0.4	1.7

¹ Change as percentage of GDP previous year.

Labour market, prices and wages

Yearly percentage change	2016	2017	Diff	2018	Diff	2019
Labour force	1.0	1.9	0.3	1.3	0.5	0.8
Employment	1.5	2.3	0.2	1.2	0.5	0.6
Unemployment	6.9	6.6	0.1	6.7	0.2	6.8
CPIF	1.4	2.0	1.7	1.8	1.7	1.9
Hourly wage (NA)	2.2	3.2	0.2	3.2	0.1	3.4
Payroll	4.9	4.8	0.3	4.7	0.4	4.2

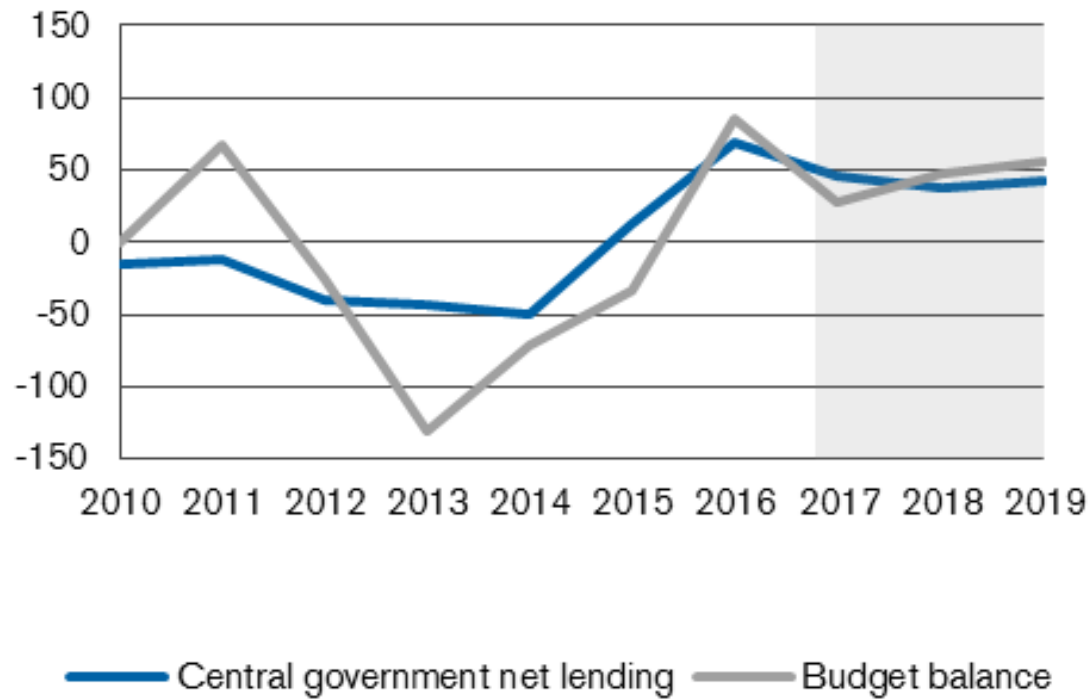
The net borrowing requirement 2017-2019

- Decrease of the forecast for 2017
 - Higher growth results in higher tax income and lower expenditure
 - Outcome June-September significantly stronger than forecast
 - Ireland has applied for early repayment of its loans
- Increase in the forecast for 2018
 - The on-lending to the Riksbank will continue
 - Expansive proposals in the budget bill
 - Stronger growth results in higher tax income
- First forecast for 2019
 - The net borrowing requirement continues to decrease slightly
 - Assumption of unfinanced fiscal reforms of SEK 15 billion

<i>SEK billion</i>	2017	2018	2019
Primary balance	-40	-65	-77
SNDO Net lending	0	6	1
<i>of which on-lending</i>	3	10	-3
Interest payments	12	11	21
Net borrowing requirement	-28	-47	-55

Stable central government net lending

SEK billion



Stronger primary balance than in June forecast¹

<i>SEK billion</i>	2017	2018
Forecast June 2017	17	-124
Primary balance	-33	-18
<i>Of which:</i>		
Tax income	-20	-22
Dividends	0	0
Government grants to local governments	0	5
Labour market	-1	1
Social insurance	-1	6
Migration	1	-1
International aid	-1	0
Other	-10	-7
SNDO Net lending	-12	94
<i>Of which:</i>		
On-lending	-10	101
Interest payments	-1	1
Forecast October 2017	-28	-47
<i>Sum of changes</i>	<i>-46</i>	<i>77</i>

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

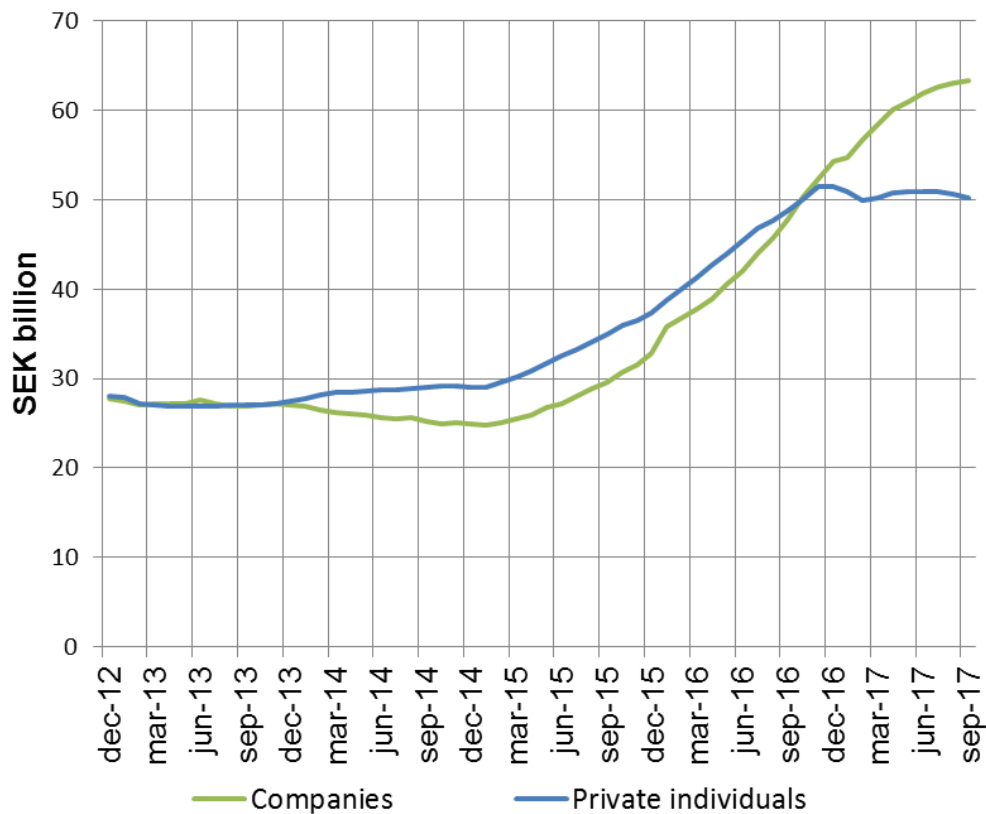
Higher tax income than in June forecast¹

<i>SEK billion</i>	2017	2018
Payroll taxes	2	-11
Consumption taxes	-4	-7
Corporate taxes	-3	-3
Supplementary taxes	-15	-1
Total	-20	-22

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

Subsiding corporate flows into tax account

Moving average



Borrowing requirement in SEK instruments decreases

- Good growth in Swedish economy leads to lower supply of government bonds and inflation-linked bonds.
- Gross funding requirement is estimated at SEK 283 billion in 2017. This is SEK 44 billion less compared to the forecast in June.
- Conversely, the funding requirement in 2018 rises by SEK 38 billion and is estimated at SEK 226 billion.
- The forecast for 2019 displays a funding requirement of SEK 233 billion.
- Large volumes of market supporting repos lead to large surpluses in liquidity management. This makes a sharp reduction of T-bills necessary.
- On-lending to the Riksbank is assumed to continue. The planned issuance of foreign currency is exclusively for refinancing on-lending to the Riksbank.

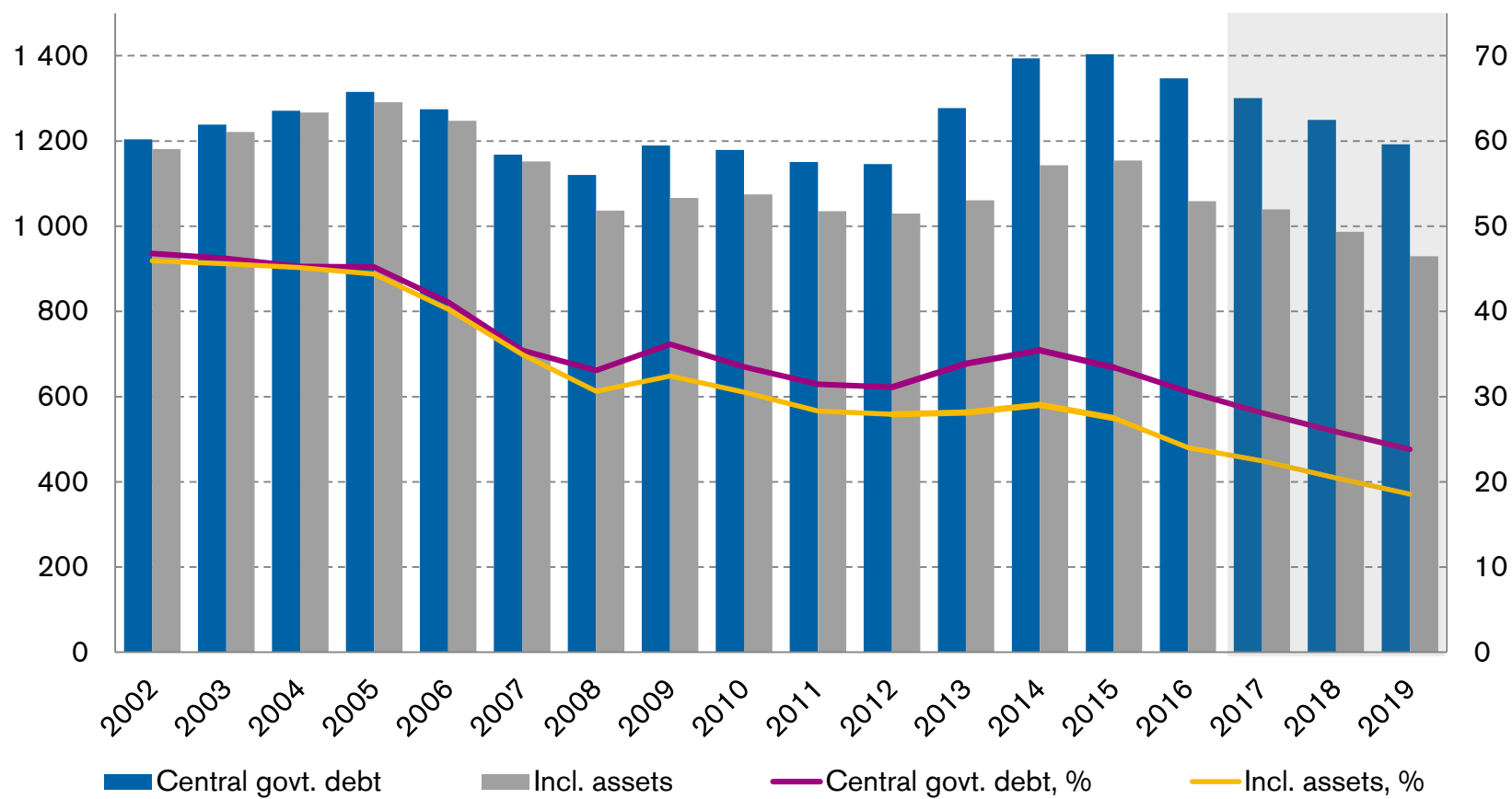
Borrowing is redistributed

- Issuance of government bonds is lowered to SEK 2 billion per auction
- Issuance of index-linked bonds is lowered to SEK 500 billion per auction
- Borrowing in T-bills is sharply reduced
 - Issuance volume is lowered to SEK 5 billion per auction
 - The number of auctions is halved
- Funding in foreign currency bonds on behalf of the Riksbank is assumed to continue throughout the forecast period
- The Debt Office will issue foreign currency bonds in order to refinance the on-lending to the Riksbank during 2018 and 2019.
 - No foreign currency bonds to be issued apart from on-lending

Government debt continues to decrease

SEK billion

Per cent of GDP



Extra slides

Borrowing requirement, total

<i>SEK billion</i>	2016	2017	2018	2019
Net borrowing requirement	-85	-28	-47	-55
Business day adjustment etc. ¹	-7	12	3	1
Retail borrowing & collateral, net ²	6	12	8	7
Money market redemptions ³	284	144	155	75
T-bills	141	84	88	20
Commercial paper	87	12	0	0
Liquidity management	56	48	68	55
Bond redemptions, net switches and buy-backs	104	143	106	205
Government bonds	53	66	5	99
Inflation-linked bonds	1	16	0	20
Foreign currency bonds ⁴	49	62	101	87
Total gross funding requirement	302	283	226	233

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. Commercial paper is included in Liquidity management.

⁴ Calculated with the original issuance exchange rate.

Redistributed funding

	2016	2017	2018	2019
<i>SEK billion</i>	<i>Outcome</i>	<i>Oct (Jun)</i>	<i>Oct (Jun)</i>	<i>Oct</i>
Money market funding ¹	144	155 (195)	75 (108)	121
T-bills	84	88 (110)	20 (60)	20
Liquidity management ²	48	68 (85)	55 (48)	101
Bond funding	157	127 (132)	150 (80)	112
Government bonds	81	51 (52)	40 (50)	40
Inflation-linked bonds	16	12 (13)	9 (13)	9
Foreign currency bonds	61	65 (68)	102 (17)	63
<i>Central Government</i>	0	0 (0)	0 (17)	0
<i>on behalf of the Riksbank</i>	61	65 (68)	102 (0)	63
Total gross funding	302	283 (327)	226 (188)	233

¹ Outstanding stock as at year-end.

² Commercial paper is included in Liquidity management.

Net financial lending and budget balance

<i>SEK billion</i>	2015	2016	2017	2018	2019
Budget balance	-33	85	28	47	55
Delimitations	34	40	9	11	11
Sale of limited companies	0	0	0	0	0
Extraordinary dividends	-9	-2	0	0	0
Parts of Debt Office's net lending	17	16	10	17	5
Other delimitations etc.	26	25	0	-6	7
Accruals	11	-56	8	-20	-23
Taxes	11	-44	15	-25	-27
Interest payments etc.	0	-12	-7	5	4
Central government net lending	12	69	46	38	43
Per cent of GDP	0.3	1.6	1.0	0.8	0.9