



# Central Government Borrowing

Forecast and analysis 2016:2

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*June 15 2016*

# Summary: Larger budget surplus this year turns into deficit in 2017

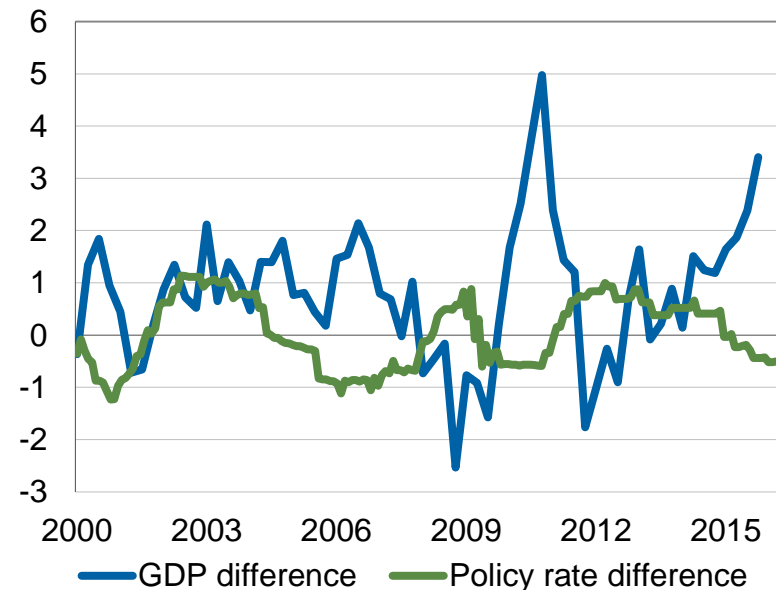
- A central government surplus of SEK 41 billion in 2016 (net borrowing requirement SEK -41 billion)
  - Strong Swedish economy
  - Temporary factors contribute to the surplus
- Deficit (net borrowing requirement) of SEK 42 billion in 2017
  - Somewhat weaker global and Swedish economy
  - Temporary factors disappear and contribute to the reversal between the years
- The net borrowing requirement for 2016-2017 is revised downwards by a total of SEK 27 billion compared to the forecast from February
- Reduced issue volume of government bonds
  - Issue volume is lowered from SEK 4 billion to SEK 3,5 billion per auction
- Unchanged issue volume for T-bills and inflation-linked bonds
- Published today: Focus Report -" The Role of the Central Government Debt in the Economy" ("Statsskuldens roll i ekonomin")

# Strong Swedish economy gradually slows down

- GDP growth 3.2 and 2.2 in 2016 and 2017
- Domestic demand main driver of growth
- Moderate global growth offers little support
- Employment growth peaks 2016
- Downside risks dominate, driven by uncertain global outlook

## Sweden compared to trade partners (TCW)

Percentage points



# National accounts

Fixed prices

<i>Percentage change</i> <sup>1</sup>	2015	2016	2017
GDP	4.2 (3.7)	3.2 (3.3)	2.2 (2.5)
Household consumption	2.7 (2.4)	2.6 (2.4)	2.1 (2.3)
General government consumption	2.6 (2.3)	3.2 (3.7)	2.0 (2.5)
Gross fixed capital formation	7.0 (6.8)	5.0 (4.7)	3.0 (3.0)
Change in inventories <sup>2</sup>	0.4 (0.0)	0.1 (0.1)	0.0 (0.0)
Exports	5.9 (4.6)	3.6 (4.2)	3.5 (3.9)
Imports	5.5 (4.1)	4.3 (4.6)	3.8 (4.0)
Net exports <sup>2</sup>	0.4 (0.4)	-0.1 (0.0)	0.0 (0.1)
GDP (calendar adjusted)	3.9 (3.5)	3.0 (3.1)	2.4 (2.7)

*Note: Previous forecast in parentheses.*

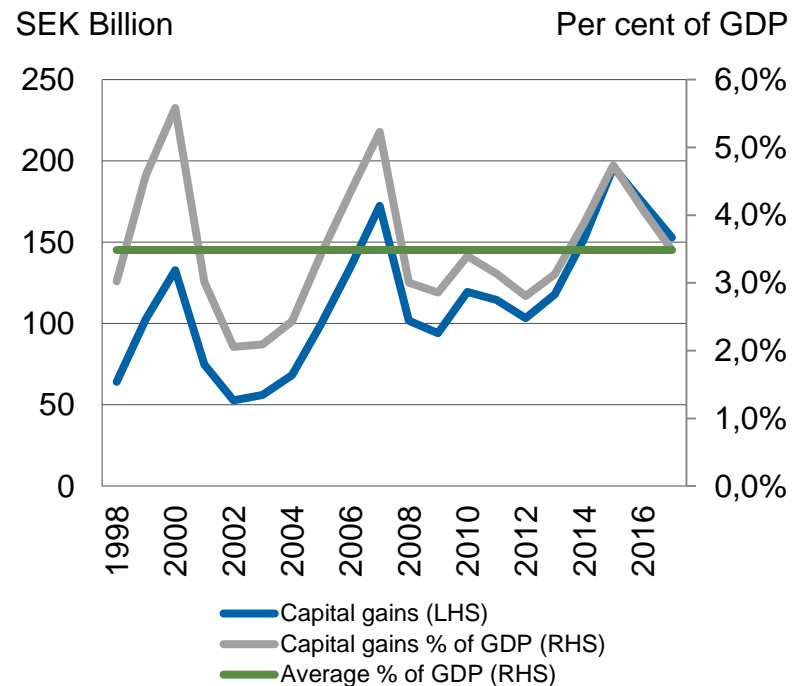
<sup>1</sup> Actual change compared with previous year.

<sup>2</sup> Change as a percentage of GDP previous year.

# A larger budget surplus in 2016...

- Stronger outcome figures than expected since February
  - The Swedish economy is growing at a good rate
  - High growth in tax income
    - Higher capital gains for households and corporations
    - Tax accounts are used for savings
- Temporary factors affect 2016
  - Deposits in tax accounts
  - Temporary payments of corporate income tax
  - Rebate on Sweden's contribution to the EU budget
  - Low interest payments on the central government debt

Household capital gains 1998-2017



Source: Swedish Tax Agency, Statistics Sweden, Debt Office.

## ... turns into a deficit in 2017

- Tax income decreases
  - Uncertainty regarding how the change in the deposit interest rate on the tax accounts affects balances and household behavior
- Expenditure increases
  - Government grants to local authorities
  - Expenditure for migration and social insurance
- Temporary factors disappears

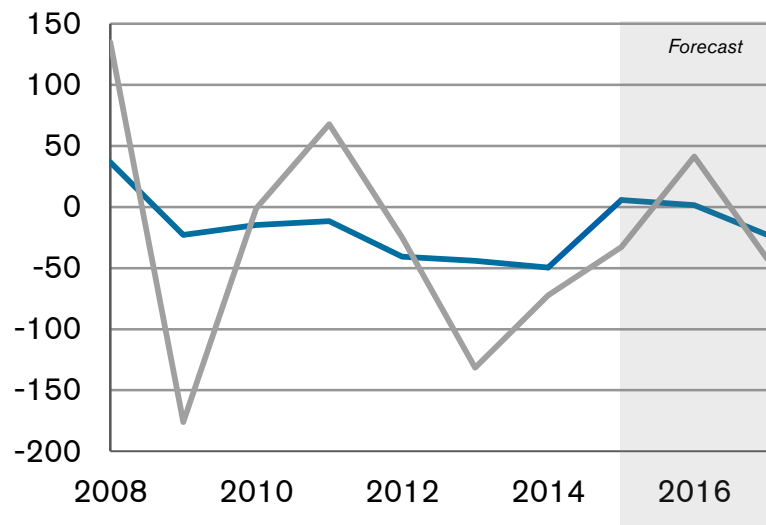
<i>SEK billion</i>	2013	2014	2015	2016	2017
<b>Net borrowing requirement, level</b>	<b>131</b>	<b>72</b>	<b>33</b>	<b>-41</b>	<b>42</b>
Net borrowing requirement, change	106	-59	-40	-74	84
<b><i>Explained by;</i></b>					
Taxes	14	-26	-66	-124	26
Government grants to local governments	4	5	-3	2	12
Labour market	5	1	0	0	2
Social Insurance	2	7	6	4	7
Migration & International aid	3	4	9	22	7
Sales of state-owned assets	-21	21	0	0	0
Share dividends	1	8	-7	7	4
EU contribution	1	5	-4	-5	7
Debt Office's net lending excl. on-lending	-4	29	-19	3	-1
On-lending	101	-104	7	2	-2
Interest on government debt	-11	-13	18	-17	5
Other	11	6	19	32	17

# The central government net lending decreases already in 2016

- The Debt Office expects that the central government net lending was at its highest in 2015
  - Central government net lending was 0.1 per cent of GDP in 2015
  - The net lending is expected to gradually decrease during the forecast period to 0.0 per cent of GDP in 2016 and -0.5 per cent of GDP in 2017
- The net lending is a better indicator of the underlying central government finances than the net borrowing requirement and the budget balance

**Central government net lending and the budget balance**

SEK Billion



— Central government net lending — Budget balance

# The total net borrowing requirement is lower than in the previous forecast

- Altogether, the net borrowing requirement for 2016 and 2017 is lower compared to the forecast from February
- The net borrowing requirement has been downward revised by SEK 27 billion

<i>SEK billion</i>	2016	2017
<b>Forecast February 2016</b>	<b>-3</b>	<b>31</b>
Taxes	-35	7
Government grants to local governments	0	10
Labour market	0	0
Social insurance	-2	-4
Migration	-1	-5
International aid	1	1
Dividends	0	2
Interest payments	4	2
Net lending excl. on-lending	2	1
On-lending	-2	-1
Other	-5	-2
<b>Forecast June 2016</b>	<b>-41</b>	<b>42</b>
Sum of changes	-39	11

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



# Lower borrowing requirement

- The borrowing requirement decreases by SEK 44 billion in 2016 and SEK 34 billion in 2017
- Lower net borrowing requirement and a smaller amount to refinance
- Lower borrowing in 2016 leads to a smaller amount of redemptions in the money market in 2017

# Borrowing in government bonds decreases

## Reduced issue volume of government bonds

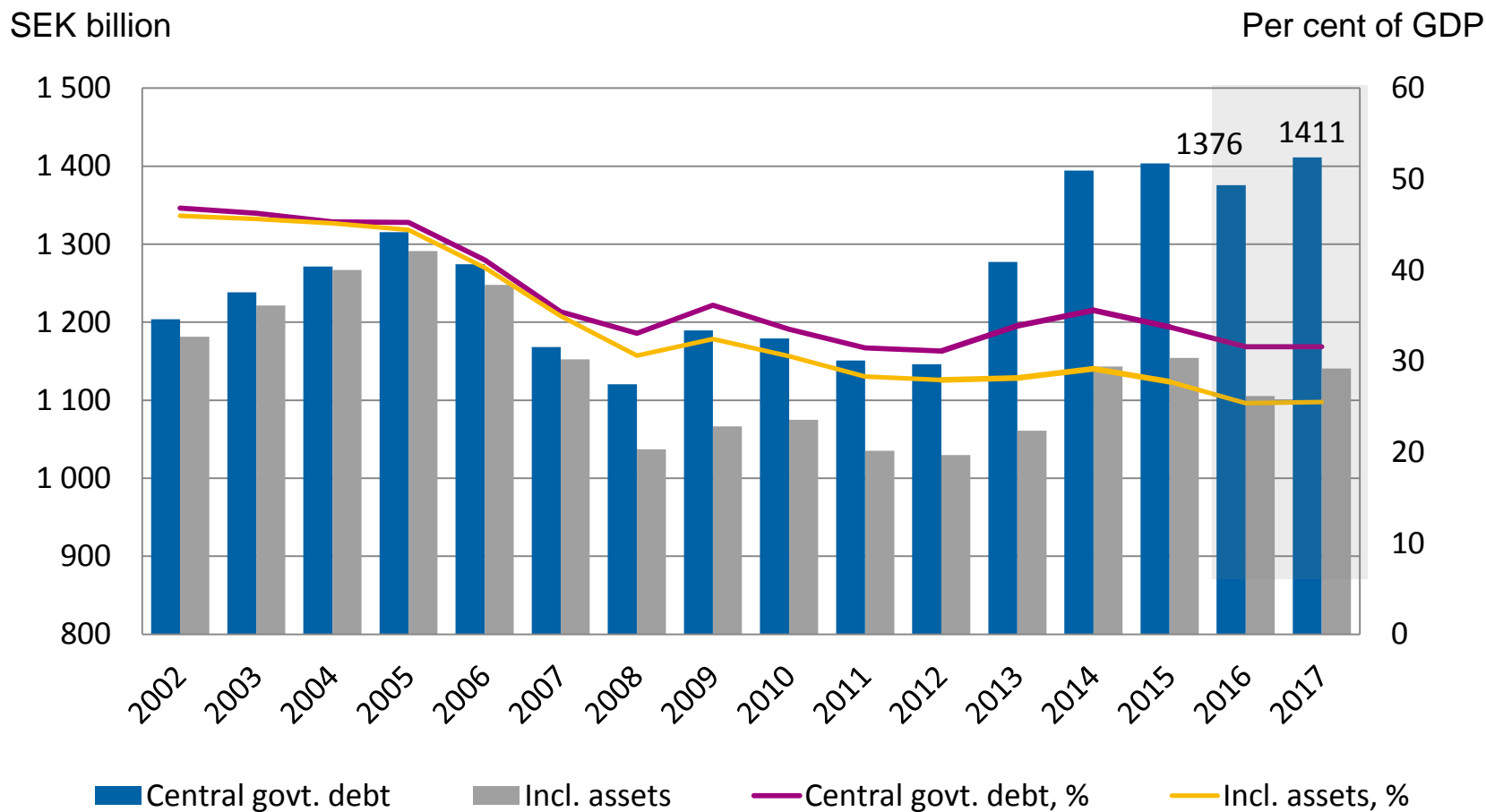
- SEK 5,5 billion less this year and SEK 11 billion less next year
- Issue volume is lowered from SEK 4 billion to SEK 3,5 billion per auction

## Short term borrowing within liquidity management is reduced

## Other borrowing is unchanged

- The share of inflation-linked debt is somewhat below 20 percent
- Previously borrowing in government bills was reduced
- Foreign currency bonds on behalf of the Riksbank exclusively

# Development of the central government debt



# Debt Office's Focus Report: The Role of the Central Government Debt in the Economy

- Purpose with the report
  - To present a comprehensive overview of the role of the central government debt in the economy according to economic theory and empirical research
- The central government debt should be allowed to vary
  - A central conclusion in economic theory
- Excessive debt may cause problems in the economy
  - Excessive debt may cause higher interest rates and possibly lower economic growth
  - Despite extensive empirical research, it is difficult to draw unambiguous conclusions
- Economic and financial crises can have major effects on the borrowing needs of counties
- It is important to have adequate safety margins in public finances so that you have sufficient room to act in times of crisis



Thank you!

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