



Central Government Borrowing

Forecast and analysis 2019:3

23 October 2019

The Debt Office's assignment

Financial management for central government

- Banking services for the central government
- Managing central government debt
- Guarantees and financing
- Financing system of the disposal of nuclear waste



Financial stability

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

Slowdown in the Swedish economy

Budget surplus this year turns into a deficit in 2020 and 2021

Higher borrowing requirement

Green bond but no ultra-long

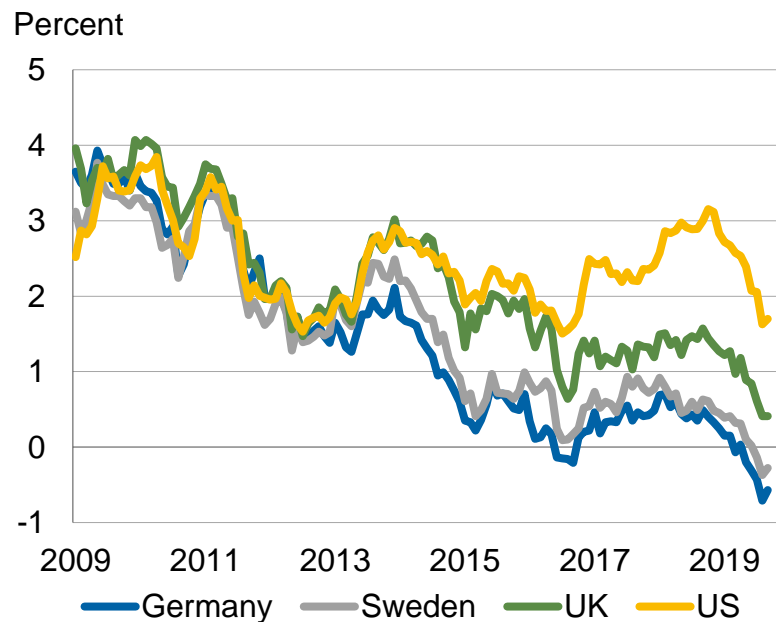


Slow growth internationally despite lower interest rates

- Global growth remains weak
- The trade conflict impacts the manufacturing industry in the US and Europe
- More expansionary monetary policy to support economic growth
- Market interest rates point to increased risk of recession

In-depth box in the report: The tasks of the Debt Office are affected by the low interest rate situation

Yields on 10-year Government bonds



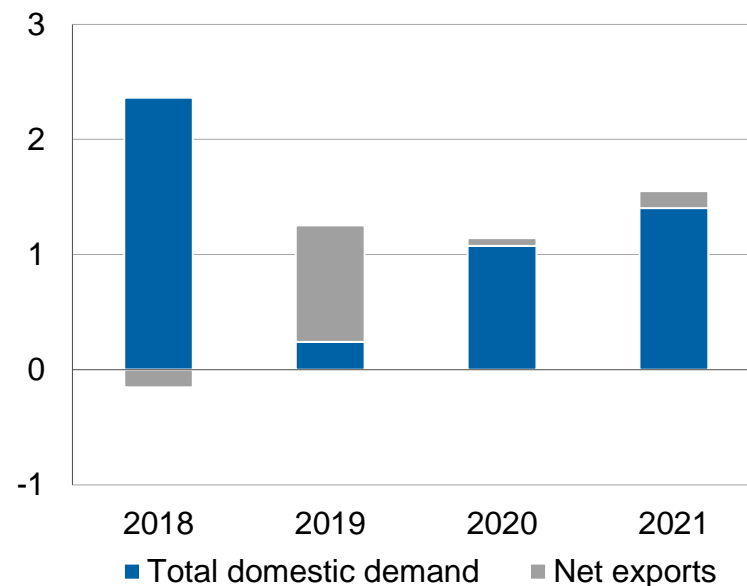
Source: Macrobond.

Weak growth in the Swedish economy

- Net exports sustain Swedish growth in 2019
- Weak domestic demand as investments and household consumption diminish
- Demographic development in the coming years affects public consumption

Domestic demand and foreign trade

Percentage points



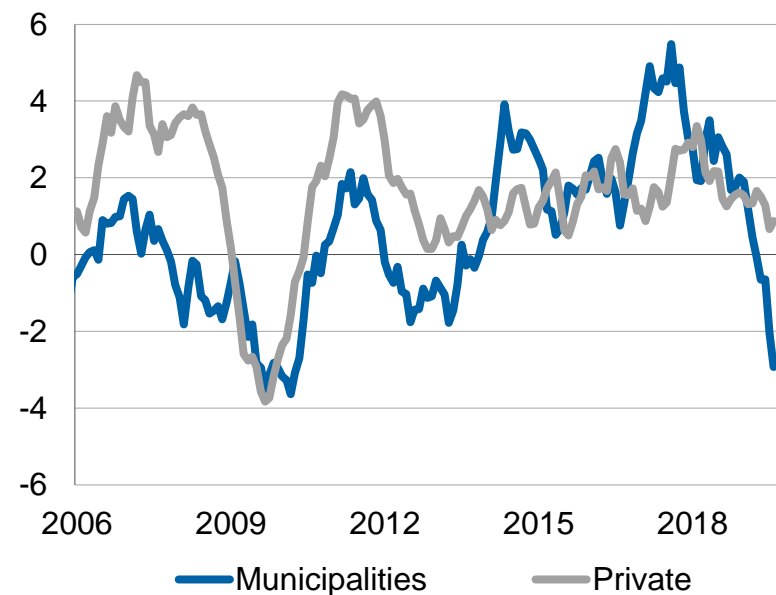
Sources: Statistics Sweden and the Debt Office.

Employment falling and unemployment rising

- Large employment decrease concentrated to the local government sector
- Slower payroll growth due to dampened state of the economy
- Few signs of higher inflation

Employment in two sectors

Yearly percentage change, 3 month rolling average



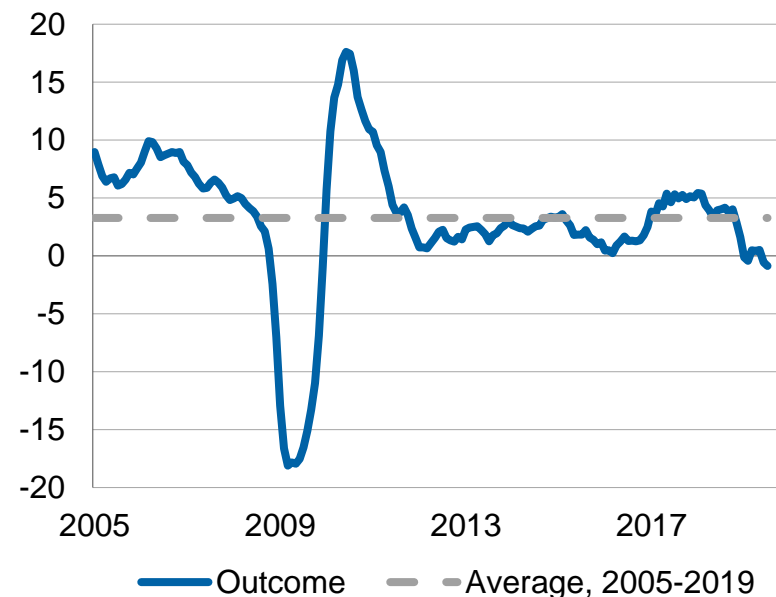
Source: Statistics Sweden.

Risk of weaker macroeconomic development worsening further

- Swedish economy has developed weaker than expected in previous report
- Weak growth is expected this year and the next, followed by somewhat of a recovery in 2021
- International risks dominate
- Domestic risks mainly concern labour market statistics being uncertain (to be revised)

World trade, goods

Yearly percentage change, 3 month moving average



Sources: CPB Netherlands Bureau for Economic Policy Analysis and the Debt Office.

Budget surplus turns into deficit

- Low growth, lowered taxes and tax account outflows leads to lower primary balance
- Debt office net lending this year dominated by repayment from the Riksbank
- Interest payments lower in 2021 due to maturing bonds having high coupons

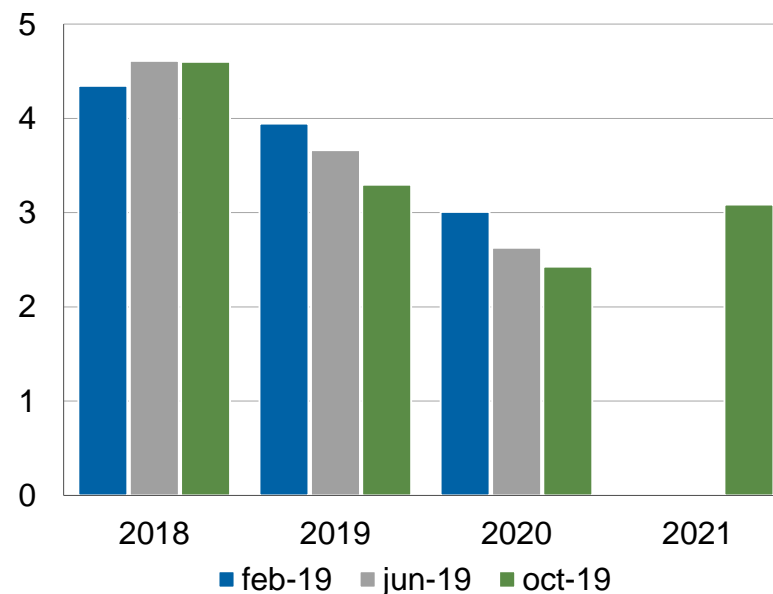
Table 1. Central government budget balance, forecast 2019-2021

SEK billion	2019		2020		2021
	Oct	(Jun)	Oct	(Jun)	Oct
Primary balance	70	(75)	31	(30)	-1
SNDO Net lending	65	(66)	-23	(-19)	-21
<i>of which on-lending</i>	67	(67)	-8	(-6)	-8
Interest payments	-22	(-20)	-25	(-30)	-4
Budget balance	113	(121)	-17	(-19)	-27
Budget balance excl. capital investments in tax accounts	113	(121)	-17	(1)	-2

Weaker macro outlook makes an imprint

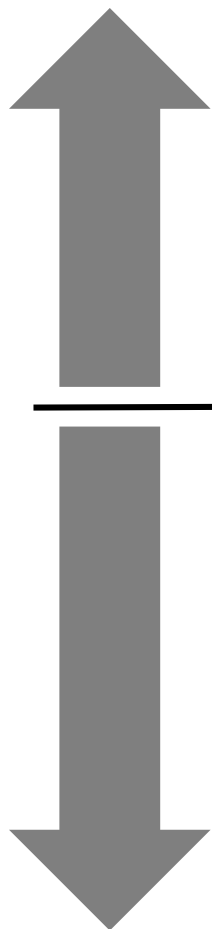
- Declining GDP growth in current prices this year and the next
- Slower wage sum growth and falling residential investment are some of the factors dampening tax income
- But the macroeconomic effects on the budget balance are not one-sided

GDP growth current prices
Percentage change, annual rate



Sources: Statistics Sweden and the Debt Office.

The budget balance and the macroeconomic – a selection of effects in 2020



EXPORTS (+) → HIGHER INCOME FROM CORPORATE TAXES

STIBOR (-) → LOWER INTEREST RATE PATH, SLOWER OUTFLOWS FROM TAX ACCOUNTS

PRICE & WAGE PRESSURE (-) → LOWER SOCIAL SECURITY EXPENDITURE

WAGE SUM (-) → LOWER INCOME FROM PAYROLL TAXES

GOVERNMENT BORROWING RATE (-) → LOWER INCOME FROM CORPORATE TAXES

HOUSEHOLD CONSUMPTION (-) → LOWER INCOME FROM VAT AND EXCISE DUTIES

FIXED INVESTMENTS (-) → LOWER INCOME FROM VAT

UNEMPLOYMENT (+) → HIGHER EXPENDITURE ON UNEMPLOYMENT BENEFITS

Budget bill proposals affect forecast in 2020

- SEK 24 billion in unfinanced reforms
- Fairly even distribution between lower income and higher expenditure
- Assumption of SEK 15 billion in unfinanced reforms in 2021

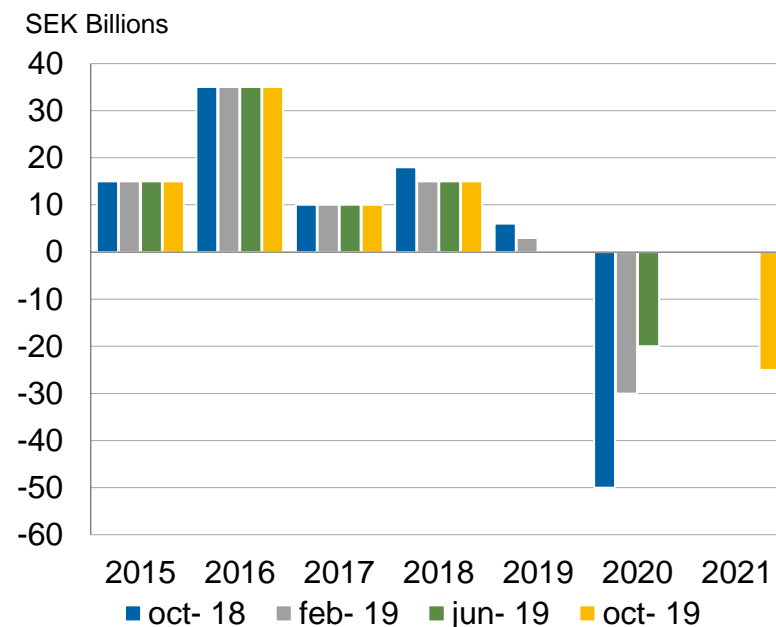


Foto: Finansdepartementet / Regeringskansliet

Capital investments in the tax account

- Flows to a large extent determined by interest rate differentials
- Approximately SEK 70 billion in total, an expensive and involuntary form of borrowing
- Weaker business cycle and market expectations of low interest rates for a longer period of time affects the forecast

The Debt office's assessment of net capital investment flows to the tax accounts



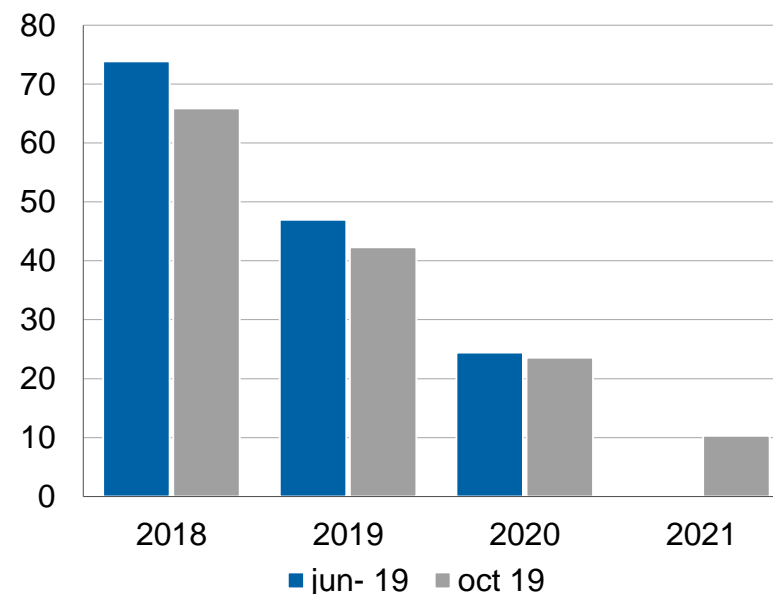
Sources: Statistics Sweden, the National Tax Agency and the Debt Office

Tax account dominates the risks to the budget balance

- Weaker macro outlook and budget bill more expansive than expected have contributed to downwards revisions of the budget balance as a whole during the forecast period
- Central government financial net lending unchanged this year but revised down for 2020
- Uncertain outlook for capital investments in the tax account
- Brexit could mean a higher EU fees for Sweden

Financial net lending

SEK Billions



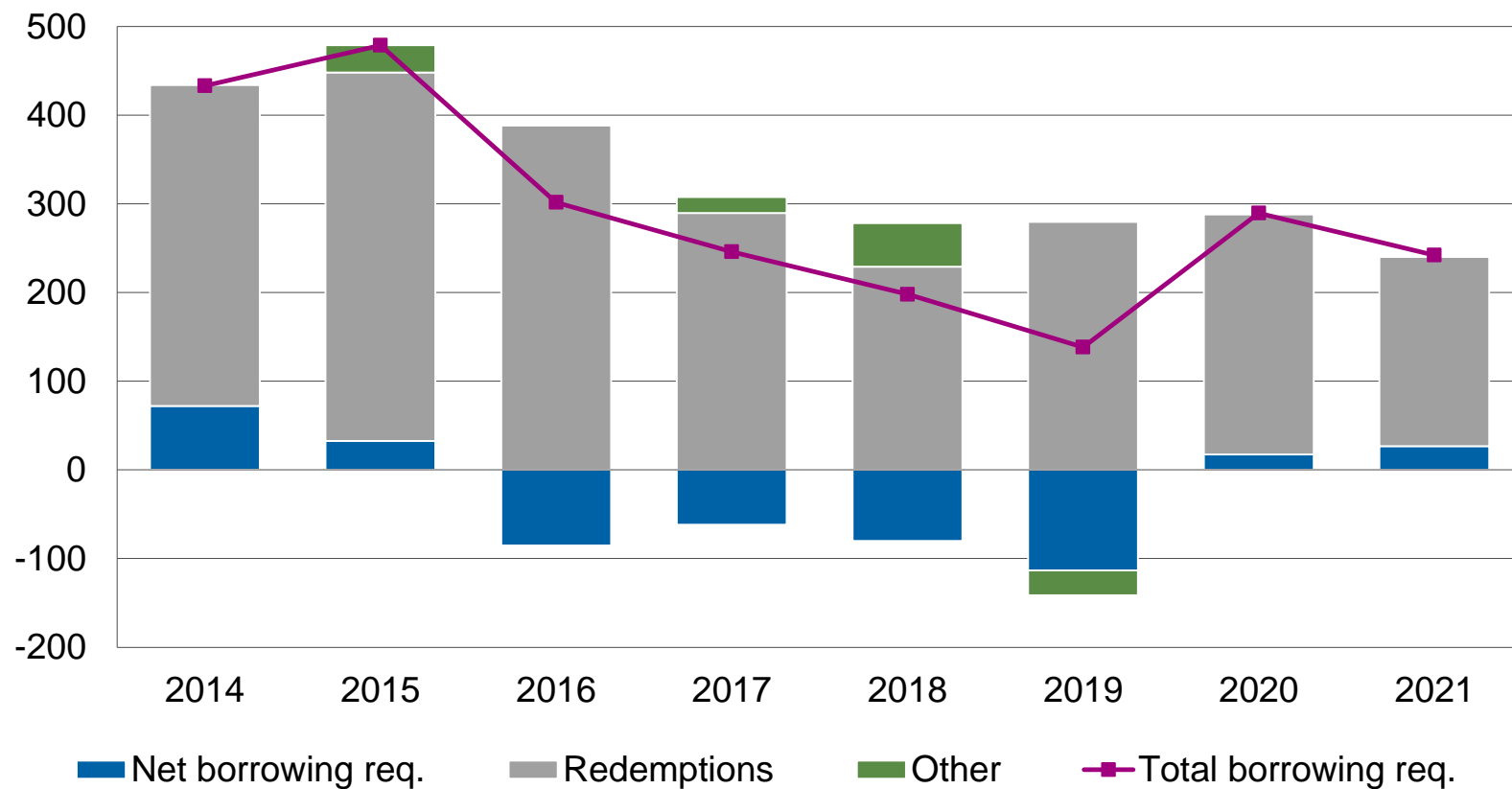
Sources: Statistics Sweden and the Debt Office.

Increased supply of government securities

- Poorer budget outlook and large redemptions lead to increased funding requirement
- From the beginning of 2020 supply of government bonds rises gradually
- Late in 2020 supply of T-bills will be raised to finance redemptions
- The borrowing plan allows for a green bond issue in 2020
- No ultra-long bond in the current borrowing plan

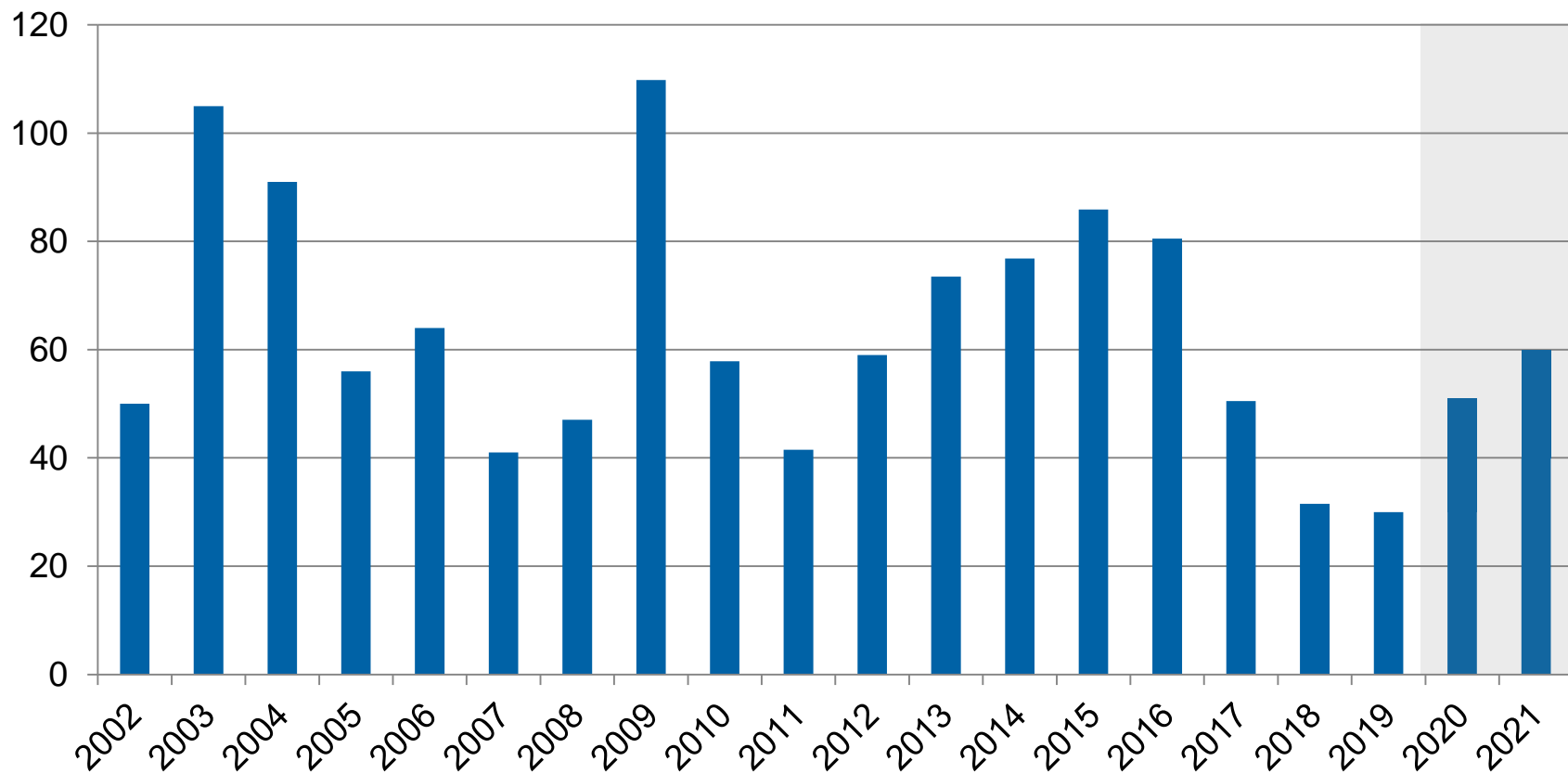
Deficits and redemptions lead to larger borrowing requirement

SEK billion



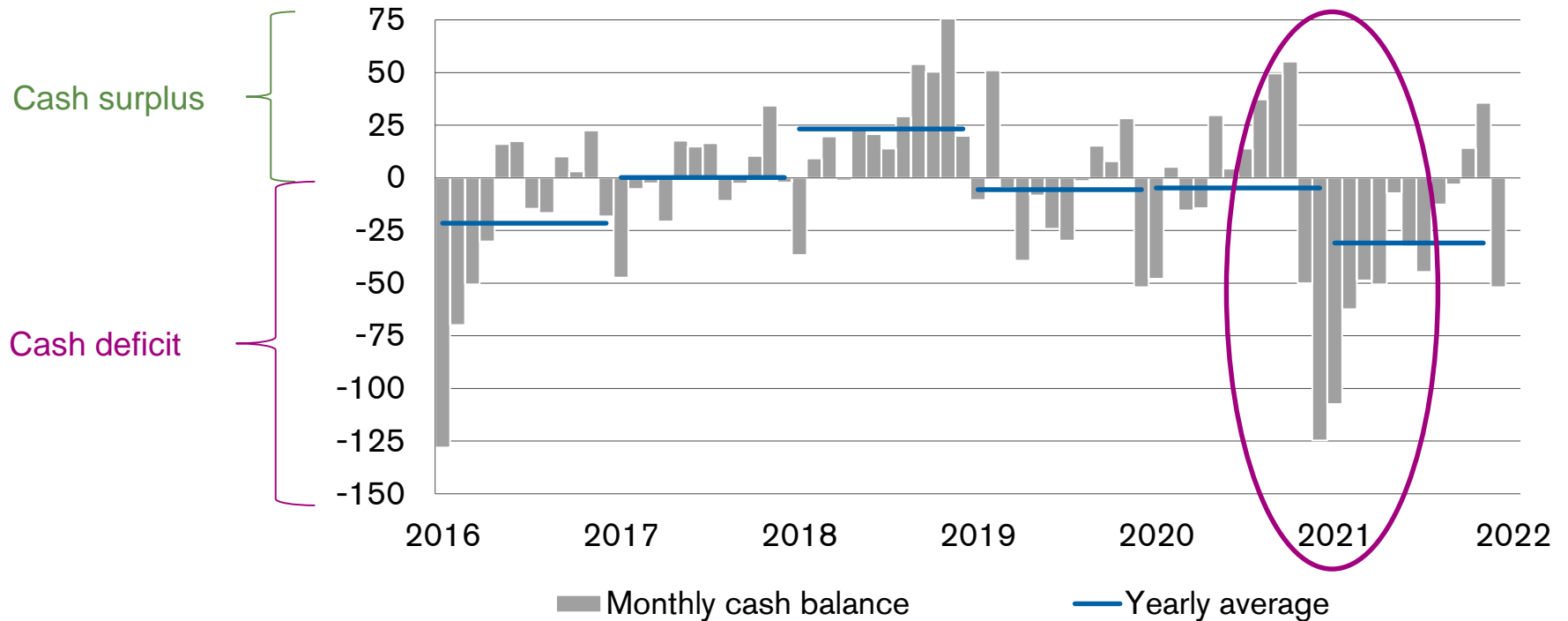
Larger borrowing in government bonds

SEK billion per calendar year



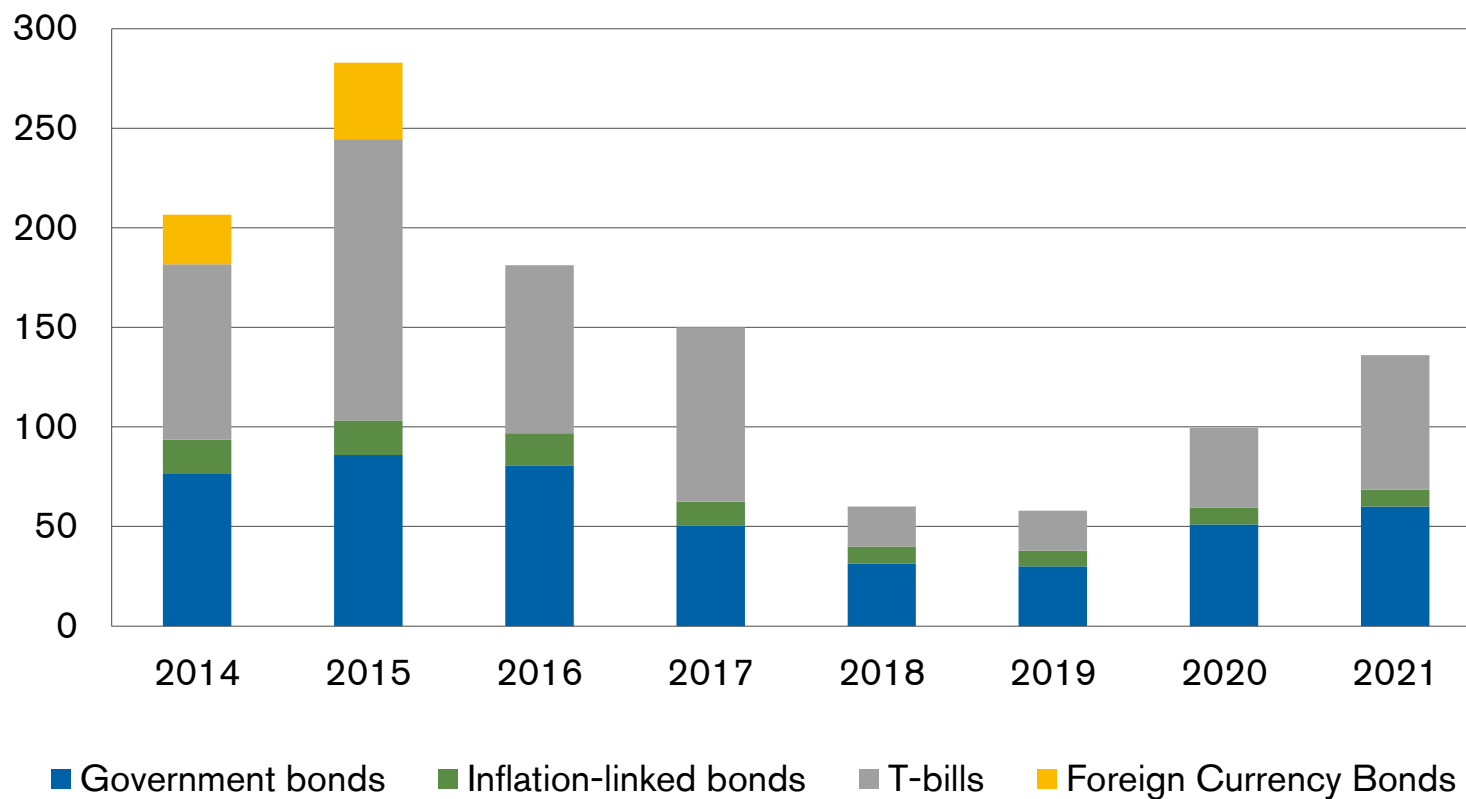
T-bill borrowing to rise as bonds mature

Balance in liquidity management after planned borrowing in government securities, SEK billion



Issuance volumes to be raised from very low levels

SEK billion



Borrowing plan allows for a green bond in 2020

Issue volume to be set within restrictions given by mandate:

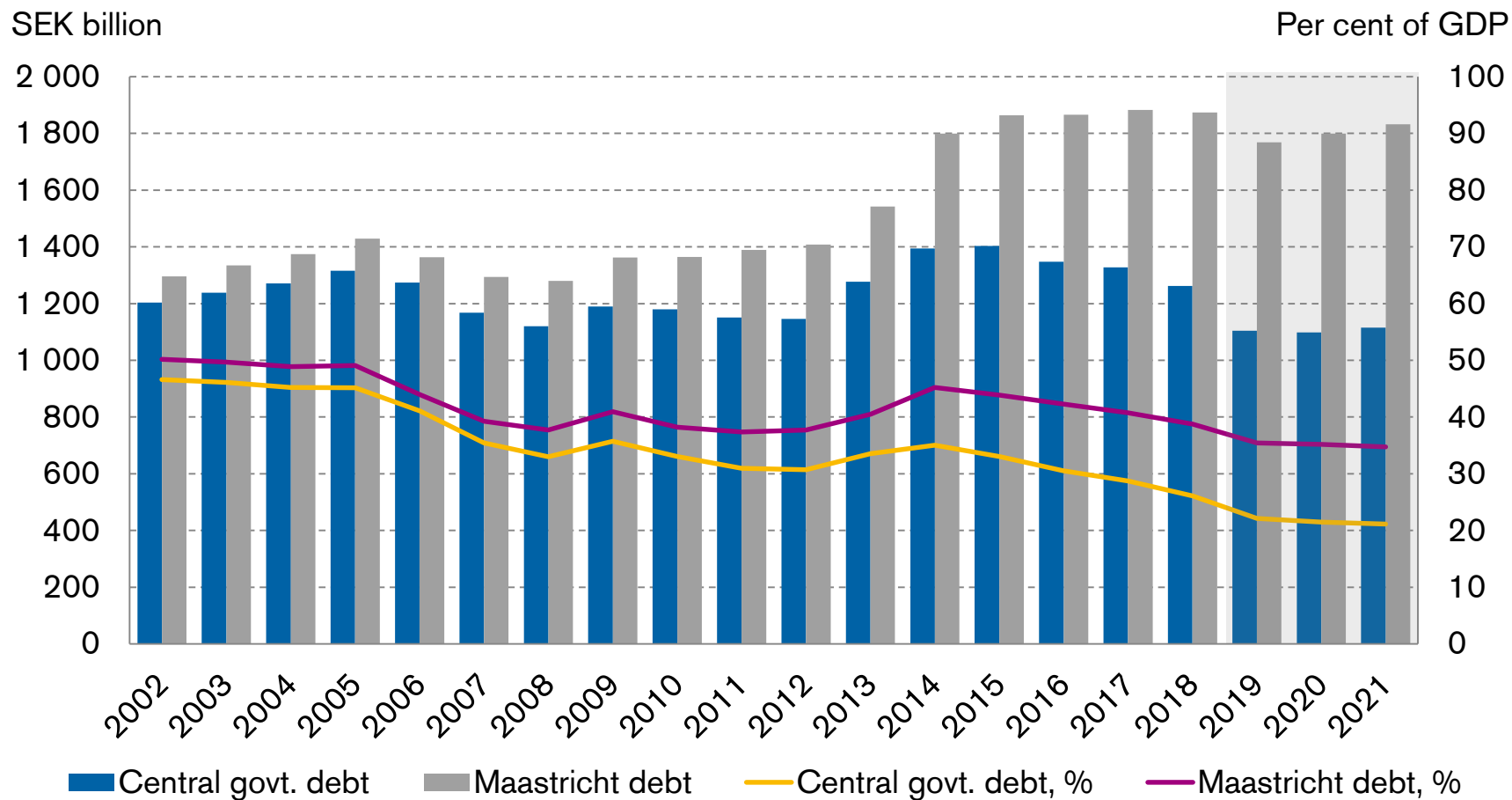
- One issue
- In accordance with the objective of central government debt policy
- With a good margin below amount of defined green budget expenditure

This issuance will not affect the planned borrowing in government securities.



Sweden's 16 environmental quality objectives

Government debt levels out



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