



Central Government Borrowing

Forecast and analysis 2019:1

20 February 2019

The Debt Office's assignment

Financial management for central government

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



Financial stability

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

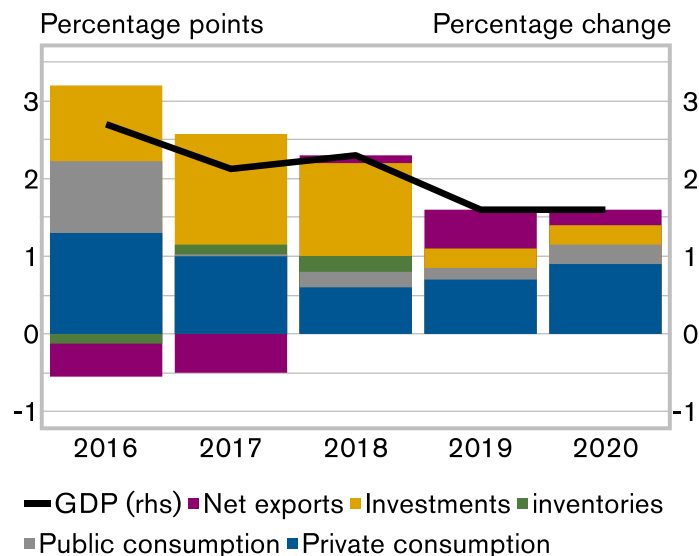
Weaker economic growth lowers budget balances

- Swedish economy slows down in line with international trend
- Downside risks dominate
 - The European economy, Brexit and the trade conflict are all worrisome
 - Too many coincidences eventually form a pattern
- The budget balance is weakening, but government finances are still good
 - Weaker Swedish economy and more expansionary economic policy are the most important driving forces
 - Underlying developments show a surplus in the state budget
 - Outflows from the tax accounts reduces the balance by SEK 30 billion by 2020
 - Central government net lending is positive in 2019 and 2020
- Lower budget balance to be handled using cash funds
 - Krona borrowing is unchanged
 - Increased foreign-currency borrowing for refinancing for the Riksbank
- Liquidity in the government securities market remains strained

The Swedish economy slows down in line with the international trend

- International economic slowdown with difficult to assess risks
- A partly new picture of the economic situation
- Households and companies are less optimistic – some growth slowdown
- Weaker conditions for Swedish exports
- Residential investments are now declining

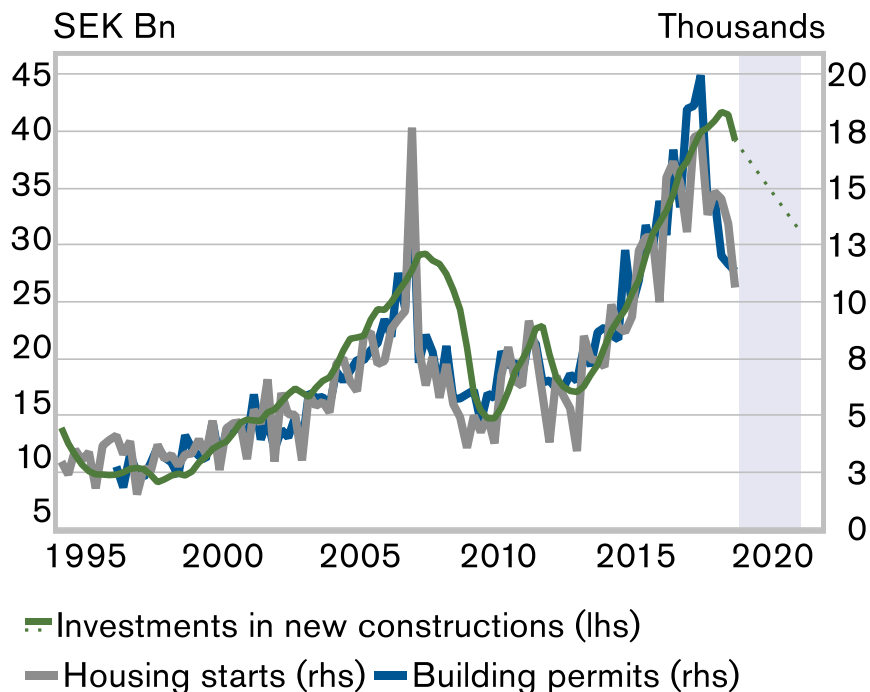
GDP contributions



Stable home prices but falling residential investments

- Home prices moved sideways / slightly upwards in 2018
- Second wave: residential investments falling rapidly and are expected to continue to fall
- Investments in new constructions will decline 25 percent peak-to-trough
- Industrial investments /public sector investments a counterweight

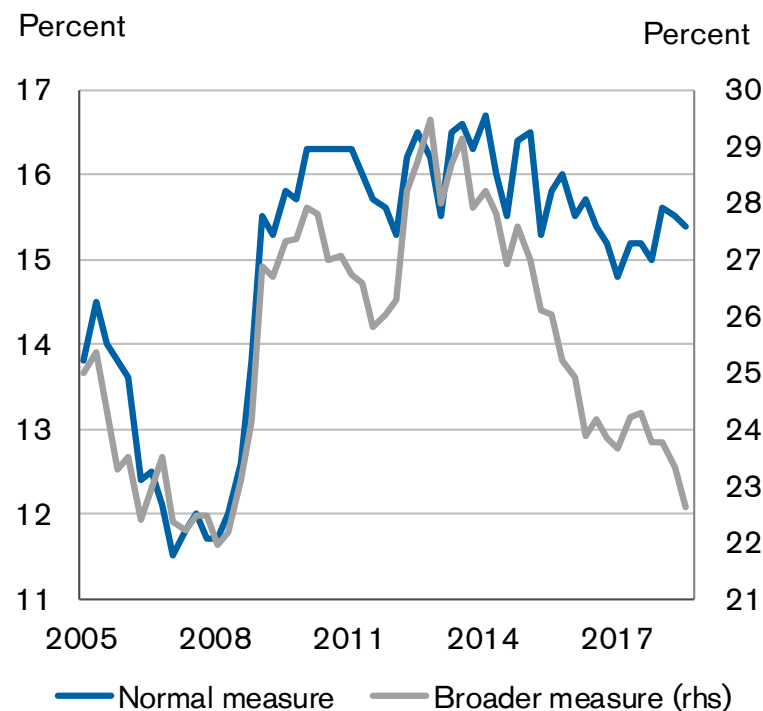
Residential investments have started to decline



Employment slows down

- Employment growth slowing down
 - Indicators point towards slower growth
 - Available resources diminishing, e.g. a pronounced fall in broader measure of unemployment among foreign born
- Unemployment increasing 2019 and 2020
 - When the cycle heads down, unemployment goes the other way
 - Increase somewhat larger than normal, due to unwinding measurement problems in the LFS
- Prices and wages grow relatively slowly
 - Wage sum growth to slow as hours worked grows more slowly

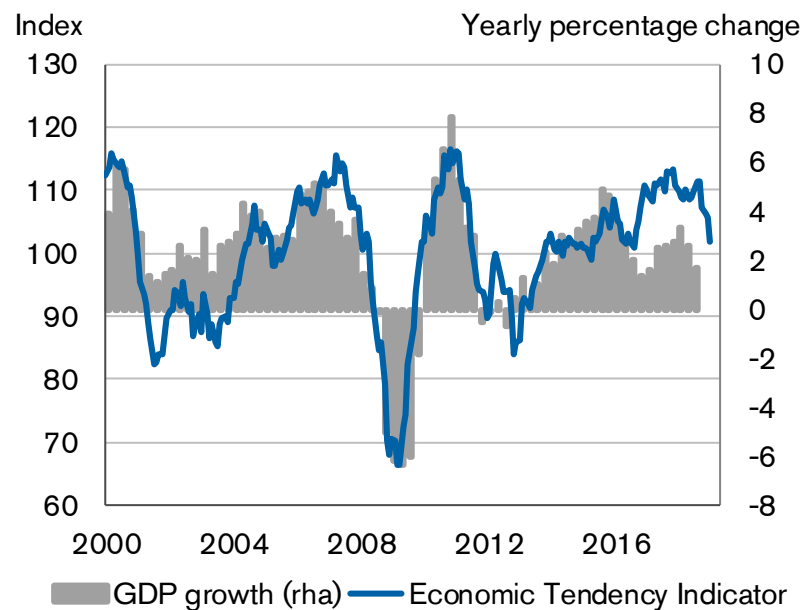
Unemployment, foreign born



Economic slowdown increasingly apparent

- Investment driven slowdown in the Swedish economy
- GDP growth revised downwards compared to the previous report
- Risks of slower growth weighs over
 - Too many coincidences form worrying pattern
 - Indicators have fallen considerably – i) sign of greater slowdown or ii) a correction of previously inflated levels?
 - Brexit and trade conflict between US and China still a source of concern
 - However, strong labour market and high levels of household saving are positive signs

GDP growth, outcome and indicator



Yearly percentage change	2018	Diff	2019	Diff	2020	Diff
GDP	2.3	-0.1	1.6	-0.3	1.6	-0.1
Labour force	1.4	0.2	1.3	0.4	0.7	0.0
Employment	1.8	0.2	1.0	0.3	0.5	-0.1
Unemployment	6.3	0.0	6.5	0.0	6.7	0.1

Economic slowdown leads to a lower budget balance

- Budget balance in 2019 decreases due to weaker economic outlook and fiscal policy reforms
- Budget surplus is estimated at SEK 40 billion in 2019
 - Downward adjustment by SEK 22 billion compared to the previous forecast
 - The weakening of the budget balance due to the budget bill and the budget reservation was largely considered in the previous forecast
 - Lower tax income due to economic slowdown and tax cuts
- Deficit of SEK 30 billion is forecasted for 2020
 - Outflow of capital investments from tax accounts (SEK 30 billion in the current forecast, SEK 50 billion in the previous forecast)
 - High degree of uncertainty regarding timing, preferences and interest rate development
- Central government net lending continues to show a surplus for both years
 - The central governments net lending is estimated at 0.8 per cent as a proportion of GDP in 2019 and 0.5 per cent 2020
- Capital investments on tax accounts cause an additional cost of SEK 1.7 billion in 2015-2020

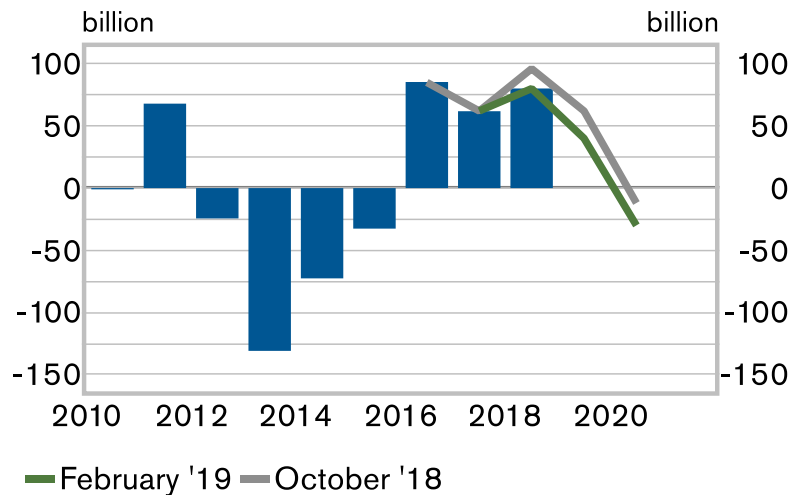
Forecast changes (February compared to October)

What factors are behind the revision?

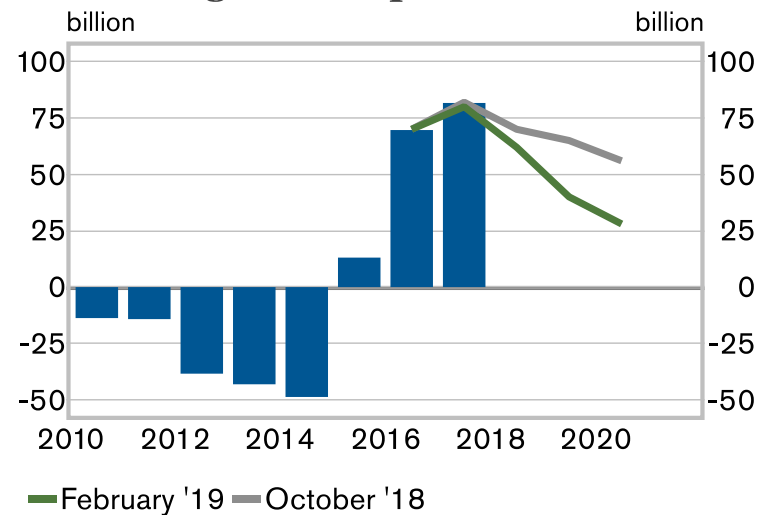
<i>SEK billion</i>	2019	2020
Macroeconomic development	-12	-16
Capital investments on tax accounts	-3	20
Fiscal policy reforms	-8	-8
SNDO net lending	-1	-3
Interest payments	0	-1
Other	2	-10
Total change	-22	-18

Lower central government net lending but the surplus continues

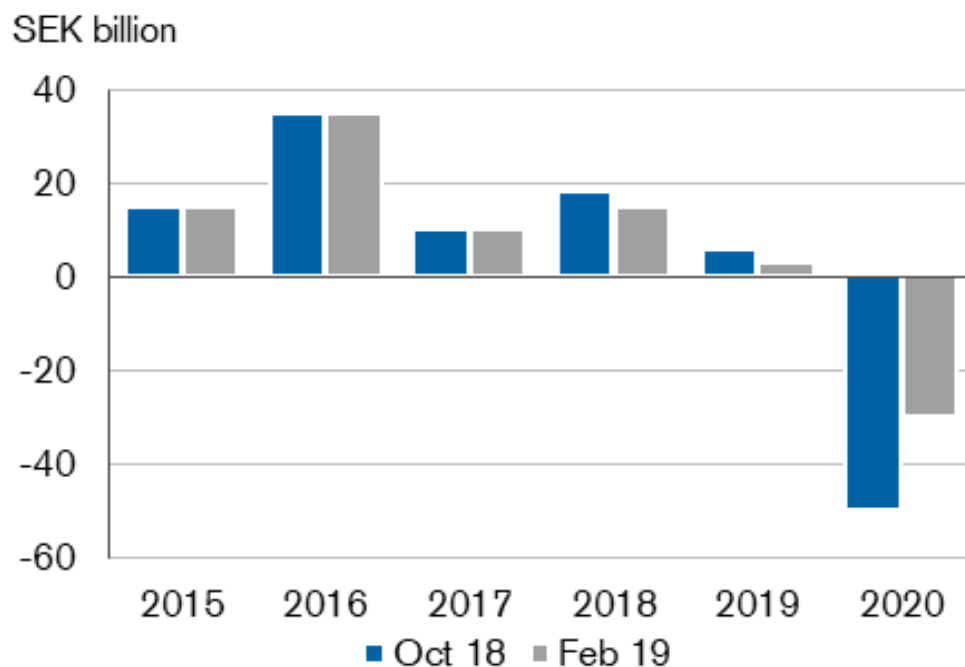
Budget balance: From surplus to deficit



Central government net lending: Decreasing but still positive

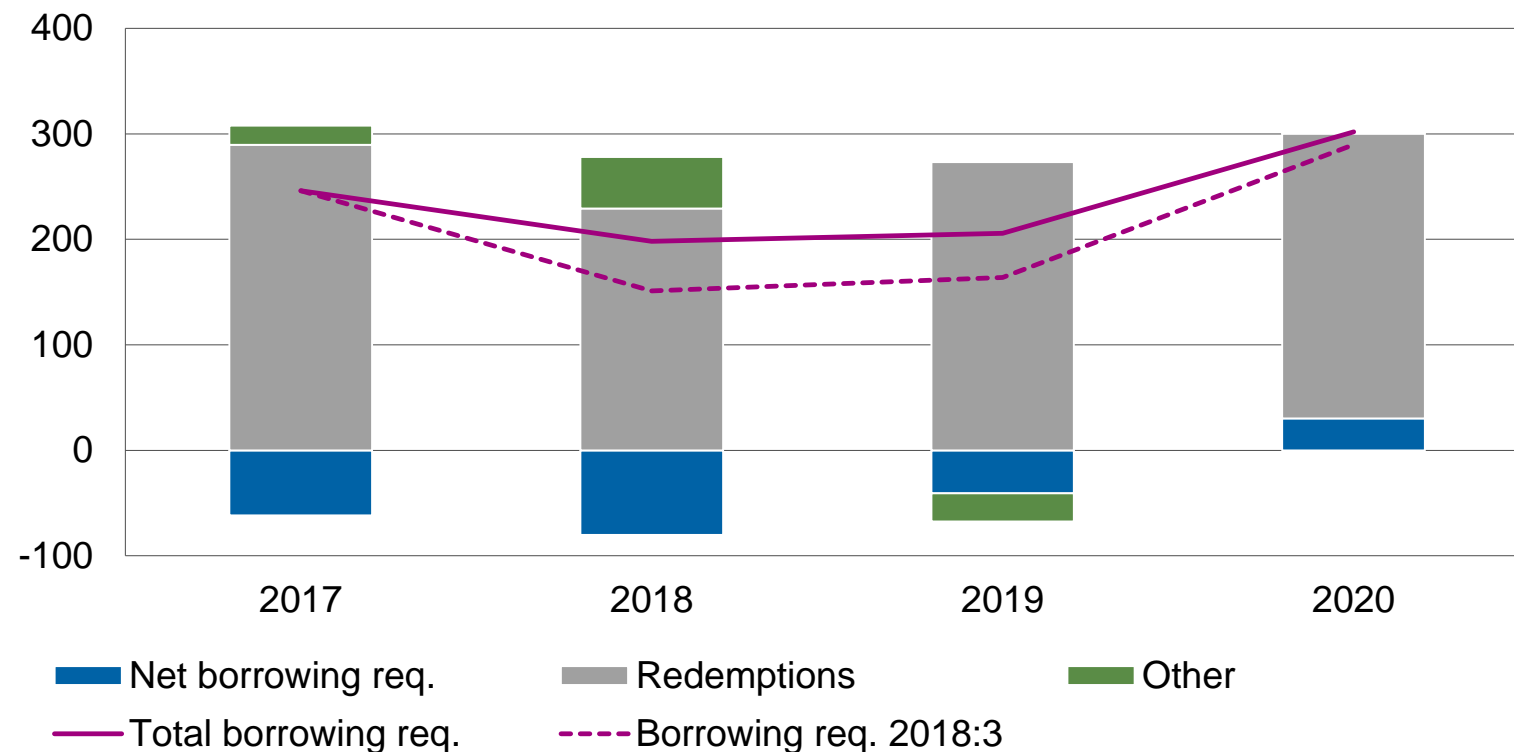


Lower outflow from the tax account in 2020 due to slower interest rate hikes



Total borrowing requirement increases...

SEK billion



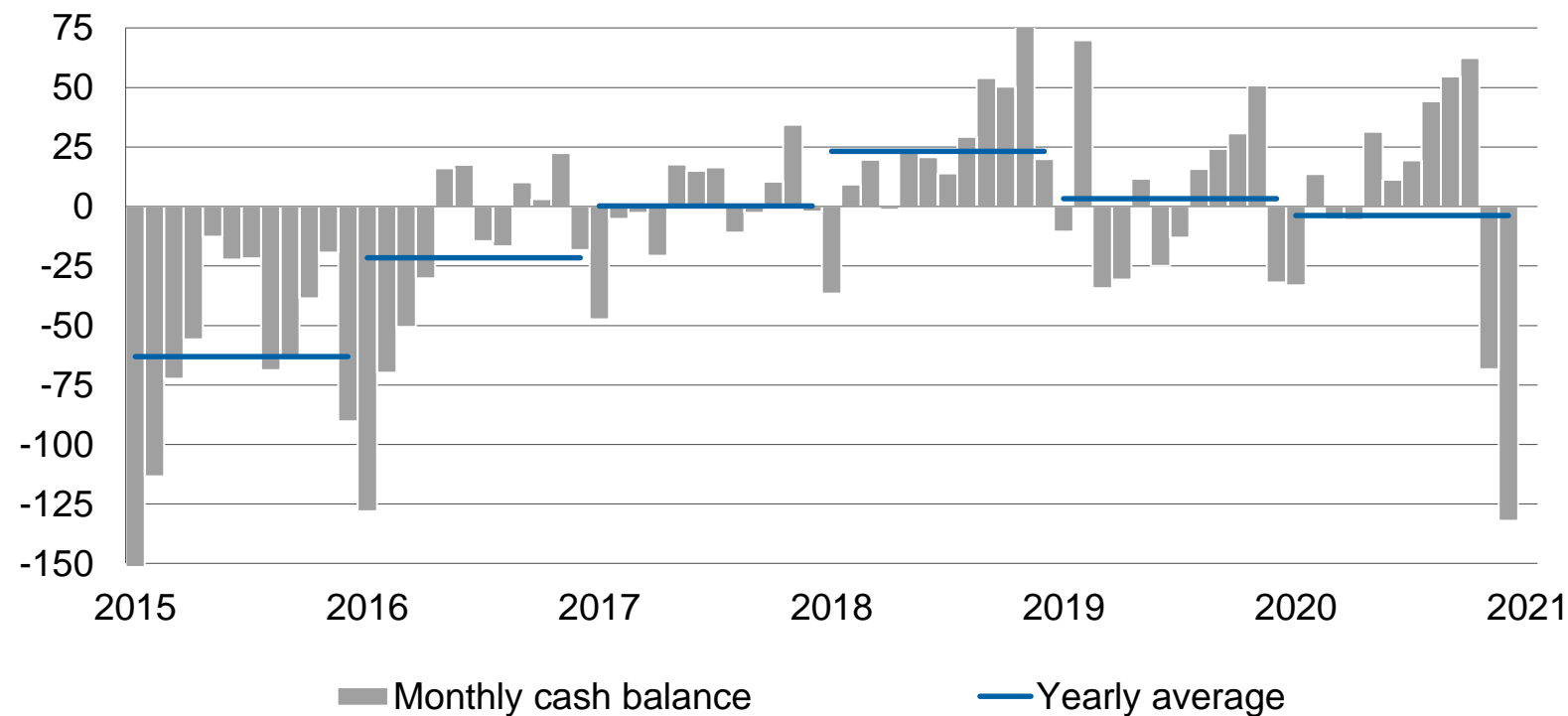
The net borrowing requirement is the budget balance with the opposite sign. "Other" includes an adjustment because borrowing is reported on trade date while the net borrowing requirement is reported on settlement date.

...but krona issue plan is left unchanged

- Borrowing in government bonds remains at historically low level this year, will increase in 2020 in line with previous plan
- Unchanged borrowing in inflation-linked bonds
- Outstanding stock of T-bills increases according to plan in 2020
- More foreign currency bonds for refinancing of loans to the Riksbank

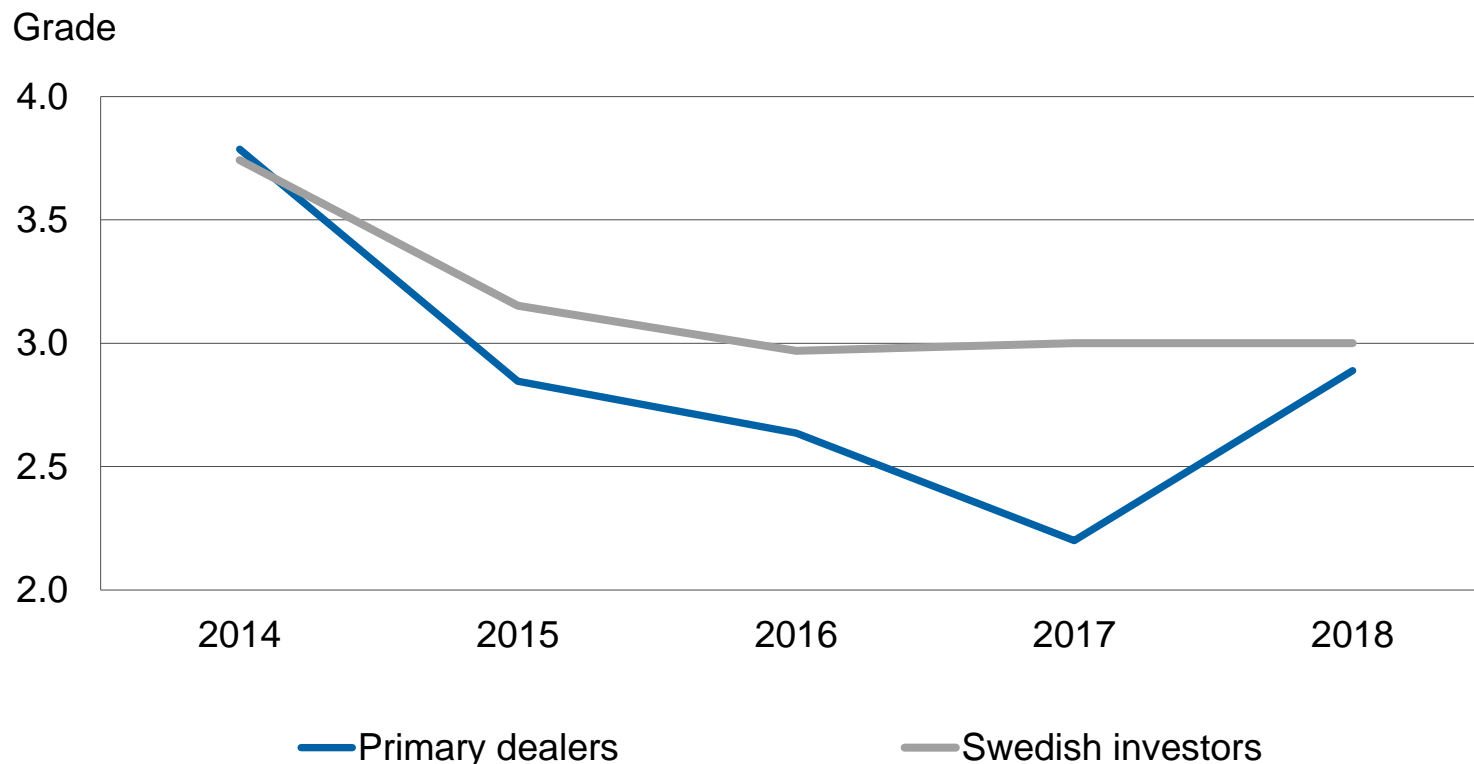
No need to raise borrowing with cash surplus

SEK billion



The figure shows the central government cash balance per month. A positive number means a surplus and vice versa. The calculations are based on an assumption of market-supporting repos of SEK 25 billion.

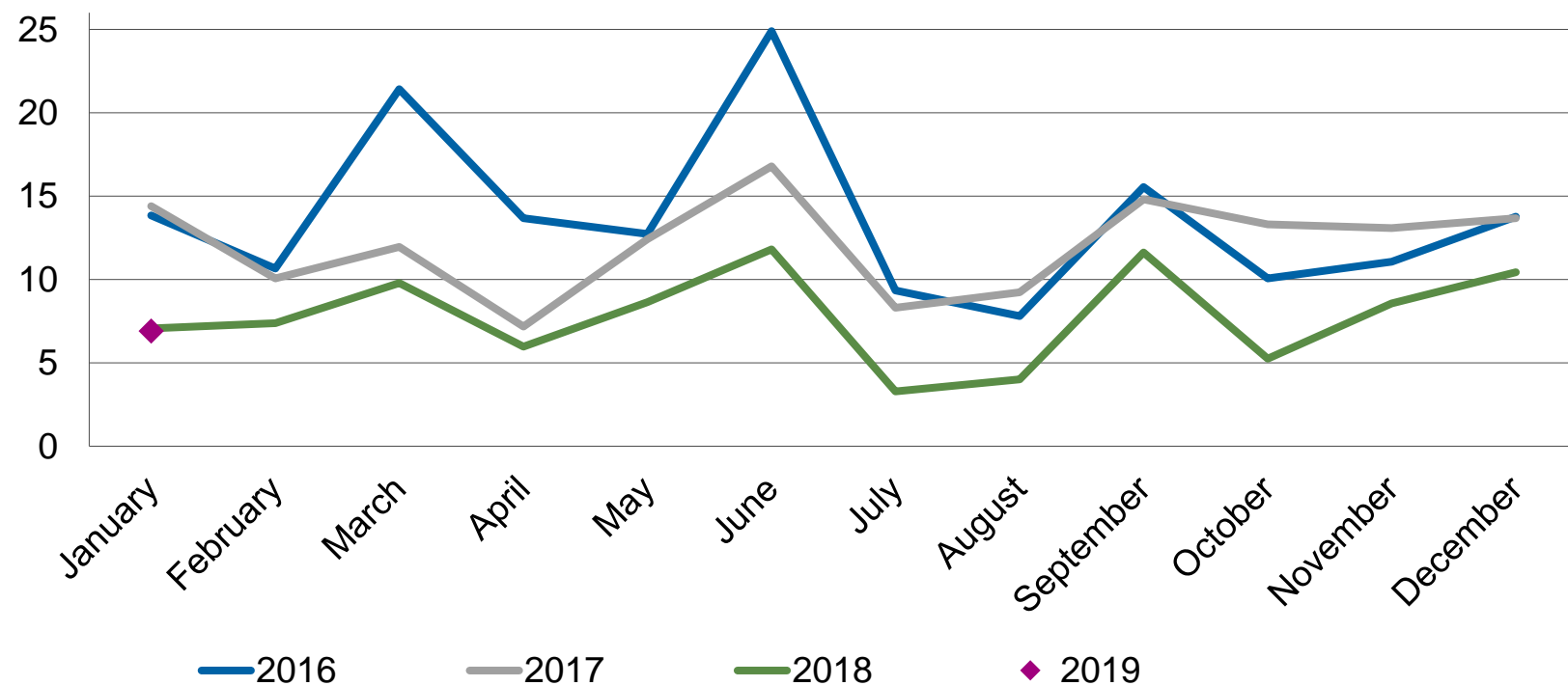
Government bond market liquidity still strained



Perceived liquidity in the market for government bonds, according to a survey by Kantar Sifo Prospera on behalf of the Debt Office. A rating above 4 is interpreted as excellent and below 3 as unsatisfactory.

Turnover in government bonds remains low

SEK billion



Source: Riksbank
Swedish and foreign investors' turnover in the secondary market.

Swedish government debt keeps falling in 2019

