



Central Government Borrowing

Forecast and analysis 2019:2

18 June 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



A slowing economy, but the budget strengthens

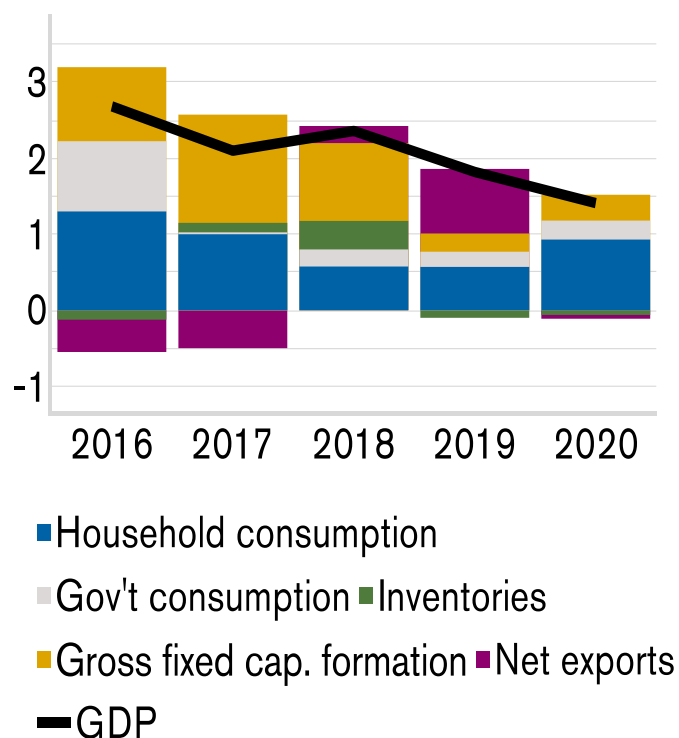
- Swedish economy grows slower, in line with weakening global growth
- ...but one-off factors strengthen the budget balance in the coming year
 - The strengthening in 2019 is mainly due to the Riksbank paying back foreign currency loans
 - Underlying developments point to surplus in the state budget
 - Outflow from the tax account mean SEK 20 billion lower balance in 2020
 - Central government net lending is positive in 2019 and 2020, but declines at the end of the forecasting period
- Borrowing requirement decreases this year
 - Postponed raise of issuance volumes
 - Large reduction in 2019 of refinancing of on-lending to the Riksbank
 - Future assignment to issue a green government bond
- Risks that can have an impact on the Swedish economy going forward
 - Global factors such as Brexit, the trade conflict between the US and China and European banks
 - The effects of a weak Swedish krona on exports, inflation and consumption

The Swedish economy continues to slow down

- Weaker world economy burden Swedish exports despite weak krona
- Household consumption is slowing down
 - Weak krona and uncertain housing market
- Rapid decline in residential investment in 2019
 - Counteracted by certain investment needs in other business and public sectors
- Reduced optimism among households and companies
 - Indicates a gradual slowdown in the economy

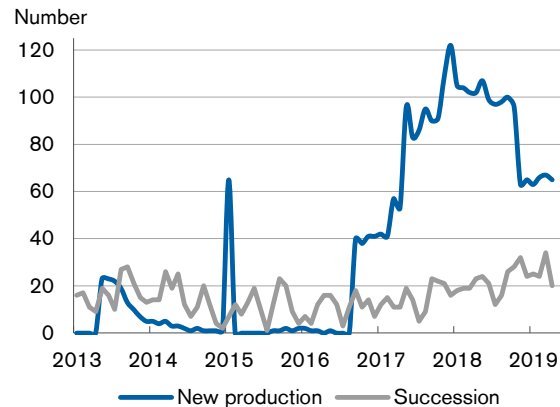
Contributions to GDP growth

Percentage points

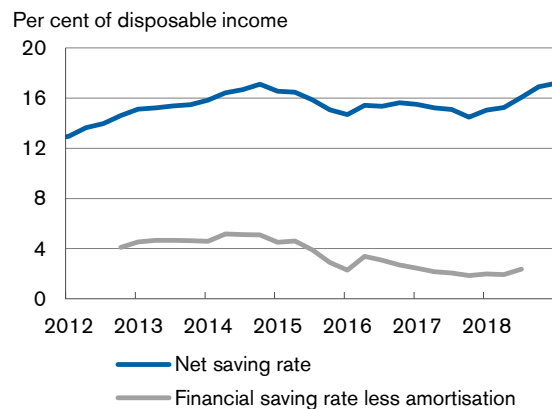


Themes in the report

Supply of larger tenant-owned housing at Gärdet in central Stockholm



Net saving rate and adjusted financial saving

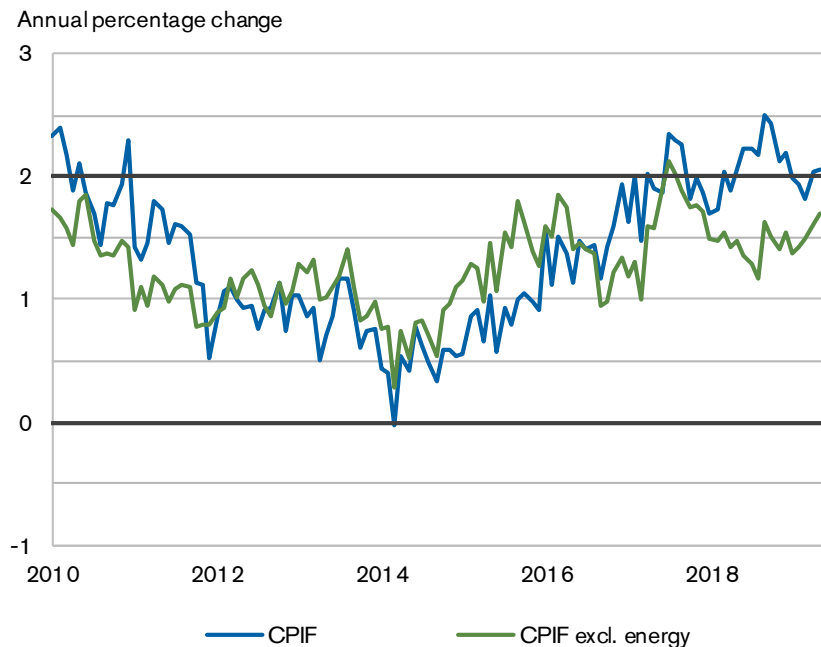


- Residential investments are likely to fall less than in an international perspective
 - Half of the construction is for rented apartments
 - Over-supply of tenant-owned housing more a local problem
 - Cases of speculation linked to new production
- Household savings are record high, but opportunities for short-term consumption are lower
 - A large share of savings is illiquid
 - Real savings
 - Collective insurance savings
 - Amortisation
 - Adjusted for this, the ratio drops from 16.7 to 2.5 per cent of disposable income

Wages and prices increase slowly

- Labour market continues to slow down
 - Immigration still driving developments
 - Unemployment expected to start increasing
- Wage increases still modest
 - Expected acceleration has yet to materialise
 - New wage rounds next year expected to contribute to somewhat higher wage increases
- Inflation below target ahead
 - Continued low cost pressure
 - Energy prices rise at a slower pace
 - Continued weak krona, but slowly diminishing inflationary effects

Different measures of inflation

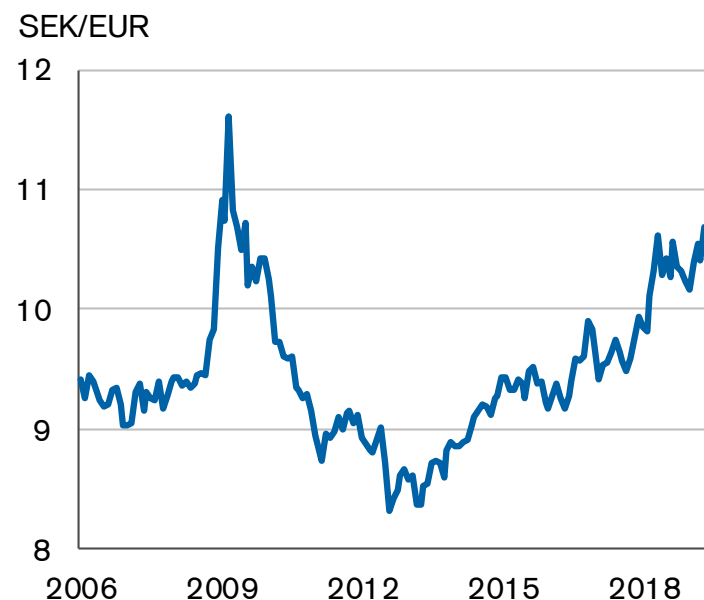


Source: Statistics Sweden.

Slowing Swedish economy in uncertain surroundings

- Mild Swedish slowdown expected to continue
 - Slower growth, in line with global developments
 - Residential investment weighs on growth going forward
 - Wage and price pressure still modest
- Risks to global growth comes from several sources
 - Trade conflict between the US and China
 - Brexit
 - European banks
- Uncertainty regarding effects from a weaker krona
 - Exports seems not to have benefited as expected
 - Uncertainty regarding pass-through to inflation
 - Extent of dampening of household consumption

SEK has weakened for several years



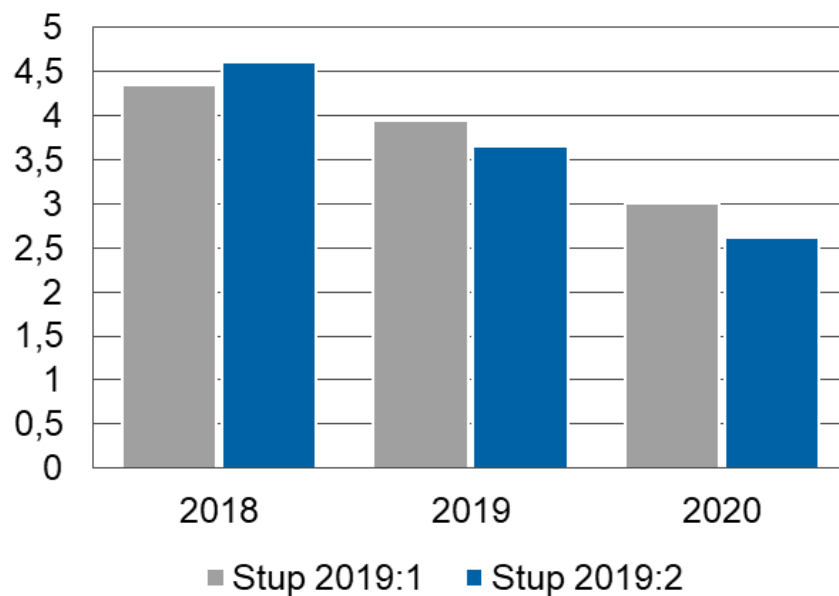
Lower budget balance in line with slower economic conditions

- The Riksbank's repayment of foreign currency loans significantly strengthens the budget balance in 2019
- The surplus in the central government budget balance is estimated at SEK 121 billion in 2019
 - Upward revision of SEK 80 billion compared with the previous forecast
 - Tax income at the same level as in the previous forecast
- The forecast for 2020 shows a deficit of SEK 19 billion
 - Upward revision of SEK 11 billion compared with the previous forecast
 - Outflow of capital investments from tax accounts (SEK 20 billion compared with SEK 30 billion in February)
 - High degree of uncertainty regarding timing, preferences and interest rate development
- The central government's net lending, however, shows surpluses for both years
 - The central government's net lending is estimated at 0.9 per cent as a percentage of GDP in 2019 and 0.5 per cent in 2020
- Capital investments in tax accounts cause an additional cost for the central government of approximately SEK 1.7 billion between 2015 and 2020

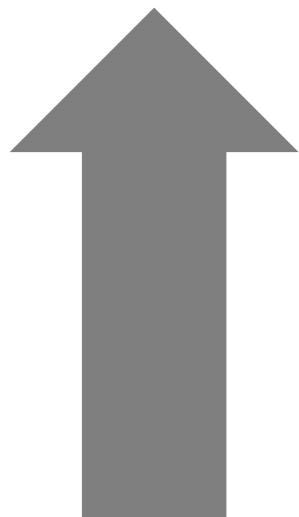
Small revisions in the macroeconomic forecast

GDP-growth in current prices

Percent, yearly change



Macroeconomic effects on the budget balance

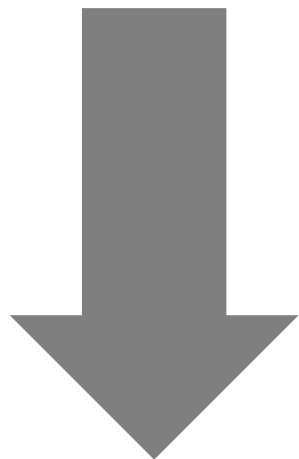


INVESTMENTS (+) → HIGHER INCOME FROM VAT

IMPORTS OF GOODS (+) → HIGHER INCOME FROM VAT AND CUSTOMS

EXPORTS (+) → HIGHER INCOME FROM CORPORATE TAXES

STIBOR (-) → LOWER INTEREST RATE, SLOWER OUTFLOW OF CAPITAL PLACEMENTS ON TAX ACCOUNTS



WAGE SUM (-) → LOWER INCOME FROM WAGE TAXES

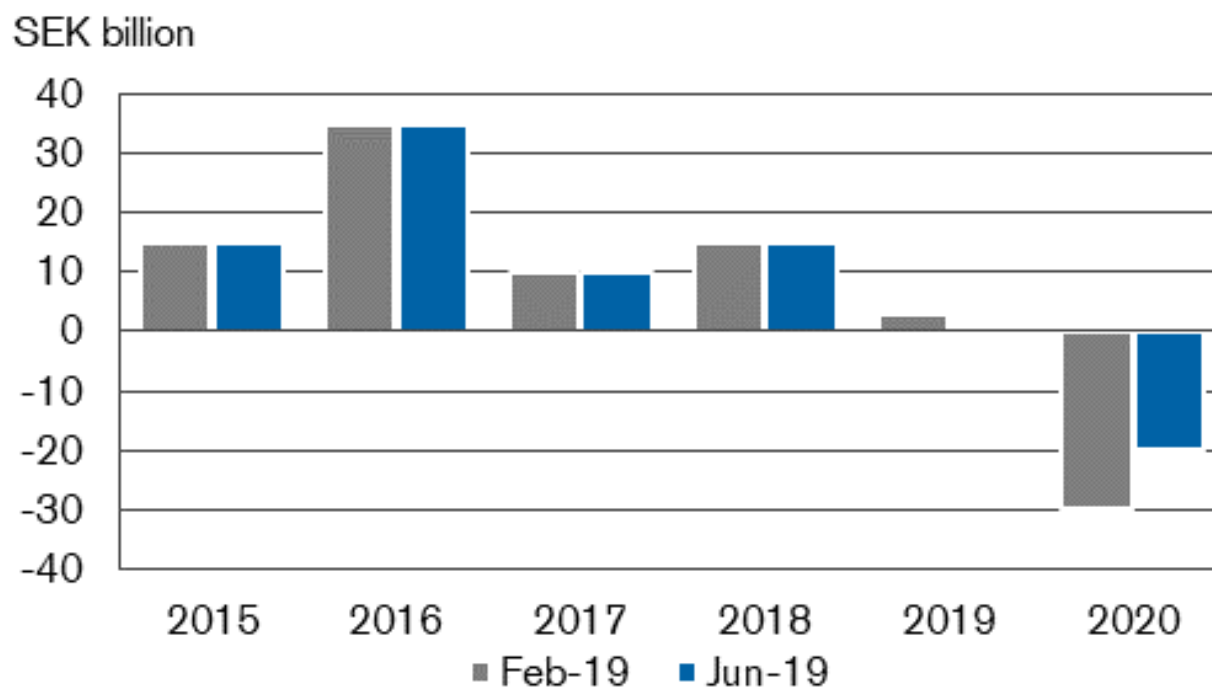
HOUSEHOLD CONSUMPTION(-) → LOWER INCOME FROM VAT AND EXCISE DUTIES

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

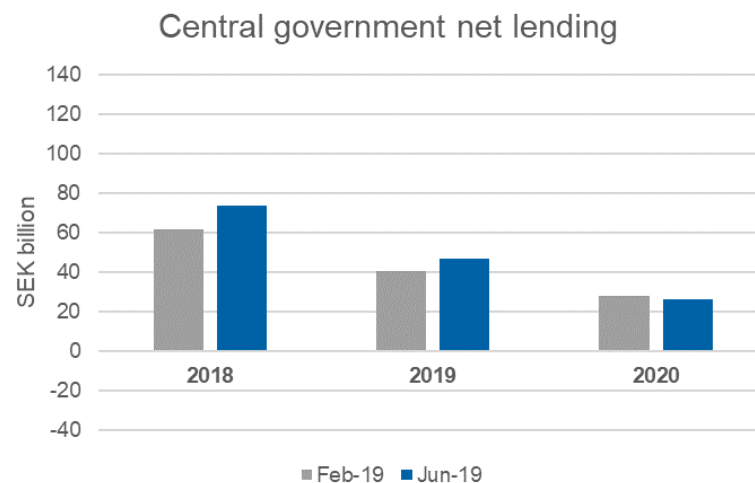
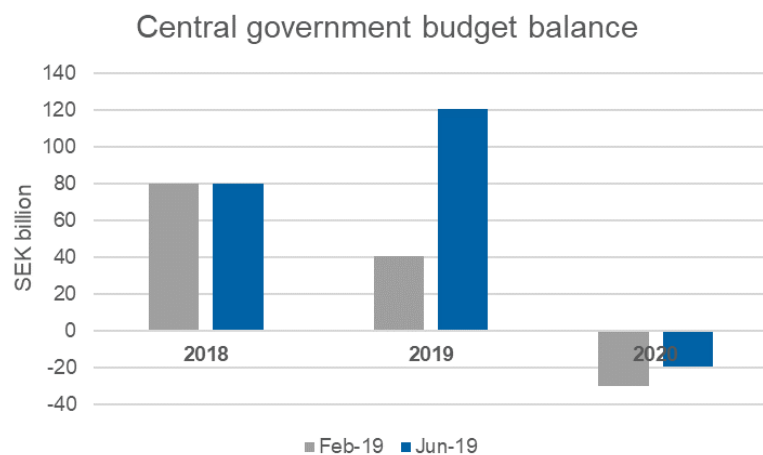
Changes of budget balance forecast since forecast in February

<i>SEK billion</i>	2019	2020
Tax income excl. capital investments in tax accounts	3	0
Capital investments in tax accounts	-3	10
Dividends	-1	-1
Labour market	2	0
Social insurance	2	-2
Migration	0	1
International aid	1	0
Other	2	7
SNDO net lending excl. on-lending	4	-1
On-lending	71	-3
Interest payments	-1	-2
<i>Sum of changes</i>	80	11

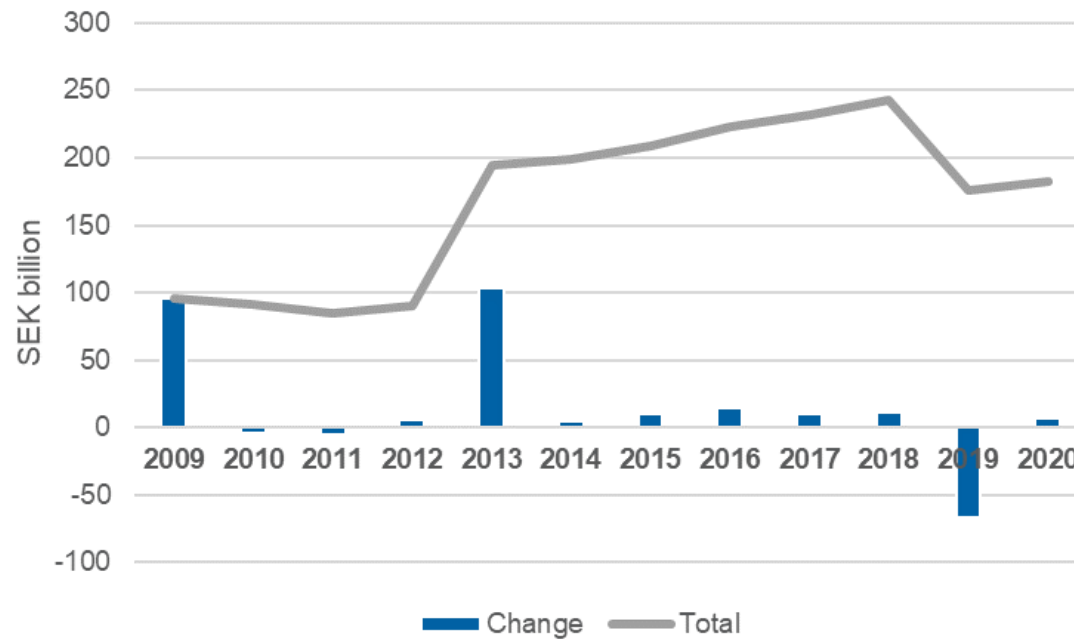
Flows of capital investments from tax accounts



Budget balance and central government net lending



Lending to the Riksbank

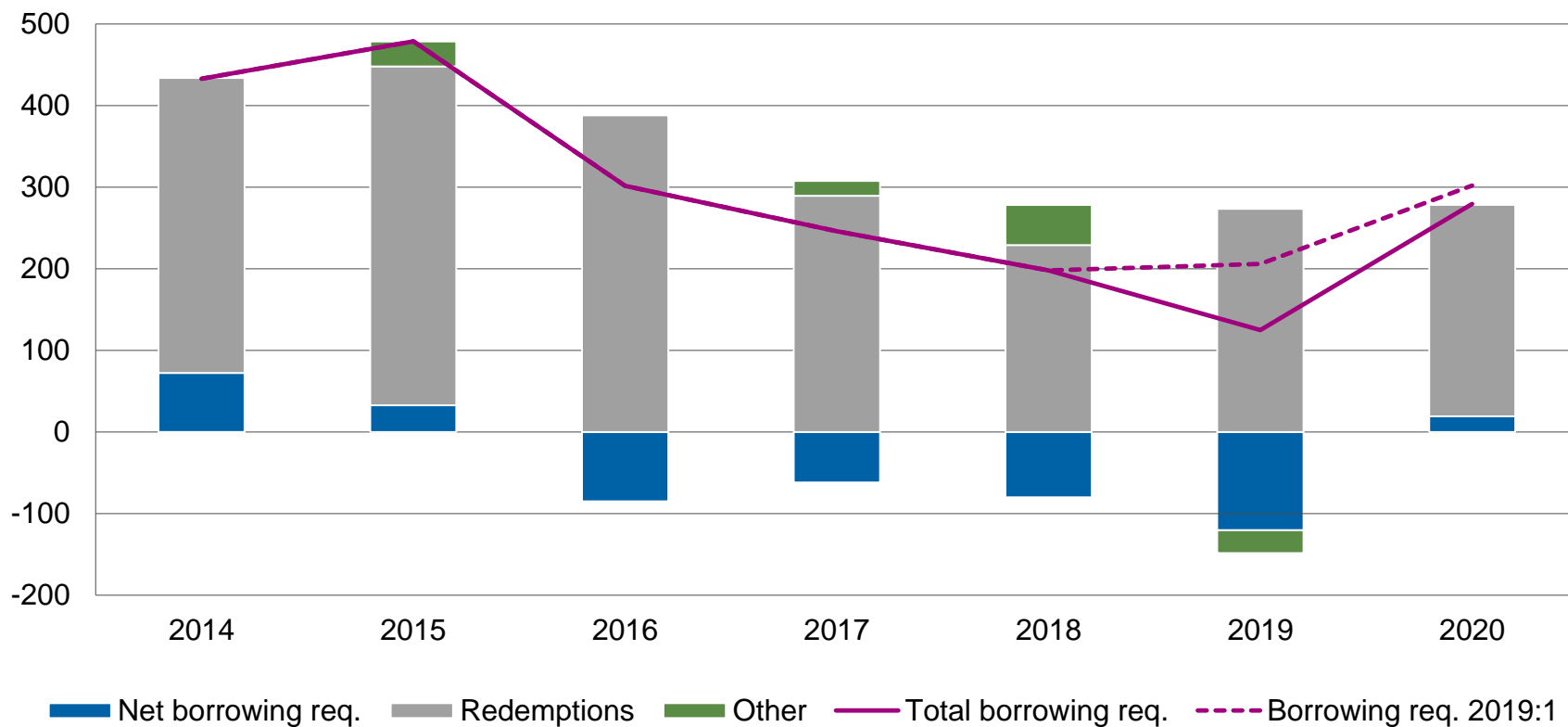


Borrowing requirement decreases this year

- Forecast of net borrowing requirement is lowered
- Postponed raise of issuance volumes
- Large reduction in 2019 of refinancing of on-lending to the Riksbank
- Future assignment to issue a green government bond

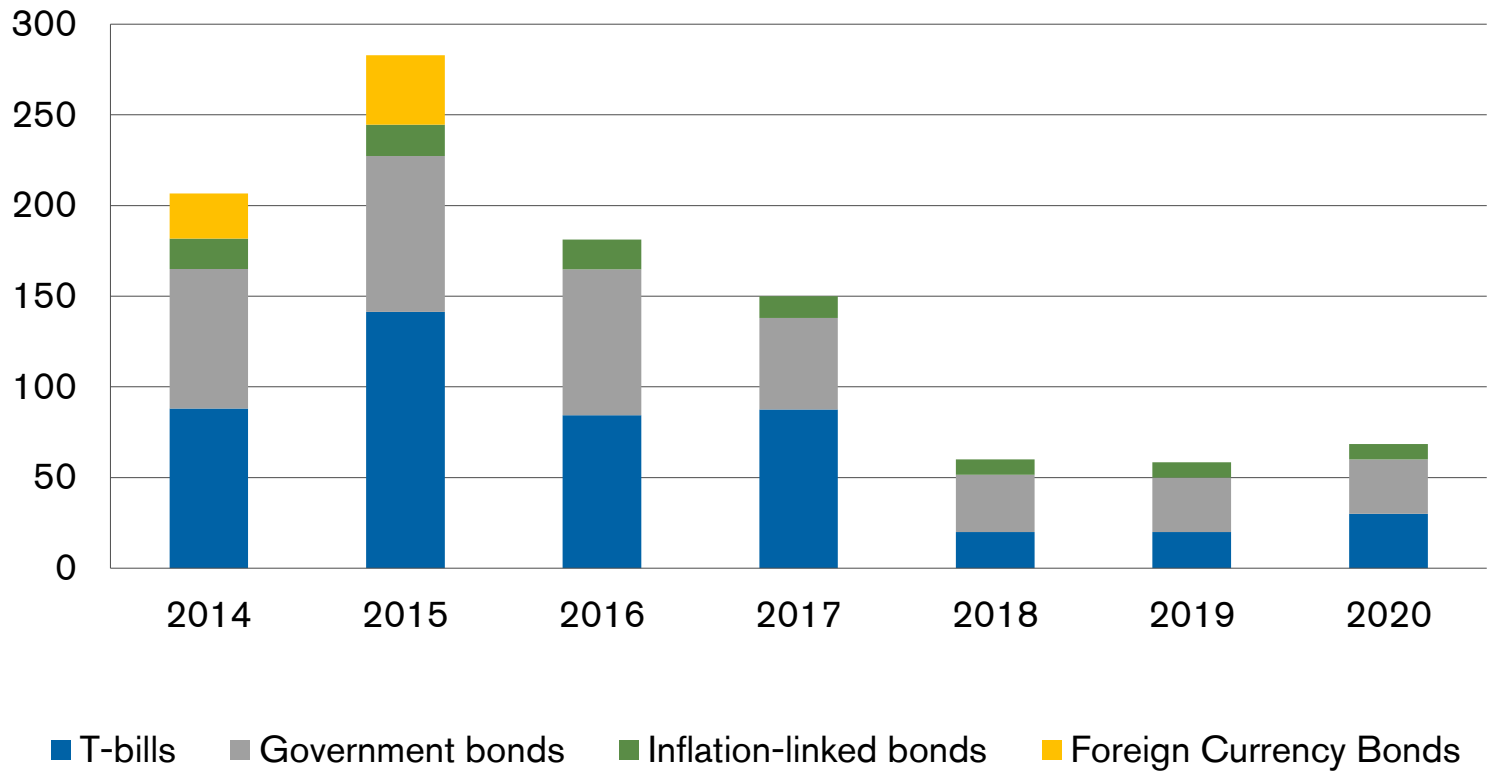
Lower borrowing requirement in new forecast

SEK billion



Issuance volumes remain at low levels

SEK billion



Government debt: more rapid decrease

