RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

27 May 2021

CENTRAL GOVERNMENT BORROWING

Forecast and analysis 2021:2

Reg. no RG 2021/115

The Debt Office's assignment

The Debt Office is the Swedish government's financial manager. The mission includes central government borrowing and debt management. The aim is to do this at the lowest possible cost over time while avoiding excessive risk.

In *Central Government Borrowing – Forecast and Analysis*, published three times a year, the Debt Office presents forecasts for the macroeconomic development and the central government finances in the coming two years. On the basis of these forecasts, the Debt Office calculates the government borrowing requirement and sets up a borrowing plan that is also included in the report. The Debt Office borrows to cover deficits in the central government budget (the net borrowing requirement) and to repay maturing loans.

On the fifth working day of each month, the central government budget balance for the previous month is published in a press release. The outcome is compared with the forecast from *Central Government Borrowing – Forecast and Analysis* and any deviations are explained. In connection with the monthly outcome, the Debt Office also presents the debt development in the report *Sweden's Central Government Debt*.

Preface

In *Central Government Borrowing – Forecast and Analysis 2021:2*, the Debt Office presents forecasts for central government finances and borrowing for 2021–2022. An assessment of the macroeconomic development is provided in the first section. The next section presents forecasts for the budget balance and the underlying analysis. These forecasts serve as the basis for borrowing, which is discussed in the last section of the report.

The report takes into account developments up to 12 May 2021.

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Debt Office Director General

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Summary

The Swedish economy has resisted the pandemic well so far this year, and an even more rapid recovery is expected ahead when the spread of infection subsides and restrictions are eased. Expansionary monetary policy is also a contributing factor. The Debt Office expects GDP to be back to its pre-crisis level by around mid-year and grow by 3.5 per cent this year and 3.7 per cent in the next. However, the aggregate development conceals the fact that different sectors, businesses, and households are affected by the crisis to varying degrees. The impact of the pandemic on the labour market will be more prolonged, and unemployment remains higher than prior to the pandemic.

Faster economic recovery leads to increased income from taxes and thereby stronger central government finances in 2021 and 2022. The Debt Office now expects the central government budget to be close to balanced this year, with a surplus next year twice as large as in the previous forecast. The upward revision is due to the positive effects of the higher GDP growth outweighing the extra spending for new support measures from the Government. The Riksbank's repayment of foreign currency loans raised on its behalf by the Debt Office also contributes to the budget balance approaching a surplus again, following the large deficit created by the pandemic in 2020.

The stronger budget balance entails a decrease in the central government borrowing requirement. The Debt Office is therefore reducing funding in treasury bills as well as in bonds. The issuance volume of treasury bills will decrease immediately, and the supply of nominal government bonds will be lower as of August. Borrowing in inflation-linked bonds will stay the same and a new inflation-linked bond maturing in 2039 is being introduced. The Debt Office also intends to issue a new 50-year nominal government bond, which will extend the government bond curve and the term to maturity of the central government debt.

Key figures for the economy, government finances and borrowing

Previous forecast in italics	**2020**	**2021**		**2022**	
Swedish economy and government finances					
GDP (%)	-2.8	3.5	*2.4*	3.7	*4.0*
Unemployment (% of labour force)	8.3	8.7	*8.6*	7.7	*7.5*
Budget balance (SEK billion)	-221	-4	*-63*	65	*30*
Central government net lending (% of GDP)	-3.4	-2.0	*-2.7*	-0.6	*-0.9*
Central government debt (% of GDP)	26	25	*26*	22	*25*
Central government borrowing, SEK billion					
Nominal government bonds	100	85	*96*	70	*90*
Inflation-linked bonds	13	21	*21*	21	*21*
Treasury bills (outstanding stock at year-end)	173	138	*185*	183	*225*
Foreign currency bonds	43	17	*17*	17	*17*
on behalf of the Riksbank	43	0	*0*	0	*0*
for central government	0	17	*17*	17	*17*

Swedish economy recovering increasingly faster

So far this year, the Swedish economy has resisted the pandemic well, and an even more rapid recovery is expected ahead when the spread of infection subsides and restrictions are eased. Expansionary monetary policy is also a contributing factor. The Debt Office expects GDP to be back to the pre-crisis level by around mid-year and grow by 3.5 per cent this year. This is slightly more than one percentage point higher than in the previous forecast. Next year, GDP is expected to grow by 3.7 per cent. Growth this year is driven mainly by household consumption and then to a greater extent by investment. However, the aggregate development conceals the fact that different sectors, businesses, and households are affected by the crisis to varying degrees, both in the short and long term. The impact of the pandemic on the labour market will be more prolonged, and in even in 2022 unemployment is expected to remain at a higher level than prior to the crisis.

The pandemic will continue to affect how the economy develops. The increased rate of infection in the autumn led to stricter restrictions, which in turn stalled the economic recovery in many countries. The interruption was only temporary though, and there are already signs of increased demand. The spread of infection in the US has gone down drastically in recent months, and the numbers are decreasing in Europe as well. The Debt Office's assumption is that the spread of infection in Sweden will abate in the coming months, after which it will remain relatively low thanks to a high level of immunity in the population. Accordingly, the gradual rebound to a more normally functioning society can continue.

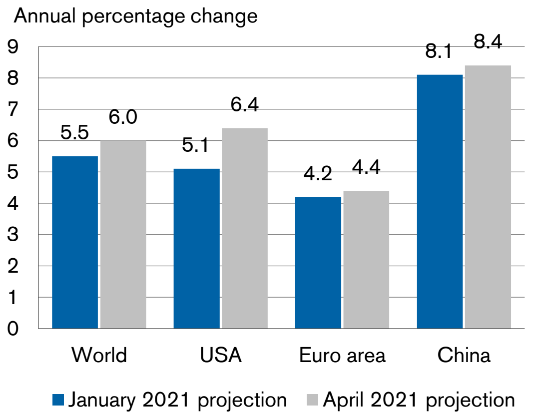
At the same time as the spread of infection is decreasing, economic policy is very expansionary – and as soon as the restrictions can be eased, substantial recovery is expected for both Sweden and the world. There will, however, be a more long-term impact from the pandemic on the labour market. In Sweden, unemployment does not sink to pre-crisis levels during the forecast period, and long-term unemployment continues to go up. Several factors also suggest that inflation will remain moderate in the coming years despite having risen at the beginning of 2021.

Improved prospects for growth in surrounding world

After a temporary decrease in demand at the beginning of the year and supply disruptions in the form of a global shortage of, among other things, freight containers and semiconductors, worldwide recovery is expected to accelerate heading into the summer. The economic support from both fiscal and monetary policy is substantial. At the same time, restrictions are beginning to be eased in many places, which in time leads to increased demand even in service industries that involve a high level of person-to-person contact.

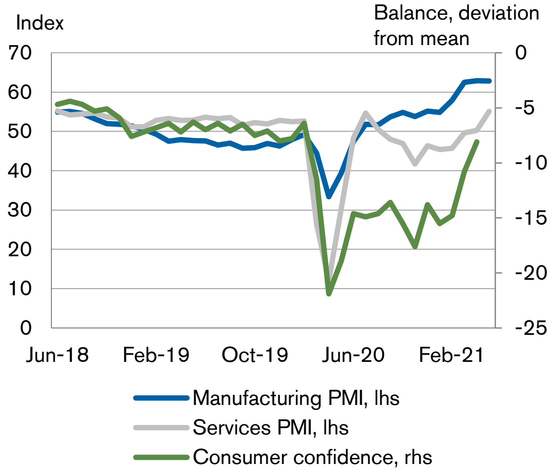
Both the IMF and the OECD have revised up their economic forecasts in recent months. The largest revisions concern the US economy, the strong recovery of which is expected to benefit trading partners with the US and, accordingly, the global economy (see Figure 1). The recovery in Europe also continues, albeit at a slower pace. The global composite PMI (Purchasing Managers' Index) reached its highest level in eleven years in April and indicates considerable expansion.

Figure 1. IMF's GDP forecast for 2021



Source: IMF.

Figure 2. Purchasing Managers' Indices and consumer confidence for the euro area



Sources: Markit and European commission.

Resilient US economy

Despite the spread of infection also increasing in the US over the autumn and winter, the economic recovery has continued. One explanation for this is that restrictions in general have not been as extensive as they were during the initial stages of the pandemic. In addition, enormous fiscal policy stimulus measures have been launched. A decision was made in December on a stimulus package corresponding to 4.4 per cent of GDP. The most recent stimulus package was approved by Congress in March and is equivalent to almost 9 per cent of GDP. The package includes direct payouts to households and extended unemployment compensation. In addition, further fiscal policy stimulus measures are in the works.

The fiscal policy approved thus far is expected to provide the largest boost in growth in the second quarter and subsequently have a lesser effect during the rest of the year. Household consumption is the most important engine of the US economy. Retail trade is already increasing at a rapid pace and consumer confidence has recovered from the sharp decrease. Unemployment in the US continues to gradually decline but is nevertheless expected to exceed its pre-crisis level at the end of the forecast period.

Delayed recovery in euro area

GDP in the euro area fell in the fourth quarter. The decrease was mainly due to households being burdened by new extensive restrictions and lockdowns that caused consumption to fall. Incoming statistics indicate that the recovery was halted at the beginning of 2021 as well, but leading indicators suggest that it will pick up again.

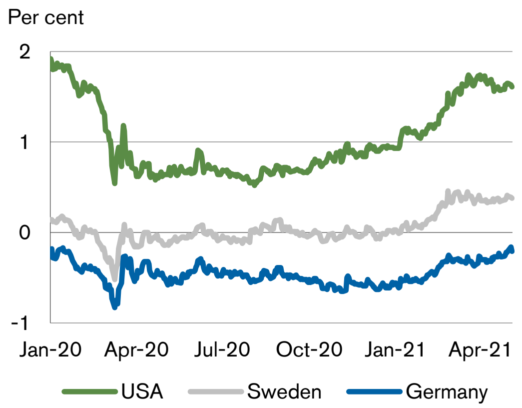
In Europe, a division remains between the manufacturing sector and service sector. In recent months, however, confidence in the service sector has risen to neutral levels. Confidence among households has also returned to normal (see Figure 2).

Unemployment in the euro area rose sharply during the worst phase of the crisis, although not at all to the same extent as in the US. Labour-market-policy measures such as short-time work allowances (furloughs) provide an important explanation for why the upswing in unemployment was moderate despite GDP falling by almost 7 per cent last year. At the same time, this entails that the demand for labour will only increase moderately in the forecast period despite the recovery in the economy. Unemployment in the euro area is thereby slowly falling back.

Growth remains at high level in China

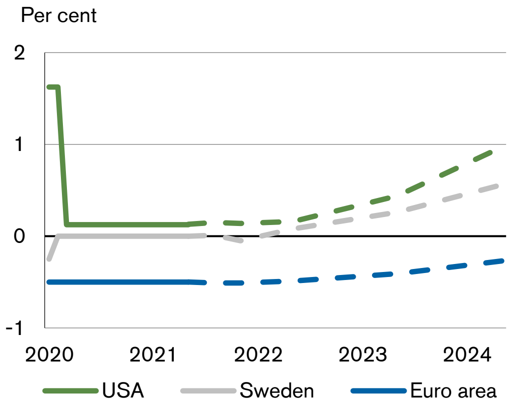
The recovery in China has been rapid and its economy grew by 2 per cent in 2020, driven above all by strong export and public-sector investment. As in many countries, the Chinese service sector has recovered more slowly than industry, as a result of continued restrictions. In China as well, restrictions are expected to be eased over the year, and growth for 2021 is assessed to be around 8 per cent. Next year, growth is expected to subside to around 6 per cent as public-sector investment decreases.

Figure 3. Yields on 10-year government bonds



Source: Macrobond.

Figure 4. Market expectations for policy rates



Sources: National central banks and Bloomberg.
Note: Implied rates based on market pricing on 21 May 2021

Expansionary financial conditions despite looming concerns

Financial conditions have remained very- expansionary. The yield differentials between corporate and government bonds have been stable and at the same level as before the crisis. The credit supply to households and businesses has consistently functioned smoothly while major stimulus and high expectations for growth have pushed up the stock market. Even inflation expectations and long-term interest rates have in fact risen, although the interest rate increase stopped at the beginning of March (see Figure 3).

Both the Federal Reserve (Fed) in the US and the European Central Bank (ECB) have indicated unchanged policy rates and asset purchases. Nevertheless, central banks in the UK and Canada have announced a reduction of asset purchases ahead. Given that the speed of recovery differs in various economies, market pricing reflects diverging monetary policy in the long run, as shown in Figure 4.

Since the turn of the year, inflation has increased and approached the central banks' target levels in several countries. The Fed and ECB are among those that view the elevated inflation as temporary.

But there are other actors that assess the development to be more lasting and consider the major fiscal policy stimulus measures to have laid the groundwork for an overheating, whereby wages and prices are expected to rise increasingly faster.

If the upswing in inflation turns out to be longstanding, the central banks might need to tighten monetary policy earlier and more than planned. Even a temporary increase in inflation could affect the pricing in the financial markets. High and rapidly increasing indebtedness in many countries constitutes a risk in the slightly longer term, mainly if the higher inflation persists and leads to higher interest rates.

The Debt Office's overall assessment is that the financial conditions will continue to be expansionary during the forecast period.

Swedish economy recovering from crisis situation

The pandemic and the restrictions imposed continue to affect Swedish GDP growth, in the short term mainly through restraining the consumption of services. At the same time, the impact of the restrictions on GDP has become milder over time. The measures to contain the contagion of COVID-19 are now mainly affecting the parts of the economy that have already been hit hard. Consequently, the impact on GDP is less. The Debt Office also presumes that there will be a decrease similar to last summer in the number of new cases of infection and that the restrictions can begin to be eased. This, along with fiscal policy stimulus, causes the recovery to accelerate over the coming quarters.

The course that the pandemic will take remains a major source of uncertainty in the forecast, for both the upside and the downside (see the section on the risk picture at the end of the chapter).

Table 1. Supply balance, and its components, constant prices, forecast

Percentage change[1]	2019	2020	2021	2022
GDP	**1.4**	**-2.8**	**3.5**	**3.7**
Household consumption	1.2	-4.7	3.9	3.4
General gov. consumption	0.3	-0.5	2.8	1.6
Gross fixed cap. formation	-3.1	0.6	3.9	5.9
Change in inventories[2]	-0.1	-0.8	-0.3	0.0
Export	4.8	-5.2	7.7	6.9
Import	1.3	-5.8	7.7	6.9
Net exports[2]	1.7	0.0	0.3	0.3
GDP (calendar adj.)	**1.4**	**-3.1**	**3.3**	**3.7**

Sources: Statistics Sweden and the Debt Office.

Tabell 2. Supply balance, fixed prices, revisions since previous forecast

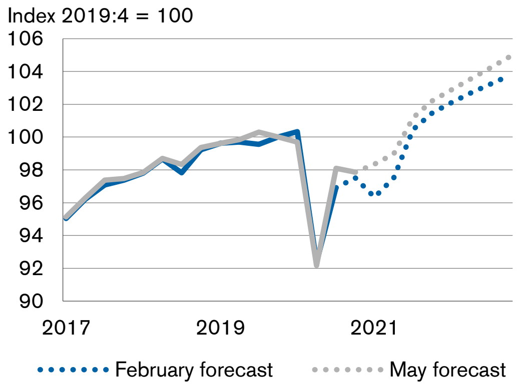
Percentage points	2019	2020	2021	2022
GDP	**0.0**	**-0.1**	**1.1**	**-0.3**
Household consumption	-0.1	-0.8	1.8	-1.3
General gov. consumption	0.0	1.3	0.4	0.2
Gross fixed cap. formation	-1.9	1.9	0.6	0.4
Change in inventories[2]	0.0	-0.1	-0.3	0.0
Export	1.2	-0.1	2.5	0.0
Import	0.1	0.7	2.1	-0.1
Net exports[2]	0.5	-0.4	0.3	0.1
GDP (calendar adj.)	**0.0**	**-0.1**	**1.1**	**-0.3**

[1] Actual change compared to previous year.
[2] Change as a percentage change of GDP previous year.

GDP fell by 2.8 per cent last year, which is the next largest downturn in one year in the post-war period. The largest case measured was during the financial crisis of 2009, at 4.3 per cent. In the Debt Office's assessment, the Swedish economy will grow by 3.5 per cent this year and 3.7 per cent the next. Compared with the previous forecast, GDP has been revised up by around 1 percentage point for 2021. This is in part a reflection of the fact that the new outcomes provide a more advantageous foundation but also that the economy has been unexpectedly resilient in the first part of the year. By mid-year, GDP is already expected to exceed its pre-crisis level.

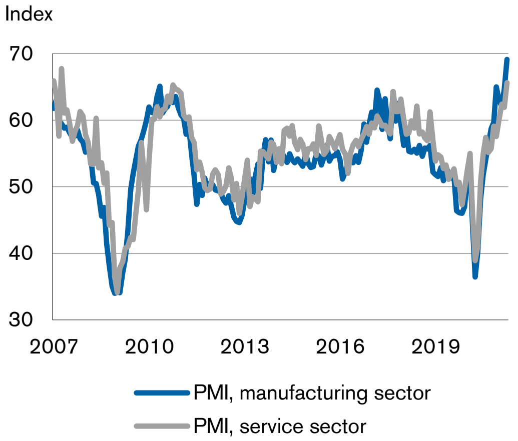
Financial conditions are expected to be very expansionary during the forecast period. In addition, the recovery is supported by the fiscal policy measures presented by the Government. In terms of parts of the supply balance, household consumption is the main driver of growth this year. Next year, trade and industry becomes an increasingly important driving force, particularly in the service sector where the most rapid increase in investment is expected.

Figure 5. GDP



Note: Seasonally adjusted data.
Sources: Statistics Sweden and the Debt Office.

Figure 6. Confidence of companies



Note: Seasonally adjusted data. Above 50 indicates expansion and below 50 indicates contraction.
Source: Swedbank.

Indicators shows growing optimism

Fresh statistics show an increase in GDP in the first part of 2021. Statistics Sweden's month-by-month GDP indicator as well as the Debt Office's short-term models show an upswing after the fourth quarter's relatively mild drop (see Figure 5).

Purchasing Managers' Indices (PMIs), both for the service sector and the manufacturing industry, remain at very high levels despite the extensive spread of infection (see Figure 6). For the manufacturing industry, PMIs rose in April to the next highest level recorded in the series' history. Order intake for export companies is also strong. Nevertheless, a looming concern is that the global shortage of semiconductors will impede production within, for example, the motor vehicle industry.

The National Institute of Economic Research's (NIER) Economic Tendency Indicator has shown a weaker recovery in the last year than the PMIs have. In recent months, however, the differences have decreased and, after an unusually large and broad surge in April, all partial indices except for construction have shown growth above the trend. Strongest of all is confidence within the manufacturing industry, even according to NIER's indicator.

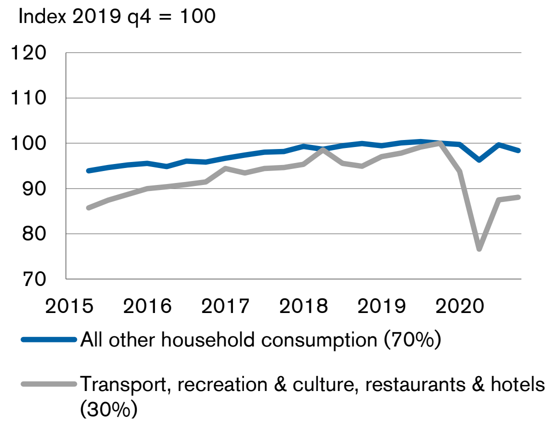
Household consumption drives recovery

Household consumption decreased substantially last year and was almost 5 percentage points below the pre-crisis level. At the same time, there is a clear division between the different parts of consumption. Consumption regarding transport, recreation, culture, restaurants and hotels – which altogether comprise 30 per cent of the total – has accounted for almost the entire decrease (see Figure 7). In the coming years, household consumption is expected to increase drastically and be the part of the supply balance contributing the most to growth.

The more stringent restrictions in combination with sustained recommendations for social distancing cause the same parts that fell the most in 2020 to develop poorly in the coming quarters as well. Card transaction data shows that consumer services involving close contact and relying heavily on staff – such as hotels, restaurants, and event services – remain hindered, which not least affects the hospitality industry in major cities. Taken together, this is counteracted by another type of consumption developing well, for example of groceries and that which is closely related to the home.

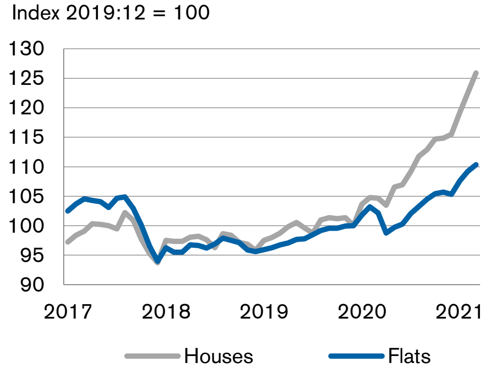
All in all, household consumption in both 2021 and 2022 grows distinctly above the historical average, according to the Debt Office's forecast. Starting with high saving, rising wealth and reasonably good development for disposable income have become prerequisites for many households to increase consumption once the situation allows. Consumption is expected to reach pre-crisis levels at the end of 2021, a couple of quarters earlier than in the previous forecast.

Figure 7. Consumption



Note: Seasonally adjusted data, constant prices.
Source: Statistics Sweden.

Figure 8. Housing prices



Note: Seasonally adjusted data.
Source: Valueguard.

Increasing contribution to growth from investment

There has been surprisingly little impact from the pandemic on investment. One likely reason for this is that many companies have judged the downturn to be short-term and thus have not significantly adjusted their investment plans. State infrastructure initiatives and investments in defence are also planned for this year. Next year, trade and industry drives investment, particularly within the service sector.

Residential housing construction is also expected to continue to increase. The supply of mainly single-family houses is low and demand is high. The high demand partly reflects a trend of increased relocation from major cities in the wake of the rapid rise of digitalisation and working from home. Low interest rates and good development of households' income and financial and real wealth are also contributors. In light of this, it is probable that housing prices will continue to rise, although at a slower pace than last year (see Figure 8).

Altogether, investment makes a significant contribution to the recovery, especially in 2022.

Hopeful prospects for Swedish export despite delivery problems

After the steep decline during the initial stages of the pandemic, export has experience a rapid recovery. Export order intake is now stronger than it was before the pandemic, and the industry considers the volume of export orders to have returned to normal levels.

The export of goods, however, is held back in the short term by container shortages and the global shortage of semiconductors that has forced some companies to temporarily stop production. It is expected that delivery and supply problems will have abated by the second half of the year, during which investment in key export countries is also expected to increase at a faster rate. If this is case, Swedish goods export will also gain new momentum after the summer. The decrease in travel services continues to suppress the export of services, but foreign trade overall is nonetheless expected to contribute positively to growth during the forecast years.

Unemployment expected to gradually fall back

In the spring of 2020, the labour market deteriorated significantly, but towards the end of the year an improvement could be seen in the form of rising employment and falling unemployment (see Figure 9). There was mainly an increase in employment among the youth and foreign-born categories. It was also within these groups that employment fell the most at the beginning of the crisis. In recent months, unemployment has continued to fall back, according to statistics from the Swedish Public Employment Service. The positive development is linked to the resilience of the real economy during the beginning of 2021.

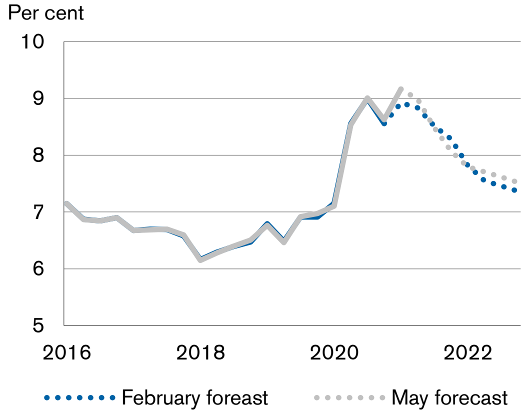
In the short term, recovery in the labour market is hindered by the restrictions imposed at the end of 2020 and beginning of 2021. Once again, it is mainly parts of the service sector that suffer, while recovery in industry continues. The fact that companies are given the opportunity to furlough staff with aid from the government until 2021 reduces the need for staff cuts.

Over the summer, gradually eased coronavirus restrictions are expected to lead to increased demand for labour. Forward-looking indicators also show improvement in the labour market. According to NIER's Economic Tendency Survey, employment plans exceed the historical average. The number of available positions has also risen while the number of notices of layoffs remains at normal levels.

At the same time, unemployment is expected to gradually decline but still exceed the pre-crisis level even at the end of the forecast period. Measured as an annual average, unemployment is expected to be 8.7 per cent in 2021 and 7.7 per cent in 2022.

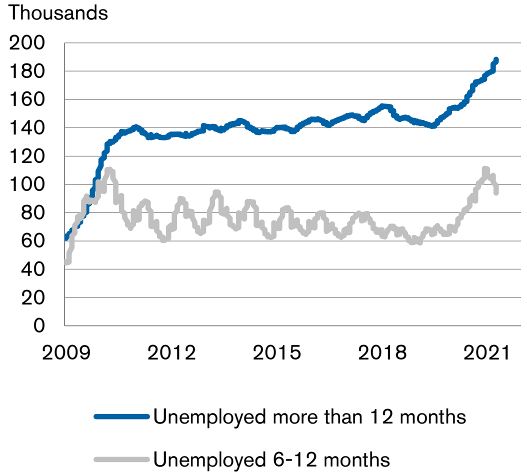
The conversion made by the Labour Force Survey (LFS) creates a level shift, which in turn means that it is difficult to interpret the statistics during 2021. The overall picture remains that recovery in the labour market will be slower than for GDP. In addition, there is a considerable risk of a higher level of long-term unemployment gaining traction.

Figure 9. Unemployment



Note: Seasonally adjusted data, a new method is used which means that the forecasts are not readily comparable.
Sources: Statistics Sweden and the Debt Office.

Figure 10. Long-term unemployment



Note: Seasonally adjusted data.
Sources: Statistics Sweden and the Debt Office.

Long-term unemployment an increasingly looming threat

Long-term unemployment (defined as those registered as unemployed for more than 12 months) is a growing source of concern (see Figure 10). Even before the crisis, it was high as a result of structural problems. Many people who are long-term unemployed are foreign-born and without an upper secondary school (high school) education, which can make it difficult to meet the criteria for available jobs. In recent years, the situation has deteriorated considerably for these groups.

Even if the recovery takes hold, long-term unemployment may increase. Long periods of unemployment can adversely affect competence and skills, which can lead to others without jobs receiving employment sooner than the long-term unemployed once the economy strengthens. The Debt Office's assessment is that the number registered as unemployed for longer than 12 months exceeds 200,000 this year. That accounts for more than 40 per cent of the total number unemployed.

Inflation rises to moderate levels

Inflation was low last year, largely because of falling energy prices. Furthermore, the pandemic created measurement problems as the price of certain services such as restaurant visits, lodging and travel abroad developed poorly. In 2020, CPIF inflation was below 1 per cent at an annual rate for most of the year.

During the beginning of 2021, however, inflation rose faster than expected. CPIF inflation in March reached 1.9 per cent at an annual rate. The upswing is partly due to technical factors. Consumption patterns have changed rapidly during the pandemic, which has altered inflation-weighting more than usual. This in turn has had a positive effect on the services-price part. Base effects have also contributed to the increase. Energy prices and other commodity prices are clearly higher at present than a year ago, which has contributed to a distinct upswing in CPIF inflation. The costs of sea freight have also risen sharply in recent months, which may above all affect the price of larger consumer goods such as white goods (household appliances) further ahead. PMIs also show that the price of input goods have risen both within industry and the service sector.

Several factors at the same time indicate that inflation will remain moderate during the forecast period. This regards among other things the strengthening of the Swedish krona last year, low but rising resource utilisation, and moderate wage increases. The Debt Office's forecast for CPIF inflation is 1.9 per cent for 2021 and 1.5 per cent for 2022.

Short-term upside risks but greater downside risks over time

How the pandemic will develop and what impact that will have on GDP remains the largest uncertainty factor in the forecast, both in terms of the upside and the downside. In the short term, the recovery may be stronger than expected with a faster increase in demand within industries involving a high level of person-to-person contact, once the restrictions are ultimately eased. If, however, the contagion is not contained as expected (or if it accelerates again), the restrictions will assuredly stay in place, which in turn risks hindering many companies in vulnerable service industries. This would cause growth to be lower than forecast, mainly in the slightly longer term.

Another uncertainty is in regard to economic policy. In the short term, additional support measures could lead to higher growth than forecast. In the longer term, the uncertainty is in regard to the pace that and order in which the various economic policy measures are phased out. The policy trade-offs are as important as they are difficult. Removing the measures too early could stop recovery. Keeping them in place for too long risks impeding a necessary structural transformation and increases financial imbalances in the economy, which could have an adverse effect on the real economy over time. Examples of imbalances of this kind are sharply rising asset prices and a sharp increase in indebtedness in many countries.

At the same time, households have increased their saving during the crisis, particularly in Europe and the US but also to some extent in Sweden. This increase is a kind of buffer, but it is difficult to reach a conclusion about the rate at which saving will decrease in relation to the economy getting stronger, and to what extent consumption will increase. If the increased saving is a consequence of certain services no longer being available for consumption in the way they were before the pandemic, saving will likely go down at essentially the same rate as economies and communities open up. If, on the other hand, it is a result of greater caution given the uncertain situation, or a more permanent change in behaviour, it then becomes less clear at what rate saving might decrease.

Central government budget balance is strengthened

Faster economic recovery leads to increased income from taxes and thereby stronger central government finances in 2021 and 2022. The Debt Office now expects the central government budget to be close to balanced this year, with a surplus next year twice as large as in the previous forecast. The upward revision is due to the positive effects of the higher GDP growth outweighing the extra spending for new pandemic-related support measures from the Government. The Riksbank's repayment of foreign currency loans raised on its behalf by the Debt Office also contributes to the budget balance approaching a surplus again, following the large deficit created by the pandemic in 2020.

The budget balance has developed better than expected since the Debt Office's previous forecast in February, and the faster recovery of the economy is expected to further strengthen central government finances ahead. The primary balance increases mainly because of high tax income. At the same time, the measures taken by the Government to support the economy also have a counteracting effect. Altogether, the primary balance is expected to show a deficit in 2021 as well, although now half as large as in the previous forecast (see Table 1). For 2022, the Debt Office expects a surplus in the primary balance.

Net lending by the Debt Office has a significantly positive effect on the budget balance this year and the next (see Table 1 and Figure 2). This is because the foreign currency loans raised by the Debt Office to fund the Riksbank's foreign exchange reserves are being paid back. The Riksbank's repayment of these loans was already included in the February forecast. The item *Interest on central government debt* continues to have a small impact on the budget balance.

Altogether, the Debt Office's forecast indicates a budget deficit of SEK 4 billion in 2021 and a surplus of SEK 65 billion in 2022 (see Table 1 and Figure 2). Looking at both years, this entails a strengthening of the budget balance by SEK 94 billion compared with the previous forecast – and a corresponding decrease in the central government net borrowing requirement. The central government budget thereby returns to a surplus, following last year's large deficit.

Table 1. Central government budget balance, forecast 2021 and 2022

SEK billion	2020	2021 May	2021 (Feb)	2022 May	2022 (Feb)
Primary balance[1]	-173	-55	(-112)	17	(-23)
SNDO net lending[2,3]	-28	49	(43)	57	(59)
of which on-lending to the Riksbank	-6	57	(57)	61	(61)
Interest payments[3]	-19	2	(6)	-9	(-6)
Budget balance[4]	**-221**	**-4**	**(-63)**	**65**	**(30)**
Budget balance excluding on-lending to the Riksbank	**-215**	**-60**	**(-120)**	**4**	**(-31)**

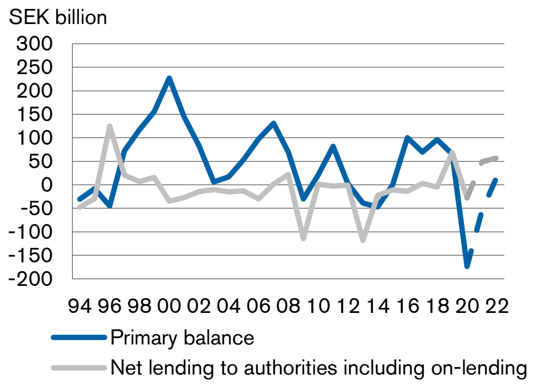
[1]The primary balance is the net of central government income and expenditure excluding interest payments and net lending by the Debt Office.

[2] Net lending by the Debt Office mainly comprises the net of agencies' loans and deposits in the central government's internal bank.

[3]The table shows the net borrowing requirement and interest on central government debt in terms of how they affect the budget balance. The signs are therefore reversed compared with that shown in Tables 4 and 5.

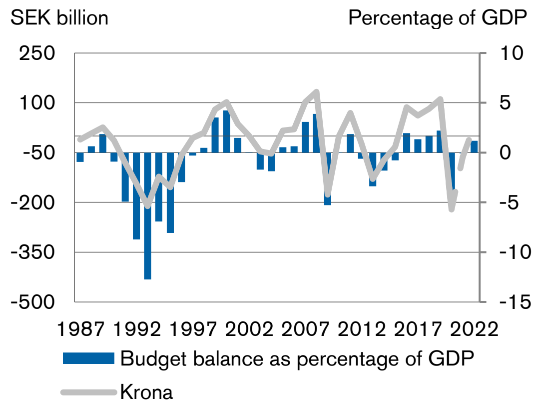
[4]The budget balance with the opposite sign is the central government net borrowing requirement.

Figure 1. Primary balance and effect of Debt Office net lending on budget balance



Note: The primary balance is the net of central government income and expenditure excluding interest payments, net lending by the Debt Office, and state ownership.
Source: The Debt Office.

Figure 2. Budget balance over time



Sources: Statistics Sweden and the Debt Office.

The economy is gaining strength and both GDP and payroll (the sum of gross wages) are expected to grow faster than assumed in the previous forecast. This has a major impact on the central government's income from taxes, which is calculated to be approximately SEK 80 billion higher in the new forecast for 2021 (see Table 2). The increased tax income has a greater effect on the budget forecast than that of the extra reforms presented by the Government and expected additional measures (see the box on the next page). Altogether, the Debt Office has revised up this expenditure by SEK 30 billion for 2021.

Table 2. Forecast changes in budget balance

SEK billion	2021	2022
Budget balance in previous forecast	**-63**	**30**
Primary balance	**57**	**40**
Of which:		
Tax income excluding capital placements in tax accounts	78	62
Capital placements in tax accounts	5	0
Dividends	1	4
Government grants to local governments	0	0
Labour market	3	1
Social insurance	-6	2
Migration	2	1
International aid	0	0
Other[1]	-25	-30
SNDO net lending	**6**	**-2**
Of which:		
On-lending to the Riksbank	0	0
Interest payments	**-4**	**-3**
Budget balance in new forecast	**-4**	**65**

Note: The table shows changes in terms of the budget balance. A positive amount means that the budget balance improves and vice versa.

[1] Includes, among other things, unspecified fiscal policy measures and support for businesses due to the pandemic.

Next year, many of the temporary crisis measures will be discontinued, but the Debt Office's assumption is that there will be SEK 75 billion in new unfunded fiscal policy measures in 2022, SEK 25 billion more than in the February forecast. Because of the prolonged course of the pandemic, the assessment is that fiscal policy will need to support economic recovery next year as well.

Extensive support measures 2021 and more reforms 2022

Further fiscal policy initiatives have been presented since the Debt Office's previous forecast in February. The purpose of these measures is to mitigate the economic impact of the coronavirus pandemic on businesses and individuals and continue to support the efforts of municipalities and regions towards, among other things, infection tracking and vaccination.

The Budget Bill for 2021 contained initiatives of around SEK 100 billion. Since then, the Government has presented additional measures totalling almost SEK 125 billion in a number of amending budgets, around half of which have been added since the Debt Office's previous forecast. The largest measures in the amending budgets since the February forecast include earmarking for: extended reorientation support for companies, extended compensation for high sick-pay costs, increased support for short-time working, and funds for COVID-19 patient care, testing, infection tracking, and vaccination.

The Debt Office's assessment is that just under SEK 75 billion of the budgeted amount of SEK 125 billion in the amending budgets will be used. This assessment is based among other things on the fact that several of the support measures catering to businesses have ended up being utilised to a far lesser extent than for which they were budgeted. This is the case for reorientation support, short-time work allowances, and support for sole traders, for example.

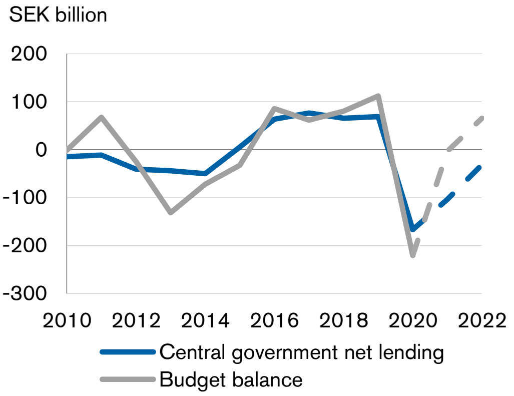
In addition to the measures already announced, the Debt Office's forecast assumption is for an additional SEK 15 billion in reforms this year and SEK 75 billion next year.

Central government net lending gradually improves

Central government net lending normally develops more evenly than the budget balance does. The biggest difference between the budget balance and central government net lending both in 2021 and 2022 is due to the loans that the Riksbank is paying back to the central government. These improve the budget balance but not central government net lending. Other differences are from accrual effects on taxes such as the deferral of tax payments via respites, and capital placements in tax accounts.

Net lending is expected to amount to SEK -103 billion this year and SEK -31 billion next year (see Figure 3). This corresponds to -2.0 per cent and -0.6 per cent of GDP, respectively. Compared with the previous forecast, this is an improvement in net lending of 0.7 and 0.3 per cent of GDP, respectively.

Figure 3. Central government net lending and budget balance



Sources: Statistics Sweden and the Debt Office.

Table 3. Tax income, change from previous forecast

SEK billion	2021	2022
Payroll taxes	34	9
Consumption taxes	23	16
Corporate taxes	34	22
Supplementary taxes	-8	15
Total	**83**	**62**

Note: The table shows changes in terms of the budget balance.

Higher tax income accounts for biggest change

Income from taxes since the previous forecast has been higher than expected (see Figure 4). This development along with the higher GDP forecast has led the Debt Office to revise up tax income. This applies to both 2021 and 2022.

Payroll taxes, corporate taxes, and consumption taxes are all assumed to be significantly higher during the entire forecast period, but mainly this year (see Table 3). A higher level of tax respites, however, contributes to a lower level of supplementary taxes in 2021 than previously assumed. For 2022, the assessment is instead that increased repayments of amounts under tax respites and higher capital income will boost the level of supplementary taxes.

Higher income from payroll taxes, corporate taxes, and VAT

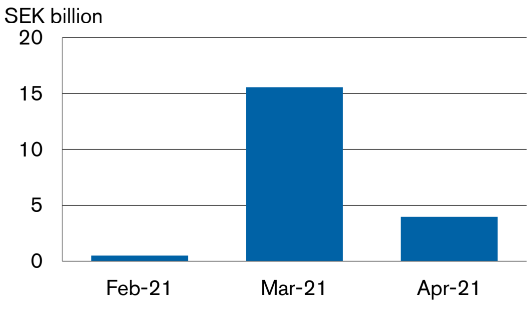
Payroll taxes – which consist of, among other things, income tax and employers' contributions – are expected to be higher than previously forecast as a result of the improved macroeconomic development and a stronger payroll development this year. During next year as well, increased income tax brings payroll taxes to a higher level than in the previous forecast.

Corporate tax is expected to be significantly higher in both 2021 and 2022 than in the Debt Office's previous forecast. It is primarily the profit trend for companies that is being revised up, in light of the swifter recovery of the economy and indicators pointing to very high activity particularly for the manufacturing industry. The profits thus far are due to stronger demand but also to many companies being able to reduce their costs during the pandemic for things such as travel.

Even if many companies are doing well, some industries are still experiencing difficulties because of the pandemic – but these do not have a particularly significant effect on the overall income from taxes. In general, the downturn for companies has been significantly milder than expected both in Sweden and globally. This may be because companies have successfully adapted their operations to the circumstances, but another explanation is also the state aid paid out and the mitigating effect it has had on uncertainty.

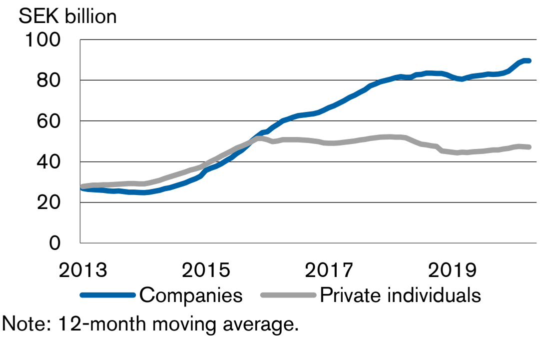
Income from taxes on consumption in both 2021 and 2022 is higher than the Debt Office's assessment in the previous forecast. Both household consumption and investment are expected to increase more rapidly in both years, leading to higher growth of income from VAT. Excise duties are also revised up slightly as a result of the higher economic activity.

Figure 4. Tax income, difference between outcome and previous forecast



Sources: The Swedish Tax Agency and the Debt Office.

Figure 5. Balance in tax accounts



Note: 12-month moving average.
Sources: The Swedish Tax Agency and the Debt Office.

Divergent effects on supplementary tax in 2021 and 2022

Supplementary tax in 2021 is assessed to be lower than in the previous forecast. An important explanation is that the level of tax respites has been significantly higher than expected during the beginning of the year, at the same time as the repayment of amounts under previous respites has gone down somewhat. In addition, the measures have been extended, leading to further respites. Altogether, the Debt Office expects that tax respites will be approximately SEK 13 billion higher than in the previous forecast.

Capital placements in tax accounts have a counteracting effect on supplementary tax in 2021. The Debt Office's assumption in the new forecast is that these deposits will increase by an additional SEK 5 billion in 2021, compared with the previous forecast. This entails a total net inflow of SEK 20 billion. Several factors indicate that tax accounts remain an attractive investment alternative, particularly for companies. The net inflow into tax accounts has continued in recent months, and companies are mainly the ones to have increased their balances (see Figure 5). Even as market expectations now suggest higher interest rates ahead than previously, central banks continue to indicate very expansionary monetary policy. The large amount of capital in circulation in the financial markets, due among other things to monetary policy stimulus, also implies that deposits in tax accounts will increase.

Several factors affect supplementary tax in 2022, which has been revised up. This is mainly in regard to increased capital gains and dividend income as a result of the continued expansionary financial conditions. Furthermore, a higher level of outgoing payments under tax respites in 2021 also means that the amount of tax repaid in 2022 will increase. The higher repayments boost the level of supplementary tax.

Higher dividends

Dividends on central government shares will be almost SEK 1 billion higher this year and SEK 4 billion higher next year than in the previous forecast. The majority of the increase next year is due to the expectation that dividends from LKAB will be larger, among other things because of a higher iron ore price.

Continued high expenditure this year due to pandemic

The central government's expenditure remains at a high level this year as a result of the measures related to the coronavirus pandemic. Next year, expenditure is expected to decrease as many of the Government support measures are discontinued. At the same time, however, the Debt Office's assumption is that there will be further unfunded reforms (see the box on page 5).

Expenditure in connection with the labour market area stays at a high level both this year and the next, albeit somewhat lower than in the previous forecast (see Table 2). Unemployment is expected to continue to decrease this year, which leads to a downward revision of labour-market related expenditure. This affects spending for both labour-market policy measures and unemployment insurance.

The continued high level of labour-market related expenditure is mainly due to unemployment insurance disbursements remaining elevated partly because unemployment is high and partly because the cap on income-based unemployment compensation is raised temporarily, at the same time as the requirements to qualify have been lowered. Expenditure for activity support is also higher than in previous years. Expenditure for the introduction benefit is, however, lower than normal because immigration is down as a consequence of the pandemic.

Expenditure within social insurance will be higher this year compared with the previous forecast (see Table 2). This is due to the Government's decision to extend the compensation for high sick pay costs up to and including June of this year. That is counteracted by expenditure for the child allowance being somewhat lower than forecast.

Net lending by Debt Office has positive effect in both years

Net lending by the Debt Office to agencies etc. has a positive impact on the budget balance both in 2021 and 2022 (see the box on the next page for a description of the effect of Net lending by the Debt Office on central government finances). This is essentially because the loans raised by the Debt Office on behalf of the Riksbank for funding the foreign exchange reserves are repaid as they mature. Loans to the Riksbank totalling SEK 57 billion mature this year (in February, March, and November) and SEK 61 billion next year (in February, September, and October). In March 2022, the Swedish Export Credit Corporation will also be repaying a loan for SEK 10 billion to the Debt Office.

The Debt Office's net lending is expected to be almost SEK 4 billion lower during the two years, compared with the previous forecast. This is largely due to higher Nuclear Waste Fund deposits.

Table 4. Net lending by the Debt Office per year

SEK billion	2020	2021	2022
Lending, of which	**40**	**-39**	**-53**
Swedish Board of Student Finance	10	13	12
Swedish Transport Administration	-2	3	4
State-owned enterprises	10	0	-10
On-lending to the Riksbank	6	-57	-61
Other	16	2	3
Deposits, of which	**13**	**8**	**4**
Swedish Board of Student Finance, credit res etc.	1	2	2
Resolution reserve	3	4	4
Premium pension system, net[1]	4	-3	-2
Other	4	7	0
Net lending	**28**	**-47**	**-57**
Net lending excluding on-lending to the Riksbank	**22**	**10**	**4**

[1] Premium pension refers to the net of paid-in pension fees, disbursement of funds, and other management costs.

Net lending by the Debt Office

Net lending by the Debt Office to government agencies and other parties is an item on the expenditure side of the central government budget. This means that increased net lending by the Debt Office weakens the budget balance. It can also be expressed by saying that the net borrowing requirement increases.

Net lending to government agencies and other parties is not financed by appropriations and does not come under the expenditure ceiling. It consists of the change in all lending and depositing in the central government's internal bank (treasury), at the Debt Office. Net lending covers ongoing central government activities – such as student loans, deposits in the premium pension system and lending to infrastructure investments – as well as items such as on-lending to the Riksbank and other countries. These items may be decided at short notice, and they can contribute to strong variations in net lending from year to year.

Net lending by the Debt Office affects the budget balance and central government debt. On the other hand, central government net lending is only affected by certain parts of the Debt Office's net lending. For example, the disbursement of student loans, and their amortisation, affect net lending by the Debt Office but not central government net lending.

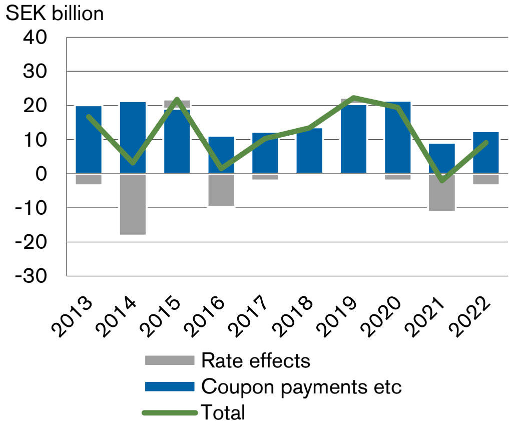
Interest payments on central government debt remain low

Interest payments on the central government debt are expected to be low during the forecast period as the gradually declining market interest rates over a long period have an impact on the stock of outstanding bonds. In the Debt Office's new forecast, interest payments amount to SEK -2.0 billion this year and SEK 9.1 billion in 2022 (see Table 5 and Figure 6).

Table 5. Interest payments on central government debt

SEK billion	2021	2022
Interest on loans in SEK	-0.4	6.7
Interest on loans in foreign currency	-0.3	-0.5
Realised currency gains and losses	-1.3	2.8
Interest payments	**-2.0**	**9.1**

Figure 6. Interest payments 2013–2022



The forecast is somewhat higher compared with the previous report, for both the current year and the next. For 2021, interest payments increase by around SEK 4 billion and in 2022 by just over SEK 3 billion. For both years, the somewhat higher interest payments are due primarily to higher exchange rate losses in connection with inflation-linked bond switches.

Between 2021 and 2022, interest payments increase by just over SEK 11 billion. The increase is due, among other things, to the Debt Office paying out inflation compensation for a maturing inflation-linked bond, as well as larger realised currency losses.

The Debt Office uses cut-off rates in calculating central government interest payments and in measuring the Riksbank's foreign currency loans. The cut-off date for this forecast is 30 April 2021.

Great uncertainty regarding deposits in tax accounts

The forecast of central government finances continues to be uncertain, not least because it is difficult to determine how long the pandemic and the ensuing economic consequences will continue. The uncertainty largely concerns the extent to which the support measures will be utilised and how long they are going to be in place, the economic development and its effects on tax income, as well as capital placements in tax accounts.

Deposits in tax accounts intended for taxes are assessed to have recently increased again. Two potential incentives for businesses and households to use tax accounts for placing funds have been the 0 per cent interest rate and the fact that is a safe alternative. Since the STIBOR rate is negative while the amount of liquidity in the payment system has increased, and is expected to increase further, it is probable that the net inflow of capital placements in tax accounts will continue. The assessment is, however, associated with considerable uncertainty and, given the size of the current stock of capital placements, relatively large deviations from the forecast could occur.

A rough estimate indicates that around SEK 80 billion of the total balance in tax accounts (see Figure 5) might be overdeposits, or placements, reflecting neither taxes nor fees. An exact amount is difficult to derive because every company and individual determines the size of their own extra tax deposits. Therefore, it becomes a matter of assessments based on the development of tax bases and the total tax account balance. When the money that is placed in tax accounts is taken out, the budget balance will decrease and the central government debt will increase.

Reduced borrowing and extended government bond curve

The upward revision of the budget balance forecast entails a decrease in the central government borrowing requirement. The Debt Office is therefore reducing both short-term funding in treasury bills and long-term bond borrowing. The issuance volume of treasury bills will decrease immediately, and the supply of nominal government bonds will be lower than previously planned as of August. Inflation-linked bond borrowing will remain at the current level, while a new inflation-linked bond maturing in 2039 is being introduced. The Debt Office also intends to issue a new 50-year nominal government bond, which will extend the government bond curve and the term to maturity of the central government debt.

The new budget forecast entails a net borrowing requirement for 2021 and 2022 that is SEK 94 billion lower than in the February forecast. The total borrowing requirement, which also includes the refinancing of maturing loans, decreases even more – by a total of SEK 136 billion compared with the previous forecast (see Figure 1). This is because the maturing volume drops next year as a result of the reduction in T-bill borrowing this year (see the specification of the borrowing requirement in Table A6 of the Appendix). Table 1 and Figure 2 show how the borrowing requirement is financed.

Table 1. Borrowing plan

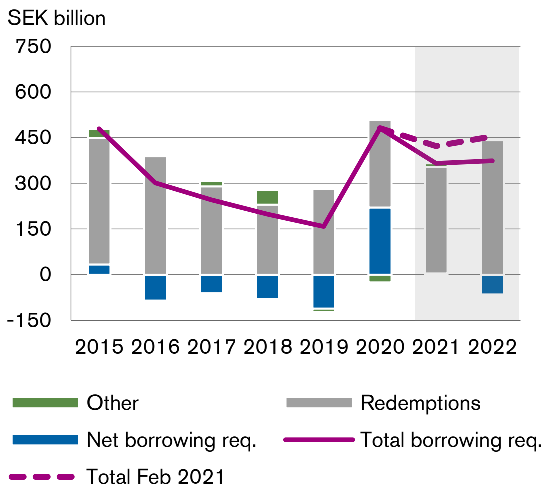
SEK billion	2020	2021		2022	
	Outcome	May	(Feb)	May	(Feb)
Money market funding	**305**	**243**	**(289)**	**266**	**(326)**
T-bills	173	138	(185)	183	(225)
Liquidity management	132	106	(104)	83	(101)
Bond funding	**176**	**122**	**(133)**	**108**	**(128)**
Nominal government bonds	100	85	(96)	70	(90)
Inflation-linked bonds	13	21	(21)	21	(21)
Green bonds	20	0	(0)	0	(0)
Foreign currency bonds	43	17	(17)	17	(17)
on behalf of the Riksbank	43	0	(0)	0	(0)
for central government	0	17	(17)	17	(17)
Total gross borrowing	**481**	**366**	**(422)**	**374**	**(454)**

Note: Borrowing in the money market corresponds to outstanding stock at year-end. Previous forecast in parentheses.

The new borrowing plan implicates a lower supply of treasury bills and nominal government bonds. First, the short-term funding in treasury bills will be reduced, followed by a reduction of borrowing in bonds. As of August, the auction volume of nominal government bonds will be lowered to SEK 3.5 billion, and two auction dates in the second half of 2021 are excluded. At the same time, an auction in June will be replaced by the sale of a new 50-year bond through syndication. The issuance volumes of inflation-linked and foreign currency bonds remain unchanged. The box on page 28 describes the Debt Office's policy for using different debt instruments and adapting the borrowing.

No new issues of green bonds are planned, which is unchanged from the February forecast. The Debt Office is working on the investor report with regard to the first green bond – issued in September 2020, and has not received any additional instructions from the Government.

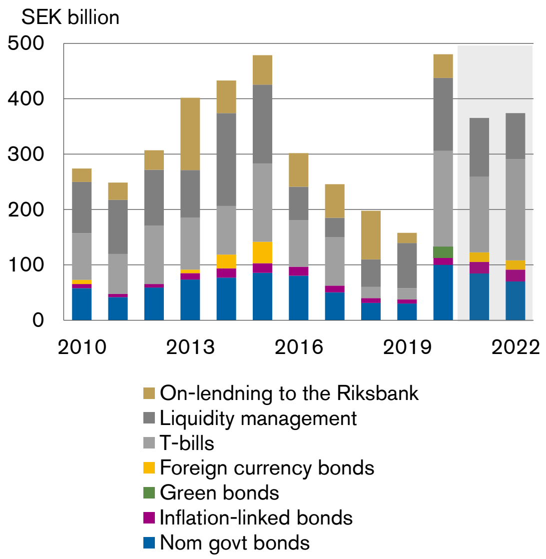
Figure 1. Gross borrowing requirement



Note: Net borrowing requirement is the budget balance with the opposite sign. "Other" includes an adjustment because the net borrowing requirement is reported by settlement date while borrowing is reported by trade date. See more detailed information in Table A6 of the Appendix.

Source: The Debt Office.

Figure 2. Annual borrowing by instrument



Note: Borrowing per calendar year. The amount of treasury bills and liquidity management refers to outstanding stock at year-end.

Source: The Debt Office.

Lower auction volume and new 50-year government bond

The issuance volume of nominal government bonds is being lowered from the current SEK 5 billion per auction to SEK 3.5 billion, starting August 2021, instead of being lowered to SEK 4.5 billion according to the previous plan. The volume will then stay at SEK 3.5 billion per auction for the remainder of the forecast period. In the second half of the year, two auctions will be cancelled – one in August and one in December. An auction in June will also be replaced by the syndication of a new 50-year bond, for which the planned volume is SEK 10 billion.

The total annual issuance volume of nominal government bonds will be SEK 85 billion in 2021 and SEK 70 billion in 2022. This can be compared with SEK 96 billion and SEK 90 billion, respectively, in the previous borrowing plan.

As for tenors, the majority of auctions in 2021 and 2022 will be held in the ten-year segment, but there is some room for issuing in other maturities, both shorter and longer (see Figure 3 for the outstanding nominal government bonds). This also applies to bonds that are not reference bonds (see the box below), so-called ”off-the-run” bonds.

The new bond maturing in 2071 is scheduled for introduction on 16 June this year, providing this is deemed suitable in terms of market conditions. After the introduction, the Debt Office intends to build up the outstanding volume gradually over time by issuing smaller volumes in auctions.

Reference bonds in the electronic interbank market

The reference bond is the bond that is closest to two, five or ten years in term to maturity. Reference bonds are changed on the IMM dates (International Money Market): the third Wednesday in March, June, September, and December.

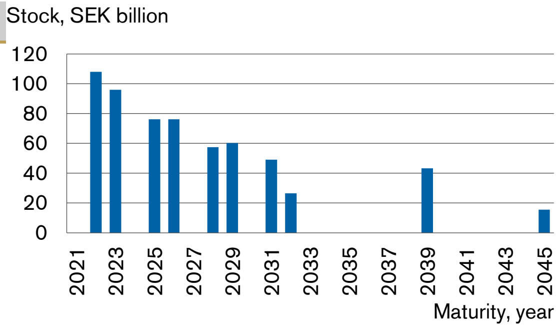
Date of change	2-year	5-year	10-year
Current	1057	1059	1062
15-Sep-21			1056

Note: The date of change of reference bonds refers to the settlement date.

Table 2. Important dates

Date	Time	Activity
16 Jun		Planned introduction of SGB 1064
5 Aug	09.30	Terms for switches to SGB IL 3115
2 Sep	11.00	Introduction of SGB IL 3115
3-7 Sep	11.00	Switches to SGB IL 3115
23 Sep	09.30	Terms for switch to SGB 1063
21 Oct	11.00	Switch to SGB 1063
27 Oct	09.30	Borrowing forecast 2021:3

Figure 3. Outstanding nominal bonds



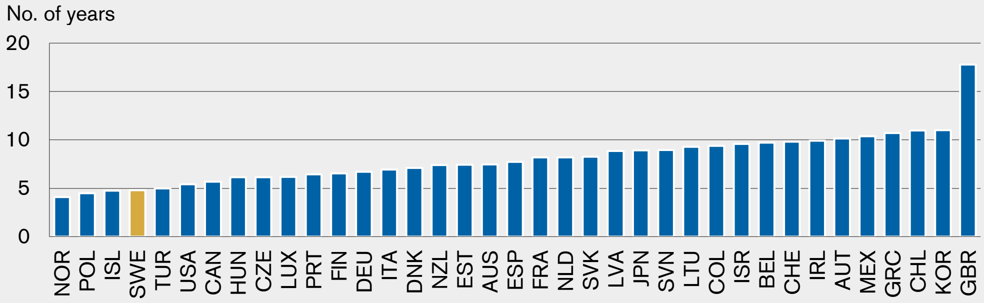
Note: Nominal government bonds on 30 April 2021.
Source: The Debt Office.

Why does Sweden issue a 50-year government bond?

The Debt Office has examined whether Sweden should issue a government bond with a very long maturity, as other countries such as Belgium and France have. The overall assessment of the examination is that such grounds exist for the Swedish state to do so as well. The Debt Office therefore intends to issue a 50-year nominal government bond. The bond is assessed to reduce risk in the government debt, at a low cost from a historical perspective.

The 50-year bond will extend the government bond curve by just over 25 years and contribute to extending the term to maturity of the central government debt somewhat, although still within the Government's steering interval. Despite the fact that the steering interval was raised gradually during 2016 to 2018, the term to maturity of Sweden's central government debt remains low from an international perspective (see figure).

Maturity of central government debt, international comparison for 2020



Note: The data for the calculations differs from country to country. For more detailed information, see Annex A1 of the OECD report.
Source: OECD, 2020 Survey on Central Government Marketable Debt and Borrowing.

The maturity interval was raised some years ago in light of a decline in term premia, meaning that the previous cost advantage of short-term borrowing, which also involves more risk, decreased.

Longer maturity implies lower risk in several respects. This is partly due to there being less redemptions to refinance as well as the fact that the debt becomes less sensitive to interest rate fluctuations, and the variation in cost is thereby less. Longer maturity also helps mitigate risk in the event of financial turbulence.

A positive additional aspect of a 50-year government bond is the value to society of having a longer risk-free interest rate, which can be used as a reference.

In contrast to these positive effects is the uncertainty as to whether or not the cost and conditions for the aggregate borrowing and continual financing of budget deficits might be adversely affected by the introduction of such a long bond. The Debt Office's overall assessment is that this uncertainty is outweighed by the advantages. Nevertheless, it implies a need for prudence.

Therefore, the Debt Office intends to introduce the bond maturing in 2071 through syndication, whereby a group of banks will execute the transaction. The planned amount of the issue by syndication is SEK 10 billion. The aim is to then build up the outstanding volume gradually by issuing smaller amounts in the regular auctions.

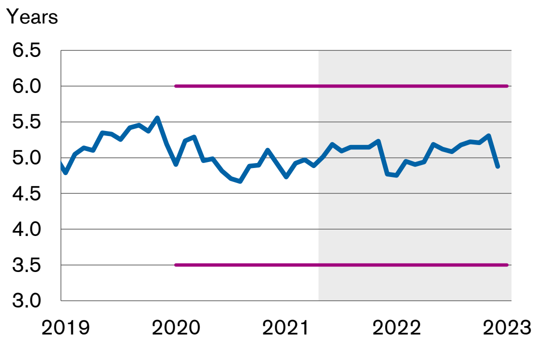
Unchanged volume of interest rate swaps

The Debt Office uses interest rate swaps to adjust the fixed interest period (duration) of the central government debt. For many years, interest rate swaps were used in order to shorten the duration with the aim of reducing the expected cost. However, after the Government decided to progressively extend the duration of the nominal krona debt, the need for swaps decreased. The Debt Office has still kept a small volume of interest rate swaps in order to retain its market presence as well as to maintain its proficiency and functioning systems.

The volume of interest rate swaps in kronor is estimated to remain at SEK 5 billion per year for now, in which the Debt Office receives fixed, and pays floating, interest. The planned range of the maturity of the swaps is two to four years.

The duration of the central government debt increases during the forecast period but remains well within the Government's steering interval, which can be seen in Figure 4. The increase is mainly due to the short-term funding decreasing at a higher rate than the long-term funding, but also due to the new 50-year bond.

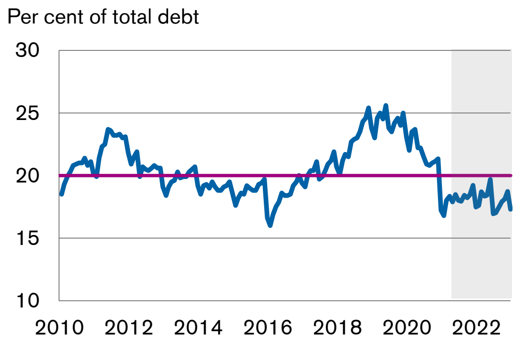
Figure 4. Duration of central government debt



Note: The measure used is the Macaulay duration. The forecast shows figures for the close of each month while the outcome shows the monthly average. The purple lines indicate the steering interval for the duration in the Government's guidelines.

Source: The Debt Office.

Figure 5. Share of inflation-linked debt



Note: The forecast shows figures for the close of each month while the outcome shows the monthly average. The purple line shows the long-term objective for the share of inflation-linked debt. The share is calculated at the nominal amount using the current exchange rate including accrued inflation compensation.

Source: The Debt Office.

Borrowing policy forms basis of issuance planning

The Debt Office maintains a borrowing policy for, among other things, which types of debt instruments are used and how priorities are made between the instruments and between different maturities.

Nominal government bonds are the most important source of funding

Nominal government bonds are the Debt Office's largest and most important funding source. These are therefore prioritised over other instruments. The Debt Office offers regular issues through auctions according to a pre-determined borrowing plan. Selling smaller volumes on many occasions reduces the risk of needing to borrow large volumes at times when market conditions are unfavourable. At the same time, investors are offered continual access to government bonds via the primary market.

An important part of the strategy for minimising borrowing costs over the long term is to act in a predictable manner and build up sufficient volume in each bond issued, in order to ensure good liquidity. Accordingly, the extent to which the Debt Office adjusts the borrowing in government bonds to short-term market conditions is limited.

The Debt Office also endeavours to maintain even redemptions, in terms of both size and time, in order to avoid excessive refinancing needs during individual years.

Inflation-linked bonds are a complement to nominal government bonds

By issuing inflation-linked bonds, the Debt Office can attract investors who want to avoid the risk of inflation eroding the value of the bonds. The inflation-linked bond issuance should be large enough to enable liquid trading, yet not so large that it crowds out nominal bonds and worsens liquidity in that market.

For inflation-linked bonds as well, the Debt Office also regularly issues by auction and strives to maintain even redemptions. In order to facilitate reinvestment at maturity, the Debt Office aims to limit the outstanding volume in each bond maturing to around SEK 20 billion.

Bonds in foreign currency contribute to good borrowing preparedness

In the international capital market, the Debt Office is able to reach a broader group of investors and borrow large amounts in a short span of time. There are therefore reasons for issuing bonds in foreign currency even when the borrowing requirement is small in order to maintain the preparedness to borrow large amounts if necessary. The Debt Office also issues securities with shorter maturity in foreign currency.

Because the Debt Office is a small player in the international capital market, as opposed to the Swedish krona market, there are greater opportunities in the international arena to be flexible and adapt the borrowing according to prevailing market conditions.

Treasury bills are used to ward off fluctuations in the borrowing requirement

Using T-bills, the Debt Office can borrow in short maturities in the Swedish krona market. Treasury bills are issued regularly through auctions and can also be sold through tap issues within the liquidity management operations. In the planned borrowing, T-bills are used primarily to balance fluctuations in the borrowing requirement. This helps to maintain the stability of government bond borrowing.

Unchanged inflation-linked funding and new maturity added

The issuance volume of inflation-linked bonds was raised from SEK 1 billion to SEK 1.25 billion per auction since the beginning of this year, and it remains at that level during the forecast period. This corresponds to a rate of just over SEK 21 billion per year for 2021 and 2022. The purpose of maintaining the issuance volume is to steer the share of inflation-linked debt towards the long-term target of 20 per cent of the central government debt (see Figure 5).

The outstanding inflation-linked bonds have reached relatively large volumes in relation to their term to maturity. The Debt Office has therefore probed interest in introducing an additional maturity, which resulted in the decision to introduce a new inflation-linked bond maturing 1 June 2039. By increasing the number of outstanding bonds, the Debt Office can avoid individual loans becoming excessively large.

The Debt Office plans to introduce the new inflation-linked bond in an initial auction in September followed by switch auctions. The plan also includes a new pending ten-year inflation-linked bond to be issued in a corresponding manner in 2022.

Revised terms for continual switches of inflation-linked bonds

Starting 1 June 2021, the Debt Office will return to a lower volume for continual switches of inflation-linked bonds. The volume is being reduced from the current SEK 500 million to SEK 250 million per week and primary dealer. By limiting the switch volume, the Debt Office aims to control the size of the outstanding loans over the long term as well as the maturity profile of the stock of inflation-linked bonds.

Facility for switches and buybacks of 3108 has been terminated

In March, the Debt Office offered switch auctions for bond 3108 against longer inflation-linked bonds before the remaining maturity fell below one year. After the auctions, and as announced in the *Central Government Borrowing* report in February, the Debt Office ceased to offer continual switches and buybacks of 3108. The Debt Office may reintroduce the buybacks if deemed necessary, although not until once the CPI for March 2022 is published.

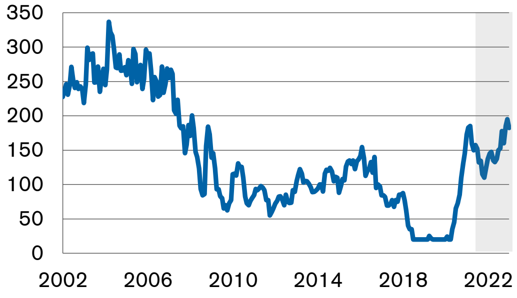
Stock of treasury bills falls after large increase in 2020

The Debt Office expects the stock of treasury bills to decrease from SEK 173 billion at the end of 2020, to SEK 138 billion this year, as opposed to increasing to SEK 185 billion according to the previous plan. Next year, the stock is expected to end up at SEK 183 billion, which entails a reduction of just over SEK 40 billion compared with the previous forecast (see Figure 6).

The T-bill issues are planned on the basis of the maturity policy described in the box on the next page, and future auction volumes will vary within the range of SEK 5-20 billion. In the previous plan, this range was SEK 7.5–20 billion. The Debt Office plans the volumes of individual auctions on the basis of seasonal patterns and may then adjust them further as necessary prior to each auction.

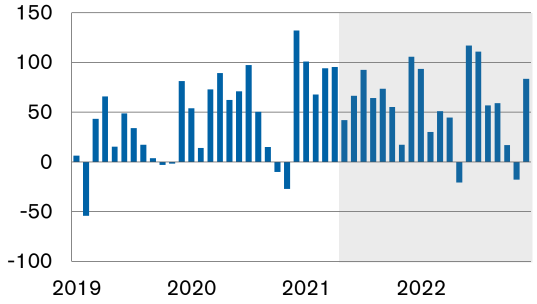
The borrowing requirement that remains after the regular issues of treasury bills and bonds will be handled by the Debt Office within its liquidity management operations, by issuing T-bills continually (tap issues) or commercial paper in foreign currency. The volume of liquidity management instruments contained in the plan is adjusted continually as the budget balance and the regular borrowing develop. This enables good flexibility for managing uncertainty from a short-term perspective. Figure 7 shows the outcome and forecast for the liquidity management.

Figure 6. Stock of T-bills



Source: The Debt Office.

Figure 7. Liquidity management



Note: Nominal amount including assets under management. Positive amounts indicate a borrowing requirement, negative amounts indicate a cash surplus.

Source: The Debt Office.

Current maturity policy for treasury bills

Starting June 2020, the Debt Office increased the number of outstanding maturities in treasury bills to meet the growing borrowing requirement. The change implied an increase in the number of outstanding treasury bills from four to six, of which the longest maturity is up to twelve months.

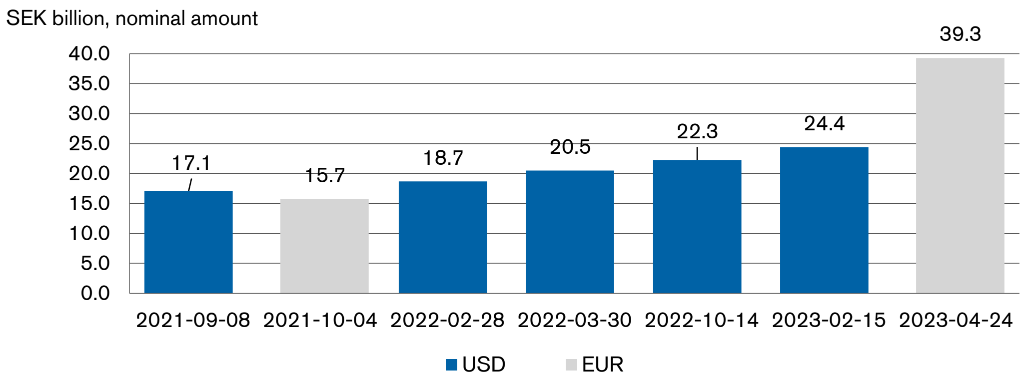
The policy involves the Debt Office every three months issuing a new 12-month T-bill maturing on an IMM date (the third Wednesday in March, June, September and December). In the other months, a new three-month bill is introduced.

The Debt Office also issues treasury bills on a discretionary basis (tap issues) within the liquidity management operations. This applies to T-bills with the two shortest maturities and with tailored maturities (liquidity bills).

Foreign currency bonds on own behalf instead of for Riksbank

In recent years, the Debt Office has issued bonds in foreign currency solely to finance the Riksbank's foreign exchange reserves. In January 2021, the Riksbank decided to begin financing the foreign exchange reserves on its own and thus repay the loans to the Debt Office as they mature. The Debt Office therefore no longer issues foreign currency bonds for on-lending to the Riksbank on a continual basis. Nevertheless, the Debt Office is always prepared to borrow in foreign currency on behalf of the Riksbank, should the need arise.

Figure 8. Maturing loans, on-lending to the Riksbank



Note: Nominal amount, original exchange rate. The loan maturing on Oct. 4 2021 is in commercial paper, other bonds.
Source: The Debt Office.

In order to maintain a presence in the international capital market when the borrowing on behalf of the Riksbank ceases, as stated in the previous *Central Government Borrowing* report, the Debt Office will begin issuing a certain volume of bonds in foreign currency on its own behalf. The plan still contains an issuance volume corresponding to SEK 17 billion for 2021 as well as 2022. The Debt Office's assessment is that is important for the sake of preparedness to issue foreign currency bonds with some regularity (see the box on page 28).

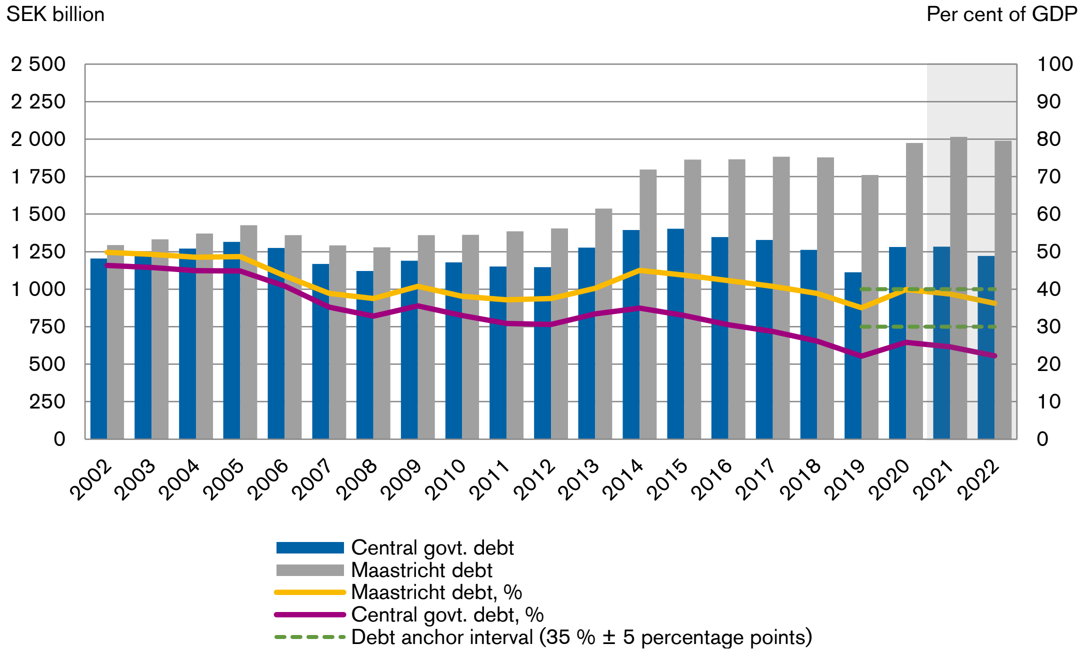
It is worth noting that the borrowing in foreign currency does not involve an increase in the currency exposure of the central government debt, because the Debt Office manages this with derivatives.

Central government debt as share of GDP shifts downward

The central government debt was SEK 1,280 billion at the end of 2020, corresponding to 26 per cent of GDP. The debt is expected to amount to SEK 1,283 billion this year, before decreasing to SEK 1,221 billion in 2022. This corresponds to 25 per cent and 22 per cent, respectively, of GDP (see Figure 9 and Table 3).

The Maastricht debt is expected to decrease from 40 per cent of GDP at the end of 2020 to 39 per cent in 2021, and 36 per cent in 2022. The Maastricht measure includes the consolidated debt for the entire public sector and is used in international comparisons (see box on page 33). It is also this measure on which the debt anchor of 35 per cent of GDP (±5 percentage units) in the fiscal policy framework is based.

Figure 9. Central government debt – development over time



Sources: The Debt Office and Statistics Sweden.

Table 3. From net borrowing requirement to central government debt

SEK billion	**2018**	**2019**	**2020**	**2021**	**2022**
Net borrowing requirement	-80	-112	221	4	-65
Business day adjustment etc.[1]	37	-15	-25	9	0
Net borrowing per business day	**-43**	**-127**	**196**	**12**	**-65**
A. Net amount including money market assets	**1 160**	**1 033**	**1 229**	**1 242**	**1 176**
Inflation compensation	28	26	18	21	21
Exchange rate effects	26	26	-4	0	4
B. Net amount to current exchange rate incl. inflation compensation	**1 215**	**1 085**	**1 243**	**1 263**	**1 201**
Assets under management	47	28	38	20	20
C. Central government debt	**1 262**	**1 113**	**1 280**	**1 283**	**1 221**
Assets under management	-47	-28	-38	-20	-20
On-lending	-259	-193	-174	-121	-66
D. Central gov. debt incl. on-lending and assets under management	**956**	**893**	**1 069**	**1 142**	**1 135**
Nominal GDP	4 828	5 025	4 951	5 204	5 492
C. Central government debt, % of GDP	**26**	**22**	**26**	**25**	**22**
D. Central gov. debt incl. on-lending and assets under management, % of GDP	**20**	**18**	**22**	**22**	**21**

[1]A difference occurs as borrowing is reported by trade date and the net borrowing requirement by settlement date.

Different measures of government debt in statistics

There are different ways of measuring government debt. The Debt Office reports the *central government unconsolidated debt*. This measure shows the central government gross debt and includes all loans raised by the Debt Office on behalf of the central government, irrespective of who owns the claims on the state. The debt is reported at its nominal terminal value according to the principles applied in the EU.

Some government agencies own government bonds and treasury bills. This kind of intragovernmental ownership is deducted in the *central government consolidated debt*. That measure provides an overall picture of the financial position of the central government and is used in the Government's Budget Bill and the annual report for the central government. The central government consolidated debt is calculated by the Swedish National Financial Management Authority (ESV).

One debt measure often used in international comparisons is *general government consolidated gross debt*, also called the *Maastricht debt*. This debt is larger than the central government debt as it covers the whole of the public sector, including local and regional governments and the pension system. Its calculation is based on conditions in the Maastricht Treaty. According to the EU's debt criterion, the Maastricht debt must not exceed 60 per cent of GDP.

The Maastricht debt is also the measure used in Sweden's budgetary framework and which forms the basis of the debt anchor of 35 per cent that the Riksdag (Parliament) decided will be in force as of 2019. The general government consolidated gross debt is published by Statistics Sweden.

Appendix

Key figure tables

Table A1. Central government net lending

SEK billion	2018	2019	2020	2021	2022
Budget balance	80	112	-221	-4	65
Delimitations	4	-50	28	-62	-75
Sale of limited companies	2	0	0	0	0
Extraordinary dividends	0	0	0	0	0
Parts of Debt Office's net lending	6	-67	31	-48	-57
Other	-3	17	-3	-14	-18
Accruals	-19	7	26	-38	-22
Taxes	-20	0	17	-29	-21
Interest payments etc.	1	7	9	-9	-1
Central government net lending	66	69	-167	-103	-31
Per cent of GDP	**1.4**	**1.4**	**-3.4**	**-2.0**	**-0.6**

Table A2. Budget balance forecast per month

SEK billion	Primary balance	Net lending	Interest on government debt	Budget balance
May-21	41.9	-3.2	-1.7	36.9
Jun-21	-35.9	4.9	-4.3	-35.3
Jul-21	-11.1	4.4	0.7	-6.3
Aug-21	17.2	3.4	0.7	21.3
Sep-21	-5.0	18.4	0.9	14.2
Oct-21	-16.7	17.6	1.4	2.3
Nov-21	14.4	3.1	-1.6	15.9
Dec-21	-57.4	-43.6	1.1	-99.9
Jan-22	-3.0	1.7	1.3	0.0
Feb-22	47.2	21.3	1.5	70.0
Mar-22	-14.8	33.6	-1.6	17.2
Apr-22	-13.1	2.2	0.4	-10.5

Table A3. Budget balance changes between years, effect on budget balance

SEK billion	2018	2019	2020	2021	2021
Budget balance, level	**80**	**112**	**-221**	**-4**	**65**
Change from previous year	18	32	-333	217	69
Primary balance	**29**	**-33**	**-238**	**121**	**70**
Income from taxes	66	-8	-86	174	67
Grants to local governments	-5	-9	-37	4	5
Labour market	-1	7	-8	-6	2
Social insurance	-14	-5	-7	4	0
Migration and international aid	14	11	9	-3	-2
Sales of state-owned assets	2	-2	0	0	0
State share dividends	6	0	4	-1	4
EU contribution	-9	0	-11	0	3
Other	-31	-28	-103	-51	-9
Debt Office's net lending excl. on-lending	**-1**	**-5**	**-23**	**11**	**6**
On-lending	**-7**	**78**	**-73**	**63**	**5**
Interest on government debt	**-3**	**-8**	**2**	**21**	**-11**

Table A4. Budget balance forecast comparison, SEK billion

SEK billion	Budget balance	Sale of state assets	Adjusted budget balance
Debt Office (May 27)			
2021	-4	0	-4
2022	65	0	-65
Government (Apr 15)			
2021	-140	5	-145
2022	77	5	72
NIER (Mar 31)			
2021	10	0	10
2022	91	0	91
ESV (Mar 25)			
2021	-64	0	-64
2022	118	0	118

Table A5. State share dividends

SEK billion	2021	2022
Akademiska hus AB	2.1	2.2
LKAB	5.9	7.9
Telia Company AB	3.2	3.3
Vattenfall AB	4.0	5.0
Sveaskog AB	0.9	1.0
Other companies	1.5	1.8
Total	**17.6**	**21.2**

Table A6. Gross borrowing requirement

SEK billion	2018	2019	2020	2021	2022
Net borrowing requirement	**-80**	**-112**	**221**	**4**	**-65**
Business day adjustment etc.[1]	**37**	**-15**	**-25**	**9**	**0**
Retail borrowing & collateral, net[2]	**12**	**4**	**-2**	**4**	**-2**
Money market redemptions[3]	**122**	**70**	**101**	**305**	**243**
T-bills	88	20	20	173	138
Liquidity management	35	50	81	132	106
Bond redemptions, net switches and buy-backs	**107**	**211**	**185**	**44**	**198**
Nominal government bonds	5	99	96	0	112
Inflation-linked bonds	1	25	19	3	25
Foreign currency bonds[4]	101	87	70	41	61
Total gross borrowing requirement	**198**	**158**	**481**	**366**	**374**

[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. Liquidity management is net, including assets under management. Commercial paper is included in Liquidity management.

[4] Calculated with the original issuance exchange rate.

Table A7. Net borrowing

SEK billion	2018	2019	2020	2021	2022
Net borrowing requirement	-80	-112	221	4	-65
Business day adjustment[1]	37	-15	-25	9	0
Net borrowing	**-43**	**-127**	**196**	**12**	**-65**
Retail funding & collateral, net	**-12**	**-4**	**2**	**-4**	**2**
Net money market funding	**-52**	**31**	**203**	**-62**	**23**
T-bills	-68	0	153	-35	45
Commercial paper	-4	0	31	-31	0
Liquidity management	20	31	19	5	-22
Net bond market funding	**21**	**-154**	**-9**	**78**	**-90**
Nominal government bonds	27	-69	4	84	-42
Inflation-linked bonds	7	-17	-6	18	-3
Green bonds	0	0	20	0	0
Foreign currency bonds	-13	-68	-27	-24	-45
Total net borrowing	**-43**	**-127**	**196**	**12**	**-65**

[1] A difference occurs as borrowing is reported by business date while net borrowing requirement is reported by settlement date.

Market information

Nominal government bonds, auction dates

Announcement date	Auction date	Settlement date
26-May-21	02-Jun-21	04-Jun-21
27-May-21	16-Jun-21**	23-Jun-21
18-Aug-21	25-Aug-21	27-Aug-21
01-Sep-21	08-Sep-21	10-Sep-21
15-Sep-21	22-Sep-21	24-Sep-21
29-Sep-21	06-Oct-21	08-Oct-21
13-Oct-21	20-Oct-21	22-Oct-21
23-Sep-21	21-Oct-21*	25-Oct-21
10-Nov-21	17-Nov-21	19-Nov-21
24-Nov-21	01-Dec-21	03-Dec-21

*Exchange auction **Syndication

Nominal gov. bonds, outstanding volume

Maturity date	Coupon %	Bond no.	SEK Million
01-Jun-22	3.50	1054	108 131
13-Nov-23	1.50	1057	95 885
12-May-25	2.50	1058	76 126
12-Nov-26	1.00	1059	76 164
12-May-28	0.75	1060	57 513
12-Nov-29	0.75	1061	60 339
12-May-31	0.13	1062	49 140
01-Jun-32	2.25	1056	26 500
30-Mar-39	3.50	1053	43 213
24-Nov-45	0.50	1063	15 472
Total nominal government bonds			**608 483**

Note: Outstanding volume on 30 April 2021

Inflation-linked bonds, auction dates

Announcement date	Auction date	Settlement date
03-Jun-21	10-Jun-21	14-Jun-21
12-Aug-21	19-Aug-21	23-Aug-21
26-Aug-21	02-Sep-21	06-Sep-21
05-Aug-21	03-Sep-21*	07-Sep-21
05-Aug-21	06-Sep-21*	08-Sep-21
05-Aug-21	07-Sep-21*	09-Sep-21
09-Sep-21	16-Sep-21	20-Sep-21
23-Sep-21	30-Sep-21	04-Oct-21
07-Oct-21	14-Oct-21	18-Oct-21
21-Oct-21	28-Oct-21	01-Nov-21
04-Nov-21	11-Nov-21	15-Nov-21
18-Nov-21	25-Nov-21	29-Nov-21

*Exchange auction

Inflation-linked bonds, outstanding volume

Maturity date	Coupon %	Bond no.	SEK Million
01-Jun-22	0.25	3108	22 495
01-Jun-25	1.00	3109	33 312
01-Jun-26	0.125	3112	29 525
01-Dec-27	0.125	3113	21 449
01-Dec-28	3,50	3103	1
01-Dec-28	3.50	3104	27 086
01-Jun-30	0.125	3114	13 543
01-Jun-32	0.125	3111	21 011
Total inflation-linked bonds			**168 422**

Note: Outstanding volume on 30 April 2021

Treasury bills, auction dates

Announcement date	Auction date	Settlement date
02-Jun-21	09-Jun-21	11-Jun-21
16-Jun-21	23-Jun-21	28-Jun-21
30-Jun-21	07-Jul-21	09-Jul-21
28-Jul-21	04-Aug-21	06-Aug-21
11-Aug-21	18-Aug-21	20-Aug-21
25-Aug-21	01-Sep-21	03-Sep-21
08-Sep-21	15-Sep-21	17-Sep-21
22-Sep-21	29-Sep-21	01-Oct-21
06-Oct-21	13-Oct-21	15-Oct-21
20-Oct-21	27-Oct-21	29-Oct-21
03-Nov-21	10-Nov-21	12-Nov-21
17-Nov-21	24-Nov-21	26-Nov-21
01-Dec-21	08-Dec-21	10-Dec-21
15-Dec-21	22-Dec-21	27-Dec-21
28-Dec-21	04-Jan-22	07-Jan-22

Treasury bills, outstanding volume

Maturity date	SEK Million
19-May-21	17 500
16-Jun-21	35 262
21-Jul-21	27 500
15-Sep-21	34 424
15-Dec-21	22 500
16-Mar-22	12 500
Total T-bills	**149 686**

Note: Outstanding volume on 30 April 2021

Rating

Rating company	Krona debt	Foreign currency debt
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA
Fitch	AAA	AAA

Primary dealers

Primary dealer	Government bonds	Inflation-linked bonds	T-bills	Telephone no.
Barclays	•			+44 203 555 1907
Danske Markets	•	•	•	+46 8 568 808 44
Handelsbanken Markets	•	•	•	+46 8 463 46 50
NatWest Markets	•			+44 207 805 0363
Nordea Markets	•	•	•	+45 3333 1609
				+46 8 614 91 07
SEB	•	•	•	+46 8 506 231 51
Swedbank	•	•	•	+46 8 700 99 00

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Next rapport

The preliminary publishing date for *Central Government Borrowing – Forecast and Analysis 2021:3* is 27 October 2021.

The Swedish National Debt Office works to ensure that central government finances are managed effectively and the financial system is stable. The Debt Office thus plays an important role in the Swedish economy as well as in the financial market.

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