RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

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Central government borrowing

Forecast and analysis 2023:3

Reg.no RG 2023/151

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 taking account of 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 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 2023:3, the Debt Office presents forecasts for central government finances and borrowing for 2023–2025. 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 the borrowing plan, which is discussed in the last section of the report. The report takes into account developments up to 11 October 2023.

Karolina Ekholm
Debt Office Director General

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Summary

The central government budget balance has continued to develop more strongly than expected and is now approaching a surplus for this year too. But then two years of deficits will follow, according to the Debt Office's new forecast. We are therefore proceeding with the planned increase in bond issuance. Central government debt will grow in the next two years but stay largely unchanged as a share of GDP.

The Debt Office has responded to the budget balance's continued strong development since the May forecast by lowering the volume of treasury bills and other short-term borrowing. We are also postponing this year's planned foreign currency bond issue until next year. We will nevertheless proceed as planned in increasing the auction volume of nominal bonds from SEK 2.5 billion to SEK 3 billion as of January 2024, to meet the growing budget deficit and redemptions.

The shift next year from a budget surplus to a deficit is the result of a distinct increase in spending, due to factors such as initiatives in the Budget Bill and the high inflation. At the same time, income from taxes remains weak, partly as a result of the economic downturn. For 2025, the budget deficit is slightly larger than for 2024. Although tax income grows at a fairly good pace then, this does not fully compensate for the rising expenditure.

The development of the budget balance – which with the opposite sign becomes the net borrowing requirement – affects the size of the central government debt. The new forecast entails an increase of just over SEK 100 billion in the coming two years, although the debt remains essentially unchanged as a percentage of GDP. The debt of the public sector as a whole stays in the lower part of the range for the fiscal policy framework's debt anchor, which is 35 per cent ± 5 percentage points.

The Debt Office's forecast does not contain a capital contribution to the Riksbank, as we did not have sufficient information regarding the amount or timing upon completing this forecast. Such a capital contribution would decrease the central government budget balance and increase the debt by the corresponding amount.

Table 1 Central government borrowing – key figures

SEK billion

	2023	2024	2025
Nominal government bonds	45 (45)	60 (60)	60 (–)
Inflation-linked bonds	9 (9)	9 (9)	9 (–)
T-bills, stock at year-end	128 (135)	128 (148)	158 (–)
Foreign currency bonds	0 (21)	22 (0)	22 (–)

Note: Previous forecast in parentheses.

Table 2 Central government finances – key figures

	2023	2024	2025
Budget balance (SEK billion)	31 (-15)	-49 (-51)	-60 (–)
Central govt. debt (SEK billion)	1,030 (1,081)	1,088 (1,130)	1,141
Central govt. debt (% of GDP)	16 (18)	17 (18)	17 (–)
General govt. debt (% of GDP)	31 (31)	32 (32)	32 (–)

Note: Previous forecast in parentheses.

Table 3 Swedish economy – key figures

	2023	2024	2025
GDP growth (annual rate in %)	-0.8 (-0.7)	0.2 (1.3)	2.0 (–)
Unemployment (% of labour force)	7.6 (7.7)	8.3 (8.3)	8.2 (–)
CPIF inflation (annual rate in %)	5.9 (6.0)	2.5 (1.6)	1.8 (–)

Note: Previous forecast in parentheses.

Slowdown in Swedish economy

Sweden’s economy shrinks this year, and it appears as though it will be some time before it recovers. This has an impact on the resilient labour market, where unemployment has started to rise. The revisions of the macro picture adversely affect the central government budget balance next year.

The Swedish economy is weighed down mainly by higher interest rates and continued price increases dampening household consumption and investment in housing. The international economic trend is also weak, which hinders Swedish export. Inflation does fall back, although at a slower rate than the Debt Office expected in the previous forecast from May. The downturn in the economy has now also started to have an impact on the strong labour market.

Compared with the assessment in May, growth prospects for next year in particular are gloomier, driven by household consumption and investment. In combination with slower payroll growth than in our last forecast, the revisions of the macro picture have an overall neutral effect on the budget balance this year and a negative effect next year.

Growth diminishes in US and euro area

The euro area economy is deteriorating, among other things as a result of developments in Germany. Growth in the US has been surprisingly strong in the first half of the year. The economic slowdown in the euro area, and eventually also in the US, continues as the contractionary monetary policy dampens demand even further.

The two major central banks – the Federal Reserve (FED) and the European Central Bank (ECB) – initiated policy rate hikes in 2022 as a response to the rising inflation. They are most likely finished with or are at least now in the final stage of their rate increases. Inflation has continued to fall from high levels but remains above the central banks’ target levels. There is concern among market participants that inflation will not fall low and rapidly enough. The consequence could be that policy rates stay at current levels longer, which is a reason for the recent increase in mainly US government bonds with long maturities.

Since the Debt Office’s previous forecast, the US economy has surprised on the upside. Household consumption and investment, excluding housing, has been somewhat stronger than expected. The labour market also remains strong, despite having slowed down to some extent. In the euro area, growth has been slightly positive in the first six months of the year. Countries that have a large service sector have managed somewhat better than those with a large manufacturing industry such as Germany. The labour market in the euro area also remains strong.

Economic indicators such as purchasing managers' indices point to a downturn in the economy recently, mainly in the euro area. The manufacturing industry is progressing slightly, but activity in the service sector has also tapered off. Consumer purchasing power is gradually being affected by interest rate increases, rising prices, and the fact that wages are not going up accordingly. Growth in Europe is low in the short term, then increases a little in 2024 as demand picks up (see Table 4). In 2025, growth in the euro area is slightly above the historical average. Growth in the US is lower in 2024 and becomes somewhat stronger in 2025 but still remains below the historical average. The higher level of interest rates will dampen growth in the US as well.

Table 4 International forecasts

Percentage change

GDP	2022	2023	2024	2025
Euro area	3.4 (3.5)	0.5 (0.4)	0.8 (1.0)	1.7
US	2.1 (2.1)	2.1 (1.1)	1.1 (0.7)	1.6

Note: The forecasts for the euro area and US are from the National Institute of Economic Research (NIER). The Debt Office's previous forecast is in parentheses.

Sources: NIER and the Debt Office

Slowdown in Swedish economy

Growth is weak both this year and the next. Altogether, Swedish GDP falls by 0.8 per cent this year, rises slightly in 2024, and increases at a moderate rate in 2025. The dip in growth is expected to be more protracted than in the previous forecast (see Table 5).

In the last year, the economic progression in Sweden has been weaker than in the euro area and the US. Households have decreased consumption at the same time as investment in housing has fallen sharply. In addition, export in the second quarter was weak. Weak consumption and declining housing investment continue to suppress growth ahead. Inflation is on the decline but the annual average is high this year too. Moreover, the rapidly tightening monetary policy is dampening demand.

The National Institute of Economic Research's (NIER) Economic Tendency Survey points to a delayed recovery. The tentative upswings in several sectors in the spring have been reversed, and the Economic Tendency Indicator has deteriorated from the levels in the previous Central Government Borrowing Report. All sectors except the manufacturing industry consider the mood to be lower or much lower than usual. The labour market held up well to reduced production in the first six months of the year but in recent months has shown signs of deteriorating. Employment falls in the second half of the year and next year as unemployment rises.

Table 5 GDP and its components in constant prices, forecast

Percentage change

	2022	2023	2024	2025
GDP	2.8 (2.6)	-0.8 (-0.7)	0.2 (1.3)	2.0
Household consumption	1.9 (2.1)	-2.1 (-1.2)	0.7 (1.2)	2.0
General govt. consumption	0.0 (0.0)	1.9 (1.3)	1.5 (1.5)	1.0
Gross fixed cap. formation	6.2 (5.2)	-2.7 (-4.5)	-2.5 (-0.1)	3.3
Changes in inventories[1]	1.0 (1.0)	-0.4 (-0.3)	0.0 (0.2)	0.1
Exports	7.0 (6.6)	1.8 (2.0)	2.0 (2.8)	3.9
Imports	9.3 (8.7)	0.3 (0.0)	1.7 (2.7)	4.3
Net exports[1]	-0.8 (-0.6)	0.8 (1.0)	0.2 (0.2)	0.2
GDP (calendar-adjusted)	2.8 (2.7)	-0.6 (-0.5)	0.2 (1.3)	2.3

Note: [1] Contribution to GDP growth, percentage points. Previous forecast in parentheses.

Sources: Statistics Sweden and the Debt Office

Lower investment weakens next year’s budget balance

The budget balance, described in the next chapter, affects the various components of GDP in current prices. Household consumption and investment (gross fixed capital formation) are most important for the central government’s income from taxes, because they affect VAT and excise duties. Altogether, the revisions to household consumption and investment have an overall neutral effect on the budget balance this year and contribute to a weaker balance next year. Above all, investment is revised down in 2024 (see Table 6).

Table 6 GDP and its components in current prices, forecast

Percentage change

	2022	2023	2024	2025
GDP	8.9 (8.5)	4.5 (3.8)	2.5 (2.9)	3.0
Household consumption	8.9 (9.5)	4.3 (4.5)	3.2 (2.8)	3.8
General govt. consumption	5.9 (5.4)	9.5 (6.9)	3.9 (4.4)	4.1
Gross fixed cap. formation	15.5 (14.5)	1.9 (-2.3)	-2.3 (-0.8)	4.5
Changes in inventories[1]	1.2 (1.1)	-0.8 (-0.2)	0.4 (0.2)	-0.9
Exports	23.8 (23.3)	7.1 (3.8)	2.1 (-0.1)	3.1
Imports	30.1 (30.1)	6.5 (2.4)	1.7 (1.2)	3.3
Goods imports	26.3 (34.4)	4.7 (2.0)	-2.3 (-1.9)	4.3

Note: [1] Contribution to GDP growth, percentage points. Previous forecast in parentheses.

Sources: Statistics Sweden, NIER, and the Debt Office

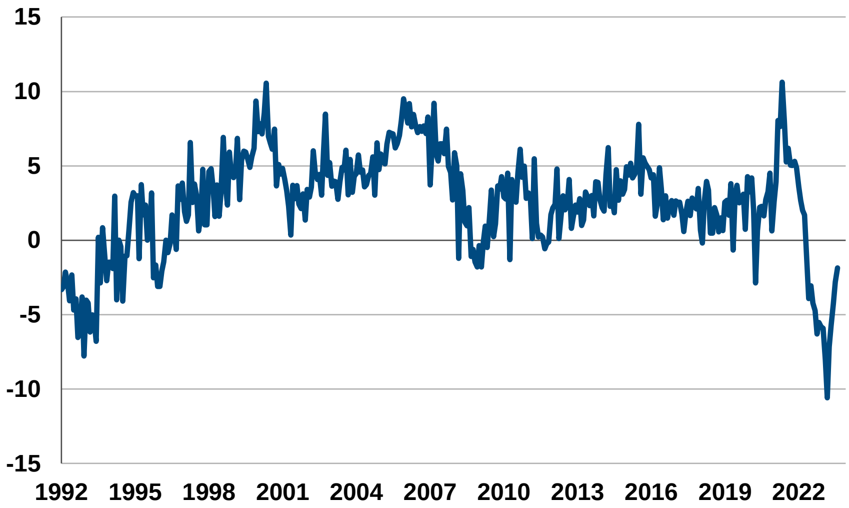
Households reduce consumption volume

Retail sales have fallen sharply (see Figure 1) and households have now reduced consumption in volume for four consecutive years, for the first time since the crisis of the 1990s. Rapidly rising prices and growing interest expenses have eroded purchasing power, so far causing consumption to fall by just over 3 per cent since the peak. The decrease has at the same time been mitigated because unemployment has not gone up and households are saving less.

Consumption remains weak in the coming quarters. Consumer confidence exceeds the low levels of last autumn but has deteriorated once again in recent months. At the same time, reduced taxes and increased transfer payments to households mean that the decrease in households' real disposable income is milder than that for real wages. Altogether, real wages fall by double digits in 2022 and 2023. The fact that real disposable income falls more than consumption this year means that households must use additional savings.

Figure 1 Retail sales in volume

Annual percentage change



Source: Statistics Sweden

The drop in consumption this year is sharp, historically speaking. One explanation is that the combination of high indebtedness and short fixed-interest periods makes households more sensitive to interest rates than in previous periods of contractionary monetary policy. As interest rates rise, the room for other consumption decreases.

It is mainly the consumption of goods that has fallen to date. Looking ahead, service consumption is decreasing, which leads to lower household consumption this year. Next year, purchasing power improves again as wages rise faster than prices. There is then also a slight recovery in consumption. Compared with the previous assessment, however, the price level is higher in 2024, which contributes to a lower volume of consumption. Measured in current prices, household consumption has been revised up slightly as a whole over 2023 and 2024.

Sharp decrease in housing investment

Rising construction and financing costs have led to a sharp drop in housing investment, having affected both production costs and housing prices. The number of newly started construction projects fell by 70 per cent at an annual rate in the second quarter. Historical connections between the number of newly started construction projects and investment in housing indicate that housing investment will continue to decrease next year.

Service providers' investments have also gone down. Indicators also show that service companies have a pessimistic future outlook. This contributes to total investment decreasing this year and the next. At the same time, high capacity utilisation, increased defence initiatives, and investment in new energy production indicate that the decrease in investment will be moderate, historically speaking.

Investment in current prices affects the budget balance among other things through construction VAT. This year, the drop in investment volume is counteracted by rapidly rising prices, and investment in current prices grows. Next year, however, investment falls in current prices as well. In 2025, investment in current prices grows close to historical averages.

Weak export

Export has been weak in the most recent quarters. Demand in Sweden's most important export markets has been somewhat lower since our last forecast, at the same time as indicators show continued weak order intake. Export will be slightly weaker this year and next year compared with our most recent forecast. In the near term, many Swedish export companies can benefit from defence initiatives in Europe as well as investment in the areas of climate and energy.

Measured in current prices, export increased last year at the fastest rate in 50 years, driven by rapidly rising export prices. We see a distinct dampening ahead, but compared with the previous forecast the value of export has been revised up, which has a bearing on corporate tax.

Inflation shifts down relatively fast

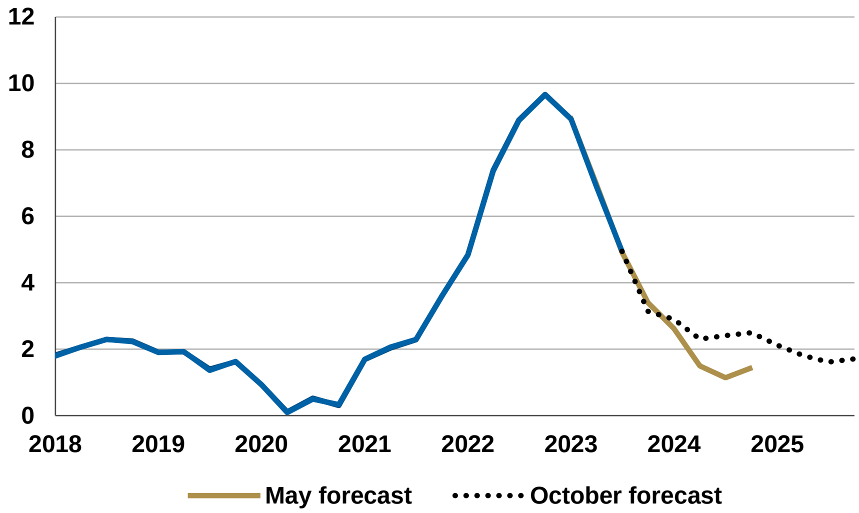
The high inflation continues to abate. In September of this year, the annual rate of CPIF inflation was 4.0 per cent, which can be compared with the peak in December last year when the annual rate exceeded 10 per cent. Most factors point towards a continued decrease in inflation. Last year's upswing in energy prices now falls out of the comparative figures and has a very large negative effect in the coming six months. In addition, the futures market indicates that electricity prices will be low this winter.

At the end of the year, we expect CPIF inflation to approach 2 per cent (see Figure 2). Besides energy, other drivers of the upswing have also tapered off or have started to move in the opposite direction, such as global freight-, agriculture- and food prices. The rate of increase in Swedish producer prices, which in recent years has closely correlated with that of consumer prices, has gone down. This is offset by the Swedish krona sharply deteriorating both against the euro and the US dollar in recent years. The weakening of the krona has meant that price increases for imported goods and services have not receded to the same extent as for domestic goods and services. The weak krona is the most important reason for CPIF inflation not falling further when the high comparative figures cease to boost the figures in 2024.

Core inflation has also gone down slower than expected, and changes in price calculated over shorter periods show that prices are still going up relatively fast at the retail level. This affects the inflationary dynamics and points to a more protracted course of events ahead. Compared with the May forecast, CPIF inflation has been revised up by close to one percentage point for 2024. Measured as an annual average, CPIF inflation will be 5.9 per cent for this year, 2.5 per cent next year, and 1.8 per cent in 2025, according to our forecast. A high price level thereby continues to weigh on households and results in lower consumption volumes next year.

Figure 2 CPIF inflation abates

Annual percentage change



Sources: Statistics Sweden and the Debt Office

Strength of labour market wanes

The Swedish labour market has been strong since the recovery from the pandemic and has not weakened on a level with the economy. Forward-looking indicators have long pointed to the labour market deteriorating, and there are now signs of this materialising. At the same time, the economic development continues to slow down, which leads to the strength of the labour market diminishing in periods ahead. Payroll growth will also be periodically lower than the historical average. In 2024, payroll grows slightly slower than in the assessment from May, driven by a downward revision of the number of hours worked (see Table 7).

Table 7 Labour market and wages

Percentage change

	2022	2023	2024	2025
Unemployment[1]	7.5 (7.5)	7.6 (7.7)	8.3 (8.3)	8.2
Employment	2.7 (2.7)	1.5 (1.1)	-0.4 (-0.2)	0.5
Labour force	1.2 (1.2)	1.6 (1.4)	0.3 (0.4)	0.4
Payroll	6.4 (6.4)	5.0 (4.8)	3.5 (3.8)	4.3
Hourly wage, NA	3.9 (3.9)	3.1 (3.8)	3.9 (3.9)	3.5
Hours worked[2]	2.3 (2.4)	1.8 (1.0)	-0.3 (-0.1)	0.7

Note: [1] Per cent of the labour force. [2] Calendar-adjusted values. Previous forecast in parentheses. The table contains outcomes up to and incl. Q2 2023.

Sources: Statistics Sweden, NIER, and the Debt Office

Pandemic's repercussions subside

The labour market has been strong, viewed from a historical perspective, but particularly so compared with recent economic trend. The recovery from the pandemic was rapid and powerful. Many employers failed to recruit fast enough to meet the increased demand. The lack of skilled employees was unprecedently greater and an impediment to growth. This experience appears to have led many companies to retain staff to a greater extent than in previous economic downturns in order to be prepared for when the economy shifts upwards again. In addition, wage increases have been moderate for some time as inflation has been very high. This has caused the price of labour to go down in relation to other input goods and increased the scope for recruiting and retaining staff.

Forward-looking indicators continue to show a worse outlook, from a strong initial position. Even though they point to a more gloomy situation in the labour market ahead, the level is clearly higher than it is for indicators for demand, for instance. Accordingly, they point to a relatively mild deterioration of the labour market. Plans for employment according to the Economic Tendency Survey have continued to decrease since the previous forecast and are now at levels indicating that companies overall have unaltered workforces in the near future. There is, however a great deal of variation by industry. The service industry is currently the sole contributor to employment plans not being negative on the whole. Employer's perceptions of a shortage of labour have also begun to move towards more normal levels. The number of notices of layoff has recently risen from low figures to levels near historical averages. In September, the number of layoff notices rose distinctly. Although far from all layoff notices materialise in actual unemployment, this indicates that there will likely be a slight increase in the number of unemployed.

Employment decreases next year

Employment continued to increase in the first six months of the year, and the employment rate was record high in the second quarter. There have since been signs of a weakened labour market with reduced employment. The decrease has been particularly large among foreign-born individuals, which are the group that has also accounted for large parts of the previous sharp upturns. On average, those born outside of Sweden have a weaker position in the labour market, and therefore its deterioration is usually first seen within this group. The decrease among people who work part time has also been particularly large – and, typically, part-time employees are the first to lose their jobs in difficult periods.

The slowdown in the economy means that employment will continue to decrease for the rest of the year and also during 2024. As economic activity increases again, employment will begin to go up moderately in 2025 (see Table 7).

And unemployment rises

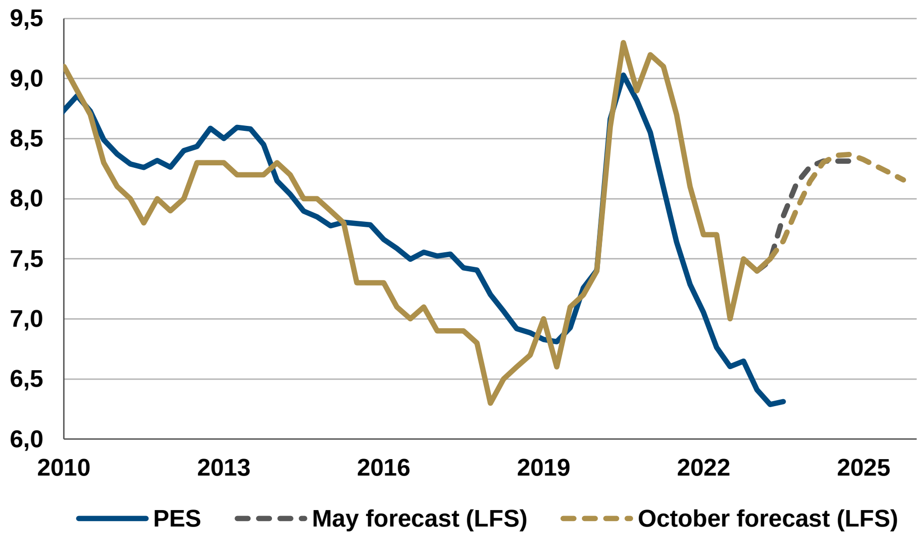
Unemployment rises in the coming year. At the end of the forecast, it will decrease at a slow pace but will not be able to return to current levels within that time.

Despite the year starting off with rising employment, unemployment according to the Statistics Sweden's Labour Force Survey (LFS) has not decreased but instead stayed at an even level in the first six months. Since then, unemployment has begun to increase. According to the Swedish Public Employment Service's measure, unemployment continued to decrease in the first half of the year, to then start to go up in the third quarter. As late as June, unemployment according to the Swedish Public Employment Service was at the lowest since the beginning of 2009, underscoring that the increase is occurring from low levels.

The trend of rising unemployment will continue for the rest of the year and 2024, to then start to slowly decrease in 2025 as growth in GDP and employment pick up (see Figure 3).

Figure 3 Unemployment

Per cent of labour force, 16-65 years and 15-74 years, respectively



Note: Quarterly and seasonally adjusted data. LFS is the Labour Force Survey and PES is the Swedish Public Employment Service. Outcomes up to and incl.Q2 for the LFS and Q3 for the Swedish Public Employment Service.
Sources: The Swedish Public Employment Service, the Debt Office, and Statistics Sweden

Slower payroll growth

Payroll (the gross wage sum) grows slower since the high levels during the period of recovery from the pandemic. What determines the increase is the change in the number of hours worked and the average hourly wage. The number of hours worked increased sharply during the recovery period following the pandemic, and payroll increased accordingly. In 2023, the number of hours worked grew at a lower rate and hence did payroll as well.

Hourly wages rise in the forecast, which has a positive effect on payroll growth. In the spring, the collective-bargaining parties from the industries entered into new wage agreements that apply for two years, and the negotiated pace of wage increases is normative for large parts of wage formation in the Swedish labour market. New wage agreements entered into force in the second quarter and have now boosted the average hourly wage according to the National Mediation Office's short-term wage statistics by around 4 per cent annually, instead of just under 3 per cent previously.

The growth rate for the number of hours worked has been revised down since the last forecast and decrease in 2024. That means that payroll will grow slightly slower than previously assessed and just below the historical average. This occurs despite hourly wages increasing more than they have for quite some time. Lower payroll results in lower tax income and affects the central government budget balance negatively. In 2025, payroll will begin to grow slightly faster as the number of hours worked increases again (see Table 7).

Facts

Hourly wages in payroll

For payroll growth, it is the trend for hourly wages in the National Accounts that is of significance. This adheres closely to the hourly wage trend according to the National Mediation Office's short-term wage statistics but can deviate from it in individual years. One year in which it deviates is 2023, but in subsequent years the Debt Office assumes that hourly wages according to the two measures will increase at the same pace.

Predominantly downside risks

Our assessment is that there are predominantly downside risks in regard to the economic progression. Historically speaking, the world's central banks have raised interest rates rapidly in recent years, which has yet to reach its full effect on the real economy. One risk is of us underestimating the delayed effects of the higher interest rates on the economy, including in Sweden. If this is the case, the economy may deteriorate further and unemployment may rise. Swedish households have reduced their saving substantially since 2021. The lower savings buffer could entail a bigger drop in consumption further ahead, which is a downside risk in the forecast. Swedish households' sensitivity to interest rate fluctuations is high, which could also mean that we underestimate the impact of the interest rate changes. There is a further risk of underestimating the effect of falling housing prices.

Geopolitical tensions are high and risk affecting the world economy more than we can currently foresee, for example through international trade or higher commodity prices. China's economy is difficult to assess, but it is clear that there are risks associated with the real estate sector, which constitutes a significant portion of the country's economy. The fact that consumer prices are falling also indicates that demand is weak. Given its size, an abrupt slowdown in the Chinese economy could dampen the entire global economy.

That demand is low over a longer period may entail predominately downside risks in regard to inflation, both in Sweden and internationally. If inflation gets lower, this could lead to stronger consumption ahead as purchasing power increases.

Despite weak growth for some time now, the labour market has held up surprisingly well. An upside risk in the forecast is of the labour market continuing to develop more strongly than expected.

Deficit in 2024 and 2025

The Debt Office’s new forecast shows that 2023 will be a year of a budget surplus for the central government, before the budget balance shifts to a deficit in the coming two years. The reversal occurs in 2024 when there is a distinct increase in expenditures while tax income still grows more slowly. Compared with the previous forecast, we have revised up the budget balance, mainly for this year.

In recent months, the budget balance outcomes have been higher than in the Debt Office’s forecast from May. This is mainly because of higher tax income and lower net lending by the Debt Office, among other things due to lower disbursements of electricity price support. Accordingly, we now expect a central government budget surplus for 2023 instead of a deficit (see Table 8).

For 2024, we expect the budget balance to be largely unchanged from the previous forecast (see Figure 4). The proposals in the Budget Bill for 2024 entail increased expenditure but also slightly lower tax income. The Debt Office nevertheless expects tax income to increase compared with the previous forecast, mainly because of high supplementary payments. Incoming payments from the EU’s Recovery and Resilience Facility that we expect are to occur in 2024 instead of this year also improve the balance.

Table 8 Central government budget balance, forecast for 2023, 2024, and 2025

SEK billion

Central government budget balance	2022	2023		2024		2025
	Outcome	Oct	*(May)*	Oct	*(May)*	Oct
Primary balance[1]	78	53	*(23)*	-21	*(-31)*	-21
Debt Office net lending[2, 3]	112	9	*(-11)*	-5	*(2)*	-8
Interest on central government debt[3]	-27	-31	*(-27)*	-23	*(-22)*	-31
Budget balance[4]	**164**	**31**	***(-15)***	**-49**	***(-51)***	**-60**
Central government net lending	25	21	*(-29)*	-74	*(-37)*	-28

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

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

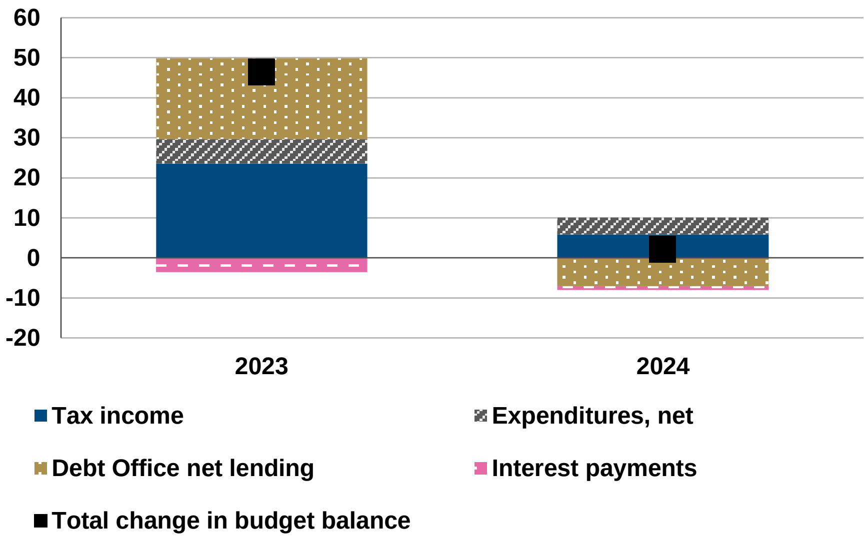
[3] The table shows Debt Office net lending and the interest on central government debt in terms of how they affect the budget balance. The signs are therefore the opposite of those shown in Tables 10 and 11.

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

Sources: The Debt Office and Statistics Sweden

Figure 4 Forecast changes, budget balance

SEK billion



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

Source: The Debt Office

Budget balance decreases between years

The budget balance will be lower this year than in 2022 and amounts to SEK 31 billion. From then on, the surplus shifts to a deficit in the coming two years (see Figure 5).

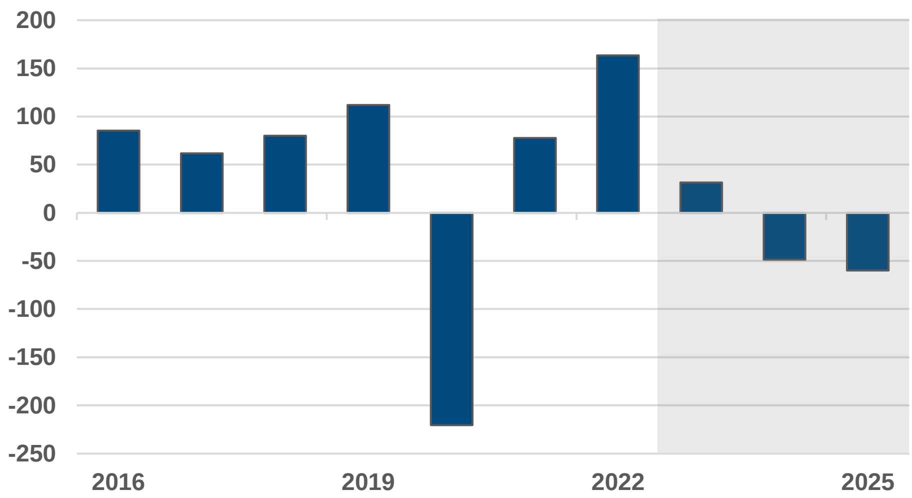
One important explanation for the lower budget balance is that last year's inflow of congestion revenue to Svenska kraftnät's account at the Debt Office reverses to an outflow because of disbursements of electricity price support this year. The budget balance for both 2022 and 2023 is affected positively by the Riksbank's repayments to the central government of foreign currency loans. The decrease next year is due to a distinct rise in spending, as a result of among other things higher expenditure in the Budget Bill and the high inflation. At the same time, the development for tax income continues to be weak.

For 2025, the budget balance is even slightly lower and amounts to SEK -60 billion. Growth in income from taxes does resume a fairly good pace then as the economy starts to recover. But at the same time, defence expenditure, continues to rise and interest payments on central government debt increases. The Debt Office has also assumed new unfunded reforms for SEK 25 billion in total for 2025, which contributes to the deficit.

The Debt Office's forecast does not contain a capital contribution to the Riksbank, as we did not have sufficient information regarding the amount or timing upon completing this forecast. Such a capital contribution would decrease the central government budget balance. Read more about a capital contribution to the Riksbank in our report *Central Government Borrowing, Forecast and Analysis 2023:2*.

Figure 5 Forecast changes, budget balance

SEK billion



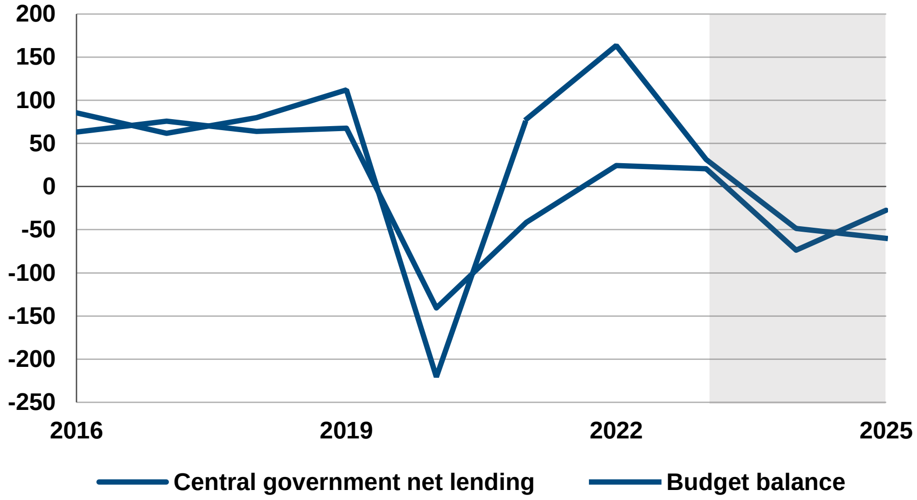
Source: The Debt Office

Central government net lending shifts to deficit

Central government net lending shows a surplus of SEK 21 billion this year, to then shift to a deficit of SEK 74 billion next year and SEK 28 billion in 2025 (see Table 8). As a share of GDP, the forecasts for net lending correspond to 0.3 percent, -1.2 percent, and -0.4 per cent.

Figure 6 Central government net lending and budget balance

SEK billion



Sources: Statistics Sweden and the Debt Office

Central government net lending normally develops more evenly than the budget balance. In recent years, major differences between the budget balance and the net lending have been due to, among other things, the loans that the Riksbank has repaid to the central government. These improve the budget balance but not central government net lending. Variations in Svenska kraftnät's deposits at the Debt Office have also had a major effect. In 2025, interest accrual effects contribute to making the net lending stronger than the budget balance.

Tax income revised up

The central government's income from taxes has progressed strongly since the pandemic. This year and in 2024, the development for tax income has been weak for several reasons. Important factors accounting for this are the weaker economic growth, higher final settlements of previous years' municipal and regional income taxes, and lower capital gains. Income from taxes increases at a faster pace in 2025 when the economy starts to recover and the final settlement does not dampen the development to the same extent. A higher interest rate level also causes the central government's tax income to be lower when interest deductions increase, but there are also counteracting effects since this involves income from yield tax, for example.

Compared with the previous forecast, the Debt Office has revised up tax income for 2023 and 2024. This is mainly due to a stronger development for income from supplementary tax than in the May forecast (see Table 9).

Table 9 Income from taxes, change from previous forecast

SEK billion

Type of tax	2023	2024
Payroll tax	1	-20
Consumption tax	-6	-8
Corporate tax	6	6
Supplementary tax	22	28
Total change	**24**	**6**

Note: Supplementary tax consists mainly of deposits in, and withdrawals from, tax accounts, in connection with, among other things, tax debits. The table shows changes in terms of the budget balance.

Source: The Debt Office

Lower payroll and consumption tax but higher corporate tax

Payroll tax has developed strongly since 2021 but is now going down. A strong contributing factor is higher final settlements of previous years' municipal and regional income taxes. Payroll tax is lower for 2024 compared with the May forecast. This is due to measures in the Budget Bill such as the Swedish earned income tax credit but also that we have made a new assessment. The rate of payroll growth (which is described in the previous chapter) is slightly lower for next year, which dampens the preliminary income tax and employer's contributions (which are included in payroll tax) to some extent.

The growth for consumption tax is weak in both 2023 and 2024, which is due to dampened household consumption and reduced tax on gasoline and diesel. Taxes increase at a faster pace in 2025 since household consumption picks up. Consumption tax is lower in both 2023 and 2024, compared with the May forecast. Income from VAT is weighed down by a downward revision of investment. In addition, for 2024, the Budget Bill contains reductions of around SEK 6 billion to excise duties, primarily lower tax on gasoline and diesel.

For next year we assess that corporate tax will be approximately unchanged from this year, to then start to grow again when the economy recovers in 2025. Tax income from businesses increases both this year and the next, compared with the previous forecast. The outcomes of preliminary incoming payments of tax have been somewhat higher than estimated, and the preliminary taxation outcome for 2022 indicates slightly higher profits for companies. We therefore expect a higher profit level in 2023 too. The increase in the total income from corporate tax next year, compared with the previous forecast, is due to higher yield tax.

Strong outcomes lift income from supplementary tax

Supplementary tax mainly consists of the net of incoming and outgoing payments from tax accounts. This concerns both the flows that arise as a result of deficits and surpluses in connection with tax assessment, but it can also pertain to capital placements in tax accounts, for instance.

Income from supplementary tax has developed strongly since 2021. In the forecast period, the income is lower as a result of lower capital gains and higher interest deductions. Compared with our May forecast, supplementary tax is higher since the outcomes have been stronger.

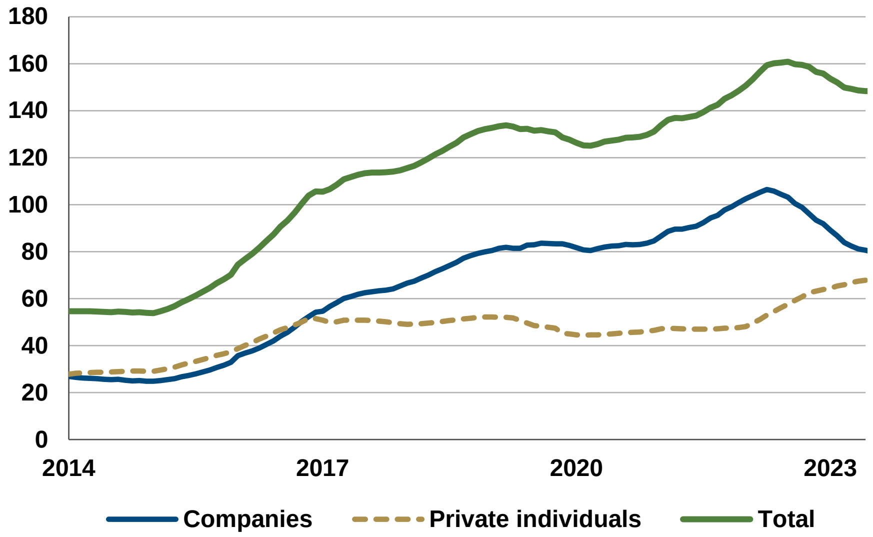
Private individuals increase their capital placements in tax accounts

In the Debt Office’s assessment, private individuals will increase their capital placements in tax accounts during the forecast period, which partly counteracts the fact that companies are continuing to reduce their capital placements this year. The Debt Office’s previous assessment of an outflow of altogether SEK 15 billion this year still stands. Next year and in 2025, we expect a net inflow of approximately SEK 5 billion per year. This contributes to higher income from supplementary tax.

The development for tax account balances, which we use as an indicator of the scale of capital placements, continues to show a different trend for companies than for private individuals, even though the levels are thought to have levelled out over the year (see Figure 7). According to ESV (the Swedish National Financial Management Authority), which produces an estimate of the scale of the capital placements, companies reduced their placements last year by SEK 20 billion, at the same time as private individuals increased their placements by SEK 10 billion.

Figure 7 Total balance, tax accounts

SEK billion, twelve-month moving average



Note: The total balance consists, in simplified terms, of deposits in order to cover forthcoming tax debits, as well as capital placements. It is not possible to determine how much of the balance consists of capital placements. ESV’s assessment is that capital placements altogether amounted to SEK 66 billion at the end of 2022, of which SEK 51 billion was attributed to companies. Twelve-month moving average.

Sources: The Swedish Tax Agency and the Debt Office

The Debt Office considers tax accounts to remain a competitive placement alternative mostly for private individuals, but also for many smaller businesses. Large corporations, especially financial institutions, have access to more competitive alternatives in the market, for example as deposits in banks or via treasury bills and commercial paper. The return on these placements is generally higher than it is with tax accounts. For smaller businesses and for private individuals, the alternative to tax accounts is mainly bank accounts with deposit rates. These interest rates have risen more slowly than both market rates and the interest income on tax accounts.

In the Debt Office's assessment, companies will reduce their capital placements this year by SEK 20 billion, at the same time as private individuals increase their capital placements by SEK 5 billion. Next year and in 2025, private individuals increase their capital placements by a further approximately SEK 5 billion per year, whereas the level of placements by companies remains unchanged.

Distinct increase in primary expenditure

The central government's primary expenditure decreases slightly this year, mainly as a result of the phased-out pandemic aid and a transfer from CSN's (the Swedish Board of Student Finance) credit reserve (see our report *Central Government Borrowing – Forecast and Analysis 2023:2*). Expenditure then increases distinctly in 2024 and 2025. This is due to increased spending and announcements in the Budget Bill as well as our assumption of unfunded measures in 2025 (see the following in-depth section Assumptions regarding fiscal policy).

Fact

Primary expenditure

Primary expenditure is the central government's expenditure that is not interest or net lending by the Debt Office. It is intended to show the underlying expenditure trend. In the Debt Office's primary expenditure, certain types of income are deducted. This is income that is not from taxes, dividends, or the sale of government assets. EU grants are an example of a type of income that is deducted.

The fact that the expenditure increases so much in 2024 is largely due to increased appropriations for defence. These have doubled in just a few years and already reach approximately SEK 100 billion in 2024. However, higher prices and wages increase expenditure for all agencies and spending for social insurance increases as a result of a high price base amount. Education spending also increases in periods ahead, as unemployment rises and more unemployed people will choose to study. On the other hand, several types of expenditure decrease or develop weakly. This pertains to, among other things, the climate bonus abolished in autumn 2022, for which the expenditure does not cease until 2024. In addition, the EU fee decreases because of an updated EU budget. Expenditure related to migration remains at a low level and labour market spending increases slightly despite rising unemployment.

In 2025, the expenditure increases as a result of higher appropriations for defence and a higher EU fee. In addition, the payments from the EU Recovery and Resilience Facility decrease, and the Debt Office assumes unfunded fiscal policy for SEK 25 billion in addition to the announcements in the Budget Bill.

Compared with the previous forecast, the Debt Office has revised down the central government's primary expenditure by SEK 3 billion for 2023 and SEK 7 billion for 2024. The outcomes of the disbursements have been lower than forecast this year, and we have therefore reduced the forecast for primary expenditure in 2023. This is compensated for, although not entirely, this year by the fact that we have changed the forecast for when payments from the EU Recovery and Resilience Facility to the Swedish state can be expected to occur. A large incoming payment thought to occur this year is now expected to be disbursed from the fund next year instead. Next year, we have revised up expenditure as a result of the Budget Bill. Government grants and education spending have been raised compared with the previous forecast. That is counteracted by the higher incoming payment from the EU, which we believe will amount to SEK 31 billion, a lower EU fee, and lower labour market spending.

In-depth

Assumptions regarding fiscal policy

The fiscal policy in our forecast is based on proposals in the Budget Bill for 2024. In addition, the Debt Office has taken into account the measures that the Government announced for 2025. Moreover, the Debt Office assumes unfunded fiscal policy measures for 2025, which affect the budget balance negatively by SEK 25 billion.

The Budget Bill for 2024 contains unfunded measures for almost SEK 40 billion. Just over SEK 30 billion of the measures entail increased expenditure whereas the tax proposals altogether lower tax income by around SEK 6 billion. On the expenditure side, the single largest measure is the increased government grant to municipalities and regions. Other large measures are proposed within areas such as climate and energy and the legal system, as well as compensation to people born in 1957 due to the raised age level for the right to utilise the increased basic deduction. Among the proposals for changed taxes are a new employment tax credit and reduced tax on gasoline and diesel. At the same time, the Government proposes pausing the upward adjustment of the threshold for the state income tax, which entails higher income from taxes.

Beyond what the Government announced for 2025, the Debt Office assumes additional unfunded measures of SEK 25 billion for 2025. Technically speaking, the measures are entered as expenditures, by they should not be interpreted as a forecast of how they will be distributed by the Riksdag or as the Debt Office's view of how they should be distributed.

Debt Office's net lending strengthens budget balance this year

The Debt Office's net lending to agencies and other parties has a slightly positive contribution to the budget balance in 2023 and a slightly negative one in 2024 and 2025 (see Table 10). The forecast for net lending has been revised down for 2023 and up for 2024 compared with the May forecast.

In recent years, net lending has contributed strongly to the budget balance. This has mainly been due to two temporary factors. The first is the loans raised by the Debt Office on behalf of the Riksbank for financing the foreign currency reserve being paid back, which has caused net lending to decrease to the corresponding extent. In total, the repayment of the loans strengthens the budget balance by SEK 182 billion for 2021–2023. Next year, the loans will have been repaid and the Debt Office's net lending will thereby become positive again, weighing on the budget balance. The other explanation is that Svenska kraftnät's deposits at the Debt Office have been unusually high as a result of the large influx of revenue from congestion rent.

This year's net lending by the Debt Office has a slightly positive contribution to the budget balance. Mainly three factors affect the net lending in 2023. The Riksbank's repayment of loans in connection with the foreign currency reserve reduce the Debt Office's net lending to the Riksbank by SEK 62 billion and strengthens the budget balance. This effect is counteracted by a decrease in Svenska kraftnät's deposits at the Debt Office. That is due to the public enterprise's congestion revenue being used to finance disbursements of electricity price support to households and businesses. Deposits at the Debt Office are also affected by CSN's transition to a new model for calculating the interest on student loans, which took place in the beginning of 2023. This change of model entails that CSN's credit reserve was depleted in March and that the authority's deposits at the Debt Office decrease by SEK 10 billion this year.

In the latter part of the forecast period, the Debt Office's net lending increases at a slow pace. The Debt Office's lending to CSN increases from 2024 as CSN increases its disbursements of student loans. At the same time, the Debt Office's deposits from agencies decreases. This is due to the inflow of congestion revenue to Svenska kraftnät normalising. At the same time, higher interest rates are expected to lead to higher disbursements in the premium pension system, thereby resulting in decreased deposits from the system.

Compared with the May forecast, net lending by the Debt Office decreases by SEK 20 billion this year and increases by SEK 7 billion next year (see Table 8). The revisions are mainly due to outcomes and new assessments connected to disbursements of electricity price support for businesses and households. In the

May forecast, the Debt Office estimated that disbursements of this compensation would reach SEK 58 billion during 2023. We now instead assess that these disbursements will amount to SEK 45 billion in 2023, as disbursements of, and applications for, electricity price support have been lower than in the May forecast.

For a description of how net lending affects central government finances, see the Facts section “Debt Office net lending – a special expenditure item”.

Table 10 Debt Office’s net lending

SEK billion

	2022	2023	2024	2025
Lending, of which	-47	-40	24	26
CSN (Swedish Board of Student Finance)	10	12	16	17
Swedish Transport Administration	6	3	1	1
Lending to outside the government[1]	-8	0	0	0
On-lending to the Riksbank	-61	-62	0	0
Other[2]	6	6	8	8
Deposits, of which	66	-31	20	17
CSN, credit reserve etc.	1	-10	2	3
Resolution reserve	4	6	6	6
Premium pension, net[3]	6	2	-1	0
Deposits from outside the government[4]	0	0	1	1
Other[2]	55	-28	12	7
Net lending	-112	-9	5	8
Net lending excluding on-lending to the Riksbank	-51	52	5	8

[1] Lending to outside the government refers to lending in SEK to actors outside the realm of government agencies, such as state-owned companies.

[2] Lending and deposits to Svenska kraftnät is included in the "Other" category.

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

[4] Deposits from outside the government refers to deposits from actors outside the realm of government agencies, such as the EU account. Source: The Debt Office

Source: The Debt Office

Facts

Debt Office net lending – a special expenditure item

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. This 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.

Higher interest payments

Since the previous forecast, market interest rates have risen and the krona has deteriorated. This means that the outcome of the central government's interest payments this year have so far been higher than expected, but also that the payments are slightly higher in the new forecast than they were in the previous one. The Debt Office now expects interest payments to amount to SEK 31 billion this year, SEK 23 billion next year, and SEK 31 billion in 2025 (see Table 11).

This entails an upward revision of SEK 5 billion for the current year and next year. The higher interest payments this year are mainly due to increased currency losses on the Debt Office's foreign currency exposure.

Table 11 Interest on central government debt

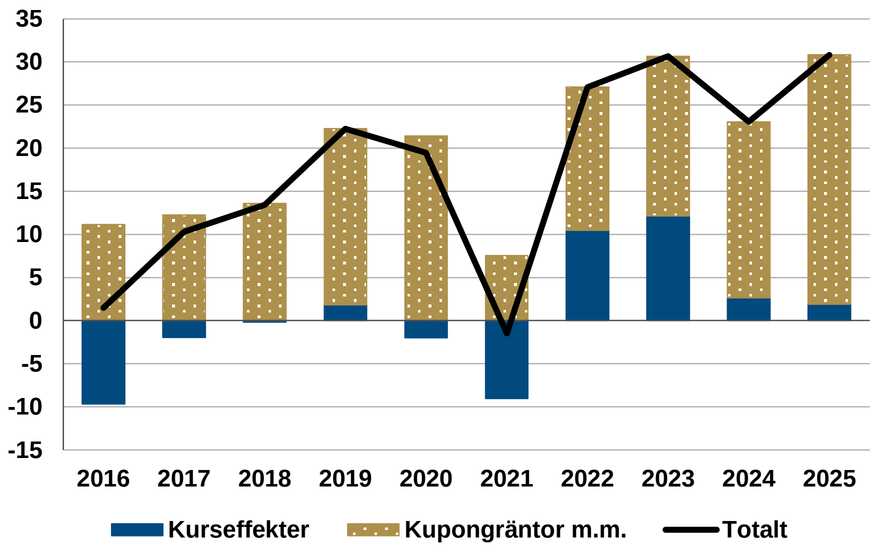
SEK billion

	2023	2024	2025
Interest on loans in SEK	21	21	30
Interest on loans in foreign currency	2	2	1
Realised currency gains and losses	8	0	0
Interest on government debt	**31**	**25**	**31**

Source: The Debt Office

Figure 8 Interest payments 2016–2025

SEK billion



Source: The Debt Office

The interest payments decrease by approximately SEK 8 billion between 2023 and 2024 (see Figure 8). Mainly, this is due to the Debt Office's assumption of lower exchange rate effects for 2024. That is because the Debt Office's foreign currency exposure has largely had a maturity of up to one year. The increase in interest payments between 2024 and 2025 is due to the Debt Office paying out inflation compensation for an inflation-linked bond that is maturing. In 2024, no inflation-linked bonds are maturing and the corresponding effect then does not occur.

The Debt Office uses implicit forward interest rates in calculating the central government's interest payments. The calculation was made using the yield curves on 29 September 2023. For the calculation of exchange rate effects, we use cut-off rates.

Uncertain inflation effects

The uncertainty regarding economic developments is of great significance to the progression of the budget balance. Normally, it is income from taxes that is affected the most by the state of the economy, whereas expenditure develops more evenly. However, the spike in prices that has occurred in a short time indicates that the trend in periods ahead could deviate from historical patterns.

Higher prices and wages cause the central government's expenditure to increase. For large parts of government expenditure, there is a delay before an increase occurs, for instance because it takes time until various agreements are renegotiated. Simultaneously, it may be the case that some of the major initiatives occurring in the short term within areas such as defence and the legal system will not fully materialise in time and that the spending will thereby be lower.

The budget balance is also affected by large payments of a temporary nature. Such temporary factors pertaining to this forecast are primarily the influx of congestion revenue to Svenska kraftnät, capital placements in tax accounts, and a potential capital contribution to the Riksbank. All these could have a major impact on the budget balance, the extent of which remains very uncertain.

Plan for increased bond supply remains intact

Since the previous forecast, the Debt Office has managed the stronger budget balance outcome by reducing the short-term borrowing. We are also moving this year's planned foreign currency bond issue to 2024. Nevertheless, we remain committed to raising the issuance volume of nominal government bonds at the turn of the year, to meet forthcoming borrowing requirements. Until the end of 2025, the central government debt will increase as measured in nominal terms – but not as a share of GDP.

The new forecast for the budget balance entails that the central government net borrowing requirement will be altogether SEK 48 billion lower in 2023 and 2024, compared with the previous forecast. This is mostly due to a stronger-than-expected outcome since the May forecast. For 2025, the Debt Office expects the net borrowing requirement – which is the budget balance with the opposite sign – to increase slightly compared with 2024.

We expect the total borrowing requirement, which also includes the refinancing of maturing loans, to be SEK 288 billion for 2023, SEK 284 billion for 2024, and SEK 372 billion for 2025. Figure 9 shows the trend for the total borrowing requirement and its components, both between years and in comparison, with the previous forecast. Tables 12 and figure 9 show how the borrowing requirement is financed.

Table 12 Borrowing plan

SEK billion

	2022	2023		2024		2025
Money market funding	**154**	**235**	**(259)**	**193**	**(237)**	**281**
T-bills	65	128	(135)	128	(148)	158
Liquidity management	89	108	(124)	66	(90)	124
Bond funding	**55**	**53**	**(74)**	**90**	**(69)**	**90**
Nominal government bonds	46	45	(45)	60	(60)	60
Inflation-linked bonds	9	9	(9)	9	(9)	9
Foreign currency bonds	0	0	(21)	22	(0)	22
Total gross borrowing	**209**	**288**	**(333)**	**284**	**(306)**	**372**

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

Source: The Debt Office

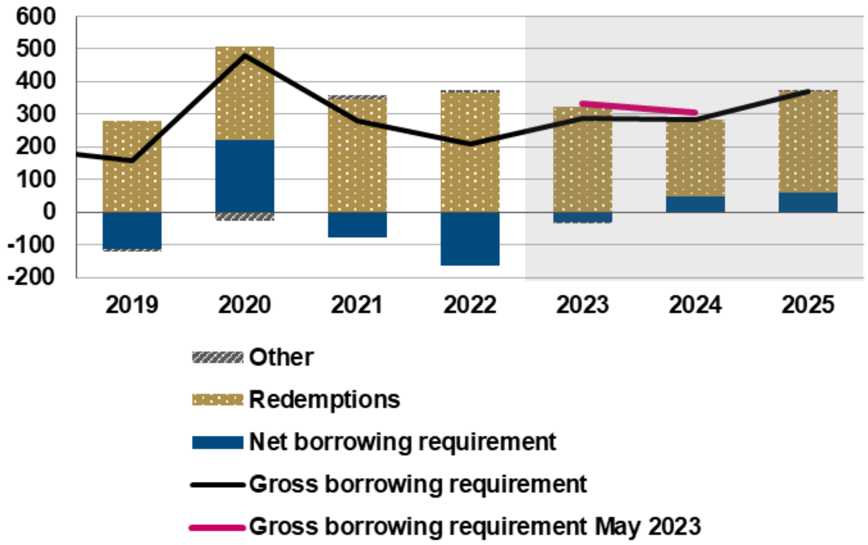
The change in the net borrowing requirement forecast for 2023 and 2024 entails a decreased volume of treasury bills and other short-term borrowing instruments compared with the previous plan. However, we plan to continue to raise the issuance volume of nominal government bonds as of the turn of this year. The plan for inflation-linked bonds is also unchanged. The proportion of short-term borrowing in the plan remains relatively large, but as we approach 2025, we are going to review the distribution between borrowing in the money market and the capital market (see Table 12).

An additional change to the current plan is that we are postponing the issuance of a foreign currency bond from 2023 to 2024. We also plan to issue a foreign currency bond in 2025.

As described in the previous chapter, a capital contribution to the Riksbank is not included in the forecast for next year. Such a contribution creates an expenditure for the central government that will increase the net borrowing requirement, all else being equal. We will, as a matter of course, finance the net borrowing requirement in adherence to our borrowing strategy.

Figure 9 Total gross borrowing requirement

SEK billion

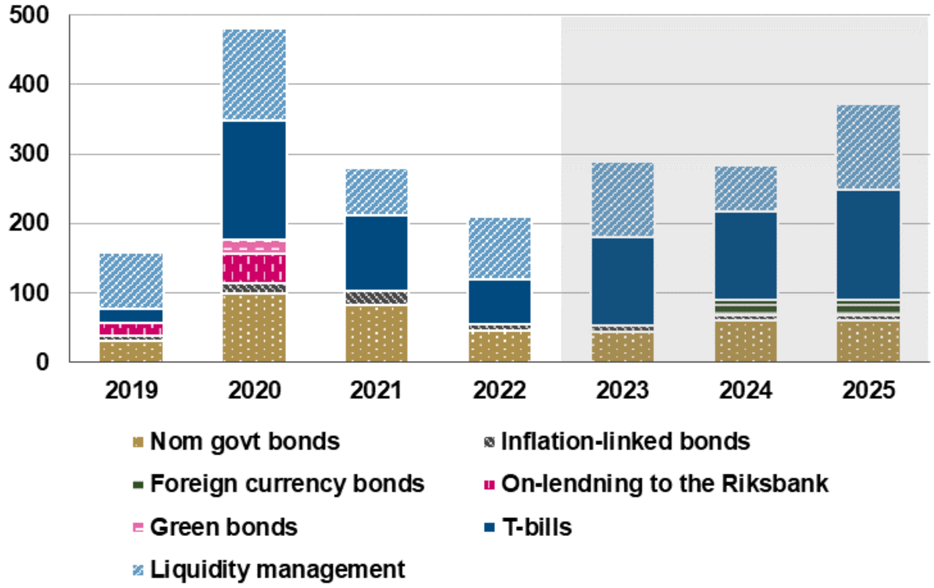


Note: The net borrowing requirement is the budget balance with the opposite sign. The post "Other" includes for example an adjustment due to the net borrowing requirement being reported by settlement date whereas borrowing is reported by trade date.

Source: The Debt Office

Figure 10 Borrowing by instrument

SEK billion



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

Source: The Debt Office

Facts

Borrowing strategy forms basis of issuance planning

The Debt Office maintains a borrowing strategy for, among other things, which debt instruments we use and how we prioritise between instruments and maturities.

Nominal government bonds: the most important source of funding

Nominal government bonds are the Debt Office's largest and most important funding source. Over time, we therefore prioritise these over other instruments. We offer regular issues through auctions according to a pre-determined borrowing plan. Selling smaller volumes on many occasions reduces the risk of the state needing to borrow large volumes at times when market conditions are unfavourable. At the same time, we offer investors 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 to build up sufficient volume in certain prioritised maturities to ensure good liquidity. This means that the Debt Office adjusts the borrowing in government bonds to short-term conditions in the market only to a limited extent. We also endeavour to maintain relatively even maturities (redemptions) in the stock of bonds, in terms of both size and time.

Inflation-linked bonds are complement to nominal bonds

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

For inflation-linked bonds as well, the Debt Office also regularly issues by auction and strives for even maturities. In order to facilitate reinvestment at maturity, we offer switches to bonds with longer terms to maturity, with the aim of limiting the outstanding volume of maturing bonds. In recent years, however, interest in making switches in connection with maturities has been limited.

Bonds in foreign currency contribute to good borrowing preparedness

In the international capital market, the Debt Office is able to reach a larger group of investors and borrow large amounts within 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 readiness to borrow large amounts as necessary. We also issue securities with shorter maturities in foreign currency.

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

Treasury bills to balance fluctuations in borrowing requirement

Using treasury bills, the Debt Office can borrow in short maturities in the krona market. We regularly issue T-bills through auctions and can also sell them within the liquidity management operations. In the planned borrowing, we mainly use T-bills to balance fluctuations in the borrowing requirement. In this way, the Debt Office can maintain stability in the government bond borrowing.

Increase in nominal government bonds as planned

The plan for nominal government bonds remains unchanged from the previous forecast. This means that the Debt Office will be increasing the issuance volume of nominal government bonds per auction from SEK 2.5 billion to SEK 3 billion at the turn of the year and keep it at that level throughout the forecast period. That entails an annual issuance volume of SEK 60 billion in both 2024 and 2025.

The Debt Office plans to carry out the majority of the auctions in the ten-year segment and in the two-year and five-year reference bonds (see Table 13). This is in line with our strategy of borrowing in a transparent and predictable manner with a focus on building up reference bonds.

Table 13 Reference bonds

Date of change	2-year	5-year	10-year
Current	1058	1060	1065
2023-12-20	1059	1061	
2024-06-19			1066

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

On 31 January, the Debt Office will introduce a new bond, SGB 1066, maturing on 11 May 2035. We will be offering three switches after the introduction in order to rapidly build up the volume of the new bond.

Table 14 Important events

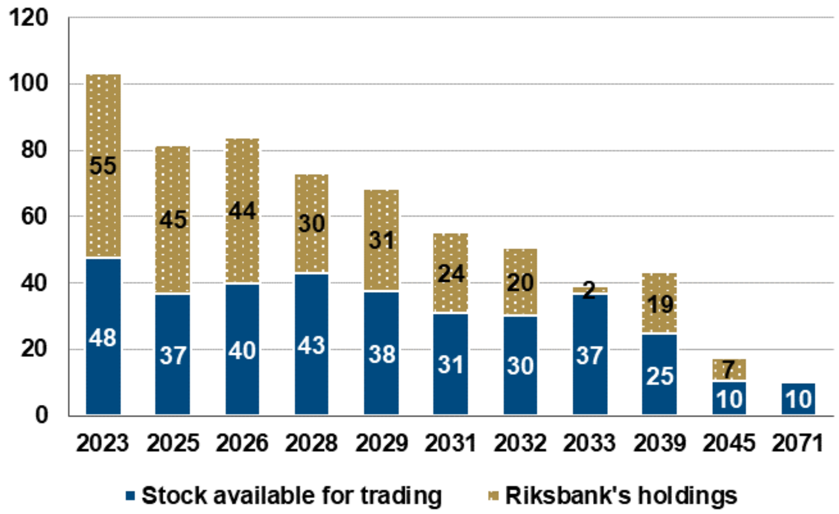
Date	Time	Activity
11 Jan	09:30	Terms for switches to SGB 1066
31 Jan		Introduction of SGB 1066
1-5 Feb	11:00	Switches to SGB 1066
16 Feb	09:30	Terms for switch from SGB IL 3109
22 Feb	09:30	Central government borrowing 2024:1
8 Mar	11:00	Switch from SGB IL 3109

Source: The Debt Office

The Riksbank owns a large portion of the outstanding stock of government bonds due to the purchases of Swedish government securities in recent years. Figure 11 shows outstanding nominal government bonds and the Riksbank's holding of each bond. Since April, the Riksbank has begun selling off its holdings of nominal and inflation-linked bonds with longer terms to maturity (maturing from 2027 onwards). In September, the Riksbank increased the rate of these sales, and the plan moving forward is to sell off SEK 5 billion every month. The sales cause the volume available for trading to increase, which over time might improve the functioning of the bond market.

Figure 11 Outstanding stock of nominal government bonds and the Riksbank's holdings

SEK billion, year of maturity.



Note: Outstanding volume expressed as nominal amount per government bond with year of maturity according to the X axis. The Riksbank's holdings are reported in accordance with the Debt Office's economic approach (trade date accounting) for the central government debt.

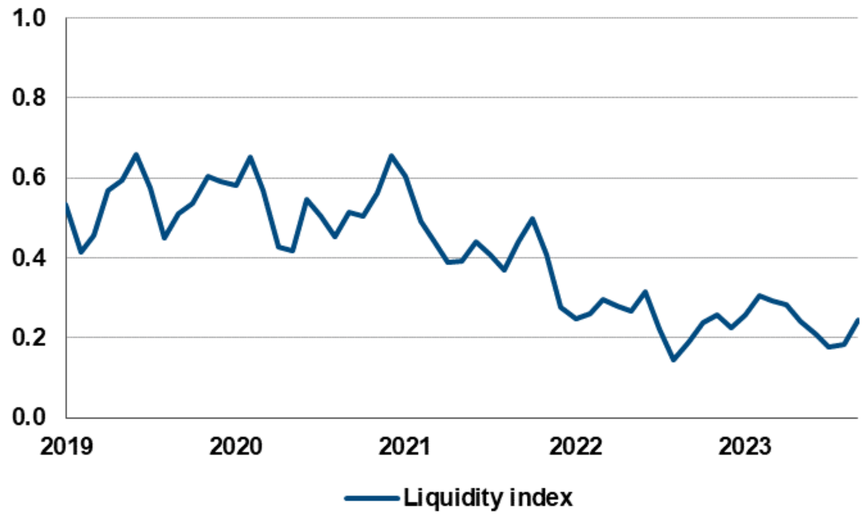
Sources: The Riksbank and the Debt Office

Finansinspektionen's (the Swedish Financial Supervisory Authority) liquidity measure shows that liquidity in the secondary market is strained, although the index indicates a slight improvement in recent months (see Figure 12).

A well-functioning government securities market with good liquidity is an important factor for attracting investors and keeping down the cost of the central government debt over time. The Debt Office is following the development closely and helping to maintain a well-functioning market through transparent and predictable borrowing as well as through market-maintaining facilities such as the lending of government securities via repos.

Figure 12 Liquidity index for secondary market

Index



Note: Liquidity measure as an aggregation of various individual indicators for nominal government bonds with benchmark status. Higher values correspond to higher liquidity. Two-month moving average.

Source: Finansinspektionen

Facts

Debt Office proposes unchanged steering of debt

The Debt Office is to submit proposed guidelines for central government debt management to the Government each year by 1 October. The guidelines determine among other things how the debt should be composed in terms of different debt types as well as how long the term to maturity should be.

In this year's proposed guidelines, the Debt Office proposed that the target values for composition and maturity remain unchanged in 2024. This means that the inflation-linked debt share shall continue to be steered towards 20 per cent and the term to maturity for the entire central government debt shall be between 3.5 and 6 years (measured as duration). It also means that the foreign currency exposure of the debt will continue to be phased out in accordance with the Government's decision from last year.

Since the Debt Office presented this year's proposed guidelines to the Government on 22 September, the Riksbank has submitted a statement on the proposal in accordance with the guidelines process. In light of the Riksbank's statement, the Debt Office has submitted a supplementary analysis to the Government, which is to decide on the guidelines by 15 November.

Target values apply to exposure – not funding

The target values for the composition and term to maturity apply to the debt's exposure, not to how it is to be financed through the Debt Office's borrowing.

Naturally, the financing contributes to the exposure, but it is to some extent independent because the Debt Office also uses derivatives to adjust exposure (see the image below).

A clear example of this separation is that the phasing out of the currency exposure does not mean that the Debt Office will cease to borrow in foreign currency. We still have the possibility of issuing bonds or commercial paper in foreign currency, because we hedge the currency exposure in those loans. The currency exposure that we are now phasing out has been created by the Debt Office for some time using derivatives, not by issuing foreign currency bonds.

However, in terms of the share of the inflation-linked debt, there is a more distinct association between the exposure and the financing, because there is not the same kind of access to derivatives to use for adjusting the exposure. The target value for the inflation-linked debt therefore entails that the Debt Office's borrowing shall consist of a certain share of inflation-linked bonds.

The range for the debt's duration determines the Debt Office's parameters for planning the issuance of debt instruments in various maturities. Here, we can also use derivatives in the form of interest rate swaps to adjust the duration as necessary for being able to continue to borrow in accordance with our borrowing strategy (see the section on page 31).

New conditions involving decreasing debt over time

Sweden's central government debt as a share of GDP at the end of 2022 was at its lowest level since 1971, and the debt of the public sector as a whole is at the lower end of the range for the fiscal policy framework's debt anchor. How the size of the debt develops is one of the conditions affecting the design of the guidelines and the Debt Office's borrowing strategy. In determining forthcoming proposed guidelines, we will therefore continue to analyse how the debt should be composed.

The proposed guidelines and supplementary material are available on the Debt Office's website.

Inflation-linked bond borrowing remains unchanged

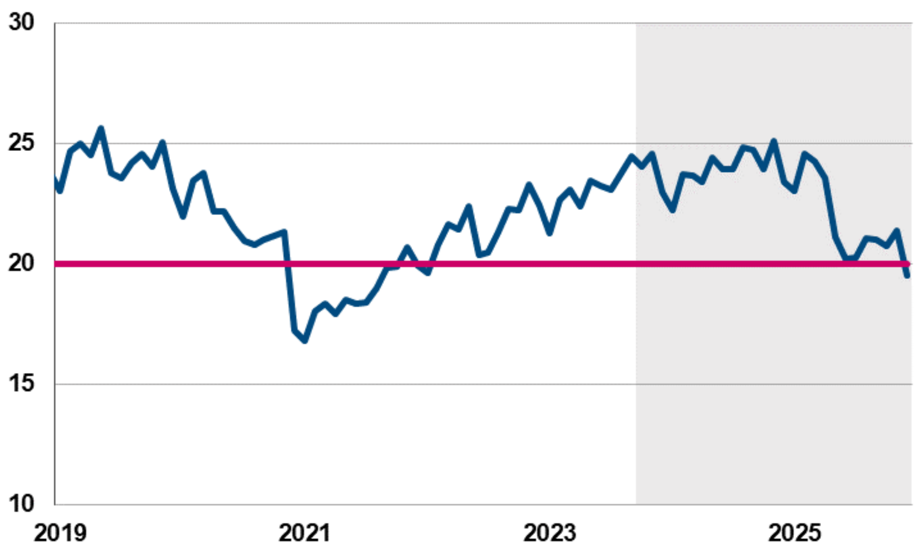
The planned issuance volume of inflation-linked bonds remains at SEK 500 million per auction throughout the forecast period. This entails an annual volume of SEK 8.5 billion.

In the first quarter of 2024, the Debt Office will offer a SEK 3 billion switch from the inflation-linked bond SGB IL 3109, which matures on 1 June 2025, to a bond with a longer maturity. Historically, the Debt Office has offered larger and more switches in advance of maturities – but, since the Riksbank owns a significant volume of the bond that is now maturing, we now assess the need for the investor community to be less than usual.

The inflation-linked debt's proportion of the total central government debt will exceed the long-term objective of 20 per cent until 2025 when SGB IL 3109 reaches maturity (see Figure 13). Thereafter, it will be near the target. The inflation-linked share's development is affected by several factors such as issuance volume, rate of inflation, planned switches, maturities, and the size of the central government debt. The continual market-maintaining switches also affect the inflation-linked debt share.

Figure 13 Inflation-linked debt as share of central government debt

Per cent of total central government debt



Note: The forecast shows the last day of each month, whereas outcomes are shown as the monthly mean. The pink line shows the long-term target 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

Foreign currency bond issue moved to 2024

Since the outcome of the budget balance has turned out stronger than expected, the Debt Office is choosing to postpone the issuance of a bond in foreign currency previously planned for this year to next year. We also plan to issue a new foreign currency bond in 2025.

The foreign currency borrowing does not create a currency exposure for the central government debt, because we manage that exposure by using derivatives.

Issuing bonds in foreign currency in the international capital market is a flexible form of borrowing that the Debt Office can easily adjust as the borrowing requirement changes. Foreign currency borrowing is conducive to good borrowing preparedness because the Debt Office can borrow large amounts in the international capital market within a short amount of time (see the borrowing strategy on page 36).

Slower growth of treasury-bill stock

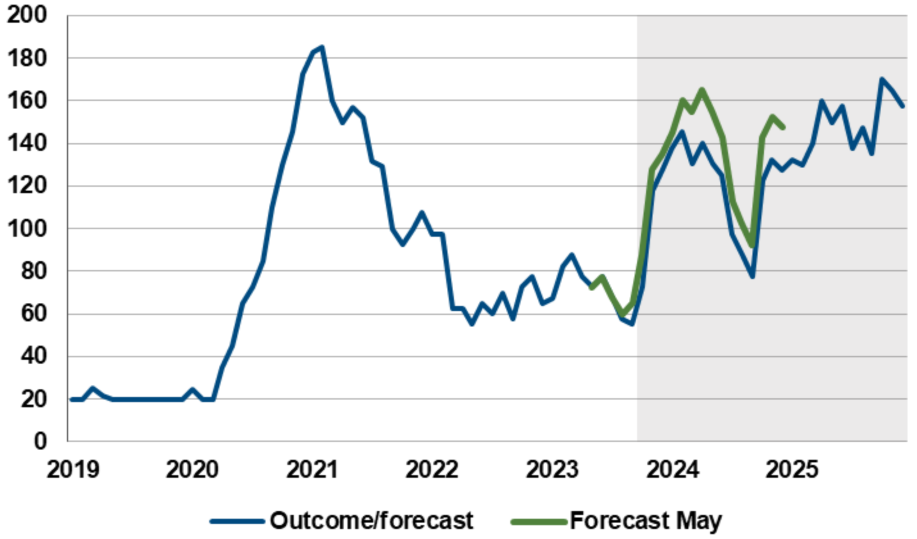
The stock of treasury bills increases in the forecast period but not as fast as in the forecast from May. This is mainly due to the Debt Office having reduced the issuance volume when the outcome of the budget balance has been stronger than foreseen. We now expect an outstanding volume of SEK 128 billion at the end of both 2023 and 2024. It then goes up to SEK 158 billion in 2025 when the net borrowing requirement increases.

The planned volume in the individual auctions varies within the range of SEK 5 billion to SEK 22.5 billion. The Debt Office plans the volumes in the individual auctions of treasury bills on the basis of seasonal patterns in the central government's payments, and maturities. We can later make further adjustments ahead of every individual auction if necessary, depending on how the payments develop. This means that the decisions we make one week prior to an auction may ultimately differ from the planned volumes in the auction schedule.

The Debt Office has so far issued three new 12-month treasury bills over the year and returned to an expanded T-bill policy (see the Facts section on the next page).

Figure 14 Stock of treasury bills

SEK billion



Source: The Debt Office

Facts

More outstanding maturities in treasury bills

Over the year, the Debt Office extended the longest maturity for treasury bills to 12 months. Thereby the lowest number of outstanding maturities in T-bills has increased from four to six during 2023.

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

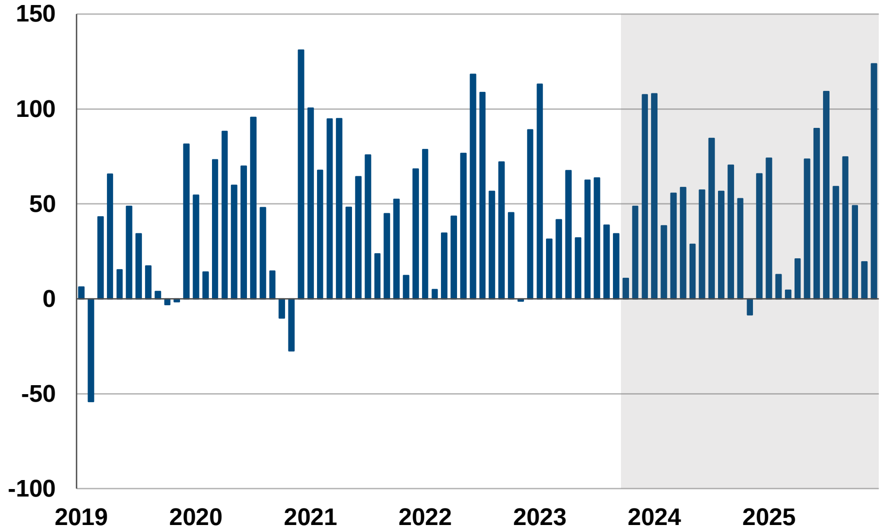
The Debt Office is also able to issue treasury bills on a discretionary basis (tap issues) within the framework of the liquidity management operations. This applies to T-bills with the two shortest maturities and with tailored maturities (liquidity bills).

Within the liquidity management operations, the Debt Office finances the borrowing requirement that remains after the planned issues of treasury bills and bonds. This includes issuing T-bills on a discretionary basis (tap issues), and commercial paper in foreign currency. In this forecast, the volume of liquidity management instruments decreases compared with the last forecast.

There are large variations within liquidity management, both between months and between individual days. In the forecast period, the Debt Office both borrows and invests the liquidity within a range of SEK –60 billion and SEK 80 billion.

Figure 15 Liquidity management

SEK billion



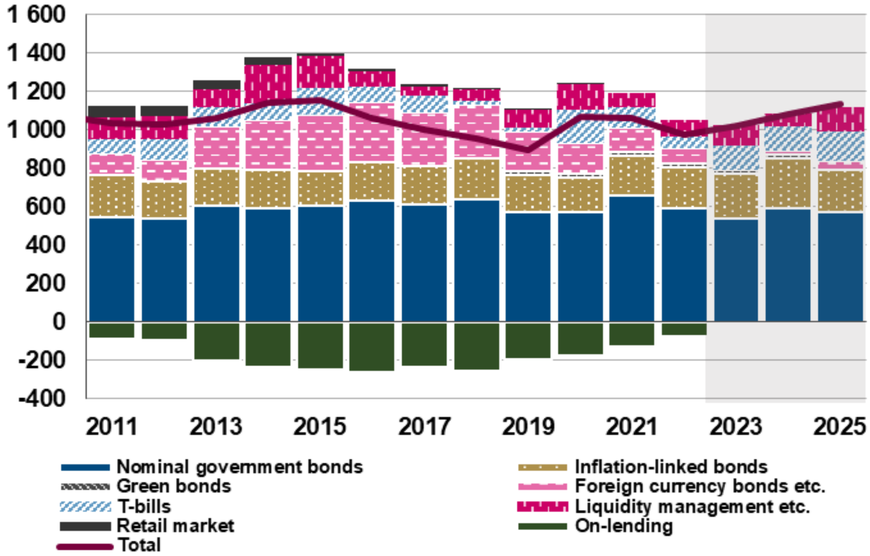
Note: Nominal amount at current exchange rate including assets under management. Positive amount indicates borrowing requirement, negative amount indicates cash surplus.

Source: The Debt Office

The amounts borrowed as part of liquidity management are continually adjusted to the development of the budget balance and the regular borrowing (see Figure 15).

With the plan we are initiating, the distribution of various debt instruments within the central government debt will develop as shown in Figure 16. Nominal government bonds continue to be the base and are the Debt Office’s largest and most important funding source.

Figure 16 Central government debt by instrument



Note: Central government debt including onward lending and assets under management. The amount refers to outstanding stock at the end of the year.

Source: The Debt Office

Volume of interest rate swaps remains at low level

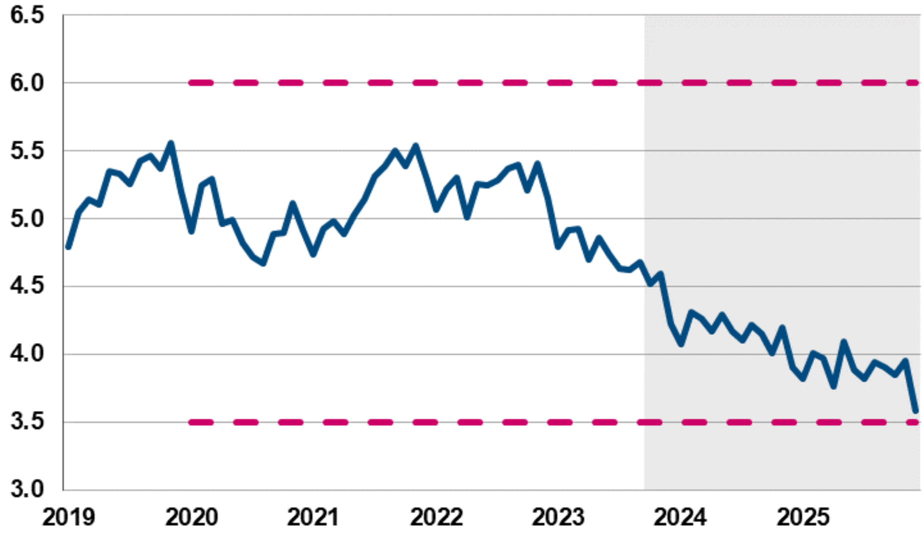
The Debt Office has previously used interest rate swaps to adjust the duration of the central government debt. For many years, we engaged in interest rate swaps to shorten the duration of the debt in order to reduce the expected cost. In periods ahead, the planned maturity of the central government debt measured as duration falls within the lower part of the target range (see Figure 17).

In order to maintain a market presence, competence, and functioning systems, the Debt Office will therefore conduct a small volume of interest rate swaps per year during the forecast period. We are planning to have an average maturity of approximately five years for the swaps, although the Debt Office may engage in swaps with maturities of up to 12 years.

The swaps that we make are spread out relatively evenly over the year but also with consideration for flexibility from a commercial perspective, in terms of timing and maturity. We may deviate from the planned volume if conditions change during the year.

Figure 17 Maturity of the central government debt

Year



Note: Term to maturity is measured using Macaulay duration. The forecast shows the last day of each month, whereas outcomes are shown as the monthly mean. The dashed lines represent the steering interval for duration in the Government's guidelines for debt management.

Source: The Debt Office

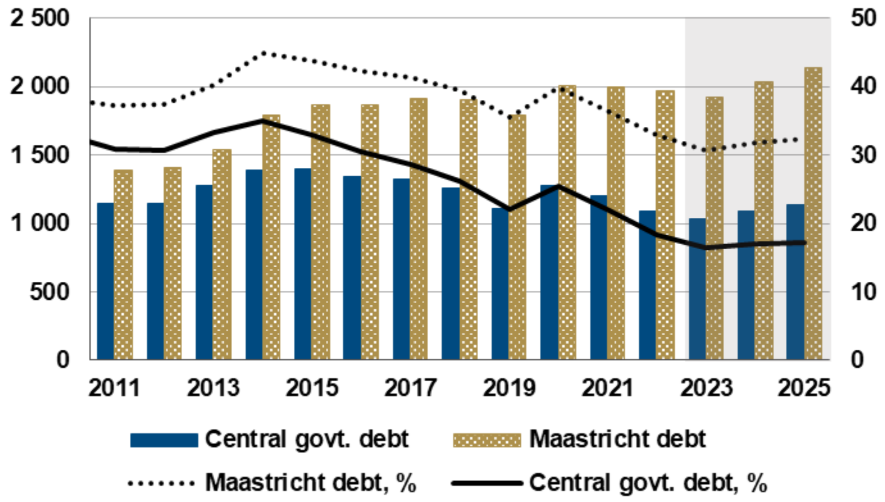
Central government debt increases but not as share of GDP

At the end of 2022, the central government debt was SEK 1,093 billion, which corresponds to 18 per cent of GDP. The Debt Office expects the debt to decrease to SEK 1,030 billion by year-end 2023 and then increase to SEK 1,088 billion in 2024 and to SEK 1,141 billion in 2025 (see Table 15 and Figure 18). This means that the debt will end up at 17 per cent of GDP at the end of 2025.

The general government debt, also called the Maastricht debt, which includes the entire public sector, decreases from 33 per cent of GDP at the end of 2022 to 31 per cent in 2023. It then ends up at 32 per cent at the end of 2024 and 2025. The Maastricht measure includes the consolidated debt for the public sector and is used in international comparisons and the fiscal policy framework (see the Facts section below). According to the debt anchor in the fiscal policy framework, the Maastricht debt shall be 35 per cent of GDP (±5 percentage points).

Figure 18 Central government debt – development over time

SEK billion, per cent of GDP



Note: Note: For 2023–2025, the shares are based on the Debt Office's GDP forecast. Outcome data is obtained from Statistics Sweden

Sources: Statistics Sweden and the Debt Office

Table 15 From net borrowing requirement to central government debt

SEK billion

From net borrowing requirement to central government debt	2020	2021	2022	2023	2024	2025
Net borrowing requirement (budget balance with opposite sign)	221	-78	-164	-31	49	60
Trade date adjustment etc.[1]	-25	7	1	2	-1	1
Net borrowing and trade date adjustment etc.	196	-71	-163	-29	48	60
A. Net amount including money-market assets	1,229	1,159	996	966	1,014	1,075
Inflation compensation	18	24	43	59	69	61
Exchange-rate effects	-4	6	15	0	0	0
B. Net amount at current exchange rate incl. inflation compensation	1,243	1,189	1,054	1,025	1,083	1,136
Assets under management	38	15	39	5	5	5
C. Central govt. debt	1,280	1,204	1,093	1,030	1,088	1,141
Assets under management	-38	-15	-39	-5	-5	-5
On-lending	-174	-127	-76	-2	-2	-2
D. Central govt. debt incl. on-lending and assets under management	1,069	1,063	978	1,023	1,081	1,134
Nominal GDP	5,039	5,487	5,979	6,250	6,405	6,596
C. Central govt. debt, % of GDP	25	22	18	16	17	17
D. Central govt. debt incl. on-lending and assets under management, % of GDP	21	19	16	16	17	17

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

Source: The Debt Office

Facts

Different measures of government debt

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* (although not the Riksbank's holdings). That measure provides an overall picture of the financial position of the central government and is used in the Budget Bill and the annual report for the central government. The central government consolidated debt is calculated by ESV (the Swedish National Financial Management Authority).

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 old-age pension system. Its calculation is based on conditions in the Maastricht Treaty. According to EU regulation, the Maastricht debt must not exceed 60 per cent of GDP.

The Maastricht debt is also the measure that forms the basis of the debt anchor of 35 per cent of GDP, which by decision of the Riksdag (Parliament) has been in force from 2019.

Appendix of Tables

Table 16 Central government net lending

SEK billion

Central government net lending	2021	2022	2023	2024	2025
Budget balance	78	164	31	-49	-60
Delimitations	-119	-84	-12	-22	6
Sale of limited companies	0	-1	0	0	0
Parts of Debt Office's net lending	-77	-114	-16	10	14
Other	-43	32	3	-32	-8
Accruals	0	-56	2	-3	26
Taxes	7	-45	9	0	9
Interest payments etc.	-8	-10	-7	-3	17
Central government net lending	-42	25	21	-74	-28
Per cent of GDP	-0.8	0.4	0.3	-1.2	-0.4

Table 17 Budget balance forecast per month

SEK billion

Month	Primary balance	Net lending	Interest on government debt	Budget balance
October 23	-8.3	4.6	-0.2	-4.0
November 23	32.7	6.7	-3.8	35.7
December 23	-35.1	-53.3	-3.2	-91.6
January 24	-37.2	3.0	-0.7	-34.9
February 24	55.5	0.7	-0.2	56.0
March 24	-11.6	4.5	-2.4	-9.5
April 24	-23.7	4.3	-3.0	-22.4
May 24	41.5	-2.4	-3.5	35.6
June 24	-31.5	7.6	-3.6	-27.4
July 24	-7.5	8.3	-0.8	0.0
August 24	24.8	7.1	-0.6	31.3
September 24	-14.9	5.5	-1.8	-11.2

Table 18 Budget balance changes between years, effect on budget balance

SEK billion

Changes between years, effect on budget balance	2021	2022	2023	2024	2025
Budget balance, level	**78**	**164**	**31**	**-49**	**-60**
Change from previous year	298	86	-132	-80	-11
Primary balance	**176**	**76**	**-26**	**-74**	**0**
Income from taxes	192	79	22	-11	76
Grants to local governments	5	-4	0	-16	5
Labour market	-4	9	2	-2	1
Social insurance	1	-11	-4	-7	-4
State share dividends	4	-1	-26	4	0
Other	-22	4	-19	-41	-78
Debt Office's net lending	**101**	**39**	**-103**	**-14**	**-3**
Interest on government debt	**21**	**-29**	**-4**	**8**	**-8**

Table 19 Budget balance forecast comparison

SEK billion

Forecast	Budget balance	Sale of state assets	Adjuster budget balance
Debt Office (26 Oct)			
2023	31	0	31
2024	-49	0	-49
2025	-60	0	-60
Government (20 Sep)			
2023	23	5	18
2024	-7	5	-12
2025	-38	5	-43
NIER (27 Sep)			
2023	29	0	29
2024	1	0	1
ESV (14 Sep)			
2023	-5	0	-5
2024	13	0	13
2025	5	0	5

Table 20 State share dividends

SEK billion

Company	2022	2023	2024	2025
Akademiska hus AB	2.5	2.9	2.7	2.8
LKAB	12.4	7.5	7.0	7.0
Telia Company AB	3.3	2.4	3.3	3.3
Vattenfall AB	23.4	4.0	7.0	7.0
Sveaskog AB	1.3	1.2	1.2	1.2
Other companies	3.1	1.9	2.8	2.8
Total	**46.1**	**19.9**	**23.9**	**24.1**

Table 21 Total gross borrowing requirement

SEK billion

	2020	2021	2022	2023	2024	2025
Net borrowing requirement (budget balance with opposite sign)	**221**	**-78**	**-164**	**-31**	**49**	**60**
Trade date adjustment etc.[1]	**-25**	**7**	**1**	**2**	**-1**	**1**
Retail funding & collateral, net [2]	**-2**	**5**	**4**	**-3**	**0**	**0**
Money market redemptions [3]	**101**	**305**	**176**	**154**	**235**	**193**
Treasury bills	20	173	107	65	128	128
Liquidity management instruments	81	132	68	89	108	66
Bond redemptions, net switches, and buy-backs	**185**	**40**	**192**	**167**	**1**	**118**
Nominal government bonds	96	0	108	103	1	85
Inflation-linked bonds	19	-1	22	0	0	33
Green bonds	0	0	0	0	0	0
Foreign currency bonds[4]	70	41	61	64	0	0
Total gross borrowing requirement	**481**	**279**	**209**	**288**	**284**	**372**

Note: [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 funding and collateral.

[3] Initial stock maturing within 12 months. Liquidity management is net, including assets under management. Commercial paper is included in Liquidity management instruments.

[4] Calculated at the original issuance exchange rate.

Source: The Debt Office

Table 22 Net borrowing requirement and net borrowing

SEK billion

SEK billion	2020	2021	2022	2023	2024	2025
Net borrowing requirement (budget balance with opposite sign)	221	-78	-164	-31	49	60
Trade date adjustment etc.[1]	-25	7	1	2	-1	1
Total net borrowing	**196**	**-71**	**-163**	**-29**	**48**	**60**
Retail funding & collateral, net	**2**	**-5**	**-4**	**3**	**0**	**0**
Net money market funding	**203**	**-129**	**-21**	**81**	**-42**	**88**
Treasury bills	153	-65	-42	63	0	30
Commercial paper	31	-31	0	0	0	0
Liquidity management instruments	19	-32	21	18	-42	58
Net bond market funding	**-9**	**63**	**-137**	**-114**	**90**	**-28**
Nominal government bonds	4	83	-62	-59	59	-25
Inflation-linked bonds	-6	22	-13	9	9	-25
Green bonds	20	0	0	0	0	0
Foreign currency bonds	-27	-41	-61	-64	22	22
Total net borrowing	**196**	**-71**	**-163**	**-29**	**48**	**60**

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

Source: The Debt Office

Market information

Table 23 Nominal government bonds, auction date

Announcement date	Auction date	Settlement date
01-Nov-23	08-Nov-23	10-Nov-23
15-Nov-23	22-Nov-23	24-Nov-23
29-Nov-23	06-Dec-23	08-Dec-23
10-Jan-24	17-Jan-24	19-Jan-24
24-Jan-24	31-Jan-24	02-Feb-24
11-Jan-24	01-Feb-24*	05-Feb-24
11-Jan-24	02-Feb-24*	06-Feb-24
11-Jan-24	05-Feb-24*	07-Feb-24
07-Feb-24	14-Feb-24	16-Feb-24
21-Feb-24	28-Feb-24	01-Mar-24
06-Mar-24	13-Mar-24	15-Mar-24
20-Mar-24	27-Mar-24	02-Apr-24
03-Apr-24	10-Apr-24	12-Apr-24
17-Apr-24	24-Apr-24	26-Apr-24
15-May-24	22-May-24	24-May-24
12-Jun-24	19-Jun-24	24-Jun-24

* Exchange auction

Table 24 Inflation-linked government bonds, auction date

Announcement date	Auction date	Settlement date
09-Nov-23	16-Nov-23	20-Nov-23
23-Nov-23	30-Nov-23	04-Dec-23
07-Dec-23	14-Dec-23	18-Dec-23
01-Feb-24	08-Feb-24	12-Feb-24
15-Feb-24	22-Feb-24	26-Feb-24
29-Feb-24	07-Mar-24	11-Mar-24
16-Feb-24	08-Mar-24*	12-Mar-24
14-Mar-24	21-Mar-24	25-Mar-24
11-Apr-24	18-Apr-24	22-Apr-24
25-Apr-24	02-May-24	06-May-24
08-May-24	16-May-24	20-May-24
23-May-24	30-May-24	03-Jun-24
05-Jun-24	13-Jun-24	17-Jun-24

* Exchange auction

Table 25 T-bills, auction date

Announcement date	Auction date	Settlement date
08-Nov-23	15-Nov-23	17-Nov-23
22-Nov-23	29-Nov-23	01-Dec-23
06-Dec-23	13-Dec-23	15-Dec-23
03-Jan-24	10-Jan-24	12-Jan-24
17-Jan-24	24-Jan-24	26-Jan-24
31-Jan-24	07-Feb-24	09-Feb-24
14-Feb-24	21-Feb-24	23-Feb-24
28-Feb-24	06-Mar-24	08-Mar-24
13-Mar-24	20-Mar-24	22-Mar-24
27-Mar-24	03-Apr-24	05-Apr-24
10-Apr-24	17-Apr-24	19-Apr-24
08-May-24	15-May-24	17-May-24
22-May-24	29-May-24	31-May-24
05-Jun-24	12-Jun-24	14-Jun-24
19-Jun-24	26-Jun-24	28-Jun-24
26-Jun-24	03-Jul-24	05-Jul-24

The Swedish National Debt Office is the central government financial manager and the national resolution and deposit insurance authority.
The Debt Office thus play an important role in the Swedish economy as well as in the financial market

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