



Budget shows deficit as economy slows

Central Government Borrowing –
Forecast and Analysis 2020:1

*Investor meeting at Swedbank
18 February 2020*

Swedish economy continues to grow slowly

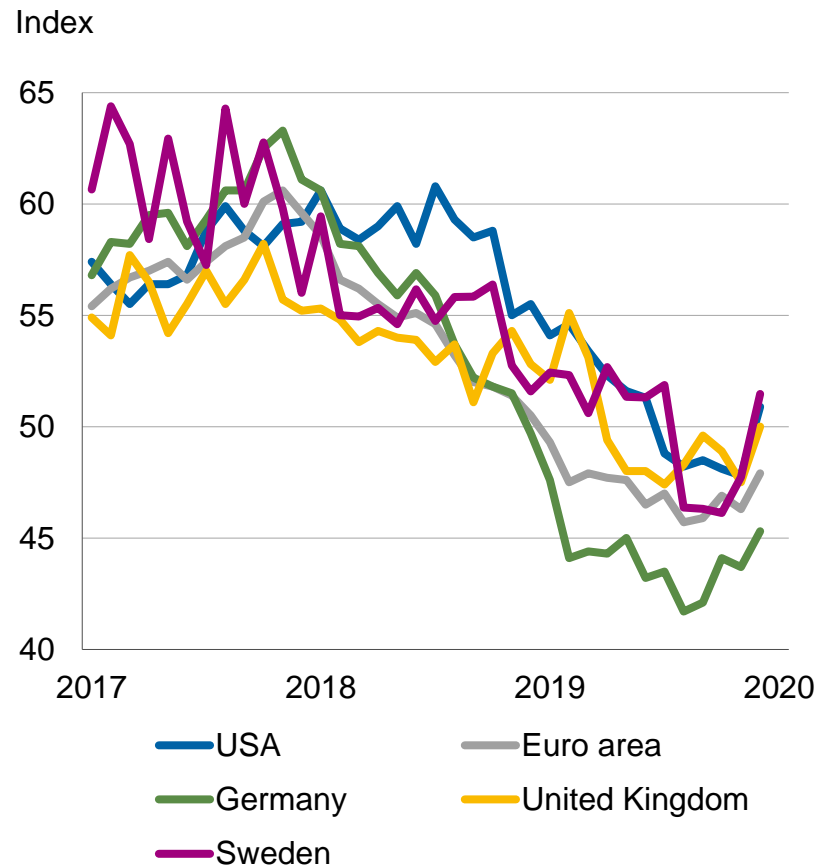
Budget deficit for both 2020 and 2021

Plan for increased bond borrowing unchanged

Stabilisation since last time but also a new risk

- Stabilisation and turnaround in global economy during the autumn
- Swedish developments also in line with previous forecast
- New risk: the corona virus

Purchasing Managers' Index, manufacturing



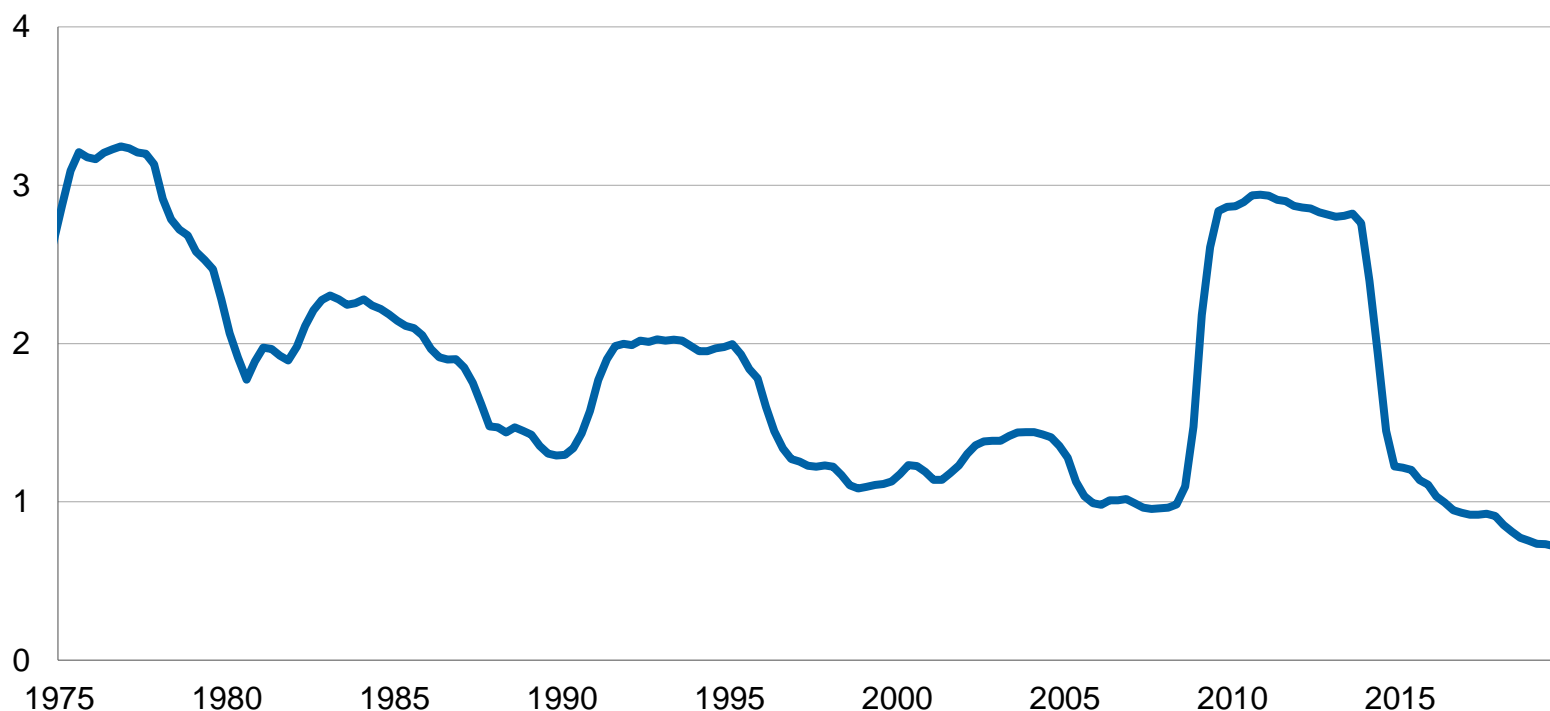
Sources: ISM, Markit and Swedbank

Lower volatility in GDP growth

The Great Moderation – back again after the financial crisis

GDP volatility in the G7 countries

Standard deviations



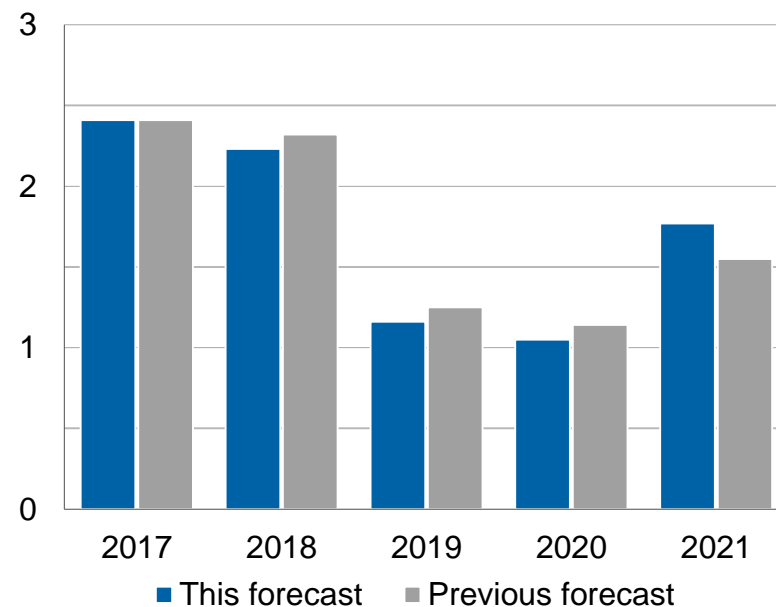
Note: Volatility is a five-year rolling standard deviation of an unweighted average of the countries' GDP growth, measured as yearly percentage change
Sources: OECD Economic Outlook and Debt Office

Swedish economy continues to grow slowly

- Weak growth on the whole, some recovery next year
- Unemployment to rise as the business cycle weakens
- Small revisions to forecasts

GDP growth

Yearly percentage change



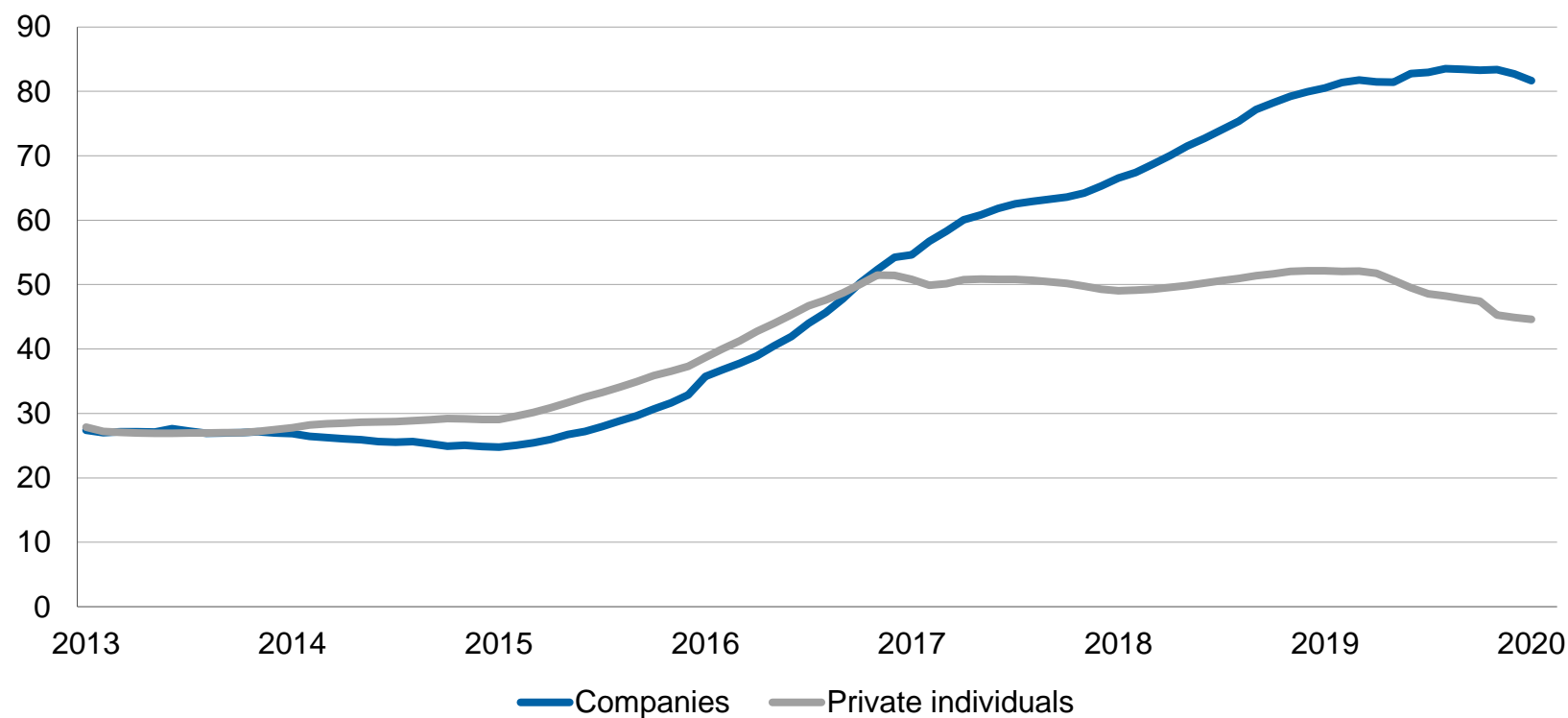
Sources: Statistics Sweden and the Debt Office

Withdrawals from tax accounts also weigh on budget

Expected net outflow of SEK 10 billion in 2020 and SEK 15 billion in 2021

Amount in tax accounts

SEK billion



Note: 12-month moving average

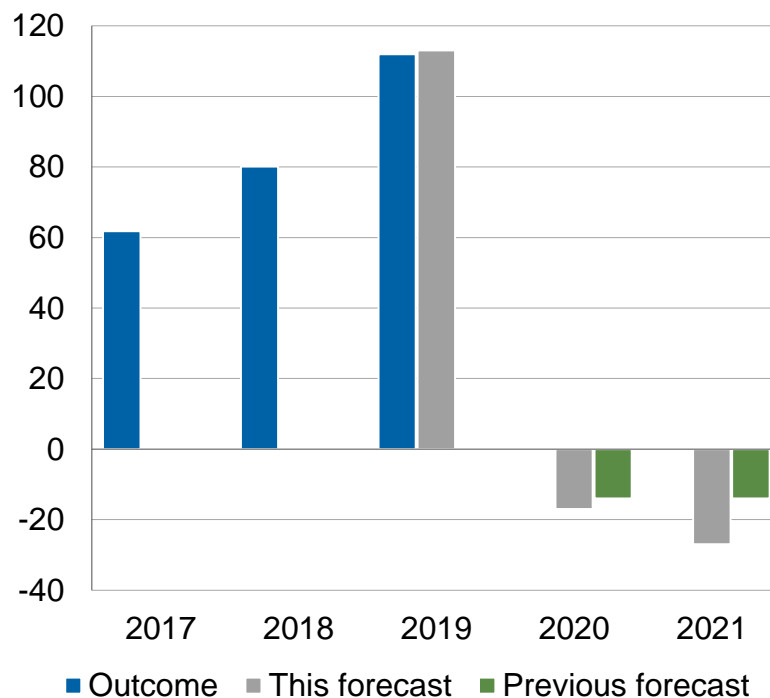
Source: The Swedish Tax Agency and the Debt Office

Budget deficit both this year and next

- Weaker business cycle makes a mark, but the turnaround is reinforced by temporary factors
- Somewhat smaller deficit compared with previous forecast
- Capital investments in tax accounts add to uncertainty

Central government budget balance

SEK billion



Debt Office acts within a given framework

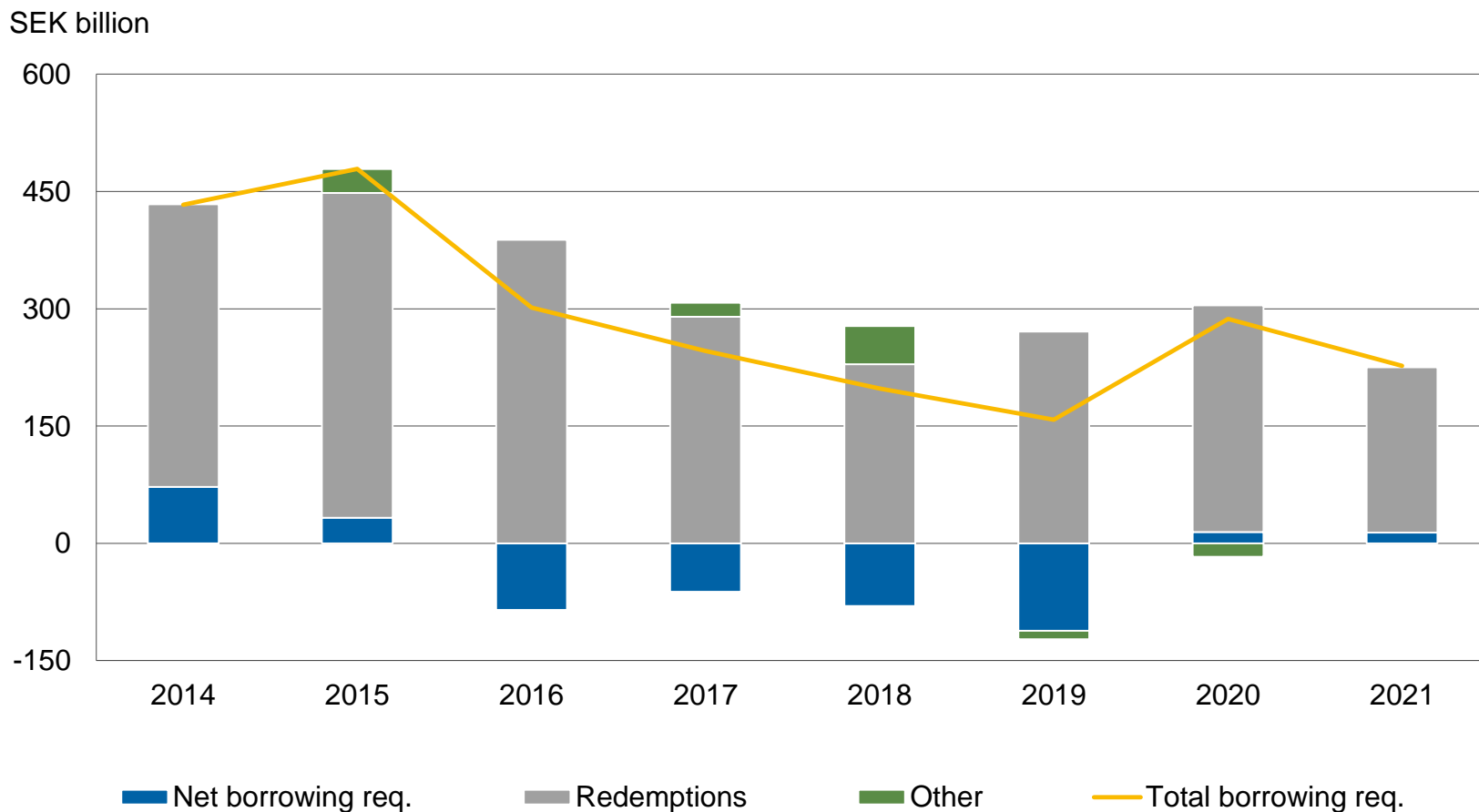
Central government
funding requirement
(budget deficit
+ redemptions)

Objective to
minimize long-term
cost of debt and
consider risks

Government
guidelines for debt
management

Debt Office
strategies and
borrowing policy

Higher borrowing requirement after four-year decline

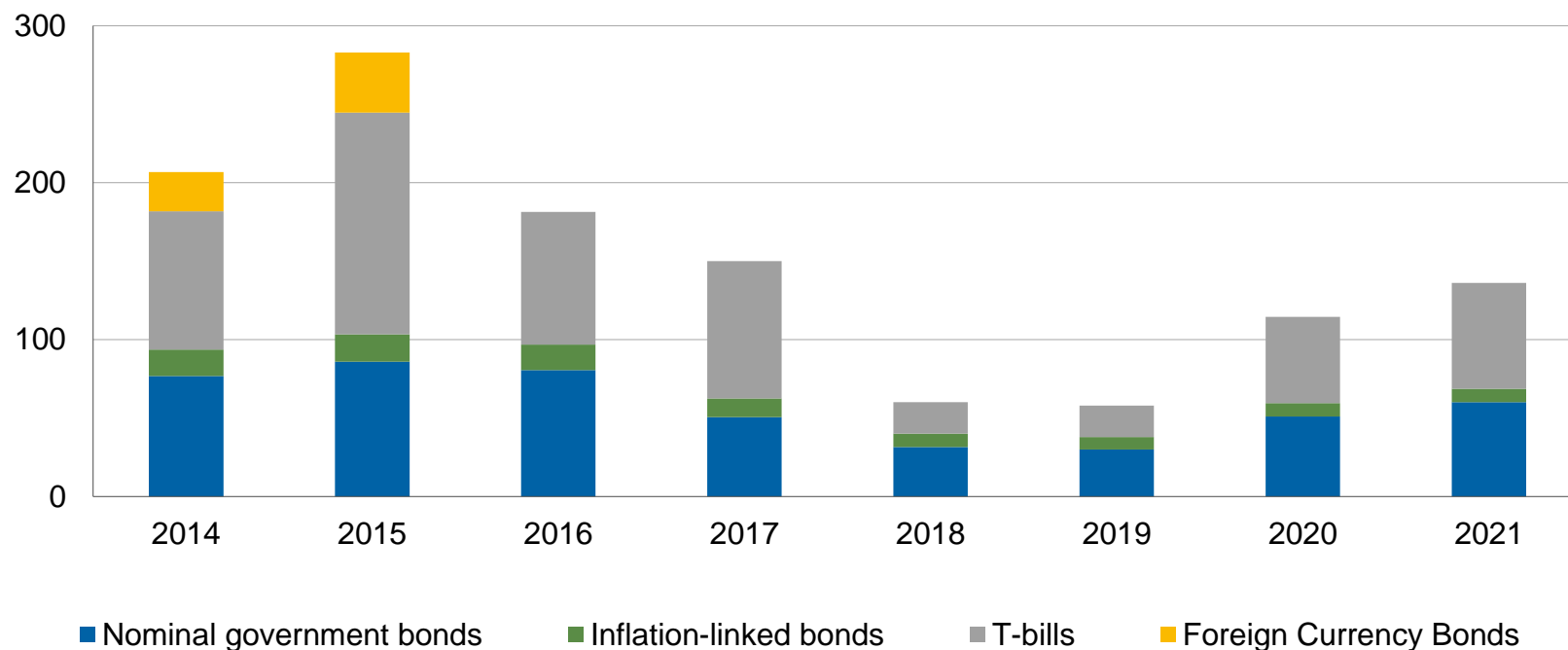


Source: the Debt Office

New forecast causes no change in issuance plan

Issuance volume of nominal bonds to increase gradually

SEK billion



Source: The Debt Office

Note: Excludes on-lending to the Riksbank

Green bond to complement regular issuance

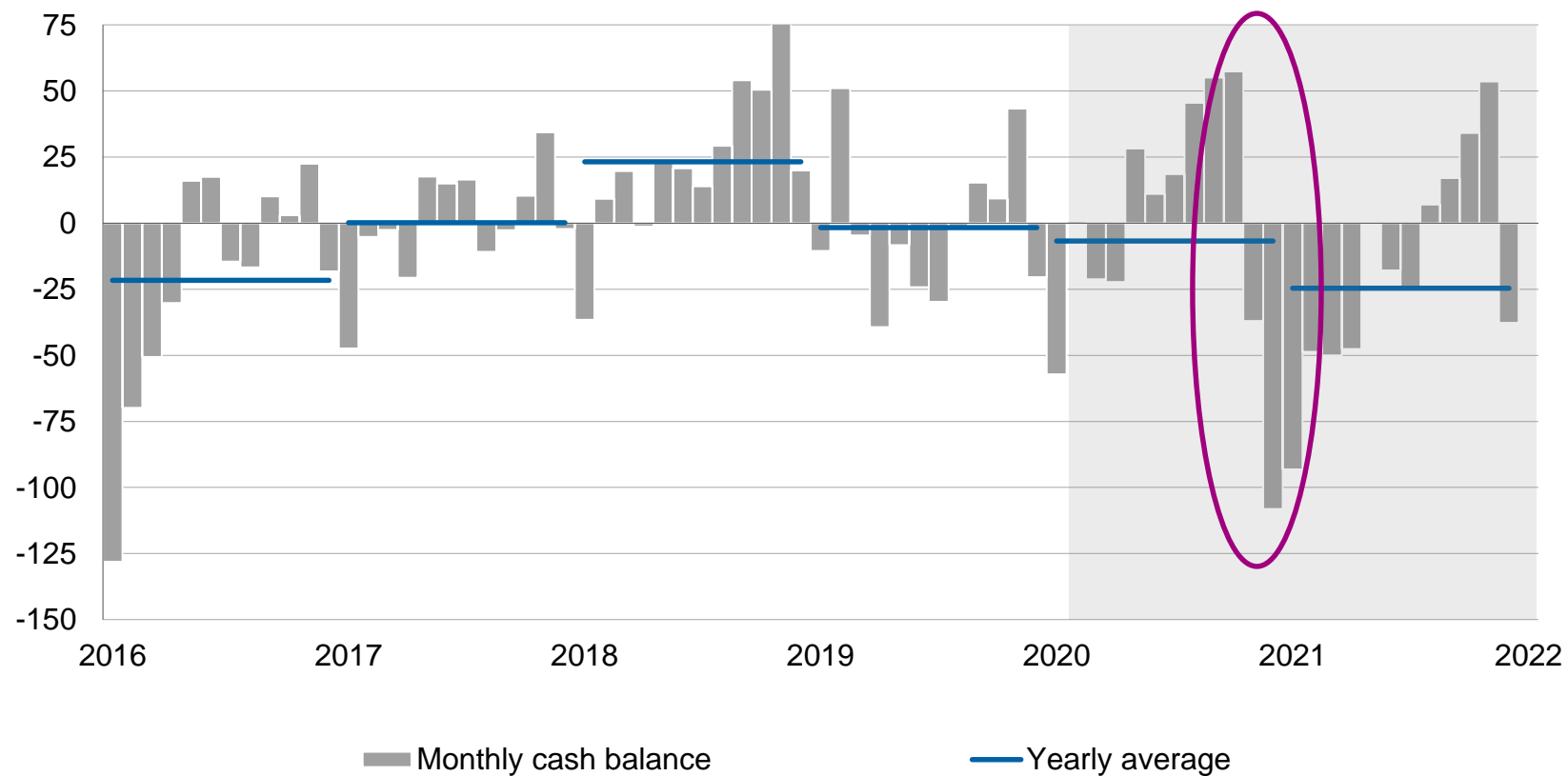
- One issue in 2020
- Proceeds linked to defined green budget expenditures
- Preparations under way – framework, selection of expenditures etc.
- Selection of green expenditures sets scope for size of issuance
- Volume shall also be compliant with the objective for central government debt management



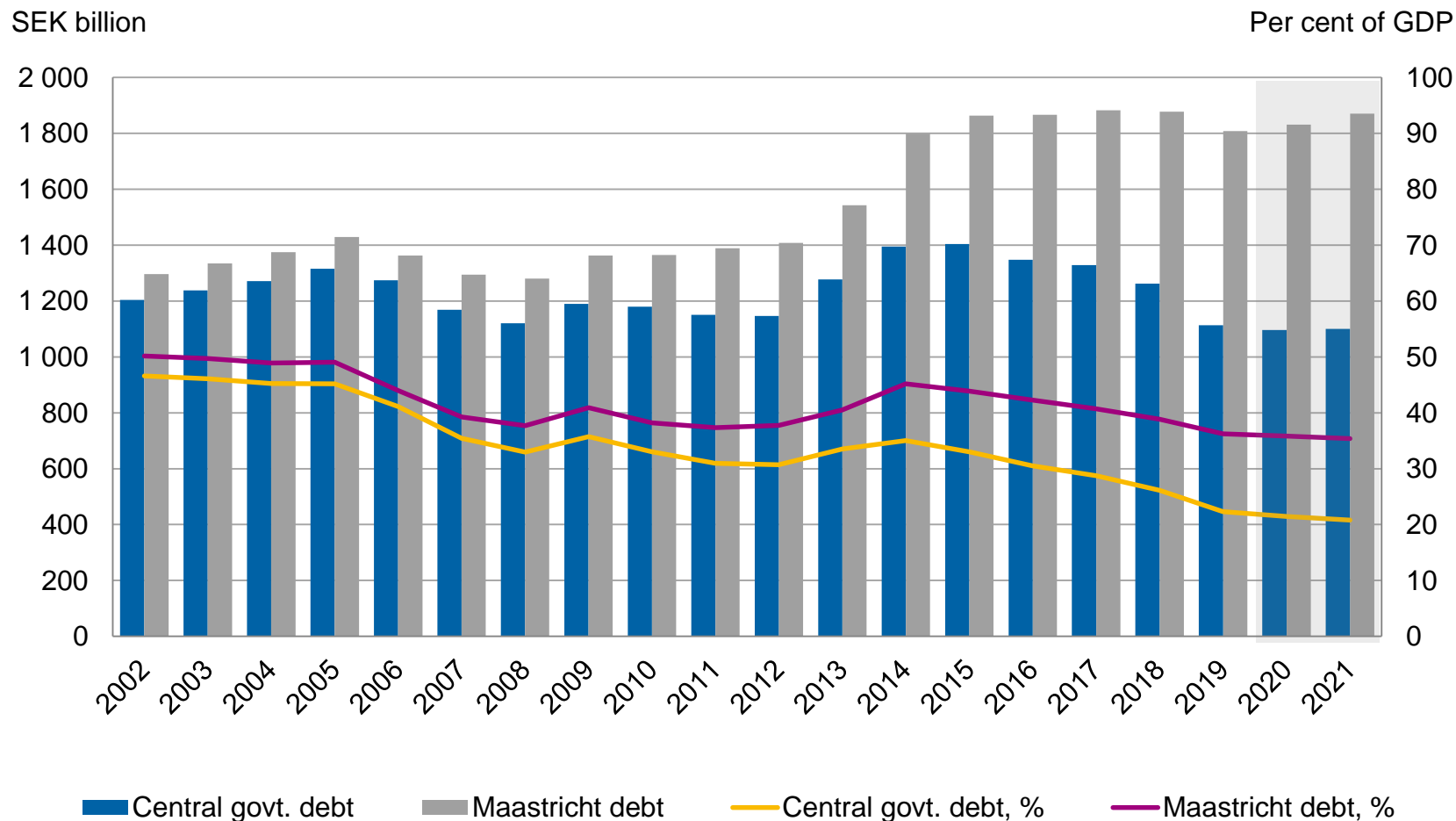
Process for green bond

Temporary increase in T-bills to meet redemptions

Balance in liquidity management, SEK billion



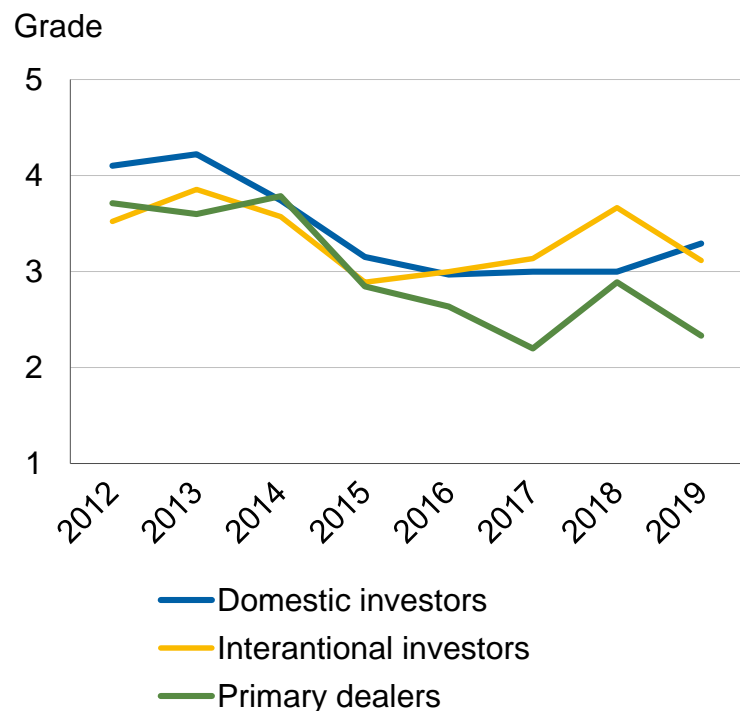
Lowest debt as share of GDP since the 1970s



Source: The Debt Office and Statistics Sweden

Strained liquidity in the government bond market

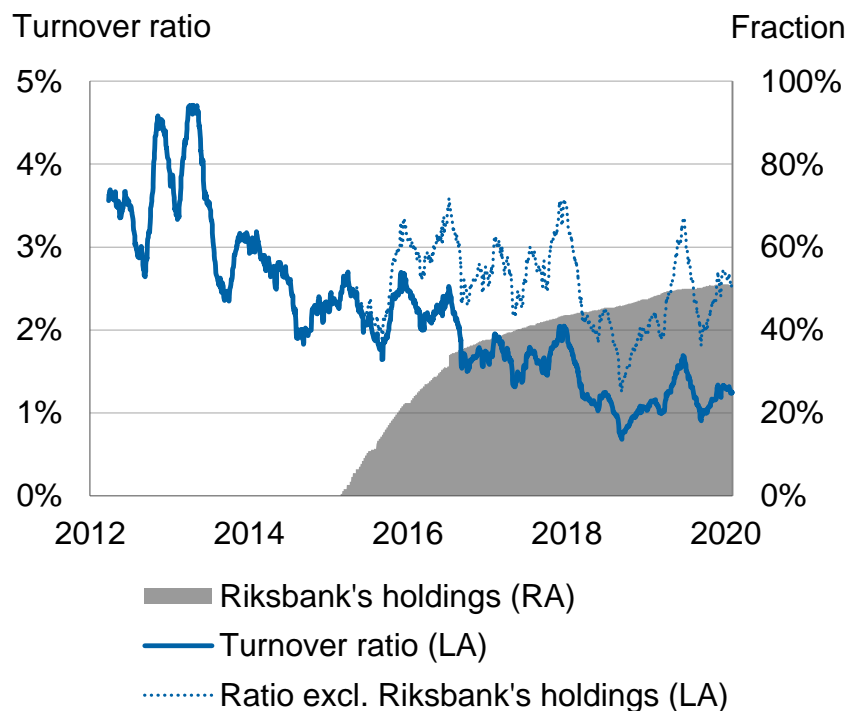
Assessment of market liquidity



Assessment of liquidity in terms of volume, grades from 1 to 5

Source: Kantar Sifo Prospera

Turnover ratio, nominal government bonds



Average daily turnover over the past 60 trading days in relation to the average outstanding stock during that period.

Source: Riksbank, the Debt Office

New conditions for debt management

- Surplus target and low level of central government debt
- Regulations affecting the fixed-income market
- Effects of low-rate environment and QE
- Sustainability aspects
- Tax account being used for capital investments

The new world is already having an effect

- Necessary to prioritize between funding instruments
- Issuance volumes reached a minimum level in 2018
- Outright auctions instead of switches when introducing a new bond
- Green bond in 2020
- Need for flexibility within liquidity management
 - In- or outflows from tax accounts
 - Variation in repo volumes
 - Longer periods of cash surplus