



# **Economic Outlook, Update at the Debt Office and Latest Developments in the Green Bond Market**

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*The European Pension Fund Investment Forum  
- Nordic Forum*

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*4th February*

# The Debt Office's assignment

## Financial management for central government

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



## Financial stability

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

# Slowdown in the Swedish economy

Budget surplus this year turns into a deficit in 2020 and 2021

Higher borrowing requirement

Green bond but no ultra-long

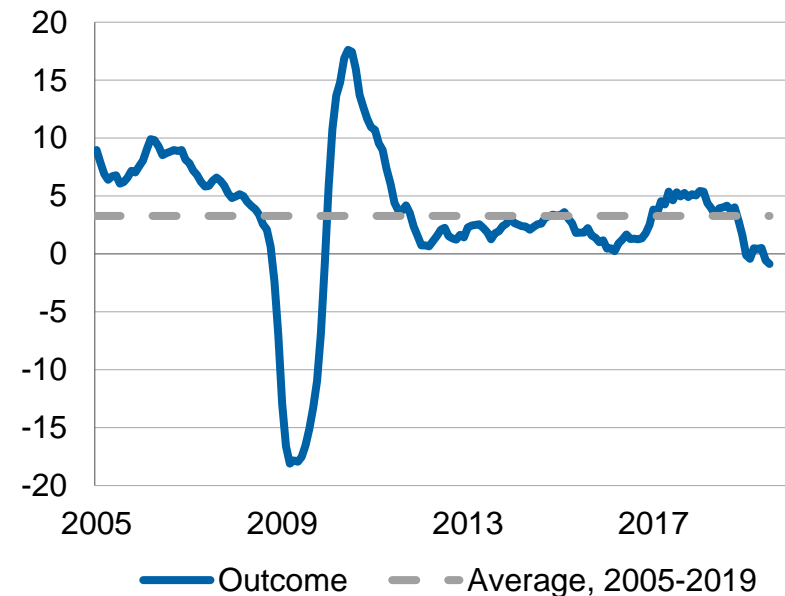


# Last autumn, slow growth internationally despite lower interest rates

- Global growth remains weak
- The trade conflict impacts the manufacturing industry in the US and Europe
- More expansionary monetary policy to support economic growth
- Market interest rates point to increased risk of recession

## World trade, goods

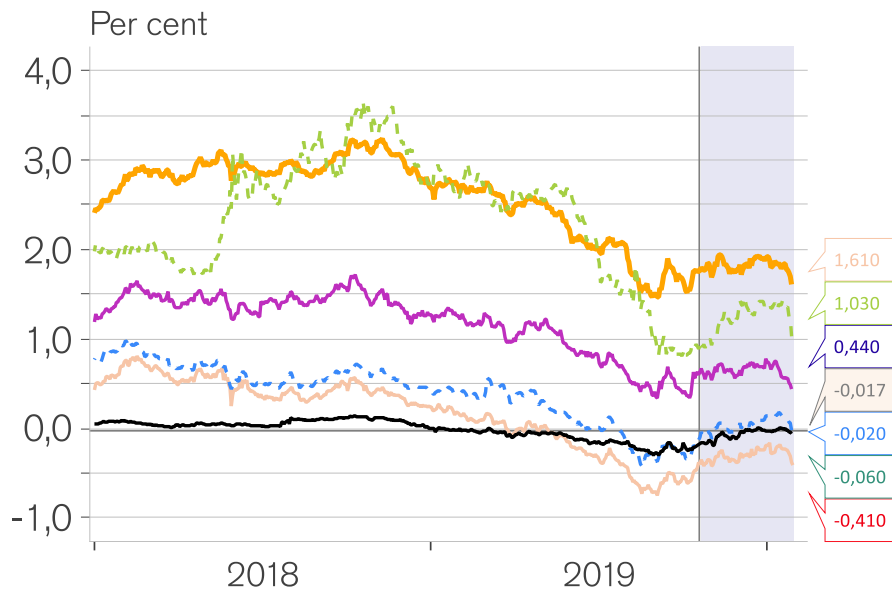
Yearly percentage change, 3 month moving average



Sources: CPB Netherlands Bureau for Economic Policy Analysis and the Debt Office.

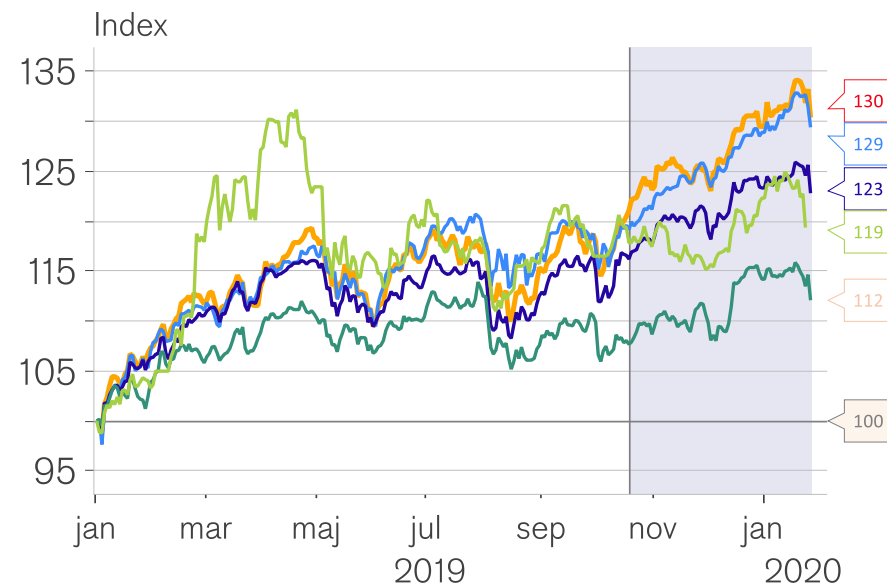
# Low interest rates and increasing asset prices

## 10-year government bond yields



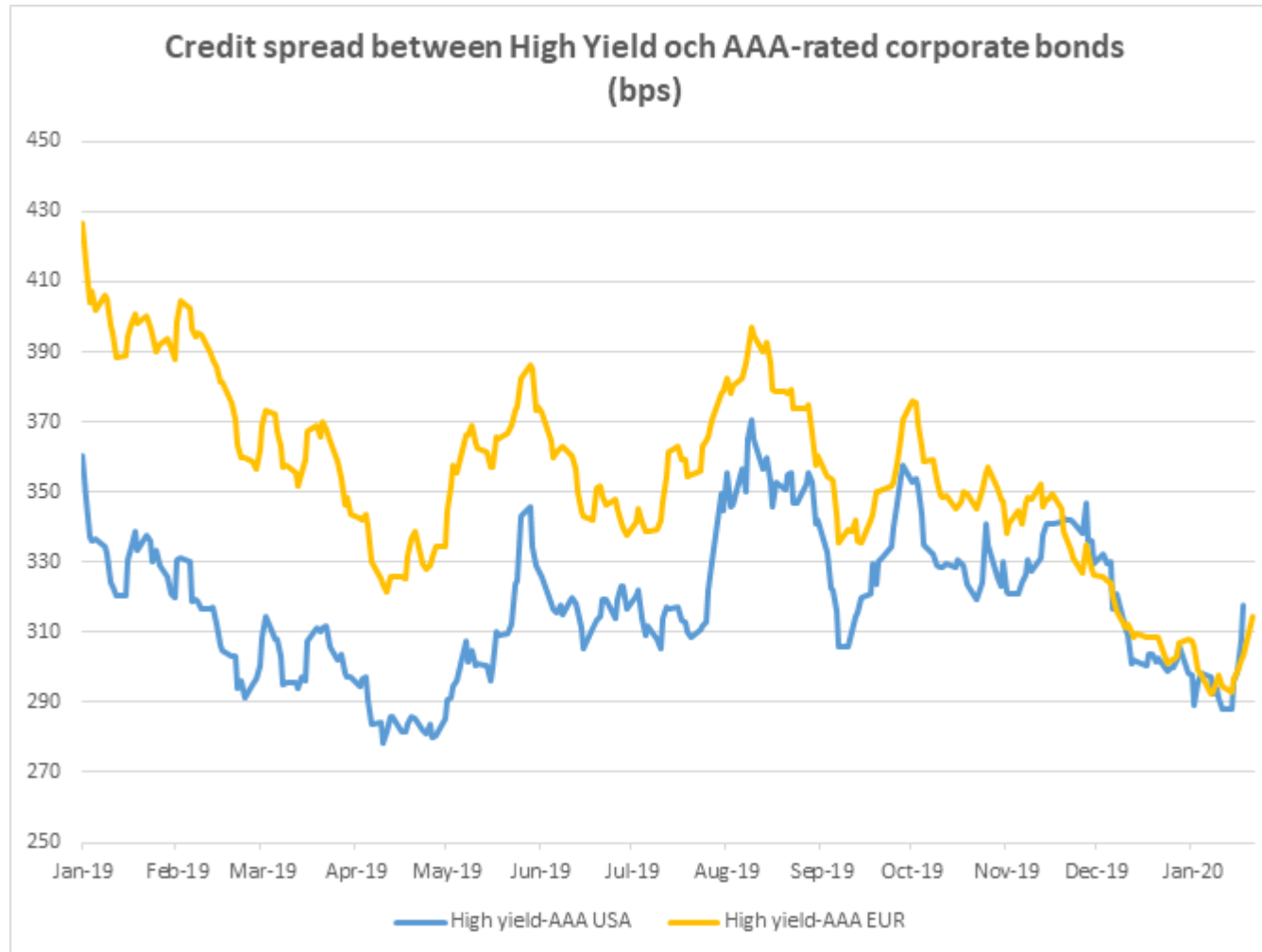
— Japan — Italy — United States — United Kingdom  
 - - Sweden - - Germany

## Stock markets



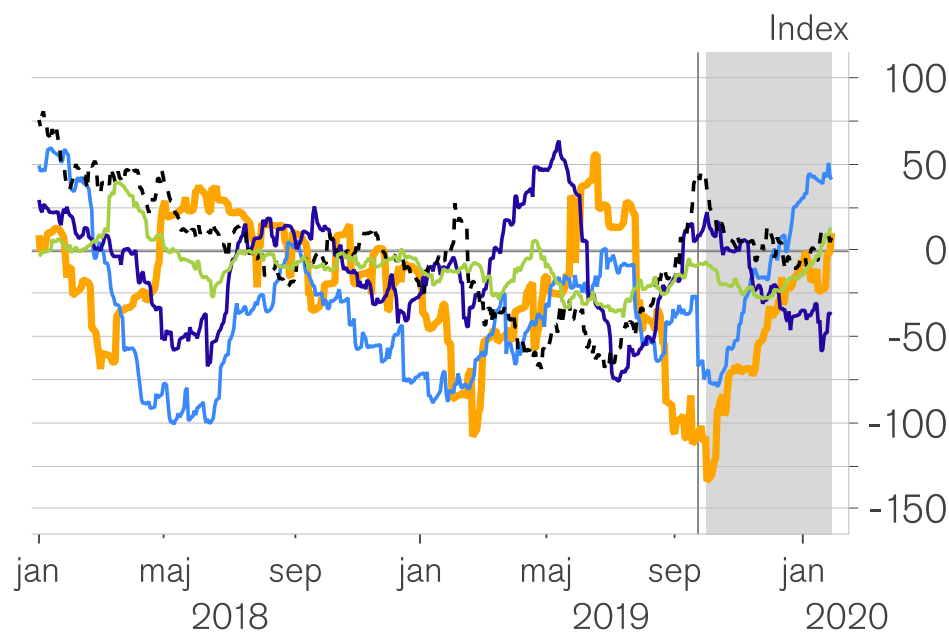
— Shanghai Composite — FTSE all share  
 — STOXX Europe 600 — S&P 500 — OMXS

# Search for yield and high risk taking



# Economic data vs expectations

## Citi Economic surprise index



— Emerging Markets - - United States — United Kingdom  
— Euro Area — Sweden

Economic data generally as expected or better

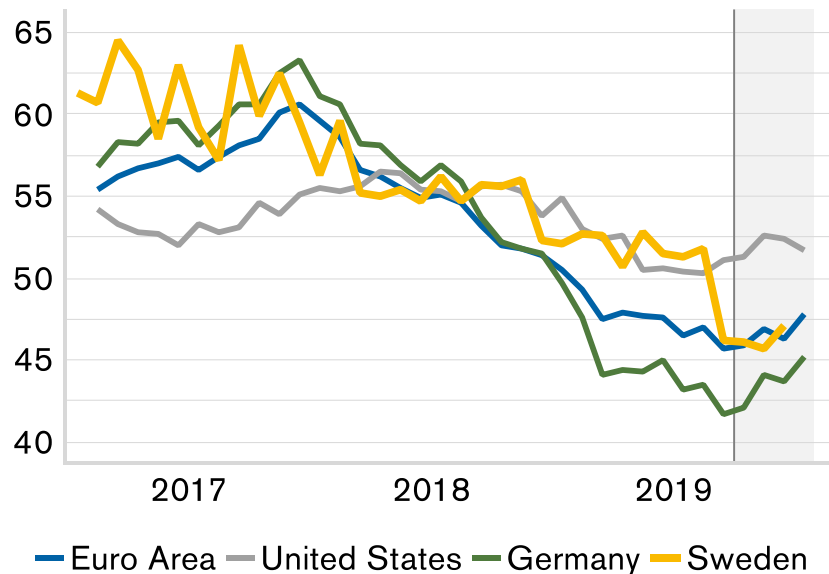
United Kingdom the exception

A through in Swedish data around the time of the NDO:s October publication

# Signs of stabilisation in the manufacturing sector

## Confidence in the manufacturing sector

Index (Markit)



A turnaround since last Autumn

The cease fire in the US-China trade conflict is certainly playing a role

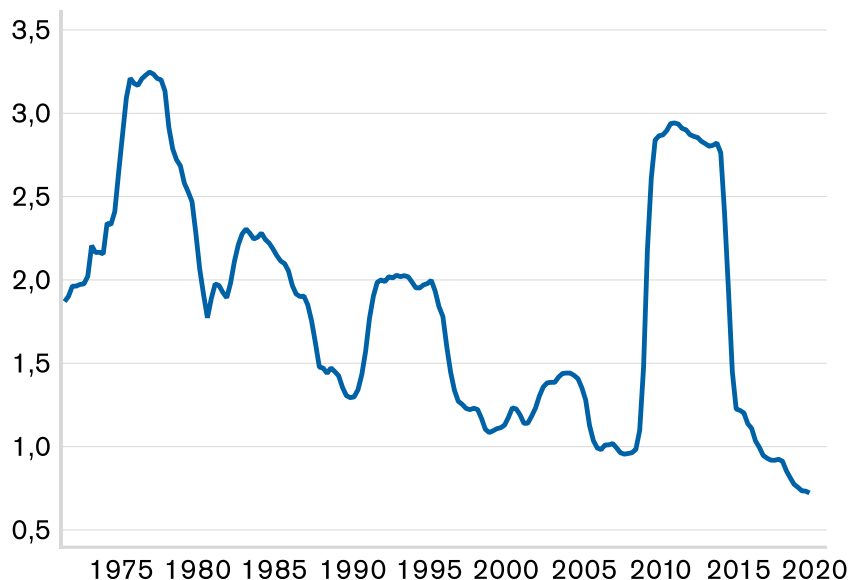
Consistent with a weak near term outlook, but some reason for optimism further out



# Great(er) Moderation

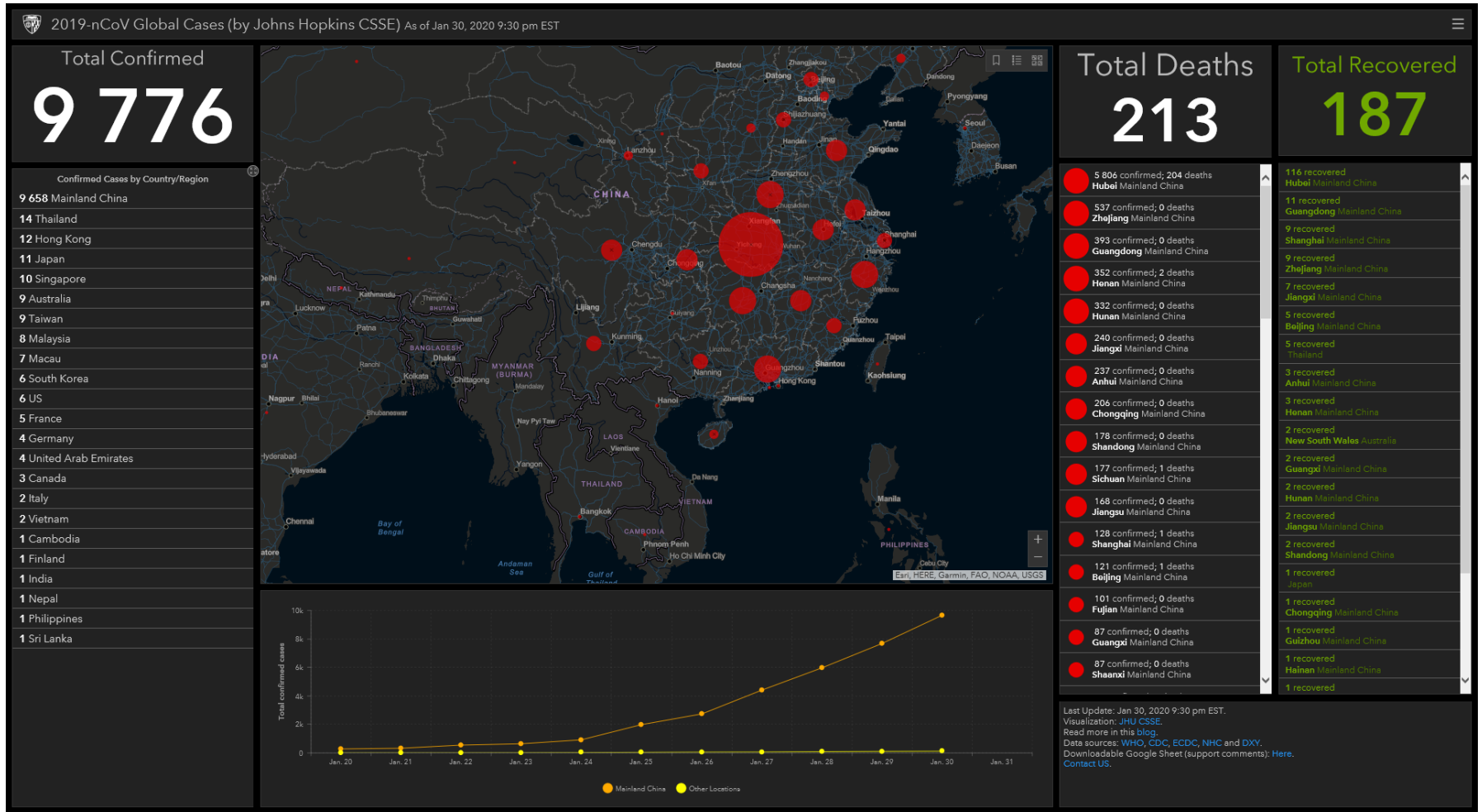
## GDP growth volatility in G7 countries

Unweighted average of 5y rolling standard deviation of yoy GDP growth



- Bernanke (2004) speech "*The Great Moderation*" – something good
- Financial Crisis hit 2008-2009 and the discussion died
- In recent years, macro volatility has seen new lows – in what way is that important for the analysis?

# Corona virus –uncertain consequences

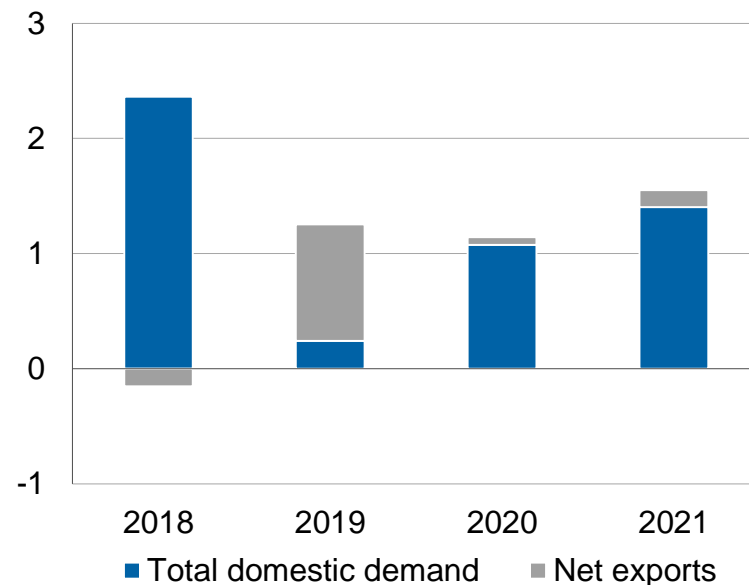


# Weak growth in the Swedish economy

- Uneven and unusual growth composition in 2019
- Net exports sustained Swedish growth in 2019 – partly an effect of SEK weakness?
- Demographic development in the coming years affects public consumption
- Fixed investments probably contracted in 2019 – residential investments down 12% since the peak
- Household consumption weak

## Domestic demand and foreign trade

Percentage points

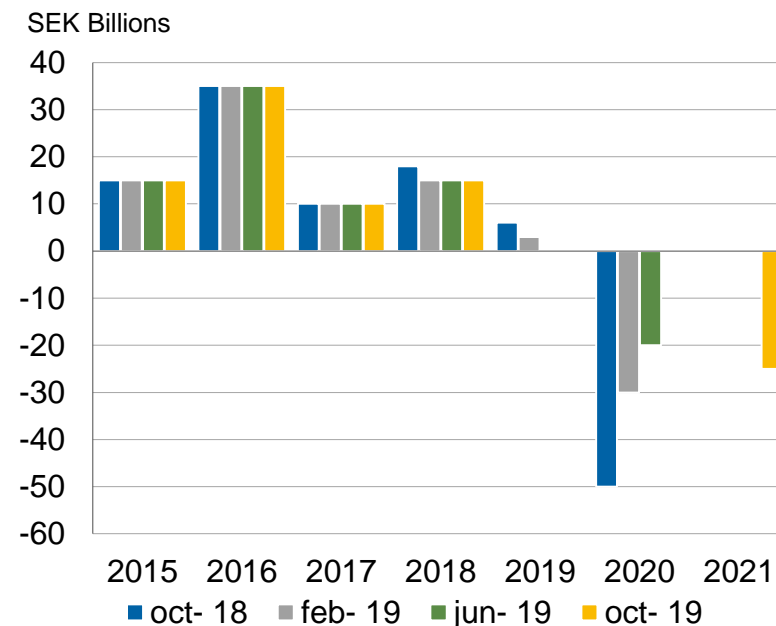


Sources: Statistics Sweden and the Debt Office.  
Forecasts are from the NDO:s publication in October

# Capital investments in the tax account

- Flows to a large extent determined by interest rate differentials
- Approximately SEK 70 billion in total, an expensive and involuntary form of borrowing
- Weaker business cycle and market expectations of low interest rates for a longer period of time affects the forecast

The Debt office's assessment of net capital investment flows to the tax accounts



Sources: Statistics Sweden, the National Tax Agency and the Debt Office.

# Budget surplus turns into deficit

- Low growth, lowered taxes and tax account outflows leads to lower primary balance
- Debt office net lending this year dominated by repayment from the Riksbank
- Interest payments lower in 2021 due to maturing bonds having high coupons

**Table 1. Central government budget balance, forecast 2019-2021**

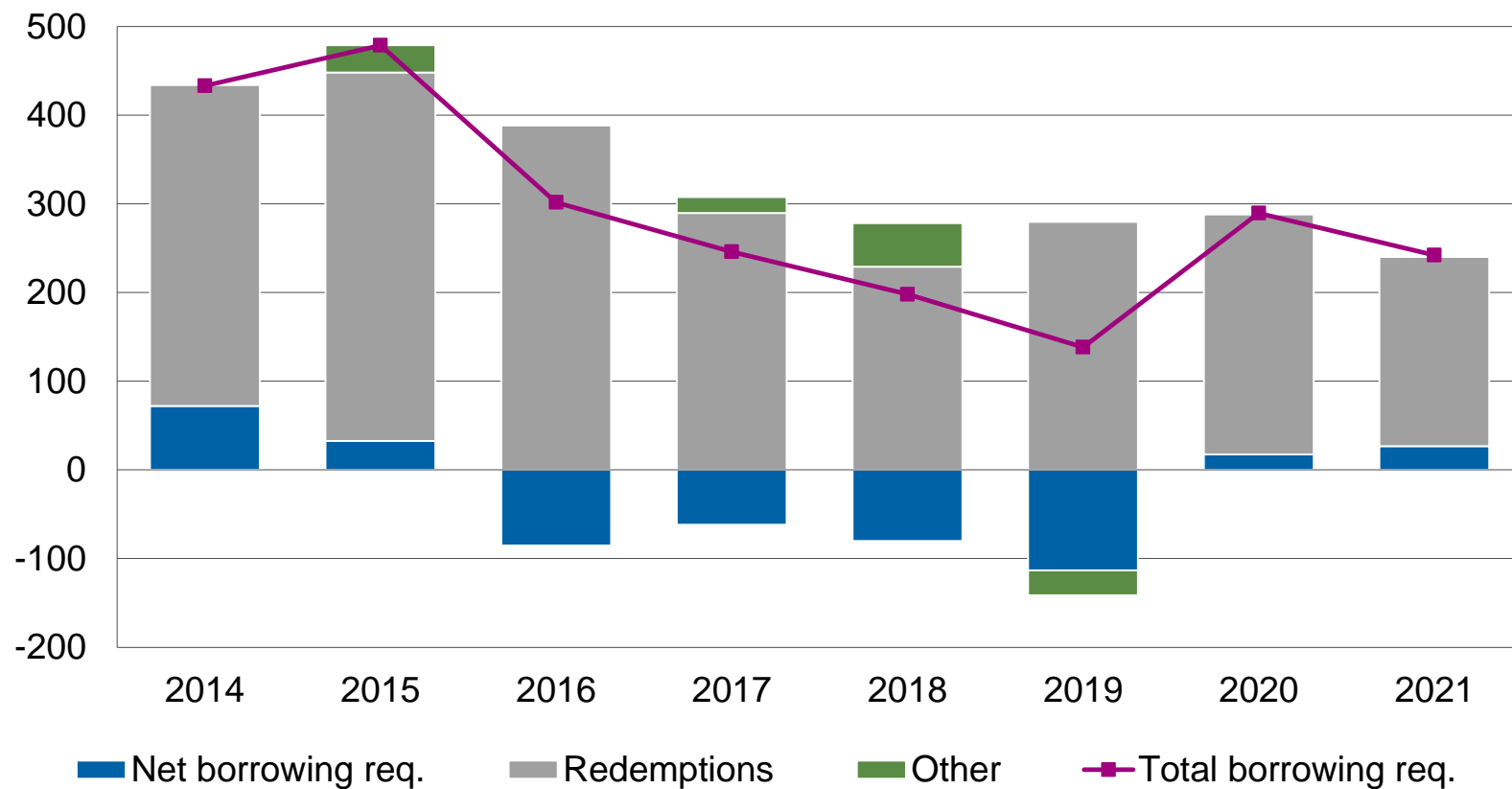
| SEK billion   | 2019       |              | 2020       |              | 2021       |
|---|------------|--------------|------------|--------------|------------|
|   | Oct        | (Jun)        | Oct        | (Jun)        | Oct        |
| Primary balance   | 70         | (75)         | 31         | (30)         | -1         |
| SNDO Net lending  | 65         | (66)         | -23        | (-19)        | -21        |
| <i>of which on-lending</i>                                      | 67         | (67)         | -8         | (-6)         | -8         |
| Interest payments   | -22        | (-20)        | -25        | (-30)        | -4         |
| Budget balance  | <b>113</b> | <b>(121)</b> | <b>-17</b> | <b>(-19)</b> | <b>-27</b> |
| <b>Budget balance excl. capital investments in tax accounts</b> | <b>113</b> | <b>(121)</b> | <b>-17</b> | <b>(1)</b>   | <b>-2</b>  |

# Increased supply of government securities

- From the beginning of 2020 supply of government bonds rises gradually
- Late in 2020 supply of T-bills will be raised to finance redemptions
- The borrowing plan allows for a green bond issue in 2020

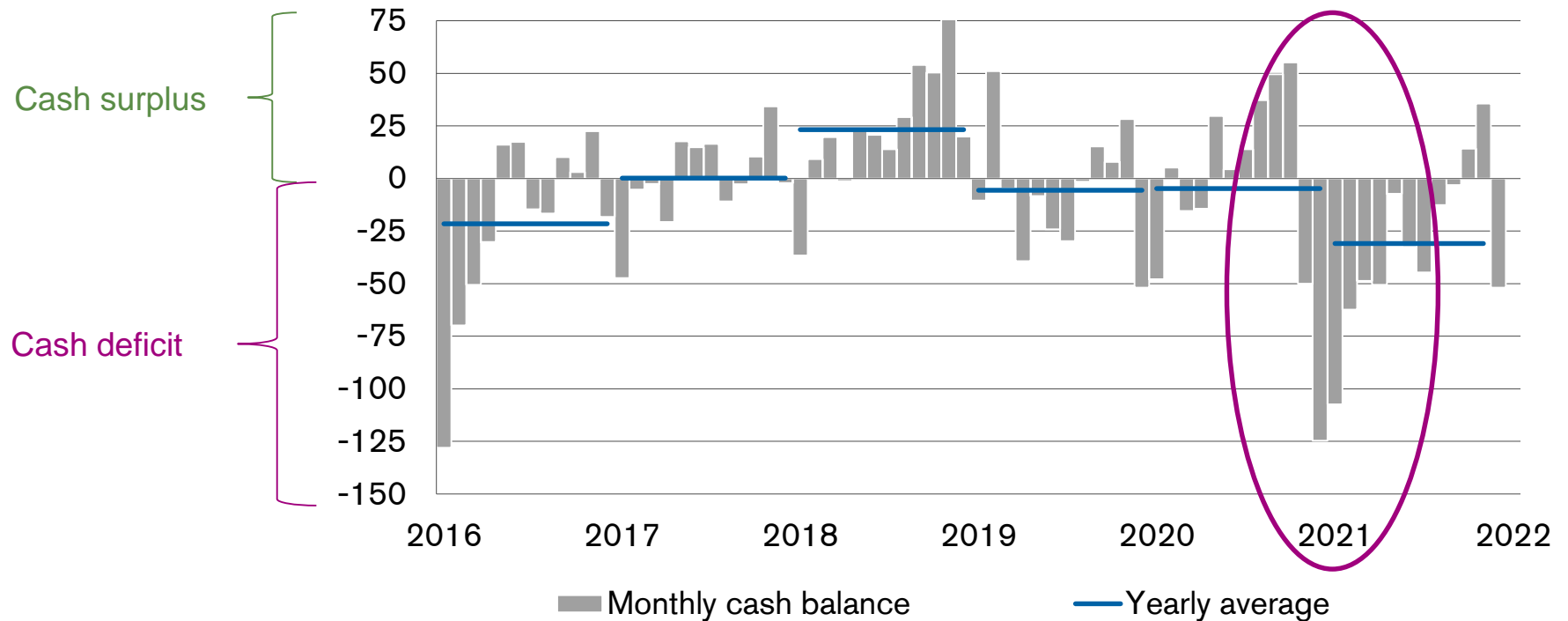
# Deficits and redemptions lead to larger borrowing requirement

SEK billion



# T-bill borrowing to rise as bonds mature

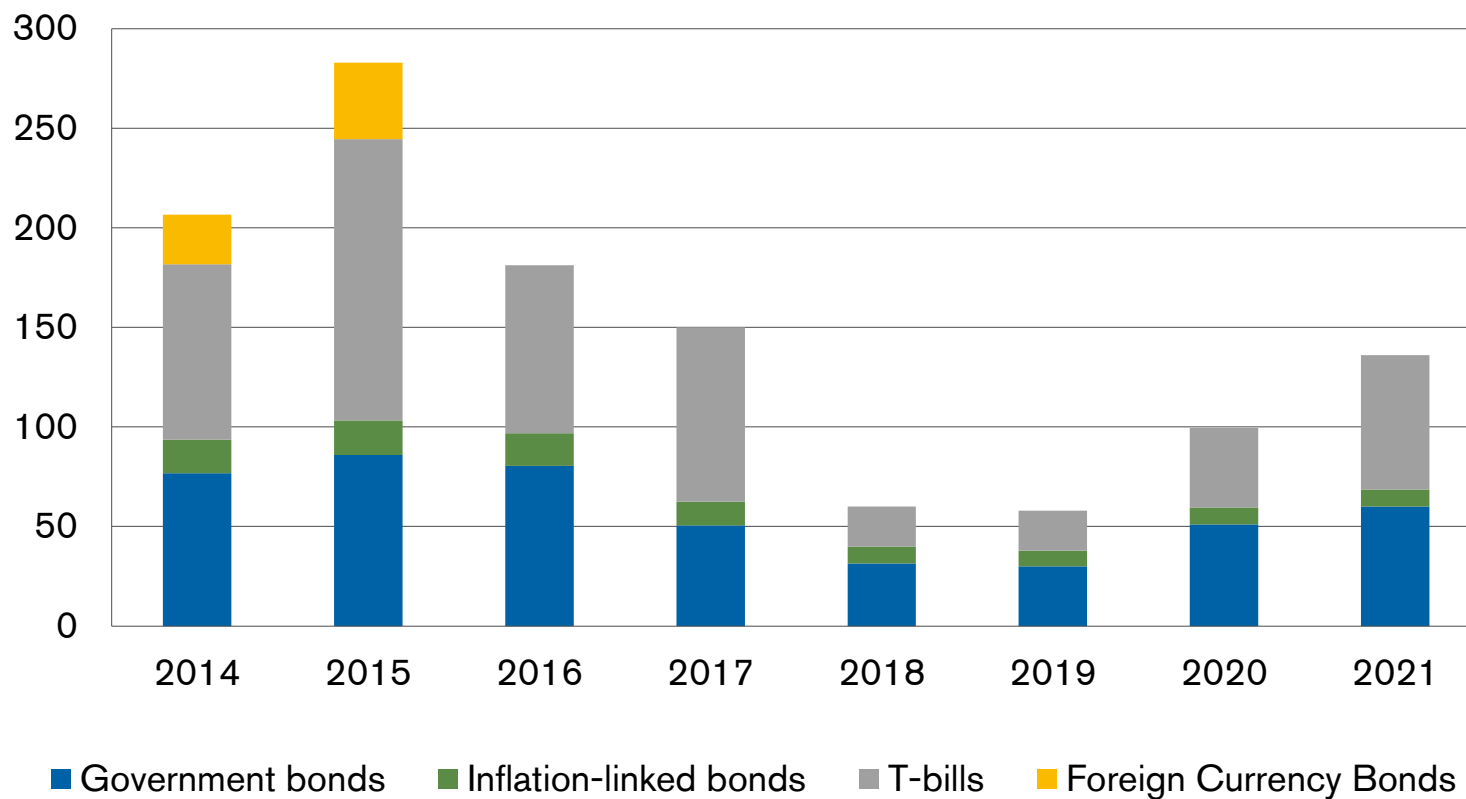
Balance in liquidity management after planned borrowing in government securities, SEK billion



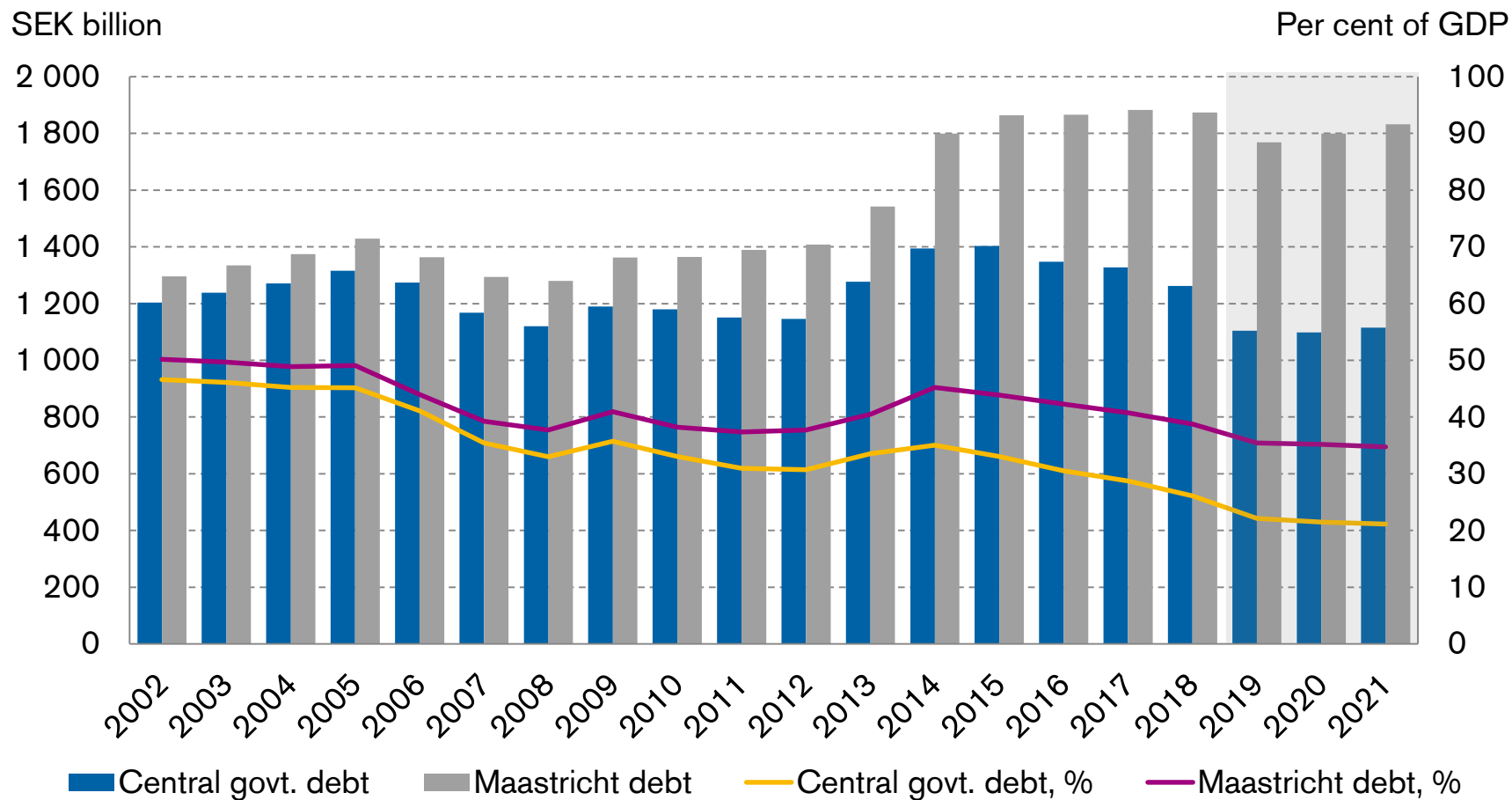


# Issuance volumes to be raised from very low levels

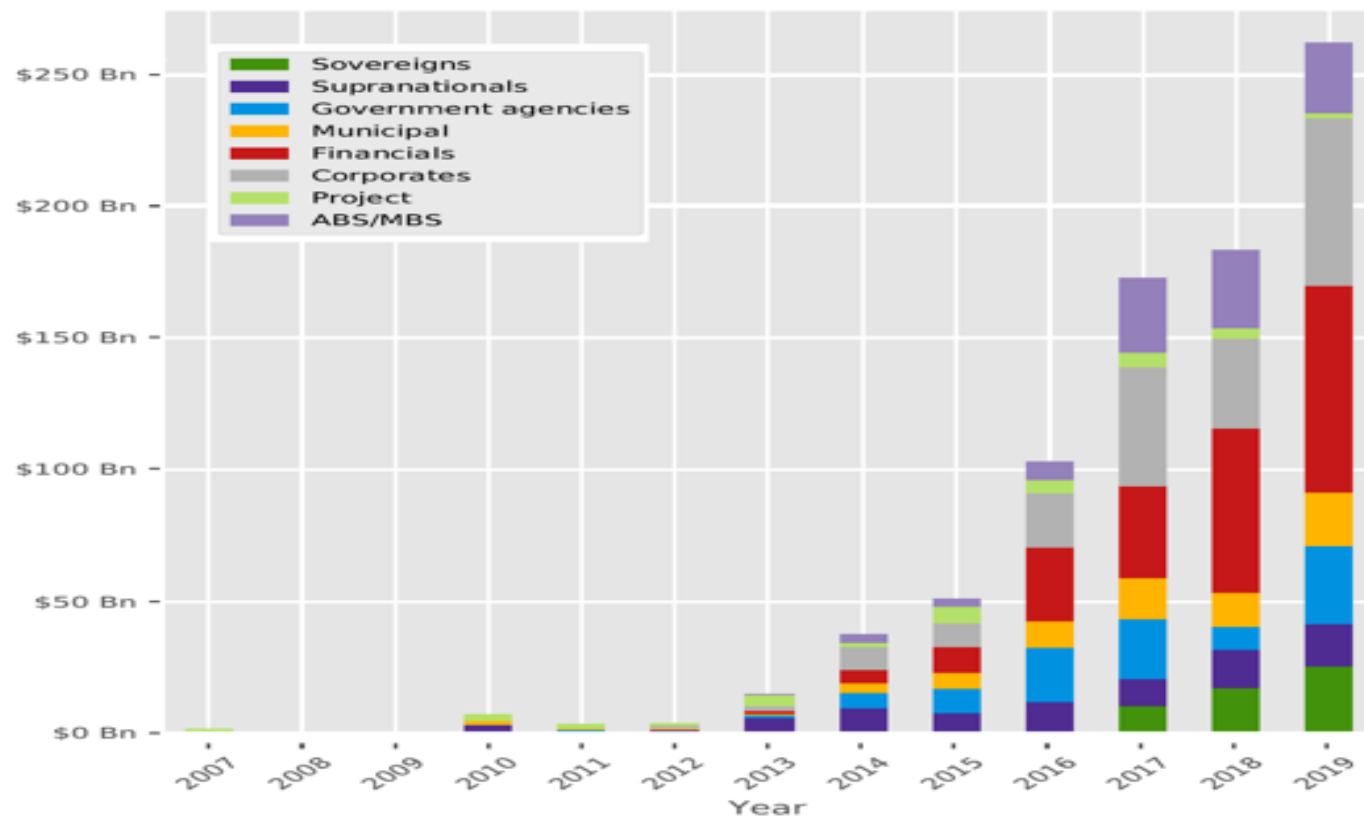
SEK billion



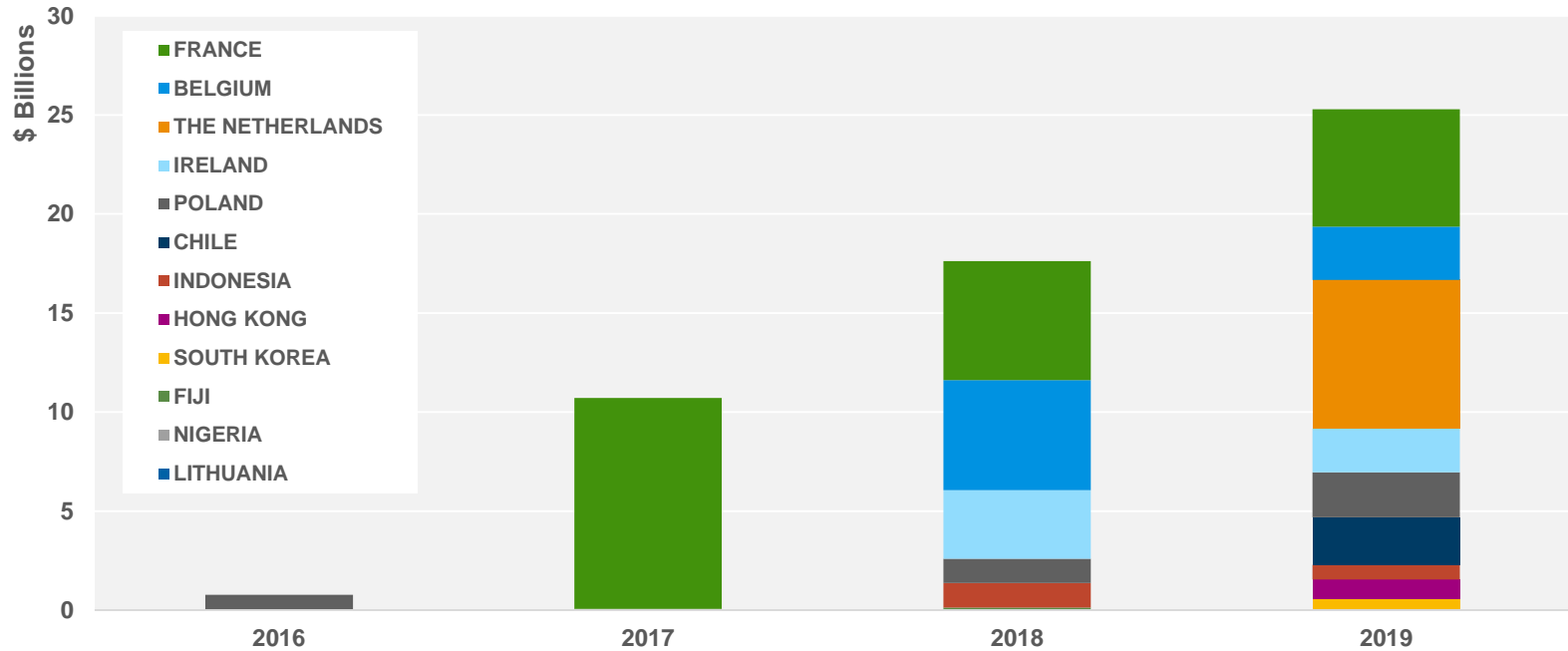
# Government debt levels out



# A growing market for Green Bonds...



# Sovereign green bond market



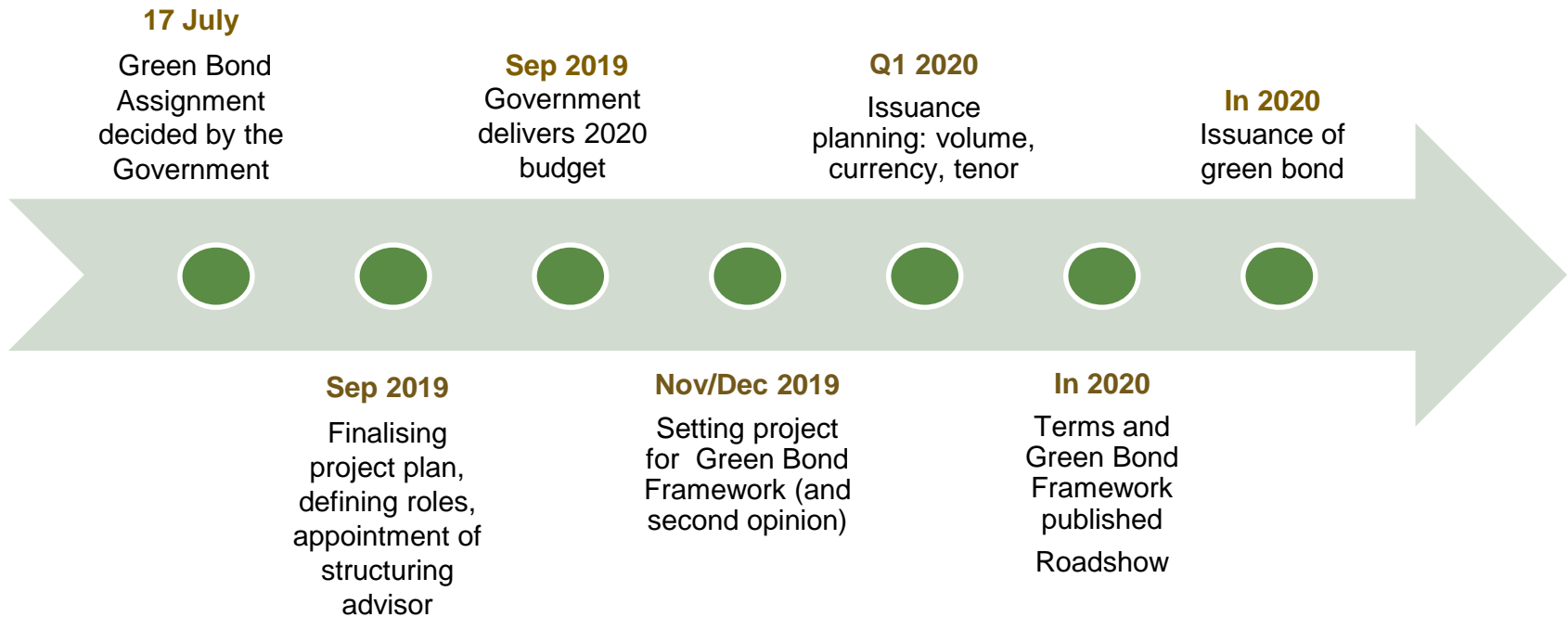
# Sweden to issue a green bond by 2020

- ❖ Proceeds from the bond linked to budget expenditures on environmental and climate investments and projects
- ❖ Principles set in Green Bond Framework – in line with Green Bond Principles (GBP) and linked to Sweden's environmental and climate objectives
- ❖ Issue volume to be set within restrictions given by government mandate:
  - One issue
  - In accordance with the objective of central government debt policy
  - With a good margin below amount of defined green budget expenditure
- ❖ The issuance of the green bond to complement regular borrowing.



Sweden's 16 environmental quality objectives

# Timetable – green bond project



# Setting up a green bond framework

Definition of investment areas

Process for selecting expenditure

Management of proceeds

Reporting of allocation and impact

External review



# Thank you!

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