



SWEDEN – A SELF-FINANCING STATE

Erik Arnell & Johannes Borgström

MMT for Sweden, Report 1

2024-10-20

Translation 2025-01-12



1. STATE SPENDING CREATES MONEY

When the Swedish state spends, it **creates** the funds that the the private sector uses to pay taxes and purchase government securities.

In other words:

- The Swedish state is self-financing.
- Taxes do not fund the state.
- The state does not borrow Swedish kronor, the national currency.

This article will demonstrate this by revisiting and illustrating the description of how the state's payments and revenue collection work in the informational publication, "Swedish Payment Flows – How It Works,"¹ by the Financial Sector's Public-Private Partnership (FSPOS)².

The article will also refer to Swedish legislation and publications from the Swedish central bank (Riksbanken), the Swedish National Debt Office (Riksgälden), and the Swedish National Financial Management Authority (Ekonomistyrningsverket).

Together, these sources clearly demonstrate that state spending creates money, that taxes do not finance the state, and that the state does not borrow Swedish kronor.

Sweden is a self-financing state.

¹ <http://www.fspos.se/siteassets/fspos/rapporter/2017/svenska-betalningsfloden--sa-funkar-det-ver-7.0.pdf>

² FSPOS is a voluntary collaboration forum with participants from both the private sector and public institutions in the financial sector. FSPOS has conducted a mapping of transaction flows within the financial sector. FSPOS members include banks, insurance companies, securities firms, Euroclear Sweden, Bankgirot, NASDAQ OMX, the Swedish National Debt Office, the Swedish Social Insurance Agency, The Central Bank (Riksbanken), the Financial Supervisory Authority, and the Swedish Civil Contingencies Agency (MSB).

2. DEFINITIONS

This article uses common definitions of “finance” and “borrow”, that people naturally associate with these terms. Based on the authors' experience, these are the definitions typically intended when someone says, “the state is funded by taxes and borrowing.”

The article adopts the following definitions:

To Finance = to acquire capital (funds) to pay expenses.

Therefore, that the Swedish state is self-financed means that it creates the funds it uses to pay its expenses.

Borrow = to obtain the right to use something that belongs to somebody else, for a certain period.

Thus, the borrower temporarily gains an asset they did not previously have, and that they can make use of.

Central Bank Money = Swedish kronor issued by Riksbanken, including physical money (coins and notes) and the balances on private banks' transaction accounts at Riksbanken (in Riksbanken's payment system, RIX).³

In this report we will use **Swedish kronor** (SEK) to refer to central bank money.

Balances in banks' transaction accounts at Riksbanken are sometimes also referred to as **reserves** – so too in this report.

Private Bank Money = the balances in private bank accounts.⁴

What we mean by “**money**” in everyday speech is usually a combination of the above, namely the physical currency in circulation and the balances of our bank accounts at private banks — quite simply, the money we use daily.

The State = All consolidated state agencies including Riksbanken — the state in its entirety (sw. staten).

The Government = The Swedish national cabinet, which is the central executive authority (sw. Regeringen). Please note that the term is used in the relatively narrow sense of the Swedish constitutional setting, not in the broader sense common in the UK or US, where it often encompasses all the various public agencies in addition to the central executive authority.

State Securities = Interest-bearing debt securities issued by the state, mainly consisting of treasury bills and various bonds.

³ <https://www.riksbank.se/en-gb/payments--cash/what-is-money/>

⁴ <https://www.riksbank.se/en-gb/payments--cash/what-is-money/>

3. BUDGET, APPROPRIATIONS AND STATE PAYMENTS

The state spends through its agencies. Parliament and the government decide how much and on what the agencies are allowed to spend, based on legislation.

Rules regarding the government's budget are found in Chapter 9, Sections 1–10 of the Instrument of Government (Regeringsformen, the most important part of Sweden's constitution) and the Budget Act (2011:203)⁵. The Financial Management Authority explains:

What do the Constitution and the Budget Act say about appropriations?

“The Parliament decides how large the appropriations can be and what the money can be used for, that is, the purpose of the appropriation. The government then determines how much of the appropriation each agency can use and the more detailed conditions for how the money can be spent.

At least once a year, the government issues a regulation letter for each agency. In the regulation letter, the government specifies how much money each agency can use during the year and what special conditions apply to how the appropriation can be used.”

Source: <https://forum.esv.se/globalassets/handledning-ar/pdf/basbok-hur-finansierar-statliga-myndigheter-sin-verksamhet.pdf> p. 21

Agencies receive appropriations determined by Parliament and the government. These appropriations appear (slightly simplified) as balances on "interest-bearing accounts" in the State's internal bank, or business system, SIBS (the State's internal banking system)⁶. This system is managed by the National Debt Office, which is the government agency responsible for the central financial management of the Swedish state.

The Financial Management Authority explains that “the National Debt Office is responsible for disbursing the appropriations of the government agencies. Normally, an agency receives one-twelfth of its 'appropriations for administrative purposes' to its interest-bearing account each month”⁷.

The language can be misleading, as most associate a disbursement with money. However, no “money” is actually paid out in this case — since private bank money are balances in private bank accounts, and central bank money (Swedish kronor) are either the balances in banks' accounts at Riksbanken (the Swedish central bank) or physical currency. Balances in the internal business system of the National Debt Office are neither of these.

Agency balances in the SIBS interest-bearing accounts are updated daily with each agency's payments and collections so that the agencies always know how much they are **authorised** to spend. The National Debt Office describes the SIBS interest-bearing accounts in this way on its website.

⁵ <https://www.government.se/contentassets/0d05209c49824d86bd3d977f4cfaa568/2011203-budget-act/>

⁶ <https://www.riksgalden.se/sv/var-verksamhet/statens-internbank/statens-internbanks-system---sibs/>

⁷ <https://forum.esv.se/globalassets/handledning-ar/pdf/basbok-hur-finansierar-statliga-myndigheter-sin-verksamhet.pdf> p. 26

The interest account is not a regular transaction account; rather, it is an account within the business system SIBS that shows how much funds an agency has at its disposal. The account is updated daily with information about the agency's incoming and outgoing payments. The agencies themselves make the actual payments through their framework agreement banks. The balances of the interest accounts (along with any credit) indicate the amounts available for the agencies to make payments within the framework of allocated appropriations.

The National Debt Office has entered into framework agreements with a number of banks (currently Swedbank and Danske Bank)⁸. Agencies can open accounts with either or both of these banks according to these agreements, and then use them to process their payments and collections.

To summarise: Government agencies do not receive actual money to spend—only instructions on how much they are allowed to spend (and on what). These instructions derive their validity and limitations from the laws, regulations, and government directives that govern the process. The agencies carry out the actual payments themselves, through the framework agreement banks.

4. HOW DOES THE GOVERNMENT PAY WITHOUT MONEY?

As we have seen government agencies have accounts with framework agreement banks, that they use for incoming and outgoing payments. But how are they used? One hint is in the explanation of National Debt Office: "The balance in these accounts can be both positive and negative during the day."⁹ We repeat: the balance in an agency account can be both positive and **negative**, but only during the day and thus not overnight. Every day the agencies' accounts begin at a balance of zero.

The reason for this is that the Swedish state has centralised its liquidity management, for more efficient processing of its incoming and outgoing payments:

"The core of centralised liquidity management is that the surpluses or deficits of all agencies are offset against each other, and the total surplus or deficit is managed centrally."¹⁰

As we will soon see, agencies make payments by temporarily overdrawing their accounts (creating **negative balances**) at the framework banks.

The money that government agencies spend does not come from anywhere. Money is **created** at the very moment an agency, with legal authorisation, makes a payment to the private sector.

This will now be illustrated and clarified.

The Financial Sector's Public-Private Partnership (FSPOS) has conducted a survey of different transaction flows in the financial sector, including how the state's payments and

⁸ <https://www.riksgalden.se/sv/var-verksamhet/statens-internbank/ramavtal/betalningstjanster/ramavtal-2022-2026/>

⁹ <https://www.riksgalden.se/sv/var-verksamhet/statens-internbank/statens-betalningsmodell/central-likviditetshantering/>

¹⁰ <https://www.riksgalden.se/sv/var-verksamhet/statens-internbank/statens-betalningsmodell/central-likviditetshantering/>

revenue collection are technically carried out. This study is the basis for our description and illustration of payment flows in this report. Throughout the rest of this report you will find extracts from the FSPOS survey inserted as text boxes, as well as running examples with illustrations of how the different transactions affect the balance sheets of the involved actors.

5. WHAT HAPPENS WHEN A STATE PAYMENT IS MADE?

When an agency spends — for example, when the Swedish Social Insurance Agency¹¹ (sw. Försäkringskassan) makes a pension payment to a citizen — the agency instructs its framework agreement bank to make a payment.

1. The Swedish Social Insurance Agency (sw. Försäkringskassan) sends a file with information to the Framework Agreement Bank indicating that they wish to make a pension payment to a citizen who is a pensioner and a customer of a bank in Sweden. (This occurs about 6–7 days before the payment is made.)

Source: FSPOS, Svenska Betalningsflöden – Så funkar det, Version 7.0 mars 2017, p 17

For the sake of simplicity, let us assume that the pensioner's account is with the same framework agreement bank (we avoid the description of how private banks make payments to each other, as this is not the focus of this report). **Upon receiving the payment order, the bank increases the balance in the pensioner's account and decreases the balance in the Swedish Social Insurance Agency's account.** The agency's account balance was zero to begin with, so the transaction results in an overdraft in the agency's account. The increase in the pensioner's bank account balance means, by definition, that new private bank money is created at that moment.

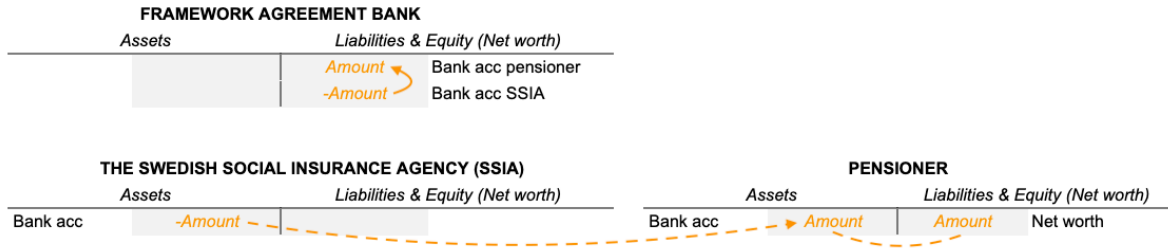
3a. The transfer is made from the Swedish Social Insurance Agency's account with the Framework Agreement Bank to the Recipient's account with the same bank. (According to the state framework agreement, the money must be deposited into the Recipient's account by the day before the pension payment date, but it becomes available to the Recipient only at 00:01 on the payment date.) (See section 14 for the continuation of the flow.)

Source: FSPOS, Svenska Betalningsflöden – Så funkar det, Version 7.0 mars 2017, p 17

A balance sheet consists of assets on the left side and liabilities and equity (net worth) on the right side. Both sides must be equal; they need to balance. If the person whose balance sheet is being considered has more assets than liabilities, all debts can be paid off, and there will still be assets remaining. This means the person has positive net worth (or equity).

The pensioner's assets increase without the pensioner giving up any other assets or incurring any debt — their net wealth (equity) increases.

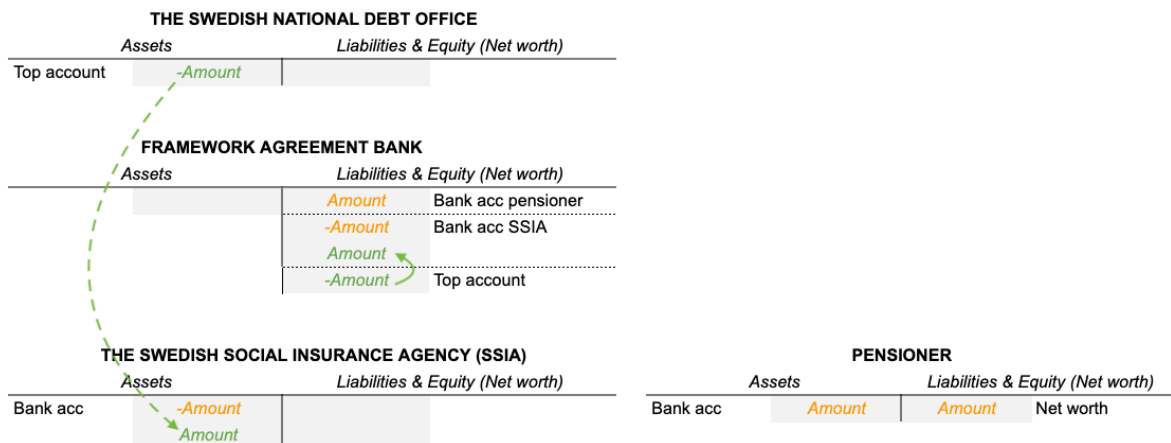
¹¹ It is now the Swedish Pensions Agency that handles pension payments, but this of course does not affect the reasoning.



How will the negative balance on the Swedish Social Insurance Agency's account be managed? The answer is that the National Debt Office holds a so-called top account in each framework bank, to which all regular agency account balances are transferred¹². Therefore, as the next (immediate) step the overdraft in the Swedish Social Insurance Agency's account is cleared by **a payment from the National Debt Office's top account to the Swedish Social Insurance Agency's account**. (Information about the payment is also sent to the National Debt Office, where it is used to mark down the agency's interest-bearing account.) The overdraft is thus transferred from the agency to the National Debt Office.

14. A transfer occurs from the National Debt Office's top account with the relevant Framework Agreement Bank to the Swedish Social Insurance Agency's account with the same bank. Information about the payment is sent to The National Debt Office via a SWIFT message (MT941).

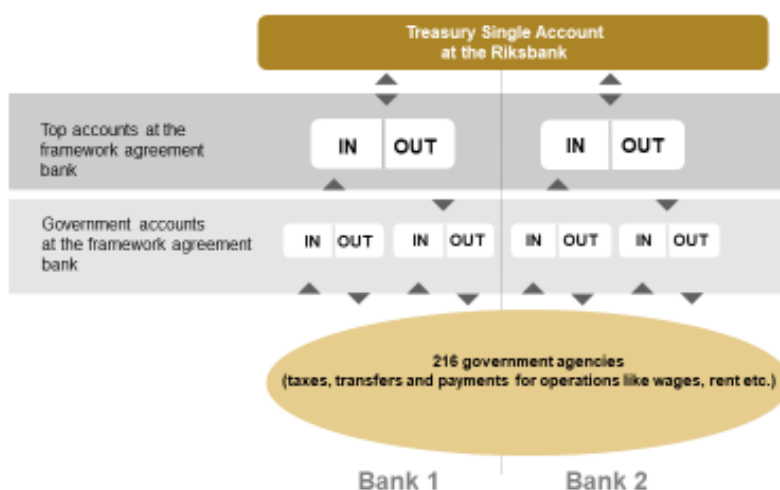
Source: FSPOS, Svenska Betalningsflöden – Så funkar det, Version 7.0 mars 2017, p 18



At the top of the state's account hierarchy we find the Treasury Single Account (sw. statens centralkonto, abbreviated SCR). This account is also managed by the National Debt Office and is held with Riksbanken, the Swedish central bank.

¹² <https://www.riksdagen.se/sv/var-verksamhet/statens-internbank/statens-betalningsmodell/central-likviditetshantering/>

Efficient use of Government's liquidity



Source: <https://www.riksdagen.se/en/our-operations/cash-management/the-central-government-payment-model/>

To settle the debt (overdraft) that the National Debt Office owes to the framework bank in this example, the National Debt Office initiates a so-called settlement instruction in its internal system. The state pays the private framework bank via a transaction in Riksbanken's payment system, RIX.

RIX receives the payment information and **increases the balance in the framework agreement bank's transaction account at Riksbanken (its reserves), while decreasing the balance on the Treasury Single Account with Riksbanken (SCR)**. Further, RIX instructs the framework agreement bank to increase the balance in the National Debt Office's top account with the bank.

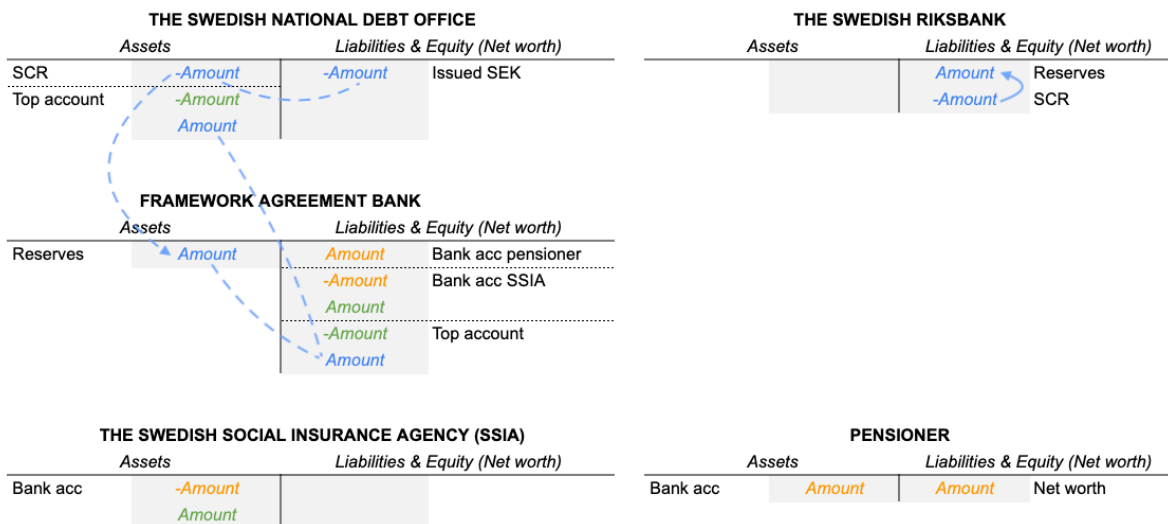
The increase in the balance in the framework agreement bank's RIX account means, by definition, that new central bank money, or Swedish kronor, is created by the state at this moment. Riksbanken has provided the National Debt Office with credit in the form of the overdraft on the Treasury Single Account, but since both Riksbanken and the National Debt Office are state agencies the balance becomes zero for the state as a whole. The debt that the National Debt Office owes to the framework agreement bank has been settled with newly issued Swedish kronor from the state. We will return to this account later in the article.

17. RIX receives the payment information and settles the balances of the Treasury Single Account (SCR), held by the National Debt Office, and the accounts of all framework agreement banks. Money is transferred from the Treasury Single Account in RIX to the respective framework agreement banks' accounts in RIX. A confirmation (MT097) that settlement has occurred is generated.

18. After confirmation from RIX that the settlement has been completed, SWIFT automatically forwards the payment (MT103) to the respective framework agreement bank and sends an MT012 message to the National Debt Office, confirming that the settlement has been carried out.

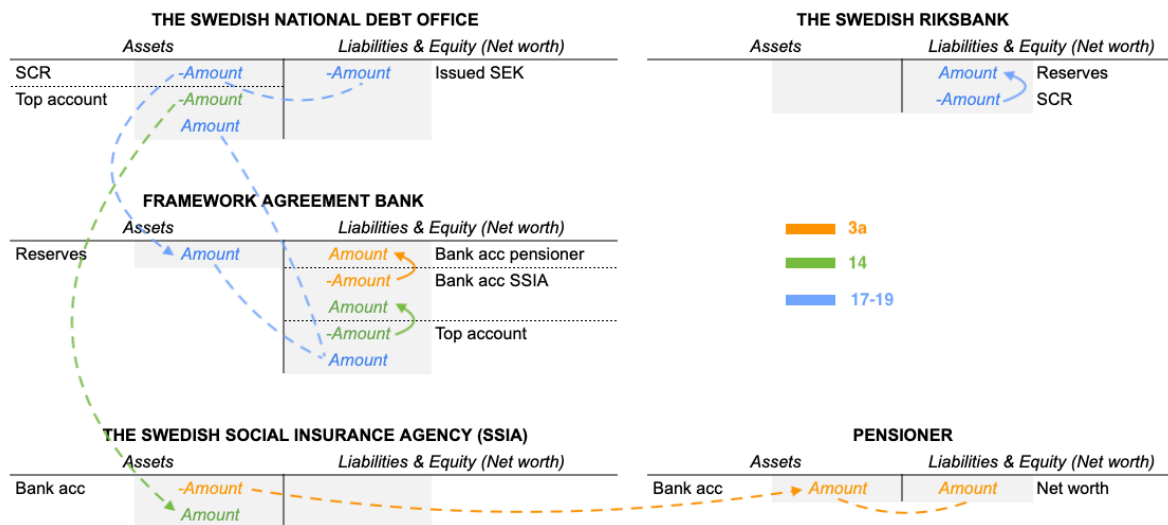
19. A transfer is made to the National Debt Office's top account at the framework agreement bank, which settles the debt that the National Debt Office owes to the bank. This happens no later than 3:00 p.m. on the pension payment day.

Source: FSPOS, Svenska Betalningsflöden – Så funkar det, Version 7.0 mars 2017, p 19

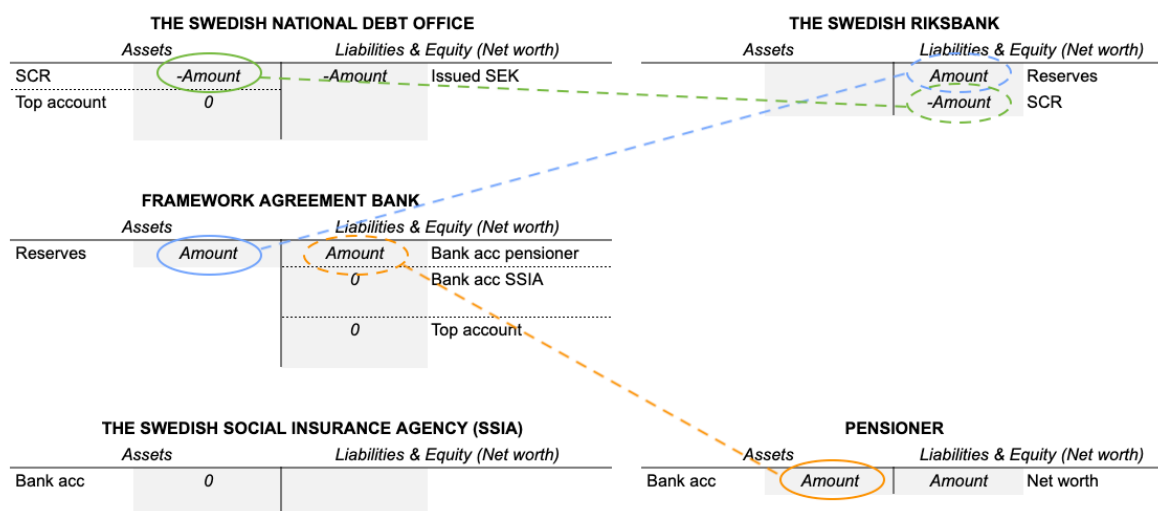


When looking at the entire transaction chain it is easy to follow the flow of funds upstream, from the agency's payment, from its account in the framework agreement bank to the pensioner, via the National Debt Office's top account in the same bank, to the issuance of Swedish kronor when Riksbanken increases the balance of the reserve account of the framework agreement bank at Riksbanken. The source of the balance that ends up in the pensioner's account, and thereby increasing the pensioner's net wealth, is the state's

issuance of Swedish kronor.



The pension payment (or more generally, any payment by the state) ultimately results in the pensioner (the recipient) having an increased balance in their bank account, the framework agreement bank having an increased balance in its transaction account at Riksbanken (reserves), and a reduced balance in the central Treasury Single Account, SCR.

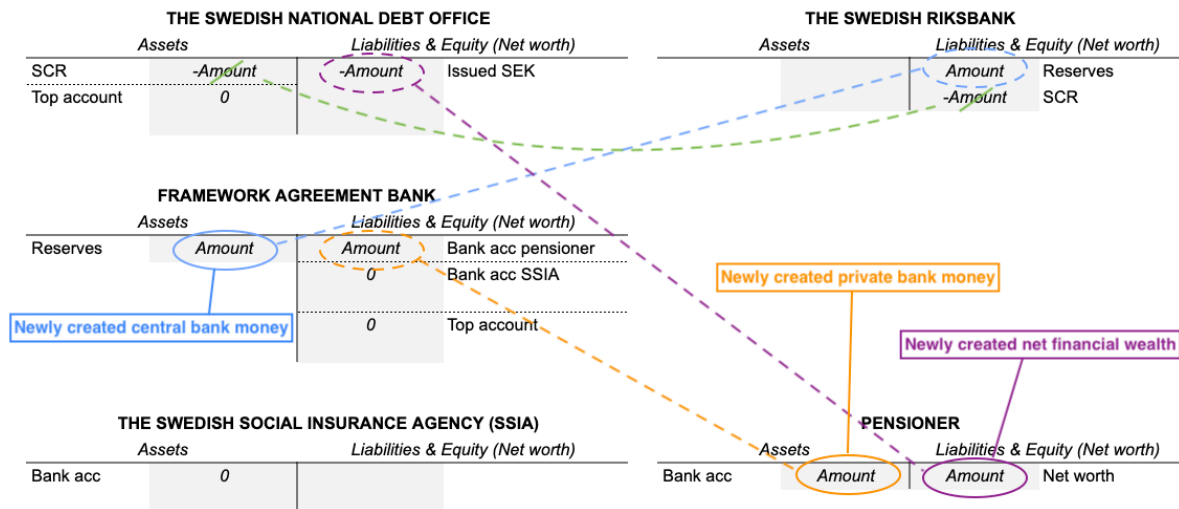


Private bank money consists of balances in accounts in private banks. As we have seen from our review of the transactions that occur when the state makes a payment, these transactions yield an increase in the recipient's account balance without decreasing the balance of any other account in any private bank. Consequently, private bank money is created when the state spends.

Central bank money consists of balances in private banks' accounts with the central bank (reserves) as well as cash and coins. The transactions above show that also these balances increase when the state spends. Thus, central bank money is also created when the state spends.

The recipient has more money in their bank account without borrowing money or selling any financial assets. Therefore, their net financial wealth has increased.

More generally, both private bank money and central bank money are created when the state spends, and the private sector's net financial wealth increases.

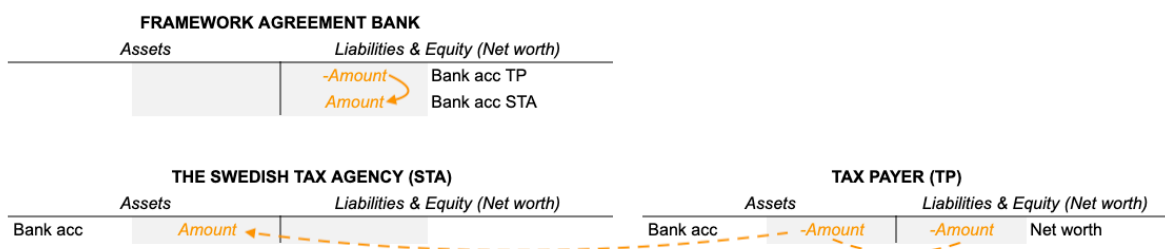


6. WHAT HAPPENS WHEN TAXES ARE PAID?

Simply put: The same way as above, but the direction of all transactions is reversed.

The process by which funds are moved from the taxpayer's account to the Tax Agency's (sw. Skatteverket) account is slightly more complicated than the pension payment example above. Tax payments are made using Bankgirot (a clearing house), and the payment from the taxpayer's account to the Tax Agency's account will therefore go through RIX.

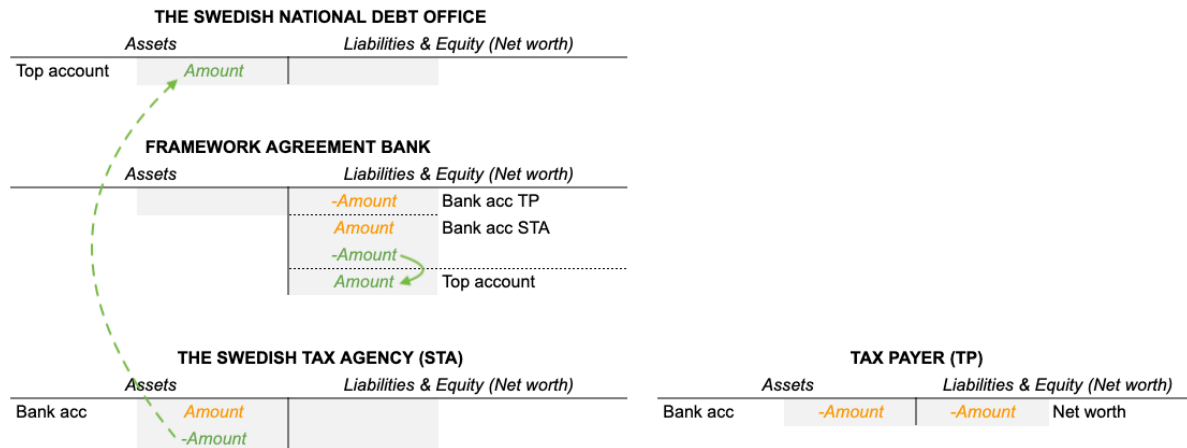
The purpose of this article is not to explain how the Swedish banking system works, so we will start the explanation where **the taxpayer's account balance has decreased and the balance on the Tax Agency's account at its framework agreement bank has increased.** The taxpayer's payment to the Tax Agency has been processed.



At this point, a payment is (immediately) made from the Tax Agency's account with the framework agreement bank to the National Debt Office's top account with the same bank. This zeroes out the Tax Agency's account, again.

14. A transfer is made from the Tax Agency's account with the Tax Agency's framework agreement bank to the National Debt Office's top account with the same bank. Payment information (MT941) is sent to the National Debt Office. (This happens at 2:30 p.m.)

Source: FSPOS, Svenska Betalningsflöden – Så funkar det, Version 7.0 mars 2017, p 35



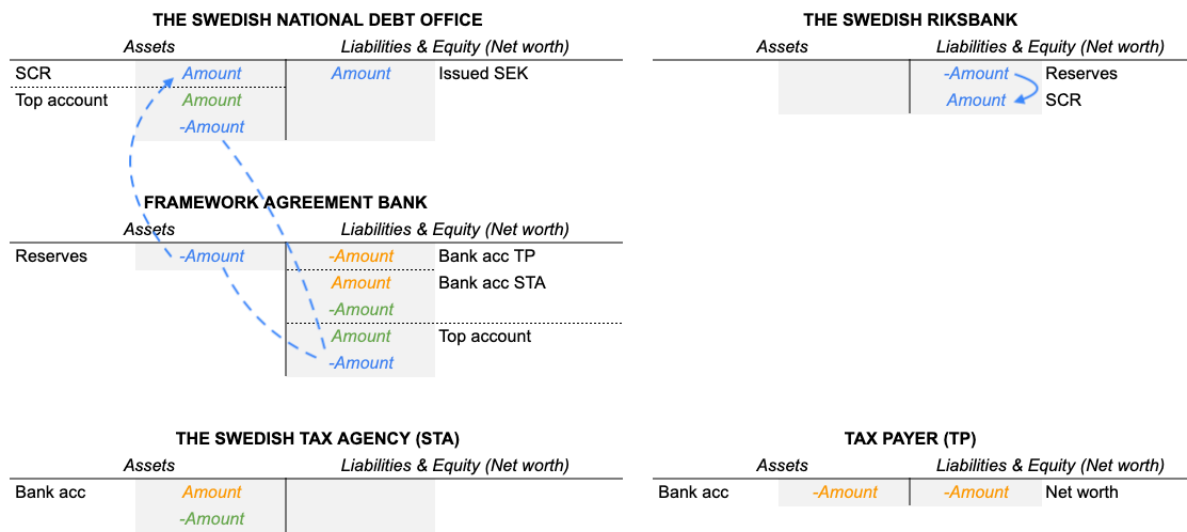
The next step is for the National Debt Office's top account at the framework agreement bank to be emptied. The balance in the top account reflects a debt that the framework agreement bank owes to the National Debt Office, and this debt will now be settled. This is done by decreasing the balance in the framework agreement bank's account at Riksbanken and increasing the balance on the Treasury Single Account at Riksbanken. The decrease in the framework agreement bank's account balance (reserves) means, by definition, that the amount of central bank money decreases. In the same transaction – after a chain of transactions from the taxpayer's account to the Tax Agency's account to the National Debt Office's top account – the amount of private bank money also decreases.

16. The Tax Agency's framework agreement bank initiates an internal system SWIFT message (settlement message) MT103 addressed to the National Debt Office, with delivery conditional on completed settlement in RIX. This is done to settle the debt that the Tax Agency's framework agreement bank has to the National Debt Office.

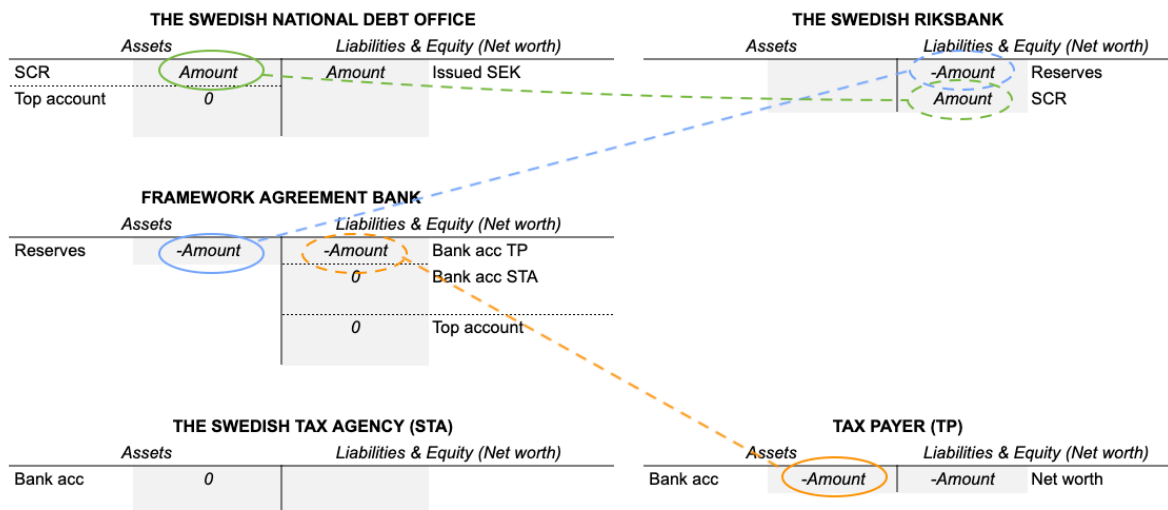
17. SWIFT receives the payment information, which is placed on hold awaiting settlement in RIX, and sends a copy of the payment (MT096) to RIX.

18. RIX receives the payment information and performs settlement between the Tax Agency's framework agreement bank and the central Treasury Single Account (SCR), held by the National Debt Office. Money is transferred from the Tax Agency's framework agreement bank's account in RIX to the Treasury Single Account in RIX. (This happens no later than 3:00 p.m.)

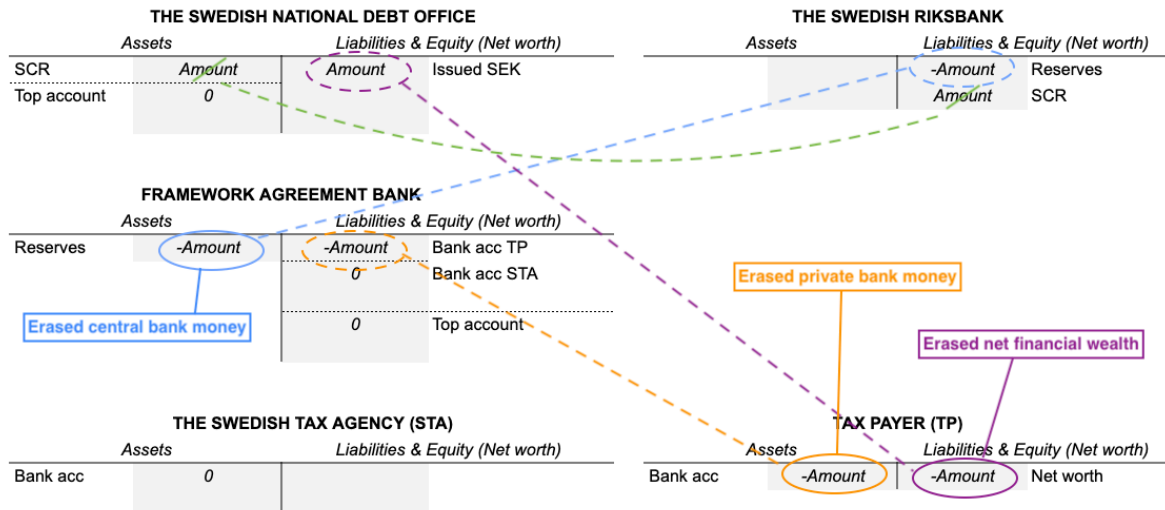
Source: FSPOS, Svenska Betalningsflöden – Så funkar det, Version 7.0 mars 2017, p 35–36



In summary, a tax payment results in the taxpayer having a reduced balance in their bank account, the framework agreement bank having a reduced balance in its transaction account at Riksbanken (reserves), and an increased balance in the Treasury Single Account, SCR.



Both the amount of central bank money (balances in the transaction accounts of private banks at Riksbanken) and the amount of private bank money (balances in accounts at private banks) have decreased. The money has been erased. The taxpayer's account balance has decreased without any loan being repaid and without the taxpayer having acquired any new financial assets. Thus, the private sector's net financial wealth has decreased (similar to how the private sector's financial wealth increased when the government spent).



Our conclusion after reviewing the transactions that occur when the state spends or receives payments is that **state spending creates money, and payments to the state erase money – both private bank money and central bank money.**

7. WHAT HAPPENS NEXT?

Of course, pension payments and tax payments are not the only transactions that take place during a day. All payments to and from the state are gathered, in the manner described above, in the Treasury Single Account, SCR.

Over time (say, since the introduction of the currency), the state has usually paid out more than it collected in taxes, thus accumulating a deficit. We illustrate this with a bookkeeping example showing how an accumulated state deficit occurs and what the balance sheets look like.

Government deficit

THE SWEDISH NATIONAL DEBT OFFICE				THE SWEDISH RIKSBANK			
Assets		Liabilities & Equity (Net worth)		Assets		Liabilities & Equity (Net worth)	
SCR	Outgoing payments -1000	-1000	Outgoing payments	Issued SEK		1000	Outgoing payments
	Incoming payments 900	900	Incoming payments			-900	Incoming payments
Outgoing balance	-100	-100	Outgoing balance			-1000	Outgoing payments
						900	Incoming payments
				Outgoing balance		0	Outgoing balance

BANKS				THE PRIVATE SECTOR			
Assets		Liabilities & Equity (Net worth)		Assets		Liabilities & Equity (Net worth)	
Reserver	Outgoing payments 1000	1000	Outgoing payments	Bank acc	Outgoing payments 1000	1000	Outgoing payments
	Incoming payments -900	-900	Incoming payments		Incoming payments -900	-900	Incoming payments
Outgoing balance	100	100	Outgoing balance	Outgoing balance	100	100	Outgoing balance

After consolidation – i.e., if we combine the balance sheets of the National Debt Office and Riksbanken (imagine laying the National Debt Office's and Riksbanken's T-accounts below on top of each other) – the accumulated state deficit has resulted in the state having both one negative and one positive balance on the liability side of its balance sheet.

Balances after deficit

THE SWEDISH NATIONAL DEBT OFFICE			THE SWEDISH RIKSBANK		
Assets		Liabilities & Equity (Net worth)	Assets		Liabilities & Equity (Net worth)
SCR	-100	-100 Issued SEK		100 Reserves	-100 SCR

BANKS			THE PRIVATE SECTOR		
Assets		Liabilities & Equity (Net worth)	Assets		Liabilities & Equity (Net worth)
Reserves	100	100 Bank acc	Bank acc	100	100 Net wealth

What do these balances represent?

The positive balance, Reserves 100, is an accounting liability to the banks – but it is not a debt in the sense of a loan. The liability has not arisen because the government has received something from the banks that it must repay. In fact, if the government were to try to repay the “debt” to the banks by increasing the balance in their accounts, the debt would increase – instead of decreasing, which is what happens when one repays a debt in the usual sense.

The state, as the issuer of the currency, has created the balance in the banks' accounts by issuing Swedish kronor. The liability incurred represents a commitment from the state to accept the balance in payment to the state. Swedish kronor are the state's IOUs – the state's promise to accept them as payment (e.g., of taxes). Hence the state has no use for Swedish kronor – when would the state need to make a payment to itself?

The negative balance, Issued SEK -100, would often be referred to as “negative equity” or “negative net worth,” and accounting term is technically correct. A currency-issuing government creates its currency – its IOUs, central bank money – by reducing its own equity. However, the authors of this report finds both “equity” and “wealth” inadequate in describing what the negative balance actually means for a currency issuer.

A currency issuer neither "has" or "does not have" its own currency. Swedish kronor cannot exist as an asset or equity on the balance sheet of the Swedish state – they exist only as balances in private bank transaction accounts or as cash and coins in circulation. Another way to look at it is by seeing the state as infinitely wealthy in Swedish kronor, just as the supermarket is infinitely wealthy in the bonus points that it issues – the state is never at risk of running out of Swedish kronor. The state is the issuer of SEK.

For the Swedish state as currency issuer, the negative balance on the liabilities side is best described as the outstanding amount of Swedish kronor issued. This is the number of Swedish kronor that the state has created by spending and that has not yet been erased through taxes (or fees, fines, tariffs, provisions, et c.).

Undoubtedly, there is a negative balance on the right-hand side of the balance sheet. Does this mean that some external party owes the state Swedish kronor?

Yes, in a way. This is a latent debt of the private sector to the state, primarily in the form of a latent tax liability. If the state decided that all the Swedish kronor it has created through its historical deficits must be erased through taxes, the private sector, under the threat of fines, imprisonment, and financial ruin, would be forced to pay back its entire net wealth in Swedish kronor to the state.

Because that is precisely what it is. The state’s accumulated deficits and surpluses—meaning all the Swedish kronor issued—are the private sector’s net financial wealth in Swedish kronor.

The orange lines below connect a financial asset with the corresponding debt, which together amount to a net worth of 0 SEK. What remains are the Swedish kronor issued by the government, which are also the private sector’s net financial wealth in Swedish kronor (illustrated in red).

Balances after deficit

THE SWEDISH NATIONAL DEBT OFFICE		THE SWEDISH RIKSBANK	
Assets	Liabilities & Equity (Net worth)	Assets	Liabilities & Equity (Net worth)
SCR	-100		100 Reserves
	-100 Issued SEK		-100 SCR
BANKS		THE PRIVATE SECTOR	
Assets	Liabilities & Equity (Net worth)	Assets	Liabilities & Equity (Net worth)
Reserves	100	Bank acc	100
	100 Bank acc		100 Net wealth

As a side note, the only other source—besides state deficits—of the balances we have in our accounts with private banks is credit (loans) from private banks. When private banks grant credit, the corresponding amount of deposits (balances in bank accounts) is created, i.e., private bank money. We know that banks want back what they have “loaned out”—a private bank loan is not a latent debt but a debt in the usual sense. Therefore, the portion of private bank money created through private credit cannot be considered net financial wealth for the private sector as a whole, because your account balance is an asset to you but a liability to the bank.

To summarise:

A state deficit means that over a period, the state has created more Swedish kronor by spending than it has erased by collecting taxes and other payments.

This does not mean that the state, as a whole, has incurred any debt to be repaid. The National Debt Office may have borrowed from Riksbanken, but since both are state agencies, that is not considered a debt from the perspective of the consolidated state.

The state also does not owe the private sector—including banks—anything other than to accept the issued Swedish kronor as means of payment to the state.

For the private sector, the “taxpayers,” the state’s accumulated deficit—or expressed differently, the private sector’s net financial wealth in Swedish kronor—represents a latent tax liability. But only a reckless or uninformed state would demand back all the Swedish kronor it has issued.

For the state, accumulated deficits cannot become financially unsustainable, and they are not something the state can repay. Who would the state repay? We have established that the state does not owe anyone Swedish kronor. And whenever the state pays out more Swedish kronor to the private sector, the state deficit increases.

The state has covered its expenses by creating money. The private sector has been paid for what it has sold, or received its state pension, without the state taking on any debt.

The state does not need financing. The state is the currency issuer and pays by increasing balances in accounts—as we explained above—based entirely on the precise technical descriptions of how Swedish state payments work provided by the agencies and industry organisations. The state's deficit is financed the moment it occurs, through money creation.

8. WHY DOES THE SWEDISH STATE ISSUE AND SELL STATE BONDS AND OTHER SECURITIES?

If the state's deficit is already financed, why does it issue and sell state securities?

Quite simply, legislation compels the government agencies to do so—legislation that, like all legislation, is self-imposed. The Riksbank Act states that Riksbanken cannot extend credit to the state, so the Swedish National Debt Office cannot overdraw its account at Riksbanken for an extended period. The reasoning behind this legislation falls outside the scope of this report.

The Sveriges Riksbank Act (SFS 2022:1568)

Chapter 1

Section 6 *Riksbanken may not provide credits to or acquire debt instruments directly from*

- the State, municipalities, regions or associations of municipalities, or legal persons over which the state, regions, municipalities or associations of municipalities, individually or jointly, exercise direct or indirect legal control, or*
- institutions, bodies or offices within the European Union that are not central banks.*

Riksbanken may, however,

- purchase debt instruments in the secondary market in accordance with the provisions of Chapter 2, Section 4, first paragraph, points 3 and 4 and Chapter 3, Section 6, points 2 and 3,*
- provide the state with the credits referred to in Chapter 3, Section 3, second paragraph, and*
- provide credits to or acquire debt instruments directly from publicly owned credit institutions under the same conditions that apply to other credit institutions in accordance with this Act.*

Section 3 *Riksbanken may, in respect of the Bank's payment settlement systems,*

- receive deposits from participants; and*
- provide short-term credits in Swedish kronor to participants against adequate collateral in order to promote the functioning of the system.*

A credit under the first paragraph, point 2 may be granted to the Swedish National Debt Office if it

- is not for longer than 24 hours, and*
- is compatible with the obligations arising from Sweden's membership of the European Union.*

The Swedish National Debt Office need not provide collateral.

Article 123 of the Treaty on the Functioning of the European Union

- Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as "national central banks") in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.*

9. WHAT HAPPENS WHEN STATE SECURITIES ARE ISSUED AND SOLD?

We will now illustrate from an accounting perspective what happens when the state sells securities, and how this process affects the various entities in the economy. To do this, we will return to our accounting example where the state's outlays during a period have exceeded its income.

Government deficit

THE SWEDISH NATIONAL DEBT OFFICE				THE SWEDISH RIKSBANK			
Assets		Liabilities & Equity (Net worth)		Assets		Liabilities & Equity (Net worth)	
SCR	Outgoing payments -1000	-1000	Outgoing payments Issued SEK		1000	Outgoing payments	Reserves
	Incoming payments 900	900	Incoming payments		-900	Incoming payments	
Outgoing balance	-100	-100	Outgoing balance	Outgoing balance	0	Outgoing balance	

BANKS				THE PRIVATE SECTOR			
Assets		Liabilities & Equity (Net worth)		Assets		Liabilities & Equity (Net worth)	
Reserver	Outgoing payments 1000	1000	Outgoing payments Bank acc	Bank acc	Outgoing payments 1000	1000	Outgoing payments Net wealth
	Incoming payments -900	-900	Incoming payments		Incoming payments -900	-900	Incoming payments
Outgoing balance	100	100	Outgoing balance	Outgoing balance	100	100	Outgoing balance

We remove the transactions and consider only the account balances.

Balances after deficit

THE SWEDISH NATIONAL DEBT OFFICE				THE SWEDISH RIKSBANK			
Assets		Liabilities & Equity (Net worth)		Assets		Liabilities & Equity (Net worth)	
SCR	-100	-100	Issued SEK		100	Reserves	
					-100	SCR	

BANKS				THE PRIVATE SECTOR			
Assets		Liabilities & Equity (Net worth)		Assets		Liabilities & Equity (Net worth)	
Reserves	100	100	Bank acc	Bank acc	100	100	Net wealth

The negative balance at the top left, SCR -100, needs to be eliminated. As we have seen, it is prohibited by law to allow a negative balance to remain on the state's central account (since it is considered a credit from Riksbanken¹³).

We recall from the descriptions of the payment flows that payments from the Treasury Single Account to the banks create balances in the banks' transaction accounts (reserves) and a negative balance on the state's central account (handled by the National Debt Office). To eliminate the legally restricted "credit" from Riksbanken to the state, the Debt Office needs to incentivise the banks to dispose of these reserves in favour of the state's central account (SCR). To this end the Debt Office must offer the banks another asset, which the Debt Office creates by issuing state securities.

Thus, the National Debt Office sells state securities, mostly at regularly scheduled intervals¹⁴, to a number of selected banks known as primary dealers¹⁵. These banks purchase the state securities from the National Debt Office by **paying with the funds in their transaction accounts at Riksbanken (reserves). In exchange for these funds, the**

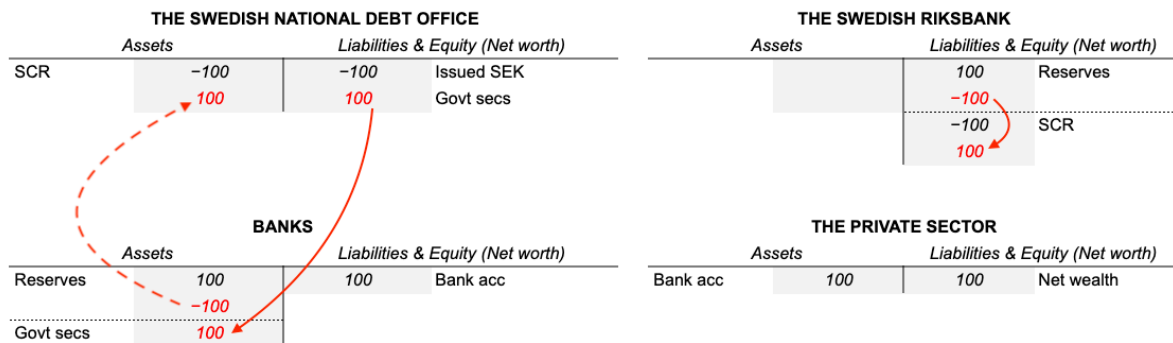
¹³ See fact box on page 17 - The Sveriges Riksbank Act

¹⁴ <https://www.riksgalden.se/sv/var-verksamhet/statens-upplaning/emissioner/auktioner---sa-gar-det-till/>

¹⁵ <https://www.riksgalden.se/sv/var-verksamhet/statens-upplaning/emissioner/aterforsaljare/>

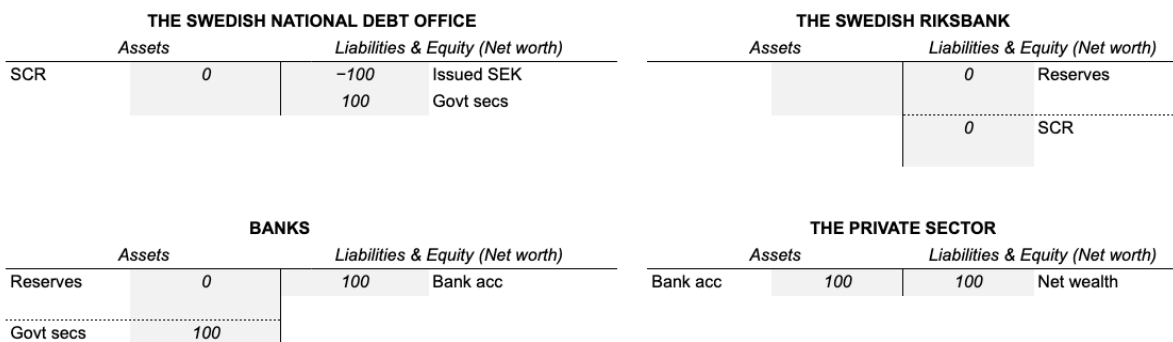
banks receive electronic records of holdings in state securities of equal value in their securities accounts in RIX. These accounts are maintained in Riksbanken's payment system RIX, but do not appear on Riksbanken's balance sheet. Instead, they are recorded on the balance sheet of the National Debt Office.

Issuance of government securities



After removing transactions, we get the following position.

Balances after issuance of government securities



Put in simple terms, the National Debt Office convinces the banks (primary dealers) to move their central bank money, Swedish kronor issued by the state during a period of net spending, to state-guaranteed fixed-rate accounts. In contrast to retail savings accounts state securities are transferable, but just like a fixed-rate account state securities provide interest over a specified period, and when it expires you get your invested capital back.

We have already established that before the securities were issued state net spending had created balances both in transaction accounts held by private banks at Riksbanken (reserves or central bank money or Swedish kronor) and in accounts at private banks (private bank money). The Swedish Kronor were issued by the state via Riksbanken, and not borrowed from any private entity.

So the net spending is not financed by the sale of state securities. The sale does not give the government anything it does not already have—the state is the issuer of what it is said to be borrowing. The sale is quite simply not a loan. It is merely a transfer from one account to another in order to comply with legislation that the state has chosen to impose on itself.

The state spends by increasing the balances in the transaction accounts of framework banks at Riksbanken—through money creation—not through loans. Then the state sells securities that resellers purchase with the balances that the state created by spending.

Compare the balance sheets of the different actors before and after the issuance of government securities.

Balances before issuance of government securities (after deficit)

THE SWEDISH NATIONAL DEBT OFFICE		THE SWEDISH RIKSBANK	
Assets	Liabilities & Equity (Net worth)	Assets	Liabilities & Equity (Net worth)
SCR	-100	-100	Issued SEK
		100	Reserves
		-100	SCR

BANKS		THE PRIVATE SECTOR	
Assets	Liabilities & Equity (Net worth)	Assets	Liabilities & Equity (Net worth)
Reserves	100	100	Bank acc
		100	Net wealth

Balances after issuance of government securities

THE SWEDISH NATIONAL DEBT OFFICE		THE SWEDISH RIKSBANK	
Assets	Liabilities & Equity (Net worth)	Assets	Liabilities & Equity (Net worth)
SCR	0	-100	Issued SEK
		100	Govt secs
		0	Reserves
		0	SCR

BANKS		THE PRIVATE SECTOR	
Assets	Liabilities & Equity (Net worth)	Assets	Liabilities & Equity (Net worth)
Reserves	0	100	Bank acc
Govt secs	100	100	Net wealth

In the balance sheets above, the orange lines connect financial assets with their corresponding debt, which together amount to a net worth of 0 SEK. The remaining asset is the Swedish kronor issued by the state, which also make up the private sector's net financial wealth in Swedish kronor (illustrated in red).

Before state securities are issued (see above, **Position before issuance of government securities**), the:

- the private sector has a latent debt to the National Debt Office (the latent tax liability we discussed earlier in the article, which is equal to the private sector's net wealth in Swedish kronor),
- The National Debt Office has a debt to Riksbanken (the previously discussed legally restricted credit from Riksbanken),
- Riksbanken has a debt to the banks (these transaction account balances, reserves, are claims by banks against Riksbanken), and
- The banks have a debt to the rest of the private sector (the private sector's account balances are indeed their claims against the banks).

After state securities are issued (see above, **Position after issuance of government securities**), the private sector has a latent debt to the National Debt Office, which has a debt to the banks, which have a debt to the private sector.

If we consolidate the National Debt Office and Riksbanken we find that in both cases the private sector has a latent debt to the state, which has a debt to the banks, which have a

debt to the private sector. Thus the issuance of state securities does not change anything significant.

Will the state ever have a financial need to collect the latent tax liability? Of course not: the state pays for its expenses by creating money.

Will the state ever face financial difficulties in paying the banks when the state securities reach their maturity date? No, of course not. For the state, repayment of state securities is a simple matter of reducing the balance in a security account in RIX and instead increasing it in a transaction account at Riksbanken (also in RIX). This is as easy as it is for your bank to transfer your money back to your checking account when the your fixed-rate account reaches maturity.

10 SUMMARY

In this article, we have only used Swedish legislation, information from Swedish state agencies, and the description of transaction flows by the Financial Sector's Public-Private Cooperation (FSPOS) to demonstrate that:

When the Swedish state spends, it creates the funds used by the private sector to pay taxes and purchase state securities.

All government agency accounts in private banks as well as the Treasury Single Account at Riksbanken begin each day with a zero balance. The agencies then begin to make payments and receive payments. These flows are consolidated, first at the National Debt Office's top accounts in the framework banks and then at the Treasury Single Account at Riksbanken.

If the balance on the Treasury Single Account is negative at the end of the day, it means that the government has, on net, created Swedish kronor that day. The private sector's net wealth has increased, and the government has run a deficit.

The deficit is not a debt and as we have shown it cannot just be paid off—in fact, the deficit increases when the government makes payments.

The Swedish state (and the EU) has adopted rules for itself that state that the balance on the Treasury Single Account is not allowed to remain negative for long. Therefore, the state transacts with the private sector to reset the balance, through the issuance and sale of state securities. In this way, the National Debt Office can convert its negative balance on the Treasury Single Account into a legally approved longer-term liability on its balance sheet, thereby meeting the requirements of the self-imposed legislation.

11. CONCLUSIONS

- Sweden is a self-financing state, since the state creates the means of payment that it uses to make its payments. *See Section 4 and 5.*
- Taxes do not finance the Swedish state, since the sole effect of tax payments is a reduction in the amount of money. *See Section 6.*
- The Swedish state does not borrow Swedish kronor, since these are liabilities of the state and thus cannot be used by the state itself. *See Sections 7–9.*

Consider whether, under these conditions as described in this article, it makes sense to:

- design fiscal policy frameworks based on the assumption that the government is financed by taxes and borrows to cover deficits; or
- design the national budget based on the assumption that Swedish kronor are a limited resource for the Swedish state, that it must obtain through taxes and loans; or
- distinguish between state “consumption” and state “investment” and claim that the latter is suitable to be “financed by borrowing” while the former is not; or
- aim for the government budget to be in surplus in order for the state to “save” Swedish kronor for a time when they may be needed more than today; or
- worry that the market will not want to lend money to the state; or
- worry that the national debt may become too large from a financing perspective; or
- show special consideration to those who pay the most taxes because they are needed to finance the state; or
- design the pension system based on a concern for how the state will be able to afford, in financial terms, to pay out future pensions; or
- propose the privatisation of, for example, infrastructure projects because the government does not “have the means” to finance everything it would like to do.

12. FINAL COMMENTS

In the Swedish version of this article, this concluding section was used to share some thoughts on the current Swedish public debate on economic policy and how that debate is related to the level of knowledge about the monetary system.

13. SOURCES

All translations of Swedish-language sources are by the authors of this report.

The **website of the Swedish National Financial Management Authority:**

www.esv.se

The **website of The National Debt Office:**

www.riksgalden.se

The **website of Riksbanken:**

www.riksbank.se

The report *Svenska Betalningsflöden - Så funkar det*, Version 7.0 mars 2017 by **FSPOS** (Swedish Payment Flows - How they Work):

<http://www.fspos.se/siteassets/fspos/rapporter/2017/svenska-betalningsfloden---sa-funkar-det-ver-7.0.pdf>

Finansiella Sektorns Privat-Offentliga Samverkan (FSPOS), *The Financial Sector's Private-Public Cooperation*, was established on September 1, 2005, and is a voluntary cooperation forum with participation both from the private sector and from public institutions in the financial sector.

The members of FSPOS include banks, insurance companies, brokerage firms, financial infrastructure companies, the Financial Supervisory Authority, the National Debt Office, and the Sveriges Riksbank.

The authors of the report "Swedish Payment Flows - How it Works" write:

The financial sector's private-public cooperation (FSPOS) has conducted a mapping of transaction flows in the financial sector. FSPOS members include banks, insurance companies, securities companies, Euroclear Sweden, Bankgirot, NASDAQ OMX, the National Debt Office, the Social Insurance Agency, Riksbanken, the Financial Supervisory Authority, and the Swedish Civil Contingencies Agency.

The FSPOS Focus Group on Financial Services (formerly the Payment Processing Working Group) initiated this investigation in 2008 when they identified a need to create a common understanding of transaction flows between actors in the financial sector. The purpose of the investigation was the mapping of transaction flows within the financial sector. Its goal was to create process maps that describe flows of payments and payment information between the relevant actors for certain types of payments.

The idea is that individuals within the organisations in the financial sector will use these maps as a common ground for discussions. The material should also be able to be used for training related to the transactions conducted within the system.

14. AUTHORS AND FURTHER READING

Main author:

Erik Arnell, MMT for Sweden

Co-authors:

Johannes Borgström, MMT for Sweden

Budget-Ugglan (anonym), MMT for Sweden

Since MMT still is controversial in Sweden, both among economists and politicians, the article was written without reference to the MMT literature. We wanted to demonstrate that it is possible to show that the Swedish government is not financed by taxes or loans using only Swedish legal texts, Swedish agencies, and Swedish industry organisations as sources. This turned out to be surprisingly straightforward.

MMT for Sweden is a (still small) apolitical network of individuals who want to spread knowledge about how our monetary system works, based on insights from Modern Monetary Theory (MMT).

If the reader wishes to deepen their knowledge of how the modern monetary system works and about MMT, we recommend the following links:

Our website with basic information about MMT and how the monetary system works, along with a blog and articles.

<https://www.mmtforsverige.se/>

A broad resource site with material on MMT from the basics, along with an accompanying podcast.

<https://activistmmt.org/>

An online book about MMT, with answers to reader questions.

<https://neweconomicperspectives.org/modern-monetary-theory-primer.html>

Books, videos, and guest presentations from GIMMS, a grassroots organisation for MMT in the UK.

<https://gimms.org.uk/tools-and-resources/>

An educational website focused on MMT, offering online courses.

understandingmmt.org

Warren Mosler's list of reading materials on various aspects of MMT, including views on inflation and hyperinflation.

<https://moslereconomics.com/mandatory-readings/>

A collection of Levy Institute research papers on MMT.

<https://www.levyinstitute.org/topics/modern-money-theory-mmt>

GIMMS' collection of academic articles related to MMT.

https://www.zotero.org/groups/2251544/mmt_academic_resources_-_compiled_by_the_gower_initiative_for_modern_money_studies/library