

DANMARKS NATIONALBANK

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STRATEGY ANNOUNCEMENT

Central government borrowing strategy in the 2nd half of 2017



Unchanged targets for sales of government securities in 2017

The target for issuance of domestic government bonds in 2017 is maintained at kr. 65 billion in order to increase the outstanding volume of new bonds and ensure continuity in issuance policy. The target for T-bills at year-end is also maintained unchanged at kr. 30 billion.

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Expected sale per auction of about kr. 2.5 billion at market value

In the 2nd half of 2017, the expected average sale per auction is approximately kr. 2.5 billion at market value. This is more or less the same as the sale in the 1st half of 2017.

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Sales are focused on 2-year and 10- year government bonds

In 2017, a new 2-year government bond and a new 10-year government bond have been opened. In the 2nd half, the focus will be on building the outstanding volume of the two new bonds. Issuance in the other on-the-run issues is still possible.

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Central government borrowing strategy

The estimate for central government finances in 2017 has improved since December. According to the Economic Survey from May, the central government net financing requirement in 2017 is expected to be kr. 12 billion, or 0.6 per cent of GDP. Including redemptions and buy-backs, the financing requirement in 2017 is estimated to be kr. 108 billion, cf. Table 1.

The target for sales of government bonds in 2017 is still kr. 65 billion

The target for issuance of domestic government bonds in 2017 is maintained at kr. 65 billion. This reflects the aim to support liquidity by increasing the outstanding volume of the two new government bonds opened this year. Another priority is continuity in the issuance policy. Year to date, the average bond issuance per auction has been kr. 2.7 billion at market value. In the 2nd half, roughly the same average sale per auction is expected.

The central government maintains a broad list of on-the-run bonds with focus on 2-year and 10-year segments

Until end-June, government bonds worth kr. 36 billion had been issued, which is in line with the target, cf. Chart 1. Issuance was focused on the 10-year maturity segment, reflecting the wish to build volume in the 10-year government bond, 0.5 per cent 2027, opened in January. Moreover, demand was greatest in the 10-year maturity segment.

In May, a new 2-year bond maturing in 2020 was opened. The strategy for the 2nd half is to concentrate issuance in the 2-year and 10-year nominal maturity segments, in which the new bonds were opened. Issuance in the 5-year and 20-year maturity segments as well as in the inflation-linked bond is also possible.

Replacement of 2-year and 5-year benchmark series

Issuance and benchmark bonds in the 2nd half of 2017 are shown in Table 2. Starting on 1 July, the new bond, 0.25 per cent 2020, will be the new 2-year benchmark bond. On the same date, 1.5 per cent 2023 will replace 3 per cent 2021 as the 5-year issuance and benchmark bond.

Estimate for the central government financing requirement and financing in 2017

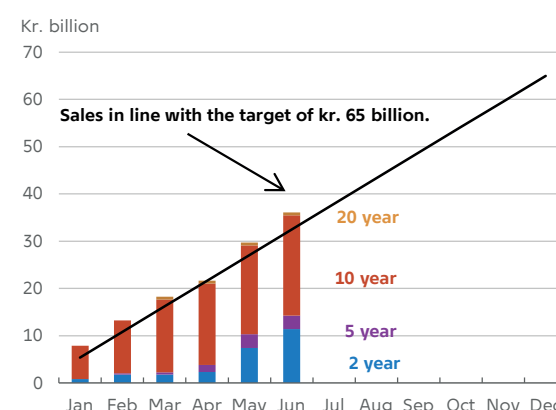
Table 1

	Kr. billion
Financing requirement	
Net financing requirement, Economic Survey, May 2017	12
Redemptions, long-term debt, etc.	69
Redemptions, T-bills	27
Financing requirement	108
Financing	
Issuance of government bonds	65
Issuance of T-bills	30
Issuance in connection with switch operations ¹	10
Drawing on central government account	3
Total financing	108

Note: Redemptions, long-term debt, etc., include maturing domestic and foreign debt, buy-backs up to and including 23 June and net bond purchases of the government funds.¹ Gross sales in connection with switch operations up to and including 23 June. No target is set for issuance in connection with switch operations.

Sales of government bonds in 2017 were in accordance with the target

Chart 1



Note: Issuance at market value, excluding switch operations, up to and including 23 June.

On-the-run issues and benchmark bonds, 2nd half of 2017

Table 2

Maturity segment	Bonds	Outstanding volume ¹ , kr. billion
Nominal series		
2-year	0.25 per cent bullet loan 2020	11.3
5-year	1.5 per cent bullet loan 2023	49.2
10-year	0.5 per cent bullet loan 2027	26.5
20-year	4.5 per cent bullet loan 2039	128.4
Inflation-linked bond		
	0.1 per cent inflation-linked loan 2023	36.6

¹ Outstanding nominal value stated as at 23 June 2017.

Unchanged target for the outstanding volume in T-bills

The target for the outstanding volume of T-bills at year-end 2017 is still kr. 30 billion. T-bills contribute to a flexible issuance policy and are part of the central government's liquidity reserve. Two monthly T-bill auctions are held. New 6-month T-bills will be opened at the auctions around the start of September and December.

The strategy entails a continued large balance on the central government account in 2017

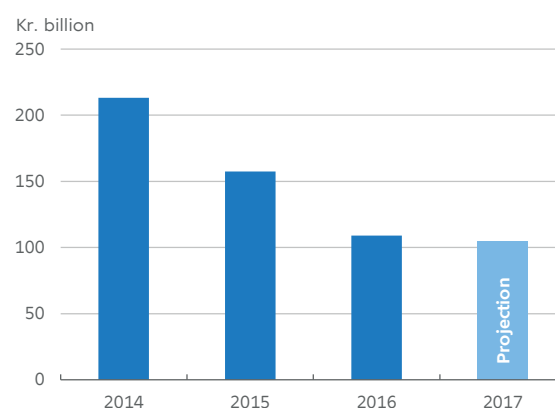
With a target of kr. 65 billion for sales of domestic government bonds and kr. 30 billion for outstanding T-bills, the balance on the central government account at year-end is expected to be slightly larger than the kr. 75-100 billion currently seen as a suitable balance, cf. Chart 2. The account can be reduced through buy-backs of government bonds maturing after 2017. It may also be used to smooth the issuance volume over the coming years, depending, inter alia, on the financing of subsidised housing, cf. the press release ([link](#)).

Improved liquidity in the Danish government securities market

Liquidity in the Danish government securities market has improved since April with the central government's launch of a new primary dealer model with enhanced requirements and payments, cf. "New Model has Improved Liquidity in the Danish Government Securities Market". ([link](#))

Balance on central government's account

Chart 2



Note: End-year.

The central government continues to support liquidity through switch operations and buy-backs. Switch operations enable primary dealers and investors to switch off-the-run issues to more liquid on-the-run issues without major costs. This contributes to increasing the outstanding volume of the central government's new bond series. In mid-June, the size of the new 10-year bond had been built up to kr. 27 billion, kr. 7 billion of which through switch operations, and the outstanding volume of the new 2-year bond had been built up to kr. 11 billion, kr. 2 billion of which through switch operations. In the 2nd half of 2017, two switch operations will be conducted each month. The dates will be announced in a calendar in the same way as the T-bill and bond auctions. The bonds offered will be announced one trading day before the switch operation at the latest.

Tap buy-backs contribute to supporting liquidity in off-the-run issues. Buy-backs of bonds maturing in 2017 also allow investors to distribute their reinvestments across the year. Buy-backs from the market

can be conducted in all government securities, although key on-the-run issues are excepted as a general rule.

No issuance of foreign bonds in 2017

The central government strategy is not to issue any foreign bond loans in 2017. Issuance can be conducted in the Commercial Paper programmes.

Market risk management

In 2017, the very robust central government debt profile will be maintained. The expected excess costs of maintaining high duration is estimated to be close to zero, and the target for the maturity of the central government debt in 2017 is set to 11.25 years \pm 0.5 year.

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