

DANMARKS NATIONALBANK

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STRATEGY ANNOUNCEMENT

Central government borrowing strategy in the 2nd half of 2018



Unchanged targets for sales of government securities

The targets for sales of government bonds and the outstanding volume of T-bills are maintained at kr. 65 billion and kr. 30 billion, respectively.



Expected sale per auction of around kr. 2.5 billion

The expected average sale of government bonds per auction is around kr. 2.5 billion at market value.



Unchanged on-the-run issues and benchmark bonds

The on-the-run issues remain unchanged. Focus will be on issuance in the 2-year and 10-year nominal bonds.

Solid growth and low debt in Denmark

Danish GDP growth has increased gradually in recent years, to around 2 per cent year-on-year, driven by domestic demand as well as exports. Employment has risen and unemployment has fallen to a low level. 2017 saw surpluses on the balance of payments, central government finances and government budget balance, and EMU debt was reduced to 36.4 per cent of GDP.

Government surplus expected in 2018

A government surplus is also expected in 2018. Given that the central government plans to buy bonds to finance social housing and to provide loans to government-owned companies, the government is expected to have a financing requirement of kr. 31 billion net in 2018, cf. Table 1. To this should be added redemptions on debt. All in all, the May Economic Survey points to a financing requirement of kr. 124 billion in 2018. This is broadly in line with expectations in December.

Targets for sales of government securities remain unchanged

The target for sales of government bonds via auctions and tap sales in 2018 is kr. 65 billion at market value. This is unchanged relative to the central government borrowing strategy for 2018 published in December. The target for the outstanding volume of T-bills at year-end also remains unchanged at kr. 30 billion.

This strategy entails that at the end of 2018 the balance in central government's account is expected to be a little higher than the kr. 75-100 billion currently deemed to be appropriate. The balance can be reduced by purchasing government bonds maturing after 2018. By buying back its own bonds, the central government can bring forward redemptions and interest costs, thereby contributing to smoothing the financing requirement from year to year.

Expected sale per auction of around kr. 2.5 billion

In 2018, the central government has issued bonds for approximately kr. 32 billion via auctions and tap sales. This is in accordance with the strategy, cf. Chart 1. Average sales per auction have been approximately kr. 2.5 billion at market value. In the 2nd half of the year, average sales per auction are expected to be roughly the same.

Sales have been concentrated on the 2-year and 10-year issues and on the new inflation-linked bond

Central government financing requirement in 2018

Table 1

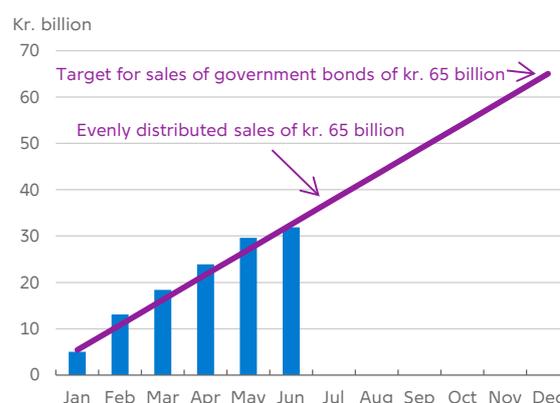
Financing requirement	Kr. billion
Net financing requirement	31
Repayments of long-term debt, etc. ¹	60
Repayments of short-term debt	33
Financing requirement, total	124

Source: Ministry for the Economic Affairs and the interior, *Economic Survey*, May 2018.

¹ Including redemptions of government bonds, payments from the central government in currency and interest swaps, and net bond purchases of government funds.

Sales of government bonds in line with the strategy

Chart 1



Note: Issuance at market value via tap sales and auctions up to and including 15 June.

that was opened in February. The strategy for the 2nd half of the year is still to focus issuance on the 2-year and 10-year bonds and to further build up the outstanding volume in the new inflation-linked bond, including via switch operations. This reflects the wish to concentrate issuance on liquid bonds.

The same on-the-run issues and benchmark bonds

The on-the-run issues remain unchanged in the 2nd half of 2018, cf. Table 2. The target is to build up the outstanding volume in the 2-year bond (0.25 per cent 2020) to at least kr. 50 billion and the volume in the 10-year bond (0.5 per cent 2027) to at least kr. 80 billion. For the inflation-linked bond, which matures in 2030, the strategy is gradually to build up the outstanding volume to at least kr. 20 billion in the coming years.

New 6-month T-bills will be opened at the auctions at the beginning of September and December.

The liquidity of Danish government bonds is high

The liquidity of Danish government securities remains high, with narrow bid-ask spreads, cf. Chart 2. Liquidity has improved since the beginning of 2017, when the central government introduced a new primary dealer model, cf. the analysis New primary dealer model continues in 2018 ([link](#)). More banks are actively trading Danish government securities today. At the same time, market participants report that the market for Danish government securities is well-functioning.

To support liquidity, the central government buys back its own bonds in connection with switch operations, buy-back auctions and on tap. Buy-backs not effected via switch operations are financed by drawing on the central government's account.

Still two switch operations per month

The central government will continue to conduct two switch operations per month, in which market participants can switch off-the-run issues to on-the-run issues. The dates are announced at the government debt website ([link](#)) 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. Switch operations make it possible to increase the outstanding volume faster, thereby improving the liquidity of the bonds.

The regular monthly issuance schedule is illustrated in Chart 3.

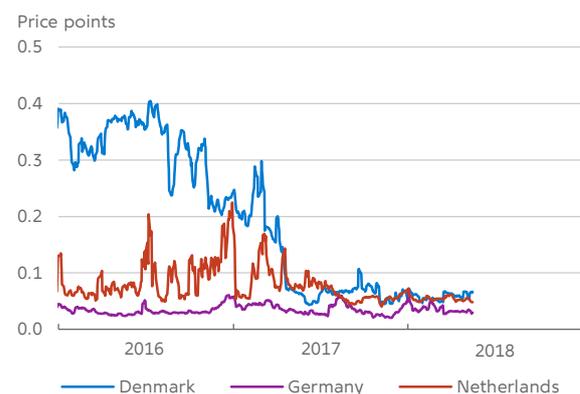
On-the-run bonds in the 2nd half of 2018

Table 2

Segment	On-the-run and benchmark issues
Maturity < 1 year	T-bills
2-year nominal	0.25 per cent 2020
5-year nominal	1.5 per cent 2023
10-year nominal	0.5 per cent 2027
20-year nominal	4.5 per cent 2039
Inflation-linked bond	0.1 per cent 2030

The bid-ask spread in the interdealer market is tight

Chart 2



Note: 5-day moving averages of bid-ask spreads for 10-year government bonds.

Source: MTS (Denmark and the Netherlands) and TradeWeb Germany.

No issuance of foreign bonds

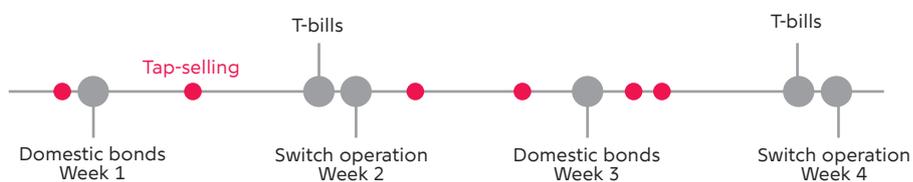
No foreign bonds are expected to be issued in 2018. The central government may issue in the Commercial Paper programmes.

The debt remains robust to changes in interest rates

The central government still has a very robust debt profile in 2018. This is because the costs of high duration are expected to be close to zero. The target for the average duration of the central government debt in 2018 is set at 11.0 years +/- 1 year.

Regular monthly issuance schedule in 2018

Chart 3



ABOUT ANALYSIS



As a consequence of Danmarks Nationalbank's role in society we conduct analyses of economic and financial conditions.

Analyses are published continuously and include e.g. assessments of the current cyclical position and the financial stability.

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