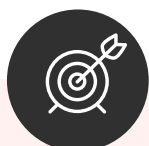


DANMARKS NATIONALBANK

14 DECEMBER 2017 — No. 27

STRATEGY ANNOUNCEMENT

Central government borrowing strategy in 2018



Unchanged target for sales of government securities

The target for sales of domestic government bonds and T-bills in 2018 is kr. 65 billion and kr. 30 billion, respectively. This is unchanged from 2017.



Focus on 2-year and 10-year bonds and a new index- linked bond

In 2018, a new index-linked bond will be opened, maturing in 2030. The focus will be on issuance in the existing 2-year and 10-year nominal bonds and in the new index-linked bond.



The central govern- ment's new primary dealer model con- tinues in 2018

In April 2017, the central government introduced a new primary dealer model with enhanced requirements and payments, and this has strengthened the market for Danish government securities. After adoption of the Finance Act the model will continue in 2018.

The target for sales of government bonds is kr. 65 billion in 2018

The strategy in 2018 is to issue government bonds for kr. 65 billion at market value via auctions and tap sales. This is the same as in the 2017. Issuance will be evenly distributed over the year, and the target is average sales of around kr. 2.5 billion per auction. The remainder of the financing requirement will be covered via T-bills and by drawing on the central government's account. The balance on the central government's account is expected to be approximately kr. 100 billion at the end of 2018.

In 2018, the central government will buy bonds for kr. 42.5 billion to finance social housing, cf. [\(link\)](#). This saves money for the central government.

Issuance is concentrated in the 2-year and 10-year series

In 2018, issuance will be concentrated in the 2-year and 10-year nominal government bonds that were opened in 2017. The aim is to build up these series further via issuance and switch operations to support liquidity.

New index-linked on-the-run bond

A new bond will be opened during the 1st quarter of 2018, linked to the Danish consumer price index, CPI, and maturing in 2030. It will replace the existing index-linked on-the-run bond maturing in 2023. The strategy is gradually to build up the outstanding volume of the new index-linked bond to at least kr. 20 billion over the coming years via auctions, tap sales and switch operations.

The central government may also issue in the 5-year and 20-year bonds in 2018, cf. Table 1.

Switch operations continue

The central government will hold two switch operations per month also in 2018. In these operations, banks and investors can switch off-the-run bonds to more liquid on-the-run issues. Switch operations make it possible to increase the outstanding volume faster and to promote the liquidity of the on-the-run bonds, including the new index-linked bond.

Buy-backs

Buy-back may take place in government bonds via auctions or tap.

On-the-run bonds in 2018

Table 1

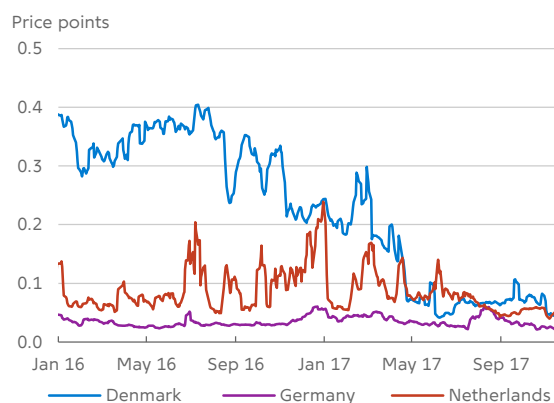
Segment	On-the-run and benchmark issues
Maturity < 1 year	T-bills
2-year nominal	0.25 per cent 2020
5-year nominal	1.5 per cent 2023
10-year nominal	0.5 per cent 2027
20-year nominal	4.5 per cent 2039
Index-linked bond	0.1 per cent 2023/ 0.1 per cent 2030

Unchanged target for T-bills

In 2018, the target is an outstanding volume of kr. 30 billion in T-bills by year-end. Two monthly T-bill auctions will be held in 2018. New 6-month T-bills will be opened at the auctions with the first banking day as value date in March, June, September and December, respectively.

The bid-ask spread in the interdealer market has narrowed

Chart 1



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

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

The primary dealer model continues

The central government's primary dealer model with enhanced requirements and payments has strengthened the market for Danish government securities. Therefore, the model continues in 2018

with the adoption of the Finance Act. The model has contributed to a more liquid market for government securities and hence to lower financing costs for the central government. Liquidity and price transparency have increased due to lower bid-ask spreads, cf. Chart 1. In addition, more banks are actively trading Danish government securities, and market participants and investors are reporting that this market is now better-functioning, cf. [\(link\)](#).

No foreign bonds in 2018

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

Robust debt profile maintained in 2018

The very robust central government debt profile will be maintained. The target band for the average duration in 2018 is set at 11.0 years +/- 0.5 year, calculated without discounting. In the current situation, the costs of high duration are found to be low, inter alia due to the estimate that the 10-year term premium will be close to zero.

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.

DANMARKS NATIONALBANK
HAVNEGADE 5
DK-1093 COPENHAGEN K
WWW.NATIONALBANKEN.DK

This edition closed for
contributions on
12 December 2017



DANMARKS
NATIONALBANK

CONTACT

Lars Mayland Nielsen
Head of Monetary Policy
Operations and Government
Debt

lmn@nationalbanken.dk
+45 3363 6712

BANKING AND MARKETS