

# DANMARKS NATIONALBANK

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STRATEGY ANNOUNCEMENT

## Central government borrowing strategy in the 2nd half of 2022



### **Issuance target remains unchanged**

In order to ensure continuity in the issuance, the issuance target for bonds is maintained at kr. 65 billion and at kr. 35 billion for short-term borrowing.



### **A high central government account balance ensures flexibility in the issuance scope**

In case of limited investor demand in the rest of the year, the high central government account balance gives the central government the option to issue less than the issuance target.



### **New inflation-linked bond will be opened in September**

Following the opening, the new inflation-linked government bond will regularly be offered at the auctions and in switch operations.

### Denmark has solid public finances

The Danish economy performed better than expected through 2021 with low debt and sound public finances. This means that the central government entered the year with a significantly higher account balance than expected in the *Economic Survey* in December 2021. The recent *Economic Survey* from May shows that Denmark had a surplus on the balance of payments and the general government balance in the first months of 2022. This means that Denmark's EMU debt remains among Europe's lowest and is expected to amount to approx. 33 per cent of GDP by the end of 2022.

### The financing requirement is expected to remain unchanged for the year

The central government surplus for 2022 is in *Economic Survey*, May 2022 expected to improve by kr. 5 billion compared to the December 2021 estimate. Thus, the net financing requirement is expected to be kr. -52 billion in 2022, see table 1. Despite the minor improvement, the total financing requirement is expected to remain unchanged. Considering the increased buy-back activity in the 1st half of of the year, the central government's financing requirement is estimated to be kr. 148 billion in 2022. This is largely the same as expected in the *Economic Survey*, December 2021.

### Issuance target for bonds maintained at kr. 65 billion

The target for the issuance of government bonds is maintained at kr. 65 billion at market value. The issuance target is maintained unchanged in order to ensure continuity in the issuance and to support market liquidity. This means that investors and primary dealers continuously have access to buy Danish government bonds via auctions and tap sales.

The issuance strategy implies that the central government accounts are expected to be approx. kr. 123 billion at the end of 2022. This leaves a significant liquidity buffer down to the target band of kr. 50-75 billion.

The high balance on the central government account provides greater flexibility to let the issuance volume be determined by investors' demand. The central government can thus choose to issue less than the issuance target in case of limited demand in the rest of the year.

### The central government expects to sell green government bonds for up to kr. 15 billion

Currently, green bonds for kr. 8.5 billion at market value are issued. The aim is still to issue for up to kr. 15 billion in green bonds out of the total target for domestic bonds of kr. 65 billion.

#### Financing requirement and financing 2022

Table 1

	Kr. billion
Borrowing requirement	
Net financing requirement	-52
Net purchase of social housing bonds	24
Redemption of bonds etc.	112
Redemption of T-bills and CP	64
<b>Financing requirement</b>	<b>148</b>
Strategy for financing	
Sale of government bonds	65
Sale in connection with switch operations	7
Sale of T-bills and CP	35
Sale of EMTN	12
Government account	29
<b>Financing</b>	<b>148</b>

Note: *Redemption of bonds etc.* includes redemptions and buy-backs of government bonds, payments from the central government in currency swaps and net purchases of government funds. No target is set for issuance in connection with switch operations. Rounding may cause sums to deviate from totals.

#### On-the-run issues in 2022

Table 2

Maturity segment	On-the-run issues
Maturity < 1 year	T-bills
2-year nominal	0.00 per cent 2024
10-year nominal	0.00 per cent 2031
10-year green nominal	0.00 per cent 2031
30-year nominal	0.25 per cent 2052
Inflation-linked	0,10 per cent 2030i/ X per cent 2034i

Note: In September 2022, X per cent 2034i will become the new inflation-linked on-the-run issue. Thereafter, 0.10 per cent 2030i becomes off-the-run issue.

### Opening of new inflation-linked bond

In September 2022, a new inflation-linked government bond linked to the Danish consumer price index will be opened. The bond matures in 2034 and replaces the existing inflation-linked on-the-run bond with maturity in 2030. The new index-linked bond is expected to be offered regularly at auctions and switch auctions between the new inflation-linked bond and the central government's two existing index-linked bonds maturing in 2023 and 2030, respectively. The outstanding amount of the new bond is expected to gradually build up over the coming years to at least kr. 20 billion via auctions, tap and switch auctions.

### Broad list of on-the-run issues with continued focus on 2-year and 10-year bonds

The central government has until early June issued bonds for around kr. 26 billion at market value via auctions and tap, see chart 1. The average sale per auction in the 1st half of the year was approx. kr. 2.4 billion at market value, which is slightly less than expected for an even issuance distribution over the year.

The issuance has been focused in the 2-year and 10-year nominal maturity segments including the green bond. The issuance will also in the 2nd half of the year be focused in these segments. In addition, there will be issuance in the new inflation-linked bond and limited issuance in the 30-year nominal bond, see table 2.

The central government generally offers two bonds at all ordinary auctions, but a third bond can still be offered if considered appropriate. The bonds offered at the auction will be announced no later than three trading days before an auction at 16.00.

### The issuance target for short-term papers remains kr. 35 billion

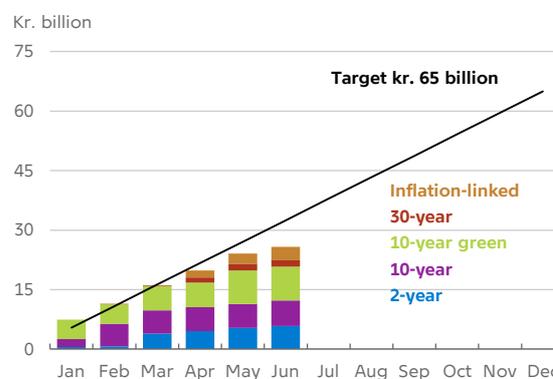
The target for the short-term loan programmes remains at an outstanding amount of kr. 35 billion at the end of 2022. The outstanding amount will primarily be in T-bills, supplemented with commercial papers. A new 6-month T-bill will be opened at the auctions that settle in early September and early December.

### Switch auctions

In the 2nd half of 2022, the central government will normally conduct two switch auctions each month. The auctions offer banks and investors an option to exchange off-the-run bonds to on-the-run bonds.

Bond sales in line with strategy

Chart 1



Note: Issuance of bonds until 3 June 2022 via auctions and tap sales at market value.

The bonds that can be exchanged on the auction are announced no later than one trading day before the switch auction takes place.

### Buy-backs

The central government has actively supported the market in the 1st half of this year with buy-backs of bonds maturing after 2022 for kr. 20.9 billion via auctions and tap. The central government expects to continue to buy back government bonds in the 2nd half of 2022. Buy-backs are used to smoothen the central government's redemption profile and to support a liquid and well-functioning government bond market. Until the end of September, monthly buy-back auctions are held for the bond maturing in November 2022.

### Foreign borrowing maintains a good and broad market access in foreign currency

The central government expects to issue a government bond in foreign currency under the EMTN programme in the 2nd half of 2022. The issuance contributes to ensure a good and broad market access in foreign currency. As described above, the central government will also continue to issue in the commercial paper programmes.

### Higher interest rates have a slow pass-through to central government interest costs

At the end of May, the average fixed interest period on the central government debt is 9 years. The relatively long fixed interest rate period on the debt means that higher interest rates will only gradually increase the central government's interest costs.

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The analysis consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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BANKING AND MARKETS