

# DANMARKS NATIONALBANK

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STRATEGY ANNOUNCEMENT

## Central government borrowing strategy in the 2nd half of 2021



### **Target for bond issuance is lowered to kr. 110 billion**

The target for sales of domestic government bonds in 2021 is lowered to kr. 110 billion from kr. 125 billion.



### **Increased issuance of short-term papers**

The total outstanding amount of T-bills and commercial papers is expected to be kr. 95 billion by the end of 2021, of which up to kr. 60 billion in T-bills.



### **Focus on 2-year and 10-year bonds**

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

### The government's net financing requirement in 2021 is increased by kr. 42 billion

According to the May Economic Survey, the central government's net financing requirement in 2021 is expected to be kr. 54 billion, corresponding to an increase of kr. 42 billion compared to the December 2020 estimate, cf. Table 1. The increase primarily reflects additional expenses for covid-19 schemes, including in particular temporary measures in the form of further tax deferrals and the extension of the VAT and tax loan scheme.

The total financing requirement is expected to be kr. 307 billion in 2021, of which about half stems from redemption of the short-term issuances, which has primarily been used to finance temporary liquidity shifts.

### The target for issuance of government bonds is lowered to kr. 110 billion in 2021

The target for issuance of government bonds in 2021 is lowered to kr. 110 billion from kr. 125 billion, cf. Table 1. This reflects a small underlying improvement in the net financing requirement when liquidity shifts stemming from the temporary covid-19 measures are taken into account.

### The increase in the financing requirement will mainly be covered by short-term issuances

Given that a significant part of the increase in the financing requirement reflects temporary liquidity shifts, the outstanding amount in the government's short-term loan programmes, T-bills and commercial papers (CP), is expected to be higher than announced in December. With the current estimate of the government's financing requirement, the total outstanding amount of T-bills and CP is expected to be kr. 95 billion by the end of 2021, of which up to kr. 60 billion in T-bills. The strategy is still to reduce the outstanding amount of commercial papers as the temporary covid-19 measures are phased out.

The remaining financing requirement is met by drawing on the central government's account. The strategy implies that the central government's account balance is reduced to around kr. 50 billion at the end of 2021.

### Green bonds

Danmarks Nationalbank and the Ministry of Finance are still looking into the possibility of issuing a green bond.

### Financing requirement and financing 2021

Table 1

	Kr. billion
Financing requirement	
Net financing requirement	54
Social housing	19
Redemption bonds etc.	82
Redemption T-bills and CP	153
<b>Financing requirement</b>	<b>307</b>
Strategy for financing	
Sale of government bonds	110
Sale in connection with switch operations	14
Sale of T-bills and CP	95
Government account	87
<b>Financing</b>	<b>307</b>

Note: Redemption bonds etc. includes redemptions and buy-backs of government bonds, payments from the central government in currency swaps and net purchases of government funds. Sales in connection with switches up to and including 30 April. No target is set for issuance in connection with switch operations. Rounding may cause component sums to deviate from totals.

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

In 2021, the central government has issued bonds for approximately kr. 50 billion at market value via auctions and tap sales, cf. Chart 1. In line with the strategy focus has been on issuance in the 2-year and 10-year nominal maturity segments and has predominantly been supplemented with issuance in the 30-year bond. Average sales per auction have been approximately kr. 4.5 billion at market value. In the 2nd half of the year, average sales per auction are also expected to be around kr. 4.5 billion.

In the 2nd half of 2021 focus will continue to be on issuance in the new 2-year and 10-year nominal bonds that were opened in the 1st half of the year. This reflects the strategy to build volume in these bonds to the levels of liquid benchmark series. In addition, the central government may also issue in the 5-year and 30-year nominal bonds, and in the 10-year inflation-linked bond, cf. Table 2.

In the 2nd half of the year, the 2-year and 10-year nominal on-the-run issues will be offered at all ordinary auctions and can be supplemented with the 10-year inflation-linked bond or the 5-year or 30-year nominal bond if deemed fit. This reflects, among other things, that the target for issuance of government bonds implies higher average sales per auction than before the covid-19 pandemic.

### Switch auctions

Based on the positive experiences from the 1st half of 2021, switch auctions will be offered via the auction system MTS PAF going forward, cf. announcement ([link](#)).

The central government will continue to hold two switch auctions per month in the 2nd half of 2021. At these auctions, market participants can switch off-the-run issues to on-the-run issues. Calendar dates will be announced in the auction calendar ([link](#)) in line with auctions in government bonds and T-bills. Papers will be announced no later than one trading day before the switch takes place.

### Buy-backs

Buy-backs may take place in government bonds via auctions and tap. At the end of each month, buy-back auctions of 3.00 per cent 2021 will be held.

### Robust debt profile maintained in 2021

The robust central government profile will be maintained. The target band for the average duration in 2021 is set at 9.5 years  $\pm$  0.5 year, calculated without discounting.

### On-the-run issues in the 2nd half of 2021

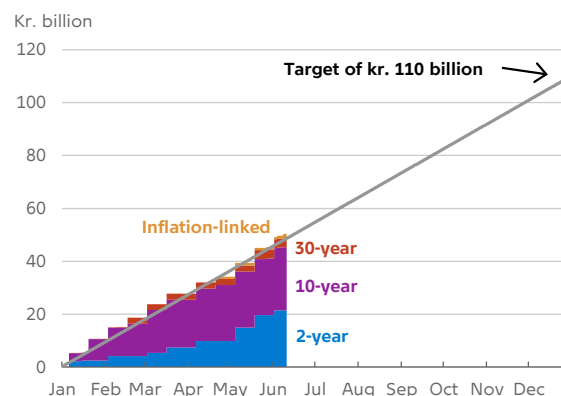
Table 2

Maturity segment	On-the-run issues
Maturity < 1 year	T-bills
2-year nominal	0.00 per cent 2024
5-year nominal	0.50 per cent 2027
10-year nominal	0.00 per cent 2031
30-year nominal	0.25 per cent 2052
10-year inflation-linked	0.10 per cent 2030i

Note: As of 1 July 2021, the 2-year nominal on-the-run issue, 0.00 per cent bullet loan 2024, becomes the new 2-year benchmark bond. Hereafter, 0.25 per cent bullet loan 2022 will no longer have benchmark status.

### Government bond issuance is in line with the strategy

Chart 1



Note: Sales at market value excl. switches up to value date 10 June 2021.

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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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