

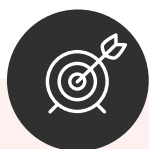
# DANMARKS NATIONALBANK

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## STRATEGY ANNOUNCEMENT

# Central government borrowing strategy in the 2nd half of 2020



### Target for bond issuance at kr. 125 billion

The target for sales of domestic government bonds in 2020 is maintained at kr. 125 billion.



### Unchanged on- the-run issues and benchmark bonds

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



### Increased issuance of T-bills and CP

Part of the borrowing requirement in 2020 is met by issuances of short-term papers.

### The government's net financing requirement in 2020 is increased by kr. 200 billion

The estimate for central government finances in 2020 has deteriorated since December as a consequence of the corona crisis. According to the Economic Survey from May, the net financing requirement in 2020 is expected to be kr. 178 billion, corresponding to an increase of kr. 200 billion, cf. Table 1. The increase primarily reflects lower tax revenues and the government's economic support packages, of which kr. 40 billion are temporary measures. Including redemptions and the government's purchases of bonds for financing of social housing, the funding requirement in 2020 is expected to be kr. 294 billion.

### Target for issuance of government bonds is maintained at kr. 125 billion

Despite the increase in the funding requirement, the target for issuance of government bonds in 2020 is maintained at kr. 125 billion at market value. This reflects an increase of kr. 50 billion in the issuance target in March, cf. announcement ([link](#)), and the aim of securing a stable and predictable bond issuance in 2020. The remaining borrowing requirement is met by short-term issuances, T-bills and commercial papers, CP, and by drawing on the central government's account. With a balance on the account at year-end in the lower range of kr. 50-75 billion, the total outstanding amount of T-bills and CP is expected to be around kr. 140 billion at the end of 2020.

### Short-term issuances will be reduced as the support packages are phased out

Given that the financing need in 2020 has materialised faster and more suddenly than during previous crises, and that part of the increased borrowing requirement is temporary, there has been a rapid build-up of the government's short-term loan programmes, especially the government's two CP programmes. The government's CP programmes were activated at the end of March, and the total outstanding amount has since been built up to roughly kr. 100 billion. The strategy is to reduce the outstanding amount of short-term securities as the temporary measures are phased out, and gradually replace them with longer maturity bonds depending on the borrowing requirement.

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

In 2020, the central government has issued bonds for approximately kr. 56 billion via auctions and tap sales. This is in accordance with the increased

### Borrowing requirement and financing 2020

Table 1

	Kr. billion
Borrowing requirement	
Net financing requirement	178
Social housing	29
Redemption bonds etc.	63
Redemption T-bills	24
<b>Borrowing requirement</b>	<b>294</b>
Strategy for financing	
Sale of government bonds	125
Sale of T-bills and CP	140
Sale in connection with switch operations	7
Government account	22
<b>Financing</b>	<b>294</b>

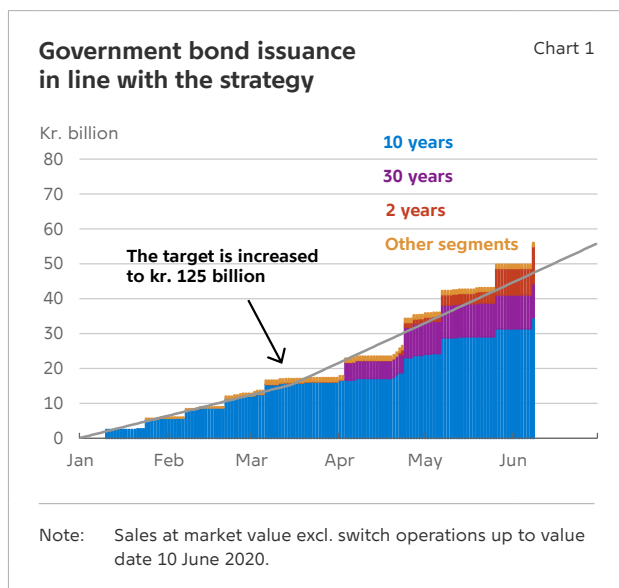
Note: Redemption bonds etc. includes redemptions and buy-backs of government bonds, payments from the central government in currency swaps and net purchases of government funds. Sales in connection with switch operations up to and including 30 April. No target is set for issuance in connection with switch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

issuance target, cf. Chart 1. Issuance has mainly focused on the 10-year maturity segment and the new 30-year nominal bond that was opened in April, reflecting stronger demand in the longer maturity segments in the first months of the year. Since the beginning of May, there has also been demand for the 2-year bond.

The issuance strategy in the 2nd half of 2020 aims at a fairly equal issuance of 2- and 10-year bonds supplemented by 30-year bonds and to a lesser extent other on-the-runs, cf. Table 2. Distribution of issuance over the year and bond maturities will to a greater extent than in previous years depend on investor demand.

### Switch operations

The central government will hold two switch operations per month in the 2nd half of 2020. In these operations, banks and investors can switch off-the-run bonds to on-the-run issues, including the new 30-year bond. Calendar dates will be announced in the auction calendar ([link](#)) in line with auctions in



**On-the-run issues in the 2nd half of 2020** Table 2

Maturity segment	On-the-run issues
Maturity < 1 year	T-bills
2-year nominal	0.25 per cent 2022
5-year nominal	1.75 per cent 2025
10-year nominal	0.5 per cent 2029
30-year nominal	0.25 per cent 2052
10-year inflation-linked	0.1 per cent 2030i

T-bills and government bonds. 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 0.25 per cent 2020 and 3 per cent 2021 will be held in Q3 and in Q4, respectively.

#### Extension of T-bill programme is maintained

New 12-month T-bills will be opened at the auctions in the beginning of September and December, respectively. The programme will thus continue to consist of four T-bills expiring within the next 12 months. Two monthly T-bill auctions will be held in the 2nd half of 2020. The total outstanding amount

of T-bills and CP is expected to be approximately kr. 140 billion at the end of 2020, but will depend on the borrowing requirement.

#### Foreign loans in 2020

A significant part of the increased funding requirement in 2020 is met by issuance in the government's two CP programmes. The government may also issue longer maturity bonds in foreign currency, under the EMTN programme.

#### Robust debt profile maintained in 2020

The robust central government profile will be maintained. The target band for the average duration in 2020 is set at 10 years  $\pm$  1 year, calculated without discounting.

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