

# HIGHLIGHTS

## DANISH GOVERNMENT BORROWING AND DEBT 2015

### THE CENTRAL GOVERNMENT DEBT WAS REDUCED FURTHER IN 2015

The Danish government debt has the highest possible rating (AAA/Aaa) from the largest international credit rating agencies. The ratings are supported by the low government debt, which fell to 22 per cent of GDP in 2015 as a result of a government budget surplus, cf. Chart 1.

Total bond sales in 2015 amounted to kr. 33 billion, and the average yield to maturity on the bonds issued was a record-low 0.3 per cent.

### THE FIXED EXCHANGE RATE POLICY HAD A MAJOR IMPACT ON GOVERNMENT DEBT MANAGEMENT POLICY

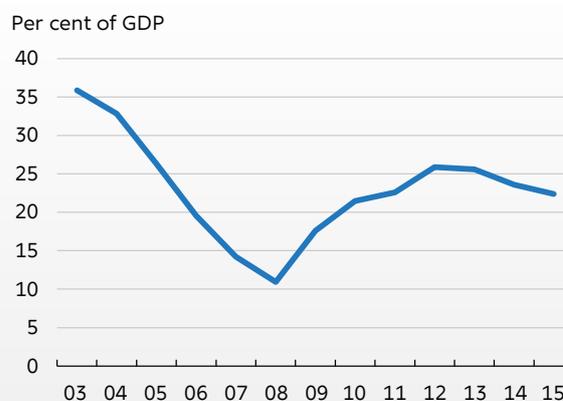
2015 was an exceptional year in the European sovereign debt markets where the European Central Bank, ECB, expanded its monetary policy measures by purchasing government bonds. This contributed to unusually low interest rates in the euro area, which also influenced Danish government yields. In Denmark, government debt policy was highly affected by the pressure against Denmark's fixed exchange rate policy at the beginning of the year. In that connection it was decided to suspend sales of government bonds. This helped to reduce the inflow of foreign exchange by making it less attractive to invest in Danish bonds.

### EIGHT MONTHS WITHOUT ISSUANCES

After eight months' suspension of issuance, sales of government bonds were resumed in October. The suspension meant that the initial target of kr. 75 billion of bond issuances in 2015 was not met – sales amounted to kr. 33 billion, cf. Chart 2. Hence, a substantial part of the central government's financing requirement was met by drawing on the

Central government debt

Chart 1



Note: At year-end.

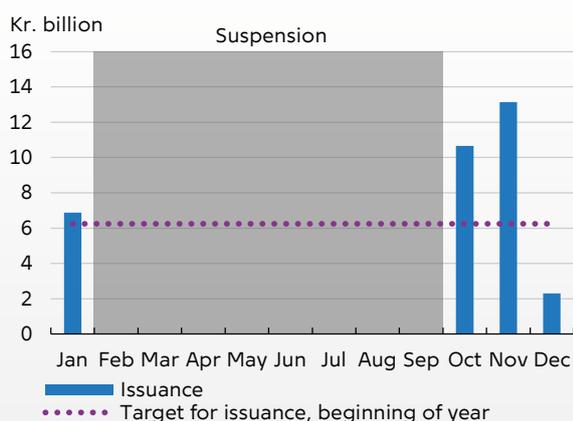
central government's account. This was possible because the central government at the start of 2015 had kr. 213 billion on the account, corresponding to 11 per cent of GDP.

### IMPROVED LIQUIDITY AFTER THE RESUMPTION OF SALES OF GOVERNMENT BONDS

The suspension of issuance led to a reduction of liquidity in the government bond market. It became more costly for investors to trade government bonds and more difficult to make large transactions. When issuance was resumed, demand for government bonds was high. After a year, in which it was at times difficult to trade Danish government securities, trading activity approaches the pre-suspension level and liquidity in the Danish government bond market is now normalising, cf. Chart 3.

**Sales of government bonds in 2015**

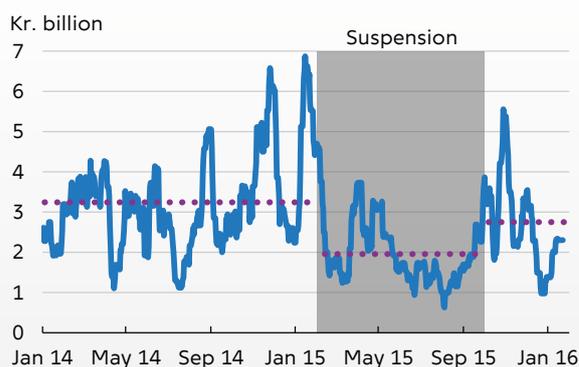
Chart 2



Note: At the beginning of the year, the target for total bond sales in 2015 was kr. 7.5 billion. The purple line indicates a technical, equal distribution of this target across all months of the year. Excluding sales in connection with switch operations.

**Daily turnover in government bonds**

Chart 3



Note: Turnover is calculated as a 10-day moving average.  
Source: Danish Financial Supervisory Authority and own calculations.

### A WELL-DIVERSIFIED GROUP OF INVESTORS

Investors in Danish government bonds are broadly distributed across geographical areas and segments. The largest groups of investors are the insurance and pension sector and non-residents, cf. Chart 4. Following large fluctuations over the year, non-resident ownership was 41 per cent at the end of 2015, which is in line with the level in recent years.

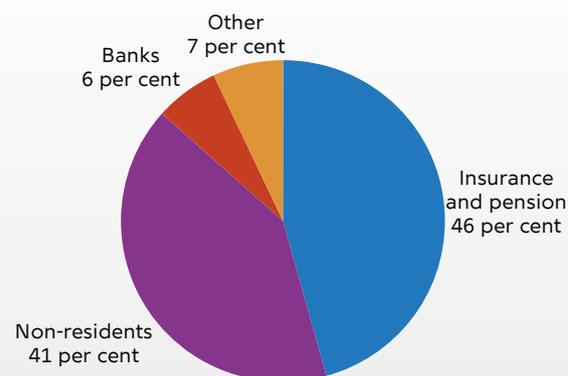
### STRATEGY FOR 2016

The target for issuance of domestic bonds in 2016 is kr. 7.5 billion. Issuance may take place in all on-the-run issues, but focus is on the build-up of the 2- and 10-year series. As a new initiative, regular switch operations will be held twice a month to further support the build-up of the key on-the-run issues.

The central government has a very robust debt profile with high duration, and the level of debt is relatively low. Consequently, higher interest rates will have very little impact on the central government budget. In the current low interest rate environment, it is found to be favourable to maintain a high duration in 2016, even though the

**Ownership distribution at the end of 2015**

Chart 4



central government has the capacity to take on higher interest rate risk. Therefore, the target for the duration of the central government debt in 2016 is set at 11.5 years  $\pm$  1 year.

Read more in the publication 'Danish Government Borrowing and Debt 2015'.