

# DANMARKS NATIONALBANK

26 JANUARY 2021 — NO. 1

Changes in ECB monetary policy important for Danish monetary policy

## Pension fund response to ECB purchases

In early 2015, when the European Central Bank (ECB) began purchasing government bonds issued by euro area countries, Danish pension funds sold off the bonds purchased by the ECB to buy Danish bonds.

This is among the conclusions of a working paper in which economists Søren Lejsgaard Autrup and Jakob Roager Jensen analyse the response of Danish pension companies to the ECB's asset purchase programmes.

Following the financial crisis some 10 years ago, the ECB has been pursuing a new monetary policy, in-

volving, for instance, the launch of government bond purchases to ensure price stability.

Although Danish government bonds do not form part of the ECB's asset purchase programme, this may still impact Danish financial markets. For instance through the response of Danish investors holding bonds in euro to the ECB's purchases. When the ECB purchases a bond, on the opposite side of the transaction is a seller who receives cash. The seller may then choose to deposit the cash into a bank account or, for instance, purchase other securities.

### Pension fund response to ECB purchases

Pension companies transactions in bonds, kr. billion



Note: Euro only includes bonds eligible for ECB purchases.  
Source: Danmarks Nationalbank.

If a Danish investor sells euro-denominated bonds, an obvious choice is to purchase Danish bonds instead. This will increase demand for Danish kroner. Therefore, changes to the ECB's monetary policy stance are important to Danmarks Nationalbank and Danish monetary policy.

The pension sector is the undisputedly largest group of Danish investors in European securities. When the ECB started purchasing bonds in March 2015, Danish pension companies held euro-denominated bonds included in the ECB's asset purchase programme worth more than kr. 300 billion – nearly equal to their holdings in Danish government bonds. Pension companies use bonds issued by euro area countries in their portfolios in largely the same way as they use Danish government bonds. This is possible due to the fixed exchange rate policy, entailing that the exchange rate of the Danish krone vis-à-vis the euro is kept stable. Therefore, it is important for Danmarks Nationalbank to understand how pension companies respond to the unconventional policies of the ECB and how it impacts the Danish krone.

#### **Pension funds returned to euro-denominated bonds**

In the months after the ECB launched its purchases of government bonds in March 2015, Danish pension companies sold off the bonds purchased by the ECB. Overall, they sold bonds worth about kr. 25 billion, equivalent to almost 10 per cent of their initial holdings. At the same time, the companies purchased,

for instance, Danish bonds worth more than kr. 50 billion. There are indications that part of the conversion from euro-denominated bonds to Danish bonds was driven by the ECB's asset purchase programmes.

Within a year of the launch of the ECB's asset purchase programme, Danish pension companies had returned as buyers of the same type of bonds as the ECB. Pension companies' assets grew, and they needed to purchase bonds. Although the ECB continued its massive purchases of euro-denominated government bonds, the Danish government bond yield was in line with that of the safest euro-denominated government bonds. As a result, there was no additional return to be gained by pension companies from purchasing more Danish government bonds rather than euro-denominated government bonds.

The analysis also shows a substantial difference in the response of different groups of pension companies. Conventional pension companies that have guaranteed their customers fixed returns are most in need of highly rated bonds. Indeed, these companies engaged in purchases of euro-denominated government bonds on a large scale relatively shortly after the ECB launched its purchases.

Find the working paper on pension companies' behaviour under the ECB's purchases of government bonds on Danmarks Nationalbank's website ([link](#)).

# Low for long

Denmark was the first country to introduce negative monetary policy rates in 2012. Since then, Switzerland, Sweden, Japan and the euro area have followed suit.

Very low and in some cases negative interest rates have characterised the past decade across the advanced economies. There are several reasons why interest rates have fallen to the current low levels. Low interest rates reflect the fact that inflation has been subdued in many countries, but structural changes in household and corporate savings and investment behaviour are also part of the explanation.

These developments have brought monetary policy and the economy into uncharted waters, which is why Danmarks Nationalbank will be issuing a series of publications on the topic.

## ABOUT THIS NEWS

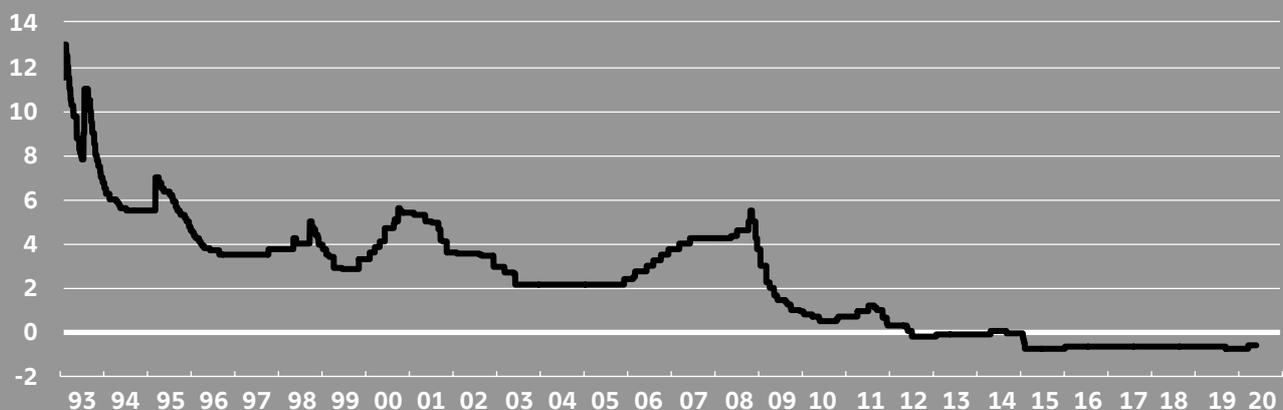
### Pension companies and ECB asset purchases

When the ECB started to buy bonds in March 2015, Danish pension companies owned euro bonds for more than kr. 300 billion. That was almost as much as their holdings of Danish government bonds.

The investments of the pension companies are important for the Danish exchange rate. It is therefore important for Danmarks Nationalbank to understand how the pension companies react to extraordinary policies from the ECB, and how it may affect the Danish krone.

## Danmarks Nationalbank's interest rate

Per cent



Danmarks Nationalbank's key interest rate has been negative since the summer of 2012, with the exception of a brief period in 2014.



## PUBLICATIONS



### NEWS

News offers a quick and accessible insight into an Analysis, an Economic Memo, a Working Paper or a Report from Danmarks Nationalbank. News is published continuously.



### ANALYSIS

Analysis from Danmarks Nationalbank focuses on economic and financial matter. Some of the analyses are published with a regular frequency e.g. *Outlook for the Danish economy and Financial stability*. Other analyses are published continuously.



### REPORT

Report comprises recurring reports and reviews of the functioning of Danmarks Nationalbank. For instance Report includes the *Annual report* and the annual publication *Danish government borrowing and debt*.



### ECONOMIC MEMO

Economic Memo is a cross between Analysis and Working Paper and it often shows the ongoing study of the authors. The publication series is primarily targeted at professionals. Economic Memo is published continuously.



### WORKING PAPER

Working Paper presents research projects by economists in Danmarks Nationalbank and their associates. The series is primarily targeted at professionals and people with an interest for academia. Working Paper is published continuously.

The news article 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.

DANMARKS NATIONALBANK  
LANGELINIE ALLÉ 47  
DK-2100 COPENHAGEN Ø  
WWW.NATIONALBANKEN.DK



**DANMARKS  
NATIONALBANK**

## CONTACT

**Ole Mikkelsen**  
Communications  
and Press Officer

*omi@nationalbanken.dk*  
*+45 3363 6027*

SECRETARIAT  
AND COMMUNICATIONS