

Central government borrowing strategy for 2nd half of 2024

Economic progress raises expectations for the Danish economy in 2024. The continued rise in employment is reflected in higher growth forecasts and a larger surplus on the budget balance, amongst other things. The Danish economy has experienced a robust development in recent years, supported this year by continued growth in the pharmaceutical industry, rising real wages for households, and the reopening of the Tyra natural gas field.

Issuance targets are maintained at kr. 65 billion for government bonds and kr. 35 billion for the central government's short-term loan programmes. In addition, a short-term bond in foreign currency will be issued under the Danish government's EMTN programme.



Issuance target is maintained at kr. 65 billion for bond sales

The target for bond issuances is maintained at kr. 65 billion. The target is maintained to ensure a liquid and well-functioning government debt market. Focus will continue to be on issuance in the 2-year and 10-year nominal bonds.



Continued support of market liquidity in the government debt market

The government has actively supported the market in the first half of the year with switch auctions and buy-backs. This is expected to continue in the second half of the year.



Issuance under the central government's EMTN programme

In the 2nd half of 2024, a short-term bond in either euro or us dollars will be issued under the central government's EMTN programme. The strategy remains to issue one foreign currency bond annually. The issuance ensures a strong and broad market access in foreign currencies.

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Why is it important?

On behalf of the Minister of Finance, Danmarks Nationalbank is responsible for the management of government borrowing and debt. This means that Danmarks Nationalbank prepares a strategy for government borrowing based on the fiscal budget law and input from the Ministry of Finance to match the central government's annual financing needs, while supporting a well-functioning domestic capital market and facilitating the government's long-term access to capital markets. The strategy is approved by the Ministry of Finance.

The strategy for government borrowing is published twice a year. In extraordinary circumstances, Danmarks Nationalbank may make changes to the strategy outside the biannual publications – as was the case during COVID-19, for example, when the central government's borrowing requirement increased sharply within a short period of time.



Based on the Ministry of Finance's latest forecast, a total financing need of kr. 56 billion is expected in 2024



Key messages

Strategy announcement

Government finance and debt

Government borrowing and debt

Government debt

Economic progress raises expectations for the Danish economy in 2024

The Danish economy has experienced a robust development in recent years. Activity levels were quickly restored after the COVID-19 pandemic. Employment has continued to rise even though demand has declined due to high energy prices, inflation, rising interest rates, and stagnation abroad, according to the government's latest report, *Economic Survey, May 2024*. The pharmaceutical industry has been a particular driving factor for GDP growth, while employment has increased broadly across the economy, especially in the service sectors. Continued growth in the Danish economy is expected over the next few years, supported by rising real wages for households and the reopening of the Tyra natural gas field in the North Sea during 2024. Overall, GDP is expected to grow by 2.7 per cent in 2024 and 1.8 per cent in 2025.

Public finances in Denmark are strong with low debt, financial net wealth, and public surpluses. In 2024, the estimated surplus on the budget balance has been revised up to 1.7 per cent of GDP, while EMU debt is now expected to fall to 28.6 per cent of GDP based on *Economic Survey, May 2024*. This underpins Denmark having the highest credit rating (AAA) with the leading international credit rating agencies.

The central government financing requirement reduced to kr. 56 billion in 2024

The 2024 forecast for the government finances have improved since December due to higher-than-expected tax revenues. Based on the *Economic Survey, May 2024*, the central government net financing requirement for 2024 is expected to be kr. -61 billion, implying an improvement of approx. kr. 16 billion since the December forecast. The improvement is mainly driven by higher revenues from personal and corporate taxes due to strong economic conditions, together with less demand for on-lending to government-owned entities, which more than offsets the impact of increased defence spending in 2024. Considering redemptions and net purchases of mortgage bonds financing social housing, the central government's finance requirement is estimated to decrease to kr. 56 billion from kr. 77 billion. For an overview of the financing requirement see table 1.

TABLE 1

Financing requirement and financing in 2024

Financing requirement	Kr. billion
Net financing requirement	-61
Net purchases of mortgage bonds financing social housing	6
Redemption on long-term debt, etc.	96
Repayments on treasury bills and commercial papers	15
Total financing requirement	56

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Strategy for financing

Sale of government bonds	65
Sale in connection with switch operations	10
Sale of treasury bills and commercial papers	35
Sale of EMTN	12
Government account	-66
Total financing	56

Note: *Repayments on long-term debt, etc.* include maturities and purchases of government bonds, net payments on currency swaps and net bond purchases by the government funds. No target is set for sales via switch auctions. Rounding may cause sums to deviate from totals. Sales from switch operations are included up to and including 3 June 2024.

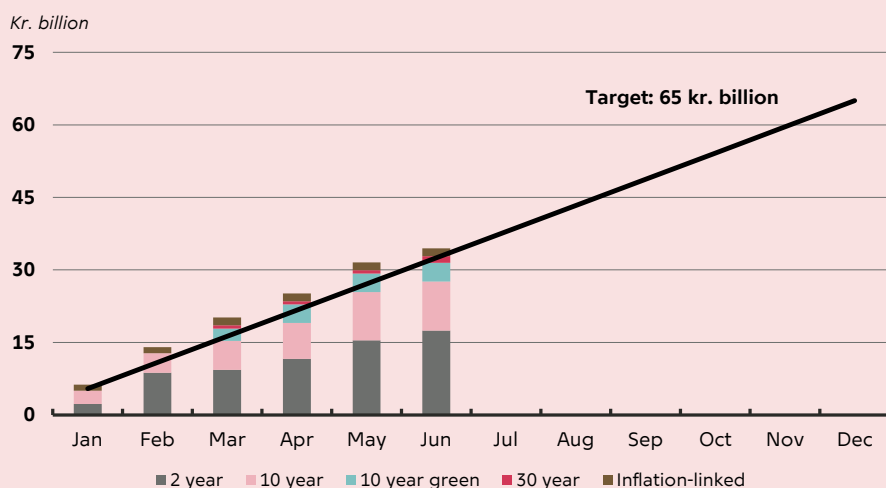
Source: Ministry of Finance and Danmarks Nationalbank.

The government’s bond issuance target is maintained at kr. 65 billion

The target for issuing Danish government bonds is maintained at kr. 65 billion at market value. Up to the beginning of June, the government issued bonds for approx. kr. 34 billion at market value via auctions and tap sales, see chart 1. In line with the strategy, bonds have been sold evenly at auctions with an average sale per ordinary auction amounting to kr. 2.98 billion¹.

CHART 1

Bond issuances are in line with the strategy



Note: The chart shows bond sales at market value until 4 June 2024 excluding switch auctions. Sales are calculated by value date.

Source: Danmarks Nationalbank.

¹ The average is calculated by dividing issuances at market value (excluding issues at opening auctions) by the number of auctions held during the year.

Focus will continue to be on issuing in the 2-year and 10-year nominal government bonds in the 2nd half of 2024. This will be supplemented with issuances in both the inflation-linked programme and green bond programme. The central government may also issue in the 30-year nominal bond to a limited extent. For an overview of on-the-run government issues in 2024, see table 2.

Continued build-up of the central government's on-the-run issues ensures liquidity

The 2-year and 10-year nominal bonds are built to liquid benchmark sizes. Targets for the 2-year and 10-year bond are for outstanding amounts of kr. 60 billion and kr. 75 billion, respectively, while the current on-the-run 10-year green bond has a target of kr. 20 billion. Additionally, the strategy for the government's inflation-linked programme remains to build the total outstanding amount to kr. 40-60 billion as the programme is fully implemented.

Despite the declining financing requirement, it is important to maintain bond issuances at a sufficient level to uphold a well-functioning and liquid government bond market. This ensures continuous access to stable and cheap financing for the central government. The assessment is that an annual issuance target around the levels of recent years is appropriate and sufficient to ensure good liquidity in the Danish government bond market.

Target for the outstanding amount in short-term loan programmes of kr. 35 billion

The short-term loan programmes, treasury bills and commercial papers (CP), are a central part of the central government's liquidity reserves. The target for 2024 is to have a total outstanding amount of kr. 35 billion by the end of the year. The majority will consist of treasury bills, with new 6-month treasury bills opened every three months.

The strategy implies that the government's account balance at the end of the year is expected to be approx. kr. 227 billion. The high balance on the central government account reduces the need for active liquidity management throughout the year. The central government can thus choose to issue less short-term debt than the issuance target in case of limited demand the rest of the year.

Continued strategy to support liquidity in the government debt market

The central government has actively supported the market in the first half of the year with purchases of bonds maturing after 2024 for approx. kr. 16 billion via switch auctions and buy-backs. This is expected to continue in the second half of the year.

Buy-backs and switch auctions can contribute to levelling out the central government's redemption profile and contribute to faster build-up of the core on-the-run issues. A prerequisite for the central government's activities in the secondary market is that relative prices are reasonable between the Danish government bonds being bought and sold. Buy-back activity will be managed considering an appropriate outstanding amount of the off-the-run issues.

One or two switch auctions will be held monthly. Market participants may exchange off-the-run issues for on-the-run issues at switch auctions.

Bond issuance in foreign currency in 2024

In the 2nd half of 2024, a short-term bond in either euro or us dollars will be issued under the central government's EMTN programme. The issuance helps ensure that the central government maintains a strong and broad market access in foreign currencies. The strategy remains to issue one foreign currency bond in either euro or us dollars annually.

TABLE 2

The central government's on-the-run issues in the 2nd half of 2024

Segment	Issues
Maturity <1 year	Treasury bills and commercial papers
2-year nominal	2.25 per cent 2026
10-year nominal	2.25 per cent 2033
10-year green nominal	2.25 per cent 2033G
30-year nominal	0.25 per cent 2052
Inflation-linked	0.10 per cent 2034i

Note: As of 1 July 2024, the 2-year nominal on-the-run issue, 2.25 per cent bullet loan 2026, becomes the new 2-year benchmark bond. Hereafter, the 1.75 per cent bullet loan 2025 will no longer have benchmark status. See Danmarks Nationalbank for the existing list of on-the-run issues ([link](#)).

Source: Danmarks Nationalbank.

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The analysis consists of a Danish and English version. In case of doubt of the accuracy of the translation, the Danish version applies.

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