

# Central government borrowing strategy 2<sup>nd</sup> half of 2023

The Danish economy has proven resilient in a time of high economic and geopolitical uncertainty, high inflation, and rising interest rates. Inflation has been decreasing in the first half of the year, and the economy continues to be characterized by high employment, low unemployment, and significant surpluses on the balance of payments and the central government finances.

The Government's funding need for 2023 was finally determined in April 2023 in context with the adoption of the deferred Finance Act. As expected, the delayed adoption of the Finance Act did not give rise to any changes to the announced strategy for the central government's borrowing in 2023. The target for the central government's issues is thus maintained at kr. 65 billion for government bonds and kr. 35 billion for the government's short-term loan programmes.

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### Maintaining the current strategy

The targets for bond issuances and the short-term loan programmes are maintained at kr. 65 billion and kr. 35 billion, respectively in 2023.



### Opening of 10-year green twin bond

In the 2nd half of the year, a new 10-year green government bond will be opened via syndication. The bond is a twin bond to the nominal 10-year government bond maturing in 2033 and is issued under the Green Bond Framework, which has been given the highest attainable dark green rating.



### Issuance under the EMTN-programme

The government expects to issue a bond in foreign currency under the EMTN programme in the second half of 2023. It remains the strategy that the government annually will issue a bond in foreign currency.

### The Danish economy has proven to be robust despite financial turmoil

The Danish economy has proved resilient in a time of great economic and geopolitical uncertainty, high inflation, and rising interest rates. The most recent forecast in the Economic Survey for May shows that the Danish economy is in a strong state. Inflation has been on the way down in the first half of the year, while employment remains high, unemployment is low, and at the same time there has been an improvement in different confidence indicators. In addition, Denmark continues to have significant surpluses on the balance of payments and on the central government finances.

The healthy public finances and low debt continues to contribute to Denmark maintaining the highest possible credit rating (AAA) with a stable outlook again. Contrary to other comparable creditworthy countries, Denmark's EMU debt is expected to remain unchanged at approx. 30 per cent of GDP by the end of 2023.

### The government's financing need is kr. 92 billion in 2023

The government's funding need for 2023 was only finally determined in April 2023 in connection with the adoption of the deferred Finance Act. As expected, the delayed Finance Act did not give rise to changes to the strategy for the central government's borrowing.

The government's total financing needs are expected to be kr. 92 billion in 2023. This covers the fact that the government is budgeting a surplus of kr. 24 billion, paying off existing debt for a total of kr. 97 billion, and financing social housing for kr. 18 billion in 2023, see table 1.

TABLE 1

#### Financing requirement and financing in 2023

<i>Borrowing requirement</i>	<i>Kr. billion</i>
Net financing requirement	-24
Net purchase of social housing bonds	18
Redemption of bonds etc.	81
Redemption of T-bills and CP	16
<b>Total financing requirement</b>	<b>92</b>
<i>Strategy for financing</i>	
Sale of government bonds	65
Sale in connection with switch operations	5
Sale of T-bills and CP	35
Sale of EMTN	12
Government account	-25
<b>Financing</b>	<b>92</b>

Note: Redemption of bonds etc. includes redemptions and buy-backs of government bonds, payments from the central government in currency swaps and net purchases of government funds. No target is set for issuance in connection with switch operations. Rounding may cause sums to deviate from totals. Sales from switch operations are included up to and including 7 June 2023.

Source: Ministry of Finance and Danmarks Nationalbank.

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

The target for issuing domestic government bonds is maintained at kr. 65 billion at market value. Until the beginning of June, the government has issued bonds for approx. kr. 24 billion via auctions and tap sales, see chart 1. The average sale per auction in the past part of the year was approx. kr. 2.1 billion.

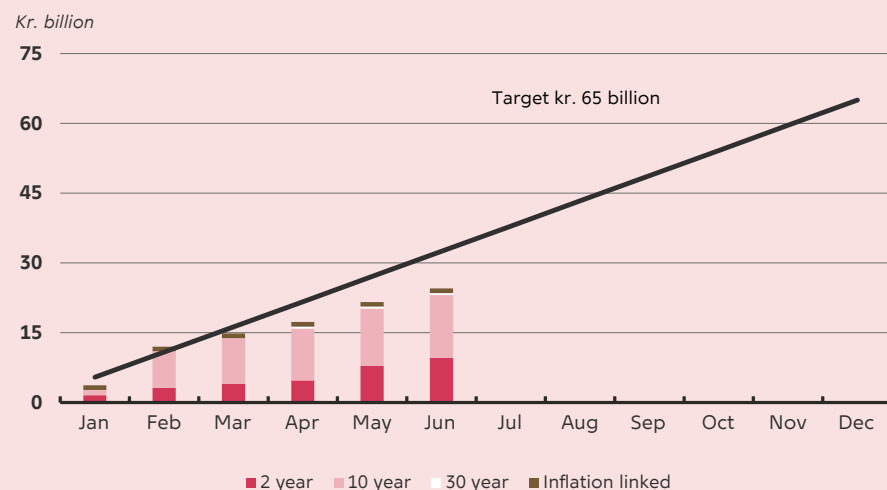
To ensure continuity and the maintenance of a liquid market for government bonds, the bonds are continuously issued via auctions and tap sales throughout the year. The focus will persist to be on issuing in the 2- and 10-year nominal bonds, supplemented by the opening of a new green bond and ongoing issuance in the government's inflation-indexed bond. The government can also to a limited extent issue in the 30-year nominal bond in 2023.

The strategy implies that the government's account balance at the end of the year is expected to be approx. kr. 183 billion, which leaves the government with a significant liquidity buffer.

The high balance on the central government account provides greater flexibility to let the issuance volume be determined by investors' demand. The central government can thus choose to issue less than the issuance target in case of limited demand in the rest of the year.

CHART 1

#### Bond issuance only slightly below target



Note: Issuance of bonds up to and including 7 June 2023 via auctions and tap at market value.  
Source: Danmarks Nationalbank.

### **New green government bond will be opened via syndication in the 2nd half of 2023**

In the second half of 2023, a new 10-year green government bond will be opened in accordance with the state's Green Bond Framework ([link](#)), which has the highest possible environmental rating – a so-called dark green rating ([link](#)). The bond is issued as a twin bond and thus has the same financial characteristics as the government's nominal 10-year benchmark bond maturing in November 2033. The bond is expected to be opened via syndication, and the total issuance of green bonds will amount to a maximum of kr. 10 billion at market value in 2023. This will bring the total outstanding Danish green government bonds to approx. kr. 25 billion at the end of 2023.

It is always ensured that the proceeds from the sale of green bonds do not exceed the amount of suitable green expenditures. The expenditures under the government's Green Bond Framework goes to two of Denmark's most CO<sub>2</sub>-emitting sectors: the transport and energy sector ([link](#)). In the transport sector, the proceeds from the issuance of green government bonds covers investments and operating expenses of the infrastructure of the rail network, as well as indirect expenses associated with tax exemptions for zero- and low-emission vehicles. For the energy sector, the proceeds cover expenses for subsidy schemes and tax exemption schemes that encourage the transition to solar and wind power. Of the total allocated expenditures in 2021 and 2022 and the planned expenditures for 2023, approx. 80 percent is set aside for clean transport, and 20 per cent for renewable energy.

### **Issuance of bond in foreign currency in the 2<sup>nd</sup> half of 2023**

The government expects to issue a government bond in either euro or dollar under the government's EMTN programme in the second half of 2023. The issuance helps to ensure that the government maintains strong and broad market access in foreign currency. The government expects annually to issue in either euro or dollar under the government's EMTN programme.

### **The target for the outstanding of short-term loan programmes at the end of 2023 is still kr. 35 billion**

The target for the total outstanding amount in the government's short-term loan programmes is still kr. 35 billion at the end of 2023. The outstanding amount in the government's short-term loan programmes may deviate significantly from the target within the year, depending on the demand from investors and the government's ongoing liquidity needs. The outstanding amount will primarily be in treasury bills, supplemented by commercial papers. Read more about the government's short loan programmes ([link](#)) and see the auction calendar ([link](#)).

### **Buy-backs support a well-functioning government bond market**

The government has actively supported the market in the first half of the year with the purchase of bonds maturing outside of 2023 for approx. kr. 15 billion via switch auctions and tap buybacks. This is expected to continue in the second half of the year. The buybacks are used partly to smooth out the government's repayment profile, and partly to support a liquid and well-functioning government bond market.

### **Switch auctions allow investors to exchange off-the-run papers to on-the-run papers**

The government continues to hold one or two switch auctions a month. In these auctions, investors can switch off-the-run issues to on-the-run issues. Switches are not included in the issuance target, but they contribute to the build-up of the primary on-the-run issues. The switch auctions help ensure a liquid and well-functioning government bond market.

TABLE 2

**The central government's on-the-run issues in 2<sup>nd</sup> half of 2023**

Segment	On-the-run issues
Maturity < 1 year	T-bills and commercial papers
2-year nominal	1.75 pct. 2025
10-year nominal	2.25 pct. 2033
10-year green nominal	2.25 pct. 2033
30-year nominal	0.25 pct. 2052
Inflation-linked	0.10 pct. 2034i

Note: See the list of on-the-run-bonds here: [\(link\)](#).

# Related publications

**Government Borrowing and Debt 2022:**

<https://www.nationalbanken.dk/en/news-and-knowledge/publications-and-speeches/archive-publications/2023/danish-government-borrowing-and-debt-2022>

**Government Borrowing and Debt 2021:**

<https://www.nationalbanken.dk/en/news-and-knowledge/publications-and-speeches/archive-publications/2022/danish-government-borrowing-and-debt-2021>

**Former strategy announcements:**

**Strategy announcement - Central government borrowing strategy 2023:**

<https://www.nationalbanken.dk/en/news-and-knowledge/publications-and-speeches/archive-publications/2022/strategy-announcement-central-government-borrowing-strategy-2023>

**Strategy Announcement - Central government borrowing strategy in the 2nd half of 2022:**

<https://www.nationalbanken.dk/en/news-and-knowledge/publications-and-speeches/archive-publications/2022/strategy-announcement-central-government-borrowing-strategy-in-the-2nd-half-of-2022>

## Read also

**Økonomisk Redegørelse, May 2023:**

<https://oem.dk/media/9236/oekonomisk-redegoerelse-marts-2023-a.pdf>

**Webpage for the central government's borrowing strategy:**

<https://www.nationalbanken.dk/en/government-debt/funding-strategy>

**Green bonds:**

<https://www.nationalbanken.dk/en/government-debt/funding-strategy/green-bonds>

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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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