

Understanding between the Danish Government and KommuneKredit regarding public financing of KommuneKredit

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KommuneKredit provides loans for investments in municipalities and regions across Denmark. KommuneKredit funds the loans by issuing bonds in the financial markets. The Danish central government borrows at a lower interest rate than KommuneKredit, making it possible to achieve interest cost savings for the public sector by allowing municipalities and regions to borrow at the lower central-government interest rate.

This can happen through lower financing costs for KommuneKredit and, consequently, lower financing costs for municipalities, regions, and affiliated companies. The central government ultimately guarantees the loans of KommuneKredit.

Therefore, the Danish Government and KommuneKredit have agreed that Danmarks Nationalbank, on behalf of the central government, will finance KommuneKredit at the central government's financing costs, as soon as possible. The lower financing costs will benefit KommuneKredit's customers in the form of lower borrowing costs.

This means that, as of today, KommuneKredit will no longer issue bonds in the capital markets.

The Danish Government and KommuneKredit, in collaboration with Danmarks Nationalbank, will now develop the specific model for this new form of financing. The Danish Government will present a legislative proposal to amend the KommuneKredit Act, implementing the model and addressing its derived effects, including adjustments to the regulatory framework for supervising KommuneKredit.

Until a legislative proposal is adopted, the government will seek relevant budgetary authorization if necessary.

Background

KommuneKredit provides loans and financial leasing to Denmark's 98 municipalities and 5 regions, as well as to municipal partnerships and companies that perform municipal and regional tasks, such as utility companies. KommuneKredit finances its loans by bond issuance in private markets.

The Danish central government has the lowest financing costs in the Danish market. It has used this advantage to reduce the public sector interest costs by consolidating public debt. Since the central government's financing cost is lower than KommuneKredit's, the model will ensure that municipalities, regions, and affiliated companies will pay lower interest rates on their loans than under the current financing model.

Currently, the central government already finances the loans of KommuneKredit for public care and senior housing as part of the financing model for public housing.

KommuneKredit has the highest possible credit rating from various rating agencies, partly because municipalities are jointly liable for KommuneKredit, making it highly secure for investors. This contributes to KommuneKredit borrowing at a very low interest rate, although, according to Danmarks Nationalbank, it is still higher than the rate at which the central government borrows.

The model does not affect the size of either the EMU debt or the net debt, and it does not require provisions in the Budget Act to cover central-government financial risks, as it is not expected to increase central-government credit risk.