



Danmarks  
Nationalbank

Danish Government  
Debt Management  
Strategy

2005

## Key issues, 2nd half of 2005

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Public finances have strengthened and the domestic borrowing requirement for 2005 has been reduced. In pursuit of the overall objective to cover the financing requirement at the lowest possible long-term costs at a prudent level of risk, the strategy for 2005 is dedicated to ensuring liquidity:

- Issuance is concentrated in few key maturity segments (2-, 5- and 10-year). The current on-the-run and benchmark issues are 4 per cent bullet loans 2008, 4 per cent bullet loans 2010 and 4 per cent bullet loans 2015.
- The borrowing requirement will be increased through *buy backs* of bonds maturing after 2005.
- The *outstanding amounts* of the current 5- and 10-year on-the-run issues will reach at least DKK 35 billion and DKK 60 billion, respectively. The current 2-year on-the-run issue, 4 per cent bullet loans 2008, already exceeds the minimum of DKK 35 billion. Kingdom of Denmark remains present in this segment although issuance in the 2-year segment will be scaled down to less than DKK 20 billion in 2005.
- A new primary dealer scheme for Danish *Treasury bills* with market making commitments will be introduced 28 July 2005. Concurrently, a new auction facility for Treasury bills based on the MTS platform is expected to be introduced. There are 12 primary dealers in the segment for Treasury bills on MTSDk. The primary dealers will be the sole counterparts at the auctions.
- The strategy for *foreign borrowing* is to issue benchmark size euro loans in the 5-year maturity segment every year. In 2005, Kingdom of Denmark issued a EUR 1.8 billion bond in the 5-year maturity segment (3.125 per cent 2010).
- The *duration* of the debt portfolio is managed within a band of 3 years +/- 0.5 years and reflects the chosen balance between cost and risk.

## Financing requirement

The improvement of public finances has resulted in a lower financing requirement for 2005. An upward revision of the estimated surplus for 2005 brings the estimate for the domestic borrowing requirement for 2005 to DKK 42 billion. According to Budget Outlook, May 2005, the revision of the 2005 surplus is mainly due to lower net interest payments and higher revenues from corporate taxes, value added tax and other excise duties.

In the *Budget Outlook*, the central government's gross financing requirement for 2005 is estimated at DKK 86.5 billion. The gross domestic financing requirement is DKK 71.1 billion and the gross foreign financing requirement is DKK 15.4 billion in 2005.

CENTRAL-GOVERNMENT FINANCING REQUIREMENT, 2005		Table 1
Value date 22 June 2005		DKK billion
Gross financing requirement ( <i>Budget Outlook</i> , May 2005) .....		86.5
Gross domestic financing requirement ( <i>Budget Outlook</i> ) .....		71.1
Subsequent buy-backs of securities maturing after 2005 <sup>1</sup> .....		+3.4
Krone payments to central govt in currency swaps .....		-4.9
Transfer of excess sale from 2004 to 2005 .....		-28.0
Domestic borrowing requirement <sup>2</sup> .....		41.7
Gross foreign financing requirement ( <i>Budget Outlook</i> ) <sup>3</sup> .....		15.4
Foreign-exchange payments to central govt in currency swaps		-2.1
Foreign borrowing requirement		13.3

<sup>1</sup> After the release of *Budget Outlook*, May 2005.

<sup>2</sup> The borrowing requirement will increase with buy-backs in 2005 of securities maturing in subsequent years.

<sup>3</sup> Of which redemptions amount to DKK 8.5 billion, planned currency swaps to DKK 4.9 billion and the foreign net financing requirement related to Danish Ship Finance to DKK 2.0 billion.

## Borrowing

With a limited need for borrowing, the strategy remains dedicated to ensuring volume and liquidity in on-the-run issues.

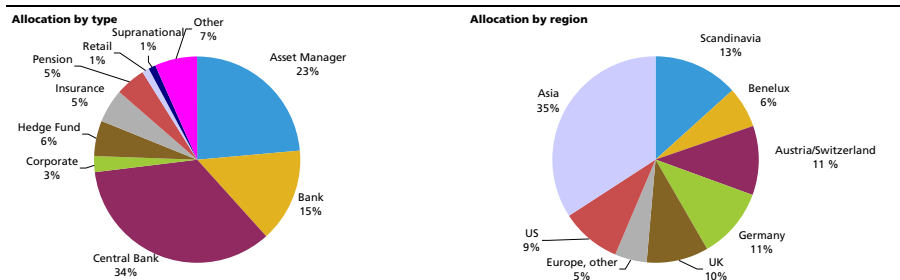
The domestic borrowing requirement is financed through issuance of krone denominated bonds in key maturity segments. The 2- and 5-year on-the-run issues are planned to reach outstanding amounts of at least DKK 35 billion and the 10-year DKK 60 billion. The outstanding amount in the current 2-year on-the-run issue already exceeds the minimum of DKK 35 billion. Issuance in this segment will continue throughout 2005, but due to the reduced borrowing requirement, the planned issuance volume in the 2-year segment will be scaled down below DKK 20 billion.

The net financing contribution from Treasury bills is expected to be zero. New 12-months Treasury bills will be opened at auctions with settlement dates on the first business days of August and November.

DOMESTIC ON-THE-RUN-ISSUES, JUNE 2005		Table 2
Series	Maturity segment	Coupon/due date
4 per cent bullet loans 2015 .....	10-year	15 November
4 per cent bullet loans 2010 .....	5-year	15 November
4 per cent bullet loans 2008 .....	2-year	15 August
<i>Treasury bills</i>		<12 months
T-bill 2006 II .....		1 May
T-bill 2006 I .....		1 February
T-bill 2005 IV .....		1 November
T-bill 2005 III .....		1 August

Along the lines of the current strategy for foreign borrowing a EUR 1.8 billion euro loan in the 5-year maturity segment was issued in February 2005 (3.125 percent 2010). The amount exceeds the foreign redemptions for 2005. It is the intention to swap the excess amount to DKK.

ALLOCATION OF EURO LOAN (EUR 1.8 BILLION 3.125 PER CENT 2010) Chart 1



## Other debt-management instruments

As a supplement to the issuance policy, swaps, buy-backs and securities lending facilities are used in the debt management.

The central-government uses *interest-rate swaps* in the management of the duration of the debt. This allows for the separation of the issuance policy from the management of interest-rate risk.

Domestic issuance combined with *currency swaps* from DKK to EUR or foreign issuance combined with currency swaps from EUR to DKK may be used to smooth the domestic or foreign redemption profile.

*Buy-backs* of securities maturing in 2005 are applied in the management of the central government's cash balances. Buy-backs of securities maturing after 2005 are primarily undertaken in order to manage interest-rate risk, to smooth the redemption profile of the debt, and to maintain a liquid on-the-run issuance programme.

The *securities lending facilities* of the central government and the Social Pension Fund aim at supporting liquidity in respectively on-the-run and off-the-run issues.

BUY-BACKS AND SECURITIES LENDING FACILITIES Table 3

	Outstanding amount value date 22 Jun. 2005 (DKK mill.)	Buy-back items	Central govern- ment's securities lending facility	Social Pension Fund's securities lending facility <sup>1</sup>
<i>All Treasury bills</i> .....	70,357		X	
<i>Bullet loans</i>				
5 per cent 2005 .....	40,771	X		
4 per cent 2005 .....	28,250	X		
8 per cent 2006 .....	37,636	X		
3 per cent 2006.....	40,200	X		X
7 per cent 2007.....	52,069	X		X
4 per cent 2008 .....	46,614		X	
6 per cent 2009 .....	66,146	X		X
4 per cent 2010.....	27,060		X	
6 per cent 2011 .....	60,501	X		X
5 per cent 2013 .....	79,325	X		X
4 per cent 2015.....	54,720		X	
7 per cent 2024 .....	25,001			X
<i>Serial bonds</i>				
5 per cent S 2007 .....	17	X		
4 per cent S 2017 .....	63	X		
<i>Perpetuals</i>				
3.5 per cent 1886 perpetual ..	41	X		
3 per cent 1894 perpetual .....	17	X		
3.5 per cent 1901 perpetual ..	8	X		
3.5 per cent 1909 perpetual ..	16	X		

<sup>1</sup> The Social Pension Fund's portfolio of government bonds of the type bullet loans with a maturity exceeding 13 months are included in the securities lending facility.

## Issuance and Trading

Danish government bonds are issued electronically and primarily by tap sale on MTSDk at prevailing market prices with a group of primary dealers as counterparts, cf. table 4.

The primary dealers in Danish government bonds provide liquidity and quote current two-way prices. The primary dealers have access to the securities lending facilities of the central government and the Social Pension Fund for securities traded on MTSDk. The primary dealers can choose whether to clear and settle a trade in the Danish Securities Services (VP), Euroclear or Clearstream.

Danish government bonds are also traded on the Copenhagen Stock Exchange and international trading platforms e.g. TradeWeb, Bondvision, Bloomberg BondTrader and ICAP/Brokertec.

A primary dealer scheme with market making in Treasury bills will be introduced on 28 July 2005. Concurrently, it is the intention to introduce a new auction facility for Danish Treasury bills based on the MTS platform. The objectives are to broaden participation in the Danish T-bill programme and to increase transparency and liquidity in the secondary market. The new auction system is designed to comply with international best practise and will enable a shorter timeframe for T-bill auctions than is the case today. Only primary dealers in Treasury bills have access to the auction facility and the securities lending facility in Treasury bills. The fee for securities lending of Treasury bills will be reduced from 40 to 15 basis points to support secondary trading in this segment.

MTSDK PRIMARY DEALERS AND PRICE TAKERS, JUNE 2005 Table 4

Government bonds <sup>1)</sup>	Treasury bills	Price takers
ABN Amro	Arbejdernes Landsbank	Merrill Lynch
Barclays	Danske Bank	Fortis Bank
Danske Bank	Dresdner Bank	
Deutsche Bank	Fionia Bank	
Dresdner	HSH Nordbank	
Fionia Bank	JP Morgan	
HSH Nordbank	Jyske Bank	
JP Morgan	Nordea	
Morgan Stanley	Nykredit Bank	
Nordea	SE Banken	
Nykredit Bank	Svenska Handelsbanken	
SE Banken	Sydbank	
Svenska Handelsbanken		
Sydbank		

<sup>1)</sup> All on-the-run issues (4 per cent 2008, 4 per cent 2010 and 4 per cent 2015) and other liquid bonds with more than 13 months remaining maturity (3 per cent 2006, 7 per cent 2007, 6 per cent 2009, 6 per cent 2011, 5 per cent 2013 and 7 per cent 2024). Some primary dealers are also committed to quote prices in the Euro-denominated bonds 3,25 per cent 2008, 3.125 per cent 2009 and 3.125 per cent 2010.

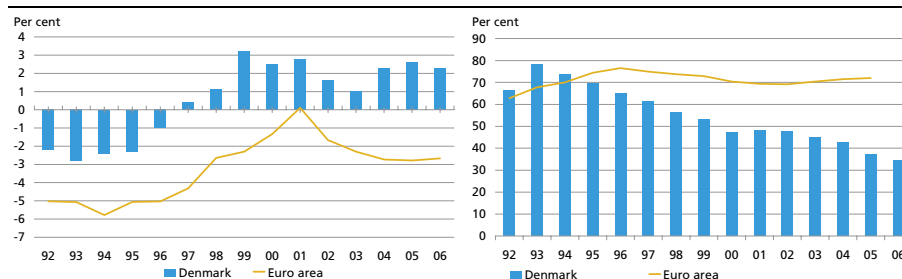
## Rating of Danish government securities

The domestic and foreign central-government debt has the highest rating from Fitch Ratings (AAA), Moody's (Aaa) and Standard & Poor's (AAA).

In September 2004, Standard & Poor's affirmed in the report *Research: Denmark (Kingdom of)* its long-term AAA rating and short-term A-1+ rating of Danish government securities with an unchanged stable outlook. In September 2004, Moody's also affirmed Kingdom of Denmark's Aaa rating with an unchanged stable outlook.

Analytical reports and specific ratings on individual government securities are available on the websites of respectively Fitch Ratings ([www.fitchratings.com](http://www.fitchratings.com)), Moody's ([www.moodys.com](http://www.moodys.com)), and Standard & Poor's ([www.ratingsdirect.com](http://www.ratingsdirect.com)).

GENERAL-GOVERNMENT BUDGET SURPLUS TO GDP AND DEBT TO GDP Chart 2



Note: 2005 and 2006 figures are estimates.  
Source: Ministry of Finance and OECD.

## Information

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*Danish Government Debt Management Strategy* is a semi-annual announcement from the Government Debt Management Office at Danmarks Nationalbank that provides information on objectives and strategies for the management of the debt. The announcement also gives information on the borrowing requirement, the funding policy, and the list of on-the-run and buy-back issues etc. This announcement was made public on 21 June 2005.

This announcement supplements the annual publication *Danish Government Borrowing and Debt*, which gives a more detailed presentation of Danish government debt policy. It describes developments during the preceding year and reports on new issues of relevance to debt management. The publication was published in February 2005 followed by an English translation in early March 2005.

Further information on government debt management can be obtained from Danmarks Nationalbank's website: [www.nationalbanken.dk](http://www.nationalbanken.dk) under Government Debt. If you register with Danmarks Nationalbank's News Service, you will receive e-mail notifications of new information and updates concerning government borrowing and debt.

Additional information relating to wholesale trading in Danish government bonds is available from the MTS Denmark website at [www.mtsdenmark.com](http://www.mtsdenmark.com).

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