



Danmarks  
Nationalbank

Danish Government  
Debt Management  
Strategy

2007

## Key Issues, 2007

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During the last couple of years, the Government Debt Management Policy has been adjusted as a result of decreasing government debt and low government borrowing requirement. In 2007, the Government Debt Management Policy will be focused on adjustments in the debt portfolio to ensure liquidity in the key on-the-run issues.

The objective of the issuance strategy is liquidity in the domestic market and issuance is concentrated in the 10-year segment. The concentration in fewer lines allows for more flexibility in the buy back strategy. In this respect, the buy-back facilities are broadened in order to increase the flexibility of the buy-back activities. In 2007, a new switching facility is considered as a supplement to the existing instruments. Buy-backs are only conducted to the extent that market values are fair compared to the market price of key-on-the-run issues.

In parallel with the declining government debt, the T-bill program is adjusted. In 2007, the expected net financing contribution from T-bills is approximately DKK -20 billion, and only two new T-bills are opened in 2007.

### **The strategy for 2007 can be summarized as follows:**

- The borrowing requirement before buy-backs is estimated to be around zero.
- The expected net financing contribution from T-bills is approximately DKK -20 billion, and two new T-bills are opened in 2007.
- The key on-the-run issues:
  - 4 per cent bullet loans 2017 is further build up towards the final outstanding amount of around DKK 50 billion, and
  - 4 per cent bullet loans 2010 is build to a final outstanding amount of at least DKK 35 billion in 2007.
- In the event of special market conditions in secondary trading, smaller amounts may be issued in bullet loans that expire after 2007.
- The central government can conduct buy-backs in all domestic and foreign government bonds, albeit excluding key on-the-run issues (4 per cent bullet loans 2010 and 4 per cent bullet loans 2017).
- The current benchmark series in the 2- og 5-year segments are changed as from 1 January 2007. The 2-year benchmark issue 4 per cent bullet loans 2008 is replaced by 4 per cent bullet loans 2010, and 5-year benchmark 4 per cent bullet loans 2010 is replaced by 5 per cent bullet loans 2013. 4 per cent bullet loans 2017 continues as 10-year benchmark.
- The issuance of euro denominated loans is suspended.
- The interest-rate risk is managed within a duration band. For 2007 this band is set at 3 years +/- 0.5 years.

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## Financing Requirement

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The government surpluses imply limited financing requirement for the coming years. In the publication *Budget Outlook 3*, which was released in December 2006 by the Ministry of Finance, the central government's gross borrowing requirement is approximately zero in 2007. Buy-backs of securities in 2007 maturing after 2007 will increase the borrowing requirement.

The net financing contribution from T-bills is expected to be around DKK -20 billion in 2007. The expected reduction in Treasury bills is financed by issuing government bonds. The issuance of euro denominated loans is suspended.

At the beginning of January 2007, Government Debt Management will release the updated figures for the borrowing requirement in 2007.

## Borrowing

The issuance strategy will persistently be dedicated to ensure liquidity in Danish government securities. Issuance is concentrated in the 10-year segment, cf. table 1.

The objective is focused on further building the key on-the-run issue 4 per cent bullet loans 2017 to a final outstanding amount of about DKK 50 billion. In 2007, it is the intention to reach the announced minimum size of DKK 35 billion outstanding volume in 4 per cent bullet loans 2010.

In the event of special market conditions in secondary trading, smaller amounts may be issued in bullet loans that expire after 2007.

In 2007, the expected net financing contribution from T-bills is approximately DKK -20 billion. Against this background, the number of T-bills in the programme is reduced from four to two. New T-bills will be opened at auctions with settlement days on the first banking days of June and December. To ease the transition, T-bills 2008-I is opened with settlement day on the first banking day of May and the maturity is therefore 13 months. T-bills are issued until the remaining maturity is 1 month.

KEY ON-THE-RUN ISSUES, 2007

Table 1

Series	Maturity segment	Coupon/due date
4 per cent bullet loans 2017 .....	10 year	15 November
4 per cent bullet loans 2010 .....	2 year	15 November
<i>T-bills</i> .....	<13 months	
T-bill 2008 II .....		1 Dec. 2008
T-bill 2008 I .....		2 June 2008
T-bill 2007 IV .....		1 Dec. 2007
T-bill 2007 III .....		1 Aug. 2007
T-bill 2007 II .....		1 May 2007

## Other Debt-Management Instruments

As a supplement to the issuance policy, other instruments are applied such as swaps, buy-backs and securities lending facilities.

The central government uses interest-rate swaps in the management of the duration of the debt, allowing for a separation of the issuance policy from the interest-rate risk management. Application of currency swaps is applied in relation to the foreign debt.

Buy-backs of securities maturing in 2006 are applied in the management of the central government's cash balances. Buy-backs of securities maturing after 2006 are primarily undertaken in order to smoothen the redemption profile of the debt and to maintain liquid on-the-run issues. The focus in the issuance policy on fewer series reduces the need for buy-backs in securities maturing in the following years. Buy-backs still constitute an important part of the Government Debt Management Policy. However, buy-backs are only conducted when market values are fair compared to market prices of key-on-the-run issues.

The securities lending facilities of the central government and the Social Pension Fund aim at supporting liquidity in government securities, cf. table 2.

BUY-BACKS AND SECURITIES LENDING FACILITIES Table 2

	Outstanding amount, value date 18 December 2006 (DKK billion)	Buy-back items	Central government's securities lending facility	Social Pension Fund's securities lending facility <sup>1</sup>
<i>All T-bills</i> .....	42.660	X	X	
<i>Bullet loans</i>				
7 per cent 2007 .....	35.250	X		X
4 per cent 2008 .....	47.274	X		X
6 per cent 2009 .....	66.146	X		X
4 per cent 2010 .....	31.890		X	
6 per cent 2011 .....	60.501	X		X
5 per cent 2013 .....	78.005	X		X
4 per cent 2015 .....	60.000	X		X
4 per cent 2017 .....	24.700		X	
7 per cent 2024 .....	24.951	X		X
<i>Serial bonds</i>				
5 per cent S 2007 .....	5	X		
4 per cent S 2017 .....	55	X		
<i>Perpetuals</i>				
3.5 per cent 1886 perpetual .....	18	X		
<i>Foreign securities</i>				
4.875 pct. 2007 euro loan .....	11.180	X		
3.25 pct. 2008 euro loan .....	17.143	X		
3.125 pct. 2009 euro loan .....	15.019	X		
3.125 pct. 2010 euro loan .....	13.416	X		
Other .....	31.395	X		

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

## Issuance and Trading

Government Debt Management and primary dealers in Danish government bonds have agreed that MTSDenmark is the trading platform on which government bonds are issued, and primary dealers perform market making.

Danish government bonds are also traded on Copenhagen Stock Exchange and a number of international trading platforms, e.g. TradeWeb, BondVision, Bloomberg BondTrader, Reuters and ICAP/BrokerTec.

Danish government bonds are mainly issued via tap sale at the prevailing market prices to primary dealers in Danish government bonds. T-bills are issued at monthly auctions in an auction system.

By currently quoting two-way prices, primary dealers support liquidity and trading in Danish government securities. As a primary dealer, market participants have the right to make buy and sell transactions in Danish securities directly with the central government. In addition, primary dealers have access to the central government's and the Social Pension Fund's securities lending facilities. Primary dealers in Danish securities have the option to choose whether to clear and settle transactions on MTSDk in VP Security Services, Clearstream or Euroclear.

MARKET MAKING ON MTSDK – JANUARY 2007

Table 3

Benchmark	T-bills	Liquid securities	Euro loans <sup>1</sup>
4 per cent 2010	T-BILL 2007 I	4 per cent 2008	3.25 per cent 2008
4 per cent 2013	T-BILL 2007 II	6 per cent 2009	3.125 per cent 2009
4 per cent 2017	T-BILL 2007 III	6 per cent 2011	3.125 per cent 2010
	T-BILL 2007 IV	5 per cent 2015	
		7 per cent 2024	

PRIMARY DEALERS AND MARKET TAKERS IN DANISH GOVERNMENT SECURITIES

Table 4

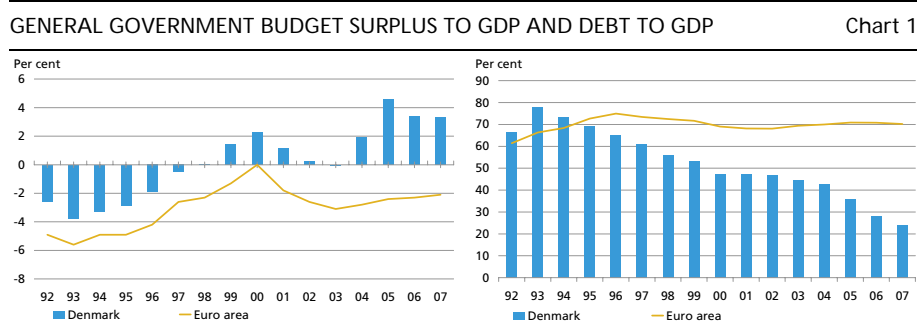
Primary dealers - DKK government bonds	Primary dealers - T-bills	Market Taker
ABN Amro	Arbejdernes Landsbank	BNP Paribas
Barclays Bank	Danske Bank	Citigroup
Danske Bank	Dresdner Bank	DZ Bank AG
Deutsche Bank	Fionia Bank	Fortis
Dresdner Bank	HSH Nordbank	Merrill Lynch
Fionia Bank	JP Morgan	
HSH Nordbank	Jyske Bank	
JP Morgan	Nordea	
Morgan Stanley	Nykredit Bank	
Nordea	SE Banken	
Nykredit Bank	Sydbank	
SE Banken		
Sydbank		

## Kingdom of Denmark's Rating

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 2006, Standard & Poor's affirmed the AAA rating on the long term debt and the A-1+ rating on the short term debt with an unchanged stable outlook. In July 2006, 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)).



Note.: 2006 and 2007 figures are estimations in *Economic Survey*, December 2006.  
Source: Ministry of Finance.

## Information

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*Danish Government Debt Management – Strategy 2007* 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 15 December 2006.

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. In February 2007, the forthcoming publication will be published in both Danish and English.

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 automatically receive e-mail notifications of new information and updates concerning government borrowing and debt.

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

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