



Danmarks  
Nationalbank



Danish Government  
Debt Management  
Strategy



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## Government Debt Policy in the Coming Years

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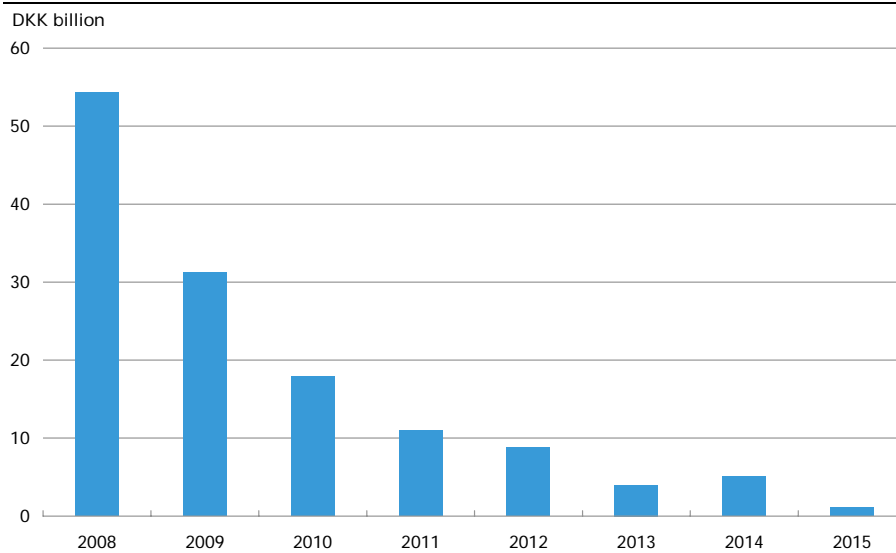
Due to the falling central-government debt, the government debt policy has in recent years been focused on sustaining a well-functioning government securities market by maintaining liquid government securities. As a consequence issuance is concentrated in 10-year government bonds. The central government's foreign borrowing programme is suspended and the T-bill programme is phased out in 2008.

According to the government's 2015 report *Mod nye mål – Danmark 2015* (in Danish only) the prospect of the government budget in the coming years is still positive, but the budget surpluses are expected to decrease towards 2015, cf. Chart 1.

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BUDGET SURPLUS 2008-2015

Chart 1



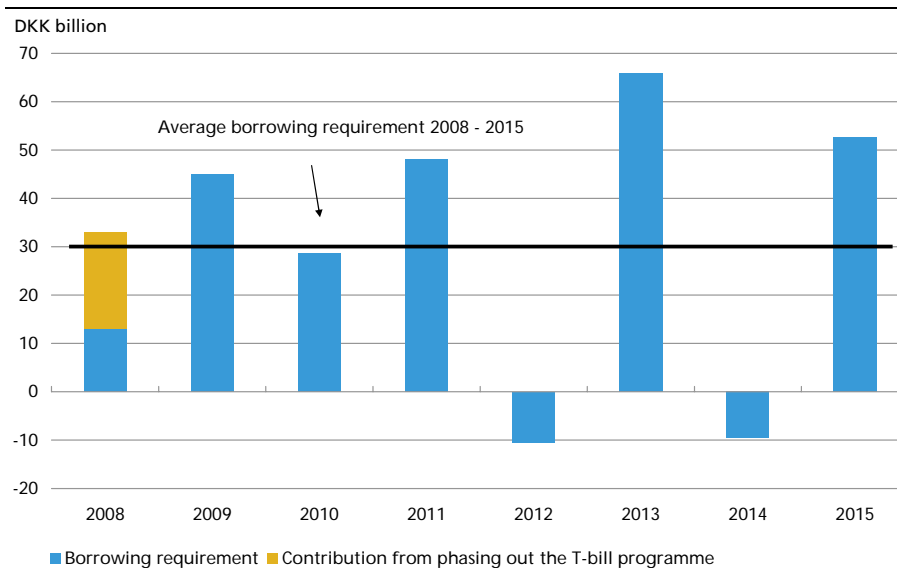
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Note: Budget surplus is equivalent to net financing requirement with an opposite sign.  
Source: The government's 2015 report.

Against the background of falling debt Government Debt Management has analysed the prospect of the future framework for the Danish government securities market. In the coming years, issuance in government securities is required. In the period 2008-2015 the average borrowing requirement is around DKK 30 billion, cf. Chart 2.

CENTRAL-GOVERNMENT BORROWING REQUIREMENT 2008-2015

Chart 2



Note: Net financing contribution of DKK -20 billion from phasing out the T-bill programme in 2008 is included in the average borrowing requirement 2008-2015.

In the coming years, the intention is to concentrate the majority of the central government issuance in 10-year government bonds. The choice of 10-year government bonds reflects that the central government normally has a comparative advantage in the long maturity segment in view of its high credit standing. Furthermore, the 10-year maturity segment is considered to be the most important internationally. The issuance strategy for the coming years is:

- ◆ Opening of a new 10-year government bond approximately every other year. The bonds will be built up to a final outstanding amount of around DKK 50 billion.
- ◆ Issuance is possible in the other government securities.

Buy-backs from the market will only be conducted to the extent that market prices are deemed to be fair compared to market prices in the key on-the-run issues.

Concurrently with the falling central government debt, the Social Pension Fund's (SPF's) transactions in the market constitute an increasing share of the outstanding volume of government securities. Hence, there may be a need for SPF to invest in other quoted bonds than government bonds. SPF's investments will be conducted within the framework of the existing regulation.

The strategy is based on the projection of government surpluses in the government's 2015 report and it is consistent with the expected central government borrowing requirement in the medium term. The strategy will be evaluated after 3-4 years.

## Strategy 2008

In 2008, the issuance requirement in government bonds is expected to be around DKK 30 billion. This reflects a borrowing requirement of DKK 13 billion, cf. *Budget Review 2*, August 2007. The suspension of the T-bill programme is expected to entail an additional net financing contribution of around DKK 20 billion.

The central government issuance is in 2008 concentrated in the 10-year maturity segment, cf. Table 1. Building up of 4 per cent bullet loans 2017 continues in order to reach a final outstanding amount of around DKK 50 billion. In mid-2008, it is the intention to open a new 10-year key on-the-run issue with redemption in 2019. The new government bond replaces 4 per cent bullet loans 2017 as key on-the-run issue.

Issuance in 4 per cent bullet loans 2010 continues which contributes to liquidity and effective price formation in the short end of the yield curve. In the event of special market conditions in secondary trading, smaller amounts may be issued in bullet loans that expire after 2008.

In 2008, the T-bill programme will be phased out. The government will continue conducting monthly auctions where issuance is possible in the existing T-bills. T-bills are issued until the remaining maturity is 1 month.

KEY ON-THE-RUN ISSUES 2008

Table 1

Series	Maturity segment	Coupon/due date
4 per cent bullet loans 2010 .....	2 year	15 November
4 per cent bullet loans 2017 .....	10 year	15 November
x per cent bullet loans 2019 .....	10 year	15 November
<i>T-bills</i> .....	≤12 months	
T-bill 2008 I .....		2 June 2008
T-bill 2008 II .....		1 December 2008

In 2008, the interest-rate risk is managed within a duration band of 3.25 years +/- 0.5 year.

## 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, allowing for a separation of the issuance policy from the management of interest-rate risk. Currency swaps is applied in relation to the foreign debt.

Buy-backs of securities are applied in the management of the government's debt profile and the central government's cash balances, cf. Table 2. Buy-backs are only conducted when market values are fair compared to the market prices of key on-the-run issues.

BUY-BACK ITEMS AND SECURITIES LENDING FACILITIES, 1 JANUARY 2008 Table 2

DKK million, nominal value	Outstanding amount, value date 19 December 2007	Buy-back issues	Central government's securities lending facility <sup>1</sup>	Social Pension Fund's securities lending facility <sup>1</sup>
<i>Treasury bills</i> .....	19,660	X	X	
<i>Bullet loans</i>				
4 per cent 2008 .....	47,124	X		X
6 per cent 2009 .....	61,950	X		X
4 per cent 2010 .....	35,350		X	
6 per cent 2011 .....	60,500	X		X
5 per cent 2013 .....	74,180	X		X
4 per cent 2015 .....	57,560	X		X
4 per cent 2017 .....	41,635		X	
7 per cent 2024 .....	24,431	X		X
<i>Foreign securities</i>				
3.25 per cent 2008 euro loan ....	17,163	X		
3.125 per cent 2009 euro loan ..	15,036	X		
3.125 per cent 2010 euro loan ..	12,686	X		
<i>Other securities</i> .....		X		

<sup>1</sup> The conditions for securities lending are specified in *Terms for the central government's and the Social Pension Fund's Securities Lending Facilities*.

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## Issuance and Trading

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Primary dealers in Danish government securities have decided that in 2008 market making in Danish government bonds are conducted at MTSDenmark. Primary dealers will on an ongoing basis evaluate the chosen trading platform and possibly shift to another (other) trading platform(s) if considered necessary.

Danish government securities are traded in a number of electronic trading platforms such as Bloomberg, BondVision, ICAP/BrokerTec, OMX, Reuters and TradeWeb etc.

Danish government bonds are primarily issued via tap sale at current market prices. T-bills are issued at monthly auctions in an auction system.

The primary dealers support liquidity and trading in Danish government securities via their market making, cf. Table 3. Primary dealers have the right to undertake buy and sell transactions in Danish securities directly with the central government. In addition, primary dealers have access to the securities lending facilities of the central government and the Social Pension Fund, cf. Table 2. Due to the suspension of the T-bill programme the market making agreement in T-bills is discontinued as of 1 January 2008.

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PRIMARY DEALERS AND MARKET TAKERS IN GOVERNMENT BONDS

Table 3

Primary dealer	Market taker
Barclays	ABN AMRO
Danske Bank	Arbejdernes Landsbank
Deutsche Bank	BNP Paribas
Fionia Bank	Citigroup
HSH Nordbank	Dresdner Bank
JP Morgan	DZ Bank AG
Morgan Stanley	Fortis Bank
Nordea	Jyske Bank
Nykredit Bank	Merrill Lynch
SE Banken	Royal Bank of Scotland
Sydbank	Svenska Handelsbanken

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Benchmark securities as of 1 January 2008 are unchanged:

- 4 per cent bullet loans 2010 in the 2-year benchmark segment
- 5 per cent bullet loans 2013 in the 5-year benchmark segment
- 4 per cent bullet loans 2017 in the 10-year benchmark segment

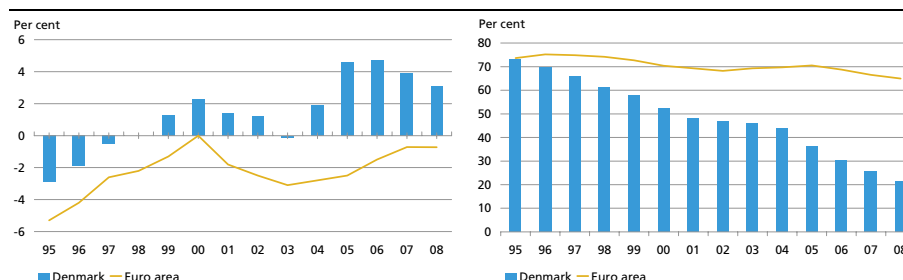
## Kingdom of Denmark's Rating

The domestic and foreign central-government debt has the highest rating from Fitch Ratings (AAA), Moody's (Aaa) and Standard & Poor's (AAA). Fitch Ratings, Standard & Poor's and Moody's affirmed the rating in June, September and December respectively 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.standardandpoors.com](http://www.standardandpoors.com)).

GENERAL GOVERNMENT BUDGET SURPLUS TO GDP AND DEBT TO GDP

Chart 3



Note: 2007 and 2008 figures are estimates from *Economic Survey*, August 2007.  
Source: Ministry of Finance.

## Information

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*Danish Government Debt Management Strategy 2008* is a semi-annual announcement from the Government Debt Management 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 key on-the-run and buy-back issues etc. This announcement was made public on 18 December 2007.

This announcement supplements the annual publication *Danish Government Borrowing and Debt*, which gives a more detailed presentation of Danish government debt policy. The annual report describes developments during the preceding year and reports on new issues of relevance to debt management. The next publication is expected to be published in Danish and English in late February 2008.

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

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