



Danmarks
Nationalbank

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Danish Government
Debt Management
Policy
Strategy 2009

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Translation

Key issues, 2009

Central-government debt:

- Central-government surpluses, virtually since 1997, have reduced the government debt significantly. At the end of 2008, the government debt is expected to be DKK 204 billion, corresponding to 12 per cent of GDP.
- The Ministry of Finance expects increased central-governments borrowing requirements in the years to come, e.g. because of lower economic growth. According to projections from the Ministry of Finance the central-government debt is expected to increase slightly up to 2015. In 2015, the central government debt is expected to be around DKK 260 billion, corresponding to an unchanged percentage of GDP of 12 per cent.

Borrowing requirement in 2009

- The financial and economic turmoil entails that the estimate for the central-government borrowing requirement in 2009 is subject to higher uncertainty than normally.
- The net financing requirement is close to zero in 2009 and the expected borrowing requirement is approximately DKK 60 billion, cf. *Budget Outlook 4*, December 2008.
- The domestic borrowing requirement is DKK 40 billion and the foreign borrowing requirement around DKK 20 billion.

Borrowing in 2009

- Government Debt Management focuses on transparency in government borrowing and debt. Uncertain market conditions can entail circumstances where flexibility in the issuance strategy is required.
- It is the intention that a new 10-year government bond with maturity in 2019 is opened during the first quarter of 2009. Issuance in the new 10-year government bond will cover most of the domestic borrowing requirement.
- The foreign borrowing requirement will be financed through issuance in foreign currency with a final exposure in euro.

Outlook for government finances

The financial turmoil has implied a downward adjustment in the expected economic growth in Denmark. Against this background, the Ministry of Finance expects, after more than 10 years of central-government surpluses, a weaker development in the central-government finances in the coming years and a budget deficit is forecasted in 2010, cf. *Budget Outlook 4*, December 2008.

Central-government surpluses, virtually since 1997, have implied a significant reduction of the central-government debt from approximately DKK 600 billion at end-1997 to approximately DKK 204 billion at end-2008, corresponding to a decline from 55 per cent to 12 per cent of GDP.

The forecast of central-government deficits in the coming years will increase the central government debt. However projections show that the increase will be modest, cf. *Denmark's National Reform Programme*. The central-government debt will remain at a low level in an international comparison.

Domestic and foreign borrowing requirements in 2009

The financial and economic development entails that the estimate for the central-government borrowing requirement in 2009 is subject to higher uncertainty than usually. The Ministry of Finance expects a balanced budget in 2009. Against this background, the borrowing requirement in 2009 is DKK 60 billion, cf. *Budget Outlook 4*, December 2008. The borrowing requirement is expected to be covered by:

- Domestic issuance of around DKK 40 billion.
- Foreign issuance of around DKK 20 billion.

Borrowing strategy, 2009

At the entrance to 2009 a high degree of uncertainty in the financial markets continues. Central-government surpluses, virtually since 1997, have provided scope for flexibility in the Danish government debt management. Similar to 2008, there may be circumstances, which demand flexibility in the issuance strategy. As a starting point the issuance strategy is the following:

Domestic borrowing

The central-government domestic borrowing requirement will primarily be financed through issuance in the 10-year maturity segment. It is the intention that a new 10-year government bond will be opened in the first quarter of 2009 and built up during the coming years to a final outstanding volume of around DKK 50 billion. The 10-year segment is internationally considered to be one of the most important, e.g. with a view to attract international investors. Furthermore, issuance in 4 per cent bullet loans 2010 will continue, since investors in 2008 have shown great interest in government bonds with a shorter maturity.

Institutional investors have in 2008 shown strong interest in buying 4.5 per cent bullet loans 2039. The outstanding amount has been build up to around DKK 87 billion. In 2009, there will be issuance in the 30-year segment according to investor interest. It is the intention that the 30-year government bond will be build up to a final outstanding amount of around DKK 90 billion.

Finally, issuance in other bullet loans is possible.

The key on-the-run issues in 2009 are:

- 2-year segment: 4 per cent bullet loans 2010
- 10-year segment: 4 per cent bullet loans 2017 (expected to be replaced by a new series of 4 per cent bullet loans 2019 in the first quarter of 2009).
- 30-year segment: 4.5 per cent bullet loans 2039

Foreign borrowing

Central-government foreign debt is raised in order to maintain the foreign-exchange reserve. Foreign redemptions will be financed through issuance in foreign currency with a final exposure in euro. If the swap market between Danish kroner and euro becomes liquid it is also possible to finance foreign redemptions through currency swaps.

Buy-backs and management of the Government Funds

Buy-backs

Buy-backs from the market can be conducted in all government bond series but in principle not in key on-the-run issues. Buy-backs will only be conducted to the extent that market prices are deemed to be fair, e.g. when compared with market prices for issuance in the key on-the-run issues. The need for buy-backs will be asserted on an ongoing basis with a view to support a well-functioning market for trading in government securities.

Management of the Government Funds

The governance of the Social Pension Fund (SPF) is undertaken by a committee with representatives from the Ministry of Finance, the Ministry of Social Welfare and Government Debt Management in Danmarks Nationalbank. The ongoing management of SPF's assets is performed by Government Debt Management. The aim is to achieve a satisfactory return on SPF's assets while taking due account of the overall budgetary consequences of SPF's transactions. Assets in the other Government Funds (the Advanced Technology Foundation and the Preventive Measures Fund) are invested in Danish government bonds.

Trading and Issuance of Government Securities

Primary dealers in Danish government securities have decided to undertake market making in Danish government bonds on MTSDenmark in 2009. The decision was made with reference to the financial turmoil and the potential risk that market making on more than one trading platform can reduce liquidity. Furthermore the primary dealers found the market for Danish government securities to be too small to support market making on more than one trading platform. The chosen trading platforms will be evaluated on an ongoing basis and the primary dealers will each year-end decide which platforms to use for the coming year.

Danish government bonds are primarily issued through opening auctions and via tap sale at current market prices to the primary dealers, cf. Table 1.

MARKET PARTICIPANTS IN GOVERNMENT BONDS Table 1

Primary dealer	Market taker ¹
Barclays	Arbejdernes Landsbank
Danske Bank	BNP Paribas
Fionia Bank	Citigroup
JP Morgan	Deutsche Bank
Morgan Stanley	Dresdner Bank
Nordea	DZ Bank AG
Nykredit Bank	Fortis Bank
SE Banken	Jyske Bank
Sydbank	Merrill Lynch
	Royal Bank of Scotland
	Svenska Handelsbanken

¹ A market taker can trade at prices quoted by primary dealers but cannot itself quote prices.

The primary dealers support liquidity and trading in Danish government securities via their market making. 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 (SPF).

The obligations to conduct market making were several times adjusted in 2008. In spite of the financial turmoil, current prices have been

quoted in Danish government bonds within market conforming bid-offer spreads and depth, cf. Table 2.

AVERAGE SPREAD AND DEPTH IN THE DANISH BENCHMARK SERIES, 2008				Table 2
	2-year	5-year	10-year	
Bid offer-spread (ticks)	11	13	15	
Depth (DKK million)	120	66	65	

Source: MTSDenmark

It is the intention, in cooperation with the primary dealers, to adjust market making in Danish government securities on an ongoing basis, so as to secure liquidity in the market for Danish government securities. In the beginning of 2009, market making-obligations are applicable in the benchmark securities, and in the other government securities market making is conducted on a best effort basis, cf. Table 3.

MARKET MAKING, DEC 2008					Table 3
	Nominal outstanding amount, DKK million ¹	Securities lending facility ²	Market making obligation on MTSDenmark		
			Max. spread, ticks ³	Min. amount, DKK million	
<i>Benchmarkbonds</i>					
4 per cent 2010	51,080	Central govt.	40	40	
5 per cent 2013	74,180	SPF	40	20	
4 per cent 2017	52,275	Central govt.	40	25	
<i>Other bonds</i>					
6 per cent 2009	53,610	SPF		Best effort	
6 per cent 2011	60,500	SPF			
4 per cent 2015	57,260	SPF			
7 per cent 2024	24,431	SPF			
4.5 per cent 2039	87,600	Central govt.			

¹ Value date 18 December 2008.

² The conditions for securities lending are specified in *Terms for the central government's and the Social Pension Fund's Securities Lending Facilities*, see www.governmentdebt.dk.

³ 1 tick is equivalent to 0.01 percentage point.

In addition, trading in Danish government securities takes place on a number of electronic platforms such as Bloomberg, BondVision, ICAP/BrokerTec, OMX-Nasdaq and Tradeweb.

Kingdom of Denmark's Rating

The domestic and foreign central-government debt has the highest rating from Standard & Poor's (AAA), Fitch Ratings (AAA) and Moody's (Aaa). Standard & Poor's, Fitch Ratings and Moody's affirmed the rating in September 2008, December 2007 and April 2008 respectively with an unchanged stable outlook.

Analytical reports and specific ratings on individual government securities are available on the websites of respectively Standard & Poor's (www.standardandpoors.com), Fitch Ratings (www.fitchratings.com) and Moody's (www.moody.com).¹

¹ Reports from Standard & Poor's and Moody's are available from www.governmentdebt.dk.

Information

Danish Government Debt Management Policy 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. This announcement was published on 18. December 2008.

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. *Danish Government Borrowing and Debt 2007* was published both in Danish and English in February 2008.

Further information on government debt management can be obtained from Government Debt Management's website: 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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