

# DANMARKS NATIONALBANK

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Agreement between the Ministry  
of Finance and Danmarks  
Nationalbank on the delegation  
of tasks in the government debt  
area

- Translation



DANMARKS  
NATIONALBANK

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## **1. Parties to the Agreement**

This Agreement is between Danmarks Nationalbank (Nationalbanken), Langelinie Allé 47, DK-2100 Copenhagen Ø and the Ministry of Finance, Christiansborg Slotsplads 1, DK-1218 Copenhagen K.

The Agreement defines the delegation of tasks and authority between Danmarks Nationalbank and the Ministry of Finance in the area of central government debt. Furthermore, the overall set of rules regarding such delegation in connection with government borrowing is described. The delegation of tasks has been in force since 1 July 1991, when a number of tasks were transferred from the Ministry of Finance to Danmarks Nationalbank.

## **2. Overall responsibility**

The Minister of Finance has the overall and political responsibility for government borrowing and debt, including relations with the Danish Parliament. The management of government debt and related tasks is handled by Danmarks Nationalbank on behalf of the Ministry of Finance.

The overall objective of the government debt policy is to cover financing needs at the lowest possible long-term borrowing costs, while taking an acceptable level of risk into account. In addition, the aim is to support a well-functioning domestic capital market and to facilitate the central government's access to the capital markets in the long term.

## **3. Borrowing and debt management**

### **3.1 Legal basis**

The legal basis for government borrowing is found in the Act on Authorisation to Raise Government Loans (Act no. 1079 of 1993 with later amendments). The Act authorises the Minister of Finance to raise loans on behalf of the government within a maximum amount defined in the Act. The maximum amount includes the outstanding debt at any given time of domestic government loans and government loans raised abroad. The Act also authorises the Minister of Finance to purchase government securities and to enter into swaps and other financial transactions.

### **3.2 The norm for government borrowing**

The extent of government borrowing is determined by the norm for government borrowing agreed between the government and Danmarks Nationalbank. It consists of two parts: A norm for domestic borrowing and a norm for foreign borrowing.

### **3.2.1 The norm for domestic borrowing**

The norm for domestic borrowing states that the government borrows in kroner to cover its financing needs related to persistent budget deficits and repayments of domestic debt.

The government can continue to issue government securities even if the year's funding requirement has been reached. This will contribute to financing the borrowing requirement in subsequent years (prefunding). The prefunding option gives the government greater flexibility in its issuance strategy, which supports the debt policy objective of covering the government's financing requirement at the lowest possible long-term borrowing costs, taking into account an acceptable level of risk. For example, prefunding can be based on a desire to increase the government's account deposits in order to reduce exposure to shocks to future financing needs.

According to Article 123 of the Treaty on the Functioning of the European Union on the prohibition of overdraft facilities with national central banks, the government must not overdraw its account at Danmarks Nationalbank at any time.

### **3.2.2 The norm for foreign borrowing**

The Danish government raises loans in foreign currency to maintain its own liquidity reserves and the foreign exchange reserves. The norm for foreign borrowing states that the government generally raises loans in foreign currency corresponding to payments on foreign government debt. In situations when foreign exchange reserves are lower than desirable, it may be necessary for the government to borrow in currency to strengthen the foreign exchange reserve. Conversely, in situations when foreign exchange reserves are higher than desirable, the possibility of reducing foreign government debt may arise.

Even when the size of foreign exchange reserves, or a temporary domestic financing need, does not necessitate foreign borrowing, it may be appropriate to be present in the foreign currency market on an ongoing basis, as the need to borrow significant amounts in foreign currency at short notice may arise. Foreign borrowing is therefore included in the Danish government's and Danmarks Nationalbank's regular liquidity management.

## **4. Execution of government debt policy**

In connection with the Finance Bill process in the autumn, the strategy and guidelines for government borrowing for the coming financial year are determined within the framework of the norm. The annual strategy and guidelines are approved by the Minister of Finance. The Ministry of

Finance must notify Danmarks Nationalbank in writing when approval has been given. Changes to the strategy and guidelines require corresponding approval from the Minister of Finance.

Danmarks Nationalbank reports on government borrowing and government debt management at quarterly meetings with the Ministry of Finance. Minutes are taken of the meetings and approved in writing by the Ministry of Finance.

The strategy and guidelines for government borrowing are ordinarily determined on the basis of proposals from Danmarks Nationalbank. Strategy and guidelines specify as a minimum:

- Target for issuance volume
- Exposure in domestic and foreign currency
- Primary on-the-run issues, including types and maturities
- Use of buyback of outstanding loans
- Managing relevant risks for the debt portfolio, including interest rate and refinancing risk
- Entering into swaps, using other financial instruments and managing credit risk on those instruments

Only financial assets and liabilities administered by Government Debt Management are included in the management of interest rate and refinancing risk. Risk is managed based on various indicators, including duration targets.

The borrowing strategy takes into account the size of total government financing needs including repayment instalments in the year in question, and how those financing needs are spread through the year. The total funding requirement for the year as a whole is generally determined in the Ministry of Finance's latest budget overview.

Danmarks Nationalbank handles ongoing borrowing and administration of the debt portfolio in accordance with the strategy and guidelines for government borrowing approved by the Ministry of Finance.

In accordance with the delegation of tasks regarding borrowing, Danmarks Nationalbank also performs the following functions for the Ministry of Finance:

- Loan prospectuses are prepared by Danmarks Nationalbank, while the Ministry of Finance is the formal publisher

- Loan documents etc. relating to national debt are signed by employees of Danmarks Nationalbank under a general authorisation to sign on behalf of the Minister of Finance
- Danmarks Nationalbank performs issuer functions on behalf of the government in relation to VP Securities and NASDAQ OMX Copenhagen as well as other functions in relation to issuance, trading, clearing and settlement
- Danmarks Nationalbank participates in borrower meetings, etc.

All payments relating to government loans are made on behalf of the Ministry of Finance by Danmarks Nationalbank, and are posted to the government's account at the Bank. This does not include payments that have been assigned to another authority, e.g. the Agency for Governmental Administration.

Danmarks Nationalbank covers administrative expenses related to the national debt, while loan-specific expenses are covered by the Ministry of Finance.

Government debt is recognised in the government's accounting system and is otherwise governed by the accounting instructions for government debt and the Executive Order on Government Accounting. Danmarks Nationalbank is responsible for the ongoing bookkeeping related to government borrowing.

The Ministry of Finance is responsible for relations with Rigsrevisionen (the national audit office). Rigsrevisionen may, upon request to the Ministry of Finance, have access to files relating to government debt. Danmarks Nationalbank's auditors provide assistance to Rigsrevisionen by agreement regarding the audit of government debt and funds under the government debt area in accordance with the Auditor General Act and the Section 9 Agreement. Danmarks Nationalbank's audit does not consider any impairment requirements for re-lending and government guarantees or the specific credit risk of individual undertakings.

## **5. Appropriation acts, information material, etc.**

In matters concerning government borrowing and debt (questions, loan authorisation acts, etc.), Danmarks Nationalbank generally prepares drafts for use by the Ministry of Finance. The Ministry of Finance keeps Danmarks Nationalbank informed about matters within the area.

Danmarks Nationalbank prepares drafts for the Ministry of Finance for contributions to appropriation acts, budget summaries and the like concerning the national debt and interest payments on the same.

Danmarks Nationalbank prepares and publishes publications on government borrowing and debt, etc.

With contributions from the Ministry of Finance, Danmarks Nationalbank prepares and publishes monthly breakdowns of government payments.

Ongoing contact with credit rating agencies is handled by Danmarks Nationalbank.

## **6. Issuance of government guarantees and re-lending**

On behalf of the Minister of Finance, Danmarks Nationalbank issues guarantees for a number of undertakings that have statutory access, including text notes, to raise loans and/or conclude other financial instruments with government guarantees. Danmarks Nationalbank also issues re-lending on behalf of the Danish government to undertakings that have access to borrow directly from the government.

The tasks and responsibilities of the individual undertakings, the Ministry of Finance, the relevant ministry and Danmarks Nationalbank are laid down in a number of agreements between them.

Substantive legal basis:

The Ministry of Finance submits proposed legislative initiatives, guidelines and detailed provisions regarding legislation, etc. on access for undertakings to re-lending and/or government guarantees to Danmarks Nationalbank for comment. The Ministry of Finance briefs Danmarks Nationalbank before new legislation or amendments to existing legislation, etc. come into force regarding access for undertakings to re-lending and/or government guarantees that are or will be managed by Danmarks Nationalbank (substantive legal basis). The Ministry of Finance notifies Danmarks Nationalbank when this substantive legal basis can be used.

Legal basis for authorisation:

Before the beginning of a new financial year, the Ministry of Finance sends Danmarks Nationalbank a list of undertakings that are authorised to take out re-lending in the coming financial year. In this list, the Ministry of Finance sets out the framework for re-lending and/or government guarantees that Danmarks Nationalbank must ensure compliance with. During the financial year, the Ministry of Finance updates the list with any new authorisations and setting/revision of limits.

In material cases where the Ministry of Finance determines or is consulted by other institutions about interest rates, etc., the Ministry of Finance consults Danmarks Nationalbank.

## **7. Delegation of tasks for green government bonds**

Green bonds issued by the Danish government are subject to the Kingdom of Denmark Green Bond Framework, which is prepared by the Ministry of Finance on behalf of the government with contributions from relevant ministries. The work on green government bonds is delegated to an inter-ministerial working group. The Ministry of Finance is the project coordinator for the working group and is responsible for developing and managing the framework and reporting on the issuance of green bonds according to the Kingdom of Denmark Green Bond Framework.

Danmarks Nationalbank participates as an observer in the working group and assists the Ministry of Finance in issuing green bonds on behalf of the government in accordance with the Kingdom of Denmark Green Bond Framework.

## **8. Commencement**

The Agreement enters into force when it is signed by both parties. Upon entry into force, the Agreement on delegation of tasks in the government debt area between Danmarks Nationalbank and the Ministry of Finance of 16 December 2016 is repealed.

## **9. Signatures**

Date:

Date:

For the Ministry of Finance

For Danmarks Nationalbank

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