



Danmarks
Nationalbank

Danish Government
Debt Management
Policy

Strategy 2nd half of 2009

2009

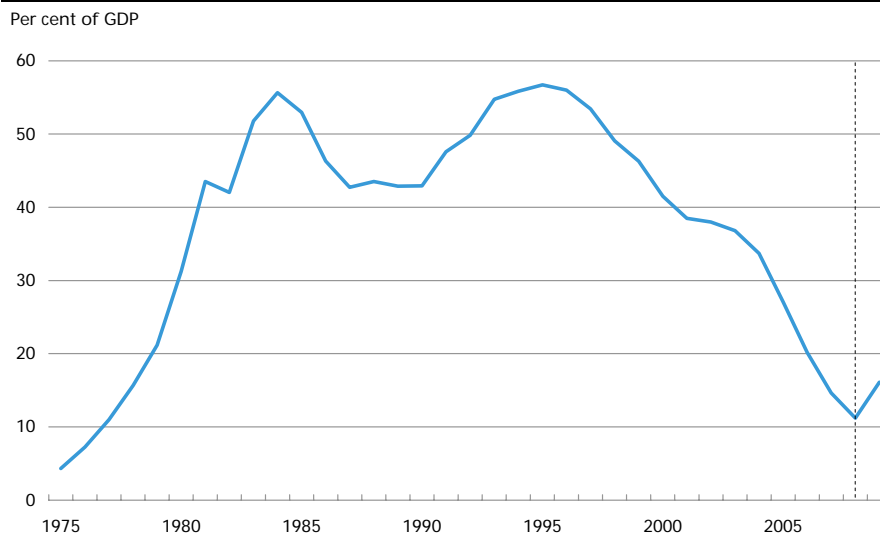
Key issues, 2nd half of 2009

Recent years have witnessed a reduction in central-government debt from 53 per cent of BNP at end-1997 to 11 per cent of GDP at end-2008, cf. Chart 1. The debt reduction reflects surpluses virtually every year since 1997.

Owing to the international financial crisis, expectations of Danish economic growth has similarly to other European countries been revised downward. The Ministry of Finance expects a central-government budget deficit in 2009 of 1.3 per cent of GDP. As a consequence of the low debt the central government is in a favourable position compared to many other countries.

CENTRAL-GOVERNMENT DEBT

Chart 1



Note: The central-government debt as of 1. January 1982 includes the Social Pension Fund's assets. The estimated central-government debt at end-2009 is from *Budget Outlook 1, May 2009*.

Domestic financing requirement and borrowing

- The domestic financing requirement for 2009 is DKK 82 billion, cf. *Budget Outlook 1, May 2009*.
- The central-government's domestic borrowing requirement will primarily be financed through issuance in the 2- and 10-year maturity segment. These issuances are expected to be fairly equally distributed between the two maturity segments. Furthermore, limited issuance will take place in the 5- and 30-year maturity segment.

Key on-the-run issues are:

- 2-year segment: 4 per cent bullet loans 2012
- 5-year segment: 4 per cent bullet loans 2015
- 10-year segment: 4 per cent bullet loans 2019
- 30-year segment: 4.5 per cent bullet loans 2039

Foreign borrowing

- The central-government has foreign redemptions of DKK 16 billion in the second half of 2009 that are expected to be refinanced through a new 5-year euro denominated bond.

Rating

- The AAA rating of the domestic and foreign debt has been affirmed by the rating agencies in the first half of 2009 with an unchanged stable outlook.

Government finances and borrowing requirements

Recent years have witnessed large central-government surpluses. Owing to the international financial crisis, expectations of the Danish economic growth has similar to other European countries been revised down, and the Ministry of Finance now expects a central-government budget deficit for 2009. This development reflects that Denmark has strong automatic stabilisers. During the present economic slowdown, higher unemployment causes higher social benefit costs and tax revenue to decrease. In addition, government finances are sensitive to oil-price fluctuations and movements in financial markets.

Domestic borrowing requirement

The central-government's domestic borrowing requirement in 2009 is DKK 82 billion, *cf. Budget Outlook 1, May 2009*.

The balance of the central-government's account has risen in recent years. This has enabled the central government, to finance the credit package for Danish banks and mortgage-credit institutions of up to DKK 100 billion, by drawing on the account. As a result, the domestic borrowing need is not affected by the central-government's capital injections into credit institutions.

Borrowing

Domestic borrowing

The central-government's domestic borrowing requirement is primarily financed through issuance in the 2- and 10-year maturity segment. These issuances are expected to be fairly equally distributed between the two maturity segments. Furthermore, limited issuance will take place in the 5- and 30-year maturity segment.

Key on-the-run issues are:

- 2-year segment: 4 per cent bullet loans 2012
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As of 1 July, the four key on-the-run issues constitute the central-government's benchmark bonds. Issuance in other bullet loans is possible.

In 2009 the central-government has so far issued government bonds of DKK 24 billion, cf. Table 1.

| GOVERNMENT BOND ISSUANCE IN 2009, VALUE DATE 12 JUNE | | Table 1 |
|--|--|----------|
| DKK billion, market value | | Issuance |
| 2-year maturity segment | | 10.0 |
| 10-year maturity segment | | 13.7 |
| 30-year maturity segment | | 0.3 |
| Government bonds, total | | 24.0 |

Foreign borrowing

Central-government foreign debt is raised in order to maintain an adequate foreign-exchange reserve. In light of the financial crisis, the foreign exchange reserve has been increased. In 2009 the central-government's net borrowing of foreign debt has been DKK 31 billion. At the same time foreign borrowing has shifted from short to longer term borrowing. The central-government has issued foreign loans in the longer maturity segment of DKK 82 billion. The outstanding amount in the central-government's Commercial Paper programmes has been reduced from DKK 60 billion to DKK 12 billion.

It is the intention to maintain the present outstanding amount in the central-government's Commercial Paper programmes in order to ensure sufficient liquidity in the programmes.

In the second half of 2009, the central-government has foreign redemptions of DKK 16 billion which are expected to be refinanced through a new 5-year euro denominated bond.

Trading and Issuance of Government Securities

Primary dealers in Danish government securities have in November 2008 during the annual evaluation of the infrastructure for Danish government securities decided that market making in 2009 is undertaken on MTSDenmark.

Danish government bonds are issued via tap sale and auctions at current market prices to the primary dealers, cf. Table 2.

MARKET PARTICIPANTS IN GOVERNMENT BONDS Table 2

| 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 |
| Nykredit Bank | Fortis |
| 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 by current quotation of two-way prices. 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 security lending facilities of the central government and the Social Pension Fund (SPF), cf. Table 3.

During the financial crisis market making obligations only comprised benchmark bonds and the quoting requirements were eased. Since then, market making obligations have gradually been raised as financial market conditions have improved. In cooperation with the central-government's primary dealers, it is the intention that the process towards a normalisation of the quoting of prices in Danish government bonds continues in the second half of 2009.

MARKET MAKING IN DANISH GOVERNMENT BONDS, 1 JULY 2009

Table 3

| | Nominal outstanding amount, DKK million ¹ | Market making obligation on MTSDenmark | |
|------------------------------------|--|--|--------------------------|
| | | Max spread, ticks ³ | Min. amount, DKK million |
| <i>Benchmark bonds²</i> | | | |
| 4 per cent 2012 | 6,480 | 20 | 80 |
| 4 per cent 2015 | 57,260 | 20 | 40 |
| 4 per cent 2019 | 13,095 | 20 | 50 |
| 4,5 per cent 2039 | 87,870 | 75 | 10 |
| <i>Other bonds</i> | | | |
| 6 per cent 2009 | 40,216 | Best effort | Best effort |
| 4 per cent 2010 | 54,280 | 25 | 20 |
| 6 per cent 2011 | 60,500 | 25 | 20 |
| 5 per cent 2013 | 74,180 | 25 | 20 |
| 4 per cent 2017 | 52,870 | 25 | 20 |
| 7 per cent 2024 | 24,431 | Best effort | Best effort |

¹ Value date 12 June 2009.

² Danish benchmark bonds constitute until 1 July the following: 4 per cent bullet loans 2010, 4 per cent bullet loans 2012, 5 per cent bullet loans 2013, 4 per cent bullet loans 2017, 4 per cent bullet loans 2019 and 4.5 per cent bullet loans 2039.

³ 1 tick is equivalent to 0.01 price points.

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).

In January 2009, Standard & Poor's affirmed the long-term AAA rating and short-term A-1+ rating for Danish government securities with an unchanged stable outlook. It was motivated by: *"The affirmation reflects our opinion of the resilience of the highly flexible, diversified, and competitive Danish economy, and the strength of public finances even in the midst of a global economic downturn"*.

In the report from April 2009, Fitch Ratings affirmed Denmark's AAA rating. The rating was accompanied by the following rationale: *"Denmark's institutional strengths foster confidence in the country's ability and willingness to honour its public debt commitments, which are in any case low relative to its 'AAA' peers"*.

In April 2009, Moody's affirmed the central-governments Aaa rating. Moody's stressed the following: *"The government's top-notch ratings reflect an assessment of "very high" economic and institutional strength, characterized by a competitive, dynamic and diversified economy; a stable macroeconomic and political environment; and a healthy government balance sheet"*.

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 The latest rating reports regarding the Danish central-government from Standard & Poor's, Moody's and Fitch Ratings are available on 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 12 June 2009.

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 2008* was published both in Danish and English in February 2009.

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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