



Danmarks
Nationalbank

Danish Government
Debt Management
Policy

Strategy 2nd half of 2010

Key issues, 2nd half of 2010

Domestic borrowing requirement and issuance

Demand has been high for Danish government securities in the 1st half of the year. The domestic borrowing requirement is unchanged at DKK 107 billion. In the light of high demand for bonds, the financing contribution from bonds is increased to DKK 77 billion whereas the T-bill programme is scaled down to DKK 30 billion.

Issuance of bonds amounts to DKK 72.7 billion. To smooth the financing requirement between 2010 and 2011 and to reduce the government's refinancing risk, it is the strategy to begin financing the borrowing requirement for 2011.

Changes in the key on-the-run issues are:

- 1 July 2010, 5 per cent bullet loans 2013 will be re-opened as a key on-the-run issue. 4 per cent bullet loans 2012 will remain a key on-the-run issue during 2nd half of 2010.
- The amount outstanding in 4.5 per cent bullet loans 2039 is increased due to interest in the market. On 23 June 2010, 4.5 per cent bullet loans 2039 will be auctioned with a maximum sale of DKK 10 billion at nominal value.
- The opening of a new 5-year and a new 10-year key on-the-run issue is postponed to the beginning of 2011.

The key on-the-run issues in the 2nd half of 2010 are:

- T-bills
- 4 per cent bullet loans 2012
- 5 per cent bullet loans 2013
- 4 per cent bullet loans 2015
- 4 per cent bullet loans 2019
- 4.5 per cent bullet loans 2039

Domestic government bonds are issued via regular auctions supplemented with tap sales.

Foreign borrowing

In 2010, the central-government's foreign redemptions amount to DKK 24 billion (EUR 3.3 billion). To ease future access to the foreign borrowing markets, the strategy is to issue a 5-year euro loan at EUR 1-2 billion in the 2nd half of 2010. Currency swaps from euro to kroner for an equivalent amount will be carried out.

Buy-backs

The central government can buy back domestic and foreign government securities in the market, but as a general rule not in the key on-the-run issues. Until September 2010 regular buy back-auctions will be held in 4 per cent bullet loans 2010

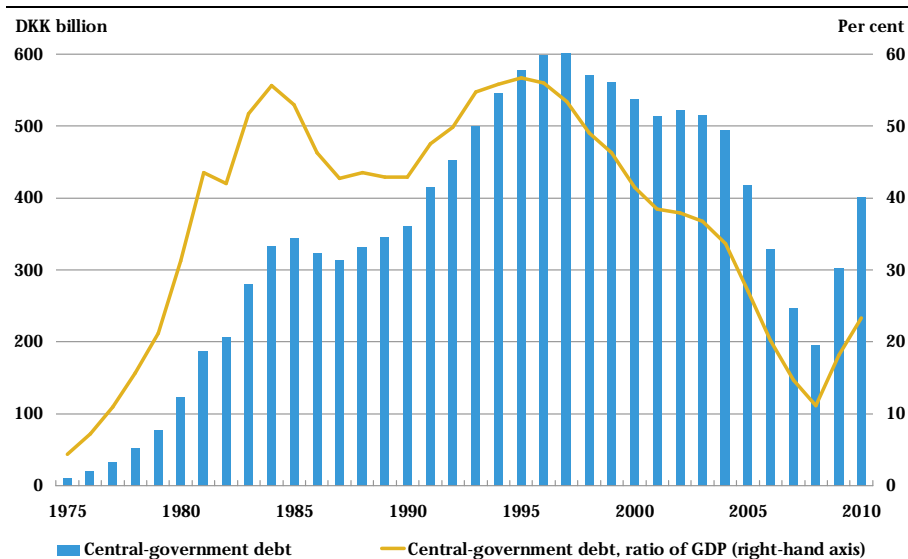
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Government finances and borrowing requirement

After years of government surpluses and falling debt, the development turned around in 2009. At end-2009, the central-government debt was DKK 301.5 billion corresponding to 18.1 per cent of GDP, cf. Chart 1. The central-government debt is still low in an international context.

CENTRAL-GOVERNMENT DEBT, 1975-2010

Chart 1



Note: The forecast for the central-government debt end-2010 is from Budget Outlook, May 2010.

The Ministry of Finance expects a deficit on the government finances of 5 $\frac{3}{4}$ per cent of GDP in 2010. The domestic borrowing requirement for 2010 is estimated at DKK 107 billion.

Borrowing in 2010

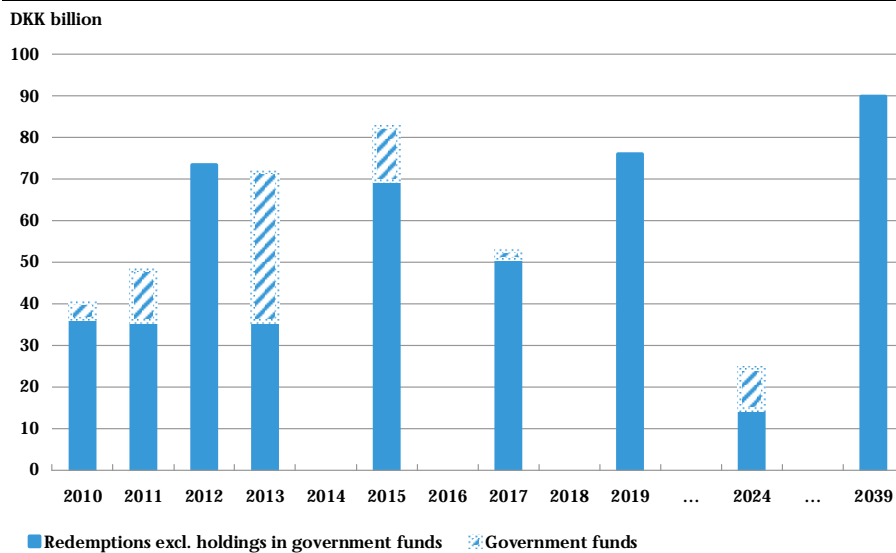
Domestic borrowing

The central government's domestic borrowing requirement of DKK 107 billion is financed by issuance of bonds and T-bills. Bond issuance is expected to contribute DKK 77 billion in 2010. The issuances in the 2-, 5- and 10-year segments follow a 40-20-40 percentage distribution.

The demand for government bonds has been high in the 1st half of the year, and the borrowing requirement for the year has almost been covered. Until value date 16 June 2010 the central-government has sold bonds for DKK 72.7 billion. To smooth the borrowing requirement between 2010 and 2011 and to reduce the government's refinancing risk, it is the strategy to begin financing the borrowing requirement for 2011.

REDEMPTION PROFILE, CENTRAL-GOVERNMENT BONDS

Chart 2



The changes in the key on-the-run issues are the following:

- 2-year segment: Issuance in 5 per cent bullet loans 2013 is resumed 1 July 2010 to smooth the central-government's redemption profile, cf. Chart 2. 5 per cent bullet loans 2013 will be auctioned in July 2010. The security 4 per cent bullet loans 2012 is kept as a key on-the-run issue in the 2nd half of 2010.
- 5-year segment: 4 per cent bullet loans 2015 is expected to be replaced in the beginning of 2011. The new 5-year key on-the-run issue will mature 15 November 2016.
- 10-year segment: 4 per cent bullet loans 2019 is expected to be replaced in the beginning of 2011. The new 10-year key on-the-run issue will mature 15 November 2021.
- 30-year segment: In the light of high investor interest in 4.5 per cent bullet loans 2039 the outstanding in the security is increased. On 23

June 2010 the 4.5 per cent bullet loans 2039 will be auctioned with a maximum sale of DKK 10 billion at nominal value.

Issuance in the other bullet loans is possible. Domestic government bonds are issued via regular auctions supplemented with tap sales.

In future, auction dates will be announced in a 3-month calendar which is updated at the end of each month. The auction dates for the last two months in the calendar are tentative.

No later than three trading days prior to the auctions, information about the auctioned bond(s) will be announced. The auctions depend on stable market conditions.

T-bill programme

The central-government has issued T-bills for DKK 16.4 billion in 2010, cf. Table 1. The T-bill programme is expected to finance DKK 30 billion of the borrowing requirement for 2010. This is changed from DKK 40 billion in the light of high demand for bonds.

T-bills are issued via auctions at the end of each month. A new 9-month T-bill is opened every three months.

ISSUANCE OF T-BILLS IN 2010

Table 1

DKK billion	Maturity date	Issuance, market value (value date 16 June)
SKBV 2010-I	1 September 2010	7.2
SKBV 2010-II	1 December 2010	4.6
SKBV 2011-I	1 March 2011	4.7
Total		16.4

Buy-backs

The central government can buy back domestic and foreign government securities in the market, but as a general rule not in the key on-the-run issues. Until September 2010 regular buy-back auctions will be held in 4 per cent bullet loans 2010.

Foreign borrowing

To ease future access to the foreign borrowing markets, the strategy is to issue an annual 5-year euro loan of EUR 1-2 billion. This will help insure a stable and broad investor base. In 2010, the central government's foreign redemptions amount to DKK 24 billion (EUR 3.3 billion).

The strategy is that the central government

- issues a 5-year euro loan at EUR 1-2 billion in the 2nd half of 2010
- carries out currency swaps from euro to kroner for an equivalent amount.

Trading and issuance of Government Securities

12 regional and international banks have signed primary dealer contracts with the central government and act as counterparts in the central-government's issuance and buy-back transactions, cf. Table 2.

In the 1st half of 2010, the group of primary dealers has been extended by three banks. At the same time, with the re-opening of the T-bill programme, primary dealer contracts for T-bills have been established.

PRIMARY DEALERS AND MARKET TAKERS, 2010 Table 2

Primary dealers in Bonds	Primary dealers in T-bills	Market takers in government securities
Barclays Bank	Arbejdernes Landsbank	Bank of America Merrill Lynch
BNP Paribas	Danske Bank	Citigroup
Danske Bank	JP Morgan	Commerzbank
Deutsche Bank	Jyske Bank	DZ Bank
HSBC France	Nordea	Nomura
JP Morgan	Nykredit Bank	Royal Bank of Scotland
Morgan Stanley	SEB	
Nordea	Sydbank	
Nykredit Bank		
SEB		
Spar Nord Bank		
Sydbank		

The primary dealers support liquidity in Danish government securities by current quotation of two-way prices. In addition to the right to undertake buy and sell transactions in Danish securities directly with the central government, primary dealers have access to the securities lending facilities of the central government and the Social Pension Fund.¹

As of 1 July, the benchmark securities are unchanged, cf. Table 3.

CENTRAL GOVERNMENT BENCHMARK SECURITIES, JULY 2010 Table 3

DKK billion		Nominal outstanding, (value date 16 June 2010)
2-year segment	4 per cent bullet loans 2012	73.8
5-year segment	4 per cent bullet loans 2015	82.6
10-year segment	4 per cent bullet loans 2019	76.3
30-year segment	4.5 per cent bullet loans 2039	89.9

With the intention to promote competition, improve price discovery and liquidity in the inter-dealer market for Danish government securities, new requirements for market making obligations were introduced in the beginning of 2010. The system is based on the primary dealers' market making calculated on the basis of the average bid-ask spread in the entire group of primary dealers. The experiences with the new system have been positive.

¹ The conditions for the securities lending facility are specified in Terms for the Central Government's and the Social Pension Fund's Securities Lending Facilities, available at www.governmentdebt.dk.

Kingdom of Denmark's rating

The central-government domestic and foreign debt has the highest rating from Moody's (Aaa), Standard & Poor's (AAA) and Fitch Ratings (AAA).

In April 2010 Moody's affirmed the central-government's 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 dynamic and diversified economy, a stable macroeconomic and political environment and a healthy government balance sheet."

In the report from December 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: "Robust track record of prudent macroeconomic policies and structural reforms, underpinning low inflation and a stable currency".

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."

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

¹ The latest rating reports regarding Kingdom of Denmark from Moody's, Standard & Poor's and Fitch Ratings are available at www.governmentdebt.dk.

Information

Danish Government Debt Management Policy is a semi-annual announcement from the Debt Management Office at Danmarks Nationalbank. The announcement provides information on objectives and strategies for the management of the debt. This announcement was published on 16 June 2010.

The 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 2009 was published in Danish and English in February 2010.

Further information on government debt management can be obtained from the DMO'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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