Medium-term Debt Management Strategy 2014-2017

The Ministry of Finance and Economic Affairs has published the government's Medium-term Debt Management Strategy for the period 2014-2017. This is the fourth instance of such publication. The principal changes which have been made since last year's publication concern the guidelines for the composition of the debt portfolio, which provide for a reduced share of inflation-indexed borrowing and a correspondingly greater share of non-indexed loans. A change has also been made to the target for the Treasury's foreign balance with the Central Bank, reducing it from ISK 80 billion to around ISK 60-70 billion on average.

The principal objectives of the government's debt management strategy are:

- to ensure that the Treasury's financing needs and payment obligations are met at the lowest possible longer-term cost that is consistent with a prudent risk policy;
- to ensure that the debt repayment profile accords with the Treasury's longer-term payment capacity;
- to maintain and encourage the further development of an efficient primary and secondary market for domestic Treasury securities;
- to attract a diverse group of investors in Treasuries and take advantage of a variety of funding sources.

Benchmark Treasury notes series are structured so that each series will be large enough to ensure effective price formation on the secondary market. Each year 2Y, 5Y and 10Y benchmark Treasury notes series will be issued. To reduce refinancing risk, the aim is to make the repayment profile of Treasury securities as even as possible. Average time to maturity should be at least 4 years.

Treasury borrowing in foreign currency is used in particular to strengthen the Central Bank's foreign currency reserves. Regular issuance by the Treasury of market bonds on foreign markets is envisaged, aimed at attracting a broad investor base.

The also strategy reports that the Treasury has engaged an independent consultant to assess the potential advantages of interest rate swaps, with the conclusions of the assessment expected this autumn. Another proposed change will convert the bond issued by the Central Bank of Iceland to a non-indexed coupon bond with final maturity 2043. This affects the Treasury's repayment profile and the structure of its debt, as the change boosts the share of non-indexed borrowing.

The Ministry of Finance is responsible for the state's debt management, formulates its financing strategy and makes decisions on securities issuance. Government Debt Management, a special section within the Central Bank, handles the implementation of the strategy under an agreement between the Bank and the Treasury.

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