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To newspapers, newsrooms,
and financial institutions

Press Release
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Government Debt Management Prospect 2011

- *The Treasury's financial need is estimated to be 130 b.kr. The financial need will be met with the issuance of Treasury bonds for 120 b.kr. and by reducing the Treasury's balance with the Central Bank by about 10 b.kr. Net Treasury bond issuance is estimated at 67 b.kr.*
- *The Treasury's net financial need is estimated to be 57.4 b.kr. One Treasury bond series valued at 53 b.kr. will mature during the year. Furthermore, the objective is to reduce the balance of Treasury bills by 12 b.kr. Other repayments amount to 7.2 b.kr. The Treasury's financial need is therefore estimated to be 130 b.kr.*
- *A new 10-year nominal bond series will be issued.*
- *A new 20-year nominal bond series will be issued.*
- *Treasury bill issuance will be changed with a monthly issue of 6-month Treasury bills.*
- *One foreign bond and one foreign bank loan will mature during the year. The bond is a 638 million euro issue maturing in December, and the loan is a syndicated loan in the amount of 75 million euros, which is due in September. The aim is to refinance it during the year.*

Introduction

The Government Debt Management Prospect is now published in a different format than before. The Prospect for 2010 included a sales schedule for indexed and nominal Treasury bonds for each quarter. This Prospect does not include such an itemisation but merely discloses the intention to sell Treasury bonds for 120 b.kr. during the year. In the coming year, information on the securities to be auctioned and the estimated volume to be sold, within a range, will be published quarterly, for the upcoming three months. The quarterly schedules will be published on the last working day of each quarter. Additionally, the Treasury's debt management strategy through 2014 will be published in January.

Issuance in 2010

The Treasury's issuance objectives for 2010 were achieved. The issuance of 170 b.kr. of Treasury bonds was announced at the beginning of the year. It was decided to issue new 2- and 5-year nominal series and a new 10-year indexed series. The Treasury had not issued such a benchmark series since 1995. In April, a change in securities issuance was announced, which entailed reducing Treasury bill issuance while increasing the issuance of long nominal bonds by about 20 b.kr. The objective of the change was to respond more effectively to market demand for



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long bonds and further reduce the Treasury's repayment risk. The Treasury has issued bonds for 193 b.kr., including indexed Treasury bonds for 50 b.kr., which is in line with objectives.

For the past two years, the main emphasis in debt management has been to lengthen the maturity profile so as to reduce the Treasury's annual refinancing need. The effects of this policy will be seen clearly in 2011, when only one Treasury bond series of 53.4 b.kr. matures, as opposed to two series totalling 130 b.kr. in 2010. The average maturity of the domestic loan portfolio has therefore lengthened in recent years, to 6.25 years as opposed to 2.5 years in 2008.

Nominal Treasury bond issuance

In 2011, one Treasury bond series, originally issued for two years, will mature: the nominal RIKB 11 0722 bonds, which are valued at 53.4 b.kr. and mature on 22 July.

The Treasury will issue 2-, 5-, and 10-year nominal Treasury bonds in 2011. Bonds in the 2-year RIKB 12 0824 series will continue to be sold. No new 2-year series will be issued; instead, RIKB 13 0517 will take over as the 2-year benchmark series. RIKB 16 0715 will be built up further as the 5-year benchmark series, and a new 10-year benchmark series maturing in 2022 will be issued.

In 2008, the Treasury issued nominal bonds, RIKB 25 0612, which mature in 2025. This is the Treasury's longest nominal market issue to date. Sales were successful, and the series is now about 87 b.kr. in size. Because there has been strong demand for long Treasury issues, it has been decided to issue a new nominal 20-year series. The series will be structured similar to other nominal Treasury bonds. The interest rate and terms will be announced at a later date, and it is planned to have market making with the series in the secondary market. The decision on volume issued will be published in the quarterly issuance schedules.

Indexed Treasury bond issuance

In April 2010, the Treasury issued, for the first time since 1995, a new series of indexed Treasury bonds. The series, which matures in 2021, was built up quickly and is now about 50 b.kr. in size. It is planned to continue selling these bonds in 2011. The decision on the volume to be issued will be based in part on expected market demand and will be announced in the quarterly issuance schedules.

Treasury bill issuance

The Treasury has issued 4-month Treasury bills on a monthly basis since April 2009. In response to the needs of investors that are building up funds with short-term securities, it has been decided to step up these issues and lengthen the maturity of the bills. Each month, a 6-month Treasury bill will be issued. It will be possible to expand each series three months before maturity. The change implies that the number of outstanding bills will increase from four to six. It is important to be flexible in Treasury bill issuance so as to meet temporary intra-year fluctuations in revenues and expenditures. Thus it cannot be ruled out that bills with other maturities will be issued during the year. In view of the fact that the number of issued series is being increased and the total balance of Treasury bills will decline by about 12 b.kr. during the year, it is foreseeable that the outstanding amount of each series will fall from current levels.



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Buybacks – exchange auctions

Buybacks of Treasury bond series RIKS 15 1001 will continue, to the extent that market conditions allow. The outstanding balance is about 20 b.kr. market value. It is planned that buybacks will amount to as much as 1 b.kr. There is no market making in the series, and it is no longer considered a benchmark series. The owners of these bonds may be offered the chance to exchange them for an outstanding indexed benchmark series.

Another possibility is to hold an exchange auction where owners of Treasury bond series, particularly those maturing during the year, will be offered the chance to exchange them for other bonds.

Quarterly issuance schedules

At the end of each quarter, the series to be offered in the upcoming three months will be announced. Market conditions will determine which series are offered and how much is sold. Changes to the Government Debt Management Prospect for the year, if any, will be announced in the quarterly issuance schedules.

Treasury deposits with the Central Bank

The balance on the Treasury's current account with the Central Bank of Iceland was 181 b.kr. at the end of November 2010, which reflects strong liquidity. Of this amount, 10 b.kr. will be used to meet the Treasury's financing need for 2011. A very strong liquidity position makes it easier for the Treasury to respond to the impact of potential capital account liberalisation.

Financing activities

The table below illustrates the Treasury's net financing activities for the year 2011. It reflects the strain that the Treasury places on the domestic bond market. In comparison, the corresponding amount was 51 b.kr. for 2010.

Nominal amounts in billions of krónur	
Treasury bond issuance	120
Treasury bills, net issuance	-12
<i>Total</i>	<i>108</i>
<i>Deductions:</i>	
Redeemed Treasury bonds	53
Buybacks of RIKS 15 1001	1
<i>Domestic market funding activities</i>	<i>54</i>

Foreign borrowings

One foreign bond and one foreign bank loan will mature in 2011. The bond, originally issued in the amount of 1,000 million euros, was issued in December 2006 in order to strengthen the Central Bank of Iceland's foreign exchange reserves. The Treasury has now paid up nearly 400 million euros of this loan. The bank loan was originally in the amount of 300 million euros, but in December an agreement was reached on the repayment of 225 million euros. It is appropriate to point out that the Treasury's refinancing risk due to foreign debt maturing in 2011 is negligible due to the Treasury's strong foreign exchange position. The plan is to refinance foreign debt maturing in 2011.



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Timing of funding activities and further information

Treasury securities auctions will be held on predetermined dates, according to the Government Debt Management auction calendar. Twice a month, Treasury bonds will be offered, and once a month Treasury bills will be offered. These dates are indicated on the auction calendar.

The monthly publication Market Information, the Bloomberg <ICDO> pages, and the websites www.lanamal.is and www.bonds.is will continue to be the main channels for communication.

Primary dealers

Primary dealers in Government securities

Arion Bank
Íslandsbanki
MP Bank
NBI (Landsbankinn)
Saga Investment Bank

Further information can be obtained from Ingvar H. Ragnarsson at the Ministry of Finance, at tel +354 545 9200, and from Björgvin Sighvatsson at Government Debt Management, at tel +354 569 9600.