



## GOVERNMENT DEBT MANAGEMENT

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To newspapers, newsrooms,  
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**Press release**  
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### Government Debt Management Prospect 2013

- *Planned Treasury bond issuance for 2013 estimated at 90 b.kr.*
- *Net Treasury bond issuance will equal an estimated 7 b.kr. during the year.*
- *A new two-year benchmark Treasury bond series will be issued.*
- *A new five- to seven-year nominal Treasury bond will be issued.*
- *The balance of outstanding Treasury bills will remain similar.*
- *The bond to recapitalise the Central Bank of Iceland will be paid down in the amount of 5 b.kr. The terms of the bond will be amended and the maturity lengthened.*
- *Efforts to build up access to international capital markets will continue.*

#### Introduction

The net domestic borrowing need is estimated at 41 b.kr. in 2013, after taking account of a 13 b.kr. contribution to strengthen the capital position of the Housing Financing Fund. The contribution will be paid with the delivery of a bond to the Fund and not through a public auction. Treasury bond series RIKB 13 0517, in the amount of 83 b.kr., is scheduled to mature in May, and Treasury bills amounting to 39 b.kr. are due to mature in coming months. Other domestic instalments for the year total 9 b.kr., including an estimated 5 b.kr. to reduce the principal of the bond issued by the Government in 2009 to recapitalise the Central Bank of Iceland. Buybacks of RIKS 15 1001 in the amount of 1 b.kr. are planned as well. The Treasury's domestic borrowing need is therefore estimated at 173 b.kr. in 2013.

This borrowing need will be met with Treasury bond issuance in the amount of 90 b.kr. (sale price),<sup>1</sup> Treasury bill issuance in the amount of 40 b.kr., bond issuance due to the capital contribution to the Housing Financing Fund in the amount of 13 b.kr., and reduction of the Treasury's balance with the Central Bank in the amount of 30 b.kr. Net Treasury bond issuance is therefore estimated at 7 b.kr.

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<sup>1</sup> The sale price refers to the "clean" price, net of accrued interest. This represents a change from previous issues of the Government Debt Management *Prospect*, in which planned issuance was determined based on nominal value.



## GOVERNMENT DEBT MANAGEMENT

### Domestic funding need 2013

<i>Amounts in b.kr.</i>		
<b>Net domestic funding need</b>		<b>41</b>
<b>Redemption and instalments</b>		<b>132</b>
Treasury bills	39	
Treasury bonds	83	
Instalments on other loans and buybacks	10	
<b>Domestic funding need</b>		<b>173</b>
<b>Borrowings</b>		<b>143</b>
Treasury bills	40	
Treasury bonds	90	
Capital contribution to the Housing Financing Fund	13	
<b>Reduction of balance with Central Bank</b>		<b>30</b>

Issuance calendars for each quarter will be published on the last business day of the preceding quarter. Each quarterly calendar (Quarterly Government Debt Management *Prospect*) contains information on estimated total issuance, the series to be offered, and the estimated maximum issuance in each series. The quarterly issuance calendar for Q1/2013 is published concurrent with the Government Debt Management *Prospect* for the year 2013.

### Medium-Term Debt Management Strategy

The Government's Medium-Term Debt Management Strategy for 2012-2015 was published at the end of March 2012. The strategy sets forth the authorities' plans for credit financing during the specified period. Its principal objectives are to ensure that the Treasury's medium- to long-term financing needs and financial obligations are met at the lowest possible cost that is consistent with a prudent degree of risk and to promote the maintenance and further development of efficient primary and secondary markets for domestic Government securities.

Benchmark issues of Treasury bonds are structured so that each series is large enough to ensure liquidity in the secondary market. Each year, two-, five-, and 10-year benchmark series will be issued. Nominal and inflation-indexed bonds with other maturities will be issued irregularly, depending on the Treasury's financing need. In order to reduce refinancing risk, the aim is to keep the maturity profile of Treasury debt as even as possible, with the ultimate size of bond series in the 40-100 b.kr. range. Series with a maturity of two years are exempt from this,



## GOVERNMENT DEBT MANAGEMENT

however, and are subject to a minimum size of 15 b.kr. It is assumed that the average maturity of the debt portfolio will not fall below four years.

The Treasury borrows in foreign currencies in order to expand the Central Bank's foreign exchange reserves. The foreign borrowing strategy is aimed at securing regular access to international capital markets and maintaining a diversified investor base.

The Medium-Term Debt Management Strategy, revised for 2013-2016, will be published in Q1/2013.

### **Issuance in 2012**

Treasury bond issuance in 2012 was successful, and all of the most important objectives were achieved. Plans to issue Treasury bonds for 75 b.kr. were announced at the beginning of the year, but in Q4 it was decided to increase Treasury bond issuance by up to 5 b.kr. and reduce the stock of outstanding Treasury bills by a corresponding amount. A new nominal two-year bond, RIKB 14 0314, was issued during the year.

Actual sales totalled 81 b.kr. nominal value, including 54 b.kr. in conventional auctions and 27 b.kr. in Central Bank of Iceland foreign currency auctions. Furthermore, in July RIKH 18 1009 was issued in the amount of 19 b.kr., as reimbursement to Landsbankinn for the takeover of SpKef savings bank. In conventional auctions, issuance was concentrated in RIKB 14 0314 (22 b.kr.), RIKB 22 1026 (18 b.kr.), RIKB 16 1013 (8 b.kr.), and RIKB 31 0124 (6 b.kr.).

RIKB 12 0824 matured during the year, in the amount of 49 b.kr. The average maturity of the domestic and foreign debt portfolio was 5.7 years at the end of 2012, as opposed to 5.3 years at end-2011.

In May 2012, the Treasury issued a marketable bond in the amount of 1 billion US dollars, or 124 b.kr. at the then-current exchange rate. The bond bears fixed interest and was issued for 10 years, with a yield of 6.0%. Investors were keenly interested, with demand totalling 4 billion US dollars. Lead arrangers for the issue were Deutsche Bank, JP Morgan, and UBS Investment Bank.

In March and June, the Treasury of Iceland and the Central Bank of Iceland prepaid a total of 287 b.kr. on loans taken from the International Monetary Fund (IMF) and the Nordic countries in connection with the IMF-led Stand-By Arrangement (SBA). With these payments, the Icelandic authorities have repaid 53% of the original amount borrowed from the IMF and 59% of the original loan facility from the Nordic countries. At the end of December, the Treasury prepaid the loan from the Faeroese Government in the amount of 300 million Danish kroner.

### **Nominal Treasury bond issuance**

On 17 May 2013, the nominal RIKB 13 0517 Treasury bond matures in the amount of 83 b.kr.

The Treasury will issue a new nominal two-year bond during the year, so as to replace RIKB 14 0314. It is also planned to issue a new bond series maturing in 2020. The series will be built up in the next few years as a five-year benchmark series and later as a two-year series. RIKB 22



## GOVERNMENT DEBT MANAGEMENT

1026 will continue to be built up as a 10-year benchmark series. Issuance in other series will depend on market conditions and will be announced in the quarterly issuance calendars throughout the year.

### **Indexed Treasury bond issuance**

RIKS 21 0414 is the only indexed Treasury bond series with a market maker. It is 61 b.kr. in size. There is a possibility that the series will be expanded, but as before, the main emphasis will be on issuance of nominal benchmark bonds.

### **Treasury bill issuance**

Treasury bill issuance will be structured in the same manner as in the past two years. Each month, a new 6-month Treasury bill will be issued, with the possibility of expansion after 3 months.

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. The objective is to keep the stock of outstanding Treasury bills unchanged at about 40 b.kr. at end-2013.

### **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 27 b.kr. market value. It is planned that buybacks will amount to as much as 1 b.kr. The bond does not have market making arrangement and is therefore not considered a benchmark series.

Another possibility is to hold an exchange auction in which owners of Treasury bonds, particularly RIKB 13 0517, which matures during the year, will be offered the opportunity to exchange them for other bonds.

### **Foreign currency auctions**

The Central Bank of Iceland has scheduled foreign currency auctions for 5 February, 19 March, and 30 April 2013. The Treasury will continue to offer nominal RIKS 33 0321 bonds in Central Bank foreign currency auctions, in exchange for euros. As of end-2012, bonds have been issued in the series for 10 b.kr. nominal value.

### **Central Bank bond**

In 2008, the Treasury issued a five-year inflation-indexed bond to recapitalise the Central Bank of Iceland after the collapse of the banks. The balance of the bond, including indexation, is now about 171 b.kr. The loan matures on 1 January 2014, but it has been decided to extend it and amend the terms so the loan will be a nominal amortisation bond with interest payable annually from 1 January 2013. Further details will be announced later about amended terms. Next year the bond will be paid down in the amount of 5 b.kr.



## GOVERNMENT DEBT MANAGEMENT

### **Quarterly Government Debt Management *Prospect***

The bonds to be offered in the upcoming three months will be announced at the end of each quarter. Decisions on the bonds and volume to be issued will be based on the Treasury's borrowing needs and on market conditions. Any changes made to the issuance calendar for the year will be announced in the Quarterly *Prospect*.

### **Treasury deposits with the Central Bank**

The balance on the Treasury's current account with the Central Bank of Iceland was about 122 b.kr. as of end-November 2012, which reflects strong liquidity. In addition, the Treasury holds the equivalent of 348 b.kr. in domestic foreign currency accounts with the Central Bank. About 30 b.kr. will be used to meet the Treasury's domestic financing needs in 2013, including foreign-denominated interest payments.

### **Foreign loans**

The Treasury has no refinancing needs for foreign loans in 2013, as only 4.8 b.kr. on the so-called Avens loan will mature during the year.

If market conditions allow, it aims to issue bonds in the international markets on a regular basis in coming years, in accordance with the Government Debt Management Strategy. If it is decided to take foreign loans in 2013, the proceeds will be used to repay the loans from the IMF and the Nordic countries and/or to refinance other less advantageous foreign loans.

### **Timing of funding activities and further information**

Treasury bond 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 and on the website [www.lanamal.is](http://www.lanamal.is).

The monthly publication Market Information, the Bloomberg <ICDO> pages, and the websites [www.lanamal.is](http://www.lanamal.is) and [www.bonds.is](http://www.bonds.is) will continue to be the main channels for communication.

### **Primary dealers in Government securities**

Arion Bank Íslandsbanki Landsbankinn MP Bank Straumur Investment Bank
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Further information can be obtained from Björgvin Sighvatsson, Government Debt Management, at tel +354 569 9600.