



## LÁNAMÁL RÍKISINS

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To newspapers, newsrooms,  
and financial institutions

**Press Release**  
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### **Government Debt Management *Prospect* 2019**

- *Planned Treasury bond issuance for 2019 totals 40 b.kr. market value.*
- *It is planned to issue a new nominal two-year Treasury bond.*
- *No foreign borrowings are planned for the year.*

#### **Introduction**

Net domestic long-term borrowing is projected to be negative in the amount of 15 b.kr. In February, RIKB 19 0226 matures in the amount of 51 b.kr. Other payments on long-term debt amount to 4 b.kr.: 2 b.kr. on a bond issued by the Treasury for the purchase of the City of Reykjavík and the City of Akureyri's holdings in Landsvirkjun, and another 2 b.kr. for payments due to other loans and to the takeover of Treasury guarantees in connection with the collapse of the banks. No foreign loans will mature in 2019.

The long-term borrowing need will be met with the issuance of a Treasury bond with a market value of approximately 40 b.kr.<sup>1</sup> Net Treasury issuance for 2019 is therefore estimated to be negative by 11 b.kr. Efforts to reduce the Treasury's indexation imbalance through interest rate swap issuance will continue.

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<sup>1</sup>The sale price or market value refers to the clean price plus accrued indexation; i.e., with indexation but without accrued interest.

**Domestic long-term borrowing need 2019\***

<i>Amounts in b.kr.</i>		
<i>Net domestic long-term borrowing need</i>		<b>-15</b>
<b>Redemption and instalments</b>		
Treasury bonds	51	
Other loans	4	
<b>Domestic long-term borrowing need</b>		<b>55</b>
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Borrowings		<b>40</b>
Treasury bonds	40	

\*Bills are excluded. Issuance is based on the authorities' policy of maintaining a cash position of 40 b.kr. at any given time.

The issuance calendar 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 Q1/2019 is published concurrent with the Government Debt Management *Prospect* for the year 2019.

**Medium-Term Debt Management Strategy**

The Medium-Term Debt Management Strategy for 2019-2023 was published by the Ministry of Finance and Economic Affairs on 21 December 2018. The strategy sets forth the authorities' plans for credit financing during the specified period. It is revised and reissued once a year. 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. Another objective is to encourage further development of efficient primary and secondary markets for domestic Government securities.

In H2/2018, the Treasury began issuing inflation swaps with domestic financial institutions for the first time, with the aim of managing indexation and interest rate risks in the loan portfolio more effectively. The Treasury was authorized to conclude such agreements for up to 40 b.kr. in 2018. The maturity of the contracts made to date is in the 3- to 7-year range. According to the contracts, the Treasury will pay variable nominal interest but will receive fixed real interest rates throughout the lifetime of each contract. Further information on the contracts will be published in due course. The Treasury is authorized to conclude swap agreements for up to 50 b.kr. in 2019. It will continue to issue swap agreements in order to manage interest rate risk if market conditions and terms permit.

**Nominal Treasury bond issuance**

According to the medium-term debt management strategy, emphasis will be placed on sales of two-, five-, and 10-year benchmark bonds and on building up new series to be issued on an



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irregular basis. Under the strategy, a new nominal two-year bond will be issued in 2019 to take over from RIKB 20 0205 as a two-year benchmark series. RIKB 20 0205 is 76 b.kr. in size. There will be a market maker for the new series. According to the medium-term strategy, RIKB 25 0612 and RIKB 28 1115 will be five- and ten-year benchmark series next year. There is little room to expand other bonds, as the general rule is to keep older bonds within 100 b.kr.

### **Indexed Treasury bond issuance**

Expansion of RIKS 26 0216, currently 10 b.kr. in size, will continue. The Treasury bond series RIKS 21 0414, which is 77 b.kr. in size with indexation, is scheduled to mature in just over three years. The Treasury is authorized to expand the series, even though it is indexed and matures in less than five years. It is possible that the Treasury will consider the possibility of expanding it in response to demand and to enhance its liquidity in the secondary market.

### **Liquidity management**

According to the authorities' current debt management strategy, the objective is to keep the Treasury's average cash position close to 40 b.kr. In order to achieve this objective, the Treasury has strengthened and improved its liquidity management tools. Changes have been made to the arrangements for Treasury bill issuance. Issuance is now more flexible than before, so as to respond better to temporary fluctuations in revenues and expenditures within the year. The Treasury also has the option to use money market and request or grant króna-denominated loans to the banks for a very short period so as to mitigate day-to-day fluctuations in its current account with the Central Bank.

Although various attempts have been made to manage Treasury liquidity, it has proven difficult to achieve the objective of keeping the average cash balance close to 40 b.kr. This is due to a number of factors, including external conditions, which are difficult to control. The aim is to improve liquidity management still further; for instance, by improving liquidity forecasts and aligning the timing of Treasury revenues and expenditures more effectively.

### **Buybacks – switch auctions**

It is possible that one or more switch auctions will be held, in which owners of Treasury bonds (such as RIKB 20 0205) will be invited to swap their bonds for other benchmark series. Issuance in connection with switch auctions will be added to planned issuance during the year, as it reduces the need for bond issues in coming years. There will also be buybacks and perhaps one or more switch auctions of non-marketable bonds.

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

At the end of November 2018, the Treasury's current account balance with the Central Bank of Iceland was about 98 b.kr. In addition, the Treasury holds about 91 b.kr. in foreign currency accounts with the Central Bank. The above deposits suffice to finance roughly 22% of the Treasury's outstanding debt. This means that monetary assets suffice to cover all of the Treasury's obligations for the next two years without any new borrowing.



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### **Foreign debt**

No foreign loans are scheduled to mature in 2019, and no foreign borrowings are planned.

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

Treasury bond auctions will be held on predetermined dates, according to the Government Debt Management auction calendar. Days are reserved once or twice a month for Treasury bond auctions and once a month for Treasury bill auctions. These days are indicated on the Government Debt Management auction calendar and on the website [www.gdm.is](http://www.gdm.is). Government Debt Management reserves the right to cancel auctions if market conditions warrant it. If changes are made to the current annual auction calendar, they are generally announced in the quarterly Government Debt Management *Prospect*.

The monthly publication *Market Information*, the Bloomberg <ICDO> pages, and the websites [www.gdm.is](http://www.gdm.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 hf.  
Íslandsbanki hf.  
Kvika banki hf.  
Landsbankinn hf.

Further information can be obtained from Esther Finnbogadóttir at the Ministry of Finance and Economic Affairs, at tel +354 545 9200, and from Björgvin Sighvatsson at Government Debt Management, at tel +354 569 9600.