

Government Debt Management Prospect – Emphases in 2008

- *Planned Treasury note issuance of 47 b.kr. nominal value.*
- *New benchmark issue of 10- to 11-year Treasury notes to be issued at the beginning of this year.*
- *Treasury bill issuance will be discontinued.*
- *Foreign borrowings maturing during the year will be paid up.*

The cash position of the Treasury is strong at present, and it is estimated that the gross borrowing requirement for 2008 will be negative in the amount of 42 b.kr. As in recent years, the Treasury does not need to seek borrowed funds in the marketplace. The primary purpose of Treasury issues is therefore to promote an active secondary market and to strengthen price formation of the domestic fixed income market.

New Treasury note series

A new series of non-indexed Treasury notes maturing in 2018 or 2019 will be issued early this year. The aim is to build the series up rather rapidly through several auctions held in the first half of the year, and to issue a total of 35 b.kr. over the year as a whole. The new issue will strengthen the domestic bond market because such a long-term series has not been issued since the RIKB 13 0517 series appeared in 2002. The issue will lengthen the non-indexed yield curve substantially. Six series of Treasury notes will then be outstanding, including three with maturities of 2, 5, and 10 years respectively. The purpose of this new issuance is to create a reference yield for other issuers of non-indexed bonds and to facilitate pricing of 10-year interest rate swap agreements in krónas. Furthermore, comparison of the yield to maturity for the new series with that of indexed housing bonds will facilitate an effective assessment of the market's inflation expectations for the next 10 years.

The series will consist of coupon notes with annual interest payments and the same day-count convention and structure as other Treasury note issues. A more detailed description of the series, including coupon, maturity date, and auction arrangements, will be announced soon. There will be active market makers for the series in the secondary market.

The current issuance programme, wherein two series of two-year Treasury notes are issued each year, will be continued; however, a two-

year series will not be issued in the first half of the year because RIKB 10 0317, amounting to nominal value 25.5 b.kr., will be a two-year series next year. In the latter half of the year, a new two-year series of Treasury notes will be issued in the amount of 12 b.kr.

In 2008, 30 b.kr. of Treasury notes in series RIKB 08 0613 and RIKB 08 1212 will mature; therefore, T-note issuance net of maturities will total 17 b.kr. in 2008.

Treasury bill issuance discontinued

The issuance of Treasury bills will be discontinued. Until the present time, a new bill with a maturity of around three months has usually been issued each month. As of the beginning of the current year, there were three outstanding series of Treasury bills totalling nearly 14 b.kr. The last outstanding bill will mature on 3 March 2008.

The purpose of Treasury bill issuance was to provide the Treasury with borrowed funds in order to meet fluctuations in revenues and expenditures within the year. The balance on the Treasury's current account with the Central Bank has improved substantially in recent years and stood at 93 b.kr. at the end of 2007. This sizable balance on the current account eradicates the Treasury's need for short-term borrowed funds; therefore, there is no reason to issue bills.

Treasury bills also make a less significant contribution to price formation, as the interbank króna market has more or less taken on the role previously carried out by T-bills. Trading volumes on the secondary market for T-bills have diminished greatly in recent years, as it appears that investors who purchase bills at auctions hold them until maturity. Discontinuing the issue of Treasury bills will allow for greater focus on the issuance of longer-term Treasury notes.

Securities lending facility to primary dealers

The experience of securities lending to primary dealers has been positive. The provision of Treasury benchmarks available for lending allows primary dealers to cater to sudden changes in demand that would otherwise add to market volatility. Securities lending also promotes more effective price formation of the various series, as it gives primary dealers the opportunity to sell short. This facility will now be expanded so that each primary dealer will be able to borrow up to 5 b.kr. in each benchmark series instead of the previous 4 b.kr. These changes will take effect later this month.

Buyback

Insofar as market conditions allow, an attempt will be made to buy back the Treasury bonds in series RIKS 15 1001. The total amount of the buyback will be determined by bondholders' response. There is no

market making in Treasury bonds; therefore, the series is no longer a benchmark series. The outstanding amount totals 13 b.kr.

Funding activities

The following table illustrates the Treasury's domestic funding activities for the year 2008:

| Nominal amounts in billions of | |
|--------------------------------|----|
| <i>Issue:</i> | |
| 10- to 11-year Treasury notes | 35 |
| Two-year Treasury notes | 12 |
| <i>Total</i> | 47 |
| <i>Deductions:</i> | |
| Redeemed Treasury notes | 30 |
| Redeemed Treasury bills | 14 |
| Buyback of indexed Treasury | 1 |
| <i>Domestic market funding</i> | 2 |

Foreign borrowings

In May 2008, a long-term foreign loan in the amount of 150 million euros will mature. It is planned that this loan will be paid in full at that time.

Timing of funding activities and further information

According to the Government Debt Management issuance calendar, auctions of Treasury notes will be held on predetermined dates as in previous years. These and other important dates will be clearly indicated in the issuance calendar.

The issuance 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.

Detailed information on projected Treasury note auctions can be found in the table on the following page:

Projected funding activities from January to December 2008

| <i>Figures in millions of</i> | <i>BORROWING</i> | <i>BORROWING</i> | <i>BUYBACKS</i> |
|-----------------------------------|------------------------------|------------------------------|------------------------------|
| | <i>Ten-year</i> | <i>Two-year</i> | <i>RIKS 15</i> |
| | <i>Treasury notes</i> | <i>Treasury notes</i> | <i>1001</i> |
| | <i>Nominal value</i> | <i>Nominal value</i> | <i>Market price</i> |
| | <i>Estimated amounts</i> | <i>Estimated amounts</i> | <i>Estimated amounts</i> |
| January | | | |
| February | 10,000 | | |
| March | 8,000 | | |
| April | 6,000 | | |
| May | 6,000 | | |
| June | 5,000 | | |
| July | | | |
| August | | | |
| September | | | |
| October | | | |
| November | | 6,000 | |
| December | | 6,000 | |
| Total | 35,000 | 12,000 | 1,000 |

Treasury benchmarks and primary dealers

| <i>Series</i> | <i>Maturity date</i> | <i>Market value in billions of krónas 31 December 2007</i> |
|---------------|----------------------|--|
| RIKB 08 0613 | 13 June 2008 | 14.8 |
| RIKB 08 1212 | 12 December 2008 | 14.3 |
| RIKB 09 0612 | 12 June 2009 | 14.5 |
| RIKB 10 0317 | 17 March 2010 | 22.9 |
| RIKB 13 0517 | 17 May 2013 | 22.8 |
| Total | | 89.3 |

Primary dealers in Government securities

Icebank
 Glitnir
 Kaupthing
 Landsbanki Íslands
 MP Investment Bank
 Saga Capital Investment Bank
 Straumur Investment Bank

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