



LÁNAMÁL RÍKISINS

Kalkofnsvegi 1 150 Reykjavík
sími: 569 9600 bréfasími: 569 9604
netfang: lanamal@lanamal.is
veffang: <http://www.lanamal.is>

To newspapers, newsrooms
and financial institutions

Press release
30 December 2020

Government Debt Management *Prospect* 2021

- *The Treasury's borrowing need will be addressed in a variety of ways, although as before, the greatest emphasis will be on issuance of Treasury bonds.*
- *Planned Treasury bond issuance for 2021 totals 200 b.kr. market value.*
- *It is planned to issue a new nominal three-year Treasury series and to expand other series during the year.*
- *There are also plans to issue bonds abroad.*

Introduction

According to the National Budget for 2021, the net financial balance is estimated to be negative by 352.5 b.kr. Maturing in April is RIKS 21 0414, which is 68 b.kr. in size, with indexation, and maturing in August is RIKB 21 0805, in the nominal amount of 60 b.kr. Other payments on long-term loans come to a total of 5 b.kr. No foreign loans are scheduled to mature next year.

The Treasury has a variety of possible ways to meet its borrowing need in 2021. Bond issuance will continue to be the mainstay of Treasury financing activity, with planned Treasury bond issuance totalling 200 b.kr. market value¹ for the year. Treasury bond issuance net of maturities will therefore total 72 b.kr. in 2021, as compared with 120 b.kr. in 2020, excluding sales in switch auctions.

It is possible as well that the Treasury will both issue bonds abroad and increase the weight of Treasury bills in its financing portfolio. The Treasury can also tap both domestic- and foreign-denominated deposits in its current account with the Central Bank of Iceland. At the end of November 2020 these balances amounted to 130 b.kr. and 218 b.kr. equivalent in foreign currencies. Furthermore, the Treasury will borrow from HF-fund (ÍL-sjóður) which has substantial

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



LÁNAMÁL RÍKISINS

liquidity at its disposal. There are other possible avenues for financing as well, including asset sales, as is mentioned in the fiscal plan for 2021-2025.

The issuance plan for each quarter will be published on the last business day of the preceding quarter. Each quarterly *Prospect* will contain information on the estimated total issuance during that quarter. Because of the economic uncertainty prevailing at present, it is not possible to publish estimated maximum issuance figures for individual series during each quarter. It is important that the Treasury have the flexibility to distribute issuance across bond series based on market conditions at the time in question. Attempts will be made to maintain predictability insofar as is possible, but because of the unprecedented conditions currently prevailing, the Treasury needs to have the flexibility to respond to uncertainty and changes in financial market conditions. If these conditions necessitate changes in the arrangements previously announced in the annual *Prospect*, this will be announced at the earliest opportunity in the next quarterly *Prospect*. The quarterly issuance plan for Q1/2021 is published concurrent with the Government Debt Management *Prospect* for the year 2021.

Medium-Term Debt Management Strategy

The Medium-Term Debt Management Strategy is published by the Ministry of Finance and Economic Affairs and covers a horizon of five years. It sets forth the authorities' plans for credit financing during the specified period and is reviewed and published each 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. The strategy is also intended to encourage further development of efficient primary and secondary markets for domestic Government securities.

Nominal Treasury bond issuance

On 5 August 2021, the nominal RIKB 21 0805 Treasury bond matures in the amount of 60.2 b.kr. Bonds in the series were first issued in 2019.

It is possible that bonds will be issued in all nominal series during the year. Market conditions will determine whether the bonds in question will be sold, and if so, how much in each series. However, the scope for issuance in specific series must be examined in view of the aim of keeping the Treasury repayment profile as smooth as possible.

It is planned to issue a new three-year nominal bond during the year, with market making. It is also possible that another nominal bond will be issued, although this will depend on market conditions and other developments during the year.

Indexed Treasury bond issuance

Maturing on 14 April 2021 is indexed bond RIKS 21 0414, which is 68 b.kr. in size, including indexation. Bonds in the series were first issued in 2010.



LÁNAMÁL RÍKISINS

It is possible that bonds will be issued in all indexed Treasury series except RIKS 21 0414, for which buybacks began in Q4/2020. Market conditions will determine whether the bonds in question will be sold, and if so, how much in each series.

Treasury bill issuance

Changes were made to arrangements for Treasury bill issuance in 2018. Issuance is now more flexible than before, so as to respond better to temporary fluctuations in revenues and expenditures within the year. Because of the uncertainty that still persists about the economic impact of the pandemic, it is unclear how much of the Treasury's borrowing need will be short-term and how much will be long-term. As a result, the Treasury will continue to be an active issuer of bills during the year. Flexibility in Treasury bill issuance is important, and it is possible that additional Treasury bill auctions will be added to those already on the Government Debt Management issuance calendar.

Buybacks – switch auctions

It is possible that one or more switch auctions will be held, in which owners of Treasury series RIKS 21 0414 and RIKB 21 0805 will be invited to swap their bonds for other benchmark series. It is also likely that these bonds will be purchased directly in the secondary market.

Treasury deposits with the Central Bank

At the end of November 2020, the Treasury's current account balance with the Central Bank of Iceland was about 130 b.kr. In addition, the Treasury holds the equivalent of 218 b.kr. in foreign currency deposits with the Central Bank. These are substantial balances and are for instance higher than the planned Treasury bond issuance for 2021 and all outstanding Treasury bills, put together.

Interest rate swaps

The Treasury is authorised to enter into swap agreements with domestic financial institutions for up to 50 b.kr. in 2021, in order to better manage the indexation risk and interest rate risk on its loan portfolio. Such swap agreements will be executed if terms and market conditions allow.

Foreign debt

No foreign loans are scheduled to mature in 2021, and it is possible that a portion of the Treasury's borrowing need will be met with new foreign bond issues during the year. Such issues would significantly reduce the Treasury's need for domestic issuance. A decision on the amount of such issues will be taken at a later time.

Timing of funding activities and further information

Treasury bond auctions will be held on predetermined dates, according to the Government Debt Management auction calendar. One or two days each month are reserved for Treasury bond auctions, and one day per month is reserved for Treasury bill auctions. These days are indicated on the Government Debt Management auction calendar and on the website www.lanamal.is. Government Debt Management reserves the right to cancel auctions due to, for example, market



LÁNAMÁL RÍKISINS

conditions. If changes are made to the current annual *Prospect*, they are generally announced in the quarterly Government Debt Management *Prospect*.

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

Primary dealers in Treasury 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.