



# GOVERNMENT DEBT MANAGEMENT

## Market Information

### *Treasury bond auctions*

An auction of five-year nominal Treasury bonds (RIKB 16 1013) was held on 3 February. The terms were conventional, with the lowest accepted price (highest accepted yield) determining the sale price for the auction. In all, 11 valid bids were submitted, with a total nominal value of 3.45 b.kr. It was decided to accept bids totalling 1.8 b.kr. nominal value at a price of 104.2 (4.96% yield). As before, primary dealers were offered the opportunity to purchase 10% of the nominal value sold in the auction at the sale price for accepted offers. They did not exercise that right at this auction. The month's second Government Debt Management auction, scheduled for 17 February 2012, was cancelled because of the Central Bank of Iceland foreign currency auction held on 15 February.

According to information from primary dealers, non-residents did not purchase any Treasury bonds in the February auction. The largest purchasers were mutual funds, which bought bonds for approximately 1.5 b.kr. in the auction. Domestic banks purchased for 300 m.kr.

On 15 February, the Central Bank of Iceland held a foreign currency auction in which it offered to purchase euros versus payment in bonds from the indexed Treasury series RIKS 30 0701. This auction, which is an element in the removal of the capital controls, will reduce the Treasury's annual refinancing need. A total of 17 b.kr. worth of bonds were sold in the auction. Shortly before the auction, a fixed dirty price of 115.675833 kr. per nominal bond unit was announced, based on a settlement date of 17 February 2012. This is equivalent to a yield of 2.5%.

### *Treasury bill auctions*

Treasury bill series RIKV 12 0215, in the total amount of 21.05 b.kr., matured in February.

On 13 February, three- and six-month Treasury bills were auctioned. The auction was structured in the conventional manner, with the lowest accepted price (highest flat yield) determining the sale price. For the three-month bills (RIKV 12 0515), a total of 18 valid bids were submitted for 16.95 b.kr. nominal value, and bids were accepted for 15.95 b.kr. nominal value. The accepted price in the auction was 99.27, which is the equivalent of a flat rate of 2.94%. For the six-month bills (RIKV 12 0815), a total of 12 valid bids were submitted for 2.35 b.kr. nominal value. Bids totalling 1.9 b.kr. nominal value were accepted at a price of 98.506 (flat rate 3.00%).

Non-residents were the most active purchasers of three- and six-month bills in the January auction, buying three-month bills for 14.5 b.kr. and six-month bills for 1.8 b.kr. Mutual funds bought three-month bills for 1.15 b.kr. and six-month bills for 100 m.kr. Others purchased smaller amounts.

### *Balance of Treasury guarantees*

At end-January 2012, the balance of Treasury guarantees was 1,342.6 b.kr. Further information on Treasury guarantees can be found on page 9.

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### **Contributors**

Audur Gustafsdottir  
[audurg@cb.is](mailto:audurg@cb.is)

Bjorgvin Sighvatsson  
[bs@cb.is](mailto:bs@cb.is)

Hafsteinn Hafsteinsson  
[haha@cb.is](mailto:haha@cb.is)

Hallgrímur Ólafsson  
[ho@cb.is](mailto:ho@cb.is)

Kjartan Hauksson  
[kha@cb.is](mailto:kha@cb.is)

Oddgeir Gunnarsson  
[og@cb.is](mailto:og@cb.is)

### **Editor**

Sturla Pálsson  
[sp@cb.is](mailto:sp@cb.is)

### *Treasury bond issuance in Q1/2012*

<i>Bond series</i>	<i>Maximum</i>	<i>Actual</i>
<i>Amounts in b.kr.</i>		
RIKB 14 - new series	15	
RIKB 16 1013	10	2
RIKB 22 1026	15	6
RIKB 31 0124	10	

Information presented in this publication is from the Central Bank of Iceland and from other sources considered reliable. Cut-off date for information was the end of last month unless stated otherwise.



### *Central Bank of Iceland auction calendar*

The Central Bank of Iceland has published an auction calendar for its auctions of foreign currency according to the Investment Programme, on the one hand, and in exchange for Treasury bonds, on the other. The auctions will be held on 28 March 2012, 9 May 2012, and 20 June 2012. On these same days, the Bank also intends to hold auctions in which it offers to purchase Icelandic krónur against cash payment in foreign currency.

The primary aim of the auctions is to sell krónur to parties that are willing to own them for a minimum of five (5) years through purchases of Treasury bonds or investments in Iceland, under the Investment Programme announced on 18 November 2011. The secondary objective is to enable investors to sell their króna holdings in a systematic manner if they so choose. The third objective of these auctions is to facilitate the removal of the capital controls without causing major exchange rate or monetary instability or jeopardising financial stability. The fourth aim is to provide the Treasury with economical, long-term funding, thus reducing its re-financing need while the capital controls are being lifted.

### *The Republic of Iceland's sovereign credit rating*

Two credit rating agencies published their ratings for the Republic of Iceland in February, Fitch Ratings on 17 February and Moody's on 23 February. Fitch upgraded Iceland's long-term rating for foreign-currency obligations from BB+ to BBB- with a stable outlook, thus returning the sovereign to investment-grade ratings. The rating for short-term obligations in foreign currency was raised as well, from B to F3. Moody's, however, kept the sovereign rating unchanged at Baa3 for long-term foreign and domestic obligations, and P-3 for short-term obligations. The outlook on these ratings remains negative.

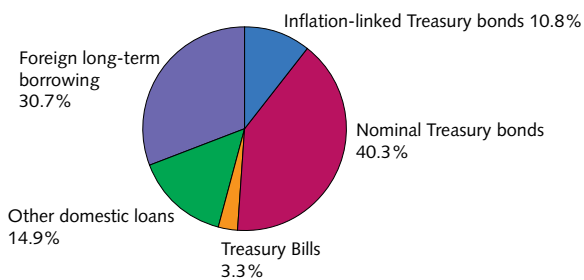


Government debt

Benchmark issues, properties and market value by end of Feb.

Issues	Date of issue	Maturity date	Interest %	Type of bond	Duration	Time of maturity	Market value (ISK m.)
RIKS 15 1001	29.9.1995	1.10.2015	0.00	Bullet	3.59	3.59	26,644
RIKS 21 0414	14.4.2010	14.4.2021	3.80	Annual int.	7.79	9.12	72,664
RIKS 30 0701	1.7.2011	1.7.2030	3.25	Annual int.	13.81	18.34	64,887
<b>Total Inflation-linked T-bonds</b>							<b>164,194</b>
RRIKV 12 0315	15.9.2011	15.3.2012	0.00	Bullet	0.04	0.04	5,237
RIKV 12 0416	16.10.2011	16.4.2012	0.00	Bullet	0.13	0.13	15,988
RIKV 12 0515	15.11.2011	15.5.2012	0.00	Bullet	0.21	0.21	17,857
RIKV 12 0615	15.12.2011	15.6.2012	0.00	Bullet	0.29	0.29	492
RIKV 12 0716	16.1.2012	16.7.2012	0.00	Bullet	0.38	0.38	8,088
RIKV 12 0815	15.2.2012	15.8.2012	0.00	Bullet	0.46	0.46	1,854
<b>Total Treasury bills</b>							<b>49,516</b>
RIKB 12 0824	25.8.2010	24.8.2012	4.25	Annual int.	0.49	0.48	49,402
RIKB 13 0517	17.5.2002	17.5.2013	7.25	Annual int.	1.15	1.21	86,108
RIKB 16 1013	22.10.2010	13.10.2016	6.00	Annual int.	4.10	4.62	53,672
RIKB 19 0226	26.2.2008	26.2.2019	8.75	Annual int.	5.59	6.99	97,153
RIKB 22 1026	26.10.2022	26.10.2022	7.25	Annual int.	7.61	10.66	19,394
RIKB 25 0612	12.6.2009	12.6.2025	8.00	Annual int.	8.31	13.28	91,172
RIKB 31 0124	24.1.2011	24.1.2031	6.50	Annual int.	10.94	18.90	23,890
RIKH 18 1009	2.9.2009	9.10.2018	Fl. rate	Fl. rate	0.08	6.61	193,713
<b>Total Nominal T-bonds</b>							<b>614,505</b>
Maturity of benchmark series					4.39	7.44	
<b>Total value of marketable issues</b>							<b>828,215</b>

Total market value of benchmark issues



Gross Treasury debt, issues and outstanding amount in Feb.

Domestic debt - Nominal Amount - millions ISK						
Issues	Beg. of month	Sala Issues	Redempt./ buybacks	End of month	Market value (ISK m)	Percent, of dom.
RIKS 15 1001	11,976			11,976	26,644	2.5
RIKS 21 0414	60,934			60,934	72,664	6.9
RIKS 30 0701	45,297	17,051		62,348	64,887	6.1
<b>Total Infl.-link. T-bonds</b>				<b>118,207</b>	<b>135,258</b>	<b>15.6</b>
RIKV 12 0215	21,050		21,050	0	0	0.0
RIKV 12 0315	5,247			5,247	5,237	0.5
RIKV 12 0416	16,093			16,093	15,988	1.5
RIKV 12 0515	2,100	15,950		18,050	17,857	1.7
RIKV 12 0615	500			500	492	0.0
RIKV 12 0716	8,250			8,250	8,088	0.8
RIKV 12 0815	0	1,900		1,900	1,854	0.2
<b>Total Treasury bills</b>				<b>53,240</b>	<b>50,040</b>	<b>4.7</b>
RIKB 12 0824	49,303			49,303	49,402	4.7
RIKB 13 0517	83,020			83,020	86,108	8.2
RIKB 16 1013	50,283	1,800		52,083	53,672	5.1
RIKB 19 0226	87,723			87,723	97,153	9.2
RIKB 22 1026	19,348			19,348	19,394	1.8
RIKB 25 0612	87,263			87,263	91,172	8.6
RIKB 31 0124	26,370			26,370	23,890	2.3
RIKH 18 1009**	193,713			193,713	193,713	18.4
<b>Total Nominal T-bonds</b>				<b>597,023</b>	<b>598,823</b>	<b>58.2</b>
Issue of a debt note to the Central Bank					173,129	16.4
Other Treasury debt*					53,944	5.1
<b>Total domestic debt</b>					<b>1,055,288</b>	<b>100.0</b>

Foreign debt - m.kr.			Percent of foreign
PLN	7,817		8,273 1.8
DKK	6,558		6,776 1.4
EUR	287,628		297,330 63.5
GBP	5,497		5,637 1.2
USD	147,756		149,964 32.0

<b>Long term debt, total</b>	<b>448,703</b>	<b>467,980</b>	<b>100.0</b>
EUR	0	0	0.0
USD	0	0	0.0
<b>Short term debt, total</b>		<b>0</b>	<b>0.0</b>
<b>Total Foreign debt</b>		<b>467,980</b>	<b>100.0</b>

<b>Treasury debt, total</b>	<b>1,523,268</b>
Domestic debt, percent of total debt	69.3
Total debt as percentage of GDP	83.6

\*Mostly gov. debt due to the state owned National Power Company, Landvirkjun and assumed gov. Guarantees.

\*\*Capital contribution from the state to Financial Institutions.



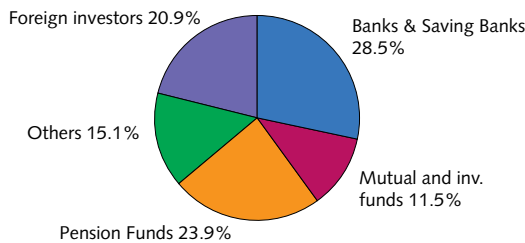
## Investors

### Owners of Treasury bonds and bills February 29, 2012\*

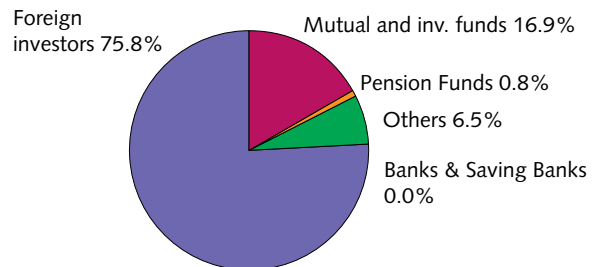
	RIKB							RIKH	RIKS		Total	Total Bills
	12 0824	13 0517	16 1013	19 0226	22 1026	25 0612	31 0124		18 1009	21 0414		
<i>Nominal value in m.kr.</i>												
Domestic investors												
Banks & Saving Banks	2,513	2,169	1,914	11,990	1,958	4,344	1,554	180,513	1,857	5,934	214,746	0
Miscellaneous credit undertakings	401	11	116	0	700	0	0	10,895	1,300	28,390	41,813	0
Mutual and inv. funds	4,812	4,619	8,424	16,896	4,927	9,530	4,799	2,180	29,597	792	86,576	8,460
Pension Funds	390	2,234	2,226	31,141	11,250	63,215	24,813	0	19,635	25,437	180,340	400
Firms	4,725	2,335	1,864	7,598	467	2,601	146	0	2,363	274	22,372	2,948
Households	971	2,212	2,615	4,910	253	1,706	364	0	3,152	271	16,453	52
Others	5,525	7,297	4,142	5,641	62	6,081	71	0	4,084	213	33,115	262
Foreign investors	45,059	66,707	35,025	7,357	231	1,227	345	125	557	1,037	157,669	37,918
<b>Total:</b>	<b>64,396</b>	<b>87,585</b>	<b>56,325</b>	<b>85,533</b>	<b>19,847</b>	<b>88,702</b>	<b>32,090</b>	<b>193,713</b>	<b>62,544</b>	<b>62,348</b>	<b>753,084</b>	<b>50,040</b>

\*Included securities lending from the issuer to the primary dealers.  
Excluded collaterals due to securities lending to the primary dealers.

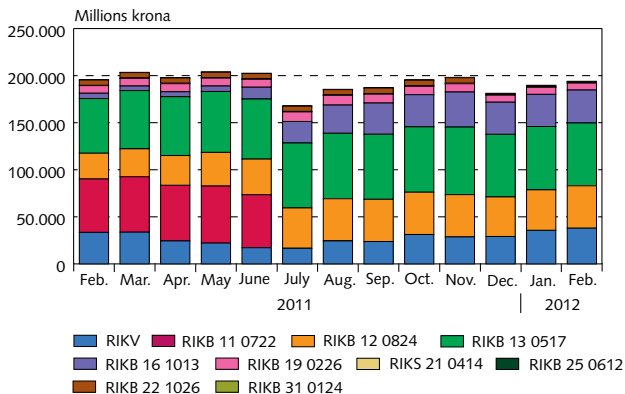
### Owners of Treasury bonds February 29, 2012\*



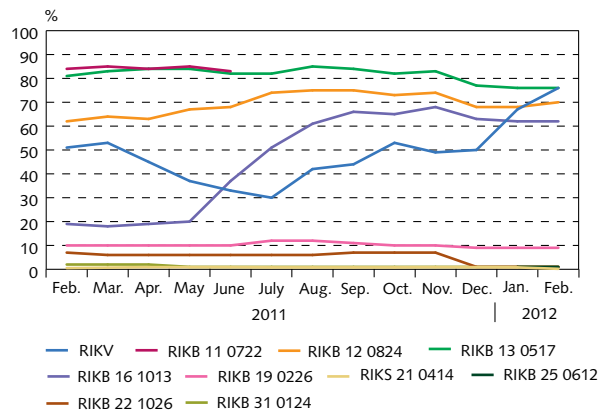
### Owners of T-bills, February 29, 2012\*



### Foreign ownership of Treasury bonds and bills February 29\*



### Percentage of foreign ownership of T- bonds and bills, Feb. 29\*

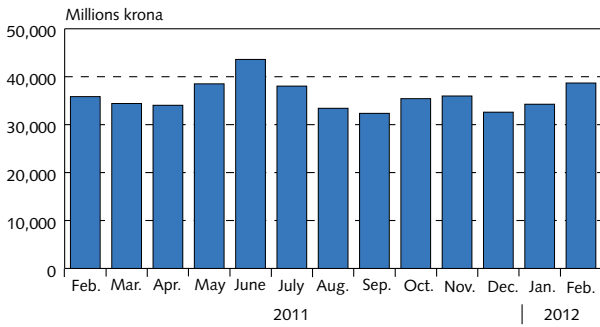


\* Information is based on the most recent data from the Icelandic Securities Depository and banks.

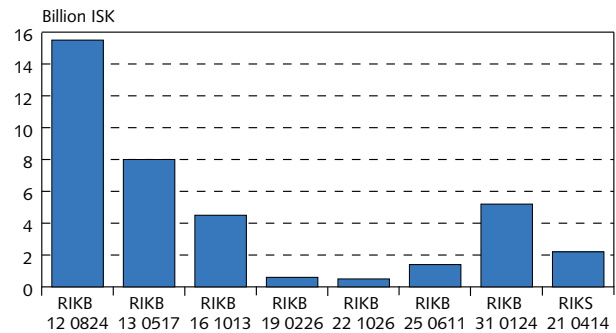


### Securities lending facility, redemption profile and turnover

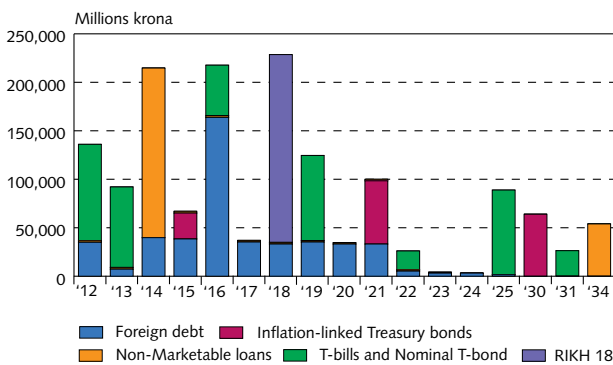
Average amount in the security lending facility of GDM at market value



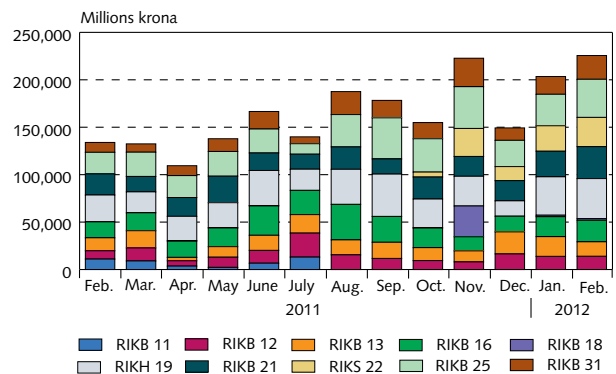
Outstanding amount in the securities lending facility by series at the end of last month



Redemption profile of Government debt

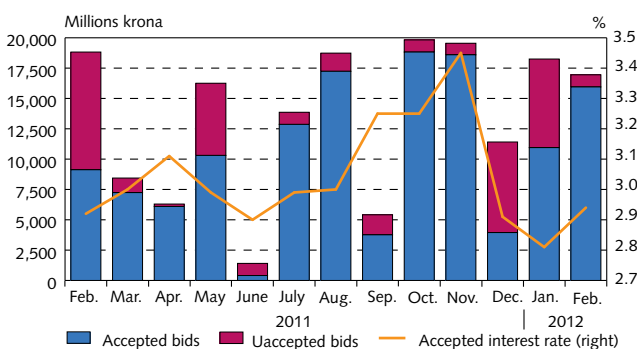


Monthly trading volume in T-Bonds on NASDAQ OMX Iceland Exchange

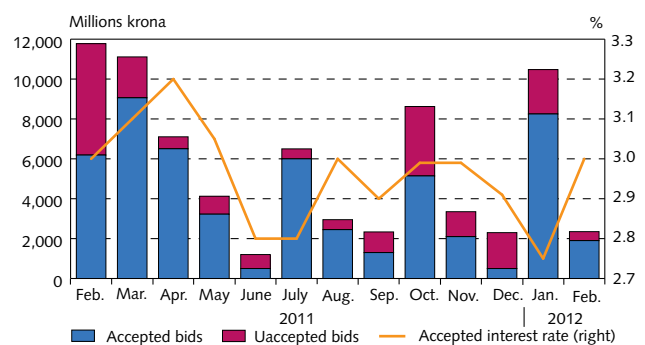


### Auction of Treasury bills

Auction of 3 mos. Treasury bills



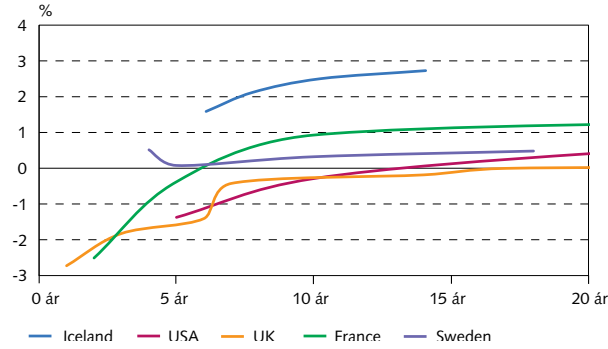
Auction of 6 mos. Treasury bills



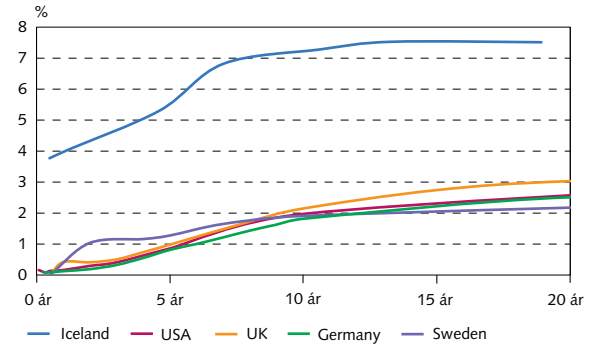


### Yield curves

Yield curve Inflation-linked T-bonds

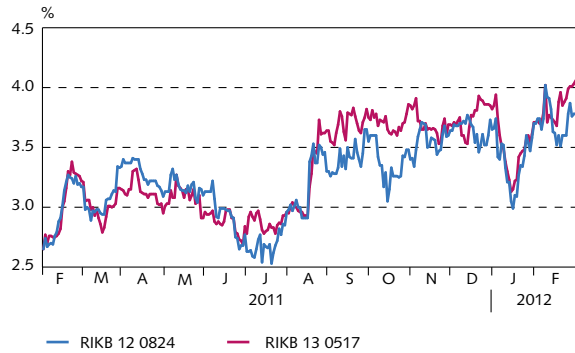


Yield curve T-bills and Nominal T-bonds



### Yield for Treasury bonds

Yield for short term Nominal T-Bonds



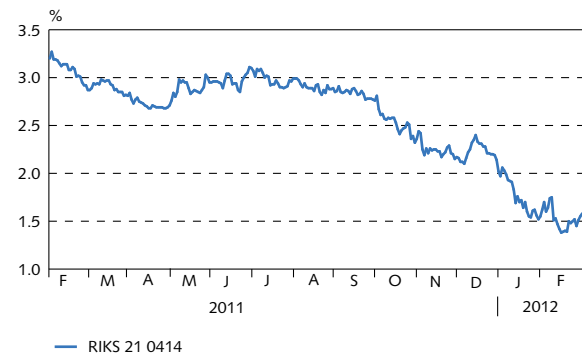
Yield for medium term Nominal T-Bonds



Yield for long term Nominal T-Bonds



Yield for Inflation linked T-Bonds



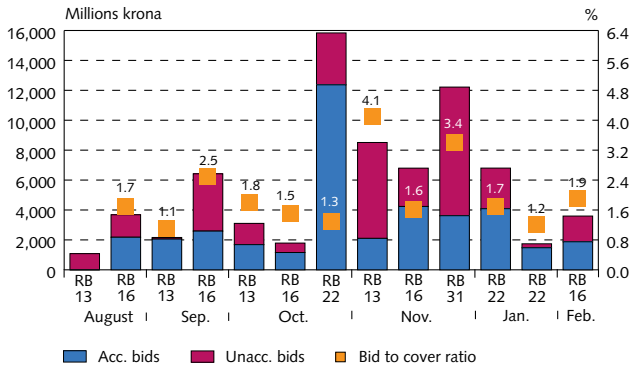
*Auctions of Treasury bonds and bills**Auctions in m.kr. from year beginning 2012*

<i>Date</i>	<i>Series</i>	<i>Offers market value</i>	<i>Offers nominal value</i>	<i>Number of bids</i>	<i>Number of accepted bids</i>	<i>Yield, %</i>	<i>Accepted bids market value</i>	<i>Accepted bids nominal value</i>	<i>Non comp. auction nominal v.</i>	<i>Total issued nominal value</i>	
<i>Nominal Treasury bonds</i>											
06.01.12	RIKB 22 1026	6,801	6,490	37	22	6.61	4,087	3,900	390	4,290	
20.01.12	RIKB 22 1026	1,741	1,650	12	9	6.52	1,477	1,400	0	1,400	
03.02.12	RIKB 16 1013	3,595	3,450	11	3	4.96	1,876	1,800	0	1,800	
<b>Total</b>		<b>12,137</b>	<b>11,590</b>				<b>7,439</b>	<b>7,100</b>	<b>390</b>	<b>7,490</b>	
<i>Indexed T-Bonds</i>											
15.02.12	RIKS 30 0701	19,724	17,051								
						Foreign exch. auction	2.50	19,724	17,051	0	17,051
<b>Total</b>		<b>19,724</b>	<b>17,051</b>				<b>19,724</b>	<b>17,051</b>	<b>0</b>	<b>17,051</b>	
<i>Treasury bills</i>											
12.01.12	RIKV 12 0416	18,121	18,250	19	6	2.81	10,873	10,950			
12.01.12	RIKV 12 0716	10,331	10,475	10	3	2.75	8,137	8,250			
13.02.12	RIKV 12 0515	16,826	16,950	18	13	2.94	15,834	15,950			
13.02.12	RIKV 12 0815	2,315	2,350	12	8	3.00	1,872	1,900			
<b>Total</b>		<b>47,594</b>	<b>48,025</b>				<b>36,715</b>	<b>37,050</b>			



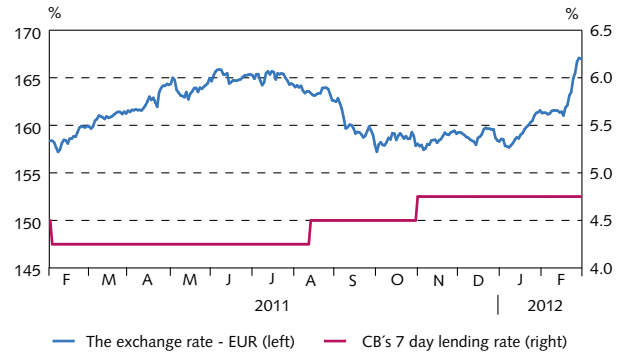
## Auctions of Treasury Bonds

Latest auction results of Treasury bonds at market value

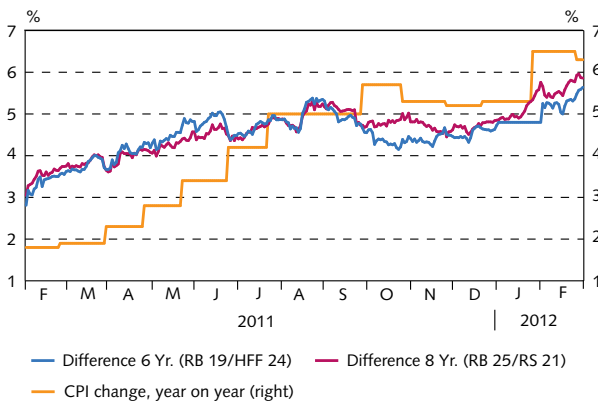


## Exchange rate development

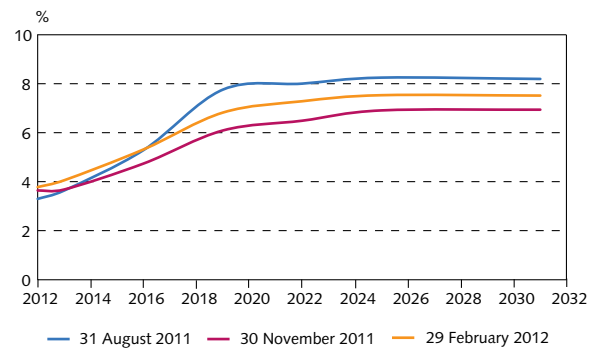
Exchange rate versus 7 day lending rate



## Inflation premium - Nominal T-Bonds



## Nominal Yield Curves



## Next planned auction dates:

March 13 2012 - Auction Treasury bills  
 March 23 2012 - Auction Treasury bonds

## Primary Dealers

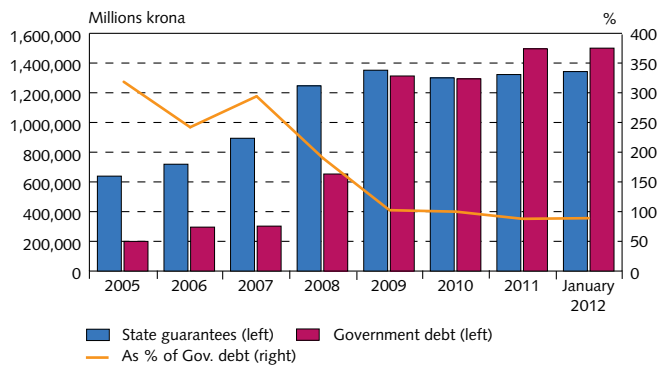
Primary Dealers in Government Securities	Telephone	Bloomberg-page
Islandsbanki	+354 440 4000	ISLA
Arion Bank	+354 444 6000	KAUP
MP Bank	+354 540 3200	MPIB
NBI	+354 410 4000	LAIS
Straumur Investment Bank	+354 585 6600	





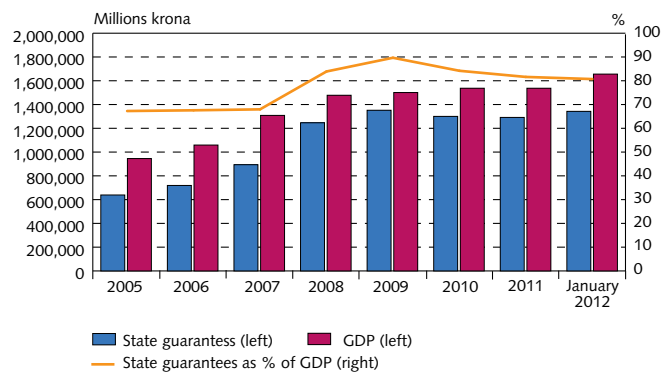
## State Guarantees

State guarantees<sup>1</sup> and government debt 2005–2012



1. Figures for state guarantees in 2011 and 2012 are preliminary.

State guarantees<sup>1</sup> and GDP<sup>2</sup> 2005–2012



1. Figures for state guarantees 2011 and 2012 are preliminary.

2. GDP figures for 2011 and 2012 are preliminary. GDP figures are at current prices.

## State Guarantees 2005 – 2012 in millions ISK

Amounts in million ISK <sup>1</sup>	2005	2006	2007	2008	2009	2010	2011	Q1 2012	Jan. 31 2012 Change 2011-2012	
									Amount	%
Treasury Part-C, Lending agencies <sup>2, 5</sup>	542,059	594,122	667,566	836,144	901,382	927,947	961,148	970,482	39,706	4.3
Housing Financing Fund <sup>2</sup>	531,357	582,654	656,470	814,247	878,552	910,657	943,880	952,988	39,522	4.3
Treasury Part-B, Public enterprises <sup>6, 7</sup>	7,633	3,467								0.0
Treasury Part-E, Co-operative and Limited Partnerships <sup>3, 4, 5, 6, 7</sup>	56,021	90,930	196,736	375,157	404,894	359,668	349,064	359,490	11,766	3.4
National Power Company <sup>4</sup>	53,167	83,312	186,167	360,880	391,364	348,423	338,763	349,220	12,665	3.8
Municipalities and associated enterprises	1,197	911	716	1,155	1,185	0	0	0	0	0.0
Other <sup>3, 5, 10</sup>	32,059	29,698	28,790	34,122	44,394	12,598	12,383	12,648	-387	-3.2
<b>State guarantees, total<sup>8, 9</sup></b>	<b>638,969</b>	<b>719,128</b>	<b>893,808</b>	<b>1,246,579</b>	<b>1,351,855</b>	<b>1,300,214</b>	<b>1,322,595</b>	<b>1,342,620</b>	<b>51,085</b>	<b>4.0</b>

1. Guarantees shown include accrued interest and indexation at the end of each period. Numbers for 2011 are preliminary.

2. Numbers for the Housing Financing Fund are at nominal value and include accrued interest and indexation on securities issued, except for Housing Bonds, which are at market value. Included in the position of HFF-bonds are bond reserved for security lending contracts with Primary Dealers, up to 44.4 b.ISK (26.9 b.ISK nominal value).

3. Iceland Telecom was sold in 2005 resulting in 4 b.kr. decrease in Part-E obligations.

4. The obligations of Reykjavik and Akureyri municipalities before the State acquisition at year end 2006 was valid until end of 2011.

5. In 2005 the Agricultural Investment Fund was moved from Part-C to "Other" and Iceland Telecom from Part-E to the "Other" category resulting in a 19 b.kr. increase.

6. The State Power Works was changed to a Limited Company in August 2006, resulting in a 4.5 b.ISK change from part B category to part E.

7. The National Broadcasting Service was changed to a Limited Company in February 2007, resulting in a 3.5 b.ISK change from part B category to part E.

8. The Statement of the Icelandic Government guaranteeing domestic deposits in Icelandic banks are not included here in government guarantees.

9. Possible guarantees of deposits in branches of Icelandic banks overseas are not included in government guarantees.

10. The Treasury redeemed the contingent liabilities of the Agricultural Lending Fund, Landsbanki hf and Glitnir hf as of the end of 2010, resulting in a 22.53 b.ISK reduction of contingent liabilities listed under the category of "Other".