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Medium-Term Debt Management Strategy 2022-2026

Government of Iceland
Ministry of Finance and Economic Affairs

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postur@fjr.is

www.fjr.is

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Summary

This Medium-Term Debt Management Strategy for the period 2022-2026 is presented on the basis of the fiscal plan, in accordance with Article 38 of the Act on Public Finances, no. 123/2015. The strategy is to be presented annually. The Medium-Term Debt Management Strategy is presented over a horizon of five years and is based on the previous Strategy, issued in December 2020.

The Medium-Term Debt Management Strategy 2022-2026 (MTDS) lays down the Government's plans for financing its activities during this period. The aim is to map out a clear debt management policy. The strategy thereby creates a framework for debt management measures, with the key objective of ensuring that the Government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term that is consistent with a prudent degree of risk. It is also intended to encourage further development of efficient primary and secondary markets for domestic Government securities.

The strategy sets for the objectives and guidelines for Treasury debt management, the current structure of the debt portfolio, and key risks inherent in Treasury debt management.

The Ministry of Finance and Economic Affairs is responsible for the central government's debt management, formulates its debt management strategy, and makes decisions regarding securities issuance. Government Debt Management, a special department within the Central Bank of Iceland, is responsible for executing the Treasury's debt management strategy in accordance with an agreement between the two parties.

Benchmark issues of Treasury bonds are structured so that each series is large enough to ensure effective price formation in the secondary market. It will always be ensured that there is effective price formation with two-, five-, and ten-year benchmark Treasury bonds. To reduce refinancing risk, the Treasury aims to maintain the redemption profile of Government securities as smooth as possible over time. The average time to maturity should be at least five years and no longer than seven years.

The Treasury's foreign borrowing strategy is aimed at securing regular access to international capital markets and appealing to a diversified investor base. Attempts shall be made to maintain benchmarks in market issues at any given time so as to facilitate domestic firms' access to foreign credit if market conditions and the Treasury debt position permits.

1. Debt management objectives and guidelines

1.1 Debt management objectives

The Treasury debt portfolio is managed with an eye to the following key objectives:

1. To ensure that the Treasury's financing need and payment obligations are met at the lowest possible long-term cost that is consistent with a prudent risk policy;
2. To establish a sustainable debt service profile that is consistent with the Government's medium-term debt service capacity and minimises refinancing risk;
3. To maintain and encourage further development of efficient primary and secondary markets for domestic Government securities;
4. To broaden the Government's investor base and diversify funding sources.

1.2 Debt management guidelines

The debt portfolio is structured to minimise overall risk and encourage the development of a well-functioning market that can attract a diverse group of investors and set pricing benchmarks for other financial products.

The Treasury emphasises the issuance of nominal debt, as nominal Treasury bonds form the basis of an effective domestic bond market. Issuance of indexed Treasury bonds is irregular and is determined by the financing need and the circumstances prevailing at any given time. Other things being equal, changes in Government credit funds' financing structure call for increased issuance of indexed securities. There is still considerable uncertainty about developments in Treasury relending to new credit funds. This could affect guidelines on the proportion of indexed debt in the future and perhaps call for a revision of the guidelines. In this context, however, it should be borne in mind that, all else being equal, such relending does not affect the Treasury's indexation balance. New Treasury loans taken in foreign currencies have been used primarily to expand the Central Bank's foreign exchange reserves or to refinance outstanding market issues. Because of a significant borrowing need over the next few years, the Treasury will finance a portion of its operations and investments by borrowing abroad.

The guidelines for the structure of the Treasury loan portfolio are as follows:

Non-indexed debt	50-70%
Indexed debt	20-30%
Foreign debt	15-25%

Benchmark issues will be structured so that each series is large enough to ensure effective price formation in the secondary market. The number and size of the series shall take account of Treasury debt. The objective is for the final size of each issued series to be at least ISK 40bn, although with the exception that when a bond is issued for only two years, the target size shall be at least ISK 15bn. Attempts will be made to expedite the build-up of the series until they reach a size sufficient to ensure effective price formation in the secondary market. There is no maximum size for any of the series, but their final size shall take account of the objectives of keeping the redemption profile consistent with the Treasury's long-term debt service capacity and minimising refinancing risk.

The average time to maturity of total Treasury debt shall be at least five years and no longer than seven years.

The Government's domestic deposits with the Central Bank of Iceland shall average about ISK 40bn.

1.3 Quantifiable targets

Clear, quantitative targets for debt management demonstrate the long-term sustainability of Treasury debt. The targets are based on the fiscal plan for 2022-2026, the outlook for the Treasury outcome, the economic outlook, and the state of the domestic economy. The fiscal plan for 2021-2025 presents projections of total Treasury debt relative to GDP and of total public sector debt according to the debt rule in the Act on Public Finances.

- The ratio of Treasury debt to GDP shall be about 55% by 2026.
- Total public sector debt according to the debt rule shall be 54% by year-end 2026.

These targets are subject to revision of macroeconomic and fiscal assumptions. They will be updated as necessary.

2. Structure of Treasury securities

The Treasury's financing need will be met primarily with domestic borrowing. Other financing options include foreign borrowing and the Treasury's deposits with the Central Bank of Iceland. This section focuses on the structure and set-up for issuance of Government securities in the domestic and foreign markets.

2.1 Treasury bond issuance

Benchmark series will be structured so that each series is large enough to ensure effective price formation in the secondary market. The number and size of the series will be determined based on overall debt, financing need, and refinancing risk at any given time.

Effective price formation will be ensured for two-, five-, and ten-year benchmark series each year, but each year's issuance will be determined by the borrowing need at the time and the size of the bond series in question. Other nominal bonds or Government-guaranteed bonds will be issued irregularly, depending on the Treasury's financing needs and the conditions prevailing at the time.

Monthly issuance of Treasury bills will vary, depending on investor demand and the Treasury's financing need at any given time. Treasury bills are used in part for Treasury liquidity management and may be issued for up to 12 months.

2.2 Foreign bond issuance

New Treasury loans taken in foreign currencies have been used primarily to expand the Central Bank's foreign exchange reserves or to refinance outstanding market issues. The Treasury has the possibility, however, of tapping its foreign-denominated deposits with the Central Bank and issuing foreign bonds to finance its operations. The structure of Treasury debt provides the flexibility to borrow funds in foreign currencies and requires that foreign debt constitute 15-25% of total debt. The need for foreign borrowing is assessed in each instance, and in determining that need, it is important to consider exchange rate risk, although it is no less important to consider the Treasury's role in ensuring that Iceland has access to foreign capital markets.

The strategy for foreign debt financing aims, among other things, at maintaining regular access to international credit markets and facilitating access to a diverse investor group. To this end, the aim is to issue Treasury bonds in foreign markets on a regular basis. Government issuance in foreign markets facilitates domestic firms' access to foreign credit and provides an important benchmark for borrowing terms. The aim is to maintain at least once such foreign benchmark issue if market conditions and the Treasury debt position permit. Regular issuance of marketable bonds in the international capital markets is also intended to enhance name recognition of the Republic of Iceland as an issuer.

2.3 Green/Sustainable financing

Clearly defined green and sustainable projects in Iceland could be financed through issuance of so-called green (sustainable) Treasury bonds. Such issues would be designed to send a clear message to investors about the importance of climate issues and how the financial market can be used to address them. In most respects, green bond issues are like other bond issues, but the proceeds are used to finance environment friendly projects. Financing that supports sustainability objectives has grown rapidly all over the world in the past decade. There has been a widespread awakening among investors and the general public to climate, environmental, and social challenges. This has been reflected in rapidly growing interest in sustainable financing and investments. In September, the Ministry of Finance and Economic Affairs issued a sustainable financing framework for the Treasury. Such a framework enables the Treasury to issue green bonds or other sustainable bonds, either in Iceland or abroad. The framework was certified by Cicero – shades of green, and the Government received a dark-green score for the green and blue projects to be financed. Bonds issued under this sustainable financing framework provide funding for certain defined Treasury expenditures, which fall into three categories:

1. Green projects (climate and environmental issues), such as infrastructure for bicycles and electric bicycles, the energy transition of vehicles and infrastructure, green buildings, natural disaster preventions, adaptation to the circular economy, wetland reclamation, etc.

2. Blue projects (climate and environmental issues relating to the ocean, seafood, and related sectors), such as electrification of harbours, energy transition for ships and ferries, a sewage treatment initiative, etc.

3. Social projects, such as social housing, patient care, job creation including COVID-related expenditures in support of society and the economy, etc.

3. Treasury debt

This section describes the structure of total Treasury debt. It also reviews the average time to maturity and the redemption profile, as well as providing information on the Treasury's investor base.

3.1 Treasury debt

Figure 3 shows developments in the Treasury's debt and debt ratio, net of pension liabilities, as a share of GDP from 2012-2020; developments as of November 2021; and the fiscal budget proposal for 2022. Developments in debt in 2023-2026 as depicted in the chart are taken from the 2022-2026 fiscal plan, which was issued in spring 2021. The Treasury's estimated end-2022 debt position has been reduced by just over ISK 200bn from the issuance of the fiscal plan, and all else being equal, this will have commensurate base effects over the years thereafter in the 2023-2027 fiscal plan, to be issued in spring 2022.

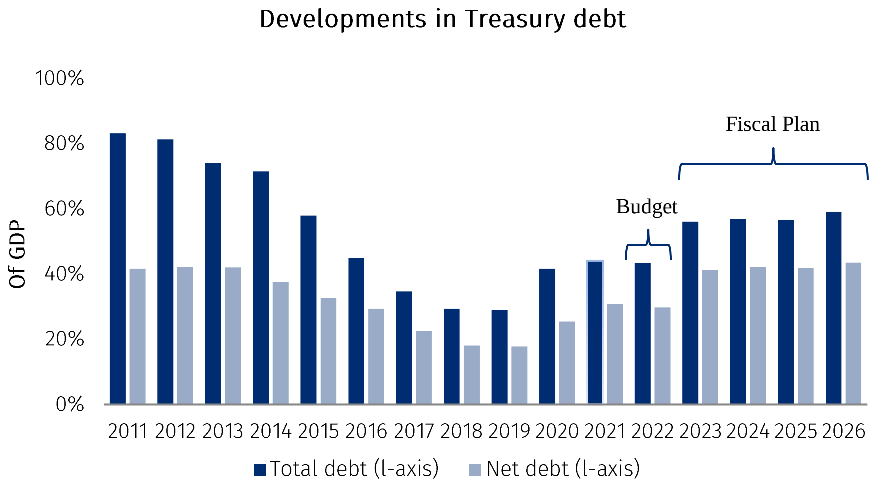

Figure 1

Gross Treasury debt totalled ISK 1,441bn at the end of November 2021. This is equivalent to just under 45% of GDP. Table 1 gives a breakdown of Treasury debt at the end of November 2021.[1]

[1] Market Information, December 2021. (http://www.lanamal.is/en/news/market-information)

Treasury debt

		Amounts in ISK m
Domestic liabilities		
Marketable bonds		
Treasury bills		95,840
Treasury bonds, index-linked		261,730
Treasury bonds, nominal		531,521
Non-marketable debt		
Other liabilities		209,688
	Domestic liabilities, total	**1,098,778**
Foreign liabilities		
Bond issues		
EMTN issues		342,657
	Foreign liabilities, total	**342,657**
Total liabilities		**1,441,434**

Table 1

3.1.1 Domestic liabilities

Marketable securities include Treasury bills and nominal and index-linked Treasury bonds. At the end of November 2021, the stock of outstanding marketable securities totalled ISK 889bn.

Non-marketable Treasury debt includes the Treasury's loan from HF fund, an index-linked bond issued in connection with the Treasury's acquisition of the City of Reykjavík and the City of Akureyri's holdings in Landsvirkjun, and assumed Government-guaranteed loans. Other non-marketable debt totalled ISK 210bn.

3.1.1.1 Investors in domestic Treasury securities

The Treasury issues Government securities with various maturities. The objective is to appeal to a broad base of investors and minimise financing costs. Figures 2 and 3 give a breakdown of the holders of domestic Treasury bonds and bills as of end of November 2021.[2]

[2] The breakdown of Treasury bond owners includes securities loans.

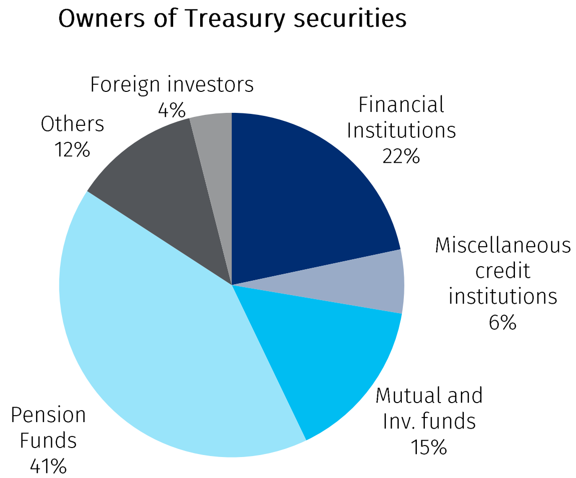

Figure 2

Pension funds' holdings accounted for 41% of the market value of outstanding Treasury bonds at the end of November 2021, mostly bonds with long maturities. Financial institutions held 22% of outstanding Treasury bonds in market value terms, mostly nominal bonds with short maturities. Mutual funds and investment funds owned about 15% of domestic Government securities. Foreign investors' holdings amounted to 4%, mostly in RIKB 28 and RIKB 31. Miscellaneous credit institutions owned about 6% of domestic Treasury bonds, and other investors held an additional 12%.

Banks, savings banks, and other credit institutions owned about 77% of outstanding Treasury bills at the end of November 2021, and mutual funds and investment funds owned about 21%.

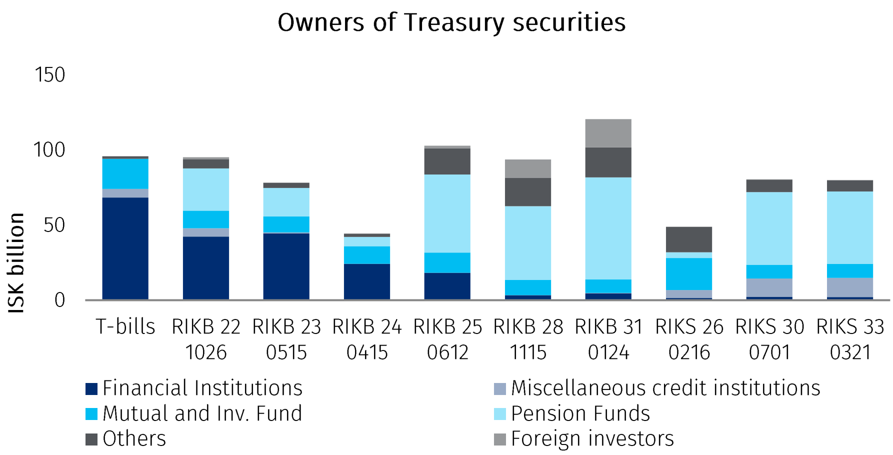

Figure 3

3.1.2 Foreign liabilities

The Treasury's foreign loans comprise five market issues, including four in euros and the remaining balance on one US dollar bond.

The Treasury issued a ten-year USD 1bn bond in 2012. By the end of November 2021, the outstanding balance of the bond was USD 92m in nominal terms. In December 2017, the Treasury issued bond in the amount of EUR 500m, maturing in 2022. In June 2019, the Treasury issued another EUR 500m bond, which matures in 2024. Alongside that issue, the Treasury bought back its own issue from 2014. The outstanding balance of that bond, EUR 292m nominal value, was scheduled to mature in July 2020. After the coronavirus pandemic struck, the Treasury issued two Eurobonds in order to finance pandemic response measures. The former, a six-year bond issued in June 2020, was in the nominal amount of EUR 500m. The latter, for EUR 750m, was issued in late January 2021 and matures in 2028. As of year-end 2021, a total of EUR 2.25bn and USD 92m are outstanding.

3.1.3 Structure of Treasury debt

Figure 4 shows marketable and non-marketable Treasury debt as of end-November 2021, including foreign loans. The debt classifies as follows: nominal Treasury bonds, 36.9%; indexed Treasury bonds, 18.2%; Treasury bills, 6.6%; foreign debt, 23.8%; and other non-marketable debt, 14.5%.

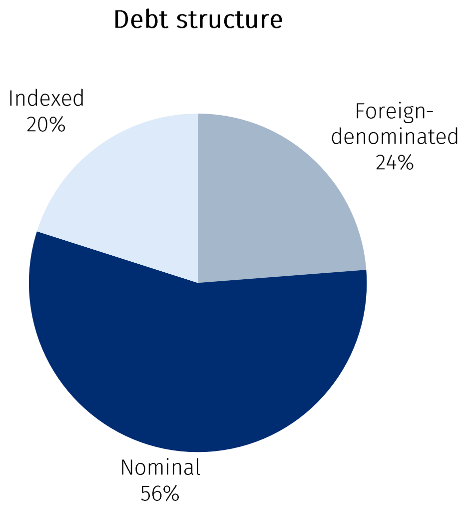

Figure 4

3.1.4 Average time to maturity

The aim is to keep the weighted average time to maturity of Treasury bonds between five and seven years. The average time to maturity is managed through issuance of Treasury securities with various maturities. At the end of November 2021, the average time to maturity was 4.3 years. It is clear that the targeted average time to maturity will not be reached for 2021, owing to the impact of the COVID-19 pandemic, as some emphasis was initially placed on short-term financing because of the uncertainty accompanying the pandemic. Efforts have been made to push financing further out the horizon as the opportunity arises. In addition, the short-term loan from HF fund will be converted to long-term debt. As a result of this, it is not considered appropriate to change the guidelines, as the average time to maturity will foreseeably be within the defined range by the end of 2022.

3.1.5 Redemption profile

One of the objectives of Treasury debt management is to ensure that the redemption profile of Treasury debt is as even as possible. Figure 5 shows the redemption profile of domestic and foreign Treasury debt, based on the balance at the end of November 2021.

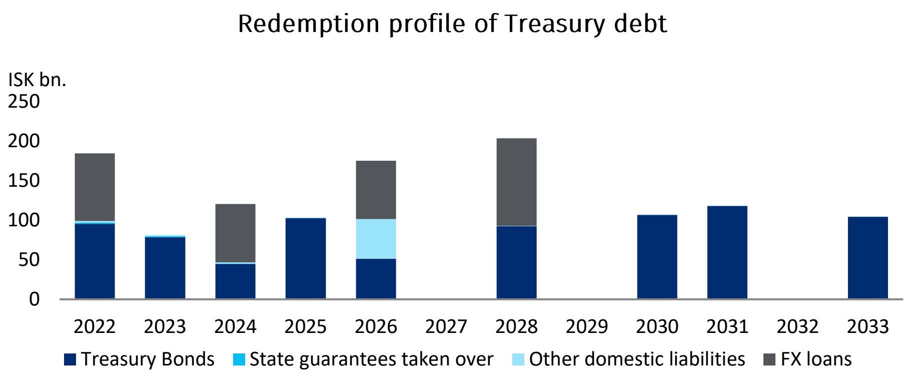

Figure 5

4. Treasury deposits

As is discussed in Section 2, the Treasury's financing need will be met through borrowing in the domestic and foreign markets and a reduction in the Treasury's deposits with the Central Bank of Iceland. This section focuses on Treasury deposits.

4.1 Domestic deposits

On average, Treasury deposits were lower in 2021 than in 2022, as uncertainty about the pandemic has receded and the need for significant liquid assets has declined. At the end of November 2021, the balance on the Treasury's krona-denominated accounts was ISK 73bn. Figure 6 shows developments in domestic deposits with the Central Bank.

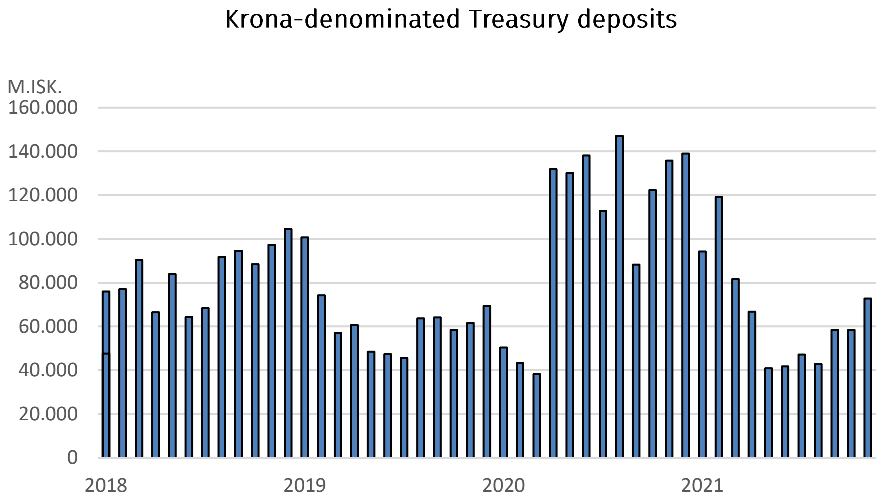

Figure 6

4.2 Treasury liquidity management and the HF fund

For efficiency reasons, liquidity management for both the Treasury and the Housing and Construction Authority was merged in spring 2020. When the impact of COVID-19 on the Treasury's outcome and financial need was coming to the fore, it was decided to meet a part of the financial need for 2020 and 2021 by borrowing from the Fund. In order to streamline the operations of the Treasury and the HF fund as a whole, the choice was made to loan a portion of HF fund's liquid assets to the Treasury, on the condition that the Fund remain able to fulfil its obligations in the future. At the end of 2021, the Treasury borrowed ISK 190bn from the Fund. No further borrowings from the Fund are planned.

4.3 Foreign-denominated Treasury deposits

The Treasury's foreign-denominated deposits, which constitute a part of Iceland's international reserves, amounted to the equivalent of ISK 310bn at the end of November 2021. At the beginning of the year, the Treasury issued a Eurobond in the amount of EUR 750m and bolstered its foreign deposits by the same amount. In addition, the appreciation of the Krona during the year caused the foreign deposit balance to decline by about 5% in krona terms.

5. Risk management

The debt portfolio has certain inherent risks related to market volatility, such as changes in the interest rate, foreign exchange rate and inflation. There is also risk associated with refinancing of existing debt. This section discusses the management of these risks, as well as contingent liabilities in the form of Government guarantees.

5.1 Market risk

Financial market volatility, whether due to fluctuations in interest rates, exchange rate movements, or changes in inflation, results in fluctuations in the market value of the debt portfolio. These risks, generally referred to collectively as *market risk*, are discussed in greater detail in the following sections.

Effective risk management aims to reduce risk while simultaneously minimising the interest expense of the portfolio. It is possible to achieve these objectives through effective Treasury debt management and systematic use of derivatives.

5.1.1 Interest rate risk

Interest rate risk is the risk that the Treasury's financing costs will rise due to changes in interest rate terms. Interest rate risk also depends on the structure of Treasury debt. If interest rates on long-term loans are fixed, there is the risk that the Treasury will relinquish savings in the event that market interest rates should fall. Conversely, if the loans bear variable interest, there is the risk that rates will rise, thereby increasing the Treasury's interest expense.

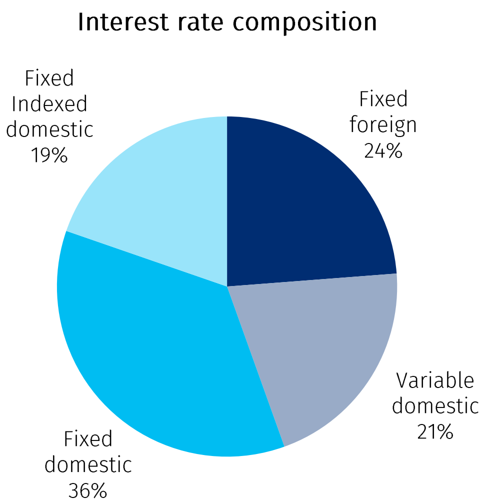

Figure 7

Figure 7 shows the composition of interest rates in terms of outstanding loan balance as of end-November 2021, adjusted for swap agreements. About 79% of domestic and foreign Treasury debt bears fixed interest, and the associated payment flows are therefore known throughout the duration of the debt, apart from the effects of indexation on payments on indexed-linked loans. Approximately 21% of the total debt portfolio bears variable rates, and payment flows will change in line with changes in the base interest rate on the loans concerned; otherwise, the debts are short-term. This category includes Treasury bills and the Treasury's loan from HF fund. Interest rate and inflation swap agreements have been used in order to manage the Treasury's interest rate risk, as is discussed in Section 5.1.2.1.

5.1.2 Inflation risk

Inflation risk is the risk that indexation on index-linked Treasury bonds will raise the Treasury's financing costs as a result of increased inflation. At the end of November 2021, the Treasury's indexed debt, adjusted for inflation swaps, totalled ISK 284bn, or about 20% of Treasury debt.

The Treasury owns indexed assets that offset indexed liabilities, thereby reducing inflation risk. These assets include relending to the Housing Fund and the Icelandic Student Loan Fund. In spite of these assets, the Treasury's indexation balance is still negative. Efforts to reduce the imbalance will continue over the next few years.

Inflation swaps have been used to manage the Treasury's inflation risk and reduce the weight of indexed interest, as is discussed in Section 5.1.2.1.

5.1.2.1 Swap agreements

The aim of Treasury debt management is to minimise long-term interest expense while observing a prudent risk policy. One way to manage the Treasury's interest rate risk and inflation risk is to use swap agreements.

With interest rate swaps, the Treasury receives fixed non-indexed interest throughout the term of the swap agreement, while paying variable non-indexed interest. Increasing the share of Treasury obligations that pay variable interest reduces the average duration of the debt portfolio without affecting the average time to maturity and the refinancing risk. With interest rate swaps, it is possible to affect the ratio of variable to fixed interest rates and steer the duration of the portfolio. The Treasury's interest expense can decline as well, but the general rule is that such agreements enable sovereigns to lower interest expense without increasing their refinancing risk. Decisions on swap interest rate swaps are taken based on market conditions at the time in question.

Inflation swaps are an element in Treasury risk management. They provide protection against increased indexation on the Treasury's indexed liabilities, on the one hand, and against an increase in the proportion of variable interest on Treasury debt, on the other. The swaps are structured so that the Treasury offers to pay variable interest, while the commercial banks pay fixed index-linked interest that they offer throughout the term of the swap agreement.

Because the banking system's indexation balance is positive and the Treasury's is negative, such swap agreements benefit both parties.

5.1.3 Exchange rate risk

Exchange rate risk is the risk that the Treasury's debt position will deteriorate due to changes in the exchange rate of the Icelandic Krona versus other currencies. The Treasury's direct exchange rate risk is limited because the foreign currency assets it owns offset the majority of its foreign debt. The Treasury's foreign-denominated assets are a part of the Central Bank's foreign reserves.

5.2 Refinancing risk

One of the greatest risks in the debt portfolio is the refinancing of the debt. To reduce refinancing risk, efforts are made to keep the redemption profile of Government securities as smooth as possible over the long term.

The largest maturities of Treasury debt in coming years, involving the main refinancing risks for the portfolio, are in 2022, 2026, and 2028. Efforts will be made to reduce refinancing risk through buybacks and switch auctions prior to maturity.

5.3 Counterparty risk

The Treasury's counterparty risk is created primarily in connection with lending, either loans granted directly from the Treasury or loans granted by credit funds that are financed with loans from the Treasury. The main credit funds falling into this category are the Housing Fund, the Icelandic Student Loan Fund, and the Icelandic Regional Development Institute, all of which are subject to special legislation. In the case of credit funds, credit risk and the management of that risk lie with the fund itself. It is assumed that the funds' interest rate spreads reflect their risk and that they have equity to withstand potential losses. It is important that the funds manage this risk, even though credit risk ultimately lies with the Treasury; i.e., the Treasury is responsible for ensuring that the funds' equity is consistent with targets. If the funds suffer a shock, the Treasury must contribute capital to them.

5.4 State guarantees

State guarantees represent the Treasury's greatest contingent liabilities. State guarantees are governed by Act no. 121/1997. The Treasury may not grant State guarantees without statutory authorisation from Parliament.

State guarantees and related matters are administered by the State Guarantee Fund, which compiles information on the position of the undertakings benefiting from guarantees and assesses the risk attached to the guarantees. The Central Bank oversees State guarantees according to an agreement with the Ministry of Finance and Economic Affairs. The State Guarantee Fund notifies the Ministry of Finance and Economic Affairs if a guarantee is likely to fall on the Treasury. Table 2 shows the status of State guarantees at the end of October 2021.

State guarantees

	Amounts in ISK millions	Percentage
HF fund	721,931	84%
Landsvirkjun	40,888	5%
Other institutions/companies	97,062	11%
Total	**859,881**	**100%**

Table 2

The classification of Government credit funds and companies has changed, causing most of these entities to shift to Treasury Part A and thereby affecting the presentation of Treasury guarantees issued. With the new presentation, these Government entities' debt are part of Treasury debt and are not presented as Treasury guarantees. This change is set to take effect in 2022.

6. Institutional structure

In each year's National Budget, Parliament authorises the Ministry of Finance and Economic Affairs to borrow funds and issue State guarantees. The Act on Government Debt Management stipulates that the Ministry is responsible for and implements debt management and State guarantees. The Ministry has also concluded an agreement with the Central Bank of Iceland, providing for specified advisory services and execution in connection with Treasury debt management. The agreement contains explicit provisions on division of tasks and responsibilities so as to ensure that debt management decisions are taken independent of the Central Bank's monetary policy.

6.1 Ministry of Finance and Economic Affairs

The Ministry of Finance and Economic Affairs oversees Treasury debt management. It takes decisions on issuance volume, planned bond auctions, and liquidity management. It also determines yields and amounts of accepted bids in Treasury auctions. Moreover, the Ministry determines the structure, maturity, and characteristics of new issues, as well as deciding on buybacks and/or swap agreements.

6.2 Central Bank of Iceland

The Ministry of Finance and Economic Affairs and the Central Bank of Iceland have concluded an agreement providing for specified advisory services and execution in connection with Treasury debt management. The purpose of the agreement is to promote more economical, efficient, and effective debt management based on the Ministry's debt management strategy.

A special department within the Central Bank of Iceland, Government Debt Management, is mandated by the Ministry of Finance and Economic Affairs to handle Treasury debt managements in accordance with guidelines adopted by the Ministry. Government Debt Management is responsible for ensuring that borrowing and debt management are in compliance with the strategy set out by the Ministry.

Government Debt Management also administers State guarantees and assesses the Treasury's risk due to such guarantees. It provides the Ministry with opinions on State guarantees and grants them if authorised by Parliament.

On behalf of the Ministry of Finance and Economic Affairs, Government Debt Management handles the regular disclosure of information on the Treasury's domestic and foreign liabilities to market agents, and publishes information on auction dates and planned issuance volume for the year, based on the Treasury's estimated financing need. It also issues press releases on debt management on behalf of the Ministry of Finance and Economic Affairs.

6.3 Consultative Committee on Debt Management

The Ministry of Finance and Economic Affairs appoints a Consultative Committee on Debt Management whose members represent the Ministry and the Central Bank.

The Consultative Committee serves as a forum for the exchange of views on the situation and outlook for capital markets, and on the Treasury's domestic and foreign borrowing and borrowing plans. It is intended to encourage improvements in the domestic credit market as it deems appropriate.

The Committee makes proposals to the Ministry of Finance and Economic Affairs on the structure of individual bond series and their maturity and volume, as well as arrangements for market making and auctions. It also proposes risk management guidelines for the Treasury's domestic and foreign debt portfolios. The Committee discusses and adopts proposals for the Treasury's issuance schedule in domestic and foreign markets. The schedule specifies the issuance volume, issuance dates, and planned borrowing actions for the year. It must be approved by the Ministry of Finance and Economic Affairs and is then announced to market agents. The Committee meets on a regular basis, or as often as is deemed necessary.

7. Disclosure of information to market participants

The Ministry of Finance and Economic Affairs and Government Debt Management attempt to maintain effective communication with market participants through regular publications and meetings with primary dealers and investors. All news releases are published on the Nasdaq Iceland Exchange and Bloomberg and are distributed to the media and market agents. The Treasury uses the data vendor GlobeNewsWire to broadcast press releases to foreign media and market participants.

Publications on debt management issued by the Ministry of Finance and Economic Affairs and Government Debt Management include the following:

- Medium-Term Debt Management Strategy
- Annual Government Debt Management *Prospect*
- Quarterly Government Debt Management *Prospect*
- Auction announcements
- Planned auction dates
- *Market Information*

7.1 Medium-Term Debt Management Strategy

The Ministry of Finance and Economic Affairs prepares the Medium-Term Debt Management Strategy (MTDS), which is revised and published annually. It includes the following topics:

- Debt management objectives
- Debt management guidelines
- Issuance policy
- Structure of Treasury debt
- Risk management
- Contingent liabilities

7.2 Annual Government Debt Management Prospect

The Annual Government Debt Management *Prospect* is designed to provide market participants with general information on Treasury issuance for the upcoming year. It is published following Parliamentary approval of the National Budget and includes the following information:

- Total issuance volume for the coming year
- Issuance policy for the year
- Buybacks
- Switch auctions

7.3 Quarterly Government Debt Management Prospect

At the end of each quarter, Government Debt Management issues a calendar for the upcoming quarter. The Quarterly Prospect includes the following information:

- Planned Treasury bond issuance for the quarter
- Planned Treasury bill issuance
- Summary of issuance in the previous quarter
- Actions to be taken in the upcoming quarter

7.4 Auction announcements

Press releases on individual auctions are published on the NASDAQ Iceland Exchange at least one business day in advance. The press release states which series are to be auctioned each time. The results are published after each auction, on that same day.

7.5 Planned auction dates

The planned dates for Treasury bill and Treasury bond auctions are published on the Government Debt Management website each December. The information is also distributed directly to market participants.

7.6 Market Information

Government Debt Management publishes a monthly newsletter entitled *Market Information*. The newsletter contains important information on Treasury debt and State guarantees. Market Information is distributed to the media and to market participants and is published on the Government Debt Management website. It includes the following information:

- Highlights from the previous month
- Results of Treasury auctions
- Treasury debt statistics
- Position of Treasury benchmark securities
- Structure of Treasury debt
- Redemption profile for Treasury debt
- Owners of Treasury securities
- Securities loans
- State guarantees

7.7 Government Debt Management website

Government Debt Management maintains a website, www.lanamal.is, which includes information on Treasury debt management, market prices, yields, and historical statistics on Treasury securities, as well as issue prospectuses. The following information can also be found there:

- Medium-Term Debt Management Strategy
- Annual Government Debt Management *Prospect*
- Quarterly Government Debt Management *Prospect*
- Auction announcements
- *Market Information*
- Press releases
- Iceland's sovereign credit rating

Information on Government debt can also be found on the Ministry of Finance and Economic Affairs website: www.fjr.is.

7.8 Primary dealers in Treasury securities

Government Debt Management monitors primary dealers on a daily basis to ensure that they fulfil their market-making obligations in the secondary market. Meetings are held with them at least quarterly, and more often if necessary.

7.9 Investors

Representatives from Government Debt Management and the Ministry of Finance and Economic Affairs meet regularly with investors to acquaint them with points of emphasis in Treasury debt management.