

Translation

13 November 2006

The Danish Ministry of Finance

Danmarks Nationalbank

Agreement on the division of work in the area of government debt between Danmarks Nationalbank and the Ministry of Finance

The allocation of tasks and responsibility between Danmarks Nationalbank and the Ministry of Finance for the management of the central-government debt is set out below. Moreover, a description is included of the overall body of rules regarding transactions in connection with government borrowing. The division of work has been in force since 1 July 1991 at which time a number of tasks were transferred from the Ministry of Finance to Danmarks Nationalbank.

The Minister of Finance has the overall and political responsibility for central-government borrowing and debt, including relations with the Folketing (Parliament). The management of the central-government debt, as well as related tasks, are conducted by Government Debt Management on behalf of the Ministry of Finance.

The overall objective of the government debt policy is to cover the central-government financing requirement at the lowest possible long-term borrowing costs, while taking into account the degree of risk. Furthermore, the aim is to support a well-functioning domestic financial market and facilitate the central government's access to the financial markets in the longer term.

1. Borrowing and debt administration

Legislative basis

The legislative basis for government borrowing is set out in the Act on the authority to raise loans on behalf of the central government (Act no. 1079 of 1993). The act authorises the Minister for Finance to raise loans on behalf of the central government within a maximum amount of DKK 950 billion. This maximum amount includes the outstanding debt at any time on domestic government loans and government loans raised abroad. The act also author-

ises the Minister for Finance to enter into swaps and other financial transactions.

Norm for central-government borrowing

The scope of central-government borrowing is determined by the norm for central-government borrowing set out in an agreement concluded between the government and Danmarks Nationalbank.

The norm has two parts: one norm for domestic borrowing and one norm for foreign borrowing.

The norm for domestic borrowing prescribes that domestic borrowing in Danish kroner for the year as a whole shall be equivalent to the central government's overall financing requirement (the gross financing requirement) less repayments on the foreign debt. In the planning of domestic borrowing it is possible to take into account, within the same year, the situation on the loan markets and the balance of the central government's account with Danmarks Nationalbank. At no time may the central government's account with Danmarks Nationalbank be overdrawn, cf. Article 104 of the Maastricht Treaty which prohibits monetary financing.

In addition, it is possible to raise domestic loans in kroner if the foreign government debt is reduced equivalently.

The norm for foreign borrowing prescribes that the central government's repayments on the government debt in foreign currency (the foreign government debt), including early redemptions and buy-backs, shall normally be refinanced by foreign borrowing.

The central government's foreign borrowing is justified by the consideration of maintaining an adequate foreign-exchange reserve. Thus situations may arise in which the foreign borrowing norm is deviated from. In situations where the foreign-exchange reserve decreases by more than is appropriate, it may be necessary for the central government – out of concern for the exchange-rate policy – to raise extraordinary loans abroad in order to strengthen the foreign-exchange reserve. On the other hand, it is possible, in situations where the foreign-exchange reserve increases by more than is considered necessary in relation to the foreign-exchange policy, to reduce the foreign norm (nominal debt), provided that the central government's account with Danmarks Nationalbank is assessed as being sufficiently large.

Implementation of the central-government debt policy

The overall strategy for the central government's borrowing is determined, within the framework of the norm, at quarterly meetings between the Ministry of Finance and Danmarks Nationalbank. The strategy for borrowing, as well as the management of the central-government debt, is determined on the basis of a proposal prepared by Danmarks Nationalbank.

At the meetings, written guidelines are prepared for the central-government debt policy, including the framework for the scope of borrowing for the coming period. The guidelines are subject to approval by the Ministry of Finance. Major deviations from the agreed guidelines are subject to the written approval of the parties.

The strategy for borrowing specifies the types of government securities considered to be on-the-run issues, as well as the anticipated amount of borrowing. Furthermore, the borrowing strategy specifies the central-government debt's exposure in domestic and foreign currency. The management of the interest rate risk in the central-government debt policy is based on a duration target. The strategy for the central-government debt policy also includes utilisation of buy-backs of outstanding loans, swaps and other financial instruments, and the handling of other relevant risks, including credit risks pertaining to swaps, etc.

The borrowing strategy takes into account the overall financing requirement of the central government, including repayments due, in the year in question, as well as the distribution of the financing requirement over the year. The overall financing requirement for the year as a whole is, as a starting point, determined in the latest Budget Review of the Ministry of Finance. The liquidity effect relative to the central government's account with Danmarks Nationalbank determines the final financing requirement. Based on the overall financing requirement for the year, Danmarks Nationalbank prepares an estimate of the distribution of the central government's incoming and outgoing payments, and thus its financing requirement, over the months of the year (the monthly distribution).

Pursuant to the strategy adopted at the quarterly meetings and approved by the Ministry of Finance, Danmarks Nationalbank is thus responsible for the ongoing borrowing and management of the debt portfolio.

Pursuant to the allocation of responsibility as regards borrowing, Danmarks Nationalbank also performs the following functions for the Ministry of Finance:

- Loan prospectuses are prepared by Danmarks Nationalbank, with the Ministry of Finance as the formal publisher.
- Loan documents, etc. relating to the central-government debt are signed by employees of Danmarks Nationalbank pursuant to a general power of attorney issued to the employees empowering them to sign on behalf of the Minister for Finance.
- Danmarks Nationalbank performs issuer functions relative to VP Securities Services and the Copenhagen Stock Exchange as well as other functions in connection with issuance, trading and clearing and settlement.

- Danmarks Nationalbank participates in meetings with borrowers, etc.

All payments relating to central-government loans are made by Danmarks Nationalbank on behalf of the Ministry of Finance and the payments are booked to the central government's account with Danmarks Nationalbank. Payments allocated to the Danish Agency for Governmental Management are excluded.

Danmarks Nationalbank defrays general administrative expenses relative to the central-government debt, while loan-specific expenses are defrayed by the Ministry of Finance.

The government-debt accounts are presented in the central government's accounts system and are otherwise governed by the accounting instructions for the central-government debt, as well as circulars, etc., on government accounts.

The Ministry of Finance is responsible for relations with the National Audit Office of Denmark. Subject to request, the National Audit Office may gain access to files relating to the central-government debt. Danmarks Nationalbank's audit function assists to the National Audit Office with regard to auditing of the central-government debt and the Social Pension Fund and other funds within government debt management.

2. Appropriation acts, information materials, etc.

In cases relating to central-government borrowing and debt (letters, questions, loan authorisation acts, etc.), Danmarks Nationalbank, as a main rule, prepares drafts to be used by the Ministry of Finance. The Ministry of Finance keeps Danmarks Nationalbank informed of cases within the area.

Danmarks Nationalbank prepares drafts for use by the Ministry of Finance as contributions to appropriation acts, budget reviews, etc., relating to the central-government debt and the interest payments thereon.

Danmarks Nationalbank prepares and issues publications on central-government borrowing and debt, etc.

With contributions from the Ministry of Finance, Danmarks Nationalbank prepares and publishes monthly distributions of central-government payments.

Danmarks Nationalbank is responsible for the ongoing contact with rating institutions.

3. Issuance of government guarantees, re-lending of government loans, etc.

On behalf of the Minister for Finance, Danmarks Nationalbank issues guarantees for the borrowing of a number of government-guaranteed entities. Furthermore, Danmarks Nationalbank issues re-lending on behalf of the cen-

tral government. The basis thereof is governed by agreement of 25 November 1998 between the Ministry of Finance and Danmarks Nationalbank.

In significant cases where the Ministry of Finance determines or is consulted by other institutions about interest-rate terms, etc., the Ministry of Finance consults with Danmarks Nationalbank.

For Danmarks Nationalbank

For the Ministry of Finance

14 November 2006

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[signed:]

[signed:]

Nils Bernstein

Thor Pedersen