



FOLKETINGET
STATSREVISORERNE



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Extract from Rigsrevisionen's report
submitted to the Public Accounts Committee

The Ministry of Finance's issue of 30-year government bonds in 2008

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Danish Ministry of Finance's issue of 30-year government bonds worth DKK 87.6 billion towards the end of 2008 during the financial crisis. The study was initiated in August 2021 at the request of the Danish Public Accounts Committee and has focus on two particular years. Firstly, the year 2008, when the Ministry of Finance issued 30-year government bonds and secondly, the year 2017, when the Finance Committee of the Danish Folketing (parliament) invited the minister for finance to a consultation on the issue of the government bonds.

The Public Accounts Committee requested a scrutiny of the basis for the decision to issue the 30-year government bonds and asked Rigsrevisionen to examine whether the minister for finance had passed all relevant information about the basis for the decision to the Folketing. Additionally, the Public Accounts Committee asked for an estimate of how much Danmarks Nationalbank's (central bank of Denmark) issue of the 30-year government bonds in 2008 will cost the government in total up to maturity in 2039. The Public Accounts Committee's request was based on the fact that according to a document from 2008 that was forwarded to the Finance Committee in 2021, Danmarks Nationalbank issued the government bonds to improve the risk coverage of the Danish pension sector.

In their request, the Public Accounts Committee also referred to the reply given by the minister for finance to a question put by the Finance Committee in February 2021 regarding the correspondence between the Ministry of Finance and Danmarks Nationalbank. In his reply, the minister stated that the Ministry of Finance had only been able to locate a brief document of decision in its filing system; that this document had been forwarded to the ministry by Danmarks Nationalbank; and that it was signed by the Ministry of Finance. According to the minister for finance, the ministry did not appear to be in possession of any further documents relevant to the matter.

2. The purpose of the study is to assess, whether the Ministry of Finance has provided a sufficient reason, when the ministry issued 30-year government bonds in 2008, and whether the minister for finance, up to the time of the Public Accounts Committee's request, has passed all relevant information to the Folketing about the issue of the 30-year government bonds in 2008 and the reasons behind it. Rigsrevisionen also estimates the total costs of the issue of the government bonds in 2008, from the time of issue to maturity in 2039.

3. When the Ministry of Finance submitted its comments to this draft report to Rigsrevisionen, it also stated its opinion that the issue of 30-year government bonds should also be considered against the background of a general widespread uncertainty about the state budget during the financial crisis. The ministry further stated that a number of internal documents from the autumn 2008 that are on file in the Ministry of Finance and Danmarks Nationalbank, support this perspective on the matter. The Ministry of Finance also informed Rigsrevisionen that the ministry was aware of the need for liquidity, and that this need was implicit in the decision to issue the bonds.

The Ministry of Finance has informed Rigsrevisionen that in the opinion of the ministry the first approval to issue government bonds worth up to DKK 60 billion and the subsequent approval to raise the cap, should be considered as interlinked. In the opinion of the Ministry of Finance, restating all information previously submitted is an approach that – in addition to being a waste of time – only serves to make cases unnecessarily long and complex. It follows that the conditions for raising the cap are the same as those stated in connection with the initial approval to issue the government bonds. In the opinion of the Ministry of Finance, the need to further strengthen the foreign exchange reserve is thus also the reason for raising the cap.

Rigsrevisionen does not share this view. The reasons behind a decision must appear from the document that provides the basis for decision at the time of approval.

When the Ministry of Finance submitted its comments to the draft report, it also stated that all relevant documents that could be searched for and found in the ministry's filing system at the time had been forwarded to the Folketing in 2017.

However, Rigsrevisionen has noted that it appears from the relevant documents filed that they were filed in 2008 – a few days after the dates on the documents.



Main conclusion

The reasons stated by the Ministry of Finance for issuing 30-year government bonds worth DKK 27.6 billion out of a total of DKK 87.6 billion, in 2008, are very unsatisfactory. For the government, the immediate consequence of the issue was an unnecessary increase in interest expenses. Moreover, the minister for finance did not pass all relevant information about the issue to the Folketing.

The Ministry of Finance has failed to document, when the ministry approved or accepted the issue of government bonds beyond DKK 80 billion

The study shows that the Ministry of Finance documented its approval of the issue of 30-year government bonds worth up to DKK 80 billion. Additionally, the Ministry of Finance approved or accepted to raise the cap to DKK 90 billion, but the ministry has failed to document, when this took place. Danmarks Nationalbank issued 30-year government bonds worth in total DKK 87.6 billion.

The purpose stated by the Ministry of Finance for the issue of government bonds worth DKK 27.3 billion out of a total of DKK 87.6 billion is not in compliance with the purpose of the government debt policy

The Ministry of Finance initially approved the issue of 30-year government bonds worth up to DKK 60 billion. The reasoning behind the issue was 1. The need to strengthen the foreign exchange reserve to support the Danish fixed-exchange-rate policy, and 2. Raising loans in foreign currency was not an option in the extraordinary situation. The Ministry of Finance subsequently approved raising the cap to DKK 80 billion. The Ministry of Finance has stated the reason for the raised cap to be a continued strong demand for the government bonds (also from Denmark's largest pension fund - ATP). No other reasons for the issue can be found in the case file, nor is it explained why the government has an interest in meeting the demand.

The minister for finance has not passed all relevant information to the Folketing about the issue of the 30-year government bonds in 2008 and the reasons behind it

In 2017, the minister for finance informed the Folketing that issuing government bonds beyond the DKK 60 billion cap was essential to support the Danish fixed-exchange-rate policy. In the basis for decision, however, the only reason stated for raising the cap was a continued strong demand in the market (including from the ATP). To this should be added that in the period leading up to August 2021, when Rigsrevisionen received the request from the Public Accounts Committee, the minister for finance did not forward all relevant documents to the Folketing concerning the correspondence in 2008 between Danmarks Nationalbank and the Ministry of Finance about the issue of the government bonds. In November 2021 - after Rigsrevisionen received the request for a study from the Public Accounts Committee - the minister for finance forwarded additional documents to the Folketing that shed light on the correspondence between Danmarks Nationalbank and the Ministry of Finance about the issue of government bonds in 2008.

Issue of 30-year government bonds increases indirectly the foreign exchange reserve

As a consequence of the government's issue of 30-year government bonds, ATP strengthen the Danish krone exchange rate by selling European securities and buying Danish. This enables Danmarks Nationalbank to sell kroner and buy foreign currency for the foreign exchange reserve without depreciating the krone exchange rate.

Source: Rigsrevisionen based on information from the National Bank.

In 2017, the minister for finance informed the Folketing that the government bonds were not issued to fulfill the government obligations or enhance the ability of financial institutions to obtain liquidity as addressed in Bank Package I and Bank Package II. Nor were they issued based on an understanding between Danmarks Nationalbank and the ATP to procure US dollars for the banks. This information is in accordance with the documents underlying the Ministry of Finance's decision in 2008. However, Rigsrevisionen notes that the minister for finance failed to inform the Folketing that the issue of the 30-year government bonds was based on another understanding between Danmarks Nationalbank and the ATP to support the Danish fixed-exchange-rate policy and therefore permit the ATP to sell European securities in euros and buy Danish kroner instead.

Government costs associated with the issue of the 30-year government bonds

30-year government bonds worth DKK 87.6 billion were issued in 2008. Total costs up to maturity in 2039 will be approx. DKK 119.5 billion. However, the actual additional costs for the government will be lower, because the loan over the years will crowd out other interest-bearing loans that the government would otherwise have raised. The issue of the 30-year government bonds worth DKK 27.6 billion was undertaken without any objective indication that the issue would be in the interest of the government. The total costs associated with this part of the loan to maturity in 2039 will be approx. DKK 35.6 billion. The actual additional costs will, however, be slightly lower, because the government saves interest on loans that the government would otherwise have raised. Immediately after the issue of the government bonds, and seen in isolation, the government's interest expenses will be approx. DKK 1,24 billion higher per year than if only 30-year government bonds worth DKK 60 billion had been issued.