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Government Debt Management measures in connection with Central Bank of Iceland foreign currency auctions

According to a press release from Government Debt Management (GDM) dated 28 March 2011, purchasers of foreign currency in Central Bank of Iceland auctions were authorised to sell the Treasury their Treasury bills and bonds maturing before year-end 2013 in order to finance the purchases. The objective of this authorisation was to mitigate the undesirable price fluctuations that could result if a large number of Treasury bond owners should sell their bonds in the secondary market in order to finance foreign currency purchases.

Participants have not made extensive use of this authorisation, however, and in four of the last five Central Bank auctions, they have only exercised that right once. It is therefore clear that, for the most part, participants are using deposits and not Treasury bonds to pay for their foreign currency purchases. Since the above-specified press release was published, all of the bills and two of the Treasury bond series covered by the authorisation have matured.
Based on the experience gained from the most recent auctions, it has been concluded that the risk of undesirable price fluctuation that gave rise to this authorisation is negligible. As a result, it has been decided to discontinue the practise of accepting Treasury bonds in connection with upcoming Central Bank foreign currency auctions.

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