



Ministry of Finance of the Czech Republic

DEBT AND FINANCIAL ASSETS MANAGEMENT DEPARTMENT

Debt Portfolio Management Quarterly Review

JUNE 2006

The Ministry of Finance submits the sixth Debt Portfolio Management Quarterly Review to resume the underlying debt portfolio risk management measures and performance with respect to the planned annual financing programme and achieving the medium-term strategic targets of public debt management policy. For the year 2006, these targets were concretised and quantified by the *Financing and Debt Management Strategy for 2006* released on 1 December 2005 and based on the Finance Minister's decision. It specifies an operational framework for the tactical management of state debt and financial assets through the active financial operations on the secondary market.

I. Review of Strategic Targets for 2006

The 2006 debt and financial assets management policy is guided by the set of quantitative criteria approved by the Minister of Finance for issuance activities and the active management of debt portfolio. More details on these criteria and the ministry's performance are summarized in the table.

Criterion	Guidelines for 2006	June 30, 2006	
International financing	Max. 50% of the total annual gross financing requirement	4.0%	
	CZK 0.0 to 77.7 bn	CZK + 6.25 bn	
Gross T-Bonds issue	CZK 72.3 to 150.0 bn	CZK + 74.6 bn	
Net T-Bills issue	CZK – 3.8 to – 25.0 bn	CZK - 14.9 bn	
Loans from EIB	CZK 9.2 bn	CZK + 2.3 bn	
Short-term state debt	20% and less	State debt	17.6%
		inc. Guarantees	16.5 %
Average time to maturity	6.0 to 7.0 years	State debt	6.1 years
		inc. Guarantees	5.8 years
Interest Rate Refixing Amount-at-Risk (up to 1 year)	30 to 40%	State debt	26.6 %
		inc. Guarantees	27.3 %

Note: EIB – European Investment Bank.

Source: MF CR, Bloomberg.

As regards **international financing**, according to the debt strategy the Czech Republic has drawn loans from the European Investment Bank in the amount of CZK 2.1 bn in the second quarter.

Regarding **domestic issuance activity**, the net issue of T-Bonds was CZK **36.3 bn** in the second quarter.

The volume in issue of T-Bills decreased by CZK **7.5 bn** in the second quarter according to the announced plan to decrease the volume of T-Bills by minimally CZK 3.8 bn and maximally CZK 25.0 bn.

The short-term state debt reached **17.6%**. It means that the Ministry of Finance maintains the planned final and long-time targeted limit of 20% and less, which at the beginning of 2007 will become one of the fundamental limits for issuance policy and risk management.

Average time to maturity decreased slightly to the level of **6.1** years over the lower limit of announced target band for 2006.

Beginning with the year 2006, **the interest rate refixing** up to one year replaces the modified duration targeting in the field of announcing the strategic targets for the area of market risk management. *The Financing and Debt Management Strategy for 2006* sets the average yearly range between 30 and 40%. This risk measure decreased slightly to 26.6% at the end of the second quarter, i.e. below the lower limit.

II. State Debt Parameters at the end of June 2006

Debt Parameter	Dec 31, 2004	June 30, 2005	Sept 30, 2005	Dec 31, 2005	March 31, 2006	June 30, 2006
Total state debt (CZK bn)	592.9	643.6	662.6	691.2	698.2	728.9
Market value, inc. derivatives (CZK bn)	629.8	706.6	724.8	741.2	739.5	765.2
Short-term state debt (%)	25.0	21.7	19.4	22.1	19.4	17.6
Share of T-Bills (%)	21.2	16.9	14.8	13.6	12.4	10.9
Average time to maturity (years)	5.1	5.8	5.9	5.8	6.2	6.1
Interest rate refixing up to one year, inc. derivatives (%)	27.0	24.5	27.9	30.4	28.5	26.6
Variable-rate state debt (%)	3.5	4.1	4.3	4.3	4.3	4.4
Modified duration (years)	3.9	4.3	3.9	3.8	3.7	3.6
Modified duration, exc. IRS (years)	3.4	3.8	3.4	3.3	3.4	3.2
Foreign currency state debt (%)	0.0	0.1	0.1	0.1	0.9	0.9
Foreign currency debt, exc. cross-currency swaps (%)	7.8	11.8	11.3	10.6	11.2	10.7
Nonmarketable state debt (%)	3.6	4.2	4.4	4.4	4.4	4.5
Marketable state debt (CZK bn)	571.4	616.7	633.5	660.6	667.4	696.1
Market value (CZK bn)	608.2	679.6	695.6	710.7	708.7	732.4
Short-term marketable debt (%)	25.8	22.5	20.2	23.0	20.2	18.3
Share of T-Bills (%)	21.9	17.7	15.5	14.3	13.0	11.4
Average time to maturity (years)	5.0	5.6	5.6	5.6	6.0	5.9
Interest rate refixing up to one year, inc. derivatives (%)	24.2	21.2	24.6	27.2	25.2	23.2
Variable-rate marketable debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Modified duration (years)	4.1	4.4	4.0	3.9	3.8	3.7
Modified duration, exc. IRS (years)	3.5	3.9	3.5	3.4	3.5	3.4
Foreign currency marketable deb (%)	0.0	0.1	0.1	0.1	0.9	0.9
Foreign currency debt, exc. cross-currency swaps (%)	8.0	12.3	11.8	11.1	11.7	11.2

Notes: **Interest rate refixing up to one year** = T-Bills + Fixed-rate short-term debt + Variable-rate state debt + Effect of interest rate derivatives. Source: MF CR, Bloomberg.

III. Integrated portfolio of state debt and risky state guarantees at the end of June 2006

Debt management carries out the integrated approach to evaluate and analyse the portfolio of government liabilities in accordance with the Financing and Debt Management Strategy for 2005 and 2006. The results are summarized by the following table.

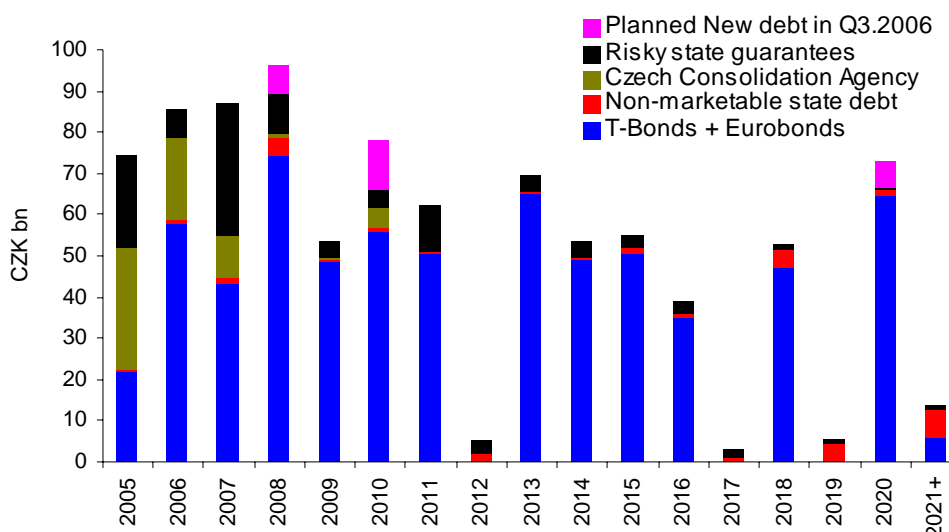
Measures of the integrated portfolio of state debt and risky state guarantees

	Nominal amount (CZK bn)	Market value (CZK bn)	Foreign currency liabilities (%)	Variable-rate liabilities (%)	Short-term liabilities (%)	Interest rate refixing (%)	Average life (years)	Modified duration (years)
Total state debt	728.9	765.9	0.9	4.4	17.6	26.6	6.1	3.6
Risky state guarantees	86.5	87.1	28.4	21.8	7.8	33.5	3.7	2.1
Portfolio total	815.4	852.3	3.8	6.2	16.5	27.3	5.8	3.4

Note: including currency and interest rate derivatives of the MF and CMZR Bank and excluding liabilities of the Czech Consolidation Agency and former National Property Fund.

Source: MF CR, Czech-Moravian Guarantee and Development Bank, Bloomberg.

Redemption profile of state debt, risky state guarantees and outlook of the CCA's funding needs (End-2005; updated on 10 July 2006, excl. T-Bills outstanding)



Note: Originally non-budgeted payment in the amount of CZK 5.0 bn of the CNB guarantee was carried out from the surplus of the State Guarantee Fund within the state budget expenditures at the end of 2005. The conceivable earlier redemption of the remaining value of CZK 17 bn during 2006 will be based on the finance minister's decision and on the realization of expenditures budgeted for other state guarantees.

Source: MF CR, Czech Consolidation Agency, Czech-Moravian Guarantee and Development Bank.

This publication is available also on the website:

www.mfcr.cz/statedebt

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