



The Ministry of Finance submits the seventh Debt Portfolio Management Quarterly Review to resume the underlying debt portfolio risk management measures and performance. It also covers the finance minister's decision to increase gross financing requirements by CZK 18.8 bn in 2006 and its impact on Ministry's performance as for debt portfolio risk management. *The Financing and Debt Management Strategy for 2007* will be published together with the issuance calendar for the first quarter of the next year on December 1, 2006.

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 following table.

Criterion	Guidelines for 2006	September 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 + 97.3 bn	
Net T-Bills issue	CZK - 3.8 to - 25.0 bn	CZK - 22.4 bn	
Loans from EIB	CZK 9.2 bn	CZK + 4.6 bn	
Short-term state debt	20% and less	State debt	19.5%
		inc. Guarantees	20.6 %
Average time to maturity	6.0 to 7.0 years	State debt	5.9 years
		inc. Guarantees	5.7 years
Interest Rate Refixing Amount-at-Risk (up to 1 year)	30 to 40%	State debt	28.2 %
		inc. Guarantees	28.8 %

Note: EIB – European Investment Bank.

Source: MF CR, Bloomberg.

As regards **international financing**, the Czech Republic has drawn loans from the European Investment Bank in the amount of CZK 2.3 bn in the third quarter. It represents 50% of the government programme after three quarters of the year 2006. As for further operations of the Ministry on the foreign market, minister made no relevant decision in this area.

Regarding **domestic issuance activity**, the net issue of T-Bonds was **CZK 22.8 bn** in the third quarter. The total net issue of T-Bonds was CZK 67.4 bn and total gross issue was CZK 97.3 during three quarters of 2005; it is about 64,9% of the maximal supply announced in December 2005.

The volume in issue of T-Bills decreased by CZK **7.4 bn** in the third 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 **19.5%**. 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 jumped down to the level of **5.9** years, i.e. below the lower limit of announced target band for 2006. It confirms disappearance of the positive impact of private placement operation in the 30 years maturity segment executed in January. More important is the fact that finance minister hasn't made decision on another long-term foreign funding operation in 2006. It creates a constraint as for refinancing risk management and declares that Ministry isn't able to reach the announced targets exclusively via the domestic market issuance activity.

The interest rate refixing up to one year increased slightly to **28.2%** at the end of the third quarter, i.e. it approaches the lower level of target band for 2006.

II. State Debt Parameters at the end of September 2006

Debt Parameter	Dec 31, 2004	Sept 30, 2005	Dec 31, 2005	March 31, 2006	June 30, 2006	Sept 30, 2006
Total state debt (CZK bn)	592.9	662.6	691.2	698.2	728.9	746.3
Market value, inc. derivatives (CZK bn)	629.8	724.8	741.2	739.5	765.2	778.7
Short-term state debt (%)	25.0	19.4	22.1	19.4	17.6	19.5
Share of T-Bills (%)	21.2	14.8	13.6	12.4	10.9	9.6
Average time to maturity (years)	5.1	5.9	5.8	6.2	6.1	5.9
Interest rate refixing up to one year, inc. derivatives (%)	27.0	27.9	30.4	28.5	26.6	28.2
Variable-rate state debt (%)	3.5	4.3	4.3	4.3	4.4	4.4
Modified duration (years)	3.9	3.9	3.8	3.7	3.6	3.6
Modified duration, exc. IRS (years)	3.4	3.4	3.3	3.4	3.2	3.3
Foreign currency state debt (%)	0.0	0.1	0.1	0.9	0.9	0.8
Foreign currency debt, exc. cross-currency swaps (%)	7.8	11.3	10.6	11.2	10.7	10.4
Nonmarketable state debt (%)	3.6	4.4	4.4	4.4	4.5	4.7
Marketable state debt (CZK bn)	571.4	633.5	660.6	667.4	696.1	711.3
Market value (CZK bn)	608.2	695.6	710.7	708.7	732.4	743.5
Short-term marketable debt (%)	25.8	20.2	23.0	20.2	18.3	20.1
Share of T-Bills (%)	21.9	15.5	14.3	13.0	11.4	10.1
Average time to maturity (years)	5.0	5.6	5.6	6.0	5.9	5.7
Interest rate refixing up to one year, inc. derivatives (%)	24.2	24.6	27.2	25.2	23.2	24.8
Variable-rate marketable debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Modified duration (years)	4.1	4.0	3.9	3.8	3.7	3.8
Modified duration, exc. IRS (years)	3.5	3.5	3.4	3.5	3.4	3.4
Foreign currency marketable debt (%)	0.0	0.1	0.1	0.9	0.9	0.9
Foreign currency debt, exc. cross-currency swaps (%)	8.0	11.8	11.1	11.7	11.2	10.9

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 Sep. 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.

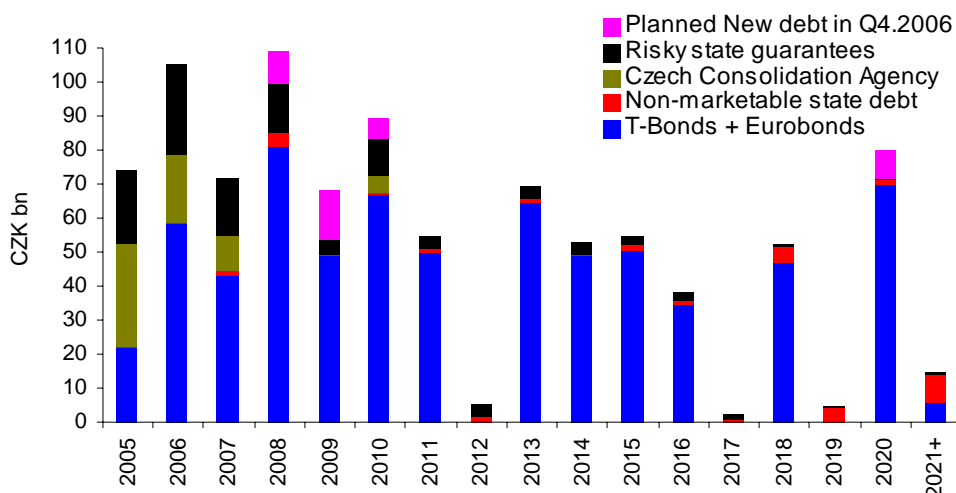
Measures of the integrated portfolio of state debt and risky state guarantees

	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	746,3	778,7	0,8	4,4	19,5	28,2	5,9	3,6
Risky state guarantees	85,1	85,9	28,4	21,2	30,9	34,0	3,4	2,0
Portfolio total	831,4	864,5	3,6	6,1	20,6	28,8	5,7	3,5

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 9 October 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 figure captures the earlier redemption of the remaining value of CZK 17.0 bn at the end of 2006 which was already decided by the finance minister once for all.
Source: MF CR, Czech Consolidation Agency, Czech-Moravian Guarantee and Development Bank.

IV. Higher government borrowing needs than planned

The Ministry's performance as for the set of quantitative criteria is affected by additional borrowing needs in 2006 in the amount of **CZK 18.8 bn** compared to planned CZK 155.5 bn in the Financing and Debt Management Strategy from December 2005.

The main source of additional needs is created by the finance minister's decision on earlier redemption of the CNB guarantees before the due date of the middle of 2007 in the amount of **CZK 15.2 bn** according to the Act no. 547/2005 Coll., on the State Bond Programme for the Repayment of Liabilities out of State Guarantees, on the consolidation and stabilisation of the banking sector and the financial consequences of the separation of the Czech and Slovak Federal Republic for the Czech National Bank.

The remainder of additional needs stems from the planned transfer of the positive difference between pension insurance revenue and pension insurance expenditure for the year 2005 to a special pension account in the state financial assets in the amount of CZK 6.6 bn, i.e. higher than expected by the amount of **CZK 3.6 bn**.

If finance minister makes no decision on further long-term foreign funding operations even in the light of increasing government borrowing needs in 2006, it will be unavoidable to revise the financing programme and announced strategic targets during the fourth quarter, inc. revision of issuance calendars and repeated growth of the amount of T-Bills outstanding with negative impact on average maturity and short-term debt targeting process.

This publication is available also on the website:

www.mfcr.cz/statedebt

The next issue of Quarterly Review will be published on January 8, 2007, at 2.00 pm.

Contact details for further information:

Mr Petr Pavelek, Ph.D., Head of Funding & Portfolio Management
Debt and Financial Assets Management Department MF CR
Letenská 15, 118 10 Praha 1
Tel.: +420 257 042 678, E-mail: petr.pavelek@mfcr.cz