



The Ministry of Finance submits the twenty first *Debt Portfolio Management Quarterly Review* to present 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 debt management policy. For the year 2010, these targets were quantified by the *Financing and Debt Management Strategy for 2010* released on 3 December 2009 and based on the Finance Minister's decision. The Strategy specifies operating space of the asset and liability management through issuance activity, financial investment and active operations of MoF on secondary market of government bonds and financial derivatives.

I. Review of Strategic Targets for 2010

The 2010 state debt management policy is guided by the set of quantitative targets and criteria approved by the Minister of Finance for issuance activities and the active management of debt portfolio as summarized in the following table.

Financing programme and strategic targets in 2010

Criterion	Guidelines for 2010	March 31, 2010
International issues	Max. 50 % of the total annual gross borrowing requirement CZK 0.0 to 140.0 bn	0,0 % CZK 0.0 bn
Gross government bonds issues	CZK 102.3 to 292.3 bn	CZK 40,2 bn
Net money market issues	CZK -25.0 to +25.0 bn	CZK -0,6 bn
Loans from EIB	CZK 12.7 bn	CZK 2,4 bn
Short-term state debt	20 % and less	14,2 %
Average time to maturity	5.5 to 7.0 years	6,3 let
Interest Rate Re-fixing	30 to 40%	29,7 %

Note: EIB – European Investment Bank. Source: MF CR.

As regards **international funding**, the Czech Republic has drawn three tranches of loans from the European Investment Bank in the amount of **CZK 2.4 billion** during the first quarter, which represents 19.3 % of the limit in the State Budget Act for 2010.

Regarding **domestic issuance activity**, the total gross issuance of government bonds reached **CZK 40.2 billion**, which is about 13.8 % of the maximal supply initially announced on 3 December 2010. Tap sales were executed in the amount of CZK 3.5 billion, including CZK 2.0 billion sales to the European Investment Bank. The net issuance of government bonds was **CZK 40.2 billion** during the first quarter. Buy-backs of government bonds were not executed during the first quarter.

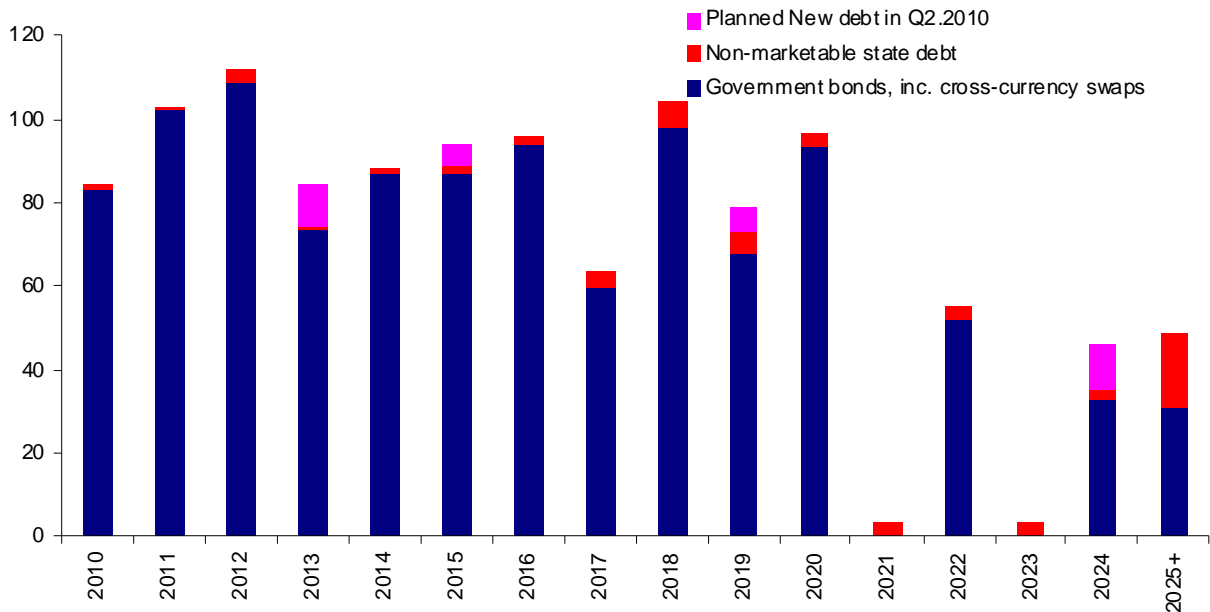
The volume in issue of money market instruments decreased by **CZK 0.6 billion** during the first quarter.

The short-term state debt decreased by 0.5 percentage point and reached the share of **14.2 %** at the end of the first quarter 2010. It means that the Ministry of Finance maintains the planned long-term target.

Average time to maturity reached the level of **6.3 years** at the end of the first quarter, i.e. remains within the announced target band 5.5–7.0 years for 2010.

Redemption profile of state debt (CZK billion)

(end of Q1. 2010; updated on 31 March 2010)

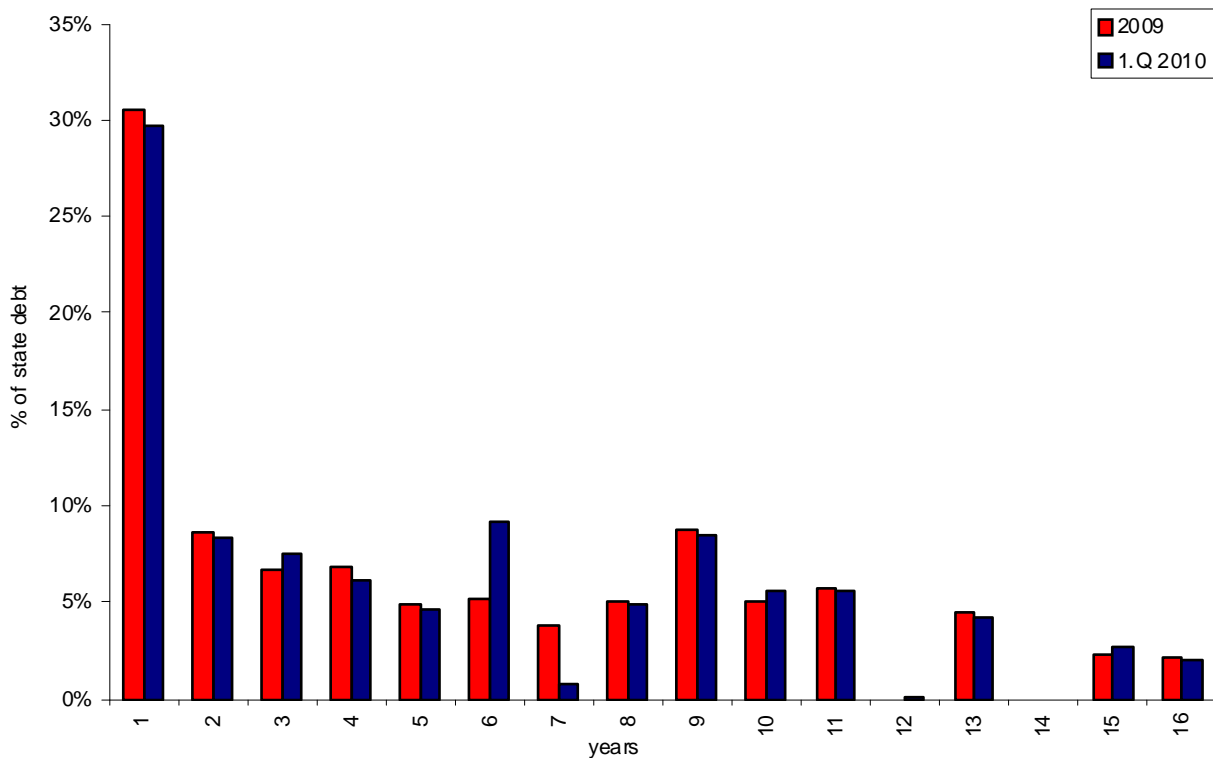


Note: Excluding money market instruments
Source: MF CR.

Beginning with the year 2006, **the interest rate re-fixing** up to one year replaces the modified duration targeting in the area of market risk management. The *Financing and Debt Management Strategy for 2010* sets the average yearly range between 30 % and 40 %. This risk measure decreased to 29.7 % at the end of the first quarter 2010 and remains at the lower barrier.

Re-fixing profil of state debt

(end of Q1. 2010 compared with end of 2009; updated on 31 March 2010)



Note: Including derivatives
Source: MF CR.

II. State debt costs and Cost-at-Risk in 2010

Planned and actual budgetary expenditures and revenues in the first quarter 2010.

Planned and actual budgetary expenditures and revenues on state debt in 2010

Measure (CZK mil)	Actual 1Q/2009	Budget 2010		Actual 1Q/2010	% Execution	Index 2010/2009 (%)
		Approved	After changes			
1	2	3	4	5	5:4	5:2
Total balance	8 927	76 357	74 839	4 846	6,5	54,3
	(-) 1 624	(-) 6 868	(-) 6 868	(-) 2 205	32,1	135,8
1. Total interest costs	8 902	61 981	62 131	4 814	7,7	54,1
	(-) 1 624	(-) 6 568	(-) 6 568	(-) 2 205	33,6	135,8
Domestic debt	7 010	47 256	47 406	2 697	5,7	38,5
	(-) 1 624	(-) 5 790	(-) 5 790	(-) 2 205	38,1	135,8
<i>Of which:</i>						
Money market instruments	407	2 851	2 851	232	8,1	56,9
	(-) 526	(-) 1 600	(-) 1 600	(-) 194	12,2	37,0
Government bonds	6 602	44 405	44 555	2 465	5,5	37,3
	(-) 1 098	(-) 4 190	(-) 4 190	(-) 2 011	48,0	183,1
Foreign debt	1 892	14 725	14 725	2 116	14,4	111,8
	(-) 0	(-) 778	(-) 778	-	-	-
<i>Of which:</i>						
International issues	1 461	12 374	12 374	1 824	14,7	124,8
	(-) 0	(-) 778	(-) 778	-	-	-
EIB loans	431	2 352	2 352	292	12,4	67,9
2. Total fees	25	700	700	32	4,6	127,5
3. Redemption	-	4	4	-	-	-
4. FX gain/loss	-	1 000	1 000	-	-	-
		(-) 300	(-) 300			
5. Transfers for projects¹	-	12 671	11 003	-	-	-

Note: (-) means revenues (gains).

Source: MF CR.

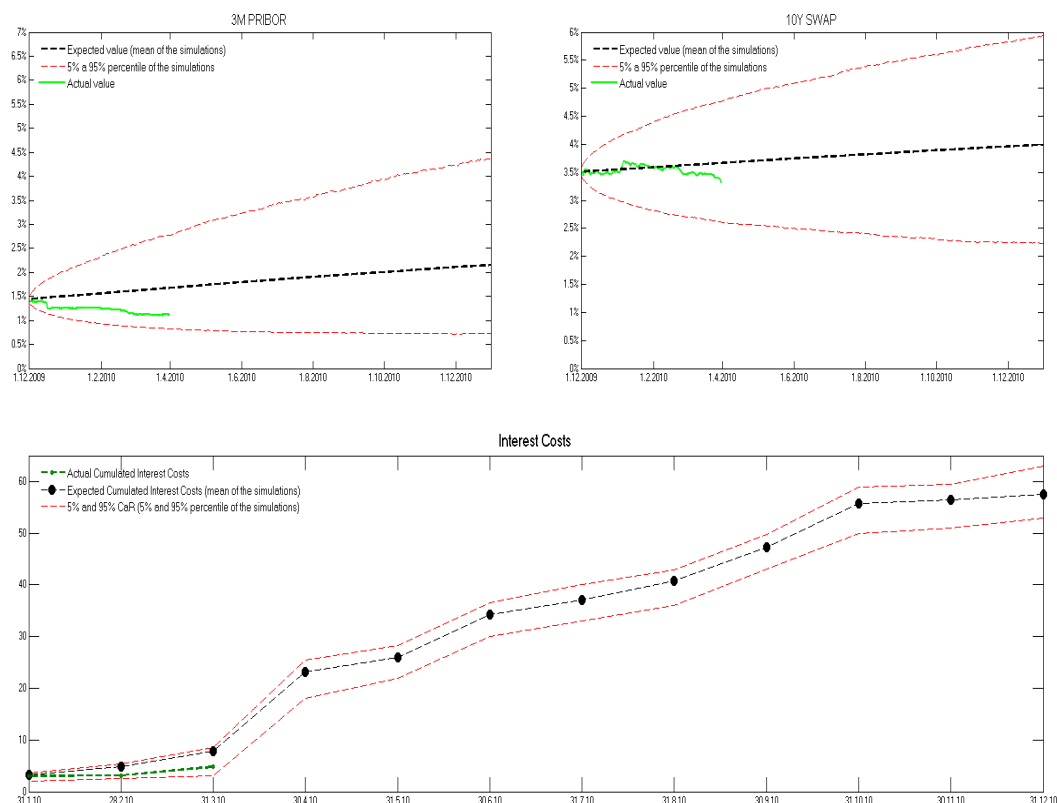
The **net interest costs** on the state debt in the first quarter 2010 amounts **CZK 2.6 billion**. Accrued interest income and government bonds premiums achieve CZK 2.0 billion and financial investments on the money market gain CZK 0.2 billion. The gross interest costs reached CZK 4.8 billion.

¹ Transfers for projects financed from international financial institutions credits

The state debt interest costs model **Cost-at-Risk (CaR)** for the year 2010 was published in the *Financing and Debt Management Strategy for the year 2010*. Calculations of the CaR values are based on future interest rates simulations.

The actual versus simulated development of the PRIBOR 3M and 10Y swap from 1 December 2009 till 31 December 2010 are displayed in the upper part of the figure. The development of the actual versus simulated gross interest costs for the first quarter 2010 is shown in the lower part of the figure.

Actual versus simulated evolution of the interest rates and the actual versus simulated monthly gross interest costs (CZK billion)



Note: Interest costs are calculated on the cash principle relevant for the current methodology of the state budget.
Source: MF CR.

The comparison between the actual development of interest costs and the development of the simulated interest costs at the end of the first quarter 2010 in comparison with the same period of the last year is summarized in the following table.

Cost-at-Risk deviation from the actual interest costs at the end of Q1 2009 and 2010

	2009	2010
Actual interest costs (CZK billion)	7,8	4,8
Expected (simulated) costs (CZK billion)	7,7	7,8
Cost-at-Risk 95% (CZK billion)	8,5	8,6
Expectation bias (%)	-1,3	59,2

Source: MF CR.

III. State Debt Parameters (end of quarter)

Debt Parameter	Mar 2009	Jun 2009	Sep 2009	Dec 2009	Mar 2010
Total state debt (CZK billion)	1 000,5	1 137,3	1 167,7	1 178,2	1 216,8
Market value, inc. derivatives (CZK billion)	994,4	1 139,0	1 191,8	1 225,6	1 291,7
Short-term state debt (%)	11,2	13,4	12,9	14,7	14,2
Share of money market instruments (%)	6,1	7,0	6,8	7,5	7,2
Average time to maturity (years)	6,8	6,6	6,4	6,5	6,3
Interest rate refixing up to one year, inc. derivatives (%)	23,8	26,8	27,5	30,5	29,7
Variable-rate state debt (%)	9,3	10,5	11,7	13,1	12,8
Modified duration (years)	4,3	4,3	4,2	4,2	4,1
Modified duration, exc. CZK IRS (years)	4,1	4,1	4,1	4,1	4,0
Foreign currency state debt (%)	4,7	6,2	7,0	8,6	8,1
Foreign currency debt, exc. cross-currency swaps (%)	13,0	14,2	13,4	15,4	14,4
Nonmarketable state debt (%)	4,8	4,6	4,6	5,0	5,0
Marketable state debt (CZK billion)	952,2	1 085,5	1 114,0	1 119,8	1 156,1
Market value (CZK billion)	945,9	1 087,0	1 137,6	1 166,5	1 230,1
Short-term marketable debt (%)	11,5	13,9	13,4	15,3	14,8
Share of money market instruments (%)	6,4	7,4	7,1	8,0	7,6
Average time to maturity (years)	6,6	6,3	6,1	6,2	6,0
Interest rate refixing up to one year, inc. derivatives (%)	20,1	23,6	24,3	27,2	26,3
Variable-rate marketable debt (%)	5,1	6,6	7,8	9,0	8,6
Modified duration (years)	4,5	4,4	4,4	4,4	4,2
Modified duration, exc. CZK IRS (years)	4,3	4,2	4,2	4,2	4,1
Foreign currency marketable debt (%)	4,9	6,5	7,3	9,0	8,5
Foreign currency debt, exc. cross-currency swaps (%)	13,6	14,8	14,1	16,1	15,1

Notes: **Interest rate refixing up to one year** = Money market instruments + Fixed-rate short-term debt + Variable-rate state debt + Effect of interest rate derivatives. Source: MF CR.

This publication is available also on the website:
www.mfcr.cz/statedebt

The next issue of Quarterly Review will be published on July 8, 2010, at 2.00 p.m.

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