



### Debt Portfolio Management Quarterly Review

SEPTEMBER 2008

The Ministry of Finance submits the fifteenth *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 2008, these targets were quantified by the *Financing and Debt Management Strategy for 2008* released on 3 December 2007 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 2008

The 2008 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 2008

Criterion	Guidelines for 2008	September 30, 2008
International issues	Max. 50% of the total annual gross borrowing requirement CZK 0.0 to 89.9 bn	26.8% CZK 48.2 bn
Gross government bonds issues	CZK 75.1 to 165.0 bn	CZK 88.8 bn
Net money market issues	CZK 0.0 to – 20.0 bn	CZK -36.8 bn
Loans from EIB	CZK 14.7 bn	CZK 11.6 bn
Short-term state debt	20% and less	10.3%
Average time to maturity	6.0 to 7.0 years	7.0 years
Interest Rate Re-fixing	30 to 40%	18.7%

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

As regards **international funding**, the Czech Republic has drawn six tranches of loans from the European Investment Bank in the amount of **CZK 7.2 billion** during the third quarter. During the first three quarters of 2008, loans in total amount of CZK 11.6 billion were drawn, which represents 79% of the limit in the State Budget Act for 2008

Regarding **domestic issuance activity**, the net issue of government bonds was **CZK -27.9 billion** in the third quarter (CZK 8.5 bn. during first three quarters) and buy-backs of government bonds were executed in the amount of CZK 1.7 billion to redeem the 47th issue. The total gross issuance of government bonds reached **CZK 17.4 billion**, including tap sales in the amount of CZK 6.8 billion via Reuters Dealing system used by the Debt and Financial Assets Management Department. The total annual gross issuance reached CZK 88.8 billion, which is about 53.8 % of the maximal supply announced on 3 December 2007.

**The volume in issue of money market instruments** increased by **CZK 11.7 billion** during the third quarter, the net issue of money market instruments decreased by CZK 36.8 bn. until the end of third quarter 2008, i.e. more than the maximal decrease announced within the programme for net money market instruments issuance.

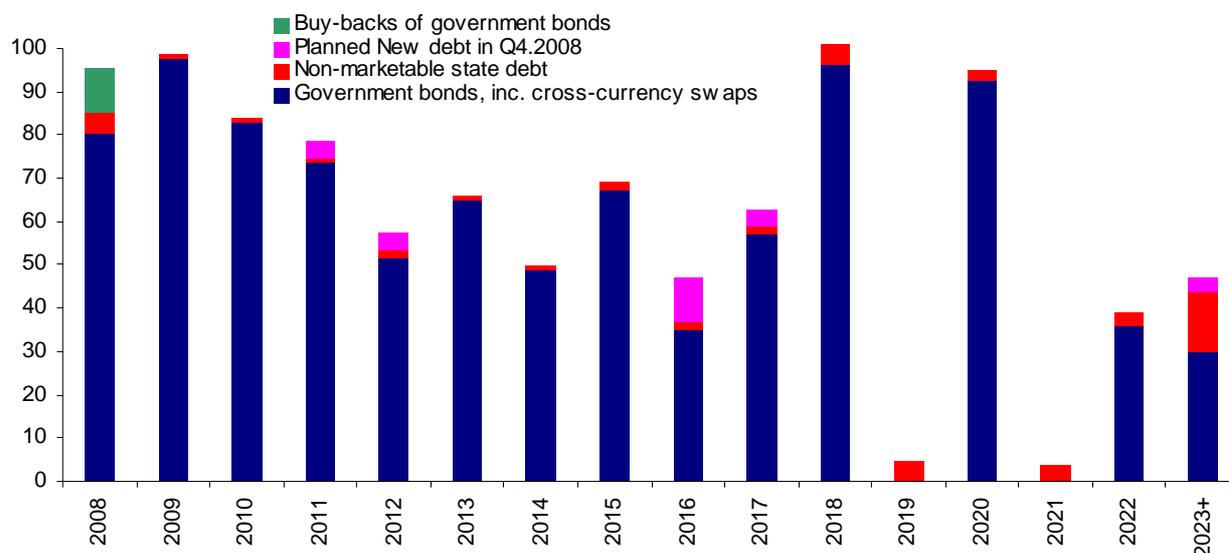
**The short-term state debt** decreased by 3.5 percentage points and reached the share of **10.3%** at the end of the third quarter. It means that the Ministry of Finance maintains the planned long-term target. This temporary decline in the share was caused by redemption the 47<sup>th</sup> issue.

**Average time to maturity** reached the level of **7.0 years**, i.e. the upper boundary of the announced target band 6.0–7.0 years for 2008.

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 2008* sets the average yearly range between 30 and 40%. This risk measure decreased to 18.7% at the end of the third quarter and is stabilised below the lower limit.

### Redemption profile of state debt (CZK billion)

(end of 2007; updated on 30 September 2008)



Note: Without money market instrument instruments in circulation.

Source: MF CR.

## II. State debt costs and Cost-at-Risk in the first three quarters 2008

Planned and actual budgetary expenditures and revenues in relation to debt service are captured in the following table.

### Planned and actual budgetary expenditures and revenues on state debt in 2008

Measure (CZK mil)	Actual Q1-Q3. 2007	Budget 2008		Actual Q1-Q3. 2008	% Execution	Index 2008/2007 (%)
		Approved	After changes			
1	2	3	4	5	5:4	5:2
<b>Total balance</b>	<b>25 084</b>	<b>45 460</b>	<b>44 429</b>	<b>29 961</b>	<b>67.4</b>	<b>119.4</b>
	-	(-) 1 460	(-) 1 460	(-) 5 494	376.3	-
<b>1. Total interest costs</b>	<b>25 003</b>	<b>45 141</b>	<b>44 116</b>	<b>29 836</b>	<b>67.6</b>	<b>119.3</b>
	-	(-) 1 460	(-) 1 460	(-) 5 441	372.7	-
<b>Domestic debt</b>	<b>21 775</b>	<b>38 847</b>	<b>37 822</b>	<b>25 060</b>	<b>64.5</b>	<b>115.1</b>
	-	(-) 1 460	(-) 1 460	(-) 4 806	329.2	-
<i>Of which:</i>						
Money market instruments	1 281	2 484	2 419	1 604	66.3	125.2
	-	(-) 1 460	(-) 1 460	(-) 2 635	180.5	-
Government bonds	20 494	36 363	35 403	23 456	66.3	114.5
	-	-	-	(-) 2 171	-	-
<b>Foreign debt</b>	<b>3 228</b>	<b>6 294</b>	<b>6 294</b>	<b>4 776</b>	<b>75.9</b>	<b>148.0</b>
	-	-	-	(-) 635	-	-
<i>Of which:</i>						
International issues	2 444	4 653	4 653	3 613	77.6	147.8
	-	-	-	(-) 635	-	-
EIB loans	784	1 641	1 641	1 163	70.9	148.4
	-	-	-	-	-	-
<b>2. FX gain/loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(-) 53</b>	<b>-</b>	<b>-</b>
<b>3. Total fees</b>	<b>81</b>	<b>300</b>	<b>294</b>	<b>113</b>	<b>38.4</b>	<b>139.3</b>
<b>4. Redemption of state debt</b>	<b>-</b>	<b>19</b>	<b>19</b>	<b>12</b>	<b>60.4</b>	<b>-</b>

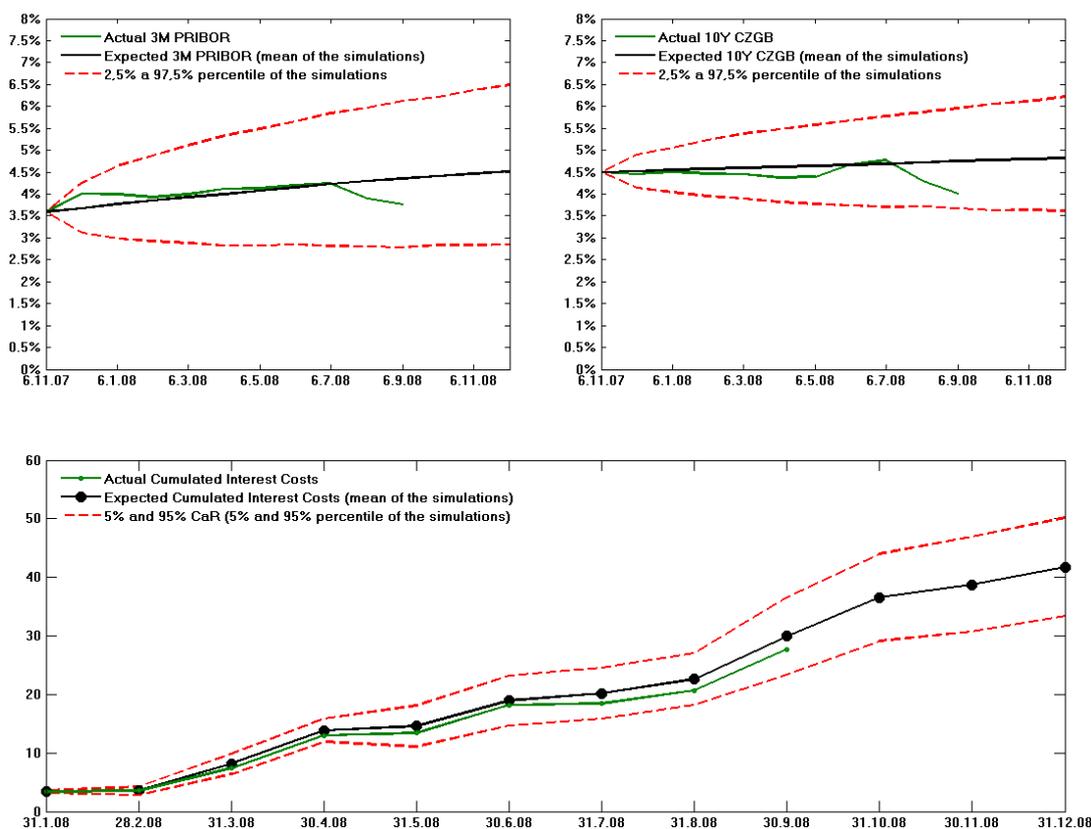
Note: (-) means revenues (gains). Source: MF CR.

The **net interest costs** on the state debt in the first three quarters of 2008 amounts **CZK 24.5 billion**. Financial investments on the money market gain CZK 2.6 billion and accrued interest income and T-bonds premiums achieve CZK 2.2 billion. The gross interest costs reached CZK 30.0 billion.

The state debt interest costs model **Cost-at-Risk (CaR)** for the year 2008 was published in the *Financing and Debt Management Strategy for the year 2008*. Calculations of the CaR values are based on future interest rates simulations.

The actual versus simulated development of the PRIBOR 3M and 10-year government bond benchmark from November 2007 till September 2008 is in the upper part of the figure. The actual versus simulated interest costs for the first three quarters of 2008 is 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 in the first three quarters of 2008 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 in the first three quarters of 2007 and 2008**

	2007	2008
Actual interest costs (CZK billion)	25.0	27.7
Expected (simulated) costs (CZK billion)	26.7	29.9
Cost-at-Risk 95% (CZK billion)	28.8	36.5
Expectation bias (%)	<b>6.8</b>	<b>8.1</b>

Source: MF CR.

### III. State Debt Parameters (end of quarter)

Debt Parameter	Sep 2007	Dec 2007	Mar 2008	Jun 2008	Sep 2008
<b>Total state debt (CZK billion)</b>	<b>842.7</b>	<b>892.3</b>	<b>860.1</b>	<b>933.3</b>	<b>925.5</b>
Market value, inc. derivatives (CZK billion)	859.9	899.5	867.9	921.4	952.4
Short-term state debt (%)	17.8	18.7	16.5	13.8	10.3
Share of money market instruments (%)	6.5	9.2	5.5	3.6	4.9
Average time to maturity (years)	6.5	6.4	6.7	6.8	7.0
Interest rate refixing up to one year, inc. derivatives (%)	25.5	26.0	24.2	26.1	18.7
Variable-rate state debt (%)	4.3	4.1	3.9	3.9	4.7
Modified duration (years)	3.9	3.8	4.0	4.0	4.4
Modified duration, exc. CZK IRS (years)	3.6	3.5	3.7	3.9	4.1
Foreign currency state debt (%)	0.6	0.6	0.6	0.9	4.4
Foreign currency debt, exc. cross-currency swaps (%)	8.9	8.1	8.1	12.0	12.5
Nonmarketable state debt (%)	4.7	4.4	4.2	4.3	5.0
<b>Marketable state debt (CZK billion)</b>	<b>803.3</b>	<b>853.0</b>	<b>823.6</b>	<b>893.1</b>	<b>879.1</b>
Market value (CZK billion)	820.5	860.2	831.4	884.6	906.1
Short-term marketable debt (%)	18.0	19.0	17.1	14.3	10.7
Share of money market instruments (%)	6.8	9.6	5.7	3.7	5.2
Average time to maturity (years)	6.4	6.3	6.6	6.7	6.7
Interest rate refixing up to one year, inc. derivatives (%)	22.1	22.9	21.1	23.0	14.6
Variable-rate marketable debt (%)	0.0	0.0	0.0	0.0	0.0
Modified duration (years)	4.1	3.9	4.1	4.1	4.6
Modified duration, exc. CZK IRS (years)	3.8	3.7	3.9	4.0	4.3
Foreign currency marketable debt (%)	0.7	0.6	0.6	1.0	4.7
Foreign currency debt, exc. cross-currency swaps (%)	9.3	8.5	8.4	12.5	13.2

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.

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The next issue of Quarterly Review will be published on January 8, 2009, at 2.00 p.m.

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