



The Ministry of Finance submits the fifth 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.

The organizational prerequisites for the integration of the state debt, state guarantees and state financial assets were established in October 2005 as the necessary conditions for the changeover from isolated government liabilities management to net government financial position management. Effective from 1 March 2006, the management and arranging the loans from the international financial institutions, including the European Investment Bank were transferred to the Debt and Financial Assets Management Department. This step confirmed the objective to centralise front-office processes related to the financing operations of the Czech Republic on the domestic and foreign markets.

During the first quarter 2006, the crucial implementation process of an integrated system front to back, including accounting within the state treasury project was introduced to allow for the automation of routine activities and centralised database of state debt, guarantees, state loans and claims, government ownership, investment portfolios and deposit accounts to manage all government financial cash flows and risk position within one financial balance sheet. The project should be finished by the end of this year to allow for explicit formulation of financing and risk management strategy based on the whole balance sheet beginning in the year 2007.

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	March 31, 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 issues	CZK 72.3 to 150.0 bn	CZK 38.2 bn	
Net T-Bills issues	CZK - 3.8 to - 25.0 bn	CZK - 7.4 bn	
Loans from EIB	CZK 9.2 bn	CZK 0.2 bn	
Short-term state debt	20% and less	State debt	19.4%
		inc. Guarantees	18.1%
Average time to maturity	5.5 to 6.5 years	State debt	6.2 years
		inc. Guarantees	5.9 years
Interest Rate Refixing Amount-at-Risk (up to 1 year)	30 to 40%	State debt	28.5%
		inc. Guarantees	29.0%

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

As regards **international financing**, according to the debt strategy the Czech Republic executed successfully the inaugural private placement operation in the amount of JPY 30 billion in January. The whole amount was placed into the portfolio of sole institutional Japanese investor. It represents approx. 4% of the maximal limit for the Ministry's activity on the foreign currency capital market in 2006.

As regards loans from the European Investment Bank, the Czech Republic has drawn them in the amount of CZK 0.2 bn in the first quarter.

Regarding **domestic issuance activity**, the net issue of T-Bonds was only CZK **8.2 bn** in the first quarter. The main reason of this figure was redemption on capital market bond of CZK 30 bn in January.

The volume in issue of T-Bills decreased by CZK **7.4 bn** in the first 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 the share of **19.4%**. It means that the Ministry hit 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 increased to the level of **6.2** years and got over the lower limit of announced target band for 2006. The main reasons were the impact of above mentioned private placement in the 30 year maturity segment, the longest maturity in the Czech government financing history, and the decrease of short term debt by 2.7 percentage points.

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 28.5% at the end of the first quarter, i.e. below the lower limit.

II. State Debt Parameters at the end of March 2006

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

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 Mar. 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.

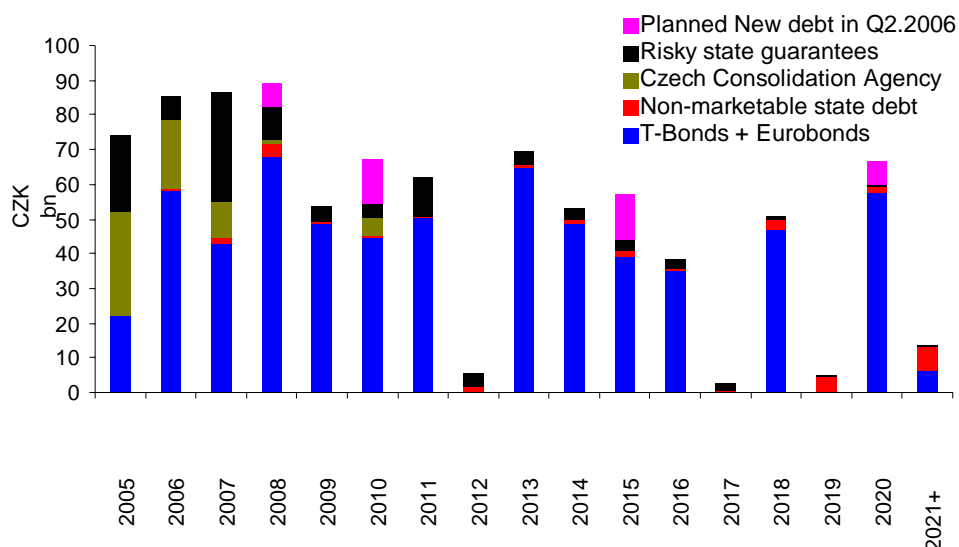
Measures of the integrated portfolio of state debt and risky state guarantees

	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	698.2	739.5	0.9	4.3	19.4	28.5	6.2	3.7
Risky state guarantees	87.5	88.1	28.7	21.8	7.6	33.1	3.9	2.2
Portfolio total	785.7	827.6	4.0	6.2	18.1	29.0	5.9	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 10 April 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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