



## Debt Portfolio Management Quarterly Review | SEPTEMBER 2005

The Ministry of Finance submits the third Debt Portfolio Management Quarterly Review through the new Debt and Financial Assets Management Department. The Minister of Finance decided on the establishment of the new organizational structure of the whole ministry in accordance with the result of external personal audit, effective from 1 October 2005. The new Department replaces the Government Debt Management Unit which existed within the structure of the ministry from 1 October 2003. It creates necessary conditions for further planned integration of the government liabilities with the current portfolio of financial assets to determine the optimal cost/risk trade-off for the state debt portfolio. More information will be released in the Financing and Debt Management Strategy for 2006 which will be published together with the Issuance calendar for the first quarter of the next year on December 1, 2005.

### I. Review of Strategic Targets for 2005

The 2005 state debt management policy is guided by the set of quantitative absolute and relative limits and 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 2005	September 30, 2005	
International financing	Max. 40% of the total annual gross financing requirement	22%	
	CZK 28.6 to 54.6 bn	30.1 mld Kč	
Gross T-Bonds issues	CZK 94.0 to 120.0 bn	+ 81.6 mld Kč	
Net T-Bills issues	CZK – 24.0 to – 50.0 bn	- 27.5 mld Kč	
Loans from EIB	CZK 11.78 bn	+ 7.7 mld Kč	
Short-term state debt	24% and less	State debt	19.44 %
		inc. Guarantees	20.44 %
Average time to maturity	5.5 to 6.5 years	State debt	5.85 years
		inc. Guarantees	5.60 years
Modified duration	3.8 ± 0.4 years	State debt	3.86 years
		inc. Guarantees	3.67 years

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

As regards **international financing**, the Czech Republic has drawn the loans from the European Investment Bank in the amount of CZK 2.2 bn in the third quarter. The total amount of new loans reached CZK 7.7 bn which represents 65.4% of the approved value in the State Budget Act for 2005. As for further operations of the Ministry on the foreign market, the probability of minister's decision to launch additional eurobond issue is very low in the rest of the year.

Regarding **domestic issuance activity**, the net issue of T-Bonds was CZK 27.8 bn in the third quarter. The total gross issue of T-Bonds is CZK 81.6 bn in the three quarters of 2005; it is about 68% of the maximal supply announced in December 2004. The volume in issue of T-Bills decreased by CZK 27.5 bn in the third quarter according to the announced plan to decrease the volume of T-Bills by minimally CZK 24 bn during 2005. We can expect further reduction toward the CZK 50 bn as a result of favourable state budget position.

**The short-term state debt** reached the level of 19.4%. It means that the Ministry hits not only the announced target to drop to the level of 24% and less by the end of 2005 but broke the final limit 20% which is planned from the end of 2006. Nevertheless, we expect that this figure will be above 20% at the end of 2005 because of redemption of the 37th bond issue in the amount of CZK 28 bn in October 2006.

**Average time to maturity** is stabilised at the level of 5,8 years and is approaching the mid of the target band 5,5 – 6,5 for the end of 2005. We don't expect significant increase of this benchmark in the rest of the year.

**Modified duration of state debt** decreased to 3.86 years and got back to the band  $3,8 \pm 0,4$  years in the comparison with the second quarter. The decrease by 0.4 years is caused by the decline in duration of T-Bonds portfolio and derivatives portfolio and new EIB loans.

## II. State Debt Parameters at the end of September 2005

Debt Parameter	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2005
<b>Total state debt (CZK bn)</b>	<b>592,9</b>	<b>618,2</b>	<b>643,6</b>	<b>662,6</b>
Market value, inc. derivatives (CZK bn))	629,8	662,5	706,6	724,8
Short-term state debt (%)	25,0	25,5	21,7	19,4
Share of T-Bills (%)	21,2	20,5	16,9	14,8
Average time to maturity (years)	5,1	5,6	5,8	5,9
Interest rate refixing up to one year, inc. derivatives (%)	27,0	27,3	24,5	27,9
Variable-rate state debt (%)	3,5	3,3	4,1	4,3
Modified duration (years)	3,9	4,1	4,3	3,9
Modified duration, exc. IRS (years)	3,4	3,6	3,8	3,4
Foreign currency state debt (%)	0,0	0,1	0,1	0,1
Foreign currency debt, exc. cross-currency swaps (%)	7,8	12,2	11,8	11,3
Nonmarketable state debt (%)	3,6	3,5	4,2	4,4
<b>Marketable state debt (CZK bn)</b>	<b>571,4</b>	<b>596,7</b>	<b>616,7</b>	<b>633,5</b>
Market value (CZK bn)	608,2	641,0	679,6	695,6
Short-term marketable debt (%)	25,8	26,2	22,5	20,2
Share of T-Bills (%)	21,9	21,2	17,7	15,5
Average time to maturity (years)	5,0	5,6	5,6	5,6
Interest rate refixing up to one year, inc. derivatives (%)	24,2	24,7	21,2	24,6
Variable-rate marketable debt (%)	0,0	0,0	0,0	0,0
Modified duration (years)	4,1	4,3	4,4	4,0
Modified duration, exc. IRS (years)	3,5	3,7	3,9	3,5
Foreign currency marketable deb (%)	0,0	0,1	0,1	0,1
Foreign currency debt, exc. cross-currency swaps (%)	8,0	12,6	12,3	11,8

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. 2005

Debt management carries on the integrated approach to analyse the portfolio of government liabilities.

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

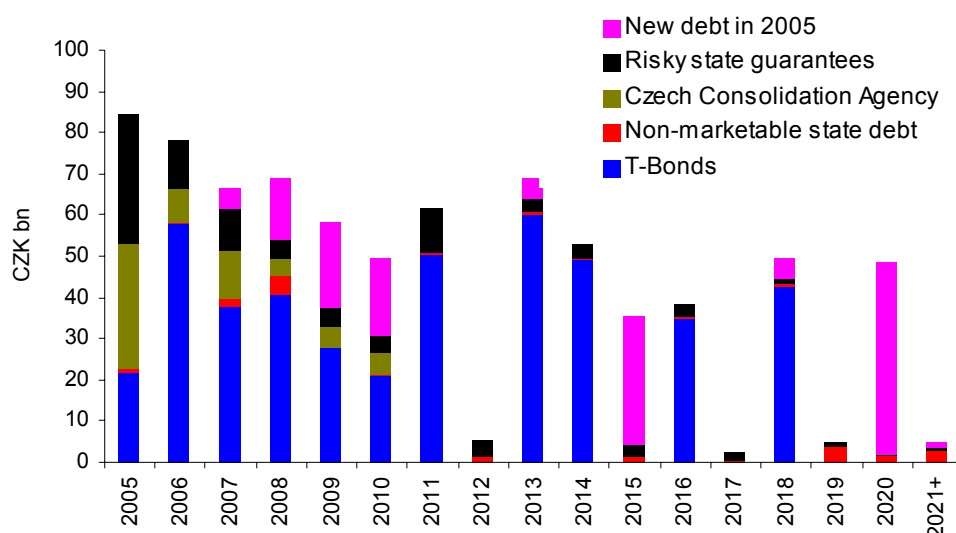
	Nominal amount (CZK bn)	Market value (CZK bn)	Foreign currency liabilities (%)	Variable-rate liabilities (%)	Short-term liabilities (%)	Interest rate refixing (%)	Average life (years)	Modified duration (years)
Total state debt	662.6	724.8	0.1	4.3	19.4	27.9	5.9	3.9
Risky state guarantees	95.6	96.7	27.9	23.1	27.4	30.3	3.9	2.3
<b>Portfolio total</b>	<b>758.2</b>	<b>821.5</b>	<b>3.6</b>	<b>6.7</b>	<b>20.4</b>	<b>28.5</b>	<b>5.6</b>	<b>3.7</b>

Note: including currency and interest rate derivatives of the MF and CMZR Bank.

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

There is uncertainty as to the settlement of the guarantee for the Czech National Bank in the amount of CZK 22 bn and plans of the minister of finance and the central bank in this case. To keep prudent approach in the risk management process we assume that two thirds will be redeemed in 2005 and one thirds in 2006.

#### Redemption profile of state debt, risky state guarantees and outlook of the CCA's funding (End-2004; updated on 10 October 2005, excl. T-Bills outstanding)



Note: The planned earlier redemption of the CNB guarantee is distributed subsequently: 2/3 (CZK 14.7 bn) is accounted for in 2005. The remaining 1/3 (CZK 7.3 bn) is accounted for in 2006. The final financing tactic is based on the legislative approval by the Parliament, minister's decision, state budget position and on the market conditions in the fourth quarter of 2005.

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

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