



## Debt Portfolio Management Quarterly Review

DECEMBER 2005

The Ministry of Finance submits the fourth Debt Portfolio Management Quarterly Review to present the basic debt portfolio risk management measures and performance with respect to the planned annual financing programme and achieving the set medium-term strategic targets of debt management policy.

The total actual gross government requirements for financing in 2005 without revolving and redemptions of T-Bills outstanding were **CZK 120.4 bn**. The main sources of this amount were made up by the state budget deficit of CZK 56.3 bn, the funding needs of the Czech Consolidation Agency in the amount of CZK 30.0 bn, the reserve for the planned transfer of the positive difference between pension insurance revenues and expenditures from the year 2004 in the amount of CZK 8.3 bn and the refinancing of state debt in the amount of CZK 22.1 bn. The net borrowing requirements and increase of the state debt were **CZK 98.3 bn** for the year 2005.

### I. Review of Strategic Targets for 2005

The 2005 state debt management policy was 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. The Ministry succeeded in performing in this area and the planned financing programme was consistent with the real development as summarized in the following table.

Criterion	Guidelines for 2005	December 31, 2005	
International financing	Max. 40% of the total annual gross financing requirement	25.0%	
	CZK 28.6 to 54.6 bn	CZK 30.1 bn	
Gross T-Bonds issues	CZK 94.0 to 120.0 bn	CZK 112.5 bn	
Net T-Bills issues	CZK – 24.0 to – 50.0 bn	CZK - 31.3 bn	
Loans from EIB	CZK 11.78 bn	CZK 9.1 bn	
Short-term state debt	24% and less	State debt	22.14%
		Inc. Guarantees	21.36%
Average time to maturity	5.5 to 6.5 years	State debt	5.76 years
		inc. Guarantees	5.56 years
Modified duration	3.8 ± 0.4 years	State debt	3.76 years
		inc. Guarantees	3.60 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 1.4 bn in the last quarter. The total amount of new EIB loans reached CZK 9.1 bn which represents 77.1% of the approved value in the State Budget Act for 2005. As for further operations of the Ministry on the foreign market, the Ministry issued only the second eurobond issue of the Czech Republic in March in the amount of EUR 1 billion. It represents **25%** of the maximal limit for the activity in the foreign capital market in 2005.

Regarding **domestic issuance activity**, the net issue of T-Bonds was CZK 30.9 bn in the last quarter. The total gross issue of T-Bonds was CZK **112.5 bn** in the year 2005; it is about 93.8% of the maximal supply announced in December 2004.

**The volume in issue of T-Bills** decreased by CZK **31.3 bn** during 2005 according to the announced plan to decrease the volume of T-Bills by minimally CZK 24 bn and maximally CZK 50.0 bn.

**The short-term state debt** reached the final share of **22.14%**. It means that the Ministry hit the announced target to drop to the level of 24% and less by the end of 2005 in accordance with our expectations in the September Quarterly Review.

**Average time to maturity** stabilised at the level of **5.76** years and is approached the mid of the target band 5.5 – 6.5 for the end of 2005.

**Modified duration of state debt** decreased to 3.76 years. It means that the Ministry achieved the middle of the announced target band. Beginning with the year 2006, the Ministry will continue to publish this interest rate risk factor but no explicit target will be set up to manage the debt portfolio. The new explicit target range in this area will be interest rate re-fixing of the debt portfolio up to one year.

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

Debt Parameter	December 31, 2004	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
<b>Total state debt (CZK bn)</b>	<b>592.9</b>	<b>618.2</b>	<b>643.6</b>	<b>662.6</b>	<b>691.2</b>
Market value, inc. derivatives (CZK bn))	629.8	662.5	706.6	724.8	741.2
Short-term state debt (%)	25.0	25.5	21.7	19.4	22.1
Share of T-Bills (%)	21.2	20.5	16.9	14.8	13.6
Average time to maturity (years)	5.1	5.6	5.8	5.9	5.8
Interest rate refixing up to one year, inc. derivatives (%)	27.0	27.3	24.5	27.9	30.4
Variable-rate state debt (%)	3.5	3.3	4.1	4.3	4.3
Modified duration (years)	3.9	4.1	4.3	3.9	3.8
Modified duration, exc. IRS (years)	3.4	3.6	3.8	3.4	3.3
Foreign currency state debt (%)	0.0	0.1	0.1	0.1	0.1
Foreign currency debt, exc. cross-currency swaps (%)	7.8	12.2	11.8	11.3	10.6
Nonmarketable state debt (%)	3.6	3.5	4.2	4.4	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>	<b>660.6</b>
Market value (CZK bn)	608.2	641.0	679.6	695.6	710.7
Short-term marketable debt (%)	25.8	26.2	22.5	20.2	23.0
Share of T-Bills (%)	21.9	21.2	17.7	15.5	14.3
Average time to maturity (years)	5.0	5.6	5.6	5.6	5.6
Interest rate refixing up to one year, inc. derivatives (%)	24.2	24.7	21.2	24.6	27.2
Variable-rate marketable debt (%)	0.0	0.0	0.0	0.0	0.0
Modified duration (years)	4.1	4.3	4.4	4.0	3.9
Modified duration, exc. IRS (years)	3.5	3.7	3.9	3.5	3.4
Foreign currency marketable deb (%)	0.0	0.1	0.1	0.1	0.1
Foreign currency debt, exc. cross-currency swaps (%)	8.0	12.6	12.3	11.8	11.1

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 Dec. 2005

Debt management carried out the integrated approach to evaluate and analyse the portfolio of government liabilities in accordance with the Financing and Debt Management Strategy for 2005.

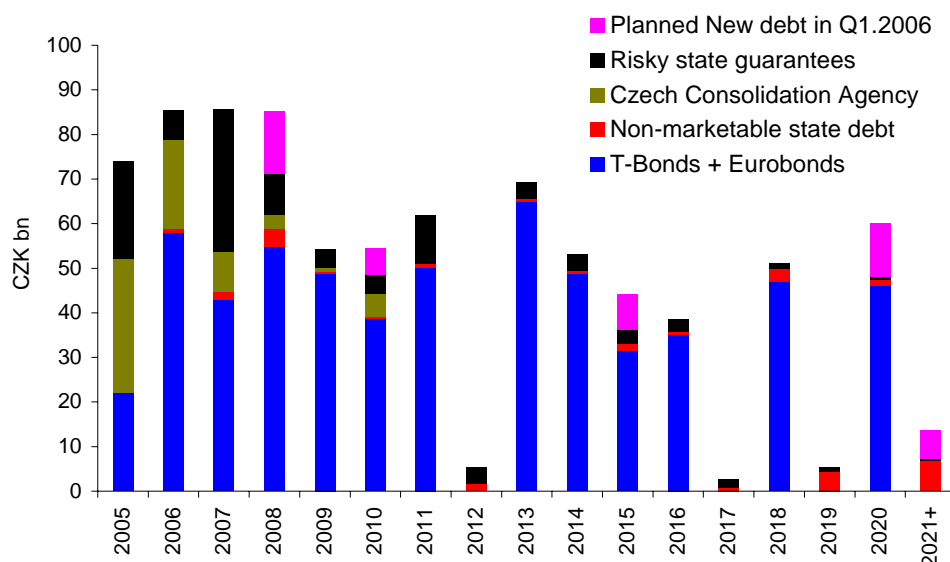
#### Measures of the integrated portfolio of state debt and risky state guarantees

	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	691.2	741.2	0.1	4.3	22.1	30.4	5.8	3.8
Risky state guarantees	88.9	89.6	28.7	22.2	15.3	32.5	4.0	2.2
<b>Portfolio total</b>	<b>780.1</b>	<b>830.8</b>	<b>3.3</b>	<b>6.3</b>	<b>21.4</b>	<b>30.1</b>	<b>5.6</b>	<b>3.6</b>

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

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 January 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 possible earlier redemption of the remaining value of CZK 17 bn during 2006 will be based on the finance minister's decision.

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

\*\*\*

This publication is available also on the website:

**[www.mfcr.cz/statedebt](http://www.mfcr.cz/statedebt)**

The next issue of Quarterly Review will be published on April 10, 2006, at 2.00 pm.

#### Contact details for further information:

Mr Petr Pavelek, 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](mailto:petr.pavelek@mfcr.cz)