



# Ministry of Finance of the Czech Republic

DEBT AND FINANCIAL ASSETS MANAGEMENT DEPARTMENT

## Debt Portfolio Management Quarterly Review

DECEMBER 2006

The Ministry of Finance submits the eighth 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 set medium-term strategic targets of debt management policy.

The government's gross financing requirement in 2006 (excluding revolving and redemptions of T-Bills outstanding) achieved **CZK 175.6 bn**. The main sources of this amount were made up by the state budget deficit of CZK 97.6 bn, the funding needs of the Czech Consolidation Agency in the planned amount of CZK 20.0 bn and the refinancing of state debt in the amount of CZK 58.0 bn. At the same time, the year-to-year increase in the Czech crown value of the state debt reached **CZK 111.3 bn**.

### I. Review of Strategic Targets for 2006

The 2006 state debt management policy was 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. 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 2006	December 31, 2006	
International financing	Max. 50% of the total annual gross borrowing requirement	3.7%	
	CZK 0.0 to 77.7 bn	CZK 6.25 bn	
Gross T-Bonds issues	CZK 72.3 to 150.0 bn	CZK 159.4 bn	
Net T-Bills issues	CZK – 3.8 to – 25.0 bn	CZK - 2.3 bn	
Loans from EIB	CZK 9.2 bn	CZK 7.0 bn	
Short-term state debt	20% and less	State debt	17.1%
		inc. Guarantees	16.8%
Average time to maturity	6.0 to 7.0 years	State debt	6.2 years
		inc. Guarantees	6.2 years
Interest Rate Re-fixing	30 to 40%	State debt	25.4%
		inc. Guarantees	25.9%

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 2.4 bn in the last quarter. The total amount of new EIB loans reached CZK 7.0 bn which represents 76% of the approved limit in the State Budget Act for 2006. As for further operations of the Ministry on the foreign market, only one private placement to a Japanese institutional investor in the amount of JPY 30 bn was undertaken in January, which covered less than 4% of the gross government's borrowing requirement.

Regarding **domestic issuance activity**, the net issue of T-Bonds was CZK 34.1 bn in the last quarter. The total gross issuance of T-Bonds was CZK **159.4 bn** in the year 2006; it is about 106.3% of the maximal supply announced originally in December 2006. Higher than planned maximal issuance was caused by the successful realization of the historic first auction of CZK bonds with a thirty year maturity in the amount of CZK 13.1 bn. It related to additional borrowing requirement in 2006.

**The volume in issue of T-Bills** decreased by CZK **2.3 bn** during 2006. Lower than minimal planned decrease according to the announced plan resulted from funding the additional borrowing requirement and the non-implementation of a eurobond issue at the long end of the yield curve.

**The short-term state debt** reached the final share of **17.1%**. It means that the Ministry hit the announced target to drop to the level of 20% and less by the end of 2006 in accordance with our expectations in the Financing and Debt Management Strategy.

**Average time to maturity** reached the level of **6.2 years**, i.e. within the announced target band 6.0 – 7.0 years for the end of 2006. The decision by the Minister of Finance on the opening of a historically first issue of CZK bonds with a maturity of 30 years was apart from other things, also motivated by the effort to satisfy this announced target, at least at the level of the lower limit of the range. It confirmed the active Ministry's approach to portfolio and financial risk management and investor diversification policy.

## II. State Debt Parameters at the end of December 2006

Debt Parameter	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
<b>Total state debt (CZK bn)</b>	<b>691.2</b>	<b>698.2</b>	<b>728.9</b>	<b>746.3</b>	<b>802.5</b>
Market value, inc. derivatives (CZK bn))	741.2	739.5	765.2	778.7	844.2
Short-term state debt (%)	22.1	19.4	17.6	19.5	17.1
Share of T-Bills (%)	13.6	12.4	10.9	9.6	11.5
Average time to maturity (years)	5.8	6.2	6.1	5.9	6.2
Interest rate refixing up to one year, inc. derivatives (%)	30.4	28.5	26.6	28.2	25.4
Variable-rate state debt (%)	4.3	4.3	4.4	4.4	4.3
Modified duration (years)	3.8	3.7	3.6	3.6	3.8
Modified duration, exc. IRS (years)	3.3	3.4	3.2	3.3	3.5
Foreign currency state debt (%)	0.1	0.9	0.9	0.8	0.7
Foreign currency debt, exc. cross-currency swaps (%)	10.6	11.2	10.7	10.4	9.3
Nonmarketable state debt (%)	4.4	4.4	4.5	4.7	4.7
<b>Marketable state debt (CZK bn)</b>	<b>660.6</b>	<b>667.4</b>	<b>696.1</b>	<b>711.3</b>	<b>765.0</b>
Market value (CZK bn)	710.7	708.7	732.4	743.5	806.7
Short-term marketable debt (%)	23.0	20.2	18.3	20.1	17.6
Share of T-Bills (%)	14.3	13.0	11.4	10.1	12.0
Average time to maturity (years)	5.6	6.0	5.9	5.7	6.1
Interest rate refixing up to one year, inc. derivatives (%)	27.2	25.2	23.2	24.8	22.0
Variable-rate marketable debt (%)	0.0	0.0	0.0	0.0	0.0
Modified duration (years)	3.9	3.8	3.7	3.8	4.0
Modified duration, exc. IRS (years)	3.4	3.5	3.4	3.4	3.6
Foreign currency marketable deb (%)	0.1	0.9	0.9	0.9	0.7
Foreign currency debt, exc. cross-currency swaps (%)	11.1	11.7	11.2	10.9	9.8

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 2006

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 2006.

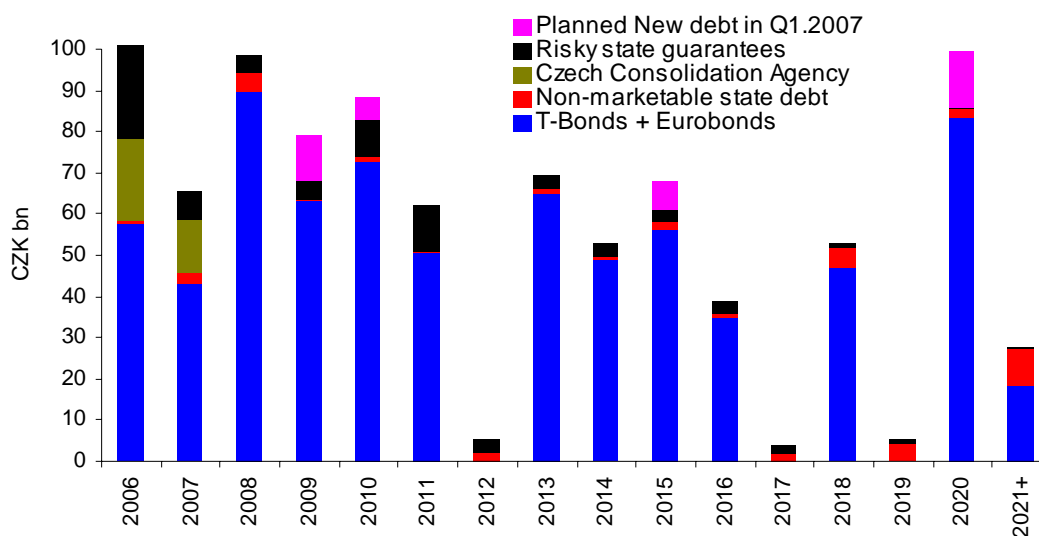
#### Measures of the integrated portfolio of state debt and risky state guarantees

	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	802.5	844.2	0.7	4.3	17.1	25.4	6.2	3.8
Risky state guarantees	56.6	57.4	40.6	28.7	12.3	34.0	5.0	3.3
<b>Portfolio total</b>	<b>859.1</b>	<b>901.6</b>	<b>3.3</b>	<b>5.9</b>	<b>16.8</b>	<b>30.1</b>	<b>6.2</b>	<b>3.8</b>

Note: including currency and interest rate derivatives of the MF and CMZR Bank, CKA bond in the amount of CZK 5.0 bn due on 5 November 2010 and excluding the IPB guarantee in the amount of CZK 157.5 bn.

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-2006; updated on 8 January 2007, excluding T-Bills outstanding)



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, 2007, at 2.00 pm.

#### Further information:

Petr Pavelek, Ph.D., 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)