



Ministry of Finance

Debt and Financial Assets  
Management Department

# The Czech Republic Funding and Debt Management Strategy

# 2022

## UPDATE

1 April 2022



# **Ministry of Finance**

## **The Czech Republic Funding and Debt Management Strategy for 2022 Update**

**The Czech Republic Funding and Debt  
Management Strategy for 2022  
Update**

1 April 2022

Ministry of Finance  
Letenská 15, 118 10 Prague 1  
Czech Republic  
Tel.: +420 257 041 111  
E-mail: [middleoffice@mfcz.cz](mailto:middleoffice@mfcz.cz)

ISSN 2336-226X (Print)  
ISSN 2336-2278 (On-line)

Issued three times a year, free distribution

Electronic archive:  
[www.mfcz.cz/statedebt](http://www.mfcz.cz/statedebt)

On 1 April 2022 the structure and methods of covering the financing needs in rest of 2022 were decided and the basic absolute and relative limits for issuance activity on the domestic and foreign markets and for active management of the state debt portfolio, financial assets and liquidity of the treasury single account in the individual currencies were approved (Ref. No. MF-145/2022/2002-2). This decision updates the decision of the Minister of Finance from 6 January 2022 (Ref. No. MF-145/2022/2002-1) presented to the public in the form of a preliminary The Czech Republic Funding and Debt Management Strategy for 2022.

This defined operational framework in the form of the submitted The Czech Republic Funding and Debt Management Strategy for 2022 enables the Ministry of Finance to act flexibly on the domestic and

foreign financial markets while actively securing cash resources for covering the financing needs and ensuring the daily solvent position of the state, meaning the creation of initial conditions for smooth implementation of budget and fiscal policy of the government.

The Czech Republic Funding and Debt Management Strategy for 2022 is submitted via Debt and Financial Assets Management Department, which is responsible for operations related to the funding of the state, active management of the state debt portfolio and financial assets, management of the liquidity of the treasury single accounts, and short-term and long-term investment of available cash resources of state financial assets and the treasury single accounts on financial markets.

# Table of Contents

<b>Introduction .....</b>	<b>9</b>
<b>Key Events in 2022.....</b>	<b>9</b>
<b>Rating of the Czech Republic .....</b>	<b>10</b>
<b>Financing Needs and State Debt Development .....</b>	<b>11</b>
<b>Funding Programme and Issuance Activity .....</b>	<b>12</b>
<b>Refinancing of Foreign Currency State Debt in 2022.....</b>	<b>14</b>
<b>Strategic Targets, Limits and Risk Parameters of the Debt Portfolio .....</b>	<b>15</b>
<b>State Debt Service Expenditure and Cost-at-Risk .....</b>	<b>17</b>
<b>Primary Dealers and Recognized Dealers in Czech Republic Government Bonds.....</b>	<b>20</b>
<b>Calendar of Information Published in the First Half of 2022 .....</b>	<b>21</b>

## List of Tables

Table 1: The Czech Republic's Credit Rating.....	10
Table 2: Financing Needs and the Czech Republic's State Debt Redemptions. ....	11
Table 3: Framework Issuance Plan of CZK-denominated T-Bonds on the Domestic Market in 2022. ....	13
Table 4: Net Interest Expenditure and Cost-at-Risk. ....	17
Table 5: Monthly Development of Cumulative Net Interest Expenditure in 2022.....	18
Table 6: Development of Net Interest Expenditure in Case of Sudden Interest Rate Hikes.....	19
Table 7: The Increase of Net Interest Expenditure in Case of EURCZK FX Rate Hike. ....	19
Table 8: List of Primary Dealers and Recognized Dealers in Czech Republic Government Bonds for 2022.....	20

## List of Figures

Figure 1: Czech Republic's State Debt Development .....	12
Figure 2: Average Maturity of State Debt and Declared Targets.....	16
Figure 3: Net Interest Expenditure and Cost-at-Risk.....	17
Figure 4: Simulation of Net Interest Expenditure of State Debt in 2022 .....	18
Figure 5: Simulation of CZK-denominated Government Bond Yields in 2022.....	18

## List of Abbreviations

bn	billion
Budgetary rules	Act No. 218/2000 Coll. on Budget Rules and Amendments of Some Relating Acts (Budgetary Rules)
CaR	Cost-at-Risk
CNB	Czech National Bank
CZK	Czech Koruna currency code
CZSO	Czech Statistical Office
ESA 2010	European System of Account 2010
EUR	Euro currency code
GDP	gross domestic product
MoF	Ministry of Finance
MTS	Mercato Telematico Secondario
p.a.	Per annum
p.p.	Percentage point
T-Bills	state treasury bills
T-Bonds	medium-term and long-term government bonds

Published aggregate data in the tables and in the text may not correspond in the last decimal place to the sum of respective indicators due to rounding in some cases.





## Introduction

The Ministry of Finance (hereinafter the Ministry or MoF) presents to the public the update of The Czech Republic Funding and Debt Management Strategy for 2022, which was originally published on 6 January 2022 and submitted as preliminary for the provisional budget period, following the approval of Act No. 57/2022 Coll., on the State Budget of the Czech Republic for 2022, which entered into force on 19 March 2022 (hereinafter the Strategy Update). Its aim is to specify the total financing needs in 2022 and in the medium term, and to provide a more detailed quantification of interest expenditure on state debt service in 2022.

Due to the initially unexpected development of the situation in Ukraine and its unfavourable impact on the domestic and foreign financial markets,

the Strategy Update also reflects this situation and presents below the initial measures in the adjustments of the government's issuance activity in local currency in terms of maturity structure and interest rate mix starting in April 2022.

Due to the continuing uncertainty, the Ministry keeps the option to introduce updates of the Strategy on the basis of current financing needs development, especially with regard to the state budget performance, development of available funds of the state treasury and development on financial markets, at the end of the first half of this year or within The Czech Republic Debt Management Quarterly Report - 1<sup>st</sup> - 3<sup>rd</sup> Quarter of 2022 or in other terms.

## Key Events in 2022

### Financing Needs CZK 552.1 bn

- budgeted state deficit of **CZK 280.0 bn**
- redemptions of three CZK-denominated issues of medium-term and long-term government bonds in total nominal value of **CZK 145.4 bn**, of which one issue of CZK 5.8 bn has already been redeemed in February, and remains CZK 139.6 bn to be redeemed
- regular repayments of tranches of loans from the European Investment Bank in total nominal value of **CZK 3.2 bn**, of which CZK 1.7 bn has already been repaid in March
- redemption of EUR-denominated government bonds issued on foreign market in 2012 in total nominal value of **EUR 2.75 bn** on 24 May 2022
- already realized redemptions of money market instruments in the total nominal value of CZK 33.3 bn and short-term loans on the money market in the amount of EUR 640.0 million

### Primary Market of Government Bonds

- gross issue of CZK-denominated medium-term and long-term government bonds on the domestic market in a minimum total nominal value of **CZK 350.0 bn to CZK 400.0 bn** depending on the amount of its coverage through the state treasury bills and other available instruments at the end of the year
- classification of EUR-denominated government bonds issued under Czech law and registered

in the Central Securities Depository Prague as eligible assets in Eurosystem credit operations

- issuance of at least three new issues of fixed-rate government bonds, of which one has been already issued in February with maturity in 2035 and one will be issued in April with maturity in 2026, and one new issue of variable-rate government bonds maturing in 2024 on the domestic market
- issuance of at least one new issue of government EUR-bond under Czech law with maturity in 2024 in order to cover the euro financing needs
- possibility of issuance of government bonds denominated in foreign currencies under foreign law with regard to market conditions
- re-opening of already issued government bonds and government EUR-bonds with maturity from 2023
- evaluation and preparation of the possibility of issuing state treasury bills also in the form of multiple-price auctions organized by the Czech National Bank and also in the euro currency

### Secondary Market of Government Bonds

- fulfilment of quotation obligations through the MTS Czech Republic platform, which was confirmed for this purpose for the years 2022 and 2023 at the 24<sup>th</sup> meeting of the Primary Dealers Committee held on 28 June 2021

- continuation in tap sales, exchange operations and buy-backs of government bonds and active support of the secondary market through medium-term and long-term government bonds lending facilities
- extension the types of transactions carried out on the regulated multilateral trading platform operated by Bloomberg Trading Facility B. V.

## Rating of the Czech Republic

The Czech Republic is assigned the highest overall rating of all Central and Eastern European countries and has higher rating than the Euro Area member countries average for several years. It belongs among the exceptionally reliable issuers, as confirmed by its high credit rating with a stable

outlook from all the major credit rating agencies with international scope of activity.

During the first quarter of 2022, the rating agencies Moody's, Scope Ratings, and ACRA affirmed their ratings while maintaining a stable outlook.

**Table 1: The Czech Republic's Credit Rating**

Rating agency	Local currency long-term liabilities	Outlook	Foreign currency long-term liabilities	Outlook	Affirmed
Moody's	Aa3	Stable	Aa3	Stable	23/2/2022
S&P Global Ratings	AA	Stable	AA-	Stable	29/10/2021
Fitch Ratings	AA-	Stable	AA-	Stable	10/12/2021
JCR	AA	Stable	AA-	Stable	5/11/2020
R&I	AA-	Stable	AA-	Stable	2/8/2021
Scope Ratings	AA	Stable	AA	Stable	21/1/2022
ACRA	AA	Stable	AA	Stable	24/2/2022

Source: Moody's, S&P Global Rating, Fitch Ratings, JCR, R&I, Scope Ratings, ACRA

## Financing Needs and State Debt Development

The financing needs are determined by the standard components that must be covered by cash resources in a given year, i.e. the state budget cash deficit and regular redemptions, redemptions before the maturity date, buy-backs and exchanges of nominal values of state debt, including the related derivatives. Financing operations on the side of

state financial assets and within the treasury single accounts then take place on the side of cash resources that can be involved into the covering of the financing needs simultaneously with the state's realized borrowing operations on the financial markets.

**Table 2: Financing Needs and the Czech Republic's State Debt Redemptions**

CZK bn	2020	2021	2022F	2023F	2024F
Primary balance of the state budget	327.3	377.5	280.0	270.0	250.0
Net expenditure on the state debt <sup>1</sup>	40.1	42.2			
Other operations of state financial assets	-	-	-	1.5	1.7
T-Bonds denominated in local currency redemptions <sup>2</sup>	188.6	187.3	145.4	208.3	127.6
T-Bonds denominated in foreign currency redemptions <sup>3</sup>	27.2	51.5	74.3	0.0	0.0
Redemptions and early redemptions on savings government bonds	2.8	0.5	0.2	0.0	0.0
Money market instruments redemptions <sup>3</sup>	18.4	25.4	49.0	0.0	0.0
Repayments on credits and loans <sup>4</sup>	5.8	6.0	3.2	2.6	0.6
<b>Total redemptions of the state debt</b>	<b>242.7</b>	<b>270.7</b>	<b>272.1</b>	<b>210.9</b>	<b>128.2</b>
<b>Total redemptions of the state debt (% of GDP)<sup>5</sup></b>	<b>4.3%</b>	<b>4.4%</b>	<b>4.1%</b>	<b>3.0%</b>	<b>1.7%</b>
<b>Total financing needs</b>	<b>610.2</b>	<b>690.4</b>	<b>552.1</b>	<b>482.3</b>	<b>379.9</b>
<b>Total financing needs (% of GDP)<sup>5</sup></b>	<b>10.7%</b>	<b>11.3%</b>	<b>8.3%</b>	<b>6.9%</b>	<b>5.2%</b>

<sup>1</sup> Balance of the budgetary chapter 396 – State Debt.

<sup>2</sup> Including the effect of already executed buy-backs and exchange operations in previous years. Excluding future buy-backs and exchange operations of T-Bonds.

<sup>3</sup> T-Bonds redemptions are stated in CZK equivalent.

<sup>4</sup> Credits and loans received from international financial institutions and the European Commission.

<sup>5</sup> Source for GDP in ESA 2010 methodology for 2020 and 2021 is CZSO, for 2022 to 2024 Macroeconomic Forecast of the Czech Republic – January 2022.

Note: Excluding future issuance activity with an impact on state debt redemptions in 2023 and 2024.

Source: MoF, CZSO

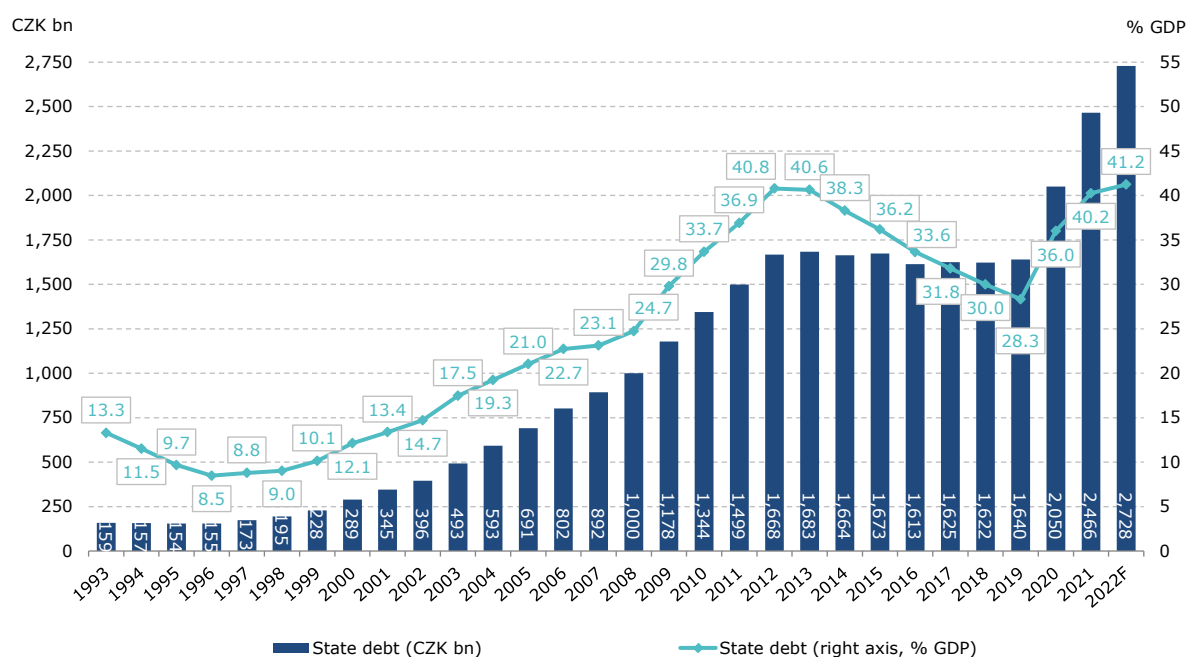
For 2022, the planned financing needs amount to CZK 552.1 billion, i.e. approximately 8.3% of GDP. Its actual amount will primarily depend on the actual state budget performance and also on the actual amount of exchange operations and buy-backs of government bonds carried out in this year, in particular for the purpose of refinancing risk management. The financing needs in the 2022 to 2024 show, in absolute terms and also as a share of GDP, a declining trend, which is given by declining total state debt redemptions excluding the impact of future issuance activity and declining planned state budget deficits in the medium term.

State debt redemptions between 2022 and 2024 are not significantly affected by the Ministry's increased issuance activity in the last two years, which is a positive factor in the structure of state debt in terms of risk parameters, as it allows the Ministry to react flexibly to the current increased demand

for government bonds with shorter maturities due to the increased uncertainties in the domestic and foreign markets.

The resulting gross borrowing requirement, which is derived from the financing needs and represents the part of financing needs, which must be covered through borrowing operations on financial markets, especially government bond markets, is dependent on the involvement of financial assets into covering the financial needs, i.e. in particular the available state treasury resources. In case of involvement of these liquid assets into covering the financing needs, the resulting gross borrowing requirement is lower than the total financing needs in the respective period. In the opposite case, when there is an accumulation of financial assets, the gross borrowing requirement is higher than the financing needs.

**Figure 1: Czech Republic's State Debt Development**



Note: Source for GDP in ESA 2010 methodology for 1993 to 2021 is CZSO, for 2022 Macroeconomic Forecast of the Czech Republic – January 2022. Source: MoF, CZSO

The amount of the state debt depends entirely on issuance activity that will be flexibly adjusted to the state budget performance, the situation on domestic and foreign financial markets and the involvement of the funds on state treasury

single accounts in order to smoothly cover the financing needs while maintaining a prudent approach to financial and credit risk management and minimizing costs in the long term.

## Funding Programme and Issuance Activity

### Medium-Term and Long-Term Government Bonds

In 2022, the Ministry still plans to carry out gross issue of CZK-denominated medium-term and long-term government bonds on the domestic market in total minimum nominal value of CZK 350.0 billion to CZK 400.0 billion. Due to the initially unexpected development of the situation in Ukraine and its unfavourable impact on the domestic and foreign financial markets, the Ministry's issuance activity in the local currency is adjusting, and new issues of CZK-denominated medium-term and long-term government bonds with maturity from 2024 are planned to be issued, so as to enable smooth coverage of the financing needs in 2022 with regard to the current demand from primary dealers and recognized dealers. In case of reduced uncertainty in the financial markets, medium-term and long-term government bonds with maturities along the

longer end of the yield curve will be issued again, with the aim of achieving or approaching the targets and limits set in The Czech Republic Funding and Debt Management Strategy for 2022 for the medium-term horizon.

When choosing particular maturities and the type of instrument, the Ministry will flexibly react to the development of market conditions and the demand from the primary dealers and recognized dealers. The issuance activity including the inclusion of variable-rate government bonds will be carried out with the respect to the riskiness of the debt portfolio and maintaining strategic targets and limits for risk parameters in medium-term horizon.

**Table 3: Framework Issuance Plan of CZK-denominated T-Bonds on the Domestic Market in 2022**

CZK bn	Framework scope of sale	Issued in the 1 <sup>st</sup> quarter
<b>Fixed-rate and variable-rate T-Bonds</b>	<b>Min. 350 to 400</b>	<b>93.0</b>
Maturity segment of up to 10 years	Max. 400	27.4
Maturity segment of over to 10 years	Max. 250	65.6

Source: MoF

If there is an unexpected change of the government bond market conditions or unplanned economic development, the Ministry reserves the option of not issuing new bonds. The Ministry also supplements the issuance of medium-term and long-term government bonds on the primary market with tap sales of government bonds from its own asset account on the secondary market in case that the primary dealers' and recognized dealers' interest especially when the usage of these government bonds within medium-term and long-term government bonds lending facilities drops or as a more flexible alternative to the sale of government bonds, which are included in primary auctions to a lesser extent. Furthermore, tap sales of government bonds with a long time to maturity may be used to manage the average time to maturity of the debt portfolio. Tap sales will continue to be available through MTS Czech Republic.

The competitive part of the primary auction of medium-term and long-term government bonds on domestic market will be held on the traditional auction day of Wednesday while the non-competitive part of primary auctions will be held traditionally on Thursday. The settlement will take place within two business days after the auction date, i.e. according to the international standard on the primary market, usually on Friday. The possibility to bid within the competitive part of the auction is made possible

for primary dealers and recognized dealers, but access to the non-competitive part of the auction remains exclusively to a group of primary dealers.

The issuance calendars of medium-term and long-term government bonds together with indicative maximum total nominal value sold in auctions for respective quarter of the year will be published monthly, usually the fourth Monday of the month preceding the respective month, unless otherwise announced. The Ministry reserves the right to specify one or more alternative medium-term and long-term government bonds to be included in the relevant auction or change the offered government bond for another one with the similar time to maturity. When choosing particular maturities and instrument type, the Ministry will flexibly react to the development of market conditions and the demand from primary dealers and recognized dealers.

The choice of particular medium-term and long-term government bonds for the relevant auction will be announced at least one business day before the date of the competitive part of the auction. The nominal value of medium-term and long-term government bonds offered in the competitive part of the auction will be published in indicative maximum amount or in indicative range within the issuance calendars.

## Money Market Instruments and Other Debt Instruments

**State treasury bills** could be issued in all available maturities in order to cover short-term financing needs, to strengthen the state treasury liquidity reserves as well as to utilize the current market situation with regard to the effective liquidity management of the treasury single accounts. State treasury bills will be issued on traditional auction day Thursday with a settlement on the following business day, usually on Friday.

The issuance calendars of state treasury bills with particular maturities offered in individual auctions will be published monthly usually on the fourth Monday of the month preceding the respective month unless announced otherwise by the Ministry. The nominal value of the state treasury bills offered in auction will be published in predetermined indicative range or an indicative maximum value will be announced. However, the Ministry reserves the right to change the range or maximum value

according to the actual development of market conditions or the demand from primary dealers and recognized dealers. Together with the issuance calendars, the Ministry will publish also the indicative maximum total nominal value of state treasury bills issues for respective quarter.

If necessary and with regard to the situation on the domestic financial market, the Ministry may carry out so-called **stabilization repo operations**, in which it obtains funds against government bonds provided as a collateral, when the time to maturity of these operations ranging from two weeks up to three months. The Ministry may carry out these operations in order to strengthen the liquidity reserves of the state treasury or for the purpose of short-term financing and stabilization of fluctuations on the domestic bond market caused by unexpected factors, especially of foreign origin.

During 2022, the Ministry will also use the medium-term and long-term government bonds **lending facilities** in the form of repo operations and also in the form of collateralized loans, under which the Ministry provides for fee government bonds of Czech Republic from own asset account against another government bond or CNB bill for a short period of time. These facilities may be used for the period up to 90 days. The aim of these operations is to increase the liquidity of government bonds on the secondary market particularly in case of short-term excess of demand over supply regarding the particular government bond. The scope of realized medium-term and long-term government bonds lending facilities will primarily depend on the demand for particular government bonds from the investors with the fact, that the Ministry will be ready to flexibly satisfy this demand accordingly to the availability of government bonds on its asset account.

### **Programme for Buy-Backs and Exchange Operations on Secondary Market**

The Ministry plans the inclusion of government bonds into buy-backs and exchange operations in dependence on market condition in particular segment of the yield curve and their execution will primarily depend on the demand from primary dealers and recognized dealers. The exchange operations and buy-backs of medium-term and

If necessary, the Ministry plans to continue to benefit from favourable conditions on the money market for short-term refinancing of foreign currency debt in the form of **deposit operations** or **foreign exchange swaps**, provided that a prudent approach is taken to manage financial risks and minimize interest costs.

The Ministry will continue to allow holders of accounts subordinate to the state treasury pursuant to paragraph 3 letter h) points 11 to 13 and 15 to 17 of budgetary rules to use so-called **term deposits**.

Funds may also be obtained from the **international institutions** through the new or already signed loan contracts, if the Ministry achieves cost-favourable conditions than in case of the issuance of government bonds on domestic market with a similar residual time to maturity.

long-term government bonds will be available through the MTS Czech Republic. The impacts of these operations will affect the financing needs and borrowing requirement accordingly and will have positive effect on refinancing risk of the state debt portfolio.

### **Refinancing of Foreign Currency State Debt in 2022**

In 2022, resources will be secured to cover redemptions of foreign currency debt resulting from previous issuance activity on foreign markets and the acceptance of short-term loans in the form of deposit operations in the total nominal value of EUR 3.39 billion. These redemptions consist of medium-term and long-term government bonds issued on foreign markets in 2012 in the total nominal value of EUR 2.75 billion and short-term loans in the form of deposit operations in the total nominal value of EUR 0.64 billion.

The specific coverage will be decided to minimize the costs and financial risks associated with borrowing operations on the domestic and foreign financial markets in accordance with the set targets, limits and risk parameters of the debt portfolio.

In the case of maintaining favourable conditions and interest from primary dealers and recognized dealers, the Ministry prefers to issue new issues of the government EUR-bond on the domestic market under Czech law with maturity from 2024 for full or partial covering of euro financing needs and will continue to take further steps to make this form of financing more attractive to international investors.

The Ministry, as a new member of the Users Committee of the Central Securities Depository Prague, initiated and reached in 2019 an agreement with its members to make the central depository, as an ancillary settlement system, a direct participant in the TARGET2 payment system, a clearing system operated by the central banks of the euro area countries. This happened in line with the project plan on 2 March 2020 representing a significant step forward in the development of the domestic capital market and its closer interconnection with euro area bond market infrastructure.

At the same time, it was a necessary step towards the planned inclusion of the Czech Republic's government EUR-bonds issued under Czech law and registered in the domestic central depository among the eligible assets under Eurosystem credit operations. This happened on 16 March 2022, when the European Central Bank announced the approval of the linking of the Central Securities Depository Prague to the foreign depository Euroclear Bank, which allows these EUR-bonds to be classified as eligible assets in Eurosystem credit operations and they are competitive with bonds issued in euro area countries. The Czech Republic is only the second non-

euro area country in Europe after Denmark, whose local central depository has achieved this status.

In the case of need arising from actual market conditions, the Ministry keeps an alternative in the form of a syndicated issue of medium-term and long-term government bonds on the foreign markets under Czech or foreign law. A foreign issue is conditioned by lower interest expenses related to the issuance of government bonds on the foreign market compared to a similar issue of government bonds on the domestic market, after taking into account additional costs in the form of fees for leading managers of the issue, preparation of necessary documentation and other related activities.

Partial coverage of the euro financing needs may also be achieved through drawing loans from international institutions, or by revising previously received tranches of loans from the European Investment Bank and converting them into the euro currency.

If the Ministry finds it appropriate with regard to the prudential approach to financial risk management and the minimization of interest expenditure, foreign currency debt may be covered by euro funds as part of increasing euro liquidity of treasury single accounts or by deposit operations, repo operations and foreign exchange swaps.

## Strategic Targets, Limits and Risk Parameters of the Debt Portfolio

In connection with the sufficient liquidity of treasury single accounts and relatively stable balances of the accounts owners mandatorily included into treasury single accounts, improvement of the efficiency and modernization of the state treasury liquidity management, the Ministry announces strategic targets and limits of refinancing and interest risk in the medium-term horizon. This concept allows the Ministry to flexibly react on short-term market conditions and interest of investors for instruments in particular segment of time to maturity or re-fixing.

Short-term deviation from established strategic medium-term targets and limits for risk parameters of debt portfolio for refinancing and interest risk is possible. However, the issuance in medium-term horizon will be planned so that the targets and limits defined in this Strategy will be fulfilled in medium-term horizon.

For 2022, the Ministry maintains the concept of refinancing risk management through the average time to maturity of state debt indicator and interest risk management through the average time to re-fixing of the state debt indicators using medium-term target values of these indicators. Despite the high uncertainty about the economic development in

the following year and ultimately in the medium-term horizon, the Ministry adjusted the target for the average time to maturity and for the average time to re-fixing. In addition, the Ministry monitors the risk parameters of the average time to maturity and the average time to re-fixing after offsetting the nearest state debt redemptions against cash resources from short-term reserve operations on money market and the total available state treasury liquidity.

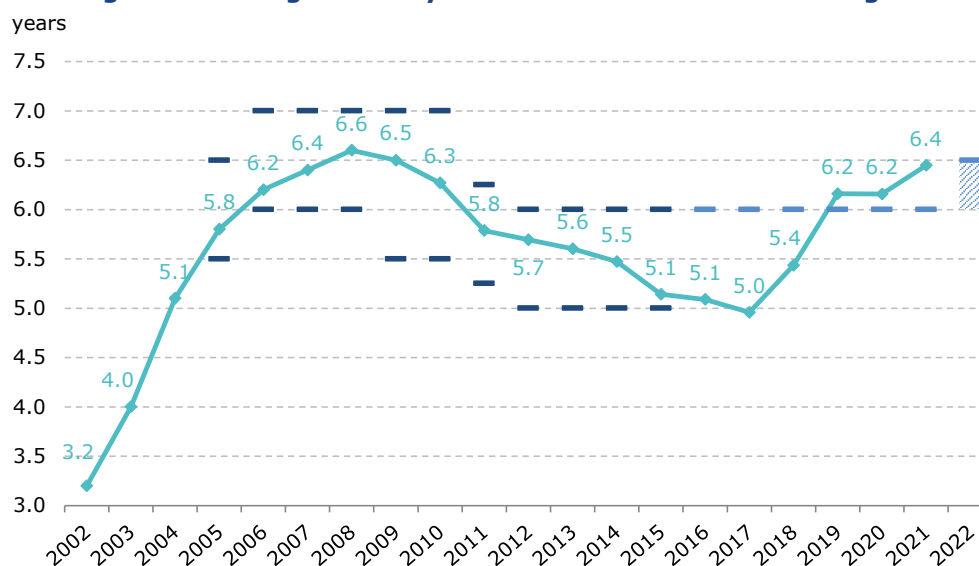
The currency risk is specified by the net foreign-currency exposure of state debt indicator taking into account also the foreign-currency exposure of the state financial assets. In this context, the net foreign-currency exposure of the state debt with the impact on state debt level and the net short-term foreign-currency exposure with the impact of the level of interest expenditure on the state debt service are distinguished. The limit is stipulated for both indicators and is valid for each year of medium-term horizon without the possibility to exceed it. However, its value is subjected to the condition that there will be no sharp depreciation of the Czech Koruna exchange rate. Compared to the refinancing and the interest risk, the currency risk is relatively small, which is also regularly noted by the rating agencies in the evaluation of the Czech Republic.

### Refinancing Risk

The limit for the share of the short-term debt (debt due within 1 year) is stipulated at 20.0% of the total state debt for the medium-term horizon. The limit for the share of the medium-term debt (debt due within 5 year) is stipulated at 70.0% of the total state debt for the medium-term horizon. For the average time to maturity of the state debt, the increased target value of 6.5 years remains for the

medium-term horizon. If there will be persistent uncertainty in the financial markets due to the situation in Ukraine and increased issuance activity at the short end of the yield curve for the rest of 2022, the average time to maturity of state debt will not be targeted at 6.5 years, regardless of demand and costs, but it may move in the interval from 6.0 to 6.5 years in 2022.

**Figure 2: Average Maturity of State Debt and Declared Targets**



Note: At the end of each year.  
Source: MoF

## Interest Risk

For the interest re-fixing of the debt portfolio within 1 year, the limit is retained at 40.0% of the total state debt for the medium-term horizon. For the average

time to re-fixing of the state debt, the target band of 5.0 years to 6.0 years remains for the medium-term horizon.

## Currency Risk

For 2022, the Ministry retains the limit for both net foreign-currency exposure of the state debt indicators, i.e. the net foreign-currency exposure of state debt with the impact on the state debt level and the net short-term foreign-currency exposure

with the impact of the level of interest expenditure on the state debt service, at the level of 15.0% (up to 17.0% in the short-term) of total state debt, while foreign exchange swaps are also included in the net foreign-currency exposure.



## State Debt Service Expenditure and Cost-at-Risk

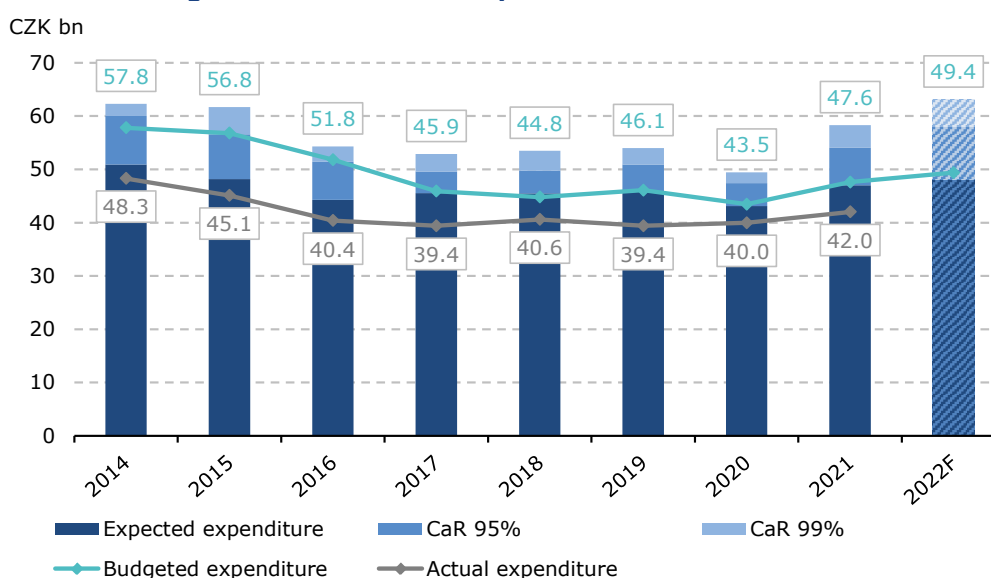
The Ministry applies a model framework known as Cost-at-Risk (furthermore CaR) for measuring and managing interest rate risk since 2005. This framework is based on the Value-at-Risk methodology and simulates future expected and maximum interest expenditure for a particular degree of risk, which is derived from the volatility of the time structure of interest rates. The stochastic element of the CaR model is the yield curve, and the deterministic element is the dynamic structure of the portfolio of state debt, which is based on the base case scenario of the funding programme while respecting the set strategic goals for managing financial risks.

The primary goal of the model is to determine the maximum interest expenditure on state debt, which

with 95% or 99% probability will not be exceeded (furthermore CaR 95% and CaR 99%). The secondary goal of the model is to estimate the actual interest expenditure on state debt. The simulation framework operates separately with the interest expenditure and interest revenue. The outcome of aggregation of interest expenditure and interest revenue is the net interest expenditure on state debt. Interest expenditure on state debt service in the model framework does not include fees related to state debt service, which are of a deterministic nature.

Over all the years the CaR methodology has been applied, the model has fulfilled the primary goal, since the simulated maximum interest expenditures were not exceeded in any of those years.

**Figure 3: Net Interest Expenditure and Cost-at-Risk**



Note: In 2014 to 2022, the figures represent the originally approved budget.  
Source: MoF

**Table 4: Net Interest Expenditure and Cost-at-Risk**

CZK bn	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Budgeted expenditure<sup>1</sup></b>	57.8	56.8	51.8	45.9	44.8	46.1	43.5	47.6	49.4
<b>Actual expenditure</b>	48.3	45.1	40.4	39.4	40.6	39.4	40.0	42.0	-
<b>Expected expenditure</b>	50.9	48.2	44.3	45.6	45.5	45.8	43.1	47.0	48.1
<b>CaR 95%</b>	60.0	56.6	51.4	49.6	49.7	50.9	47.4	54.1	58.0
<b>CaR 99%</b>	62.3	61.7	54.3	52.9	53.5	54.0	49.4	58.3	63.1

<sup>1</sup> From 2014 to 2022 the figures represent the originally approved budget.  
Source: MoF

Net interest expenditure expected by the model in 2022 amounts to CZK 48.1 billion. Net interest expenditure at risk, i.e. CaR 99% amounts to CZK 63.1 billion (CaR 95% amounts to CZK 58.0 billion). Thus, the actual net interest expenditure in 2022 will not be higher by about CZK 15.0 billion compared to

the expected expenditure with 99% probability. The budgeted interest expenditure on state debt service in 2022 amounts to CZK 49.4 billion, i.e. by CZK 1.3 billion above expected net interest expenditure and by CZK 8.6 billion below the 95% percentile of the CaR indicator.

The following table shows in detail the development of cumulative net interest expenditure on state debt in 2022 predicted by the model always at the end

of the month. It also contains the respective critical values of CaR 95% and CaR 99%.

**Table 5: Monthly Development of Cumulative Net Interest Expenditure in 2022**

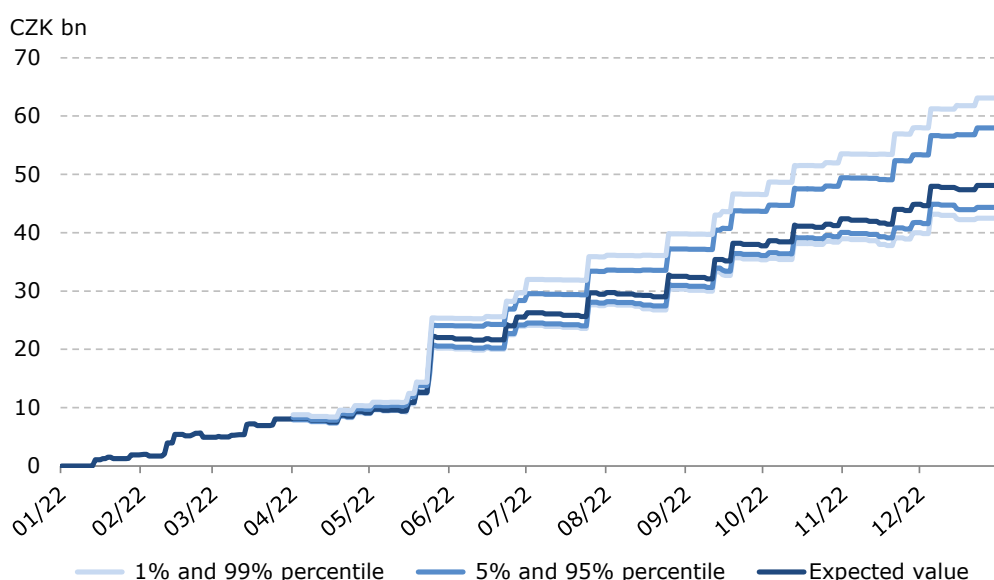
CZK bn	1	2	3	4	5	6	7	8	9	10	11	12
<b>Expected expenditure</b>	1.9	4.9	7.8	9.1	22.0	25.5	29.5	32.5	37.8	42.4	44.9	48.1
<b>CaR 95%</b>	-	-	-	9.7	24.1	28.4	33.3	37.2	43.6	49.4	53.4	58.0
<b>CaR 99%</b>	-	-	-	10.3	25.3	29.7	35.9	39.8	46.5	53.5	58.0	63.1

Source: MoF

The graphic presentation of simulations of cumulative net interest expenditure on the state debt service in 2022 stipulated on a daily basis is shown in the following figure. The figure also shows the expected

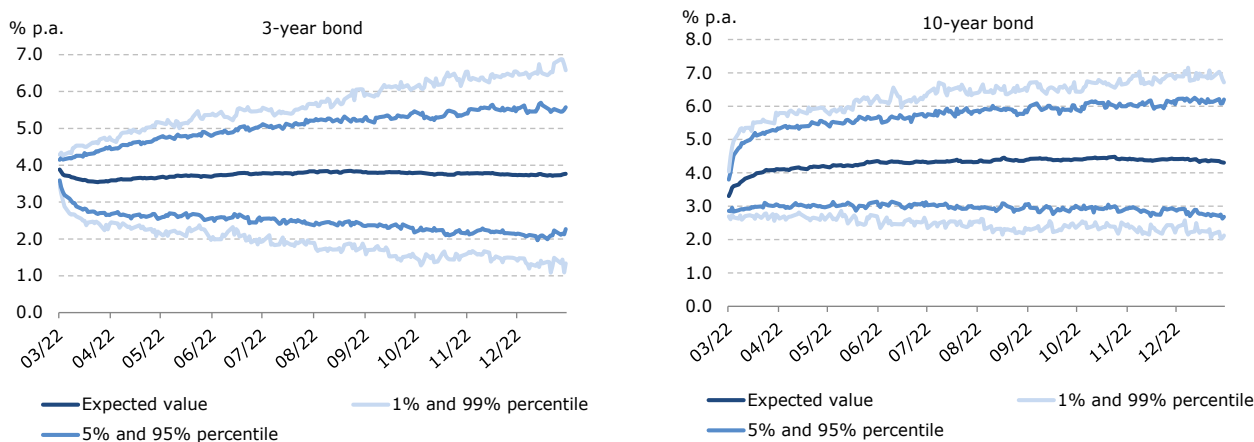
values of net expenditure and the respective 5% and 95%, 1% and 99% percentiles of simulated values.

**Figure 4: Simulation of Net Interest Expenditure of State Debt in 2022**



Note: Development of net interest expenditure on a daily basis.  
Source: MoF

**Figure 5: Simulation of CZK-denominated Government Bond Yields in 2022**



Source: MoF

The Ministry also deals with the problem of interest rates hikes, which could occur e.g. via a sharp increase in the Czech National Bank key interest rate, sudden deterioration of the economic situation in the euro area, a sharp increase of the risk premium of government bonds, etc. The Ministry strives to quantify the impact of these circumstances on net interest expenditure on the state debt service. Each economic event has an effect on a certain part of the yield curve, which is why it is important for

the Ministry to observe the shift in the individual parts of the yield curves separately. The following table quantifies the consequences of a potential increase in interest rates at the short end of the yield curve, at the long end of the yield curve and along the entire curve evenly. This analysis also enables the uneven shifting of the short and long end of the yield curve and arbitrary selection of the date of this shift.

**Table 6: Development of Net Interest Expenditure in Case of Sudden Interest Rate Hikes**

CZK bn	Current model	Shift of rates at the short end of the yield curve by 1 p.p.	Shift of rates at the long end of the yield curve by 1 p.p.	Shift of the whole yield curve by 1 p.p.
<b>Expected expenditure</b>	48.1	49.3	50.2	51.4
<b>CaR 95%</b>	58.0	59.2	60.0	61.2
<b>CaR 99%</b>	63.1	64.3	65.1	66.3

*Note: The shock in the form of a one-time shift in the yield curve will occur at the end of March 2022.  
Source: MoF*

Assuming the financing of the gross borrowing requirement with an unchanged issuance calendar, a 1 p.p. upward shift in the yield curve of CZK-denominated government bonds at its short end would lead to an increase in expected net interest expenditure of CZK 1.2 billion in the rest of 2022. In the case of a 1 p.p. increase in rates at the long end of the yield curve, the expected net interest expenditure would increase by CZK 2.1 billion. A shift of the whole yield curve of government bonds by 1 p.p. upwards would result in an increase in expected net interest expenditure by approximately CZK 3.3 billion.

The Ministry also quantifies the sensitivity of net interest expenditure on state debt service to changes in the koruna's exchange rate. This sensitivity is relatively low, even when compared to the sensitivity of interest expenditure to the shift in the yield curve.

If the EURCZK FX rate depreciated by 1% at the end of March 2022 and remained unchanged during the whole 2022, then the expected net interest expenditure on state debt service would increase approx. by CZK 48 million.

The Ministry also quantifies the impacts of the unplanned increase in the state budget deficit on interest expenditure on state debt service. If the state budget deficit increased by CZK 10.0 billion in 2022 assuming its financing by a uniform increase in the nominal values of CZK-denominated medium-term and long-term government bonds issued in auctions according to the current issue calendar, this change would mean an increase in expected net interest expenditure on state debt service by CZK 0.3 billion. However, the impact on the state budget based on the cash basis is very sensitive to the selected way of financing the deficit increase. In the case of an issuance of bond with premium, i.e. price above par, the increased gross issue may not result in an increase in interest expenditure due to the cash principle of the state budget and will result in a reduction in net interest expenditure. In the case of an accrual approach, an increase in gross issue would take effect immediately.

**Table 7: The Increase of Net Interest Expenditure in Case of EURCZK FX Rate Hike**

CZK bn	EURCZK FX rate shift	
	by 1%	by 10%
<b>Expected expenditure</b>	0.048	0.485
<b>CaR 95%</b>	0.056	0.565
<b>CaR 99%</b>	0.063	0.630

*Note: The shock in form of a one-off depreciation of CZK FX rate will occur at the end of March 2022.  
Source: MoF*

## Primary Dealers and Recognized Dealers in Czech Republic Government Bonds

For the year 2022, the number of primary dealers with whom the Primary Dealer Agreement for Czech Government Securities was concluded on the basis of the evaluation of the fulfillment of their

obligations in 2021 remains 9. Their list is content of the following table. Goldman Sachs Bank Europe SE was also granted the status of recognized dealer of Czech government bonds for 2022.

**Table 8: List of Primary Dealers and Recognized Dealers in Czech Republic Government Bonds for 2022**

Primary Dealers and Recognized Dealers	
Citibank Europe plc	Société Générale / Komerční banka, a.s.
Erste Group Bank AG / Česká spořitelna, a.s.	PPF banka a.s.
KBC Bank NV / Československá obchodní banka, a. s.	Raiffeisen Bank International AG / Raiffeisenbank a.s.
ING Bank Śląski S.A. / ING Bank N.V.	UniCredit Bank Czech Republic and Slovakia, a.s.
J.P. Morgan SE	Goldman Sachs Bank Europe SE (Recognized Dealer)

Source: MoF

# Calendar of Information Published in the First Half of 2022

## January

Mo	Tu	We	Th	Fr	Sa	Su
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

## February

Mo	Tu	We	Th	Fr	Sa	Su
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28						

## March

Mo	Tu	We	Th	Fr	Sa	Su
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

## April

Mo	Tu	We	Th	Fr	Sa	Su
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

## May

Mo	Tu	We	Th	Fr	Sa	Su
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

## June

Mo	Tu	We	Th	Fr	Sa	Su
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

- Publication of the The Czech Republic Debt Management Annual Report for 2021  
- on the last day in February
- Publication of The Czech Republic Funding and Debt Management Strategy for 2022 - Update  
- on the first Friday in April
- Expected publication of The Czech Republic Funding and Debt Management Strategy for 2022 - Second Half Update  
- on the last business day of the first half of 2022
- Publication of The Czech Republic Debt Management Quarterly Report  
- on the fourth Friday in April
- Publication of statistics of the Central Government Debt and Fiscal Data for the Czech Republic (SDDS Plus standard)  
- on the third Friday in February and on the fourth Friday in April
- Publication of the annual statistics on Development and Structure of the State Debt, Financing Needs and Sources of the Central Government and Interest Expenditure on the State Debt  
- on the last day in February
- Publication of the Statistics on Government Bonds by Type of Instrument, Statistics on Government Bonds by Type of Holder and Statistics on Government Bonds by Maturity  
- on the last business day of the month
- Publication of the issuance calendars of T-Bills and T-Bonds for following month  
- usually the fourth Monday in the month prior to the month of the respective auctions, except June, when issuance calendar will be published together with The Czech Republic Funding and Debt Management Strategy for 2022 - Second Half Update

Ministry reserves the right to change the date of publication due to flexible response to financial markets situation. Any change will be communicated to the public in time through Ministry's website.





\*\*\*

The publication was prepared based on the information and data available on 1 April 2022. The Ministry reserves the right to promptly respond to the actual development of financing needs using its tools in the course of 2022. The fulfilment of the funding programme and announced strategic goals will depend of the development of the situation on domestic and foreign financial markets in terms of the minimization of expenditure on state debt service and financial risk management.

This publication is also available on the following website:

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

**Debt and Financial Assets Management Department**

Ministry of Finance

Letenská 15, 118 10 Prague 1 – Malá Strana

Czech Republic

E-mail: [middleoffice@mfcr.cz](mailto:middleoffice@mfcr.cz), Refinitiv <MFCR>, Bloomberg <MFCZ>