



The Ministry of Finance submits the ninth 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. For the year 2007, these targets were concretised and quantified by the Financing and Debt Management Strategy for 2007 released on 1 December 2006 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.

I. Review of Strategic Targets for 2007

The 2007 state debt management policy is 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 2007	March 31, 2007	
International issues	Max. 50% of the total annual gross borrowing requirement	0.0%	
	CZK 0.0 to 80.0 bn	CZK 0.0 bn	
Gross T-Bonds issues	CZK 72.8 to 152.8 bn	CZK 43.1 bn	
Net T-Bills issues	CZK 0.0 to – 30.0 bn	CZK - 11.4 bn	
Loans from EIB	CZK 6.4 bn	CZK 0.0 bn	
Short-term state debt	20% and less	State debt	18.3%
		inc. Guarantees	17.9%
Average time to maturity	6.0 to 7.0 years	State debt	6.5 years
		inc. Guarantees	6.4 years
Interest Rate Re-fixing	30 to 40%	State debt	26.0%
		inc. Guarantees	26.4%

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

As regards **international financing**, the Czech Republic has drawn no loans from the European Investment Bank in the first quarter. As for further operations of the Ministry on the foreign market, finance minister made no relevant decision in this area.

Regarding **domestic issuance activity**, the net issue of T-Bonds was CZK 23.1 bn in the first quarter. The total gross issuance of T-Bonds reached CZK **43.1 bn**; it is about 28.2% of the maximal supply announced in December 2006.

The volume in issue of T-Bills decreased by CZK **11.4 bn** during the first quarter according to the announced financing programme.

The short-term state debt reached the share of **18.3%**. It means that the Ministry of Finance maintains the planned final and long-time targeted limit of 20% and less in the first quarter.

Average time to maturity reached the level of **6.5 years**, i.e. within the announced target band 6.0 – 7.0 years for 2007.

Beginning with the year 2006, **the interest rate refixing** up to one year replaces the modified duration targeting in the area of market risk management. The Financing and Debt Management Strategy for 2007 sets the average yearly range between 30 and 40%. This risk measure increased slightly to 26.0% at the end of the first quarter and is stabilised below the lower limit.

II. Budgetary expenditures and Cost-at-Risk of the State Debt in the first quarter 2007

Planned and actual budgetary expenditures in relation to debt service are captured in the following table.

Measure (CZK mil)	Actual	Budget 2007		Actual	% Execution	Index 2007/2006 (%)
	Q1. 2006	Approved	After changes	Q1. 2007		
1	2	3	4	5	5:4	5:2
Total expenditures	9 636	38 102	38 102	8 625	22.6	89.5
1. Total interest costs	9 615	37 802	37 802	8 608	22.8	89.5
Domestic debt	8 853	32 777	32 777	7 307	22.3	82.5
<i>Of which:</i>						
T-Bills	967	3 185	3 185	422	13.3	43.7
T-Bonds	7 886	29 592	29 592	6 885	23.3	87.3
Foreign debt	762	5 025	5 025	1 301	25.9	170.7
<i>Of which:</i>						
International issues	607	3 924	3 924	1 051	26.8	173.2
EIB loans	155	1 101	1 101	250	22.7	161.1
2. Total fees	21	300	300	17	5.5	78.8

Interest costs in the first quarter 2007 decreased by 10.5% in comparison with the same period of the year 2006. Total budgetary expenditures related to state debt represent 22.6% of planned annual expenditures in 2007 and are 2.4 percentage points below the respective share for the first quarter 2007.

The model CaR, **Cost-at-Risk**, of interest costs and its most important output in the form of expected interest costs and interest costs at risk (95% CaR), was first set out in Czech conditions in the Financing and Debt Management Strategy for the year 2006 released on December 1, 2005.

The comparison between the actual development of interest costs and the development of the simulated model of CaR from January to March 2007 is shown in the following table. The calculated deviation from expected costs is below 10% in the first quarter 2006 and 2007. It confirms fairly successful application of quantitative modelling and yield curve simulations within the research activities of the Debt and Financial Assets Management Department.

	Q1. 2006	Q1. 2007
Actual interest costs (CZK bn)	9.6	8.6
Expected (simulated) costs (CZK bn)	9.7	9.1
Cost-at-Risk 95% (CZK bn)	10.5	10.4
Deviation from expected costs (%)	-1.0	-5.5

III. Integrated portfolio of state debt and risky state guarantees at the end of March 2007

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, 2006 and 2007.

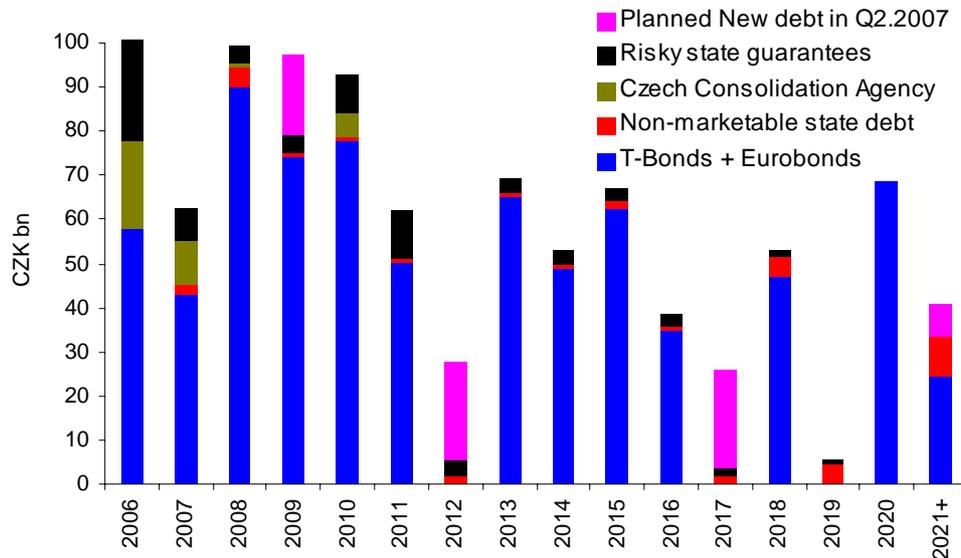
Measures of the integrated portfolio of state debt and risky state guarantees

	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	811.7	846.5	0.7	4.3	18.3	26.0	6.5	4.0
Risky state guarantees	55.6	56.2	41.7	27.7	12.5	32.3	4.9	3.3
Portfolio total	867.4	902.7	3.3	5.8	17.9	26.4	6.4	3.9

Note: including currency and interest rate derivatives of the MF and CMZR Bank and excluding liabilities of CCA, former National Property Fund and the IPB guarantee in the amount of CZK 157 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 10 April 2007, excluding T-Bills outstanding)



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

IV. State Debt Parameters (end of quarter)

Debt Parameter	Mar 2006	Jun 2006	Sep 2006	Dec 2006	Mar 2007
Total state debt (CZK bn)	698.2	728.9	746.3	802.5	811.7
Market value, inc. derivatives (CZK bn))	739.5	765.2	778.7	844.2	846.5
Short-term state debt (%)	19.4	17.6	19.5	17.1	18.3
Share of T-Bills (%)	12.4	10.9	9.6	11.5	9.6
Average time to maturity (years)	6.2	6.1	5.9	6.2	6.5
Interest rate refixing up to one year, inc. derivatives (%)	28.5	26.6	28.2	25.4	26.0
Variable-rate state debt (%)	4.3	4.4	4.4	4.3	4.2
Modified duration (years)	3.7	3.6	3.6	3.8	4.0
Modified duration, exc. IRS (years)	3.4	3.2	3.3	3.5	3.6
Foreign currency state debt (%)	0.9	0.9	0.8	0.7	0.7
Foreign currency debt, exc. cross-currency swaps (%)	11.2	10.7	10.4	9.3	9.4
Nonmarketable state debt (%)	4.4	4.5	4.7	4.7	4.6
Marketable state debt (CZK bn)	667.4	696.1	711.3	765.0	774.4
Market value (CZK bn)	708.7	732.4	743.5	806.7	809.1
Short-term marketable debt (%)	20.2	18.3	20.1	17.6	18.4
Share of T-Bills (%)	13.0	11.4	10.1	12.0	10.1
Average time to maturity (years)	6.0	5.9	5.7	6.1	6.4
Interest rate refixing up to one year, inc. derivatives (%)	25.2	23.2	24.8	22.0	22.7
Variable-rate marketable debt (%)	0.0	0.0	0.0	0.0	0.0
Modified duration (years)	3.8	3.7	3.8	4.0	4.1
Modified duration, exc. IRS (years)	3.5	3.4	3.4	3.6	3.8
Foreign currency marketable deb (%)	0.9	0.9	0.9	0.7	0.7
Foreign currency debt, exc. cross-currency swaps (%)	11.7	11.2	10.9	9.8	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.

This publication is available also on the website:
www.mfcr.cz/statedebt

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