



Debt Portfolio Management Quarterly Review |June 2013|

The Ministry of Finance (hereinafter the “Ministry”) hereby submits the 34th *Debt Portfolio Management Quarterly Review*, presenting basic data on parameters of the portfolio of state liabilities and on parameters of the portfolio of state financial assets. The basic monitored strategic targets for 2013 had been quantified in the governing document *The Czech Republic Funding and Debt Management Strategy for 2013* (hereinafter the “Strategy”) approved by the Minister of Finance and published on 12 December 2012. The Strategy specifies the operating scope for tactical management of the state debt and financial assets through issuance activity, financial investment and active operations by the Ministry on the secondary market. On 8 July

2013, the Revision of the Strategy as of 30 June 2013 (hereinafter the “Revision”) was published, which adjusts the borrowing requirement of the central government and financing programme in 2013. In the Strategy, the Ministry reserved the right for revision in case of the approval of the amendment to the Act No. 218/2000 Coll., Budgetary Rules Act and Some Related Acts Amendment Act (hereinafter the “Budgetary Rules”), which came into force on 1 January 2013. The amendment to the Budgetary Rules brought an essential extension of the treasury single account in CZK and a possibility to maintain treasury single accounts in foreign currencies, which resulted in an increase in available liquidity of the state.

1. Main events in Q2 2013

Reduction of the gross borrowing requirement of central government in 2013

The gross borrowing requirement of the central government excluding the money market instruments operations for 2013 published in the Strategy amounted to CZK 230.7 bn; the planned

gross borrowing requirement after the reduction by CZK 110.0 - 140.0 bn amounts to CZK 90.7 to 120.7 bn.

Revision of the financing programme for 2013

The revised funding programme for 2013 is based on the funding operations carried out in the first half of the year and on the revised gross borrowing requirement of the central government. In the first half of the year, 59.1% to 78.6% of revised planned gross borrowing requirement or 60.3% to 66.7% of revised planned gross borrowing requirement including the effect of the money market instruments redemptions without their roll-over were financed, which is 30.9% or 44.5% of originally planned gross borrowing requirement excluding or including the effect of money market instruments redemptions respectively.

Due to the rather short-term nature of the additional liquidity of the state treasury and in accordance with the general agreement on the 6th Primary Dealers Committee on 11 June 2013, the Ministry reduces the total nominal amount of net issuance of money market instruments in 2013 to CZK -80.0 to -50.0 bn from the originally planned CZK -10.0 to 10.0 bn. The Ministry also revised the range for total planned nominal amount of gross issuance of domestic medium-term and long-term government bonds to CZK 96.7 to 170.7 bn and CZK 0.0 to 48.3 bn for foreign issues.

Quarterly decrease of the gross state debt

The quarterly decrease of the gross state debt as of the end of Q2 amounted to CZK 37.5 bn. The main factor of decline of gross state debt in Q2 were the redemption of 40th issue of government bond in the total nominal amount of CZK 62.9 bn and net issuance of money market instruments outstanding in the total nominal amount of CZK

-24.2 bn. The decrease of the total nominal amount of the net issuance of money market instruments outstanding, which from the beginning of 2013 amounted to CZK 27.5 bn, was the first natural reaction of the Ministry to the increase of the available short-term liquidity of the state.

2. Overview of 2013 Strategic Debt Management Targets

An evaluation of the debt portfolio structure in relation to the announced strategic targets and fulfilment of the annual financing programme during 2013 can be seen in the following overview.

Table 1: Financing programme and strategic targets in 2013 after the revision as of 30 June 2013

INDICATOR	Target announced for 2013	30 June 2013
International issuance activity	Max. 40.0% of the annual gross borrowing requirement CZK 0.0 to 48.3 bn ¹	0.0% CZK 0.0 bn
Gross issuance of medium-term and long-term government bonds¹	CZK 96.7 to 170.7 bn ¹	CZK 81.2 bn
Gross issuance of savings government bonds²	CZK 30.0 to 40.0 bn ¹	CZK 17.6 bn
Net issuance of money market instruments	CZK -80.0 to -50.0 bn ¹	CZK -27.5 bn
Loans from EIB	CZK 0.0 to 4.0 bn ¹	CZK 0.0 bn
Short-term state debt	25.0% and less	18.7%
Medium-term state debt	70.0% and less	52.7%
Average time to maturity	5.0 to 6.0 years	5.7 years
Interest re-fixing up to 1 year	30.0 to 40.0%	37.1%
Average time to re-fixing	4.0 to 5.0 years	4.4 years
Foreign-currency exposure in state debt	Max. 15.0 to 17.0%	10.2%

¹ Revised financing programme as of 30 June 2013.

² Incl. tap sales from its own portfolio on the secondary market and the Ministry's investment operations.

³ Incl. reinvestments of yields in the total nominal amount of CZK 83.0 million.

Source: Ministry of Finance

In the area of **international issuance activity**, the Ministry did not realize any operations in H1. No loan tranches were drawn from the European Investment Bank (hereinafter the "EIB") in H1. In Q2, a planned repayment of loan from EIB in the total amount of CZK 0.2 bn and an unplanned repayment of loan from EIB in total amount of CZK 1.7 bn took place. The total amount of repayments of loans from EIB amounted to CZK 2.2 bn in H1.

Regarding **domestic issuance activity**, the **gross issuance of medium-term and long-term government bonds** in total nominal amount of **CZK 33.1 bn** was executed in Q2. In H1, the total nominal amount of the gross issuance of medium-term and long-term government bonds amounted to CZK 81.2 bn, representing 47.6% of the annual maximum issuance limit for this type of financing under the revised 2013 financing programme and 37.0% of the maximum nominal amount of originally planned gross issuance of medium-term and long-term government bonds. 67.3% of the maximum revised planned borrowing requirement for 2013 and 35.2% of the originally planned gross borrowing requirement was financed by the gross issuance of medium-term and long-term government bonds during H1.

The total nominal amount of tap sales of government bonds on secondary market using the MTS Czech

Republic electronic platform amounted to CZK 1.9 bn in Q2. Czech Republic Government Bond, 2010–2015, 3,40%, Czech Republic Government Bond, 2008–2016, VAR % and Czech Republic Government Bond, 2007–2015, 4.85% were sold in Q2. In H1, the total nominal amount of tap sales of government bonds on secondary market using the MTS Czech Republic electronic platform amounted to CZK 4.1 bn.

Two sales of Czech Republic Government Bond, 2011–2014, 4.75% in total nominal amount of CZK 2.1 bn were carried out within the state financial assets investment operations in the nuclear portfolio, which were the only sales of this type executed during H1.

Total nominal amount of the net issuance of medium-term and long-term government bonds in Q2 amounted to CZK -29.8 bn, as on 16 June 2013, the redemption of Czech Republic Government Bond, 2003–2013, 3,70% in the total nominal amount of CZK 62.9 bn was carried out. The total nominal amount of the net issuance of medium-term and long-term government bonds amounted to CZK 18.3 bn in H1. In H1, no buy-backs of medium-term and long-term government bonds were executed.

The fourth series of **savings government bonds** issues was carried out in Q2 in total nominal amount

of **CZK 17.5 bn**. The series was supplemented by tranches of reinvestment savings government bond and inflation linked savings government bond issued in the form of reinvestment of the yield in the total nominal amount of CZK 83.0 million. The total nominal amount of the **gross issuance** of savings government bonds in Q2 amounted to **CZK 17.6 bn**. Early redemption of savings government bonds in total nominal amount of CZK 29.7 million took place during Q2, concerning the pilot series of issues in 2011 and "spring" series of issues in 2012. It was the only early redemption of savings government bonds in H1. The total nominal amount of the gross issuance of savings government bonds in H1 amounted to CZK 17.6 bn covering 44.0% of the annual maximum issuance limit for this type of financing under the financing programme for 2013, which represents 14.6% of the maximum revised planned gross borrowing requirement in this year and 7.6% of the originally planned gross borrowing requirement. As of the end of H1, the total nominal amount of savings government bonds outstanding amounted to CZK 73.8 bn, representing 4.4% of the gross state debt and 6.5% of domestic government bonds excl. treasury bills.

The total nominal amount of **net issuance of money market instruments outstanding** was **CZK -24.2 bn in Q2**, of which the total nominal amount of net issuance of money market instruments excl. the Ministry's investment operations amounted to CZK -23.7 bn and the total nominal amount of the Ministry's net investment under the nuclear portfolio amounted to CZK -0.5 bn. The total nominal amount of net issuance of money market instruments outstanding in H1 amounted to CZK -27.5 bn, of which total nominal amount of net issuance of money excl. the Ministry's investment operations amounted to CZK -26.4 bn and the total nominal amount of the Ministry's net investment under the nuclear portfolio amounted to CZK -1.1 bn.

Short-term state debt (debt payable within one year) as of the end of Q2 decreased in comparison to the end Q1 by 1.2 percentage points to **18.7%** and thus reached the value according with the Strategy. At the same time, refinancing risk was kept below the limit of 25.0% set for 2013.

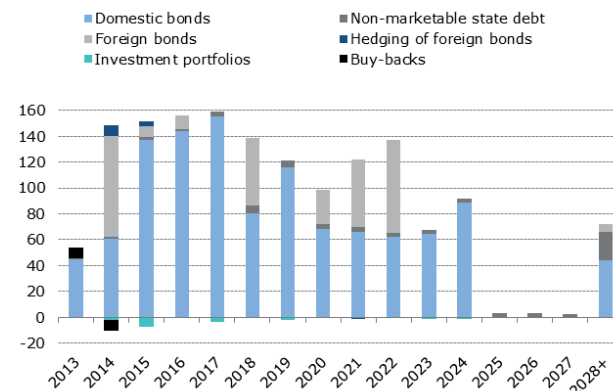
The **average time to maturity of the state debt** as of the end of Q2 increased in comparison to the end Q1 by 0.1 years to **5.7 years**. The average time to maturity of the state debt is thus within the announced target band of 5.0 to 6.0 years set for 2013.

The **medium-term state debt** (debt payable within five years) as of the end of Q2 increased in comparison to the end Q1 by 0.6 percentage points

to **52.7%**. The value thus remained below the limit of 70.0% out of the total state debt established for 2013 and for the medium-term horizon.

Figure 1: Redemption profile of state debt and financial assets (CZK bn)

(end of Q2 2013)



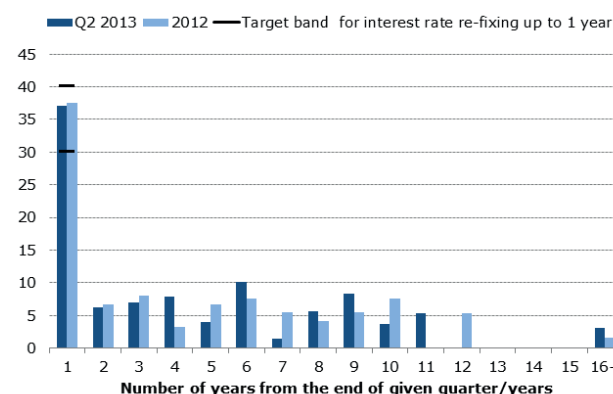
Note: Not including money market instruments outstanding on the side of liabilities and assets. The positive vertical axis shows liabilities, the negative vertical axis shows state financial assets and buy-backs of bonds due in 2014 and carried out in 2013. Domestic bonds include savings government bonds. Source: Ministry of Finance

Interest re-fixing of the state debt up to one year as of the end of Q2 decreased in comparison to the end of Q1 by 2.3 percentage points reaching **37.1%**. This indicator was thus within the medium-term band established for 2013.

Average time to the state debt re-fixing as of the end of Q2 increased in comparison to the end of Q1 by 0.1 years to **4.4 years**. Thus, this indicator is within the medium-term target band of 4.0 to 5.0 years.

Figure 2: Re-fixing profile of state debt (% of state debt)

(end of Q2 2013 compared with end of 2012)



Note: Incl. derivative transactions. Source: Ministry of Finance

The main indicator for currency risk management is the proportion of foreign-currency exposure of the state debt to the total state debt. The strategic limit announced for 2013 is 15.0% (up to 17.0% in the short term). Compared to the end of Q1, the

value of this indicator increased at the end of Q2 by 0.3 percentage points to 10.2% and is thus below its limit. The share of foreign-currency exposure of the state debt denominated in euro in relation to overall foreign-currency exposure of the state debt

increased by 0.3 percentage points and amounted to 90.3% as of the end of Q2, thus indicating the euro's dominance in the foreign-currency state debt portfolio.

3. Net Borrowing Requirement

The net borrowing requirement of the central government is determined primarily by state budget deficits. It is also influenced by state financial assets operations, on-lending, and changes in the level of the financial reserve generated from issuance activity. The net borrowing requirement is the principal factor driving change in the nominal amount of gross state debt. As part of the state

debt is denominated in foreign currencies the aforementioned change is also influenced by movement of the respective bilateral exchange rate. Compared to the end of 2012, the gross state debt as of the end of Q2 increased by CZK 10.5 bn, while 40.9% is caused by the revaluation of the state debt denominated in foreign currencies.

Table 2: Net borrowing requirement of the central government and change in state debt (CZK bn, % GDP)

	2011	2012	Q1 – Q2 2013
Gross state debt as at the start of the period	1,344.1	1,499.4	1,667.6
Primary balance of the state budget	97.6	59.6	1.1
Net expenditures on the state debt management ¹	45.1	41.4	30.4
Extra-budgetary borrowing requirement	0.0	0.0	0.0
Net borrowing requirement excl. assets operations	142.8	101.0	31.5
State financial assets operations ²	2.5	2.4	1.3
On-lending over 1 year (net change) ³	0.0	0.0	0.0
Cash reserve (net change) ⁴	5.7	69.4	-26.6
State budget surplus	0.0	0.0	0.0
Net borrowing requirement	151.0	172.8	6.2
Changes in nominal state debt ⁵	4.5	-4.4	4.3
Promissory notes repayments ⁶	-0.2	-0.1	0.0
Change in gross state debt	155.3	168.3	10.5
Gross state debt as at the end of the period	1,499.4	1,667.6	1,678.1
(% GDP)	39.2	43.5	44.0⁷

¹ Balance of budgetary chapter 396 – State debt.

² Balance of budgetary chapter 397 – State financial assets operations inc. budgetary measures.

³ Extra-budgetary lending to other states and on-lending to institutions with state-backed guarantees for their core business with original maturity longer than 1 year.

⁴ Cash reserve generated by bonds issues according to Section 35(4) of Act No. 218/2000 Coll, excl. revaluation of the part denominated in foreign currencies due to the exchange rate changes.

⁵ Revaluation of debt denominated in foreign currencies due to exchange rate changes.

⁶ Promissory notes covering the Czech Republic ownership interests in international financial institutions.

⁷ Proportion of gross state debt to cumulative gross domestic product for the period from Q3 2012 to Q1 2013, while the Macroeconomic Forecast published by the Ministry is the source for GDP for the period from Q3 2012 to Q1 2013, while the Macroeconomic Forecast published by the Ministry is the source for GDP for Q2 2013.
Source: Ministry of Finance

The gross borrowing requirement consists of the net borrowing requirement, redemptions of state debt (excl. roll-over of money market instruments during the budgetary year) in the given budgetary year, buy-backs and switches of government bonds before their original maturity.

The net debt portfolio is determined by the state debt and liquid state financial assets administered by the Ministry. The methodology for determining individual items in the net debt portfolio is set out in the Strategy.

Table 3: Gross borrowing requirement and instruments of the central government financing (CZK bn, % GDP)

	2011	2012	Q1 – Q2 2013
Net borrowing requirement	151.0	172.8	6.2
Redemptions on government bonds due in the respective year	102.1	115.6	65.0
Buy-backs and switches of government bonds from previous years	0.0	-2.0	-2.1
Buy-backs and switches of government bonds due in following years ¹	2.0	8.1	0.0
Redemptions on savings government bonds in the respective year ²	0.0	9.6	0.0
Redemptions on loans from the EIB	1.1	5.3	2.2
Gross borrowing requirement (GBR)³	256.2	309.4	71.3
GBR³ as % of GDP	6.7	8.1	3.8⁴
Total gross borrowing requirement (Total GBR)⁵	369.5	472.0	186.7
Net money market instruments issuance ⁶	49.3	26.5	-27.5
Domestic gross government bond issuance ⁷	181.2	164.6	81.2
Foreign gross government bond issuance ⁷	0.0	69.0	0.0
Gross savings government bonds issuance ⁸	20.4	45.4	17.6
Lending facility ⁹	0.0	0.0	0.0
Loans from the EIB	5.3	4.0	0.0
Funding of the gross borrowing requirement	256.2	309.4	71.3

¹ Excl. operations with medium-term and long-term government bonds during current budgetary year.

² Incl. early redemptions requested by bond holders.

³ Excl. operations with money market instruments.

⁴ The source of GDP for Q1 2013 is the Czech Statistical Office, while the source for Q2 2013 is the Macroeconomic Forecast published by the Ministry.

⁵ Incl. redemptions of money market instruments without the roll-over during the respective period.

⁶ Excl. refinancing of due instruments in the respective year.

⁷ Nominal amount, i.e. premiums and discounts are included in net expenditure for state debt service, i.e. entering the net borrowing requirement.

⁸ Incl. reinvestment of yield in total nominal amount of CZK 83.0 million.

⁹ Received financial funds under repo operations carried out in order to lend medium-term and long-term bonds.

Source: Ministry of Finance

Table 4: Balances and structure of the net debt portfolio (CZK bn)

	2011	2012	Q2 2013
Gross state debt as at the end of the period	1,499.4	1,667.6	1,678.1
Money market instruments	162.6	189.1	161.7
Lending facility ¹	0.0	0.0	0.0
Medium-term and long-term bonds (domestic market)	999.1	1,042.0	1,060.3
Medium-term and long-term bonds (foreign markets) ²	245.9	310.3	314.6
Savings government bonds	20.4	56.2	73.8
Loans from the EIB	71.3	70.0	67.8
Promissory notes ³	0.1	0.0	0.0
Short-term liabilities to the State Treasury	0.0	0.0	0.0
Liquid state financial assets as at the end of the period	121.4	193.2	169.0
Nuclear investment portfolio ⁴	16.6 ⁵	18.5 ⁵	20.0
Pension investment portfolio ⁴	22.0	22.4	22.5
Special-purpose financial assets account	10.5	10.6	10.6
On-lending over 1 year ⁶	1.7	1.7	1.7
Cash reserve ⁷	70.6	139.9	114.3
State budget surplus	0.0	0.0	0.0
Net debt portfolio as at the end of the period	1,378.0	1,474.4	1,509.1

¹ Received financial funds under repo operations carried out in order to lend medium-term and long-term bonds.

² Incl. derivative transactions.

³ Promissory notes covering the Czech Republic ownership interests in international financial institutions.

⁴ Incl. financial funds on the account and funds invested on the financial market.

⁵ Invested financial funds on the financial market in nominal amount.

⁶ Extra-budgetary lending to other states and on-lending to institutions with state-backed guarantees for their core business with original maturity longer than 1 year.

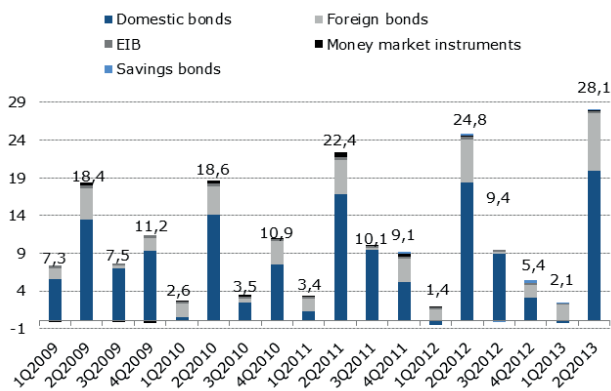
⁷ Disposable cash balance created from issuance activities according to Section 35(4) of Act No. 218/2000 Coll., incl. impact of exchange rate changes on the cash reserve parts denominated in foreign currencies.

Source: Ministry of Finance

4. Interest Costs on State Debt and Cost-at-Risk

The following figure presents an overview of interest expenditures and revenues realised under budgetary chapter 396 – State Debt. More detailed information on the budgeted and actual expenditures and revenues in 2013 is included in the Appendix. Actual net interest costs on the state debt in H1 reached CZK 30.2 bn, which is CZK 4.0 bn higher than actual net interest costs in the corresponding period in 2012.

Figure 3: Net interest costs on the state debt, 2009–2013 (CZK bn)

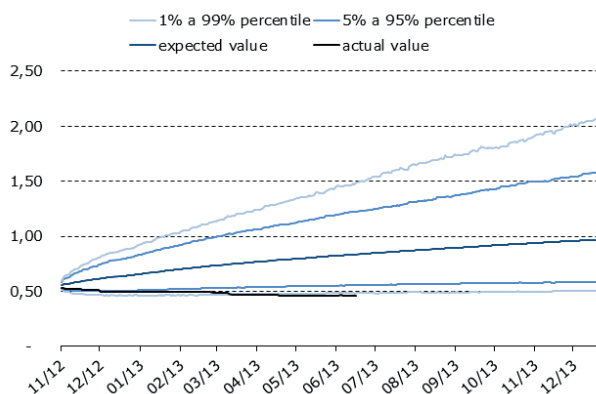


Note: Excl. fees related to the state debt management.
Source: Ministry of Finance

The state debt interest costs model Cost-at-Risk (CaR) for the year 2013 was published in the Strategy. Calculations of the CaR values are based on term structure of interest rates on 13 November 2012.

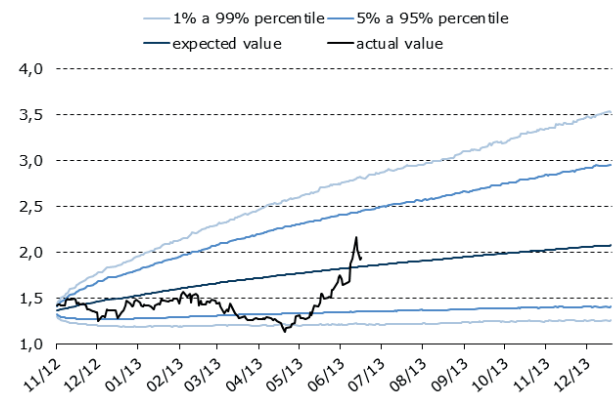
A comparison of the actual development of the 3-month PRIBOR and 10-year swap rates with their simulations for the period from 13 November 2012 to 31 December 2013 are shown in the following figures.

Figure 4: Daily simulated v actual 3-month PRIBOR interest rates in 2013 (% p.a.)



Source: Ministry of Finance

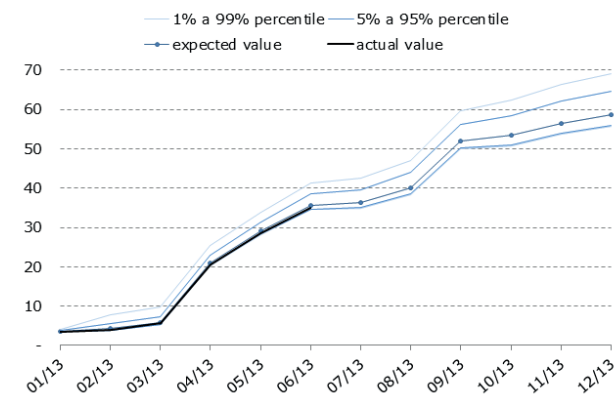
Figure 5: Daily simulated v actual 10-year CZK swap rates in 2013 (% p.a.)



Source: Ministry of Finance

The development of gross interest costs of the state debt in comparison with simulated costs for 2013 is shown in the following figure. The actual realized gross interest costs amounted to CZK 35.1 bn in H1 and were CZK 0.6 bn lower than expected costs of CZK 35.7 bn. The difference is mainly caused due to the operative changes in issuance plan of medium-term and long-term government bonds during H1 based on agreements with Primary Dealers as a reaction to the increase in available liquidity of the state.

Figure 6: Simulated v actual gross cumulated interest costs of the state debt 2013 (CZK bn)



Note: Interest costs are calculated on a cash basis in accordance with the current state budget methodology.
Source: Ministry of Finance

The following table presents a comparison of the actual net interest costs on the state debt, the simulated values of expected costs (average of simulations) and interest costs CaR (95% and 99% percentile of simulations) for H1 2013 in comparison to the corresponding period in 2012.

Table 5: Expected v. actual net interest costs in H1 2012 and H1 2013 (CZK bn)

	30 June 2012	30 June 2013
Actual net interest costs	26.2	30.2
Expected (simulated) net costs	31.1	31.1
Cost-at-Risk 95%	34.1	36.4
Cost-at-Risk 99%	36.1	39.3
Deviation of expectation from actuality	4.9	0.9

Source: Ministry of Finance

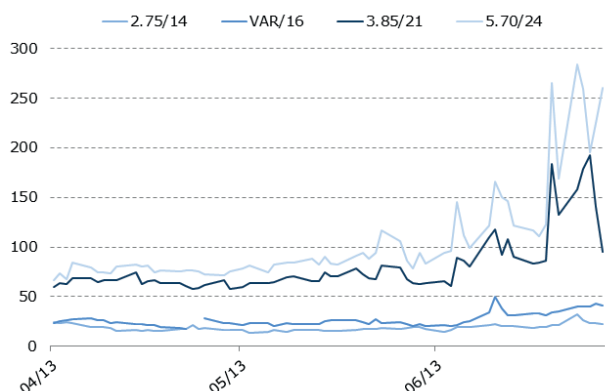
In H1, the actual net interest costs on the state debt were CZK 30.2 bn. The expected net interest costs for the same period predicted by the model were CZK 31.1 bn. The actual net interest costs thus remained below the level of both CaR 95% and CaR 99%, which were set at CZK 36.4 bn and CZK 39.3 bn, respectively. The primary goal of the model was fulfilled when net interest costs did not exceed CaR levels. The model estimated the actual

net interest costs to be CZK 0.9 bn higher. Due to the changes in the issuance plan, the net interest costs decreased by CZK 0.4 bn. The savings of CZK 0.4 bn were achieved due to the lower-than-expected treasury bills discounts. Due to the lower-than-expected yields of domestic medium-term and long-term government bonds, the savings of CZK 0.1 bn were achieved.

5. Secondary Market of Government Bonds

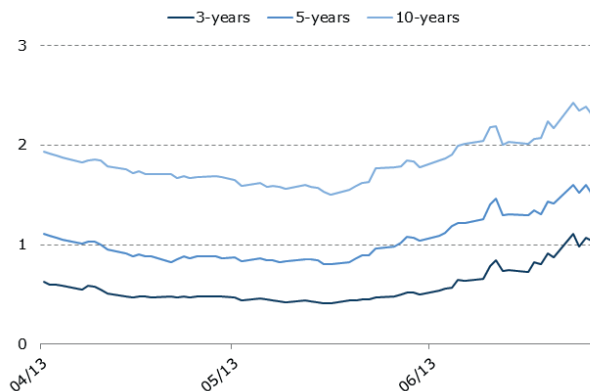
The MTS Czech Republic platform for trading government bonds, which was implemented on July 2011, considerably contributes to efficiency and transparency on the domestic secondary market. The key parameter indicating the efficiency of price discovery on the secondary market is the bid-offer spread for a given government bond. The narrower the bid-offer spread, the more liquid and efficient the market is. The relatively stable situation on secondary market in April began to deteriorate in May. While in June the bid-offer spreads of Czech government bonds went through period of high volatility only at longer maturities, yields rose across all maturities.

Figure 7: Average quoted bid-offer spreads on MTS CR (ticks)



Source: EuroMTS and Ministry of Finance

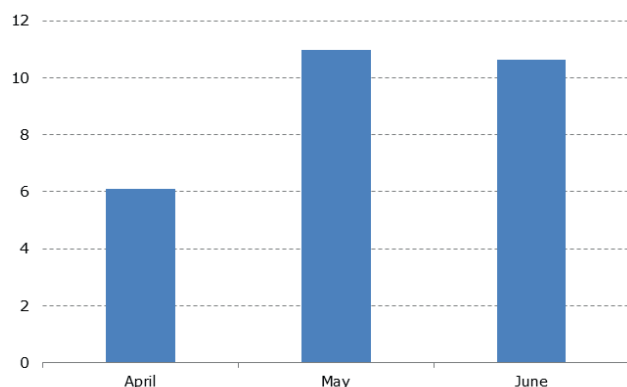
Figure 8: Yields of government bonds traded on MTS CR (% p.a.)



Source: EuroMTS and Ministry of Finance

The total monthly nominal amount of government bonds traded on MTS Czech Republic platform amounted to more than CZK 9.0 bn on average in Q2.

Figure 9: Nominal amount of transactions on MTS CR in Q2 2013 (CZK bn)



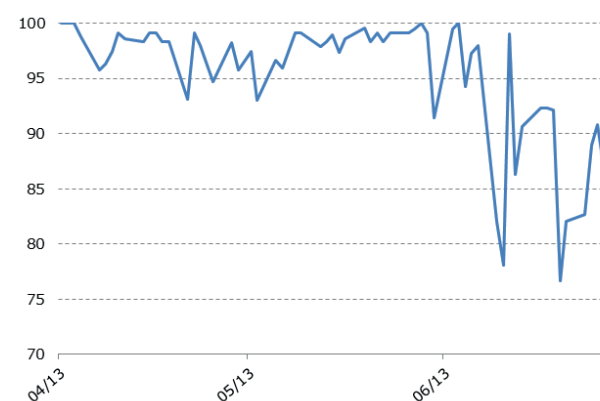
Source: EuroMTS and Ministry of Finance

The obligations of Primary Dealers on the secondary market include fulfilling of criterions of the minimum quoted total nominal amount according to bond maturity, the minimum quoted time during one trading day and the maximum quoted spread on bonds subject to quoting obligations. The Daily Compliance Ratio ("DCR") is established each day on the basis of these obligations. On these

obligations the daily fulfilment of quoting obligation is based every day, where on monthly basis every Primary Dealer is obliged to fulfil the DCR at least at 90.0%.

The average DCR of Primary Dealers didn't fell below the level of 90.0% during the first two months of Q2. In June, however, due to the uncertainties in the financial markets four primary dealers failed to fulfil the monthly quoting obligations.

Figure 10: Average daily quoting obligation fulfillment - Daily Compliance Ratio (%)



Source: EuroMTS and Ministry of Finance

Table 6: Realized lending facilities in Q2 2013

Instrument	ISIN	Collateral Amount	Financial Funds Received	Financial Funds Paid
ČR, 4,60 %, 18	CZ0001000822	1,000,000,000	1,224,116,666.67	1,224,086,063.75
ČR, 4,70 %, 22	CZ0001001945	1,660,000,000	2,135,693,500.01	2,135,639,726.43
ČR, 5,70 %, 24	CZ0001002547	1,310,000,000	1,835,628,416.67	1,835,593,367.40
Total		3,970,000,000	5,195,438,583.35	5,195,319,157.58

Source: Ministry of Finance

Also in Q2, the Ministry allowed using a lending facility for providing lending of government bonds. Primary Dealers may use this facility for borrowing government bonds for a period up to 60 days under repo operations. This facility was launched in order to boost the liquidity of government bonds on the secondary market especially in case of excess of demand over supply of particular bond. As a part of repo operations against government bonds lent, the Ministry obtains financial funds which it then invests on the money market at a higher yield as under state treasury liquidity management. These operations thereby also contribute to savings on net interest costs on the state debt.

These technical operations were not executed in order to obtain financial funds but in order to support liquidity of government bonds market.

These operations affect the nominal amount of state debt as well as debt portfolio risk parameters. In case of more frequent use of this lending facility by Primary Dealers, the Ministry would have to take these technical operations into account when calculating the short-term state debt and state debt risk parameters.

In Q2, medium-term and long-term government bonds in total nominal amount of CZK 4.0 bn were lent using this lending facility and financial funds of CZK 5.2 bn were received. In Q2, the average repo rate achieved under the lending facility was -0.03% p.a. All concluded repo operations were settled at the end of Q2.

Also in Q2, medium-term and long-term government bonds from nuclear portfolio in total

nominal amount of CZK 0.6 bn were lent using this lending facility and financial funds of CZK 0.9 bn were received. In Q2, the average repo rate

achieved under the lending facility was -0.03% p.a. Repo operation was settled at the end of Q2.

Table 7: Realized lending facilities under nuclear portfolio in Q2 2013

Instrument	ISIN	Collateral Amount	Financial Funds Received	Financial Funds Paid
ČR, 5,70 %, 24	CZ0001002547	630,000,000	869,898,750.00	869,879,177.28
Total		630,000,000	869,898,750.00	869,879,177.28

Source: Ministry of Finance

6. State Treasury Liquidity Management

The amendment to the Budgetary Rules Act brought an essential extension of the treasury single account in CZK and a possibility to establish treasury single accounts in foreign currencies, the treasury single account in EUR was opened by the Czech National Bank on 2 April 2013.

The treasury single accounts were extended by:

a) all the funds in the accounts of the mandatory clients:

- state funds and the Land Fund of the Czech Republic,
- the National Fund,
- state contributory organizations,
- foreign funds accounts of state organizational units.

b) the funds in the accounts of optional clients designed for receiving funds from the state budget, state funds and the National Funds, namely:

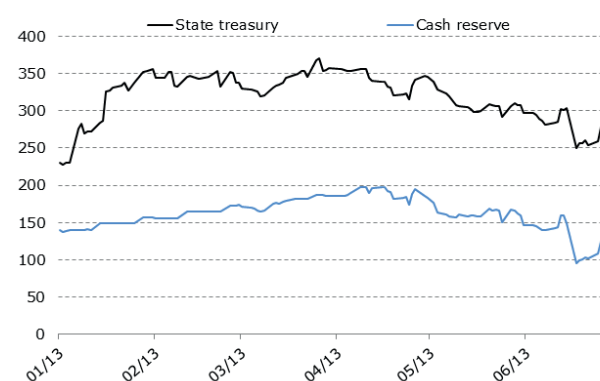
- local government units and voluntary municipal associations,
- regional councils of cohesion regions,
- public research institutes and public universities,
- Railway Infrastructure Administration and other legal entities, whose accounts are maintained with the Czech National Bank with the Ministry's consent.

The increase in liquidity in the treasury single accounts brings a significant strengthening of the state's position on the financial markets. Additional state treasury liquidity contributes to the decrease in the liquidity and refinancing risk of the debt portfolio and gives further possibilities for budgetary savings by reducing the state debt service costs.

The treasury single accounts average daily balance increased by **CZK 138.8 bn** compared to the same period of the previous year due to the transfer of the new entities' cash resources to the accounts within the treasury single accounts and accumulation of the cash reserve in the last year.

There is an opportunity to involve the cash resources in the mandatory clients' accounts into the financing of borrowing requirement of the state because of the stability of their balances and predictability of the cash resources deviations. The involvement of the optional clients' accounts is beneficial for the state treasury mainly due to the moderation and smoother time distribution of the state treasury cash resources outflow. The centralization of cash resources in the treasury single accounts contributes to the transparency of the public budget system, which supports the consolidation efforts of the Government.

Figure 11: Development of the State Treasury Balance and the Cash Reserve in H1 2013 (CZK bn)



Source: Ministry of Finance

Table 8: State and structure of resources and investment position of state treasury (CZK bn)

	2011	2012	30 Jun 2013
Liquid state financial assets	121.4	193.2	169.0
National Fund and former National Property Fund	0.0	15.8	32.9
Other mandatory clients of state treasury	20.8	20.5	56.5
Optional clients of state treasury	0.0	0.0	13.7
Liabilities to the state treasury (-)	0.0	0.0	0.0
Total liquidity position of the central government¹	142.3	229.6	272.2
Reverse repo operations (T-bills collateral)	6.6	5.2	33.0
Reverse repo operations (T-bonds collateral)	0.0	0.0	0.0
Reverse repo operations (CNB bills collateral)	76.4	158.5	159.4
Provided deposits and short-term borrowings and loans	14.8	13.1	29.6
On-lending over 1 year ²	1.7	1.7	1.7
Investment in T-bills and T-bonds	38.3	18.3	19.6
Investment in foreign securities	0.0	0.0	0.0
Provided collateral (in cash)	0.0	0.0	0.0
Cash resources in CZK treasury single account	1.5	1.7	0.0
Cash resources in EUR treasury single account ³	3.0	31.1	28.8
Cash resources in commercial banks accounts	0.0	0.0	0.0
Total investment position of the state treasury	142.3	229.6	272.2

¹ Available liquidity of the state treasury incl. investments outside state treasury liquidity management accounts.

² Extra-budgetary lending to other states and on-lending to institutions with state-backed guarantees for their core business with original maturity longer than 1 year and expected maturity less than 12 months.

³ Until 31 March 2013 it is a part of the cash reserve denominated in EUR, as the CNB has begun to technically administer the treasury single account in EUR since 2 April 2013.

Source: Ministry of Finance

7. Appendix

State debt and liquid state financial assets parameters

Table 9: State debt parameters

	30 Jun 2012	30 Sep 2012	31 Dec 2012	31 Mar 2013	30 Jun 2013
Total state debt (CZK billion)	1,635.7	1,652.3	1,667.6	1,715.6	1,678.1
Market value incl. derivatives (CZK billion)	1,795.7	1,837.4	1,887.3	1,937.0	1,879.1
Short-term state debt (%)	19.3	21.4	17.9	19.9	18.7
Medium-term state debt (%)	53.4	54.9	52.7	52.1	52.7
Share of money market instruments (%)	10.0	10.4	11.3	10.8	9.6
Average time to maturity (years)	5.7	5.6	5.7	5.6	5.7
Interest rate re-fixing up to one year incl. derivatives (%) ¹	37.1	40.5	37.5	39.4	37.1
Average time to re-fixing (years)	4.5	4.3	4.4	4.3	4.4
Variable-rate market debt (%)	13.7	14.3	14.9	14.9	15.6
Modified duration (years)	4.2	4.1	4.2	4.1	4.0
Modified duration excl. CZK IRS (years)	4.2	4.0	4.2	4.1	4.1
Foreign currency exposure of the state debt (%)	9.1	8.8	10.0	9.9	10.2
Foreign currency state debt (%)	17.3	16.6	17.7	17.6	18.1
Share of € on foreign currency exposure of the state debt (%)	87.7	87.7	89.7	90.0	90.3
Non-marketable state debt (%) ²	4.3	4.1	4.2	4.1	4.0
Retail state debt (%)	2.2	2.2	3.4	3.3	4.4
Marketable debt (CZK billion)	1,530.2	1,548.2	1,541.4	1,589.7	1,536.5
Market value (CZK billion)	1,686.5	1,730.1	1,754.6	1,804.6	1,704.9
Short-term marketable debt (%)	19.9	22.1	18.8	21.0	19.3
Medium-term marketable debt (%)	54.0	55.4	52.8	52.1	52.1
Share of money market instruments (%)	11.2	11.1	12.3	11.7	10.5
Average time to maturity (years)	5.5	5.4	5.5	5.4	5.5
Interest rate re-fixing up to one year incl. derivatives (%) ¹	34.6	38.4	35.7	37.8	35.2
Average time to re-fixing (years)	4.7	4.4	4.6	4.5	4.7
Variable-rate marketable debt (%)	10.3	11.0	11.7	11.8	12.8
Modified duration (years)	4.4	4.2	4.3	4.3	4.3
Modified duration excl. CZK IRS (years)	4.3	4.2	4.3	4.3	4.2
Foreign currency exposure of the state debt (%)	9.8	9.4	10.8	10.7	11.1
Foreign currency state debt (%)	18.5	17.7	19.1	19.0	19.7
Share of € on foreign currency exposure of the state debt (%)	87.7	87.7	89.7	90.0	90.3

¹ Interest rate re-fixing up to one year = Money market instruments + Fixed-rate short-term debt + Variable-rate state debt + Effect of interest rate derivatives.

² Excl. retail state debt.

Source: Ministry of Finance

Table 10: Parameters of liquid state financial assets

	30 Jun 2012	30 Sep 2012	31 Dec 2012	31 Mar 2013	30 Jun 2013
State financial assets (CZK billion)	186.8	207.9	193.2	252.4	169.0
Share of assets up to one year on total state debt (%)	10.5	11.7	10.2	13.4	9.1
Interest re-fixing up to one year (%)	92.2	93.0	92.4	94.2	91.3
Average time to re-fixing (years)	0.4	0.4	0.4	0.3	0.4
Investment portfolios and on-lending	41.7	42.2	42.7	43.1	44.2
Average yield (%)	2.0	1.8	1.5	1.4	1.4
Average time to maturity (years)	1.8	1.6	1.7	1.6	1.5
Modified duration (years)	1.4	1.2	1.0	0.9	0.9

Source: Ministry of Finance

Medium-term and long-term government bonds, savings government bonds and treasury bills issues in Q2 2013

Table 11: Issues of medium-term and long-term government bonds in Q2 2013

Instrument	Issue/ Tranche	Auction Date	Issue Date	Maturity Date	Currency	Max. Nominal Amount Offered in the Competitive Part of Auction	Total Nominal Amount Sold
1.50/2019	76/3	3/4	8/4	29/10/2019	CZK	5,000,000,000	5,825,880,000
2.50/2028	78/2	3/4	8/4	25/8/2028	CZK	5,000,000,000	1,824,850,000
VAR/2023	63/15	24/4	29/4	18/4/2023	CZK	5,000,000,000	3,584,960,000
0.50/2016	77/4	24/4	29/4	28/7/2016	CZK	4,000,000,000	2,337,340,000
VAR/2017	67/12	15/5	20/5	23/7/2017	CZK	3,000,000,000	2,310,020,000
4.20/2036	49/5	15/5	20/5	4/12/2036	CZK	3,000,000,000	1,894,160,000
1.50/2019	76/4	29/5	3/6	29/10/2019	CZK	3,000,000,000	3,192,660,000
VAR/2023	63/16	29/5	3/6	18/4/2023	CZK	4,000,000,000	2,162,880,000
1.50/2019	76/5	12/6	17/6	29/10/2019	CZK	4,000,000,000	4,646,810,000
2.50/2028	78/3	12/6	17/6	25/8/2028	CZK	4,000,000,000	1,326,530,000
Total							29,106,090,000

Instrument	Issue/ Tranche	Coupon	Average Net Price	Average Yield to Maturity (% p.a.)	Bid-to- cover Ratio	Sold in the Competitive Part of the Auction/ Max. Nominal Amount Offered	Sold in the Non- competitive Part of the Auction/ Max. Nominal Amount Offered
1.50/2019	76/3	1.50%	100.01	1.498	2.31	100.0	16.5
2.50/2028	78/2	2.50%	98.21	2.644	1.38	31.8	4.7
VAR/2023	63/15	VAR%	104.15	21.703 ¹	3.12	65.1	6.6
0.50/2016	77/4	0.50%	99.86	0.544	5.75	53.4	5.1
VAR/2017	67/12	VAR%	103.95	-9.169 ¹	4.67	73.3	3.7
4.20/2036	49/5	4.20%	124.72	2.758	2.10	60.3	2.8
1.50/2019	76/4	1.50%	100.87	1.357	1.94	100.0	6.4
VAR/2023	63/16	VAR%	104.66	16.073 ¹	1.84	50.0	4.1
1.50/2019	76/5	1.50%	98.82	1.697	1.77	100.0	16.2
2.50/2028	78/3	2.50%	96.01	2.827	1.80	30.6	2.5
Average						65.5	7.2

¹ Spread to the benchmark rate in bps (discounted margin).
Source: Ministry of Finance

Table 12: Issue of savings government bonds in Q2 2013

Instrument	Issue/ Tranche No.	Subscription Period	Settlement Date	Maturity Date	Original Maturity (Years)	Nominal Amount
Reinvestment savings bond	69/2 ¹		12/6/2012	12/6/2017	5.0	53,438,113
Inflation-linked savings bond	70/4 ¹		12/6/2012	12/6/2019	7.0	29,559,384
Discounted savings bond	79/1	13/5/2013 – 17/5/2013	12/6/2013	12/12/2014	1.5	3,138,910,188
Premium savings bond	80/1	13/5/2013 – 17/5/2013	12/6/2013	12/6/2016	3.0	7,351,622,771
Coupon savings bond	81/1	13/5/2013 – 17/5/2013	12/6/2013	12/6/2018	5.0	822,085,434
Reinvestment savings bond	82/1	13/5/2013 – 17/5/2013	12/6/2013	12/6/2018	5.0	5,799,209,251
Inflation-linked savings bond	83/1	13/5/2013 – 17/5/2013	12/6/2013	12/6/2020	7.0	411,238,606
Celkem						17,606,063,747

¹ Tranche issued through the yield reinvestment.
Source: Ministry of Finance

Table 13: Tap sales in Q2 2013

Instrument	Issue No.	Transaction Date	Settlement Date	Maturity Date	Original Maturity (Years)	Average Price	Nominal Amount
CZGB VAR 27/10/16	55.	27/03/2013	02/04/2013	27/10/2016	8	100.160	200,000,000
CZGB 4.85 26/11/57	53.	27/03/2013	02/04/2013	26/11/2057	50	118.333	300,000,000
CZGB 3.40 01/09/15	60.	10/04/2013	15/04/2013	01/09/2015	5.5	107.205	200,000,000
CZGB VAR 27/10/16	55.	10/04/2013	15/04/2013	27/10/2016	8	100.150	200,000,000
CZGB 3.40 01/09/15	60.	23/05/2013	28/05/2013	01/09/2015	5.5	106.971	224,120,000
CZGB 4.85 26/11/57	53.	23/05/2013	28/05/2013	26/11/2057	50	126.100	470,000,000
CZGB VAR 27/10/16	55.	19/06/2013	24/06/2013	27/10/2016	8	100.146	260,140,000
Total							1,854,260,000

Note: Tap sales include only operations carried out through MTS Czech Republic.
Source: Ministry of Finance

Table 14: Tap sales within the operations in the nuclear portfolio in Q2 2013

Instrument	Issue No.	Transaction Date	Settlement Date	Maturity Date	Original Maturity (Years)	Average Price	Nominal Amount
CZGB 2.75 31/03/14	62.	02/04/2013	05/04/2013	31/03/2014	3	102.610	1,000,000,000
CZGB 2.75 31/03/14	62.	29/05/2013	03/06/2013	31/03/2014	3	102.110	1,092,120,000
Total							2,092,120,000

Source: Ministry of Finance

Table 15: Treasury bills issues in Q2 2013

Issue No.	Maturity (Months)	Auction Date	Issue Date	Maturity Date	Offered Nominal Amount	Placed Nominal Amount	Yield (% p.a.)
674	12	4/4/2013	5/4/2013	4/4/2014	10,000,000,000	10,000,000,000	0.16
675	9	25/4/2013	26/4/2013	24/1/2014	9,000,000,000	6,500,000,000	0.12
676	12	16/5/2013	17/5/2013	16/5/2014	8,000,000,000	8,000,000,000	0.15
677	9	6/6/2013	7/6/2013	7/3/2014	8,000,000,000	7,572,000,000	0.12
678	12	27/6/2013	28/6/2013	27/6/2014	7,000,000,000	6,040,000,000	0.16
Total							0,14¹

¹ Average weighted yield to maturity of treasury bills issues in Q2 2013.
Source: Ministry of Finance

Table 16: Redemption and re-fixing profile of domestic government bonds issues in Q2 2013

Domestic Government Bonds	Placed Nominal Amount	Average Time to Maturity at the Issue Date	Average Time to Maturity at 31 Dec 2013	Average Time to Re-fixing at the Issue Date	Average Time to Re-fixing at 31 Dec 2013
Floating rate	8,057,860,000	8.3	7.7	0.7	0.2
Fixed rate	21,048,230,000	9.0	8.3	9.0	8.3
Savings bonds ¹	17,606,063,747	3.6	3.0	3.4	2.9
Total	46,712,153,747	6.8	6.1	5.5	4.9

¹ Incl. reinvestment of yields in total nominal amount of CZK 83.0 bn.
Note: Nominal amount in CZK; average time to maturity and re-fixing in years.
Source: Ministry of Finance

Budgetary revenues and expenditures on the state debt in 2013

Table 17: Budgetary expenditures and revenues on state debt in 2013

Indicator (CZK million)	Actual H1 2012	Budget 2013		Actual H1 2013	% Execution	Index 2013/2012 (%)
		Approved	After Changes			
1	2	3	4	5	5:4	5:2
1. Total interest expenditure and revenue	33,145 (-) 6,910	67,350 (-) 3,800	65,350 (-) 3,800	35,071 (-) 4,879	53.7 128.4	105.8 70.6
Domestic debt	25,076 (-) 6,744	51,409 (-) 3,307	49,408 (-) 3,307	24,668 (-) 4,780	49.9 144.6	98.4 70.9
Money market instruments and on-lending	801 (-) 491	4,772 (-) 1,121	4,772 (-) 1,121	144 (-) 47	3.0 4.2	18.0 9.7
Of which: derivative operations	29	36	36	36	100.0	121.3
Savings government bonds	226 0	781 -	781 -	173 0	22.2 -	76.5 100.4
Government bonds	24,048 (-) 6,253	45,856 (-) 2,186	43,855 (-) 2,186	24,351 (-) 4,733	55.5 216.5	101.3 75.7
Foreign debt	8,069 (-) 158	15,941 (-) 493	15,941 (-) 493	10,402 (-) 91	65.3 18.4	128.9 57.6
International issues	7,415 (-) 158	14,246 (-) 493	14,246 (-) 493	9,983 (-) 91	70.1 18.4	134.6 57.6
Of which: derivative operations	2,724 (-) 158	5,152 (-) 493	5,152 (-) 493	2,654 (-) 91	51.5 18.4	97.4 57.6
Loans from EIB	654	1,696	1,696	419	24.7	64.1
Bank accounts	- (-) 8	-	1 -	1 (-) 8	96.1 -	- 91.9
Bank accounts interests (+ paid, - received)	- (-) 8	-	1 -	1 (-) 8	96.1 -	- 91.9
2. Total fees	189	500	500	213	42.5	112.3
Total balance	33,334 (-) 6,910	67,850 (-) 3,800	65,850 (-) 3,800	35,284 (-) 4,879	53.6 128.4	105.8 70.6

Note: (-) means revenues (gains).

Source: Ministry of Finance

The total **net expenditures** on the state debt management in H1 amounted **CZK 30.4 bn**. Revenues from accrued interest yields and bond

premiums contributed CZK 4.7 bn to reduction of the gross expenditures. Gross expenditures on the state debt management reached CZK 35.3 bn.

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