



Ministry of Finance

Debt and Financial Assets
Management Department

Debt Portfolio Management Quarterly Review

March 2014



11 April 2014

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Letenská 15, 118 10 Prague 1
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E-mail: pd@mfcz.cz

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Introduction

The Ministry of Finance (hereinafter the "Ministry") hereby submits the 37th 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 2014 had been quantified in the governing document The Czech Republic Funding and Debt Management

Strategy for 2014 (hereinafter the "Strategy") approved by the Minister of Finance and published on 16 December 2013. 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.

1 - Main Events in Q1 2014

Stabilization of the Gross State Debt

During the first quarter of 2014, the CZK-denominated value of the gross state debt was stabilized at the level as of the end of 2013. The gross state debt as of the end of the first quarter 2014 was only CZK 46 million higher compared to the end of 2013. The stabilization of the gross state debt is mainly related to the new tactical plan

of gradual and more effective involvement of the available state treasury liquidity and the consequent adjustment of the issuance activity under the alternative scenario of funding programme, which besides other things resulted into the decrease of the stock of money market instruments in the amount of CZK 20.1 billion.

High Demand in Government Bonds Auctions

During the first quarter of 2014, the Ministry has recorded a high demand for government bonds sold in primary auctions across all segments of residual maturity including the government bonds bearing an interest on the long end of the yield curve. In the first government bonds auction in 2014 which was held on 15 January after a more than two months long break as the last auction in 2013 was held on 6 November, the average "Bid-to-Cover Ratio"¹ amounted to 2.34 in case of the whole auction, and 2.39 in case of the Government Bond of the Czech Republic, 2013–2028, 2.50%. The average value of the "Bid-to-Cover Ratio" indicator achieved

in medium-term and long-term government bonds auctions in the first quarter of 2014 amounted to 2.25. Similarly, the Ministry recorded a high demand for state treasury bills, for which the average value of the „Bid-to-Cover Ratio" indicator achieved in auctions in the first quarter of 2014 was 2.32. The first quarter clearly confirmed stable situation on the domestic bond market, which remains the main source of funding the gross borrowing requirement of the government even in the rest of the year 2014 with the aim of fully satisfying the demand of investors in accordance with the Strategy.

State Treasury Single Account Cash Balance Investments

By launching the full-fledged operation of EUR treasury single account, the planning of the cash flows and available cash funds investment became more efficient, which, combined with the increased demand of domestic banks for EUR liquidity as a result of the launch of foreign exchange interventions by the Czech National Bank, brought CZK 51.6 million higher revenue in comparison to the same

period of 2013. The investment operations on CZK and EUR treasury single account are in the form of reverse repo operation and deposit operation on the interbank market. The counterparties of these operations are mainly domestic commercial banks, which are also contractual primary dealers of the Czech government bonds and whose credibility is very high.

¹ Proportion of the total demand in competitive part of auction to accepted demand in the same part of auction.

2 - Overview of 2014 Strategic Debt Management Targets

Regular quarterly assessment of actual structure of debt portfolio in relation to the announced strategic targets and limits, which constitute the main parameters of publicly defined strategic benchmark portfolio communicated mainly through the Strategy, and quarterly updates of the gross borrowing requirement and the funding programme are the main Ministry's tools to support the credibility and transparency of the whole process of the state debt and related financial assets management and

executing borrowing operation on financial markets in accordance with the best international practice and recommended standards. The overview of this assessment for the first quarter of 2014 confirms, that the Ministry does not deviate from any of the announced targets and limits and that the borrowing operations executed in accordance with the alternative scenario of the funding programme announced in the strategy correspond in their scope to the announced issuance plans.

Table 1: Funding Programme in 2014

INDICATOR	Announced plan for 2014	Q1 2014
International issuance activity	CZK 0.0 to 80.0 billion ¹	CZK 0.0 billion
Gross issue of medium-term and long-term government bonds²	CZK 119.2 to 230.1 billion	CZK 67.1 billion
Gross issue of retail bonds³	CZK 20.0 to 50.0 billion	CZK 0.0 billion
Net issue of money market instruments⁴	CZK -20.9 to 0.0 billion	CZK -20.1 billion
Gross issue of state treasury bills	CZK 100.0 to 120.9 billion ⁵	CZK 21.7 billion
Loans from EIB	CZK 0.0 to 10.0 billion	CZK 0.0 billion

¹ The share of funding on foreign markets will not exceed 25% of annual gross borrowing requirement according to the methodology valid for 2014.

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 value of CZK 0.0 million.

⁴ Incl. state treasury bills, lending facility for providing lending of government bonds, and other money market instruments.

⁵ Excl. treasury bills issued and redeemed within the respective period.

Source: MoF

In the area of **international issuance activity**, the Ministry did not realize any operations in Q1. In Q1, no loan tranche was drawn from the European Investment Bank (hereinafter the "EIB"). In Q1, the planned repayments of loans from EIB in total amount of CZK 0.4 billion and the unplanned repayments of loans from EIB in total amount of CZK 0.9 billion were carried out. The total repayments of loans from EIB amounted to CZK 1.3 billion in Q1.

Regarding **domestic issuance activity**, the gross issue of medium-term and long-term government bonds in total nominal value of CZK 67.1 billion was executed in Q1, representing 29.2% of maximum annual issuance limit for this type of financing under the alternative scenario of the 2014 funding programme. The gross issue of medium-term and long-term government bonds covered 19.2% of the planned gross borrowing requirement of the central government under the alternative scenario of the 2014 funding programme. In Q1, The Ministry did not realize any sale of the government bonds on secondary market using the MTS Czech Republic electronic platform. No sales were carried out within the state financial assets investment operations in the nuclear portfolio in Q1. In Q1, the planned redemption of Czech Republic Treasury Bond, 2011-2014, 2.75% in total nominal value of CZK 46.0 billion took place. No buy-backs of medium-term and long-term government bonds were carried out in Q1. The total nominal value of the net issue of medium-term and long-term government bonds in Q1 amounted to CZK 21.1 billion.

Regarding **savings government bonds**, no series of issues were carried out in Q1. No tranches of savings government bonds were issued in the form of the reinvestment of yields in Q1. As of the end of Q1, the total nominal value of savings government bonds outstanding amounted to CZK 87.6 billion, which represents 5.2% of total state debt and 7.4% of CZK-denominated government bonds excl. State treasury bills. In Q1, no planned redemption of savings government bonds was carried out. The early redemptions of savings government bonds in total nominal value of CZK 28.3 million regarding the pilot series of issues and 2012 "spring" and "Christmas" series of issues were carried out during Q1, which represents 0.03% of total nominal value of savings government bonds outstanding.

The total nominal value of the gross issue of **money market instruments** excl. the roll-over amounted to CZK 25.0 billion during Q1, of which CZK 21.7 billion represented the state treasury bills and CZK 3.3 billion represented the lending facility for providing lending of government bonds. The gross issue of money market instruments represents 20.7% of maximum annual issuance limit for this type of financing and covers 7.1% of planned gross borrowing requirement of the central government under the alternative scenario of the 2014 funding programme. The total nominal value of the net issue of money market instruments amounted to CZK -20.1 billion as of the end of Q1.

Short-term state debt (debt payable within one year) as of the end of Q1 decreased by 3.7 percentage points in comparison to the end of 2013 and amounted to **12.1%** and thus reached the value below the limit of 20.0% out of the total state debt which is in line with announced Strategy for 2014.

The **medium-term state debt** (debt payable within five years) as of the end of Q1 decreased by 3.1 percentage points in comparison to the end of 2013 and amounted to **50.5%**. The value thus remained below the limit of 70.0% out of the total state debt valid for 2014 and for the medium-term horizon.

Table 2: Strategic Targets, Limits and Risk Parameters of Debt Portfolio in 2014

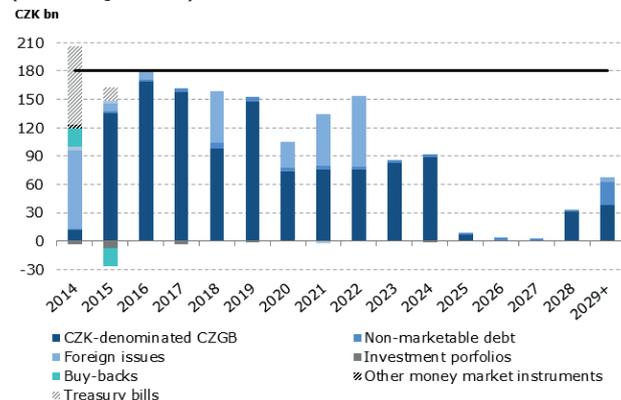
INDICATOR	Announced limits and targets for 2014	31 Mar 2014
Short-term state debt	20.0% and less	12.1%
Medium-term state debt	70.0% and less	50.5%
Average time to maturity	5.0 to 6.0 years	5.7 years
Interest re-fixing up to 1 year	30.0 to 40.0%	31.8%
Average time to re-fixing	4.0 to 5.0 years	4.5 years
Net foreign-currency exposure of state debt	Max. 15.0 to 17.0%	9.6%

Source: MoF

The **average time to maturity of the state debt** as of the end of Q1 increased by 0.1 years in comparison to the end of 2013 and amounted 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 valid for 2014.

Figure 1: Redemption Profile of State Debt and Financial Assets

(end of Q1 2014)



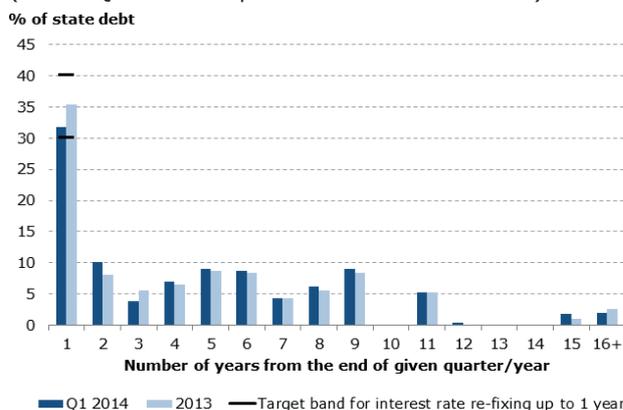
Note: The positive axis shows liabilities and planned buy-backs on bonds due in 2015 and later years carried out in 2014, the negative vertical axis shows state financial assets and planned buy-backs carried out in 2014. CZK-denominated CZGB include savings government bonds. Excl. the roll-over of money market instrument.
Source: MoF

Interest re-fixing of the state debt up to one year as of the end of Q1 decreased by 3.6 percentage point in comparison to the end of 2013 and amounted to **31.8%**. This indicator thus remained within the medium-term target band of 30.0 to 40.0% valid for 2014.

Average time to the state debt re-fixing as of the end of Q1 increased by 0.2 year in comparison to the end of 2013 and amounted to **4.5 years**. This indicator thus remained within the medium-term target band of 4.0 to 5.0 years.

Figure 2: Re-fixing Profile of State Debt

(end of Q1 2014 compared with the end of 2013)



Note: Incl. derivative transactions.
Source: MoF

The main indicator for currency risk management is the proportion of net foreign-currency exposure of the state debt to the total state debt. The strategic limit announced for 2014 is 15.0% (up to 17.0% in the short term). The value of this indicator at the end of Q1 increased by 0.2 percentage point in comparison to the end of 2013 and amounted to 9.6% and is thus below its limit. The share of net foreign-currency exposure of the state debt denominated in euro in relation to overall net foreign-currency exposure of the state debt amounted to 89.4%, as the value remained unchanged in comparison to the end of 2013, thus indicating the euro's dominance in the foreign-currency state debt portfolio.

The net foreign currency exposure of the state debt which takes into account the foreign-currency exposure of state financial assets amounted to CZK 161.3 billion at the end of Q1.

3 - Borrowing Requirement of the Central Government

In 2014, the Ministry will switch to the internationally recommended and used methodology of gross borrowing requirement reporting, which – unlike the original methodology includes in the total gross borrowing requirement only money market and

other instruments with original maturity of up to one year to be refinanced over the course of the following year (but not their potential roll-over within the year).

Financing Needs and Sources of the Central Government

The financing needs of the central government is determined by the items that must be financed in the given year, i.e. the budgeted state budget deficit, potential extra-budgetary financing requirement and all redemptions and early redemptions on nominal values (principal) of state debt, including

the related derivatives. Operations on the side of state financial assets, including net changes in the cash reserve, or the provision and repayment of extra-budgetary loans and credits to other states and domestic legal entities, are funding sources.

Table 3: Financing Needs and Sources (CZK billion)

Financing needs	2012	2013	Q1 2014
Primary balance of state budget	59.6	30.4	-45.7
Net expenditure on state debt	41.4	50.9	2.1
Extra-budgetary financing needs	0.0	0.0	0.0
Redemption on government bonds in the respective year	115.6	108.6	50.0
Buy-backs and exchanges of government bonds from prior years	-2.0	-8.1	-4.0
Buy-backs and exchanges of government bonds due in coming years ¹	8.1	7.5	0.0
Redemption and early redemptions on savings government bonds in given year	9.6	7.7	0.0
Redemption on state treasury bills excl. roll-over	162.6	189.1	45.1
Other money market instruments	0.0	0.0	0.0
Repayments on EIB loans	5.3	2.8	1.3
Total financing needs	400.2	388.8	48.8
Gross money market instruments issuance (excl. roll-over)	189.1	120.9	25.0
Gross CZGB issuance	164.6	145.6	67.1
Gross issue of government bonds on foreign markets	69.0	0.0	0.0
Gross issue of retail bonds	45.4	39.1	0.0
EIB loans	4.0	4.3	0.0
Net change in cash reserve	-69.4	79.5	0.2
Net change in on-lending	0.0	1.7	0.0
State financial asset operations	-2.4	-2.3	-0.4
State budget surplus	0.0	0.0	-43.2
Re-financing from the state treasury	0.0	0.0	0.0
Total financing sources	400.2	388.8	48.8
Non-debt financing sources	71.8	-78.9	43.4
Gross borrowing requirement	472.0	309.9	92.1

¹ Excluding operations with medium- and long-term government bonds during current budgetary year.
Source: MoF

Financing of the Gross Borrowing Requirement

The gross borrowing requirement determines the part of the sources for the government's financing needs secured through borrowing operations, i.e. it stipulates the value of cash resources that the government must obtain primarily by issuing and selling government bonds and drawing credits and loans. The gross borrowing requirement may be lower than the annual financing needs, if state

financial assets are involved or short-term re-financing from the state budget is involved as a source of financing; on the contrary, it may be higher if assets are accumulated through borrowing operations e.g. for the purpose of pre-financing and building of cash reserve, or for the purpose of providing extra-budgetary credit and loans.

Table 4: Financing of the Gross Borrowing Requirement (CZK billion)

	2012	2013	Q1 2014
Gross borrowing requirement	472.0	309.9	92.1
Gross issue of state treasury bills excl. roll-over	189.1	120.9	21.7
Other money market instruments	0.0	0.0	3.3
Received collateral in cash	0.0	0.0	0.0
Gross issue of CZGB on the domestic market up to 6 years ¹	70.4	44.0	21.7
Gross issue of CZGB on the domestic market 6 to 11 years ¹	76.3	76.8	32.6
Gross issue of CZGB on the domestic market more than 11 years ¹	17.8	24.8	12.9
Gross issue of government bonds on foreign markets ¹	69.0	0.0	0.0
Gross issue of retail bonds ²	45.4	39.1	0.0
EIB loans	4.0	4.3	0.0
Other financing sources	0.0	0.0	0.0
Total financing of gross borrowing requirement	472.0	309.9	92.1

¹ Nominal value; premiums and discounts are included in net costs on state debt service, i.e. they are included in the net borrowing requirement.

² Including reinvestment of yields.

Note: CZGB, 2014–2025, 2.40% is included in the gross issue of CZGB on the domestic market 6 to 11 years.

Source: MoF

Net Borrowing Requirement and Change in State Debt

The net borrowing requirement of the central government is a key factor in the change in the nominal CZK value of the gross state debt, and is determined by the difference between the gross borrowing requirement and total redemption on the nominal values (principal) of state debt,

including the related derivatives. The net borrowing requirement represents the value of cash resources that the central government must borrow in the current year beyond the resources already borrowed in previous years.

Table 5: Net Borrowing Requirement of the Central Government (CZK billion)

	2012	2013	Q1 2014
Gross borrowing requirement	472.0	309.9	92.1
Redemption on government bonds in given year	115.6	108.6	50.0
Buy-backs and exchanges government bonds from previous years	-2.0	-8.1	-4.0
Buy-backs and exchanges government bonds due in coming years ¹	8.1	7.5	0.0
Redemption and early redemptions on savings government bonds in the given year	9.6	7.7	0.0
Redemption on state treasury bills excl. roll-over	162.6	189.1	45.1
Other money market instruments	0.0	0.0	0.0
Repayments of EIB loans	5.3	2.8	1.3
Net borrowing requirement	172.8	2.3	-0.2

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

Source: MoF

The net borrowing requirement is financed using the same instruments as the gross borrowing requirement. In financing the net borrowing requirement, however, it is necessary to take into account the value of total redemption on the nominal values (principal) of the given debt portfolio instruments, including the impact of derivatives. If the resources for covering the financing needs do not simultaneously include the refinancing mechanism of treasury single accounts and there was no change in exchange rates, the net

borrowing requirement as per the current national methodology corresponds to the year-on-year change in the balance of the gross state debt in the domestic currency.

The net debt portfolio is determined by the state debt and 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 6: Net Borrowing Requirement of the Central Government and Change in State Debt (CZK billion, % of GDP)

	2012	2013	Q1 2014
Gross state debt as at 1 Jan	1,499.4	1,667.6	1,683.3
Primary state budget balance	59.6	30.4	-45.7
Net expenditures on state debt service ¹	41.4	50.9	2.1
Extra-budgetary financing needs	0.0	0.0	0.0
Net borrowing requirement excl. asset operations	101.0	81.3	-43.6
State financial asset operations ²	2.4	2.3	0.4
On-lending (net change) ³	0.0	-1.7	0.0
Cash reserve (net change) ⁴	69.4	-79.5	-0.2
State budget surplus	0.0	0.0	43.2
Net borrowing requirement	172.8	2.3	-0.2
Net issue of money market instruments	26.5	-68.2	-20.1
Net issue of government bonds on domestic market	42.9	37.7	21.1
Net issue of government bonds on foreign market	69.0	0.0	0.0
Net issue of retail bonds	35.8	31.4	0.0
Net change in balance of received loans and credit	-1.3	1.5	-1.3
Financing of net borrowing requirement	172.8	2.3	-0.2
Revaluation of state debt ⁵	-4.4	13.4	0.3
Promissory notes repayments ⁶	-0.1	0.0	0.0
Gross state debt change	168.3	15.7	0.0
Gross state debt as of the end of period	1,667.6	1,683.3	1,683.4
Share of GDP (%)	43.4	43.3	43.1

¹ Balance of budgetary chapter 396 – State debt.

² Balance of budgetary chapter 397 – State Financial Assets Operations, incl. budgetary transfers.

³ Extra-budgetary loans with maturity of over 1 year granted to other countries and domestic legal entities.

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 Exchange rate changes due to revaluation of debt denominated in foreign currencies.

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

Source: MoF

Table 7: Balance and Structure of the Net Debt Portfolio (CZK billion)

	2012	2013	31 Mar 2014
Gross state debt	1,667.6	1,683.3	1,683.4
Money market instruments	189.1	120.9	97.6
Government bonds lending facility	0.0	0.0	3.3
Received collateral in cash	0.0	0.0	0.0
Government bonds issued on domestic market	1,042.0	1,079.7	1,100.8
Government issued on foreign markets	310.3	323.7	323.9
Retail bonds	56.2	87.6	87.6
EIB loans	70.0	71.5	70.3
Promissory notes ¹	0.0	0.0	0.0
Liquid state financial assets	191.5	116.7	160.1
Nuclear investment portfolio	18.5	20.7	21.1
Pension investment portfolio	22.4	22.6	22.6
Special-purpose state financial assets accounts	10.6	10.7	10.7
On-lending ²	0.0	0.0	0.0
Cash reserve ³	139.9	62.7	62.5
State budget surplus	0.0	0.0	43.2
State financial assets	193.2	116.7	160.1
Liquid state financial assets	191.5	116.7	160.1
On-lending ⁴	1.7	0.0	0.0
Net debt portfolio	1,474.4	1,566.7	1,523.3

¹ Promissory notes covering part of the Czech Republic ownership interests in international financial institutions.

² Extra-budgetary loans with original maturity of over 1 year granted to other countries and domestic legal entities and residual maturity less than 12 months.

³ Available cash resources created according to Section 35(4) of Act No. 218/2000 Coll, incl. the impact of exchange rate difference of the CZK value of the part of the cash reserve in foreign currencies.

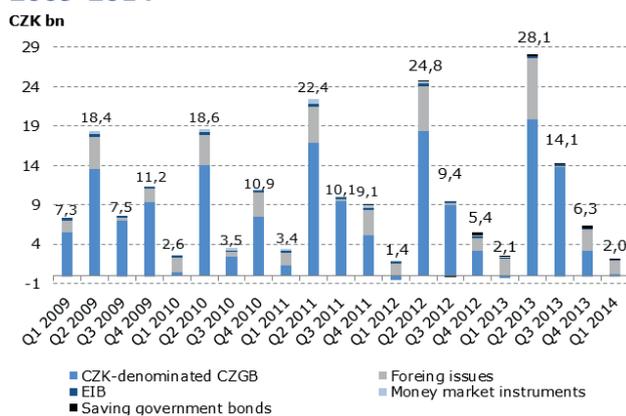
⁴ Extra-budgetary loans with original maturity of over 1 year granted to other countries and domestic legal entities and residual maturity greater than 12 months.

Source: MoF

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

The following figure presents an overview of interest expenditure and revenue realised under budgetary chapter 396 – State Debt. More detailed information on the budgeted and actual expenditure and revenue in Q1 is included in the Appendix. The actual net interest costs on the state debt in Q1 reached CZK 2.0 billion, which is CZK 0.1 billion lower than the actual net interest costs in the corresponding period in 2013.

Figure 3: Net Interest Costs on the State Debt, 2009-2014

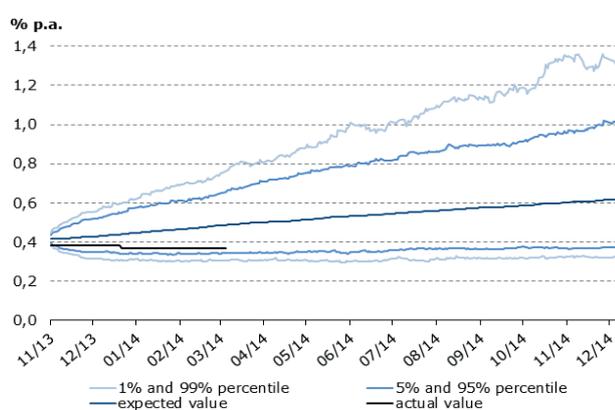


Note: Excl. fees related to the state debt service.
Source: MoF

The state debt interest costs model Cost-at-Risk (CaR) for the year 2014 was published in the Strategy. Calculations of the CaR values are based on term structure of interest rates on 27 November 2013.

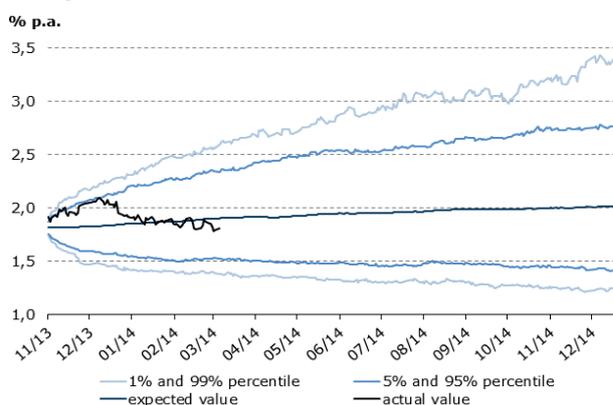
A comparison of the actual development of the 3-month PRIBOR and 10-year swap rates with their simulations for the period from 27 November 2013 to 31 December 2014 are shown in the following figures.

Figure 4: Daily Simulated v. Actual 3-month PRIBOR Interest Rates in 2014



Source: MoF

Figure 5: Daily Simulated v. Actual 10-year CZK Swap Rates in 2014

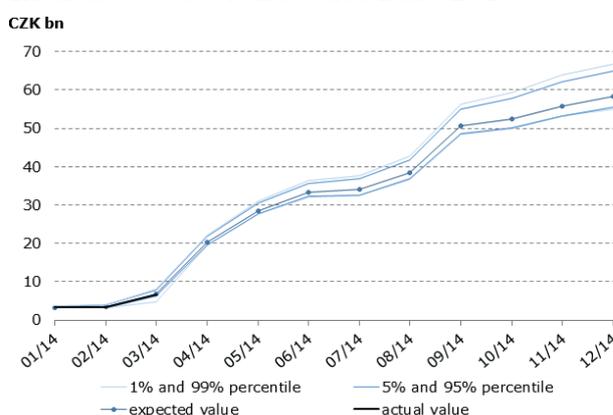


Source: MoF

The development of gross interest costs of the state debt in comparison with simulated costs for 2014 is shown in the following figure. The actual realized gross interest costs amounted to CZK 6.6 billion in Q1 and were CZK 0.1 billion lower than expected costs of CZK 6.7 billion predicted by the model.

In case of interest revenue, the predicted interest revenue is approx. CZK 0.4 billion higher compared to the actual revenue. The difference is caused primarily by the lower income in terms of auction premiums.

Figure 6: Simulated v. Actual Gross Cumulated Interest Costs of the State Debt 2014



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

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 Cost-at-Risk (95% and 99% percentile of simulations) for Q1 in comparison to the corresponding period in 2013.

Table 8: Expected v. Actual Net Interest Costs in Q1 2013 and Q1 2014 (CZK billion)

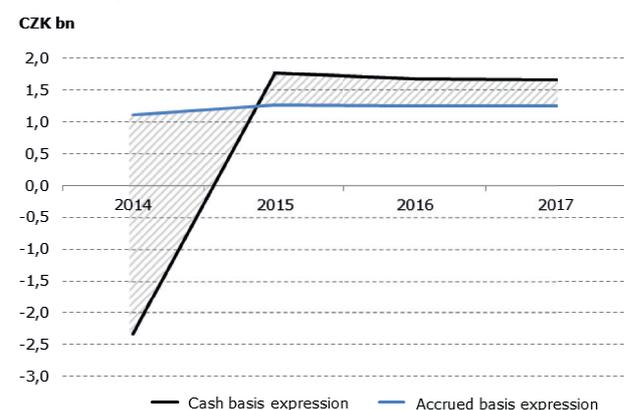
	Q1 2013	Q1 2014
Actual net interest costs	2.1	2.0
Expected (simulated) net costs	3.6	1.8
Cost-at-Risk 95%	6.8	4.2
Cost-at-Risk 99%	9.1	4.8
Deviation of expectation from actuality	1.5	-0.2

Source: MoF

In Q1, the actual net interest costs on the state debt amounted to CZK 2.0 billion. The expected net interest costs for the same period predicted by the model were CZK 1.8 billion. The actual net interest costs thus remained below the level of both CaR 95% and CaR 99%, which were set at CZK 4.2 billion and CZK 4.8 billion, respectively. The primary goal of the model was fulfilled when net interest costs did not exceed CaR levels. The model estimated the net interest costs to be CZK 0.2 billion lower due to higher expected revenue.

Although the budgetary chapter 396 – State Debt is budgeted on a cash basis, the Ministry also monitors the costs of the state debt portfolio on an accrual basis, as an accrual expression provides more realistic picture of the actual costs of that year. The net interest costs of the state debt issued in Q1 expressed on an accrual basis reached CZK 1.1 billion in 2014 compared to CZK -2.3 billion expressed on a cash basis, i.e. on a cash basis, the newly issued debt in Q1 brought a revenue of the budgetary chapter 396 – State Debt, as the effect of auction premium of CZK 3.9 billion prevailed. The difference between accrual and cash basis expression of costs is shown in the following figure. While the costs expressed on accrual basis

are relatively stable in each year, as in 2014, the costs amount to CZK 1.1 billion, in 2015, the costs amount to its maximum value of CZK 1.3 billion, in 2016 and 2017, the costs will slowly decrease. A different trend can be seen in the net interest costs of the same debt on cash basis, as in this year, the net interest costs amount to CZK -2.3 billion, in 2015, the net interest costs amount to CZK 1.8 billion and in 2016 and 2017, the net interest costs amount to approx. CZK 1.7 billion.

Figure 7: Net Accrued and Cash Interest Costs of Newly Issued Debt

Source: MoF

Table 9: Accrued Interest Costs of the Newly Issued State Debt (CZK billion)

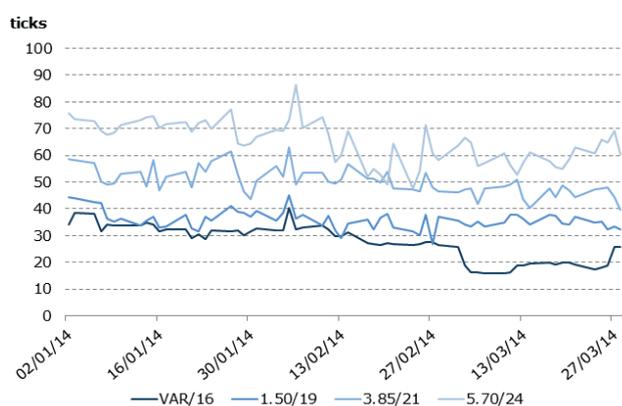
	Nominal value	Net interest costs			
		2014	2015	2016	2017
Cash basis expression	88.9	-2.3	1.8	1.7	1.7
Accrued basis expression	88.9	1.1	1.3	1.3	1.2
Gross issuance of CZGB	67.1	1.1	1.3	1.3	1.2
Gross issuance of state treasury bills	21.7	0.0	0.0	-	-
Foreign issues	-	-	-	-	-
Gross issuance of savings government bonds	-	-	-	-	-
Drawing of EIB loans	-	-	-	-	-

Source: MoF

5 - Secondary Market of Government Bonds

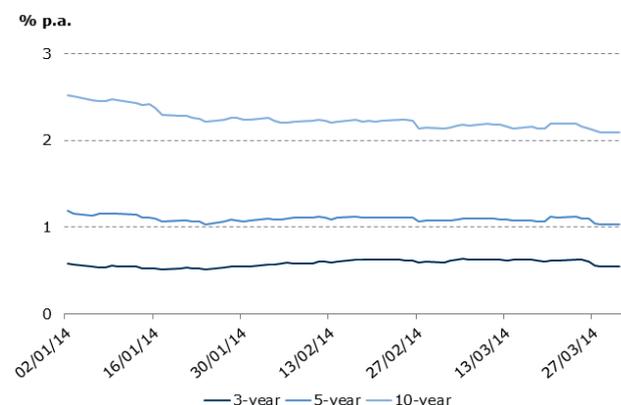
The MTS Czech Republic platform for trading government bonds, which was implemented on July 2011, considerably contributes to efficiency and transparency on the domestic secondary market. The key parameter indicating the effective pricing on the secondary market is the bid-offer spread for a given government bond. The narrower the bid-offer spread, the more liquid and efficient the market is. Decreasing trend in bid-offer spreads that commenced in July previous year, accelerated in the beginning of November in shorter maturities and then stayed stable at lower level. After the corrections in the end of the year the numbers restored on October values again. From the beginning of the year, bid-offer spreads have decreased by 20 ticks in all maturities.

Figure 8: Average Quoted Bid-offer Spreads on MTS CR in Q1 2014



Source: EuroMTS and MoF

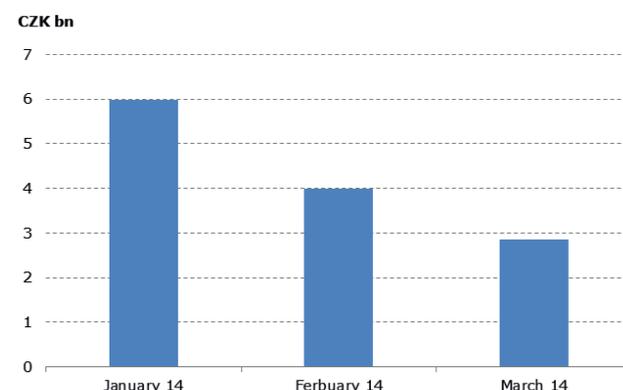
Figure 9: Yields of Government Bonds Traded on MTS CR in Q1 2014



Source: EuroMTS and MoF

The total monthly nominal value of government bonds traded on MTS Czech Republic platform in Q1 amounted to CZK 4.3 billion on average, which is more than CZK 2 billion lower than in previous quarter of the year.

Figure 10: Nominal Value of Transactions on MTS CR in Q1 2014

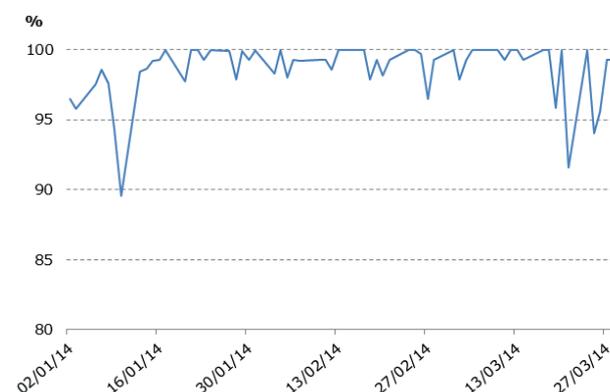


Source: EuroMTS and MoF

The obligations of Primary Dealers on the secondary market include fulfilling of criterions of the minimum quoted total nominal value 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 oscillated tightly below 100%. Only one Primary Dealer didn't manage to fulfil the quoting obligations during one of the month in Q1. The average DCR of Primary Dealers in Q1 decreased only in one day below the limitary border 90%.

Figure 11: Average Daily Quoting Obligation Fulfilment - Daily Compliance Ratio in Q1 2014



Source: EuroMTS and MoF

Also in Q1, 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 90 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.

Table 10: Realized Lending Facilities of Government Bonds in Q1 2014

Instrument	ISIN	Collateral amount	Financial funds received	Financial funds paid
CZGB 0.50/16	CZ0001003842	270,000,000	271,485,000.00	271,481,832.68
CZGB VAR/16	CZ0001002331	75,000,000	75,438,666.67	75,436,843.57
CZGB 4.00/17	CZ0001001903	460,000,000	523,454,444.44	523,448,337.47
CZGB 4.60/18	CZ0001000822	605,000,000	717,106,500.00	717,088,373.14
CZGB 5.00/19 ¹	CZ0001002471	2,150,000,000	2,631,954,861.10	2,631,897,072.23
CZGB 3.85/21	CZ0001002851	480,000,000	554,252,555.55	554,241,344.42
CZGB VAR/23	CZ0001003123	3,800,000,000	4,031,288,108.33	4,031,180,653.71
CZGB 5.70/24 ²	CZ0001002547	3,965,000,000	5,393,462,541.67	5,393,370,280.82
Total		11,805,000,000	14,198,442,677.76	14,198,144,738.04

¹ Collateral used only from investment nuclear portfolio.

² Collateral used from the Ministry's portfolio and investment nuclear portfolio.

Source: MoF

In Q1 2014, medium-term and long-term government bonds in a total nominal value of CZK 11.8 billion were provided from the Ministry's portfolio and the nuclear investment portfolio through the lending facility, against received cash resources in the amount of CZK 14.2 billion, which

were invested on the money market within the framework of state treasury liquidity management and within the framework of financial assets operations in the nuclear portfolio. In Q1, the average repo rate achieved under the lending facility was -0.03% p.a.

6 - State Treasury Liquidity Management

The total state treasury resources are subdivided into the two separate single accounts, which are distinguished by the currency, i.e. CZK single account and EUR single account. The treasury liquidity management is performed separately on

both single accounts. In accordance with Act No. 218/2000 Coll., on the budgetary rules, the balance of the particular treasury single account cannot be negative.

Table 11: State and Structure of Resources and Investment Position of State Treasury (CZK billion)

	2012	2013	31 Mar 2014
Liquid state financial assets	191.5	116.7	160.1
National Fund and former National Property Fund	15.8	79.9	73.1
Other mandatory clients of state treasury	20.5	77.0	69.2
Optional clients of state treasury	0.0	4.4	11.3
Liabilities to the state treasury (-)	0.0	0.0	0.0
Total liquidity position of the state treasury¹	227.9	278.0	313.7
Reverse repo operations (T-bills collateral)	5.2	18.0	16.8
Reverse repo operations (T-bonds collateral)	0.0	37.8	34.5
Reverse repo operations (CNB bills collateral)	158.5	141.5	189.8
Reverse repo operations (foreign securities collateral)	0.0	0.0	0.3
Provided deposits and short-term borrowings and loans	13.1	41.4	56.7
On-lending ²	0.0	0.0	0.0
Investment in T-bills and T-bonds	18.3	19.2	15.5
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	1.7	1.8	0.0
Cash resources in EUR treasury single account ³	31.1	18.3	0.1
Ministry's cash resources in commercial banks accounts	0.0	0.0	0.0
Total investment position of the state treasury	227.9	278.0	313.7

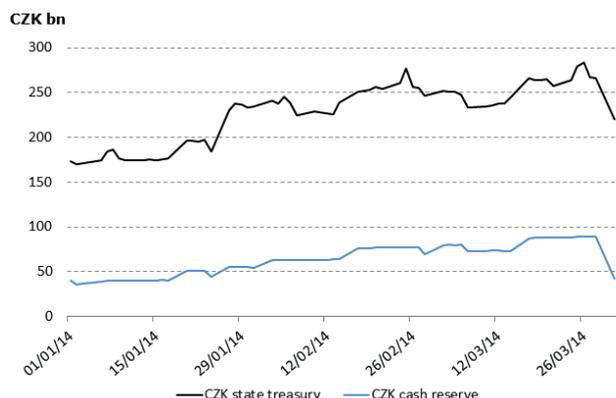
¹ Available liquidity of the state treasury incl. investments outside state treasury liquidity management accounts.

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 residual maturity less than 12 months.

³ Until 31/3/2013 it is a part of the cash reserve denominated in EUR, as the CNB established the treasury single account in EUR for the Ministry of Finance on 2/4/2013.

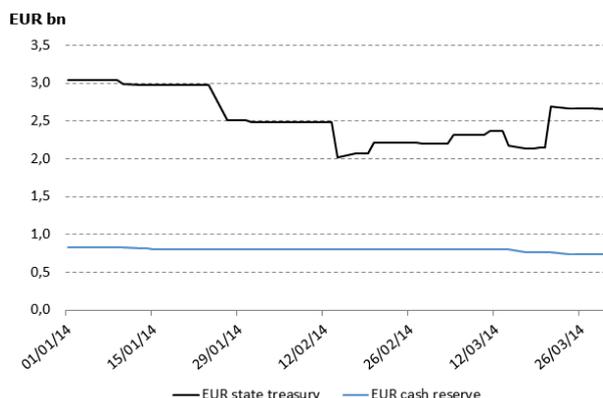
Source: MoF

Figure 12: Development of the CZK State Treasury Balance and the Cash Reserve



Source: MoF

Figure 13: Development of the EUR State Treasury Balance and the Cash Reserve



Source: MoF

Within the CZK state treasury liquidity management and the state financial assets investment operations in the nuclear portfolio, short-term investments with the use of the CNB bills and state treasury bills as collateral in total nominal value of CZK 1,529.6 billion were carried out in Q1. The average interest rate achieved when investing with the use of this collateral was 0.04% p.a. Within the CZK state treasury liquidity management, short-term investments in form of deposit operations in total nominal value of CZK 475.9 billion were carried out in Q1. The average interest rate achieved when investing in form of deposit operations was 0.05% p.a.

Within the EUR state treasury liquidity management, short-term investments with the use of the medium-term and long-term government bonds as collateral in total nominal value of EUR 3.1 billion were carried out in Q1. The average interest rate achieved when investing with the use of medium-term and long-term government bonds as collateral was 0.28% p.a. Within the EUR state treasury liquidity management, short-term investments in form of deposit operations in total nominal value of EUR 4.0 billion were carried out in Q1. The average interest rate achieved when investing in form of deposit operations was 0.24% p.a.

Appendix

State Debt and Liquid State Financial Assets Parameters

Table 12: State Debt Parameters

	31 Mar 2013	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014
Total state debt (CZK billion)	1,715.6	1,678.1	1,653.5	1,683.3	1,683.4
Market value incl. derivatives (CZK billion)	1,937.0	1,879.1	1,831.5	1,863.3	1,886.1
Short-term state debt (%)	19.9	18.7	15.4	15.8	12.1
Medium-term state debt (%)	52.1	52.7	54.7	53.6	50.5
Share of money market instruments (%)	10.8	9.6	8.3	7.2	5.8
Lending facility - government bonds	0.0	0.0	0.1	0.0	0.2
Average time to maturity (years)	5.6	5.7	5.7	5.6	5.7
Interest rate re-fixing up to one year incl. derivatives (%) ¹	39.4	37.1	35.0	35.4	31.8
Average time to re-fixing (years)	4.3	4.4	4.4	4.3	4.5
Variable-rate state debt (%)	14.9	15.6	16.7	16.8	17.1
Modified duration (years)	4.1	4.0	4.0	4.0	4.1
Modified duration excl. CZK IRS (years)	4.1	4.1	4.0	3.9	4.1
Net foreign currency exposure of the state debt (%)	8.2	8.8	8.8	9.4	9.6
Foreign currency state debt (%)	17.6	18.1	18.2	19.0	19.0
Share of € on net foreign currency exposure of the state debt (%)	87.9	88.8	88.8	89.4	89.4
Non-marketable state debt (%) ²	4.1	4.0	4.1	4.2	4.2
Retail state debt (%)	3.3	4.4	4.5	5.2	5.2
Marketable debt (CZK billion)	1,589.7	1,536.5	1,511.9	1,524.2	1,525.6
Market value (CZK billion)	1,804.6	1,704.9	1,683.1	1,696.2	1,720.0
Short-term marketable debt (%)	21.0	19.3	15.7	16.6	12.4
Medium-term marketable debt (%)	52.1	52.1	54.3	52.7	49.3
Share of money market instruments (%)	11.7	10.5	9.1	7.9	6.4
Lending facility - government bonds	0.0	0.0	0.1	0.0	0.2
Average time to maturity (years)	5.4	5.5	5.6	5.5	5.6
Interest rate re-fixing up to one year incl. derivatives (%) ¹	37.8	35.2	32.9	33.7	29.7
Average time to re-fixing (years)	4.5	4.7	4.6	4.6	4.7
Variable-rate marketable debt (%)	11.8	12.8	13.9	13.9	14.2
Modified duration (years)	4.3	4.3	4.2	4.1	4.3
Modified duration excl. CZK IRS (years)	4.3	4.2	4.2	4.1	4.3
Net foreign currency exposure of the state debt (%)	8.8	9.6	9.7	10.4	10.6
Foreign currency state debt (%)	19.0	19.7	19.9	21.0	21.0
Share of € on the net foreign currency exposure of the state debt (%)	87.9	88.8	88.8	89.4	89.4

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: MoF

Table 13: Parameters of Liquid State Financial Assets

	31 Mar 2013	30 Jun 2013	30 Sep 2013	31 Dec 2013	31 Mar 2014
Liquid state financial assets (CZK billion)	252.4	169.0	138.9	116.7	160.1
Share of assets up to one year on total state debt (%)	13.4	9.1	7.5	6.0	8.6
Interest re-fixing up to one year (%)	94.2	91.3	89.5	86.8	90.3
Average time to re-fixing (years)	0.3	0.4	0.4	0.5	0.3
Investment portfolios	43.1	44.2	42.9	43.3	43.7
Average yield (%)	1.4	1.4	1.3	1.3	1.3
Average time to maturity (years)	1.6	1.5	1.5	1.4	1.3
Modified duration (years)	0.9	0.9	0.9	1.1	0.9

Source: MoF

Medium-term and Long-term Government Bonds and Treasury Bills Issues in Q1 2014

Table 14: Issues of Medium-term and Long-term Government Bonds in Q1 2014

Instrument	Issue/ tranche no.	Auction date	Settlement date	Maturity date	Currency	Max. nominal value offered in the competitive part of auction	Total nominal value sold
CZGB 4.70/22	52/11	15/1	20/1	12/9/2022	CZK	6,000,000,000	6,702,210,000
CZGB 2.50/28	78/8	15/1	20/1	25/8/2028	CZK	4,000,000,000	4,490,470,000
CZGB 0.50/16	77/7	22/1	27/1	28/7/2016	CZK	5,000,000,000	5,599,750,000
CZGB VAR/23	63/20	22/1	27/1	18/4/2023	CZK	5,000,000,000	5,519,830,000
CZGB 3.85/21	61/15	29/1	3/2	29/9/2021	CZK	6,000,000,000	5,695,140,000
CZGB 4.20/36	49/6	29/1	3/2	4/12/2036	CZK	4,000,000,000	1,163,110,000
CZGB 1.50/19	76/11	12/2	17/2	29/10/2019	CZK	7,000,000,000	7,914,890,000
CZGB 4.70/22	52/12	12/2	17/2	12/9/2022	CZK	7,000,000,000	4,488,430,000
CZGB 3.85/21	61/16	26/2	3/3	29/9/2021	CZK	7,000,000,000	3,599,930,000
CZGB 2.50/28	78/9	26/2	3/3	25/8/2028	CZK	6,000,000,000	7,199,920,000
CZGB 0.85/18	88/1	12/3	17/3	17/3/2018	CZK	8,000,000,000	8,177,800,000
CZGB 2.40/25	89/1	12/3	17/3	17/9/2025	CZK	8,000,000,000	6,597,980,000
Total							67,149,460,000

Instrument	Issue/ tranche no.	Coupon	Average net price	Average yield to maturity (% p.a.)	Bid-to- cover ratio	Sold in the competitive part of the auction/ max. nominal value offered	Sold in the non- competitive part of the auction/ max. nominal value offered
CZGB 4.70/22	52/11	4.70%	119.31	2.219	2.31	100.0	11.7
CZGB 2.50/28	78/8	2.50%	93.18	3.087	2.39	100.0	12.3
CZGB 0.50/16	77/7	0.50%	100.30	0.379	3.60	100.0	12.0
CZGB VAR/23	63/20	VAR %	104.73	13.048 ¹	2.02	100.0	10.4
CZGB 3.85/21	61/15	3.85%	113.39	1.949	1.90	83.3	11.6
CZGB 4.20/36	49/6	4.20%	112.75	3.389	1.72	26.5	2.6
CZGB 1.50/19	76/11	1.50%	100.21	1.461	1.36	100.0	13.1
CZGB 4.70/22	52/12	4.70%	120.46	2.069	2.14	56.1	8.0
CZGB 3.85/21	61/16	3.85%	113.53	1.912	4.14	42.9	8.6
CZGB 2.50/28	78/9	2.50%	94.89	2.938	2.13	100.0	20.0
CZGB 0.85/18	88/1	0.85%	100.04	0.840	1.52	100.0	2.2
CZGB 2.40/25	89/1	2.40%	99.37	2.461	1.76	75.1	7.4
Average						82.2	9.8

¹ Discount margin (basis points)
Source: MoF

Table 15: Treasury Bills Issues in Q1 2014

Issue no.	Maturity (months)	Auction date	Issue date	Maturity date	Offered nominal value	Placed nominal value	Yield (% p.a.)
688	9	16/1	17/11	17/10/2014	8,000,000,000	7,257,000,000	0,07
689	12	30/1	31/1	30/1/2015	8,000,000,000	7,753,000,000	0,09
690	12	13/3	14/3	13/3/2015	7,000,000,000	6,730,000,000	0,08
Total					23,000,000,000	21,740,000,000	0.08¹

¹ Average weighted yield to maturity of treasury bills issues in Q1 2014.
Source: MoF

Table 16: Redemption and Re-fixing Profile of Domestic Government Bonds Issues in Q1 2014

Domestic government bonds	Placed nominal value	Average time to maturity at the issue date	Average time to maturity at 31/12/2014	Average time to re-fixing at the issue date	Average time to re-fixing at 31/12/2014
Floating rate	5,519,830,000	9.2	8.3	0.2	0.3
Fixed rate	61,629,630,000	8.6	7.8	8.6	7.8
Total	67,149,460,000	8.7	7.8	7.9	7.1

Note: Nominal Value in CZK; average time to maturity and re-fixing in years.
Source: MoF

Budgetary Revenues and Expenditures on the State Debt in 2014

Table 17: Planned and actual budgetary expenditures and revenues on state debt in 2014

Indicator (CZK million)	Actual	Budget 2014		Actual	% execution	2014/2013 (%)
	Q1 2013	Approved	After changes	Q1 2014		
	1	2	3	4	5=4/3	6=4/1
1. Total interest expenditure and revenue	5,589 (-) 3,495	65,199 (-) 7,400	65,199 (-) 7,400	6,609 (-) 4,580	10.1 61.9	118.3 131.0
Domestic debt	3,241 (-) 3,487	51,161 (-) 6,952	51,161 (-) 6,952	4,745 (-) 4,580	9.3 65.9	146.4 131.3
Money market instruments	58 (-) 23	944 (-) 64	944 (-) 64	16 (-) 74	1.7 116.1	28.3 328.8
Savings government bonds	0 0	1,251 -	1,251 -	0 0	0.0 -	- -
Government bonds	3,183 (-) 3,465	48,966 (-) 6,888	48,966 (-) 6,888	4,728 (-) 4,505	9.7 65.4	148.5 130.0
Foreign debt	2,347 -	14,028 (-) 448	14,028 (-) 448	1,864 -	13.3 -	79.4 -
International issues	2,173 -	13,142 (-) 448	13,142 (-) 448	1,717 -	13.1 -	79.0 -
Of which: derivative operations	1,116 -	3,103 (-) 448	3,103 (-) 448	586 -	18.9 -	52.5 -
Loans from EIB	174	886	886	147	16.5	84.3
Bank accounts	0 (-) 8	10 -	10 -	1 -	7.1 -	- -
Bank accounts interests (+ paid, - received)	0 (-) 8	10 -	10 -	1 -	7.1 -	- -
2. Total fees	174 -	599 -	599 -	99 0	16.6 -	57.1 -
Total balance	5,763 (-) 3,495	65,798 (-) 7,400	65,798 (-) 7,400	6,709 (-) 4,580	10.2 61.9	116.4 131.0

Note: (-) means revenues (gains).

Source: MoF

The total **net expenditures** on the state debt service in the first quarter 2014 amounted **CZK 2.1 billion**. Revenues from accrued interest yields

and bond premiums contributed CZK 4.5 billion to reduction of the gross expenditures on the state debt service which reached CZK 6.7 billion.

This publication was prepared based on the information available as of 31 March 2014
and is also available online at:

www.mfcr.cz/statedebt

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Debt and Financial Assets Management Department

Ministry of Finance

Letenská 15, 118 10 Prague 1 - Malá Strana

E-mail: pd@mfcz.cz, Reuters <MFCR>