



Ministry of Finance

Debt and Financial Assets
Management Department

Debt Portfolio Management Quarterly Review

September 2013



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Introduction

The Ministry of Finance (hereinafter the "Ministry") hereby submits the 35th 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 Q3 2013

Strong credit ratings of the Czech Republic affirmed

In Q3, the foreign-currency long-term sovereign credit ratings of the Czech Republic were affirmed, as on 19 July, the Moody's affirmed Czech Republic's A1 credit rating maintaining the stable outlook and on 26 July, the Standard & Poor's affirmed Czech Republic's AA- credit rating maintaining the stable outlook. Both reports positively assessed the ongoing process of fiscal consolidation and commitment to the sustainability of public finances

of the Czech Republic. Stable credit rating was also confirmed by a press release published on 22 August by Fitch. The mentioned reports are positive to the financial markets, which will take them into account in determining the risk premiums on Czech government bonds and ultimately could contribute to maintaining relatively low state debt service costs.

Ongoing increase in new available liquidity of the state treasury

Due to the amendment to the Budgetary Rules, which came into force on 1 January 2013 and which resulted into the extension of the treasury single account by new clients' accounts and technical establishment of treasury single account in EUR as from 2 April 2013, the available liquidity of the state treasury increased by CZK 99.5 bn as of the end of Q3 in comparison to the end of 2012. Quarterly increase in new available liquidity of the state treasury due to the amendment to the

Budgetary Rules amounted to CZK 32.3 bn in Q3. In connection with this increase in new available liquidity of the state treasury and in accordance with the Revision, the Ministry carried on in the reduction of the nominal amount of money market instruments outstanding. The total nominal amount of the net issuance of money market instruments amounted to CZK -51.6 bn in Q1-Q3 and CZK -24.1 bn in Q3.

Decrease of the gross state debt

The gross state debt decreased in Q3 by CZK 24.6 bn in comparison to the end of Q2 and CZK 14.2 bn in comparison to the end of 2012. The main factors of the decline of the gross state debt in Q3 were the redemption of 59th issue of government bond in the total nominal amount of CZK 37.6 bn

and the net issuance of money market instruments outstanding in the total nominal amount of CZK -24.1 bn. The decrease of the gross state debt is consistent with the decrease of the planned gross borrowing requirement of the central government in 2013 published in the Revision.

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 September 2013

INDICATOR	Target announced for 2013	30 September 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 bonds²	CZK 96.7 to 170.7 bn ¹	CZK 118.1 bn
Gross issuance of savings government bonds³	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 -51.6 bn
Loans from EIB	CZK 0.0 to 4.0 bn ¹	CZK 0.5 bn
Short-term state debt	25.0% and less	15.4%
Medium-term state debt	70.0% and less	54.7%
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%	35.0%
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 Q1-Q3. In Q3, a single loan tranche was drawn from the European Investment Bank (hereinafter the "EIB") in the total amount of CZK 0.5 bn, which was the only loan tranche drawn in Q1-Q3. In Q3, a planned repayments of loans from EIB in the total amount of CZK 0.4 bn were carried out. In Q1-Q3, the planned repayments of loans from EIB in total amount of CZK 0.9 bn and the unplanned repayments of loans from EIB in total amount of CZK 1.7 bn were carried out. In Q1-Q3, the total amount of repayments of loans from EIB amounted to CZK 2.6 bn.

Regarding **domestic issuance activity**, the gross issuance of medium-term and long-term government bonds in total nominal amount of CZK 36.9 bn was executed in Q3. In Q1-Q3, the total nominal amount of the gross issuance of medium-term and long-term government bonds amounted to CZK 118.1 bn, representing 69.2% of the annual maximum issuance limit for this type of financing under the revised 2013 financing programme and 53.9% of the maximum nominal amount of the originally planned gross issuance of medium-term and long-term government bonds. During Q1-Q3, 97.8% of the maximum revised planned borrowing requirement for 2013 and 51.2% of the originally planned gross borrowing requirement was financed

by the gross issuance of medium-term and long-term government bonds.

The total nominal amount of tap sales of government bonds on secondary market using the MTS Czech Republic electronic platform amounted to CZK 0.6 bn in Q3. Czech Republic Government Bond, 2008–2016, VAR%, Czech Republic Government Bond, 2003–2018, 4,60% and Czech Republic Government Bond, 2007–2015, 4,85% were sold in Q3. In Q1-Q3, the total nominal amount of tap sales of government bonds on secondary market using the MTS Czech Republic electronic platform amounted to CZK 4.7 bn.

Czech Republic Government Bond, 2011–2014, 2,75% in total nominal amount of CZK 1.0 bn and Czech Republic Government Bond, 2010–2015, 3,40% in total nominal amount of CZK 1.4 bn were sold within the state financial assets investment operations in the nuclear portfolio. In Q1-Q3, the total nominal amount of sales of Czech government bonds within the state financial assets investment operations in the nuclear portfolio amounted to CZK 4.5 bn.

Total nominal amount of the net issuance of medium-term and long-term government bonds in Q3 amounted to CZK -0.7 bn, as on 16 September 2013, the redemption of Czech Republic Government Bond, 2010–2013, 2,80% in the total nominal amount of CZK 37.6 bn was carried out.

The total nominal amount issuance the net issuance of medium-term and long-term government bonds amounted to CZK 17.6 bn in Q1-Q3. In Q1-Q3, no buy-backs of medium-term and long-term government bonds were executed.

Regarding **savings government bonds**, no gross issuance incl. issuance in the form of reinvestments of the yield were carried out in Q3. Early redemption of savings government bonds in total nominal amount of CZK 43.7 million was carried out during Q3, concerning the pilot series of issues in 2011 and "spring" series of issues in 2012. In Q1-Q3, the early redemptions of savings government bonds amounted to CZK 73.4 million. The total nominal amount of the gross issuance of savings government bonds in Q1-Q3 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 Q3, the total nominal amount of savings government bonds outstanding amounted to CZK 73.7 bn, representing 4.5% of the gross state debt and 6.5% of domestic government bonds excl. treasury bills.

The total nominal amount of the **net issuance of money market instruments outstanding** amounted to CZK -24.1 bn in Q3, of which the total nominal amount of the net issuance of money market instruments excl. the Ministry's investment operations amounted to CZK -22.0 bn and the total nominal amount of the Ministry's net investment under the nuclear portfolio amounted to CZK -2.1 bn. The total nominal amount of the net issuance of money market instruments outstanding in Q1-Q3 amounted to CZK -51.6 bn, of which total nominal amount of net issuance of money excl. the Ministry's investment operations amounted to CZK -48.4 bn and the total nominal amount of the Ministry's net investment under the nuclear portfolio amounted to CZK -3.2 bn.

Short-term state debt (debt payable within one year) as of the end of Q3 decreased in comparison to the end Q2 by 3.3 percentage points to **15.4%** 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 Q3 remained at the same level as at the end of Q2 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 set for 2013.

The **medium-term state debt** (debt payable within five years) as of the end of Q3 increased in comparison to the end Q2 by 2.0 percentage points to **54.7%**. 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 Q3 2013)

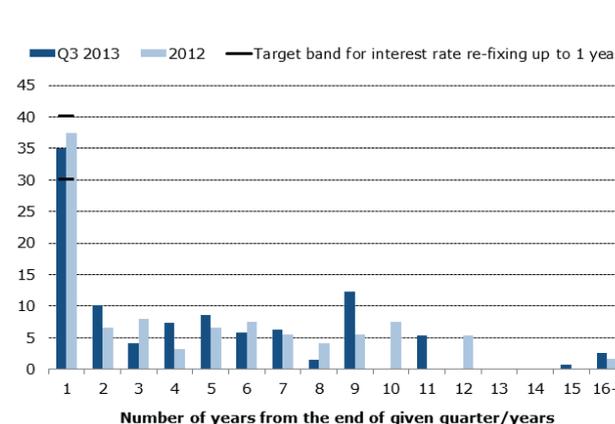


Note: Not including money market instruments outstanding on the side of liabilities and assets. The positive vertical axis shows liabilities, the negative vertical axis shows state financial assets and buy-backs of bonds due in 2014 and carried out in 2013. Domestic bonds include savings government bonds.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

Interest re-fixing of the state debt up to one year as of the end of Q3 decreased in comparison to the end of Q2 by 2.1 percentage points reaching **35.0%**. This indicator was thus within the medium-term band of 30.0% to 40.0% established for 2013.

Average time to the state debt re-fixing as of the end of Q3 remained at the same level as at the end of Q2 and amounted 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 Q3 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). The value of this indicator remained at the same level as at the end of Q2 and amounted 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 remained at the same level as at the end of Q2 and amounted to 90.3% as of the end of Q3, thus indicating the euro's dominance in the foreign-currency state debt portfolio.

3. Borrowing Requirement of the Central Government and Structure of Debt Portfolio

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.

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

	2011	2012	Q1 – Q3 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	-6.3
Net expenditures on the state debt management ¹	45.1	41.4	44.6
Extra-budgetary borrowing requirement	0.0	0.0	0.0
Net borrowing requirement excl. assets operations	142.8	101.0	38.2
State financial assets operations ²	2.5	2.4	2.3
On-lending over 1 year (net change) ³	0.0	0.0	-1.7
Cash reserve (net change) ⁴	5.7	69.4	-55.8
State budget surplus ⁵	0.0	0.0	0.0
Net borrowing requirement	151.0	172.8	-17.0
Changes in nominal state debt ⁶	4.5	-4.4	2.9
Promissory notes repayments ⁷	-0.2	-0.1	0.0
Change in gross state debt	155.3	168.3	-14.2
Gross state debt as at the end of the period	1,499.4	1,667.6	1,653.5
(% GDP)	39.2	43.4	43.1⁸

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 After adjusting for state financial assets operations.

⁶ Revaluation of debt denominated in foreign currencies due to exchange rate changes.

⁷ Promissory notes covering the Czech Republic ownership interests in international financial institutions.

⁸ Proportion of gross state debt to cumulative gross domestic product for the period from Q4 2012 to Q3 2013. The Czech Statistical Office is the source for GDP for the period from Q4 2012 to Q2 2013, while the Macroeconomic Forecast published by the Ministry is the source for GDP for Q3 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 – Q3 2013
Net borrowing requirement	151.0	172.8	-17.0
Redemptions on government bonds due in the respective year	102.1	115.6	108.6
Buy-backs and switches of government bonds from previous years	0.0	-2.0	-8.1
Buy-backs and switches of government bonds due in following years ¹	2.0	8.1	0.0
Redemptions and early redemptions on savings government bonds in the respective year	0.0	9.6	0.1
Redemptions on loans from the EIB	1.1	5.3	2.6
Gross borrowing requirement²	256.2	309.4	86.1
Gross borrowing requirement² (% of GDP)	6.7	8.0	3.0³
Total gross borrowing requirement⁴	369.5	472.0	247.6
Net money market instruments issuance ⁵	49.3	26.5	-51.6
Lending facility (government bonds) ⁶	0.0	0.0	1.6
Received collateral in cash funds	0.0	0.0	0.0
Domestic gross government bond issuance ⁷	181.2	164.6	118.1
Foreign gross government bond issuance ⁷	0.0	69.0	0.0
Gross savings government bonds issuance ⁸	20.4	45.4	17.6
Loans from the EIB	5.3	4.0	0.5
Funding of the gross borrowing requirement	256.2	309.4	86.1

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

² Excl. operations with money market instruments.

³ The source of GDP for Q1-Q2 2013 is the Czech Statistical Office, while the source for Q3 2013 is the Macroeconomic Forecast published by the Ministry.

⁴ Incl. redemptions of money market instruments without the roll-over during the respective period.

⁵ Excl. refinancing of due instruments in the respective year.

⁶ Received financial funds under repo operations carried out in order to lend medium-term and long-term bonds.

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.

Source: Ministry of Finance

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

	31/12/2011	31/12/2012	30/9/2013
Gross state debt as at the end of the period	1,499.4	1,667.6	1,653.5
Money market instruments	162.6	189.1	137.5
Lending facility (government bonds) ¹	0.0	0.0	1.6
Received collateral in cash funds	0.0	0.0	0.0
Medium-term and long-term bonds (domestic market)	999.1	1,042.0	1,059.6
Medium-term and long-term bonds (foreign markets) ²	245.9	310.3	313.1
Savings government bonds	20.4	56.2	73.7
Loans from the EIB	71.3	70.0	67.9
Promissory notes ³	0.1	0.0	0.0
Liquid state financial assets as at the end of the period	121.4	193.2	138.9
Nuclear investment portfolio ⁴	16.6 ⁵	18.5 ⁵	20.4
Pension investment portfolio ⁴	22.0 ⁵	22.4 ⁵	22.5
Special-purpose financial assets account	10.5	10.6	11.1
On-lending over 1 year ⁶	1.7	1.7	0.0
Cash reserve ⁷	70.6	139.9	84.9
State budget surplus ⁸	0.0	0.0	0.0
Net debt portfolio as at the end of the period	1,378.0	1,474.4	1,514.6

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.

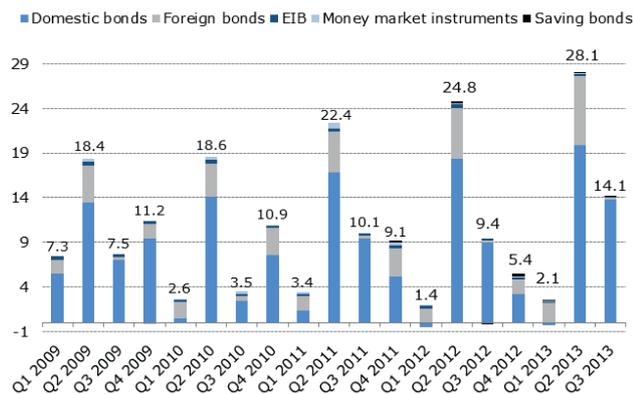
⁸ After adjusting for state financial assets operations.

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 Q1-Q3 reached CZK 44.3 bn, which is CZK 8.7 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)

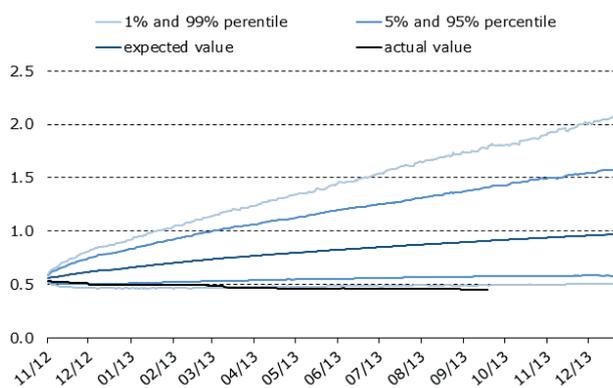


Note: Excl. fees related to the state debt management.
Source: Ministry of Finance

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.

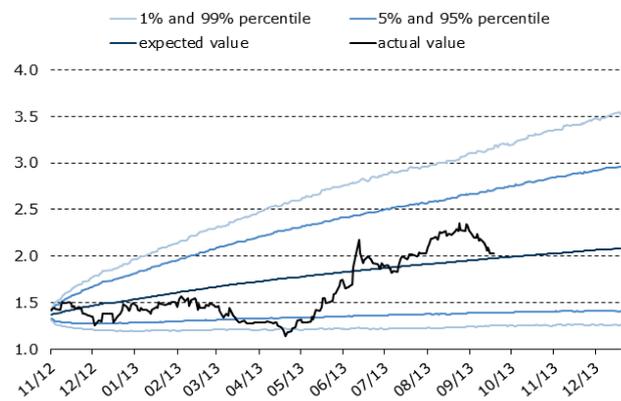
A comparison of the actual development of the 3-month PRIBOR and 10-year swap rates with their simulations for the period from 13 November 2012 to 31 December 2013 are shown in the following figures.

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



Source: Ministry of Finance

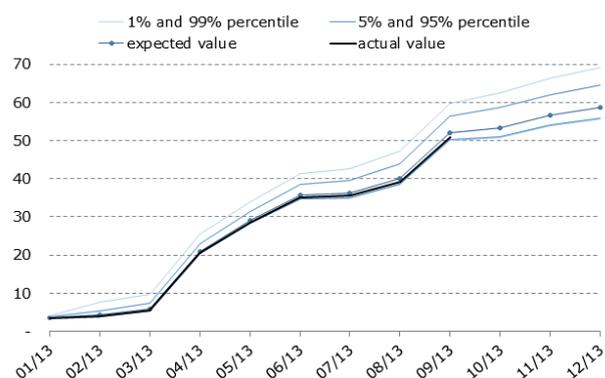
Figure 5: Daily simulated v actual 10-year CZK swap rates in 2013 (% p.a.)



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 51.0 bn in Q1-Q3 and were CZK 1.0 bn lower than expected costs of CZK 52.0 bn predicted by the model. The difference is mainly caused due to the strategic changes in structure and level of funding during Q1-Q3 related with a reduction of planned gross borrowing requirement of the central government for 2013 under the Revision.

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 Q1-Q3 2013 in comparison to the corresponding period in 2012.

Table 5: Expected v. actual net interest costs in Q1-Q3 2012 and Q1-Q3 2013 (CZK bn)

	Q1 – Q3 2012	Q1 – Q3 2013
Actual net interest costs	35.6	44.3
Expected (simulated) net costs	44.5	45.5
Cost-at-Risk 95%	49.6	53.3
Cost-at-Risk 99%	53.4	56.8
Deviation of expectation from actuality	8.9	1.2

Source: Ministry of Finance

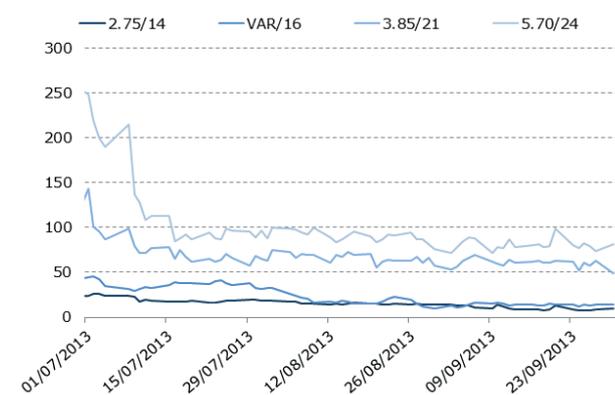
In Q1-Q3, the actual net interest costs on the state debt amounted to CZK 44.3 bn. The expected net interest costs for the same period predicted by the model were CZK 45.5 bn. The actual net interest costs thus remained below the level of both CaR 95% and CaR 99%, which were set at CZK 53.3 bn and CZK 56.8 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 1.2 bn higher. The savings of CZK 0.7 bn were achieved due to the lower-than-expected treasury bills discounts and changes in the structure of treasury bills issuance plan. Due to the changes in the issuance plan of medium-term and long-term government bonds, the net interest costs decreased by CZK 0.4 bn. Due to the lower-than-expected PRIBOR interest rates the savings amounted to CZK 0.1 bn.

5. Secondary Market of Government Bonds

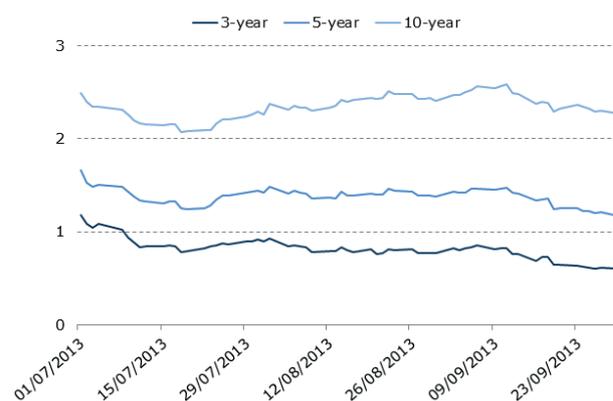
The MTS Czech Republic platform for trading government bonds, which was implemented on July 2011, considerably contributes to efficiency and transparency on the domestic secondary market. The key parameter indicating the efficiency of price discovery on the secondary market is the bid-offer spread for a given government bond. The narrower the bid-offer spread, the more liquid and efficient the market is. In June and July, the bid-offer spreads of Czech government bonds went through period of high volatility only at longer maturities, then the bid-offer spreads returned to the level of the end of Q2 2013. After the period of decline in yields that occurred in July, yields increased at all maturities in August and decreased again during September.

Figure 7: Average quoted bid-offer spreads on MTS CR in Q3 2013 (ticks)



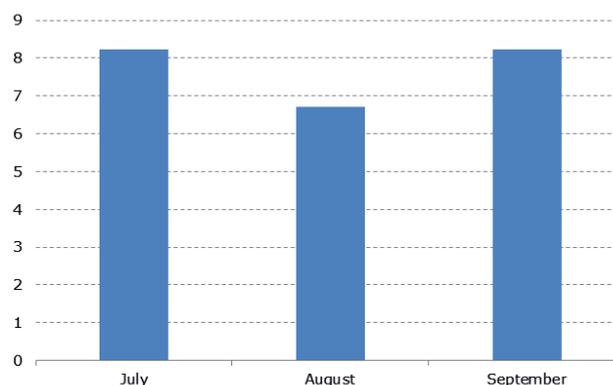
Source: EuroMTS and Ministry of Finance

Figure 8: Yields of government bonds traded on MTS CR in Q3 2013 (% p.a.)



Source: EuroMTS and Ministry of Finance

Figure 9: Nominal amount of transactions on MTS CR in Q3 2013 (CZK bn)



Source: EuroMTS and Ministry of Finance

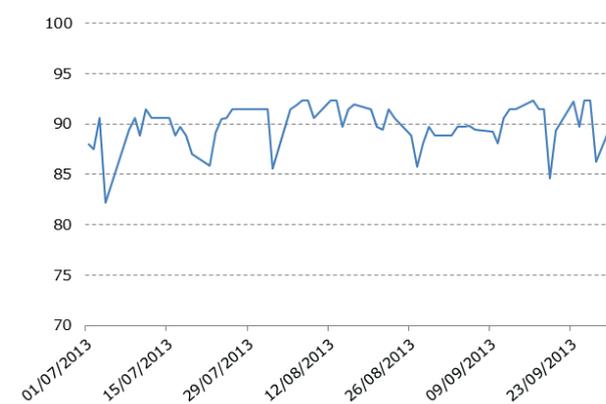
The total monthly nominal amount of government bonds traded on MTS Czech Republic platform amounted to CZK 7.7 bn on average in Q3.

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%.

During Q3, the average DCR of Primary Dealers fluctuated mostly below the level of 90.0%. One Primary Dealer didn't quote bid-offer prices of

selected Czech government bonds during Q3 at all and other three Primary Dealers didn't manage to fulfil their monthly quoting obligations.

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



Source: EuroMTS and Ministry of Finance

Table 6: Realized lending facilities of government bonds in Q3 2013

Instrument	ISIN	Collateral Amount	Financial Funds Received	Financial Funds Paid
ČR, 0,50 %, 16	CZ0001003842	1,669,000,000	1,652,710,708.33	1,652,670,184.14
ČR, 4,00 %, 17	CZ0001001903	400,000,000	447,555,555.56	447,543,993.71
ČR, 4,60 %, 18	CZ0001000822	1,000,000,000	1,154,022,222.22	1,153,992,409.98
ČR, 4,70 %, 22	CZ0001001945	1,000,000,000	1,242,166,666.67	1,242,148,034.17
ČR, VAR %, 23	CZ0001003123	1,500,000,000	1,584,582,500.00	1,584,499,309.42
ČR, 5,70 %, 24	CZ0001002547	1,237,000,000	1,630,801,091.67	1,630,770,568.41
Total		6,806,000,000	7,711,838,744.45	7,711,624,499.83

Source: Ministry of Finance

Also in Q3, 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 Q3, medium-term and long-term government bonds in total nominal amount of CZK 6.8 bn were lent using this lending facility and financial funds of CZK 7.7 bn were received. In Q3, the average repo rate achieved under the lending facility was -0.03% p.a. The total nominal amount of unsettled repo operations as of the end of Q3 amounts to CZK 1.5 bn, which will be settled during Q4.

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.

Table 7: State and structure of resources and investment position of state treasury (CZK bn)

	2011	2012	30 Sep 2013
Liquid state financial assets	121.4	193.2	138.9
National Fund and former National Property Fund	0.0	15.8	62.2
Other mandatory clients of state treasury	20.8	20.5	63.9
Optional clients of state treasury	0.0	0.0	9.1
Liabilities to the state treasury (-)	0.0	0.0	0.0
Total liquidity position of the state treasury¹	142.3	229.6	274.1
Reverse repo operations (T-bills collateral)	6.6	5.2	30.1
Reverse repo operations (T-bonds collateral)	0.0	0.0	5.1
Reverse repo operations (CNB bills collateral)	76.4	158.5	152.3
Reverse repo operations (foreign securities collateral)	0.0	0.0	0.0
Provided deposits and short-term borrowings and loans	14.8	13.1	35.6
On-lending over 1 year ²	1.7	1.7	0.0
Investment in T-bills and T-bonds	38.3	18.3	20.0
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	30.9
Cash resources in commercial banks accounts	0.0	0.0	0.0
Total investment position of the state treasury	142.3	229.6	274.1

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

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 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 113.7 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.

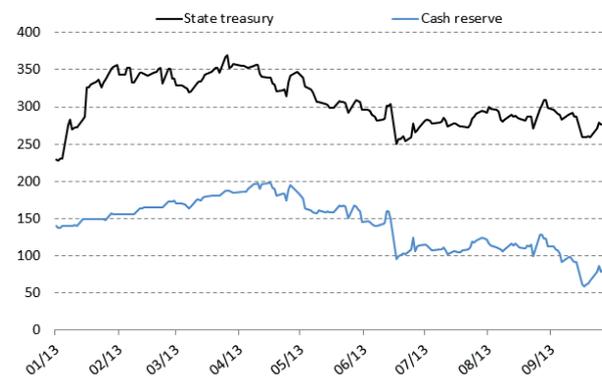
Within the liquidity management of the treasury single account in CZK, short-term investments with the use of CNB bills and treasury bills as collateral in total nominal amount of CZK 4,382.0 bn were carried out during Q1-Q3. The average interest rate achieved when investing with the use of this collateral was 0.04% p.a. Within the

liquidity management of the treasury single account in CZK, short-term investments in form of deposit operations in total nominal amount of CZK 1,525.2 bn were carried out during Q1-Q3. The average interest rate achieved when investing in form of deposit operations was 0.05% p.a. Within the liquidity management of the treasury single account in CZK, short-term loans with CNB bills as collateral in total nominal amount of CZK 3.7 bn were received and paid.

The establishment of treasury single account in EUR allowed the expansion of Ministry's investment opportunities. Within the pilot operation of the treasury single account in EUR, short-term investments in total nominal amount of EUR 2.2 bn were carried out during Q2-Q3. The average interest rate achieved when investing in EUR was 0.09% p.a. The Ministry analyses additional possibilities of efficient appreciation of funds in EUR while avoiding all risks. Full-scale

operation of the treasury single account in EUR and the launch of related investment processes are expected from the beginning of 2014.

Figure 11: Development of the State Treasury Balance and the Cash Reserve in Q1 - Q3 2013 (CZK bn)



Source: Ministry of Finance

7. Appendix

State debt and liquid state financial assets parameters

Table 8: State debt parameters

	30 Sep 2012	31 Dec 2012	31 Mar 2013	30 Jun 2013	30 Sep 2013
Total state debt (CZK bn)	1,652.3	1,667.6	1,715.6	1,678.1	1,653.5
Market value incl. derivatives (CZK billion)	1,837.4	1,887.3	1,937.0	1,879.1	1,831.5
Short-term state debt (%)	21.4	17.9	19.9	18.7	15.4
Medium-term state debt (%)	54.9	52.7	52.1	52.7	54.7
Share of money market instruments (%)	10.4	11.3	10.8	9.6	8.3
Lending facility - government bonds	0.0	0.0	0.0	0.0	0.1
Average time to maturity (years)	5.6	5.7	5.6	5.7	5.7
Interest rate re-fixing up to one year incl. derivatives (%) ¹	40.5	37.5	39.4	37.1	35.0
Average time to re-fixing (years)	4.3	4.4	4.3	4.4	4.4
Variable-rate state debt (%)	14.3	14.9	14.9	15.6	16.7
Modified duration (years)	4.1	4.2	4.1	4.0	4.0
Modified duration excl. CZK IRS (years)	4.0	4.2	4.1	4.1	4.0
Foreign currency exposure of the state debt (%)	8.8	10.0	9.9	10.2	10.2
Foreign currency state debt (%)	16.6	17.7	17.6	18.1	18.2
Share of € on foreign currency exposure of the state debt (%)	87.7	89.7	90.0	90.3	90.3
Non-marketable state debt (%) ²	4.1	4.2	4.1	4.0	4.1
Retail state debt (%)	2.2	3.4	3.3	4.4	4.5
Marketable debt (CZK bn)	1,548.2	1,541.4	1,589.7	1,536.5	1,511.9
Market value (CZK billion)	1,730.1	1,754.6	1,804.6	1,704.9	1,683.1
Short-term marketable debt (%)	22.1	18.8	21.0	19.3	15.7
Medium-term marketable debt (%)	55.4	52.8	52.1	52.1	54.3
Share of money market instruments (%)	11.1	12.3	11.7	10.5	9.1
Lending facility - government bonds	0.0	0.0	0.0	0.0	0.1
Average time to maturity (years)	5.4	5.5	5.4	5.5	5.6
Interest rate re-fixing up to one year incl. derivatives (%) ¹	38.4	35.7	37.8	35.2	32.9
Average time to re-fixing (years)	4.4	4.6	4.5	4.7	4.6
Variable-rate marketable debt (%)	11.0	11.7	11.8	12.8	13.9
Modified duration (years)	4.2	4.3	4.3	4.3	4.2
Modified duration excl. CZK IRS (years)	4.2	4.3	4.3	4.2	4.2
Foreign currency exposure of the state debt (%)	9.4	10.8	10.7	11.1	11.2
Foreign currency state debt (%)	17.7	19.1	19.0	19.7	19.9
Share of € on foreign currency exposure of the state debt (%)	87.7	89.7	90.0	90.3	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 9: Parameters of liquid state financial assets

	30 Sep 2012	31 Dec 2012	31 Mar 2013	30 Jun 2013	30 Sep 2013
Liquid state financial assets (CZK billion)	207.9	193.2	252.4	169.0	138.9
Share of assets up to one year on total state debt (%)	11.7	10.2	13.4	9.1	7.5
Interest re-fixing up to one year (%)	93.0	92.4	94.2	91.3	89.5
Average time to re-fixing (years)	0.4	0.4	0.3	0.4	0.4
Investment portfolios and on-lending	42.2	42.7	43.1	44.2	42.9
Average yield (%)	1.8	1.5	1.4	1.4	1.3
Average time to maturity (years)	1.6	1.7	1.6	1.5	1.5
Modified duration (years)	1.2	1.0	0.9	0.9	0.9

Source: Ministry of Finance

Medium-term and long-term government bonds and treasury bills issues in Q3 2013

Table 10: Issues of medium-term and long-term government bonds in Q3 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
0,50/2016	77/5	10/7	15/7	28/7/2016	CZK	4,000,000,000	2,694,310,000
VAR/2023	63/17	10/7	15/7	18/4/2023	CZK	4,000,000,000	3,193,870,000
1,50/2019	76/6	24/7	29/7	29/10/2019	CZK	4,000,000,000	1,928,920,000
2,50/2028	78/4	24/7	29/7	25/8/2028	CZK	4,000,000,000	2,390,000,000
3,75/2020	46/11	7/8	12/8	12/9/2020	CZK	4,000,000,000	1,918,000,000
VAR/2023	63/18	7/8	12/8	18/4/2023	CZK	4,000,000,000	4,489,920,000
VAR/2017	67/13	21/8	26/8	23/7/2017	CZK	2,500,000,000	2,042,960,000
4,70/2022	52/10	21/8	26/8	12/9/2022	CZK	4,000,000,000	1,700,100,000
3,75/2020	46/12	4/9	9/9	12/9/2020	CZK	3,000,000,000	1,800,000,000
2,50/2028	78/5	4/9	9/9	25/8/2028	CZK	4,000,000,000	2,465,000,000
VAR/2023	63/19	18/9	23/9	18/4/2023	CZK	4,000,000,000	4,281,280,000
1,50/2019	76/7	18/9	23/9	29/10/2019	CZK	4,000,000,000	4,998,560,000
Total						33,902,920,000	

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
0,50/2016	77/5	0.50%	98.87	0.879	5.30	62.5	4.9
VAR/2023	63/17	VAR%	104.34	18.945 ¹	1.60	75.0	4.8
1,50/2019	76/6	1.50%	98.98	1.673	3.60	47.5	0.7
2,50/2028	78/4	2.50%	95.47	2.875	1.56	59.8	0.0
3,75/2020	46/11	3.75%	111.93	1.932	2.32	45.5	2.5
VAR/2023	63/18	VAR%	104.46	17.341 ¹	2.10	100.0	12.2
VAR/2017	67/13	VAR%	103.76	-10.795 ¹	4.10	78.0	3.7
4,70/2022	52/10	4.70%	119.00	2.345	2.44	42.5	0.0
3,75/2020	46/12	3.75%	110.89	2.065	2.62	60.0	0.0
2,50/2028	78/5	2.50%	92.81	3.108	1.37	61.6	0.0
VAR/2023	63/19	VAR%	105.02	10.992 ¹	1.82	100.0	7.0
1,50/2019	76/7	1.50%	98.36	1.786	1.57	114.4	10.6
Average						70.5	4.0

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

Table 11: Tap sales in Q3 2013

Instrument	Issue No.	Transaction Date	Settlement Date	Maturity Date	Original Maturity (Years)	Average Price	Nominal Amount
4,60/2018	41.	3/7	9/7	18/8/2018	15.0	115.080	168,150,000
VAR/2016	55.	17/7	22/7	27/10/2016	8.0	100.300	50,000,000
4,85/2057	53.	17/7	22/7	26/11/2057	50.0	118.500	50,000,000
VAR/2016	55.	31/7	5/8	27/10/2016	8.0	100.302	75,000,000
4,60/2018	41.	31/7	5/8	18/8/2018	15.0	115.123	100,000,000
VAR/2016	55.	14/8	19/8	27/10/2016	8.0	100.325	75,000,000
4,60/2018	41.	14/8	19/8	18/8/2018	15.0	115.360	100,000,000
Total							618,150,000

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

Table 12: Tap sales within the operations in the nuclear portfolio in Q3 2013

Instrument	Issue No.	Transaction Date	Settlement Date	Maturity Date	Original Maturity (Years)	Average Price	Nominal Amount
2,75/2014	62.	21/8	23/8	31/3/2014	3.1	101.53	1,000,000,000
3,40/2015	60.	18/9	20/9	1/9/2015	5.5	106.04	1,400,000,000
Total							2,400,000,000

Source: Ministry of Finance

Table 13: Treasury bills issues in Q3 2013

Issue No.	Maturity (Months)	Auction Date	Issue Date	Maturity Date	Offered Nominal Amount	Placed Nominal Amount	Yield (% p.a.)
679	6	18/7	19/7	17/1/2014	8,000,000,000	8,000,000,000	0.11
680	12	25/7	26/7	25/7/2014	8,000,000,000	8,000,000,000	0.14
681	9	22/8	23/8	23/5/2014	8,000,000,000	8,000,000,000	0.13
682	12	5/9	6/9	5/9/2014	8,000,000,000	8,806,000,000	0.15
683	6	12/9	13/9	14/3/2014	8,000,000,000	6,158,000,000	0.11
Total					40,000,000,000	38,964,000,000	0,13¹

¹ Average weighted yield to maturity of treasury bills issues in Q3 2013.
Source: Ministry of Finance

Table 14: Redemption and re-fixing profile of domestic government bonds issues in Q3 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	14,008,030,000	8.8	8.5	0.6	0.3
Fixed rate	19,894,890,000	8.3	8.0	8.3	8.0
Total	33,902,920,000	8.5	8.2	5.1	4.8

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 15: Budgetary expenditures and revenues on state debt in 2013

Indicator (CZK million)	Actual Q1-Q3 2012	Budget 2013		Actual Q1-Q3 2013	% Execution	Index 2013/2012 (%)
		Approved	After Changes			
1	2	3	4	5	5:4	5:2
1. Total interest expenditure and revenue	45,884 (-) 10,276	67,350 (-) 3,800	64,051 (-) 3,800	50,993 (-) 6,733	79.6 177.2	111.1 65.5
Domestic debt	37,187 (-) 9,987	51,409 (-) 3,307	48,105 (-) 3,307	40,207 (-) 6,624	83.6 200.3	108.1 66.3
Money market instruments and on-lending	1,040 (-) 781	4,772 (-) 1,121	4,772 (-) 1,121	184 (-) 138	3.9 12.3	17.7 17.6
Of which: derivative operations	29	36	36	36	100.0	121.3
Savings government bonds	226 0	781 -	781 -	173 0	22.2 -	76.7 121.0
Government bonds	35,921 (-) 9,205	45,856 (-) 2,186	42,553 (-) 2,186	39,849 (-) 6,486	93.6 296.7	110.9 70.5
Foreign debt	8,697 (-) 278	15,941 (-) 493	15,941 (-) 493	10,784 (-) 101	67.6 20.4	124.0 36.1
International issues	7,779 (-) 278	14,246 (-) 493	14,246 (-) 493	10,215 (-) 101	71.7 20.4	131.3 36.1
Of which: derivative operations	3,087 (-) 278	5,152 (-) 493	5,152 (-) 493	2,885 (-) 101	56.0 20.4	93.5 36.1
Loans from EIB	918	1,696	1,696	568	33.5	61.9
Bank accounts	- (-) 11	-	4 -	2 (-) 8	55.9 -	- 70.4
Bank accounts interests (+ paid, - received)	- (-) 11	-	4 -	2 (-) 8	55.9 -	- 70.4
2. Total fees	253	500	500	298	59.7	117.9
Total balance	46,137 (-) 10,276	67,850 (-) 3,800	64,551 (-) 3,800	51,291 (-) 6,733	79.5 177.2	111.2 65.5

Note: (-) means revenues (gains).

Source: Ministry of Finance

The total **net expenditures** on the state debt management in Q1-Q3 amounted to **CZK 44.6 bn**. Revenues from accrued interest yields and bond

premiums contributed CZK 6.5 bn to reduction of the gross expenditures. Gross expenditures on the state debt management reached CZK 51.3 bn.

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