



Debt Portfolio Management Quarterly Review

MARCH 2008

The Ministry of Finance submits the thirteenth *Debt Portfolio Management Quarterly Review* to present the underlying debt portfolio risk management measures and performance with respect to the planned annual financing programme and achieving the medium-term strategic targets of debt management policy. For the year 2008, these targets were quantified by the *Financing and Debt Management Strategy for 2008* released on 3 December 2007 and based on the Finance Minister's decision.

The value of standard guarantees is below 6% of the total state debt, so that their structure can no longer divert in an undesirable manner in respect of the criteria monitored on an integrated basis. As far as the given quantitative relations are concerned, information about the fulfilment of the strategic targets of risk management is no longer published on an integrated basis commencing the first quarter of 2008. In view of the integration of the asset and liability management, the **net interest costs** on the state debt are budgeted and executed within a single budget chapter to present an economically more correct measure of efficiency of debt management operations on the financial markets.

I. Review of Strategic Targets for 2008

The 2008 state debt management policy is guided by the set of quantitative targets and criteria approved by the Minister of Finance for issuance activities and the active management of debt portfolio as summarized in the following table.

Financing programme and strategic targets in 2008

Criterion	Guidelines for 2008	March 31, 2008
International issues	Max. 50% of the total annual gross borrowing requirement CZK 0.0 to 89.9 bn	0.0% CZK 0.0 bn
Gross government bonds issues	CZK 75.1 to 165.0 bn	CZK 35.3 bn
Net money market issues	CZK 0.0 to – 20.0 bn	CZK - 35.3 bn
Loans from EIB	CZK 14.7 bn	CZK 1.4 bn
Short-term state debt	20% and less	16.5%
Average time to maturity	6.0 to 7.0 years	6.7 years
Interest Rate Re-fixing	30 to 40%	24.2%

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

As regards **international funding**, the Czech Republic has drawn loans from the European Investment Bank in the amount of **CZK 1.4 billion** which represents 9.5% of the limit in the State Budget Act for 2008.

Regarding **domestic issuance activity**, the net issue of government bonds was CZK 0.9 billion in the first quarter and buy-backs of government bonds were executed in the amount of CZK 5.6 billion to redeem the 39th issue. The total gross issuance of government bonds reached **CZK 35.3 billion**, including tap sales in the amount of CZK 2.5 billion via Reuters Dealing system used by the Debt and Financial Assets Management Department; it is about 21.4% of the maximal supply announced on 3 December 2007.

The volume in issue of money market instruments decreased by **CZK 35.3 billion** during the first quarter, i.e. more than the maximal decrease announced within the programme for net money market instruments issuance due to short-term using of liquidity surplus of the state treasury account.

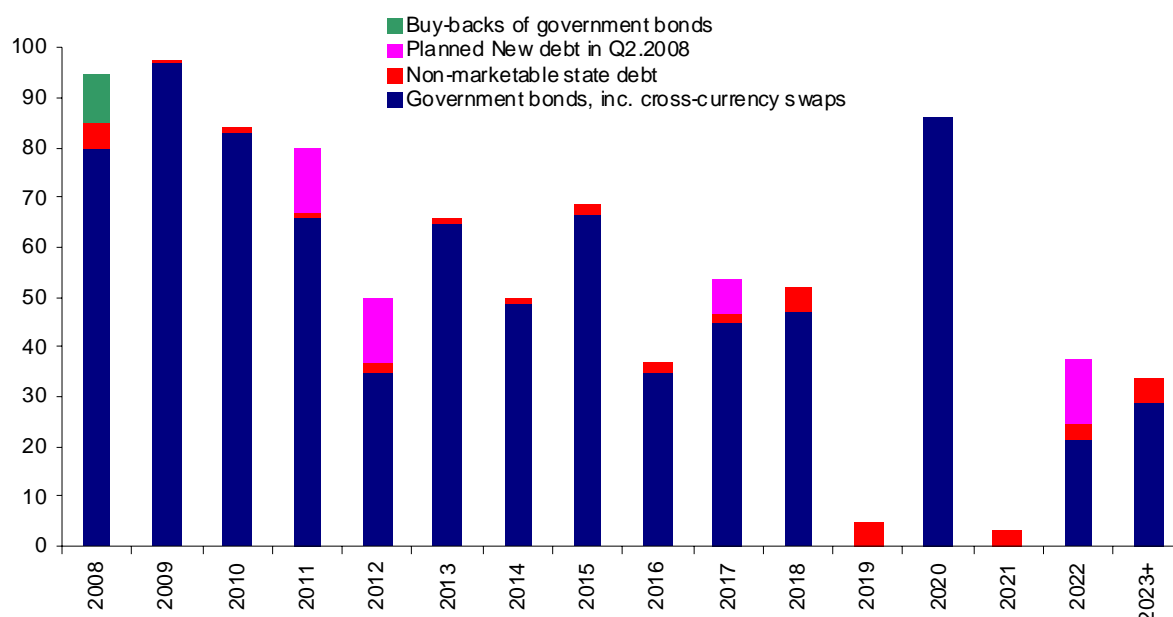
The short-term state debt decreased by 2.2 percentage points and reached the share of **16.5%** at the end of the first quarter. It means that the Ministry of Finance maintains the planned long-term target.

Average time to maturity reached the level of **6.7 years**, i.e. within the announced target band 6.0–7.0 years for 2008.

Beginning with the year 2006, **the interest rate re-fixing** up to one year replaces the modified duration targeting in the area of market risk management. The *Financing and Debt Management Strategy for 2008* sets the average yearly range between 30 and 40%. This risk measure decreased slightly to 24.2% at the end of the first quarter and is stabilised below the lower limit.

Redemption profile of state debt (CZK billion)

(end of 2007; updated on 8 April 2008)



Note: Without money market instruments in circulation.
Source: MF CR.

II. State debt costs and Cost-at-Risk in the first quarter 2008

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

Planned and actual budgetary expenditures and revenues on state debt in 2008

Measure (CZK million)	Actual 1.Q 2007	Budget 2008		Actual 1.Q 2008	% Execution	Index 2008/2007 (%)
		Approved	After changes			
1	2	3	4	5	5:4	5:2
Total balance	8 625	45 441	45 441	8 057	17,7	93,4
	-	(-) 1 460	(-) 1 460	(-) 1 593	109,1	-
1. Total interest costs	8 608	45 141	45 141	8 033	17,8	93,3
	-	(-) 1 460	(-) 1 460	(-) 1 561	106,9	-
Domestic debt	7 307	38 847	38 847	6 412	16,5	87,7
	-	(-) 1 460	(-) 1 460	(-) 1 561	106,9	-
<i>Of which:</i>						
Money market instruments	422	2 484	2 484	510	20,5	120,9
	-	(-) 1 460	(-) 1 460	(-) 924	63,3	-
Government bonds	6 885	36 363	36 363	5 902	16,2	85,7
	-	-	-	(-) 637	-	-
Foreign debt	1 301	6 294	6 294	1 621	25,8	124,6
	-	-	-	-	-	-
<i>Of which:</i>						
International issues	1 051	4 653	4 653	1 210	26,0	115,2
EIB loans	250	1 641	1 641	411	25,0	164,1
2. FX gain/loss	-	-	-	(-) 32	-	-
3. Total fees	17	300	300	24	8,0	145,1

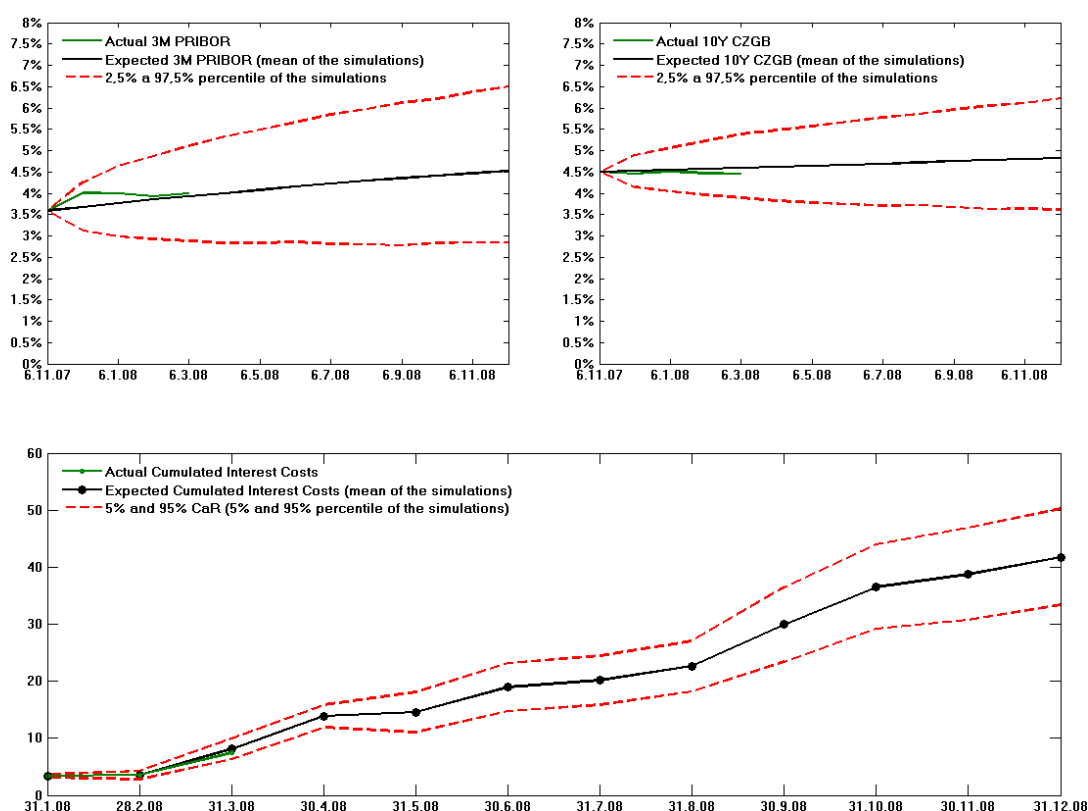
Note: (-) means revenues (gains). Source: MF CR.

The **net interest costs** on the state debt in the first quarter 2008 amounts **CZK 6.5 billion**. Financial investments on the money market gain CZK 0.9 billion, i.e. the gross interest costs reached CZK 7.4 billion.

The state debt interest costs model **Cost-at-Risk (CaR)** for the year 2008 was published in the *Financing and Debt Management Strategy for the year 2008*. Calculations of the CaR values are based on future interest rates simulations.

The actual versus simulated development of the PRIBOR 3M and 10-year government bond benchmark from November 2007 till March 2008 is in the upper part of the figure. The actual versus simulated interest costs for the first quarter of 2008 is in the lower part of the figure.

Actual versus simulated evolution of the interest rates and the actual versus simulated monthly gross interest costs (CZK billion)



Note: Interest costs are calculated on the cash principle relevant for the current methodology of the state budget.
Source: MF CR.

The comparison between the actual development of interest costs and the development of the simulated interest costs in the first quarter of 2008 in comparison with the same period of the last year is summarized in the following table.

Cost-at-Risk deviation from the actual interest costs in the first quarter of 2007 and 2008

	1Q.2007	1Q.2008
Actual interest costs (CZK billion)	8,6	7,4
Expected (simulated) costs (CZK billion)	9,1	8,1
Cost-at-Risk 95% (CZK billion)	10,4	9,9
Expectation bias (%)	5,8	9,5

Source: MF CR.

III. State Debt Parameters (end of quarter)

Debt Parameter	Dec 2006	Jun 2007	Sep 2007	Dec 2007	Mar 2008
Total state debt (CZK billion)	802.5	856.1	842.7	892.3	860.1
Market value, inc. derivatives (CZK billion)	844.2	870.1	859.9	899.5	867.9
Short-term state debt (%)	17.1	16.0	17.8	18.7	16.5
Share of money market instruments (%)	11.5	7.7	6.5	9.2	5.5
Average time to maturity (years)	6.2	6.4	6.5	6.4	6.7
Interest rate refixing up to one year, inc. derivatives (%)	25.4	23.4	25.5	26.0	24.2
Variable-rate state debt (%)	4.3	4.2	4.3	4.1	3.9
Modified duration (years)	3.8	3.8	3.9	3.8	4.0
Modified duration, exc. IRS (years)	3.5	3.5	3.6	3.5	3.7
Foreign currency state debt (%)	0.7	0.6	0.6	0.6	0.6
Foreign currency debt, exc. cross-currency swaps (%)	9.3	9.1	8.9	8.1	8.1
Nonmarketable state debt (%)	4.7	4.6	4.7	4.4	4.2
Marketable state debt (CZK billion)	765.0	817.0	803.3	853.0	823.6
Market value (CZK billion)	806.7	830.9	820.5	860.2	831.4
Short-term marketable debt (%)	17.6	15.9	18.0	19.0	17.1
Share of money market instruments (%)	12.0	8.1	6.8	9.6	5.7
Average time to maturity (years)	6.1	6.3	6.4	6.3	6.6
Interest rate refixing up to one year, inc. derivatives (%)	22.0	20.0	22.1	22.9	21.1
Variable-rate marketable debt (%)	0.0	0.0	0.0	0.0	0.0
Modified duration (years)	4.0	4.0	4.1	3.9	4.1
Modified duration, exc. IRS (years)	3.6	3.7	3.8	3.7	3.9
Foreign currency marketable deb (%)	0.7	0.7	0.7	0.6	0.6
Foreign currency debt, exc. cross-currency swaps (%)	9.8	9.5	9.3	8.5	8.4

Notes: **Interest rate refixing up to one year** = Money market instruments + Fixed-rate short-term debt + Variable-rate state debt + Effect of interest rate derivatives. Source: MF CR, Bloomberg.

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

The next issue of Quarterly Review will be published on July 8, 2008, at 2.00 p.m.

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