



### Debt Portfolio Management Quarterly Review

MARCH 2009

The Ministry of Finance submits the seventeenth *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 2009, these targets were quantified by the *Financing and Debt Management Strategy for 2009* released on 3 December 2008 and based on the Finance Minister's decision. The Strategy specifies operating space of the asset and liability management through issuance activity, financial investment and active operations of MoF on secondary market of government bonds and financial derivatives.

#### I. Review of Strategic Targets for 2009

The 2009 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 2009

Criterion	Guidelines for 2009	March 31, 2009
International issues	Max. 50% of the total annual gross borrowing requirement CZK 0.0 to 74.2 bn	0.0% CZK 0.0 bn
Gross government bonds issues	CZK 40.0 to 125.0 bn	CZK 66.0 bn
Net money market issues	CZK 0.0 to 5.0 bn	CZK -17.8 bn
Loans from EIB	CZK 15.8 bn	CZK 0.7 bn
Short-term state debt	20% and less	11.2%
Average time to maturity	5.5 to 7.0 years	6.8 years
Interest Rate Re-fixing	30 to 40%	23.8%

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

As regards **international funding**, the Czech Republic has drawn two tranches of loans from the European Investment Bank in the amount of **CZK 0.7 billion** during the first quarter, which represents 4.4% of the limit in the State Budget Act for 2009.

Regarding **domestic issuance activity**, the net issue of government bonds was **CZK 17.5 billion** in the first quarter. Buy-backs of government bonds were executed in the total amount of CZK 10.6 billion during the first quarter. The total gross issuance of government bonds reached **CZK 66.0 billion**, including tap sales in the amount of CZK 17.7 billion via Reuters Dealing system used by the Debt and Financial Assets Management Department. The total annual gross issuance reached consequently CZK 66.0 billion, which is about 52.8 % of the maximal supply announced on 3 December 2009.

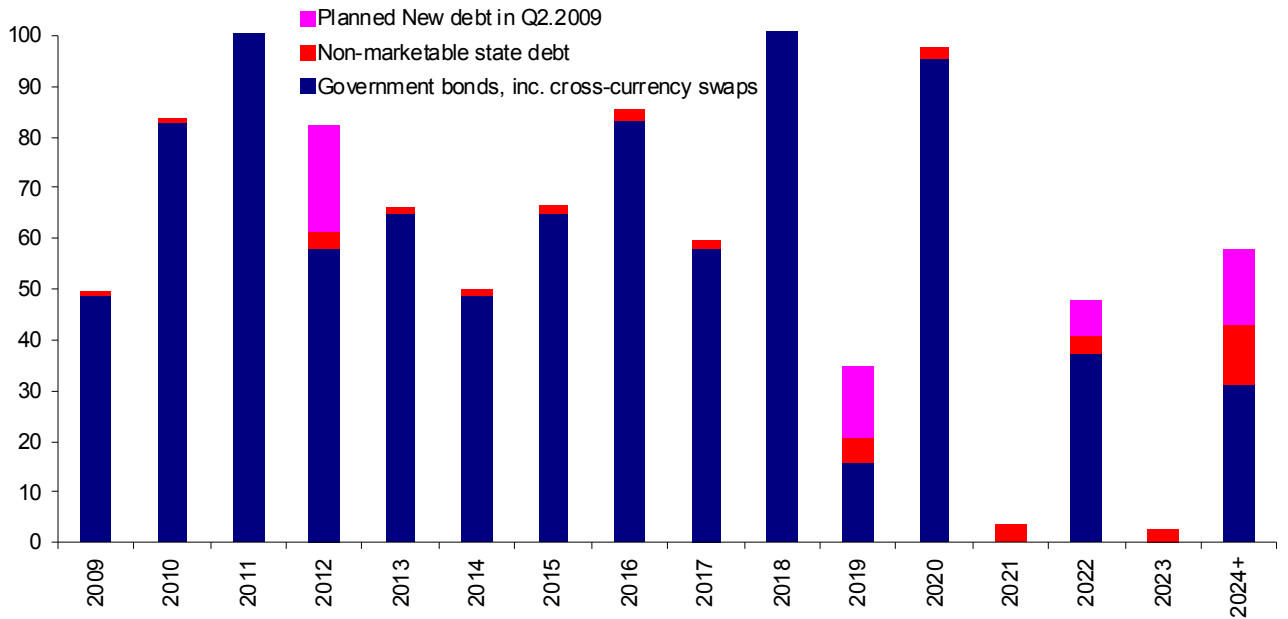
**The volume in issue of money market instruments** decreased by **CZK 17.8 billion** during the first quarter. The decline in volume of money market instruments was caused by higher domestic issuance activity than it was planned. The volume of money market instruments will increase according to market condition during following quarters of 2009.

**The short-term state debt** decreased by 5.5 percentage points and reached the share of **11.2%** at the end of the first quarter 2009. It means that the Ministry of Finance maintains the planned long-term target. The decline in the share was caused by decline in net issue of money market instruments and by redemption of 42th issue.

**Average time to maturity** reached the level of **6.6 years**, i.e. within the announced target band 5.5–7.0 years for 2009.

### Redemption profile of state debt (CZK billion)

(end of Q1. 2009; updated on 31 March 2009)

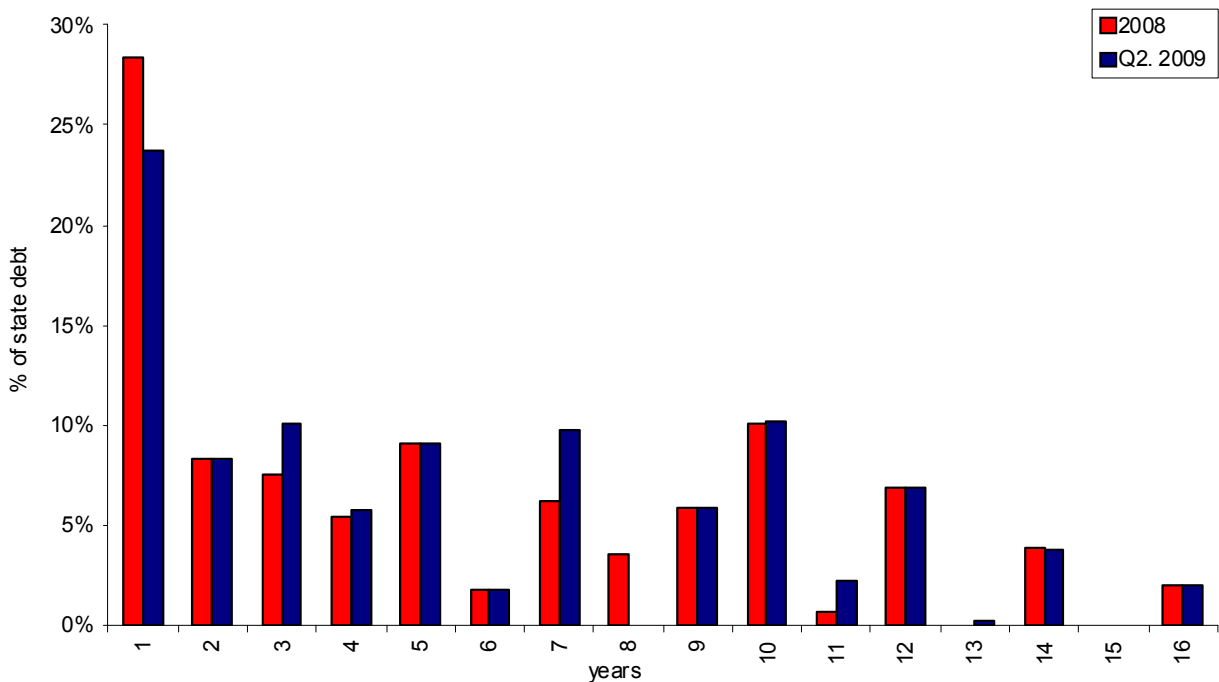


Note: Excluding money market instruments  
Source: MF CR.

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 2009* sets the average yearly range between 30 and 40%. This risk measure decreased to 23.8% at the end of the first quarter 2009 and stays below the lower limit.

### Re-fixing profil of state debt

(end of Q1. 2009 compared with end of 2008; updated on 31 March 2009)



Note: Including derivatives  
Source: MF CR.

## II. State debt costs and Cost-at-Risk in 2009

Planned and actual budgetary expenditures and revenues in the first quarter 2009.

### Planned and actual budgetary expenditures and revenues on state debt in 2009

Measure (CZK mil)	Actual 1Q/2008	Budget 2009		Actual 1Q/2009	% Execution	Index 2009/2008 (%)
		<i>Approved</i>	<i>After changes</i>			
1	2	3	4	5	5:4	5:2
<b>Total balance</b>	<b>8 057</b> <b>(-) 1 593</b>	<b>64 070</b> <b>(-) 6 676</b>	<b>60 594</b> <b>(-) 6 676</b>	<b>8 927</b> <b>(-) 1 624</b>	<b>14.7</b> <b>24.3</b>	<b>110.8</b> <b>102.0</b>
<b>1. Total interest costs</b>	<b>8 033</b> <b>(-) 1 561</b>	<b>47 937</b> <b>(-) 6 666</b>	<b>47 937</b> <b>(-) 6 666</b>	<b>8 902</b> <b>(-) 1 624</b>	<b>18.6</b> <b>24.4</b>	<b>110.8</b> <b>104.0</b>
<b>Domestic debt</b>	<b>6 412</b> <b>(-) 1 561</b>	<b>37 274</b> <b>(-) 5 916</b>	<b>37 274</b> <b>(-) 5 916</b>	<b>7 010</b> <b>(-) 1 624</b>	<b>18.8</b> <b>27.5</b>	<b>109.3</b> <b>104.0</b>
<i>Of which:</i>						
Money market instruments	510 (-) 924	2 262 (-) 3 000	2 262 (-) 3 000	407 (-) 526	18.0 17.5	79.9 56.9
Government bonds	5 902 (-) 637	35 013 (-) 2 916	35 013 (-) 2 916	6 602 (-) 1 098	18.9 37.7	111.9 172.4
<b>Foreign debt</b>	<b>1 621</b> <b>-</b>	<b>10 662</b> <b>(-) 750</b>	<b>10 662</b> <b>(-) 750</b>	<b>1 892</b> <b>(-) 0</b>	<b>17.7</b> <b>0.0</b>	<b>116.7</b> <b>-</b>
<i>Of which:</i>						
International issues	1 210 -	8 173 (-) 750	8 173 (-) 750	1 461 (-) 0	17.9 0.0	120.7 -
EIB loans	411	2 489	2 489	431	17.3	104.9
<b>2. Total fees</b>	<b>24</b>	<b>300</b>	<b>300</b>	<b>25</b>	<b>8.4</b>	<b>105.1</b>
<b>3. Redemption</b>	<b>-</b>	<b>10</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>4. Transfers for projects<sup>1</sup></b>	<b>-</b>	<b>15 823</b>	<b>12 348</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>5. FX gain/loss</b>	<b>(-) 32</b>	<b>(-) 10</b>	<b>(-) 10</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note: (-) means revenues (gains).

Source: MF CR.

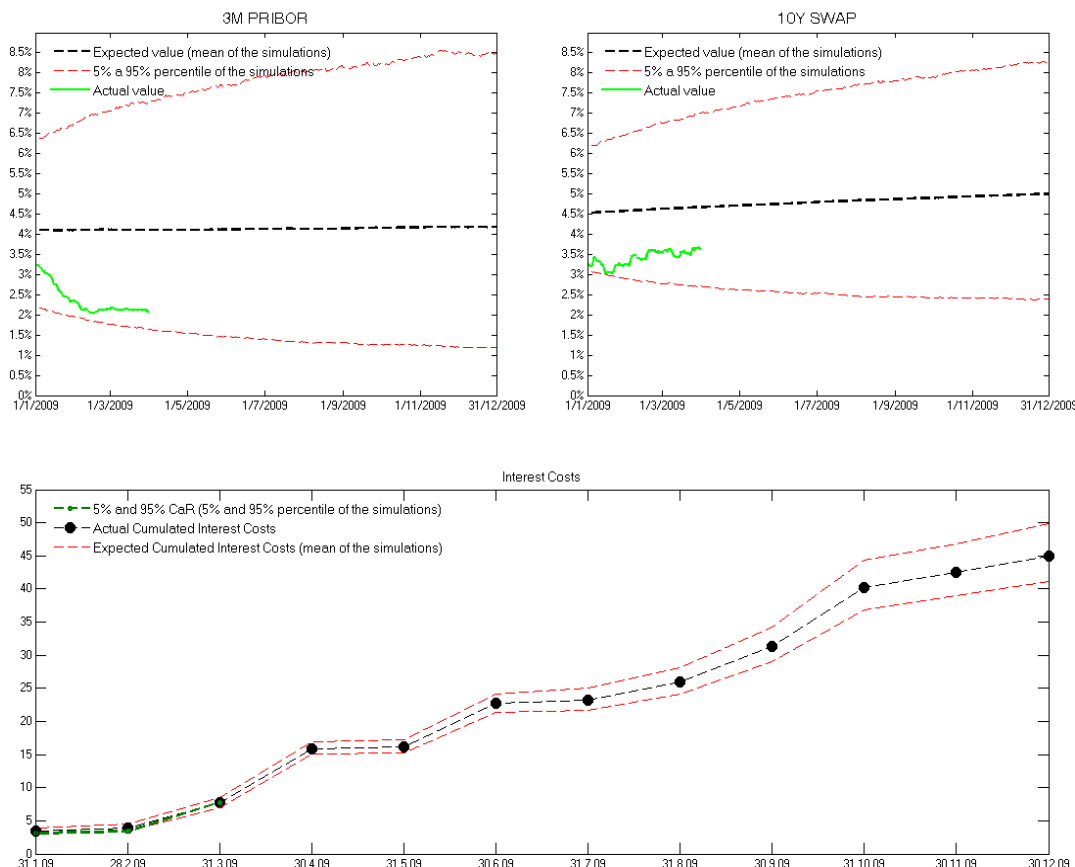
The **net interest costs** on the state debt in the first quarter 2009 amounts **CZK 7.3 billion**. Financial investments on the money market gain CZK 0.5 billion and accrued interest income and government bonds premiums achieve CZK 1.1 billion. The gross interest costs reached CZK 8.9 billion.

<sup>1</sup> Transfers for projects financed from international financial institutions credits

The state debt interest costs model **Cost-at-Risk (CaR)** for the year 2009 was published in the *Financing and Debt Management Strategy for the year 2009*. Calculations of the CaR values are based on future interest rates simulations.

The actual versus simulated development of the PRIBOR 3M and 10Y swap from January 2009 till March 2009 are in the upper part of the figure. The actual versus simulated interest costs for the first quarter of 2009 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 2009 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 2008 and 2009**

	2008	2009
Actual interest costs (CZK billion)	7,4	7,8
Expected (simulated) costs (CZK billion)	8,1	7,7
Cost-at-Risk 95% (CZK billion)	9,9	8,5
Expectation bias (%)	<b>9,5</b>	<b>-1,3</b>

Source: MF CR.

### III. State Debt Parameters (end of quarter)

Debt Parameter	Mar 2008	Jun 2008	Sep 2008	Dec 2008	Mar 2009
<b>Total state debt (CZK billion)</b>	<b>860,1</b>	<b>933,3</b>	<b>925,5</b>	<b>999,5</b>	<b>1000,5</b>
Market value, inc. derivatives (CZK billion)	867,9	921,4	952,4	1000,3	994,4
Short-term state debt (%)	16,5	13,8	10,3	17,7	11,2
Share of money market instruments (%)	5,5	3,6	4,9	7,9	6,1
Average time to maturity (years)	6,7	6,8	7,0	6,6	6,8
Interest rate refixing up to one year, inc. derivatives (%)	24,2	26,1	21,3	28,4	23,8
Variable-rate state debt (%)	3,9	3,9	4,7	7,3	9,3
Modified duration (years)	4,0	4,0	4,5	4,3	4,3
Modified duration, exc. CZK IRS (years)	3,7	3,9	4,8	4,2	4,1
Foreign currency state debt (%)	0,6	0,9	4,4	4,6	4,7
Foreign currency debt, exc. cross-currency swaps (%)	8,1	12,0	12,5	12,8	13,0
Nonmarketable state debt (%)	4,2	4,3	5,0	4,7	4,8
<b>Marketable state debt (CZK billion)</b>	<b>823,6</b>	<b>893,1</b>	<b>879,1</b>	<b>952,2</b>	<b>952,2</b>
Market value (CZK billion)	831,4	884,6	906,1	952,5	945,9
Short-term marketable debt (%)	17,1	14,3	10,7	18,5	11,5
Share of money market instruments (%)	5,7	3,7	5,2	8,3	6,4
Average time to maturity (years)	6,6	6,7	6,7	6,4	6,6
Interest rate refixing up to one year, inc. derivatives (%)	21,1	23,0	17,4	25,0	20,1
Variable-rate marketable debt (%)	0,0	0,0	0,0	2,9	5,1
Modified duration (years)	4,1	4,1	4,7	4,5	4,5
Modified duration, exc. CZK IRS (years)	3,9	4,0	5,0	4,4	4,3
Foreign currency marketable debt (%)	0,6	1,0	4,7	4,8	4,9
Foreign currency debt, exc. cross-currency swaps (%)	8,4	12,5	13,2	13,4	13,6

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.

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This publication is available also on the website:  
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The next issue of Quarterly Review will be published on July 8, 2009, at 2.00 p.m.

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