



The Ministry of Finance issues 25th Debt Portfolio Management Quarterly Review. The review presents the underlying debt portfolio risk management measures and performance with respect to the planned annual financing program and its achieving of the medium-term strategic targets of debt management policy. For the year 2011, these targets were quantified by the *Financing and Debt Management Strategy 2011* published on December 2, 2010. 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.

1 - Review of Strategic Targets for 2011

The 2011 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.

Table 1: Financing programme and strategic targets in 2011

Criterion	Guidelines for 2011	March 31, 2011
International issues	Max. 40 % of the total annual gross borrowing requirement CZK 0.0 to 88.0 bn	0.4 % CZK 0.9 bn
Gross government bonds issues	CZK 86.0 to 194.0 bn	CZK 39.4 bn
Net money market issues	CZK 20.0 to 40.0 bn	CZK 24.2 bn
Loans from EIB	CZK 5.5 bn	CZK 0.0 bn
Short-term state debt	20 % and less	17.2 %
Average time to maturity	5.25 to 6.25 years	6.0 years
Interest Rate Re-fixing up to 1 year	30 to 40 %	32.6 %
Average time to re-fixing	4 to 5 years	4.9 years
Foreign-currency state debt	At most 15 to 17 %	9.8 %

Note: EIB – European Investment Bank. Gross government bonds issues includes tap sales and the sales to EIB.

Source: MF

As regards **international funding**, the Czech Republic has issued floating rate bond denominated in EUR in the amount of **EUR 37.5 mil**, i.e. **CZK 926.9 mil**, via tap sale during the first quarter, which is 1.0 % of maximal international issuance activity according to initially declared financial program for 2011. During the first quarter the Czech Republic hasn't drawn any tranche of loans from the European Investment Bank.

Regarding **domestic issuance activity**, the total gross issuance of government bonds reached **CZK 39.4 bn** during the first quarter, including CZK 1.4 bn bought by EIB. The total gross issuance reached about 20.3 % of the maximal supply initially announced on 2 December 2011. The net issuance of government bonds was **CZK 39.4 bn** during the first quarter. Buy-backs of government bonds were not executed during the first quarter.

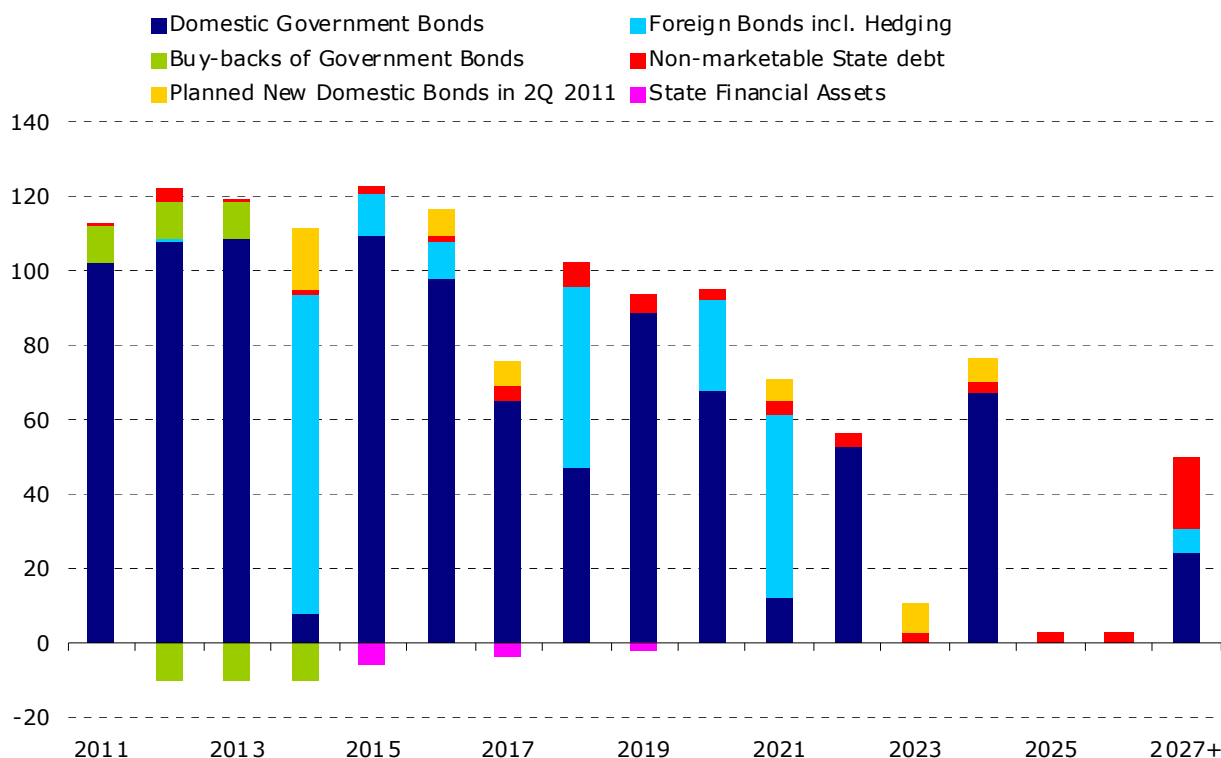
The volume in issue of money market instruments increased by **CZK 24.2 bn** during the first quarter.

The short-term state debt increased by 1.1 percentage points and reached the share of **17.2 %** at the end of the first quarter. The figure remains, in accordance with Strategy, below the 20% ceiling.

Average time to maturity reached the level of **6.0 years** at the end of the first quarter, i.e. remains within the announced target bracket, i.e. 5.25–6.25 years for 2011.

Figure 1: Redemption profile of state debt (CZK billion)

(end of Q1 2011; updated on 31 March 2011)



Note: Excluding money market instruments on the debt and assets side. The positive vertical scale shows liabilities, the negative vertical scale shows state financial assets and for 2011 – 2013 planned buy-backs. Profile does not include the impact of planned retail government bonds with maturities between 2012 and 2017.

Source: MF

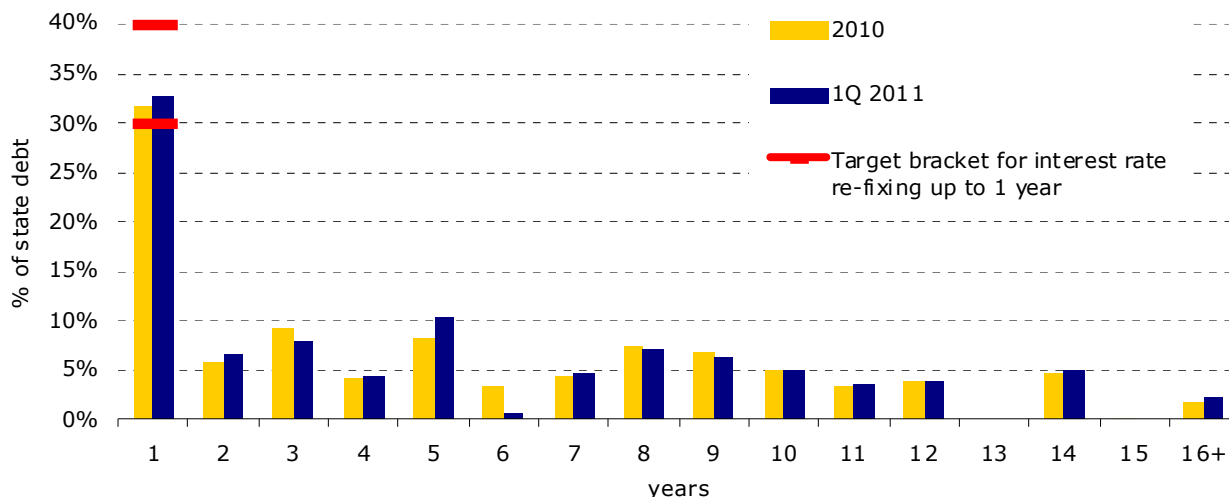
Interest rate re-fixing up to one year increased by 0.9 percentage points during the first quarter and reached the share of **32.6 %** and remains within the announced medium-term target bracket, i.e. 30 to 40 %.

Starting in 2011 the new strategic goal for interest rate debt management was declared – **the average time to state debt re-fixing**. For 2011, and for the longer-term horizon as well, the Ministry has set an explicit target of a 4 to 5 year interval for this indicator. At the end of the first quarter the average time to state debt re-fixing reached the level of **4.9 years** and remains within the announced long-term target bracket.

From 2011 onwards the Ministry will actively manage **the share of foreign-currency state debt**. The strategic limit declared by the Ministry for 2011 and beyond is 15% (in short term up to 17 %). The foreign-currency state debt reached the share of **9.8 %** and remains below the 15 % ceiling, which indicates low and stable foreign-currency exposition.

Figure 2: Re-fixing profil of state debt

(end of 1Q 2011 compared with end of 2010; updated on 31 March 2011)



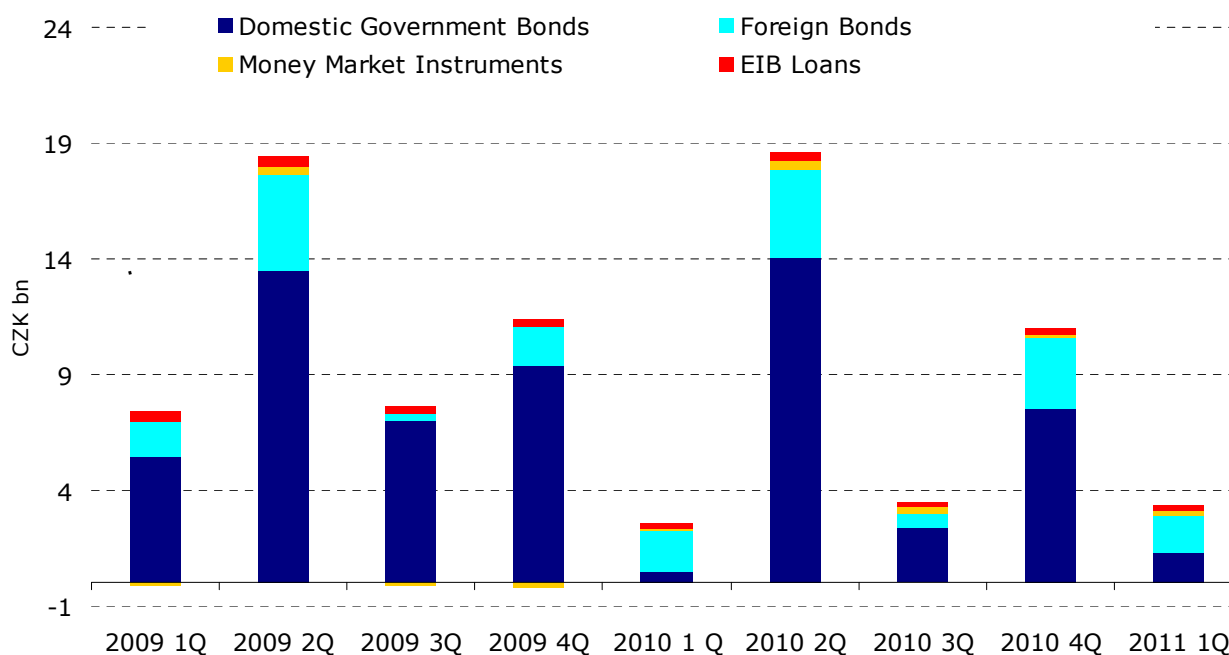
Note: Including derivatives

Source: MF

2 – State debt costs and Cost-at-Risk

Figure 3 presents a breakdown of net interest costs related to the state debt in last two years. More detailed information describing the budgetary expenditures and revenues can be found in appendix (table 11). Figure 3 demonstrates regularity in lower net interest costs in quarter to quarter point of view. The year to year comparison highlights the decrease of interest costs in time.

Figure 3: Quarterly Breakdown of Change in Interest Costs

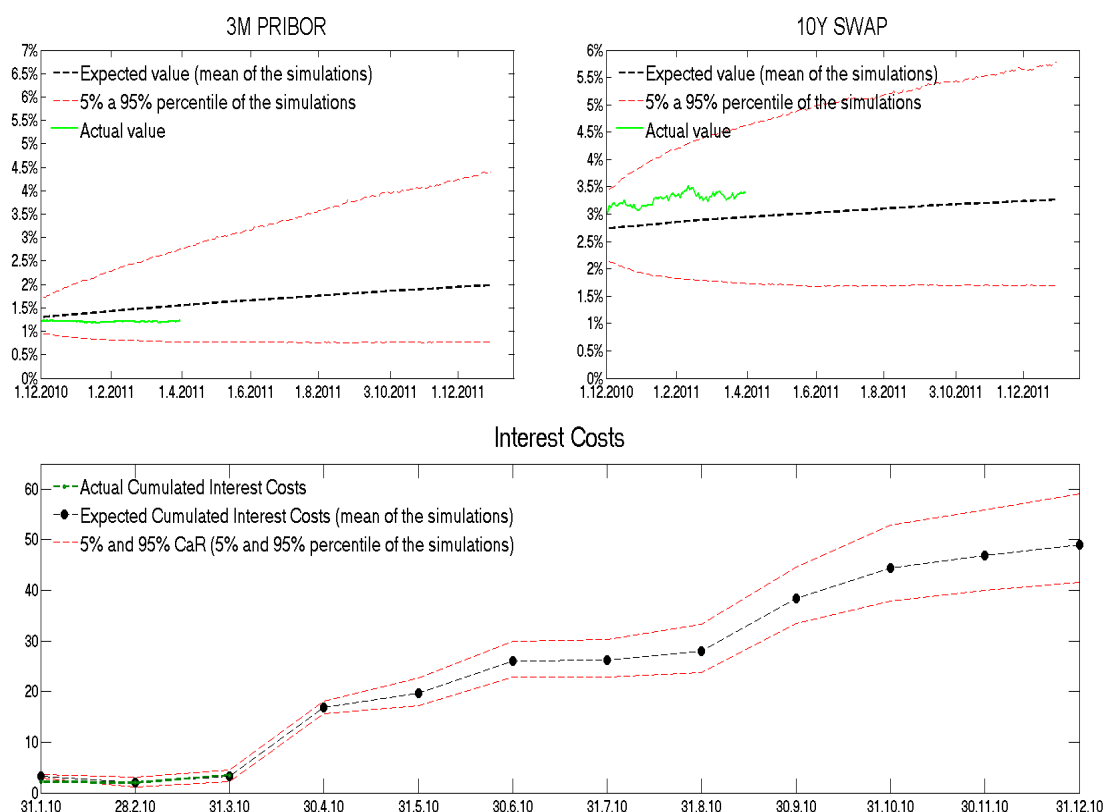


Source: MF

The state debt interest costs model Cost-at-Risk (CaR) for the year 2010 was published in the Financing and Debt Management Strategy for the year 2010. Calculations of the CaR values are based on future interest rates simulations.

The actual versus simulated developments of the PRIBOR 3M and 10Y CZK swap from 1 December 2010 till 31 December 2011 are displayed in the upper part of the figure 4. The development of the actual versus simulated net interest costs for the year 2010 is shown in the lower part of the figure 4.

Figure 4: Actual versus simulated evolution of the interest rates and the actual versus simulated monthly net interest costs (CZK billion)



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

Table 2 refers to the comparison between the actual development of net interest costs and the development of the simulated interest costs at the end of 2011 in comparison with the same period of the last year is summarized in the following table.

Table 2: Cost-at-Risk deviation from the actual interest costs at the end of 2009 and 2010

	31. 3. 2010	31. 3. 2011
Actual net interest costs (CZK billion)	4.8	3.5
Expected net (simulated) costs (CZK billion)	7.8	3.3
Cost-at-Risk 95% (CZK billion)	8.6	4.6
Expectation	59.2	6.9

Source: MF

3 – State Debt Parameters (end of quarter)

Table 3: Debt Parameters

	31.3.2010	30.6.2010	30.9.2010	31.12.2010	31.3.2011
Total state debt (CZK billion)	1 216.8	1 246.1	1 384.8	1 344.1	1 404.4
Market value, inc. derivatives (CZK billion)	1 291.7	1 316.0	1 499.8	1 429.2	1 484.0
Short-term state debt (%)	14.2	16.4	17.6	16.1	17.2
Share of money market instruments (%)	7.2	7.2	9.3	8.4	9.8
Average time to maturity (years)	6.3	6.3	6.1	6.3	6.0
Interest rate re-fixing up to one year, inc. derivatives (%)	29.7	31.7	31.9	31.7	32.6
Average time to re-fixing	5.0	5.1	5.0	5.0	4.9
Variable-rate state debt (%)	12.8	12.6	11.4	12.1	12.6
Modified duration (years)	4.1	4.5	4.5	4.4	4.2
Modified duration, exc. CZK IRS (years)	4.0	4.4	4.4	4.4	4.1
Foreign currency state debt (%)	8.1	8.3	10.7	10.4	9.8
Foreign currency debt, exc. cross-currency swaps (%)	14.4	14.3	15.8	16.7	15.6
Share of € on foreign currency debt	84.4	83.5	89.2	87.9	88.6
Nonmarketable state debt (%)	5.0	4.9	4.6	5.0	4.8
Marketable state debt (CZK billion)	1 156.1	1 184.8	1 321.8	1 276.6	1 337.3
Market value (CZK billion)	1 230.1	1 253.5	1 435.4	1 360.0	1 415.3
Short-term marketable debt (%)	14.8	17.1	18.3	16.9	18.0
Share of money market instruments (%)	7.6	7.5	9.7	8.9	10.3
Average time to maturity (years)	6.0	6.0	5.8	6.0	5.7
Interest rate re-fixing up to one year, inc. derivatives (%)	26.3	28.4	28.9	28.3	29.5
Average time to re-fixing	5.3	5.3	5.2	5.3	5.1
Variable-rate marketable debt (%)	8.6	8.4	7.5	7.8	8.5
Modified duration (years)	4.2	4.7	4.6	4.6	4.3
Modified duration, exc. CZK IRS (years)	4.1	4.6	4.5	4.5	4.3
Foreign currency marketable debt (%)	8.5	8.7	11.2	11.0	10.3
Foreign currency debt, exc. cross-currency swaps (%)	15.1	15.0	16.6	17.5	16.4
Share of € on foreign currency debt	84.7	83.7	89.3	87.9	88.6

Notes: **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.

Source: MF

Table 4: State Financial Assets

	31. 12. 2010	31. 3. 2011
State financial assets		
Interest rate re-fixing up to one year (%)	88.4	91.3
Average time to re-fixing (years)	0.7	0.5
Investment portfolio and on-lending		
Average return (%)	2.0	2.0
Average time to maturity (years)	2.0	1.9
Modified duration (years)	1.8	1.7

Source: MF

4 – The net borrowing requirements

The central government's net borrowing requirements are determined primary by the state budget deficits. The final level of the net borrowing requirement is also influenced by state financial assets operations, lending and on-lending, and changes in the level of the financial reserve generated by bond issues. The net borrowing requirement is also the principal factor driving the change in the nominal value of gross state debt. Since part of the state debt is denominated in foreign currencies, the state debt is also affected by changes in the exchange rate between the Czech koruna and those currencies

Table 5: The net borrowing requirement of the central government and change in the state debt

CZK billion	2009	2010	31. 3. 2011
Gross state debt the beginning of the period	999.8	1 178.2	1 344.1
Primary balance of state budget, excluding on-lending	147.9	120.6	21.8
Net expenditures on state debt ¹	44.5	35.8	3.4
Extra-budgetary borrowing requirement	0.0	0.0	0.0
Net borrowing requirement, net of assets operations	192.4	156.4	25.2
State financial assets operations ²	5.4	3.0	0.3
On-lending (net change) ³	0.0	1.7	0.0
Financial reserve (net change) ⁴	-19.6	7.1	38.1
Net borrowing requirement	178.2	168.2	63.6
Changes in nominal state debt ⁵	0.2	-2.4	-3.2
Gross debt change	178.4	165.8	60.4
Gross state debt at the end of the period	1 178.2	1 344.1	1 404.4
(% on GDP)	(32.5)	(36.4)	(36.9)

¹ balance of budgetary chapter 396 – State debt excl. expenditures – Transfers on projects financed by loans from EIB

² balance of budgetary chapter 397 – State Financial Assets Operations

³ on-lending to other states and enterprises with full state-backed guarantee on their core business

⁴ cash reserve generated by bonds issues according to the Act No. 218/2000

⁵ exchange rate changes due to re-evaluation of foreign currencies denominated debt and state debt amortization within budgetary chapter 396.

Source: MF

The net borrowing requirement is the first component of the gross borrowing requirement, which determines the magnitude of the state's borrowing operations in the given year. The second component consists in redemptions on the state debt in the given year and the buy-backs and switches of government bonds before their original maturity.

Table 6: Gross borrowing requirement and instruments for funding of the central government

<i>mld. Kč (% HDP)</i>	2009	2010	31. 3. 2011
Net borrowing requirement	178.2	168.2	63.6
Redemptions on state debt, incl. buy-backs and switches within a budgetary year	98.0	83.0	0.0
Redemptions on loans from EIB	0.8	1.1	0.4
Buy-backs and switches of bonds due in following years ¹	2.0	0.0	0.0
Re-pricing reserve funds ²	0.0	0.2	0.6
Gross borrowing requirement	279.0 (7.7)	252.6 (6.8)	64.5 (1.7)
Net money market issuance ³	9.4	25.1	24.2
Gross government bonds issuance ⁴	257.7	217.1	40.3
Loans from EIB	11.9	10.4	0.0
Net loans from the State Treasury	0.0	0.0	0.0
Funding of borrowing requirement	279.0	252.6	64.5

¹ *excl. operations with government bonds due within a budgetary year*

² *Re-pricing coming from exchange rate movements*

³ *excl. revolving within a budgetary year*

⁴ *nominal amount, ie. premium and discounts are included in net costs on state debt not entering net borrowing requirement.*

Source: MF

Net debt portfolio reflects the state debt and state financial assets. The methodology defining individual items is stated in the "The Czech Republic funding and Debt Management Strategy 2011"

Table 7: State and structure of net debt portfolio and financial sources of the State Treasury

<i>CZK billion</i>	2009	2010	31. 3. 2011
Gross state debt at the beginning of the period	1 178.2	1 344.1	1 404.4
Money market instruments	88.2	113.3	137.5
Medium-term and long-term bonds	1 031.6	1 163.2	1 199.8
Loans from EIB	57.9	67.2	66.8
Bills of exchange ¹	0.6	0.3	0.3
Short-term liabilities to the Treasury	0.0	0.0	0.0
State financial assets at the end of the period	102.2	113.9	152.4
Nuclear investment portfolio	13.5	15.1	15.5
Pensions investment portfolio	21.2	21.6	21.7
Special-purpose financial assets accounts	9.2	10.2	10.1
Lending and On-lending ²	0.0	1.7	1.7
Reserve funds ³	58.3	65.3	103.4
Net debt portfolio at the end of the period	1 076.0	1230.2	1252.0

¹ *Bills of exchange to cover equity holdings of the Czech Republic with international financial institutions*

² *lending to other states and to enterprises with full state-backed guarantee on the core business*

³ *disposable cash balance build up by issuance of government debt according to the Act No. 218/2000, Section 35.*

Source: MF

5 – Appendix

Table 8: T- bonds issue in 1. quarter of 2011

T-bond	Issue	Auction Date	Settlement date	Maturity date	Currency	Offered Nominal Volume	Placed Nominal Volume
VAR/2015	3. Issue* / Secondary market	5. 1.	10. 1.	5. 10. 2015	EUR (CZK)	37 510 000 (926 872 100)**	37 510 000 (926 872 100)**
VAR/2016	55. Issue / 7. Tranche	12. 1.	17. 1.	27. 10. 2016	CZK	7 000 000 000	6 384 870 000
5.70/2024	58. Issue / 10. Tranche	26. 1.	31. 1.	25. 5. 2024	CZK	5 000 000 000	4 877 010 000
4.00/2017	51. Issue / 10. Tranche	9. 2.	14. 2.	11. 4. 2017	CZK	7 000 000 000	6 138 000 000
2.75/2014	62. Issue // 1. Tranche	23. 2.	28. 2.	31. 3. 2014	CZK	8 000 000 000	7 888 620 000
4.70/2022	52. Issue / Secondary market sell by EIB	1. 3.	14. 3.	12. 9. 2022	CZK	1 374 330 000	1 374 330 000
3.85/2021	61. Issue / 2. Tranche	9. 3.	14. 3.	29. 9. 2021	CZK	6 000 000 000	5 836 630 000
VAR/2016	55. Issue / 8. Tranche	23. 3.	28. 3.	27. 10. 2016	CZK	7 000 000 000	6 894 810 000
Total					CZK	42 301 202 100	40 321 142 100

* 3. issue based on EMTN (*Euro Medium Term Note*)

** CZK value

T-bond	Issue	Interest rate type	Average net price	Average Yield to Maturity	Bid-to-cover ratio	Competitive auction	Non-Competitive auction
VAR/2015	3. Issue* / Secondary market	6M EURIBOR	102.70	42.345**	-	-	-
VAR/2016	55. Issue / 7. Tranche	6M PRIBOR	98.49	27.211**	1.49	85 %	6 %
5.70/2024	58. Issue / 10. Tranche	5.70 %	114.79	4.223 %	2.37	85 %	13 %
4.00/2017	51. Issue / 10. Tranche	4.00 %	102.60	3.521 %	1.27	86 %	2 %
2.75/2014	62. Issue // 1. Tranche	2.75 %	100.16	2.694 %	2.28	85 %	14 %
4.70/2022	52. Issue / Secondary market sell by EIB	4.70 %	105.18	4.122 %	-	-	-
3.85/2021	61. Issue / 2. Tranche	3.85 %	97.17	4.187 %	1.93	85 %	12 %
VAR/2016	55. Issue / 8. Tranche	6M PRIBOR	98.36	30.622**	3.14	85 %	13 %
Průměr					2.02	85 %	10 %

* 3. issue based on EMTN (*Euro Medium Term Note*)

** Spread to the benchmark rate in bps (*discounted margin*)

Table 9: T-note issue in 1st quarter of 2011

Issue No.	Maturity in (month)	Auction Date	Settlement date	Maturity date	Offered Nominal Volume	Placed Nominal Volume	Yield (% p.a.)
607	12	13. 1.	14. 1.	13. 1. 2012	6 000 000 000	6 000 000 000	1.30
608	3	27. 1.	28. 1.	29. 4. 2011	7 000 000 000	6 637 000 000	0.84
609	12	3. 2.	4. 2.	3. 2. 2012	6 000 000 000	6 000 000 000	1.29
610	6	10. 2.	11. 2.	12. 8. 2011	5 000 000 000	4 300 000 000	1.15
611	3	24. 2.	25. 2.	27. 5. 2011	6 000 000 000	6 606 000 000	0.82
612	12	3. 3.	4. 3.	2. 3. 2012	6 000 000 000	6 000 000 000	1.28
613	6	10. 3.	11. 3.	9. 9. 2011	6 000 000 000	7 314 000 000	1.10
614	3	17. 3.	18. 3.	17. 6. 2011	6 000 000 000	6 197 000 000	1.03
Celkem					48 000 000 000	49 054 000 000	1.09*

* Average weighted yield to maturity of the T-notes issues in 1. Quarter

Table 10: Redemption and re-fixing profile of T-bond issues in 1. quarter 2011

T-bond	Volume	Average time to maturity at the issue date	Average time to maturity at 31. 12. 2011	Average time to re-fix at the issue date	Average time to re-fix at 31. 12. 2011
Float	14 206 552 100	6.01	5.09	0.19	0.34
Fix	26 114 590 000	7.83	6.98	7.83	6.98
Total	39 394 270 000	7.22	6.34	5.26	4.74

Note: Volume in CZK

Source: MF

Table 10 presents the overview of the redemption and re-fixing profile of the portfolio of T-bond issues. The average time to maturity at the issuing date represent T-bond maturity at the same time, whereas average time to maturity at 31. 12. 2011 is related to the Ministry strategic target set as range 5.25 – 6.25 years of the average time to maturity of the debt portfolio. For more information about the strategic targets you are advised to consult "The Czech Republic Funding and Debt Management Strategy". Time to re-fix follows analogical approach. The strategic target is set as a range 5.25 – 6.25 years .

Table 11: Planned and actual budgetary expenditures and revenues on state debt in 1st quarter 2011

Measure (CZK mil)	Actual 1Q/2010	Budget 2011		Actual 1Q/2011	% Execution	Index 2011/2010 (%)
		Approved	After changes			
1	2	3	4	5	5:4	5:2
1. Total interest costs	4 814 (-) 2 205	71 286 (-) 5 336	71 186 (-) 5 336	5 019 (-) 1 639	7.1 30.7	104.3 74.3
Domestic debt	2 697 (-) 2 205	57 115 (-) 4 836	57 015 (-) 4 836	3 148 (-) 1 607	5.5 33.2	116.7 72.9
<i>In that:</i>						
Money market instruments	232 (-) 194	3 818 (-) 1 000	3 818 (-) 1 000	341 (-) 135	8.9 13.5	147.0 69.3
Government bonds	2 465 (-) 2 011	53 297 (-) 3 836	53 197 (-) 3 836	2 807 (-) 1 472	5.3 38.4	113.9 73.2
Foreign debt	2 116 -	14 171 (-) 500	14 171 (-) 500	1 871 (-) 30	13.2 6.1	88.4 -
<i>In that:</i>						
International issues	1 824 -	11 790 (-) 500	11 79 (-) 500	1 612 (-) 30	13.7 6.1	88.4 -
EIB loans	292	2 381	2 381	260	10.9	88.8
Short-term loans	-	-	-	-	-	-
Bank accounts	- -	- -	- -	0 (-) 2	- -	- -
<i>In that:</i>						
Bank accounts interests(+ paid. - received)	- -	- -	- -	0 (-) 2	- -	- -
2. Total fees	32 -	700 -	700 -	20 (-) 0	2.9 -	62.9 -
3. Redemption	-	4	4	-	-	-
4. FX gain/loss	- -	1 000 (-) 300	1 000 (-) 300	- -	- -	- -
5. Transfers for projects	-	5 501	5 084	-	-	-
Total balance	4 846 (-) 2 205	78 491 (-) 5 636	77 974 (-) 5 636	5 039 (-) 1 639	6.5 29.1	104.0 74.3

Note: (-) means revenues (gains).

Source: MF

The **net debt service costs** on the state debt in the first quarter 2011 amounts **CZK 3.4 billion**. Accrued interest income and government bonds premiums achieve CZK 1.5 billion and financial investments on the money market gain CZK 0.1 billion. The gross debt service costs reached CZK 5.0 billion.

This publication is available also on the website:

www.mfcr.cz/statedebt

The next issue of Quarterly Review will be published on July 11, 2011 at 2.00 p.m.

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