



Debt Portfolio Management Quarterly Review

SEPTEMBER 2009

The Ministry of Finance submits the nineteenth *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.

The initially declared financial programme targets were broken due to financial crisis and higher resulting government requirements than initially supposed.

Financing programme and strategic targets in 2009

Criterion	Guidelines for 2009	September 30, 2009
International issues	Max. 50% of the total annual gross borrowing requirement	53.2%
	CZK 0.0 to 74.2 bn	CZK 39.5 bn
Gross government bonds issues	CZK 40.0 to 125.0 bn	CZK 177.3 bn
Net money market issues	CZK 0.0 to 5.0 bn	CZK 0.7 bn
Loans from EIB	CZK 15.8 bn	CZK 6.9 bn
Short-term state debt	20% and less	12.9%
Average time to maturity	5.5 to 7.0 years	6.4 years
Interest Rate Re-fixing	30 to 40%	27.5%

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

As regards **international funding**, on April 29th the Czech Republic has issued the fourth public benchmark Eurobond in the amount of **EUR 1.5 bn.**, i.e. **CZK 39.5 billion**, which is approximately half of maximal international issuance activity according to initially declared financial programme for year 2009. Further, the Czech Republic has drawn two tranches of loans from the European Investment Bank in the amount of **CZK 2.2 billion** during the third quarter. During the first three quarters of 2009, loans were drawn in total amount of CZK 6.9 billion, which represents 43.9% of the limit in the State Budget Act for 2009

Regarding **domestic issuance activity**, the net issue of government bonds was **CZK 31.5 billion** during third quarter (CZK 125.9 bn. during first three quarters) and buy-backs of government bonds were executed in the total amount of CZK 0.9 billion. The total gross issuance of government bonds reached **CZK 32.4 billion**, including tap sales in the amount of CZK 4.6 billion via Reuters Dealing system used by the Debt and Financial Assets Management Department in the third quarter. The total annual gross issuance reached CZK 177.3 billion, which is about 141.8 % of the maximal supply initially announced on 3 December 2009.

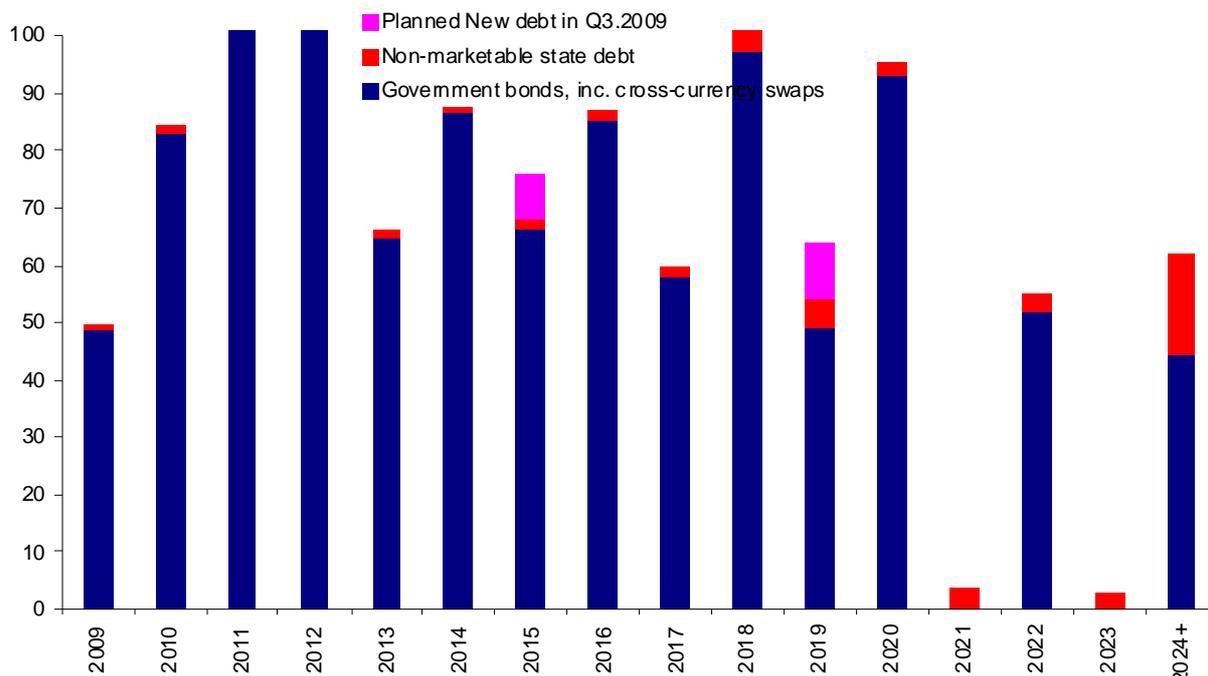
The volume in issue of money market instruments decreased by **CZK 0.9 billion** during third quarter (increase of CZK 0.7 bn. during first three quarters).

The short-term state debt decreased by 0.5 percentage point and reached the share of **12.9%** at the end of the third quarter 2009. It means that the Ministry of Finance maintains the planned long-term target.

Average time to maturity reached the level of **6.4 years**, i.e. remains within the announced target band 5.5–7.0 years for 2009.

Redemption profile of state debt (CZK billion)

(end of Q3. 2009; updated on 30 September 2009)

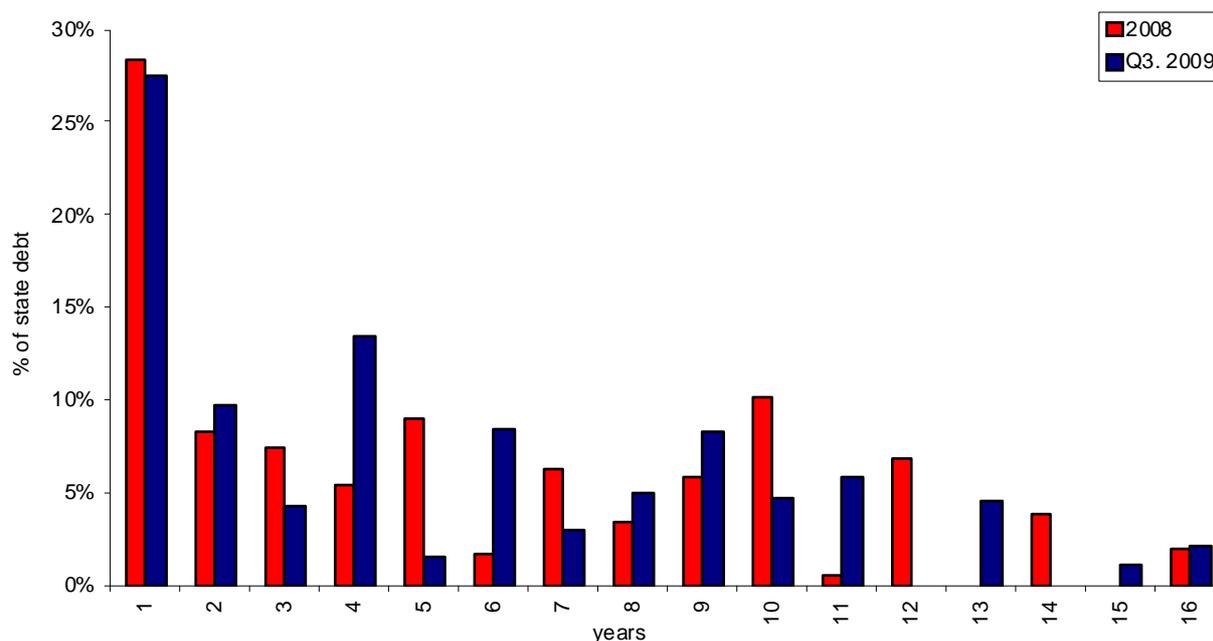


Note: Excluding money market instruments
Source: MF CR.

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 increased to 27.5% at the end of the third quarter 2009 and stays below the lower limit.

Re-fixing profil of state debt

(end of Q3. 2009 compared with end of 2008; updated on 30 September 2009)



Note: Including derivatives
Source: MF CR.

II. State debt costs and Cost-at-Risk in the first three quarters of 2009

Planned and actual budgetary expenditures and revenues in the first three quarters of 2009 are captured in following table:

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

Measure (CZK mil)	Actual Q1-Q3. 2008	Budget 2009		Actual Q1-Q3. 2009	% Execution	Index 2009/2008 (%)
		Approved	After changes			
1	2	3	4	5	5:4	5:2
Total balance	29 961 (-) 5 494	64 070 (-) 6 676	55 291 (-) 6 676	38 558 (-) 5 223	69,7 78,2	128,7 95,1
1. Total interest costs	29 837 (-) 5 441	47 937 (-) 6 666	47 937 (-) 6 666	38 319 (-) 5 111	79,9 76,7	128,4 93,9
Domestic debt	25 061 (-) 4 807	37 274 (-) 5 916	37 274 (-) 5 916	30 461 (-) 4 295	81,7 72,6	121,5 89,3
<i>Of which:</i>						
Money market instruments	1 605 (-)2 635	2 262 (-)3 000	2 262 (-)3 000	1 532 (-) 1 388	67,7 46,3	95,5 52,7
Government bonds	23 456 (-)2 171	35 013 (-)2 916	35 013 (-)2 916	28 929 (-) 2 907	82,6 99,7	123,3 133,9
Foreign debt	4 776 (-) 635	10 662 (-)750	10 662 (-)750	7 858 (-) 816	73,7 108,6	164,5 128,6
<i>Of which:</i>						
International issues	3 613 (-) 635	8 173 (-)750	8 173 (-)750	6 747 (-) 814	82,5 108,6	186,7 128,3
EIB loans	1 163	2 489	2 489	1 112	44,7	95,6
Short-term loans	-	-	-	(-) 2	-	-
2. Total fees	113	300	293	231	78,6	204,3
3. Redemption	12	10	10	9	85,5	74,0
4. Transfers for project	-	15 823	7 051	-	-	-
5. FX gain (-)/loss (+)	(-)53	(-)10	(-)10	(-)113	1 125,3	212,9

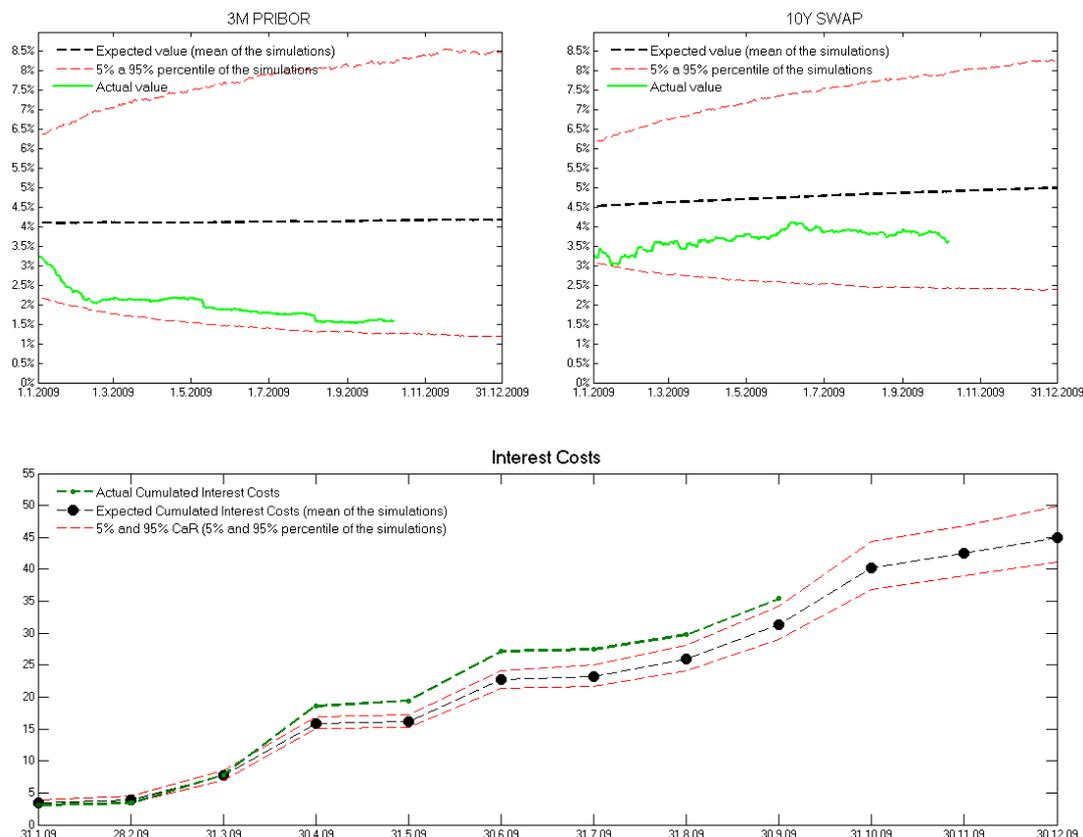
Note: (-) means revenues (gains).
Source: MF CR.

The **net interest costs** on the state debt in the first three quarters of 2009 amounts **CZK 33.3 billion**. Accrued interest income and government bonds premiums achieve CZK 2.9 billion and financial investments on the money market gain CZK 1.4 billion. The gross interest costs reached CZK 38.6 billion.

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 September 2009 are in the upper part of the figure. The actual versus simulated interest costs for the third 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 third 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 half of 2008 and 2009

	2008	2009
Actual interest costs (CZK billion)	25,0	35,4
Expected (simulated) costs (CZK billion)	26,7	31,4
Cost-at-Risk 95% (CZK billion)	28,8	34,3
Expectation bias (%)	6,8	-11,3

Source: MF CR.

III. State Debt Parameters (end of quarter)

Debt Parameter	Sep 2008	Dec 2008	Mar 2009	Jun 2009	Sep 2009
Total state debt (CZK billion)	925,5	999,5	1 000,5	1 137,3	1 167,7
Market value, inc. derivatives (CZK billion)	952,4	1000,3	994,4	1 139,0	1 191,8
Short-term state debt (%)	10,3	17,7	11,2	13,4	12,9
Share of money market instruments (%)	4,9	7,9	6,1	7,0	6,8
Average time to maturity (years)	7,0	6,6	6,8	6,6	6,4
Interest rate refixing up to one year, inc. derivatives (%)	21,3	28,4	23,8	26,8	27,5
Variable-rate state debt (%)	4,7	7,3	9,3	10,5	11,7
Modified duration (years)	4,5	4,3	4,3	4,3	4,2
Modified duration, exc. CZK IRS (years)	4,8	4,2	4,1	4,1	4,1
Foreign currency state debt (%)	4,4	4,6	4,7	6,2	7,0
Foreign currency debt, exc. cross-currency swaps (%)	12,5	12,8	13,0	14,2	13,4
Nonmarketable state debt (%)	5,0	4,7	4,8	4,6	4,6
Marketable state debt (CZK billion)	879,1	952,2	952,2	1 085,5	1 114,0
Market value (CZK billion)	906,1	952,5	945,9	1 087,0	1 137,6
Short-term marketable debt (%)	10,7	18,5	11,5	13,9	13,4
Share of money market instruments (%)	5,2	8,3	6,4	7,4	7,1
Average time to maturity (years)	6,7	6,4	6,6	6,3	6,1
Interest rate refixing up to one year, inc. derivatives (%)	17,4	25,0	20,1	23,6	24,3
Variable-rate marketable debt (%)	0,0	2,9	5,1	6,6	7,8
Modified duration (years)	4,7	4,5	4,5	4,4	4,4
Modified duration, exc. CZK IRS (years)	5,0	4,4	4,3	4,2	4,2
Foreign currency marketable debt (%)	4,7	4,8	4,9	6,5	7,3
Foreign currency debt, exc. cross-currency swaps (%)	13,2	13,4	13,6	14,8	14,1

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.

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

The next issue of Quarterly Review will be published on January 8, 2010, at 2.00 p.m.

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