



**Ministry of Finance**

**Debt and Financial Assets  
Management Department**

# **The Czech Republic Funding and Debt Management Strategy**

# **2019**



**20 December 2018**



# **Ministry of Finance**

## **The Czech Republic Funding and Debt Management Strategy for 2019**

**The Czech Republic Funding and Debt  
Management Strategy for 2019**

20 December 2018

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On 17 December 2018 the structure and method of covering the financing needs in the budget year 2019 were decided and the basic absolute and relative limits for issuance activity on the domestic and foreign markets and for active management of the state debt portfolio, financial assets and liquidity of the treasury single account in the individual currencies were approved (Ref. No. MF- 30170/2018/2002-1).

This defined operational framework in the form of the submitted The Czech Republic Funding and Debt Management Strategy for 2019 enables the Ministry of Finance to act flexibly on the domestic and foreign financial markets while actively securing cash resources for covering the financing needs and ensuring the daily solvent position of the state, meaning the creation of initial conditions for smooth implementation of budget and fiscal policy of the government.

The Czech Republic Funding and Debt Management Strategy for 2019 is based on and is consistent with the State Budget Act of the Czech Republic for 2019, including the medium-term outlook to 2021, the Fiscal Outlook of the Czech Republic from November 2018 and the Macroeconomic Forecast of the Czech Republic from November 2018.

The Czech Republic Funding and Debt Management Strategy for 2019 is submitted via Debt and Financial Assets Management Department, which is responsible for operations related to the funding of the state, active management of the state debt portfolio and financial assets, management of the liquidity of the treasury single accounts, and short-term and long-term investment of available cash resources of state financial assets and the treasury single accounts on financial markets.

# Table of Contents

<b>Introduction .....</b>	<b>9</b>
<b>Key Events in 2019 .....</b>	<b>9</b>
<b>Rating of the Czech Republic .....</b>	<b>10</b>
<b>Financing Needs and State Debt Development .....</b>	<b>10</b>
<b>Funding Programme and Issuance Activity .....</b>	<b>12</b>
<b>Direct Sale of Government Bonds to Citizens.....</b>	<b>14</b>
<b>Strategic Targets, Limits and Risk Parameters of the Debt Portfolio .....</b>	<b>16</b>
<b>State Debt Service Expenditure and Cost-at-Risk .....</b>	<b>17</b>
<b>Primary Dealers in Czech Republic Government Bonds.....</b>	<b>18</b>
<b>Calendar of Information Published in the First Half of 2019 .....</b>	<b>19</b>

## List of Tables

Table 1: The Czech Republic's Credit Rating in 2018. ....	10
Table 2: Financing Needs. ....	10
Table 3: Framework Issuance Plan of T-Bonds on the Domestic Primary Market in 2019. ....	12
Table 4: Net Interest Expenditure and Cost-at-Risk. ....	17
Table 5: List of Primary Dealers in Czech Republic Government Bonds for 2019. ....	18

## List of Figures

Figure 1: Czech Republic's State Debt Development .....	11
Figure 2: Development of Savings Government Bonds Nominal Value Subscribed .....	14
Figure 3: Development of Savings Government Bonds Nominal Value Outstanding .....	15
Figure 4: Net Interest Expenditure and Cost-at-Risk.....	17

## List of Abbreviations

bn	billion
CaR	Cost-at-Risk
CNB	Czech National Bank
CZK	currency code of Czech Koruna
CZSO	Czech Statistical Office
EIB	European Investment Bank
ESA 2010	European System of Account 2010
GDP	gross domestic product
JCR	Japan Credit Rating Agency
MoF	Ministry of Finance
MTS	Mercato Telematico Secondario
p.p.	percentage point
R&I	Rating and Investment Information, Inc.
T-Bills	state treasury bills
T-Bonds	medium-term and long-term government bonds

Published aggregate data in the tables and in the text may not correspond in the last decimal place to the sum of respective indicators due to rounding in some cases.



## Introduction

The Ministry of Finance (hereinafter the Ministry or MoF) presents to the public The Czech Republic Funding and Debt Management Strategy for 2019 (hereinafter the Strategy) in accordance with the calendar of published information, which contains a basic framework for the state funding for 2019 and sets limits and targets for each monitored state debt portfolio risk indicators in medium-term outlook.

Based on actual development of financing needs, state treasury liquidity management, and development of situation on financial markets in the first half of next year, the update of this Strategy will be published in June 2019. Ministry keeps the option to introduce quarterly updates of the Strategy within The Czech Republic Debt Management Quarterly Report - 1<sup>st</sup> Quarter of 2019 and The Czech Republic Debt Management Quarterly Report - 1<sup>st</sup> - 3<sup>rd</sup> Quarter of 2019 for the purpose of most effective use of market conditions with a positive impacts on state budget.

## Key Events in 2019

### Financing Needs of CZK 331.2 Billion

- budgeted state deficit of CZK 40.0 billion
- redemptions of three CZK-denominated issues of medium-term and long-term government bonds in total nominal value of CZK 238.1 billion
- redemptions of two issues of savings government bonds in total nominal value of CZK 2.7 billion
- involvement of available cash resources of state treasury into covering of the part of financing needs during the year and development of treasury single accounts administration system and liquidity management

### Primary Market of Government Bonds

- gross issue of medium-term and long-term government bonds on domestic market in total nominal value of CZK 150.0 billion minimum
- possibility of issuance of new benchmark issues of CZK-denominated fixed-rate government bonds with maturity along the whole yield curve
- re-opening of already issued fixed-rate and variable-rate CZK-denominated government bonds with maturity from 2021
- possibility of issuance of state treasury bills in all available maturities up to 1 year

The detailed description of events in the area of state debt, the evaluation of issuance, the analysis of secondary market of government bonds, the development of interest expenditure of the state budget, Cost-at-Risk model framework, the risk management of debt portfolio, and annual performance evaluation of primary dealers will be contained in The Czech Republic Debt Management Annual Report for 2018, which will be published on 15 February 2019.

Since 2019, the Ministry has introduced a new statute of Recognized Dealer of Czech Government Securities (hereinafter the Recognized Dealer), which has signed a valid Recognized Dealer Agreement for Czech Government Securities with the Ministry. As an addition to a primary dealer group the recognized dealer is an active participant in the Czech government bond market with limited access to primary auctions organized by the Czech National Bank, but does not have the same rights and obligations as the primary dealer.

- possibility of issuance of government bonds denominated in foreign currencies in case of cost-favourable conditions and natural financing needs in those currencies

### Secondary Market of Government Bonds

- update of the structure of medium-term and long-term government bonds subjected to quoting obligations on the MTS Czech Republic platform effective as from 1 January 2019
- continued tap sales and exchange operations of government bonds carried out on the domestic secondary market
- realization of government bonds buy-backs programme in dependence on the interest of primary dealers and recognized dealers
- active support of the secondary market through medium-term and long-term government bonds lending facilities

### Direct Sale of Government Bonds to Citizens

- increase in the share of citizens holding state debt of the Czech Republic
- everyday subscription possibility and adjusting of Ministry's issuance activity to citizens' demand
- gradual electronization of the system of the sale of government bonds to reduce distribution costs

## Rating of the Czech Republic

The Czech Republic belongs among the exceptionally reliable issuers and enjoys considerable interest from domestic and foreign investors, as confirmed by its high credit rating with a stable or positive outlook from all the major credit rating agencies with international scope of activity. The Czech Republic has the highest total rating of all the countries in Central and Eastern Europe and has had a higher

rating than the Euro Area member countries average for several years.

In 2018, Fitch Ratings, JCR, and R&I improved the ratings of long-term foreign currency liabilities from A+ to AA- with a stable outlook. Moody's rating agency has improved the outlook from stable to positive in the A1 rating.

**Table 1: The Czech Republic's Credit Rating in 2018**

Rating agency	Local currency liabilities	Outlook	Foreign currency liabilities	Outlook	Affirmed
Moody's	A1	Positive	A1	Positive	20/4/2018
Standard & Poor's	AA	Stable	AA-	Stable	20/7/2018
Fitch Ratings	AA-	Stable	AA-	Stable	3/8/2018
JCR	AA	Stable	AA-	Stable	25/7/2018
R&I	AA-	Stable	AA-	Stable	5/11/2018
Scope Ratings	AA	Stable	AA	Stable	26/1/2018
Dagong Global Credit Rating	A+	Stable	A+	Stable	16/10/2018

Source: Moody's, Standard & Poor's, Fitch Ratings, JCR, R&I, Scope Ratings, Dagong Global Credit Rating

## Financing Needs and State Debt Development

The financing needs are determined by the standard components that must be covered by cash resources in a given year, i.e. the state budget cash deficit, and regular redemptions, early redemptions, and buy-backs and exchanges of nominal values (principals) of state debt, including the related derivatives.

Financing operations on the side of state financial assets and within the treasury single accounts then take place on the side of cash resources that can be involved into the covering of the financing needs simultaneously with the state's realized borrowing operations on financial markets.

**Table 2: Financing Needs**

CZK bn	2019F	2020F	2021F
State budget deficit <sup>1</sup>	40.0	40.0	40.0
T-Bonds redemptions <sup>2</sup>	238.1	185.0	157.1
Redemptions and early redemptions on savings government bonds	2.7	2.6	0.0
T-Bills and other money market instruments redemptions <sup>3</sup>	45.7	40.0	40.0
Repayments on credits and loans <sup>4</sup>	4.7	3.8	3.5
<b>Total financing needs</b>	<b>331.2</b>	<b>271.4</b>	<b>240.6</b>
<b>Total financing needs (% of GDP)<sup>5</sup></b>	<b>5.9%</b>	<b>4.7%</b>	<b>4.0%</b>

<sup>1</sup> For 2019 budgeted state budget deficit, for 2020 and 2021 medium-term outlook.

<sup>2</sup> Incl. the effect of already executed buy-backs and exchanges in previous years. Excl. future buy-backs and exchanges of T-Bonds.

<sup>3</sup> Excl. T-Bills issued and redeemed within respective year and roll-over of other money market instruments.

<sup>4</sup> Credits and loans received from international financial institutions.

<sup>5</sup> Source for GDP in ESA 2010 methodology for 2019 to 2021 Macroeconomic Forecast of the Czech Republic – November 2018.

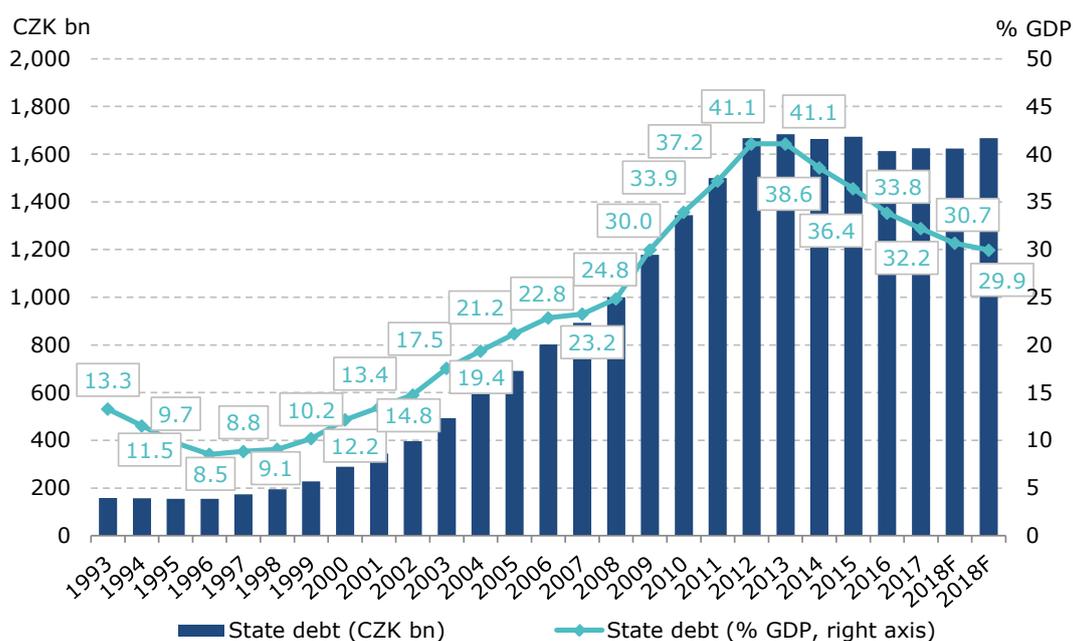
Source: MoF

For 2019, the planned financing needs amount to CZK 331.2 billion, i.e. about 5.9% of GDP, but its actual value will primarily depend on the actual state budget performance and on the actual amount of carried out exchange operations of government bonds in this year. Compared to the Czech Republic Funding and Debt Management Strategy for 2018 the financing needs decreased by CZK 17.4 billion in 2019 and by CZK 12.4 billion in 2020.

The resulting gross borrowing requirement, which is derived from the financing needs and represents

the part of financing needs, which must be covered through borrowing operations on financial markets, especially government bond markets, is dependent on the involvement of financial assets into covering the financial needs, i.e. in particular the available state treasury resources. In case of involvement of these liquid assets into covering the financing needs, the resulting gross borrowing requirement is lower than total financing needs in respective period. In the opposite case, when there is an accumulation of financial assets, the gross borrowing requirement is higher than the financing needs.

**Figure 1: Czech Republic's State Debt Development**



Source: MoF, CZSO

The Ministry continues in stabilization of the absolute value of the state debt as well as reducing its share to GDP, when decrease by 10.4 p.p. compared to the end of 2013 is estimated at the end of 2018, depending on the actual state budget performance and realized sales of government bonds at the end of this year.

Although the increase in absolute value of the state debt for approximately budgeted state deficit was declared in the State Budget Act for 2019, trend of decrease in government debt to GDP ratio remains. However, this is not the target value of the state debt, the final change will depend entirely on the issuance activity that the Ministry will flexibly adapt to the state budget performance, to the situation on domestic and foreign financial markets and to the effective involvement of the cash resources of public sector organizations' payment accounts included in the treasury single accounts in order

to smoothly cover the financing needs while maintaining a prudent approach to managing financial and credit risks and minimizing costs in the long-term horizon. However, these operative decisions will be transparently communicated with the public, particularly with the primary dealers and recognized dealers in government bonds, through regular updates of issuance calendars or alternatively through updates of issuance strategy for 2019.

Following the amendment to the Act No. 218/2000 Coll. on budgetary rules and on amendment to some related laws (budgetary rules), as amended from previous years, the Ministry will strive for continued centralization of the state liquidity management by extending numbers of clients included in the treasury single accounts and the related strengthening of liquid reserves of state debt financing.

# Funding Programme and Issuance Activity

## Medium-Term and Long-Term Government Bonds

The Ministry plans to carry out gross issue of medium-term and long-term government bonds on domestic market in total minimum nominal value of CZK 150.0 billion in 2019.

The Ministry will issue medium-term and long-term government bonds on the domestic market maturing along the whole yield curve in order to progressively approach the objectives and limits set in the Strategy for the medium-term horizon. In dependence on the development on financial markets, the Ministry plans to issue new issues of

medium-term and long-term government bonds with maturity from 2024. When choosing particular maturities and type of instrument, the Ministry will flexibly react on development of market conditions and the demand from the primary dealers and recognized dealers. The issuance including the inclusion of variable-rate medium-term and long-term government bonds will be carried out with the respect to the riskiness of the debt portfolio and maintaining strategic targets and limits for risk parameters.

**Table 3: Framework Issuance Plan of T-Bonds on the Domestic Primary Market in 2019**

CZK bn	Framework scope of sale
<b>Fixed-rate T-Bonds</b>	
Maturity segment of up to 5 years	Max. 100
Maturity segment of 5 to 10 years	Max. 130
Maturity segment of over 10 years	Max. 180
<b>Variable-rate T-Bonds</b>	
	Max. 50

Source: MoF

If there is an unexpected change of the Czech Republic's government bond market conditions during 2019, the Ministry reserves the option of not issuing new bonds. The Ministry also supplements the issuance of CZK-denominated medium-term and long-term government bonds on the primary market in the course of 2019 with tap sales of medium-term and long-term government bonds from its own asset account on the secondary market, if the primary dealers and recognized dealers interest in using these government bonds within medium-term and long-term government bonds lending facilities drops. Furthermore, tap sales of medium-term and long-term government bonds with a long time to maturity may be used to manage the average time to maturity of the debt portfolio.

The execution of the issue of medium-term and long-term government bonds on foreign markets in 2019 will depend mainly on current market conditions on the domestic and foreign markets, which the Ministry will monitor and evaluate intensively throughout the year in the cooperation with the contractual primary dealers. The condition for executing foreign issues is lower costs related to the issue on foreign markets compared to the comparable issue on the domestic market after taking into account the costs of hedging of the currency risk. The ministry will further consider

the investment opportunity for primary dealers and recognized dealers in the form of euro operations on the domestic market.

The competitive part of the primary auction of CZK-denominated medium-term and long-term government bonds on domestic market will be held on the traditional auction day of Wednesday while the non-competitive part of primary auctions will be held on Thursday. The settlement will take place according to the T+2 standards for settling operations on the primary market, usually on Friday. The possibility to bid within the competitive part of the auction is made possible for both primary dealers and recognized dealers, but access to the non-competitive part of the auction remains exclusively to a group of primary dealers.

The issuance calendars of medium-term and long-term government bonds together with indicative maximum total nominal value of medium-term and long-term government bonds sold in auctions for respective quarter of the year will be published monthly usually the third working Monday of the month preceding the respective month unless announced otherwise by the Ministry. The Ministry reserves the option of update according to the actual development of market conditions and the demand from the primary dealers and recognized dealers.

The Ministry also reserves the right to specify one or more alternative medium-term and long-term government bonds to be included in the relevant medium-term and long-term government bonds auction, or change the offered government bond for another government bond with a similar time to maturity, thus keeping more room for flexible reaction on actual development of market conditions and demand from primary dealers and recognized dealers. The selection of particular medium-term and long-term government bonds for the relevant

auction will be announced at least one working day before the date of the competitive part of the auction. The nominal value of medium-term and long-term government bonds offered in the competitive part of the auction will be published in indicative maximum amount or in indicative range within the issuance calendars. When choosing particular maturities and instrument type, the Ministry will flexibly react on the development of market conditions and demand from primary dealers and recognized dealers.

## **Money Market Instruments and Other Debt Instruments**

In case of persisting interest rate differential, which now forms the difference between the auction yield of state treasury bills and the returns from investing liquidity of treasury single accounts, the Ministry is prepared to issue state treasury bills at all available maturities within one year during the year, in order to maximize the current situation in the market with regard to effective liquidity management of the treasury single accounts, and the funds thus obtained will not primarily be used to cover the financing needs, but will be further invested in the money market with a positive impact on the state budget.

State treasury bills will be issued on traditional auction day of Thursday with a T+1 settlement, usually on Friday.

The issuance calendars of state treasury bills with particular maturities offered in individual auctions will be published monthly usually on third working Monday of the month preceding the respective month unless announced otherwise by the Ministry. The nominal value of state treasury bills offered in auction will be published in predetermined indicative range or an indicative maximum value will be announced. However, the Ministry reserves the right to change the range or maximum value according to the actual development of market conditions or the demand from primary dealers and recognized dealers. Together with the issuance calendars, the Ministry will publish also the indicative maximum total nominal value of state treasury bills issues for respective quarter.

During 2019, the Ministry will also use the medium-term and long-term government bonds lending facilities intensively in the form of repo operations and also in the form of collateralized loans of medium-term and long-term government bonds, under which the Ministry provides government bonds of Czech Republic from own asset account against another government bond or CNB bill for a short period of time. These facilities may be used for the period up to 90 days. The aim of these operations is to increase the liquidity of government bonds on secondary market particularly in case of short-term excess of demand over supply regarding the particular government bond. The scope of realized medium-term and long-term government bonds lending facilities in 2019 will primarily depend of the demand for particular government bonds from the investors with the fact, that the Ministry will be ready to flexibly satisfy this demand accordingly to the availability of government bonds on its asset account.

If necessary, the Ministry plans to continue to benefit from favourable conditions on the money market for short-term refinancing of foreign currency liabilities of central government.

The Ministry will consider obtaining cash resources through loan tranches from the EIB or other international financial institutions to finance mainly transport infrastructure, provided it achieves better cost conditions than the issue of government bonds on the domestic market with a similar time to maturity.

## **Programme for Buy-Backs and Exchanges Operations on Secondary Market**

The Ministry plans the inclusion of government bonds into buy-backs and exchanges operations in dependence on market condition in particular segment of the yield curve and their execution will primarily depend on the demand from primary dealers. The exchange operations and buy-backs

will be technically available to primary dealers through the MTS Czech Republic. The impacts of these operations will affect the financing needs and borrowing requirement accordingly and will have positive impact on refinancing risk of state debt management.

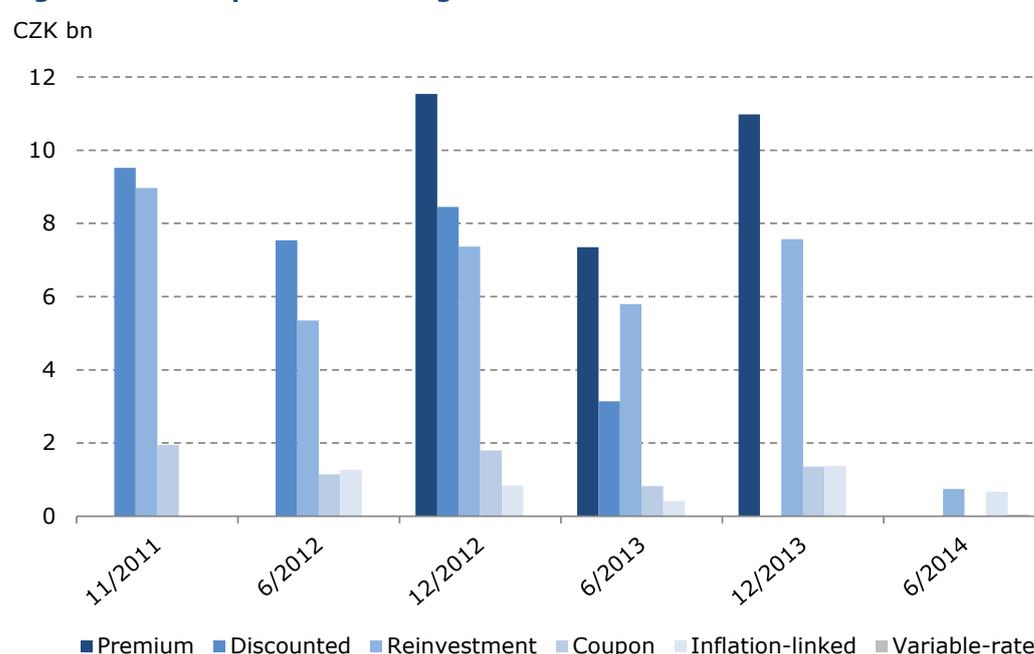
## Direct Sale of Government Bonds to Citizens

For 2019, the Ministry opened a direct distribution channel for government bonds for citizens offering a conservative and stable form of savings assessment, thus re-establishing the successful project of sale of savings government bonds intended for citizens and selected legal entities which was suspended in 2014 due to the fall in government bond yields to historical minimum. In this context, the Ministry focused on the issuance of medium-term and long-term government bonds on the domestic market, where it recorded unprecedented demand for government bonds with a maturity of up to

5 years, with the aim of maximizing the use of these exceptionally favourable conditions with a positive impact on the state budget.

Since the pilot series, which took place on 11 November 2011, until the spring issue series in 2014, saving government bonds in a total nominal value of CZK 106.0 billion were subscribed. The Ministry offered several types of saving government bonds with different interest rates in maturities from 1 year to 7 years.

**Figure 2: Development of Savings Government Bonds Nominal Value Subscribed**



Source: MoF

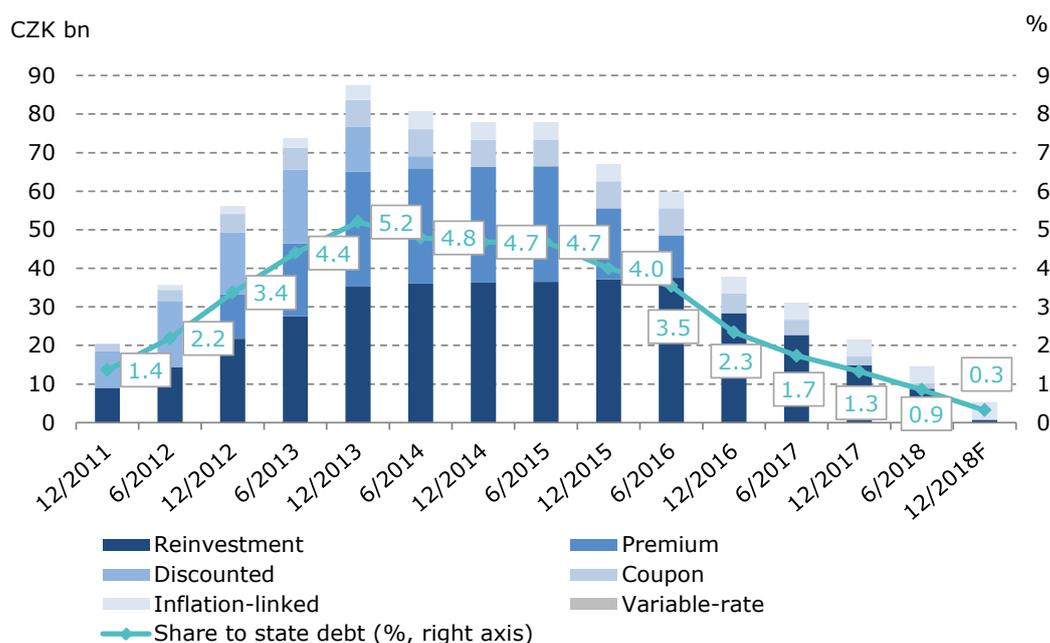
The Ministry has not set any maximum limit for sold bonds, and, in general, it considers the increase in the share of households in the state debt to be positive. Retail investors are usually conservative and not subject to short-term fluctuations in international bond markets, which contributes to greater stability and diversification of the investor base with a positive impact on the refinancing and interest rate risk of the debt portfolio.

Holding government bonds for natural persons is advantageous even though they are mostly domestic entities and part of the interest expenditure of the state debt service will generate additional income of domestic households. Based on the results of the pilot phase and public interest,

the Ministry will further consider the possible adjustment of its issuance activity in the primary and secondary markets for medium-term and long-term government bonds in the course of 2019.

The highest nominal value of savings government bonds outstanding was reached in December 2013, amounting to almost CZK 88 billion. Natural persons held more than 90% of the total nominal value and the share of households in state debt holdings reached 5.2%. As a result of the suspension of the project, the total nominal value of savings government bonds outstanding at the end of 2018 will decrease to CZK 5.2 billion, equivalent to approximately 0.3% of the state debt.

**Figure 3: Development of Savings Government Bonds Nominal Value Outstanding**



Source: MoF

During the pilot phase in the first half of 2019, it will be possible to subscribe these bonds on a daily basis in successive subscription periods, with issues being issued quarterly at specified intervals. The Ministry emphasizes the gradual electronization of the system of government bonds sale to citizens in order to achieve savings in distribution costs. After the pilot phase, the project as well as the public's interest will be evaluated and a decision on its possible continuation will be made.

Starting on 3 December 2018, citizens have the opportunity to subscribe to a new issue called "Dluhopis Republiky" issued symbolically on the 100<sup>th</sup> anniversary of the founding of the Czechoslovak Republic. "Dluhopis Republiky" will be first issued on 1 February 2019 with a maturity of six years and its yield will be reinvested after each interest period by subscribing additional government bonds in the amount of the bond yield after withholding

tax on the relevant asset account in the Ministry's register.

One subscriber can subscribe bonds at a minimum of 1,000 pieces, i.e. CZK 1,000, up to 1,000,000 pieces, i.e. CZK 1 million. The subscriber may be only a natural person and in accordance with the terms and conditions the bonds are not freely marketable on regulated markets.

The decision of the Ministry was also endorsed by the Czech Fiscal Council on 5 December 2018 with its view that, in terms of the long-term sustainability of public finances and overall financial stability, the issuance of government bonds for citizens is considered as positive as this is not only an appropriate tool to mitigate risks from the point of view of the structure of the holders of state debt, but it also increases public awareness and public interest in the public sector economy.

## Strategic Targets, Limits and Risk Parameters of the Debt Portfolio

In connection with the sufficient liquidity of treasury single accounts and relatively stable balances of the accounts owners mandatorily included into treasury single accounts, improvement of the efficiency and modernization of state treasury liquidity management, the Ministry announces strategic targets and limits of refinancing and interest risk in medium-term horizon. This concept allows the Ministry to flexibly react on short-term market conditions and interest of investors for instruments in particular segment of time to maturity or re-fixing.

Short-term deviation from established strategic medium-term limits and targets for risk parameters of debt portfolio for refinancing and interest risk is possible. However, the issuance in medium-term horizon will be planned so that the targets and limits defined in this Strategy will be fulfilled in medium-term horizon.

For 2019, the Ministry maintains the concept of refinancing risk management through the average

time to maturity of state debt indicator and interest risk management through the average time to re-fixing of the state debt indicator using a medium-term target value of this indicator. This leaves the Ministry space for a possible flexible response to sudden developments on the financial markets.

The currency risk is specified by the net foreign-currency exposure of state debt indicator taking into account also the foreign-currency exposure of state financial assets. In this context, net foreign-currency exposure of state debt with the impact on state debt level and net foreign-currency exposure with the impact of the level of interest expenditure on state debt service are distinguished. The limit is stipulated for both indicators and is valid for each year of medium-term horizon without the possibility to exceed it. However, its value is subjected to the condition that there will be no sharp depreciation of Czech Koruna exchange rate. Compared to the refinancing and interest risk, the currency risk is relatively small.

### Refinancing Risk

The limit for the share of the short-term debt (debt due within 1 year) is stipulated at 20.0% of the total state debt for the medium-term horizon. The limit for the share of the medium-term debt (debt due within 5 year) is stipulated at 70.0% of the total state debt for the medium-term horizon.

For average time to maturity of the state debt, the target value of 6.0 years is stipulated for the medium-term horizon with the possibility of deviation of 0.25 years.

### Interest Risk

For interest re-fixing of the debt portfolio within 1 year, the target band of 30.0 to 40.0% of total state debt is stipulated for the medium-term horizon. For average time to re-fixing of the state debt,

the target value of 5.0 years with the possibility of deviation of 0.25 years is set for the medium-term horizon.

### Currency Risk

For 2019, the Ministry retains the limit for both net foreign-currency exposure of the state debt indicators, i.e. net foreign-currency exposure of state debt with the impact on state debt level and

net foreign-currency exposure with the impact of the level of interest expenditure on state debt service, at the level of 15.0% (up to 17.0% in the short-term) of total state debt.

## State Debt Service Expenditure and Cost-at-Risk

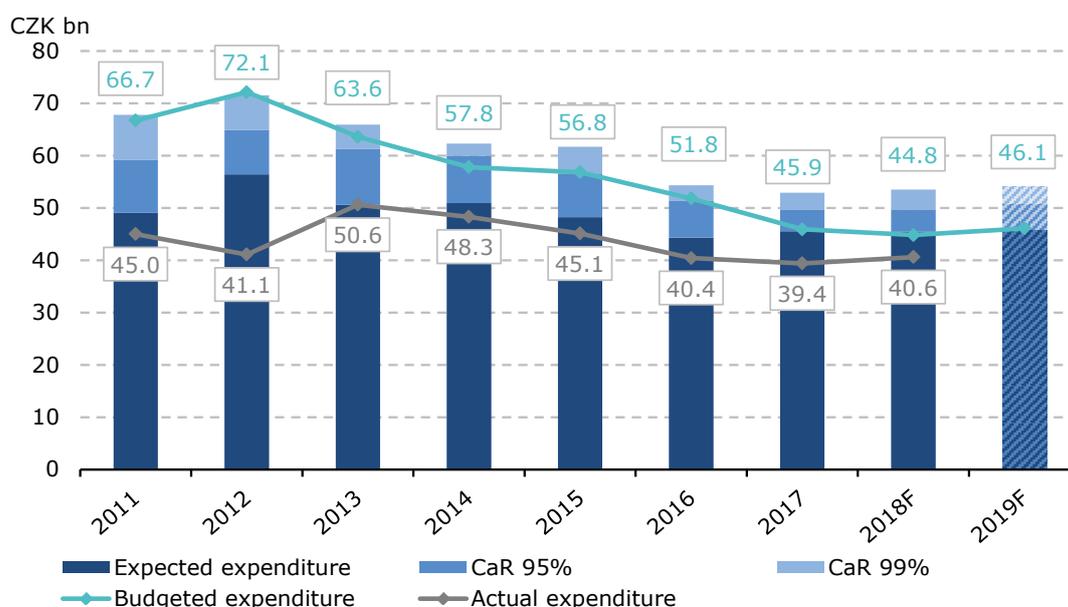
The Ministry applies a model framework known as Cost-at-Risk (furthermore CaR) for measuring and managing interest rate risk since 2005. This framework is based on the Value-at-Risk methodology and simulates future expected and maximum interest expenditure for a particular degree of risk, which is derived from the volatility of the time structure of interest rates. The stochastic element of the CaR model is the yield curve, and the deterministic element is the dynamic structure of the portfolio of state debt, which is based on the base case scenario of the funding programme while respecting the set strategic goals for managing financial risks.

The primary goal of the model is to determine the maximum interest expenditure on state debt,

which with 95% or 99% probability will not be exceeded (furthermore CaR 95% and CaR 99%). The secondary goal of the model is to estimate the actual interest expenditure on state debt. The simulation framework operates separately with the interest expenditure and interest revenue. The outcome of aggregation of interest expenditure and interest revenue is the net interest expenditure on state debt. Interest expenditure on state debt service in the model framework does not include fees related to state debt service, which are of a deterministic nature.

Over all the years the CaR methodology has been applied, the model has fulfilled the primary goal, since the simulated maximum interest expenditures were not exceeded in any of those years.

**Figure 4: Net Interest Expenditure and Cost-at-Risk**



Note: In 2011 to 2019, the figures represent the originally approved budget. Figure in 2018 is expected value.  
Source: MoF

**Table 4: Net Interest Expenditure and Cost-at-Risk**

CZK bn	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Budgeted expenditure<sup>1</sup></b>	66.7	72.1	63.6	57.8	56.8	51.8	45.9	44.8	46.1	48.0	50.7
<b>Actual expenditure<sup>2</sup></b>	45.0	41.1	50.6	48.3	45.1	40.4	39.4	40.6	-	-	-
<b>Expected expenditure</b>	49.1	56.4	50.6	50.9	48.2	44.3	45.6	45.5	45.8	47.8	50.6
<b>CaR 95%</b>	59.2	64.9	61.3	60.0	56.6	51.4	49.6	49.7	50.9	54.0	60.7
<b>CaR 99%</b>	67.8	71.5	65.9	62.3	61.7	54.3	52.9	53.5	54.0	58.3	66.1

<sup>1</sup> For 2011 to 2019 the figures represent the originally approved budget. In 2020 and 2021 medium-term outlook.

<sup>2</sup> Figure in 2018 is expected value.

Source: MoF

The expected value of net interest expenditure in 2019 amounts to CZK 45.8 billion. The expected value of net interest expenditure amounts to CZK 47.8 billion in 2020 and CZK 50.6 billion in 2021, which is given primarily by the use of less conservative model for risk premium on government bonds. In medium-term outlook of state budget for 2020 and 2021, the expenditure frameworks of budget chapter 396 - State Debt are below CaR 95% indicator. For 2020 the expenditure framework amounts to CZK 48.0 billion and is CZK 6.0 billion lower than 95% percentile of interest expenditure. For 2021 the expenditure framework amounts to CZK 50.7 billion and is CZK 10.0 billion lower than 95% percentile of interest expenditure. The increasing trend of budgeted and simulated interest expenditure is

given primarily by the volatility of interest rates, which increases with longer simulation horizon. Due to the fact that the state budget is compiled only for the following year, the simulation horizon of interest expenditure for the budget compilation for following year will be shorter, and given the market conditions remain unchanged, it is expected, that the values of CaR 95% and CaR 99% indicator will decrease due to the lower volatility of the interest rates simulations.

More detailed quantification of interest expenditure on state debt service in 2019 and in medium-term horizon through application of CaR methodology will be a part of The Czech Republic Government Debt Management Annual Report for 2018.

## Primary Dealers in Czech Republic Government Bonds

As of 1 January 2019, HSBC Bank plc and Goldman Sachs International are leaving the group of primary dealers. However, Goldman Sachs International may use the status of the Recognized Dealer of Czech Government Securities as it remains an active market participant for 2019 and will continue to contribute to the liquidity of medium-term and long-term government bonds. In addition to other rights and obligations, it will have access to

the competitive part of government bond auctions, though access to the non-competitive part of auctions is left exclusively to a group of primary dealers.

For the year 2019, the number of primary dealers who signed the Primary Dealer Agreement for Czech Government Securities with the Ministry is 8. Their list is content of the following table.

**Table 5: List of Primary Dealers in Czech Republic Government Bonds for 2019**

Primary Dealers	
Citibank Europe plc	J.P. Morgan Securities plc
Erste Group Bank AG / Česká spořitelna, a.s.	Société Générale / Komerční banka, a.s.
KBC Bank NV / Československá obchodní banka, a. s.	PPF banka a.s.
ING Bank N. V.	UniCredit Bank Czech Republic and Slovakia, a.s.

Source: MoF

# Calendar of Information Published in the First Half of 2019

## January

Mo	Tu	We	Th	Fr	Sa	Su
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

## February

Mo	Tu	We	Th	Fr	Sa	Su
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28			

## March

Mo	Tu	We	Th	Fr	Sa	Su
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

## April

Mo	Tu	We	Th	Fr	Sa	Su
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

## May

Mo	Tu	We	Th	Fr	Sa	Su
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

## June

Mo	Tu	We	Th	Fr	Sa	Su
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

-  Publication of the The Czech Republic Debt Management Annual Report for 2018  
- on the third Friday in February
-  Expected publication of The Czech Republic Funding and Debt Management Strategy for 2019 - Second Half Update  
- on the last Friday of the first half of 2019
-  Publication of The Czech Republic Debt Management Quarterly Report  
- on the third Thursday in April
-  Publication of statistics of the Central Government Debt and Fiscal Data for the Czech Republic (SDDS Plus standards)  
- on the third Friday in February and on the third Thursday in April
-  Publication of the annual statistics on Development and Structure of the State Debt, Financing Needs and Sources of the Central Government and Interest Expenditure on the State Debt  
- on the third Friday in February
-  Publication of the Statistics on Government Bonds by Type of Instrument, Statistics on Government Bonds by Type of Holder and Statistics on Government Bonds by Maturity  
- on the last working day of the month
-  Publication of the issuance calendars of T-Bills and T-Bonds for following month  
- usually the third working Monday in the month prior to the month of the respective auctions

Ministry reserves the right to change the date of publication due to flexible response to financial markets situation. Any change will be communicated to the public in time through Ministry's website.

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The publication was prepared based on the information and data available on 20 December 2018. The Ministry reserves the right to promptly respond to the actual development of financing needs using its tools in the course of 2019. The fulfilment of the funding programme and announced strategic goals will depend of the development of the situation on domestic and foreign financial markets in terms of the minimization of expenditure on state debt service and financial risk management.

This publication is also available on the following website:

[www.mfcr.cz/statedebt](http://www.mfcr.cz/statedebt)

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