



Ministry of Finance

Debt and Financial Assets
Management Department

The Czech Republic Funding and Debt Management Strategy

2022



6 January 2022

Ministry of Finance

The Czech Republic Funding and Debt Management Strategy for 2022

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Management Strategy for 2022**

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On 6 January 2022 the preliminary structure and methods of covering the financing needs in the budget year 2022 were decided and the basic absolute and relative limits were approved, which will be the basis in the term of provisional budget for the 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 accounts in the individual currencies (Ref. No. MF-145/2022/2002).

This defined operational framework in the form of the submitted The Czech Republic Funding and Debt Management Strategy for 2022 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 2022 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.

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List of Abbreviations

bn	billion
Budgetary rules	Act No. 218/2000 Coll. on Budget Rules and Amendments of Some Relating Acts (Budgetary Rules)
CNB	Czech National Bank
CZK	Czech Koruna currency code
CZSO	Czech Statistical Office
ESA 2010	European System of Account 2010
EUR	Euro currency code
GDP	gross domestic product
MoF	Ministry of Finance
MTS	Mercato Telematico Secondario
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 2022 (hereinafter the Strategy), the purpose of which is to present the basic framework for the state funding in 2022, focusing on its first quarter, and set monitored limits and targets of state debt risk indicators valid for medium-term horizon of the outlook.

The Strategy is submitted as a preliminary for the period of the provisional budget and after revision of the draft of the state budget act, an update of the Strategy will be published after its approval, including more detailed quantification of interest expenditure on the state debt service. This update may be extraordinary or within The Czech Republic Debt Management Quarterly Report - 1st Quarter of 2022 in April, depending on the date on which the State Budget Act of the Czech Republic for 2022 will be approved. The update does not assume a change in the framework issuance plan of the CZK-denominated medium-term and long-term government bonds on the domestic market and a refinancing plan for the foreign currency debt, but

a specification of the total financing needs in 2022 and in the medium term and possible parametric adjustments in response to financial markets development during the first quarter of 2022.

The Ministry keeps the option to introduce updates of the Strategy on the basis of current financing needs development, especially with regard to the state budget performance, development of available funds of the state treasury and development on financial markets, at the end of the first half of this year or within The Czech Republic Debt Management Quarterly Report - 1st - 3rd Quarter of 2022 or in other terms.

The detailed description of events in the area of the state debt, the evaluation of issuance activity, the evaluation of secondary market of government bonds, the development of interest expenditure of the state budget, the risk monitoring of debt portfolio, and annual performance evaluation of primary dealers will be contained in The Czech Republic Debt Management Annual Report for 2021, which will be published on 28 February 2022.

Key Events in 2022

Financing Needs in the Form of the State Debt Redemptions Amounting to CZK 273.5 bn

- state organizational units performance in the first weeks of 2022 according to the indicators of the provisional budget in accordance with § 9 of the budgetary rules
- redemptions of three CZK-denominated issues of medium-term and long-term government bonds in total nominal value of **CZK 145.4 bn**, i.e. by 22.4% less than in 2021
- redemptions of CZK-denominated money market instruments in total nominal value of **CZK 33.3 bn**
- redemption of EUR-denominated government bonds issued on foreign market in 2012 in total nominal value of **EUR 2.75 bn** on 24 May 2022

Primary Market of Government Bonds

- issuance of two issues of the "Dluhopis Republiky" bonds in record nominal value of **CZK 41.1 bn** as of 3 January 2022 and decision to suspend the start of the next subscription period until the project evaluation in the context of updating financing needs in 2022

- gross issue of CZK-denominated medium-term and long-term government bonds on domestic market in a minimum total nominal value of **CZK 350.0 bn to CZK 400.0 bn** depending on the amount of updated financing needs in 2022 and the final amount of its coverage through the state treasury bills and other debt instruments
- issuance of at least two new benchmark issues of fixed-rate government bonds on domestic market, or also the new variable-rate government bonds
- possibility of new issue of government EUR-bond in order to cover the EUR-denominated financing needs and further development of the market infrastructure for government bonds denominated in a foreign currency issued under Czech law
- possibility of issuance of government bonds denominated in foreign currencies under foreign law in case of cost-favourable conditions
- re-opening of already issued government bonds and government EUR-bonds with maturity from 2024

- evaluation and preparation of the possibility of issuing state treasury bills also in the form of multiple-price auctions organized by the Czech National Bank and also in the euro currency
- continuation in tap sales, exchange operations and buy-backs of government bonds and active support of the secondary market through medium-term and long-term government bonds lending facilities

Secondary Market of Government Bonds

- fulfilment of quotation obligations through the MTS Czech Republic platform, which was confirmed for this purpose for the years 2022 and 2023 at the 24th meeting of the Primary Dealers Committee held on 28 June 2021
- accession of the Ministry to a regulated multilateral trading platform operated by Bloomberg Trading Facility B. V. in accordance with current standards prevailing among primary dealers and other financial market participants

Rating of the Czech Republic

The Czech Republic is assigned the highest overall rating of all Central and Eastern European countries and has higher rating than the Euro Area member countries average for several years. It belongs among the exceptionally reliable issuers, as confirmed by its high credit rating with a stable outlook from all the major credit rating agencies with international scope of activity.

During 2021, all major international rating agencies confirmed their ratings, including maintaining a stable outlook. The stable outlook reflects the agencies' expectations that the negative effects of the SARS-CoV-2 coronavirus pandemic on the domestic economy and public budgets will be only temporary.

Table 1: The Czech Republic's Credit Rating

Rating agency	Local currency long-term liabilities	Outlook	Foreign currency long-term liabilities	Outlook	Affirmed
Moody's	Aa3	Stable	Aa3	Stable	5/2/2021
S&P Global Ratings	AA	Stable	AA-	Stable	29/10/2021
Fitch Ratings	AA-	Stable	AA-	Stable	10/12/2021
JCR	AA	Stable	AA-	Stable	5/11/2020
R&I	AA-	Stable	AA-	Stable	2/8/2021
Scope Ratings	AA	Stable	AA	Stable	2/10/2020
ACRA	AA	Stable	AA	Stable	20/9/2021

Source: Moody's, S&P Global Rating, Fitch Ratings, JCR, R&I, Scope Ratings, ACRA

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, redemptions before the maturity date, buy-backs and exchanges of nominal values 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 and the Czech Republic's State Debt Redemptions

CZK bn	2020	2021	2022F	2023F	2024F
Primary balance of the state budget	327.3	377.5	<i>It will be added within the update</i>		
Net expenditure on the state debt ¹	40.1	42.2	<i>It will be added within the update</i>		
T-Bonds denominated in local currency redemptions ²	188.6	187.3	145.4	208.3	127.6
T-Bonds denominated in foreign currency redemptions ³	27.2	51.5	74.3	0.0	0.0
Redemptions and early redemptions on savings government bonds	2.8	0.5	0.0	0.0	0.0
Money market instruments redemptions ³	18.4	25.4	50.6	0.0	0.0
Repayments on credits and loans ⁴	5.8	6.0	3.2	2.6	0.6
Total redemptions of the state debt	242.7	270.7	273.5	210.9	128.2
Total redemptions of the state debt (% of GDP)⁵	4.3%	4.5%	4.2%	3.1%	1.8%
Total financing needs	610.2	690.4	<i>It will be added within the update</i>		
Total financing needs (% of GDP)⁵	10.7%	11.4%	<i>It will be added within the update</i>		

¹ Balance of the budgetary chapter 396 – State Debt.

² Including the effect of already executed buy-backs and exchange operations in previous years. Excluding future buy-backs and exchange operations of T-Bonds.

³ T-Bonds redemptions are stated in CZK equivalent.

⁴ Credits and loans received from international financial institutions.

⁵ Source for GDP in ESA 2010 methodology for 2020 is CZSO, for 2021 to 2024 Macroeconomic Forecast of the Czech Republic – November 2021.

Note: Excluding future issuance activity due in 2023 and 2024.

Source: MoF, CZSO

For 2022, state debt redemptions amounted to CZK 273.5 billion, i.e. approximately 4.2% of GDP. The realized amount of financing needs will then depend primarily on the actual state budget performance and on the actual amount of exchange operations and buy-backs of government bonds carried out in this year, in particular for the purpose of refinancing risk management. State debt redemptions in 2022 to 2024 report a significant declining trend in absolute terms and also as a share of GDP and do not include impacts of future issuance activity.

State debt redemptions in 2022 to 2024 are not significantly burdened by the Ministry's crisis issuance activity in the last two years, when it issued CZK-denominated medium-term and long-term government bonds with average maturity of 7.2, resp. 8.8 years. On the contrary, by continuing in exchange operations and buy-backs to an increased extent compared to previous years, it reduced future state debt redemptions in medium-term horizon with a positive impact on refinancing risk. In 2021, it thus exchanged or bought-back medium-term and long-term government bonds due in 2022 and 2023 in a total nominal value of CZK 46.1 billion.

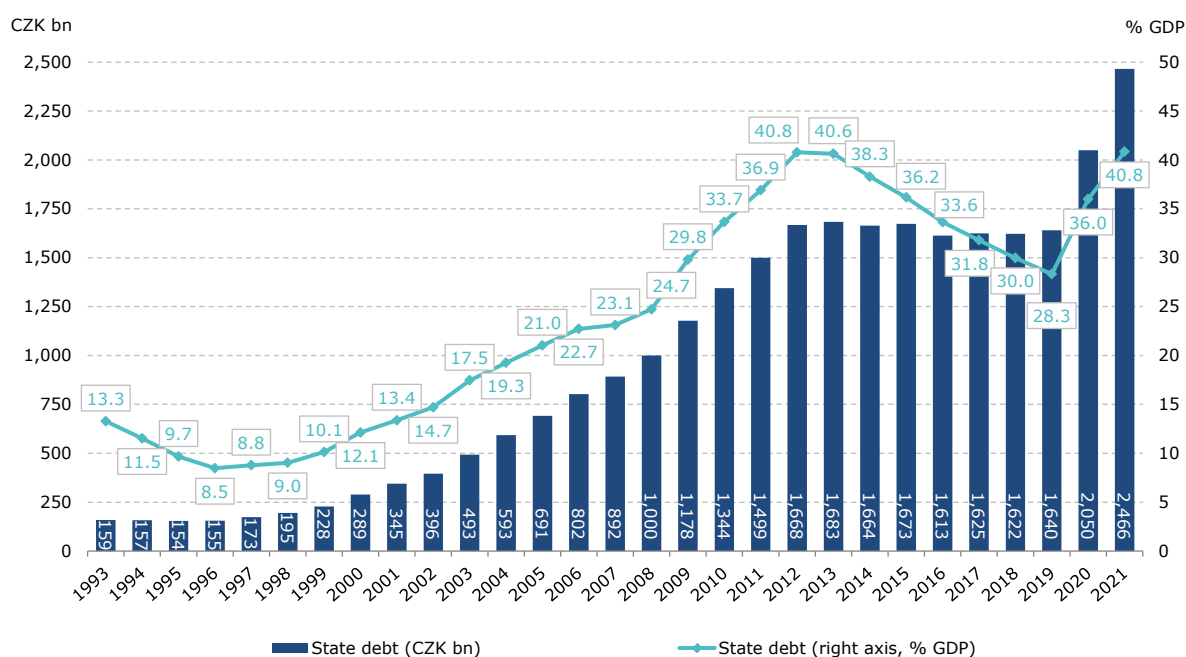
Planning the future level of financing needs, including its coverage, is burdened with significant uncertainty, especially with regard to the risks associated with possible impacts of further measures to mitigate further SARS-CoV-2 coronavirus epidemics in the Czech Republic to public budgets, with global economic developments and expected restrictive policy of monetary authorities. The planned consolidation fiscal effort of the government is a significant positive factor for further development.

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. At the beginning of 2022, this involvement of financial assets did not

occur and, on the contrary, positive reserve coverage was reported, thus creating a condition for smooth and effective coverage of financing needs this year

even in the situation of continuing highly restrictive monetary policy of the Czech National Bank and uncertainty of global economic development.

Figure 1: Czech Republic's State Debt Development



Note: Source for GDP in ESA 2010 methodology for 1993 to 2020 is CZSO, for 2021 Macroeconomic Forecast of the Czech Republic – November 2021. Source: MoF, CZSO

The amount of the state debt depends entirely on issuance activity that will be flexibly adjusted to the state budget performance, the situation on domestic and foreign financial markets and the involvement of the funds on state treasury

single accounts in order to smoothly cover the financing needs while maintaining a prudent approach to financial and credit risk management and minimizing costs in the long term.

Funding Programme and Issuance Activity

Issuance Activity in the 1st Quarter of 2022

In the first quarter, the standard issuance activity of the state will take place regardless the provisional budget performance, primarily for the purpose of pre-financing CZK-denominated state debt redemptions and preparations for the implementation of financing operations will be initiated in cooperation with primary dealers in order to cover EUR-denominated government bonds issued on foreign markets redeemed in May. The number of auctions of the medium-term and long-term government bonds and state treasury bills and their offered total nominal value in the first quarter will depend mainly on the situation on the financial markets, taking into account the result of the 13th subscription period of the "Dluhopis Republiky" bonds with the issue date on 3 January 2022, when citizens bought these government bonds in total nominal value of CZK 41.1 billion, which covers more than 28% of the total CZK-denominated medium-term and long-term government bonds redemptions in 2022. This high

interest of citizens will enable the involvement of these funds into covering financing needs in 2022 to a significantly higher extent than in previous years, which will reduce the need for the Ministry's issuance activities. During the first quarter, the Ministry plans to issue medium-term and long-term government bonds on the primary market in the indicative amount up to CZK 100.0 billion and state treasury bills in the indicative amount up to CZK 50.0 billion.

The issuance activity in the first quarter will continue to be affected by uncertainty on the domestic financial market regarding further monetary policy decisions of the Czech National Bank. The rapid rise in the key interest rates affects the cost of state debt service and contributes to a further decline in government bond prices. The result is the inverse shape of the yield curve of government bonds. Due to the difficult forecast of the future development,

new issues of the fixed-rate government bonds will not be issued until the key interest rates and yield curve will be stabilized, thus making possible to set new fixed coupon rates with greater efficiency

in planning to minimize net effects on state budget expenditures due to cash differences between the nominal value and the market price of sold government bonds.

Medium-Term and Long-Term Government Bonds

In 2022, the Ministry plans to carry out gross issue of CZK-denominated medium-term and long-term government bonds on domestic market in total minimum nominal value of CZK 350.0 billion to CZK 400.0 billion. The Ministry will issue medium-term and long-term government bonds maturing along the whole yield curve in order to achieve targets and limits set in the Strategy for the medium-term horizon. In dependence on the development on financial markets and the monetary policy situation, the Ministry plans to issue new issues of CZK-denominated medium-term and long-term government bonds with maturity from 2026, with

the emphasis on longer-term maturities due to the shape of the government bond yield curve.

When choosing particular maturities and the type of instrument, the Ministry will flexibly react to the development of market conditions and the demand from the primary dealers and recognized dealers. The issuance activity 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 in medium-term horizon.

Table 3: Framework Issuance Plan of CZK-denominated T-Bonds on the Domestic Market in 2022

CZK bn	Framework scope of sale
Fixed-rate and variable-rate T-Bonds	Min. 350 to 400
Maturity segment of up to 10 years	Max. 400
Maturity segment of over to 10 years	Max. 250

Source: MoF

If there is an unexpected change of the government bond market conditions or unplanned economic development, the Ministry reserves the option of not issuing new bonds. The Ministry also supplements the issuance of medium-term and long-term government bonds on the primary market with tap sales of government bonds from its own asset account on the secondary market in case that the primary dealers' and recognized dealers' interest especially when the usage of these government bonds within medium-term and long-term government bonds lending facilities drops or as a more flexible alternative to the sale of government bonds, which are included in primary auctions to a lesser extent. Furthermore, tap sales of government bonds with a long time to maturity may be used to manage the average time to maturity of the debt portfolio. Tap sales will continue to be available through MTS Czech Republic.

for 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 sold in auctions for respective quarter of the year will be published monthly, usually the fourth Monday of the month preceding the respective month, unless otherwise announced. The Ministry reserves the right to specify one or more alternative medium-term and long-term government bonds to be included in the relevant auction or change the offered government bond for another one with the similar time to maturity. When choosing particular maturities and instrument type, the Ministry will flexibly react to the development of market conditions and the demand from primary dealers and recognized dealers.

The competitive part of the primary auction of 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 traditionally on Thursday. The settlement will take place within two business days after the auction date, i.e. according to the international standard on the primary market, usually on Friday. The possibility to bid within the competitive part of the auction is made possible

The choice of particular medium-term and long-term government bonds for the relevant auction will be announced at least one business 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.

Money Market Instruments and Other Debt Instruments

State treasury bills could be issued in all available maturities in order to cover short-term financing needs, to strengthen the state treasury liquidity reserves as well as to utilize the current market situation with regard to the effective liquidity management of the treasury single accounts. State treasury bills will be issued on traditional auction day Thursday with a settlement on the following business day, usually on Friday.

The issuance calendars of state treasury bills with particular maturities offered in individual auctions will be published monthly usually on the fourth Monday of the month preceding the respective month unless announced otherwise by the Ministry. The nominal value of the 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.

If necessary and with regard to the situation on the domestic financial market, the Ministry may carry out so-called **stabilization repo operations**, in which it obtains funds against government bonds provided as a collateral, when the time to maturity of these operations ranging from two weeks up to three months. The Ministry may carry out these operations in order to strengthen the liquidity reserves of the state treasury or for the purpose of short-term financing and stabilization of fluctuations on the domestic bond market caused by unexpected factors, especially of foreign origin.

Programme for Buy-Backs and Exchange Operations on Secondary Market

The Ministry plans the inclusion of government bonds into buy-backs and exchange 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 and recognized dealers. The exchange operations and buy-backs of medium-term and

During 2022, the Ministry will also use the medium-term and long-term government bonds **lending facilities** in the form of repo operations and also in the form of collateralized loans, under which the Ministry provides for fee 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 the 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 will primarily depend on 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 debt in the form of **deposit operations** or **foreign exchange swaps**, provided that a prudent approach is taken to manage financial risks and minimize interest costs.

The Ministry will continue to allow holders of accounts subordinate to the state treasury pursuant to paragraph 3 letter h) points 11 to 13 and 15 to 17 of budgetary rules to use so-called **term deposits**.

Funds may also be obtained from the **international institutions** through the new or already signed loan contracts, if the Ministry achieves cost-favourable conditions than in case of the issuance of government bonds on domestic market with a similar residual time to maturity.

long-term government bonds will be available through the MTS Czech Republic. The impacts of these operations will affect the financing needs and borrowing requirement accordingly and will have positive effect on refinancing risk of the state debt portfolio.

Refinancing of Foreign Currency State Debt in 2022

In 2022, resources will be secured to cover redemptions of foreign currency debt resulting from previous issuance activity on foreign markets and the acceptance of short-term loans in the form of deposit operations in the total nominal value of EUR 3.39 billion. These redemptions consist of medium-term and long-term government bonds issued on foreign markets in 2012 in the total nominal value of EUR 2.75 billion and short-term loans in the form of deposit operations in the total nominal value of EUR 0.64 billion.

Given the developments in the euro bond market and the currently expected monetary policy of the European Central Bank, the Ministry may proceed with long-term refinancing of the foreign currency debt. The specific coverage will be decided to minimize the costs and financial risks associated with borrowing operations on domestic and foreign financial markets in accordance with the set targets, limits and risk parameters of the debt portfolio.

In the case of maintaining favourable conditions in the form of negative or zero yields on the euro bond market and interest from primary dealers and recognized dealers, the Ministry prefers to issue new issues of the government EUR-bond on domestic market under Czech law for full or partial covering of euro financing needs and will continue to

take further steps to develop and make this form of financing more attractive to international investors.

In the case of need arising from actual market conditions, the Ministry keeps an alternative in the form of a syndicated issue of medium-term and long-term government bonds on foreign markets under foreign law. A foreign issue is conditioned by lower interest expenses related to the issuance of government bonds on the foreign market compared to a similar issue of government bonds on the domestic market, after taking into account additional costs in the form of fees for leading managers of the issue, preparation of necessary documentation and other related activities.

Partial coverage of the euro financing needs may also be achieved through drawing loans from international institutions, or by revising previously received tranches of loans from the European Investment Bank and converting them into the euro currency.

If the Ministry finds it appropriate with regard to the prudential approach to financial risk management and the minimization of interest expenditure, foreign currency debt may be covered by euro funds as part of increasing euro liquidity of treasury single accounts or by deposit operations, repo operations and foreign exchange swaps.

Direct Sale of Government Bonds to Citizens

Since October 2011, the Ministry enabled households and selected legal entities to directly participate in the financing of the Government of the Czech Republic and thus evaluate its savings for the first time through the direct holding of savings government bonds. From 2011 to 2014, savings government bonds in the total nominal value of CZK 106.0 billion were sold during six subscription periods, while up to six types of savings government bonds were offered. Due to the fall in government bond yields to historical minimum, this project was suspended in 2014.

On the occasion of celebrating the 100th anniversary of the foundation of Czechoslovak Republic, a direct sale of government bonds intended only for natural persons called "Dluhopis Republiky" bonds was reopened in December 2018, thus continuing the previous project of saving government bonds. Within thirteen consecutive subscription periods, citizens bought the "Dluhopis Republiky" bonds in the total nominal value of **CZK 79.6 billion**, while up to three types of six-year government bonds were offered. The yields of individual issues of

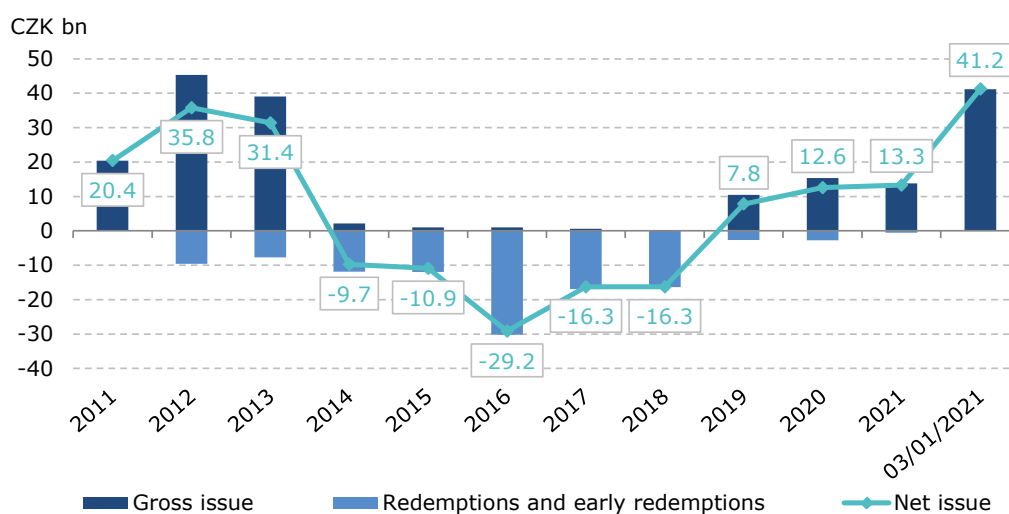
the "Dluhopis Republiky" bonds were always set at the level of market conditions, resp. in line with the year-on-year development of the inflation rate according to international practice in the case of inflation-linked government bonds. Yields of these bonds are reinvested after each interest period by subscribing additional government bonds on the relevant asset account in the Ministry's register in the amount of the bond yield after tax according to the relevant legal regulations.

The interest in "Dluhopis Republiky" bonds in the first twelve subscription periods was around CZK 3.2 billion on average, thus the total nominal value of CZK 38.5 billion in 2019 to 2021 was issued. Although the absolute value of the state debt has increased significantly over the last two years, the share of government bonds intended for citizens was still increasing. The highest interest was in inflation-linked government bonds, where the yield is linked to the consumer price index, confirming by the 13th subscription period starting from 20 September to 23 December 2021. The result was a record demand of 41.1 CZK billion,

which not only exceeded the total nominal value of the “Dluhopis Republiky” bonds sold so far, but also represented the highest demand in history among

all subscriptions of government bonds intended primarily for citizens since 2011.

Figure 2: Issues and Redemptions of Government Bonds for Citizens

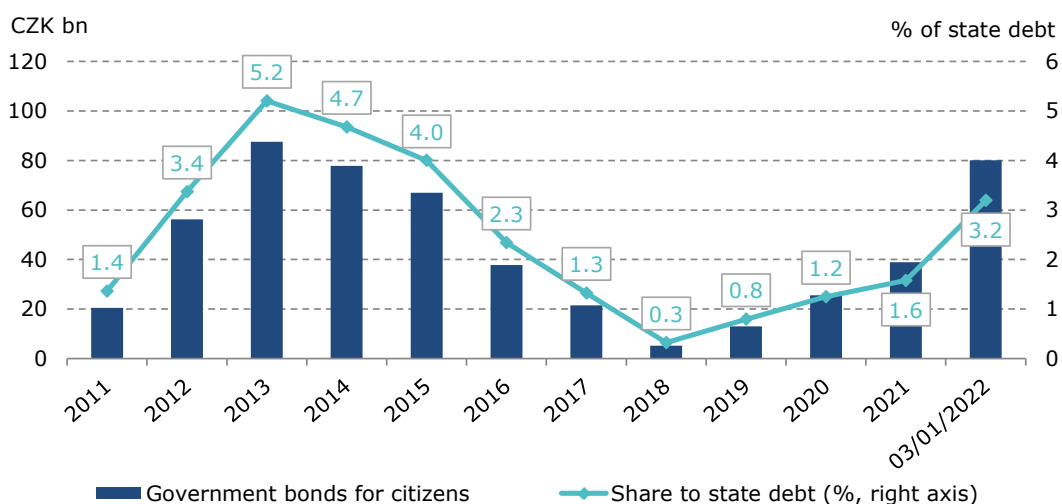


Note: Including the reinvestment of yields.
Source: MoF

The Ministry considers the increase in the share of households in the state debt to be desirable. Retail investors are usually conservative and not subject to short-term fluctuations in international bond markets, which contributes to the greater stability and diversification of the investor base with a positive

impact on the refinancing and the 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.

Figure 3: Development of Government Bonds for Citizens Nominal Value Outstanding



Source: MoF

In connection with the issue of the “Dluhopis Republiky” bonds in the record amount on 3 January 2022 and assuming the second highest nominal value of these bonds outstanding at the end of 2022, the Ministry temporarily suspended the start of the next subscription period, as these issues represent only one of the range of financing instruments, while

it was never intended to maximize sales of these bonds regardless of other factors of issuance activity. The goal was to offer to citizens a conservative and stable form of investing their savings while leaving enough space to refinance CZK-denominated state debt redemptions on the domestic bond market through other available instruments.

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 the state treasury liquidity management, the Ministry announces strategic targets and limits of refinancing and interest risk in the 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 targets and limits 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 2022, 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 indicators using medium-term target values of these indicators. Despite the high uncertainty about the economic development in

the following year and ultimately in the medium-term horizon, the Ministry adjusted the target for the average time to maturity and for the average time to re-fixing. In addition, the Ministry monitors the risk parameters of the average time to maturity and the average time to re-fixing after offsetting the nearest state debt redemptions against cash resources from short-term reserve operations on money market and the total available state treasury liquidity.

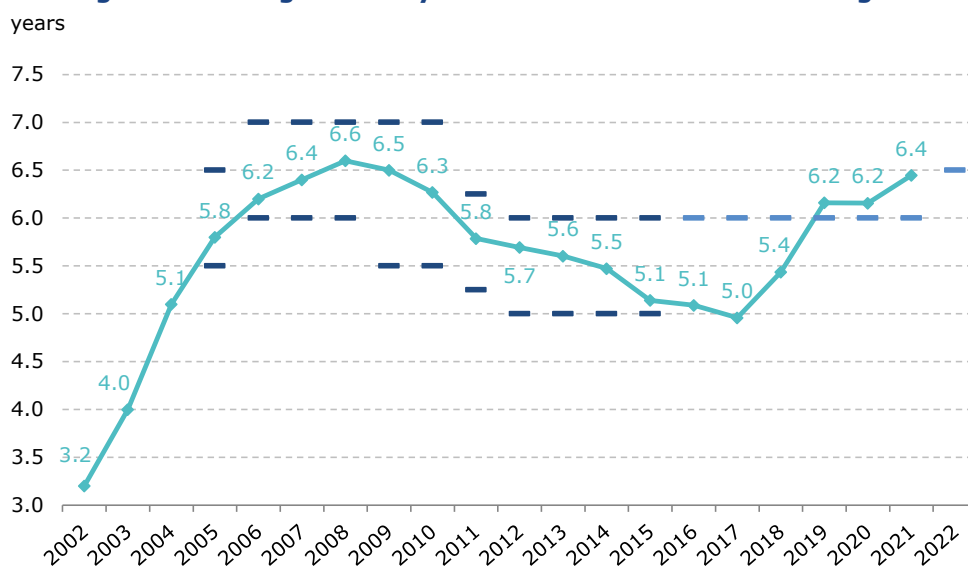
The currency risk is specified by the net foreign-currency exposure of state debt indicator taking into account also the foreign-currency exposure of the state financial assets. In this context, the net foreign-currency exposure of the state debt with the impact on state debt level and the net short-term foreign-currency exposure with the impact of the level of interest expenditure on the 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 the Czech Koruna exchange rate. Compared to the refinancing and the interest risk, the currency risk is relatively small, which is also regularly noted by the rating agencies in the evaluation of the Czech Republic.

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 the average time to maturity of the state debt, the target value is increased to 6.5 years for the medium-term horizon.

Figure 4: Average Maturity of State Debt and Declared Targets



Note: At the end of each year.
Source: MoF

Interest Risk

For the interest re-fixing of the debt portfolio within 1 year, the limit is retained at 40.0% of the total state debt for the medium-term horizon. For the average

time to re-fixing of the state debt, the target band of 5.0 years to 6.0 years is set for the medium-term horizon.

Currency Risk

For 2022, the Ministry retains the limit for both net foreign-currency exposure of the state debt indicators, i.e. the net foreign-currency exposure of state debt with the impact on the state debt level and the net short-term foreign-currency exposure

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

Primary Dealers and Recognized Dealers in Czech Republic Government Bonds

For the year 2022, the number of primary dealers with whom the Minister of Finance decided to conclude the Primary Dealer Agreement for Czech Government Securities on the basis of the evaluation of the fulfillment of their obligations

in 2021 remains 9. Their list is content of the following table. Goldman Sachs Bank Europe SE was also granted the status of recognized dealer of Czech government bonds for 2022.

Table 4: List of Primary Dealers and Recognized Dealers in Czech Republic Government Bonds for 2022

Primary Dealers and Recognized Dealers	
Citibank Europe plc	Société Générale / Komerční banka, a.s.
Erste Group Bank AG / Česká spořitelna, a.s.	PPF banka a.s.
KBC Bank NV / Československá obchodní banka, a. s.	Raiffeisen Bank International AG / Raiffeisenbank a.s.
ING Bank Śląski S.A. / ING Bank N.V.	UniCredit Bank Czech Republic and Slovakia, a.s.
J.P. Morgan AG	Goldman Sachs Bank Europe SE (Recognized Dealer)

Source: MoF

Calendar of Information Published in the First Half of 2022

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 2021
- on the last day in February
- Expected publication of The Czech Republic Funding and Debt Management Strategy for 2022 - Second Half Update
- on the last business day of the first half of 2022
- Publication of The Czech Republic Debt Management Quarterly Report
- on the fourth Friday in April
- Publication of statistics of the Central Government Debt and Fiscal Data for the Czech Republic (SDDS Plus standard)
- on the third Friday in February and on the fourth Friday 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 last day 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 business day of the month
- Publication of the issuance calendars of T-Bills and T-Bonds for following month
- usually the fourth Monday in the month prior to the month of the respective auctions, except June, when issuance calendar will be published together with The Czech Republic Funding and Debt Management Strategy for 2022 - Second Half Update

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.

The publication was prepared based on the information and data available on 6 January 2022. The Ministry reserves the right to promptly respond to the actual development of financing needs using its tools in the course of 2022. 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

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