

# CEE Issuance Outlook 2024: Our mid-year update

Fiscal policy in most of the CEE region has failed to deliver consolidation despite ambitious plans. And that's led to a revision in the funding plan; we now expect higher local and hard currency bond issuance across the board. Although the situation remains manageable, demand is declining, and data implies foreign investor outflows



## A loose fiscal does not allow supply to decline while demand falls

Since we released our [CEE Issuance Outlook](#) earlier this year, we've seen several developments across the region, prompting us to release an update on where we are with bond issuance. In a nutshell, fiscal policy is not going as expected and now we're seeing higher issuance on both local and FX issuance in Poland, Hungary and Romania. The exception is the Czech Republic, where we expect the surprisingly low issuance of CZGBs to persist for the rest of the year.

## YTD bond issuance vs ING forecast

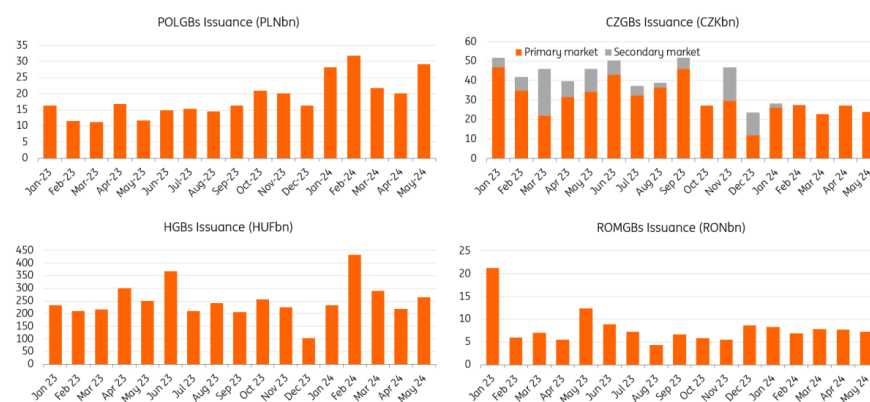
	Poland	Czech	Hungary	Romania
<b>Local</b>	59%	41%	57%	40%
<b>FX</b>	60%	-	81%	90%
<b>Retail</b>	40%	-	36%	41%

Source: MinFin, ING

On the supply side of local currency bonds, although the outlook at the start of the year indicated a reduction in monthly supply in most regions, only the Czech Republic delivered tangible results. We've seen significant frontloading in Poland, Hungary and Romania, with supply higher in the first quarter of 2024 than in 4Q23.

Although supply fell slightly again in the second quarter of this year, we do not see room for significant change for the rest of the year. In the Czech Republic and Romania, the monthly average supply should remain roughly the same. We may see some reduction in the summer months in Poland and Hungary, but the ongoing fiscal risk and the need to pre-finance a difficult next year will keep supply higher for the rest of 2024, particularly in Poland.

## Monthly gross supply of local currency bonds

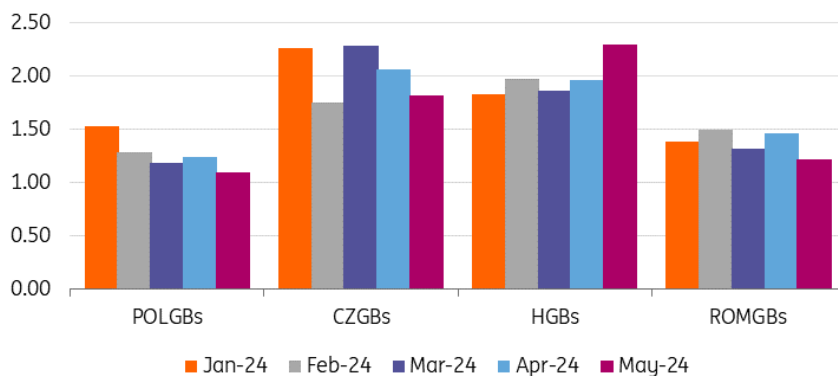


Source: MinFin, ING

On the demand side, we saw primary auctions meeting the strongest market demand in January with attractive yields in view, a disinflation story, fiscal consolidation and the promise of rate cuts. Since then, demand has probably saturated, but the story has changed significantly. In most cases, we're not seeing fiscal consolidation and rate cut expectations are less than what we were expecting, not least because of the shift in the global outlook.

Bid-to-cover in local currency primary auctions is gradually falling across the board with the exception of Hungary in recent months. Also, MinFin data shows foreign investor outflows since the December/January peak and the dominant demand is once again domestic entities.

## Local currency bonds: Bid-to-cover in primary auctions

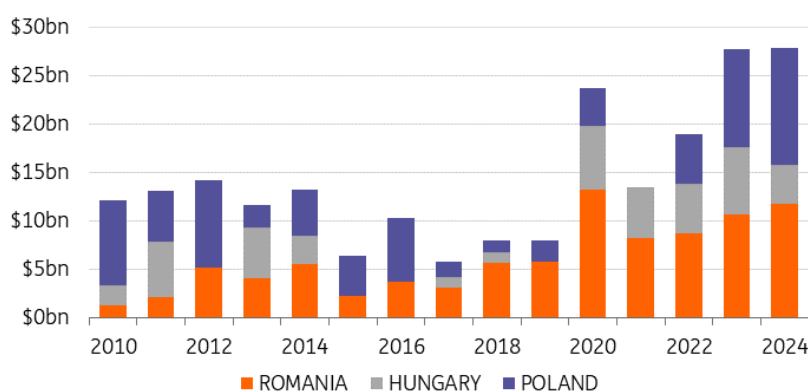


Source: MinFin, ING

In terms of FX issuance, CEE sovereigns have had a very strong start to the year, with Romania and Hungary surpassing initial plans and Poland hitting record levels. While fiscal pressures raise the risk that more Eurobond issuance will be needed, both Romania and Hungary are in fairly comfortable positions, with flexibility and only modest issuance plans remaining by our calculations.

We expect more significant issuance will be needed for Poland, which will likely compete with Saudi Arabia for the largest sovereign Eurobond issuance among EM nations this year. Nevertheless, we should continue seeing robust demand given the more positive political trajectory there compared to recent years and a wide potential investor base.

## Core CEE - USD & EUR international bond issuance



Source: Bond Radar, ING

### Poland: Risk period overcome but supply will remain high

Fiscal policy in Poland has performed broadly in line with our expectations at the start of the year, pointing to a slightly higher deficit in our forecast (5.5% of GDP) than the government's budget projection (5.1%). Monthly state budget data confirms our concerns about overestimated VAT revenues, which should result in a PLN25bn gap. For this year, we project a massive increase in borrowing needs to an all-time high, not only due to very loose fiscal policy but also record redemptions. However, MinFin successfully frontloaded issuance supply in the first two months of

this year by diversifying all available funding sources. It reports 69% of gross borrowing needs covered, including the promised reduction of the cash buffer by PLN87.3bn. However, when you look at the details, the situation is less optimistic but is nevertheless under control.

The main change in our issuance outlook from the beginning of the year is MinFin's decision not to issue T-bills, which it had indicated at 47.3bn in its original plan. We have seen significant progress in securing EU money on the policy side, although cash-flow timing itself is also still uncertain, which is already included in the current budget. Thus, in the current revision, we mainly reflected the decision not to issue T-bills and the VAT gap, boosting POLGBs, FX and retail issuance.

## Financing needs (PLNbn)

	MinFin	ING
State budget	184.0	209.0
Others	68.2	68.2
Domestic redemptions	160.9	160.9
Foreign redemptions	35.9	35.9
<b>Total financing needs</b>	<b>449.0</b>	<b>474.0</b>
POLGBs issuance	192.1	218.6
Retail bonds	41.6	70.0
T-Bills issuance	47.3	0.0
FX issuance	62.6	80.0
EU money	40.0	40.0
Supranational loans	3.8	3.8
Others	61.6	61.6
<b>Gross borrowing requirement</b>	<b>449.0</b>	<b>474.0</b>
<b>Net POLGBs issuance</b>	<b>85.7</b>	<b>112.2</b>

Source: MinFin, ING

On paper, this means an increase in planned POLGB issuance from PLN192bn to PLN219bn (a 14% increase) in our forecast. According to our calculations, MinFin has covered about 59% since the beginning of the year. In January and February, it issued, on average, about 30bn per month, while in March and April, it managed to reduce supply to about 20bn per month, which helped tighten ASW significantly.

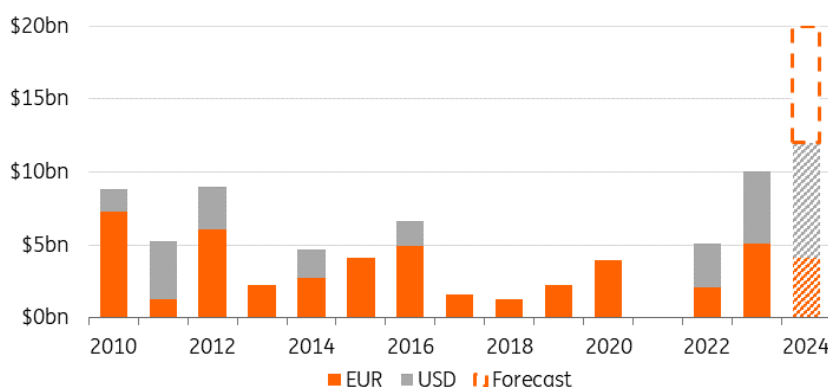
However, in May, the higher supply probably came back due to high redemptions and MinFin saw the chance of higher demand. Looking forward, on the one hand, MinFin's massive frontloading has overcome the riskiest period at the start of the year. On the other, demand for POLGBs has been gradually declining since the start of the year with bid-to-cover falling from 1.50 in January to 1.10 in May, the lowest among CEE peers. Domestic players have likely saturated their demand while foreign holders are still posting modest outflows.

We expect POLGBs supply to be slightly lower in the coming months than in the first half of the year and funding for this year should be secured. However, it can be assumed that MinFin will focus more and more on prefunding next year, which also indicates high borrowing needs. In the last two switch auctions, MinFin has been buying back bonds due next year, showing comfort with this year's funding but also an increasing supply of POLGBs above this year's issuance projection, That should keep the monthly issuance pace at April levels of around 20bn per month, in our view.

On the FX side, Poland has seen a strong start to the year, hitting \$12bn YTD after an \$8bn USD deal and a €3.75bn issue in EUR. This has already surpassed the \$10bn seen last year, and well above the annual average of \$4bn over the past decade. With slightly higher issuance needs and waning demand for POLGBs, we see scope for a decent amount of further Eurobond issuance, even above our previous expectations of just under \$16bn. We see the potential for up to \$20bn for the full year, which leaves a further \$8bn equivalent in the second half of the year, although a return of foreign demand for POLGBs, along with the timing of EU money, could impact this number.

In terms of currency, March's bumper USD deal is likely the end of Poland's dollar issuance for this year. Most of the remaining issuance should, therefore, be in EUR, although there remains the possibility for smaller deals in alternative currencies such as JPY. Given the currency split of 2024 maturities is skewed towards EUR, a further \$8bn equivalent of EUR issuance would mean a roughly 50/50 split between USD and EUR in terms of net new issuance for the year. The latest comments from Finance Minister Domanski suggested a green bond is likely in the fourth quarter - we expect this to be in addition to a conventional deal, with both denominated in EUR.

## Poland - USD & EUR international bond issuance



Source: Bond Radar, ING

## □ Czech Republic: Even lower supply than expected

Fiscal policy is progressing in line with our expectations in the first few months and we maintain a slightly positive bias against the MinFin plan. Fiscal consolidation has entered its first year, and MinFin maintains credibility to continue this effort for now. However, the European Parliament elections kick off a series of polls in the country, ending with the general election in Q3 next year. Thus, negative results from the current ruling coalition could dampen consolidation efforts. But for now, we are far from seeing this as a baseline and leave it on the risk side.

For the rest of the year, we forecast a significant decline in CZGB issuance given the reduction in the government deficit and the favourable redemption calendar. However, the supply of CZGBs has fallen more than we expected with MinFin planning to use more money from supranational loans and the money market, in our view. We have therefore reduced this year's expected supply of CZGBs from CZK380bn to CZK318bn (down 20%)

MinFin has reduced its monthly supply since December from an average of 43bn previously to

25bn in these months, and we expect this pace to remain for the months ahead. According to our calculations, MinFin has covered about 41% of the planned issuance since the beginning of the year. Primary auctions have repeatedly been met with significantly higher market demand with bid-to-cover hitting 2.0 on average this year, the highest among CEE peers.

MinFin is also increasing activity in switches for bonds maturing next year, confirming a comfortable situation with this year's funding. The comfortable situation is also confirmed by overwhelming issuance in the 9y+ segment which is also unlikely to change anytime soon. At the same time, we do not expect MinFin to significantly pre-finance next year's needs despite the high redemptions projected for next year. In our view, CNB still has rate cuts to deliver, and the political cycle will be reasons for the ministry not frontloading issuance this year.

## Financing needs (CZKbn)

	MinFin	ING
State budget	252.0	240.0
Transfers and other operations of state financial assets	4.4	4.4
T-Bonds denominated in local currency redemptions	138.0	138.0
T-Bonds denominated in foreign currency redemptions	24.4	24.4
Redemptions and early redemptions on retail bonds	5.0	5.0
Money market instruments redemptions	44.0	44.4
Redemption of T-bills		44.4
Redemption of other money market instruments		0.0
Repayments on credits and loans	0.6	0.6
<b>Total financing needs</b>	<b>468.4</b>	<b>456.8</b>
Money market instruments		70.0
CZGBs issuance	Min 300-400	317.7
CZGBs EUR-denominated		36.9
FX issuance		0.0
Retail bonds		12.0
Received credits and loans		24.6
Financial asset and liquidity management		-4.4
<b>Total financing sources</b>		<b>456.8</b>
<b>Gross borrowing requirement</b>		<b>461.2</b>
<b>Net CZGBs issuance</b>		<b>179.7</b>

Source: MinFin, ING

## □ Hungary: Frontloading covered the increase in needs but fiscal risk remains

The budget has been fairly weak since the beginning of the year, leading MinFin to raise the fiscal deficit target from 2.9% to 4.5% of GDP in line with our expectations in the January outlook. However, fiscal risks appear to remain and our economists see a potential further slippage of 0.5pp at most, implying roughly HUF400bn of additional needs this year. That would likely be covered by increased issuance of HGBs and retail bonds.

AKK's updated funding plan in early April raised gross borrowing needs from HUF10,074bn to HUF11,117bn (up 13%), slightly more than we had assumed in January. The distribution of additional needs also surprised with a greater focus on HGBs than we had anticipated. As a result,

gross planned supply of HGBs increased from 1872bn to 2481bn (up 33%). At the same time, the AKK increased the plan for FX issuance and decreased for retail bonds. We have taken AKK's plan as a baseline unless fiscal risk materialises.

## Financing needs (HUFbn)

	AKK	ING
State budget	3891	3891
Domestic redemptions	6097	6097
Foreign redemptions	792	792
Pre-financing	742	742
<b>Total financing needs</b>	<b>11648</b>	<b>11648</b>
HGBs issuance	2481	2481
HGBs switch auctions	500	500
T-bonds for local authorities	100	100
Retail bonds	4064	4064
T-Bills issuance	649	649
HUF loans	113	113
FX issuance	} 2619	1800
IFI and other loans		689
Other FX borrowings		130
Others	1122	1122
<b>Gross borrowing requirement</b>	<b>11648</b>	<b>11648</b>
<b>HGBs Issuance (inc. switches)</b>	<b>2981</b>	<b>2981</b>
<b>Net HGBs Issuance (inc. switches)</b>	<b>950</b>	<b>950</b>

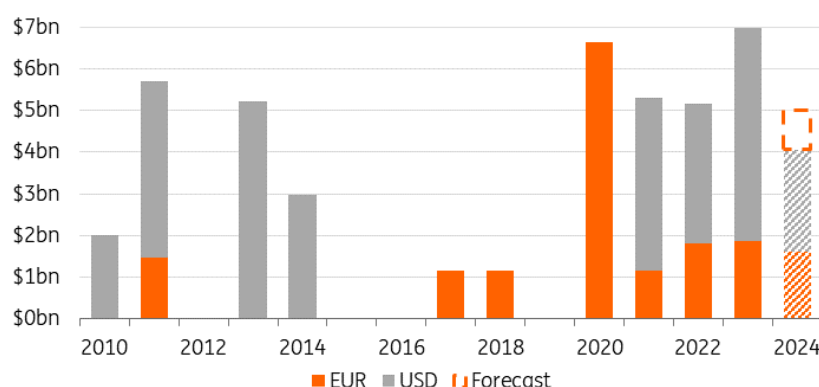
Source: Debt Management Agency, ING

AKK was well prepared for the increase in the fiscal deficit target by frontloading the supply to the first quarter. According to our calculations, it covered about 57% of the planned HGBs issuance. After the February frontloading, supply stabilised at around HUF250bn per month. However, AKK is flexibly tailoring auctions to market demand. This should give it room for some supply reduction in the summer months if fiscal risk proves to be under control. The issuance of retail bonds, the main funding instrument, is a bit behind other sources, which could result in additional issuance of HGBs.

In terms of FX issuance, Hungary has been successful in frontloading its plans by issuing \$2.5bn in USD and €1.5bn in EUR in January, above what they had initially pencilled in. Given the stronger-than-expected issuance at the start the year, the AKK slightly revised up their planned Eurobond issuance total in April but continued to highlight that further benchmark issuances of USD or EUR international bonds are unlikely in the second half. Smaller Samurai (JPY) or Panda (CNY) deals are expected later in the year, along with the potential for private placements or more FX project loans.



## Hungary - USD & EUR international bond issuance



Source: Bond Radar, ING

## □ Romania: Fiscal risk materialises at the start of the election marathon

The fiscal risk we mentioned at the beginning of the year has quickly materialised and monthly data points to a higher deficit than MinFin projected at the beginning of 2024. As a result, our economists have raised their estimate of the government deficit to 6.5% of GDP. We also see cash-flow risk due to a possible delay in the payment of EU RRF money, which would likely lead to more FX issuance. Again, the European Parliamentary elections signal the start of an electoral marathon in Romania, which increases fiscal uncertainty.

MinFin's funding plan remains unchanged for now, but last year, we saw two revisions to the original plan, which may be the case this year, too. We have increased our estimated gross borrowing requirement from RON190bn to RON209bn (up 10%). We believe the increase in needs will be covered mainly by higher FX issuance, where MinFin has already outperformed the current funding plan by 20%. Thus, the increase in our ROMGBs and retail bonds issuance estimate is insignificant.

Although issuance of both so far this year has been smooth, demand is far from last year's levels. According to our calculations, The Ministry has covered about 40% of planned ROMGBs since the beginning of the year. MinFin has traditionally been the most opportunistic among CEE peers regarding the size of auctions in relation to market demand. However, due to lower demand than last year, monthly supply is almost the same every month at an average of RON7.6bn. This should be the pattern for future months, which should be enough to cover this year's needs if fiscal risk does not materialise further.



## Financing needs (RONbn)

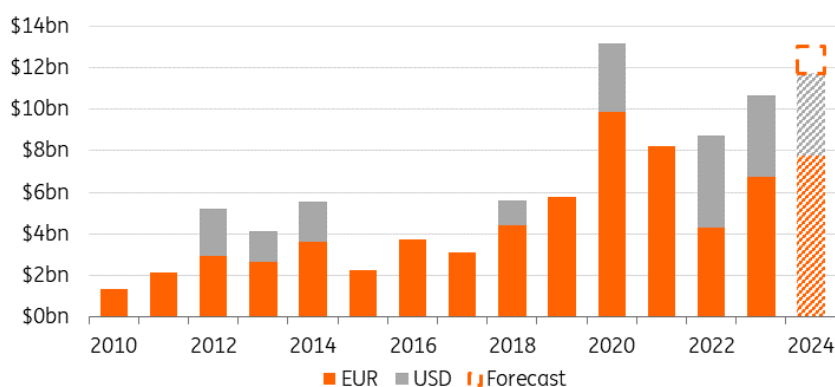
	MinFin	ING
State budget	86.6	114.4
Domestic redemptions	71.5	71.5
Foreign redemptions	22.9	22.9
<b>Total financing needs</b>	<b>181.0</b>	<b>208.8</b>
ROMGBs issuance	116-121	98.7
ROMGBs EUR-denominated		0.6
Retail bonds		22.0
T-Bills issuance		10.0
FX issuance	42.5 - 47.5	60.0
EU money	10.0	10.0
Supranational loans	7.5	7.5
<b>Gross borrowing requirement</b>	<b>181.0</b>	<b>208.8</b>
<b>Net ROMGBs Issuance</b>		<b>61.6</b>

Source: MinFin, ING

On the FX front, Romania has, in some ways, been the most successful YTD among CEE peers. It has already exceeded its issuance plans from the beginning of the year by raising almost \$12bn across three deals in January, February, and May, including a long-awaited green bond.

Despite the amount already issued, we see scope for one more deal in the autumn of €1-2bn in order to cope with potential fiscal pressures, along with uncertainty over the timing of cash flows from the EU. We expect EUR to be the more likely currency of issuance, while there has also previously been discussion of a smaller JPY deal coming at some point.

## Romania - USD & EUR international bond issuance



Source: Bond Radar, ING

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