

CEE: July indicates a change in bond supply

The first half of the year indicates a possible reduction in bond supply in the Central and Eastern European region. On the other hand, governments are facing problems on the fiscal side and are looking for solutions to keep this under control. For now, we do not see significant problems anywhere and issuance should remain supported by strong demand



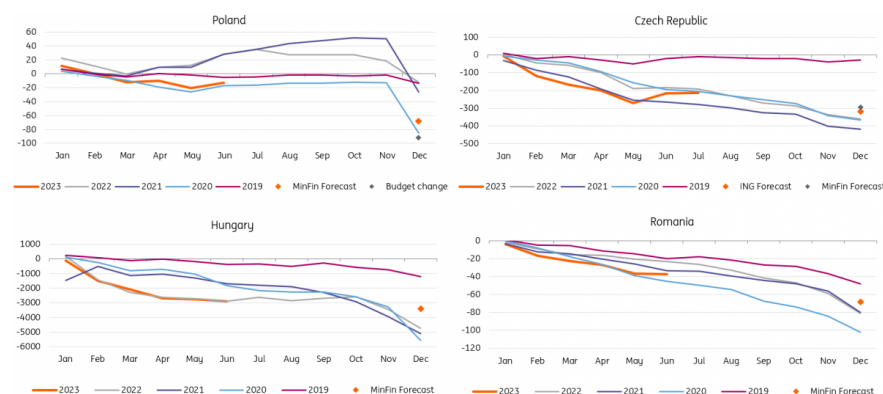
Bond supply could be reduced in CEE, but issuance should remain supported by strong demand

Poland: New budget and issuance plan to be approved

In Poland, the Ministry of Finance issued PLN15.1bn in Polish government bonds in July, slightly above the average for this year. However, even with high maturities in July, demand was rather above average. Thus, overall, according to our calculations, the MinFin has already issued about 80% of the planned POLGBs under [the new plan](#). This, including the plan to increase the state budget deficit from PLN68bn to PLN92bn, was approved by the Senate last week and we may finally see a reduction in the massive cash buffer. The buffer reached PLN138.8bn at the end of June, a near record level. Overall, we could finally see a reduction in the supply of POLGBs. For August, the MinFin indicates one switch auction and one auction in the PLN4-8bn range. At the same time, maturities will drop significantly compared to July but still POLGB 2.75/23 will mature

at the end of August in PLN3.9bn volume, which should bring some money back into the market. The state budget suffers from weaker tax revenues, which is a usual picture in the CEE region these days, but remains far from the MinFin's year-end target. However, we are entering a hot pre-election phase in late August/September, which may change the POLBGs picture significantly.

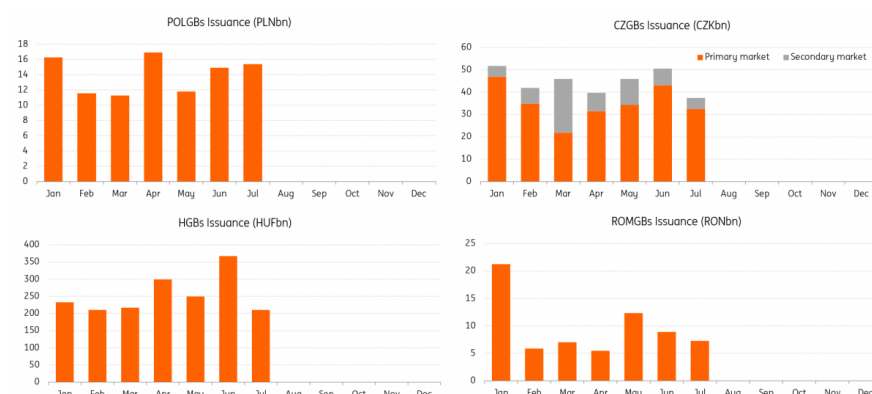
Development of the state budget in the CEE region (LCYbn; YTD)



Czech Republic: State budget signals lower CZGBs supply in second half of year

In the Czech Republic, the MinFin issued CZK37.3bn in Czech government bonds in July, which can be seen as the first sign of lighter supply, especially after a very strong June. Demand was rather below this year's average but still comfortably sufficient. According to our calculations, the MinFin has already issued slightly over 60% of planned CZGBs, which is significantly less than in Romania and Poland. However, we believe the MinFin expects lower yields in the second half of 2023 and prefinancing is not on the table given the political debate in the Czech Republic. Most importantly, we see a significant improvement in the state budget in June and July, which we believe will continue. If the August numbers confirm one-off revenues and further improvements, we see a risk that the state budget deficit could end up even below this year's plan, resulting in lower CZGBs supply. For August, the MinFin indicates CZK28bn in rather longer maturities of 10y+, which we think shows the MinFin's confidence. On the redemption side, a large T-bills package of CZK34bn mature, which may support the CZGBs auction this month. Looking ahead, the MinFin, despite the improved state budget, wants to approve additional CZK20bn in savings for this year and the legislative process for next year's state budget should continue in September, which should put a spotlight on the massive drop in [CZGBs supply next year](#).

Local bond issuance

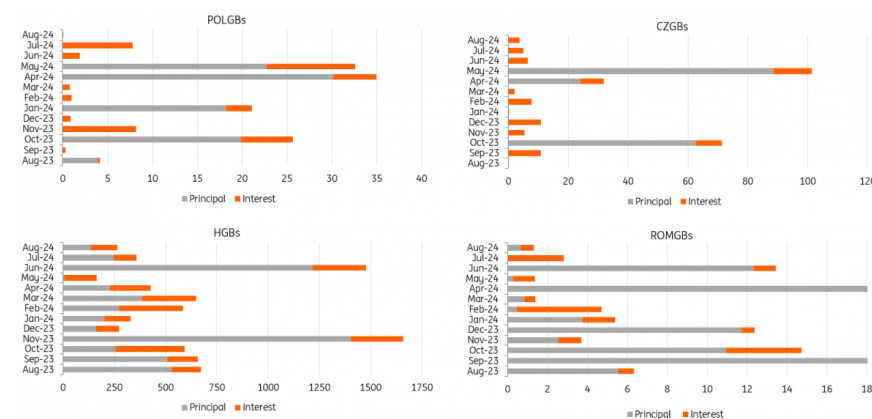


Source: MinFin, ING

Hungary: HGBs should be spared from additional issuance if needed

In Hungary, AKK issued HUF210bn in Hungarian government bonds in July, which is more than this year's average but a big drop after a record June. Demand remains above average, likely supported by recently introduced government measures. According to our calculations, AKK has secured about 55% of its planned HGBs for this year, the lowest figure in the CEE region. However, it's fair to say that retail issuance is very strong, especially after last week's record strong auction, which is the main funding vehicle here. On the fiscal side, the government has been discussing the weak performance of tax receipts and we expect that a budget revision could come in September. However, we still see a slippage of 0.5-1% of GDP in this year's budget. EU money also remains an issue and we should know more in the next two months. We think it is too early to revise [our issuance outlook](#) here. However, we believe the additional needs can be covered by FX issuance, which should not put significant pressure on HGBs. HGB 1.50/23 matures in August in size of HUF350bn, with coupon in total of HUF585bn, slightly lower than the previous month but above the average of a heavy maturity calendar for this year.

Local bond redemptions (LCYbn)



Source: Reuters, ING

Romania: Fiscal risks loom but ROMGBs remain safe

In Romania, the MinFin issued RON7.3bn in Romania government bonds in July, below this year's average which is heavily influenced by massive frontloading in January and strong auctions in May. Auction demand has stabilised at this year's average. According to our calculations, the MinFin has secured about 82.5% of this year's planned issuance, the highest figure in the CEE region. We also saw strong activity in retail issuance in July, making the overall funding situation the best in the region. However, here too we see potential problems on the fiscal side. The government is discussing further measures to improve the state budget and we should hear more in the coming days. We believe that the government will try to keep the official deficit target below 5% of GDP and if the measures do not work, the year-end might bring investment cuts or other spending. In addition, delays in tapping the European Union's Recovery and Resilience Facility money are accumulating, though the implementation is not necessarily derailed but rather limited by administrative capacity. So overall we may see some additional issuance of ROMGBs beyond [plan](#), but given the current comfortable situation we do not see this as a problem for the market to absorb the additional supply. For August, the MinFin indicates issuance of RON4.6bn, which is less than indicated in July (RON5.5bn). Looking ahead, despite the fiscal issues, we should see a reduction in the supply of ROMGBs. However, we expect MinFin to want to stay on the safe side given the uncertainty and if market demand continues the MinFin will be open to issue more than indicated.

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