

Czech Republic: On the way back to the good old days

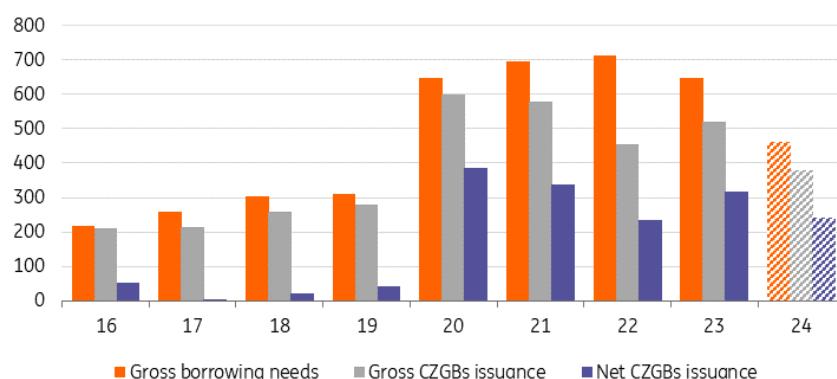
Fiscal policy is entering the first year of a consolidation package, starting the process of returning the budget deficit to levels seen in the pre-Covid years. Coupled with exceptionally low redemptions, gross borrowing needs have fallen significantly from the previous year, resulting in a limited supply of Czech government bonds (CZGBs)



Fiscal policy: Back to normal

The state budget deficit last year ended slightly lower than the Ministry of Finance planned, and we are bringing a positive bias into this year as well. The state budget for this year assumes a CZK252bn cash deficit, while we forecast CZK240bn due to the government's traditionally better performance. Together with the surplus of other sectors of the public finances, we expect the public deficit to fall from 3.4% of GDP last year to 2.5% of GDP this year.

Gross financing needs and CZGBs issuance (CZKbn)



Ministry of Finance, ING estimates

Local issuance: Steep decline in CZGBs supply

The plan for this year is very favourable due to a lower planned deficit and exceptionally low redemptions. We thus expect gross redemptions to fall from CZK645bn to CZK456bn this year (-29% year-on-year). The vast majority will be covered through CZGBs issuance, which we calculate will fall from CZK519bn to CZK380bn (-27% YoY) in gross terms and net supply will fall by 29%. The Ministry of Finance also has to cover EUR2.5bn of needs this year coming from the maturity of euro-denominated Eurobonds and euro-denominated T-bills. We believe that EUR1.0bn will be financed through supranational loans and EUR1.5bn through the issuance of euro-denominated CZGBs under local law. However, the risk here is the use of more loans from the European Union or supranational institutions depending on market conditions.

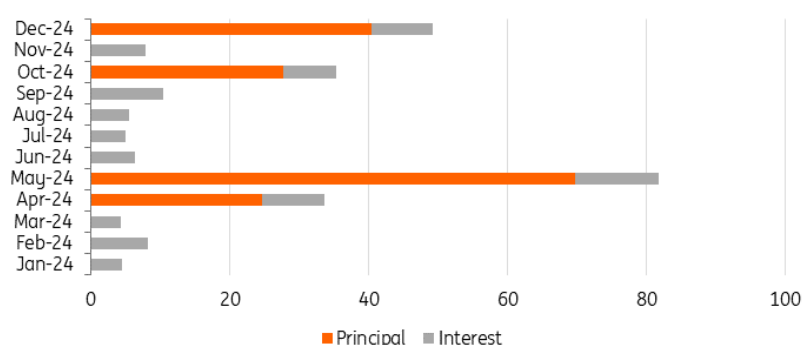
Financing needs for 2024 (CZKbn)

	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
Total financing needs	468.4	456.8
Money market instruments		10.0
T-bills		10.0
Other money market instruments		0.0
CZGBs issuance	Min 300-400	379.7
CZGBs EUR-denominated		36.9
FX issuance		0.0
Retail bonds		10.0
Received credits and loans		24.6
Financial asset and liquidity management		-4.4
Total financing sources		456.8
Gross borrowing requirement		461.2
Net CZGB issuance		241.7

Source: Ministry of Finance, ING estimates

Given the Ministry of Finance's very comfortable situation this year, we expect the issuance focus to be on the long maturities around the 10-year segment. Last year, the Ministry of Finance was very active in the secondary market, which we expect will be lower to cover this year's needs. On the other hand, in the second half of the year, we expect the Ministry of Finance to start switching bonds maturing in 2025 due to higher redemptions in the following year.

CZGBs maturity calendar (CZKbn)



Refinitiv, ING

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.