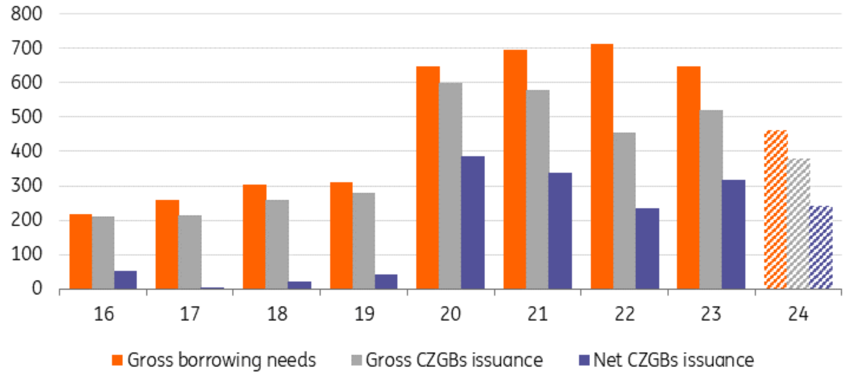
Czech Republic: On the way back to the good old days

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.

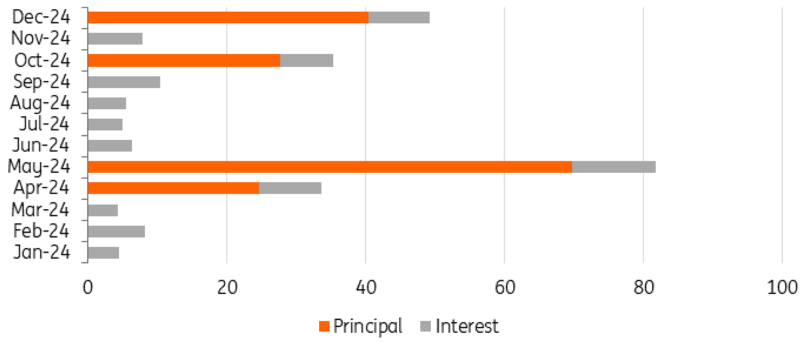
Financing needs for 2024 (CZKbn)

	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