

Czech Republic: Slightly higher supply despite continued consolidation

Although the government continues to consolidate public finances, the supply of bonds will be slightly higher this year due to the unfavourable redemption schedule. The Ministry of Finance will also focus more on EUR-denominated issuance. However, the risk is lower supply due to the possibility of using supranational loans

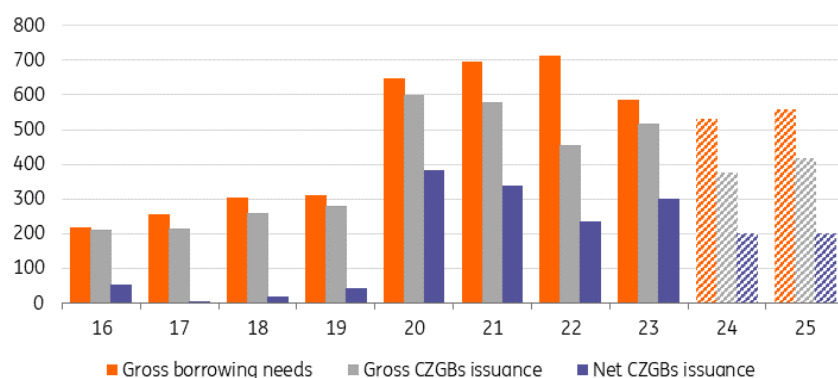


Prague, Czech Republic

Fiscal policy: The election year should not interrupt the consolidation

According to our estimates, the government ended last year with a deficit of 2.5% of GDP, the first year fully affected by the consolidation package introduced earlier, and also hit by the flood costs. For this year, the government approved the budget in December, and we maintain our usual positive bias on the Ministry of Finance's plan for the Czech public finances with a forecast of a 2.0% of GDP deficit. Although the September general election increases the risk of higher spending, historically any changes before elections have fit within approved budgets.

Gross financing needs and CZGBs issuance (CZKbn)



Source: MinFin, ING estimates

Local issuance: Slightly more government bonds but also EUR-issuance

Although the government continues its consolidation efforts this year and the deficit continues to narrow, higher redemptions will lift gross borrowing needs compared to last year. We expect an increase in borrowings from CZK530.7bn to CZK557.5bn (+5% YoY, 6.6% of GDP). Gross issuance of Czech government bonds (CZGBs) will rise slightly from CZK376.0bn to CZK416.2bn (+11%), but higher redemptions will keep net supply flat at CZK202.0bn. The Ministry of Finance is looking to develop the EUR-denominated CZGBs market under local law for future nuclear power expansion financing. Therefore, we are likely to see more issuance of these bonds this year, including a refinancing of EUR-denominated T-bills from last year. At the same time, the Ministry of Finance has the European Investment Bank's facilities, which could push down our estimate of the supply of CZGBs if the Ministry of Finance decides to use them fully, depending on market conditions.

Given the comfortable supply and high demand, the Ministry of Finance extended the average maturity last year with the average issuance maturity of 10 years (average maturity of 6.3 years by end-2024). This year we can expect a similar issuance pattern focusing on the long end of the curve in the 2034-35 and 2038-39 segments. The risk towards higher issuance of CZGBs is the possibility of prefinancing next year through switches in the secondary market, where the Ministry of Finance increased activity and sold about CZK41bn, mainly at the end of last year.

Financing needs for 2025 (CZKbn)

	MinFin	ING
State budget	241.0	235.0
Transfers and other operations of state financial assets	7.4	7.4
T-Bonds denominated in local currency redemptions	214.2	214.2
T-Bonds denominated in foreign currency redemptions	0.0	0.0
Redemptions and early redemptions on retail bonds	19.0	19.0
Money market instruments redemptions	81.3	81.3
Redemption of T-bills		81.3
Redemption of other money market instruments		0.0
Repayments on credits and loans	0.6	0.6
Total financing needs	563.5	557.5
Money market instruments		50.0
CZGBs issuance	350-450	416.2
CZGBs EUR-denominated		66.3
FX issuance		0.0
Retail bonds		10.0
Received credits and loans		15.0
Financial asset and liquidity management		0.0
Total financing sources		557.5
Gross borrowing requirement		557.5
Net CZGBs issuance		202.0

Source: MinFin, ING estimates

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@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.