CEE Issuance Outlook 2025

January 2025

Another year of heavy issuance

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Consolidation of public finances is being postponed and the combination of high debt service costs and the redemption calendars further increases borrowing needs across the board. Declining external demand and an unfavourable global environment are forcing governments to shift to local sources of funding, increasing gross local currency issuance in most countries. Eurobond issuance for the CEE region should remain elevated compared to pre-Covid years, while Hungary stands out as an outlier in continuing to reduce supply and successfully front-loading its needs

The CEE region failed to deliver on the promised consolidation of public finances last year and the rising debt burden is weighing on fiscal policy this year as well. Most countries ended up with higher gross borrowing needs last year than initially indicated, a bias that we take into this year. In addition, the political cycle plays against already heavy borrowing needs with presidential elections in May in Poland and Romania, a general election in September in the Czech Republic, and an election campaign starting in Hungary ahead of a general election in April 2026. So this year we see higher borrowing needs in all the countries we cover despite the plan to reduce the government deficit across the board. The exception is Romania, which on paper expects to consolidate public finances after a record deficit last year, but as we discuss in the country page, the planned consolidation is built on shaky foundations.

CEE issuance summary

	Poland	Czechia	Hungary	Romania	Turkey
Gross borrowing needs (%GDP)	↔13.7%	↔6.6%	↑15.1%	↓12.4%	↔5.8%
Gross borrowing needs	↑8%	↑5%	↑14%	↓8%	↑33%
Gross LCY issuance	↓15%	↑11%	↑47%	↑20%	↑40%
Net LCY issuance	↓17%	↑1%	↑37%	↑27%	↑21%
Gross FX issuance	↑EUR15.5bn	x	↓EUR3.4bn	↓EUR13bn	↓USD11bn
Gross FX issuance	↑1%	x	↓18%	↓27%	↓14%
Net FX issuance	↑27%	x	↓37%	↓22%	↓110%

Source: Ministry of Finance (MinFin), ING estimates

Local currency issuance: Reorientating back to local funding

With rising borrowing needs and falling demand, governments need to diversify funding sources more, which we see as a trend over the past two years in the region. Indeed, especially in the second half of 2024, we saw the start of outflows of foreign bondholders in most countries, and this year's conditions do not suggest an early turnaround. On the local side, fiscal policy, the election cycle and the late stage of central bank rate cuts are weighing on demand, while on the global side elevated core rates and the global aversion to unsustainable fiscal policy are more likely to support risk aversion to debt in the CEEMEA space. However, in some cases the local markets have saturated their demand in the past year and therefore we are seeing more and more T-bills issued to bridge higher bond yields, and to lure over-liquidated local banking markets. At the same time, retail bond issuance is increasing in an attempt to diversify bondholders and reach households' high savings built up post-Covid and the high inflation period. However, maintaining demand in these segments is now a prerequisite for keeping local bond issuance in check, and so increasingly we need to keep an eye on the overall funding picture in case one source of funding falls out and is replaced by another, usually local bonds.

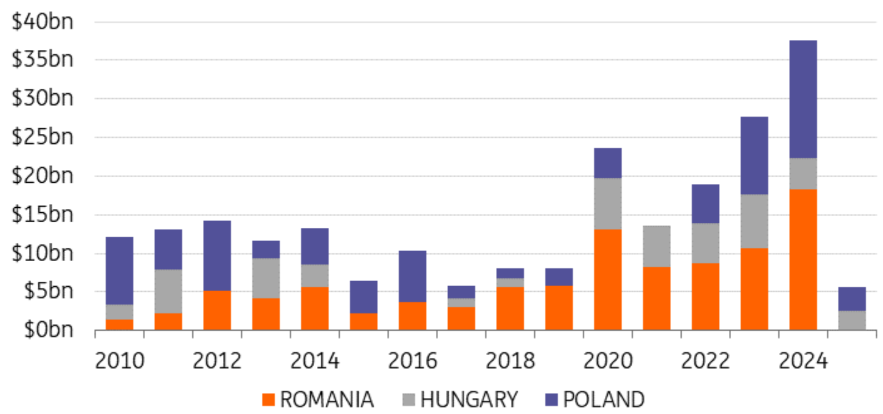
In the baseline scenario, we expect an increase in local-currency bond issuance in all countries in the CEE region except Poland, where we have seen an all-time record supply in the past year. While supply should be only marginally higher in the Czech Republic due to higher redemptions, the increase is more pronounced in the rest of the region as governments reorientate themselves towards local funding resources. At the same time, it is important to take into account that next year promises high issuance in most countries as well, given the absence of a significant public finance consolidation plan and an uncomfortable redemption schedule. Therefore, we are likely to see efforts to prefinance next year as well, if market demand permits, further increasing overall bond supply.

Frantisek Taborsky, EMEA FX & FI Strategist

FX issuance: Another busy year ahead

After a record year for Eurobond issuance in 2024, CEE sovereigns are set to be very active again this year in the primary market, given the lack of significant fiscal tightening. In this context, Hungary is a clear outlier, making steps to reduce gross Eurobond issuance, and successfully front-loading its plans with a EUR2.5bn issuance in the first week of the year. Romania and Poland have been slightly slower out of the gate relative to 2024, with Romania so far holding off until finalising the 2025 budget and hoping for some of the political volatility to recede. While on paper Romania is also budgeting for lower Eurobond issuance across the year, there is plenty of uncertainty and risks remain for higher-than-planned issuance, with experience from last year likely to keep investors cautious. In Turkey, gross issuance is set to remain high, but this is largely an exercise in refinancing, with net supply modestly negative.

CEE-3: EUR & USD international sovereign bond issuance (USD equivalent)



Source: Bond Radar, ING

Some trends from 2024 are likely to continue, with the focus for most on a wide range of funding sources (EU money, green bonds, alternative currencies, along with sukuk issuance for Turkey), although EUR paper should be dominant for Poland, Romania and Hungary. The question of tenor is less certain, with evidence from early in the year suggesting that most issuers are likely to avoid longer maturity, 30-year deals, given the move higher in long-end rates we have seen – this trend should continue if our expectation for structurally higher rates in the US plays out over the year.

James Wilson, EM Sovereign Strategist

CEE bond technicals: Foreign bondholders and sovereign ratings

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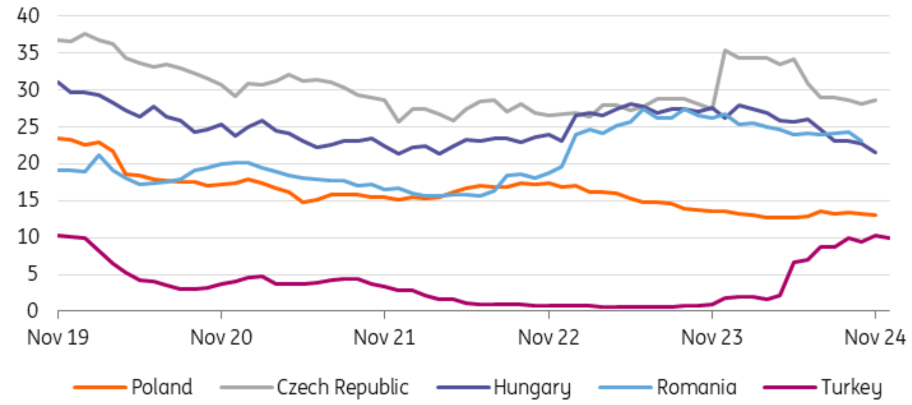
Foreign investors are exiting CEE4 markets and we see unfavourable conditions for this year. Governments have to rely more and more on domestic demand. Turkey should see a continued return of foreign investors to the local market. In terms of sovereign ratings, we are positive on Turkey but negative on Hungary and Romania

Foreign bondholders: Gradual outflow of foreigners and more reliance on domestic demand

If 2023 was a good year for foreign inflows into local currency bond markets in the CEE region, 2024 and especially the second half saw a turn with outflows across the region. No doubt local fiscal issues and a negative global environment are not supportive for the region and we are unlikely to see a different picture this year. Within CEE4, only in the case of Czech government bonds (CZGBs) do we see that foreign inflows can keep pace with domestic demand and if we ignore the methodological one-off in the Czech data, CZGBs is the only market that shows a relative increase in foreign bondholders year-on-year. On the other hand, Romania and Poland saw stable foreign holdings leading to a deterioration in relative terms late last year. Hungary has seen foreign outflows since the middle of last year and has lost the most among CEE peers. We believe that with still-high borrowing needs, heavy issuance and limited room for rate cuts, it will become more and more difficult to attract foreign demand. Governments will have to rely on local demand, which in some cases seems already saturated after last year.

In Turkey, foreign bondholders reached 10% in November and December versus 2% in January 2024. We expect inflows to continue due to the yield level and rate cuts story along with favourable technicals. The weighting of Turkish government bonds (TURKGBs) in the GBI-EM index is gradually increasing from a 0.75% bottom to the current 1.50%. We believe the weighting will continue to increase which should support further inflows into the TURKGBs market.

Foreign bondholders (%)



Source: Macrobond, ING

Sovereign ratings: Positive on Turkey, negative on Hungary and Romania

In the past year we have seen several rating changes in both directions across the region. For this year, we are particularly positive on Turkey, where further normalisation of the policy and economic environment could bring another rating upgrade in the second half of 2025. We are neutral on Poland and the Czech Republic, where we expect relative metrics to stabilise versus peers. We are negative on Hungary and Romania given rating agencies' sensitivity to political uncertainty and deterioration in fiscal metrics.

In Poland (A2/A-/A-), the sovereign rating and outlook seems the most stable in the CEE region and so far there are no indications of any changes. Agencies typically cite the lack of efforts to consolidate public finances as the main risk to the rating. On the other hand, Poland unlocked EU money last year and outperforms peers in GDP growth-stabilising relative metrics. Overall, we thus see the risk of some change in either direction as low for this year.

In the Czech Republic (Aa3/AA-/AA-), Fitch upgraded the outlook from negative to stable in the past year, as have the other agencies, which likely exhausts the scope for any changes. We do not see any changes in the top-rated country in the CEE region this year.

Sovereign rating review calendar

	S&P	Moody's	Fitch
Poland	09-May	21-Mar	14-Mar
	07-Nov	19-Sep	05-Sep
Czechia	28-Mar	24-Jan	14-Feb
	26-Sep	18-Jul	08-Aug
Hungary	11-Apr	30-May	06-Jun
	10-Oct	28-Nov	05-Dec
Romania	24-Jan	14-Mar	21-Feb
	11-Apr	12-Sep	15-Aug
	10-Oct		
Turkey	25-Apr	24-Jan	31-Jan
	17-Oct	25-Jul	25-Jul

Source: Rating agencies

In Hungary (Baa2/BBB-/BBB), Moody's downgraded the outlook from stable to negative last November, mainly due to the loss of some EU money, weaker-than-expected growth and limited impact of FDI inflows on the economy. In contrast, Fitch upgraded the outlook to stable from negative in December due to the bullish outlook on the economy in the coming years. For now, we do not see further changes in the near term but risks point to the downside. Another weaker year for the economy along with the political cycle and EU money discussions may lead to further negative moves from the rating agencies in our view.

In Romania (Baa3/BBB-/BBB-), Fitch revised the country's outlook to negative from stable in December last year following a failed fiscal consolidation and political uncertainty resulting from the general and presidential elections. Fitch reaffirmed Romania's abilities to react the quickest to adverse developments in the CEE region. We thus see further ratings reviews by other agencies this year resulting in potential negative outlooks. Romania will have to meet the European Commission consolidation criteria this year to avoid further negative actions by the rating agencies.

In Turkey (B1/BB-/BB-), in the past year we have seen rating improvements from all three major agencies. Moody’s upgraded by two notches with a positive outlook in July. S&P upgraded the rating by one notch each time in May and November. Fitch upgraded the rating in two steps in April and September. The agencies' reports mention falling inflation, strengthening lira credibility and reduced FX exposure. We expect the rating upgrades may continue in the second half of this year, in particular with regards to Moody's catching up with S&P and Fitch.

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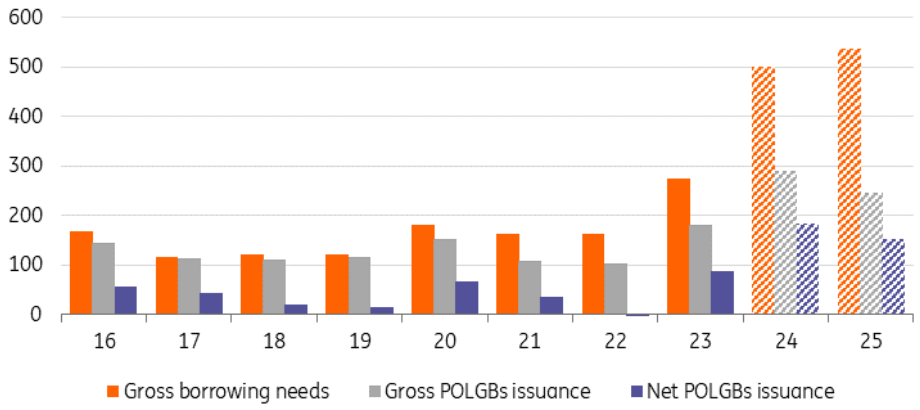
Poland: Year two of record bond issuance

Poland indicates a second straight year of historically record gross borrowing needs and government bond issuance. At the same time, the Ministry of Finance continues to diversify funding sources to attract demand. The resulting funding split will depend heavily on market interest. We see fiscal risk as balanced for this year, however, elections remain on the calendar ahead

Fiscal policy: Lower deficit but all eyes on the presidential election

Public finances by our estimates ended last year with a deficit of 6.1% of GDP, the highest since the Covid-impacted 2020. For this year, we expect the deficit to narrow only slightly to 5.5% of GDP. While last year fiscal risks were to the upside, we see them as more balanced this year. However, we have to keep in mind the May presidential election which can change the picture either way due to the election campaign and the resulting impact on the political environment.

Gross financing needs and POLGBs issuance (PLNbn)



Source: MinFin, ING estimates

Local issuance: Less government bonds but much more diversification

Last year saw historical record bond issuance and this year will not be much different. We see gross borrowing needs rising by 7.5% from PLN500.3bn to PLN538bn (13.7% of GDP). Polish government bonds (POLGBs) should remain the main source of funding, but given wider diversification supply should fall slightly from last year. We forecast a decline in gross POLGBs issuance from PLN290.0bn to PLN246.4bn (-15%), assuming the Ministry of Finance uses other sources of funding. This includes PLN45.7bn of T-bills, the first issuance since the Covid-impacted 2020. At the same time, the plan includes high FX issuance, smooth flow of EU money and a cash buffer drawdown. Retail bonds are also expected to remain an important source of funding, marking a record strong 2024. Overall, this year's funding will thus be significantly diversified but the resulting split will depend mainly on market demand given saturated local demand and muted foreign investors in the POLGBs market.

The Ministry of Finance will look to extend the average maturity of the POLGBs portfolio (4.3 years to end-2024), which is currently the shortest among CEE peers. However, local demand is focused on the short end and the belly of the curve, which may further amplify T-bill issuance. On the other hand, the redemption calendar is very heavy in the near term peaking in 2029 (PLN216bn), while the later years are very low. This will complicate any reduction in the supply of POLGBs in the coming years, despite the possible consolidation of public finances.

Gross financing needs and POLGBs issuance (PLNbn)

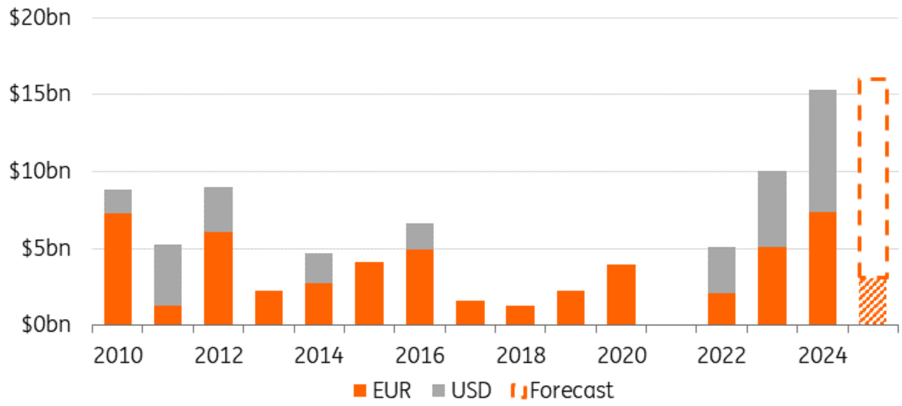
	MinFin	ING
State budget	289.0	274.0
Others	77.9	77.9
Domestic redemptions	162.7	162.7
Foreign redemptions	23.4	23.4
Total financing needs	**553.0**	**538.0**
POLGBs issuance	261.4	246.4
Retail bonds	73.9	73.9
T-Bills issuance	45.7	45.7
FX issuance	66.3	66.3
EU money	25.3	25.3
Supranational loans	5.6	5.6
Others	74.8	74.8
Gross borrowing requirement	**553.0**	**538.0**
Net POLGBs issuance	**163.3**	**152.2**

Source: MinFin, ING estimates

FX issuance: Big numbers expected again

With only modest fiscal consolidation likely in 2025, we expect Eurobond issuance at a similar level to last year, in the range of €15-16bn. In this context, the government has made a solid start to the year with a €3bn deal in the first week of January. There have been comments about potential international bond issuance in the first quarter for state development bank BGK as well, with quasi-sovereign paper likely to keep investors active this year.

Poland EUR and USD international sovereign bond issuance (USD equivalent)



Source: Bond Radar, ING estimates

Maturing sovereign debt is slightly lower this year compared to 2024 (€5.5bn vs €7bn), meaning net supply will likely be higher in 2025, but should continue to see solid demand given robust fundamentals outside of relatively loose fiscal policy. With no USD maturities, we expect supply to be more skewed towards EUR, also compounded by previous comments from the government that the USD market is starting to look less attractive for the issuer. Having said this, we expect the use of a diverse range of funding options will continue given the large issuance needs, with deals likely in USD, along with a green bond and Samurai (JPY) deal.

Czech Republic: Slightly higher supply despite continued consolidation

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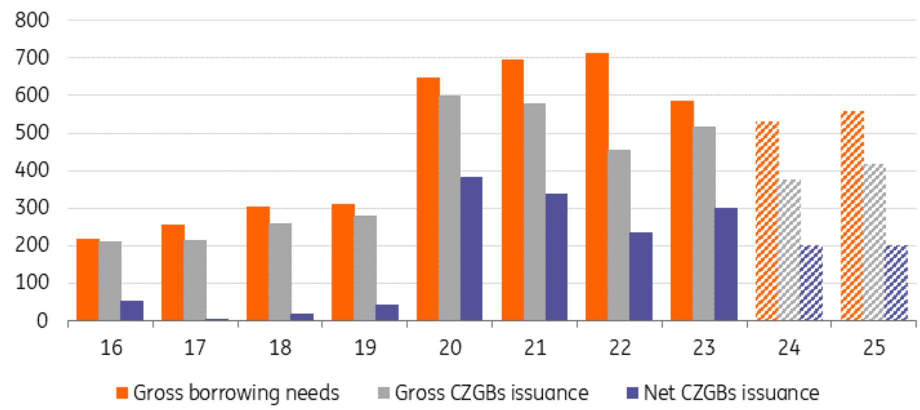
Although the government continues to consolidate public finances, the supply of bonds will be slightly higher this year due to the unfavourable redemption schedule. The Ministry of Finance will also focus more on EUR-denominated issuance. However, the risk is lower supply due to the possibility of using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

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

Hungary: Reorientation back to HGBs issuance

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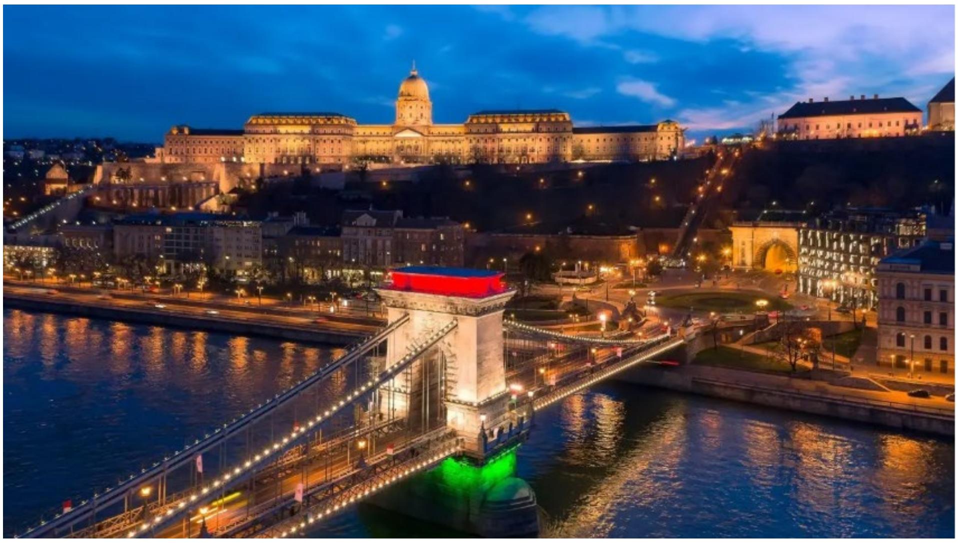
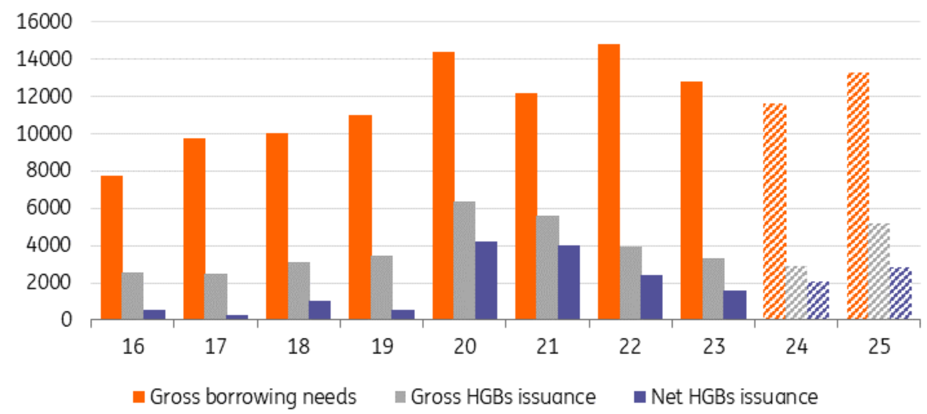
Hungary's government plans to further tighten the fiscal deficit; however, fiscal risk remains to the upside due to the political cycle. The debt agency focus is shifting to Hungary government bonds (HGBs), and we will see less retail and FX issuance this year. Average debt maturity should increase with concentration at the long end of the curve



Fiscal policy: Efforts to consolidate while the election campaign began

According to preliminary finance ministry numbers, public finances ended last year in deficit at 4.8% of GDP against a plan of 4.5% and down sharply from 2023's 6.7% of GDP. For next year, the planned government accrual deficit target remains at 3.7% and the cash flow deficit at 4.8% of GDP. The expected slippage is 0.3-0.5% of GDP, mainly due to our different macroeconomic outlook, but we see this as a manageable risk. The main issue, however, is the start of the election campaign this year, which brings the traditional fiscal upside risk.

Gross financing needs and HGBs issuance (HUFbn)



Source: AKK, ING estimates

Local issuance: More HGBs, less retail bonds

AKK, the government debt agency, unveiled a funding plan for this year in December, indicating a change in strategy with a greater focus on HGBs as the main source of funding and less reliance on FX and retail issuance compared to last year. Given the higher fiscal deficit in our forecast compared to the MinFin plan, we also expect HUF450bn higher gross borrowing needs compared to the AKK plan, fully covered by HGBs issuance.

Overall, we see gross borrowing needs rising from HUF11,847bn to HUF13,288bn (+14% YoY, 15.1% of GDP), mainly due to higher redemptions this year. We expect gross HGBs issuance (incl. switches) to rise from HUF3,531bn to HUF5,192bn (+47%). Net issuance is also expected to increase after three years of decline from HUF2,104bn last year to HUF2,871bn (+37%).

In our view, AKK is trying to match the high local demand supported by tax incentives and lower holdings relative to CEE peers and high redemptions of retail bonds this year, which likely can be directed to the HGB market. AKK issued fewer retail bonds last year and more HGBs than originally planned, confirming the intention for this year. At the same time, AKK will look to extend its average debt maturity (5.8y as of end-24), and the increase in HGBs issuance compared to last year should be mainly in the 10y segment. Given higher retail bond redemptions in 1Q25 and fiscal risk, we can expect AKK to look to frontload supply early in the year if demand remains strong.

Financing needs for 2025 (HUFbn)

	AKK	ING
State budget	4,123	4,573
Domestic redemptions	7,226	7,226
Foreign redemptions	817	817
Pre-financing	672	672
Total financing needs	**12,838**	**13,288**
HGBs issuance	3,992	4,442
HGBs switch auctions	750	750
T-bonds for local authorithies	100	100
Retail bonds	3,612	3,612
T-Bills issuance	2,443	2,443
HUF loans	199	199
FX issuance	1,344	1,344
IFI and other loans	281	281
Other FX borrowings	116	116
Others	1	1
Gross borrowing requirement	**12,838**	**13,288**
HGBs Issuance (inc. switches)	**4,742**	**5,192**
Net HGBs Issuance (inc. switches)	**2,421**	**2,871**

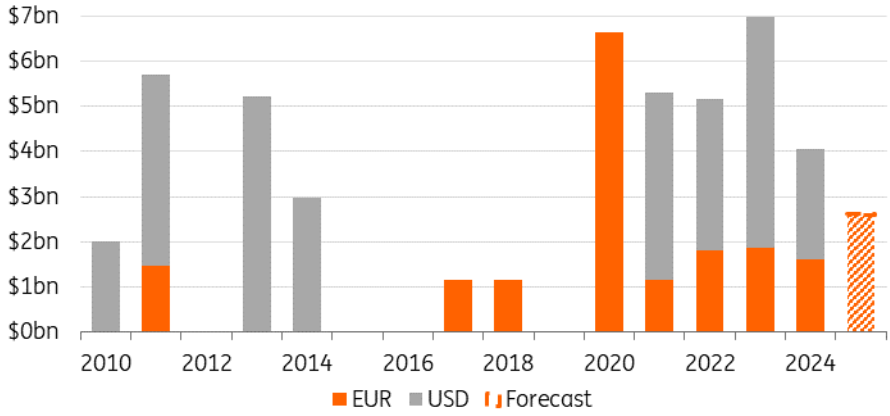
Source: AKK, ING estimates

FX issuance: Lower supply a clear positive

In line with the AKK issuance plan, Hungary came quickly out of the gate this year with a €2.5bn deal across conventional (€1.5bn in 10-year paper) and green bonds (€1bn in 15-year paper). This completes the country's planned USD and EUR international bond issuance for the year, with AKK CEO Kurali's comments recently confirming that no more major Eurobond sales are expected.

There are plans for a few smaller alternative funding sources to make up the remainder (FX issuance in the funding plan totals €3.4bn), with €200-300mn equivalent in (renminbi) Panda bonds seen in the second half of the year, while "foreign currency denominated project loans and other types of FX financing (e.g. Euro Commercial Paper) depending on circumstances are also options in 2025."

Hungary EUR & USD international sovereign bond issuance (USD equivalent)

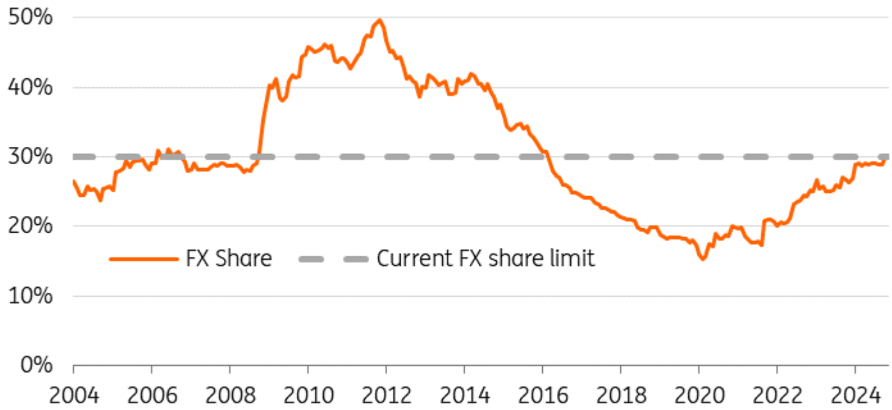


Source: Bond Radar, ING estimates

The frontloading of planned FX issuance needs is a clear positive for Hungary relative to peers such as Romania and Poland, which should act as a technical tailwind, in particular with net Eurobond issuance in USD and EUR even lower, set to be around the equivalent of €1.1bn. At the same time, the credibility of plans to continue lowering gross Eurobond issuance (relative to $7bn in 2023 and $4bn in 2024) is high given the current share of FX debt within government debt is nearing the government's 30% limit.

Any fiscal slippage is likely to be funded on the local market, and further Eurobond issuance is unlikely, at least until later in the year, when the window for 2026 pre-financing is nearer.

Hungary – FX share within government debt



Source: AKK, Macrobond, ING

Romania: Weak foundations make for a challenging issuance ahead

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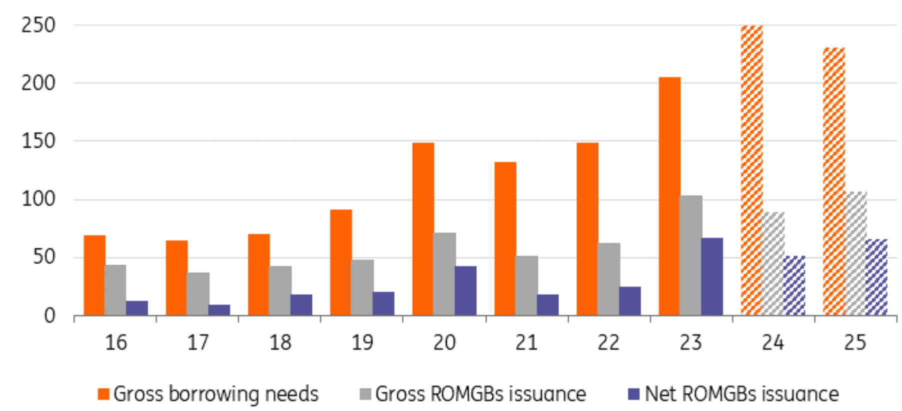
Romania's government is proposing a lower deficit than last year, but the market still have questions given May's presidential election. The finance ministry wants to focus on local funding sources including retail bonds and T-bills. MinFin should be able to balance the financing needs, simultaneously higher yields and volatile demand

Fiscal policy: Another challenging year

According to Romania's Ministry of Finance, the country's public finances ended last year with a deficit of 8.6% of GDP, the highest since Covid in 2020. For this year, the budget is currently in the approval process, but the government is forecasting a consolidation to 7.0% of GDP, which is our forecast for now as well, equivalent to RON133bn in cash terms. However, the fiscal risk here remains to the upside given the presidential election in May and what we experienced last year.

Gross financing needs and Romania government bonds (ROMGBs) issuance (RONbn)



Source: MinFin, ING estimates

Local issuance: Higher reliance on local currency funding

Given the forecast of some fiscal consolidation, we should see lower gross borrowing needs this year, but the redemption calendar is not favourable, resulting in just an 8% decline in needs from RON250bn to RON231bn (12.4% of GDP) with a very uncertain fiscal outlook. We believe MinFin will focus more on local funding sources this year. Thus, we forecast an increase in gross ROMGBs issuance from RON89bn to RON107bn (+20%).

However, the low comparative base was created by strong activity in T-bills last year (almost 20bn), offsetting some ROMGBs issuance. For this year, we expect MinFin to look to bridge higher ROMGBs yields and lower demand by T-bill issuance and higher retail bond issuance where demand remains strong. Net bond supply should rise from RON51.9bn to RON65.8bn (+27%).

Given the current sell-off in the ROMGBs market, we may see MinFin attempt to delay supply. However, it has to balance that with the fiscal outlook, and it will want to take advantage of any market demand to drive the final split between funding sources.

Financing needs for 2025 (RONbn)

	ING
State budget	133.0
Domestic redemptions	78.0
Foreign redemptions	20.0
Total financing needs	**231.0**
ROMGBs issuance	107.0
ROMGBs EUR-denominated	0.0
Retail bonds	35.0
T-Bills issuance	18.0
FX issuance	65.0
EU money	3.0
Supranational loans	3.0
Gross borrowing requirement	**231.0**
Net ROMGBs Issuance	**65.8**

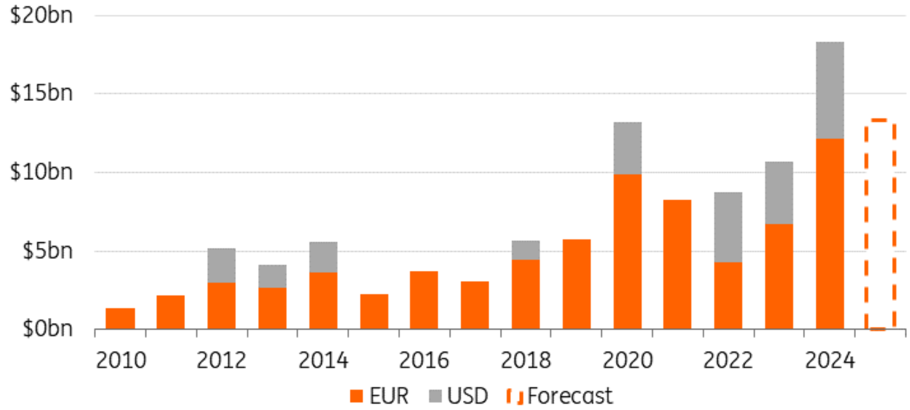
Source: MinFin, ING estimates

FX issuance: Scope for upward revisions

The issuance outlook is most uncertain for Romania in the region, with the baseline guidance of €13bn in Eurobond issuance dependent on the optimistic 7% of GDP fiscal deficit target and robust demand for ROMGBs despite the ongoing volatility. This leaves plenty of scope to increase the Eurobond supply, which could end up above €15bn, in the context of 2024's bumper issuance of nearer €18bn in the event of further fiscal disappointments.

However, any further concerns about potential downgrades to HY may make reaching those heights more difficult. As a positive, maturities are relatively light for this year, with just €2bn compared to €3.5bn in 2024, meaning less pressure for constant issuance.

Romania EUR & USD international sovereign bond issuance (USD equivalent)



Source: Bond Radar, ING estimates

We expect Romania to kick off its issuance plans towards the end of the month, following the approval of the 2025 budget, while the successful front-loading seen in recent years may be more difficult to achieve given the ongoing political uncertainty ahead of May's presidential elections. In line with regional trends, Romania is also considering green bond issuance later in the year, along with Samurai issuance, while we expect a similar currency split to last year (roughly 2/3 to 3/4 share of EUR within the gross issuance total).

Heavy issuance may be difficult for markets to absorb comfortably in the event of wider market pressure or further concerns about fundamental and political deterioration in Romania.

Turkey: More reliance on local funding

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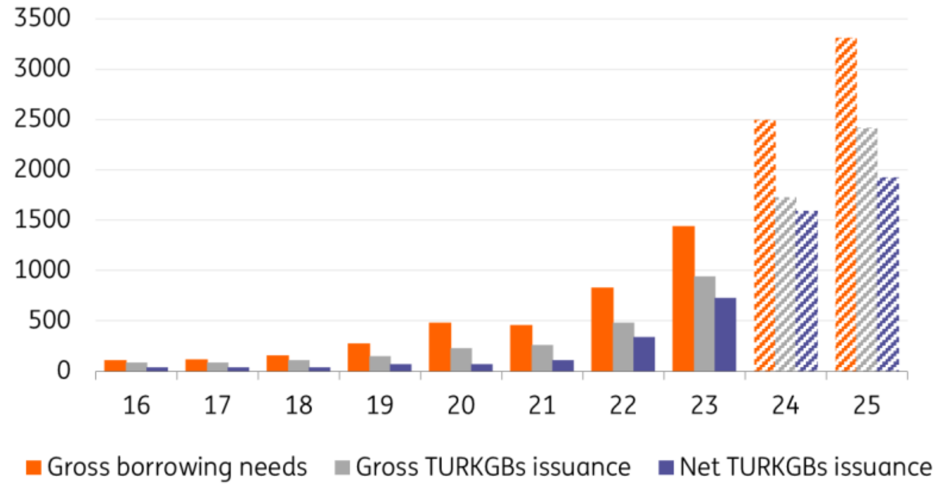
Public finances continue to tighten and the primary balance remains stable. However, inflation and rapidly rising debt service costs are driving up gross borrowing needs. In nominal terms, the issuance of Turkey government bonds (TURKGBs) will rise significantly this year, but it remains almost unchanged in relative terms. With the anticipated rate cuts from the Central Bank of Turkey and the maturity calendar, we expect issuance to be concentrated in the middle of the year

Fiscal policy: further narrowing of the budget deficit

The government likely plans to narrow the budget deficit in 2025 (implying a negative impulse) by reducing the contribution of personnel and social security spending by keeping wage increases below actual inflation, and by raising tax revenues, which largely depend on the deflator.

However, even with reduced earthquake-related spending, it will be difficult for the government to achieve the 3.1% of GDP budget deficit target (versus the primary budget on balance). This is due to the challenges in implementing significant expenditure cuts given the relatively inflexible nature of government spending and the impact of an economic slowdown on tax revenue generation. Consequently, we anticipate budget and primary deficits of 3.4% and 0.2%, respectively.

Gross financing needs and TURKGBs issuance (TRYbn)



Source: MinFin, ING estimates

Local issuance: nominal figures increase again, but remain stable in relative terms

Given inflation and the rapidly rising debt service, we expect a massive increase in gross borrowing needs this year despite a narrower fiscal deficit than last year. Our forecast shows a 33% increase in needs, from TRY2,494bn to TRY3,313bn. However, in terms of GDP, they decrease slightly from 5.9% to 5.8%, aligning with the five-year average.

MinFin is further increasing its reliance on local funding and in particular on TURKGBs. This is our assumption for this year as we believe that TURKGBs (including 1y T-bills) will cover about 73% of all borrowing needs. At the same time, TURKGBs issuance should cover any deviations from the budget plan, which is reflected in our forecast versus MinFin. Thus, gross TURKGBs issuance should increase by 40% from TRY1725bn to TRY2418bn.

We expect MinFin to continue to increase the average maturity of TURKGBs from last year's 3.9y, or at least keep the same level, and focus on issuances in the 5-10y segment. Given the upcoming CBT rate cuts and maturities concentrated mainly in the second and third quarters, we can expect the supply of TUKGBs to concentrate mainly in the middle of the year and beyond.

Financing needs for 2025 (TRYbn)

	MinFin	ING
Domestic debt service	2,385	2,515
Foreign debt service	857	798
Total financing needs	**3,242**	**3,313**
Domestic borrowing	2,845	2,948
External borrowing	459	428
Non-borrowing resources	-63	-63
Gross borrowing requirement	**3,242**	**3,313**
TURKGBs issuance		**2,418**
Net TURKGBs issuance		**1,929**
FX issuance		**428**

Source: MinFin, ING estimates

FX issuance: focus on refinancing

Turkey is expected to have another active year in the primary market, with the sovereign likely to follow the lead of recent corporate and financial issuers to start the year.

The government has indicated plans for $11bn in gross issuance, which suggests that net supply will be slightly negative due to significant upcoming maturities. This relatively supportive technical picture, combined with the ongoing improvement in fundamentals, should help to keep spreads well anchored over the coming years.

We expect both conventional and sukuk issuance in the USD space, along with the potential for more EUR paper as well.

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