

EEMEA Strategy Viewpoint

Bullish EM environment: implications for EEMEA fiscal and ASW spreads

We are structurally bullish EM ...

'Better Europe' (Germany, defence, potential ceasefire in Ukraine) has been a major part of our constructive EM thesis since Inauguration Day. We also think tariffs will be blunted by their negative effect on US assets. US exceptionalism is fading and this should be positive for EM assets including bonds.

... but US and EZ bond yields to increase relative to swaps

Individual countries' fiscal outlooks matter a lot for bond selection, especially amid upward pressure on bond yields relative to swaps in both the US and Eurozone. This would naturally pressure EEMEA ASW spreads, in our view, especially if fiscal policy is loose in a particular EEMEA country.

Czechia: some room for 10y ASW spread tightening

We see more room for ASW spreads in Czechia (especially 10y) to tighten from current levels, especially as the cutting cycle nears its end. However, any swap rally in the short term is likely to lead to ASW spread widening as bonds are less liquid than the swaps.

South Africa: still some room for ASW spreads to widen

ASW spreads have widened lately, but they remain tight relative to recent history. Tensions within the GNU (evident in the process of budget adoption) justify around 20bps of further widening of ASW spreads (on average), in our view. However, in the short term the unchanged amount of fixed-rate bond auctions is likely to anchor ASW spreads at current levels.

Poland: ASW spreads look fair relative to fiscal outlook

Fiscal policy should remain loose this year driven by a significant increase in defence spending. However, ASW spreads look wide relative to history, which means they already reflect loose fiscal policy. Moreover, demand for POLGBs from banks should remain strong as they have a lot of liquidity and they are incentivised to buy government bonds through their exclusion from the asset tax.

Türkiye: Sep 29 and Feb 27 are our favourite bonds

Many individual bonds' ASW spreads look too wide relative to their own historical trading range. Our favourite bonds are those maturing in September 2029 and February 2027. Both look attractive on ASW spreads among other considerations.

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Refer to important disclosures on page 12 to 14. Analyst Certification on page 11. 12807413

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EEMEA Strategy
EEMEA

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For a list of open trade recommendations and trade recommendations closed in the last 12 months, see [Global Emerging Markets Weekly](#)

Abbreviations

EEMEA is Emerging Europe, Middle East and Africa

SA is South Africa

EZ is Eurozone

ASW is asset swap

SAGBs are South Africa's government bonds

POLGB is Polish government bonds

FX is foreign exchange

NBP is National Bank of Poland

GNU is government of national unity

NT is National Treasury

Tight fiscal in Czechia and Türkiye

Asset swap spreads in Czechia remain too wide, in our view, and we see them tightening from current levels. Fiscal policy should stay tight, which justifies the tightening, in our view. We do not expect a significant increase in government defence spending.

Türkiye should also adopt tighter fiscal policy this year, likely supporting disinflation and long bond trades. September 2029 and February 2027 bonds look attractive to us because of their current asset swap levels, among other things.

Poland has managed to finance 50% of its borrowing requirements for this year with a big focus on external bond financing. Moreover, strong demand for local bonds from banks is likely to help finance borrowing next year. Asset swap spreads for Polish bonds look within fair value range for us.

The recent budget in South Africa left the planned sizes of fixed-rate bonds unchanged. This should support ASW spreads. However, we believe they have room to widen further in the medium term given the budget deficit and government debt are still high.

Exhibit 1: Tight fiscal policy in Czechia and Türkiye, not as tight in South Africa and Poland

Borrowing requirement and financing progress in major EEMEA countries

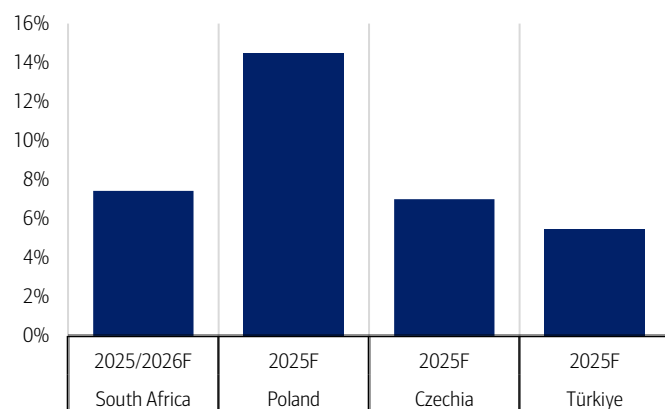
(local currency bn unless otherwise stated)	South Africa	Poland	Czechia	Türkiye
	2025/2026F	2025F	2025F	2025F
GROSS BORROWING REQUIREMENT	582	553	564	3145
% GDP	7.4%	14.5%	7.0%	5.4%
Net financing requirement	307	367	248	1965
% GDP	3.9%	9.6%	3.1%	3.4%
Domestic currency redemption	112	157	233	823
Foreign currency redemption	61	29	0	357
Others (Poland: including Covid bonds)	102	0	82	0
FINANCING PROGRESS	126	277	107	814
Domestic currency borrowing (Poland: including Covid bonds)	0	74	101	546
Foreign currency borrowing	0	36	6	93
o/w Eurobonds	0	35	0	0
Excess/pre-finance from T-1*	126	167	0	0
Financial asset and liquidity management	0	0	0	176
Coverage of gross borrowing requirement	22%	50%	19%	26%

Source: FinMin, BofA Global Research Note: Net financing requirement includes budget deficit plus other items. Eskom financing of ZAR64 billion included in others for SA. SA fiscal year is April to March. Financing progress reflects October data only. *Use of cash and GFECRA settlement for SA.

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Exhibit 2: Lowest gross borrowing requirements in Türkiye

Gross borrowing requirement as % of GDP

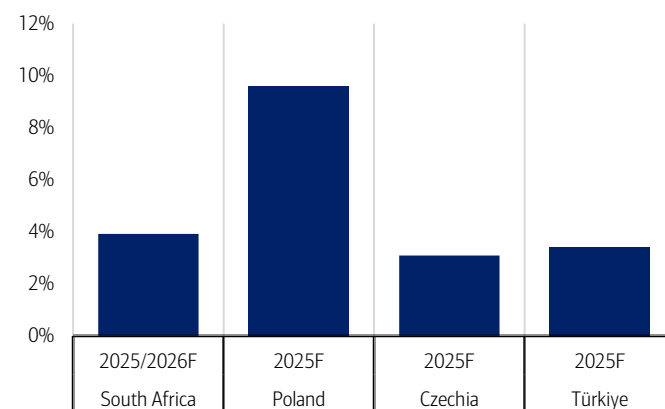


Source: BofA Global Research estimates

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Exhibit 3: Poland has higher net financing requirements

Net financing requirement as % of GDP



Source: BofA Global Research estimates

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South Africa

Budget read, but can it pass?

Following the Budget presentation on March 12, we view the fiscal stance as broadly unchanged despite a net increase in spending. Multi-year spending questions were answered: the social relief distress grant was made permanent; the increased wage bill was accommodated; and Eskom's allocation was reduced. Also, no new allocations to Transnet demonstrates the continued spending grip. The increase in spending has been partially financed by a small VAT hike (0.5% per year) and higher PIT revenues.

Parliament has 16 days to approve or amend the budget. The Minister of Finance will have two days to respond to any possible amendments. Passing the Budget will now depend on political discussions among GNU members over the next two weeks. We think the fiscal framework is likely to be maintained despite potential changes in tax measures and spending cuts. The main Budget deficit target is in line with our expectation: 2025/26 forecast at -4.4% of GDP, marginally higher than our expectation of -4.5%.

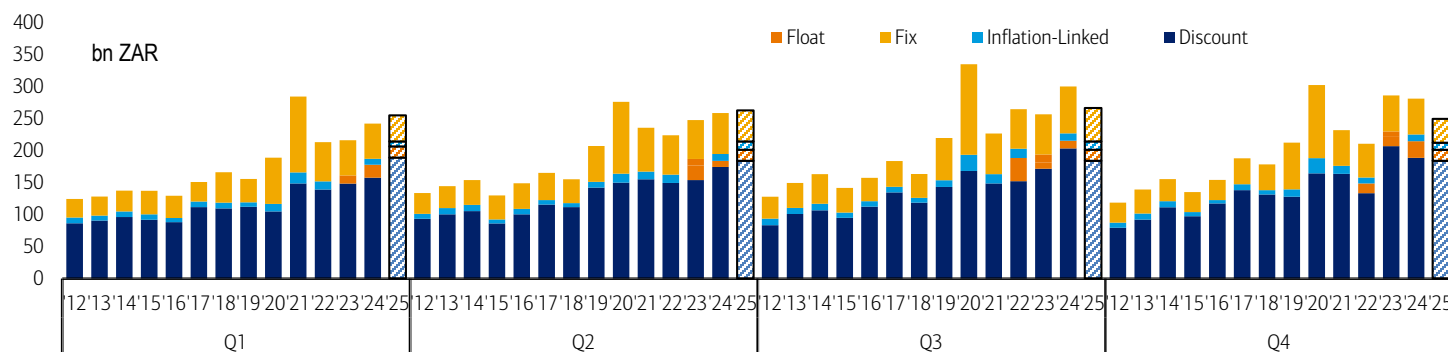
Risks to the Budget: 1) dropping the VAT hike could lead to a R13.5 billion revenue gap, which may need offsetting with spending cuts; and 2) the real GDP growth forecast of 1.9% in 2025 and nominal GDP growth of 7% are optimistic, which could impact revenue collections.

ASW spreads still too tight – marginal widening is possible

ASW spreads still look too tight relative to the fiscal outlook, in our view (Exhibit 4 and Exhibit 11). The fiscal position is expected to remain unchanged, while ASW spreads are 17bps tighter than their average since March 2021.

Exhibit 4: Fiscal is going to be slightly better, but not as good as the market is pricing in

Issuance profile in South Africa (in notional amounts of ZAR bn - all government debt securities)

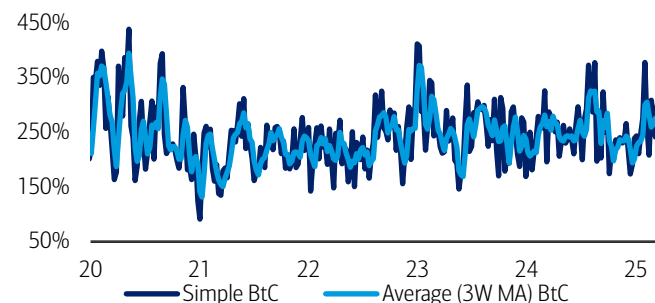


Note: As of 27/02/2025. Forecasts for Q2, Q3 and Q4 of 2025. Mix of forecasts and actual data for Q1 2025. Source: BofA Global Research, National authorities

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Exhibit 5: Demand for South African debt remains strong

Bid-to-cover for bonds and bills

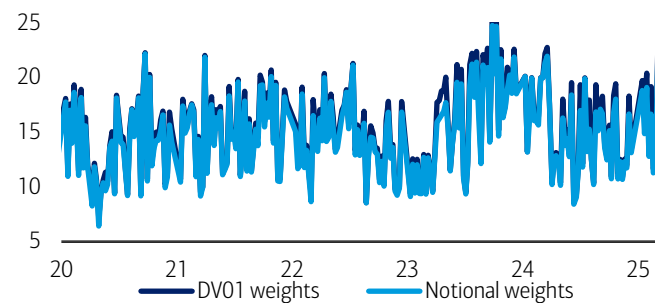


Source: BofA Global Research, National authorities

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Exhibit 6: Average maturities are high relative to other countries

Average maturity at auction fixed-rate bonds

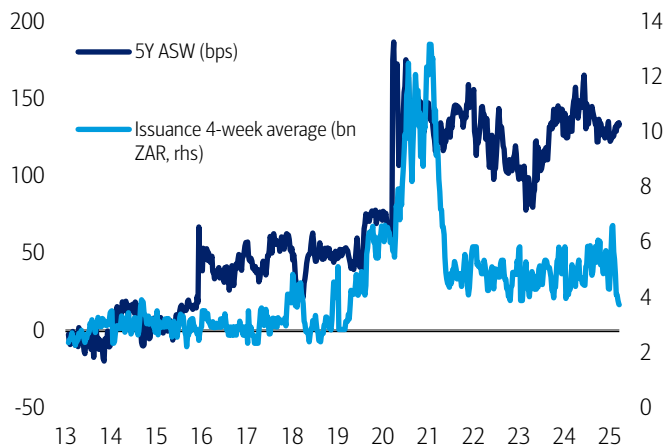


Source: BofA Global Research, Bloomberg, National authorities

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Exhibit 7: 5y ASW spread has room to widen on the margin

ZAR 5Y ASW and SAGB supply

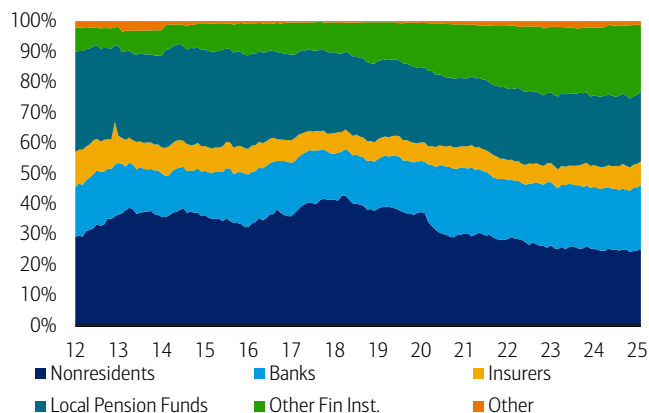


Source: Bloomberg, BofA Global Research

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Exhibit 9: The share of non-residents in SAGBs is falling

Breakdown of total bond ownership by type of institution



Source: Haver, BofA Global Research

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Exhibit 11: ASW spreads have room to widen on the margin

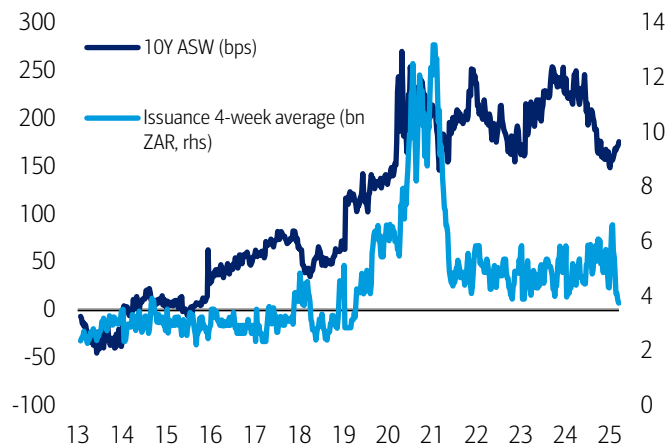
Asset swap spreads for individual bonds now vs their average since March 2021



Source: Bloomberg, BofA Global Research

Exhibit 8: ASW spreads in South Africa have some room to widen

ZAR 10Y ASW and SAGB supply

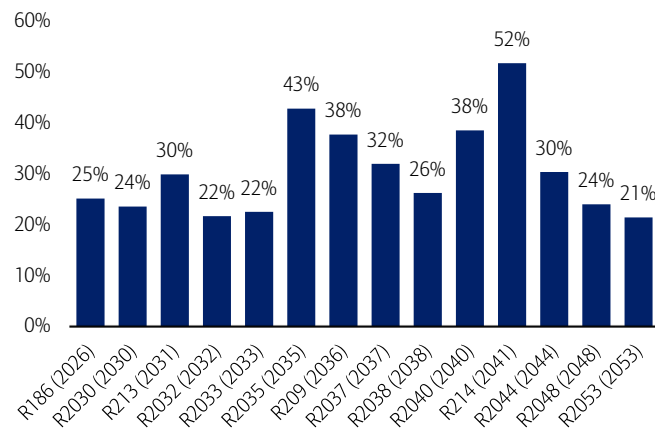


Source: Bloomberg, BofA Global Research

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Exhibit 10: The 2041 bond has the highest foreign participation

Foreign holdings' share of individual SAGBs



Source: Haver, BofA Global Research

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Poland

Advanced financing, better growth prospects

Budget financing is well on track, while near- and longer-term prospects have improved, boding well for the fiscal outlook. The state headline budget numbers appear worse in 2025, but this reflects some technical changes as income tax is now transferred to local governments. Without this reform, FinMin notes that personal income tax would have risen by c.18% yoy in Jan-Feb, and corporate income tax 29% yoy. Meanwhile, financing is advanced, as FinMin has covered c.50% of borrowing requirements as of mid-March.

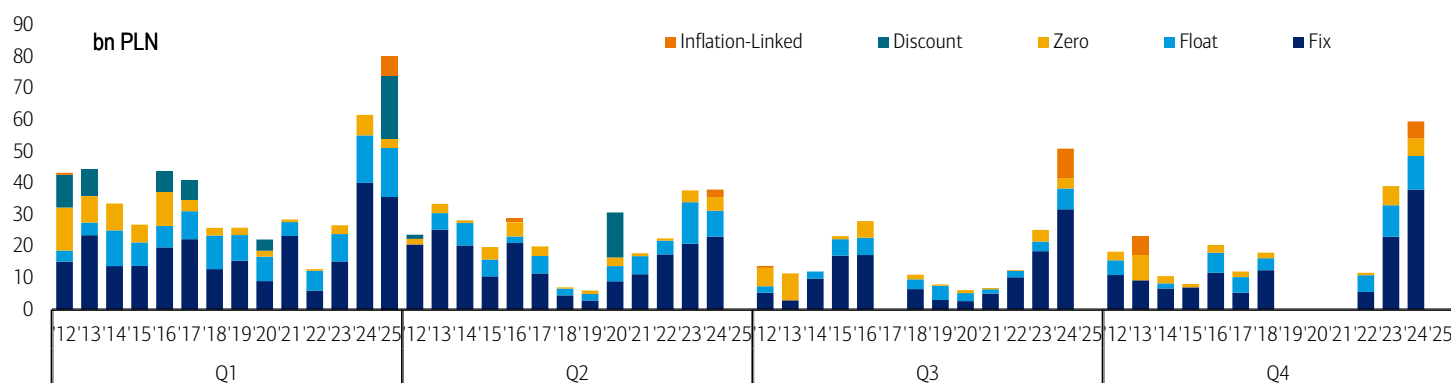
With better GDP prospects, we are more comfortable with the fiscal outlook. VAT income remains solid, up by 17% yoy, as the domestic consumption recovery has strengthened in recent months. The game-changing shift in Germany/EU's fiscal and defence spending bodes well for Poland's growth potential. We see up to c.1pp upside to GDP growth from 2027. This should help the country maintain its defence commitment at 4-5% of GDP in the coming years. See [CEE Viewpoint](#).

ASW spreads look fair + improving demand for POLGBs

The bid-to-cover ratio has increased recently (relative to recent history), indicating rising demand for POLGBs (Exhibit 13). The average maturity of bonds in primary auctions has also risen (Exhibit 14). The share of non-resident investors has been declining in recent years, but we expect it to start rising soon. ASW spreads look within the fair value range to us given fiscal policy and strong demand from banks for bonds.

Exhibit 12: Poland is shifting the focus from local to external markets to finance rising borrowing requirements

Issuance profile in Poland (in notional amounts of PLN bn - all government debt securities)

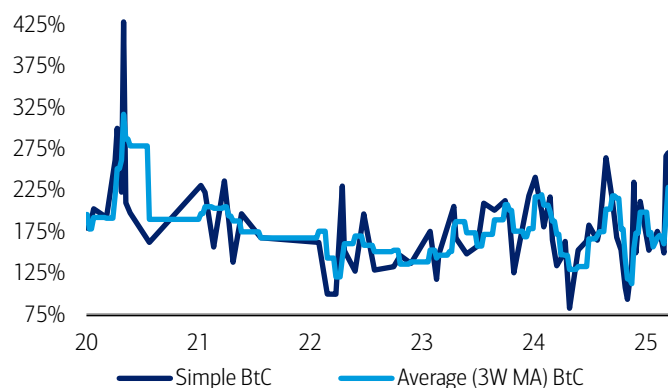


Source: BofA Global Research, National authorities

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Exhibit 13: Still-strong demand at auctions

Bid-to-cover for bonds and bills

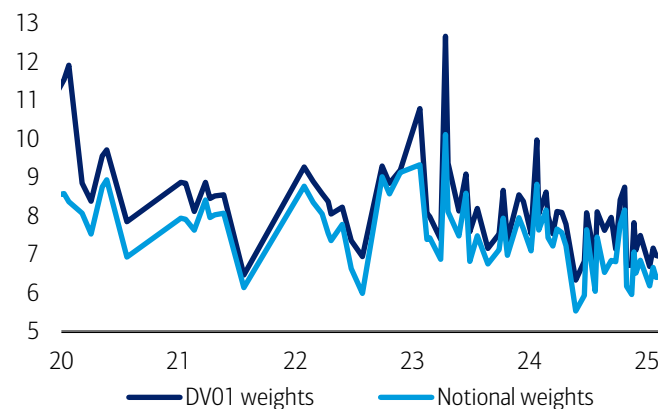


Source: BofA Global Research, national authorities

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Exhibit 14: Average maturities have increased recently

Average maturity at auction fixed-rate bonds



Source: BofA Global Research, Bloomberg, National authorities

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Exhibit 15: ASW spreads look fairly valued

PLN 5Y ASW since 2007



Source: Bloomberg, BofA Global Research

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Exhibit 16: ASW spreads should trade within the current range

PLN 10Y ASW since 2007

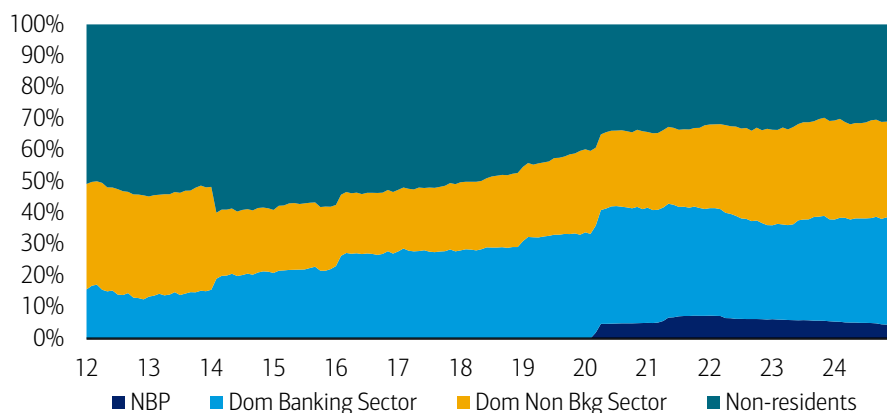


Source: Bloomberg, BofA Global Research

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Exhibit 17: Polish banks hold a significant share of the POLGB market due to tax incentives

Polish local debt split by holder

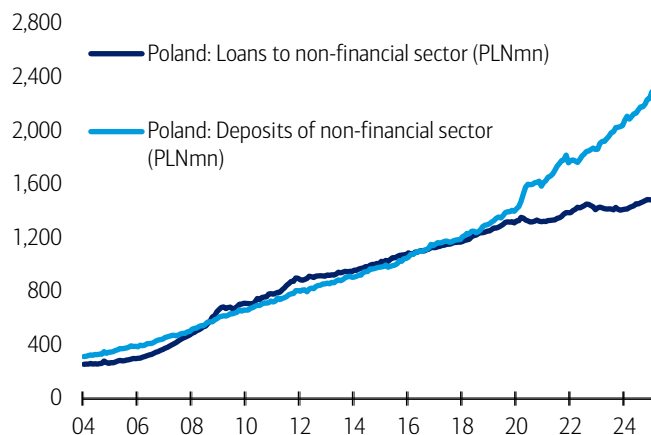


Source: Haver, BofA Global Research

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Exhibit 18: Loans vs deposits gap widening since 2020

Poland – banks' loans vs deposits



Source: Haver, BofA Global Research

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Exhibit 19: Banks can add more bonds

Poland – banks' holdings of T-bonds as share of assets



Source: Haver, BofA Global Research

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Czechia

Conservative fiscal despite elections

Czechia's fiscal consolidation and financing are generally on track. Revenues rose by 8.6% yoy in Jan-Feb, driven entirely by tax revenues, with VAT up nearly 9% yoy, while expenditures fell by -2.8% yoy, reflecting lower transfers, -8.5% yoy. The Jan-Feb deficit was c.25% of the full-year target of CZK241bn, but FinMin guided for a better performance in Jan-Mar given the revenues-expenditure timing mismatch. The gross borrowing requirement is c.20% covered as of mid-March.

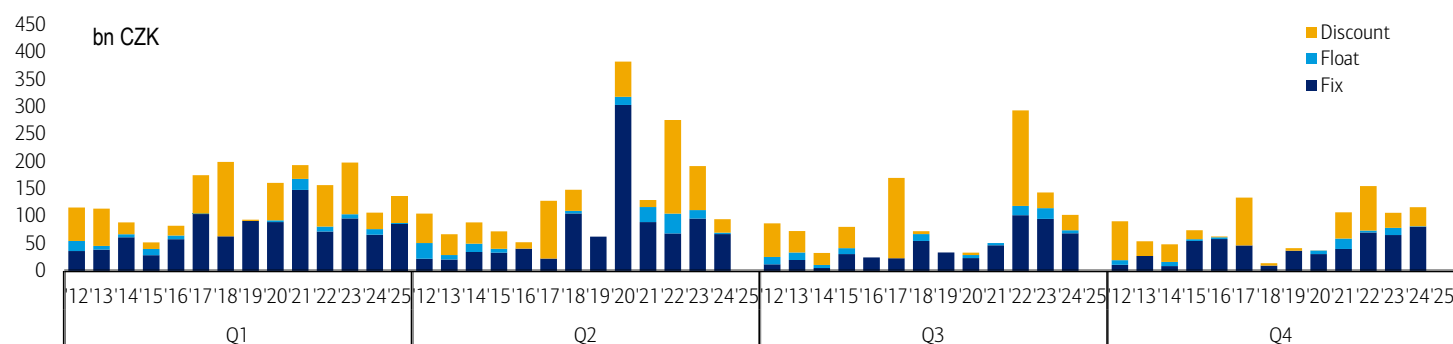
With elections approaching in September 2025, we do not see any major push on spending from the current government. While the incumbent government has communicated its intention to raise defence spending to 3% of GDP by 2030 from 2% currently, the decision lies with the next government, which will likely be less hawkish on security issues.

ASW spreads still look wide, especially 10y

Despite tight fiscal, ASW spreads remain wide relative to recent history, especially 10y (Exhibit 24). As a result, we see room for 10y ASW spreads to tighten, especially once the cutting cycle is over. A swap rally is likely to lead to ASW spread widening as bonds are less liquid than the swaps.

Exhibit 20: Fiscal policy in Czechia should remain tight

Issuance profile in Czechia (in notional amounts of CZKbn - all government debt securities)

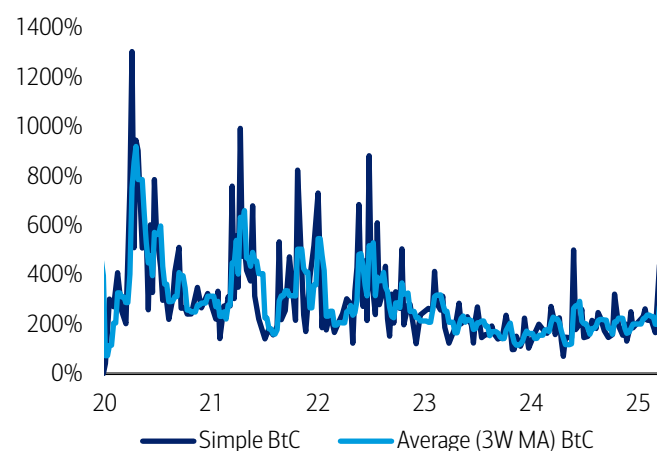


Source: BofA Global Research, National authorities

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Exhibit 21: Still-decent demand at auctions

Bid-to-cover for bonds and bills

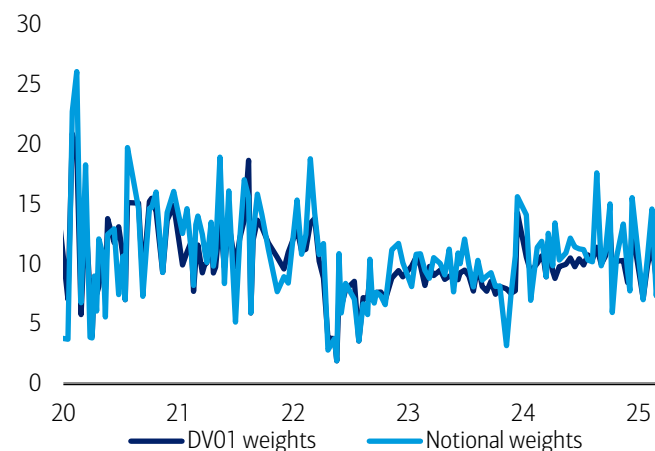


Source: BofA Global Research, National authorities

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Exhibit 22: Average maturity is around 10Y

Average maturity at auction for fixed rate bonds



Source: BofA Global Research, National authorities

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Exhibit 23: Czech ASW spreads have room to tighten

CZK 5Y ASW since 2007

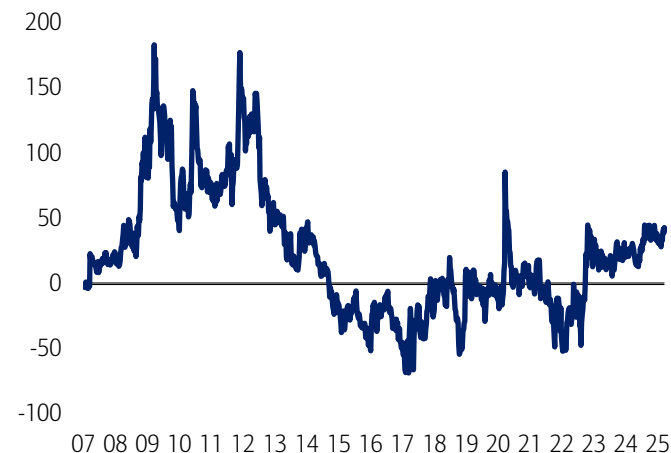


Source: Bloomberg, BofA Global Research

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Exhibit 24: 10y Czech ASW spreads should tighten

CZK 10Y ASW since 2007

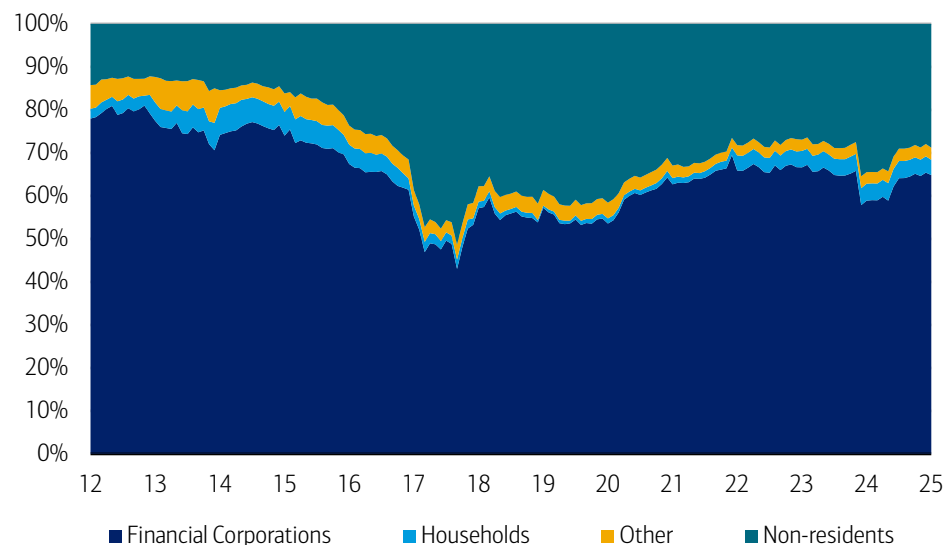


Source: Bloomberg, BofA Global Research

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Exhibit 25: Non-resident share has been rising most recently

Czechia local debt split by holder



Source: Haver, BofA Global Research

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Türkiye

Program budget is in line with our forecasts

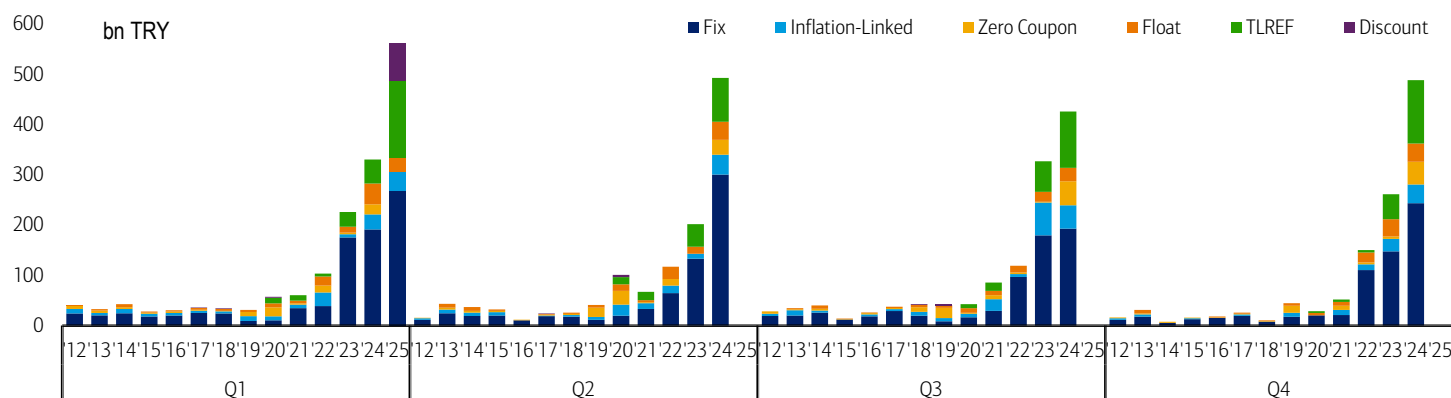
The Medium-Term Program sees the budget deficit in 2025 at 3.1% of GDP. Lower earthquake expenditures and some increase in tax revenues are the main drivers of the expected deficit reduction from 4.9% the previous year. Our budget deficit forecast this year is slightly higher than the program at 3.4% but the difference largely stems from our lower growth forecast. The treasury is targeting \$11bn external issuance this year, which is usually well-absorbed in the market, and TRY 2.9tr domestic issuance. We think that investor appetite for domestic bonds will continue as real appreciation is making TRY investments more attractive, especially in the front-end and the belly. Currently, the foreign share in local bonds is 8.2%, while it is 37.6% in sovereign bonds.

Sep 29 and Feb 27 are our favourite bonds

Even though ASW spreads for Turkish bonds look too tight relative to their rating, many individual bonds' ASW spreads look too wide relative to their own historical trading range (Exhibit 33 - Exhibit 36). Our favourite bonds are those maturing in September 2029 and February 2027. Both look attractive on ASW spreads. Moreover, long positions in February 2027 bonds allow investors to express the view that the central bank has room to cut by more than priced in, especially for 2026. Our policy rate forecast for next year is more dovish than market pricing.

Exhibit 26: The financing of borrowing requirements has focused on fixed coupon bonds in recent years

Issuance profile in Türkiye (in notional amounts of TRYbn - all government debt securities)

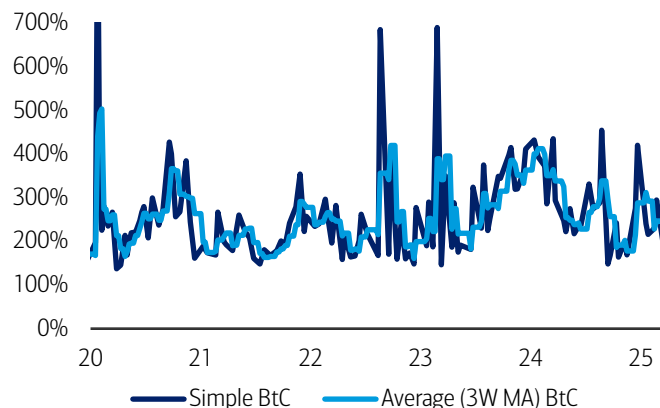


Source: BofA Global Research, National authorities

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Exhibit 27: Still-decent demand for local bonds on auctions

Bid-to-cover for bonds and bills

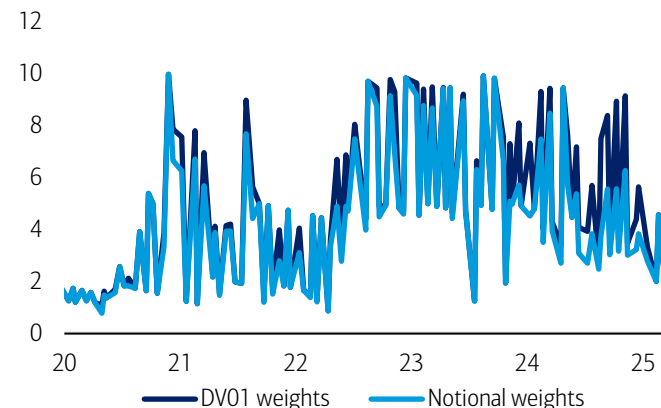


Source: BofA Global Research, National authorities

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Exhibit 28: Drop in average maturity on auctions

Avg. maturity at auction fixed-rate bonds

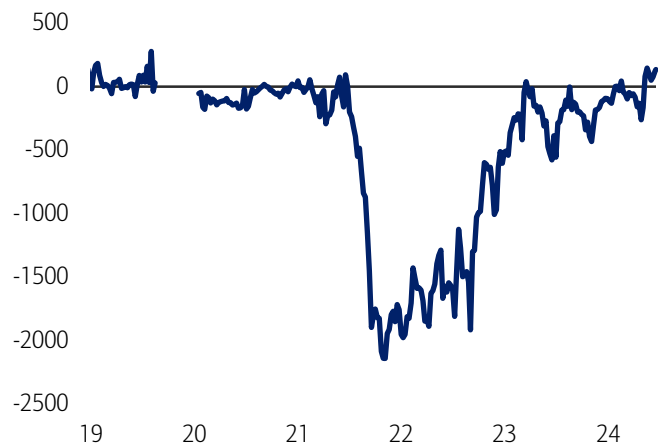


Source: BofA Global Research, National authorities

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Exhibit 29: ASWs reflect different liquidity in OIS and bond markets

TRY 5Y ASW since 2019 (vs OIS)

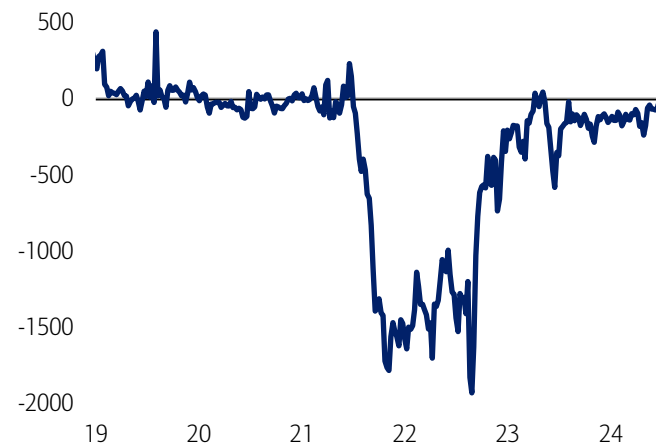


Note: The latest bond used for ASW calculation is TURKGB 31.08 11/08/28. **Source:** Bloomberg, BofA Global Research

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Exhibit 30: ASWs reflect different liquidity in OIS and bond markets

TRY 10Y ASW since 2019 (vs OIS)

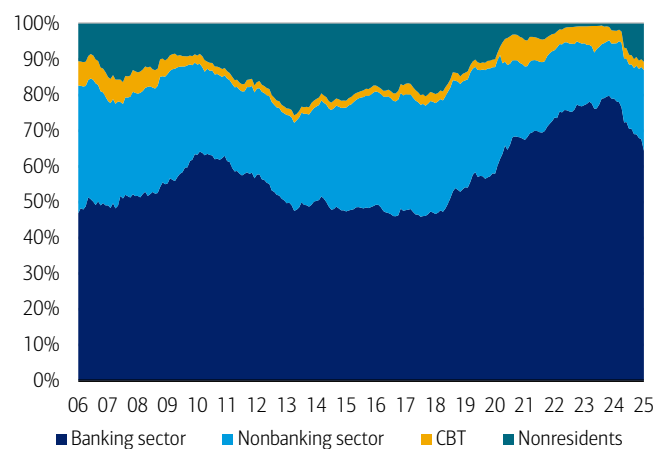


Note: The latest bond used for ASW calculation is TURKGB 26.2 10/05/33. **Source:** Bloomberg, BofA Global Research

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Exhibit 31: Banking sector dominates the market

Türkiye local debt split by holder

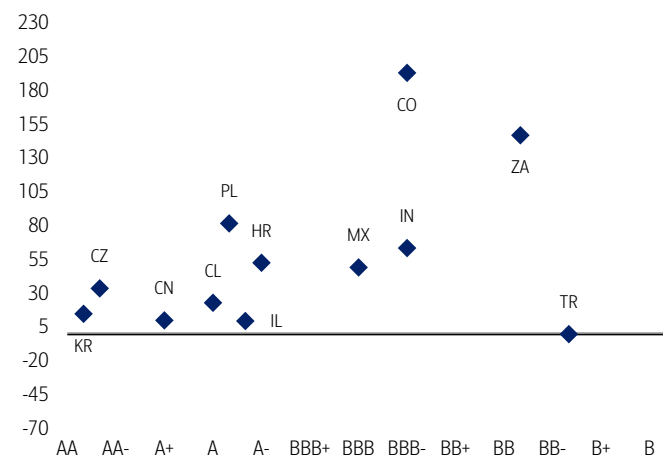


Source: Haver, BofA Global Research

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Exhibit 32: Rating justifies wider ASW spreads in Türkiye

10Y ASW curve



Source: Bloomberg, BofA Global Research

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Exhibit 33: ASW spreads look wide relative to history

TURKGB Nov28 - ASW since issuance

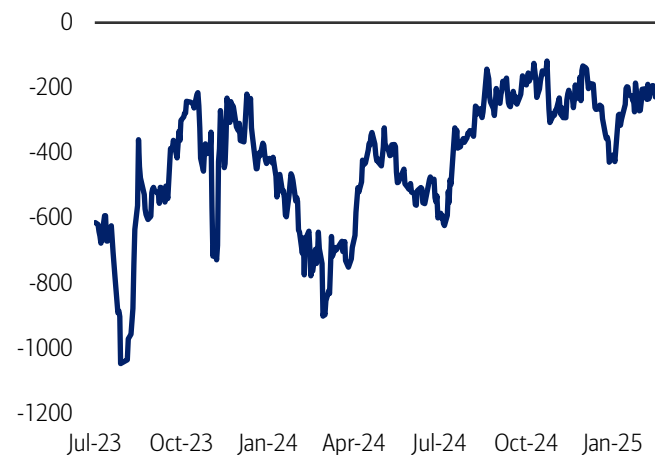


Source: Bloomberg, BofA Global Research

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Exhibit 34: ASW spreads look wide relative to history

TURKGB Jul28 - ASW since issuance

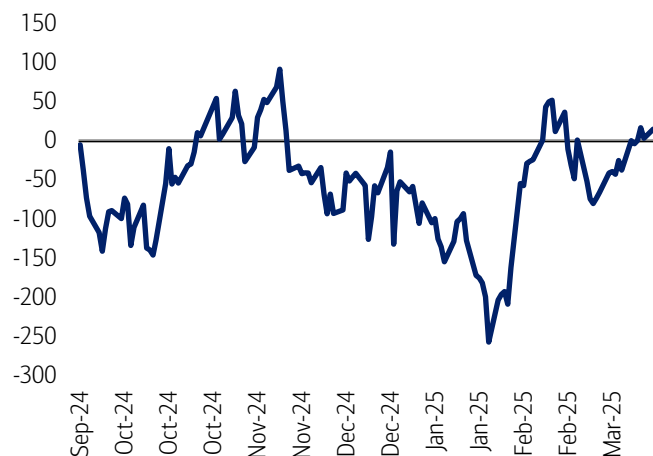


Source: Bloomberg, BofA Global Research

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Exhibit 35: Sep 29 is one of our favourite bonds

TURKGB Sep29 - ASW since issuance

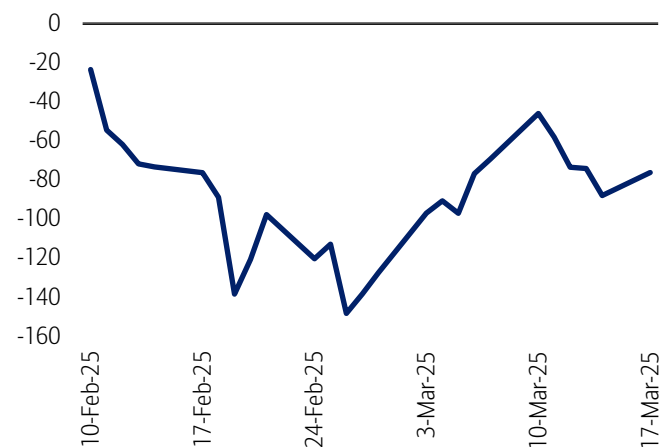


Source: Bloomberg, BofA Global Research

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Exhibit 36: Feb27 is another bond we like

TURKGB Feb27 - ASW since issuance



Source: Bloomberg, BofA Global Research

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