GlobalCapital

Sovereign Issuers Roundtable

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Fundamentals will be key as ECB steps back

Sovereign issuers may have enjoyed good demand for their bonds in 2024 but next year, they may need to act more opportunistically as the rate cutting cycle evolves.

This group of issuers, for which primary market predictability is a key selling point, is developing a more flexible approach to borrowing.

That extends to the types of debt they issue, as opinions vary on the benefits of green and retail bonds, for example.

Meanwhile, where different European sovereigns trade in relation to each other has undergone a huge shift this year.

GlobalCapital convened some of the market's most prominent funding officials to discuss these topics and more — including the EU's development as a sovereign-style issuer and the challenges and opportunities that lie in store for eurozone sovereigns.

Roundtable participants

Ben Adubi, managing director, Global Capital Markets, Morgan Stanley

Rui Amaral, board member, Treasury and Debt Management Agency, Portugal

Davide Iacovoni, director general, Public Debt, Treasury Department, Ministry of Economy and Finance, Italy

Anu Sammallahti, director of finance, State Treasury of Finland

Markus Stix, managing director, Austrian Treasury

Dimitrios Tsakonas, director general, Public Debt Management Agency, Greece

Moderator:
Addison Gong, SSA editor, *GlobalCapital*

***GlobalCapital*: Now that we are about to kick-start Q4, it is appropriate to look back at the past nine months and highlight the key takeaways when it comes to the execution of sovereigns' funding plans this year. What have been your funding highlights and the biggest lessons in 2024?**

Markus Stix, Austria: We are very satisfied with our three syndicated transactions in the first three quarters. The oversubscription of more than eight times looks quite high — but even without any fast money, the oversubscription was four times, which is very high compared with pre-crisis levels. Our auctions were also strong, with a bid/cover ratio of 2.3 times, even though we increased our auction volume this year by about 30%.

For the first time for Austria, we tapped a green bond in an auction, and two ultra-long bonds with more than 60 years in remaining maturity, despite the volatile market conditions. We also launched a new retail product in Austria called *Bundesschatz*. So, overall, we had a very good first three quarters.

Anu Sammallahti, Finland: Our 2024 funding programme has been executed according to plan. Like Austria, we did three euro benchmark syndications: a 30 year line, a 10 year line and a long five year line. In addition, we launched a dollar bond with a 10 year maturity, the rationale being that we want to expand the investor base and we hadn't done a dollar deal in four years because we have a target to approximately match or even beat our euro funding cost for any funding in other currencies.

We are especially happy to see the level of demand this year for our euro transactions — in particular, in the 10 year line, where the order book was larger than in similar issues in 2023 and 2022. The number of investors participating in all our syndications was also larger than in 2023 and 2022.

Part of the explanation could be that yield levels in absolute terms now look attractive to investors, and the pricing relative to swaps was also higher. As for the investor distribution, we had our very typical fund managers, banks and bank treasuries, official institutions and some hedge fund demand as well.

We are now more than 90% done on our funding programme for the year. There is just an auction or two remaining.

Dimitrios Tsakonas, Greece: It was a very successful year as far as our funding activity was concerned. It was the first year following our return to investment grade status. We introduced two new lines — a 10 year, which is typical for a eurozone sovereign, and a 30 year, as we wanted to rebuild the yield curve as soon as possible.

We noticed that the number of real money investors grew by roughly 30%. The newcomers realised that at least two out of three major rating agencies have now given us investment grade status. And passive investors were in a position

Cover image: The spread between 10 year Italian BTPs and German Bunds *Source: Borsa Italiana* to participate in buying Greek government bond.

We have done 92% of our funding activity for this year and we have had order books that are at record highs — in terms of both size and number of investors — compared even with the pre-crisis years.

Strategy-wise, we chose to start with a 10 year bond to mark the promotion to investment grade status. We saw a reduction in terms of spreads versus swap rates of 80bp compared with a similar bond with a 10 year maturity that we did in January 2023, so it's an impressive outcome — and I'm very proud of this achievement as we rebuild the yield curve.

Davide Iacovoni, Italy: I think most of us have experienced a positive year, despite a couple of volatility periods — especially when it comes to the results of the European election at the end of June and the call for an election in France. And then there is the start of increasing rates in Japan at the beginning of August and, as a consequence, what happened to the carry trades.

Looking back at these months, we have definitely seen a positive outcome of Italian supply in the market. We reached about 80% of our funding needs in the first three quarters — slightly ahead compared with the same period of last year, when we had more or less the same funding needs — so can say that we front-loaded a little bit to match the demand. From a cost perspective, given that rates did not go as low as the market had expected at the end of last year, this front-loading was not particularly costly for the Republic.

We continued to be quite active on the syndications front, with four conventional transactions and one linker: a dual tranche transaction at the beginning of the year — a new seven year and the reopening of the 30 year — a new 15 year, a new 10 year linker and, most recently, a new 30 year conventional bond.

We have also been present in the green space with a new bond issued via syndication. This has been an important segment of our issuance policy, with a lot of commitment generally from the government and also, more specifically, from the DMO.

We have also kept on with the focus on the retail segment this year. We placed two bonds in February and in May.

Our cost of funding has been going down. The overall cost of funding that we paid last year was slightly above 3.7%. Right now it is 3.5%. This is of course due to the new monetary policy and decision by the ECB. On the other hand, despite some of those volatility periods, the relative value of Italian bonds has been quite stable — and the levels versus swaps or the German curve have been tightening overall.

The ECB's quantitative tightening process has also been going on in quite a constructive way, looking at how the spreads and rates have been behaving over these months.

Rui Amaral, Portugal: This year was somewhat different from last year for Portugal. Last year was very much focused on retail, and the retail demand led to us issuing a lot less than we had planned in our funding programme — we were a negative net issuer.

So far in 2024, we have moved back to focus on the institutional space. Issuing bonds and bills has been our focus and we are again a positive net issuer. Another main change, as Davide was saying, is that we are facing the ECB pulling back.

We concentrated almost all our issuance in the first semester — not necessarily intentionally but we wanted to provide that additional regularity of doing auctions every month and being much more predictable than perhaps we were last year.

So, we started off the year with a new 10 year syndication and then followed it with auctions pretty much every month until June. We finished off the semester in late May with a 30 year new syndication.

Now we are at more than 90% funded, so we only really have space for maybe an additional small Portuguese government bond auction and two small bills auctions.

***GlobalCapital*: Ben, from a dealer's point of view, what have been the most important takeaways from participating in the govvie market this year?**

Ben Adubi, Morgan Stanley: As Davide mentioned, obviously we had the European parliamentary elections and the domestic ones in France, which weren't really top of people's minds in terms of causing volatility — but they did. When we were coming into this year, quantitative tightening, and the amount of positive net supply that was going to come to the market, were probably what people were mostly concerned about. And as everyone has outlined, syndications and funding volume across the board have been taken relatively well. So, my first point is that navigating QT has definitely seen a strong outcome this year.

Secondly, there has been a credit compression, and the issuers at this roundtable discussion today have seen various rating upgrades or spread compression versus Germany — another positive from this year.

Thirdly, with the exception of Germany, France and Italy, there has generally been a shortening of the weighted average maturity being issued this year, which could be due to a few things — whether it's the demand with a flatter yield curve or the expectation that the long end of the yield curve will remain where it is and the front end will perform.

And lastly, flexibility. Anu mentioned that Finland looked at a dollar deal earlier this year, and Belgium did as well. The flexibility of sovereigns to respond to demand when it comes up in a relatively short amount of time has definitely been a positive.

***GlobalCapital*: Looking ahead to 2025, what are borrowers' funding plans and what will you**

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> *"Austria and Finland — Belgium as well and other countries — now have a higher spread versus Germany, making it a more competitive market"*
>
> ***Markus Stix, Austrian Treasury***

take from this year that could be helpful in executing those plans?

Iacovoni, Italy: Frankly, it's a little bit early to paint a picture of next year's funding policy. We need to wait for the government to finalise budget proposals to be submitted to parliament on October 20, but I can offer some initial thoughts.

We envisage next year's total funding needs, at least on a net basis, will be in line with those of 2023 and 2024. We are planning to issue something that will be in the region of what we will probably end up issuing this year — above €350bn net of bills.

In Italy the government released a generous amount of tax credits for the real estate sector right after pandemic started. So, between 2021 and 2023, these tax credits accumulated quite a lot of money that has been accounted for as public expenditure. Now these generous incentives have been removed — or at least reduced quite drastically — but the cash impact of these credits will keep on unfolding up to 2027.

We also tend to be quite regular and predictable with our programmes and deal with investors in a way that means there are no surprises, so we will keep on being regular on most of the benchmark lines. Also on the green segment, we can probably expect a funding volume in line with that of the last few years. And the same story on retail.

What might be different is the cost perspective, given we are expecting some steepening of the yield curve due to the ECB's decision on monetary policy. With the rates still quite high from a historical perspective, and the steep curve, we tend to focus a bit more on the intermediate part of the curve, instead of the long part of the curve. So there may be some adjustment in our strategy, taking into consideration the shape of curve.

These are the main guidelines with which we will be moving next year.

Amaral, Portugal: It's still early days and we are planning on announcing our funding programme for 2025 a couple of weeks before Christmas, but we are not necessarily anticipating many changes.

The government will probably run a balanced budget next year. Our net issuance will be positive again, due to higher cash needs and redemptions. That will allow us to be regular in the market like this year. We will be doing auctions every month with maybe a little bit more concentration on the first semester as usual. There will be space to do at least two syndications, maybe three — we will have to see as it is still too early to decide.

In terms of maturities, we did a 30 year this year, so we are not necessarily going to look at that again. And, with the point Davide mentioned about the steeper curve, we have plenty of space to do something at the intermediate part of the curve — like a new seven or 10 year, which are always an option.

Tsakonas, Greece: It will be a challenge for us to reach the same target of €10bn next year, given that we ran at higher surpluses than forecast this year and last, which means that our net debt is going to reduce once again.

So we need to be innovative just to find space for funding activities the way we have done so far. This year we reduced the T-bill stock by almost €5bn, and we are going to proceed with a level of repayment of so-called official sector loans. All of this happened because we wanted to find space for €10bn of funding activity and it will be the case for next year.

It's a good problem to have. We may not be in a position to reach €10bn again next year and maybe we will raise slightly less. In any case, we will work towards that.

As far as the maturities are concerned, like our Portuguese colleagues we are done with the ultra-long, but everything depends on market conditions and on investors' appetite. We are very flexible.

Sammallahti, Finland: For Finland, 2025 looks rather like this year. We have already had the release of the budget proposal from the government for next year, and it appears that the deficit will continue in approximately the same size as this year. Given the redemption pattern, our funding programme size would be about the same as well. We are looking at about €20bn of long-term funding, which will be complemented by short-term funding, bringing the programmes close to €40bn.

The issuance pattern is likely to be the same as well, so we aim to bring three euro benchmark syndications. We do a new 10 year line every year, which would be complemented by potentially a new five to seven year. And then in the longer space, given that we have done 15, 20 and 30 years in alternating years, next year a new 20-year line could be considered. This is still very much on the drawing board, though. We usually release more details on our funding programme for the coming year when we have our primary dealer meeting, usually at the end of November.

Stix, Austria: Austria will follow its two-pillar strategy. We have the conventional products, but also a holistic green programme comprising green bonds, green T-bills, green commercial paper, and the new green short-term retail product that we introduced, *Bundesschatz*. But we will not go with other instruments, like sustainable or inflation-linked issues. And we are an opportunistic issuer — so if the basis swap in foreign currencies is favourable, we will issue foreign currency transactions as well.

Regarding gross borrowing needs for next year, we will have to wait until the end of October and then discuss it with the minister of finance and the new parliament. But redemption-wise, we have two benchmark bonds maturing, so no big change versus this year.

What we changed this year is the split between syndicate transactions, auctions and bilateral taps, and that will continue next year. RAGB auctions were increased to 40%-45% and we will continue this approach, as the cost was better because we were in the market monthly with our auction calendar. And we have 30%-35% via syndicate transactions and 20%-25% via bilateral taps and secondary market sales from our own quota.

This change was only possible because we had a lot of discussions and communication with the on-lending agencies. For example, we quite often had to finance with very short notice. We communicated to them to have a closer look at our bonds and bills auction calendar when doing their cash planning. And we asked them to use cash pooling if they need short-term money — we then finance the long-term needs in the next auction. All of these made it possible to decrease our bilateral taps and increase the use of auctions — something we will continue next year.

The green holistic programme will continue to be part of our funding. About 8% of our yearly issuance volume will be financed with the green programme — of which about 80% will be via medium to long-term funding and 20% via short-term products such as green T-bills and commercial paper.

Adubi, Morgan Stanley: I think the flexibility that Davide mentioned in terms of targeting certain parts of the yield curve in response to investor demand will be key. We had a decent amount of volatility through Q2 this year — and while that wasn't necessarily what people were expecting, it underlines to us the usual saying about trying to frontload or do as much funding in Q1 as you can.

I know it's not easy with the size of the funding programmes for everyone to frontload and to pick and choose market windows, and that everyone has to be relatively frequent and regular throughout the year. But certainly, frontloading in Q1 would have benefitted issuers as they got to Q2.

Looking ahead, now that we are turning to the rate cut cycle, our research team had a piece that highlighted just how strong the European banking sector is at the moment, as rates moved higher. It is going to be interesting to see how European bank profitability will fare, now we are in a cutting cycle. We are relatively positive on that in the short and medium term, so we are not expecting too many issues, but it is certainly something that we need to monitor as we go further into next year because it could change the composition of some demand for European sovereigns.

Lastly, going back to the credit compression that I mentioned earlier, we have started to see the historical relative value among sovereigns change throughout the course of this year and it is likely to continue throughout next year too. And that is going to be a challenge, as it could lead to part of certain sovereigns' investor base moving away. Equally, it could be positive and bring back some others who have not been buying certain sovereigns over the last seven or eight years.

***GlobalCapital*: It's certainly very interesting looking at relative value across Europe this year. Would you mind expanding a little bit on what you think are the most impactful changes within the govvie group in terms of the RVs and spread movements?**

Adubi, Morgan Stanley: Broadly, and unsurprisingly, we have seen Portugal, Italy, the Hellenic Republic and Spain, for the most part, compress in terms of the spreads versus Germany throughout this year. And another observation, which is purely factual, is that France has been naturally cheap relative to most EGBs this year.

Just before we jumped online for this roundtable, Spain 10 year was trading inside France for the first time since 2007. That gives you a sense of some of the relative value changes.

In theory, this is the first time that Spanish investors have been able to buy France at a pick-up to Spain since 2007. And you can look at it in two ways.

Potentially, we could see domestic accounts from Spain, Portugal, Italy, Greece diversify some of their domestic holdings; we saw that a little bit last year with Spanish accounts. As swap spreads had widened a lot, they diversified into other rates products. So that's one thing.

And then there's the EU, which is not quite yet a sovereign — and that's fairly well understood by the market — but equally, with the amount that it is issuing into the long end, we are starting to see increasing conversations with the traditional European government bond investors looking at the EU. Not as the benchmark yet in the long end, but certainly, with the amount it supplies and where it is trading, the EU is becoming a larger part of investors' benchmark holdings.

***GlobalCapital*: Davide, BTP spreads are among the most closely watched globally. Where do you see your major movements this year, particularly versus Germany and some of the other peers? What do you think of the current level and where do you think we head from here?**

Iacovoni, Italy: This is the question of questions. It is interesting what Ben was saying — that we are really in the midst of an important reshuffling of relative value in Europe, something we have not seen for many years. And the distinction that we used to have between core and semi-core is getting less and less relevant.

And, of course, Italy's spread is getting better — but it is still quite large versus our peers. We are still of the view that our bonds look too cheap, and we feel like there is definitely room for the spread to compress. But I am fully aware that our funding size will remain more or less the same for the next couple of years, and I think it is quite significantly priced by the market. So it is obvious that market participants and rating agencies want to see that the decline of debt-to-GDP ratio will continue after this period when we need to get out of the tax credit story.

You will see that in our budget plan, to be presented to the European Commission after parliamentary approval, the debt-to-GDP ratio will

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> *"We continue to demonstrate our high issuer quality when it comes to the ESG metrics. Finland is one of the few countries where the climate targets are enshrined in law"*
>
> ***Anu Sammallahti, State Treasury of Finland***

keep on rising for the next couple of years before coming down. These are the bumps we need to pass, after a couple of years when there was a striking reduction of debt-to-GDP — by 20 percentage points since 2020.

The relative value in our bonds still reflects this situation, but I am quite confident that this will evolve positively, net of all geopolitical risk and other exogenous factors that we cannot predict, of course.

It is also interesting to see the slight change in the behaviour of our debt in volatile conditions. When there was the unexpected announcement of elections in France, we had a couple of days of spread widening that was even more pronounced than the French movement. But after a few days, even though the volatility was still there, our debt outperformed and it felt like investors becoming more selective and were looking a bit more into the relative value story. So from a more technical perspective, in the most recent stories of volatility at least, Italian debt in general tends not to overreact as we used to see, even when the source of volatility was not coming from Italy. Now it looks like this is diminishing, which a positive evolution.

***GlobalCapital*: Dimitrios, we mentioned Greece's positive rating trajectory and how your 10 year funding cost has declined in 2024. Could you expand a bit on how Greece's bonds have performed versus historical ranges and versus your peers as well?**

Tsakonas, Greece: Perhaps once again Greece is a difference case, since we have had the investment grade status awarded and we have seen a tightening of spreads. But when you look at relative values, there are both fundamental and technical reasons behind what we are seeing.

We have seen that, up to five years, our spread is pretty much the same as France's. Why in some parts of the yield curve do we have such a tightening of spreads to trade far below the others? Most probably this is because of Greece's very limited gross financing needs for a long period of time — and that investors realised that, in the upcoming five years, our financing will be very, very limited. And due to the lack of financing needs, we are not in a position to issue aggressively, in the way that perhaps would be desirable for the investor community. This is the 'scarcity value'. That is the technical reason. Investors know that GGBs up to five years are most probably going to get repaid by Greece's own money. This is clearly depicted in spreads.

Given this, we have seen a steepening of the yield curve, not because our long end is less attractive, but because the short end in comparison — for fundamental and technical reasons — is too tight. There is no supply because there are no gross financing needs.

What we need to do is to continue providing supply across the maturity spectrum, based always on feedback received by primary dealers who know very well the market conditions, investor appetite — and whether there is any problem at any specific maturity points. The regular auction GGBs that we have reintroduced will help us solve these problems.

***GlobalCapital*: Rui, where do you see yourself among Portugal's peers versus where you were historically?**

Amaral, Portugal: About two years ago, we started talking to investors and advocating that they should no longer simply categorise the countries by core, semi-core and periphery. Continuing to do so, with the ever-changing momentum in these countries, would mean that investors would be missing out on a lot of RV trades.

During this time, Portugal has experienced several rating upgrades — and our spreads have continued to compress against most of our peers. And if investors simply categorise Portugal in the periphery — or simply look at how Portugal trades against other countries — they would, once again, be missing out.

We were convinced that this distinction between these simple categories would be disappearing progressively. Now I think we are finally here. The countries in the so-called periphery category are faring a lot better than maybe some other countries caught up by the French political event that we experienced. It further blurred this distinction between periphery and semi-core — even core. That is what we are seeing now.

At the same time, the EU governance rules are coming into force, and we will see what the debt and deficit progression of each country will look like in the next four to seven years. And we are also facing a period where the lowering of the interest rates cycle has begun. So the focus will be much more on fiscal and fundamentals and less on monetary policy and higher rates.

I think this blurring of these categories will continue. We will see different rating paths among the countries.

Also, last year when we were talking to investors and making this point, a lot of the feedback pointed to the fact that Portugal was a scarce issuer and liquidity was diminished, that our spreads were very compressed because we weren't really supplying the markets all that much.

All of that has certainly changed this year, and we have been a heavy issuer, relative to our size, at least in the first semester. But our spreads have compressed against all our peers even more, and we are now at maybe minimums against most other countries. So I think this is really here — this blurring of the distinction between the different categories.

***GlobalCapital*: Markus and Anu, from the traditional 'semi-core' part of the world, what are your thoughts on this old classification and on what the others have said?**

Sammallahti, Finland: I would say that, for Finland, the spreads weren't necessarily affected by activities of peer issuers. The relative value developments we are seeing this year are very much the government's own doing. Even though the budget deficit is projected to continue, the government has made commitments to implement both austerity measures and structural measures. The government also has a target of stabilising the debt-to-GDP ratio, which should be achieved by 2027 or 2028, according to the forecast.

The relative value developments for Finland are quite stable this year. But with a slightly longer view, we saw this spread widening for Finland and for a number of peer countries in early 2022 and that has somewhat eased, but not completely disappeared. So we are seeing a large part of the EGB market trade wider to Germany than it did in 2021.

This might be due to a number of reasons. QT might well be one of the reasons, after QE compressed all EGB spreads versus Germany, so this is a natural development in a way.

Where do things go from here? We saw good demand this year in our new issuance, and it appears that the pricing at its current level is attractive to investors. On the investor part, there appears to be no particular concern, even though we have seen the volatile political events in Europe. I would say Finland is comfortably sitting at its current relative level versus peers.

Stix, Austria: I can echo what Anu said. Historically, our spread versus Germany was in a range of 25bp-30bp, but we are now 50bp-55bp, so it's clearly higher.

For Austria, one of the reasons for the higher spread compared with early 2022 was the dependency on Russian gas, but the government has since done a lot to be more independent. Secondly, Austria reflects only 4% of the eurozone funding — and a smaller market is more affected in volatile times than the bigger ones.

But what Rui said is crystal clear — investors are looking more into the fiscal spending of the governments, especially now that the support from the central banks is over.

We are running at a 3% deficit this year, the same as last year. There were some measures from the existing government, and S&P gave us a positive outlook this year, but we have to wait for the new government to have more clarity on the fiscal side.

Austria and Finland — Belgium as well and other countries — now have a higher spread versus Germany, making it a more competitive market. But at the same time, there is a lot of demand from the investor community to absorb all the supply from the sovereigns.

Adubi, Morgan Stanley: Maybe just one point on what some of the others have said. In periods of volatility, you still see some of the old reflexes or reaction functions playing out — when some of the headline news is completely unrelated to one sovereign, but that sovereign's spread will be impacted.

Part of that is probably down to traders trying to hedge things which are relatively liquid at that point in time, or just looking back to how things were done historically. But, certainly, the old school or traditional reaction functions and relationships die the hardest in my mind. So I wouldn't be surprised if we have periods of volatility next year when seemingly unrelated news causes some sovereigns to underperform, for reasons that are unrelated to them. But, certainly this year, these seem to have been short lived and it seems to be people hedging themselves based on what they can get access to and liquidity for, rather than anything more fundamental.

***GlobalCapital*: The EU is a very large and fast-growing issuer, whose bond issuance is affecting the whole market. Do you see it as a peer sovereign issuer yet? What is its impact as an issuer — positive or negative — and how are you navigating its issuance when planning yours?**

Iacovoni, Italy: I think our colleagues at the European Commission have done a great job over these years in setting up a machine in a very short period of time, and they have been able to place in the market large volumes of bonds in quite an efficient way.

From our perspective, given that we are rated quite differently, there isn't really a conflicting presence in the market. I think the market still perceives us as two different animals and as two different credit stories. So probably there is increasing interaction and potential conflicts between them and some other sovereigns, but not for ourselves.

The fact that this machine works is good proof that common debt issuance in Europe is possible, and it can be efficient. Although we don't interact directly with the EU as an issuer, at the end of the day, from a macroeconomic perspective, Italy can benefit from the fact that the integration in Europe can advance.

In terms of the efficiency of the market, our colleagues at the Commission are doing a lot to improve liquidity in the secondary bond market for EU bonds. But maybe the expectation that these bonds could almost from the beginning trade as large govvies has not really been realised yet.

But I am sure there is room for improvement if there is more clarity regarding the future of EU funding — although, it's important to remember that even if new net funding will stop in 2026, they still have to refinance quite a lot of debt. And, of course, this could represent the start of the so-called European safe asset, as a safe asset has to be truly liquid. I am confident that the improvements will come in the coming months or years.

***GlobalCapital*: Markus, Austria has a rating that is more similar to the EU's. Are you feeling the impact from the EU as an issuer, when trying to navigate the market with your syndications?**

Stix, Austria: It is a competitive environment when it comes to raising debt, and it has always been the case since I started at the DMO 30 years ago, especially after

"What we tend to find is that the green issuance does outperform in periods of stress, compared with vanilla bonds"

Ben Adubi, Morgan Stanley

the introduction of the euro. But competition is always good for business.

When we speak to investors, it's not that they are cutting credit lines for sovereigns; usually they are opening an additional line for the European Union.

And the way the EU flags its issuance to the market is working very well, which enables other issuers to navigate around the events of their syndications. So from this perspective, although the European Union has taken a little bit of room for other sovereign issuers, it has also brought a lot of benefits for the others.

***GlobalCapital*: Ben, you work with both EU and the sovereigns. How do you see the EU and what is your general advice to the sovereigns when it comes to planning around such a large issuer?**

Adubi, Morgan Stanley: It's an interesting one. I don't think anyone on this call likes going head-to-head with anyone. Broadly, everyone wants everyone else's deals to go well, and there is quite good coordination with people not trying to step on each other's toes. So that's the first point.

The fact that the EU is the most frequent syndicator, not just in Europe but globally, means that there is not going to be a long part of the year when you are able to look at the market free of them. What people would probably like — and probably something that they are already working on — is a shortening of the window when they are in the market, from the time that they send the RFP to actual execution. It's probably something that the EU itself, other issuers and the investor base would like to see.

My next point is that while the EU is working on this, it doesn't necessarily have the domestic buyer base that the sovereigns have. And if I could use Portugal as an example — and I choose it for no particular reason — if Portuguese debt is looking undervalued or too cheap, Rui has a domestic investor base that will step in and say: OK, this looks out of sync. The same for Anu, the same for Markus, the same for Davide and Dimitrios.

Every sovereign issuer has that structural, domestic investor base. The EU as of now does not quite have that, although its investor base is certainly broadening. It's something that it will develop, and I am sure getting into EGB indices will help that.

But I have to echo what Davide mentioned — it is a huge amount of funding to have accomplished in a few years. The EU has come a long way. There had been talks of joint financing for Europe for decades, operationally and practically, but not much had really been done to prepare for it. What the EU has done in the last three years with the NGEU programme is really remarkable and it would be a shame for it not to kick on — which I think it will. But I don't think it has necessarily been the competing force against other sovereigns that people thought it might be. It certainly seems as though the pool of capital available has more than enough room to fit the EU in among everyone else.

Sammallahti, Finland: I do echo Ben and Davide in complementing the EU officials in building up a functioning funding machine in a limited space of time and for running that very smoothly.

We hear from investors that the EU certainly has sovereign qualities. It is, perhaps, investors outside Europe who focus more on those qualities, whereas you can still perhaps find investors in Europe who would look at the EU more as a supranational and agency type of issuer.

I very much welcome the transparency from the EU in its funding programme — in that it announces its auctions and its syndication windows. Perhaps it is still not quite as transparent as the largest sovereigns with its maturity choices in its funding programme announcements, but I am sure it is working on that.

And as for going head-to-head, of course, in an optimal situation, everyone wants to have their own window, but our experience last spring going out with a 10 year syndication on the same day as the EU was certainly not a bad experience.

***GlobalCapital*: Green bond issuance is something several of you have mentioned. What have been your green bond milestones this year, and what are your plans for issuance? Also, on the important topic of greenium — where do you see it now? Is it still relevant, now that green bonds have become a mainstream product? Where do we think the greeniums are going?**

Stix, Austria: Austria has the highest green expenditure share versus GDP of all sovereigns — and that's why we run this holistic green framework. For us it is crucial that we have a greenium. On the one hand, look at all the work that is necessary to give all the information to the investor community — for example, the green reporting, which requires at least nine to 10 months of full-time work to bring all the information out of 1,800 pages of balance sheet for Austria and into an 80 page allocation and impact report.

There is a lot of useful information for the investor community and we think a small greenium is really necessary to run the programme.

We observed 2bp-3bp of greenium in our January syndication when we tapped the two existing green bonds. It went well and investors that we haven't seen in our conventional books stepped in. They were really happy and familiar with our strategy and the green reporting.

And, on the other side, there are the very short-term oriented investors — the central banks, dedicated green money market portfolios, corporates, and bank treasuries. Thanks to them, we have a higher greenium in the shorter dated instruments. And the new green retail product, the green *Bundesschatz* we brought this year, reflects the effort from the government in building and fostering the green transformation. It's a

"The challenges for Greece are to find space for funding activity to preserve liquidity in the secondary market and to preserve our continuous presence in the investor community"

Dimitrios Tsakonas, Public Debt Management Agency, Greece

product that really added value to the market.

When it comes to greenium, the clearest observation is from the twin structure from Germany and Denmark, that's for sure. But you can evaluate the whole curve as well and see how the green bond is trading, although it is not an academic calculation. So it is reflecting the fact that by saving 1bp-2bp, you are establishing a new market for an investor community who need a lot more information and who want to see earmarking of the flows from the demand side to the supply side. This clear earmarking is very important for investors as well as for the issuer to see what will happen with the money. We think all this earmarking, for an issuer like Austria, with an expenditure size in the area of €125bn — and that is really a lot of the work — justifies a greenium.

Iacovoni, Italy: The focus on the green programme is extremely relevant for us. We have been quite continuous with our issuance over the years. For example, in 2023 we issued almost €14bn. In 2024 so far it's about €12bn.

This policy will continue, as our state budget suggests that the green eligible expenditures will continue. The proportion of green eligible expenditures is always skewed towards the transportation sector, which is very capital intensive. But we are trying to keep a balanced portfolio of expenditures beyond that, while also looking specifically when it comes to, for example, efficiency of electricity consumption in buildings, or environmental protection — all the areas with a relevant amount of expenditures every year. The commitment is there, and it will continue.

The greenium story is there. Of course, it always depends on which bonds you use in the secondary market and how to interpret everything, but there is no doubt a greenium of 1bp-2bp has always been there. But you never know whether these are savings that are really achievable in the primary market because, of course, these differences tend to disperse and tighten.

But, quite frankly, and perhaps to take a slightly different view from what Markus was saying, greenium is not the main driver of Italy being present in this market. Diversifying investors is absolutely key. The regulations that are coming out in Europe are pushing a lot of investors into making sustainable investments. Green bonds are, by definition, one of these investments, so we are almost sure to have a certain amount of investors coming in. And it's quite important for these investors to know where they can find liquid green bonds. This is why I said greenium is not really the key driver of our decision process.

***GlobalCapital*: Dimitrios, Greece has floated the idea of issuing the first green bonds for a while. Where are we with that?**

Tsakonas, Greece: We have in place a final draft of the so-called green framework, and we have appointed the primary dealers group to be the structuring adviser. But, unfortunately, we still haven't funded the green projects using a bond yet — we have a lot of projects, but they are funded by other sources, such as the NextGenerationEU loans. And we wouldn't want to put our reputation at risk by issuing, for example, €1bn of green bonds without being able to use that to finance green projects.

The greenium is not the key factor for us to decide on a potential green bond issuance, because we are a small issuer and our green issuance won't exceed €750m or €1bn. By definition, there will be a liquidity problem — so some liquidity premium should be left on the table as a kind of new issue premium. And this will erase any greenium.

So in our case, fortunately or unfortunately, we have a lot of green projects, but they are funded by other sources.

***GlobalCapital*: Finland has a good reason for not issuing green bonds. Can you remind us what that is and whether the plan has changed?**

Sammallahti, Finland: The plan hasn't changed. There is no imminent plan for a labelled green product from Finland.

We continue to demonstrate our high issuer quality when it comes to the ESG metrics. Finland is one of the few countries where the climate targets are enshrined in law. With regard to the greenhouse gas emissions, Finland is on track with the targets and aims to be carbon neutral by 2035 — an ambitious target. There is also a high level of transparency on budget expenditure in Finland — the budget is published online, item by item.

We are keenly following an investor-led initiative called Ascor (Assessing Sovereign Climate-Related Opportunities and Risks), which is about collecting comparable data on sovereign debt from the climate change perspective. We know that some countries have already been assessed for this framework and Finland will be assessed this year. It is an interesting tool to us in that it would give investors comparable information on the sovereign issuers and perhaps a tool for assessing investor quality.

I am sure there would be eligible expenditure on the Finnish budget as well, but — echoing what Dimitrios mentioned — concerns over secondary market liquidity is also something that has kept us away from the labelled products. It's fair to say that the secondary market liquidity has been something of an issue for us in approaching labelled bonds.

Amaral, Portugal: From a debt management perspective, our strategy in relation to green is not too different from what Anu said. We are in the same camp in that we don't have immediate plans to do any labelled bonds. We assessed that last year and concluded in a feasibility study that the project would be postponed. So we don't have immediate plans, simply because we don't have enough green expenditure left from all the dedicated funding and the NGEU funds that are also dedicated to fund green expenditure. For now, what's left is not sufficient or diversified enough for us to do a benchmark sized green bond.

So we are focusing a lot on building our green credentials and promoting those. Our website will have a dedicated section for ESG credentials. We are also involved in the Ascor project that Anu mentioned and will be assessed by Ascor starting late this year.

***GlobalCapital*: Ben, any quick thoughts from the dealer side on selling green versus conventional bonds for the sovereigns?**

Adubi, Morgan Stanley: I don't think there has been any by a eurozone sovereign explicitly in this format, but Japan last year looked at transition bonds and that certainly seems to be an area that the investor base is increasingly focusing on. It has issued a few transition bonds this year, which obviously are to look towards reducing emissions or enhancing industrial competitiveness in areas that are relatively hard for those industries to police themselves.

And that has been a welcome development on the sovereign side — few sovereigns actually issue transition bonds. And it may be the one area where the European investor base is much more developed as a geography. We are seeing that investor base trying to expand, either into transition opportunities or into outcome-linked bonds. The outcome-linked bonds aren't necessarily something that sovereigns will look at but that is the next area of development for investors.

In terms of the greenium, it is indeed very difficult to pinpoint exactly what that is on any given day because it can be related to what other bonds have been auctioned recently or whether there are any credit specific events going on. What we tend to find is that the green issuance does outperform in periods of stress, compared with vanilla bonds. So it does show to us that the investor base places higher value on green bonds than on vanilla bonds.

The last observation is that since the EU started issuing its own green bonds under NGEU, the significant increase in supply for the first year and a half to two years really put pressure on greenium — which can be seen if we look at Germany's twin bonds. Over the past year greeniums have started to increase a bit again. Certainly, the availability of green bonds after the NGEU programme has affected the observable greenium in the secondary market.

***GlobalCapital*: Several of the sovereigns have mentioned retail products. Looking at this market, with the ECB not actively buying any more, how valuable has the retail investor base been? And do we have to re-evaluate this demand with yields now falling?**

Iacovoni, Italy: Italy has a long tradition of being present in this market, irrespective of the monetary policies. We have a long story of people directly holding government debt, whether we are in a quantitative easing mode or a quantitative tightening mode. It's true that interest rates make the difference — and in periods when interest rates were higher, of course volumes were also higher. But since 2012 at least, we have been a presence in the retail segment.

In the future, we will continue with this stability in this segment with old products and new ones. We can expect some small innovation, but we want to be very transparent and make the products as simple as possible for the public to understand.

Depending on our cash flows going into the year-end, we may or may not do something in the last quarter of this year. But, for sure, next year we will continue to be present in the retail market with several transactions. And we will try to take into consideration the level of interest rate and the shape of the yield curve when designing the products.

***GlobalCapital*: Rui, retail bonds have obviously had an impact on Portugal's funding. Heading into 2025, what are the plans to make use of this market?**

Amaral, Portugal: Retail has been an important source of financing for the sovereign for many years. In Portugal we always have that dedicated demand, sometimes untapped, that we can make use of should we want to.

We have two avenues to access retail demand. Like Italy, we can issue bonds dedicated to retail — something we have done in the past but not in the last couple of years. We also have these so-called certificates that we have been issuing to retail investors, which will continue in the next couple of years as well. That makes up 15% of the total state direct debt.

We can make tweaks on those fixed and floating rate certificates to make them more appealing to retail. This allows us to tap a little bit of extra demand from retail when we build up the funding programme. That's the strategy.

We are comfortable with the 15% share for now and don't want to be relying much more on retail than that level. But we can always do so if we need to.

Stix, Austria: We launched *Bundesschatz*, the retail product, in April. We are using a digital identification service — ID Austria — as the entry point. Additionally, *Bundesschatz* is also available as a paper-based product. We are really happy with the development. With the new product, more than €2bn was financed and 60,000 new accounts mobilised.

But at the moment the funding volume through *Bundesschatz* does not influence our overall funding strategy. This instrument currently makes up 0.7% of our outstanding debt, so it's not comparable with Italy or Portugal. But the clear goal is to increase the domestic support from Austrian citizens in this product — which is fixed rate, has five different tenors and is easy to understand. Globally, we are unique in that we also made the green money market instrument available for retail investors.

Although we decreased the interest level after the ECB cuts it is still attractive. And we are quite transparent. The minimum investment is €100 and all investors are treated equally — we don't play any games. And the Austrian citizens really value this strategy. They can open an account within 60 seconds with the app, and they don't have to worry about credit risk because the Republic of Austria is the debtor.

Tsakonas, Greece: In May, we reintroduced the so-called retail T-bills, which have provided the opportunity for retail investors to buy up to €15,000. We don't intend to issue a retail bond, as we need to try to preserve our continuous presence in the capital markets. With such limited gross financing needs, there is no room for such issuance. We need to introduce new maturity points in order to preserve a benchmark yield curve. We also don't want to create more fragmentation across the maturity spectrum. So we are going to be focused only on the T-bill issuances. So far this year we have issued €1.1bn of T-bills to the retail sector.

***GlobalCapital*: Ben, is it fair to say that dealers have a love-hate relationship with a product like retail bonds? Do you have any thoughts on how sovereigns should make use of this versus the institutional side of things?**

Ben Adubi: It's an interesting one. It's obviously a very useful tool. It's a very valuable tool — one that a sovereign should definitely employ, if it wants to. But, as Dimitrios said, some issuers' funding programmes aren't necessarily large enough to ensure a liquid yield curve across all maturities — so allocating an increasing amount to retail does take away from other areas in the funding programme.

But it's not a bad thing, even though it reduces the funding programme and reduces syndications. It's fair enough if issuers are able to use it and, certainly, with some of the larger funding programmes it is definitely an extremely useful tool for issuers to have. And as Italy and Austria have demonstrated, it can help depositors achieve additional yield at a time when some of the ECB rate hikes haven't necessarily been passed on in the same sizes through the banking system.

GlobalCapital: What are the main challenges and opportunities for next year?

Amaral, Portugal: We have had a very benign year in the sense that it was relatively easy for everyone to complete their funding programmes in a successful fashion. We have experienced a lot of record demand on syndicated deals, very strong spread compression for many issuers and very low new issue concessions.

I think the risk is that we could face periods of additional volatility that may come from investors' risk aversion. They may not necessarily be as enthusiastic as they were in the first semester this year about new issuance.

So, next year and in the following years, we have to be aware of that and have to remain flexible and be more opportunistic in a sense. All issuers, and specifically the sovereigns, also have to prepare for the possibility that fundamentals will play a bigger role, and monetary policy a smaller one, now that we are in a rates cut cycle.

Portugal has been, and still is, in an upward rating path, so in a sense we are preparing for that. I think our ratings will continue to go up and we will hopefully continue to deliver stronger fundamentals from both economic and fiscal perspectives.

In terms of funding and debt management, we want to be as prepared as possible to tap all segments. We are prepared to have the whole portfolio of instruments ready, not only bonds and bills — which we want to issue in a way that is as predictable and transparent as possible. We will also develop our EMTN programme.

We will definitely try to widen our investor base in terms of investor type and geography. Based on our higher ratings, we will be dedicating a lot more time to institutional investors, central banks and other official institutions in and outside Europe. That's our main strategy.

Iacovoni, Italy: I really agree with what Rui was saying about the relevance of fundamentals. They will come more into play in the next few years, beyond just next year, considering that the role of the ECB in the market will be much less pronounced than we have been used to in recent years.

It's not just the fundamentals for each country, however, but fundamentals in Europe, where the economies are very interconnected. In my opinion, Europe is going through a very delicate period. There are a lot of challenges, a lot of opportunities and a lot risks. It's not just because I am Italian, but I think it's worth quoting what Mario Draghi said a few days ago in his document regarding the challenges for Europe.

These are all factors that need to be addressed over a longer period, and the transition is already unfolding, while also revealing its costs — the green transition, the digital transition, the energy transition; these are all interconnected and are generating costs that are probably higher than expected. These costs may also have an impact on the public finances for each of our countries as well as at the European level.

We also live now in a much more dangerous geopolitical environment than a few years ago. There is risk coming out of the US because of the elections, but there are also more risks in Europe than there used to be. But, overall, I am confident because Europe has always proved that, in a situation of crisis, it is able to stand up and do what needs to be done. And thanks also to a more cohesive Europe, it will allow all of us to manage our debt in a smooth way.

Tsakonas, Greece: At the micro level, the challenges for Greece, as I already mentioned, are to find space for funding activity to preserve liquidity in the secondary market and to preserve our continuous presence in the investor community. It's very challenging but I am confident that we can achieve it.

At the macro level, I fully echo what Rui and Davide said previously. The things I am worried about are the cost of repatriation of production from Asia to Europe, the ageing population in Europe, the transition to the green economy and its cost, the energy crisis, the political tensions and volatility caused by US elections and the potential exported inflation or imported inflation for the eurozone.

Lastly, I think the so-called risk-free assets should be established at some point in time.

All of these future challenges may have a negative impact as far as the fiscal outcomes of the eurozone countries are concerned. But I am pretty confident that we will be in a position to face all these challenges the way that we have done in the past — through the pandemic, the energy crisis and the war in Ukraine. I am pretty optimistic about what's to come.

Sammallahti, Finland: My colleagues here have highlighted very well the macro level concerns that all of us face in Europe. On the debt management level, I would perhaps highlight that secondary liquidity and bonds' attractiveness to investors is always a continuous concern for a relatively small sovereign. At the same time, I think the silver lining is that our primary dealer group have been putting in good effort in maintaining that secondary liquidity and serving our investors.

Stix, Austria: From a small issuer's perspective, if you look at how markets reacted to the last three to four years, I am not too concerned. It was possible for all the sovereigns to finance huge funding programmes. So I feel comfortable that although we are in a rate cutting environment, [all the supply] will be absorbed well.

What is crucial is to broaden further the investor base. We have the big investor — the ECB — stepping out of the room and that's very important. But, overall, we think that the market will be able to adapt to the new situation.

Adubi, Morgan Stanley: I definitely agree with everything that has been outlined so far. And at the moment, I think, the market is pricing in not just a soft landing in the US but a soft landing in Europe as well. So if I were to think about some of the things that Davide and Dimitrios mentioned in terms of some of Europe's traditional areas of strength being encroached upon by some countries out of Asia — and if you were to couple that with potentially a soft landing not coming to fruition — that would naturally mean that fiscal deficits might come back into play. This brings us all the way back to where we started, which is around fundamentals.

So from our perspective, while there are definitely areas from this year and previous years that have been beneficial and positive for our market, not getting a soft landing and the impact on deficits are definitely the two things that could bring challenges next year. GC