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Defence spending presents mountainous challenge to public sector debt issuers

To secure their countries in uncertain times, governments around the globe are set to increase defence budgets to a size that has been rarely achieved in a generation. Strained public finances suddenly present an immediate barrier to the security of the public and key players in the capital markets are rushing to act, writes **Elias Wilson**

The heads of government of the 32 member states of the North Atlantic Treaty Organisation (Nato) are expected to commit to monumental change when they meet for their annual summit in June.

“If we don’t spend more together now to prevent war, we will pay a much, much, much higher price later to fight it,” Mark Rutte, Nato secretary-general, said in December 2024.

At his first summit leading Nato, which will take place in his home country in The Hague, Rutte will be expected to extract a commitment from members of the alliance to increase their defence spending to levels not seen in the post-Cold War era. “I assume that in The Hague we will agree on a higher defence spending target of in total 5% [of GDP],” he said at the start of June.

Under the previous spending target, alliance members were expected to meet a minimum of 2% GDP spending on defence by 2024. A commitment of 5% is therefore an increase of more than double — a significant step upwards for Nato, especially considering that it forecast only 24 of its members would meet the 2% threshold last year.

The US, which, behind Poland and Estonia, was the third largest Nato spender on defence in 2024 at 3.4% of GDP, has been pressuring its allies to spend more on their militaries since Donald Trump became US president for the second

time in January. Trump believes that Europe has largely been free riding under the US defence umbrella, underspending on its military to prop up generous welfare states.

Europe has been responding in the way Trump wanted.

“The era of the peace dividend is long gone” Ursula von der Leyen, European Commission president, said in March. “The security architecture that we relied on can no longer be taken for granted. Europe is ready to step up. We must invest in defence, strengthen our capabilities, and take a proactive approach to security.”

With a brutal war raging on its landmass and global geopolitics more uncertain than in recent memory, defence investment has become a priority for Europe. However, economics are constraining what it can do on the journey to security on the continent and some observers believe Nato countries may be unable or unwilling to get to 5%.

“I would find it quite astonishing if a figure of 5% of GDP is agreed on for European countries at the Nato summit,” says Marco Buti, who was director-general for economic and financial affairs at the European Commission between 2008 and 2019.

“And if they do, it will be more to appease the US than out of conviction,” he adds. “The Europeans will struggle very much to get to 3.5%, so I find it hard



Marco Buti: “The Europeans will struggle very much to get to 3.5%”

to believe that this is a sensible commitment to make over a relatively short time period.”

Scale and pace

Speculation is rife that Rutte will propose that Nato members allocate 3.5% of GDP to ‘hard defence’ and a further 1.5% for cyber, intelligence and other military-related spending, and that he may push for a deadline as soon as 2030 to achieve this.

The membership of the EU and Nato overlaps almost exactly, though not quite.

Twenty-three of the 27 EU member states are also in Nato, so the level of support among these countries for Rutte’s vision could be a good indication of how far the EU will go in boosting its defence capabilities and how quickly they will do so. In 2024, the 23 EU-Nato members spent just under 2% of their collective GDP on defence.

“Entering 2025, EU member states faced low growth, rising interest rates and an obvious need to increase defence spending,” says Alvise Lennkh-Yunus, head of sovereign and public sector ratings at Scope Ratings.

“While most member states are absolutely committed to 3% defence spending, the speed with which this happens is dependent on the perceived threat level and the fiscal capacity to fund the expenditures,” he says. “Both of these aspects vary significantly across member states.”

Each EU member state has their own incentives to increase their defence budgets. The closer a member state is to Moscow correlates strongly with its military spending, for example, and is likely to do so in the future. But the most crucial difference is probably the state of the public finances in each member state and the constraint this places on how much they can invest in their defence.

Italy and France, two of the three largest economies in the bloc, are severely fiscally constrained, with already high levels of debt relative to GDP. France’s finance minister, Eric Lombard, has said that defence spending and fiscal pressures “don’t cancel each other out”.

“France last year got a clear signal from the market that there were problems with its budget, which pushed OATs wider,” says Peter Schaffrik, chief European macro strategist at RBC. “If France comes out and says that it will widen its deficit by a certain amount to fund for defence, it is very plausible that OATs would trade in a similar way.”

Oliver Rakau, chief Germany economist and deputy head of the European macroeconomics team at Oxford Economics, says that “reallocating spending is politically hard and if [countries like Italy and France] choose to borrow more then it will likely have to be ramped up gradually.”

Rakau notes that there are no guarantees of even Germany increasing its defence spending to the levels described, though it has ample fiscal space to do so, as well as the legal infrastructure to borrow for its military after reforming its debt brake in March. Boris Pistorius, the country’s defence minister, intends to increase defence spending at a pace of 0.2% of GDP per year. In 2024 Germany spent 2% of its output on defence.

“Despite this being a steady pace, it probably makes sense, as Europe does not currently have the necessary production capacity for a larger boost,” says Rakau.

EU programme

To help EU member states meet what is clearly a mountainous fiscal challenge, the European Commission has proposed its own initiative to help countries get access to credit.

In March, the Commission unveiled its ReArm Europe – Readiness 2030 plan, which it said had the potential to mobilise close to €800bn for defence purposes across the EU. This sizeable amount of capital is intended to be unlocked through two avenues: a temporary activation of the national escape clause in the bloc’s Stability and Growth Pact is expected to release €650bn, while Security Action for Europe (SAFE), a new jointly financed loan instrument, would provide €150bn.

Buti, who also served as chief of staff for former economy commissioner Paolo Gentiloni, does not think that what the EU has put on the table has generated much traction. He notes that only 14 member states, excluding France, Italy and Spain, the three biggest economies in the EU after Germany, have requested to use the national escape clause.

“From a credit rating perspective, the exemption of defence spending from the Commission’s fiscal rules is not overly relevant to us,” says Scope’s Lennkh-Yunus. “The funding has to come from somewhere, and even if you are not penalised institutionally, it still has an impact on your public finances and debt sustainability.”

The Commission has never financially sanctioned a member state for breaking its fiscal rules. Those who criticise the EU’s optimism over the activation of the national escape clause tend to point out that the bond market is the real constraint on extra borrowing.

“The tools put on the table by the Commission both have one thing in common: they create more national debt,” says Buti. “Either via direct borrowing by governments or through the fact that the EU loans have to be repaid by those countries receiving them.”

“One conclusion that I think can be drawn is that – contrary to the global financial crisis and

Covid – EU instruments based on loans are not very effective. At the moment, we are also not seeing the large spreads that we have over Bunds, which makes these loans less appealing to other countries.”

Many think that for the Commission to make a significant impact grants would be needed, opposed to loans, alongside a larger programme size. “The EU defence package seems a little like a power play from Brussels to stay in the discussion and put an EU-level solution on the table,” says Rakau.

The political barriers to joint borrowing are high across the bloc. More frugal EU countries, such as Germany and other Northern European states, are concerned that they may take on added risk for limited reward if their borrowing costs are below the Commission’s.

However, some of the frugal states, such as Finland or Denmark, or even those known for fiscal responsibility, such as the Baltic states, are the ones who are feeling the most acute security pressures. It could make states who have been traditionally stiff about joint projects warm up to the idea.

“The German government has crossed some painful red lines given its classic position on public spending and defence,” says Buti. “So it remains to be seen if it has sufficient political capital for crossing another one in terms of further EU common instruments. Hopefully this is the case, as there is no way round to a common defence

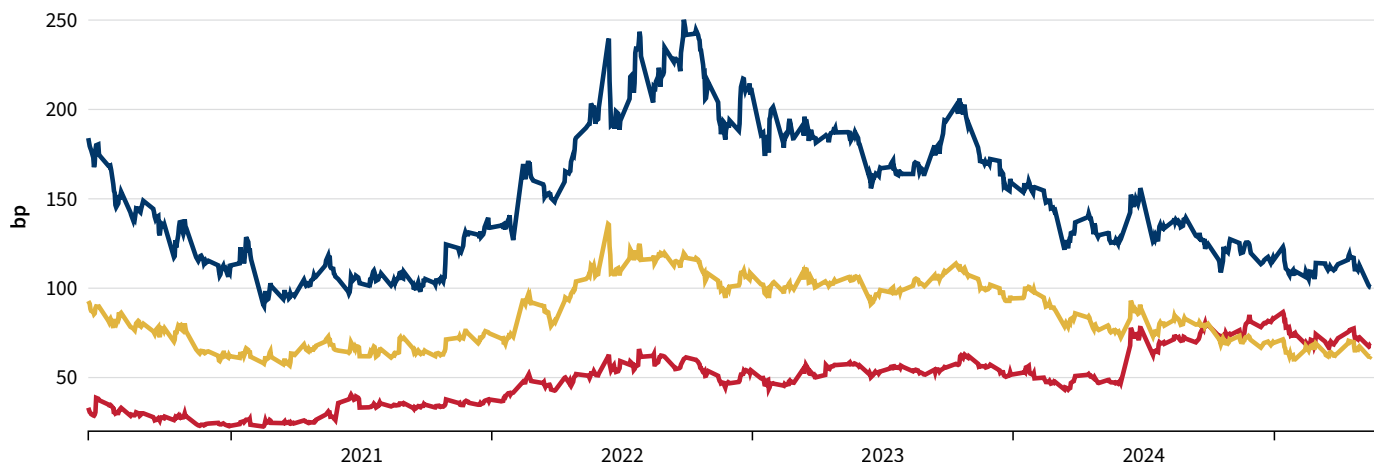


Oliver Rakau: “EU defence package seems a little like a power play from Brussels to stay in the discussion”

EGB spreads over Bunds

Lower EGB spreads to Bunds makes EU loans less attractive

● 10 years OAT-Bund ● 10 years BTP-Bund ● 10 years Bonos-Bund



Source: Tradeweb

policy financed by common tools, including EU bonds.”

Defence, Security and Resilience Bank

Scope for collaboration is not just limited to the EU and its member states. The idea of a new supranational institution focused on security, modelled on the multilateral development banks, and inclusive to Nato members and their allies, has created some momentum in international circles.

The Defence, Security and Resilience Bank (DSR Bank) is an idea developed by Rob Murray, former head of innovation at Nato. The institution would, according to its founder, act as a strategic supplement to its member’s national budgets while building their defence industrial base.

By obtaining triple-A credit ratings the bank would aim to lend to shareholder countries and defence manufacturers at preferential rates relative to what could be achieved on the market.

“When you look at the numbers for some countries, like Canada for example, a change of this

kind [with respect to defence spending] is very significant,” says Kevin Reed, president and chief operations officer at DSR Bank. “These changes in spending are also expected to be implemented over a relatively short period of time while many nations have constrained public finances.

“The DSR Bank plays a crucial role in solving this puzzle,” he adds. “It will be able to complement the spending in the budgets of its members, co-ordinate procurement processes and build defence industries by ensuring access to credit for its participants.”

One of the benefits of developing DSR Bank, its supporters argue, is the opportunity that it presents to build production capacity – something badly needed in Europe. By providing loan guarantees to commercial banks, the institution can ensure smaller defence contractors can have the capital they find tough to access in a stringent regulatory environment.

John Cummins, special advisor to DSR Bank and former CEO of Aviva Capital Partners, notes that by building industrial capacity, the

multilateral institution will help accelerate the ability of governments to meet the challenge at hand.

Despite the claims about the benefits of setting up a defence-related lending and borrowing entity, some observers point out that the process of developing a new supra still has drawbacks: “A new institution means that investors would need to get new lines and see how the bonds would fit in with their relative value considerations. It would probably be better to consolidate this funding under one name, such as the EU,” says RBC’s Schaffrik.

“However, from a politics point of view I accept that this is quite difficult,” he adds. “It would require an additional NGEU [NextGenerationEU]-type structure which may be hard for states to accept. There are also the benefits of being able to add the UK and Norway to the project.”

David Marks, a member of the DSR Bank leadership team, spent 38 years working in the capital markets for JP Morgan. He says that it is too early to talk about the relative value of DSR Bank but thinks that its “unique mission will provide investors with a product that will be very desirable to have in their portfolios”.

“A lot of investor work will have to be done, and this will take time, but the infrastructure will absolutely be in place to allow this institution to deliver at scale,” he says. GC

“By building industrial capacity, the multilateral institution will help accelerate the ability of governments to meet the challenge at hand”

John Cummins, DSR Bank

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Rebalancing needs create fresh opportunities for investors

As volatility continues to plague the US Treasury market, public sector issuers have found themselves at the centre of attention of investors seeking high quality, liquid assets as an alternative investment to US Treasuries. Market participants eagerly await further evidence in the coming months of any meaningful shift in investors' behaviour. The early signs are certainly encouraging, writes **Addison Gong**

On a summer day in August 2011, three of S&P's sovereign rating analysts were about to reveal one of the most important decisions in their professional careers — downgrading the US to an AA+ rating from AAA for the first time. They made their decision as they believed the political division in US at the time would add to the fiscal and economic challenges facing the country.

S&P announced the downgrade anyway, and the rest — the furious reaction from the White House to Wall Street and the worst daily stock market sell-off since the Global Financial Crisis — is history.

Yet history has repeated itself: almost exactly 12 years later, Fitch dropped the US by one notch from AAA.

And less than two years after that, in May 2025, Moody's finally took the plunge and did the same.

Only this time around, the market reacted in a much more measured — almost muted — fashion.

That is not to say, however, that investors have become oblivious to the challenges the US is once again facing, and the devastating knock-on effects these could have on the global economy. Almost a century since the stock market crash of 1929, the quip of “when America sneezes, the rest of the world catches a cold” never grows old.

They just saw it coming. The US's debt ballooned, the cost of servicing it skyrocketed, and on many occasions — for instance,

since the infamous ‘liberation day’ tariff announcement — prices and yields of US Treasuries behaved in a way atypical of their safe-haven status.

“Even before the latest Moody's downgrade, investors had already adjusted to the new reality that the risk-free dollar benchmark is no longer triple-A rated,” says Rong Ren Goh, portfolio manager, fixed income, Eastspring Investments in Singapore.

Growing interest

The recent volatility in US Treasury yields and their spreads relative to interest rate swap rates has caused fixed income investors to wonder whether they have accumulated too

big an exposure to a single market, that is, the US Treasury market, and are sitting on a portfolio with too high a concentration in a single currency — the dollar.

Some have described the ‘sell America’ trades in both fixed income and equities markets, whereas others have thought a ‘de-dollarisation’ trend has taken shape across asset classes globally. Many also see it as a diversification opportunity.

The million-dollar question: what should one buy as an alternative to US Treasuries, or even dollar bonds?

It was perhaps no coincidence that over the last couple of months, a number of SSA issuers have noticed



new — or renewed — interest in their euro bonds. Some public sector borrowers in the EMEA (Europe, Middle East and Africa) and Asia Pacific regions also observed this about their dollar bonds.

“We did see that investors wanted to take some time in order to reposition themselves in dollars and during this time, they are buying euros, which is very positive in terms of demand for us,” says a French agency issuer.

“What I have heard during the last few weeks’ travel is that investors want to have more options for their portfolios,” says one supranational issuer. “There is more interest in looking at the euro area government bonds, for example, and to a certain extent supnationals based in EMEA or Asia.

“It’s been very interesting to listen to people’s thoughts on whether the eurozone sovereign market is liquid enough and whether there are enough risk-free, quality assets in the eurozone.”

One European borrower which sold a dollar bond recently noticed that in particular, “Asian investors are back for us”.

“We are currently seeing it in dollars, but there could be a further shift from dollars to euros as the confidence and trust in Trump wane,” he says. “We’ve already seen that [shift] in mainland Europe and UK, and now it could be in Asia too.”

The issuer’s next planned benchmark will be a euro one, and he is “curious” if it is possible to identify such a shift “if Asian investors are also coming back to buying more euros, like they’ve done in the early 2000s,” he adds. “Back then we had 15%-20% of Asian shares in our order books. It’d be interesting if we could see that again.”

Petra Wehlert, head of capital markets at KfW in Frankfurt, already noticed something different in her bank’s new €4bn five year green bond issued in mid-May.

“It’s hard to make a trend out of just one deal but from the distribution of our last five year green bond, we do see more and more investors with larger tickets buying our bonds out of Asia,” she says. “If we compare the stats this time with our last deal of the same maturity, the evidence is in the numbers. For us, that is a sign that we are going in this direction.”



“While people are looking for diversification into stable and the quality assets, liquidity is important, and quality is important.”

Lei Zhu, Fidelity International

Asian investors had an 18% participation of that recent KfW deal. The issuer sold a five year euro bond — a conventional line — around the same time last year which had a 7.8% allocation to Asia.

Valuable alternatives

“We do see diversification as an interesting story these days,” says Lei Zhu, head of Asian fixed income at Fidelity International in Hong Kong. “Investors realise it’s good to have a more diversified portfolio even if they still want to stay invested in the US dollar and US Treasuries.

“But while people are looking for diversification into stable and the quality assets, liquidity is important, and quality is important,” Zhu adds. Therefore for those who have started to think about alternative diversification, “the triple-A rated SSA assets are very valuable”.

“Currency-wise, the interest is in those with an appreciation potential [against the dollar], so the countries running a trade surplus would be favourable,” she says, adding that from that perspective, investing in the euro and yen bond markets — both

are also large and liquid markets — comes as “a natural choice”.

Zhu also notes that newer SSAs, to which most investors do not have much exposure but offer a slightly wider spread, also provide some investment opportunities.

Eastspring’s Goh says from an asset manager’s perspective, “it’s nice to show my client a portfolio with everything as high as possible — both credit rating and yield”.

“And this is where SSAs actually come into the picture,” he adds. “Because even though I cannot buy US Treasuries as triple-A anymore, I can still buy triple-A rated supnationals and agencies.

“And these are quite flexible investments, too, because there are quite a number of them in the market, so you do get to choose which issuer and which tenor, and comparatively, they don’t require significant amounts [of investments] each time.”

Based on their spread target, investors can then go for the strongest triple-As for as little concern as possible, or choose those issuers with a slightly wider spread due to their lower rating or shorter track record of issuing, he notes.

“We are currently seeing it in dollars, but there could be a further shift from dollars to euros as the confidence and trust in Trump wane”

European borrower



Rong Ren Goh, portfolio manager, fixed income, Eastspring Investments: Investors have already adjusted to the new reality

“There is an appeal for SSAs because it’s highly flexible and almost customisable,” says Goh. “But in the world of finance and capital markets, there is no such thing as a free lunch. And in the case of SSAs, while you can get them in hard currencies like dollar and euros and the liquidity is also reasonable, they will never be as liquid as US Treasuries.

“It’ll be a trade-off between the potential liquidity with a higher carry versus the risk-free rate.”

Make Europe great again

One supranational issuer in Europe says he has received more questions about the institution’s euro issuance as investors try to diversify their investment choices.

“What we have seen lately is a positive for the euro area, and I think the euro area is going to benefit from all this,” he says. “But it of course needs to be seen if the trend is to be continued — it’s too early to confirm it, even though the initial signs are definitely positive.”

Other large issuers think similarly.

“Going forward, my assumption would be that the euro market will become more international,” says KfW’s Wehlert.

“We are probably looking more at a trend of the internationalisation of the euro market, rather than de-dollarisation,” she says. “Judging by the numbers, it does feel like everyone wants a more balanced portfolio and because our bonds are fairly liquid, we could potentially benefit from that. I’m looking forward to seeing the next few deals.”

A peer European agency issuer noticed that his last euro bond had a “quite standard” allocation outside of its home investor base of Europe, of about a quarter. What stood out to him instead was the euro market’s ability to attract more interest from issuers instead.

“In the euro market we are seeing an increase in issuers able to issue — for example, the Canadians and Australians who have joined this market with new benchmark supply,” he says.

“It shows that the market continues to develop, and that there is also the political will to further develop the Capital Markets Union which is also very good.”

A touch too early

All issuers have cautioned, however, that any shifts that have been observed are at the “very initial stage” and they need to see further evidence of any fundamental change in investor behaviour, or for such a change to lead to any meaningful adjustment to the issuance pattern of public sector entities.

“The demand for our recent euro deal was one of the strongest that we’ve ever seen and that’s encouraging, but I don’t think we can read too much into it what it says about investor appetite for euros versus dollars,” says one issuer who primarily funds in dollars.

“For sure, a lot of investors are beginning to ask, is there some sort of rebalancing that’s appropriate? But we haven’t considered changing our dollar benchmark issuance plan for the rest of the funding year,” he says. “We are confident as ever about being able to issue dollars.”

But demand from the bank’s lending side is just as important as the demand on the funding side, he adds.

“What we do is also linked to whether our lending clients are demanding dollar or non-dollar loans,” the issuer says. “We are flexible around what we are able to offer, and if there’s something unfolding, it’ll affect our funding too, but it’s probably way too early to tell if there’s any shift in demand on the loan terms from dollar to non-dollars.”

A second European agency issuer thought that while interest is growing outside of the US Treasury market, such interest, even if fully translated to actual demand, is unlikely to be enough to move the needle.

“Investing in supras and agencies — it’s an easy box to tick when it comes to things like HQLA, risk weighting and sovereign guarantees,” he says. “But in general, the ‘too big to fail’ status of the US Treasury market is still there, and we all know that the biggest holdings of Treasuries outside of the US are from Japan and China and while Japanese and Chinese investors are probably looking at other options, would someone see us, with about €10bn a year to fund, as a surrogate for US Treasuries? The answer is probably no.”

Even so, several Europe-based borrowers also highlighted the importance of staying connected or to reconnect with accounts outside their home investor base.

“It was definitely helpful to be on the road recently as it helped us understand what those investors are doing at the moment and why they are doing it,” says one of them.

“If they are not buying US dollars, what do they do? Are they buying new currencies, or something else? Are they buying gold? Asian central banks are notably buying so much gold, but it is not the only thing that they buy.”

Others warn about underestimating the impact of investors’ rebalancing or diversifying.

“Because the pool of dollar assets is so big,” Fidelity’s Zhu says, “if international investors start to move to other markets, even though those markets are relatively small, the impact could be quite big.” GC

“It was definitely helpful to be on the road recently as it helped us understand what those investors are doing at the moment and why they are doing it”

Europe-based borrower

Social bond investors demand volume, variety and strong outcomes

Social bonds have become an established part of the funding market for supranational, sovereign and agency borrowers, with a steady output of about €140bn a year from all kinds of issuer, since the exceptional surge during the pandemic.

Investors would like more, and large reservoirs of social spending in the public sector are not being tapped. Among governments, national and local, still only a minority use the instrument.

Meanwhile, investor demand is tangible but diffuse, often spread across a variety of funds and firms with environmental, social and governance awareness, rather than coming from dedicated social bond funds.

Investors who do pursue the product are thirsty for a broader spread of issuers and

currencies — this year issuance has been 50% in euros and 63% from the public sector.

GlobalCapital brought together 10 leading issuers, investors and investment bankers in June to discuss their experiences and what the market needs to grow.

Speakers debated pricing dynamics, the scarcity factor, whether the Trump administration's stance on ESG has affected the market, and whether defence can be considered social expenditure.

They argued investors want clarity on impact. That can be difficult to provide when impacts can take years to bear fruit, but issuers are learning to be more precise about the immediate outcomes the bonds finance, and which groups in society are benefiting from social investments.



Roundtable participants



Jean-François Masure , head of debt agency, Communauté Française de Belgique	Felix Baumann , specialist, investor relations and ESG, NRW. Bank	Ayelet Perlstein , head of investor relations, International Finance Corp	Laura Fan , head of funding, Inter-American Development Bank	Marcus Pratsch , global head of sustainable bonds and finance, DZ Bank	Antti Kontio , head of funding and sustainability, Municipality of Finance	Felix Grote , head of funding and investor relations, Council of Europe Development Bank	Manuel Valdez , head of funding, CAF (Corporación Andina de Fomento)	Bram Bos , global head of green, social and impact bonds, Goldman Sachs Asset Management	Moderator: Toby Fildes , managing director, <i>GlobalCapital</i>	Sydney Siahajja , head of funding, BNG Bank
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STRENGTH OF DEMAND

GlobalCapital: What is the present landscape of investor demand for social bonds? Where are the hot spots and how is it evolving?

Marcus Pratsch, DZ Bank: What we can generally say is that too much demand meets too little supply. Social bonds are a vehicle which is very much sought after in the market. So deals are traditionally more oversubscribed than plain vanilla bonds.

At the same time, it's a growing market. Of course we saw a peak during Covid but in the last three years the market has been more or less growing. It's still a niche within the sustainable bond segment, which is OK because green was a very early market and social bonds came into play a couple of years ago.

The fixed income market is a more than \$100tr opportunity. We now see global issuance of around

\$1tr in the whole sustainable bond market and social bonds are still under-represented, there's much more potential.

Where we think there is a lot of potential is the sovereign market. We have 170 sovereign bond issuers, only about a third come to the sustainable bond market yet, and most choose green.

Emerging markets are also one of the biggest opportunities for the social bond market. This is what I hear from most of the investors. We are building the bridge between the investor and the issuer — they would love to see more supply in the market.

Bram Bos, Goldman Sachs Asset Management: In our view the social bond market is still very niche at the moment. Issuance is highly concentrated in SSAs. When you look at the corporate bond space, generally all you can find is financials issuing social bonds. So there's still

a big gap to bring it to the same issuance level as green bonds.

We see demand for social bonds, but nowhere near the same level as green bonds, where there are many more dedicated strategies and a clear additional demand.

As to your remark on emerging markets, I fully agree. We see a lot of investors looking at investing in emerging markets to make a social impact.

So if you ask me where is the big opportunity of the future, it's probably in that space because it feels more natural for a lot of asset owners and asset investors.

GlobalCapital: Felix, you're a big issuer of social bonds, do you find it's true that investors are frustrated by the lack of supply, or are you quite happy for it to be that way?

Felix Grote, Council of Europe Development Bank: It's a chicken and egg situation. How can we together, investors and issuers, add and help the social market to grow? Of course it would be nice if there were more dedicated social bond portfolios but then there are also a lot of broader ESG portfolios that can buy our social bonds.

But a larger variety of issuers is still needed. For example, I wonder why more regions, local authorities or cities don't use the instrument. That's where most of the social investment is happening.

To your point about emerging markets, my institution's mandate



"I wonder why more regions, local authorities or cities don't use the instrument. That's where most of the social investment is happening"

Felix Grote, Council of Europe Development Bank

is 100% social, all our lending is social, and then sometimes from investors in Asia we get this question ‘well, we’d like to invest in a project in eastern Europe because we feel there’s a higher social impact’.

We have decades of experience in how we select the right projects and monitor them, and we would argue that all our projects, including in countries like Germany and France, have a high social impact for the local target populations. And the success of our Social Inclusion Bonds clearly confirms that our investors believe in the quality of our social assets pool.

Emerging markets are one thing but in many countries there’s underinvestment in social infrastructure. So there should clearly be more issuers coming to the social bond market and all of us together offering additional supply.

At CEB we have also expanded into new currencies and markets to respond to investor demand and feature a larger product offering.

Ayelet Perlstein, International Finance Corp: We’ve seen a lot of demand for our social bonds. We’ve recently updated our framework to be more comprehensive and give more detail on the eligibility criteria and types of projects.

And we added a second party opinion, which was a big plus for investors — a lot of them specifically were looking for that. We had our largest dollar benchmark, \$2bn in social.

But we still don’t see enough investors where it is a designated bucket or mandate for social. A lot of investors say it’s a nice to have, it’s a plus.

We see some advantages in the bookbuilding — we do see more demand. Our \$2bn deal was massively oversubscribed. We have seen that for other transactions in the market last year, but we feel a lot of that was due to it being a social bond.

We find they perform better in the secondary market. There’s the rarity effect; a lot of investors who buy these bonds are buy and hold.

But we haven’t really seen the advantage in terms of pricing and we haven’t seen enough investors where this is the mandate or the bucket for a social bond. It is still considered niche.

Other investors will tell us: ‘IFC, anything you do is social anyway, so why do you have a designated

social?’ I’m not talking about the more sophisticated investors who want the ICMA alignment and impact reporting, but investors who don’t really focus on ESG.

So it’s very important for us to also have the role of education in the market, to explain what is a thematic bond, why is it a social bond specifically, why not all of our proceeds are social. We really try to educate investors, especially in the US where it’s a little bit less focused on thematic bonds.

GlobalCapital: You were talking about advantages in the secondary market — are you comparing it to non-labelled bonds or to environmental, for example?

Perlstein, IFC: To non-labelled. For green bonds, greenium has eroded but we still see some pricing benefits sometimes. It’s not 3bp but we see sometimes maybe 1bp, maybe 2bp. For social we don’t see a pricing advantage at all.

FRAMEWORKS AND METRICS

Laura Fan, Inter-American Development Bank: Last Thursday we announced a new Sustainable Debt Framework for IDB. It will allow us to issue green, social and sustainability bonds and we have an SPO from Sustainalytics, which we did not have in our previous frameworks. It says the framework is aligned with the ICMA Principles.

Now this new framework is meant to complement our existing Sustainable Development Bond Framework. We also have a social bond framework called our EYE Bond framework — Education, Youth and Employment. That programme will wind down and be

replaced by social bonds under the Sustainable Debt Framework.

This framework specifies the targeted population, for example, looking at vulnerable populations, small and medium sized enterprises, and in addition to that we have provided examples of metrics for the impact reporting. We will have dedicated allocation and impact reporting.

Like Ayelet said, as we are a multilateral development bank with a mission to promote the economic and social development of Latin America and the Caribbean, one could argue that simply by our mission alone, everything we issue could be considered sustainable. So this new framework targets a particular segment of demand that wanted the specific reporting and an SPO.

We issued two EYE Bonds in Australian dollars and what we learnt was maybe in the primary market there isn’t too much of a pricing advantage, but in the secondary market, the bonds typically traded better than conventional bonds.

Part of the rationale was that, after meeting with global investors, I learned that many of them do have dedicated portfolios or a particular interest, maybe an overall objective at the corporate level to demonstrate commitment to social issues.

Because it’s so difficult to find social bonds, if for example there’s market volatility and you need to sell a bond, then if you sell a social bond, you have to replace it with another labelled bond and that’s not that easy to find. So when times are volatile they may pause and choose to sell a conventional bond instead.

GlobalCapital: Why did you decide to add an SPO now?

Fan, IDB: When we put the EYE Bond Framework together, it was in



“Emerging markets are one of the biggest opportunities for the social bond market. This is what I hear from most of the investors. . . they would love to see more supply in the market”

Marcus Pratsch, DZ Bank

“Whenever we’re considering a project — related to education as an example — we conduct a baseline study. And then you set the targets the loan is going to achieve. Those targets clearly have to be ambitious. Therefore, what is right in one country may not be right for another because the baseline is different”

Laura Fan, Inter-American Development Bank



2014, and we felt that at that time, the SPO providers were much better versed in green and less in social. A little bit over 10 years later we have felt that their knowledge has grown quite significantly, so there is value in that SPO where we did not believe there was value before.

Perlstein, IFC: I feel today with the landscape, especially investors in the EU, it’s not enough to say ‘I’m IFC/World Bank, it’s fine, trust us, it’s all OK.’ Investors want more. They want more analysis, they want more comprehensive data. More is demanded from us as issuers in reporting and the frameworks to be best practice.

Felix Baumann, NRW.Bank: This is something we’re observing as well. We’re a state promotional bank of North Rhine-Westphalia. We’re an economic policy instrument of the state government, owned by the state government. And we’re active in three promotional fields: housing, especially social housing; SME financing and infrastructure financing. Just by definition of our mandate, social impact is part of our DNA.

We’re quite active in the market as a social bond issuer since 2020, coming with at least one, often two, social bonds per year. And what you said about the investor demand — we do not necessarily see an undersupply of social bonds, as the average oversubscription of our books is comparable between social bonds and our regular benchmark issues.

But what we do observe is the rising expectations of investors when it comes to credible and robust impact.

As issuers, we’re challenged to match this demand from the investors by making our impact rationales and impact methodologies more sophisticated, and designing robust impact chains, especially when it comes to lending and the understanding of what the lending is for.

In terms of pricing, if this trend persists, maybe the demand/supply equilibrium will shift but from our perspective it’s questionable if this will actually lead to a premium in price for the issuer, which we saw in the green market up until a few years ago.

Jean-François Masure, Communauté Française de Belgique: CFB is focusing on education, so 80% of the budget can be used to justify the issue of social bonds. We’ve done something like €3bn since 2021.

But what is a bit worrying for me is the impact reporting we have to provide. There is no consensus in the market about the KPIs we have to show which are interesting for almost all the investors.

For green bonds the KPIs are quite familiar for everyone. Social is something different and I think every investor has its own request in terms of KPIs. Some will focus on education, some will focus on the age of the population and so on, but not everyone has the same focus.

RATIONALE FOR ISSUANCE

Antti Kontio, Municipality Finance: ESG has become mainstream in many ways. Green bonds are leading the way compared to social bonds. But in our social bonds the investor base is pretty much the same as we have in conventional bonds.

In green bonds, the investor base is deeper, you definitely have these very green investors, but in social we haven’t really seen this.

When it comes to us and how we have approached this topic, we have always wanted to have additionality. We want to avoid wrapping something that we would do anyway as social.

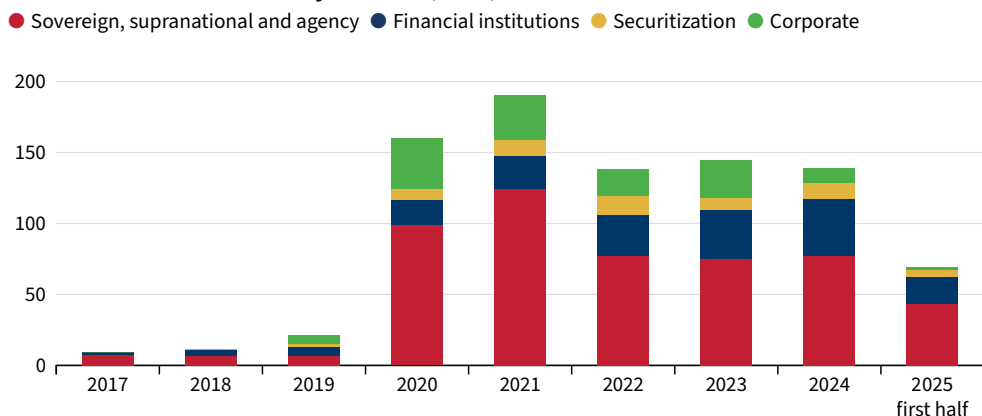
So the whole Social Bonds Framework has been designed in a way that we only look at the highest quality from the social perspective. This also limits the amount we can do. So the question why there is undersupply — maybe one reason is that some issuers have a different approach to this.

Manuel Valdez, Corporación Andina de Fomento: Our experience before the pandemic from investor feedback was that they preferred green, there were specific green mandates for investors.

Then came the pandemic, we saw a lot more issuance of social bonds. But at the same time, investor feedback was that there weren’t any funds specifically mandated for social aspects.

So that’s why you would see most of the MDBs change their funding strategies, having a social

Social bond issuance by sector (€bn)



Source: GlobalCapital analysis of Dealogic data

bond framework, a green bond framework, and now pretty much everybody is doing a sustainability framework — because investors provided that flexibility of investing in sustainable, which has those two components. It's not just what we used to hear in the past that they only wanted green bonds.

That's something we saw change. Then regarding SPOs, I think the ESG rating agency universe has significantly changed — it's now more concentrated. A lot of the methodologies are a bit more standardised and it makes sense that most of the big players of thematic bonds have SPOs.

Regarding where this asset class will grow, I think the sovereigns and sub-nationals. And in the same way that MDBs provided technical assistance for green bonds for sovereigns, we should also do that for social bonds.

Sydney Siahajja, BNG Bank: I definitely recognise what was said with regard to the rating and SPO providers being more integrated.

We've been issuing social bonds and sustainability bonds since 2014. We renewed and finalised our current Sustainable Finance Framework in 2021, updated its wording last year, and obtained a new SPO. We found that the discussion was much more in depth and we had a very fruitful back and forth, which taught us a lot and hopefully taught them a lot.

Last year we were very active in social bonds, we issued over €6bn, to finance the Dutch social housing associations.

In terms of the investor base, we get more traction with certain geographies such as Canada and Switzerland, and of course Europe is very vocal about ESG and more developed in social than some other geographies.

I would like to go back to something Bram said, which was interesting to me. You covered the topic of social being more relevant perhaps in developing economies than in developed economies.

But since you are intimately familiar with Dutch society, would you not say that the role of social housing associations also provides a solution to the housing shortage, which I personally think is related to many issues we are currently facing in Dutch society? It could only be seen as a very important social use of proceeds.

Bos, GSAM: Yes, I believe social housing is also important. I just speak to a lot of asset owners and they really feel they can have more tangible impact when they invest in emerging markets.

ESG PENDULUM

GlobalCapital: I think one of the elephants in the room is what's happening in the last six, nine, 12 months. Ten years ago lots of people were very pro-ESG bond markets, lots of issuers supported it, lots of investors supported it.

And then suddenly, attitudes changed a lot in the US. Life became harder for the ESG bond markets in general, especially from the US. I don't want to put words in anyone's mouth but it appears with the new administration in the US, that attitude has hardened somewhat.

With all that's going on, is this the time for social bonds to really come out and become a much more powerful instrument, just because of the potential attitude problems towards the environmental side in the US? Is this an opportunity for social bonds to grow sharply, given that it might be harder for certain other parts of ESG over the next couple of years? Feel free to disagree with what I just said.

Pratsch, DZ Bank: From my point of view, the sustainability bonds market won't be Trumped. We should turn this challenge into an opportunity.

First of all, if we look at the social bond market, it's more or less dominated by government-backed assets, at 61% in 2024. In the USA,

for example, Fannie Mae, Freddie Mac and Ginnie Mae have 16% of global issuance.

But if you look at Europe and Asia combined, they're responsible for 60% of issuance — especially in Asia, I see issuance really picking up. It's a big potential market.

Social bonds are also a response to crises. We've seen this in the pandemic, we now see it during the Ukraine war. And the Sustainable Development Goal financing gap is widening and we have less than five years to go. We need to have the capital markets on board and this is where the opportunity lies.

We now see the debate changing. 'ESG' is dead, from my point of view. Why is ESG dead? First it's an error, we should call it EESG, because we have also the economic perspective of sustainability.

This is where also the social part plays a big role, the interaction between the economic and the social dimension.

And ESG is dead in a way, now also talking about transition — it's a more mature market, it's not about the sustainable and non-sustainable thing anymore.

Transition also includes a social dimension. We always talk about environmental transition but the social part is a very good part of this.

The ESG term won't be used in some administrations but sustainable finance is here to stay. This is the big opportunity, and if you look at the growth rates over the last year, social bonds really showed and proved that they are a very resistant instrument within the overall segment.

Fan, IDB: I don't think social bonds are dead in the United States but issuance has declined in the past year or so. It's interesting what Felix mentioned [about local

"We have always wanted to have additionality. We want to avoid wrapping something that we would do anyway as social. So . . . we only look at the highest quality from the social perspective"

Antti Kontio, Municipality Finance



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Jean-François Masure, Communauté Française de Belgique



government]. In the US, there’s an extremely large municipal bond market and there you do see green, sustainable and social bond issuance.

Most of that social bond issuance is in different programmes. Marcus has mentioned Freddie Mac, Fannie Mae — they have a mortgage-backed securities programme, which primarily focuses on affordable housing for low and moderate income households.

And in a lot of the states — there are housing authorities for example in Pennsylvania, in Michigan, in Connecticut and their focus is on issuing bonds to provide low income and moderate income families with affordable housing.

So it’s not just about funding affordable housing, it’s about the impact that a house could have on an individual’s economic prospects, to allow them to become a more productive member of society, which obviously then benefits the country.

Perlstein, IFC: I fully agree with Laura and I think the question is not the social, the green bonds themselves but more the narrative, the story we build around it and how we communicate that to investors.

Certain terms have become more sensitive in the US, so in that respect

when Marcus says ESG is dead, we don’t sell these social bonds as ESG. They’re not ESG bonds, they’re labelled or thematic bonds. But I think the story we tell investors is very important.

So when we frame it as ‘we are financing affordable housing, we are financing jobs, we’re financing participation in economic activity, women’s participation in the labour force’, then we really see that narrative hit US investors and they do participate.

At IFC we see ourselves as market leaders and want to build the market. And part of that is to educate both our investors and the SPO providers, to be honest, what it looks like to invest in developing markets.

So we try to frame the narrative in a way that would be appealing to US investors.

I know it’s not a panel about green bonds but I think the same goes for green projects. It really is about how you build the narrative. If you talk about an energy project with green benefits, it’s much easier to communicate.

So in the US, it is a question of how we present it, and how we try and bridge that gap between developing markets where we invest and who invests in them.

Grote, CEB: The beauty of the product is that it is a longer-term investment tool, but it can also be a really flexible tool, as Marcus said.

At the start of the Covid pandemic we thought ‘this is the right instrument to finance health expenditures’, and when the war broke out in Ukraine, ‘let’s tap the market to get financing for refugees from Ukraine.’ For the latter I used to wonder why we were the only institution to do so.

These bonds were hugely successful. There was so much investor demand that we had never seen before. For the first time, we upsize our Social Inclusion Bonds and expanded into the US dollar market. In the case of Covid we updated our existing social bond framework in record time, as little as a week, between bond pricing and settlement. So the product is very flexible, very useful.

If we look at what’s happening currently and this focus, let’s say, away from green only, at the same time more and more investors are reaching out to us about what is called the just transition — the green transition needs to happen in a socially just way.

As an institution we are closely engaged in some of these discussions and I would be really pleased to witness if at some point we see some social bonds to finance the just transition.

DEFINING STANDARDS

Bos, GSAM: One of the challenges when comparing social bonds with green bonds is the difficulty around definitions for social projects.

This is really a very big challenge. That’s why a lot of long term asset owners may have a CO₂ reduction target for example, but long term social targets are rare.

Green bonds have been one of the examples of what is easy to define and very successful. Social bonds are in our view lagging there, the question is — what do we have to do to bring it to the same level?

Education is very important, but one thing which is important is having a varied availability of issuer types.

Whenever we are designing a new product, we try to replicate a normal fixed income index or strategy because then people can say ‘Oh, it’s easy to replace it.’

“Regarding where this asset class will grow, I think the sovereigns and sub-nationals. And in the same way that MDBs provided technical assistance for green bonds for sovereigns, we should also do that for social bonds”

Manuel Valdez, Corporación Andina de Fomento



Fan, IDB: Typically, we say biodiversity markets are local, and to some extent social markets are local as well. And when you're talking about that impact report, it's not an impact report, it's an outcome report.

What you're measuring, if you're issuing a five year bond, is what can be counted — the number of children educated, number of schools built, number of hospitals built, number of people who have benefited from medical programmes.

Especially for a child, you can't ascertain the ultimate impact until maybe he or she is 25 years old. Is their standard of living higher than what it would have been had they never gone to school and that school had not been built?

For the IDB, whenever we're considering a project — related to education as an example — we conduct a baseline study. And then you set the targets the loan is going to achieve.

Those targets clearly have to be ambitious. Therefore, what is right in one country may not be right for another because the baseline is different.

So there's a lot of additional work investors have to put in to ascertain first the baseline and then whether the targets are ambitious or not.

So to some extent, yes, I agree there's limited cross-border comparison because to some extent it's local.

Grote, CEB: There is of course the ICMA Green and Social Bond Principles and the respective working groups to define those standards, on a global level.

What we often hear from investors is the thing that is maybe missing is some kind of sensible regulation or taxonomy. We probably all agree the draft EU Social Taxonomy was not ideal.

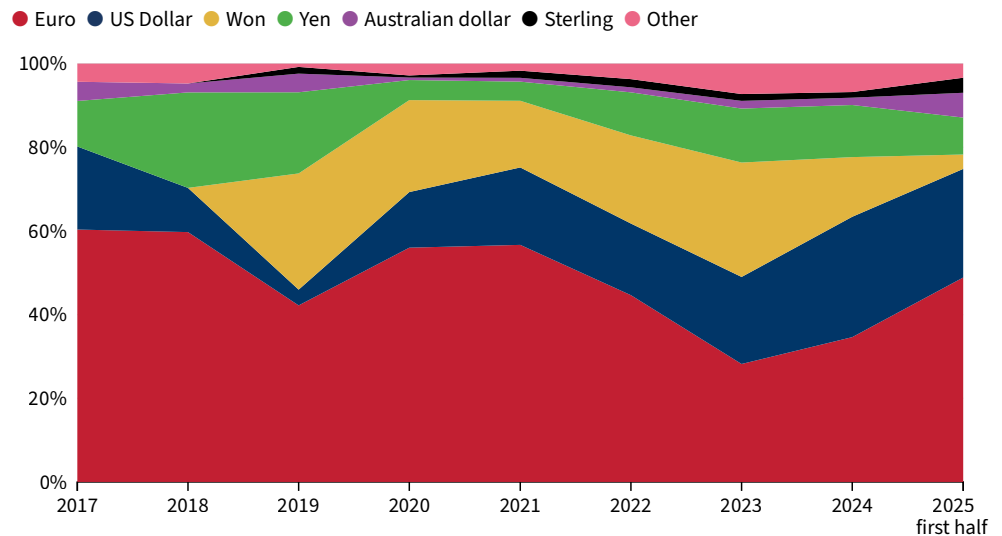
But maybe the market needs something in between that could give investors further comfort.

Perlstein, IFC: But that would be further narrowing and you don't want to further narrow the market.

Grote, CEB: It doesn't need to be further narrowed, it just needs to be pretty clear for everyone.

Again with ICMA, we aim to find the right level of standardisation and harmonisation but sometimes we as an issuer also go beyond that and add further details if we can or give

Social bond issuance by currency



Source: GlobalCapital analysis of Dealogic data

examples. But of course the most important thing is standardisation and robust reporting, so investors can compare across their various holdings.

Baumann, NRW.Bank: I very much agree with what Laura said. Social impact is always contextual, not like in the green sphere, where impact is more or less absolute, for example considering the reduction of CO₂ emissions.

It all boils down to a shared understanding of what constitutes social. Much of what we regard as social lies in the public sphere: education, public services, health.

However, that does not mean anything in the public sphere is automatically social. Look at the housing market. In most Western societies, affordable housing is among the most urgent social issues. For societies, however, where housing is easily available or vacancy rates are high, such investments wouldn't be considered social.

So you always — and that is something the Principles require as well — have to address an underserved part of the population.

The question is: will standardisation help with that? Do we have to focus on economic activities that provide social benefit or social effect? I would much rather argue we need a shared understanding of how we can determine how social impact is created. So we go one level above.

In our most recent Social Bond Framework update in May 2025, we introduced the AAAQ [availability, accessibility, acceptability and quality] model that was also suggested at the European level to make our impact rationales more sophisticated. We sharpened our target populations and made our eligibility criteria more precise, while gaining the opportunity to understand better the impact we have on relevant target populations. That's eventually what it comes

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“Green bonds have been . . . easy to define and very successful. Social bonds are in our view lagging there, the question is — what do we have to do to bring it to the same level?”

Bram Bos, Goldman Sachs Asset Management



to — you have to know the target population.

What has been very helpful for us is that not only we regularly engage with investors, especially investors with a strong social focus, to get their perspective and bring them on board, but also we work with the Wuppertal Institute, a scientific institution that has specialised in impact measurement and reporting. For us, having a scientific partner supporting us is tremendously helpful.

And yes, most KPIs we report are at outcome level. Exactly as you said Laura: due to the long term nature of social impact, reporting on the impact level is really difficult.

We see our social bond programme as a learning journey, accompanying a maturing market. With every step, we try to increase the transparency and credibility of our bond rationale and provide additional benefits to the investor. For example, with our upcoming impact methodology revision, we’re trying, together with the research institute, to use AI to test for the robustness of the impact rationales.

It’s experimental. We try it, we learn. And hopefully we can take these learnings and implement them into the next steps.

Kontio, MuniFin: I fully agree with what has been said. But because of the nature of the product of social, it’s very difficult to just say that ‘this is social and this is not’. From our perspective, the ICMA Principles are enough for that.

And it finally all goes into the communication the issuer has with the investors, it’s very important to have discussions with the investors, to explain that ‘OK, this is how we see social’, get the feedback and also get the feedback on impact reports.

We usually don’t get much feedback but I think it’s a good sign.

But it’s so important to be transparent because all the programmes are different and it’s impossible to draw definitions in a unified way.

Valdez, CAF: As an issuer, it all depends on your framework, how rigorous it is, how transparent you are with investor communication.

In many cases, when we’re looking at projects we’re reporting on and we’re sitting with investors, the feedback we get is ‘this threshold isn’t sufficient’ and obviously it’s because we’re not in the European Union standards.

But at the same time, given we’re an emerging market lender, once you explain the story and the rationale, that’s a way for investors to jump on board on many of the issues and a lot of the projects we’re financing.

PRESENTING THE MESSAGE

GlobalCapital: Given some of the changes in attitudes in the US, do you issue mostly in dollars still or also euros?

Valdez, CAF: Dollars, euros, sterling. It depends.

GlobalCapital: Have you had to evolve your narrative, given the political environment?

Valdez, CAF: Most of our ESG issues have been concentrated mainly in the European and Asian markets. But we recently updated our sustainability framework and we have had a lot of investor meetings over the last six months.

And the feedback from US asset managers with ESG mandates has been that they have made some long term social and green commitments. The demand will still be there from them, investing in these instruments.

They probably won’t publicly announce it in marketing as much as in the past, but since they have these long term commitments, the demand will still be there.

Bos, GSAM: We are looking positively at more dollar issuance. You mentioned the US muni market, but it’s less liquid. International investors do not always have access to it.

Fan, IDB: They don’t buy it because muni bond yields are usually more attractive to US investors, as they may receive federal, state and/ or local tax exemptions.

Bos, GSAM: We really are looking for more issuance in dollars in general, it’s something we would really like to add. Of course if there’s limited issuance from the US, there will be some kind of social premium and that will probably lead to some issuance.

GlobalCapital: Might we see the French community of Belgium issuing in dollars?

Masure, CFB: Well I think it would cost a lot if you translate the dollars into euros. But I was wondering if the social Taxonomy would, at least in Europe, help a bit in the definition of the KPIs and so on. That’s helped quite a lot in the green bonds. Maybe this would increase a bit the visibility of the social bonds and the KPIs we have to use to have a uniform view of the bonds.

I always wonder who really looks at the reporting we do and what do the investors do with it? I think they just tick the box — ‘OK the reporting is there, they did what they said’ and that’s it. I don’t think they do something real with the social reporting.

Bos, GSAM: We actually do. We publish impact reports on all our funds and a lot of clients are asking for it. So if we invested in your bonds, we would read your impact report and if we thought the numbers were off or outliers, we always would check with you, ‘hey, how did you come to this number?’ So we try to engage. For us, it’s extremely valuable.

Masure, CFB: I have never received any call from an investor asking for some engagement or asking questions about the reporting we

did. That's a bit the brake on the volume of social bonds we issue.

Grote, CEB: It's a great point of entry, we do have these calls and then potentially end up with a reverse enquiry. It's a different type of dialogue, focused on the impact report and other ESG reporting. It is more intense and going into details. They have questions on why is it different from this year to that year — it's a really nice engagement tool.

Siahajja, BNG: It's very dependent on the investor in my experience. There are investors all across the spectrum, right from those that say 'I'm agnostic, it doesn't really add anything for me specifically', through to those that are really ESG-only and have a specific mandate for that.

In my experience, it is those investors who are most likely to come to you with specific questions on the impact reporting as they will definitely read it, like the investor we have present here today.

And those questions can be quite detailed and well thought out. It's always interesting to have those kinds of conversation because it also gives us the kind of feedback we use to improve the impact reporting.

And that's very important for us to be credible as an ESG issuer, that we are trying to make this real world impact and we want to provide easy to understand targets in our impact reporting, and also to provide cases of actual clients that are now using their money to do good.

The feedback we are getting from these investors is that they are looking for this kind of information, these very tangible numbers like the number of houses built, and they are also very interested to read the cases of clients — what are they using the money for?

Pratsch, DZ Bank: One or two words on the social Taxonomy. I like regulation and I like taxonomies when they have the intention to grow the market, when they are usable, when they are not too complex and when they are accepted by market participants.

After all this experience with the green Taxonomy and the big challenge now with [the Omnibus reform package] and all those things, it's important to get it right.

My personal fear is now that when we talk about 'do no



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Sydney Siahajja, BNG Bank

significant harm' from a social context and maybe combine it with the green do no significant harm, it might be so complex that we might see an adverse effect on the market.

A social Taxonomy might be helpful, but it should be done right, from the start.

Perlstein, IFC: I absolutely agree. Saying you want to see more issuance from local government, emerging markets, corporates and then mentioning a social Taxonomy coming out of the EU — to me they don't go hand in hand.

I understand the problem of standardisation and comparability, but the focus has to be transparency — easy to understand, measurable, tangible results — and make it easy.

For us, the ICMA Principles meet these standards and it's important to socialise them to see more issuance coming from local and corporate and emerging markets.

Grote, CEB: And make use of the ICMA reporting template. Very few issuers actually do that.

Perlstein, IFC: Yes.

WHERE ARE THE GOVERNMENTS?

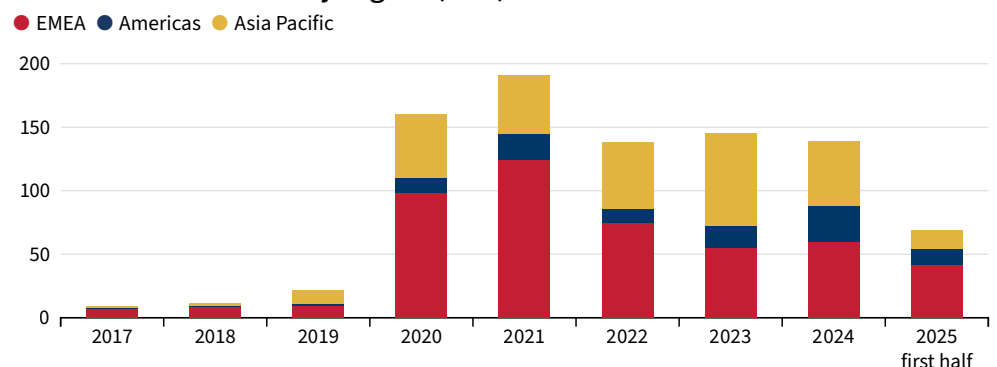
GlobalCapital: Four countries — Chile, Colombia, Slovenia and Iceland — have issued social bonds, as have a number of local governments. But many others have stuck to green bonds and have not taken up the social idea. Can we expect to see more sovereign social bonds?

Pratsch, DZ Bank: We have 170 sovereigns in the world who can issue sovereign debt. Fifty-nine by the end of 2024 had come to the labelled bond market, the majority use green. We saw some social and some sustainability bonds.

I expect more to come, especially from emerging markets. We have to see if all of them really use the use of proceeds concept.

For some of them, the target-linked concept might be quite good. I know it's very often criticised, but Chile and Uruguay also proved it. And I can imagine that some might link this to social KPIs, which would be a very smart solution.

Social bond issuance by region (€bn)



Source: GlobalCapital analysis of Dealogic data

But as we now see the SDG financing gap widening due to the geopolitical reality, the sovereign market is of course one of the drivers of the sustainable bond market, not only social but also green.

Now every country has to update its Nationally Determined Contribution before Cop 30. So I think sovereign issuance will further take off.

In general the public sector — this also applies to the SSAs at the table — are guarantors for the good quality of the market. It's not only quantitative growth, it's also qualitative growth. And there are a lot of sovereigns which have not come to the market yet — Northern Macedonia and others. So we really expect things will be kicking off here.

A lot of them might use the dollar but I also see the euro becoming more and more important. In the overall labelled bond market, the euro is the most sought currency, but in the social bond market interestingly it's still the dollar. The euro might pick up here, but there's also an opportunity for some local currencies.

Sometimes as an investor you are not allowed to invest in every currency. So we need to look at the global finance architecture to get over some market hurdles and connect emerging market currencies with investors.

DEFENCE CONUNDRUM

GlobalCapital: Does defence spending always have to be resolutely excluded from social bonds? Could you see a time when that changes, given necessities?

Fan, IDB: We have an environmental and social policy framework, for all the bank's lending. As part of that we have an exclusion list, which very specifically excludes supporting weapons and munitions.

So in that sense, it's really difficult. Most investors, I would also venture to say, have that exclusion as well. In equity investing, that's very typical.

Maybe you can label some defence spending within a very narrow definition: supporting displaced persons, or rebuilding a country.

But I think it would be difficult to label all defence spending as either green, social or sustainability.

Valdez, CAF: There are some variables in security or defence. The category can include things like veteran support, civil service or cyber-security. Could any of those be considered social?

Perlstein, IFC: Cyber-security is very problematic. Cyber-security measures could have the potential to be used for monitoring civilian activities, for example. And I think you mentioned shelters, rebuilding and displacement — these align with the eligibility criteria for issuing a social bond. So rather than framing it as defence, simply issue a social bond.

We also have weapons and munitions in our exclusion list. I believe anything currently eligible as social — such as food security or displaced shelters — should be clearly labelled as social. Anything else would not qualify as social.

Siahajja, BNG: Next week during the Nato summit, we'll probably have an announcement

that member countries' defence expenditures are going to go up by effectively 1.5%. From 2.5% to 5%, but 1.5% of that is infrastructure and veterans' benefits and that kind of stuff. So it's already in the budget.

But that extra 1.5% is going to primarily be financed by the sovereigns themselves. Already people are buying sovereign bonds without really having qualms about the fact that part of the money is going to defence spending.

So I would question whether it is really necessary that we put this into a certain theme because I think it's already being financed quite effectively. Insofar as the additional spending is going to be a problem, it's more of a debt sustainability issue, which you would be hard pressed to solve by adding a label to it.

GlobalCapital: We mentioned Nato and GlobalCapital has written a lot about this in the last six months — the potential formation of a new supranational institution like a multilateral development bank for defence.

Grote, CEB: What's your view?

GlobalCapital: My view is that they should create the institution — how they fund it is a different matter. But there is talk at the moment about creating a supranational linked to Nato that finances itself like an MDB. And benefits from guarantees of some form. If they were to issue a bond, would you buy it?

Bos, GSAM: Whether defence can be included as a social use of proceeds is among the most asked questions at the moment. It's difficult. We expect the demand for investment in defence to ramp up, in Europe in particular. But within the Green, Social and Impact bonds strategies we do not include defence-related issuance in our social bond selection.

GlobalCapital: I guess it does show that two years ago we would never have imagined we would be talking about this and yet we are, so who knows what we will be doing in two years' time? GC

"You always have to address an underserved part of the population. The question is: will standardisation help with that?"

Felix Baumann, NRW.Bank



EIB demonstrates the application of the European Green Bond Standard with the largest European Green Bond



GlobalCapital (GC): In April, the EIB became the first supranational issuer to issue a European Green Bond — a bond aligned with the European Green Bond Standard. How was the deal received?

Rousseau: The market reception was excellent. We had around €40bn of demand across more than 300 orders. The €3bn 12-year deal was oversubscribed by more than 13 times with strong allocations, which made it possible to tighten by three basis points inside initial guidance. Interestingly, it all happened on April 2nd a few hours before the US tariff announcement. It shows that investors were eager to buy high-quality green assets even ahead of a major expected market event.

GC: What is the added value of the EuGBS in a market that has grown steadily without it and how does it compare with the Green Bond Principles of the International Capital Markets Association?

Rousseau: The Green Bond Principles have provided a reference framework for the development of the market since their first edition in 2015. They include high-level voluntary recommendations around core aspects of green bonds, such as the use and management of proceeds, reporting aspects and external review. The EuGBS builds on the Green Bond Principles and goes a step further by linking the use of proceeds to criteria based on the EU Taxonomy. Remaining a voluntary standard the EuGBS does require a mandatory external review conducted by an ESMA-accredited reviewer. It also defines how borrowers must produce key documents like the pre-issuance fact sheet and provide mandatory allocation reporting. This standardisation will help increase the comparability, reliability and integrity of green bonds.

GC: Will the EIB issue only EuGBS-aligned Climate Awareness Bonds (CAB) in the future?

Rousseau: Under our Climate Awareness Bond Framework, we will continue to issue green bonds that are aligned with the Green Bond Principles as well as green bonds that are aligned with both the Green Bond Principles and the EuGBS. Essentially, when we have assets where

A pioneer in sustainable finance, the European Investment Bank (EIB) plays a unique role as both the largest issuer of green bonds and a promoter of best practice in an evolving landscape. As the market is starting to take the new European Green Bond Standard (EuGBS) as a reference, the bank has issued the largest EuGBS-aligned deal to date — a transaction that showcased investor appetite and confidence in the standard's transformational potential. *GlobalCapital* spoke to **Cyril Rousseau**, Director General of the **EIB's Finance Directorate**, about the debut deal, the new framework's significance and the bank's approach to issuance going forward

we can demonstrate full alignment with the EU Taxonomy, we will use these to allocate EuGBS-aligned Climate Awareness Bonds. For other eligible assets that are only partially aligned with the EU Taxonomy we will continue to issue non-EuGBS-aligned Climate Awareness Bonds. All Taxonomy-eligible allocations from our Climate Awareness Bonds are already aligned with the significant contribution criteria of the EU Taxonomy. So far this year, we have issued a €3bn EuGBS-aligned bond — which makes up around 15% of our overall CAB issuance so far this year. What you can expect is a gradual increase in the share of CABs aligned with the standard, which will also depend on the evolution of the usability of the EU taxonomy.

GC: Is the EuGBS gaining traction in the green bond market and what does this mean for the EIB?

Rousseau: When we entered the market at the very beginning of Q2, there had been three issuances under the EuGBS. Since then, we've seen twice as many deals. There have been ten issuers in total and the market is approaching €10bn. You've seen agencies, banks, local authorities and corporates entering the market. Those corporates happen to also be our clients. So if our clients are aligning with the EU taxonomy and are able to demonstrate that across their activities, it means that we'll have more and more assets that we can allocate with proceeds from EuGBS-aligned CABs in the future. Things are moving much faster now than they were when we launched the green bond market almost 20 years ago. It's a matter of confidence — and that's where institutions like ours

have a role to play. We're helping de-risk this new arena and aiming to provide best practice, so that more issuers can apply the standard and benefit from the strong market demand.

GC: Beyond CABs and the EuGBS, what are the latest developments with the EIB's Sustainability Awareness Bonds?

Rousseau: This year we have added to the Sustainability Awareness Bonds projects contributing substantially to gender-equality and women's economic empowerment. We have been able to do this because we've now developed a strong track record with such projects, as well as the capacity to demonstrate their impact. To do that, we base our assessment on criteria from several sources: the 2X criteria, the gender equality policy marker from the OECD development assistance committee, as well as the EU Directive to improve gender balance from 2022. Now, when you buy an EIB Sustainability Awareness Bond, you may also contribute to the EIB's action toward gender equality and women's economic empowerment.

This approach is what makes our use-of-proceeds bonds, whether Sustainability Awareness Bonds or Climate Awareness Bonds, so special. Since we demand reasonable assurance, the highest assurance, from our auditor, we are particularly careful in selecting eligible projects to be allocated by our use-of-proceeds bonds. Investors know that if a project is in there, then there is an externally reviewed process through which the money flows from the investor, through us, to the final beneficiary and all the way to impact.

Questions linger over US Treasuries as government chases economic goals

US Treasuries have long been the foundational asset underpinning the global financial system. But recent policy proposals from the White House have shaken this foundation, and what this means for capital markets participants seems perilously uncertain, writes **Elias Wilson**

Since his inauguration on January 20, 2025, US president Donald Trump has been pursuing a relentless economic agenda aimed at eliminating the impact of what he and his administration see as the anti-American policies of foreign nations.

Import tariffs, with the ostensible aim of rebalancing global trade, reviving the US manufacturing sector and raising capital to reduce the nation's debt pile, have raised fundamental questions about the international financial order.

"Tariff is the most beautiful word in the dictionary," Trump said in the run-up to the US election in 2024, a year in which the country's goods and services deficit was \$918.4bn, according to the US Bureau of Economic Analysis.

Trump's wide-reaching trade levies, which have changed continuously since he first announced them on April 2 — which he termed as 'liberation day' — hit prices and caused a sell-off in US Treasuries, equities and the dollar.

These movements have since prompted speculation around the characteristics of US government bonds and their previously unquestioned status as safe haven assets. Unofficial policy proposals from Stephen Miran, who chairs the president's Council of Economic Advisers, have only fuelled speculation that holders of US Treasuries may have to get used to foundational changes.

Before taking up his position after Trump's victory in November, Miran published his now seminal paper: *A User's Guide to Restructuring the Global Trading System*, in which he discussed how the US could



Matt King: "Nothing is out of the question at this point"

use the threat of tariffs to bring about a multilateral agreement to devalue the dollar and ease its trade deficit while maintaining favourable borrowing costs for the Treasury.

According to Miran, the rest of the world should pay the US for supplying the world with public goods in the form of reserve assets, as this artificially inflates the value of the dollar and diminishes the competitiveness of US exports.

Miran wrote that the tools at the government's disposal to meet this objective, include charging a "user fee" on reserve assets held by foreign countries and swapping existing US Treasuries into century bonds. Many could perceive these actions as an effective US default.

"In one sense the US Treasury as a product hasn't changed, but the government's commitment to it, especially if you are a foreigner, is suddenly being called into question," says Matt King, macro and credit strategist and founder of the financial market research firm Satori Insights.

"Also, the suggestions in the Miran paper would have been unprecedented previously, but, as the tariffs have shown us, nothing is out of the question at this point," he adds.

The White House has not included these policies in its official approach to the economy and even Miran has distanced himself from them. However, they have clearly changed how market participants perceive the US Treasury product and the implications for other borrowers in the capital markets are still unclear.

Big, beautiful bill

While unofficial proposals or personal writings about policy leave bond investors hanging, official government policies are also driving a change in the perceived risk profile of Treasuries.

On May 22, the US House of Representatives passed a budget reconciliation bill that mirrors much of what President Trump wants to implement on tax and the economy. According to an independent

"We are seeing similar things starting to happen in Japan. Ministries of finance can also influence the curve"

Ed Yardeni, Yardeni Research

committee, it will add \$3tr to the US debt over the next decade if it makes it through the Senate in its current form. Just six days earlier Moody's Ratings stripped the US of its final triple-A rating, citing concerns over the country's rising debt burden.

The US had a debt-to-GDP ratio of 98% in 2024, according to Moody's. The credit rating agency forecasts that the federal debt burden will rise to about 134% of GDP by 2035.

Marcello Estevão, chief economist at the Institute of International Finance and adjunct professor at Georgetown University, thinks that the suggestions in Miran's paper try to avoid what the US really needs and what is contrary to the Congressional bill: a "traditional, old fashioned fiscal adjustment".

Part of the bill, which the president delights in referring to as "big and beautiful", are sure to pique the interest of readers of Miran. Section 899 permits the government to impose explicit and automatic taxes on foreign investors in the US if the administration deems the tax regime of their jurisdiction to be unfair. This seemingly opens the door to taxing US Treasury returns along the lines of the 'user fee' that Miran suggests.

Estevão points out that a policy which threatens to arbitrarily tax foreign capital is a direct attack on Trump's goal of incentivising firms to produce in the US.

"One thing that you can see from the proposed budget is a certain recklessness with respect to reducing taxes and running deficits over a very long period," says King, who thinks that Section 899 of the bill is an example of the behaviour that is causing a widespread market re-evaluation as to whether US assets still constitute a safe haven.

"When creditors perceive the US as acting in an irresponsible fashion, there is scope for this snowball dynamic in which debt will get refinanced at higher levels and things get gradually worse," he says. "And recent long bond auctions in the US and elsewhere show there is always the potential for creditors to think twice."

Long bonds

In the immediate run-up to the House passing Trump's budget bill, both the 30 year and 20 year Treasury sold off past the 5% yield level. Though not historically high, elevated borrowing costs could weaken US credit fundamentals further and accelerate the snowball dynamic that King refers to.

Ed Yardeni, president of the investment strategy firm Yardeni Research, coined the term 'bond vigilantes' in the 1980s to describe investors who sell government bonds in protest at economic policies. But now Yardeni stresses that, although investors can put pressure on the US government by inflating yields, they are not the only force in the market.

"If bond vigilantes act up and push yields, then Scott Bessent can do what [former Treasury Secretary] Janet Yellen did and finance with T-bills instead," he says. "We are seeing similar things starting to happen in Japan. Ministries of finance can also influence the curve."

Curve steepening is not a phenomenon confined to the US, though. In recent weeks, as Yardeni points out, the Japanese Treasury has indicated that it could shorten the duration of its balance sheet, and the UK Debt Management Office has already looked at this. Some analysts point to regulatory changes for pension and life insurance funds as significant causes of lower structural demand.

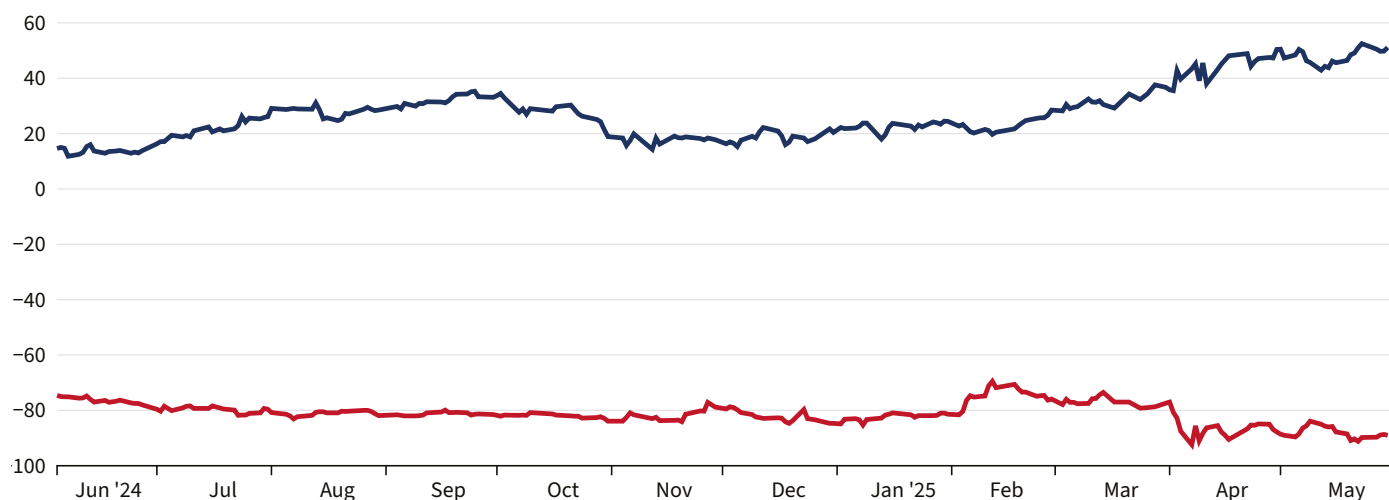
"Stephen Miran previously criticised Janet Yellen for relying on short term debt, accusing the Treasury of stepping on the Fed's toes and politicising debt management to get Biden re-elected," said Bob McCauley, an economist who has spent most of his career working at the Bank for International Settlements, and before that at the Federal Reserve.

"People on Wall Street have been watching Secretary Bessent, who endorsed this criticism, very carefully with regards to the Treasury's funding plans," he adds. "Let's see if he ends up eating his words and joining other major debt managers in cutting the Treasury's long bond auctions."

Despite the disruptions in economic policy and the perceived

US Treasury curve: 10s 30s and 30 year swap spread

● 30y swap spread ● Spread 10s 30s



Source: Tradeweb



Marcello Estevão: “Portfolios are moving away from US Treasuries and into European assets”

fears on Wall Street, the US curve steepening has not come alongside long end US Treasuries underperforming against swaps, as one may have expected to see as risk increases. The yield on the 30 year is trading only 4bp higher over swaps than it was at the start of the year.

Both King and Yardeni say that it seems plausible that talk around easing the supplementary leverage ratio (SLR), a capital requirement placed on banks, could be responsible for the relative stability in swap spreads.

SLR reform

The SLR requires the largest banks to maintain a 5% ratio of its tier one capital against its total assets, including US Treasuries. It was established in 2014 as part of the Basel III reforms. Exempting US government debt from the requirement would potentially increase liquidity in long end bonds by reducing market making constraints.

Scott Bessent, the US Treasury Secretary, who has previously suggested that an SLR amendment could lower US Treasury yields by 30bp-70bp, has indicated that regulators are close to easing the constraint and that reform could come as soon as the summer of 2025.

Adding credibility to this line of thinking is Federal Reserve chair Jerome Powell, who said in February that he has “for a long time like others been somewhat concerned about the levels of liquidity in the US Treasury market”. “The amount of US Treasuries has grown much

faster than the intermediation capacity has grown,” Powell added.

For Bessent, the reward of easing the policy would be to relieve some pressure on US Treasury yields and swap spreads through increasing the product’s liquidity. However, not everyone is convinced that this would be the result of SLR reform.

“I am relaxed about SLR reform, and almost in favour of it in terms of what it will do to market makers’ ability to make markets,” says King. “But I do not think that a persuasive reason for Bessent to go through with the reforms is because it would relieve pressure on US Treasury yields.

“One reason for this is because banks really do have quite elevated holdings of US Treasuries and securities that they have been running with large losses on. A simple relaxation of the SLR is not going to make them load up on more.”

McCauley agrees: “Who knows how large the banks’ unrealised losses on their government bond holdings are right now? In any case, I can’t imagine that they would be anxious to help the Treasury out by buying long-term bonds if the SLR were eased.”

However, McCauley adds that it could aid banks in putting in arbitrage positions, betting on spreads and such, which could help absorb some of the Treasury’s paper. Estevão didn’t think that reform would be a silver bullet, but he notes that it couldn’t hurt.

Whether SLR reform has any impact on swap spreads will be crucial

for supranational, sub-sovereign and agency issuers, which tend to price their bonds over swap rates. The highest rated and most liquid SSAs have been pricing tighter and tighter against US Treasuries in recent weeks, and public sector debt bankers have even been discussing the possibility of these names sustainably trading through US Treasuries in the secondary market.

Safe havens and uncertainty

McCauley thinks that it could start to make sense for the top rated SSAs to consider ramping up dollar issuance if reserve managers start to search for non-US Treasury dollar safe havens.

“If the search for alternative havens creates incentives for well-rated borrowers outside of the US to supply dollar-denominated bonds, then we could see a big boom in issuance by SSAs,” he says.

“There is an underlying rebalancing in which portfolios are moving away from US Treasuries and into European assets,” says Estevão. “I am not sure how sustainable this damage is for the US. If anything, I think that these kinds of suggestions [such as the budget] show where the Trump administration’s priorities lie and, in some sense, this has caused the government to lose credibility.

“People continue and will continue to demand US Treasuries. As a liquidity instrument they are very strong. The market is still functioning how it should but with higher uncertainty, which has resulted in a curve steepening. This result can be seen through a relative stability in the spread between swaps and US Treasuries.”

Others like Yardeni are optimistic the threat that tariff and macroeconomic uncertainty poses to the Republican majority in the House in mid-term elections in 2026 will put pressure on the president to resolve the issue of tariffs sooner rather than later.

Wall Street also seems to be warming to the view that Trump’s policy proposals contain more bark than bite, with the acronym ‘Taco’ – ‘Trump Always Chickens Out’ – gaining in popularity among traders in recent weeks.

“The President’s policy is becoming more predictable,” says Yardeni. “It is now increasingly clear that he huffs and puffs but won’t blow the house down.” **GC**

AFL, the bank dedicated to French local governments, ramps up its activity



Today, AFL displays a positive balance sheet. In a chaotic geopolitical environment and amid high economic uncertainty in France, how do you explain these robust figures?

The local government funding agency model is powerful and resilient. In France, we are the only bank that is fully owned by local governments, which are also our unique shareholders. We conduct 100% of our business with these members, who borrow exclusively to fund their capital expenditure.

Our ambition is not to pay out immediate dividends: we reinvest the proceeds from our credit business into our equity capital to bolster our lending capacity.

With an optimal prudential treatment, on account of the 0% risk weighting of our members and their guarantee, our goal is to become a key market player for our members. As such, over the past two years, we have already become the largest lending institution for our shareholders.

Your investor base includes over 300 international players. What is your market positioning? Why do investors choose to work with AFL?

After 10 years in business, AFL now has a sovereign-like rating, and its debt securities qualify as HQLA1 [high-quality liquid assets level one]. These are guaranteed by entities that are

Created 10 years ago by and for French local governments, **AFL's** mission is to facilitate the latter's access to funding. 2024 was a record year for the bank, which topped 1,000 members for the first time and granted loans worth €2bn during the year. Today, AFL ranks among the leading lending institutions for the French local public sector. **Yves Millardet**, chairman of AFL's management board, looks back at these 10 years of growth and discusses the prospects for future development

essentially 0% risk weighted and, using the substitution approach, they are weighted at approximately 5%. Though admittedly not zero, 5% is better than either 20% or the 10% risk weighting of covered bonds. Our issuances are increasingly liquid, and we are now strategically entering other public markets outside the euro, notably the sterling market in 2022 and Swiss franc in 2024. We are now considering the Australian dollar public market.

This broader presence has already enabled AFL to build a name in many international markets. The strategy has also allowed us to fulfil one of our main mandates: to increase lender diversification on behalf of our members.

Readability is very high for investors. AFL offers investors exposure that mirrors local sector risk: the more we grow, the more our members reflect



Yves Millardet, chairman, AFL

the average sector risk. AFL's role is to provide investors with liquidity — which no French local government agency can supply. Four issuances are each worth at least €1bn, including one €1.25bn issuance. In time, AFL is poised to become an increasingly important issuer.

This year marks your 10th anniversary. Where do you see AFL 10 years from now?

AFL membership is growing at a sustained pace: 103 new members in 2022, 177 in 2023 and 269 in 2024. We closed the first quarter of 2025 with 1,101 shareholders. If we maintain this pace, we could gain around 1,000 new members every four years. Therefore, in 10 years, I see AFL representing around 3,000 local government bodies and issuing approximately €4bn per year.

To achieve this, we must continue to invest massively in our IT systems. One of AFL's key strengths is that we do not run a network, thereby easing the bureaucratic burden both for local governments and for us. We intend to keep following this course over the next 10 years. We just finalised our new Information System Master Plan to help the bank manage such a development with limited resources through a strong industrialisation of processes. See you in 10 years.

Record activity and robust earnings

(Earnings at 31/12/2024 — consolidated data for AFL Group under IFRS standards)

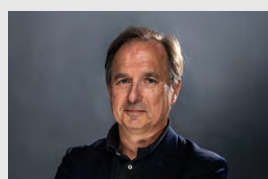
- 1,045 local authority shareholders
- Capital commitments: €328m
- Credit produced: €2bn
- €2.4 bn raised in the markets
- Net banking income: €24.1m
- Gross operating income: €7,848,000
- High liquidity with Liquidity Coverage and Net Stable Funding ratios at 447% and 220% respectively
- Common equity tier-1 ratio at 63%

The record volume of credit production for member local authorities contributed to the growth of AFL's core business revenues in 2024.

The group's gross operating income rose to €7.8mn, confirming AFL's ability to generate revenue growth (excluding exceptional events) and strengthen its balance sheet in a negative environment, as demonstrated by its very comfortable capital and liquidity ratios. General operating expenses over the

period only posted a modest 3% increase year on year.

At €381,000, the cost of risk is intrinsically low owing to the nature of the balance sheet exposures, the excellent solvency of local governments and the cautious management of the company.



Thiébaud Julien, CFO, AFL

Getting ahead of the steepening curve

The first half of the year was an eventful and volatile one in the government bond market, and the second half threatens more uncertainty. Sovereign issuers are dealing with steeper curves as investors demand higher term premia. Meanwhile, deficit dynamics are shifting, especially as some countries face up to higher defence and infrastructure spending. *GlobalCapital* gathered senior funding officials from the EU, Greece, Ireland, Italy and Portugal in June in London to discuss how their funding plans had fared so far, how they are developing their investor bases and how they plan to tackle the uncertainties that lie ahead.



GlobalCapital: We've had another eventful and volatile first half of the year and the second half once again looks to be uncertain. What have been the issuers' highlights in terms of funding activity so far this year and what's to come for the rest of 2025?

Dave McEvoy, National Treasury Management Agency, Ireland: I think you're right. The markets have been volatile in general, and as issuers, we have to be able to issue through periods of volatility — I think that's what we all did. It's significant that a lot of European sovereigns and other SSA issuers are well funded, at the over 60% level.

For Ireland, we've been in primary surplus which reduces the amount we had to do. For the past few years, we've issued €6bn-€7bn roughly and this year, the market probably expects us to issue in the middle of the €6bn-€10bn range that we've communicated. We've issued €5.25bn so far.

We are pleased with the demand for our bonds but being a less frequent issuer probably supported that. We started off the year issuing some longer duration, with a €3bn 30-year syndication. The transaction saw strong demand from a well-diversified investor base, with a total order book of over €36bn, which included almost 250 individual accounts. While we didn't need to

issue duration, we took investor and primary dealer feedback on board and the merits of a 30-year point on our curve. We try to be very clear and consistent in our funding communications, especially so when we have less issuance to do. Like in recent years, after the January syndication, we plan to do auctions for the remainder of the year. That's what we've done this year — an auction in March, and also in May when we decided to just do a single line tranche to add more liquidity to our 10-year benchmark.

Having limited issuance because of Ireland's strong surplus position gives us flexibility when deciding to issue bonds in the market. But another development for Ireland

Roundtable participants



Rui Amaral , board member, Treasury and Debt Management Agency (IGCP), Portugal	Dave McEvoy , director, funding and debt management, National Treasury Management Agency (NTMA), Ireland	Siegfried Ruhl , hors classe adviser, Directorate General for Budget, European Commission	Moderator: Addison Gong , SSA editor, <i>GlobalCapital</i>	Dimitrios Tsakonas , director general, Public Debt Management Agency, Greece	Davide Iacovoni , director general — public debt, Treasury Department, Ministry of Economy and Finance, Italy	Ben Adubi , managing director, global capital markets, Morgan Stanley
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this year has been the establishment and transfer of funds to the two long-term savings funds, the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF). They will help Ireland tackle demographic, digital & climate transition-related challenges going forward, while the other counter-cyclical fund in nature, helps provide protection in a downturn. The establishment of these funds has been positively received by both investors and rating agencies.

GlobalCapital: Dimitrios, you are in a similar position to Dave in that you also haven't had much to issue in recent years. What are the highlights of your activity so far and can we expect something else this year?

Dimitrios Tsakonas, Public Debt Management Agency, Greece:

We have a good problem but also a difficult one. We don't have enough financing needs, so it's very difficult for us to have a funding activity every year that could reach €8bn or €10bn, but we want and need to maintain access to capital markets.

This year the plan is to issue up to €8bn, and once again we chose to follow the traditional method, which is to issue the biggest portion of our bond issuances through syndicated transactions, for the simple reason that it allows us to control the allocations. But we've

also introduced auctions and have been doing them for two years now.

We issued a 10 year in January and the dual-tranche in March and have had two auctions so far out of six planned — four of those were skipped. Those have already raised us €7.45bn, so we have less than €1bn remaining in funding activities this year. Out of the €7.45bn, €1.5bn was issued in exchange for bonds that would mature in 2026 in an effort to reduce the refinancing risk in the coming years.

We are proactive. We wanted the funding activity this year to be frontloaded on purpose, because we were concerned that geopolitical tensions would result in volatility which we have already seen.

We have seen from the deals so far, an expansion of our investor base, mainly due to our investment grade achievement. But for the remaining part of this year, we don't want to disappear from the capital markets; we need to keep our presence somehow. But I'm afraid that due to limited needs, we may have to skip some auctions — the July one, for example. But we want to focus on the September one before January 2026.

In any case, we have a good problem to resolve: we don't have gross financing needs and at the same time we have €42bn in cash reserves.

Last but not least, in order to have continuous access to capital markets in the upcoming years, we have announced early repayments

of some bilateral loans up to approximately €31bn. This will hopefully provide us space for more funding activity in the coming years.

GlobalCapital: Rui, you have started issuing more since last year. What have you been up to so far this year and what's to come?

Rui Amaral, Treasury and Debt Management Agency (IGCP), Portugal:

We became a more regular issuer last year. We improved but our 2024 funding programme was very much frontloaded in the first semester. So far this year, we've become even more regular — we have not skipped a monthly auction and out of eight auctions scheduled for this year, we've done five already, with three to go. The same on the bills side, where six auctions have been done — one each month — and four to go. We've done two syndications, one 10 year in January and one 15 year, with one syndication left.

We've also tried to supply the market with duration, so we've tapped the 30-year part of our curve a couple of times, and also the 20 year.

In a sense we are fulfilling what we had planned, irrespective of volatility in the market. We do have a degree of flexibility, which allows for us to adapt to market conditions. Even if the market has been at times a little volatile

this year, we have not really used up that flexibility, having kept on executing our funding programme.

So everything is going according to plan. We have a little over two-thirds of PGB issuance done and so we're comfortable going into the second semester.

Davide Iacovoni, Treasury Department, Ministry of Economy and Finance, Italy: We have been quite regular, as always, in accessing the market so far. Despite the market backdrop that sometimes has been characterised by an increase in volatility, especially around April, we have been issuing more than we did last year in the same period of January to mid-June — around €217bn of bonds compared to €208bn. We think the total funding for this year will be slightly less than last year, so we probably have already passed the 60% threshold of funding progress so far.

In terms of strategy, we have been a regular and predictable issuer of longer maturities. But in periods where volatility was higher, especially at the long-end, we of course have been doing a little bit more fine-tuning on the auction sizes and have been extremely flexible in the ISINS (International Securities Identification Numbers) we would auction.

At the same time, we have also been present through syndications. We have already done four successful syndications this year, two of which were dual tranches. In both transactions a long-dated bond was involved and we wanted to create the best possible issuance condition by selling a shorter-dated bond at the same time. And this was quite successful and appreciated by the market. We have also done two

transactions in the retail market. One was an innovative product, an eight-year bond with a coupon step-up mechanism and a free early redemption option at par after four years — something that attracted investors amid the interest rate uncertainty.

In the second half of the year we are going to follow the same approach, more or less, while maintaining our target of around seven years for the average maturity of our bonds.

Siegfried Ruhl, Directorate General for Budget, European Commission: For the EU as an issuer, the first half of the year was indeed eventful and geopolitical turbulence has impacted us in two ways.

First, we all had to deal with increased market volatility. However, if we look at the European capital markets, compared with the US Treasury market, in April, for example, we had half of the volatility in European capital markets compared to that in the Treasury market, so Europe appeared to be an anchor of stability and reliability in the first half of the year.

This is also reflected in our market activities and how they were picked up by the markets. We announced €90bn of long-term funding needs for the first half of this year, having indicated €160bn for the full year 2025 and the same amount for 2026.

The €160bn of funding will make it the largest year of issuance for the EU so far. We should bear in mind that most of it is net funding. All transactions received strong demand, so we are quite happy with the outcome of our transactions in the market.

In this market, not only did we continue to issue bonds and bills, we also developed our issuance strategy further. In January we launched a third bill line in our short-term funding programme, a 12-month bill, which has been taken by the market since. And we strengthened the auction and the flexibility in our auctions by switching from two-line auctions to three-line auctions, also increasing the total size of the auctions.

Second, several developments at the European level have impacted the future of the EU as an issuer. One is the new ReArm EU policy, which includes a €150bn loan package for member states, with money available until 2030, called Security Action for Europe, or SAFE. It's an additional decision of our member states to achieve the EU's political objectives by joint financing: since NextGenerationEU (NGEU) was launched in 2021 and its funding started in 2021, we already have done around €90bn of additional joint financing for other purposes, primarily to support Ukraine. This €150bn now is another confirmation that using joint financing to achieve joint political objectives is becoming more common on a European level.

This, on the other hand, has impacted our standing in the market — investors are more and more convinced that the EU will be there as a large and meaningful issuer of liquid safe assets in the long run. Investors now make EU bonds a part of their strategic asset allocation. We received stronger structural demand in recent weeks and months, and that is reflected in our spreads as part of the transition for EU bonds to be traded more like sovereign bonds and we are making progress.

We already saw the launch of the futures contract by ICE at the end of last year, and now the Eurex will launch EU bond futures in September this year, with the first settlement date in December. The market for EU bonds is developing.

GlobalCapital: And ICE and JP Morgan have also launched new consultations about EU's index inclusion?

Ruhl, European Commission: These are further confirmations that the role the EU plays in capital markets is changing. ICE already

“Having limited issuance because of Ireland’s strong surplus position gives us flexibility when deciding to issue bonds in the market”

Dave McEvoy, National Treasury Management Agency, Ireland



did a consultation last year together with other index providers. They decided that they would not include EU bonds in their sovereign bond indices for the moment. Now after a year, ICE is again talking to markets because things have changed. The liquidity of secondary markets has significantly improved: in 2023 we had an annual turnover of around €800bn but in 2024 the total turnover was €1.4tr. This was also supported by the launch of quoting arrangements on electronic platforms, which made the market for EU bonds more resilient and more liquid. There's the development of the futures contract. SAFE as another joint programme gives the perspective of more issuance to come. The EU will grow into a €1.1tr issuer by the end of 2030, accounting for around 40% of the triple-A rated sovereign debt at that point.

All these developments are triggering some changes in the market perception. And it's also nice that both ICE and JP Morgan showed, in their consultation documents, that an index including the EU compared increases in the credit quality of the index. ICE, while deciding to not include the EU in their existing government bond indices, launched a new index family by adding EU bonds to the existing government bonds. And the rating of the index with the EU is one notch higher than without the EU. And now after nine months, the return is 1bp better. If you take the average duration as an indicator of the interest rate risk, it's just 0.1 years longer, so the interest rate risk is almost unchanged, the return almost unchanged but slightly better, and the credit quality is improved.

It's to the benefit of investors in the market to include EU bonds in their strategic asset allocation and index consultations will hopefully confirm that.

GlobalCapital: Governments are funding at high yields in a volatile market. Curves have steepened as investors demand higher term premia. Davide, Italy is a regular issuer at the long end. Can you share with us how you manage your funding? Italy included a five-year tranche as part of its latest syndication, which I believe was quite

rare given five-year BTPs are normally launched via auctions.

Iacovoni, Italy: We have been very present in the long end — we launched a new 15 year, a new green bond in the 20-year space, and a 30-year linker. We maintained our presence at the long end despite the market backdrop because it's important to give investors the message that we want to keep all parts of our curve liquid even in a difficult market environment and because we also wanted to manage our refinancing risk by keeping the average maturity of around seven years.

Yes, syndicating lines with maturities that are normally launched through auctions is definitely something that is new. But it's not completely new, as we already did that in Covid, where the funding needs were very high. Now we are kind of doing the same, but in a context of higher market volatility where syndications could prove to be more efficient.

The other reason we decided to go for this was because we've seen extremely strong demand for Italian paper, especially coming from foreign players, and we thought that providing direct access to the primary market through syndication for those investors was also important.

For the time being, this is one of the ways we're trying to cope with the market backdrop. I'm not expecting to make such a large use of syndications for the rest of the year like we've done so far, unless the market backdrop remains as volatile. The conditions for the time being are actually completely fine for us to keep having auctions to open these new bonds.

Another important point is that over the last few months, the liquidity in the secondary market in our case has been extremely satisfactory, and it bodes well also for the second half of the year, where we could use auctions more easily, when you have a very effective secondary market which makes auctioning new bonds in standard maturities objectively more straightforward.

In short, we will probably go back to a more ordinary breakdown between syndications and auctions, and I'm expecting probably one syndication and a larger use of auctions.

McEvoy, Ireland: Can I ask — were some of those auctions, syndicated taps, and did you find them better in terms of execution?

Iacovoni, Italy: We have done some successful syndicated taps, including the most recent green 2037 tap. It is perhaps ESG-specific — we know for a fact that a lot of ESG investors were chasing green bonds, and we want to have a better execution by allowing all of them to come in through using syndication. The results were quite in line with our expectation because in the end we were able to allocate more than 80% of the bonds to ESG investors, and the syndication allowed most of the larger ESG accounts to come in, so using syndications proved to be effective to tap existing bonds.

I also want to mention that Italy is one of the largest beneficiaries of the European programmes, especially NGEU, and thanks to those longer term loans from the Commission, we get to an average maturity of 7.4 years. Also thanks to that, we decided to be more flexible and to fine-tune our issuance at the long-end. This is an important



“We wanted the funding activity this year to be frontloaded on purpose, because we were concerned that geopolitical tensions would result in volatility”

Dimitrios Tsakonas, Public Debt Management Agency, Greece

“We do see some concentrated demand from pension funds and insurance in the long-end of our curve, that’s why we’ve been supplying that part of the curve via auctions”

Rui Amaral, Treasury and Debt Management Agency (IGCP), Portugal



aspect that has allowed us to be a little bit more proactive in the way we are approaching the long-end compared with in the past.

GlobalCapital: Ben, would you give the rest of us your view on the market in the first half? And what is your read on investor demand in different parts of the curve?

Ben Adubi, Morgan Stanley: What sticks out for me is despite all of the volatility and all the obstacles that the market has had to go through, everyone here probably feels pretty good about how the first half of the year has been executed, either from the demand perspective, or maturity selection. Sure, there are times when you have to manage things a bit more flexibly, either by going short-dated or long, depending on the backdrop. But by and large, I think all of the syndications have been executed very well this year.

Duration was a little bit easier to issue at the start of the year. I think we’ve had to listen to investor demand much more this year than we have in previous years, where maybe you could rely on some of the less yield-sensitive money demand or bank treasury asset swap demand, which have been impacted by swap spreads and other things over the last six to 12 months.

Another key element that came to mind is that I think most of the issuers here, if not all, have taken size out when it’s been on the table — not oversizing transactions but if demand is there, taking it out and not leaving too much to the latter part of the year.

I do agree with Davide that in terms of how we’ll approach the market, the second half will be very much a continuation of what we’ve seen in the first half. At least

that’s how we would advise issuers, particularly given the resilience of the euro market.

A level of robustness in the euro market is certainly there. While issuers might not be accessing the long-end as frequently or in as large a size as in previous years, in our view, the long-end still remains open.

When we look at long-end demand in particular, we’re going through a period where investors have access to a multitude of liquid, high-rated assets in the long-end. They are being a little bit pickier around when they’re buying and are not in a rush to lock in current rates. They know that we have fiscal expansion with the tariffs on the table and equally, we seem to be in a different cycle from the various central banks. All of that builds in term premium and it then results in demand being slightly dampened for one category of investor versus others.

From our perspective, all of our trades this year have gone well and it’s just been more about timing and, to a certain degree, pricing. From that perspective, sure, long-end demand hasn’t been as robust, but it’s certainly been more than satisfactory for everyone, I would say.

GlobalCapital: Siegfried, the EU also issues quite a bit in the long-end and its curve has steepened. Looking at the results of recent syndications and auctions, do you feel like there is a need to adjust what the EU has been doing?

Ruhl, European Commission: Curves have steepened and the EU curve was, at one point, extremely steep, but it came back over the last few weeks. The structure of our issuances is determined by the budgetary backing we have, which is quite strong. However, for rating reasons, we also have to make sure

that the annual redemptions in the future are within a given limit. We also want to have a regular market presence through our own refinancing needs in the future. These are the reasons why we end up with a slightly higher share of long-term issuance.

But as I said, after a strong steepening of our curve, the curve is normalising. The demand is always strong for our long-end bonds — if you look at our syndicated transaction during one of the most volatile times in April, a dual-tranche with 3 years and 30 years, the 30-year tranche was 15 times oversubscribed. Many investors are happy to have highly-rated liquid bonds in the long end of the curve, and we are not concerned about the demand in this part of the curve.

GlobalCapital: Dave and Dimitrios, as two issuers with quite long-weighted average maturity in your portfolios and overall low funding needs, I guess you have flexibility, and you are not pressed into doing something long if things don’t improve soon?

Tsakonas, Greece: We were concerned about volatility from geopolitical tensions and the new administration in the US, and unfortunately what we predicted seems have come true.

So when designing our funding activity for this year, we wanted to frontload while also extend duration for various reasons, one of which was to stay ahead of the curve for fear of what is going to happen in the second semester. But we also wanted to provide additional supply at two maturity points that were issued a year ago in an effort to improve secondary market operations.

Indeed, we have seen a steepening in our yield curve as well as in other sovereign and supranational issuers. But we have full flexibility with regards to duration. Investors are full of duration, and they need time to digest the supply that has already been provided. It’s not only an issue for Greece but one for all sovereign issuers. But due to the volatility and the uncertainty in the US, there seems to be a lot of cashflow into Europe. The bottom line is all of Europe’s sovereign issuers have options to cover their gross financing needs. I don’t know what

is going to happen in the second semester — and you never know. Perhaps those inflows will revert back to the US, so we need to be proactive as far as our funding is concerned.

To be honest, Greece still has a couple of missions to accomplish. We need to reduce our debt aggressively and those efforts need to be accelerated. We also need to keep fixed our debt-servicing costs the way that we have so far — we need to deliver primary surpluses that should be double the size of our actual annual interest payments.

In this context, when it comes to our funding activity, while we do have the flexibility to reduce the duration if needs be, we're always going to try to satisfy investors' appetites. If there is investor appetite for duration again, we are in a position to issue long because we are proactive and we have reduced our funding costs, so we are fully flexible.

But I'm afraid that the steepening of the yield curve and the high interest rate environment we have seen so far will remain as they are for a long period of time, not just for technical reasons but also for fundamental ones.

McEvoy, Ireland: I agree with those points. There can be additional challenges, for a smaller, less frequent issuer.

In Ireland's context, we have a circa 10-year average life so we don't need to issue duration. We did a 30-year deal this year because we felt there was a lot of investor demand for it and a desire for a new curve point. But, equally, I can remember a few years ago when people were suggesting we do a new 50-year benchmark. We eventually decided against it as we felt it might be disruptive to the rest of the long-end of the Irish Curve, in the event that investors had to hedge a new 50-year. In the end, we issued ultra-long private placements instead, which allowed us to issue the same duration, but more efficiently.

So I think while as issuers, we all want to have a long duration, we can't be tied to that and we need to make sure, especially as a smaller issuer, when you issue that bond, how it is going to perform on the curve.

GlobalCapital: You mentioned the different challenges and



"We have also done two transactions in the retail market. One was an innovative product, an eight-year bond with a coupon step-up mechanism and a free early redemption option at par after four years — something that attracted investors amid the interest rate uncertainty"

Davide Iacovoni, Ministry of Economy and Finance, Italy

focus for a smaller issuer like yourself, which does one deal a year. You can't afford to get that trade wrong. What do you think is key to achieving that?

McEvoy, Ireland: The previous year we did just one syndication that was a 10-year. Given the strength of Ireland's fiscal position, we probably didn't need to issue last year — we could have stepped away from the markets, but it is important to maintain market access, even if limited for now. The year before, in 2023, we issued a new 20-year green bond syndication. We are not in a position to issue a new green bond every year. We currently have two green bonds outstanding, and for now we look to add green liquidity through auctions. While it's a good to have a lesser funding requirement, it does present its own challenges.

GlobalCapital: Rui, given the current environment we're in, how does that impact you in terms of investor preference and yield and so on?

Amaral, Portugal: Like I was saying earlier, the current environment has not really impacted us all that much in the sense that we have gone about implementing the funding programme as we intended. With one exception, all of the PGB auctions that we have done have been 10 year-plus and we try to maintain a weighted average maturity around or a little bit above seven years, so we have always that in our minds when we design or implement the funding programme.

On the short-end, we've been regular issuers of bills. In fact,

the bills market has been a very important one. And because we've been as regular as we have in issuing bills, liquidity has improved dramatically this year on our bills. Our bills market has recently been one of, if not the most liquid in Europe, with an average turnover north of €2bn daily.

In terms of bonds, there's a fair bit of concentration in the long-end. We're facing a steeper curve for sure, as steep as the likes of maybe Spain and Belgium, and definitely steeper than Austria and Germany, for instance. We do see some concentrated demand from pension funds and insurance in the long-end of our curve, that's why we've been supplying that part of the curve via auctions. But at the same time, as Portugal regained a full single-A rating last year, we see a lot of official institutions coming back and buying us and that is more concentrated in the short end of seven to 10 years. There's also been some demand in that part of the curve from bank treasuries, with the higher swap spreads.

So going into the second semester, when we'll bring our third syndication this year, we face the decision whether we should supply the pension funds including international ones, or more the domestic bank treasuries and international official institutions and central banks in the seven year to 10 year part of the curve.

Adubi, Morgan Stanley: Whether you access the long end or not, it's just prudent debt management.

I think probably we've seen high profile publicity or announcements from both the US and the UK over the last couple of years in managing

their debt issuance and the maturity profile of their funding.

For me, we are talking about it as a natural part of debt management and again, we've seen no real lack of demand in any meaningful way. People can execute their funding programmes. So what we've just discussed, we're not really talking about the bulk of long-end demand, which remains intact.

GlobalCapital: Moving on to an important topic this year which is defence spending for Europe. How do sovereigns expect defence spending to translate into all these programmes in the years to come? Firstly, Siegfried, can you share with us a bit more about the SAFE programme?

Ruhl, European Commission: SAFE is part of the ReArm Europe policy. It is a €150bn package made available in the form of loans to our member states. These are very long-term loans, up to 45 years, with a 10-year grace period.

SAFE's purpose is to support our member states to invest more in defence. But there are additional components. For example, it requires joint procurement, for member states to work together and that a minimum share of the investment is done within the EU and EEA/EFTA states and Ukraine. This strengthens the defence industry here in Europe, which is important if Europe is to become more independent in the area of defence.

This proposal is now agreed upon between the Member states and they have time to request the loans until November this year. Then the disbursement period is until the end of 2030 —15% of the amounts can be disbursed as pre-financing. With loans to be requested by November,

we do not expect that this impacts our H2 2025 funding plans. It's more something for 2026.

We also have to see how the money is spent and in which timeframe it is required. On the one hand, there is some time pressure to invest the money to strengthen European defence and the European defence industry. On the other, we know that this is nothing that can be done within weeks; it takes some time. And there's time until 2030, from a funding perspective.

Until the end of 2026, we have substantial funding needs, primarily for NGEU — €160bn each year for 2025 and 2026. It will be complemented by additional short-term funding. In 2027, we have rollover needs of maturing short-term and long-term funding, on top of new liquidity needs for some of our policies including to support Ukraine, and some needs for the SAFE policy until 2030. There is a long-term perspective regarding the EU as an issuer.

GlobalCapital: Dave, Ireland acknowledges that defence spending is perhaps lagging some European peers in its latest investor presentation. Is there something being planned in the medium to long term about how you are going to fund this?

McEvoy, Ireland: Increasing defence spending is more for the government to comment on, but as a debt manager, there are a few things I can comment on. It's true that Ireland's defence spending has been low, given its history of being a neutral country.

Overall, I think these envelopes like SAFE are important. When you look at the whole idea of the euro being viewed more as a reserve

currency, all of these tools and envelopes help the credibility and cohesion of Europe and the euro. It's the ability to have all these tools available for when they might be required. The challenge for defence spending, similar to infrastructure spending, is that it takes time to spend all this money. It doesn't just happen overnight.

But I would highlight that Ireland realises itself the importance of its own defence. Off the west coast of Ireland, we have a network of subsea cables, and we are developing our offshore energy capabilities.

How it pans out will be interesting to see. But definitely, from a European perspective, to have such funds and such envelopes available is really important.

GlobalCapital: Greece is probably at the other end of the spectrum in that there's already a lot of funding and spending on defence. What is the situation like?

Tsakonas, Greece: Greece has been spending more than 3% of our GDP every year since the 1950s, for reasons that everyone knows. And we have incorporated into our medium-term fiscal strategy a €28bn programme for procurement for military purposes for the next 10 years.

I also welcome all the initiatives taken by the eurozone partners, especially European institutions and also the European Commission. Not only as far as the defence issue is concerned, but also because this provides another opportunity to create the so-called risk-free asset for Europe. I do have this dream.

There's a unique opportunity with NGEU and now defence spending. I don't know what's going to happen in the next couple of years, but if we want the eurozone to have a key role around the globe, where there are ongoing geopolitical issues, what the public sector is missing is the risk-free asset. Whoever provides or facilitates the ultimate target of creating the risk-free asset is more than welcome by our side. This is a mission to be accomplished.

Going back to defence funding, to put it bluntly, like with anything, the order would be to first use the free money, then the cheap money, and finally your own money. So if SAFE is going to provide us with

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Siegfried Ruhl, European Commission



cheaper funding compared to ours, although our efforts to establish or preserve a liquid curve deteriorate, because this creates less funding needs for us, it would be more than welcome.

But in our strategy, Greece can say that we have incorporated the additional defence spending without taking into account necessarily SAFE funds or the funds coming from the European Commission.

Amaral, Portugal: In terms of incorporating the loans from the EU, it's still early days, we'll have to wait and see.

Portugal has applied for the national escape clause in the ReArm Europe plan. It is actually one of the first countries to apply for that, although Portugal is expected to run a budget surplus for the foreseeable future up until 2029. You wouldn't think that Portugal would be the first one to put their hands up and ask for that, but they did.

In terms of defence spending, there's already a commitment to get to 2% of GDP this year already, from a level of around 1.5% last year. Given it is just a marginal increase, we don't expect any real impact on our funding programme. The politicians have said that Portugal will comply with Nato's new target.

But increasing from 2% to 3.5% or even 5% doesn't really worry us too much, for two reasons. First, Portugal would have the surpluses that are very accommodative to extra spending. And in terms of the sheer size of issuance, every 1% of spending roughly would translate on a 1:1 basis to €3bn in additional issuance, which I think can easily be accommodated into our funding programme. We also have several different instruments, so there might not even be an increase in PGB issuance because we can turn to different instruments that we have at our disposal. So it doesn't worry us too much.

Iacovoni, Italy: The situation in Italy is a little bit different from some other countries. So far, the Italian government, as you know, is engaged in a quite ambitious fiscal consolidation plan, which was agreed with the European Commission in September last year. The most important focus of this plan is to control public expenditure (net of interest payments and the economic cycle)

in nominal terms not to grow yearly more than 1.5% on average over a seven-year horizon. It was not easy to reach this agreement and we already started implementing this plan in 2024. We are fully on track — we are currently below this 1.5% threshold.

Of course, when confronted with this need for increased spending, it could derail us from this trajectory. So it is an issue for the government, which is trying to stick to the seven year plan, but cutting other expenditures in other sectors could, however, have quite a social impact.

So the equilibrium is quite difficult to find right now. The conclusion is that it's really too early to say exactly what will happen. For the time being, the Italian government has decided not to use the escape clause provided by the Commission. It would allow us to comply with the European rules, but we don't want to create any issues with the market when we are trying to improve our credit perception as much as possible.

So for the time being, while this discussion is extremely important, the approach is to see what's going on at a Nato level. We probably also need even more clarity, not just in terms of joint debt issuance but also about a push for more joint purchases, for example, at a European level, more than a national level.

The general sense that we have now is that, of course, there will be an increase in defence spending. But this increase will happen over time and probably fairly gradually, and we'll also see the financial conditions when accessing the SAFE facility. Of course, it is an avenue — Italian spreads are coming down but there's still quite a difference in terms of cost versus our bonds.

What we'll end up with is

probably a gradual increase that will allow us to keep within the public expenditure thresholds set with the Commission and in terms of our funding. A part of this may happen through SAFE and part of it will have to be part of our funding. But eventually, I think that the impact on our funding will be small.

GlobalCapital: Ben, how do you think the bond market will absorb this additional funding, be it at a national or joint level? And there's been the idea to set up a new defence bank. Would that be something the market would welcome?

Adubi, Morgan Stanley: From a market perspective, we probably saw, when the defence or fiscal spending announcements took place earlier in February and March, an additional level of optimism and excitement returning to the euro market from the global investor base, be they investors from the Middle East or Asia Pacific. We've seen people returning who had left over the last couple of years and certainly some new entrants. From our perspective, there is an additional level of optimism around Europe as a result of the headlines and plans.

It feels as though we saw a one-time shift higher in rates. The market priced in a relatively large increase in spending but, in reality, the spending increase is going to be a gradual one over many years. So we have seen a shift higher in rates, with the trajectory from now onwards likely going to be more gradual, depending on how the plans get executed and the funding raised. We'll certainly be looking at steeper yield curves overall. We've spoken about that today and it very

"We have been very present in the long end — we launched a new 15 year, a new green bond in the 20-year space, and a 30-year linker"

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much is a function of these defence spending plans.

In terms of the new MDB that could come into existence, it’s quite difficult to say before we know any details about how it’s going to be set up. For example, is the US going to be part of that? And how does Asia become involved? Does the new entity lend to larger corporates? You would think not, because those corporates have access to markets already. I’d imagine the sovereigns will want to keep a large part of their own military funding within their remit, so you are really looking at the SMEs that the defence MDB would lend to. If you then have divergence among the shareholders on which SMEs and who you lend to, that then becomes quite competitive.

So yes, we all know there are benefits to pooled funding and there’s evidence of it. But the details will be important. There will be benefits, but really, the devil will be in the detail.

GlobalCapital: One of the arguments I’ve heard against this is the fragmentation that having more issuers would create, if every time there is a crisis, a new entity is set up to fund for that.

Adubi, Morgan Stanley: Defence feels a little bit more nuanced than other economic or human crises. When it comes to defence, there’s been more coordination across blocs and economic trading partners in historical terms so those seem to be breaking down and becoming more confrontational. So it’s not quite the same.

I hear you on the fragmentation. Equally there’s the question of how much funding is that entity going to do if it comes to fruition and over what timeline? That’s not clear.

We’ve already seen in the MDB space, when the AIIB was created not too long ago, that that has not caused any fragmentation. There was a supranational dedicated to Asia already, but there has been no fragmentation and no issues.

So, as I said, the devil is in the details. And it would be very much a unique entity where you could argue there are some investors that are unable to buy defence companies directly. Does an MDB negate that? There are lots of ways you could approach it.

GlobalCapital: Away from defence, US tariffs have been driving markets this year as well and US Treasury yields have been extremely volatile. Investors seem to be looking at more diversification in their portfolios, and the EGB market provides a highly rated, highly liquid alternative. Is there the feeling that this could be a great opportunity for the European bond market? Siegfried, do you think there are signs that the EU has, or could come to benefit from investors potentially looking away from the US Treasury market for other type of investments?

Ruhl, European Commission: We have already experienced some change in the perception of EU bonds last year, for example, when the OAT markets were very volatile and investors started to see EU bonds as an alternative. Now, investors who are concerned about the dollar market and want to diversify their risk are of course also looking at EU bonds as an alternative.

For example, we have investors actively asking us for meetings to explain the EU funding programme.

We also see increased demand in our order books — in recent transactions we saw a good number of orders out of regions which are usually very dollar focused. Some investors bought us for the first time, or first time after a long period of time where they haven’t looked at the euro market during negative interest rates. The latest 15-year syndication, for example, had 4% participation from the Middle East. Of course, these are only empiric observations in the very early stages. It’s not a trend that has been proven over a longer period.

Nevertheless, it is an opportunity and European capital markets can benefit from it. The joint financing that we are doing and that we have agreed on over time has also some positive second-round effects. The purpose of joint financing is never the funding itself; it serves political objectives. But by working on this political objective jointly, including joint financing, we support other objectives like the strengthening of the international role of the euro, reducing the vulnerability of national member states while at the same time developing a European liquid safe asset.

GlobalCapital: Davide, Italy doesn’t have the highest rating but BTPs are very liquid and Italy’s syndications are usually very popular. Any signs from investors that you’ve noticed in the more recent months?

Iacovoni, Italy: We have noticed some signs that would echo what Siegfried was saying. We have seen an increase in participation from accounts that have been much more dollar oriented. And we have definitely seen an increase in participation from Asia and the Middle East. We are not talking about big sizes but rather small percentages, something between 1%-2% of our syndications. But it is true that we are seeing some accounts that in the past occasionally bought us but are coming in frequently.

Another interesting and important example is that in the latest months we received a lot of enquiries from different Asian accounts, and also some US accounts, to know more about our market. So they look at spread levels, they want to know more about things like the relationship

with the primary dealers and the cost benefit analysis from being primary dealers in the Italian market. They also want to know more about our repo market. There are a lot of questions about what mechanism is in place in the market so that they would be able to deal with situations where there's a risk-off period, for example. These are all signs that made us think that something is probably changing.

One point that I want to emphasise is the fact that for Italy, this improvement in the interest and participation from investors has been coming long before this period of instability in the US Treasury market. Since mid-2023 and especially in the second half of last year, we already saw new investors and higher participation, and an increased level of enquiries. So it's difficult for us to disentangle which parts of these are coming from the improvement in Italy's credit risk versus the more general interest in the euro area as a way to invest outside the US.

We should also bear in mind that the size of the BTP market or even the euro market as a whole is not even comparable with the size of US Treasury market. This is something that we have to consider when there are these big global funds that may plan to move some of their holdings out of the Treasury market and get into the euro market. There still is the issue of capacity of the market in terms of supply. This is an important aspect in understanding the investment movement out of the US and into Europe.

GlobalCapital: Dimitrios, I believe Greece had a similar story?

Tsakonas, Greece: Indeed. We also have seen an investor base expansion. In our two syndicated issuances this year, we saw approximately 40 to 50 new accounts per syndication — not with orders in the hundreds of millions but more like €5m to €10m or €20m which is good and healthy. It's hard to tell how much of this expansion is due to Greece's investment grade achievement and how much is due to the fact that investors want to invest in euro assets instead of US dollar assets.

Nevertheless, we have seen it — and we enjoy it. We saw, for the

first time in 15 years, two Asian accounts testing the waters with €5m and €10m orders. I'm not expecting everybody will suddenly add a lot of Greek bonds because we realise we need to do more to improve our ratings. But we need to start somehow, and we need to sell once again the Greek story after 15 years of crises. We recently visited investors in the Gulf countries and our next roadshow will be in the likes of Japan, Hong Kong and Singapore. In short, we have seen an investor base expansion and more interest from real money investors.

McEvoy, Ireland: For Ireland, we continue to have a well-diversified investor base. What is interesting is we're having a lot more frequent calls with both existing investors and new investors in the current environment, in the context of Ireland being a small, open economy.

As regards a reallocation to Europe, what I would say is that allocation changes take a long time, but it's quite positive that we are already hearing stories about this change in such a short period of time. I suppose for a lot of global investment managers and sovereign wealth funds, the first change would probably be to currency allocation. That's the biggest and probably also the easiest change. But making changes to actual allocations takes time through an investment committee and there's a process before it takes effect with regards to investment mandates. So we're probably only seeing the initial stage and it will be interesting to see if more changes take place — I think it will take a little bit of time until we have greater clarity about how this plays out.

Amaral, Portugal: Not much else to highlight from me and I agree with everything that has been said. We are a little western corner of Europe and we have not really seen significant US dollar demand shifting to euro demand, I must say, from the Americas or Asia or the Middle East. It has been a continuation of what we've already seen last year from those investor geographies. So we can't really deduce that things have changed yet. As Dave was saying, maybe that is something that could happen in the near future but not so far in our corner of Europe.

What has actually happened, but is maybe just correlated with recent events, is our bills market has exploded in liquidity, as I highlighted earlier. A lot of that turnover is done by one primary dealer outside of Europe. But it's a bit difficult to deduce whether that is behind investor demand out of US dollars to euros. But that's the only correlated significant event that we've seen since the recent geopolitical and trade tensions — since 'liberation day.'

Adubi, Morgan Stanley: The conversation is certainly much more prevalent and frequent now than what we've seen in the past. Dave is completely right on the reserve management side. This is a trend that's been seen for the last five to 10 years — the share of dollar reserves as part of payment processing globally has been on a downward trend, based on statistics and studies. You could argue that what's happened over the last six months may have been an acceleration of that trend.

But then it's early days for central bank reserve managers, it takes time to change the strategic



"It's to the benefit of investors in the market to include EU bonds in their strategic asset allocation and index consultations will hopefully confirm that"

Siegfried Ruhl, European Commission

“The market priced in a relatively large increase in spending but, in reality, the spending increase is going to be a gradual one over many years”

Ben Adubi, Morgan Stanley



allocation. Equally, if you're a big pension fund globally, you don't just make decisions overnight to shift money from one currency to another. You need to think about it: tactically you might do it on a short-term basis, but strategically, how much of your reserves do you move from one currency to another, and when and how you do it — all of that takes time to plan.

The early signs are probably positive. Tactically, on a short-term basis, people are reallocating some of their capital into euros and alternative currencies. But it's probably too early to see it as a sustained trend that's accelerating, rather than just a consolidation of what we've seen so far.

GlobalCapital: Are sovereigns' ESG issuance plans still in place, despite ESG being put under the spotlight — in the negative sense — by changes in US policy? Siegfried, where's the EU with the 30% green issuance target under NGEU?

Ruhl, European Commission:

For NextGenerationEU, 30% means slightly above €200bn of green bonds outstanding and at the moment, we have €75bn outstanding. There is a slowdown in the pace of NextGenerationEU green issuance, but it doesn't mean that we have given up on the objective — the 30% target is still there. We are waiting for more green expenditures being reported by our member states. However, hitting the 2026 deadline is not an issue. If these expenditures are reported after 2026, we can use the rollover of our maturing debt to issue more green bonds after 2026 and achieve this target of 30% over time.

At the moment, €75bn of green issuance plus €100bn roughly of

social bonds issued under the SURE programme already make the EU the second largest labelled bond issuer globally. In the case of green bonds, we are currently ranking sixth largest, with the ambition to go up in the ranking. But it needs some time.

GlobalCapital: Davide, Italy is very committed to its green targets — I take it there's no change in that commitment?

Iacovoni, Italy: No, I wouldn't say there are changes. There is full confirmation from our issuance this year that we've been extremely happy about — we reopened a green bond and launched a new one. Demand has been extremely strong, especially from ESG investors, so this is a very important component for diversification.

As Siegfried was saying, you need to have enough green expenditures. Looking at the characteristics of our budget, there is a quite a lot of capital expenditures over a number of years that will continue to be there together with other additional expenditures.

Another point is that for the time being, some green expenditure is financed by the EU and that limited our room to issue green bonds in a positive sense, as we have to avoid, at all costs, any risk of double counting. But after the end of 2026, when disbursement from NGEU should be over, this will allow us probably to expand the amount of green expenditures that we can find in our budget, and some projects' expenditures that are financed by the EU and will then be financed by the Italian government.

So we see space for this programme to keep on growing despite that generally and globally green is seen less in fashion than it

used to be — just a year ago. But from our own objectives, we don't see really a reason for changing our strategy.

McEvoy, Ireland: Green bonds are a very important product for us, for diversification purposes and also as a flag for Ireland's green commitment. The challenge we have is that while there are many green projects, we currently have limited bond issuance needs. But I would also highlight that we are having a lot of good conversations with investors about Ireland's ESG credentials. There have been a lot of in-depth questions from investors about anything from biodiversity to just-transition.

Amaral, Portugal: We've laid out our strategy, which is unchanged for the near future in the sense that we are committed to provide liquidity to our own PGB curve and not divert to other instruments. And also, we are committed to promoting the country's green credentials with a more holistic approach to ESG, so promoting green and social and how the country has been developing and improving on those fronts, rather than issuing use-of-proceeds bonds.

Tsakonas, Greece: It's the same for us. We have a lot of green projects, but they are already financed by the NGEU finance. So the challenge here is to absorb all these funds as soon as possible to proceed with the projects. And as covered by my colleagues, we don't have space for funding activity and we need to preserve liquidity in the secondary market by providing supply to the Greek curve.

Adubi, Morgan Stanley: The ESG market in Europe and euros is a mature market now with dedicated investors and strategic priorities that part of their needs to be invested in ESG products from high rated liquid issuers, which is everyone on this roundtable.

There are some discussions around changes in the narrative, the changing backdrop and environment, but from our perspective it's a mature market and, frankly, it's not too surprising the demand that we see. How the ESG market is treated in some other currencies is very different. So it's mature and in our view it's here to stay for the foreseeable future. GC

SSAs accelerate funding, despite defence and trade stresses

The year is not yet at its halfway point but, already in 2025, global bond markets have had to face anxiety about European and US governments wanting to spend more, including on defence, and fears about the aggressive trade policy of the new US administration. During these testing times, however, new issue data demonstrate the resilience and flexibility of the primary market, writes **Addison Gong**

Over the first five months of 2025, supranational, sovereign and agency bond issuers raised nearly \$660bn-equivalent from benchmark issues in core currencies, 6% higher than a year ago, according to data from *GlobalCapital's Primary Market Monitor*.

While borrowing more, these issuers also funded shorter. The average tenor of their benchmark issues in the first five months of 2025 was 8.3 years, versus 8.9 during the same period last year. The deals were slightly better bid at an average 4.7 times subscription ratio, up from 4.5 times.

The average new issue premium paid by SSAs has compressed over the first five months to 1bp from 1.4bp a year ago.

Government bond yields have generally underperformed interest rate swaps globally over the past year. Dollar swap rates have moved more deeply below US Treasuries, while euro swaps moved tighter than Bunds last year.

The moves have pushed SSA spreads over swaps wider, but SSAs have outperformed govies, so their spreads over them have tightened.

This trend has been visible in the primary SSA market. From January to May, SSAs paid an average 47bp over mid-swaps to print new benchmarks, far wider than the 34bp average a year ago. But their average spreads to govies have tightened from 41bp to 32bp.

Disruptive April

The first five months of the year were full of surprises. The European Commission and Germany unveiled ambitious spending packages to address the increasingly urgent need to strengthen Europe's defence capabilities, with Germany also looking to invest more in infrastructure.

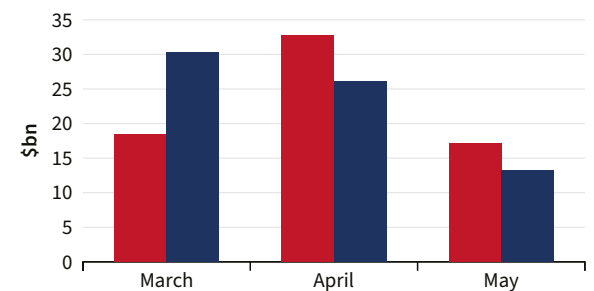
The extra spending plans have led to investor concerns about higher government borrowing and wider deficits, causing volatile yield and spread moves in the European government bond market.

Then in April, US president Donald Trump proposed sweeping, high tariffs on other countries on so-called 'liberation day'. The aggressive new trade policy dented global growth and inflation outlooks and further unsettled global markets.

Tariff and trade war-induced volatility has diminished spread

US dollar SSA primary issuance volume (\$ billions)

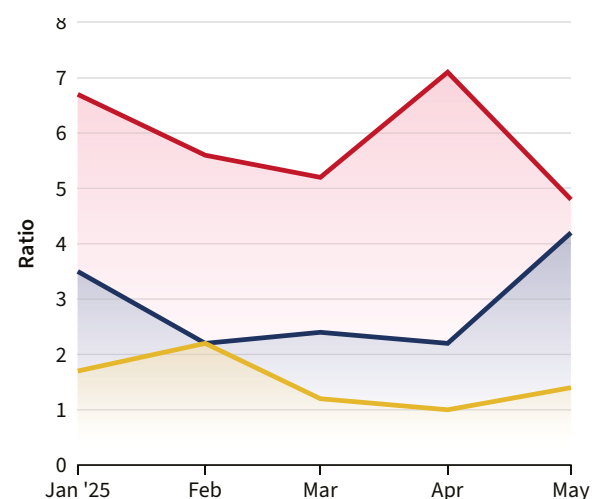
● 2024 ● 2025



Source: GlobalCapital's Primary Market Monitor

SSA book coverage ratio

● Euro ● US dollar ● Sterling (ex. Gilts)



Source: GlobalCapital's Primary Market Monitor

"This January-May, SSAs paid an average 47bp over mid-swaps to print new benchmarks, far wider than the 34bp average a year ago"

“The dollar deals that did appear in the market in April were also less covered, at only 2.2 times, versus April 2024’s 3.2 times”

tightening during SSA bookbuilds and led to higher new issue premiums.

In the first quarter of the year, issuers managed to tighten pricing on average by more than 2.2bp during execution but that weakened to 1.5bp in April. Meanwhile, the average NIP rose to 2.25bp from just 0.75bp in the first three months.

In April 2024, the average tightening had been nearly 3bp, with the average premium paid only around 1.5bp.

The tariff noise — and the many twists and turns from the Trump administration that followed the initial announcement — notably disrupted SSA issuance in dollars.

Between April 2 and April 15 these issuers sold no dollar bonds. Monthly dollar issuance fell 20% year-on-year in April and was also down about 23% in May. Across the first five months of the year, dollar supply was 9% lower than in January-May 2024.

The dollar deals that did appear in the market in April were also less covered, at only 2.2 times, versus April 2024’s 3.2 times. The average coverage ratio had been 2.9 in the first three months of 2025.

The new issue premium, meanwhile, fattened to an average 1.6bp in April from 1.1bp in January-March. It was also higher than the 1bp in April 2024.

Recovering May

The euro market bounced back strongly in May, in both volume and issuance conditions. Euro volume increased 56% from April and was 18% higher year-on-year.

Dollar issuance still lagged, however, with May 23% lower than a year ago. Issuers, however, managed to tighten their deals by 1.5bp more than they did in May 2024, while reducing their new issue premiums by 0.5bp to less than 1bp.

The underperformance of US Treasuries when tariff concerns

were at their sharpest in April has notably compressed SSA issuers’ spreads over US Treasuries on new dollar benchmarks, to just 14.4bp on average in April-May, from 24bp over the same two months in 2024.

This compression also occurred in the euro market, but less starkly — SSA euro benchmarks paid about 8bp less spread over Bunds in April-May 2025 than in the same period last year.

The tightening of French SSA issuers’ spreads over OATs in the past year was another attention-grabbing trend. French government bonds sharply underperformed swap rates — especially in the second half of 2024, when the country was plunged into a political crisis.

In January-May 2024 French SSAs’ spread to OATs had been 26.4bp in the primary market. In the first five months of 2025, it averaged 13.5bp.

Sterling moves

The sterling SSA market made an incredible start to 2025, with January issuance up 40.5% year-on-year to nearly £22bn.

The market stayed buoyant throughout the first quarter, with volume 90% higher than in the same period of 2024.

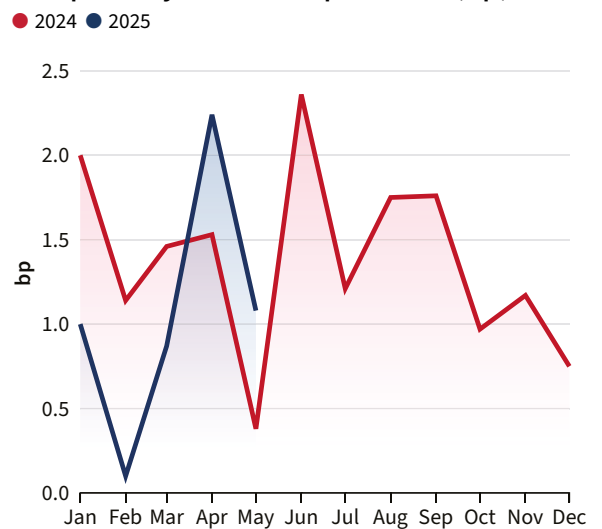
Though April issuance lagged, overall sterling volume in the January-May period was still 49% higher year-on-year.

Taking the UK’s large and frequent Gilt syndications out of the numbers, January-May sterling volume was still 19% up on a year ago, but April-May volume was down 37% year-on-year.

This year, among the non-Gilt sterling deals, a greater amount of price discovery during execution has been observed.

Across the first five months of the year, issuers managed to tighten pricing on 36% of deals during the bookbuild, whereas for the same period in 2024, only two out of 32 issues were tightened. **CC**

SSA primary new issue premium (bp)



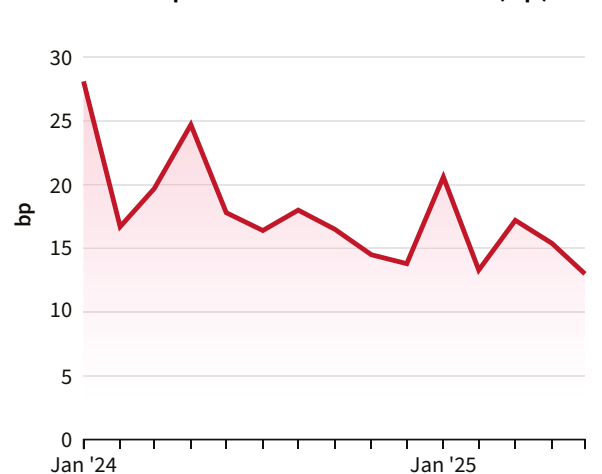
Source: GlobalCapital’s Primary Market Monitor

French SSA spreads to OATs (bp)



Source: GlobalCapital’s Primary Market Monitor

Dollar SSA spreads to US Treasuries (bp)



Source: GlobalCapital



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Deal Name	GlobalCapital Coverage	Class
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L-Bank - USD - 1250m - 4.375% - 15/02/2028	Link	SSA
Iberdrola - EUR - 800m - 4.247% - Perpetual	Link	Corporate
Prysmian - EUR - 850m - 3.625% - 28/11/2028	Link	Corporate
BayernLB - GBP - 250m - 5.25% - 28/11/2029		FIG
D... - EUR - 500m - 4% - 07/01/2028		FIG

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