

GlobalCapital

# Sovereign Issuers Roundtable

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# 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



<b>Rui Amaral,</b> board member, Treasury and Debt Management Agency (IGCP), Portugal	<b>Dave McEvoy,</b> director, funding and debt management, National Treasury Management Agency (NTMA), Ireland	<b>Siegfried Ruhl,</b> hors classe adviser, Directorate General for Budget, European Commission	Moderator: <b>Addison Gong,</b> SSA editor, <i>GlobalCapital</i>	<b>Dimitrios Tsakonas,</b> director general, Public Debt Management Agency, Greece	<b>Davide Iacovoni,</b> director general — public debt, Treasury Department, Ministry of Economy and Finance, Italy	<b>Ben Adubi,</b> 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 2020 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

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**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



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**Dimitrios Tsakonas, Public Debt Management Agency, Greece**

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

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



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



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*Davide Iacovoni, Ministry of Economy and Finance, Italy*

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 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

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**Siegfried Ruhl, European Commission**



SAFE is going to provide us with 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

*"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"*

*Davide Iacovoni, Ministry of Economy and Finance, Italy*



spoken about that today and it very 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.



*“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”*

*Dave McEvoy, National Treasury Management Agency, Ireland*

**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**

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

*“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**



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**

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