

Sovereign Issuers Roundtable

New approaches, new investors

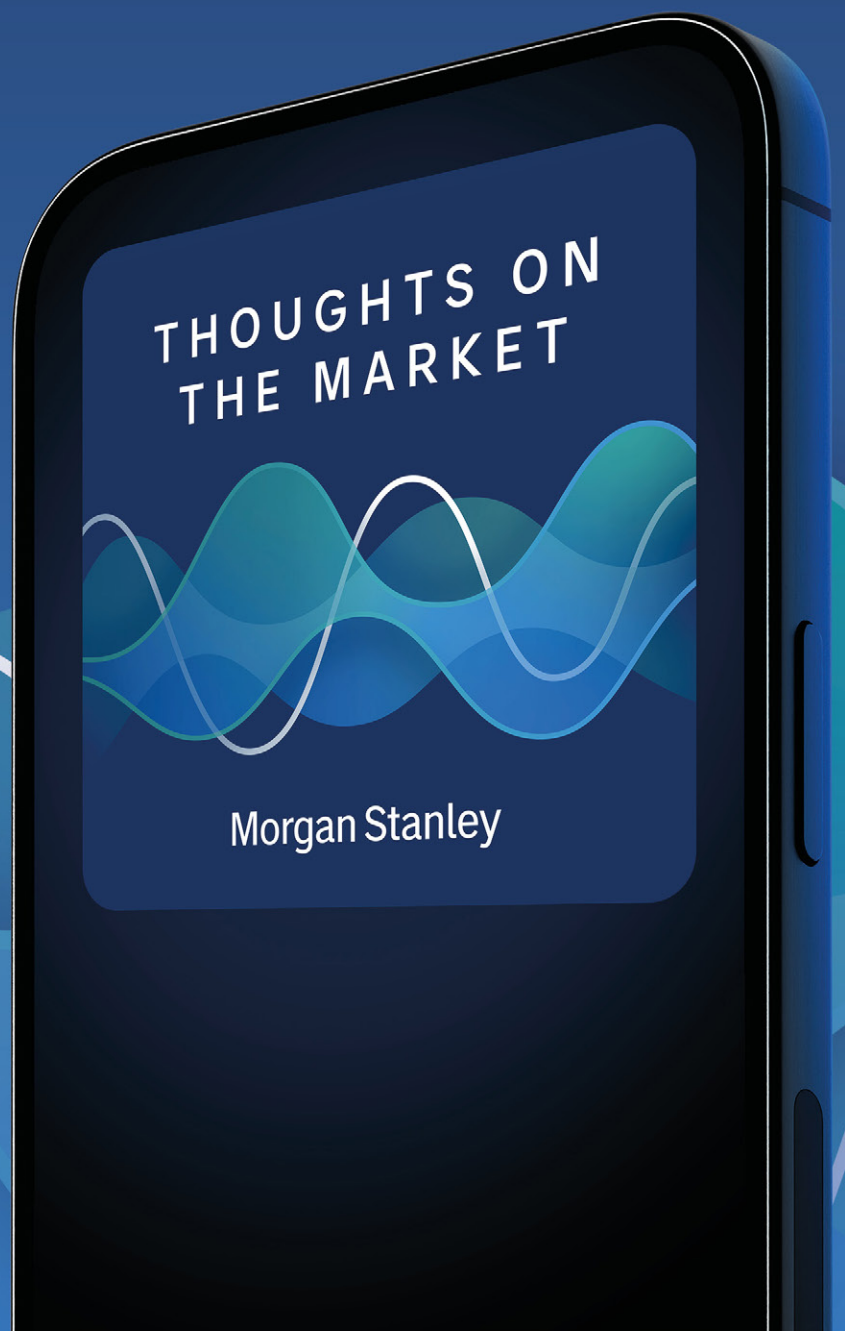
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Morgan Stanley



European sovereign issuers look to varied maturities to bring in new investors

Amid tight budgetary conditions, including persistent inflation, volatile markets and geopolitical tensions, sovereign issuers in the EU face continuous pressure to fulfil borrowing requirements. Simultaneously, these same issuers are having to confront different challenges that range from the growing impact of hedge funds in their order books, and whether this is a good or a bad thing, how to convince new investors

that their home currency, the euro, is an alternative to the dollar and how aligned EU capital markets should become and what form this should take.

GlobalCapital assembled sovereign debt issuers to discuss borrowing requirements and how they are being met, what the diversification of their investor bases means for the products they offer and the benefits of harmonisation and simpler regulation in the EU.

GlobalCapital: With sovereign borrowing requirements on the rise generally, how are issuers varying their approach to the market in response? Are we likely to see more or bigger syndications? How are issuers navigating any primary market congestion? What pressures does this bring to the primary dealer system?

Jean Deboutte, Belgian Debt

Agency: Our borrowing requirements have been rising in nominal terms, maybe not a lot.

After inflation, maybe not much at all, fortunately, but it's still quite a hefty nominal figure for us. So, €55bn is more important at first sight than what you had. Still, we can manage that with the same strategy that we have followed for years and years, that is, issuing new bonds in syndicated format and then tapping them via auctions. Fortunately for us, nominal syndicated bonds are also getting bigger and bigger everywhere, also due to inflation, of course. So, whereas before, €5bn was the

maximum for us and was a big success, now we would be very disappointed if it were only €5bn and we are running into €7bn to €8bn. So naturally, the money is also inflated. We don't have a particular problem with programmes that are bigger than before. We also have the EMTN programme, which helps quite well, so we are diversified in terms of funding sources. The funding through SAFE [Security Action for Europe] will be there, so it's more than enough. For the moment, we are comfortable with

Roundtable participants



Ben Adubi, managing director, global capital markets, Morgan Stanley

Jean Deboutte, director strategy, risk management and investor relations, Belgian Debt Agency

Siegfried Ruhl, hors classe adviser, directorate general for budget, European Commission

Anu Sammallahhti, director of finance, head of department, State Treasury of Finland [Valtiokonttori]

Pedro Cabeços, chief executive officer, Portuguese Treasury and Debt Management Agency (IGCP)

Davide Iacovoni, director general — public debt, treasury department, Ministry of Economy and Finance, Italy

Moderator: **Ralph Sinclair**, chief product officer, *GlobalCapital*



62% of our programme being finished by mid-June. We'll be at maybe 67% at the end of June, which is a very nice and very average figure for us.

Davide Iacovoni, Ministry of Economy and Finance, Italy:

We experienced higher funding needs in Italy during and after the pandemic, when we had to increase our issuance activity significantly. This was in 2020-2021 and then we had quite a drop in 2022. From 2023 onwards, because of a series of technical factors, our funding needs grew, bringing the volume of funding to place in the market in terms of bonds, in the region of €350bn-€370bn every year. As I was saying, there are technical reasons for these large funding needs that already should leave the way to a gradual reduction next year. One is related to the fact that several governments in the past few years have put in place or kept a very generous tax credit system for real estate renovation. This has been something that has got a little bit out of control. We are now managing the cash impact of these tax credits over the years. Next year should really be the first year of a drop in our issuance because most of these tax credits will be gone. We are facing this situation, however, in a smooth way over these months, despite the increasing volatility that we had since the end of February. In terms of funding progress rate, we are now well above 60%. It's slightly better than last year. It is true the market has been congested sometimes. We have been doing some syndication together with

some colleagues sitting around this table and other issuers. In some cases, we are doing some informal coordination activity, in some cases, not. But it looks like in all these windows, the market has always been quite responsive. Looking at our syndications, or syndications of other issuers, they have always been quite successful. It looks like the market now is getting more used to permanently high levels of volatility, which is a good thing in the sense that it allows us to manage through this troublesome period effectively. On the point you mentioned about primary dealers, in Italy we are also getting better reception of our debt among investors, because last year we experienced a series of upgrades or improvements in the outlook. This opens up sales to new investors. In the end, primary dealers' activity has been eased by this process because there are new investors, so they don't keep the paper they get at the auction too long because they can now find a very healthy and continuous final demand, which is allowing them to get their jobs into a better situation. Overall, the picture is still quite troublesome and volatile. Finding the right windows to issue syndication, for example, is still quite a difficult exercise. But globally, I would say the picture over this month has been quite smooth and satisfactory for us.

GlobalCapital: One of the things I've noticed about BTP syndications this year is that you've broken records for order book size and then deal sizes. Was that a surprise to you?

Iacovoni, Italy: No, it was not a surprise because, as we know, we can say that some of these books are also inflated strategically by some participants, especially from the hedge fund community. We are more or less used to it, even if we try some more persuasion in this respect. But there's still this kind of running ahead, even before we formally open order books. But we're also trying to say to those who look at these numbers, not to look just at the demand and the supply, which is of course an important aspect, but to go beyond that and look at two elements. One is the number of accounts that participate. That is really increasing. Second is the type of accounts and what we've seen as a quite well-established trend since mid-2024, is the increasing participation of buy and hold investors, so more like central banks, sovereign wealth funds from the institutional side and from the private sector, insurance companies, pension funds, especially from outside Italy because Italy's national pension fund sector is quite small in terms of assets under management. This is what we're trying to focus on. The fact that we have an increasing participation of these investors is very good because it tends to shape the quality of execution of issuance going forward. Not only that, this is a more stable demand base as these are all kinds of investors that normally tend to keep their positions during volatility or turbulent market contexts. This should be a point of strength for overall debt performance in the medium- to long term.

Anu Sammallahhti, State Treasury of Finland (Valtiokonttori): Our funding requirement has been growing, in particular post-Covid. We've always had that mix of 50% syndications, 50% auctions in long-term funding. With the increase in our funding requirement with Covid, we added a third syndication. That proves the point that our programme has been quite adaptable to changes in volume. That's what we are also expecting to stick to going forward. In a given year, we would always issue a new 10-year in a syndication. In addition, in alternating years, we would issue 15, 20 or 30 years, so something in the longer end, and then something in the medium maturities, five to seven. We're not expecting to add to the number of syndications going forward, but given the size of the issuance programme, which we foresee around €45bn to €50bn going forward, that number includes the short-term funding. The syndications used to be €3bn no-grow. More recently, we've also done €4bn syndications, and you would expect to see that going forward. To your question on congestion, markets have been quite navigable. I suppose no one really expects exclusivity with their windows nowadays, so I think it's all been fine. As you were saying, sometimes sharing thoughts beforehand with your peers tends to smooth things out.

GlobalCapital: Siegfried, the EU is sometimes a cause of the congestion in the syndicated market. What's your view?

Siegfried Ruhl, European Commission: In terms of congestion overlaps in primary markets, we are very transparent. When we announce our semi-annual funding plans we also announce the weeks when we will be active via syndications and via auctions, including bill auctions. This is helpful for our investors and for the market in general, but also for peer issuers, so that everybody can prepare for the supply. Indeed, there is high supply coming from us this year. We see it as an opportunity to develop the role of the EU as an issuer in European capital markets. Only six years ago we started to become a large and meaningful issuer because of the Covid crisis with the SURE [Support

to mitigate Unemployment Risks in an Emergency] and the Next Generation EU (NGEU) programmes. Since then, we have received further mandates to finance joint political objectives via joint issuances. For example, there has been several programmes to support Ukraine as well as the new SAFE instrument to support our member states in strengthening their defence capabilities. This has now brought us to the situation where we have very high funding needs this year. We did €100bn in the first half and we indicated an overall issuance volume for 2026 of around €180bn in long-term funding complemented by short-term funding. This helps us to develop our market further and to further increase liquidity on our curve, which has really been improving in recent years. Last year, EU bond's secondary market turnover exceeded €2.5tr. In the first quarter of this year, we already have had turnover of more than €1tr, so, it's an opportunity for us to develop another European safe liquid asset. Market participants recognise that and we have seen very strong demand and a continuously increasing investor base in the last 12 to 18 months, especially investors from outside Europe, who want to invest in a liquid and triple-A rated asset in the euro market that is not exposed to national events. In these volatile times, they are looking for stability and this helps us in this market. In terms of the proportion of syndications versus auctions, we have a split of slightly less than 50% via auctions and slightly more than 50% via syndications. Our long-term objective is to develop the auction format further. For this, we implemented last year a new feature in our auctions, the so-called non-competitive allocation, which other issuers have had for many

years. Investors — via our primary dealers — can buy a pre-defined share on the day after the auction at the average auction price. Out of the €180bn bond supply indicated for this year, 75% is net supply. We currently issue on average €15bn per month of which around €12bn-€13bn are a net increase in our outstanding amounts and we need €12bn-€13bn fresh money in our bonds. Given these still high net funding needs, we will continue with this approach of around a 50-50 split between auctions and syndications for this year. Then after 2026, we can develop the auctions further. We will remain a frequent issuer with high volumes, but the share of net supply will go down and we will have more refinancing needs for maturing debt.

Pedro Cabeços, Portuguese Treasury and Debt Management Agency (IGCP): I don't think the strategy has changed dramatically, which is a good thing. One thing the typical government bond investor appreciates is predictability. Our funding needs are growing in nominal terms, but not as a percentage of GDP. That's obviously a good thing. Our strategy has focused on predictability and having some flexibility in some instruments. There is a commitment to the market in terms of our benchmark bonds and the benchmark curve, and we try to abide by that. Last year, we announced €20.5bn of issuance for the bond market. We issued €20.6bn. This year we have €24bn and the idea is to stick to that level. In terms of the timing, issuing when volatility is a new reality, considering that in the first two months of the year, people were just focusing on carry trades and now there are other factors to bear in mind. That affects the windows we pick for syndicated issues. We



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Davide Iacovoni, Ministry of Economy and Finance, Italy



had to wait a little bit to see if things calmed down in the Middle East in May, and then, once they did, the week we executed our second syndication was obviously slightly congested because it was the first week of calmness after two months of a lot of volatility. But, as other issuers do, we pre-announce the auction process before year end. We have two potential windows every month and we stick to them. The bonds we're issuing depend on dealer and investor demand, as communicated by dealers, and also according to our redemption profile, in a cost-efficient manner. That's where we have some flexibility. But again, the most important thing is to stick to those rules. In terms of syndications, bigger syndications have been a discussion with a few investors and dealers. Some of them, pointed in a different direction, arguing that for smaller issuers, market makers and investors tend to look at them only occasionally. It's not like Davide, which is one of the largest benchmarks in Europe. The point that was made to me, and there's a lot of sense in it, is that creating more liquidity points by issuing more often, albeit on the smaller side, could prove a worthy strategy. The impact it could have is overbidding, which is a concern for primary dealers. Ultimately, our end goal, apart from funding the budget, is to have a liquid curve as much as we can. That benefits both dealers and investors.

GlobalCapital: Ben, perhaps you could address that question for the EGB market more broadly and, also, from the point of view of a primary dealer, how terrible it's getting or not.

Ben Adubi, Morgan Stanley: If it was that bad, I wouldn't be here.

The way we approach the EGB market is one where there are larger borrowing requirements that we've discussed. But I like Siegfried's point around net supply. With the exception of the EU, where the net supply is a feature in the short term, not the medium or long term, that feature will solve itself over time, the net supply numbers aren't large for the issuers around this table, or for the wider eurozone, so I don't particularly see an issue with increases in the borrowing requirement. When it comes to a primary dealer such as us, and more broadly to me, there are a few things to think about. One is larger supply necessitates larger balance sheet requirements for primary dealers as a whole. You, therefore, have to have a larger allocation and focus on secondary market liquidity to service the larger funding programmes across the board. Last are the capital cost increases associated with higher rates for us as a community. When I think about those capital costs, from a purely Morgan Stanley perspective, we obviously have had some deregulation in the US that was very well telegraphed, whether it's SLR or the US's approach to the Basel requirements. That has been a boost for us this year. We've been able to allocate more balance sheet across our rates franchise as a whole, particularly in EGBs where we are a credible bank across the eurozone. That's not going to change. When it comes to the congestion, people here are extremely friendly around accessing markets. We've had the informal points made, but, against a macro backdrop or changing geopolitical scene, you have these bouts of volatility more frequently these days. I don't think I've seen any indigestion from any transactions, certainly not in the

year to date, but going back a much longer time. I would argue that if you have a Pedro, a Siegfried or whoever it is on the same day, it's typically not in the same maturity. It's typically a different offering, and investors will approach them in different ways. We've left the days behind us where investors don't have enough cash to put to work in more than one syndication. As long as it's not truly competing, I don't see that any issues whatsoever.

GlobalCapital: Do you think that would work, though? We've seen in the supranational market, for example, where it used to be the case that no one could countenance the idea that EIB and KfW would come on the same day with the same trade, but they've done it a couple of times now and it's worked fine. Do you think it could happen in the EGB market?

Adubi, Morgan Stanley: Correct me if I'm wrong, but I've seen Davide and Siegfried in the market at the same time and they've been fine. It has happened and will continue to happen. Everything thus far has worked exceptionally well. The beauty of the euro market is you have a day one announcement where you are able to canvass accounts. If there is any fear around cannibalisation or lack of demand for one transaction, you have the ability, not that we would necessarily want to, to adjust either the size or the price of the potential offering. That flexibility in the way of executing syndication allows you to offset that risk to a large degree.

GlobalCapital: I just want to pick up on something that you touched on, Davide, which are the changes to your investor base. I wondered in particular whether you'd seen more hedge funds or, to put it another way, fast money, in your syndications, and whether you felt that you were benefiting from global investors, in particular in Asia, rotating out of US Treasuries and looking for something else.

Iacovoni, Italy: It's not something that happened in one day, but we've seen this gradual shift towards more buy and hold investors. From our perspective, we have a history of new accounts coming from continental Europe and the UK,

but the other two areas that have been increasingly important are the Scandi area, so all the areas in the northern part of Europe, and several important accounts from Asia and the Middle East. Together with that, there is this trend, which is common throughout Europe, but not only Europe, of hedge funds. Based on our experience, we're realising more and more that there are very different entities within the hedge fund category, whether they are big or small, or whether they have more of a long-term view of the market. Some of them don't just take a position to flip it in one or a few days, because they have their own analysis and built up some view about the macro. They decide to take some positions and keep them for a while. We have been in contact with some of them and this is taking place. In this respect, sometimes these guys are even more stable than some accounts from the asset management community that tend to be more dynamic in the market. This hedge fund phenomenon is more complex than one would imagine, but it's a common feature. They have a big role in auctions in the primary market. We know for a fact that the primary dealers get a very relevant chunk of orders in the primary and secondary markets. In the latter we are experiencing an unprecedented increase in volumes, and behind that there is this increasing role of hedge funds. Is this a healthy development? Looking at the numbers, from our perspective, liquidity has substantially improved, so it's not just fake liquidity. We monitor MTS, the main inter-dealer market in Italy, a lot and this is where the price discovery process really takes place, and we realise that over time, the activity of banks in providing prices has been improving quite significantly. Of course, not all the banks guarantee the same level of service and there are different situations from bank to bank, but overall, there is this effort to provide better liquidity conditions. It's a virtuous circle. Where there are more trading volumes because of hedge funds, the banks have to provide more price updates and become more efficient because of this. Of course, we are also aware of the risks in this environment. For example, we also closely monitor the trading activity and its growth, especially on electronic platforms,



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Anu Sammallahhti, State Treasury of Finland (Valtiokonttori)

as I said before. Behind these large volumes there is, for instance, quite a decent flow of algo trading, and within this kind of activity some banks tend to trade immediately in the market with an opposite transaction, whether on the buy side or the sell side. This is what is called automatic hedging activity (auto-hedging). This is also getting a lot of volume and traction in the market, which is an activity that we monitor and to some extent discourage. Indeed this activity, in the context of shocks and instability, may exacerbate some of this and to some extent it may be considered not as "genuine" trading flow. That is why I'm saying these phenomena that we are monitoring. For example, when it comes to auto-hedging activity, we also try to disincentivise the primary dealer to do it to a larger extent. But there is no doubt that behind such large volumes in the market we need to be focused on the role of hedge funds over time. I want to also mention what can happen now with AI that will be included in the algo trading, because this is another thing whose potential will increase. It's a big benefit on one side in terms of liquidity in ordinary times, but it could be a source of a widening in stress situations when exogenous shocks come out.

Sammallahti, Finland: I would very much agree with Davide that hedge funds are important liquidity providers in the market. For the market to make sense, to have a true price discovery process in the secondary market, there needs to be a free float, because otherwise it just wouldn't work. On the risk side, it's perhaps sometimes difficult for an issuer who's not in the market every week to recognise the investors' strategies because they could be different even for investors within a

bracket. We get contacted by hedge funds and they explain their strategy and so forth. Labelling doesn't necessarily tell you about investor behaviour. The thing about risks in the market is, what is the funding model of the investors? How much is it relying on repo? How much leverage? Those kinds of things are important if something hits the fan, so to speak. That's something to watch out for in those situations.

Cabeços, Portugal: There's obviously been a structural change in the market since the sovereign and banking crises. It's welcome to hear that Morgan Stanley has bigger balance sheets, but the tendency over the last few years has been, for most banks, to have shrinking balance sheets. Alongside this trend, we have seen a lot of traders going from market-maker positions into hedge funds. That process has led to hedge funds having more and more importance in every market, even in a small one like Portugal. Again, to Anu's point, there are hedge funds and hedge funds. There are hedge funds that behave like real money and there is real money that behaves more like a typical hedge fund. But they're massively important in making sure that the liquidity is there and that they correct structural inefficiencies across the various curves. They now perform a function that before used to be handled by banks, but has since been picked up by hedge funds, mainly due to the cost of banks' balance sheets. The dialogue that we have with hedge funds has been incredibly healthy, productive and constructive, not only in their current functions as portfolio managers but also as former market makers, as a lot of them are. It's a very important dialogue that we have, and that I'm sure everybody

around the table has, with hedge funds in terms of achieving a liquid curve from the short end all the way to the long end.

Ruhl, European Commission:

There's not much to add. Let me start the other way around. What do we need as issuers? We need well-functioning primary and secondary markets. We need a diverse investor base in both primary and secondary markets to navigate through different market situations. Hedge funds are an important part, including for our primary dealers to manage risks around auctions and syndicated transactions. They keep the secondary market liquid. They also make the secondary market attractive for other investors to have counterparts to play relative value trades and so on. What is also important is that you have a balanced market and a balanced and well-diversified investor base. A market which only consists of hedge funds or public institutions and central banks is either a flipper market or an illiquid market, so you need both. From this perspective, they are important contributors to the functioning of the market.

GlobalCapital: What about that question about a rotation out of US Treasuries and into other similar assets? Has the EU benefited from that, in particular from Asian accounts?

Ruhl, European Commission: I mentioned earlier that we have seen two consecutive years of increased demand from outside Europe. This may be for different reasons. One reason is the special situation of the EU becoming a more liquid asset, a more developed asset with a more developed ecosystem behind it, which makes us more

attractive for investors outside Europe and for reserve managers. Which role does de-dollarisation or de-Treasurisation play? It's difficult to quantify. I think it plays a role. Talking to many investors outside Europe, I still believe we are primarily in a phase of de-Treasurisation. You also see it within the dollar market, in the spreads of other dollar-denominated assets versus Treasuries. In terms of reallocation of currency, I would say, there is also trading ongoing but more in terms of investors taking tactical positions. In terms of changing the strategic currency allocation of the large portfolios we are maybe only at the beginning of a process. It takes a long time for large institutions to change investment guidelines. Talking to investors, I hear they are internally discussing it, but we are not at a level where a majority is really implementing it.

Deboutte, Belgian Debt Agency: To that extent, I would say that normally the part of dollars in central banks should be higher than what it is now, given the extraordinary growth that has been taking place in the US. There is definitely some erosion going on for the dollar. Will the euro benefit from that? Until now, everything I've seen is that it is more important for other currencies than the euro, even than sterling, even than the yen, even than the dollar. So, there is a bit more diversification. I'm not sure that everything is going to the euro, but I can also testify that for us the public sector was quite important this year, even in our 30-year bond, which was quite surprising. It was not just in the Belgian 30-year, but also in 30-year bonds of other countries that we saw the public sector, and outside the euro area in Asia, which is also

important. So, it's a good sign, but I'm saying that our part in the world with the euro is maybe not rising that quickly after all.

Sammallahti, Finland: On the de-Treasurisation point, we just had evidence in our latest 10-year syndication, in that we had a typical investor base of global official institutions participating. But at the same time, we saw a larger share than before of European bank treasuries getting involved. That, to me, is evidence that investors who are looking for dollar assets are also looking for something other than Treasuries. Overall, the diversification focus seems to be there. To pick up on the point Davide mentioned earlier, you're seeing more Scandinavian investors. We're still seeing Scandinavian investors, but, at the same time, we're also seeing more Southern European investors. So things seem to be going around.

GlobalCapital: Another change perhaps among investors has been — I'm thinking of the most obvious example being Dutch pension fund reform — a trend for buying fewer long-dated bonds. I wonder how the issuers are responding to that, and if they are issuing shorter on average, how they're addressing the possible refinancing risk. Pedro?

Cabeços, Portugal: We have very good, and strict, guidelines in terms of refinancing risk. The current rules are a maximum of 15% over one year and 45% over five years. We have to abide by them. That's a commitment we have with the shareholder, so that's not going to change. In terms of execution we can decide on any strategy as long as we abide by those two rules. We also have rules in terms of the weighted average maturity. We need to navigate those developments always having in mind those three, or two, pillars. In terms of the long end, I like to think, and it's my job to think that way, that we could benefit specifically from the Dutch pension reform, as they moved away from triple-A Germany swap-type issuance into slightly higher spread investments. I'd like to think that we will benefit from that. It's well-known that Spain has largely benefited from that. The Dutch pension reform going from defined benefit to defined

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Siegfried Ruhl, directorate general for budget, European Commission



contribution is obviously a very important development. While it may jeopardise issuances in very long-dated instruments, it creates new opportunities in the market. For us, this meant issuing a new 20-year bond a couple of weeks ago, which was something that maybe was not conceivable two years ago. Previously, we looked at 10 and 30 year benchmarks, leaving the belly of the long end for the off-the-runs, so it creates new opportunities like every big event.

Sammallahti, Finland: The shape of the curve hasn't really affected our issuance strategy because we try to be predictable and we like to be demand driven. We are currently in a medium-term strategy period where the debt management guidelines from the Ministry of Finance guide us to lengthen the portfolio average fixing. But that is achieved by not swapping new issuance into floating. Our approach in long-term funding is that we do these three euro benchmarks syndications and then the auctions. The average maturity of our long-term issuance annually tends to be over 10 years. Then we balance it out with short-term issuance. I wouldn't say that we'd be particularly affected one way or the other because we're still seeing demand in the longer end. We did issue a new 15-year this year, and the year before a 20-year. There would be demand, in my opinion, for up to 30 years for our needs, because our volumes are not that huge.

GlobalCapital: A different case for you, perhaps, Siegfried, in terms of requirement?

Ruhl, European Commission:

Traditionally our average issuance maturity is a bit longer than that of colleagues here at the table. This is linked to the way our issuances are backed by the EU budget. We must make sure that the maturities in a given year in the future are covered by sufficient backing from our member states. This leads to a situation where we issue with a slightly longer average maturity. We started in 2021, 2022 with an average maturity of around 13 years. We are now at around 11 years, as the expected size of NGEU allows to issue a bit shorter. But we are quite active at the long end and we haven't seen an impact to our

transactions here from the Dutch pension reform. Also, our curve, which, due to the high amounts at the long end, was always a bit steeper, hasn't further steepened for the last six or nine months. It has stayed quite stable relative to peers, so this did not impact our issuance strategy or the demand for our bonds at the long end.

Deboutte, Belgian Debt Agency: We did not plan to reduce the average maturity this year and expected the average life of new issuance to be between 13 and 14 years. Today, 62% is done at 13.5, so right in the middle, just what we expected. As a matter of fact, the rates that we see today for our bonds are pretty much the ones that we expected in our long-term model, at least up to 10 years, with a spread of between 3 months and 10 years, which is completely normal for us, so, there is no reason to do differently there. The only spread which is outside the normal average is the 10-30, as we all know, and that came back a little bit, but it is still higher than it should be. There is a case, if you want, to use the flexibility that we have towards our risk limits because we have a lower refinancing risk than allowed and we have higher maturities than we are allowed to keep. But, and this is my final point, given the situation of the public finances in Belgium, with these deficits and a growing debt ratio, we decided that it is not really the time to use this flexibility at these rates, which are indeed a bit more expensive in 20 and 30 years. But as we demonstrated, we are still willing to take funding at these levels and at these rates. With a view of the public finances, before they improve we will continue to invest in stable structures and lower refinancing risk. This is also what helped us, in

my answer to your first question. We don't see our borrowing needs exploding that much. That's because we controlled the refinancing risk. Today our net borrowing is just as important as our refinancing risk. Otherwise, we would have much bigger funding plans, so we really benefit from the strategy that we have been following in the last 10 years.

Iacovoni, Italy: On the long end side, we had many discussions with our primary dealers and some key investors. It looks like all these discussions that we had in the second half of last year regarding what could have happened in 2026 have had some structural impact, in the sense that it looks like the demand on the very long end part of the curve I'm talking about maturity like 20 or 30 years has become a little bit less healthy and less structural. Liquidity and trading volumes have also been a little bit lower. It looks like primary market events are becoming very important liquidity events for market participants. This is why almost all transactions carried out on the very long end of the curve, despite all these debates, have been quite successful in the end. Our general understanding of the market is that if we go up to 15 years, conditions are probably still extremely healthy. When we go to the very long end part of the curve, probably something has changed, so all these debates and discussions and forecasts of last year, look like they had some impact overall, even if the curve is now much less steep than one would have even imagined during the second half of last year. But we know why: the return of inflation, international events and so on. Our strategy in this environment has been to do some reallocation

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Jean Deboutte, risk management and investor relations, Belgian Debt Agency



"More structurally, I believe that this development aligns well with the broader European integration process, specifically, the convergence of spreads from different issuers into a more unified market"

Pedro Cabeços, Portuguese Treasury and Debt Management Agency (IGCP)



of supply, out of 20, 30-year points into shorter maturities in the area between 8 and 9 up to 15 years, so not reallocating to the short end part of the curve, but, let's say, on the belly or medium long part of the curve, not the very long part. That's the idea, the reason being that it's not just a matter of the steepness of the curve, but a whole level of the rates we are starting from, and the level of rates in Italy on 20 or 30-year tenors has been quite high by historical standards. We are very much engaged now in a policy aimed at having strong control of the aggregated cost of funding over months, with however hard constraint in terms of managing refinancing risk and so on. But the idea is that in doing several simulations, we have assessed that reducing supply to some extent on the 20 year or 30 year and reallocating it on this part of the curve from 7, 8 to 15 years does not change significantly as our weighted average maturity which will continue to be around seven years does not change path over the next five or six years of our refinancing. From also doing some sensitivity analysis we realise that our exposure to interest risk would not be altered. The exposure is computed in several ways: one is a standard sensitivity analysis. We assume shocks of 100 or 200 basis points on the curve, we see what's going to happen to interest payments, we see that even with this portfolio that is less skewed towards the very long end, there's not much impact. Where instead we have seen some decent impact is in terms of keeping the costs a little bit better under control. The cost risk analysis has caused us to adjust our issuance policy. Liquidity on the 20-year, 30-year line is still extremely important for us, so we

have been issuing new benchmarks. For example, in the 30-year, as we have noticed over this year, we have always put a no-grow clause announcing a syndication of a new bond or a reopening at the top of the bond. This was not just a strategy to keep the market steady it was one of the purposes but the idea is that we were mandated to fine-tune the amount of the volumes issued on that part of the curve to keep the overall cost of funding in line with our forecast. Rates in Italy on these tenors are beyond 4.5%, 4.6%, so limiting the issuance there allow us to be more effective in keeping the overall cost in line with expectations. So far, the market has adjusted as it has understood our strategy and it's not going to have any impact on our refinancing risk, because we are trying to explain exactly what we are doing. I'm expecting this to stay unless we're going to have a dramatic reversal of the evolution of interest rates, like that they are going to down again. That's another story, but for this year, this will be the strategy we will be following.

GlobalCapital: Another structural change has been the change in relative value between some EGB issuers and others. I'm thinking in particular of the tightening of spreads of what were termed periphery issuers in the sovereign debt crisis versus core. How do the issuers see that evolving? I'll start with you, Pedro, because you probably enjoyed the biggest benefit of that.

Cabeços, Portugal: It's a very welcome development. In our case, we came from a 135% debt-to-GDP ratio in 2020 to being just about shy of 90%, which has been reflected in our relative value against other

issuers. The more important thing is the implications of that in terms of new investors. In 2024, we were upgraded to single A and that drove a lot of Asian investors, particularly benchmark-trackers from Japan, which took, close to €4bn of Portuguese debt in October and November 2024. More structurally, I believe that this development aligns well with the broader European integration process, specifically, the convergence of spreads from different issuers into a more unified market. If you look at IMF expectations or forecasts, in terms of debt-to-GDP ratios across Europe, there is a visible compression of these levels which translates, though not directly, into investor demand for the different assets we have across Europe. That is the overall plan in terms of fiscal and monetary union, and all that might converge similarly to what we had back in 2007, when Portugal was trading through Germany. I'm not saying that makes sense right now, but I think that's the desired direction of travel.

Iacovoni, Italy: There are a lot of very positive consequences for Europe. A lot of the problems we have had in Europe over the years, and the difficulty between the Nordic countries, Germany and Southern Europe and so on is because the market perceives us differently. We have to start from this and try to build a more harmonised and unified Europe. Now the fragmentation is smaller, which should help a lot of the political and technical reforms that Europe is missing to make, and also help the euro make Europe more palatable for international investors. Of course, we need safe assets, a merger of fiscal policy and even the transfer of sovereignty step by step by engaging more and more in pan-European projects. But this transfer of sovereignty becomes more feasible in the context of a European government bond market that is less segmented, which means the market perceives us to be more similar than it used to be just two, three or four years ago. That's why this is extremely important. Of course, this is not enough. There's a lot of work to be done. If you look at financial markets, not to enter into the fiscal union issues and so on, but we know that there is a problem of

market infrastructure that needs to be consolidated. We know there's a problem of supervision of the market, even if now there are some countries that are trying to go ahead in this direction to have more centralised supervision of the markets. These are all things that will help. The precondition for many of these steps is the fact that right now, we are all starting from a more level playing field that was not there only a few years ago. That's why this is an extremely positive evolution. Having said that, from our perspective, we're very happy because the country politically is more and more aware of the fact that consolidation of the public finances in the context of political stability is something that is rewarded in the end. This is very important. Our feeling now is that whoever is in government in a few years has to be aware that if you follow a certain kind of path, the market will reward you and you will have more fiscal space to do reforms or apply other policy actions that before were not feasible because of their financial cost. So, at the national level, this also has a very great relevance.

Sammallahti, Finland: The relative value changes that we've witnessed are, in my opinion, very much the market's expectation of future supply. Convergence can be from either side. Looking at Finland, the 10 years spread to Germany tightened during 2025. Economic growth was not picking up in Finland then and the deficit outlook did not really improve. Towards the end of the year, there was discussion of the national fiscal rules in Finland with a deficit ceiling or a debt breakthrough. But still, it may have come more from the other side.

Ruhl, European Commission: Of course, it's a function of expected supply. Let me highlight that in 2025, seven EU member states got an upgrade from the three main rating agencies and only four faced downgrades. So overall, it's improving. I agree there's still a lot of work to do, for example, more harmonisation and the implementation of the savings and investment union. At the same time it's important to recognise that we're already in a good position and things are further improving. The drivers of the European economy

over the last few years have been the countries in the south of the EU, most of which were in trouble 15 years ago. Why? Because 15 years ago they implemented the necessary reforms and over the last years they most have been benefiting, and will continue to benefit, from the NGEU package. It shows that if we work together, we achieve a lot, and that this is a good basis to continue this journey.

GlobalCapital: There's something to be said about the fact that though more countries got upgrades than downgrades, one of those countries that got a downgrade is huge in bond market terms. We're talking about France. Does that not balance out the benefit of the upgrades to the smaller countries which have much smaller markets?

Iacovoni, Italy: One thing to bear in mind is this is a core country. It would have been a different story if it had been a country on the so-called periphery. That would have been even worse, because we would have had a widening of the spread and created more segmentation and so on. Here we're talking about a core country, perceived as a safe asset together with Germany, not changing dramatically but having a different situational perception from the market. But I don't think it's going in the wrong direction.

Ruhl, European Commission: Even with a downgrade of a larger country like France, the EU as a whole is still doing well. This shows the benefits of integration.

Iacovoni, Italy: It's important to note that every time you talk to the market about European initiatives,

they always ask whether that's an NGEU, is this something with Ukraine support and so on. Is there something ahead? The more they see several European programmes that are financed with European resources, this always brings benefits to each member state. The market is pushing in a virtuous direction to convince the rest of Europe to go ahead with possible joint spending in other areas. The evidence shows that this probably will take place in some way. It will be a bumpy road, as always, but each individual country now sees the benefits of having joint projects, with joint resources being used to finance these projects. The market is clearly showing the way forward.

GlobalCapital: You mentioned new opportunities. Do you see new pockets of demand that sovereigns should be tapping, be they private markets or through more labelled issuance, maybe EuGBs or defence bonds? Where are the opportunities for sovereigns to pick up additional demand?

Ben Adubi, Morgan Stanley: You've got to be careful around new labelled issuance because you can go down a path in many directions. We were having a conversation yesterday where if you start to provide too many granular funding programmes, the onus of work on issuers becomes so significant that the benefits aren't rewarded or seen, so, I think consolidation of existing programmes is the way to go. Personally, I'm not the biggest fan of defence-labelled bonds. For anyone who has financed defence spending, we are adhering to all the international agreements and treaties around what that means, so there's no real need to separate that from traditional funding.



"The market is pushing in a virtuous direction to convince the rest of Europe to go ahead with possible joint spending in other areas"

Davide Iacovoni, Ministry of Economy and Finance, Italy

What we are seeing with this increasing rate environment is more targeted bespoke issuances for sets of investors. It could be bank treasurers looking to manage their interest rate risk, so looking at a more bespoke products there and for slightly yield-enhancing products to take advantage of the shape of the curve. I'm always wary of doing these types of products in small size because, again, the incremental benefit for those around the table is marginal. But that's an area where we certainly see an increased focus from eurozone or European investors. Obviously, international currency, dollars for everyone, with the exception of the EU, is on the table. Given the US de-treasurification we were talking about, dollar issuance from non-US issuers is a natural benefit of that. It's not directly related to this table but obviously we've seen the dollar supra agency market tighten aggressively as a result of that rotation from treasuries into the dollar SSA market just to keep the dollar exposure the same. That remains a large avenue for everyone around the table who can issue in that currency. Those would probably be the two areas where we would see potential for increasing activity for everyone here.

GlobalCapital: Jean, we talked about private placements already, but are there any other areas that you're looking at?

Deboutte, Belgian Debt Agency: We have this idea — it's also a bit of a contingency plan — but we have the retail market in Belgium. We have done a couple of issuances in the past which were quite spectacularly high. We would like to turn that into a more regular market, so we have made proposals to the Minister

of Finance to reduce the taxes on government bonds, Italian-style. When we are in Italy, everybody says that we should do that, so I think they're right. We are subsidising banking products and insurance products in Belgium, but we are not subsidising our own products with taxation. It's bizarre. There's an avenue there, maybe not to have very, very big issuance volumes but regular issuance volumes which are material, and where we have enough to issue, so it will not hurt liquidity of our bonds that quickly. Having it on a more constant basis makes it interesting, because the level of rates we see now are also of interest to retail and to households.

Cabeços, Portugal: We've had retail funding for more than 60 years in Portugal. It represents about 16% of the overall stock of debt and is one segment I feel we should be promoting, in case of troubles down the road, which hopefully won't materialise. But in case of another big crisis, it's always an investor base that you can rely on, so we think we should promote it. If you think about the European Savings Union, it plays an important role from that lens. Away from that, we relaunched an MTN programme this year. Bearing in mind that it dries up some liquidity from our benchmark bonds, we feel that in the medium to long term it will benefit the curve. Effectively, our goal is to bring new investors to the name. Once you have the credit set up and the investor side of things organised, it makes the transition into the benchmark curve a lot smoother.

Iacovoni, Italy: We've been working over this period to consolidate several areas where we're trying to diversify our funding with respect to the ordinary institutional,

predictable part of public funding. We have quite a developed MTN programme and been quite active with bonds with some not very complex but different characteristics with respect to regular bonds. So the activity has been quite healthy both last year and this year. This year we have also updated our MTN programme and introduced the 144A clause to be present potentially also in the dollar market, because the global format has a lot of rigidities and was a complex administrative issue for us to manage. We haven't so far issued in dollars, but it is something we are looking at because the cost conditions are now much more aligned than they used to be also last year, using BTPs versus the Italian Republic dollar, and that's swapped back into euros. Right now, there is still some spread versus the two, but it has tightened quite a lot. We are looking definitely at the market and so foreign currency definitely through this MTN programme is definitely an area that we're looking at. The other two areas we mentioned are retail, which is an important aspect of our strategy both in terms of dedicated products but also in terms of promoting ordinary debt among families, households and individual investors. So far, our share has reached almost 16% of the total debt, considering that just in 2020 it was at around 7%, so there's been quite an important evolution. We keep on working to consolidate this programme by offering, from time to time, products that are aligned with the demand of the market. Last but not least, I mention this because it is something we've been working on a lot in the last few days and is another area where we are very much present like other colleagues and that is the green bond area where we updated our framework in December last year to be even more aligned with the European green taxonomy. The idea is to have a regular presence in this market with some limitations because the green collateral where we can have very detailed information is limited, but this is something that will continue to be present. The main benefit is not just the greenium, which is very small or non-existent, but as a way to capture new investors. We're seeing these, so we see the benefits of being present in this asset class. ©

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