

# FOCAL POINT

Upward revision of EA sov. bond issuance amid economic and fiscal risks

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Our Focal Point series explores topical issues on macro, markets and investment

- Year to date, euro area treasuries have already placed a large part of the sovereign bond issuance volume on the market. At almost € 600bn, more than 45% of the planned annual gross volume has been issued (slightly more than in previous years, particularly because Italy and some smaller countries are well advanced). Given the steeper yield curve, the share of very long-dated bonds has declined somewhat.
- As the ECB will reduce its government bond portfolio by a further € 250bn until year-end as part of Quantitative Tightening, the remaining net-net issuance nevertheless remains at around € 450bn by the end of the year.
- Additionally, although the treasuries have not yet adjusted their plans, we see upside risks to our previous forecasts of € 440bn of euro area net sovereign bond issuance for the full year 2025 (vs. € 470bn in 2024), given the recent deterioration in the economic outlook and a more expansionary fiscal policy in Germany.
- The share of green bonds in total issuance volume has fallen to below 3% year-to-date, but we expect an increase later in the year.

Despite the turbulent first months of 2025, euro area (EA) treasuries have already placed a large volume of government bonds on the market.

However, we see upside risks to our previous EA annual bond issuance forecast due to the weak economic development – triggered in part by the uncertainty caused by US tariff policy – as well as the debt brake reform adopted and the special fund to finance defence spending in Germany.

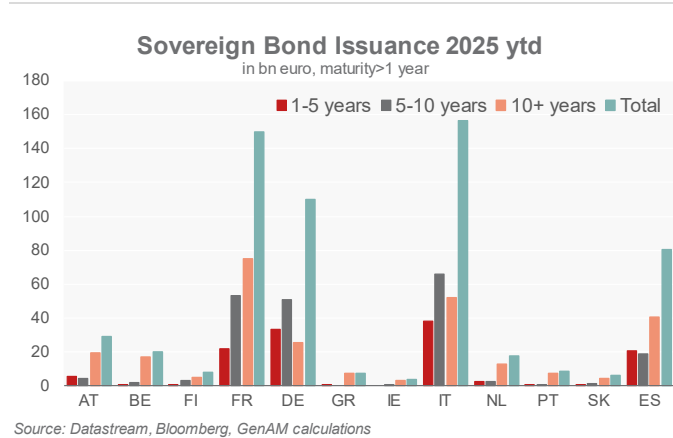
## European bond markets defy uncertainty

EA treasuries have successfully defied the volatility in the first few months of the year. Despite the turbulence caused by political developments, treasuries have placed almost € 600bn in new bonds on the market year-to-date (restricting

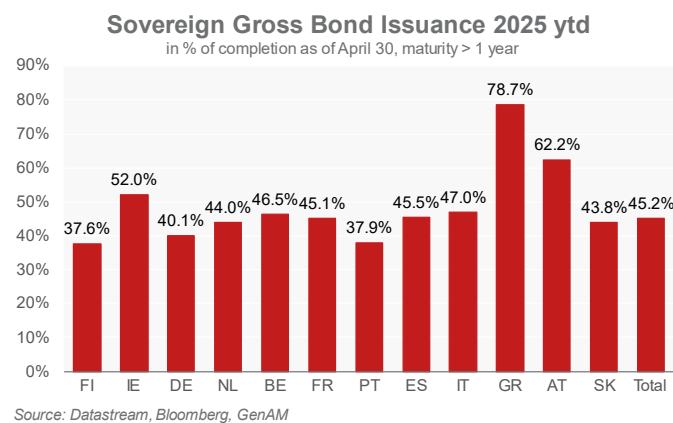
the analysis to fixed income paper with an original maturity above 1 year). It is not unusual for treasuries to endeavour to place a large share of the annual issue volume at the beginning of the year. However, the volume now issued represents a new record for this period of the year. This means that over 45% of the total annual volume has already been absorbed by the market, which is slightly more than in previous years.

In view of the challenges ahead (see more details below), we expect treasuries to continue to capitalise on the robust demand for European government bonds and maintain their high issuance rate in the coming weeks. We forecast issuance to progress by more than 60% by the end of Q2.

The proportion of long-dated bonds (10+ years) remained at a high level of almost 40%. Given the steepening of the yield curve, however, it has fallen slightly compared to previous years (share in 2024: 43%). Portugal, Ireland and Belgium, in particular, continue to have a very high focus on long duration with a share of over 80% of long-dated bonds. In contrast, Germany has so far focused on the medium-term segment (see chart below).



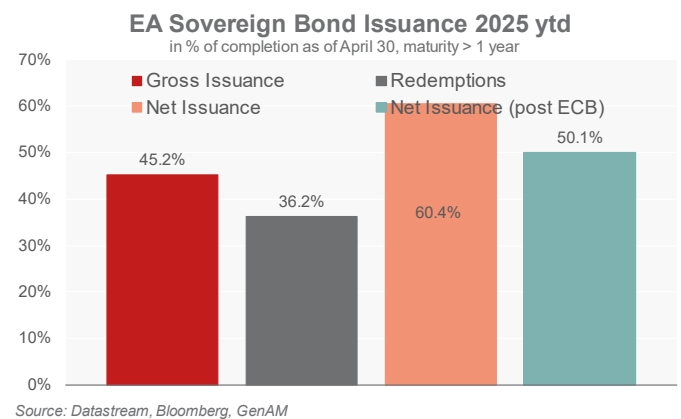
There is no clear downward outlier in the issuance progress among the individual countries. The only countries with issuance volumes slightly less than 40% so far are Finland and Portugal. However, such levels are not unusual at this point in the year. We therefore consider this to be more of a snapshot and not an indication of structural problems.



Greece's issuance progress is striking, not only did it issue a new 10-year bond (€ 4bn) in Q1, but it also increased its 2038 and 2054 bonds by a total of € 3bn. This means that Greece has now completed almost 80% of its issuance programme. Austria and Ireland are also well advanced. At 47%, heavyweight Italy is not only above the EA average, but also above the figures for previous years.

With only € 300bn of bonds maturing by the end of April (around 36% of the 2025 volume), net issuance is already close to € 300bn. This is the highest level ever achieved in

the first four months of a year. This means that EA treasuries have already placed over 60% of net issuance on the market.



## ECB continues its bond market withdrawal

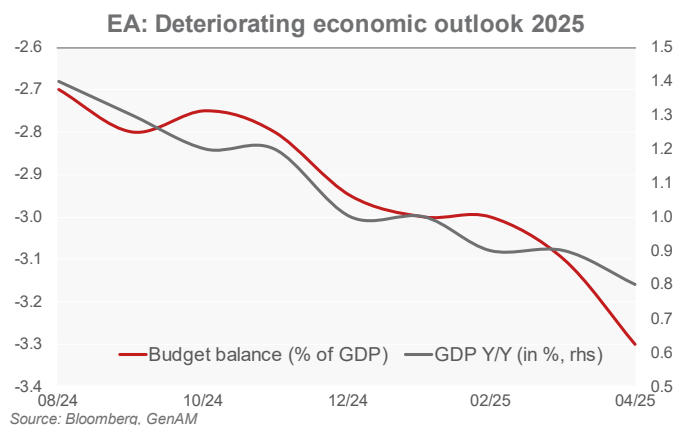
One important factor in the EA bond market has not yet been analysed: the ECB. The central bank will continue its Quantitative Tightening (QT), which began in 2023, and will not reinvest maturing bonds. This has already led to a not reinvested volume of around € 280bn in 2024. This amount will increase again in the current year, mainly due to the increased PEPP (Pandemic Emergency Purchase Programme) QT. Additionally, more than € 250bn government bonds as part of the PSPP (Public Sector Purchase Programme) will not be reinvested by the ECB in 2025. Considering supranationals also included in this figure, a total of almost € 230bn EA *sovereign* bonds will not be reinvested. Moreover, the ECB will also continue its PEPP QT (€ 15bn/month). In total, the central bank will withdraw almost € 410bn from the market. We estimate that only around € 155bn has not been reinvested by the ECB by the end of April (the exact data up to the end of April has not yet been published). This leaves over € 250bn for the period up to the end of December 2025.

Considering the net issuance of bonds still outstanding, this results in net-net issuance (including ECB QT) of another € 450bn in the remaining eight months of 2025. Hence, although more than 60% of net issuance has already taken place, the corresponding share of net-net issuance is only 50% (see chart above).

## Upside risks to our annual bond issuance forecast

In the [Focal Point published in December 2024](#), we pointed out various factors that could still influence our issuance forecast for 2025. Taking various imponderables into account, we had forecast a net issuance of € 440bn at that time. This would have corresponded to a moderate decline compared to 2024 (€ 470bn). In fact, the EA treasuries have left their forecasts broadly unchanged since the beginning of the year. However, we believe that it is only a matter of time before the

financial agencies of the EA countries take the changed situation into account.



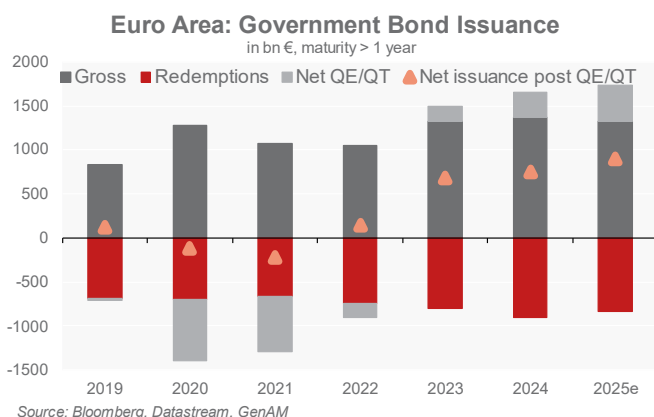
We believe that two factors in particular are crucial. On the one hand, the geopolitical situation has changed significantly with the inception of the Trump administration. In the [Focal Point](#), we explained that strains in the transatlantic alliance mean that Europe will have to address its weak strategic positioning and significantly increase its defence spending. However, this is a more long-term development that will only have a limited impact on the issuance volume in 2025. In contrast, Germany has the fiscal room for manoeuvre and has already taken political decisions (reform of the debt brake, creation of a special fund for defence spending), some of which are likely to impact this year's issuance. Overall, we expect a moderate increase in issuance volume in the low double-digit billion range – especially in Germany.

Although treasuries can offset falling revenues and rising expenditures to a certain extent, we expect these developments to also affect the issuance activity of EA treasuries. Overall, we now expect net issuance of around € 490bn (and have included this in the calculations above). This means that net issuance would not be slightly lower than last year, but moderately higher (by € 20bn). However, the record volume of 2023 (€ 520bn) is unlikely to be reached. The record net-net issuance of almost € 900bn expected in 2025 will therefore be even higher than originally estimated.

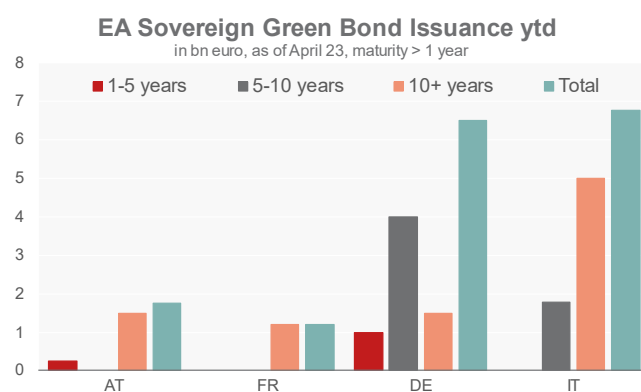
Notwithstanding this forecast increase, we continue to expect the market to absorb the additional volume smoothly. As investor confidence in US assets declines, demand for alternative safe-haven assets remains high. EA government bonds stand to benefit from this. Moreover, the fundamentals of most non-core EA countries have improved in recent years, so investors are still buying EA government bonds in a volatile market environment. However, idiosyncratic risks remain and the (primary) market will continue to punish economically undesirable developments.

### Green bond issuance lagging – for now

Green bond issuance has so far been below expectations. Only € 16bn was issued in the first four months. A new € 5bn Italian bond (Italy 2046) was issued in January and a new € 3bn German bond (Germany 2035) was placed in April. In addition, existing bonds were tapped. However, the proportion is only 2.7%. In total, the outstanding volume of EA sovereign ESG bonds is now just over € 300bn, with Germany (€ 80bn) slightly ahead of France (€ 77bn).



On the other hand, the economic environment has also deteriorated due to the erratic economic and tariff policy of the new US administration. Although forecasts are difficult in the current volatile environment and a return to (lower) tariff rates cannot be ruled out in the medium term, the developments of the last few weeks are already having an impact on the economy. E.g., Bloomberg's 2025 growth forecast for EA alone has fallen from 1.0% to 0.8% since the beginning of the year and the expected budget deficit has risen from 3.0% to 3.3%.



We see issuance picking up in the coming months. But, the expected volume of around € 60bn in 2025 is out of reach. Greece is also unlikely to issue its first green bond in 2025, given the progress of issuance. We revise our forecast for this year slightly downwards to € 55bn. This implies an outstanding volume of just over € 330bn by year-end (Germany 2025, € 8.5bn outstanding, maturing in October).



## Imprint

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