

FOCAL POINT

Euro area sovereign bond issuance resilient amid market volatility

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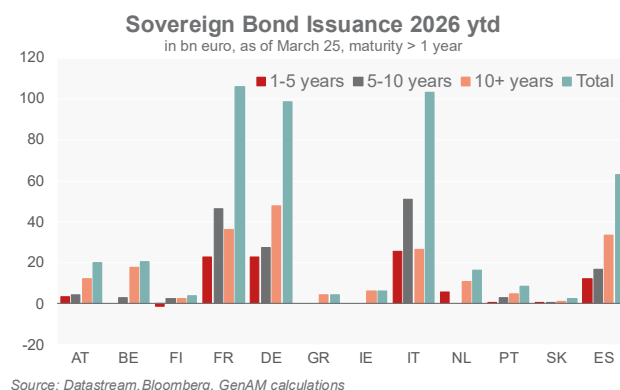
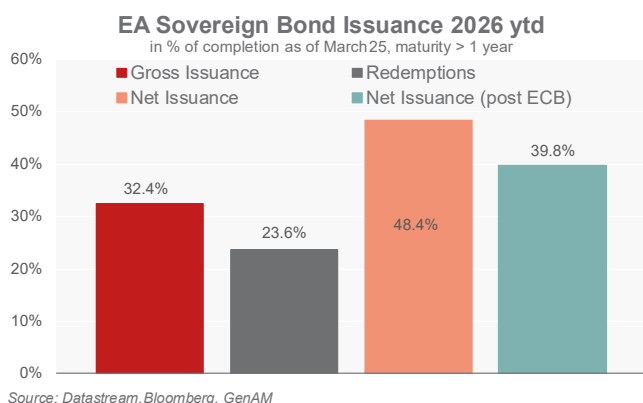
Our Focal Point series explores topical issues on macro, markets and investment

- Despite March's volatility and wider spreads, the euro area government bond market remains broadly stable. Year-to-date issuance already exceeds €450 bn (almost one third of the annual target).
- The share of very long-dated supply (10-year and above) has climbed to 45% – surprisingly high given the steep curve through February – yet demand from foreign and domestic investors remained solid.
- With ECB Quantitative Tightening still around €395 bn in 2026, net-net issuance for the remainder of the year stays up to €540 bn. Given the geopolitical backdrop, supply risks are tilted to the upside.
- Green government bond supply, just under 4%, is slightly below expectations.
- Near term, non-core spreads will track energy prices and bond market volatility. Once geopolitical tensions ease, spreads have leeway to re-tighten, with BTPs favoured over OATs.

After a strong start to the year, activity in the euro area (EA) government bond primary market eased slightly in March, but without a meaningful slowdown. Higher volatility made investors more cautious, lifting new issuance premiums and requiring careful timing and some pricing concessions. Near term, geopolitical developments will remain key. Still, despite upside risks from weaker growth and higher fiscal spending, we see no material medium-term constraints on the market's ability to absorb supply.

Close to half of net supply already taken up by the market

Since the start of the year, EA treasurers have issued more than €450 bn in new bonds (as of 25 March), broadly matching the record pace of Q1 2025 (fixed income instruments with original maturities above one year). This represents about 32% of estimated gross issuance for 2026. Issuance would likely have been higher if the Iran war had not lifted bond market volatility, which made investors more cautious and pushed pricing concessions higher. With only €210 bn of bonds maturing so far, **net issuance stands at €240 bn — a new record for this point in the year**. This equals about 50% of the estimated annual net issuance of around €500 bn. As part of its Quantitative Tightening (QT) the ECB will refrain from reinvesting roughly €115 bn of maturing bonds in Q1. Including QT, EA treasurers have therefore already placed close to 40% of the net-net issuance



volume with the market (2026e: €890 bn). Looking ahead, with QT continuing, investors will still need to absorb around €540 bn of additional net-net supply by year-end.

Issuance progress varies widely across countries. Several smaller sovereigns (Austria, Greece, Ireland and Portugal) have already completed more than 40% of their gross funding plans, with Ireland in particular facing a remaining funding need of only about €4 bn. Germany (26%) and Italy (30%), by contrast, are slightly below average – which we see as a matter of timing rather than a sign of structural issues.

The **share of very long-dated bonds (10+ years) rose to 45% in Q1**, well above recent years (2023: 36%, 2024: 43%, 2025: 35%). As a result, the average maturity of new (or tapped) issuance increased to almost 11 years. This is notable given that the yield curve continued to steepen into February, with the 2y/30y Bund spread reaching 143bp — its highest level since 2018 — and despite weaker structural demand from Dutch pension funds, which had pointed to less long-end issuance. In Q1, smaller sovereigns in particular focused issuance at longer maturities (Belgium, Greece, Ireland and Slovakia). Greece and Ireland, for example, each issued only once, both launching new 30-year bonds in January. By contrast, the share of 10+ year bonds in France (34%) and Italy (26%) remained well below the average.

More challenging market environment implies supply upside risks

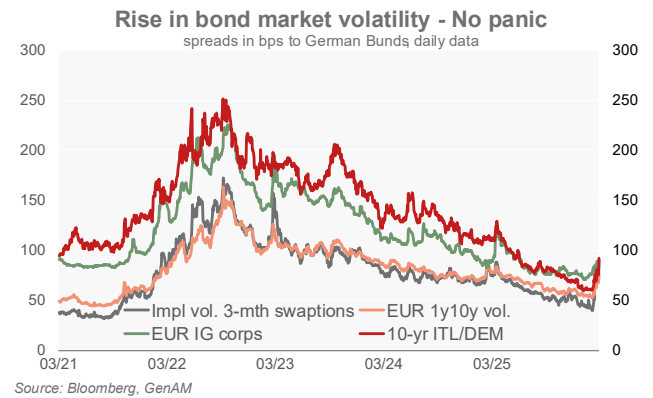
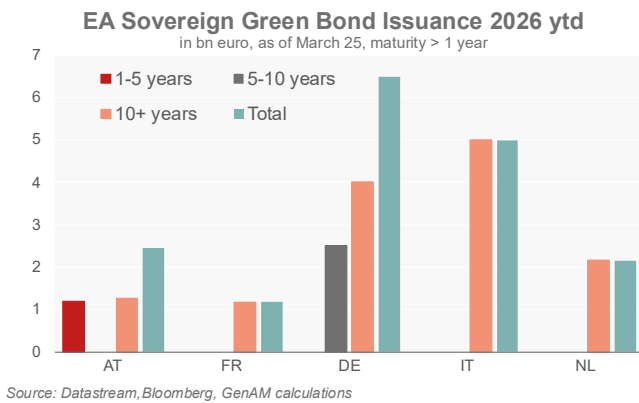
Overall, conditions for EA sovereign issuers became more challenging in March as volatility rose amid geopolitical tensions. Market access remained intact, but issuance conditions tightened, with investors becoming more cautious and selective, especially on pricing and maturity. Bid-to-cover ratios eased from the unusually strong levels earlier in the year and became more dispersed, pointing to greater price sensitivity rather than weak demand. Periods of weaker secondary-market liquidity increased execution risk, making timing more critical and requiring more conservative volume management and higher new issuance concessions. Despite the tougher backdrop, issuance remained feasible throughout March. European investors – especially banks, insurers and real-money accounts – continued to underpin demand, while non-European investors stayed active but in a more selective and opportunistic manner than earlier in the year.

One caveat is worth noting. So far, there have been no formal upward revisions to EA funding plans for 2026. That said, the recent escalation of the Iran war has increased macro and market uncertainty, **skewing supply risks to the upside**. Higher geopolitical tensions raise the risk of weak growth and higher defence and security spending. In this

environment, sovereigns may choose to rebuild cash buffers or pre-fund more actively, which could lift issuance above initial plans if uncertainty persists.

Green bond issuance remains muted so far

In Q1, just over €17 bn of new green bonds were issued. Total outstanding green bonds in the EA now stand at €342 bn, with France (€88 bn) still slightly ahead of Germany (almost €86 bn). As usual, issuance was concentrated at longer maturities, with nearly 80% having maturities above 10 years. This mainly reflected taps of existing bonds, as only one new green bond came to market – a €4 bn, 15-year issuance by Germany. At just under 4% of total issuance, green bonds came in slightly below our expectations. Even so, our full-year issuance forecast of up to €60 bn for 2026 remains achievable.



Positive medium-term outlook maintained – BTPs preferred over OATs

Spreads in the EA government bond market continued to tighten into late February before reversing as volatility increased. From early March, non-core spreads widened noticeably, driven by higher volatility, softer growth expectations, fiscal concerns and rising ECB rate expectations. Domestic political events – such as France’s municipal elections or the rejection of Italy’s justice referendum – played only a minor role. Importantly, the **widening was orderly and broadly in line with moves in credit spreads**, rather than a sign of renewed fragmentation.

In the near term, spread moves are likely to be driven mainly by geopolitical developments. Experience from the war in Ukraine shows that euro area non-core spreads can widen significantly in a prolonged risk-off environment.

Looking further ahead, current spread levels look attractive, and we expect **non-core bonds to outperform Bunds over the medium term**. That said, performance is likely to vary by country. Italian BTPs, in particular, appear well placed. They tend to benefit more from lower energy prices and have lagged during the recent bout of geopolitical uncertainty, leaving valuations appealing if market conditions stabilise.

French OATs look more exposed. After a phase of political calm and war-related out-performance, current OAT spreads price in little political risk, despite medium-term fiscal challenges and the risk of renewed populist pressure as elections approach. This creates an asymmetric profile, with limited upside but clearer downside. We therefore recommend an **overweight in BTPs relative to OATs over the medium term**.

 **IMPRINT**

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