GlobalCapital

Supranational, Sovereign and Agency Borrowers Roundtable

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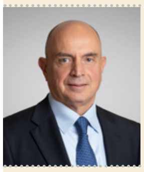
Execution dexterity in times of uncertainty

Political and economic uncertainty, quantitative tightening and new supply expectations weighed on the SSA sector in 2024, pushing spreads wider versus swaps throughout much of the year. With Donald Trump returning to the White House and questions over France and Germany's political and economic direction, the coming year is unlikely to be smooth sailing for SSA issuers. To discuss the main trends and developments this year and their expectations for 2025, *GlobalCapital* convened a roundtable of leading SSA borrowers and an investor involved in this critical market

Roundtable participants

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

Karol Czarnecki
Director, public debt department, Ministry of Finance, Poland



Francis Dassyras
Team lead – funding, European Stability Mechanism

Andrea Dore
Global head of funding, World Bank

Christian Engelen
Head of unit, borrowing and lending, Directorate-General for Budget, European Commission

Jörg Graupner
Senior funding manager, treasury, KfW

Ales Koutny
Head of international rates, Vanguard

Maric Post
Director, treasury and capital markets, Belgian Debt Agency

Patrick Seifert
Managing director – head of primary markets and global syndicate, LBBW

Richard van Blerk
Deputy head of benchmark funding, European Investment Bank

Moderator
Ralph Sinclair
London bureau chief, *GlobalCapital*

***GlobalCapital*: SSA bond spreads have widened all year and there seems little on the horizon that will reverse that trend, especially with the political situation in Germany developing as it is and the rates picture in euros. How will this trend alter your approach to issuing debt in the year ahead?**

Christian Engelen, European Commission: We have all observed very clearly what is happening in the market, but we are trying to keep a very regular transaction schedule and are not so much adapting to the external environment. Given the amounts we have to issue and the regularity with which we are in the market, I don't think that we can be in any way opportunistic in light of certain interest rate developments. We have to issue throughout the whole cycle and that is what we are doing.

As usual we plan our operations in six monthly cycles and then implement that with a very regular calendar. So there is an interest in interest rate developments, particularly around swap spreads, but there is only limited adaptation by us in that regard.

Jörg Graupner, KfW: As a German issuer, I would highlight that the reason for the swap spread tightening, combined with the SSA widening, has less to do with the political situation in Germany — the market reaction after the end of the coalition was very limited. The swap spread tightening is more driven by QT and the anticipation of net supply that we potentially could expect next year.

We may see higher volatility as soon as we move closer to the election here in Germany in February, but the main drivers of the widening have been QT and the overall net supply expectations.

As for our approach to funding, it is partly similar to the European Union's. We are coming very frequently into the market but without a public calendar. We will maintain a flexible approach when we come to market next year.

Richard van Blerk, EIB: We don't plan any changes to our funding strategy next year. Even in the best of times, the EIB funding programme is too large to consider the timing of benchmark issues a viable option. On top of that, we

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Jörg Graupner, KfW

don't have a crystal ball that could tell us exactly when to do what.

Therefore, come January we will start our programme just as we do every year with a reasonable pace of front-loading. EIB's usual pace of funding would suggest something like 20% to 25% of our funding programme in the first month, 50% in the first quarter and maybe up to 70% in the first half of the year. To achieve those numbers, we will be equally present with benchmarks in both euro and dollar markets.

Of course, we are aware that there are relative cost differences between those two markets, but, so early in the funding year, we would not steer issuance one way or another.

Francis Dassyras, European Stability Mechanism: We have to be even more strategic and flexible in our debt issuance. We need to be adaptive to the market conditions and to the investor demand for successful transactions. We need to pick the right window and pay attention to price discovery to ensure that we attract the investor demand while we try to keep costs low for our borrowing countries.

ESM and EFSF [European Financial Stability Facility] only has to refinance existing debt and we will keep a similar issuance strategy to 2024 by issuing maturities from three to 10 years for ESM and up to 30 years for EFSF.

We frequently execute intraday transactions to avoid crowded markets as many issuers use the same window to raise funds. This has advantages for us and our investors as we are going to minimise our market presence during market movements. But we also used the two-day approach to execute transactions, which leads us to better price discovery and feedback from investors. On top of that, we closely monitor market conditions for other markets like the US dollar market.

Andrea Dore, World Bank: We are very advanced in our funding programme, having funded close to 60% of our funding programme for our fiscal year, which runs from July to June. Though SSA bond spreads are wider, and we expect that volatility will remain high into the new year, we do not plan to deviate from our core funding strategy. We will time our issuances based on market conditions. This current spread widening environment and market volatility is certainly not new to us.

One aspect of our funding strategy that has served us well is our flexibility to adapt and issue products that appeal to a wide range of investors. We issue bonds in more than 20 different currencies/markets, including all the key markets. We plan to continue diversifying our funding products and funding sources, which we find extremely beneficial, particularly in times of market uncertainty.

***GlobalCapital*: Let's now hear from the three pure sovereigns on the panel. Rui, you first — what are your thoughts on what we have witnessed?**

Rui Amaral, Portugal: Swap spreads turning negative has been a historical event, related to excessive reserves coming down and markets expecting a lot more supply to come.

However, swap spread movements have very little impact in determining our funding plans, so we will go ahead as regularly as possible and as predictably as possible. As such, we should be doing regular monthly auctions from January 2025, together with a couple of syndications concentrated in the first half of the year and potentially a third syndication at the end of the year.

It's worth noting that at the same time as swap spreads are turning negative, our credit spreads have tightened to lows versus Germany and most or all of our EGB [European government bond] peers.

Karol Czarnecki, Poland: We're in a slightly different position to the rest of the participants because foreign funding is very important in our funding mix, although the euro market remains our core market.

From our point of view, the most important thing is to acquire the funding cost at a relatively low level, which gives us flexibility in our funding plan. We may be a little bit more opportunistic in our approach, but we are conscious that the market has its own dynamic and that the first quarter of the year, and the first half generally, is crowded by issuers that are comparable to us, especially in the euro market.

So our attitude is a little bit different to others, where we take a slightly more flexible approach, but we want to focus on the euro market in the first quarter of next year.

Maric Post, Belgium: All in all, these spread moves have had a fairly limited impact on our funding cost in longer maturities, which has remained range-bound, while funding in short maturities is becoming cheaper again. From that perspective we see no need to change our approach to the market.

Normally, the current wider asset-swap spreads should attract the usual asset swap buyers of our bonds, so this could turn out to be supportive. On the other hand, the current speed of the asset swap repricing raises some questions. We expect some investors will want to see a more stable backdrop before really engaging with large amounts. This is an element that we'll continue to monitor closely.

***GlobalCapital*: Ales, perhaps you can give us a slightly different point of view from the buy-side. What have you made of the widening of this asset class**

versus swaps all year and how has that altered your approach?

Ales Koutny, Vanguard: It is very interesting, especially as we are in the privileged position of being able to choose our hedging mechanism. Some of our peers who are limited to asset swap hedging are struggling a bit on the back of this large move.

Reviewing the behaviour of SSAs versus benchmark government bonds and sovereign curves, most have been very well behaved, and in many instances tightening quite significantly in spread terms.

In our view, the next move for swap spreads will be heavily influenced by net issuance across all countries. With QE coming to an end and very little purchasing from the ECB next year, net issuance for many countries will significantly increase. On top of that, elections in Germany at the end of February and potentially a window for further political developments in France opening from late spring, will continue to add volatility to the market.

Therefore, this could lead to higher or more concentrated issuance from large sovereign issuers in Q1 next year. While we expect robust demand for bonds across the board next year, there will be a significant increase in volumes to be sold net of redemptions and QE.

Issuance is normally heavily skewed towards the early part of the year. Yet, market participants tend to fear a supply glut leading to spreads widening. Historical data disproves these fears as market participants are well prepared with liquidity to absorb the supply.

As many of the issuers already alluded to, issuance predictability will be important next year. We are dealing with significant sizes and, most likely, another historical record for issuance will happen next year. While there are benefits of saving a few basis points for opportunistic issuance, significant variances versus expectations could lead to wobbles and uncertainty of demand.

***GlobalCapital*: Patrick, what are you talking to SSA issuers about with regard to changing swap spread valuations?**

Patrick Seifert, LBBW: It's hard to disagree with what's been said already. Predictability in times of uncertainty is always a good thing. And at the moment we are seeing some noise around the asset class, possibly from speculation relating to what the new US administration's relationship with Europe will look like, and what that means in terms of spending and potentially funding in the market.

Basically, the way to deal with that is transparency and I think we agree on that across the board here. What you also want to have is some optionality. That could be across currencies for frequent issuers like KfW, EIB and the World Bank, or that could at least be in terms of being able to address different parts of the curve.

Importantly, in the week we're holding this roundtable in November, the EU has done its latest syndicated trade, which went very well, alongside some smaller deals. So deals and business are getting done on these valuations.

Next to predictability and options, the core focus for issuers, depending on their business model and the volumes they are going to issue, is listening to investors and what they find more attractive at any given point of time. That needs to be a recurring exercise throughout the year. If you compare the trades that have been doing relatively better than others, it's typically this that made the difference.

***GlobalCapital*: Relative value between different sovereign issuers has undergone a remarkable shift this year. Portugal has been trading through Spain, and Spain has been trading through France, which are unprecedented moves. To the sovereign issuers, how has that relative value shift reflected changes either in your investor base or perhaps how you will approach the market next year? What have investors been telling you about it?**

Amaral, Portugal: Our market valuations have been high. At the end of October, we reached minimum spread levels against our peers, which was related to Portugal regaining a single-A rating and finally re-entering the FTSE World Government Bond Index at the beginning of November.

Market participants had been anticipating that and were buying Portugal because of it. There were also passive investors who bought a lot more PGBs leading up to the inclusion in the index.

That was something that we could clearly see and had a very large impact in October. We don't have final figures yet on the end-investors, but across platforms, turnover has increased dramatically and we have seen a lot of flows coming from outside Europe into PGBs.

As a result, our valuation now is certainly a consequence of the greater diversification in our investor base. For instance, in terms of investor type, we've seen a lot more official institutions and central banks participating in our syndications.

It should be noted, though, that our spread movement is not something that just happened in October. If you look at the trend, the tightening has been happening in the last couple of years, as fundamentals have improved, leading to Portugal trading through Spain. More recently those levels have consolidated across the curve from the short to the long maturities. At certain points, our

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>
> ***Andrea Dore, World Bank***

levels have also started trading through double-A rated countries and consolidating at those levels.

Czarnecki, Poland: From our view the situation is stable. We are narrowing steadily. We have also experienced a broadening in our investor base, which is mainly due to us doing a lot of work in the last three years contacting investors to help achieve this.

As far as what we see, we are offering a relatively good rate of return for euro-denominated investment, so we are attractive, which is visible in the structure of our issuance. As such, we have a relatively stable participation rate from central banks and the other monetary institutions, and good inflow from insurance companies and other real money accounts, which is what we are mostly focused on.

We see growing demand for our paper, which is visible in the bid to cover ratio for our public issuance. Ultimately, the broadening of our investment base is having a positive effect on the valuation of our bonds.

Post, Belgium: That constant relative repricing between peers is of course the normal and healthy functioning of the EGB market. For Belgium, it has meant fairly stable spreads compared to Germany in the past year, while some other issuers have seen their spreads perform.

On the other hand, Belgian bonds have richened quite a lot compared to France. All of this reflects where countries stand in terms of growth, political stability and fiscal consolidation. Belgium has had national elections this year and with a government still being formed, the market is waiting to see what policies will address the deficits in our country. If that clarity can be given, I would expect there to be room for performance for the Belgian bonds.

***GlobalCapital*: Christian, surely by the sheer volume of your programme, this is a relevant question. But also in terms of how people view the EU, either as an issuer or certainly its credit, they look at it against other eurozone govie issuers. What have you made of this this year?**

Engelen, EC: Over the last year, you're absolutely right, we have seen continued differentiation in the EGB space. And that has also coincided with increasing interest of investors and market participants to look at us on a relative value basis against that.

We see that we are gravitating more towards the EGB space, which is precisely what we want to see. We are very much promoting that. We are also taking concrete actions to support that, not only through the structuring of the primary issuance but also the measures we have taken to support secondary market trading through elements like introduction of quoting arrangement, a repo facility and promoting our bonds as collateral instruments. As you know, the euro system has also upgraded us in their collateral framework. All these steps that support and build out the ecosystem around secondary market trading is helpful in that regard.

We see this as something positive and we are hopeful it will continue to shift us even more towards the EGBs. This should bring us closer to the peers on a fundamental value basis, where we still see a little bit of a gap in terms of where we trade compared to peer EGBs.

***GlobalCapital*: Ales, what has been the view from an investor's point of view of the shifting relative value in the European government bond market this year? What are you thinking about the year ahead?**

Koutny, Vanguard: The fascinating dynamic of that has been the steadiness of the move. We have seen Portugal trading through France and more recently Spain. This has been a smooth change of perception for markets of the long-term differentials for credit ratings.

The trend has taken a while to develop, but now markets are leaving behind the assumed idea of historical hierarchy of credit spreads within the EGB complex. They are now looking more closely into the details of net issuance, the sustainability of the debt and the plans around issuance schedule.

In addition, when thinking in terms of potential GDP growth and other metrics, we are heading to a point where countries that are reducing their net issuance or finding ways to increase growth and keep debt to GDP broadly unchanged or lower are being rewarded by the market with lower premiums.

***GlobalCapital*: Jörg, Francis and Richard, how have you felt about this dynamic? Has this affected your programme?**

Graupner, KfW: Not the programme but the investor base. Ales mentioned that the credit is potentially less important for some of the decisions that they have to make. But for us, one observation we can make at the moment is that we are seeing some investors come into our books, especially out of Iberia, and this is — in my view — specifically related to our triple-A rating.

Dassyras, ESM: In 2025, sovereign and SSA overall issuance will exceed in net-net terms vis-a-vis 2024. Due to the higher volatility that we have seen lately — although more contained than in 2022 — issuers have had to be flexible and adaptive to the market conditions and investor demand to ensure successful transactions. We have an investor base of over 1,800 investors, which is diversified both in terms of geography and investor type.

Different investors have different objectives. Relative value is just one consideration, which can provide an opportunity for investors who look at our bonds, yet it may also make some investors more selective. These investors will only participate if they feel we offer value compared to our peers. This view on relative value can make us think carefully about our pricing but again, it is just one factor to consider. Yet, in the latter part of the year, we have observed the opposite of what one might have expected considering yield differentials, i.e. a shift of demand from the domestic investor base of some sovereigns to the SSA space.

All our transactions were well subscribed this year, so the demand is clearly there. I think investors appreciate the clear transparent way that we operate in the market announcing RFPs, carefully considering each transaction and being present on all parts of the curve. All these elements are very useful to our investors.

Van Blerk, EIB: In the euro market in particular, 2024 started out with SSA paper already at historically attractive levels versus swaps. With euro swap spreads tightening further along the year, 2024 actually became a year of increasingly wider SSA levels.

Nevertheless, the core euro sovereigns performed worse, so investors hedging their EIB holdings, for example, versus Bunds will have had a decent year. In that sense, it all depends on the relative benchmark.

In terms of investor support, 2024 has been a very good year for EIB with a larger number of investors participating in our EARN issues and all-time record orderbooks across tenors in our US dollar globals.

***GlobalCapital*: Patrick, what do you think on this?**

Seifert, LBBW: In the long run you can't escape relative value and, as a working assumption, that helps you throughout the year.

As a European, I like to see Portugal, Greece and Spain being the new superstars, and demonstrating some convergence more than 15 years after the great financial crisis.

Depending on where you sit as an investor, I accept the fact that you might have different views. But to build a stronger Europe — especially given the context of what's happening in the US, in Asia Pacific and with Russia — we will need to see a greater degree of convergence. What we're seeing is also an endorsement of some of the measures that we've put in place for fixing problems in some of the countries in southern Europe.

At the same time, it's obviously not helpful to see the two European heavyweights, France and Germany, somewhat struggling. But to be quite honest, Germany doesn't have a debt problem. And as an investor, if you look through that and appreciate the fundamentals — and particularly if Europe is able to provide a more positive picture in terms of how it intends to move ahead next year — then this will have been a good time to buy into European SSA.

***GlobalCapital*: That brings us to the next question, which is about the economic uncertainty in Germany and France. Will the economic and political predicaments of France and Germany weigh further on eurozone bond markets, especially for SSA issuers, exacerbating the trends of 2024?**

Koutny, Vanguard: For us, it's not so much a question of politics, it's much more about policies. We see the two extremes in Germany and France. In France, we have a lot of fiscal spending and that's not exactly going to productive sources of growth and that means debt to GDP continues to balloon higher. Markets are starting to get a bit nervous in terms of the debt sustainability path. If you go back a few years, when Italy was on a similar path, there was a lot of market tension there. France is a much bigger and diversified economy. It is being afforded more leeway by the market before the same level of volatility is generated. But the direction of travel does not give us a lot of confidence.

Meanwhile, Germany is on the opposite side of the spectrum. Elections have been announced and the country is going through a transition period. From its large, industrialised base, the economy will need to move to rely more on services and perhaps continue to connect further with the rest of Europe. There have been some new headlines about potential capital markets union, which all countries within the EU can benefit from.

The key question is where does the country go from here? Even if there is spending in Germany, questions around the size of the package and areas of focus for deployment will remain. At the end of the day, the market is dealing with a country that has close to 60% debt to GDP. As of today, debt sustainability is not an issue for the country. Similarly to what we saw with discussions around the UK budget more recently, markets can

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Maric Post, Belgium

tolerate significant higher issuance for positive, transformational investments.

If the bulk of extra issuance is directed at productive sources of investment, which means that potential growth increases, then debt to GDP remains broadly stable. There is a lot of space in the market to absorb higher German issuance. Markets hate uncertainty and consensus is now that something must change in the economic picture of the country. A long-term, well-developed plan, even with significant increases in issuance, would be well received by the market.

Czarnecki, Poland: From our point of view as an issuer, it is mainly a question of the impact on real sphere metrics because we are linked strongly to the European economy in general and the German economy in particular. So what's happening there is to some extent influencing our own economy. As such, we are very keen to see a better performance in growth prospects, which would also be helpful for us and for other countries.

Post, Belgium: Even though there clearly remains uncertainty around our two large neighbouring countries, when I listen to discussions, it occurs to me that a lot of very pessimistic news about Germany and France has already been discounted. So I'm not sure we will just see the same trends continue to the same extent into 2025.

***GlobalCapital*: Christian, this won't affect your approach to the market because of how you issue bonds, but how does it affect the discussions you have around the market, and does it come through in what investors tell you?**

Engelen, EC: We are working together with our member states and the funds we borrow in the market are primarily destined for policies that support those member states. Perhaps it's worth noting that there may also be very strong support given to those economies that are doing very well at the moment.

Let's not forget, though, that we are coming out of a situation a few years ago with the pandemic where the economies, particularly in those countries that are doing very well now, had suffered the most. And we have taken active measures including setting up NextGeneration EU and other EU programmes to support these economies. The money we are borrowing in the market is going mostly to those economies and supporting their recovery and development.

There is a link also to the convergence and the performance you see on that side. The political developments in Germany and in France are something that also has a bearing on us, but this is not under our control. We have to manage that within the remit of our means.

Overall, with 27 member states, there will always be political developments in some of these countries. Of course, if it's Germany and France, it has a bit more importance. But on the whole, we are hopeful that there will be some kind of stabilisation on the horizon.

As a German myself, the developments in Germany are in my personal view of course linked to the challenges that we have, but there is now a political process where new forces are formed and the discussion continues. So I wouldn't be that pessimistic.

Van Blerk, EIB: As discussed before, the main trend of 2024 has been swaps spreads tightening. To continue that trend into next year, would mean even tighter spreads for 2025, accompanied by even wider SSA valuations.

Currently, market sentiment is relatively negative while fundamental factors, like growing supply and the continuance of QT are hardly supportive. Nevertheless, there are quite a few relative value opportunities available in markets.

If we look at EIB paper, for example, the spread to Bund is something like 50bp over the 10-year, which seems very high. Historically, EIB has been on average trading much tighter to the Bund. More importantly, in periods when swap spreads are wide, the EIB spread to Bunds would also tend to be wide. Similarly, the moments that swap spreads are tight, we would trade close to Germany. Clearly that has yet to happen this time around, but hopefully this will correct in 2025.

***GlobalCapital*: Jörg, how do you asses this given the distinct relationship between your employer and the German state?**

Graupner, KfW: Many of the topics have already been mentioned, especially by Richard. I think we [KfW and EIB] are more or less trading parallel to each other. The only thing that I would highlight here is that a potential higher net borrowing programme would mobilise the German economy and help support the economic transition we have in front of us.

Amaral, Portugal: We don't see this trend abating too much going into the first semester of next year, simply because markets will have to contend with all the increase in or concentration of issuance from all of the SSAs and general issuers in the market. Also positive tightening will happen at a stronger pace, so

"Our spread movement is not something that just happened in October. If you look at the trend, the tightening has been happening in the last couple of years, as fundamentals have improved, leading to Portugal trading through Spain"

Rui Amaral, Treasury and Debt Management Agency, Portugal (IGCP) excessive reserves will potentially diminish further. With all the swap spread tightening, it's hard to argue that this will reverse in the next few months.

For us, this is something that doesn't really affect us because our issuance of PGBs will be very stable and our net issuance will not really increase going into next year, contrary maybe to some other issuers. Also, on relative value, we don't see this trend reversing, with a lot more attention now being paid to deficit and debt levels. Relatedly, with the EU governance rules coming into force, that has also coincided with the market's greater attention to deficits.

So all of these factors are converging and adding additional momentum to this trend. For us, I hope our relative value will consolidate, creating a counterbalance to the swap spread tightening. That's what we're counting on.

GlobalCapital: Andrea, have the developments in France and Germany over the last year affected your issuance at all?

Dore, World Bank: There are two parts to it. On the one hand, we are not a direct beneficiary of QE, so we tend not to be impacted as much when the opposite happens with QT. This means there's been less volatility on our bonds in euros, but that doesn't mean we have been isolated or immune from the widening in the general euro market.

This year we've funded about 15% of our programme in euros, which is up from about 1% or less in benchmarks two to three years ago. We will continue to focus on the euro market and see if we can at least increase our share in euros with the spread widening because we do compare our euro funding with that of dollars.

This said, we are not able to get the duration in dollars that we can get in euros. And we do have a portfolio, not just in the case of IBRD, where we have to pretty much swap everything back to dollars. We do have IDA, for instance, in which euros compose a huge portion. IDA also has a significant need for longer duration funding so the ability to access long-dated euro funding is important. Obviously, we would be impacted if spreads and volatility in that market continues.

So in general, has it impacted us? Less so because we have been more stable due to us not directly benefiting from QE. Do we expect that it will impact us going forward? Probably. Our ability to access longer maturities could potentially be impacted as spreads continue to widen. Yet, with euros, whenever trades work in the market, it's good for everybody. Regardless of whether it's at a new pricing point, at least investors are coming back and happy at that pricing point. Whether issuers are happy or not is a different matter.

Dassyras, ESM: As an issuer we do consider the extent to which the widening of some sovereign spreads since June would spill over to our market segment and could become more relevant during episodes of a more general market stress and resurfacing issuance. Our adaptive and flexible approach addresses such challenges. Meanwhile, the more recent swap spread tightening has happened for different reasons. The core driver of this move is higher net issuance meeting constrained balance sheets. Some countries run expansionary fiscal policies with large deficits.

Those large deficits are financed by higher net bond issuance at a time when central banks, the most active buyers under QE, are shrinking their portfolios of sovereign and SSA bond holdings. The gap left by central banks is now filled by other investor types — real money accounts or trading accounts. When markets are stressed, this may come at a cost for issuers through higher new issue premia in what is clearly an investor-driven market.

For these reasons, SSA spreads and covered bonds remain under pressure versus swaps as the net supply will remain highly positive for 2025. During the October swap spread tightening move, euro SSAs outperformed EGBs and still looked attractive relative to covered bonds factoring their liquidity.

For investor demand, there are positive developments, i.e. the historically wide spreads versus swaps, high absolute yields in longer tenors, central bank tailwinds in the form of rate cuts and real money investors ready to re-engage. Also, the swap spread tightening has attracted continuous demand from asset swap buyers, and that is expected to continue into 2025 despite some mark-to-market pain for trading books.

Relative value will play a bigger role next year, potentially attracting new investor accounts, which are rotating across asset classes. Foreign demand for euro area bonds has resurfaced and is expected to continue. Asian investors' behaviour has shown positive signs and is not expected to be impacted.

Seifert, LBBW: I would just highlight one area — the relevance of economic growth. If you look at what's happening in the US and the latest election campaign, no one was debating the debt situation. And if you carry that forward over the next 10 years, it doesn't really matter who would have taken the White House, it's adding massive debt in terms of GDP.

The reason why everyone appears so relaxed about it is that capability of the US economy to grow. So we have to respond to how Europe will grow

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Karol Czarnecki, Ministry of Finance, Poland

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>
> ***Christian Engelen, Directorate-General for Budget, European Commission***

and there are a couple of very strong opinions on the table. People are talking about the Draghi report and the Letta report, and I think they all point to the very same thing, which is showcased by what is happening in Germany. The old economic model isn't broken, but it needs to be made fit for the future and I would expect an issuer like KfW to play an important role in that.

The German example is the debate we now have to have about how we can we use the lending capacity to improve competitiveness across Europe. This relates to the point Ales made. We need clarity on what the money is for — is it for transition, is it for building a stronger Europe? Let's make sure we spend that lending capacity to create growth momentum, which will take away some of the pressure.

While we do have some convergence around European names, not every issue will be absorbed in the very same manner across 2025. As such, strong issuers like the ones we have here have a sufficiently strong investor base to be able to place their funding volumes in the course of next year. That's my working assumption and hence I'm not concerned really about the current dynamic on the swap spread.

***GlobalCapital*: Let's turn to Donald Trump and what his presidency means for the SSA market the second time around. Do we foresee greater volumes of issuance as a result of a more isolationist US? Does he make dollar funding cheaper or more expensive? Does he present a threat to orderly capital markets and indeed multilateralism?**

Dore, World Bank: Markets overall have been resilient and are reacting well. It's always difficult to predict what the future will look like, if we take the past as an indication and focus on facts, we see that under all previous US administrations, SSAs were strongly supported by the US and other major shareholders. In fact, IBRD for example, received its largest capital increase in 2018.

Regarding multilateralism, shareholders recognise the important role that multilateral development banks [MDBs] play. MDBs are being asked by their shareholders to do more. This past October, the World Bank announced a package of financial measures that would help increase efficiency, effectiveness and the robustness of our balance sheet to boost lending capacity at a time of immense development need, while protecting the triple-A rating and value for our members.

We expect our funding programme to stay within the current range and gradually increase over the next decade. Regarding pricing, we've seen SSA spreads being very very tight to treasuries. While that may seem like a good thing, eventually that will become challenging for the sector. If treasury spreads become tighter and tighter, with the difference in liquidity that the treasury market provides, SSA assets will become less attractive to investors.

Van Blerk, EIB: I echo Andrea's comments. Honestly there is nothing here that we haven't seen before. The first Trump presidency from 2016-2020, was not a particularly negative period in the SSA space. It seems unlikely that there would be a difference this time in how SSA issuers will look across the various funding markets.

Koutny, Vanguard: Europe needs to come together and start having a proper strategy across the board. Europe has benefited immensely from global growth and has become an exporting powerhouse.

As the world moves in different directions, Draghi's report on the future of European competitiveness has shown several areas for development and cooperation. A lot of attention has been focused on the joint borrowing framework and if appetite for that exists or not. For us, it's more about the future initiatives that seem to have missed the coverage that they deserve. Europe needs to improve its productivity, there is no two ways about it. We have seen productivity numbers jumping meaningfully up in the US, but Europe has lagged behind.

There is a question of how we fund those initiatives. There are many potential options, through the EU, multilateral development banks or each country doing its own national programmes. From our perspective, it is not a huge difference, especially as country spreads have continued to tighten further.

The most important factor is that an agenda to increase growth and productivity is enacted. Europe has lagged versus peers and now has the opportunity to change that picture and benefit from growth in the long term. The sustainability of the debt across the board is what really matters and that can only continue to improve if growth improves.

***GlobalCapital*: Christian, what would you say about that?**

Engelen, EC: I think it's spot on and indeed something which we lose a little bit of sight of in these discussions because we always approach it from the funding side. Most important is what the money is used for and that's formulated at the beginning of the decision-making process. The question about financing and who should borrow or not is then rather a secondary question.

Let me note that we have been a large and frequent borrower precisely to address some of the biggest challenges of our recent past.

So we have borrowed a lot of money to help the economies recover after the pandemic. We are borrowing a lot to support Ukraine. And we are borrowing a lot to support the ecological and digital transition of EU member states. This is testimony of the fact that the money borrowed by the EU is precisely used to address these big public sector investment needs, which then eventually also should lead to more stability, convergence and economic growth in the future.

This is the perspective we need to take on, whether the president in the US is called Trump or anyone else.

Importantly, EC president von der Leyen has already set out her priorities for the next term. The Commission is about to be confirmed and to come into office and as soon as this process is concluded we will then start in full force working with the member states towards these goals.

***GlobalCapital*: Jörg, from a KfW point of view, what are you anticipating from a second Trump presidency?**

Graupner, KfW: Nothing that new, as Richard and Andrea have already highlighted here. And coming back to what Richard said, we also don't expect a huge change on the funding levels, especially in what we can achieve on the dollar side. These levels are actually close to our euro levels, and I don't see any signs of change for now.

The topic Andrea raised is interesting. Is there potentially a possible shift closer in SSA trading levels to treasuries and does it make sense, from an investor point of view, to invest in SSA instead of more liquid treasuries? This is something that we have to consider. Is there a possible preparation? Yes and no. What we are always doing is looking into further markets/currencies. This is not to change our strategy of our core currencies but for further market developments.

Dassyras, ESM: As we know, next year will be another year of record net supply for EGBs and SSAs compared to 2024. We see some challenges, which may include disorderly dislocations and overextended volatility with swap spreads tightening and yield curves shifting.

Such developments may keep some investors sidelined requiring issuers to pay higher new issue premia to secure final demand. Spread dislocations across EGBs compared to their ratings may pose valuation challenges, with scarcity premia further distorting relative value metrics.

Additionally, we need to monitor the spillovers from US monetary and fiscal policy, which could also impact yields, swap spreads, yield curves and the cross-currency basis in an unpredictable way, conditioning investor demand.

In terms of positives, in addition to historically wide spreads versus swaps, high absolute yields in longer tenors, central bank rate cuts, real money investors are ready to re-engage and foreign demand for euro area bonds has resurfaced and is expected to continue.

***GlobalCapital*: Rui, I know you really only issue in euros, but do you have much consideration for Trump's second term, what it means for your programme?**

Amaral, Portugal: We mostly issue in euros although we had one outstanding sizeable dollar bond that matured last month. So currently we don't have any foreign currency issuance, although we are putting together a brand new EMTN programme that will enable us to issue in all sorts of currencies, dollar being a very strong candidate for next year.

The way we approach this is quite different from our PGBs, where I've been talking about regularity and stability and EGBs being the backbone of our issuance programme. So we try to stick to what we have announced quarter after quarter to provide that element of predictability.

In relation to dollar bonds or any other currency, we would approach that a lot more opportunistically. Going into next year, we could look into another dollar issuance, although the trend that all of us have been pointing out is that from an opportunistic point of view, issuing dollars and swapping it back to euros is becoming less and less attractive for European issuers. And we don't really see that trend reversing any time soon although you never know.

Post, Belgium: There is the general view that this second term will weigh on the European economy and that there will be a need to increase security spending. However, these are broad assumptions and we have no indications on whether, how and when this would lead to additional funding needs, whether that would be at national or European level and what the impact of such spending would be on the growth picture for Europe.

As for the accessibility of dollar funding, we've always seen opportunities arise in markets with a lot of moving parts, most recently just before the US elections when we were able to print a $1bn 10-year benchmark at a good arbitrage to our euro funding. In 2025, we will continue to look for such opportunities.

Seifert, LBBW: I want to reemphasise the relevance of getting Europe more competitive. I don't think we do it for Trump. We do it to build a stronger Europe and to face the situation that we now have with Russia, with what's happening in Asia around Chinese politics

"For us, it's not so much a question of politics, it's much more about policies. We see the two extremes in Germany and France"

Ales Koutny, Vanguard

> *"The first Trump presidency from 2016-2020, was not a particularly negative period in the SSA space. It seems unlikely that there would be a difference this time in how SSA issuers will look across the various funding markets"*
>
> ***Richard van Blerk, European Investment Bank***

and basically to make sure that the economic model works going forward.

I should add something here relating to the next question, which asks about ESG capital markets. Europe has a role to play and apparently the US has decided for itself that it doesn't want to be part of it.

So if we get our act together and get that incorporated into our policy agenda — without being too obsessed about the EU taxonomy, with more focus on being pragmatic when it comes to transition — then the European Commission will make that a priority. I think every relevant European government will make that a priority.

Balancing economic realities with moving into a more sustainable economy, I am convinced our capital markets have something to offer investors from outside Europe. This relates to previous points made on getting investors from outside Europe to put their money to work into what is a good, robust, safe and liquid market. I strongly believe this an opportunity that this Trump administration's mantra "Drill baby, drill" will actually bring to Europe.

***GlobalCapital*: I suppose that's the one unambiguous thing about his new administration so far, the anti-ESG agenda seems much more firmly set. I suppose where the worry might lie is in what the US permits or bans investors from considering when they invest in products, whether they're allowed to consider ESG factors or not. Ales, is that a concern at Vanguard — what you may or may not be permitted to consider in your investment criteria?**

Koutny, Vanguard: Outside of ESG-focused green funds, especially Article 9 funds in Europe, ESG considerations are not much of a concern. From a bond pricing perspective, with the market's excitement around ESG, we saw the emergence of a premium or a 'greenium' when it came to issuing green bonds. We have seen that dissipating.

The key consideration for us is that green bonds have less outstanding and are slightly less liquid. They can present great opportunities and we trade them more from an investment perspective rather than a values-based approach.

My question to the issuers is: what is your view in terms of how much benefit in pricing you need to see to restrict the capital raised from that bond? From my perspective, if you are issuing at the same level as a standard bond, there is no advantage of locking in the capital specifically for green sources. Alternatively, do you see it more as a programme that has a value, even if you're not getting cheaper financing by segregating your green assets?

Dore, World Bank: Issuing green bonds for us was not about achieving a lower cost of financing compared to other bonds, which is referred to as the greenium. It was about raising awareness for the challenges of climate change and how we are tackling them with our activities in borrowing member countries — so it is about providing transparency to investors on the use of proceeds. We know that investors are looking for transparency and information on how their funds are contributing to positive impact.

Green bonds/labelled bonds have transformed the capital markets and how we engage with investors. All the bond proceeds we raise go towards supporting our sustainable development mandate and we've labelled our use of proceeds bonds as sustainable development bonds as they support green and social projects. It is important to integrate climate and social aspects in all lending and, as a sustainable development institution, this is what we do.

Graupner, KfW: It is a question for us as a promotional bank and as a public bank. It's mainly driven by the need to fight against climate change and green bonds, or their underlying assets, are contributing to these political targets.

For us, we are not just aiming to issue green bonds at a time when we are getting a greenium, a slightly better price from the issuer point of view. What we are seeing is that we have a broader investor base for our green bonds. This, combined with the target for doing something to fight against climate change, are the main drivers for us.

Engelen, EC: It's an important topic going forward. Overall, going back to what I said before, for the European Union and the European Commission, we stay committed to our political objectives, particularly to support the green transition in member states.

In particular, we have designed NextGeneration EU precisely towards that goal. And we will receive a lot of eligible expenditures that support our green bond issuance programme. So far, including the €3bn tap today, we have issued close to €70bn and we will increase that materially over the coming years and in line with our commitment to mobilise up to 30% of the overall NextGeneration EU borrowing in the form of green bonds.

We have always said that we don't issue these bonds for the purpose of financial advantage. We do it for the purpose of giving investors the possibility to take a conscious decision of directing their investments towards sustainable goals and programmes. And I think that's very important. We have a very broad, very deep and committed investor base that we see in our green bond issuance and that will not go away because

"Balancing economic realities with moving into a more sustainable economy, I am convinced our capital markets have something to offer investors from outside Europe"

Patrick Seifert, LBBW

the political wind in the US is changing.

One final word on the greenium. I think it would not be advisable to build too much on a financial advantage because a greenium is an imbalance in the market between supply and demand. If you think that supply should increase over time, with the system becoming cleaner overall thanks to greater investment in sustainable projects, then the supply of green bonds and ESG compatible bonds will increase over time and the premium will go away.

Van Blerk, EIB: We've never issued Climate Awareness Bonds for the purpose of greenium. We issue green bonds to promote climate action in capital markets plus we highlight the nature of our activities on the lending side as EU's climate bank. The EIB is one of the largest project finance houses in Europe and in today's world that means it is one of the largest financiers worldwide in the field of climate action.

Post, Belgium: The lack of a pronounced cost advantage of green bonds compared to regular bonds is something to monitor and reflect on because the initial idea was to help develop the green market so that cheaper funding through labelled bonds would in turn help speed up the necessary transition. Even so, we still see regular demand in our green OLOs and Belgium continues to issue its green bonds under the 2022 Green OLO framework.

***GlobalCapital*: Lets now move to the next question and get a sense from the issuers here about their borrowing programme for next year. Perhaps we could start with the EIB?**

Van Blerk, EIB: EIB is a very stable institution with our balance sheet around €550bn for quite some years already exactly because the annual funding (and lending) numbers have been relatively stable as well. Therefore, we are not expecting any surprises for the EIB 2025 funding programme.

Graupner, KfW: We are actually doing the calculations now. In reference to the current year and also with the new elections in Germany next year, I would assume a cautious approach with regards to the funding requirements. We will issue a press release about this on December 10.

Dassyras, ESM: We are in the process of getting approvals for ESM and EFSF funding plans, and ESM will communicate them in our December newsletter. You can expect a similar size to what is published in our investor presentation and we will keep a similar issuance strategy with syndications as we only have to refinance the existing debt.

The ESM will continue to issue T-bills through auctions in three and six-month maturities and we will also use — for liquidity purposes — our commercial paper programme, which was introduced in 2024. We will also closely monitor conditions in the dollar market.

Dore, World Bank: As I mentioned earlier, we are halfway through our funding programme for the year. We do not anticipate significant changes in our funding programme for the next year. Our last projections for IBRD were $50bn-$55bn and for IDA $10bn-$15bn.

Amaral, Portugal: We normally announce our funding programme in December, a couple of weeks before Christmas. So we're still drafting our funding programme for next year, but it looks like — the fiscal budget should be approved in parliament in the next few days — we'll have a total increase in the cash requirement of the state. Our total funding size across instruments will be in the order of €30bn-€35bn. For PGBs, this means maybe gross issuance of around €20bn, so net issuance stable at around €7bn.

Post, Belgium: Our funding plan for 2025 will be published on December 6.

Engelen, EC: Our funding programme was €140bn this year. We are still planning next year's programme, as well as the remaining amounts that we have to mobilise, particularly for NextGeneration EU.

We have communicated that we will probably see higher volumes next year, but we have also tried to reassure investors and markets that we are not trying to test the limits.

What we have communicated is that we do not see our volumes growing over a certain mark to around €150bn or €160bn. This is something that we hope forms part of our planning going forward. We will communicate the specifics of our funding plan for the first half of next year later this year.

***GlobalCapital*: Patrick and Ales, what are you expecting from this asset class next year, both in terms of primary market issuance and QT in terms of supply to the market?**

Koutny, Vanguard: We expect some issuance increase across the board. A differentiating factor will be the comparison with net issuance from the sovereign issuers. As I mentioned before, Q1 is already a very busy schedule for all issuers. If some sovereigns are potentially looking to front-load some of their issuance due to political developments later in the year, that could create some volatility. Net issuance after accounting for redemptions and central bank activity is the main factor. Timing and scheduling will play an outsized role this year as investors deal with the increased issuance.

Seifert, LBBW: I guess we will be surprised by some issuance plans not increasing as much as the market is potentially pricing in. Perhaps a worst-case scenario, in terms of a potential cost being incurred by Trump, would be Europe having to pay more towards defence or avoiding tariffs.

More relevant is do we have the capacity to transform and build that stronger Europe? The answer to that is, yes. The number that makes sense in this context is one that I came across the other day. In terms of unused capacity, the Luxembourg-based institutions could actually mobilise about €1 trillion, which is roughly the equivalent of their current outstandings.

So we obviously have room to manoeuvre and that's also a message you want to get across. Even if supply is to go up here and there, as an investor, you want to make sure you fully understand where this is going to and that is in terms of whether it is use of proceeds from an ESG angle, investment or is it more consumption.

Policy is a game where people promise a lot of things and not everyone is willing to deal with the pain coming with it. Market participants want to see this validated.

Overall, we're quite optimistic and think that some of that uncertainty being priced in at the moment will actually not materialise in the very same way. It might take a bit of time and probably Q1 is going to be very busy. But again, if you believe that buying on rumours and selling on facts could be a leitmotif, it's certainly not a bad time to get invested.

***GlobalCapital*: Christian, you mentioned about your quest to be seen as a sovereign or sovereign style issuer. The latest twist in that story was that Bloomberg were consulting about including your bonds in their sovereign bond indices. Can you give us an update on that situation?**

Engelen, EC: Happy to do so. We have always promoted our issuance approach as sovereign-style. And despite the fact that our issuance programme indeed matches the larger EGB issuers in terms of size and liquidity, we are still held back by some structural impediments in the financial system overall. We are trying to overcome them with the measures we are taking, helping the system to adapt to this transitioning we are going through.

One step in that is the eventual inclusion of us as an issuer in sovereign bond indices. We want that for two reasons. On the one hand, to approach investors who are bound by these indices, and on the other, to ensure that these indices are generally a fair reflection of the market and the system. And with our size and the classification we have, we are clearly distorting the indices landscape.

Also, we see that there is a lot of interest on this in the market and we see that there is also momentum. We have seen two index providers launch consultations over the summer. A third one is currently in the process of a consultation. So far, they have not yet yielded the positive results we would like to see, but we see that there is a lot of support in the market and a lot of willingness on the investor side to basically support us in this project and that makes us hopeful that over time we will get there. So for us, this is not an if but rather when such a step can be achieved.

***GlobalCapital*: Would any other panellists like to weigh in on the sovereign bond index inclusion question?**

Koutny, Vanguard: For us it does not make a lot of difference as most of our indices are broad and already incorporate the EU as part of their benchmark. I do understand there are other buy-side institutions that are limited by a sovereign cap in terms of the percentage they can hold in the portfolio or as part of tracking error calculations. Therefore, I can see some marginal benefit of the inclusion purely from a flow perspective.

Many fixed income managers and others in the investment community that can have more variation within their mandates have already been using the EU as a potential investment vehicle.

Seifert, LBBW: Judging by the investor base the European Union has been able to build over the last four years, it has a very govie style to it. From that view, there are a lot of similarities and we are probably getting to a point where there are more similarities with govies than with SSAs. That in itself is probably telling us that this is going to happen at some point in time.

The market structure is sometimes slow to respond. Our understanding, and speaking for LBBW here, is that active investors in particular have been very much in favour of it. The passive investors maybe less so. The question is: is that a conscious decision or is it more like passive investors living up to their reputation in being very passive and quiet? Unfortunately they've not sufficiently been included into the decision-making around this and they should be.

Together with this, looking at some of the feedback that has been reported, there is ongoing education to be done. And maybe the deadline in terms of the current mandate, 2026, is something that is still raising more questions than it actually should.

Even with what is there, I think the EU is going to be the fifth-largest net issuer going forward. That is quite relevant. GC