

## Bank Pulse: Sovereign issuance, from commercial to central banks

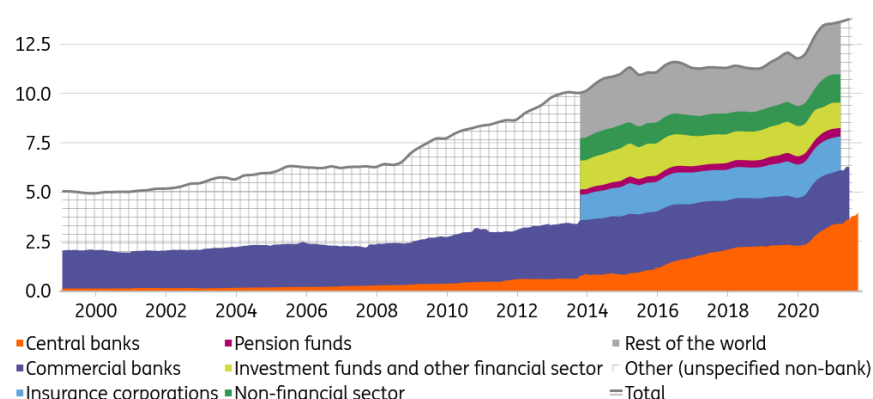
Eurozone governments have issued record amounts of debt since the start of the pandemic. Eurozone banks bought less proportionally. In contrast, central banks in the eurozone absorbed 95% of consolidated net sovereign issuance



### In absolute numbers, the pandemic saw record government debt issuance

The past 18 months have seen a strong increase in government debt across the eurozone. Eurozone government debt (securities and loans) outstanding totalled €11.9t in February 2020, on the eve of the pandemic. By in July this year, debt had increased to €13.8t. The 16.8% increase in sovereign debt is lower than in the aftermath of the Lehman collapse in September 2009 (+21%) and on a par with the increase during the eurozone debt crisis in 2012 (+16%; all measured over comparable 17-month periods). In absolute numbers though, the pandemic debt increase of €1.94t over 18 months comfortably exceeds those previous peaks, which reached €1.35t and €1.40t, respectively.

## Eurozone government debt outstanding, by investor (€ trillion)



Source: ECB, ING-calculations

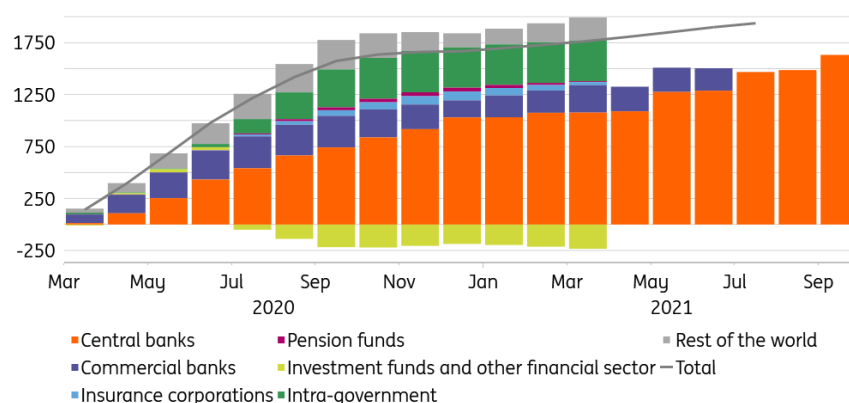
## The Eurosystem is now the number one investor in government debt...

What differs even more is how the new issuance frenzy was financed over the past 18 months. Banks participated less proportionally. While they held 20.6% of government debt outstanding on the eve of the pandemic, this had dropped to 19.4% in June this year. As such, banks have continued the two-decade trend of shrinking dominance in government bond investing (see chart above). In fact, the Eurosystem took over the commercial banking sector's position as the biggest sovereign debt investor last year. Stepping in with its Pandemic Emergency Purchase Programme, the Eurosystem had bought €1.47t of the €1.94t issued by July this year. In other words, for every euro borrowed by eurozone governments since February 2020, the Eurosystem indirectly financed 76 cents (see chart below).

## ...having effectively financed 95% of government deficits during the pandemic

Importantly, the Eurosystem doesn't buy directly from governments on primary markets. It is only allowed to operate on secondary markets. We look at net issuance of debt, however. From this perspective, only the difference between gross issuance and redemptions counts, and the distinction between primary and secondary markets is irrelevant. We should also note that some €390bn of government debt and loans issued ended up being held by other arms of government. When consolidating net government debt issuance (that is, removing net issuance absorbed by other arms of government, except the central bank – the green bars in the chart below), the Eurosystem actually financed 95 cents of every euro net issued between February 2020 and July this year.

## Cumulative eurozone government debt net issuance since March 2020, by investor (€ billion)



Source: ECB, ING-calculations

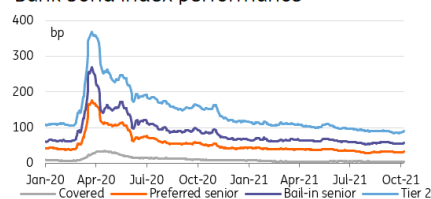
Data on other sovereign debt investor holdings only runs through the first quarter of 2021 (or June for banks), but suggests that the remainder of net issuance was acquired in roughly equal shares by non-eurozone investors and eurozone banks, while eurozone-based investment funds shed a comparable amount.

The dominant role of the Eurosystem in absorbing net government debt issuance stands in stark contrast to previous episodes of strong debt increases (e.g. 2009 and 2012), when net issuance was more evenly bought by the (central and commercial) banking system and non-bank investors. One takeaway for banks and other sovereign debt investors is that the debt issuance surge and the Eurosystem's purchase programmes have more or less cancelled each other out during the pandemic, which was instrumental in keeping sovereign financing conditions - and by extension - also credit and bank financing conditions in check.

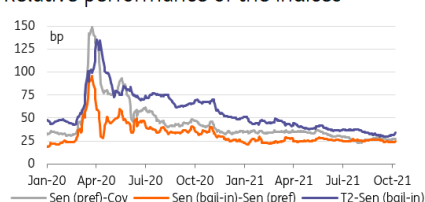
Going forward, central bank policy markers' discussions already suggest the Eurosystem won't be in the market anymore to invest like it has done over the past 18 months. Our economists' outlook points to net public sector purchases falling from just over €1tn this year to €330-450bn next year. With the European Commission forecasting government deficits to drop by half - and that is under benign assumptions from the current vantage point - it is clear that the balance is already starting to shift. Whether the mere possibility by the central bank to intervene will be enough to maintain financing conditions remains to be seen. Banks will be affected by changes in conditions as well, if not by direct holdings then by virtue of domicile.

## Chart pack

Bank bond index performance

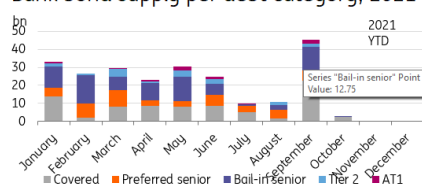


Relative performance of the indices

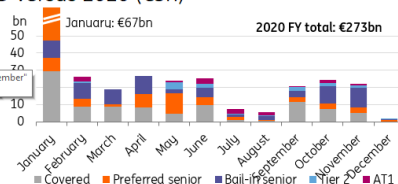


Source: Markit iBoxx, ING

Bank bond supply per debt category, 2021 YTD versus 2020 (€bn)\*



\*only includes public deals. Source: IGM, ING



\*only includes public deals. Source: IGM, ING

## Author

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).