The quiet strength of euro area bonds

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The euro area sovereign debt market has shown resilience in 2026 despite a marked deterioration in the global environment. Strong institutions, more balanced sovereign risk perceptions, and moderate aggregate debt levels have helped maintain investor confidence.

The continued repricing of euro area sovereign risks, the growing scale and international appeal of euro-denominated debt, and robust market functioning point to a deeper and more resilient market. Building on this through deeper integration would make Europe's sovereign bond market even more investable and central to global finance.

The euro area sovereign bond market: a global opportunity with domestic anchors

The euro area is the world's second-largest sovereign bond market, with around €12.5 trillion outstanding at the end of 2025. Four major European supranational issuers account for roughly €1.5 trillion of this total, namely the European Union (EU), European Investment Bank (EIB), European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM), deepening the pool of European safe assets and offering investors additional diversification. At below 90% of gross domestic product at the end of 2025, the euro area's aggregate public debt ratio compares favourably with other major sovereign markets.[1]

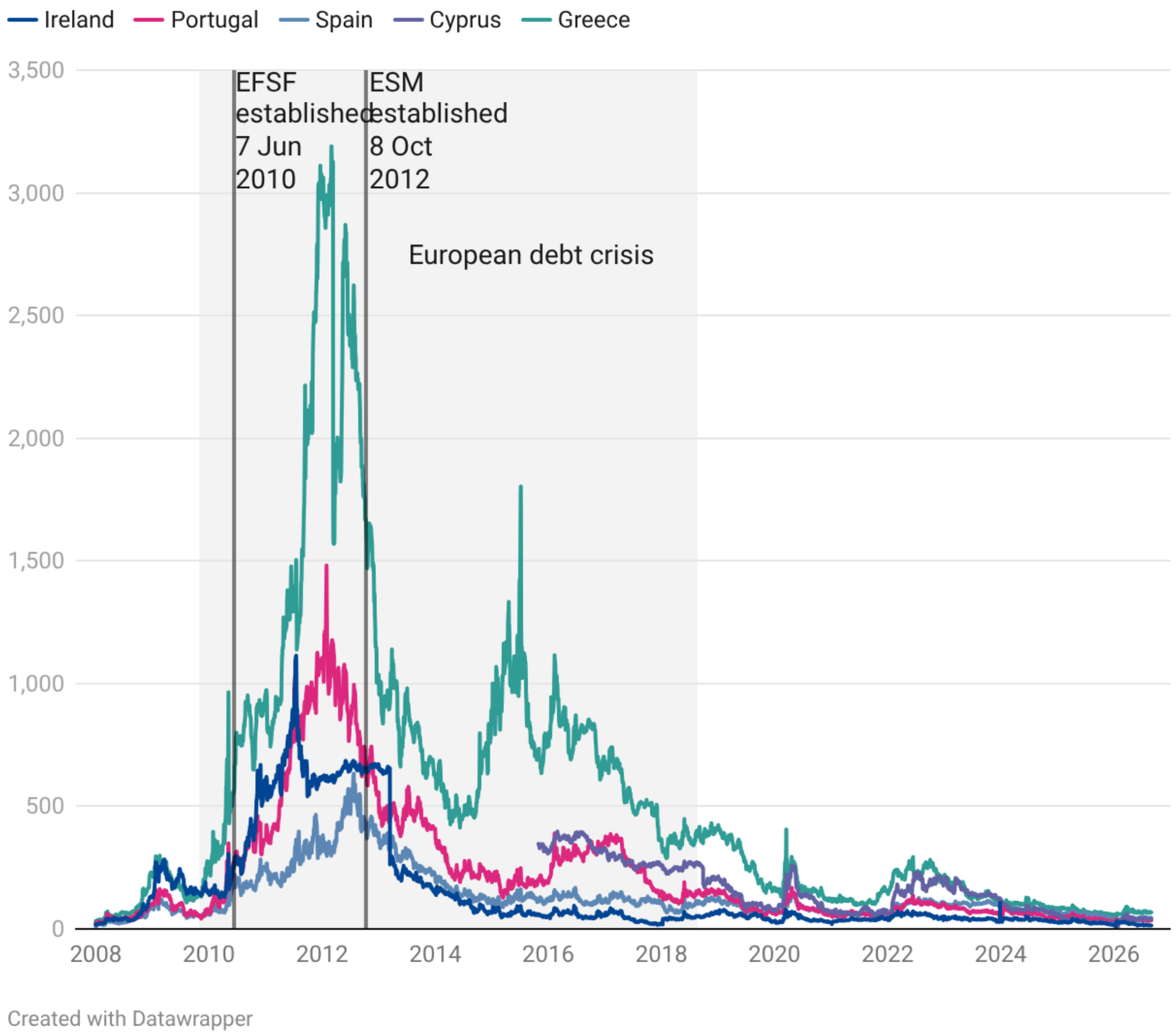
The investor base combines a sturdy domestic anchor with growing international reach. Domestic investors hold around 75% of euro area government bonds, though percentages vary significantly across countries. Foreign holdings typically range between 35%-40% in France and Germany, compared to around 15% in Spain and Italy. As the European Central Bank normalises its balance sheet, non-euro area investors have increased their footprint, underscoring the appeal of euro area debt amid elevated United States (US) policy uncertainty. At the same time, deeper international participation makes market dynamics more sensitive to global investor sentiment and cross-border capital flows. Still, progress on the savings and investments union could act as a counterbalance by strengthening and stabilising domestic demand for euro area sovereign debt while enhancing integration, liquidity, and pricing efficiency.

Institutional strength supports sovereign spread convergence

Market participants point to the euro area's institutional architecture and crisis-prevention toolkit as key pillars supporting credit quality, according to an **ESM-led survey**[2] These features have supported yield convergence toward the euro area benchmark (German bonds) since the sovereign debt crisis, with the yield spreads of countries that received financial assistance from the EFSF and ESM narrowing towards pre-crisis levels (Figure 1a).[3] Tighter European government bond spreads suggest a more homogeneous assessment of sovereign risk across member states and a shift in safe-haven dynamics within the euro area. Importantly, yield spreads of bonds issued by ESM/EFSF beneficiaries versus German bonds remained broadly stable through recent market volatility episodes, including US President Donald Trump's 2025 tariffs announcement, political uncertainty in France, and the escalation of the US-Iran conflict (Figure 1b).

Figure 1a

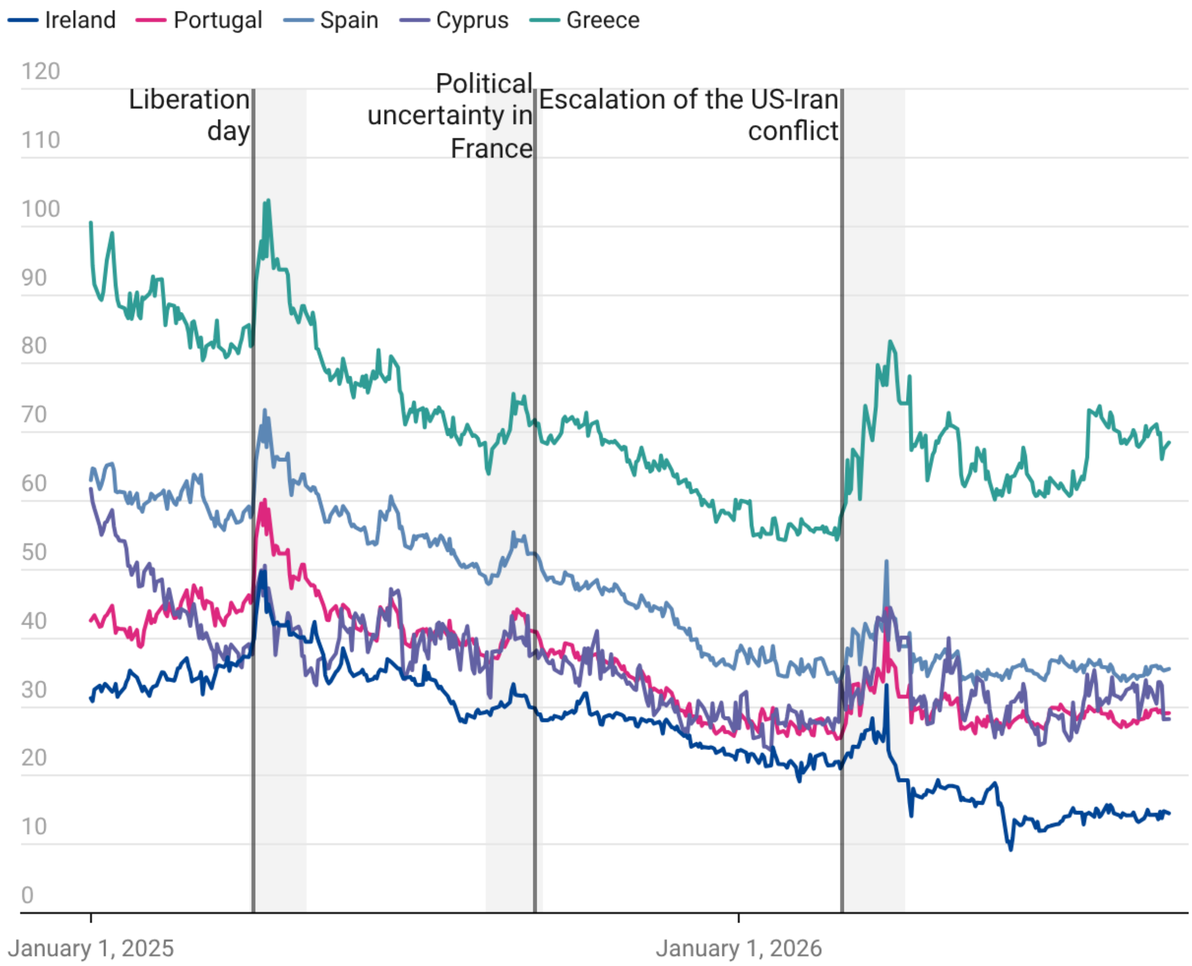
10-year yield spreads versus German bonds (in basis points)



Note: Data for Cyprus only available as of 30 October 2015.
Source: Bloomberg

Figure 1b

10-year yield spreads versus German bonds (in basis points)



2 April 2025: the date most commonly called "Liberation Day". That day President Trump announced a broad package of reciprocal tariffs, describing it as America's "declaration of economic independence." 8 September 2025: Fall of François Bayrou after a confidence vote. 28 February 2026: the start date of the current escalation of the US-Iran conflict.

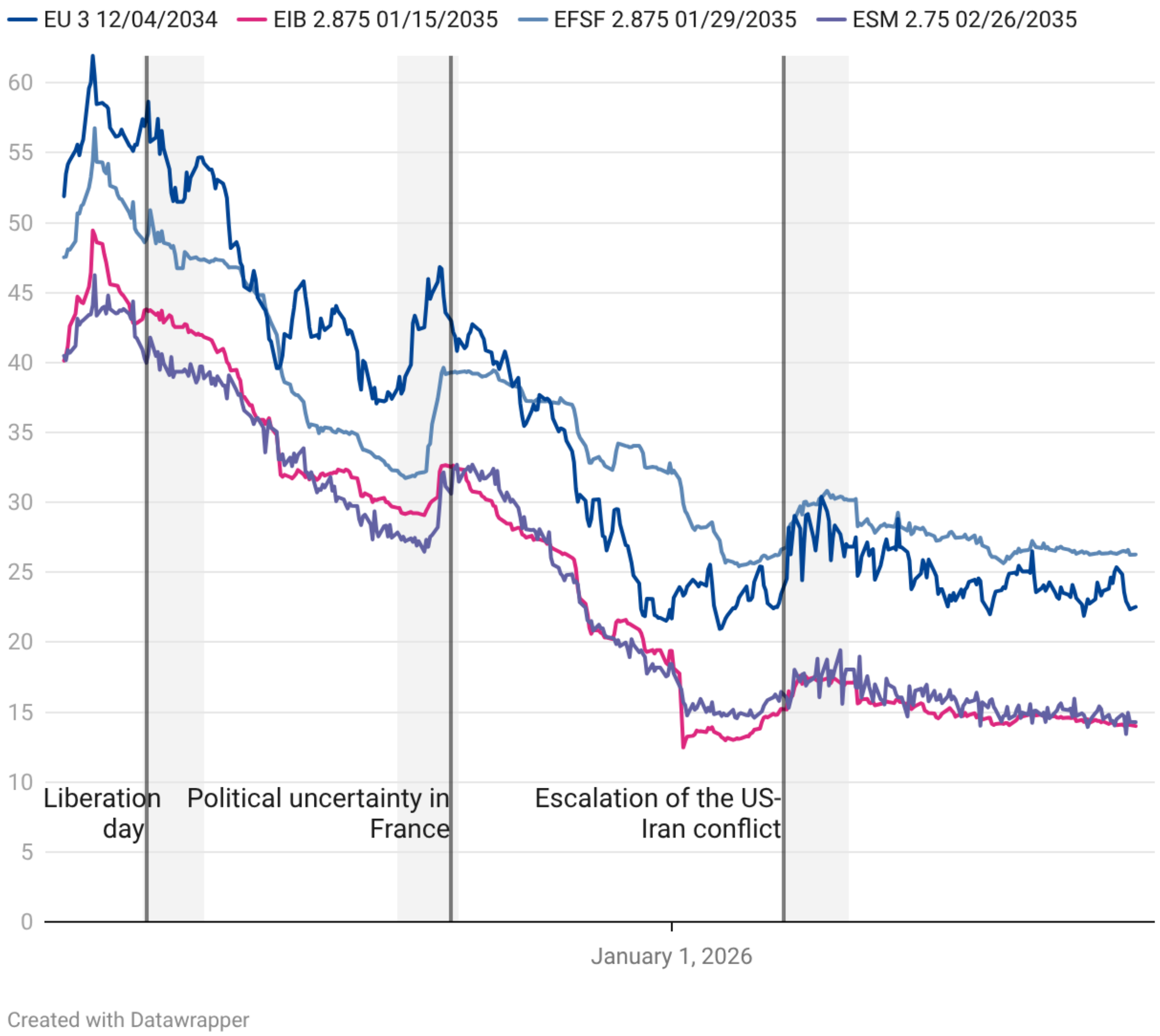
Created with Datawrapper

Source: Bloomberg

European supranational bonds have also proven resilient, with yield spreads widening only modestly during recent periods of market stress (Figure 2).

Figure 2a

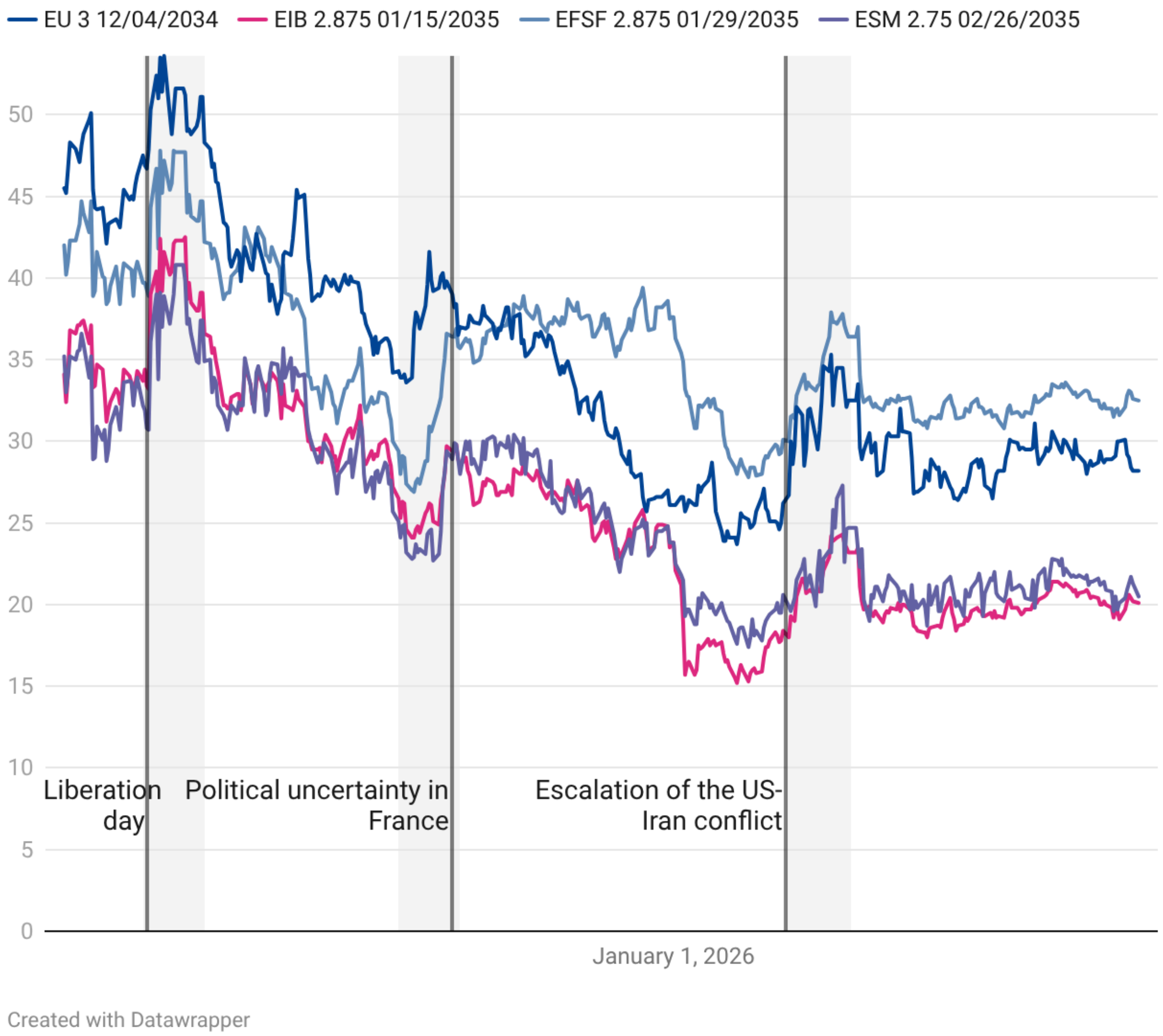
10-year maturity area yield spreads versus swaps rates (in basis points)



Source: Bloomberg

Figure 2b

10-year maturity area yield spreads versus German bonds (in basis points)



Source: Bloomberg

EFSF/ESM bonds: resilient trading through market stress

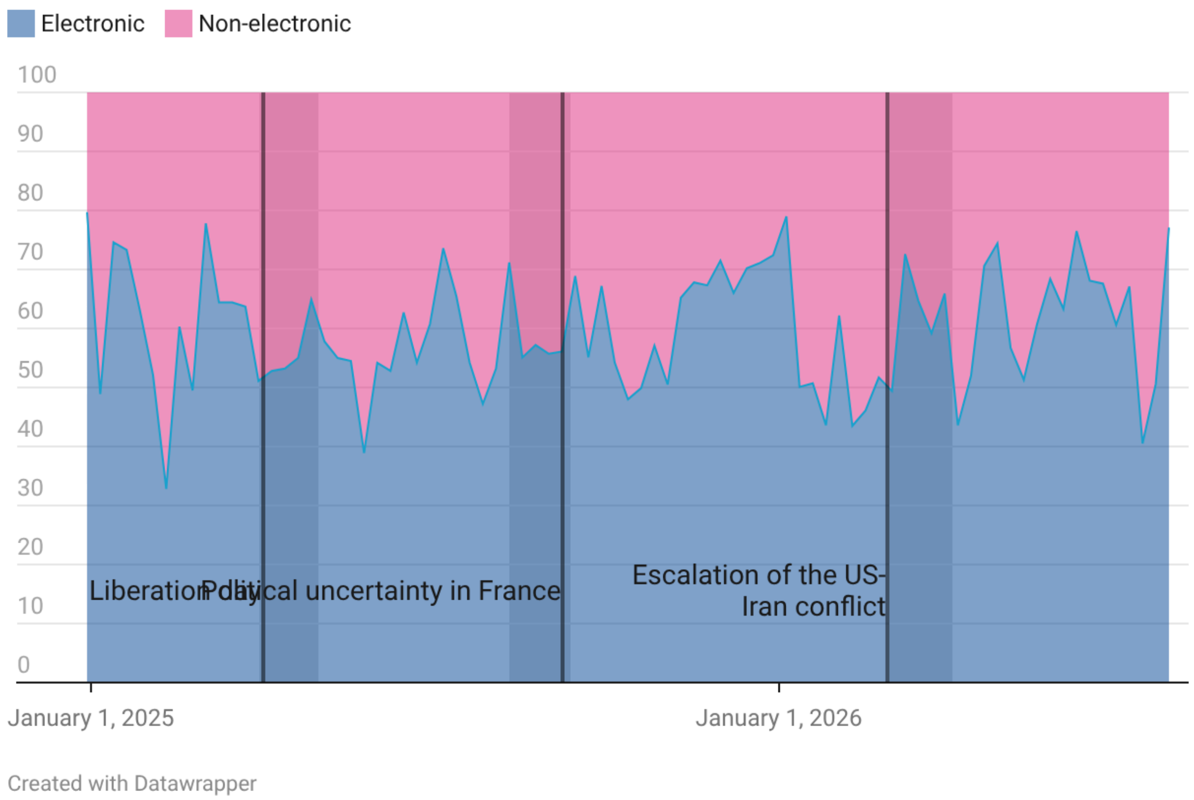
The EFSF and ESM issued a combined €28.5 billion in 2025, with €25.5 billion pencilled in for 2026. Using weekly data from January 2025 to July 2026, we analysed secondary market trading volumes by execution channel and across individual bonds.

EFSF and ESM bond liquidity remained broadly stable across various episodes of market volatility from early 2025 to early 2026. This resilience was reflected in the share of electronic trading, hovering around 55% in the weeks immediately after early April 2025, while in periods from mid-August to mid-September 2025 and in March 2026 it ranged between 50% and 73% (Figure 3a). Overall, there was no sign of a sustained decline in electronic trading, which continued to account for a clear majority of volumes in several weeks. As discussed in an **earlier blog**, electronic trading provides a useful proxy for secondary market liquidity as it is generally associated with better price transparency, more efficient execution, and smoother market functioning during volatile periods.

Figure 3a

Electronic versus non-electronic trading activity in ESM and EFSF bonds

Share of secondary market turnover volume (%)

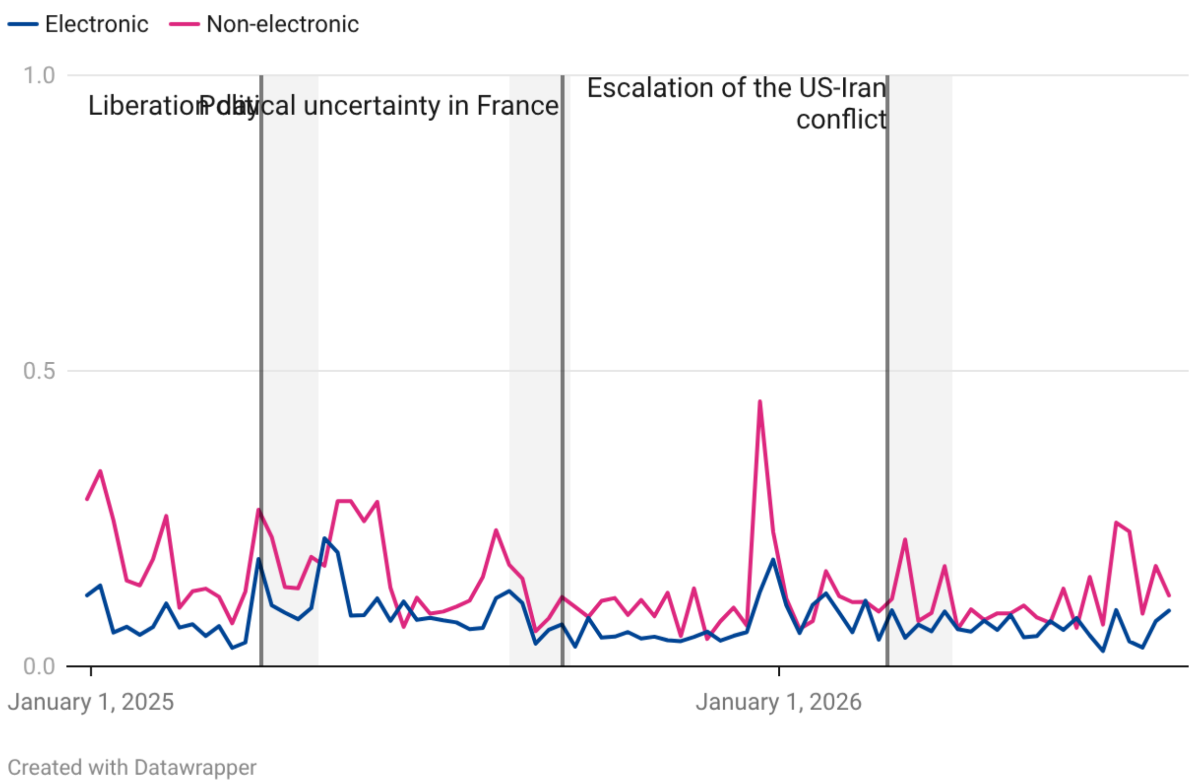


Source: ESM data

Figure 3b

Distribution of trading activity across bonds for electronic and non-electronic trading in ESM and EFSF bonds

Concentration indicator (normalised; larger value indicates higher concentration)



Note: Low concentration indicates that trading is spread across a broader set of bonds, pointing to more accessible liquidity across maturities, while higher concentration signals that activity is becoming focused on the most liquid securities.
Source: ESM data

The resilience of secondary market activity was also visible in the distribution of trading across individual bonds and execution channels (Figure 3b). The concentration indicator, which captures how trading activity is distributed across different bonds within a given period, remained within its normal range throughout the year of increased market stress. This indicates that the activity did not retreat into only a small number of benchmark securities during this period.[4]

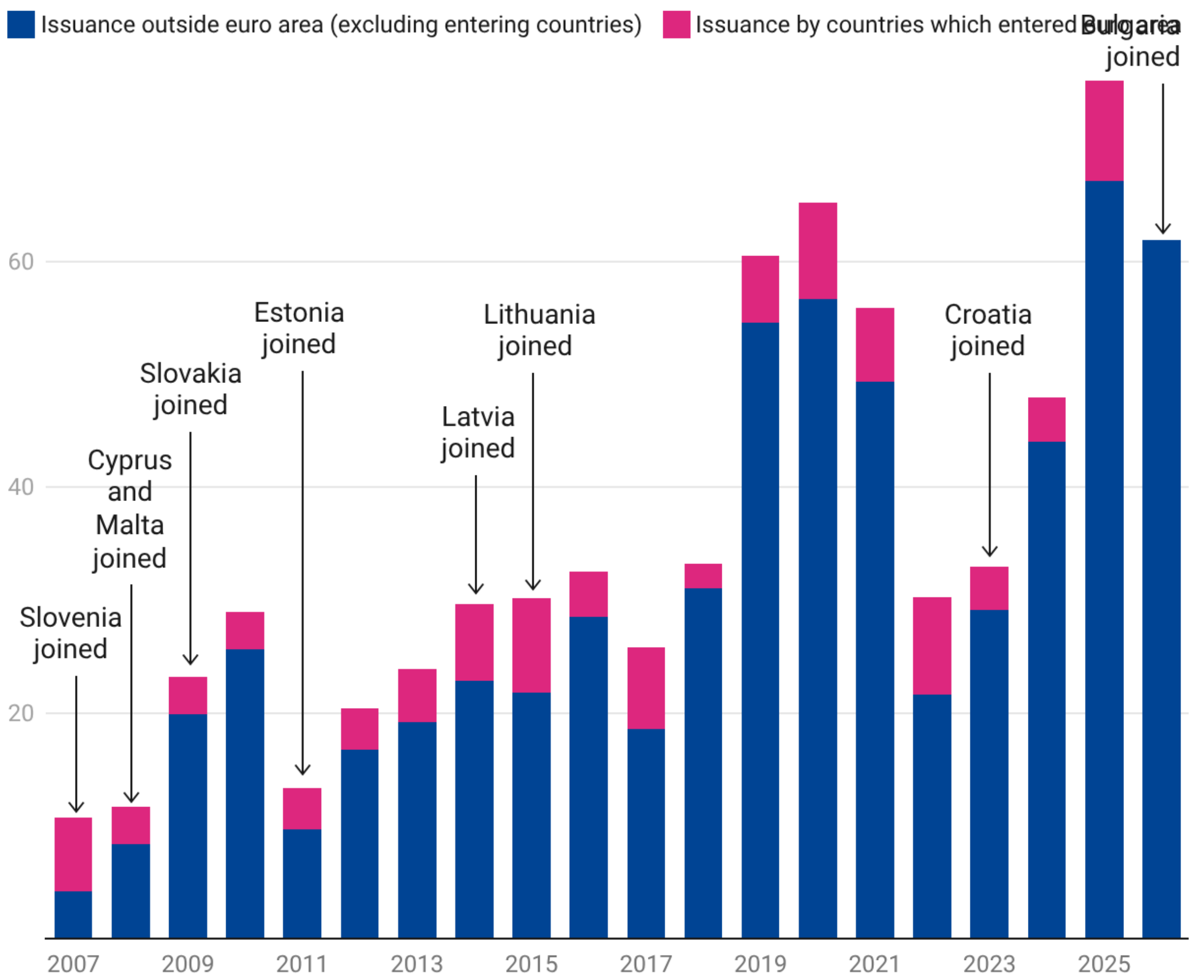
Non-euro area issuers increase euro-denominated borrowing

The euro's role as an issuance currency continues to expand beyond the euro area. A broader issuer base and higher euro-denominated borrowing by non-euro area sovereigns point to the growing global relevance of the euro fixed-income market. As discussed in a **previous blog**, euro issuance allows borrowers to diversify funding away from local currencies and the US dollar.

Non-euro area sovereign euro issuance set a new record in 2025,[4] with similar momentum continuing in 2026.[5] By separating issuance by euro area and non-euro area countries, Figure 4 shows how euro area enlargement affects the non-euro area issuance figures.

Figure 4

Annual euro issuance outside the euro area



2026 only until 31 August included

Created with Datawrapper

Source: ESM calculations based on Bloomberg data

The euro's path ahead

The euro area has come a long way since the launch of the single currency nearly 30 years ago. What began as a fragmented set of national bond markets has developed into the world's second-largest sovereign debt market, supported by stronger institutions, deeper investor confidence and a growing pool of high-quality euro-denominated assets. Consolidating these gains would help unlock the market's full global potential.

Advancing the EU-wide savings and investments union is central to the next phase of integration. Mobilising domestic demand would deepen the euro area sovereign debt market and strengthen the conditions for a genuinely pan-European safe asset. The broader market backdrop already points in this direction, setting the stage for a stronger future.

Acknowledgements

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Footnotes

[1] Around 125% in the case of the US, around 230% for Japan, and about 95% for United Kingdom.

[2] Published in the **Euro Area Stability Watch 2026**.

[3] A normalisation is already visible before Greece formally exited its bailout programme on 20 August 2018, marking the symbolic end of the crisis.

[4] The temporary spike at the end of December reflects the shortened trading week and the typical year-end slowdown.

[5] Led by Romania and Bulgaria, while Mexico and Colombia also printed record amounts.

[6] In 2026, China, Brazil, and Mexico issued relatively large triple-tranche deals (€4.75-€5 billion) showing confidence in the absorption capacity of the market. Three bonds with different maturities were issued at the same time, addressing the needs of a diverse investor base and helping issuers achieve cost efficiency.