

RECENT CHANGES IN EURO AREA SOVEREIGN BOND HOLDINGS

The euro area sovereign bond market is operating in an environment characterised by an increase in countries' net issuance (greater supply) and a gradual reduction in government bond portfolios on the Eurosystem's balance sheet (lower demand from the central bank).¹ In this context, the absorption of the additional outstanding debt and its distribution across the different investor sectors is key to preserving the smooth functioning of the market.

This box analyses developments in the investment structure of major euro area sovereign bond markets over recent years and their implications for the stability of these markets.

Recent developments in the investor base

The distribution of sovereign bond holdings by sector group at December 2025 reveals several regularities alongside notable cross-country differences (Table 1).² The Eurosystem's holdings continue to account for a significant share of the total. Non-euro area investors (both public and private) also represent a significant component, especially in Germany and France. Non-bank investors, including mainly insurers, pension funds, investment funds and households, represent a sizeable share of holdings, with insurers and pension funds contributing to the stability of demand given their role as

longer-term investors. Resident banks and banks from the rest of the euro area hold a limited share of sovereign bonds, although cross-country differences persist (greater presence of banks in Italy and Spain).

Holding flow developments since June 2022 – when sovereign bond portfolios on the Eurosystem's balance sheet reached their maximum size – show that non-euro area investors have absorbed a significant portion of the new supply (Chart 1). In Italy, domestic non-bank investors – the group with the largest increase in holdings – play a prominent role, reflecting the attractiveness of higher yields for households. Non-bank investors from the rest of the euro area have followed a consistent pattern in all four jurisdictions, ranking second in terms of debt absorption. Meanwhile, domestic banks have increased their sovereign bond holdings in France and Spain, while their investments have remained broadly unchanged in Germany and even declined in Italy. Banks from the rest of the euro area have significantly increased their investments in France.

Debt is being absorbed by the private sector in an orderly manner. The adjustment in the investor base has not been accompanied by any noticeable market tensions. In the primary market, demand at auctions remains robust, with high bid-to-cover ratios, and in the secondary market, sovereign risk premia – measured by the spread between

Table 1
Government debt holdings by sector (a)

%

Sector groups	Germany	Spain	France	Italy
Domestic banks	0.5	14.0	8.5	14.5
Non-bank domestic investors	14.4	13.8	14.0	30.7
Banks from the rest of the euro area	3.5	10.3	7.5	6.1
Non-bank investors from the rest of the euro area	19.4	19.2	17.3	13.6
Non-euro area investors	34.3	17.8	33.8	12.1
Eurosystem	27.8	24.9	19.0	23.0

SOURCE: ECB Securities Holdings Statistics.

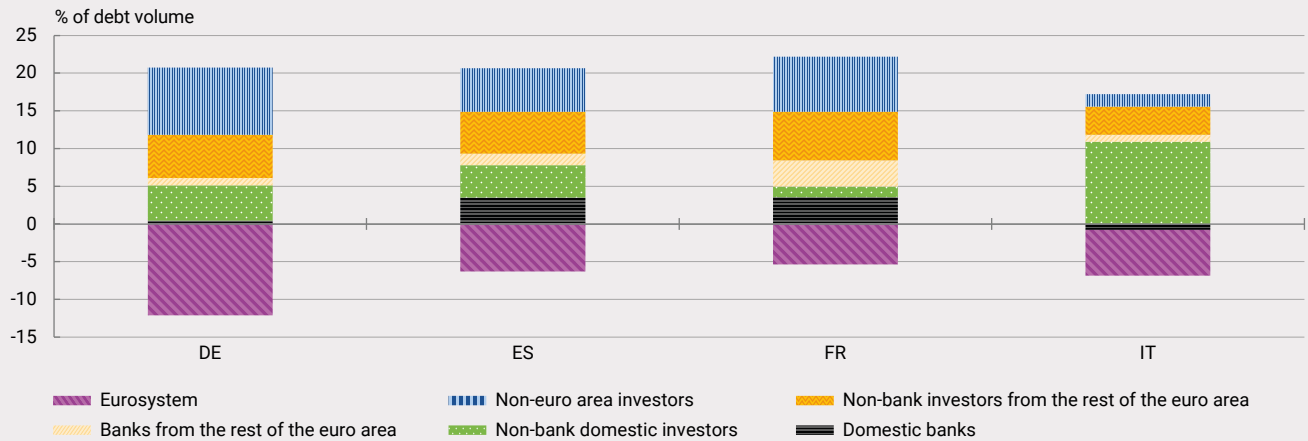
a The latest available statistics on government debt holdings (30 April) include information up to December 2025. Domestic investors comprise investors from the issuing country. Non-bank investors comprise both non-bank financial institutions and agents from non-financial sectors, such as households.

1 For further information about the growing issuance volume and the shrinking Eurosystem balance sheet, see, for example: "Who buys bonds now? How markets deal with a smaller Eurosystem balance sheet". *ECB Blog*, 22 March 2024.

2 The quarterly Securities Holdings Statistics by Sector (SHSS) reported by the Eurosystem are used for this analysis.

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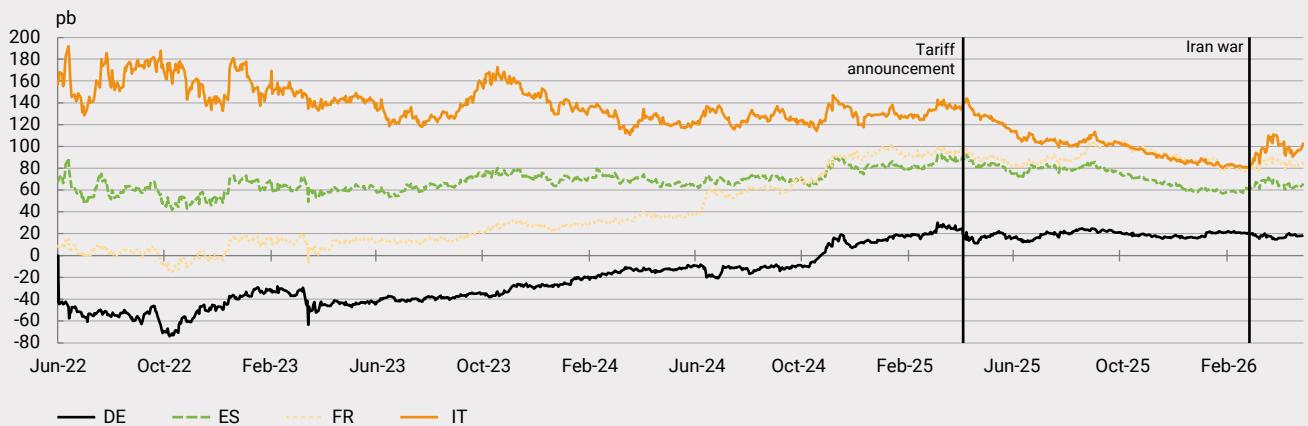
Chart 1
Cumulative flows from June 2022 to December 2025 (a) (b)



SOURCE: ECB Securities Holdings Statistics.

- a Domestic investors comprise investors from the issuing country. Non-bank investors comprise both non-bank financial institutions and agents from non-financial sectors, such as households.
- b The reference date is June 2022, when purchase programme portfolios reached their maximum size.

Chart 2
Spread between the 10-year sovereign bond yield and OIS rate since June 2022



SOURCE: Bloomberg.

the 10-year sovereign bond yields and the 10-year overnight index swap (OIS) rate – remain contained. Sovereign spreads have converged somewhat since June 2022 (Chart 2). No particularly sharp or persistent spikes have been observed, even during episodes of global uncertainty. Both following the April 2025 tariff announcement and during recent geopolitical episodes, the movements observed are limited and do not differ substantially from usual patterns in similar stress situations.

Potential reinvestment risks

Changes in the sectoral and geographical composition of sovereign bond demand could increase market vulnerability to reinvestment risks and affect sovereign financing conditions. In particular, a greater share of investors that are more sensitive to market conditions could amplify their reaction to stress episodes. These risks have not materialised so far, but they should be assessed.

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Chart 3
Relative shares of sensitivity-classified sector groups (including the Eurosystem). December 2025 (a)

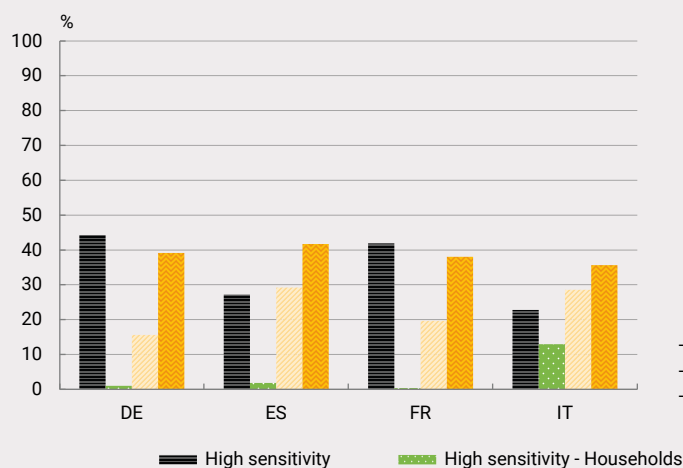
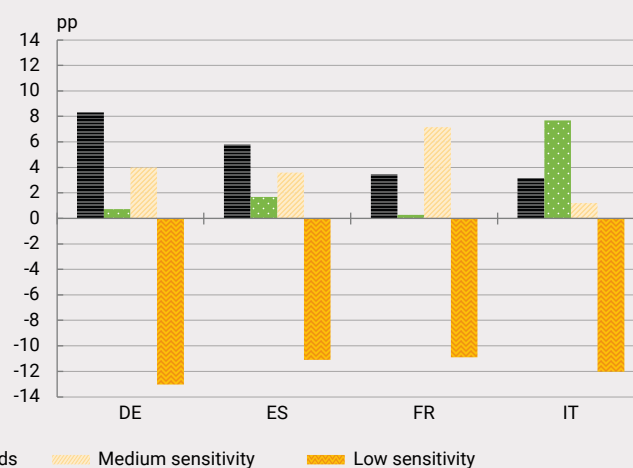


Chart 4
Changes in each group's relative share from June 2022 to December 2025 (including the Eurosystem) (a)



SOURCES: ECB Securities Holdings Statistics and Banco de España.

a The high-sensitivity investor group comprises non-euro area investors, euro area investment funds and households. The medium-sensitivity group comprises euro area banks. The low-sensitivity group comprises insurance companies, pension funds and the Eurosystem.

To this end, holding sectors are classified according to their sensitivity to sovereign bond market conditions. This classification is based on existing evidence in the literature³ and further supported by an analysis estimating the sensitivity of each sector's holdings to changes in 10-year sovereign bond yields, controlling for other variables.

As a result, three large groups of investors are defined.

First, a high-sensitivity group, consisting mainly of investment funds, foreign (non-euro area) investors and households. Most studies, including the analysis carried out in this box, indicate that foreign investors are comparatively more sensitive to yield changes than other agents. The evidence for households is less unanimous, but the in-house analysis also finds them to be highly sensitive. Second, a medium-sensitivity group, comprising the banking sector, is identified.

Lastly, a low-sensitivity group is considered, characterised by a relatively more inelastic demand and long-term investment horizons. This group includes the Eurosystem and institutional investors with more stable investment, such as insurers and pension funds, whose investment decisions respond to more stable mandates, although they are still exposed to liquidity and regulatory risks.

At end-2025, the high-sensitivity group was the largest segment in France and Germany, accounting for over 42% and 45%, respectively, of total holdings (Chart 3). In Italy, household participation brings the share of high-sensitivity investors to 36%, while in Spain this figure stands at 29%. The low-sensitivity group is sizeable in all four jurisdictions, mainly owing to the still significant weight of the Eurosystem and the importance, especially for France and Spain, of insurers' and pension funds' holdings. The medium-sensitivity group, primarily comprising banks, is more relevant in Italy and Spain, with a share of approximately 29%.

3 Mainly, the study by Kojien, Koulischer, Nguyen and Yogo. (2021). "Inspecting the mechanism of quantitative easing in the euro area", which analyses the effect of yields on euro area investors' sovereign bond holdings and shows that foreign investors are the most sensitive to yield changes, followed by investment funds and banks, while insurers and pension funds are more stable. Furthermore, according to the paper by Eren, Schrimpf and Xia. (2023). "The demand for government debt" based on US Treasury bond market data, sectors show different levels of price sensitivity. In descending order, the most sensitive sectors are: banks, foreign private investors, pension funds, investment funds and insurers.

RECENT CHANGES IN EURO AREA SOVEREIGN BOND HOLDINGS (cont'd)

Since June 2022 there has been a marked decline in the share of investors that are less sensitive to market conditions within total sovereign bond holdings, mainly as a result of the reduction in the Eurosystem's holdings (Chart 4). This decline has been offset in all cases, except in France, by an increase in the share of high-sensitivity investors. In France, the largest increase in relative weight is observed in the medium-sensitivity group (mostly banks). Among the most reactive investors, non-euro area investors stand out in Germany and France. In Spain, the share of these investors, which has traditionally been lower, has experienced considerable growth, suggesting the investor composition is converging across countries.

The composition of the investor base in the market is a key factor in absorbing potential shocks. Investors that are less sensitive to market conditions provide a stable source of demand that is relatively independent from price developments and can, under certain circumstances, cushion bouts of stress. Conversely, the recent increase in the share of more sensitive investors could amplify market movements during stress episodes. Although this has not been observed so far, it is important to continue analysing changes in the share of these investors and whether there is evidence that these shifts affect the functioning of sovereign bond markets.

Risks related to alternative funds: additional sources

Hedge funds are alternative investment vehicles and are included in the high-sensitivity investor group defined above. They also represent a potential source of vulnerability for euro area sovereign bond markets, as their use of leveraged positions can amplify volatility at times of global financial stress.⁴ In the holdings data presented above, hedge funds and other alternative funds are classified as euro area investment funds or non-euro area investors, depending on the fund's country of residence, but they are not identified as such within the respective categories.

Information from Tradeweb,⁵ one of the leading fixed-income electronic trading platforms, and from other market intelligence sources, indicates that these market participants concentrate a very significant share of trading volumes, both in the European government bond market as a whole and in specific market segments. According to these sources, hedge funds have increased their presence since 2020, accounting for around 50% of total bond market activity.⁶

Furthermore, hedge funds' operations in these markets reinforce their systemic relevance. Tradeweb data show that, on average, these intermediaries execute transactions with substantially larger ticket sizes – the nominal amount traded in each order – than other participants, a difference that has widened considerably since 2021. This pattern suggests hedge funds have a greater ability to immediately influence price formation and liquidity, especially during episodes of abrupt portfolio adjustments.

Finally, hedge funds' intense activity in government bond markets is closely linked to their role in the funding market: in the repo market, agents obtain liquidity, generally on a short-term basis, using high-quality assets (mainly sovereign bonds) as collateral. Aggregate repo market volume data from Tradeweb and the ECB suggest that these intermediaries' net positions have changed, reflecting a growing use of sovereign bonds as collateral to obtain funding since mid-2024.⁷ This situation reinforces the interconnections between spot and repo markets. As a result, shocks originating in one segment could swiftly spill over to the other, amplifying procyclical dynamics and increasing the risk of liquidity stress events.

In light of their growing importance and the current limitations in data availability and granularity, a more in-depth analysis of these intermediaries is needed, along with enhanced data coverage, to strengthen the monitoring and assessment of the risks associated with their activity.

4 See, for example, "Hedge funds: good or bad for market functioning?". *ECB Blog*, 23 September 2024 and Barth and Kahn. (2025). "Hedge funds and the Treasury cash-futures basis trade".

5 Tradeweb is an international fixed-income electronic trading platform that channels a very large volume of transactions and provides electronic access to euro area government bond markets.

6 See "The growing role of Hedge funds in European markets". Tradeweb presentation for the Bond Market Contact Group, 26 November 2025.

7 See footnote 7 and "Hedge Fund activity in Bond, Repo and Futures Markets: Unpacking the Data". ECB presentation for the Bond Market Contact Group, 26 November 2025.