

Table A Annual growth rates of debt securities issued by euro area governments

(percentages; end of period)

	2006	2007	2008	2009	2010	2011
Total general government	2.5	2.8	8.1	11.1	7.5	5.4
Long-term	3.4	2.3	3.7	9.7	10.4	7.3
Fixed rate	3.4	2.0	3.5	9.7	9.7	6.4
Floating rate	3.4	5.4	5.1	6.4	17.8	17.7
Short-term	-8.8	9.6	61.9	23.0	-11.1	-9.1

Source: ECB.

Table B Structure of amounts outstanding of debt securities issued by euro area governments

(percentages of total debt securities issued by general government; end of period)

	2006	2007	2008	2009	2010	2011
Long-term	92.9	92.5	88.8	87.3	88.0	89.6
Fixed rate	83.9	83.2	79.7	78.3	78.2	79.0
Floating rate	8.0	8.2	8.1	7.8	8.5	9.5
Short-term	7.1	7.5	11.2	12.7	12.0	10.4
Total general government in EUR billions	4,710.7	4,841.8	5,266.2	5,887.1	6,485.5	6,840.6

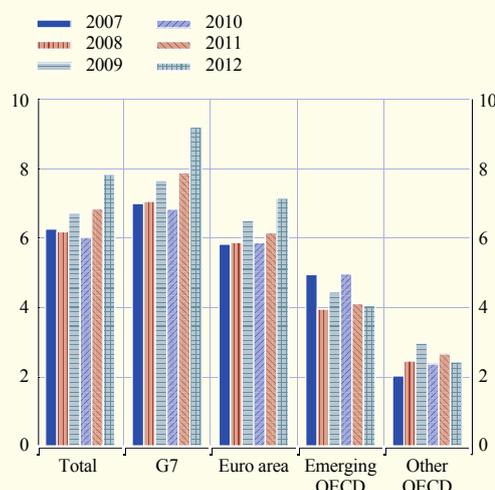
Source: ECB.

Governments in the euro area faced unprecedented funding challenges in 2011, and the three countries under EU/IMF adjustment programmes had little access to market-based funding. Despite the challenging market, governments in most euro area countries managed to issue long-term securities without strong pressures to increase their recourse to short-term funding. Long-term issuance, however, took place under very different conditions from country to country. The share of long-term fixed rate debt securities remained broadly unchanged, standing at 79.0% at the end of 2011. The share of short-term debt declined, and stood at 10.4% at the end of 2011 (see Table B). Governments have increased their focus on reducing refinancing risks during the crisis. This entails a lengthening of the time to maturity of new issues and limiting the use of short-term debt.

Redemption of medium and long-term debt has remained fairly low and stable since the start of the crisis (see Chart A). Looking ahead, redemptions will increase in the euro area and in most developed countries in 2012. The elevated level of issuance activity observed since 2008 is expected to persist, owing to the increasing refinancing burden from maturing debt combined with continued deficits. Therefore it is important that governments continue to focus on reducing refinancing risks and adhere to their consolidation strategies in order to lastingly correct excessive deficits and restore financial market confidence.

Chart A Redemptions of medium and long-term central government debt

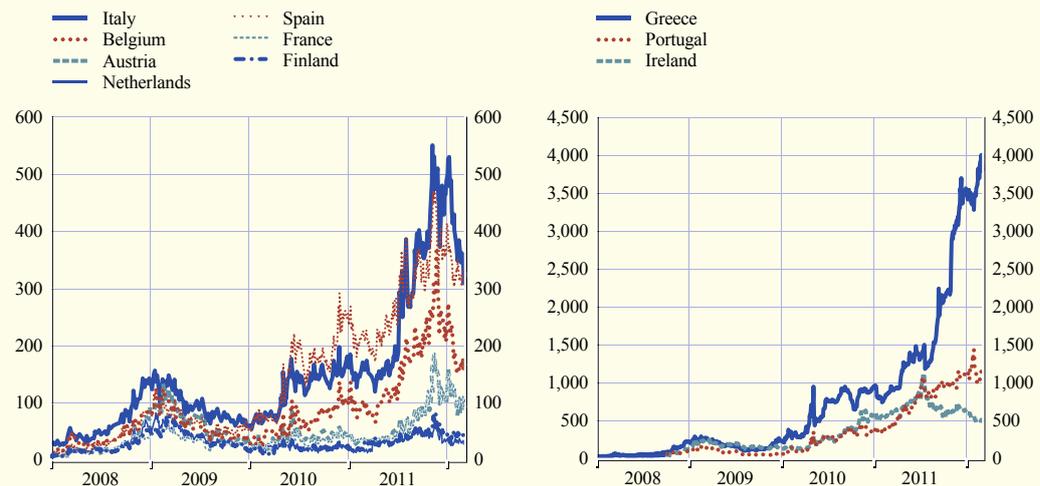
(as a percentage of GDP)



Source: OECD Sovereign Borrowing Outlook 2012.
Note: Based on surveys of central government debt managers.

Chart B Government bond yield spreads vis-à-vis German government bonds

(daily data; basis points)



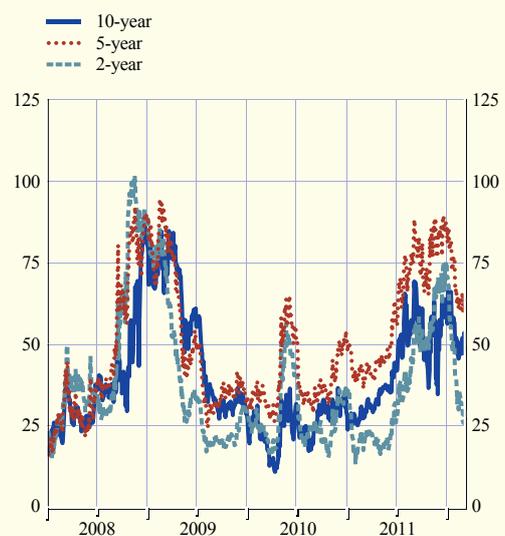
Sources: Bloomberg, Thomson Reuters and ECB calculations.
Note: Data refer to government bonds with a ten-year maturity.

The spreads between the yields on long-term government bonds of euro area countries and those on corresponding German bonds widened significantly in 2011. This is illustrated in Chart B, which shows the spreads vis-à-vis Germany. Spreads were at their highest in November 2011, and have contracted for most countries since then. However, spreads for a number of countries remain high, indicating continued risk and uncertainty.

The differences between government bond yields across euro area countries ultimately reflect differences in credit risk and liquidity premia. German bonds are generally regarded as the most liquid of all the euro area government bonds. Consequently, they attract considerable demand from investors seeking high-quality liquid assets in times of heightened uncertainty and market tensions. This partly explains why sovereign spreads vis-à-vis Germany have widened even for countries perceived to have similar fiscal fundamentals. This factor is also demonstrated by a substantial increase in the liquidity premia that depress yields on German government bonds vis-à-vis yields on debt issued under German government guarantees (see Chart C). Since early 2012 liquidity premia have started to come down amid lower market tensions.

Chart C Liquidity premia for German government bonds

(daily data; basis points)



Sources: Bloomberg and ECB calculations.
Note: Data refer to zero-coupon spreads between yields on bonds issued by a government-guaranteed agency (Kreditanstalt für Wiederaufbau) and government bonds.

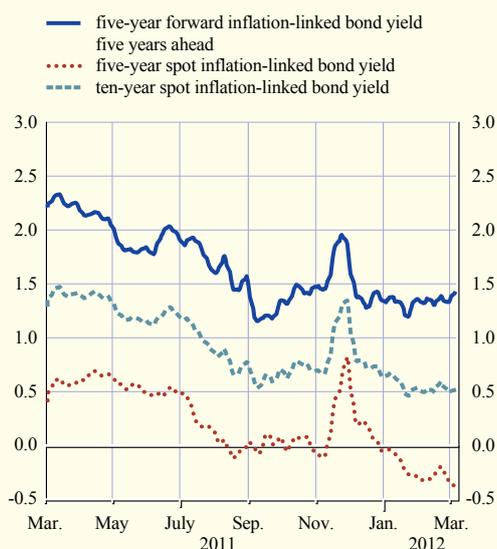
Summing up, government bond yield spreads vis-à-vis Germany, albeit having declined recently, remain high for a number of countries, indicating continued risk and market uncertainty. Securities issuance by euro area governments has been rising since the outbreak of the financial crisis, especially for short-term issuance. In the last two years governments have started to substitute short-term debt with long-term debt. However, the risk associated with refinancing of debt remains high, and it is important that governments continue to adhere to their consolidation strategies in order to firmly correct excessive deficits and restore financial market confidence.

As regards market-based measures of inflation expectations, yields on five-year inflation-linked euro area government bonds have decreased since the end of November 2011 and stood in negative territory in early March 2012, while yields on ten-year inflation-linked bonds also trended downwards over the same period (see Chart 26). Five and ten-year spot real yields stood at around -0.4% and 0.6% respectively on 7 March. Implied forward inflation swap rates (five-year forward five years ahead) in the euro area increased moderately in the period under review, edging up by 8 basis points to stand at 2.4% on 7 March (see Chart 27). In the same period, break-even inflation rates at the same time horizon dropped by 38 basis points to stand at 2.2% on 7 March.

Break-even inflation rates have fluctuated markedly in recent months, reflecting both the high volatility of government bond markets and the existence of sizeable liquidity premia. Inflation expectations inferred from bond markets have thus been less reliable than those based on the signals received from

Chart 26 Euro area zero coupon inflation-linked bond yields

(percentages per annum; five-day moving averages of daily data; seasonally adjusted)



Sources: Thomson Reuters and ECB calculations.
Notes: Since the end of August 2011 real rates have been computed as a GDP-weighted average of separate real rates for France and Germany. Before that date, real rates were computed by estimating a combined real yield curve for France and Germany.

Chart 27 Euro area zero coupon break-even inflation rates and inflation-linked swap rates

(percentages per annum; five-day moving averages of daily data; seasonally adjusted)



Sources: Thomson Reuters and ECB calculations.
Notes: Since the end of August 2011 break-even inflation rates have been computed as a GDP weighted average of separately estimated break-even rates for France and Germany. Before that date, break-even inflation rates were computed by comparing yields from the nominal yield curve of AAA-rated euro area government bonds with a combined real yield curve derived from French and German inflation-linked government bonds.