EGBs Slide Pack

EGB = EUROPEAN GOVERNMENT BONDS

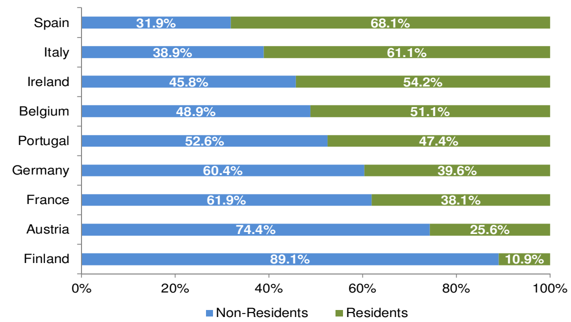
BNP PARIBAS
CORPORATE & INVESTMENT BANKING | The bank for a changing world

November 2013
Ioannis Sokos, Interest Rate Strategist

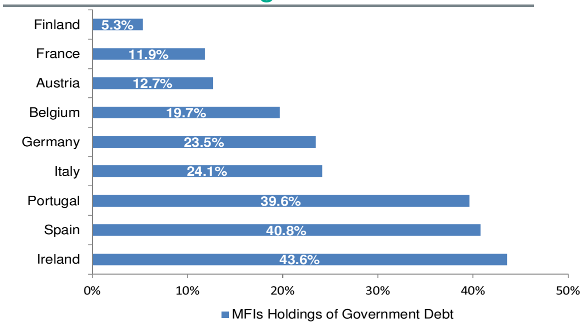
EGBs Holdings

Residents vs. non-residents split & domestic MFIs' role

Residents vs. non-residents split



Domestic MFIs holdings of EGBs



- Spain (68%), Italy (61%), Ireland (54%) and Belgium (51%) are the only four countries where domestic holdings exceed the non-domestic ones. Home bias has become particularly strong during the crisis.
- On the contrary, Finland and Austria have the highest share of foreign holdings of their government debt.
- In terms of domestic MFIs* holdings of government debt, Spanish banks top the list, followed closely by Portuguese banks. We exclude the Irish MFIs because the 43.6% share is distorted by the acquisition of EUR 25bn of Irish bonds by the Central Bank of Ireland. On the contrary, Italy, despite its high home bias, has a more diversified domestic investors' base as Belgium has too.
- Finnish, Austrian and French banks have the lowest home bias.
- In most peripheral countries we have noticed a trend of increasing domestic holdings ("endogenization" of demand), especially in domestic MFIs holdings, during the EU debt crisis. This has been reinforced since December 2011 due to the 3y LTROs effect. The opposite trend is taking place in Germany, where foreign investors keep purchasing German bonds as part of the flight-to-quality flows we've seen during the crisis.
- This increase in the share of domestics' holdings has stopped for both Spain and Italy, but we have not seen any emerging trend of increasing non-residents' holdings yet. When this happens, it should mark a turnaround in the European debt crisis saga.

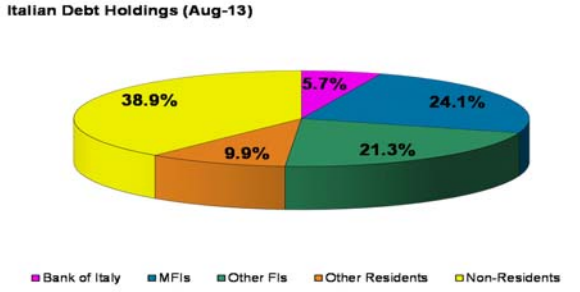
*Throughout the presentation MFIs stands for Monetary Financial Institutions. You can find the official definition in ECB's website: http://www.ecb.europa.eu/stats/money/mfi/general/html/index.en.html

Source: BNP Paribas

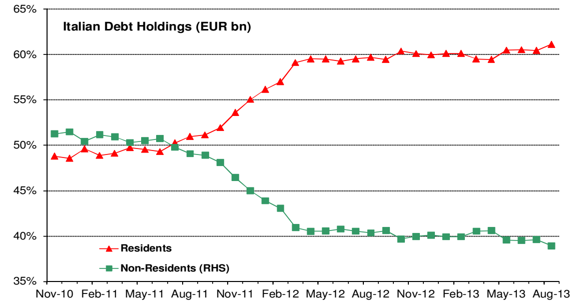
EGBs Holdings

Italy – a strong & diversified domestic investor base

Italian debt holdings breakdown – Aug 2013



Evolution of residents vs. non-residents



Assets (EUR bn)	Bank of Italy	MFIs	Other FIs	Other Residents	Non-Residents	Total
Aug-13	98.5	417.6	368.6	171.9	673.0	1729.7
	5.7%	24.1%	21.3%	9.9%	38.9%	

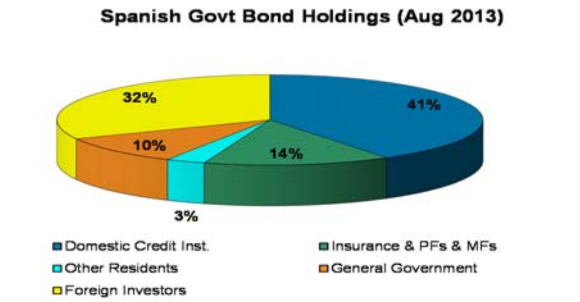
- A very strong home bias as 61.1% of Italian debt is held by domestic investors from, 48.9% two years ago.
- The domestic investors' base is well diversified between MFIs (24.1%), other financial institutions (21.3%) and other residents (9.9%). Bank of Italy is also holding 5.7% of Italian debt, part of which is due to SMP 2.0. Remember that the ECB announced that EUR 102.8bn of BTPs (end of 2012) are held under the SMP programme with an average maturity of 4.5 years.
- The trend of decreasing non-resident holdings has been strong in Italy in 2011-2012 with non-residents' holdings falling by 12% since the beginning of 2011 (as a % of total Italian debt outstanding). However, since mid-2012 we have seen a stabilisation of the residents/non-residents split at around current levels of 60%/40%. This implies that non-residents are actually increasing their holdings, i.e. absorbing a % of net supply equal to the current split between residents and non-residents.
- We have not seen any emerging trend of increasing non-residents' holdings beyond that point yet.

Source: Bank of Italy

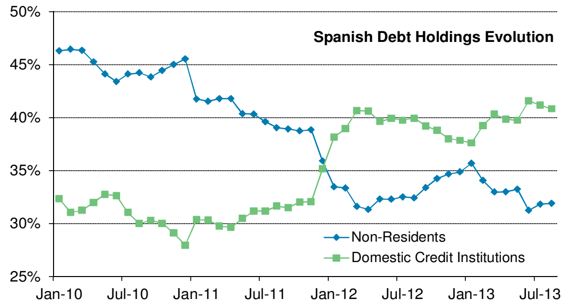
EGBs Holdings

Spain – the strongest home bias, dominated by domestic MFIs

Spanish debt holdings breakdown – Aug 2013



Evolution of domestic MFIs vs. non-residents



Assets (EUR bn)	MFIs	Insur.	PFs	MFs	Other FIs	Non Fin.	Individ.	General Gov.	Non-Residents	TOTAL
Aug-13	234,677	49,846	13,036	18,582	405	14,104	2,657	58,330	183,381	575,018
	40.8%	8.7%	2.3%	3.2%	0.1%	2.5%	0.5%	10.1%	31.9%	

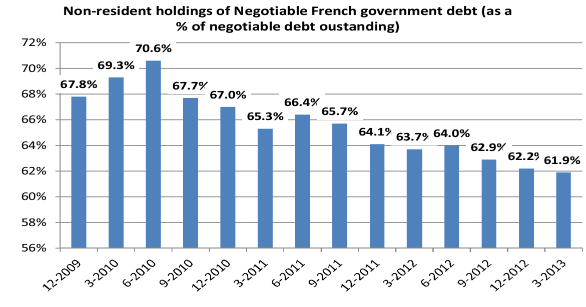
- Spain has the strongest home bias with 68.1% of its debt being held by domestic investors versus 58.2% two years ago.
- The domestic investors' base is mostly composed of MFIs (40.8%) and to a lesser extent by Insurance Companies & Pension Funds (11.0%) and the General Government (10.1%). Remember that the ECB announced that EUR 44.3bn of SPGBs are held under the SMP programme with an average maturity of 4.1 years.
- The trend of decreasing non-resident holdings had been quite strong in Spain during 2011/12 with non-residents holdings falling by 14% compared to their peak in February 2010 (as a % of total Spanish debt). Domestic MFIs have absorbed most of these selling flows, especially when aided by the 3y LTROs by the ECB.
- However, from April 2012 to January 2013 we saw a slow and gradual increase in non-residents holdings (4.5% of the debt) which has been interrupted since February/March 2013 (3.8% fall since then).

Source: Spanish Tesoro

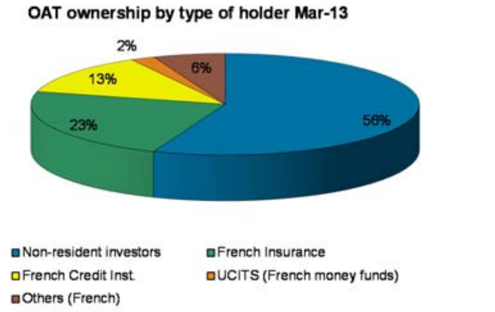
EGBs Holdings

France – a falling trend in non-residents’ holdings but still relatively high

French debt holdings breakdown – Mar 2013



OAT ownership – Mar 2013



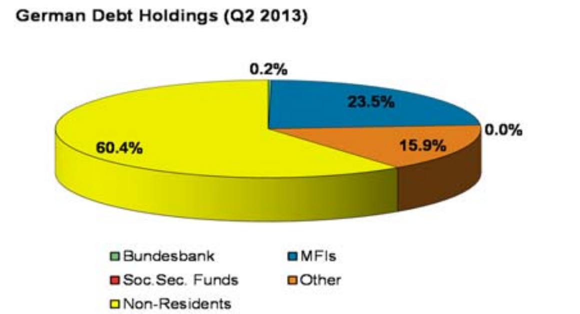
- Home bias is not that strong in France, with only 38.1% of the French debt being held by domestic investors.
- However, foreign investors’ holdings are 8.7% lower (as a % of total negotiable debt outstanding) than in June 2010, and have been in a decreasing trend since then. The current level of 61.9% of non-resident holdings is a 3-year low, but still much higher than the sub-40% levels reached in the peripheral debt markets.
- With respect to OATs ownership, 56% is held by non-residents while only 13% is held by French credit institutions. BTANs are mostly held by non-resident investors, as the non-residents holdings of BTANs were 88% in the end of both 2010 and 2011.
- In contrary to other EU countries, the main domestic buyer of OATs are French insurance companies (23%) and not domestic MFIs (14%) as in peripheral countries.
- French life insurers have seen an improvement in their monthly net inflows since October 2012, after a dark period which lasted from August 2011 to early 2012.

Source: AFT

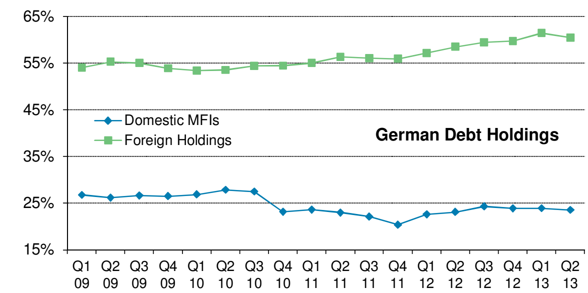
EGBs Holdings

Germany – non-resident holdings of German debt have been increasing

German debt holdings breakdown – Jun 2013



Evolution of domestic MFIs vs. non-residents



	Bundesbank	MFIs	Soc.Sec. Funds	Other	Non-Residents	Total
Q2 2013	4.4	424.4	0.0	286.3	1090.3	1805.5
	0.2%	23.5%	0.0%	15.9%	60.4%	

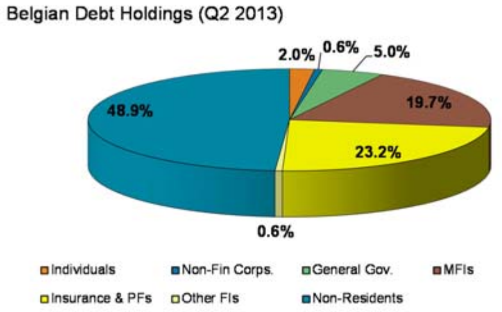
- In contrary to what we see in other EU Members’ debt holdings profile, foreign holdings of German debt have been increasing lately as demand for the safe haven of German bonds has been increasing during the course of the EU debt crisis.
- Abundance of liquidity and zero deposit rates have reinforced this pattern. Despite this flight-to-quality wave, German debt’s non-resident holdings remain below the French debt’s ones, as the latter has become particularly appealing to Asian investors.
- In more detail, foreign holdings of German debt have increased by EUR 190bn or 5.25% of total outstanding of debt since Q1 2009.
- Domestic MFIs hold 23.5% of the debt, and they are the biggest domestic holder of German debt.

Source: Bundesbank

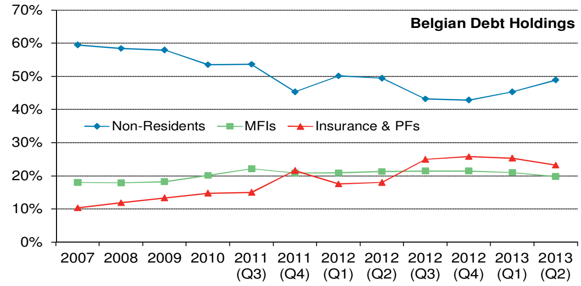
EGBs Holdings

Belgium – non-residents have re-started buying OLOs

Belgian debt holdings breakdown – Jun 2013



Evolution of residents vs. non-residents



	Individuals	Non-Fin Corps.	General Gov.	MFIs	Insurance & PFs	Other FIs	Non-Residents	Total
Q2 2013	6.4	2.0	15.9	62.6	73.6	1.9	155.1	317.5
	2.0%	0.6%	5.0%	19.7%	23.2%	0.6%	48.9%	

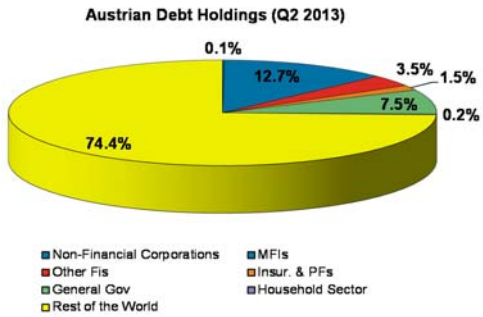
- Home bias is quite strong in Belgian OLOs too with 51.1%% of total debt held by domestic investors.
- MFIs hold 19.7% of Belgian OLOs while insurance companies and pension funds hold another 23.2%. This domestic investors base is closer to the Italian one rather than the Spanish one where domestic MFIs dominate the domestics' base.
- Non-residents holdings have been decreasing in the last 2 years, and currently they stand at 48.9% from 57.9% in 2009.
- These selling flows by non-resident investors have been absorbed mostly by Insurance & PFs and less by domestic MFIs. This is in sharp contrast to what happened in Spain and in Italy where MFIs aided by the 3y LTROs absorbed most of these selling flows by non-residents.

Source: National bank of Belgium

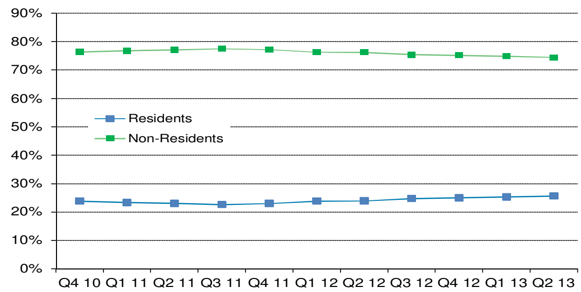
EGBs Holdings

Austria – a very weak home bias & a stable holdings breakdown

Austrian debt holdings breakdown – Jun 2013



Evolution of residents vs. non-residents



	Non-Fin	MFIs	Other Fis	Insur. & PFs	General Gov	Households	Non-Residents	Total
Q2 2013	0.3	29.5	8.2	3.6	17.5	0.5	172.9	232.5
	0.1%	12.7%	3.5%	1.5%	7.5%	0.2%	74.4%	

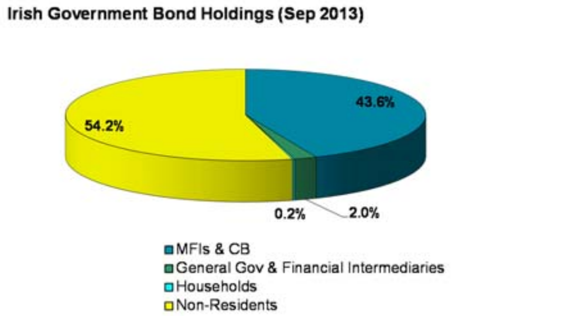
- Home bias is very weak in Austria with only 25.6% of debt held by domestic investors.
- Austrian MFIs are holding only 12.7% of the outstanding debt.
- The allocation between domestic and non-domestic investors has not changed much during the crisis.
- Only in 2009 we saw a significant increase of domestic holdings by almost 5.5%, when Austrian spreads widened versus Germany due to concerns on Austria's exposure to Eastern Europe.

Source: Oesterreichische Nationalbank

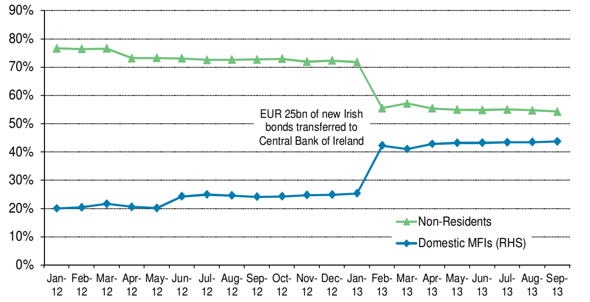
EGBs Holdings

Ireland – non-residents remain a key factor for return to market access

Irish debt holdings breakdown – Sep 2013



Evolution of residents vs. non-residents



	MFIs & CB	General Gov & Financial Intermediaries	Households	Non-Residents	Total
Sep-13	50.1	2.3	0.2	62.2	114.9
	43.6%	2.0%	0.2%	54.2%	

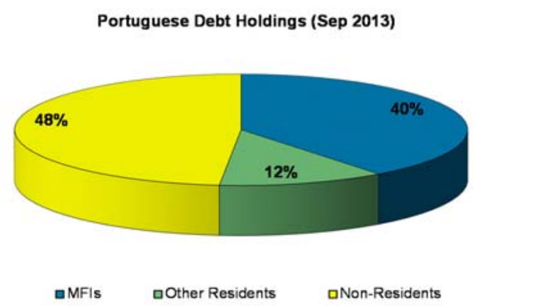
- EUR 25bn of new Irish bonds were transferred to the Central Bank of Ireland's balance sheet in February, distorting the residents/non-residents split which was at 28% / 72% before this transaction took place. The 72% non-resident holdings have been the highest one across peripheral countries.
- Domestic banks were holding 25% of Irish bonds in January before the distortion due to the EUR 25bn transfer.
- Ireland has managed to issue EUR 7.5bn of bonds in 2013, regaining its lost market access.
- ECB reported that it held EUR 14.2bn of Irish bonds in the end of 2012 with an average maturity of 4.6 years.

Source: Central Bank of Ireland

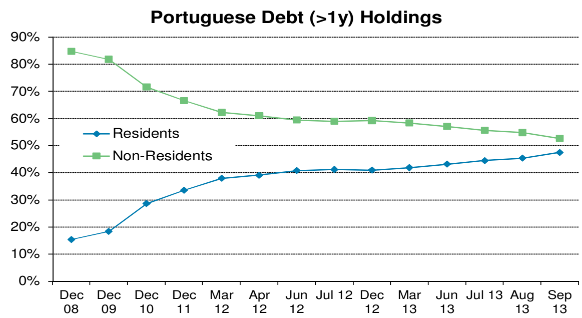
EGBs Holdings

Portugal – non-residents holdings have dropped by almost 30% of debt

Portuguese debt holdings breakdown – Sep 2013



Evolution of residents vs. non-residents



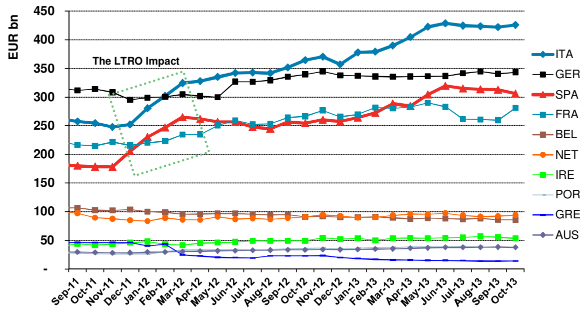
- In Portugal, non-resident holdings decreased by more than 20% during the course of the crisis (as % of total Portuguese tradable debt).
- On the contrary, and in line with what we usually see in peripheral countries, domestic banks stepped in and bought more Portuguese debt, actually they have more than tripled their holdings since 2009. They currently hold 40% of the total Portuguese tradable debt.
- Portugal is still under an EU/IMF programme but it has managed to issue EUR 5.5bn in the bond markets in 2013.
- The fact that official sector EU/IMF loans have replaced maturing OTs along with the fact that domestic MFIs' holdings have increased during the crisis, are the two main reasons why a PSI a la Greece in Portugal will not be effective and has never been part of our expectations.
- ECB reported that it held EUR 22.8bn of Portuguese bonds in the end of 2012 with an average maturity of 3.9 years.

Source: Banco de Portugal

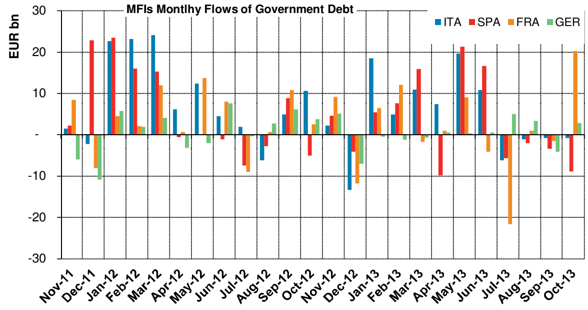
Eurozone MFIs' Holdings of Euro Sovereign Debt

Monitoring the support from domestic MFIs via debt purchases

Eurozone MFIs holdings of sovereign debt



Monthly flows for MFIs' holdings



- The ECB released the October's data for Eurozone MFI's holdings of General Government Debt. We closely monitor the evolution of these holdings in order to get a sense of the support provided by domestic MFIs to their domestic government bond markets.
- Remember that peripheral MFI's holdings of general government debt (mostly their own domestic debt) skyrocketed in Q1 2012 because of the 3y LTROs effect. Since then the monthly changes are of a smaller scale with Italian, French & Spanish MFIs adding on more holdings of general government debt. However, we need to highlight that over the last 4 months we've seen less purchases of domestic debt by domestic MFIs.
- MFIs definition by the ECB: *"Monetary financial institutions" (MFIs) are central banks, resident credit institutions as defined in Community law, and other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account, to grant credits and/or make investments in securities. Money market funds are also classified as MFIs."*

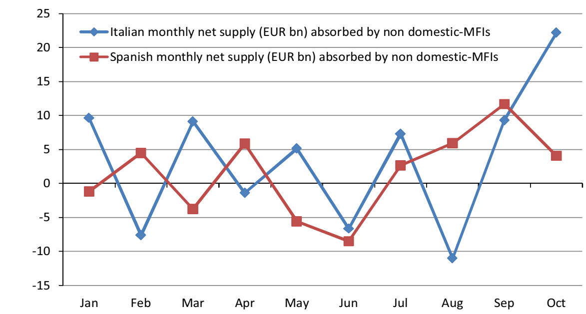
Spanish & Italian MFIs have been decreasing their holdings for 4 months in a row since July 2013 after large purchases that took place in the first 6 months of the year.

Source: BNP Paribas, ECB

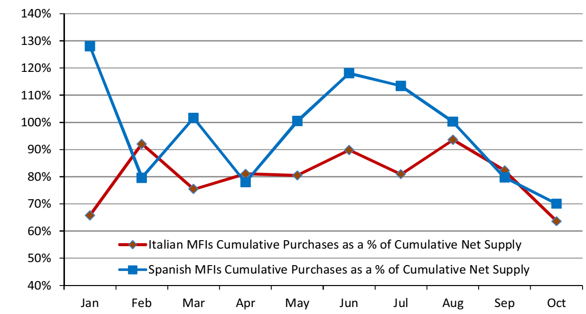
Eurozone MFIs' Holdings of Euro Sovereign Debt

What percentage of net supply is absorbed by domestic MFIs?

Monthly net supply absorbed, excl. domestic MFIs



Cumulative MFIs purchases as a % of net supply



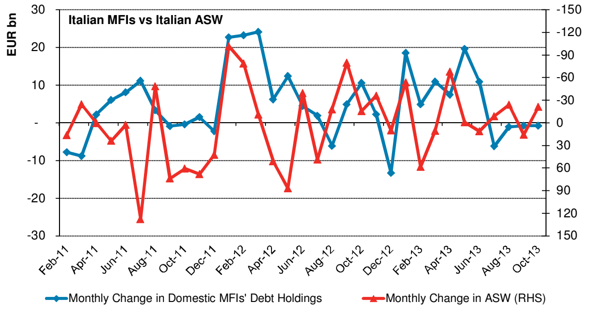
- The last print for October, showed an overall increase of general government debt holdings (EUR +12.3bn) in the balance sheet of Eurozone MFIs. Remember than in September they decreased their government debt holdings by EUR 12.5bn.
- In more detail we saw a record increase of EUR 20.2bn in French MFIs' holdings of general government debt in October. This increase took place despite the EUR 21bn of OAT redemptions in October. On the opposite side, Spanish MFIs cut their holdings by EUR 8.9bn, the second biggest decrease we've seen in the last 3 years after April 2013. The EUR 16.2bn of Spanish bonds' redemptions in October might have played a role in this significant decrease in holdings. Over the last 4 months, Spanish MFIs have cut their holdings by EUR 20.2bn.
- On a year-to-date basis, Italian MFIs have acquired EUR 62.8bn of general government debt versus EUR 36.6bn for Spanish MFIs. To make these numbers a bit more meaningful and intuitive, we calculate them as a percentage of the net supply in each country for the period of January-October 2013 (EUR 98.8bn in Italy vs. EUR 52.2bn in Spain). Italian MFIs have absorbed 63.6% of this period's Italian net supply while Spanish MFIs have absorbed 70.1%. Bear in mind that until July 2013 domestic MFIs in Italy and Spain were absorbing almost 100% (or more) of the net supply.
- If we focus on the Jul-Oct period only, we have domestic MFIs cutting their holdings by EUR 9.1bn in Italy & by EUR 20.2bn in Spain. Net supply in this period was EUR +54bn in Italy and only EUR +4.2bn in Spain. This partly explains why Spanish MFIs cut their holdings more aggressively than their Italian peers. What these numbers imply is that, excluding domestic MFIS, we saw EUR 63.1bn of purchases of Italian debt in the Jul-Oct period, and EUR 24.6bn of purchases of Spanish debt. This is very positive for peripherals and it is actually reflected in the spreads' compression that we've been witnessing lately as well as in the strong steepening of peripheral curves.

Source: BNP Paribas, ECB

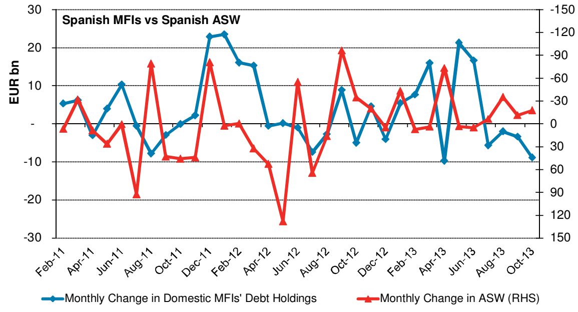
Eurozone MFIs’ Holdings of Euro Sovereign Debt

Domestic MFIs’ support vs. Changes in 10y ASW

Monthly MFIs’ flows vs. 10y ASW change - Italy



Monthly MFIs’ flows vs. 10y ASW change - Spain



- In the absence of foreign demand for peripheral bonds, we’ve noticed that domestic support, i.e. months with high positive change in purchases of government debt by domestic MFIs, tends to coincide with a compression in peripheral spreads. On the contrary, whenever domestic MFIs failed to support the domestic bond market, spreads usually widened.
- The 3y LTROs window in Dec 2011 – Feb 2012 is a good example of a compression in spreads accompanied by big purchases by domestic MFIs. April-August 2012 in Spain is a good example of the opposite, where almost zero purchases by Spanish MFIs led to a 200bp of spreads widening in total. Of course, even though Italian MFIs were purchasing BTPs at that period (but by smaller amounts), Italian spreads widened as well, but by much less than their Spanish peers (120bp).
- The last October print for Italy & Spain shows that even in the absence of domestic MFIs, spreads managed to compress. This is very encouraging for peripheral bond markets

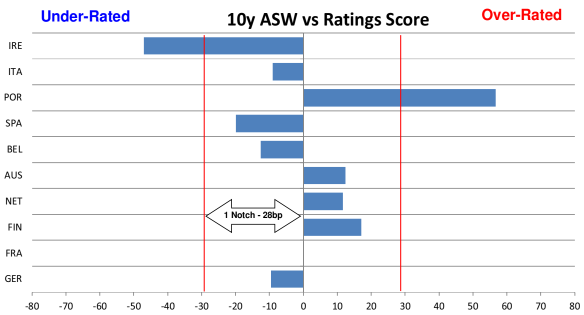
In the absence of domestic MFIs’ support, peripheral bond markets tended to underperform until recently. The restart of purchases by non-residents has changed this in the last four months.

Source: BNP Paribas, ECB

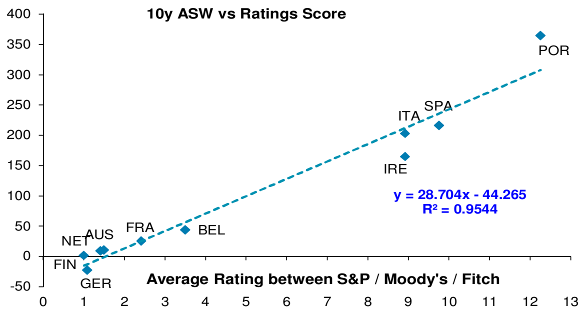
Credit Ratings

How do credit ratings compare versus market pricing?

10y ASW vs. rating score – Under-rated vs. Over-rated



Linear model – Fair value line for 10y ASW vs. ratings



Ratings’ thresholds for various indices eligibility

Bond Index	Minimum Rating	Rule	Non-Eligible Countries
BarCap Global Index	BBB-	Middle of S&P/Moody's/Fitch	Greece, Portugal
BarCap Euro Govt Index	BBB-	Middle of S&P/Moody's/Fitch	Greece, Portugal
BarCap Euro Govt Inflation Linked Bond Index	A-	Middle of S&P/Moody's/Fitch	Greece, Portugal, Italy, Ireland, Spain
BoAML Global Broad Market	BBB-	Average of S&P/Moody's/Fitch	Greece, Portugal
Citi World Govt Index	BBB-	Best of S&P/Moody's	Greece, Portugal
iBoxx	BBB-	Average of S&P/Moody's/Fitch	Greece, Portugal

Current rating & outlook profile for EU members

	S&P		Moody's		Fitch					
	Rating	*Outlook*	*Rating*	*Outlook*	*Rating*	*Outlook*	*Max/Min*	*Average*	*Middle*	*Score*
Germany	AAA	Stable	Aaa	Negative	AAA	Stable	0	1.0	1.0	1.08
Finland	AAA	Stable	Aaa	Stable	AAA	Stable	0	1.0	1.0	1.00
Netherlands	AA+	Stable	Aaa	Negative	AAA	Negative	1	1.3	1.0	1.50
Austria	AA+	Stable	Aaa	Negative	AAA	Stable	1	1.3	1.0	1.42
France	AA	Stable	Aa1	Negative	AA+	Stable	1	2.3	2.0	2.42
Belgium	AA	Negative	Aa3	Negative	AA	Stable	1	3.3	3.0	3.50
Italy	BBB	Negative	Baa2	Negative	BBB+	Negative	1	8.7	9.0	8.92
Ireland	BBB+	Positive	Ba1	Stable	BBB+	Stable	3	9.0	8.0	8.92
Spain	BBB-	Stable	Baa3	Negative	BBB	Stable	1	9.7	10.0	9.75
Portugal	BB	Review	Ba3	Stable	BB+	Negative	2	12.0	12.0	12.25
Greece	B-	Stable	Caa2	Stable	B-	Stable	2	16.7	16.0	16.67

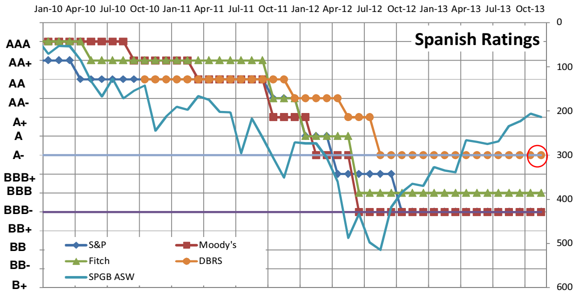
*We assign a score of 1 to AAA, 2 to AA+, 3 to AA, ..., 10 to BBB-, so anything below 10 is junk rate

Source: BNP Paribas

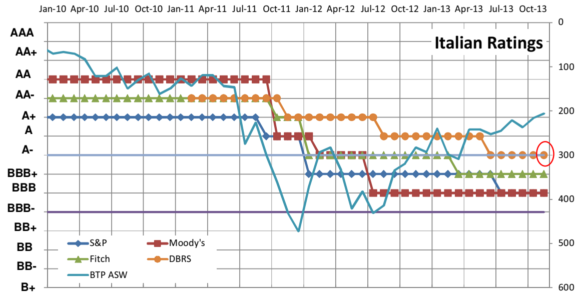
Credit Ratings

Evolution of credit ratings

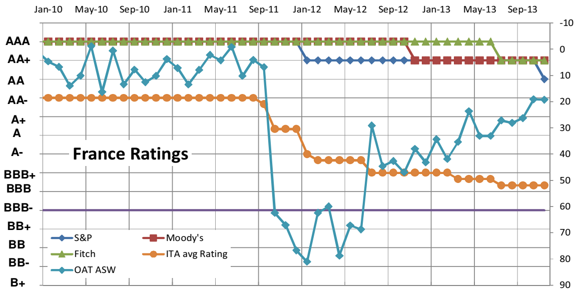
Spanish credit ratings



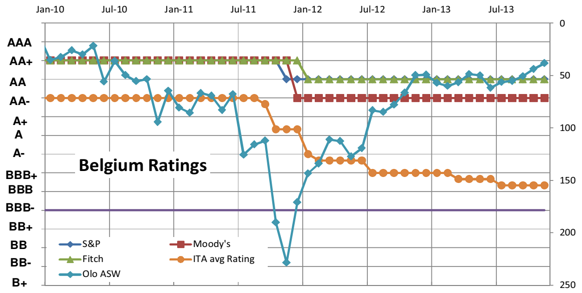
Italian credit ratings



French credit ratings



Belgian credit ratings



Source: BNP Paribas

EGBs Supply

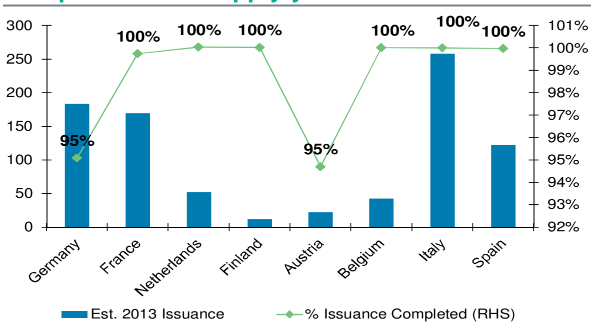
2013 supply is almost done

2013 EGB supply overview

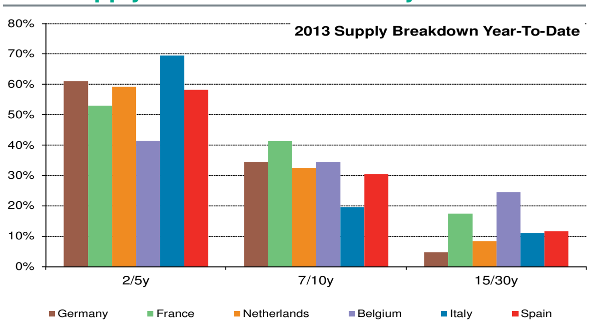
2013 Issuance	2/3y	5y	7y	10y	15y	≥30y	Issued	Est. 2013 Issuance	% Issuance Completed (RHS)	2012 Issuance	Remaining Issuance	Remaining Redemptions	Net Issuance Remaining
Germany	55.0	51.0	0.0	60.0	0.0	8.0	**174.0**	183.0	95.1%	184.0	9.0	15.0	-6.0
France	34.7	54.6	20.7	48.8	17.4	11.8	**168.6**	169.0	99.7%	178.0	0.4	0.0	0.4
Netherlands	15.8	14.8	1.0	15.8	0.0	4.3	**51.8**	51.8	100.0%	60.0	0.0	0.0	0.0
Finland	0.0	5.0	0.0	5.0	1.0	1.0	**12.0**	12.0	100.0%	11.0	0.0	0.0	0.0
Austria	0.0	7.6	1.0	8.0	0.0	4.3	**20.8**	22.0	94.7%	21.3	1.2	0.0	1.2
Belgium	0.0	17.5	0.8	13.7	2.1	8.3	**42.3**	42.3	100.0%	42.9	0.0	0.2	-0.2
Italy	76.7	102.2	5.8	44.5	18.1	10.2	**257.5**	257.5	100.0%	231.3	0.0	20.3	-20.3
Spain	34.9	35.8	2.6	34.2	8.8	5.2	**121.6**	121.6	100.0%	97.6	0.0	0.0	0.0
Total	**217.2**	**288.4**	**31.8**	**230.1**	**47.5**	**53.0**	**848.5**	**859.2**	**98.8%**	**826.1**	**10.7**	**35.5**	**-24.8**
% Breakdown	**25.0%**	**33.2%**	**3.7%**	**26.5%**	**5.5%**	**6.1%**							
2012 Breakdown	**28.8%**	**30.2%**	**4.5%**	**27.4%**	**3.1%**	**5.9%**							

*For France the issuance year-to-date is net of buybacks.

Completed 2013 Supply year-to-date



2013 supply breakdown to maturity buckets

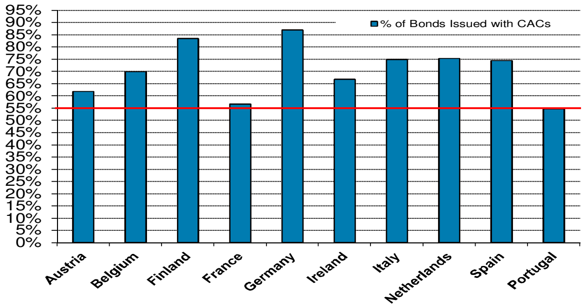


Source: BNP Paribas

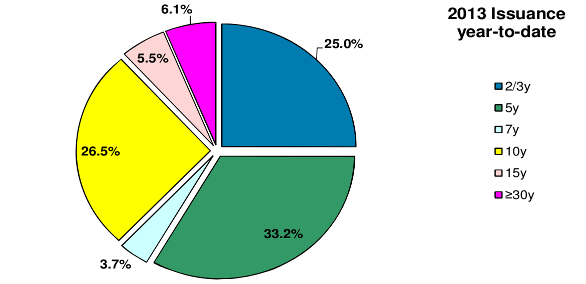
EGBs Supply

2013 supply statistics – 38.1% of issuance on 10y sector & beyond

CAC'ed issuance in 2013 so far



EGB issuance – breakdown to maturity buckets



EGB issuance breakdown to country & bucket

2013 Issuance Breakdown	2/3y	5y	7y	10y	15y	>20y
Austria	0.0%	36.4%	4.8%	38.5%	0.0%	20.4%
Belgium	0.0%	41.4%	2.0%	32.3%	4.9%	19.6%
Finland	0.0%	41.7%	0.0%	41.7%	8.3%	8.3%
France	18.5%	29.0%	11.0%	26.0%	9.3%	6.3%
Germany	31.6%	29.3%	0.0%	34.5%	0.0%	4.6%
Italy	30.5%	28.6%	1.9%	30.6%	0.0%	8.4%
Netherlands	28.7%	29.4%	2.1%	28.2%	7.3%	4.3%
Spain	28.7%	29.4%	2.1%	28.2%	7.3%	4.3%
Grand Total	25.0%	33.2%	3.7%	26.5%	5.5%	6.1%

Source: BNP Paribas

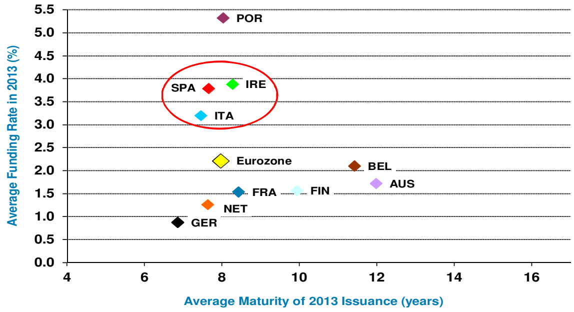
EGBs Supply

2013 supply – lower yields & longer maturities, especially for peripherals

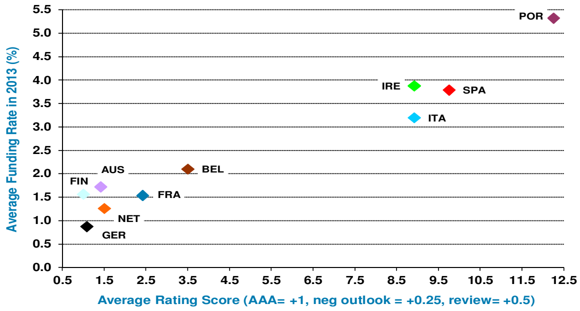
Average maturity & yield of issuance in 2013

Country	Average Maturity	Average Yield
Austria	12.0	1.72
Belgium	11.4	2.10
Finland	9.9	1.56
France	8.4	1.53
Germany	6.9	0.87
Ireland	8.3	3.87
Italy	7.5	3.19
Netherlands	7.6	1.26
Portugal	8.0	5.32
Spain	7.7	3.78
Average	8.0	2.21

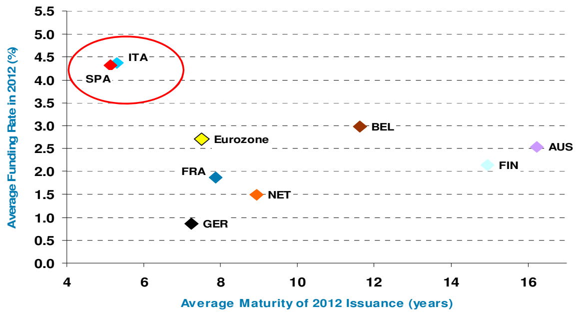
Average maturity vs. Average yield - 2013



Average yield of 2013 issuance vs. Rating score



Average maturity vs. Average yield - 2012

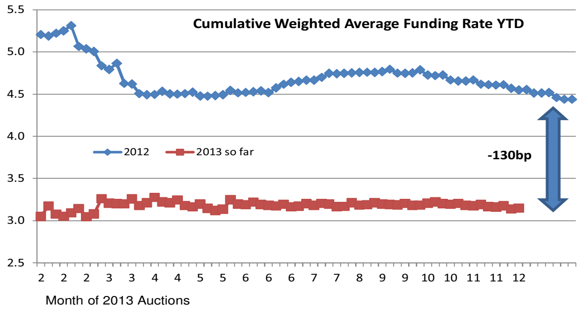


Source: BNP Paribas

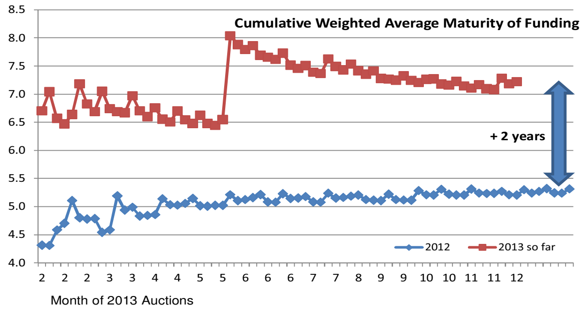
EGBs Supply

Significant improvement in Italian & Spanish supply statistics vs. 2012

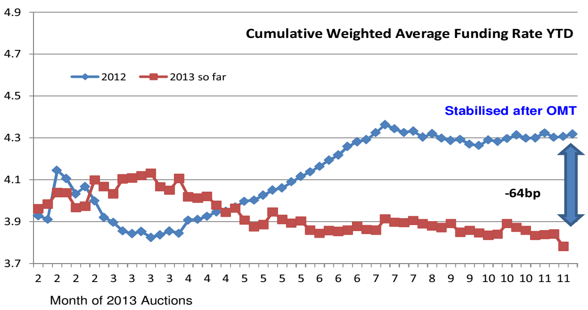
Italy's average rate of funding (2013 vs. 2012)



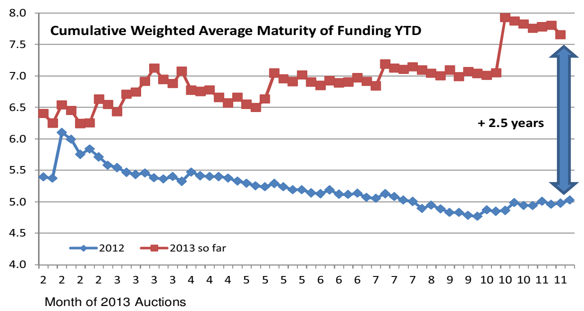
Italy's average maturity of issuance



Spain's average rate of funding (2013 vs. 2012)



Spain's average maturity of issuance



Source: BNP Paribas

EGBs Supply

2014 EGBs supply projections

Comparison of 2014 forecasts with 2013 supply

2014 EGB Issuance (EUR bn)			2014 Bond	2013 Bond	Change	2014 Net	2013 Net	Change
Issuer	Redemptions	Cash Deficit	Issuance	Issuance		Issuance	Issuance	
AUS	22.0	6.1	28	22	28%	6	9	-31%
BEL	21.8	9.0	31	42	-27%	9	16	-42%
FIN	6.5	4.7	11	12	-7%	5	6	-22%
FRA	104.8	72.0	174	169	3%	69	62	11%
GER	144.0	5.8	150	183	-18%	6	26	-78%
IRE	6.9	8.5	8	8	3%	1	2	-67%
ITA	191.1	40.6	232	257	-10%	41	102	-60%
NET	32.0	20.8	53	52	2%	21	20	3%
POR	13.8	8.1	5	6	-5%	-9	0	-
SPA	67.9	38.6	117	122	-5%	49	62	-21%
Total EGB	**611**	**214**	**808**	**872**	**-7%**	**197**	**304**	**-35%**

*We exclude Greece from this table as it has no market access at the moment
**For France, the estimates are reported net of buybacks

- We expect a 7% drop in gross supply of EGBs in 2014 from 2013's level. Most euro sovereigns are currently tightening fiscal policy to reduce budget deficits which will be reflected in lower funding needs. The impact of fiscal consolidation on gross supply will be partly offset by a EUR 43bn increase in redemptions from 2013 to 2014. Nevertheless, we still expect net supply to fall by 35% next year.

- In 2013, Ireland and Portugal returned to the bond market, a development that we had not expected at the beginning of the year. As Ireland has decided not to request a precautionary line, it is expected to continue issuing in the market in 2014. Portugal's situation will be decided in spring 2014. The two most likely scenarios are that the ESM gives Portugal a precautionary line which could fund up to 50% of Portuguese market issuance in 2014, or that Portugal has a second full programme which could fund up to 100% of Portuguese funding needs in 2014 via the disbursement of official sector loans.

Source: BNP Paribas