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Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

Authors: Alexander Grenner // Lukas Kühne // Dr Frederik Kunze

Primary market: French issuers facing a dilemma?

As we reported in the previous edition of our weekly publication, following the end to the summer recess French issuers have been somewhat cautious in terms of their moves on the market. From our point of view, this is down not least to the significantly widening spreads in the wake of the budget debate in France. However, given that some French banks have not quite finished their funding activities for 2024, it might have appeared to some market players that issuers from this jurisdiction were in the midst of a dilemma, what with the end of the year fast approaching and the spectre of the US election looming ever larger. Should issuers simply accept higher spread levels and seek to push through new issues this year or would they be better off biding their time for a more favourable funding window at the beginning of next year, despite the fact that the roadmap towards this point in time and prevailing market sentiment are still characterised by a host of uncertainties? As it turned out, CFF and BNP Paribas Home Loan last week opted to make their moves before the end of this year, with both issuers approaching the market with very successful deals (cf. previous edition of our weekly publication). In the current trading week, La Banque Postale Home Loan (LBP) then also ventured onto the market with a 6y social covered bond, which means that, following the successful placement of a green covered bond back in January 2024, LBP has issued exclusively covered bonds in sustainable format this year. The French issuer offered an initial guidance of ms +50bp area. Over the course of the marketing process, the guidance narrowed by five basis points to a final spread of ms +45bp. In the end, a total of EUR 1.0bn in funding was raised at a bid-to-cover ratio of 2.1x. Factoring in the above-mentioned deals and looking at our forecast for 2024, there is still scope for EUR 3.5bn in covered funding from the second-largest economy in the eurozone before the end of the year. We anticipate that French issuers would prefer to complete their funding activities before the end of the year, as the spread level in the market is likely to increase at the start of 2025. At present, we are projecting an issuance volume of between EUR 170bn and EUR 180bn for next year as part of a provisional forecast (please refer to the focus article in this edition for further information).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
La Banque Postale	FR	29.10.	FR001400TR51	6.0y	1.00bn	ms +45bp	- / - / AAA	X

Source: Bloomberg, NORD/LB Floor Research (Rating: Fitch / Moody's / S&P)

Secondary market: covered bond spreads come under pressure

At the moment, higher spread levels in the SSA segment and for government bonds are continually applying pressure to the valuation of covered bonds in the secondary market. For example, spreads on covered bonds are rising across all maturity segments. The supply of French covered bonds remains high at the longer end, while market players continue to focus on covered bonds in the medium maturity segment of between five and seven years. The newly placed deals are being well received by the market, although with scant chance of performance. The transaction volume on the secondary market remains significantly limited.

Deutsche Hypo Real Estate Economic Index: rising trend continues

In view of current developments on the German property market, we would also like to take a look at the latest figures on the Deutsche Hypo Real Estate Economic Index. The rising trend seen in September has continued into October, with the corresponding result that increased index values can be seen in all asset classes with the exception of the Residential climate. In the current monthly survey, the Real Estate Economic Index increased by +2.6% month on month to now stand at 94.4 points. This development is mainly driven by the Investment climate (+5.5% month on month to 89.7 points), whereas the Earnings climate (99.2 points) remained unchanged. The Retail climate rose by +7.8% in comparison with the previous month's survey to 83.4 points, which is its highest level since February 2020. The Logistics climate also stands out with a significant increase of +4.1% (to 116.6 points) compared with the previous month. It was only in the Residential climate where sentiment declined, falling by -2.2% month on month to 143.9 points in the process. However, this sub-index remains at a high level, with growth of more than +23% having been recorded since the beginning of the year. For Harald Nolterieke, who heads up Deutsche Hypo's Munich office, the renewed growth of the Real Estate Economic Index does not yet point to a relaxed mood on the real estate market. For example, growth in transactions on the real estate markets remained only moderate, with the result that "the valuation of real estate and the subsequent approach here is presenting a real challenge." Nolterieke highlights the positive development of the rental market and the dynamic price development in Central Business District (CBD) locations, stating that the slump has come to an end and that there are now signs of a bottoming-out in the real estate market.

Review of the Covered Bond Conference in Budapest

Together with the Hungarian Banking Association, the Association of German Pfandbrief Banks (vdp) invited market players to attend the 26th edition of the "Central European Covered Bond Conference" at the Hungarian Central Bank on October 10 and 11. With around 80 participants, the conference, which is traditionally geared very strongly towards regulatory issues relevant for both the CEE region and further afield, was very well attended (cf. vdp press release). Across a total of four panel discussions, experts from banks, rating agencies and supervisory authorities addressed, among other aspects, current issues relating to the "EBA Call for Advice" in addition to fresh developments with regard to green covered bonds and ESG efforts on the part of credit institutions. The topic of cross-border use of cover assets, which is certainly relevant to smaller markets in the CEE region, was also discussed. The EUR benchmark issuer Luminor from Estonia provides an excellent example to highlight the importance of the pan-Baltic covered bond market. The cover pool comprises both mortgage financing on the domestic market of Estonia as well as cover assets based in its Baltic counterpart nations of Lithuania and Latvia (cf. also NORD/LB Issuer Guide Covered Bonds 2024). Current changes to the Capital Requirements Regulation (CRR), which also impact the covered bond segment, were also discussed in the context of the requirements for deriving a "real estate value". Definitions of the "mortgage lending value", "real estate value" and "market value" as laid down in Article 4 CRR provided the basis of these discussions. While a comparatively conservative valuation approach has already been defined for German Pfandbriefe in terms of the mortgage lending value, the subsequently applicable CRR will need to be adjusted to determine the real estate value in a large number of countries from 1 January 2025, the effects of which will then also be felt in the cover pools. From our perspective, the new regulations, which arise in particular from Article 229 (1) CRR, should, as far as covered bonds are concerned, contribute to greater comparability of pool reports from various different jurisdictions.

Internal matters: NORD/LB Markets presents new series of digital talks

While the market for commercial real estate financing has been and remains regularly at the forefront of market participants' minds for several months now, we have the impression that reporting on the housing market has remained somewhat on the back burner on the capital markets. However, in actual fact, we identify a vast array of challenges and trends, especially for residential mortgage financing, which are also of significant relevance for the covered bond segment. The topics include the question of affordability and general availability of housing stock, as well as the implications arising from the green transformation and new social requirements. As part of a series of digital talks running November 05–26, you will have the opportunity to hear from issuers based in the UK, Norway, Portugal and Germany as to how these trends can be assessed in various submarkets. We would be delighted to see you there for the first instalment entitled: "*Home Sweet Home or Shattered Dreams – Where are European Housing Markets drifting?*" If you are interested in this event but have not yet received an invitation, please feel free to contact us at: msfr@nordlb.de.

BAWAG takeover of Knab receives regulatory approval

At the beginning of February, the major Austrian bank BAWAG announced its intention to acquire the Dutch online bank Knab at a price of EUR 510m. The Viennese bank has now stated that the final regulatory approvals for the takeover have been secured. According to a press release, the BAWAG Group intends to use the acquisition to expand its presence in the Dutch retail and SME banking sector. At the end of the second quarter of 2024, Knab had total assets of EUR 17.6bn, which mainly consisted of Dutch mortgage loans, customer deposits and covered bonds. Anas Abuzaakouk, CEO of BAWAG, sees the online bank's product range, market presence, customer base and employees as a superb strategic addition to its own business. As part of the takeover process, Knab was given its current name; previously, the bank had been known as AEGON Bank and belonged to the eponymous group until 2022. In that same year, the bank was sold to the Dutch insurance group a.s.r. For a more detailed profile of both BAWAG and Knab, please refer to our recently published NORD/LB Issuer Guide Covered Bonds 2024.

European Mortgage Federation publishes quarterly report for Q2 2024

The European Mortgage Federation (EMF) recently published its latest quarterly report on the European mortgage markets, which covers the second quarter of 2024. In our opinion, the report provides a good overview of the markets. As such, it is also highly relevant for the covered bond segment. The total portfolio of residential mortgages in the EMF sample amounted to EUR 8.2bn at the end of the second quarter, reflecting a marginal decline of -0.74% year on year. In contrast, gross lending grew by +1.6% year on year, although the pace of this growth did vary drastically from jurisdiction to jurisdiction: while particularly sharp growth was recorded in Hungary (+112%) and Czechia (+83%), France (-26%), Finland (-24%) and Italy (-21%) all registered declines. No clear trends can be identified in the sample with regard to the house price index (HPI). While this had risen sharply in previous quarters, there was a slight decline in the quarter under review. The decline in household savings as a result of high inflation prompted governments to implement measures aimed at increasing the affordability of housing and mortgages. At the same time, attempts were made to support the supply side, which had come under pressure from higher input prices in the previous year.

Market overview
SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese

Fitch downgrades outlook for France as well as 26 government-related entities

On 11 October, the rating agency Fitch decided to downgrade the outlook for France from "stable" to "negative" on the basis of ongoing concerns about the sovereign's budget and national debt situation. Consequently, last week the outlook for 26 government-related entities (GREs) was also rated as "negative". The list of the 26 GREs affected includes 19 issuers whose ratings and outlooks are equated with those of the French state (in alphabetical order ; italics denotes inclusion in our coverage): Action Logement Groupe, Action Logement Immobilier, *Action Logement Services (ALS)*, Agence centrale des organismes de sécurité sociale (ACOSS), *Agence française de développement (AFD)*, Assistance publique – Hôpitaux de Paris (AP-HP), *Caisse d'Amortissement de la Dette Sociale (CADES)*, *Caisse des dépôts et consignations (CDC)*, CDC Habitat, Caisse nationale des autoroutes (CNA), *Bpifrance*, Régie autonome des transports Parisiens (RATP), Residences le Logement des Fonctionnaires (RLF), Société nationale SNCF SA, SNCF Réseau, *Société des Grands Projets (SGP)*, *Unédic*, University Hospital of Angers (CHU Angers) and University Hospital of Brest (CHU Brest). Should Fitch's risk experts downgrade France's rating by one notch in the course of their next regular review of the sovereign's credit rating, this would also mean a downgrade by one notch for the above-listed issuers. On 25 October, Moody's also adjusted France's outlook to "negative" and we assume that S&P will take the same step on 29 November.

S&P revises outlook for North Rhine-Westphalia downwards

However, before turning their attention to evaluating the creditworthiness of France, the regular rating review of the German federal state of North Rhine-Westphalia (ticker: NRW) was on the agenda for S&P's risk experts. Although the previous "AA" rating was confirmed, the outlook was revised downwards from "stable" to "negative". The reason for this is the increasing risk that the tax revenue expected in the future and the consolidation measures taken might not be sufficient to improve the budget situation in the long term in the face of a multitude of challenges. In particular, the weak economic development, rising costs and the need for funding for investments is hampering the efforts of the sub-sovereign to close the budget gap. This is also reflected in the updated financial planning, which shows an increase in the difference between revenues and expenditures from EUR 1.6bn to EUR 5bn per annum for the years 2026 to 2028. On the other hand, S&P emphasises the diversified economy, a strong liquidity position and good access to the capital market and is generally confident that NRW will be able to close this gap in the future. As a result of the existing liability mechanisms, this step by S&P also had consequences for the outlooks of the two agencies NRW.BANK (ticker: NRWBK) and Erste Abwicklungsanstalt (ticker: ERSTAA): the rating agency therefore lowered the outlook of both organisations to "negative".

CEB: half-year financial report presented

The Council of Europe Development Bank (CEB, ticker: COE) published its results for the first half of financial year 2024 last week. Accordingly, the supranational development bank's net profit rose to EUR 67.1m in the period from January to June 2024, an increase of +22.9% versus the first half of 2023 (EUR 54.6m). Core earnings developed positively and reached EUR 63.4m as at 30 June 2024. This increase of +16.9% compared with the prior year reporting date was in turn due to growth in the interest margin of EUR +11.5m, which resulted from higher income from securities at amortised cost and active management of liquidity and interest positions. In terms of CEB's total balance sheet, the value of the promotional bank's aggregated assets stood at EUR 38.9bn at the end of June 2024 (December 2023: EUR 34.4bn; +13.1%). In the meantime, equity reached a value of EUR 4.5bn in H1/2024, which equates to an increase of +29% compared with the end of 2023. This was in particular due to the positive effects in connection with the called capital from CEB's capital increase and the net profit from H1/2024. The leverage ratio of 9.4% was therefore slightly higher than in June 2023 (9.2%), although it was lower compared with 31 December of the previous financial year (year-end 2023: 9.7%). For further information on business activities and capital market activities at the CEB, please refer to our recently published NORD/LB Issuer Guide – European Supranationals 2024.

SEK: interim report for Q1-Q3/2024

The Swedish export financier Svensk Exportkredit (ticker: SEK) presented its interim report for the first nine months of the financial year 2024 on 22 October. According to the document, the Swedes recorded a high level of new lending, continued high net interest income and strong earnings for the reporting period January to September. As such, new lending totalled SEK 68.2bn at the end of September (EUR equivalent: EUR 6.2bn), compared with SEK 51.1bn in the same period of the previous year. According to the bank, this was mainly due to the increased demand from Swedish export companies for working capital finance. Net interest income for the nine-month period totalled SEK 2.3bn (September 2023: SEK 2.1bn), which, according to the corresponding press release, shows the continued strength of customer transactions despite a somewhat cautious market. Consequently, net profit also developed positively and totalled SEK 1.1bn (September 2023: SEK 1.0bn), while return on equity for the period under review was 6.4% (Q3/2023: 6.2%). In terms of the isolated developments in the third quarter of 2024, interest rate cuts by the Swedish central bank have negatively impacted net interest income and also directly affected SEK's profitability: in Q3/2024 the export financier achieved a profitability of 8.4%, a decrease of -0.8 percentage points compared with the same quarter in the previous year. Despite the strong results for the nine-month period, a slowdown can therefore be observed in the third quarter of the current financial year. Magnus Montan, CEO of SEK, is nevertheless optimistic about the future: "As SEK enters the fourth quarter, it does so with good liquidity and strong capitalization. We look forward to continuing to support Swedish companies and exporters with long-term and sustainable finance solutions, in order to further increase Sweden's internationalization and competitiveness."

L-Bank makes progress with the digitalisation of issuance activities

Landeskreditbank Baden-Württemberg – Förderbank (L-Bank, ticker: LBANK) has taken the first step towards digitalising its capital market presence with the digital issue of a fixed-interest security based on the German Electronic Securities Act (eWpG). The blockchain-based commercial paper transaction was carried out as part of the trial initiated by the ECB of new technologies for processing financial market transactions based on Distributed Ledger Technology (DLT) in central bank money. In addition to L-Bank, other financial institutions, e.g. WIBank (cf. Weekly publication from 16 October), are taking part in these ECB trials. "The use of new technology is part of our digital transformation. It promises more efficiency and more transparency in the issuance process. Moreover, the operational risks can be reduced. The ECB trials will bring us closer to a new digital standard", said L-Bank Market Director Johannes Heinloth.

Primary market

This week we can report on four fresh EUR benchmarks and two taps in the SSA segment. As announced in our last issue, the Austrian federal state of Lower Austria (ticker: NIEDOE) got the ball rolling, approaching investors with a EUR 500m sustainability bond featuring a term to maturity of twelve years. At the end of the marketing phase, the order book filled to around EUR 1.6bn, so the deal finally went through at ms +65bp (guidance: ms +70bp area; bid-to-cover ratio: 3.2x). Also active in benchmark format was the Norwegian agency Kommunalbanken (ticker: KBN) with its second green bond in the current year. A total of EUR 500m over a term of seven years was ultimately raised for this deal, which was priced in line with the guidance at ms +31bp. This was followed by the French municipal financier Agence France Locale (ticker: AFLBNK), which placed a sustainability bond for EUR 500m with a maturity of eight years at OAT +24bp (corresponds to around ms +76bp) (guidance: OAT +26bp area; bid-to-cover ratio: 2.8x). Outside our current regular coverage, the Export-Import Bank of China (ticker: EXIMCH) also raised EUR 500m with a maturity of three years at a reoffer spread of ms +38bp (IPT: ms +70bp area; order book: EUR 3.15bn). We now turn our attention to Germany, where Kreditanstalt für Wiederaufbau (ticker: KFW) made another appearance on the capital market at the start of the week with a EUR 1bn tap of its 2029 green bond. Pricing was in line with guidance at ms +15bp. The federal state of Saxony-Anhalt (ticker: SACHAN) also opted for a tap and increased the volume of its 2034 bond by a further EUR 250m at ms +28bp. Next week, all eyes will once again be on the European Union (ticker: EU), which is holding its fifth bond auction in the second half of 2024 in line with its funding plan. We have also heard reports of an interesting new mandate for the very near future: Islamic Development Bank (ticker: ISDB) intends to place a fresh sukuk bond (EUR benchmark, 5y). We recently reported on the latest developments in this market segment as part of our weekly publication from 18 September.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EXIMCH	Other	29.10.	XS2930947481	3.0y	0.50bn	ms +38bp	- / - / A+	-
AFLBNK	FR	29.10.	FR001400TUC3	7.8y	0.50bn	ms +76bp	AA- / - / AA-	X
KBN	Nordics	29.10.	XS2932096691	7.0y	0.50bn	ms +31bp	- / Aaa / AAA	X
NIEDOE	AT	23.10.	AT0000A3EK38	12.0y	0.50bn	ms +65bp	- / Aa1 / AAu	X

Source: Bloomberg, NORD/LB Floor Research (Rating: Fitch / Moody's / S&P)

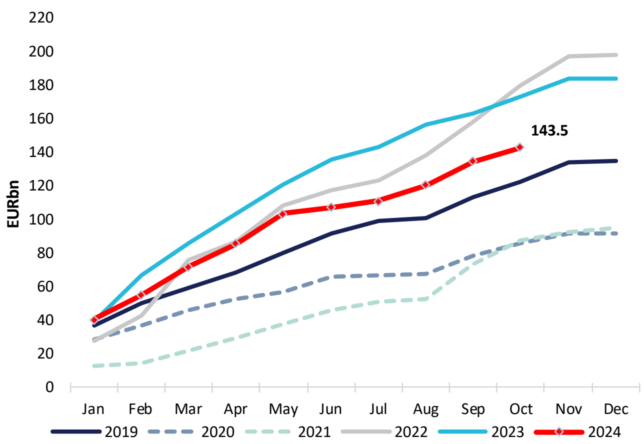
Covered Bonds
Maturities the future driver in the primary market?

Authors: Alexander Grenner // Lukas Kühne

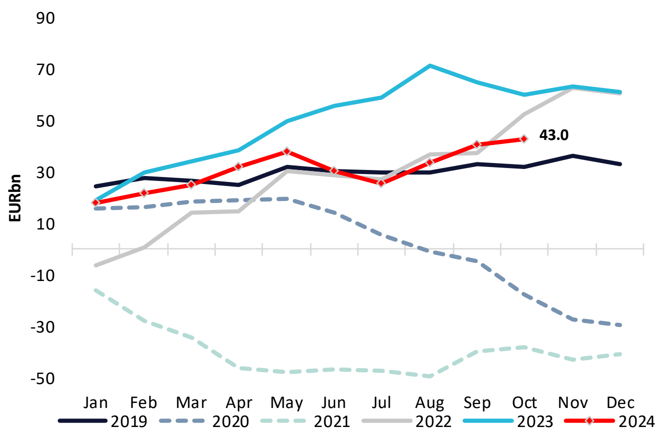
Maturities in the covered bond market form basis for our issuance forecast

Our forecast for issuance activity in the covered bond market is based on a bottom-up approach at jurisdiction level. The initial assumption is that volumes maturing in the primary market at jurisdiction level during the year will be fully replaced in the market again in the form of new covered bonds. Any country-specific deviations from this basis are considered after that. Using this approach, the maturities in the individual years and jurisdictions consequently form the starting point for our issuance forecast. In today's issue of our Covered Bond & SSA View, we therefore examine the trend in maturities over recent years and look ahead to the upcoming years. We also take this opportunity to provide our first forecast for the issuance volume in the primary market in 2025.

Cumulative issuance volume (EUR BMK)



Cumulative net new issuance volume (EUR BMK)

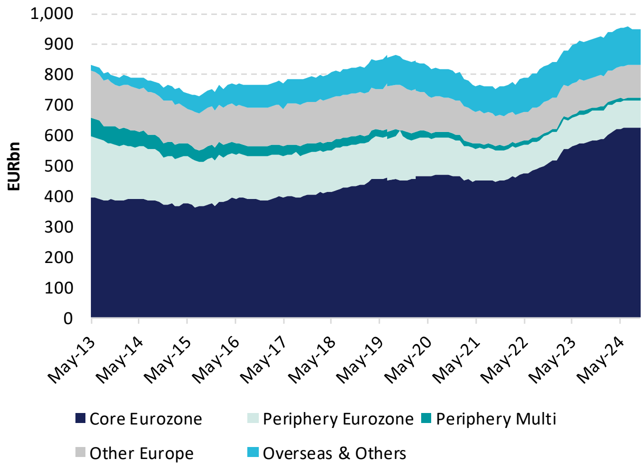


Source: Bloomberg, NORD/LB Floor Research

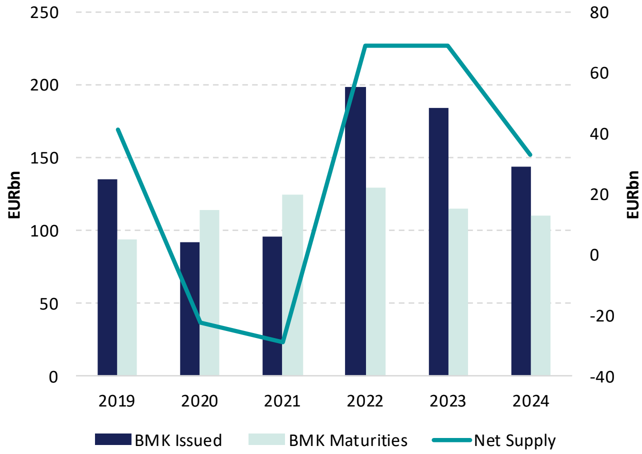
Post-pandemic covered bond market on course for growth

The difference between the issuance volume and volume of maturities constitutes the net new issuance volume and indicates a growing or shrinking market. In the last two years, the market for EUR benchmarks has grown by more than EUR 60bn on each occasion, having shrunk in the preceding two years due to the influence of the pandemic. In 2020 and 2021, the issuance volume remained considerably down on the figures for 2019, while the volume of maturities reached EUR 121bn (FY 2020) and EUR 136bn (FY 2021). Consequently, there were some catch-up effects in 2022 and 2023, which also resulted in an increase in the issuance volumes. The primary market is currently continuing its growth trajectory with net new issues of EUR 43bn. Looking ahead to the end of the year, we expect to see a further EUR 20bn in new deals. This would mean a total net new issuance volume for 2024 of EUR 53bn.

Volume of iBoxx EUR Covered by region



Net new issuance volume (EUR BMK)

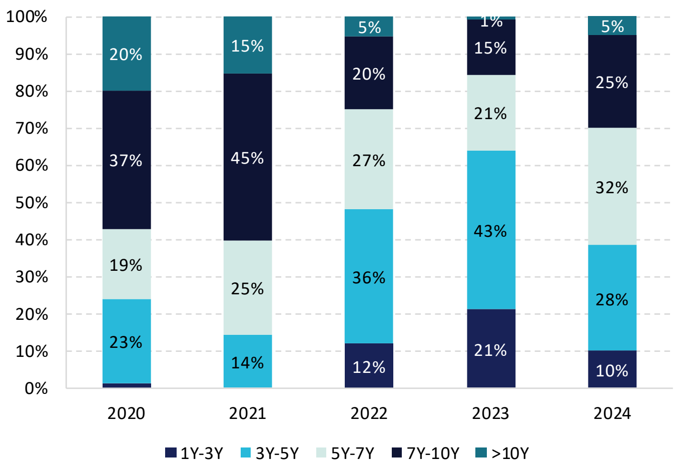


Source: Bloomberg, market data, NORD/LB Floor Research

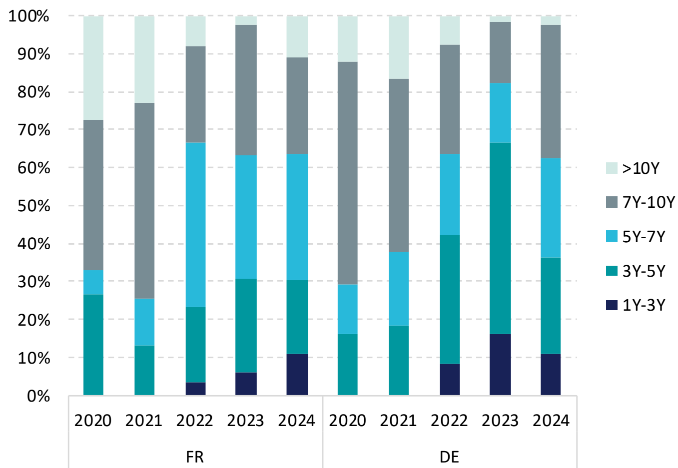
High volume of maturities and issues at the start of the year

The breakdown of maturities shows that there is a typical seasonal pattern in the covered bond market. In particular, there is a higher volume of maturities in the first few months of the year, which is unsurprising given the large volume of issues at the start of a year. January is the standout month here and often records the year's highest volume of maturities and issues. Overall, maturities follow the typical issuance pattern in the covered bond market, apart from the pandemic years. The increased demand for investments in January in particular, from real money investors for instance, can be seen as the reason behind the typical issuance pattern in the primary market. In this assessment, whole bond terms lead to higher maturity volumes in the relevant months and a higher issuance requirement at the beginning of the year. We too are not expecting any deviation from this high issuance volume in the first quarter of a year.

EUR BMK primary market: maturity segments



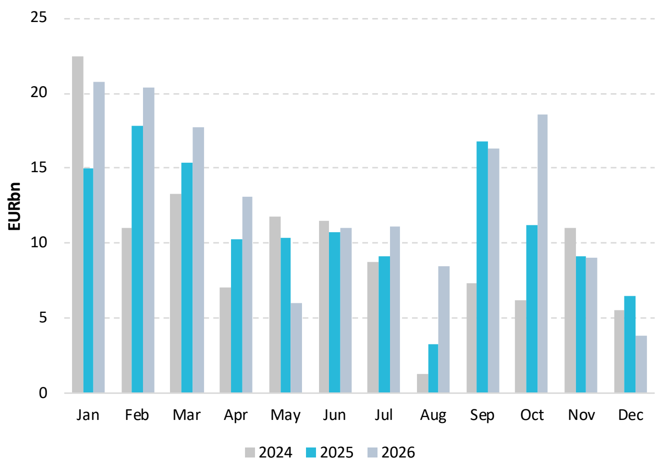
EUR BMK maturity segments DE vs. FR



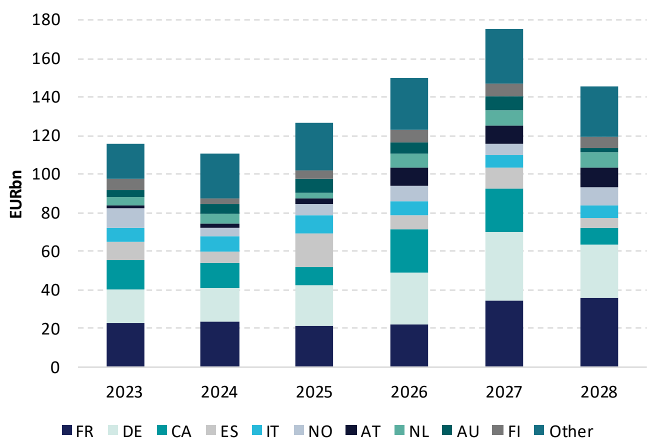
Source: Bloomberg, NORD/LB Floor Research

Change in maturity preferences leads to higher volume of due bonds in the coming years
A closer look at maturity structures for new deals in recent years highlights the fact that terms of >7y tended to dominate in the period before and during the pandemic. In 2020 and 2021, these bonds accounted for 57% and 60% of new issues respectively. In the subsequent years of 2022 and 2023, there was a clear decline in long-dated maturities, with new bonds featuring terms of seven years or more accounting for a share of just 25% in 2022. This figure then dropped further to just 16% of new deals in 2023. However, this trend seems to have "normalised" somewhat in 2024 and bonds featuring terms to maturity of 7+ years now making up 30% of new issues. This poses the question of whether the catch-up post pandemic trend is now complete, or whether there will be another shift in maturity preferences in the longer dated segment. However, there are currently no signs of any such development yet. In a specific comparison of Germany (DE) and France (FR), it is striking that the maturity structures were similar around the time of the pandemic, with France having a larger proportion of ultra-long maturities of more than 10 years. In 2022 and 2023, the trend towards shorter terms of 5 years or less was much more pronounced in Germany, while in France, there was a significant rise in in the proportion of covered bonds in the medium maturity segment (5-7y). This trend in the eurozone's second largest economy has not reversed in 2024 and the maturity structure for new issues is virtually unchanged in comparison with 2023. In Germany, however, the normalisation trend seen in 2023 and 2024 is much more evident. The proportion of shorter-dated deals is declining, while 5 to 10-year deals in particular are increasing again. Only the share of very long-dated covered bonds with terms of more than 10 years remains minimal. The trend towards shorter maturities seen in recent years will lead to increased volumes of bonds falling due in the next few years, as the corresponding chart shows. While the volume of maturities in 2024 stood at EUR 110.6bn, this figure will rise to at least EUR 175.4bn in 2027. The country breakdown for maturities up to 2027 clearly shows a trend towards a growing share attributable to the "big" jurisdictions of Germany, France and Canada. At the start of next year, we expect to see a rise in longer terms to maturity for new issues, as tends to be the case in the first few months of a new year.

EUR BMK maturities by month



EUR BMK maturities by jurisdiction



Source: Bloomberg, NORD/LB Floor Research

Conclusion and outlook: high level of maturities in coming years set to boost issuance volume

The maturities graph above shows that, on average, the volume of maturities is highest in the first three months of next year and just after the summer break (around EUR 15bn in each case). In contrast, the share in the remaining months stands at a maximum of EUR 10bn. In our bottom-up approach we assume that maturities are reinvested in full. Consequently, we can again expect to see a trend towards a higher volume of new issues, particularly at the start of next year. This trend should also continue in 2026 and 2027. Maturity volumes cannot yet be quantified exactly for 2028 as the odd 3y covered bond may well be issued in the market in 2025. The same is true of maturities in 2027, although the issue of 2y covered bonds should be more of an exception than the norm in 2025. It is therefore too soon to see whether 2027 will mark the peak in maturity volumes. This will depend both on the issuers’ maturity preferences as well as the new issuance volumes next year. In our issuance forecast for 2025, we calculate that maturities of around EUR 127bn will be reinvested in the market in full. Assuming continued growth in the primary market, our rough forecast for 2025 indicates a new issuance volume of between EUR 170bn and EUR 180bn and a net new supply of around EUR 50bn. Against the backdrop of a primary market that remains open, our initial forecast is naturally subject to a high level of uncertainty.

SSA/Public Issuers
German-speaking Community of Belgium – spotlight on DGBE

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese

Introduction

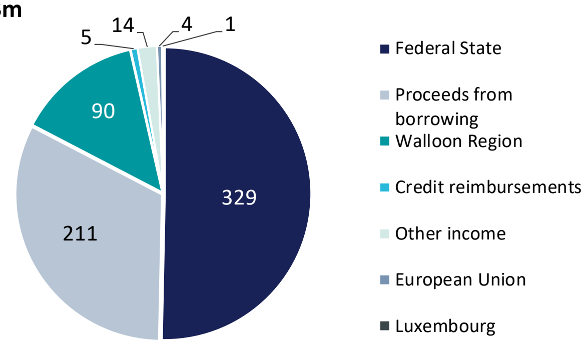
With a population of 79,479 people, the German-speaking Community of Belgium (German: Deutsche Gemeinschaft Belgien; French: Communauté germanophone; ticker: DGBE) is the smallest federated member of the Belgian federal state. The region is situated in the east of Belgium and borders the Netherlands, Germany and Luxembourg. The seat of the parliament, the government and the Ministry of the German-speaking Community is the city of Eupen. As with the other two language communities, the legal existence of the DGBE is enshrined in the Belgian constitution. The path towards political autonomy can be traced back to several state reforms since the 1960s. In this context, the public institutions today enjoy a spectrum of competencies that have been developed and extended over a significant period of time (last state reform: 2014). In essence, these competencies relate to community affairs, starting in the cultural sphere and extending through to include family, social, educational and healthcare policies, as well as international relations. In parallel with the most recent state reform, negotiations were held with Wallonia that centred on transferring the areas of supervision and financing of the nine German-speaking municipalities, tourism, local authorities and employment. The four-strong government is elected by the parliament and appoints a Minister-President from among its members. In addition to day-to-day political business, the government executes the decrees passed by the parliament. It also presents the community budget to Parliament and is responsible for implementing this. Since 15 March 2017, the German-speaking Community has presented itself as East Belgium internally and externally and in normal parlance. The aim of the new umbrella brand is to position East Belgium as a strong, attractive location for attracting specialists and managers, guests and visitors. However, the name "German-speaking Community" remains in the constitutional framework, e.g. in decrees, parliamentary resolutions, government decrees and other legal texts.

Economic framework data

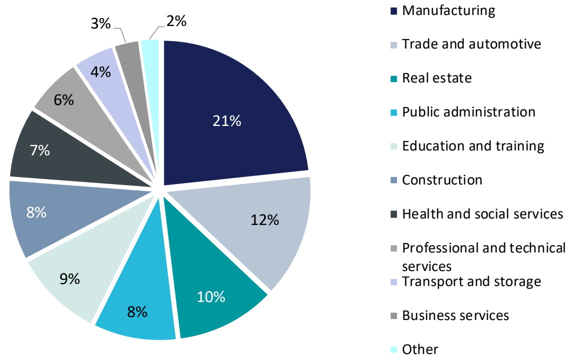
The German-speaking Community generated total gross value added of EUR 2.3bn in 2022. The nominal GDP per capita in 2022 amounted to EUR 32,042, while unemployment rate as at Q2/2024 stood at 6.4%. The most important pillars of the economy include manufacturing industries (EUR 472m) and trade (EUR 273m). The real estate sector is in third place with EUR 210m. Although agriculture and forestry characterise the landscape of the region, these play a more subordinate role in terms of their economic importance. In terms of the economic sectors' share of gross value added, the relatively high importance of the secondary sector, which includes manufacturing, electricity/gas/water and the construction industry, is striking. At 31.8% of gross value added, this generated around 9 percentage points more than Wallonia and almost 7 percentage points more than Flanders. By contrast, the tertiary sector has a comparatively lower weight in the German-speaking Community: In 2021, it was around 10 percentage points behind the figure for Wallonia and 7 percentage points behind the Flemish value.

Composition of budget (2023)

EUR 653m



Gross value added by sector (2022*)



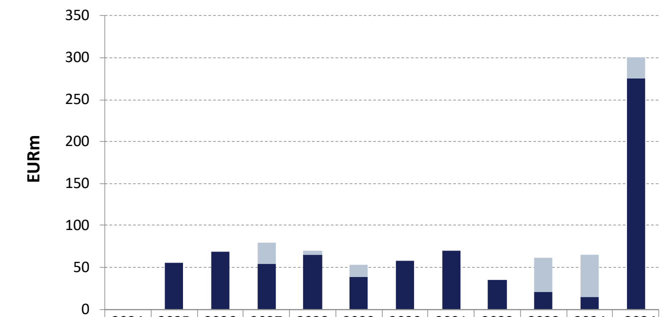
* Provisional values

Source: Issuer, Ostbelgien Statistik, NORD/LB Floor Research

Funding sources

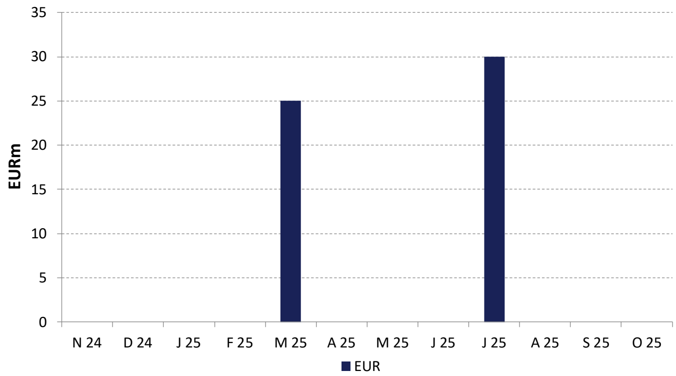
The German-speaking Community is funded in large part from federal state transfers (lump sum fixed by law), which is adjusted annually for inflation, economic development and demographic aspects. Another important source of income is the endowment of the Walloon Region for exercising the regional powers that have been transferred to it. The transfers make up around 95% of the sub-sovereign's income. In addition, funding is available from the European Structural Funds. The German-speaking Community also set up an EMTN Programme in May 2021 worth up to EUR 1bn in order to carry out medium and long-term refinancing activities on the capital market. In this context, issues worth EUR 400-500m are planned for 2024. In the coming year, the volume is expected to be between EUR 100m and EUR 250m.

Maturity profile by currency and coupon type



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
EUR floating	0	0	0	25	5	15	0	0	0	41	50	25
EUR fixed	0	55	68	54	65	38	58	70	35	20	15	276

Bond amounts maturing in the next 12 months



Source: Bloomberg, NORD/LB Floor Research; data as of 29 October 2024

Regulatory summary of Belgian regions

Risk weighting	0%
LCR classification	Level 1 (EBA list)
NSFR classification	0%
Solvency II classification	Preferred (0%)

Source: Regulation (EU) No. 575/2013, Delegated Regulation (EU) 2015/61, Delegated Regulation (EU) 2015/35, NORD/LB Floor Research

Outstanding volumes of the German-speaking Community

The outstanding bond volume under the ticker of the sub-sovereign DGBE currently amounts to around EUR 915m, divided across 53 different ISINs. A total of EUR 301m (33%) is not set to fall due until after 2034. The longest outstanding bond, which was issued at the end of the previous year with a volume of EUR 25m, matures in December 2063. The “floating” category accounts for EUR 161m or 18% of the outstanding volume, while the remaining bonds of the German-speaking Community feature a fixed coupon. There is no foreign currency diversification, meaning that all outstanding bonds are denominated in EUR. The volumes of the securities range from EUR 4m to EUR 50m. It should also be noted that there is currently no rating for bonds issued by the German-speaking Community. Furthermore, the issuer is also open to private placements and certain yield expectations on the part of institutional investors.

Liability mechanism and regulation

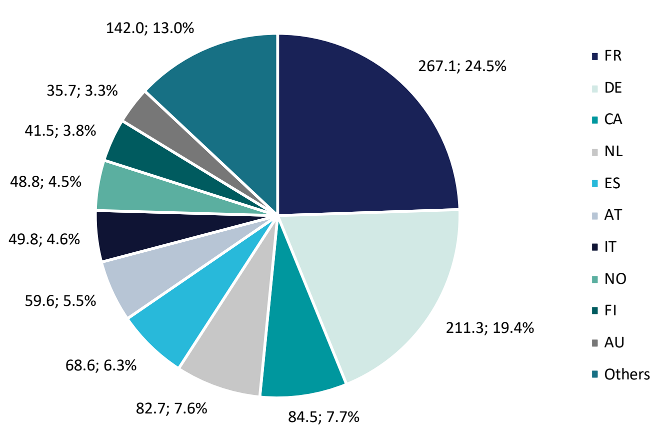
Interestingly, the Belgian regions enjoy neither horizontal financial equalisation nor an explicit guarantee from the Kingdom of Belgium. Consequently, the federal state is tasked with making the corresponding transfer payments mentioned on the previous page. It can therefore be stated that no support or liability mechanisms are in place either between the regions and communities or in relation to the federal state. However, the rating agency Moody’s, for example, believes it is “highly probable” that the federal government would provide support for the sub-sovereigns in the event of payment difficulties – particularly against the background of the Finance Act of 1989. This regulates the entitlement of regions and municipalities to compensate for insufficient or untimely transfer payments from the central government with loans guaranteed by the central government. Regarding the classification in regulatory frameworks, bonds issued by the German-speaking Community enjoy excellent treatment: In the context of the CRR/Basel III, they have a 0% risk weight. Moreover, they are classified as Level 1 assets under the LCR. Under Solvency II, the Belgian sub-sovereign is also categorised as “preferred”. The risk weight and therefore also the LCR categorisation is essentially derived via Article 115 (2) of the CRR, according to which the exposure of regional and local authorities (RGLAs) is to be equated with that of the respective central government. For RGLAs within the EU for which this is the case, the European Banking Authority (EBA) maintains a corresponding public database. As the German-speaking Community is explicitly listed here, the risk weighting is derived from Article 114 CRR, whereby a risk weight of 0% is assigned to EUR-denominated exposures to central governments of member states in accordance with paragraph 4. This means that sub-sovereign bonds and bonds of Belgian regions generally benefit from the same regulatory advantages as, for example, bonds of German Laender.

Conclusion

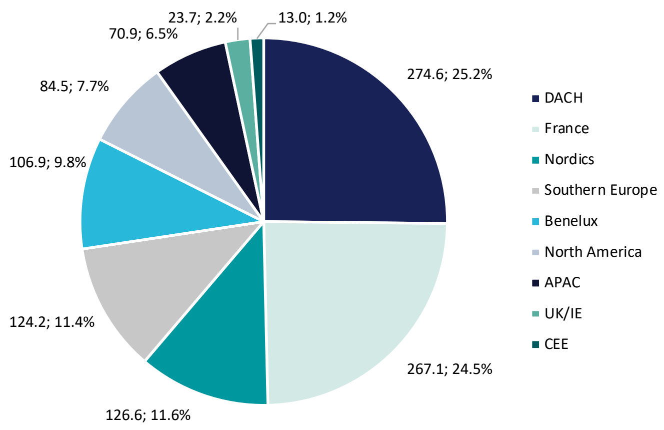
The German-speaking Community of Belgium is the smallest federated member of the elgian federal state. In terms of its economic profile, the sub-sovereign is particularly characterised by industrial production. As an issuer on the capital market, we regularly place this sub-sovereign in the spotlight as part of our annual publication series NORD/LB Public Issuers Special – Beyond Bundeslaender: Belgium. We are planning to publish an update of this study, in which we will also take a closer look at the two regions of Flanders and Wallonia, at the turn of the year.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



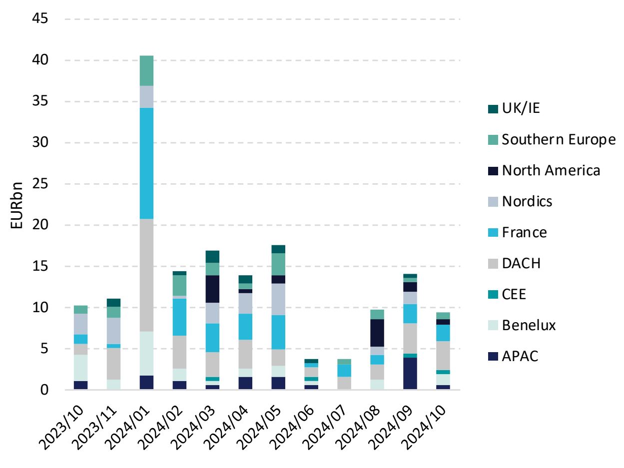
EUR benchmark volume by region (in EURbn)



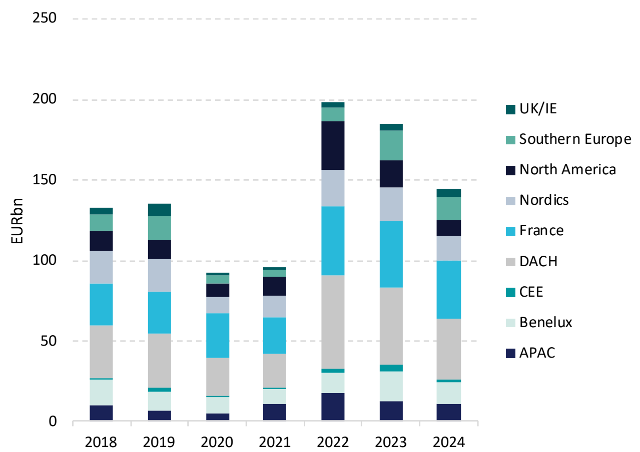
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	267.1	257	29	0.98	9.2	4.7	1.48
2	DE	211.3	300	46	0.65	7.7	3.9	1.52
3	CA	84.5	62	1	1.34	5.5	2.6	1.48
4	NL	82.7	84	3	0.92	10.4	5.8	1.38
5	ES	68.6	54	5	1.15	11.1	3.1	2.17
6	AT	59.6	100	5	0.59	8.0	4.1	1.56
7	IT	49.8	64	5	0.76	8.5	4.0	2.01
8	NO	48.8	59	12	0.83	7.2	3.4	1.10
9	FI	41.5	47	4	0.87	6.9	3.3	1.74
10	AU	35.7	33	0	1.08	7.1	3.3	1.83

EUR benchmark issue volume by month

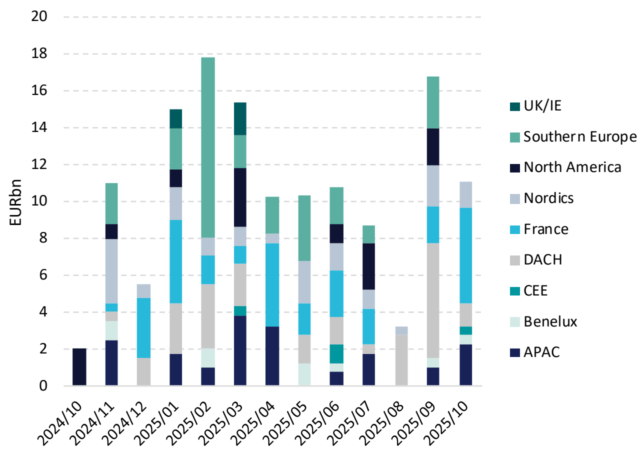


EUR benchmark issue volume by year

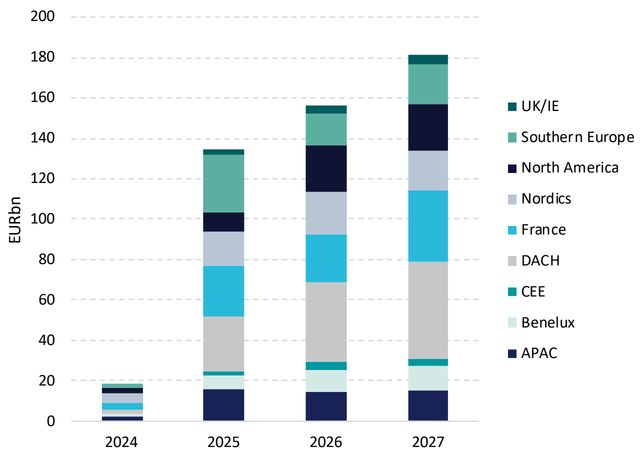


Source: Market data, Bloomberg, NORD/LB Floor Research

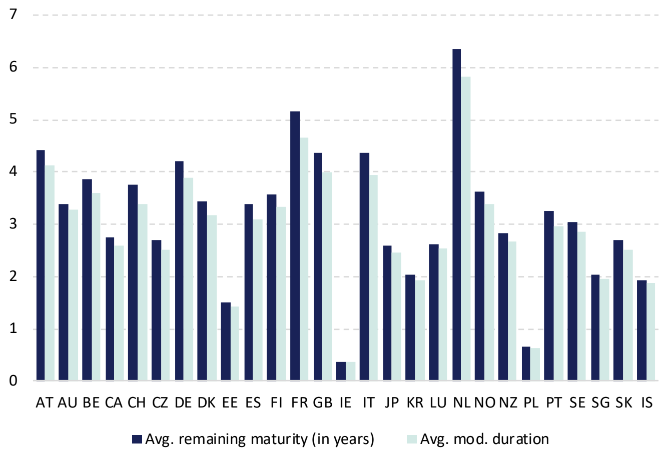
EUR benchmark maturities by month



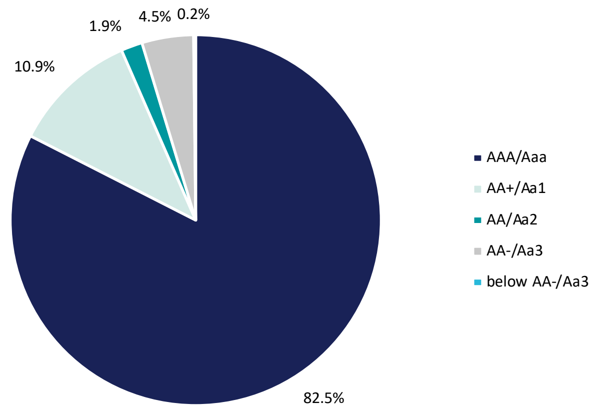
EUR benchmark maturities by year



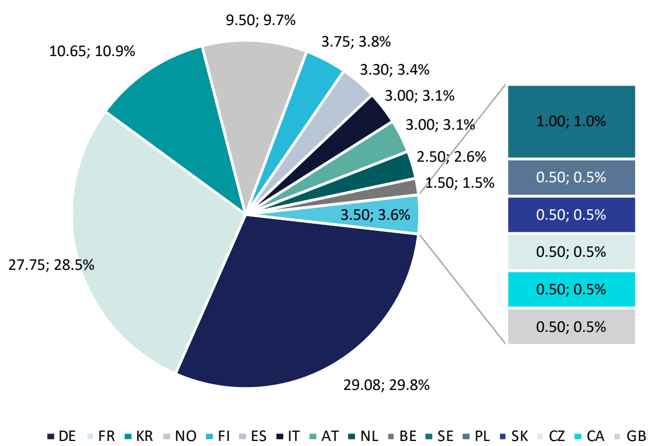
Modified duration and time to maturity by country



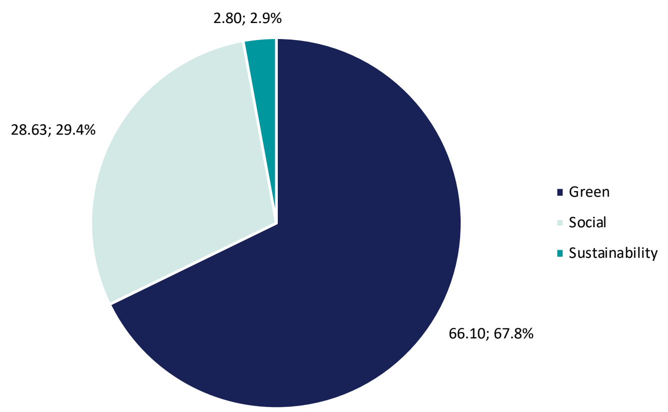
Rating distribution (volume weighted)



EUR benchmark volume (ESG) by country (in EURbn)

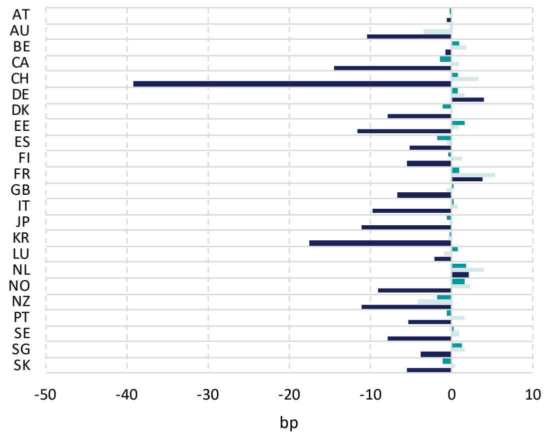


EUR benchmark volume (ESG) by type (in EURbn)

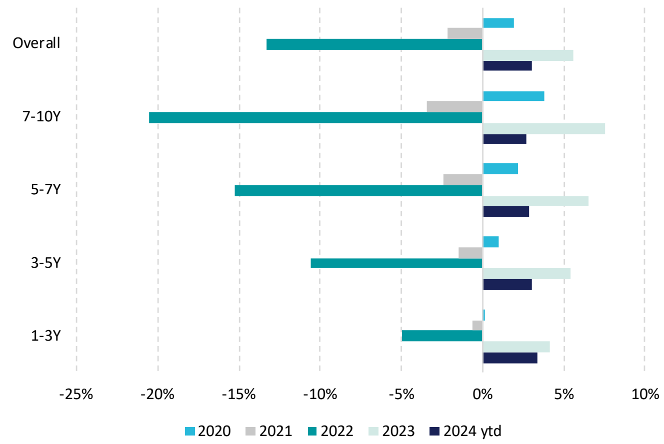


Source: Market data, Bloomberg, NORD/LB Floor Research

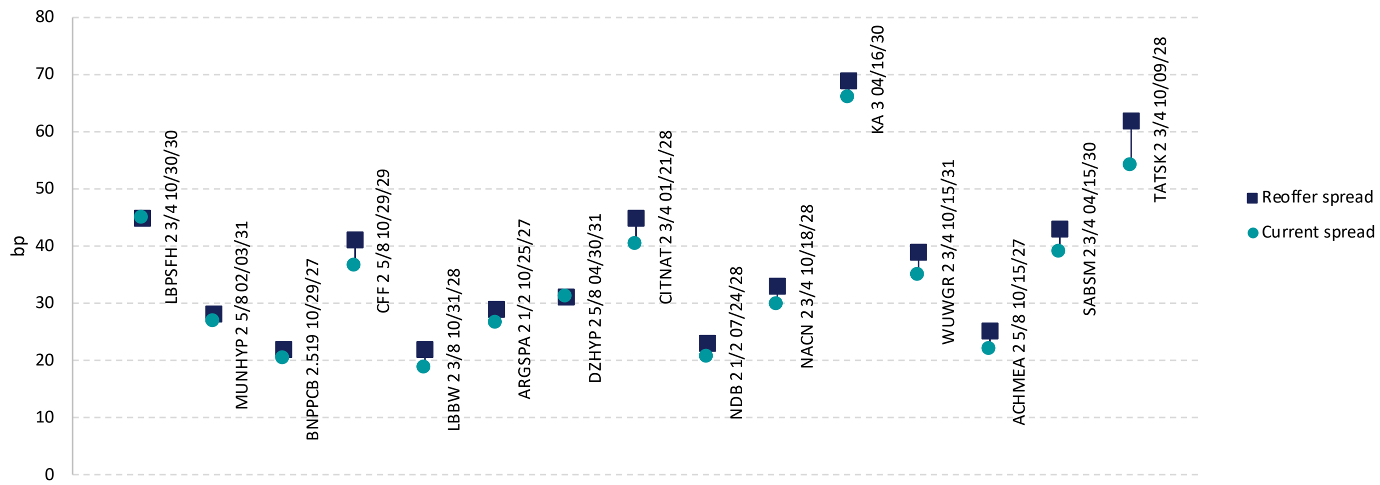
EUR benchmark emission pattern



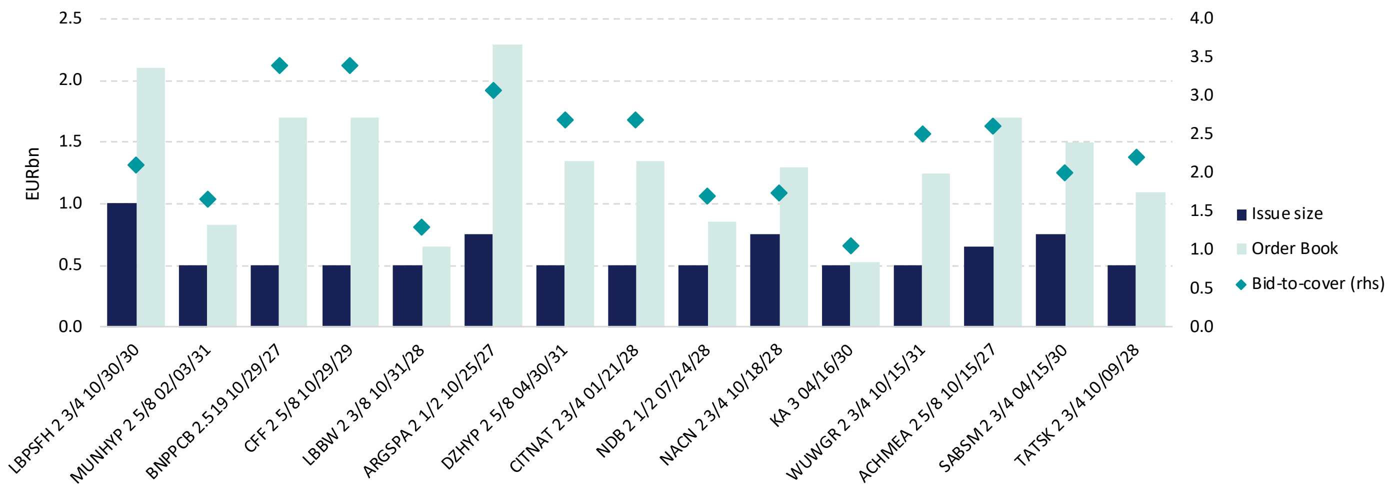
Covered bond performance (Total return)



Spread development (last 15 issues)



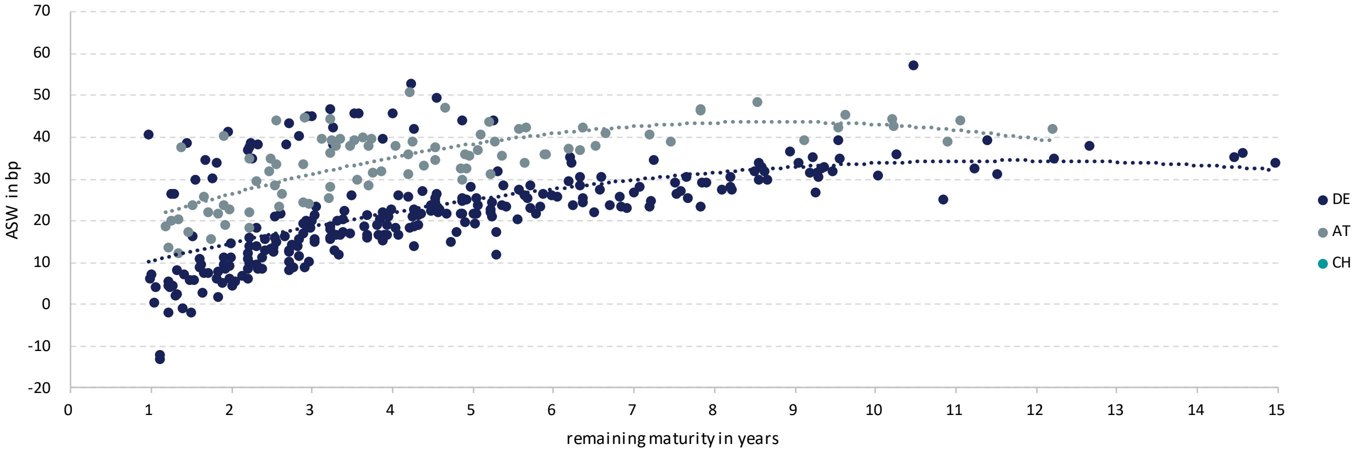
Order books (last 15 issues)



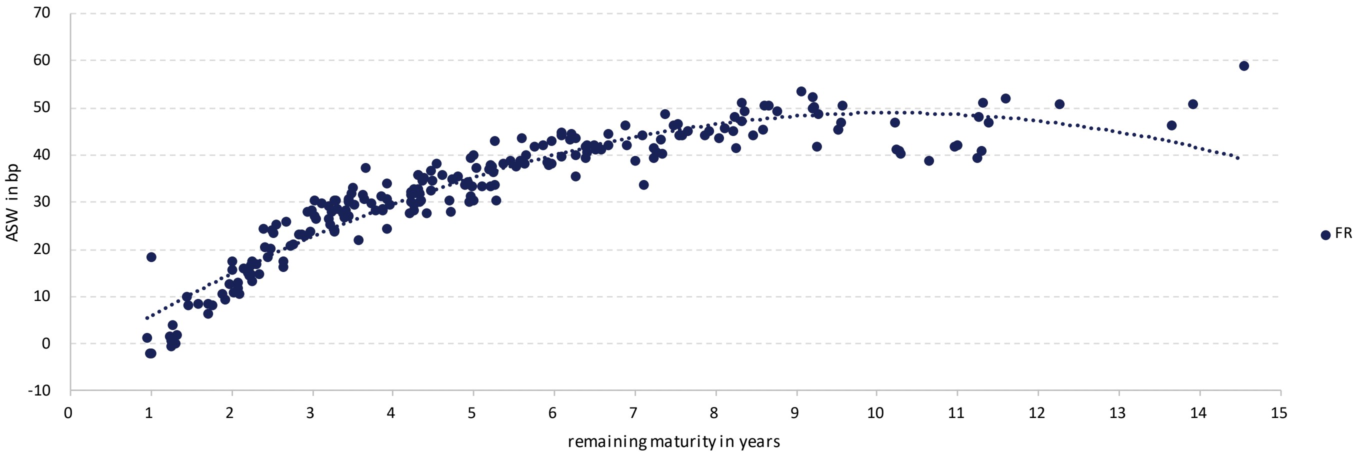
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

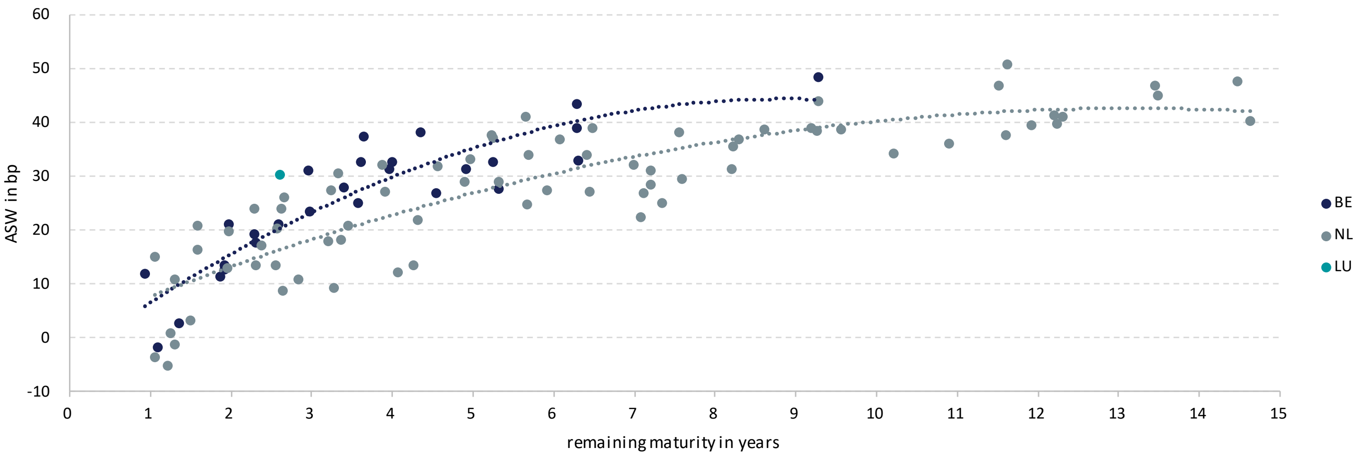
DACH



France

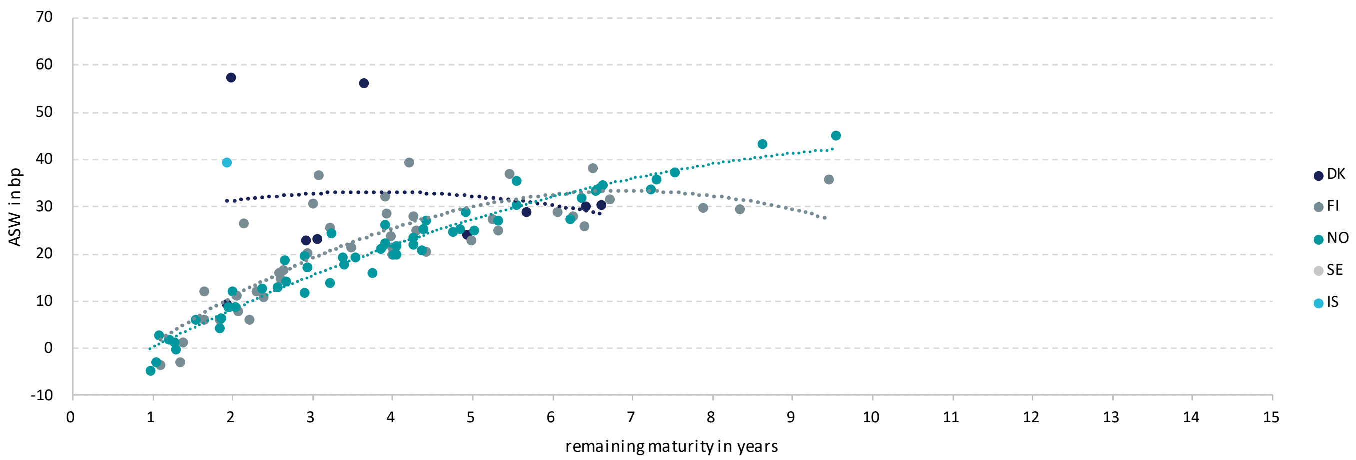


Benelux

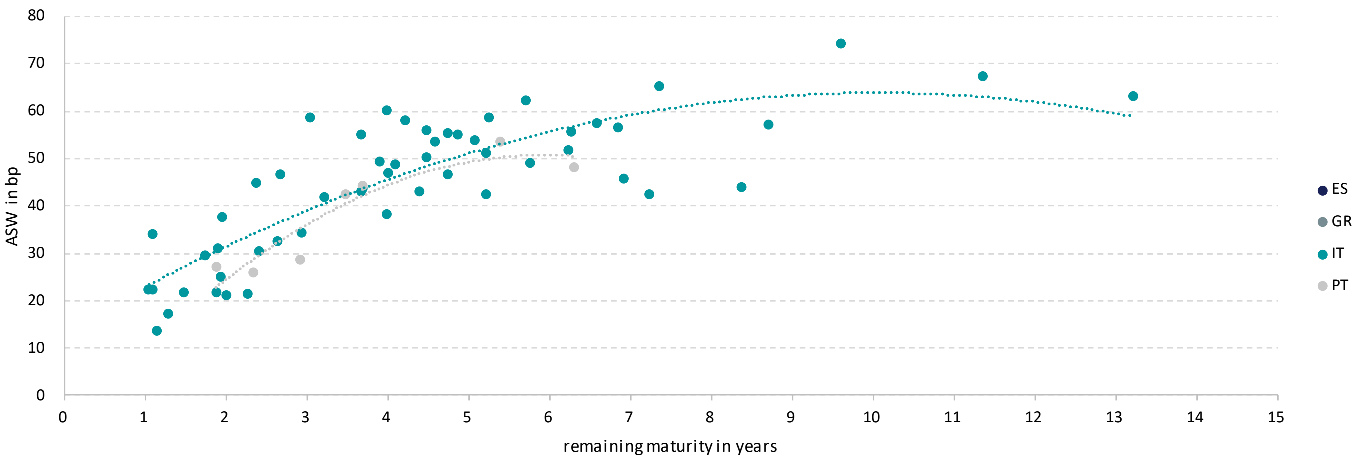


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

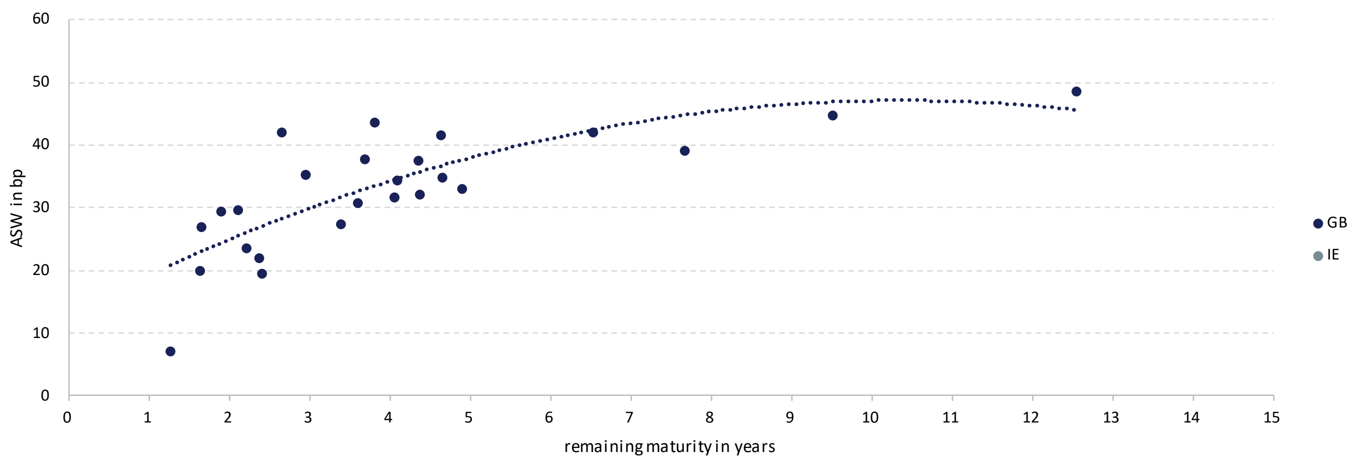
Nordics



Southern Europe

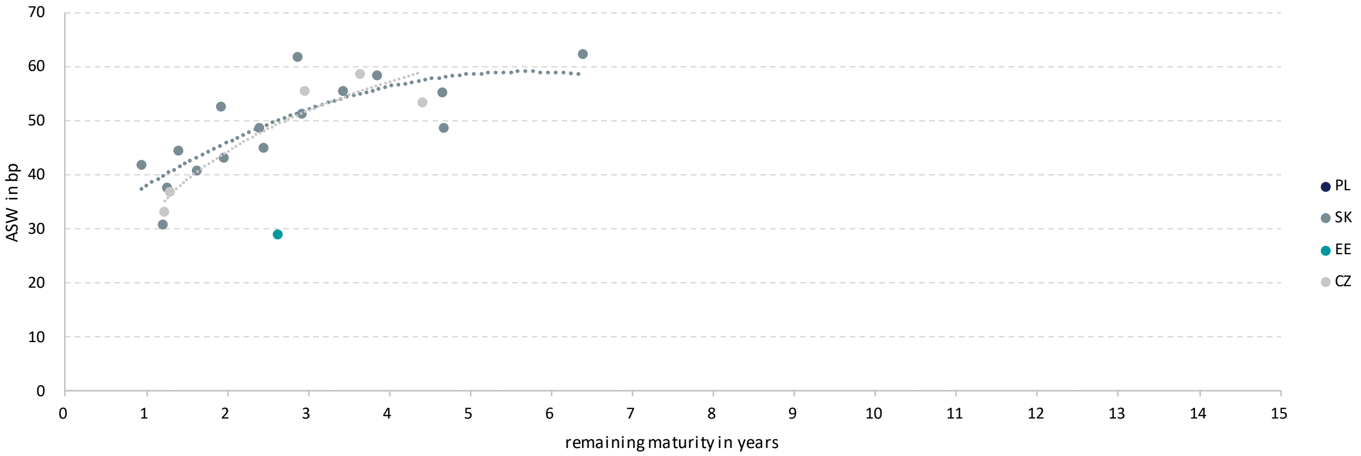


UK/IE

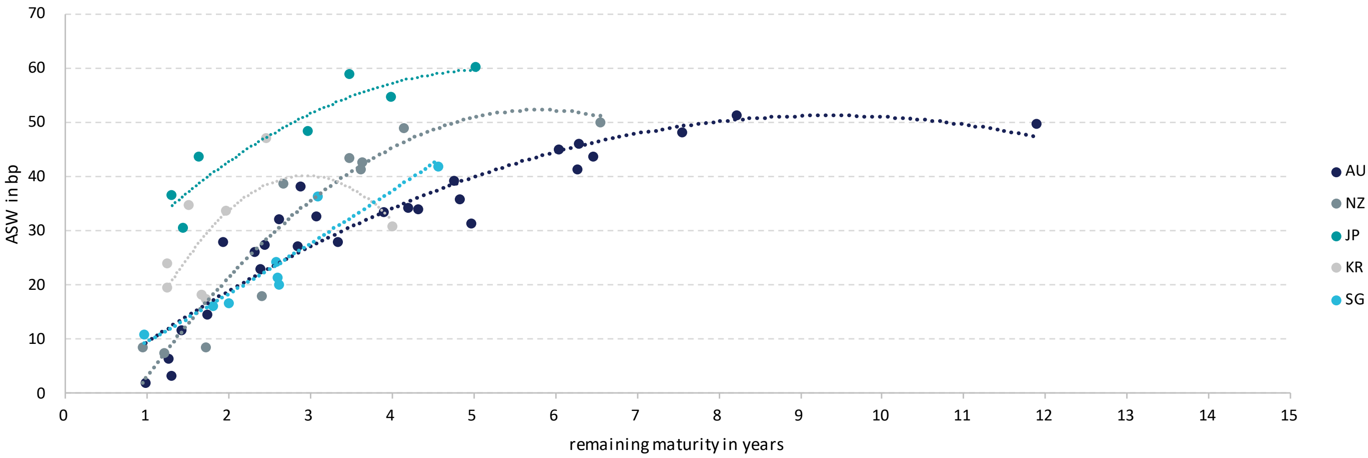


Source: Market data, Bloomberg, NORD/LB Floor Research

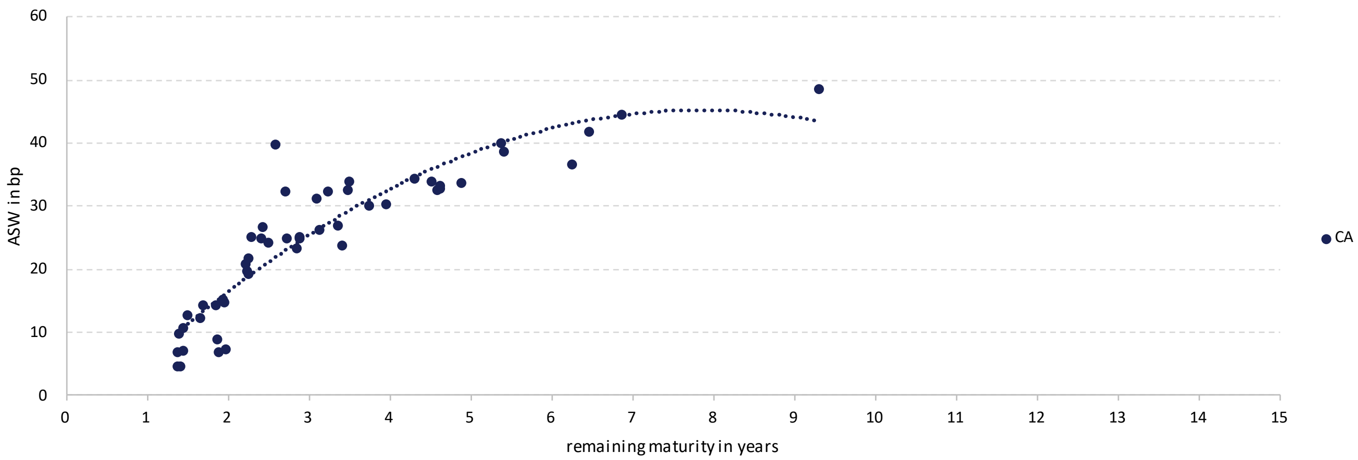
CEE



APAC



North America

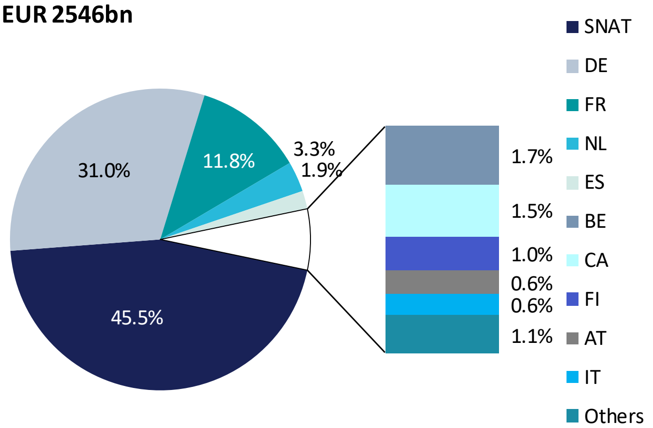


Source: Market data, Bloomberg, NORD/LB Floor Research

Charts & Figures
SSA/Public Issuers

Outstanding volume (bmk)

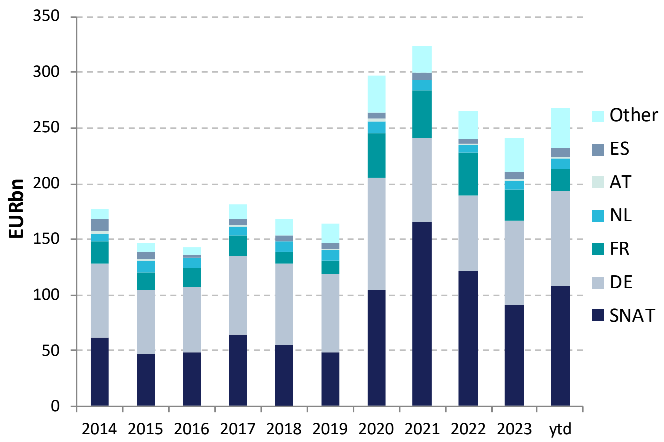
EUR 2546bn



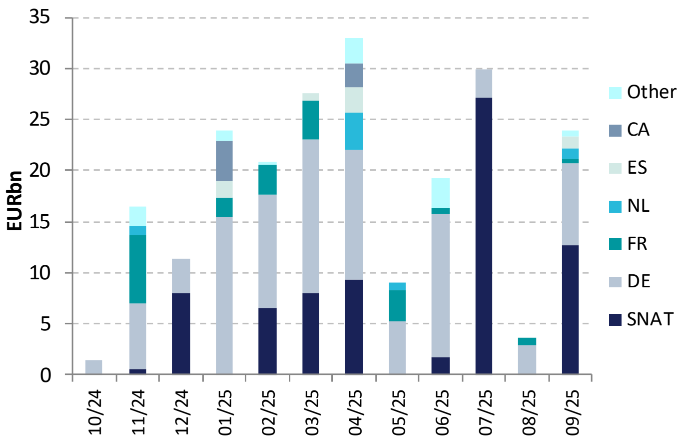
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,159.3	243	4.8	7.9
DE	788.4	593	1.3	6.1
FR	299.6	201	1.5	5.7
NL	83.0	68	1.2	6.4
ES	49.4	69	0.7	4.8
BE	43.1	46	0.9	10.2
CA	38.2	28	1.4	4.9
FI	25.2	26	1.0	4.3
AT	16.5	21	0.8	4.5
IT	15.6	20	0.8	4.4

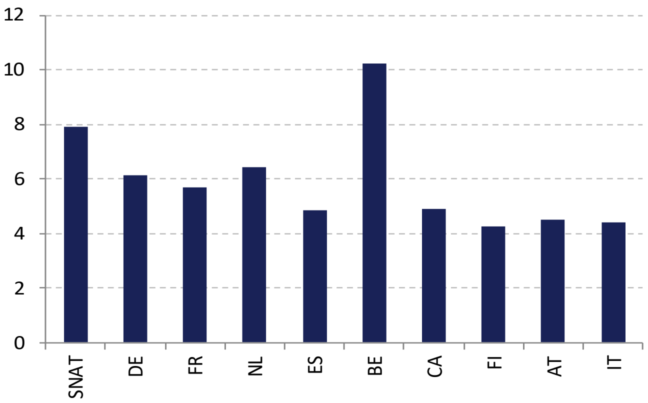
Issue volume by year (bmk)



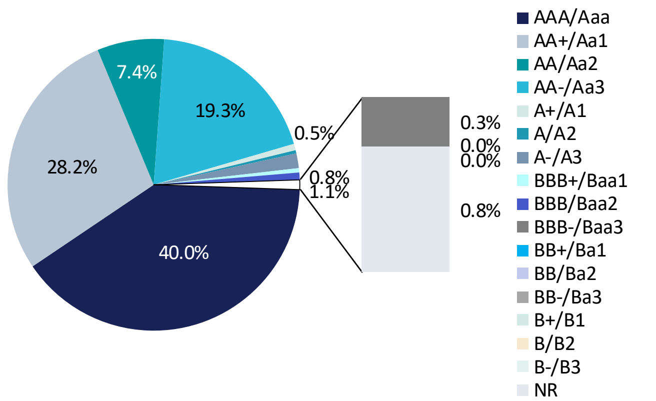
Maturities next 12 months (bmk)



Avg. mod. duration by country (vol. weighted)

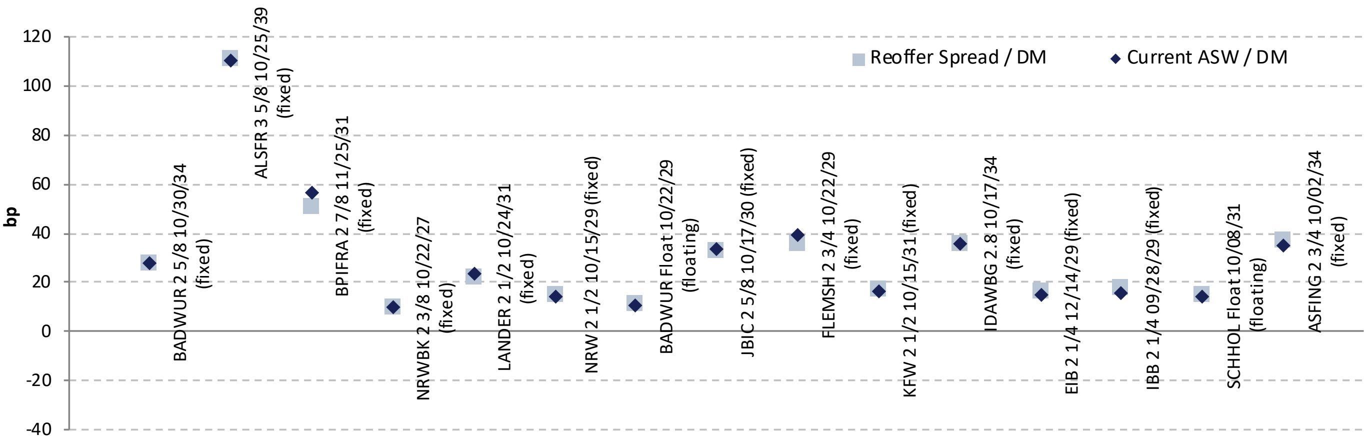


Rating distribution (vol. weighted)

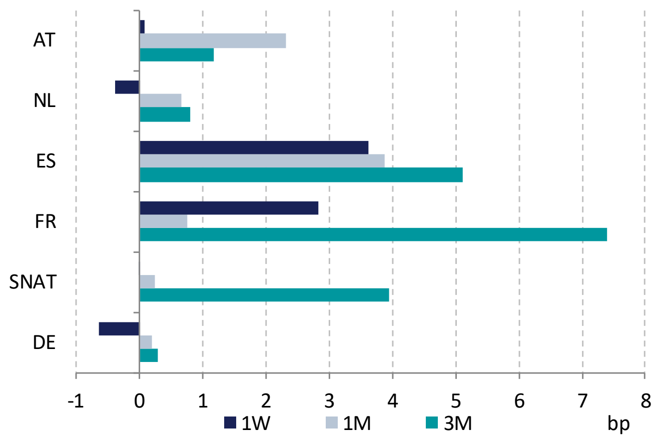


Source: Bloomberg, NORD/LB Floor Research

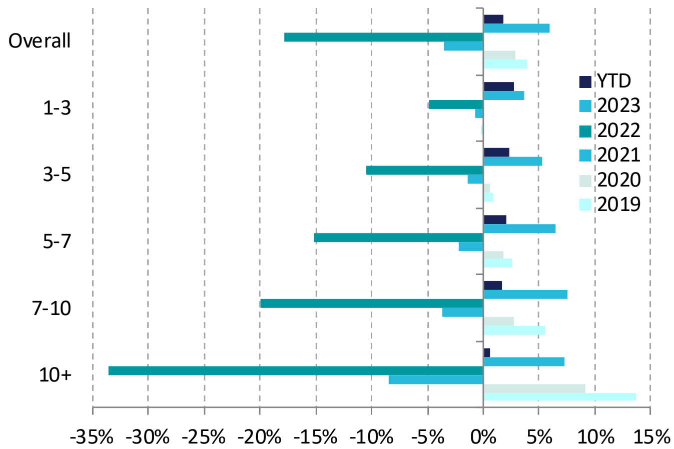
Spread development (last 15 issues)



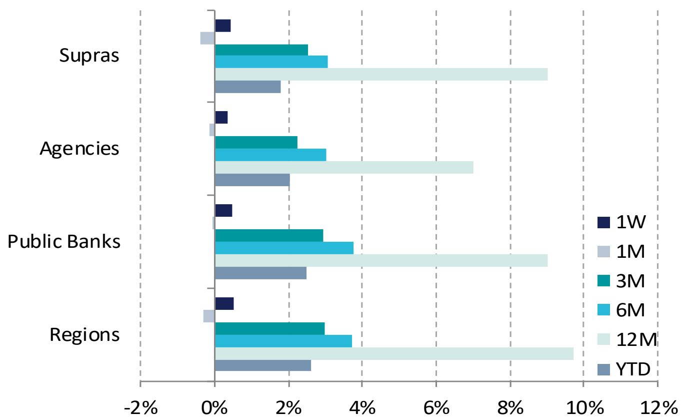
Spread development by country



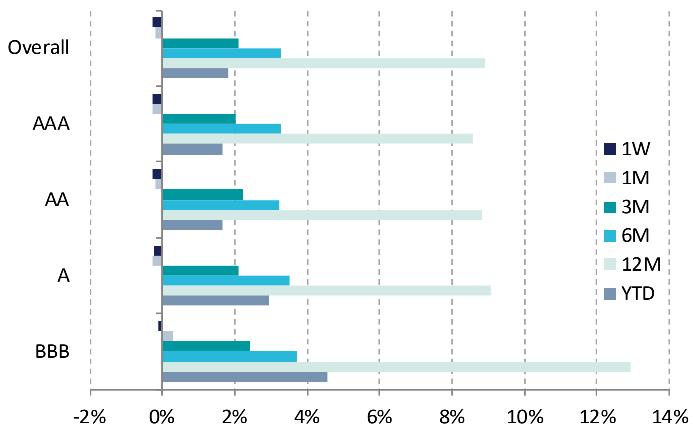
Performance (total return)



Performance (total return) by segments

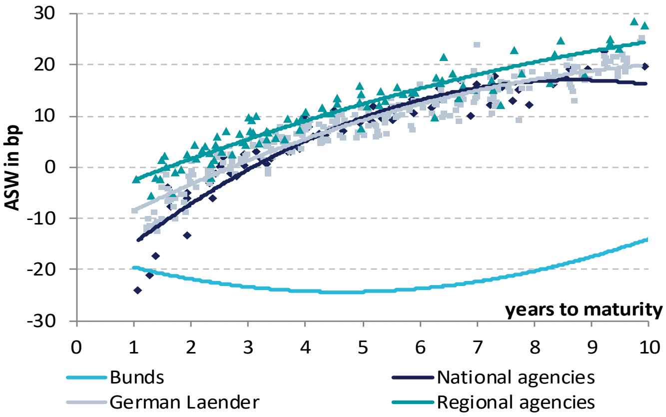


Performance (total return) by rating

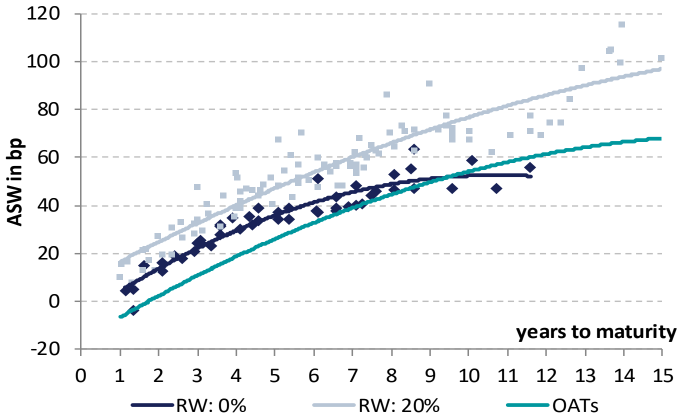


Source: Bloomberg, NORD/LB Floor Research

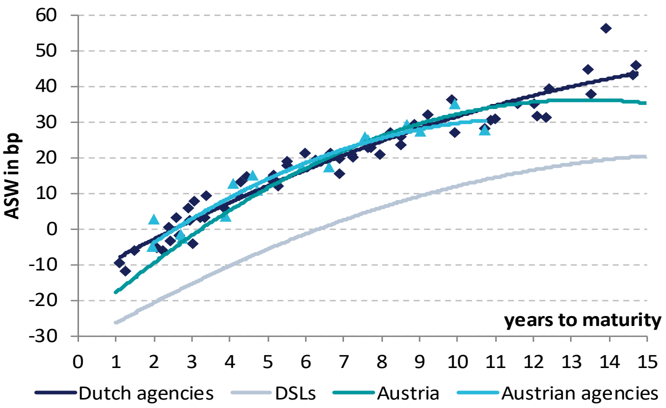
Germany (by segments)



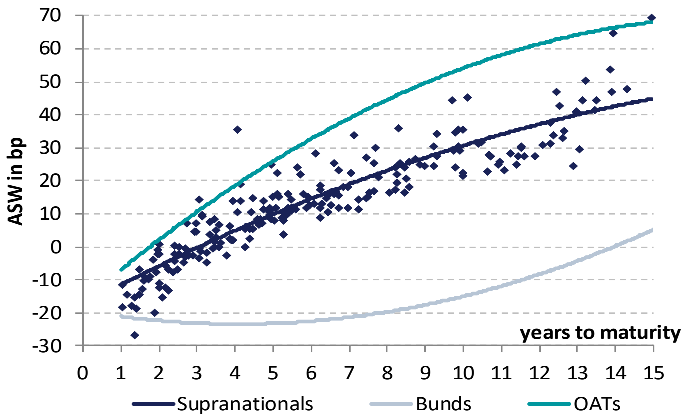
France (by risk weight)



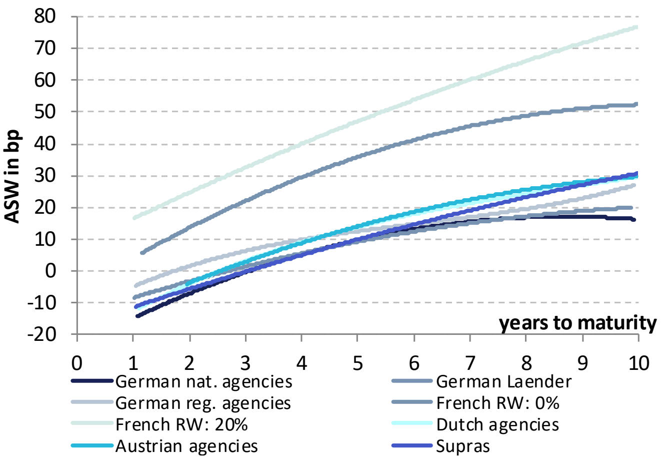
Netherlands & Austria



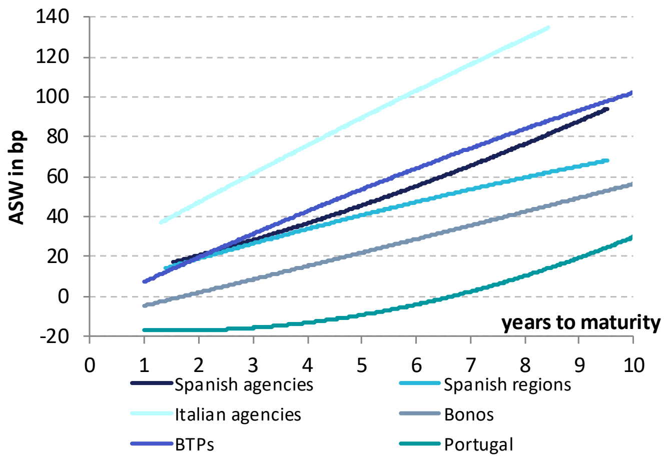
Supranationals



Core



Periphery



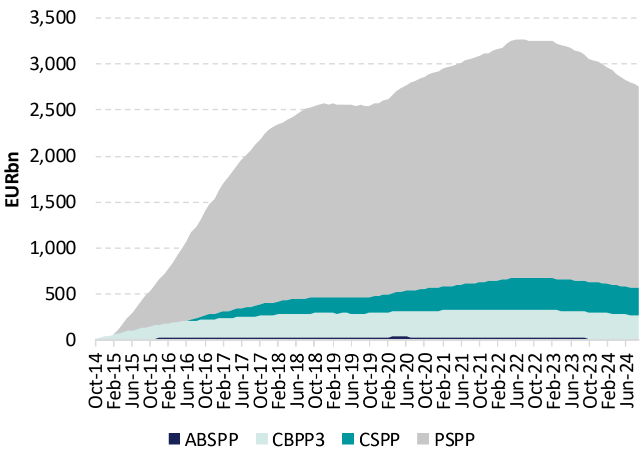
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

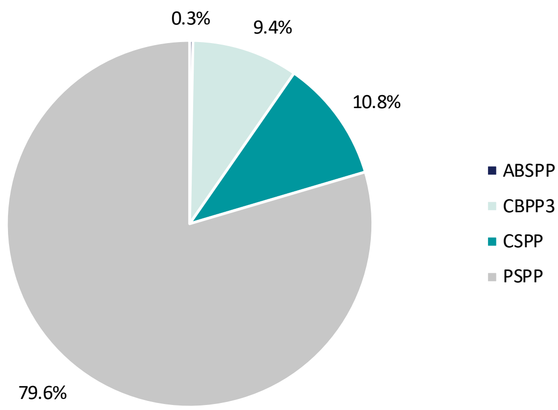
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Aug-24	8,372	261,861	302,758	2,217,196	2,790,187
Sep-24	8,003	258,768	297,662	2,196,710	2,761,143
Δ	-364	-2,993	-4,930	-17,504	-25,791

Portfolio development

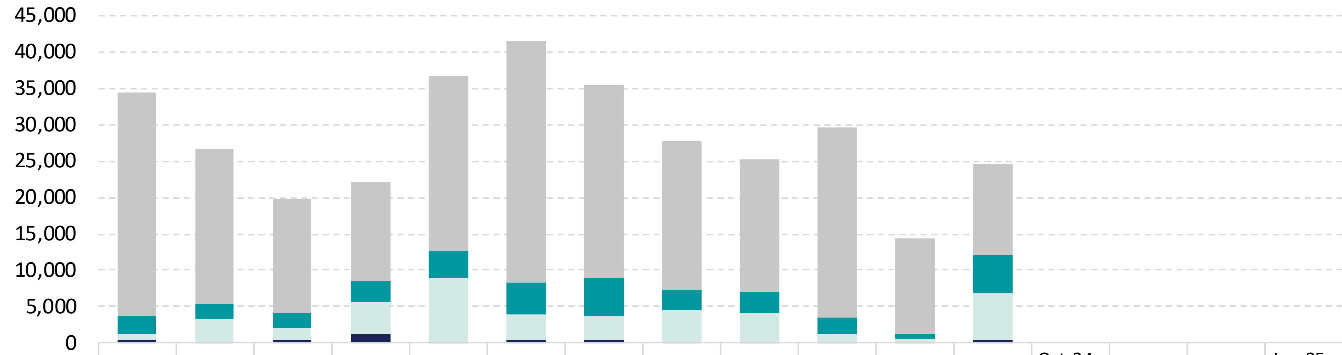


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

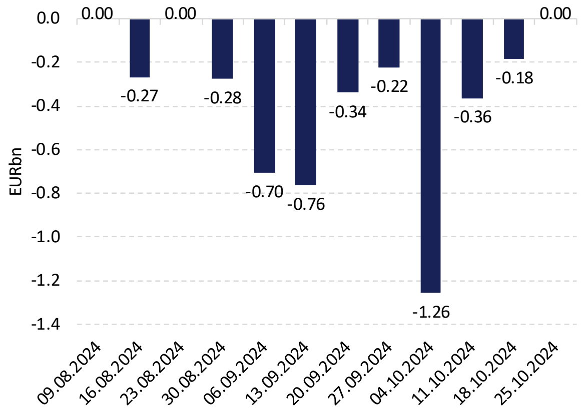


	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-24 - Sep-25	2023	2024	Jan-25 - Sep-25
APP	34,358	26,695	19,721	22,039	36,658	41,660	35,527	27,846	25,290	29,618	14,310	24,596	338,318	331,565	334,302	334,255
PSPP	30,578	21,298	15,643	13,463	24,021	33,379	26,671	20,541	18,261	26,161	13,114	12,568	255,698	255,025	264,480	253,586
CSPP	2,613	2,031	1,944	2,973	3,788	4,279	5,137	2,699	2,940	2,156	562	5,259	36,381	31,251	31,380	34,499
CBPP3	736	3,136	1,790	4,335	8,635	3,709	3,373	4,448	3,864	1,135	468	6,492	42,121	35,147	32,173	42,332
ABSPP	431	230	344	1,268	214	293	346	158	225	166	166	277	4,118	10,142	6,269	3,838

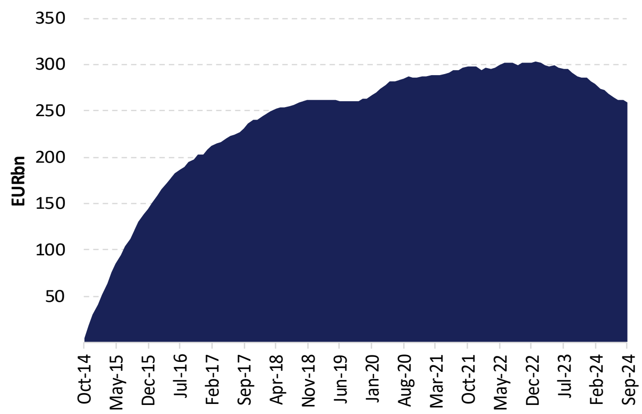
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

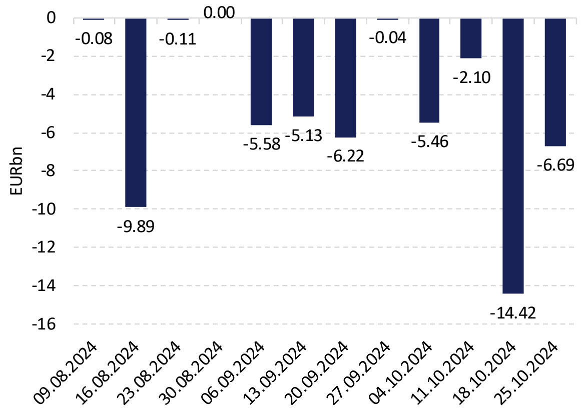


Development of CBPP3 volume

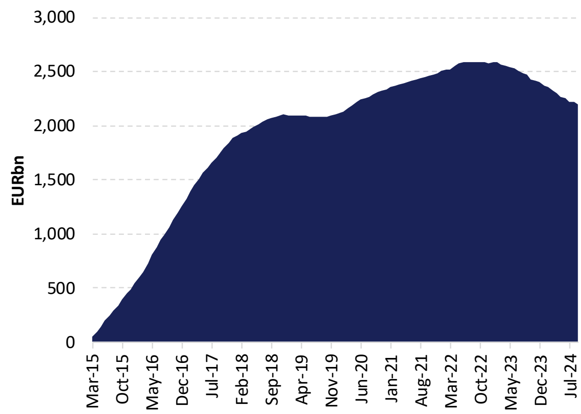


Public Sector Purchase Programme (PSPP)

Weekly purchases



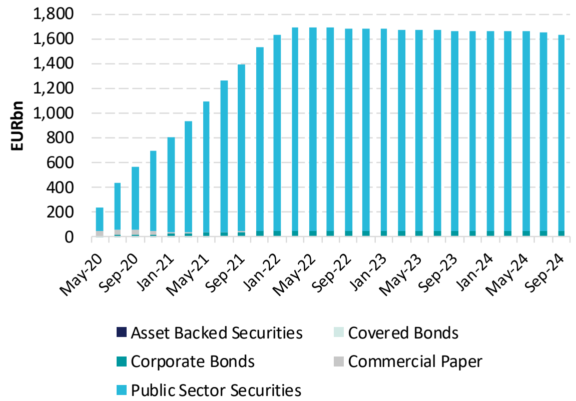
Development of PSPP volume



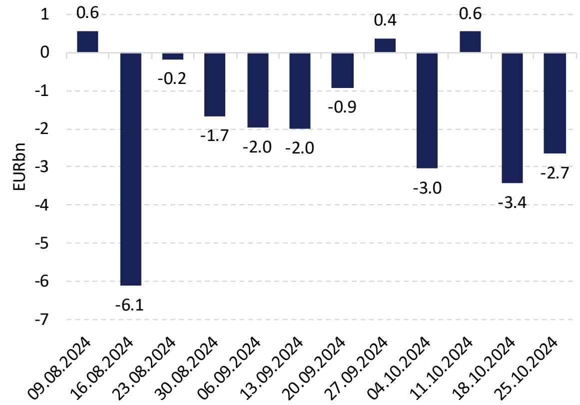
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
34/2024 ♦ 23 October	▪ A relative value investigation of covered bonds ▪ Current risk weight of supranationals & agencies
33/2024 ♦ 16 October	▪ The covered bond universe of Moody's: an overview ▪ Teaser: Issuer Guide – European Supranationals 2024
32/2024 ♦ 09 October	▪ A look at the CEE covered bond market ▪ NGEU: Green Bond Dashboard
31/2024 ♦ 02 October	▪ A review of Q3 in the Covered Bond segment ▪ Teaser: Beyond Bundeslaender – Spanish Regions
30/2024 ♦ 25 September	▪ The EUR benchmark segment after the summer break ▪ Update on German municipality bonds: DEUSTD and NRWGK
29/2024 ♦ 18 September	▪ ECBC publishes annual statistics for 2023 ▪ Sukuk bonds – an update on sharia-compliant investments
28/2024 ♦ 11 September	▪ Banca Sella joins the EUR sub-benchmark segment ▪ Teaser: Beyond Bundeslaender – Autonomous Portuguese regions
27/2024 ♦ 04 September	▪ New Pfandbrief issuer: Lloyds Bank GmbH ▪ Agencies and resolution instruments of the BRRD
26/2024 ♦ 21 August	▪ Central bank eligibility of covered bonds ▪ Teaser: Issuer Guide – German Agencies 2024
25/2024 ♦ 14 August	▪ Development of the German property market (vdp index) ▪ Classification of Supranationals and Agencies under Solvency II
24/2024 ♦ 07 August	▪ Transparency requirements §28 PfandBG Q2/2024 ▪ Teaser: Issuer Guide – Spanish Agencies 2024
23/2024 ♦ 10 July	▪ Repayment structures on the covered bond market: An update ▪ SSA review: EUR-ESG benchmarks in H1/2024
22/2024 ♦ 03 July	▪ Covereds: Half-year review and outlook for the second half of 2024 ▪ SSA half-year review 2024
21/2024 ♦ 26 June	▪ The covered bond universe of Moody's: An overview ▪ Teaser: Issuer Guide – Austrian Agencies 2024
20/2024 ♦ 19 June	▪ New EUR benchmark issuer from Slovakia ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
19/2024 ♦ 12 June	▪ ESG covered bonds: Green deals continue to dominate ▪ Teaser: Issuer Guide - Nordic Agencies 2024
18/2024 ♦ 29 May	▪ Transparency requirements §28 PfandBG Q1/2024 ▪ Development of the German property market (vdp Index) ▪ Spotlight on the EU as a mega issuer

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuers Research

Bloomberg:
RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

Issuer Guide – Covered Bonds 2024

Covered Bond Laws

Covered Bond Directive: Impact on risk weights and LCR levels

Risk weights and LCR levels of covered bonds (updated semi-annually)

Transparency requirements §28 PfandBG Q2/2024 (quarterly update)

Transparency requirements §28 PfandBG Q2/2024 Sparkassen (quarterly update)

SSA/Public Issuers:

Issuer Guide – German Laender 2024

Issuer Guide – German Agencies 2024

Issuer Guide – Canadian Provinces & Territories 2024

Issuer Guide – European Supranationals 2024

Issuer Guide – French Agencies 2023

Issuer Guide – Nordic Agencies 2024

Issuer Guide – Dutch Agencies 2024

Issuer Guide – Non-European Supranationals (MDBs) 2024

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2024

ECB: An autumn of interest rate cuts that wasn't supposed to be?

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Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
Frequent Issuers	+49 511 9818-9640

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