Merry Xmas and Happy New Year!
Many thanks to our loyal readers
Our next weekly publication
will be released on **08 January 2025**

Covered Bond & SSA View

NORD/LB Floor Research

18 December 2024 ♦ 42/2024
Marketing communication (see disclaimer on the last pages)

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Market overview Covered Bonds

Author: Dr Frederik Kunze

Start of the year on the primary market: “Business as usual” or The Sound of Silence?
The last activity on the primary market for covered bonds in EUR benchmark format was more than three trading weeks ago. On 25 November, CAFFIL came to market with a covered bond (EUR 1bn; 5.0y) at a re-offer spread of ms +57bp. Together with the previous deal from BPCE SFH (EUR 1bn; 5.3y; re-offer spread: ms +46bp), which also came from France, the newly placed volume in November 2024 totalled EUR 2bn. It should be pointed out that this was the weakest November for more than eight years. The average for the penultimate month of the year between 2016 and 2023 amounted to EUR 9.4bn. In our opinion, this weakness was triggered by the general market sentiment, which was determined to a large extent by the movements in the Bund-swap-spread. Covered bonds appeared to be too expensive for many investors from a relative value perspective and, from the issuer’s point of view, it was likely that “fresh supply” (especially at the longer end) would have to be placed at painfully wide levels – i.e. significantly higher than the calculated fair values. The unavoidable question now is how issuers and investors will come together at the start of the new year. A glance at figures from previous years indicates a high level of activity. In January 2024, for example, a total of EUR 40.6bn in new issues was placed, which corresponded to 27.7% of the annual volume issued. The years of 2023 and 2022 saw totals of EUR 39.7bn (21.5%) and EUR 27.8bn (14.0%) respectively. The second “COVID year” of 2021 marked a downward outlier at EUR 12bn (13.3%). In terms of the January share of the total annual volume, if we apply the average of the years 2016 to 2024 of 21.4% to the year 2025 based on our supply forecast (EUR 170bn), we arrive at a very strong January of EUR 36.4bn. However, this would initially be the gross volume excluding maturities, which are set to total EUR 14.5bn in January 2025. This means that the net supply of EUR 21.9bn would be quite high in this calculation, which would once again suggest significantly wider spreads. In fact, the question of whether business as usual can or will be possible at the start of 2025 needs to be addressed. Uncertainties with regard to the pricing process and the execution risk must initially be seen as above average at the beginning of the year. However, we do not expect that the primary market will fail to get out of the starting blocks, even if spreads are likely to be a few basis points wider than fair values might indicate. This point of view is based in particular on the fact that on the investor side there will be a significant need to place capital, which can be directed (back) to the covered bond segment by means of attractive pricing. Furthermore, it cannot be assumed that traditional covered bond investors have increasingly or completely shifted their allocations to other asset classes in the general period of uncertainty at the end of 2024. At the end of the day, the SSA/Public Issuers segment, for example, has also been characterised by heightened volatility. Overall, we do not expect the “calculated” gross issuance figure (EUR 36.4bn) to be reached in January but we are certainly anticipating that net new supply will be well into positive territory.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

Secondary market: calm and somewhat conciliatory in the run-up to Christmas

On the secondary market, the pre-Christmas mood that we mentioned in the previous week remains basically unchanged. With few sales, there has recently been a modest preponderance in favour of the buyer side – especially in the Pfandbrief segment. With regard to French covered bonds, no (additional) significant widening was evident from trading activity, although further OAT levels make covered bonds appear more expensive again.

Moody's: France's rating downgrade initially a non-event for covered bonds

The rating agency Moody's recently announced it was downgrading France's sovereign rating. In our view, lowering the long-term issuer rating to Aa3 (stable) will have no immediate implications for the ratings issued by Moody's for issuers or programmes active in the EUR benchmark segment. The agency rates 16 programmes in total, twelve of which have outstanding issues in EUR benchmark format. The most recent rating additions are the two programmes of Groupe CCF (cf. weekly publication 11 December), for which Moody's presented corresponding "New Issue Reports" (cf. CCF SFH Report) on 13 December. In theory, the recent downgrade of the state may have a direct influence on the covered bond ratings due to an associated lowering of the sovereign ceiling. In fact, after the recent downgrade for French covered bonds, an Aaa rating is still considered the best possible rating, meaning that no rating adjustment is necessary. Covered bond ratings in France are also protected against the "indirect route" via downgrades of issuers' unsecured ratings by what is known as the TPI leeway. Nevertheless, a possible devaluation of the assets must in theory be considered, particularly for those cover pools with high public sector shares. Together with rating movements at issuer level, this could affect overcollateralisation requirements. All in all, we are not yet expecting Moody's to turn to a negative outlook for French covered bond benchmarks. As an aside, we would like to mention at this point that the risk experts at S&P announced at the beginning of the week that they would no longer be rating CAFFIL's covered bonds (final rating: AA+; stable). CAFFIL bonds are still rated by Moody's (Aaa) and DBRS (AAA).

Scope Ratings: ECB completes technical implementation

In our weekly publication, we have also been following the journey of Scope Ratings to becoming a rating agency fully recognised by the ECB over the past few years and placed it in the relevant context with the asset classes we analyse. Just in time for the publication of our latest special on the regulatory treatment of covered bonds, Scope was able to announce the technical completion of the onboarding process at the ECB (cf. press release dated 14 December). This means that Scope-rated debt instruments (including covered bonds and Laender bonds) can now also be used as eligible collateral at the ECB (keyword: ECAF), which is a USP for European rating agencies. Scope, for example, already rates six of the 16 German Laender and 39 covered bonds from eleven jurisdictions. We provide a summary of Scope's covered bond rating methodology in our NORD/LB Issuer Guide Covered Bonds 2024.

Market overview
SSA/Public Issuers

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

Silent night, lower rates: ECB prepares for the new year

Expectations among observers and market participants in relation to the last interest rate decision in 2024 were clear: the ECB was expected to continue cutting rates and carry out a further revision downwards. “Delivery meets expectations” would therefore adequately describe our reaction to the central bankers’ final interest rate decision for 2024, which we have analysed comprehensively in our Fixed Income Special. In line with market expectations, the ECB has cut its three key interest rates by 25 basis points respectively: the rate for the deposit facility therefore now stands at 3.00%, while the rates for the main refinancing operations and marginal lending facility have been reduced to 3.15% and 3.40% respectively. The ECB ultimately had no surprises in store for us last Thursday. Although a rate cut of 50 basis points of the kind implemented on the same day by the Swiss central bankers was discussed by the ECB Governing Council, it was ultimately rejected. We would definitely have regarded a step on such a scale as excessive. The statement released by the ECB included a few changes in relation to the rhetoric of the central bankers. There was no more reference to the fact that the Governing Council is determined to ensure that inflation returns to its medium-term target of 2% in the near future. Instead, the Governing Council is now reportedly ready to take steps that would see inflation stabilise sustainably at the target level. From this, we deduce that, although further rate cuts are a done deal among Council members, the ECB is by no means willing to commit to any pre-defined course of action. Our expectations of Governing Council meetings next year will be true to our favourite mantra “cut, sleep, repeat”. In light of this, after the latest cut, we now expect a pause in January and the next rate cut to take place at the second meeting in March. In all, we expect the ECB to carry out a maximum of four rate cuts in 2025.

KfW announces funding target for 2025

On 10 December, Kreditanstalt für Wiederaufbau (KfW; ticker: KFW) announced its funding target for the coming year during its Global Investor Broadcast. Accordingly, Germany’s biggest promotional bank is planning to raise fresh funds of EUR 65-70bn in the capital market in 2025. By comparison, KfW initially started 2024 with a target of EUR 90-95bn before revising the figure to EUR 80bn during the course of the year. Next year, KfW will again reassess its liquidity requirements at the half-way stage and will communicate any relevant adjustment. In view of a weak economy in Germany along with political uncertainties at home and abroad, the promotional bank expects demand for credit to be muted. Of the fundraising earmarked for 2025, around EUR 10bn is to be raised in the form of Green Bonds – Made by KfW. The focus, moreover, will still be on benchmark issues in EUR and USD, but taps of existing EUR-denominated bonds of up to EUR 8bn are also planned next year. KfW also plans to focus on promoting the digitalisation of its issuance activities. From 2025 onwards, new EUR benchmark bonds will be issued as central register securities.

European Union publishes funding plan for H1/2025

Just two days after KfW, the European Union (ticker: EU) welcomed interested parties to its Global Investor Call, during which it announced precise details of its funding activities for the coming year. In H1/2025 alone (cf. funding plan), the EU is planning to issue fresh funds of EUR 90bn (not including EU bills). This will involve a total of six syndicated transactions within the period from January to June along with seven bond auctions. As part of the latter, from Q2/2025, in a new move, three different bonds will be also available for bids. For the full year 2025, the EU expects the funding target to be EUR 160bn, which would equate to a further increase. This year, the EU already issued more bonds than in any previous one and is therefore quickly going from one record high to the next. According to information from the EU itself, the outstanding bond volume amounts to more than EUR 580bn. Even though new debt securities to finance the biggest bond-based programme – NextGenerationEU (NGEU) – will only be issued until the end of 2026, the EU has indicated that it expects to maintain a strong market presence for the foreseeable future, firstly because of follow-up funding for bonds that are maturing, and secondly, because other political measures will also be financed through the issuance of bonds. "The publication of the Funding Plan for the first half of 2025 underscores the critical role of EU borrowing in advancing EU priorities. These operations have become essential for enabling swift responses to emerging priorities and challenges. This highly efficient tool has consistently demonstrated its benefits for both EU Member States and our neighbourhood," said Piotr Serafin, Commissioner for Budget, Anti-Fraud and Public Administration. The EU will continue to expand the green bond segment next year with the issue of NGEU Green Bonds. However, it was not specified whether potential new securities being issued would comply with the EU Green Bond Standard (cf. NORD/LB Fixed Income Special – ESG-Update 2024) which comes into force on 21 December. The outstanding green bond volume has been increased to over EUR 68bn during 2024. The EU is therefore still well on its way to becoming the biggest green bond issuer in the world.

NWB: capital requirements in 2025

As part of its annual Supervisory Review and Evaluation Process (SREP), the ECB has confirmed the 2025 capital requirements imposed on the Dutch municipal financing institution Nederlandse Waterschapsbank (NWB; ticker: NEDWBK). From 01 January of next year, an SREP capital requirement of 10.25% will apply to the agency. This is the sum of the minimum Pillar 1 requirement of 8% and the additional Pillar 2 requirement of 2.25%. In line with European banking supervisory rules, lending institutions must maintain additional buffers for various purposes (for maintaining capital and hedging against cyclical and anticyclical systemic risks). The capital conservation buffer (CCoB) imposed on NWB stands at 2.5%. Furthermore, the Dutch Central Bank has introduced a countercyclical capital buffer (CCyB) of 2% for lending in the Netherlands. For any further information on the issuer's regulatory characteristics, we would refer our readers to our NORD/LB Issuer Guide – Dutch Agencies 2024. We are also planning an update of this study in 2025.

Review of Saarland's budget situation a necessity

In the context of the 31st meeting of the Stability Council, the metrics system for 2023 showed a one-off anomaly in the case of Saarland (ticker: SAARLD). This has now triggered a review of the budget situation by the Evaluation Committee. According to Saarland's Finance Minister Jakob von Weizsäcker, the anomaly arose because of simple pass-through items that serve to record VAT revenue from Luxembourg as part of the so-called "one stop shop" method (OSS). In Q4/2023, there was a back-payment of EUR 0.4bn in this respect, which was passed on to the Bund (federal government) and the Laender in Q1/2024 under the VAT distribution and Financial Power Equalisation (Finanzkraftausgleich; FKA) schemes. In order to avoid a distortion of the budget situation across the two years, Saarland had returned the additional revenue from 2023 to the Economic Compensation Reserve and then deducted the same amount from 2024. Although the Stability Council's system of metrics had adjusted the tax revenues, it had incorrectly recorded the transfer to the Economic Compensation Reserve as normal expenditure. As a result of this regulatory discrepancy, there will now be a review of the budget situation by the Evaluation Committee set up by the Stability Council.

Moody's downgrades France to Aa3 with stable outlook

The rating agency Moody's has downgraded the credit rating of France from Aa2 to Aa3 in response to the vote of no confidence in the dispute surrounding the planned austerity budget, which sealed the fate of Michel Barnier's centre-right government. The downgrade is said to reflect the fact that the political fragmentation of the country is likely to bring about a significant weakening of public finances. Consequently, Moody's states that there is little chance of any future government succeeding in making a decisive reduction to France's budget deficit. As things stand at present, France still has no budget for the year ahead, even though a special law is to serve as a transition measure. In contrast, Moody's revised the outlook for the sovereign from "negative" to "stable". In view of the existing liability hierarchy, adjustments to the ratings of sub-sovereign issuers can be expected.

Primary market

So, what presents are under the Christmas tree? The first SSA mandate for 2025! This is the best form of self-promotion for the federal state of Lower Saxony: practically every single seasoned market participant expects to see the NIESA ticker right at the beginning of the new year and this time around, it will be delivered right to the door again – even in a short trading week. A dual tranche has already been announced yesterday in wonderfully concrete terms. Since NIESA rarely goes over ten years, we had hoped that it would be active in the 10y segment, which is so important for the general market. Please note, only two NIESA bonds (from 2020 and 2021) have a maturity of 15 years. In addition, the shorter maturity is for five years, as a result of which, here as well, there could be a fair pricing in both cases compared with KfW or covered bonds, for example (key word: relative value). This would immediately set two very helpful markers for the new year, which other issuers will be able to use as a guide and reference point. It is worth remembering that January is generally one of the most active months – or even the most active month – of the whole year in terms of activity, but the sum of maturities in January 2025 will only be the fifth largest across the year as a whole. Forecasts fluctuate between full speed ahead and "let's wait and see". We wish all our readers a peaceful Christmas and a Happy New Year! Many thanks for your trust and appreciation in 2024!

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

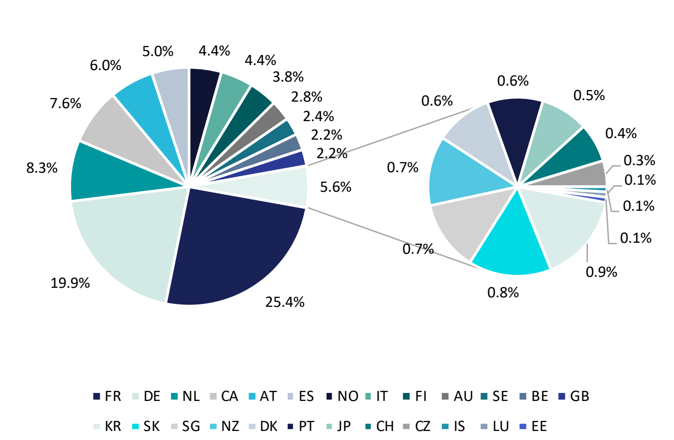
Covered Bonds
A regulatory look at the iBoxx EUR Covered

Author: Dr Frederik Kunze

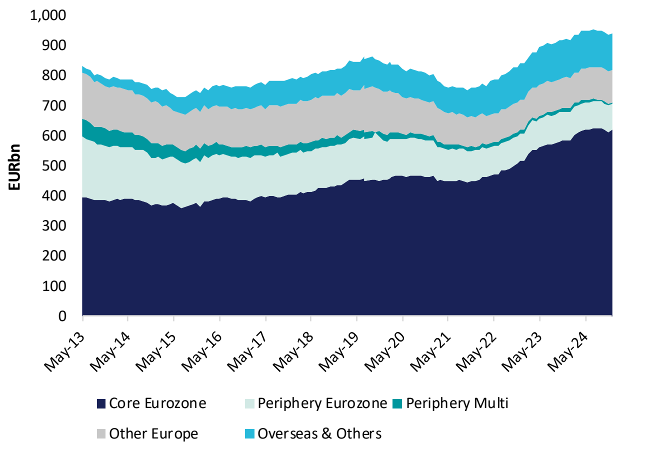
A (regulatory) look at the EUR benchmark segment

The regulatory treatment of covered bonds is a key variable in the investment decisions of a large proportion of investors. This is one of the reasons why regulatory issues form an important component of our coverage. These relate to the treatment in the context of LCR management, the equity capital charge (keyword: risk weight), in the SCR derivation (solvency) or when used as eligible collateral. We provide a comprehensive overview of the currently applicable regulations in the annually published NORD/LB Issuer Guide Covered Bonds. In the current issue, we also present the regulatory framework parameters for issuance programmes at cover pool level. We focus on programmes with outstanding EUR benchmarks (issuance size ≥EUR 500m) and outstanding EUR sub-benchmarks (≥EUR 250m and <EUR 500m), although we would describe the sub-benchmark segment as a niche market. The focus of market participants is therefore clearly on EUR benchmarks, which are also summarised in the iBoxx EUR Covered benchmark index. The best possible regulatory treatment of covered bonds in the EUR benchmark format – in the context of LCR management – is specified by the LCR Regulation as "Level 1". With regard to the CRR, a risk weight of 10% can be derived in the best-case scenario for covered bonds in the standardised approach. While issuance size in particular plays a key role for LCR treatment, the CRR does not differentiate here according to the outstanding volume of the bond. As a supplement to the Issuer Guide, we publish the Covered Bond Special "Risk Weights and LCR Levels of Covered Bonds" twice a year. Moreover, in the most recent issue we summarise the regulatory requirements and present the key regulatory metrics for the issuers and covered bonds represented in the iBoxx EUR Covered.

Composition iBoxx EUR Covered



Development of volume (iBoxx EUR Covered)

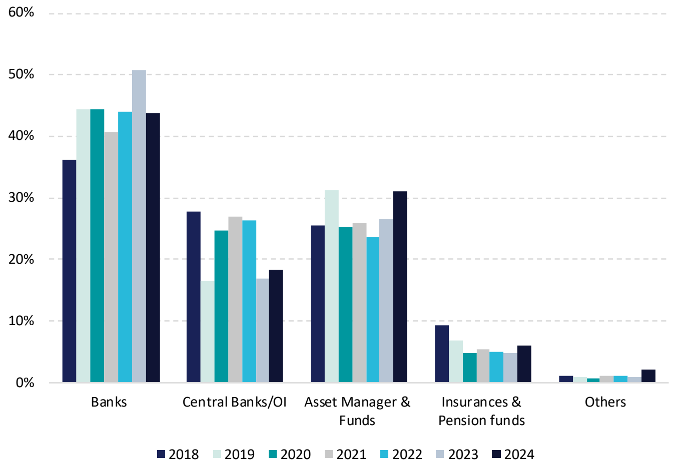


Source: Market data, Bloomberg, NORD/LB Floor Research

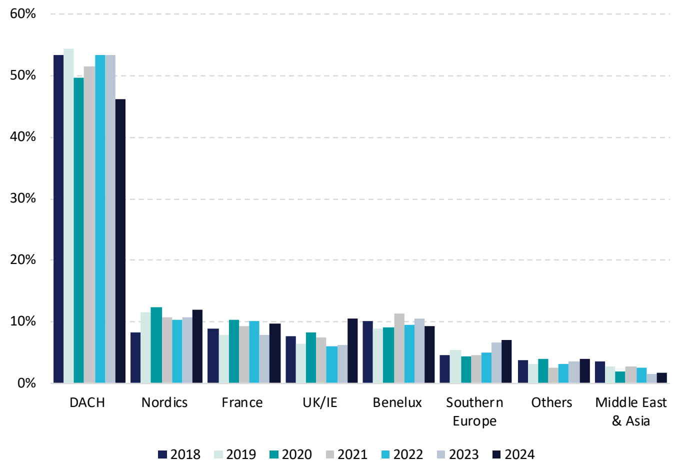
iBoxx EUR Covered: investment grade rating and minimum volume of EUR 500m

The criteria for the iBoxx EUR Covered provide for the exclusive inclusion of euro-denominated publicly placed covered bonds with a fixed coupon, which have an outstanding volume of at least EUR 500m. In addition, an investment grade rating from the agencies Fitch (≥BBB-), Moody's (≥Baa3) or S&P (≥BBB-) is mandatory, although the mean value method is used for more than one rating (cf. [Markit iBoxx EUR Benchmark Index Guide]). The bonds in the iBoxx EUR Covered must also have a remaining term of at least one year, with the original maturity date being decisive for covered bonds with extendable maturities. The composition of the iBoxx EUR Covered is determined on a monthly basis at the close of business on the last working day of the reporting month.

Primary market: distribution by investor group



Primary market: allocation by jurisdiction



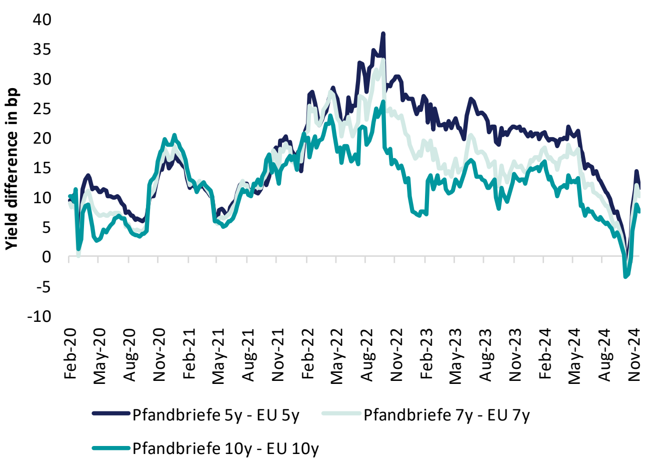
Source: Market data, Bloomberg, NORD/LB Floor Research

iBoxx EUR Covered comprises an outstanding volume of EUR 945bn

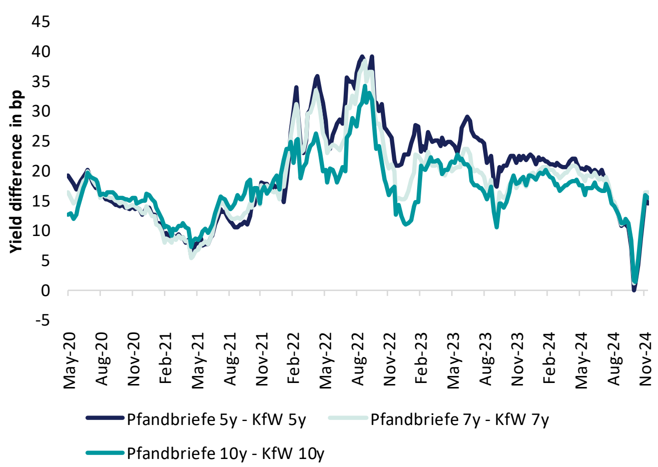
In the composition for the reporting month December 2024, the outstanding iBoxx volume amounts to EUR 945bn. In December 2023, the total of outstanding bonds in the iBoxx EUR Covered was EUR 925bn. The benchmark index also includes a total of 1,110 bonds spread across 27 jurisdictions. France accounts for the largest volume with EUR 240bn (231 bonds) – followed by Germany (EUR 188bn; 268 bonds), the Netherlands (EUR 78bn; 78 bonds), Canada (EUR 72bn; 52 bonds) and Austria (EUR 57bn; 94 bonds). The share of covered bonds whose issuers are attributable to the eurozone stands at 74.9% in the December 2024 composition. The relevance of the regulatory treatment of covered bonds for investors is also reflected in the investor allocation of the EUR benchmarks placed on the primary market. For the "Banks" investor group, we assume a high proportion of bank treasuries who purchase covered bonds for their investment book. In a historical comparison, we would describe this group as the foundation of the investor side. This view could be confirmed following the Eurosystem's withdrawal from the primary market in 2023. In the 2023 issuance year, the average allocation share of the "Banks" category was 51%, after 44% (2022) and 41% (2021) in the previous years. In 2024, the figure is again "only" 44%. By contrast, at 31%, there was a noticeable increase in the "Asset Manager & Funds" investment group across this timeframe, with this share having been down at 27% in the previous year.

Regulatory treatment as one explanatory variable for spread movements
The (preferred) regulatory treatment of covered bonds must also be considered in relative terms to other asset classes. Ultimately, this also results in reciprocal effects with regard to the spreads on the respective primary and secondary markets. The very pronounced narrowing movement in the meantime, for example towards issues from the SSA/Public Issuers universe that are better placed from a regulatory perspective (cf. regular Floor Research Coverage), has weighed noticeably on sentiment in the covered bond segment in recent weeks. As an example, we illustrate the situation with regard to the yield differential between EUR benchmark issues from the EU or KfW and German Pfandbriefe. Long term, however, divergent regulatory treatment within the covered bond segment will also materialise quite significantly. This applies, for example, to the spreads of Pfandbriefe compared with covered bonds from Canada. Canadian covered bonds tend to feature spread premiums versus Pfandbriefe. One reason why Canadian covered bonds trade more tightly than issues from the APAC region is likely due to the fact that they can be used as ECB collateral. The main demarcation lines in terms of regulatory differentiation remain EEA membership, which enables access to the best possible treatment within the meaning of the CRR and LCR, as well as membership of the G10 states, which – at least for EUR issues from non-EEA jurisdictions – is the basic prerequisite for eligibility as collateral in the context of the ECB Collateral Framework.

Yield differential Pfandbriefe vs. EU



Yield differential Pfandbriefe vs. KfW



Source: Bloomberg, NORD/LB Floor Research

Conclusion
In the current issue of our “NORD/LB Covered Bond Special – Risk Weights and LCR Levels of Covered Bonds”, which is published twice a year, we provide an up-to-date summary of the main legal requirements as well as regulatory classification at issuer and ISIN level. This is based on the total 1,100 covered bonds in EUR benchmark format included in the iBoxx EUR Covered as at December 2024.

SSA/Public Issuers
Teaser: Beyond Bundeslaender – Belgium

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese // assisted by Maximilian Lingenfelser

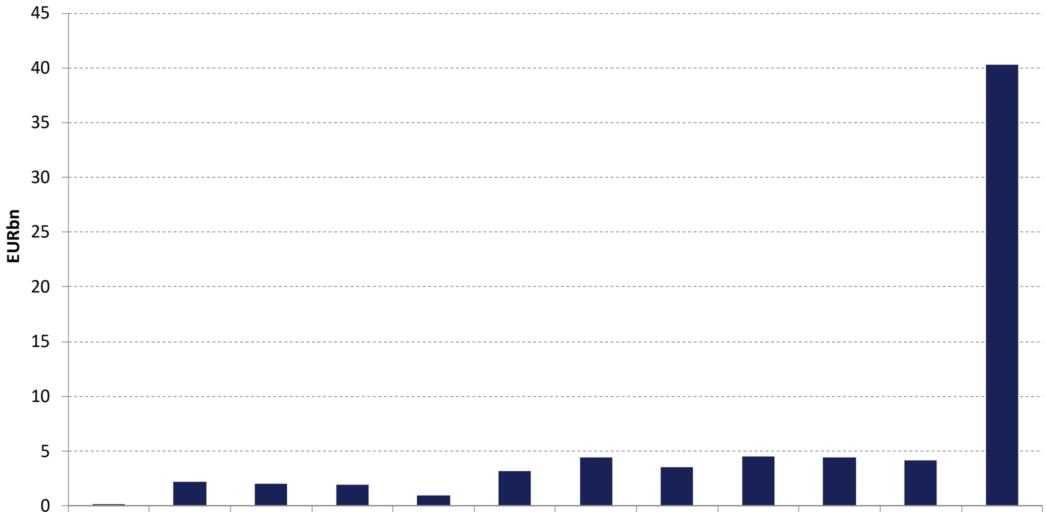
Introduction: Belgian sub-sovereigns in the spotlight

After having already updated our studies on the sub-sovereign markets away from the German Laender in the form of publications covering events Down Under, in Canada, Paris (Île-de-France and Ville de Paris), as well as in Spain and Portugal too, we shall be taking a look at the regional governments and local authorities (RGLAs) with capital market relevance in Belgium. Some issuers represent interesting investment alternatives, especially for ESG investors. As part of this teaser article, our aim is to provide readers with a brief overview of the economic, political and regulatory aspects of this market, into which we shall be delving deeper as part of the full study due for publication in the near future.

Structure of Belgium

The focus here will once again be on the levels below the federal state and the communities, namely the regions and provinces of Belgium. There are three regional institutions which take the name of their respective territory. From north to south, they are as follows: the Flemish Region (Flanders), the Brussels-Capital Region and the Walloon Region (Wallonia). Aside from these three regions, the federal state of Belgium also comprises three communities defined by their language: the Flemish, French and German-speaking communities. Whereas the Flemish-speaking community exercises its competencies in Flanders and Brussels, the French community is located in the Walloon Provinces and, likewise, in the Brussels-Capital Region. The German-speaking community of Belgium, which covers nine municipalities in the extreme east of the Walloon province of Liège, is by far the smallest in this regard. The three language-based communities were introduced following the first state reform (1970). The areas of responsibility of the regions and communities have been extended over the course of various reforms. Following the second state reform (1980), the Flemish and Walloon Regions were each given a parliament and government of their own. In contrast, the Brussels-Capital Region did not obtain its institutions until the third state reform in 1988/89. The members of the regional parliaments are directly elected every five years by the Belgian people. In addition to the regional parliament and regional government, in Wallonia there are also parliaments and governments dedicated to the French-speaking and German-speaking communities. As such, there are actually three separate parliaments and three governments in Wallonia. The situation is somewhat different in Flanders, where the Flemish community and regional institutions are merged. As a result, there is just a single parliament and one government here. Both regions and communities are empowered to exercise legislative powers in certain areas. The most recent elections at federal level in Belgium took place on 09 June 2024 and were therefore held in parallel with European elections. Moreover, the elections to the Flemish parliament in addition to the parliaments of Wallonia and the Brussels-Capital Region also took place on the same day. In general, federal elections are held every five years. With the majority of political parties in Belgium boasting strong, deep-rooted regional connections, forming governments at regional level tends to be somewhat easier than is the case at national level. In this regard, the various regional parliaments are dominated by stakeholders with a vested interest in promoting the development of their respective local communities in each case.

Belgian issuers: outstanding bonds



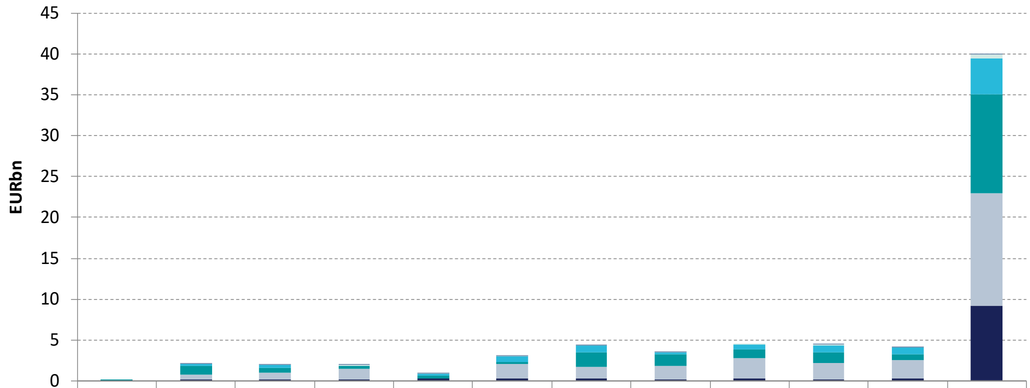
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
Other	0	0	0	0	0	0	0	0	0	0	0	0
EUR	65	2,175	2,000	1,946	936	3,114	4,388	3,537	4,493	4,390	4,150	40,284

Source: Bloomberg, NORD/LB Floor Research; table values in EURm.

Outstanding volumes on the Belgian sub-sovereign market

In total, the regional market as a whole currently amounts to EUR 71.5bn (split across 737 different bond issues), having stood at EUR 59.3bn roughly one year ago. Here, FLEMSH (EUR 28.1bn) and WALLOO (EUR 21.1bn) lead the way, followed at some distance behind by BRUCAP (EUR 11.4bn) and LCFB (EUR 9.2bn). Finally, DGBE (EUR 1.1bn) and FRBRTC (EUR 0.3bn) complete the picture here. FLEMSH has been top of the table in this regard for many years. Due to its increased issuance activity with benchmark bonds, WALLOO has climbed the rankings to become the second largest sub-sovereign issuer in Belgium. Private placements with terms of up to 100 years also ensure that the overall structure of outstanding Belgian sub-sovereign bonds can be described as highly granular overall.

Outstanding bonds of selected Belgian issuers



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
FRBRTC	0	14	25	24	18	26	38	34	0	10	20	103
DGBE	0	55	68	79	70	53	71	70	55	61	65	434
LCFB	0	235	290	45	255	665	765	210	600	833	800	4,466
WALLOO	40	1,085	635	287	279	244	1,862	1,420	1,065	1,285	720	12,159
FLEMSH	0	627	780	1,320	0	1,849	1,377	1,640	2,500	2,031	2,250	13,688
BRUCAP	25	113	175	175	300	233	265	159	273	170	285	9,220

Source: Bloomberg, NORD/LB Floor Research; table values in EURm.

Liability mechanism and regulatory aspects

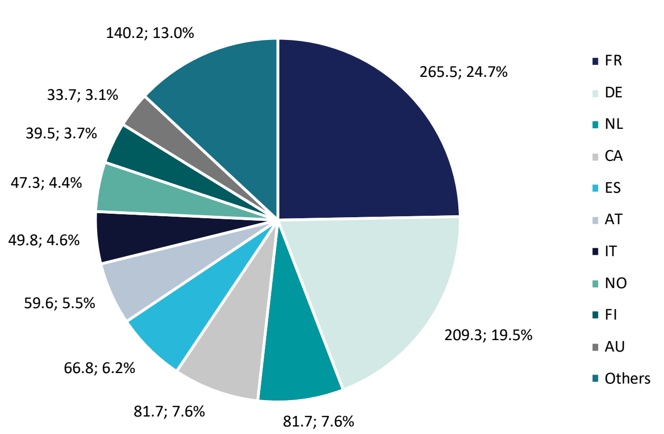
Interestingly, the Belgian regions enjoy neither horizontal financial equalisation nor an explicit guarantee from the Kingdom of Belgium. Consequently, the federal state is tasked with making corresponding transfer payments (vertical structure). Tensions between Flanders and Wallonia can be described as considerable. 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 step in to provide support to its 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. In terms of their classification in regulatory frameworks, bonds issues by the Belgian regions benefit from excellent treatment: for example, they are eligible for a risk weight of 0% in the context of the CRR/Basel III. Moreover, they qualify as Level 1 assets under the LCR. In line with Solvency II, Belgian regions are also classified as "preferred". The risk weight and therefore also the LCR classification are essentially derived from Article 115(2) CRR, according to which exposure to regional governments and local authorities (RGLAs) can be equated with that to the respective central government. For RGLAs within the EU, for which this is the case, the European Banking Authority (EBA) maintains a relevant public database. As the sub-sovereigns are explicitly listed here, the risk weight is derived from Article 114 CRR, whereby pursuant to paragraph 4, EUR-denominated exposures to central governments of the member states are assigned a risk weight of 0%. As such, bonds issued by the Belgian regions generally benefit from the same regulatory advantages as bonds of the German Laender, for example.

Conclusion

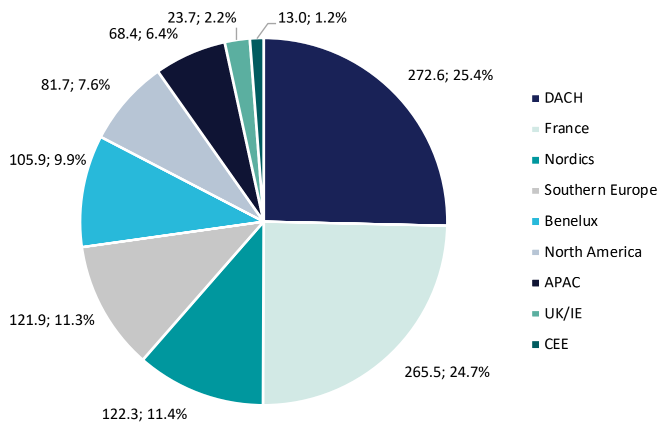
Against the backdrop of the dynamic development in the interest rate environment since 2023, interesting investment opportunities are repeatedly arising in certain niche markets. Our studies on Spain, Portugal, Paris (Île-de-France and Ville de Paris) as well as Canada and Down Under are to be interpreted in the same light. Belgian RGLAs supplement the classic SSA portfolio in terms of maturity and/or yield, but in any case, contribute to diversification. The trend in outstanding volume, which stands at EUR 71.5bn in 2024 versus a value of EUR 59.3bn around a year ago, shows that opportunities are regularly opening up in this market segment. Despite growth in recent years, the Belgian market for sub-sovereign bonds certainly remains on the small side, although we feel that greater attention should be paid to FLEMSH and WALLOO with regard to their issuance volumes. It is interesting to note that there is still no diversification in terms of foreign currencies. Second and third tier issuers are regularly the focus of attention when it comes to rare investment alternatives, not least because notable volumes of Belgian regional bonds were acquired by the Eurosystem under the PSPP and PEPP. Therefore, such bonds are of interest from both a yield and regulatory point of view, while the issuers are additionally open to private placements. From our perspective, the market for Belgian sub-sovereign bonds has developed into an attractive alternative to, for example, the German Laender, for ESG investors too. All details concerning the Belgian economy, the market for regional bonds as well as all active issuers can be found in the upcoming "Beyond Bundeslaender: Belgium" study, which is part of our Public Issuers Special series and is set for publication at the turn of the year.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



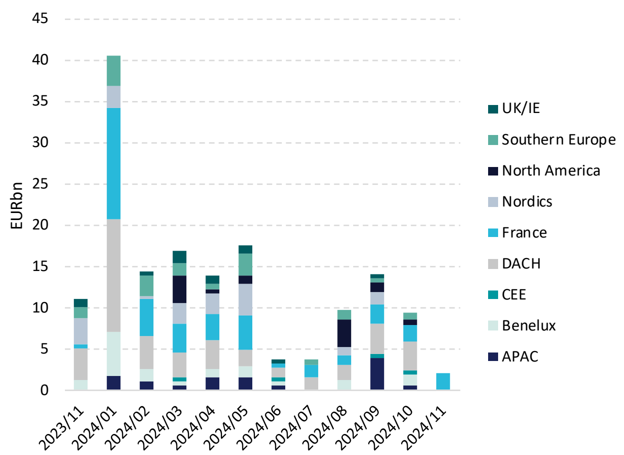
EUR benchmark volume by region (in EURbn)



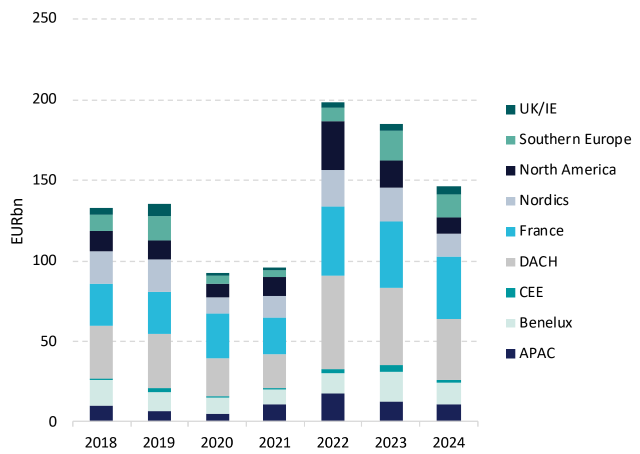
Top-10 jurisdictions

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	265.5	256	29	0.97	9.2	4.6	1.50
2	DE	209.3	296	45	0.65	7.8	3.8	1.54
3	NL	81.7	82	3	0.93	10.5	5.9	1.40
4	CA	81.7	60	1	1.34	5.6	2.5	1.43
5	ES	66.8	53	5	1.14	11.1	3.0	2.19
6	AT	59.6	100	5	0.59	8.0	4.0	1.56
7	IT	49.8	64	5	0.76	8.5	3.8	2.01
8	NO	47.3	58	12	0.81	7.2	3.3	1.11
9	FI	39.5	45	4	0.86	6.7	3.3	1.77
10	AU	33.7	32	0	1.05	7.2	3.8	1.79

EUR benchmark issue volume by month

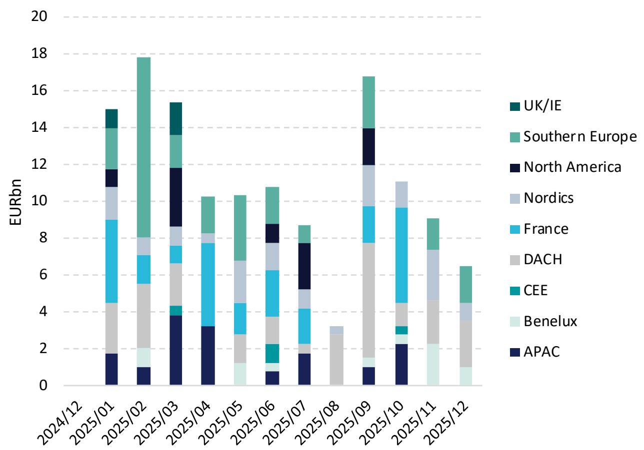


EUR benchmark issue volume by year

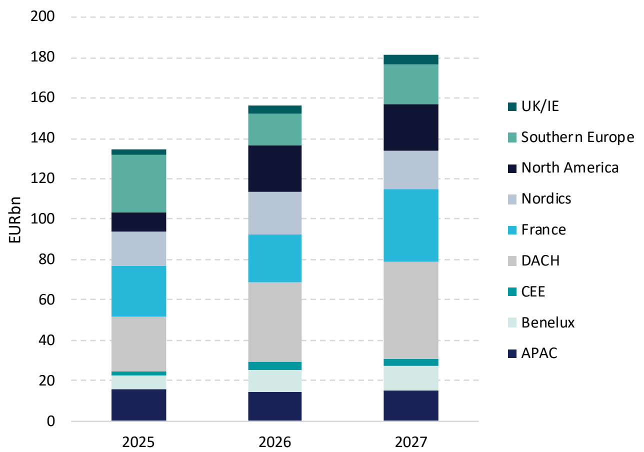


Source: Market data, Bloomberg, NORD/LB Floor Research

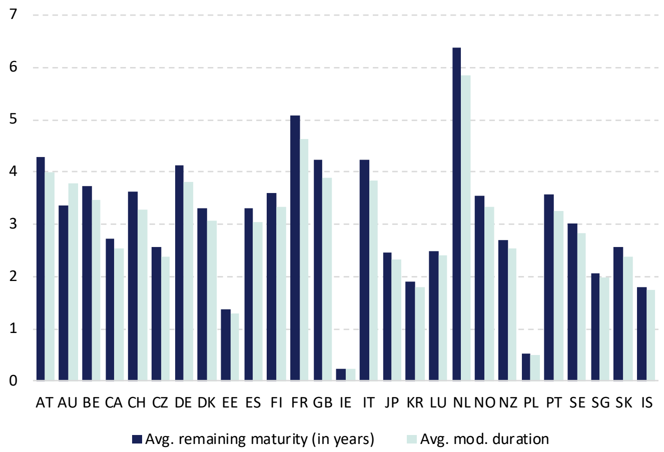
EUR benchmark maturities by month



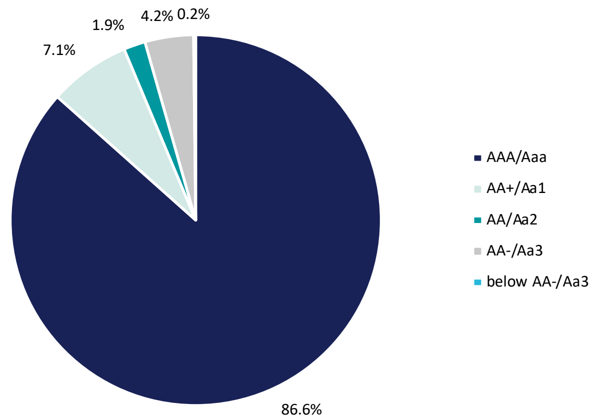
EUR benchmark maturities by year



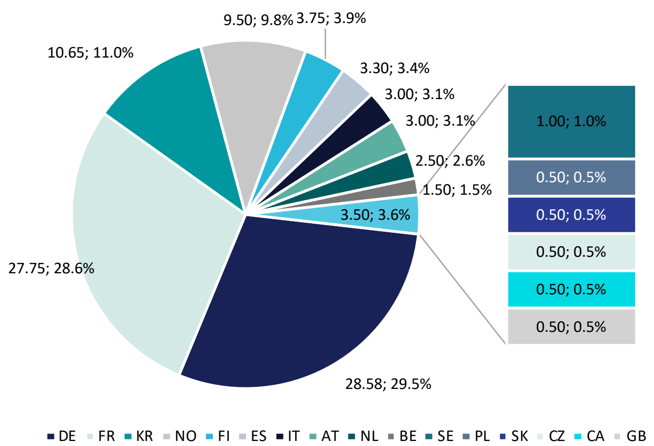
Modified duration and time to maturity by country



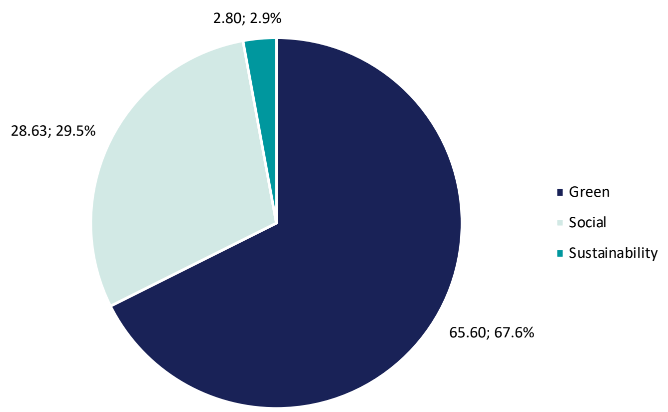
Rating distribution (volume weighted)



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

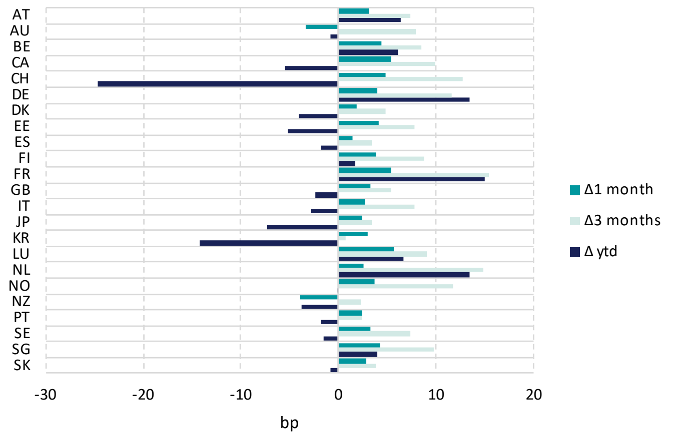


EUR benchmark volume (ESG) by type (in EURbn)

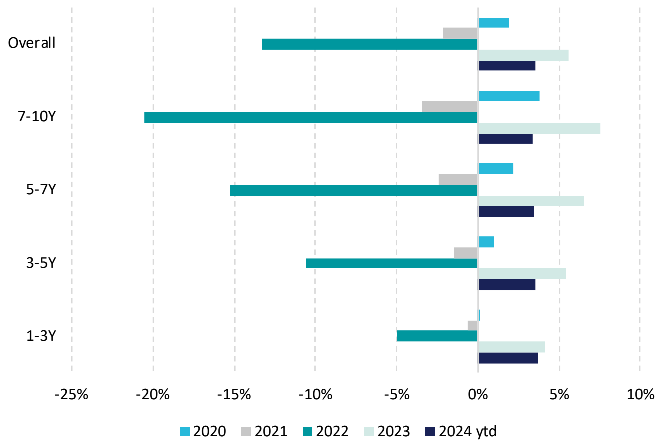


Source: Market data, Bloomberg, NORD/LB Floor Research

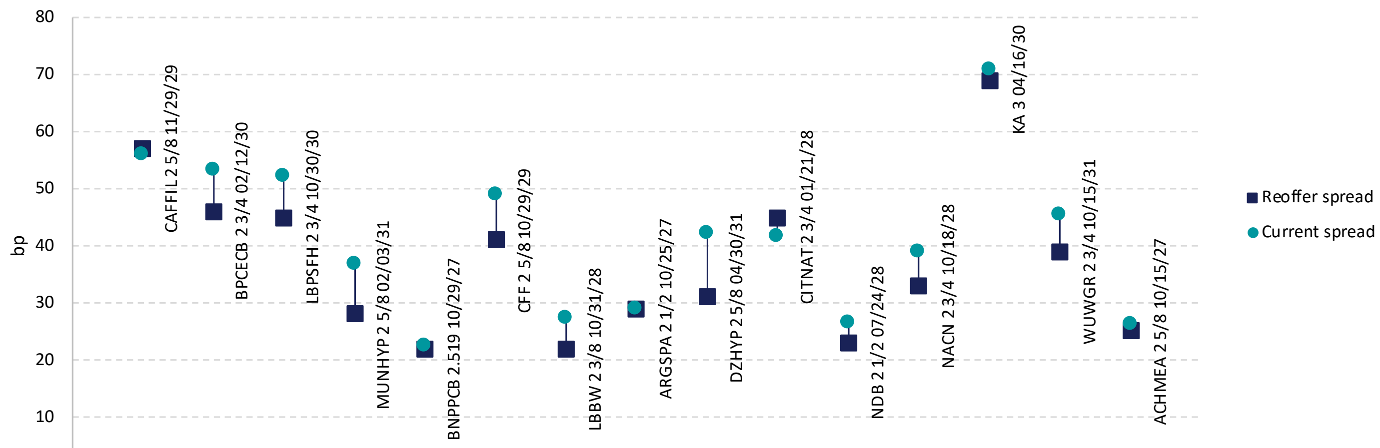
EUR benchmark emission pattern



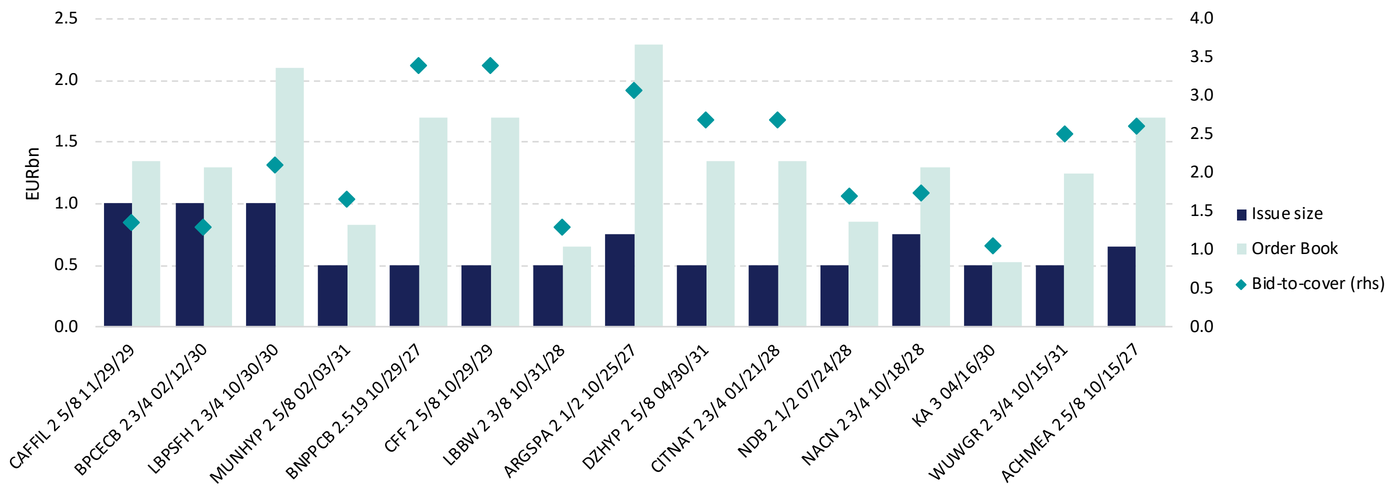
Covered bond performance (Total return)



Spread development (last 15 issues)



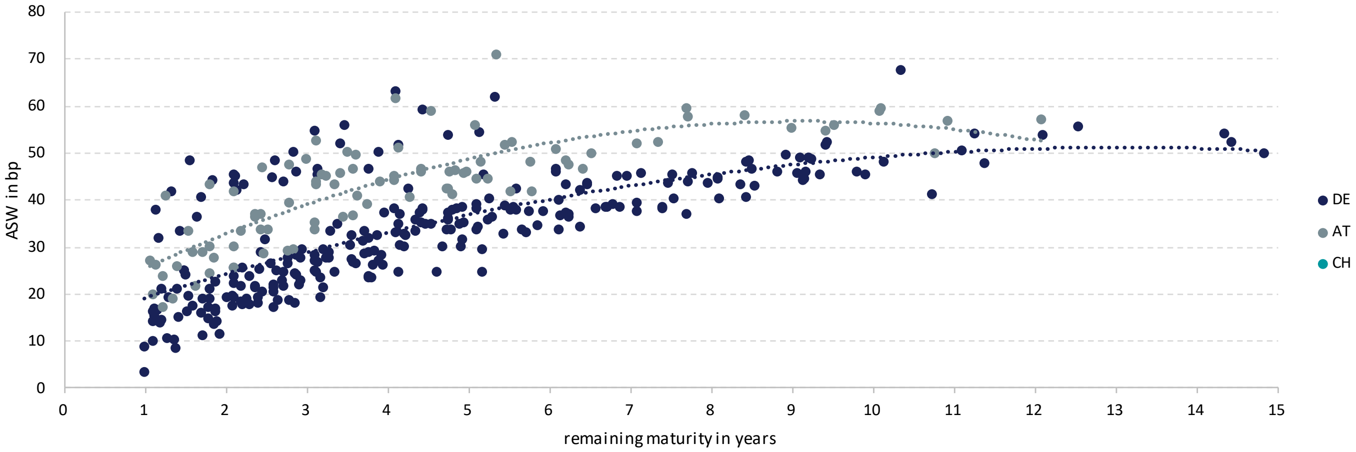
Order books (last 15 issues)



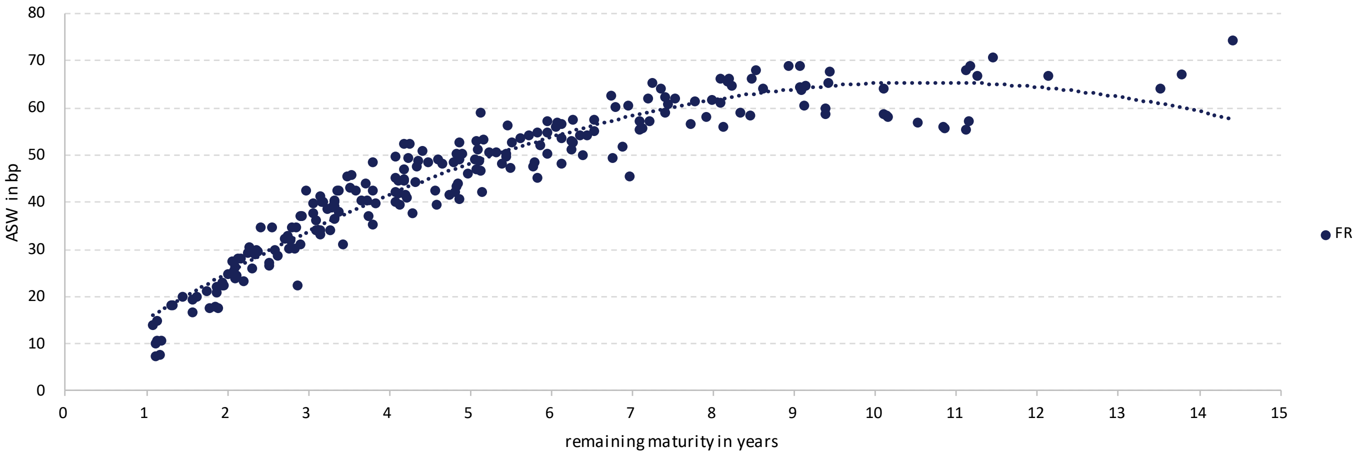
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

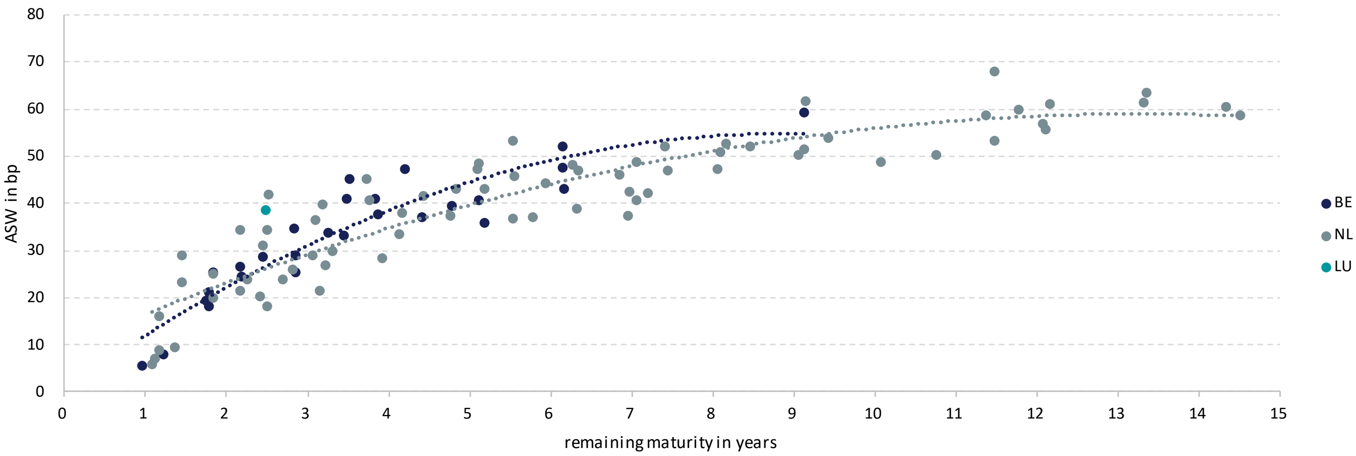
DACH



France

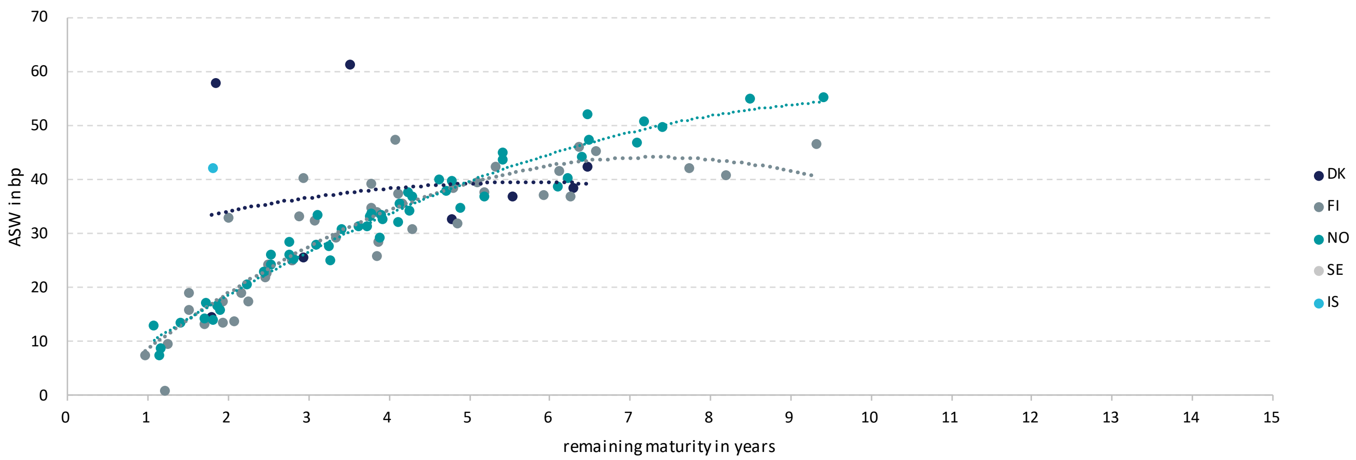


Benelux

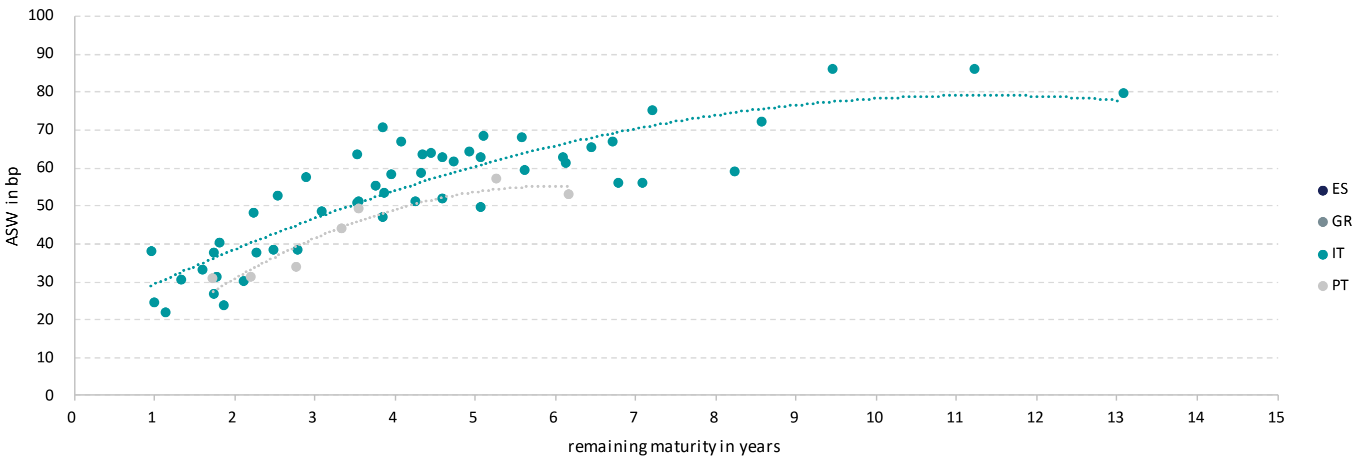


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

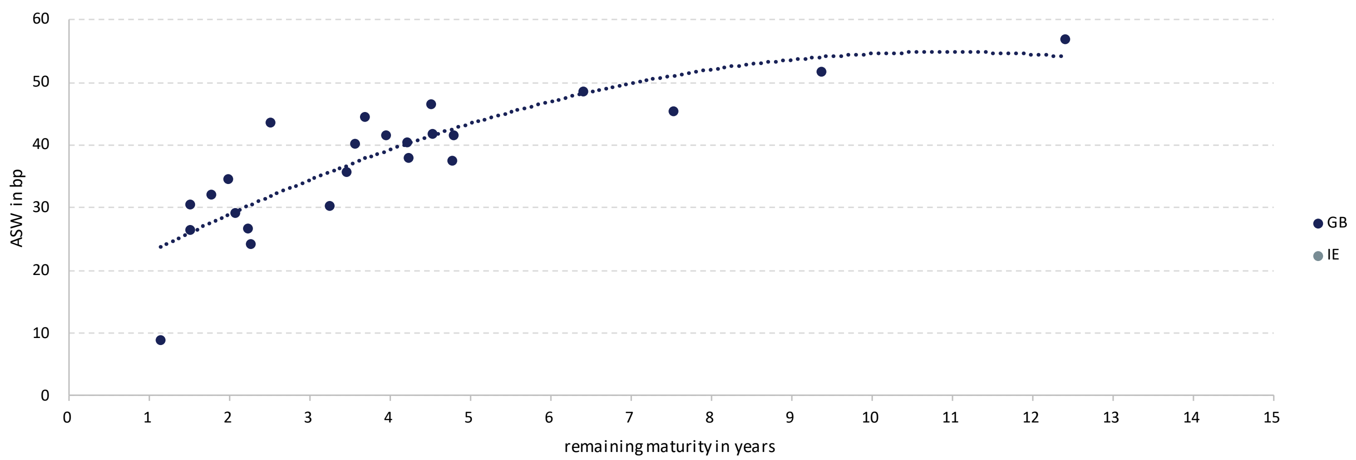
Nordics



Southern Europe

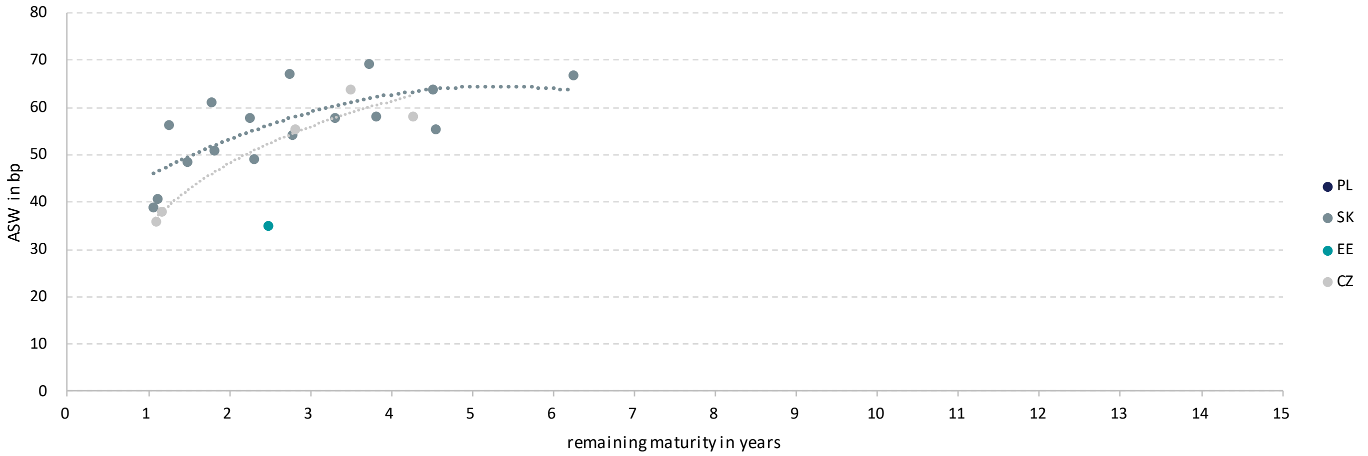


UK/IE

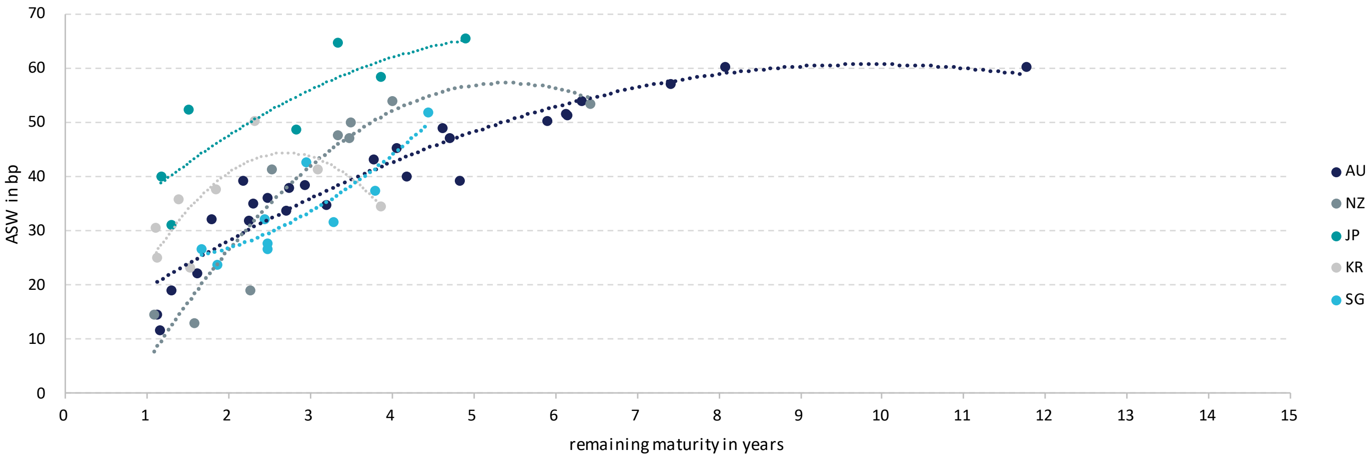


Source: Market data, Bloomberg, NORD/LB Floor Research

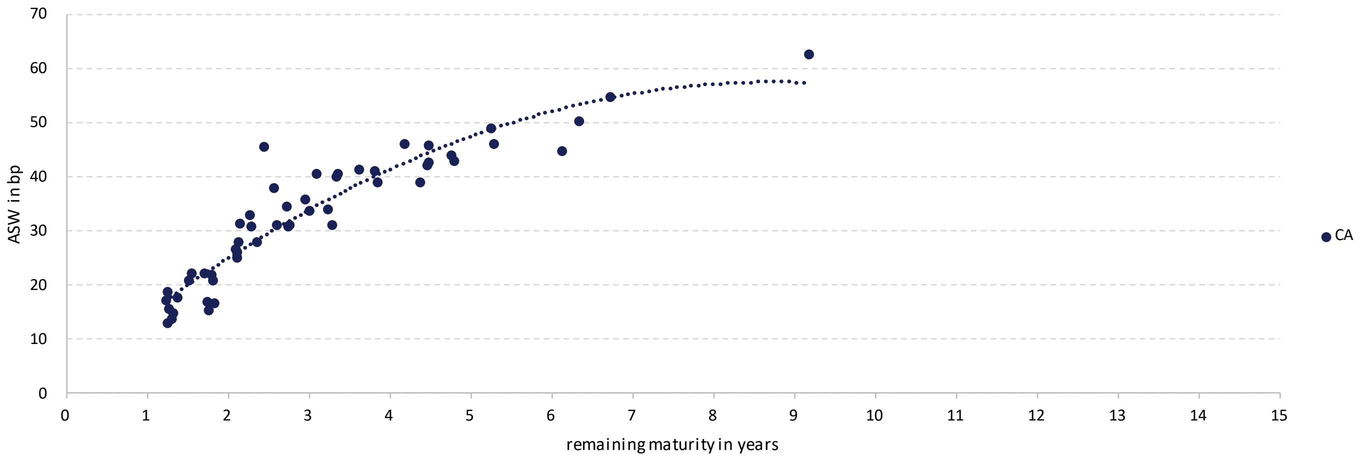
CEE



APAC



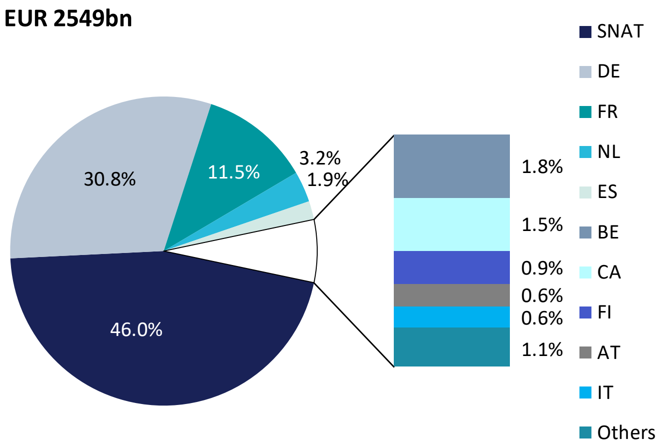
North America



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

Charts & Figures
SSA/Public Issuers

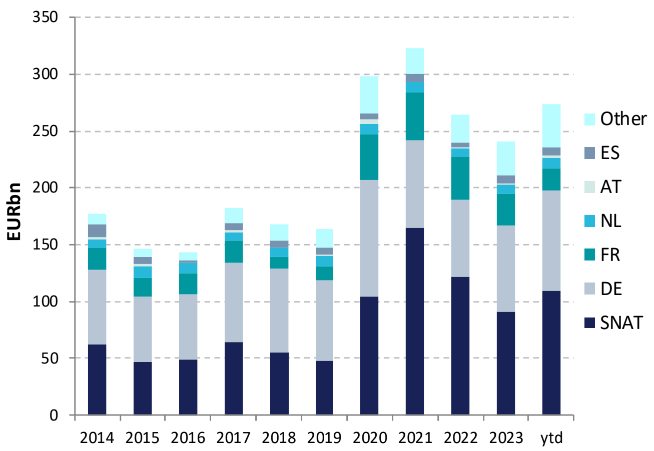
Outstanding volume (bmk)



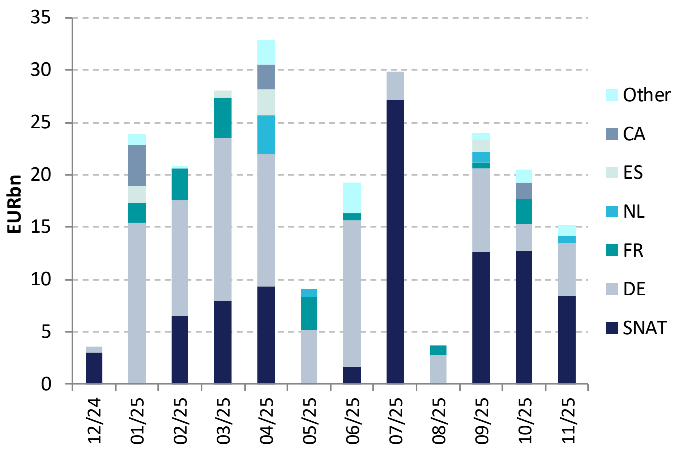
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,171.5	242	4.8	7.9
DE	784.0	590	1.3	6.1
FR	294.2	198	1.5	5.7
NL	82.3	67	1.2	6.3
ES	49.4	69	0.7	4.7
BE	45.1	46	1.0	10.0
CA	39.1	28	1.4	4.7
FI	23.3	25	0.9	4.5
AT	16.0	21	0.8	4.8
IT	15.6	20	0.8	4.3

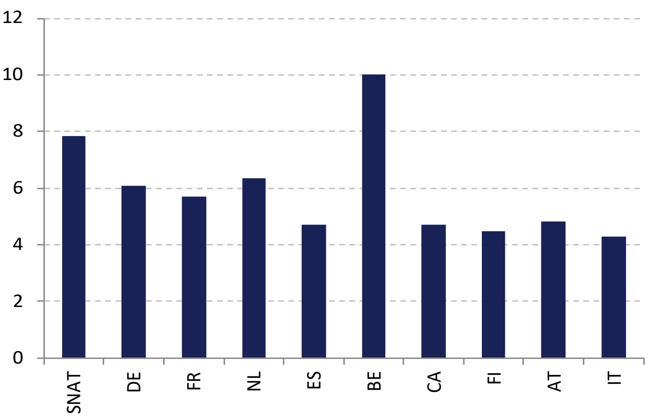
Issue volume by year (bmk)



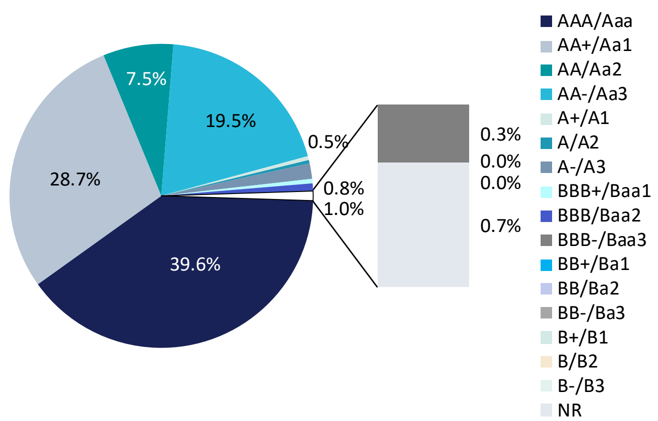
Maturities next 12 months (bmk)



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

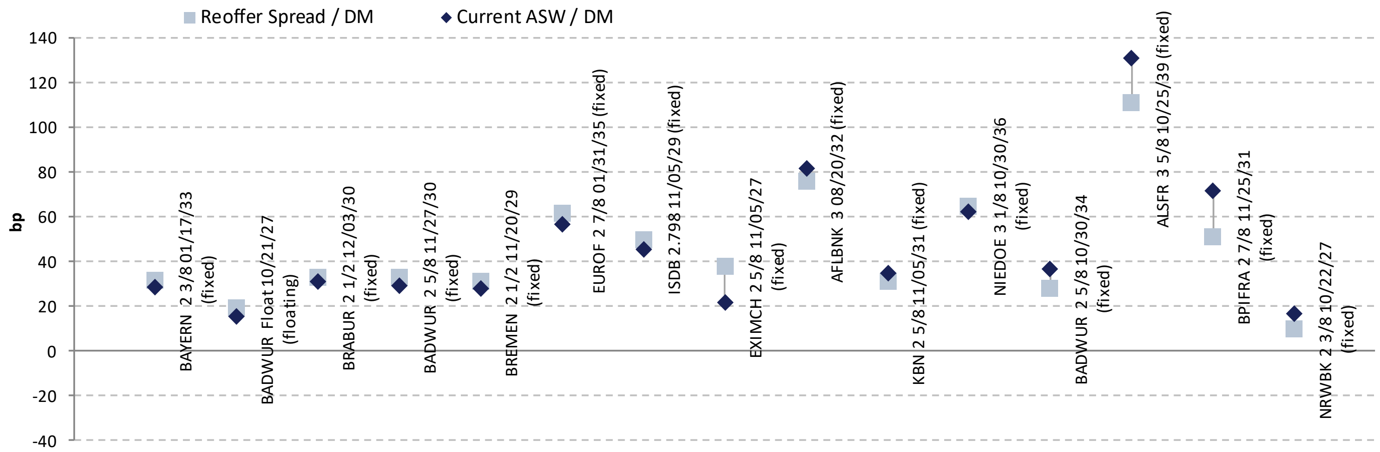


Rating distribution (vol. weighted)

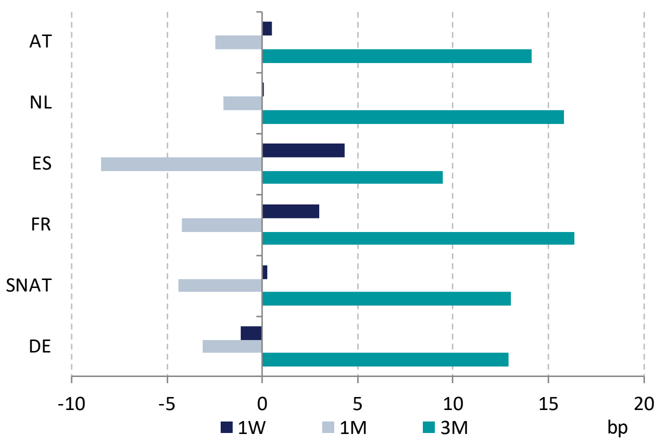


Source: Bloomberg, NORD/LB Floor Research

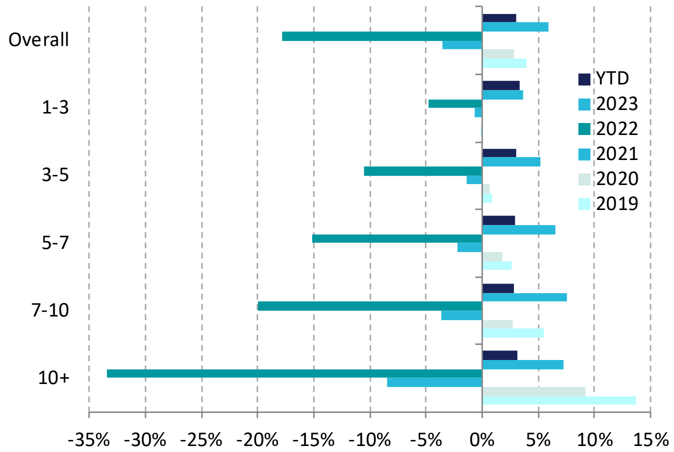
Spread development (last 15 issues)



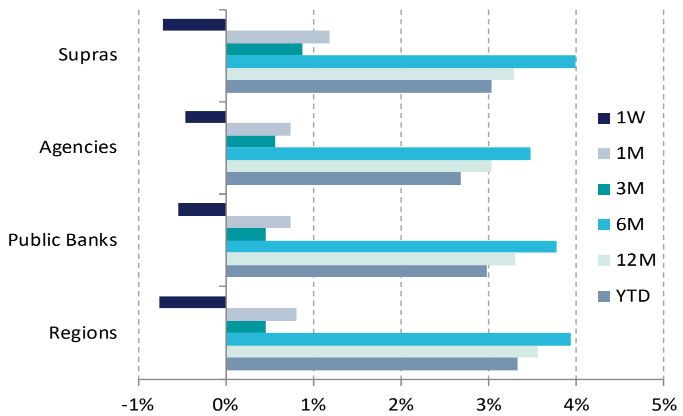
Spread development by country



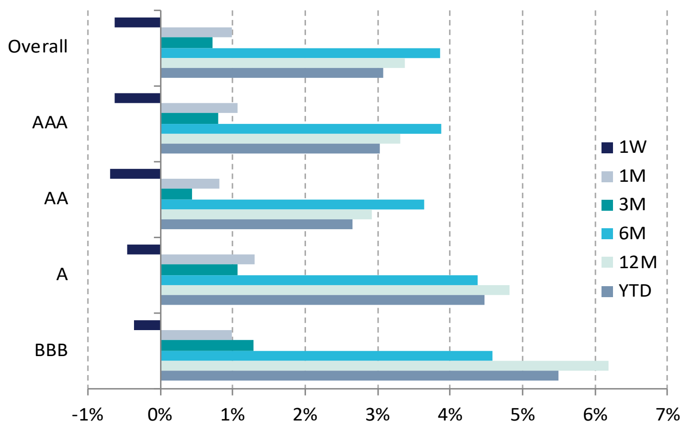
Performance (total return)



Performance (total return) by segments

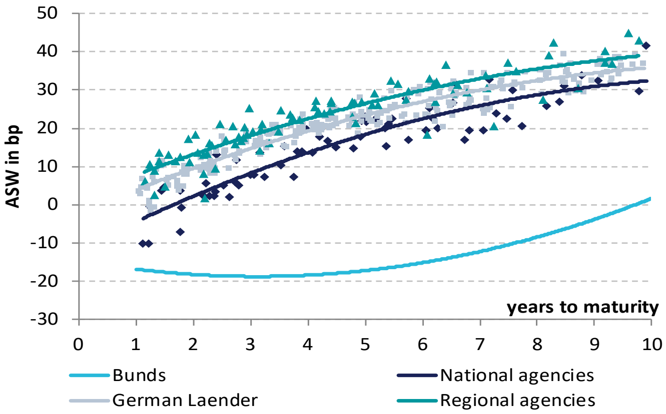


Performance (total return) by rating

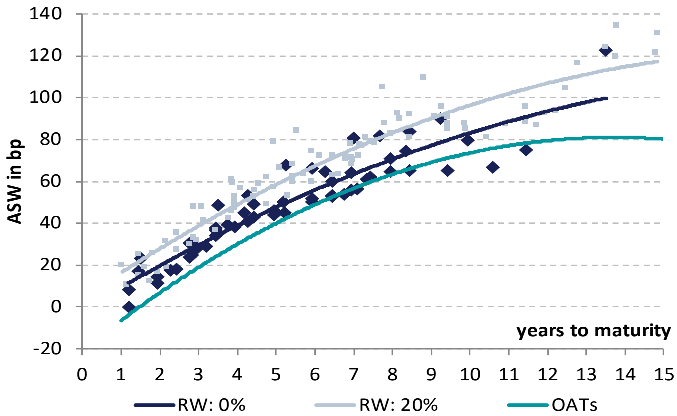


Source: Bloomberg, NORD/LB Floor Research

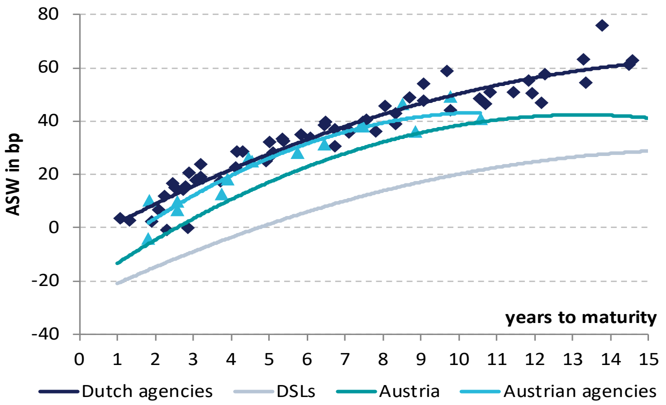
Germany (by segments)



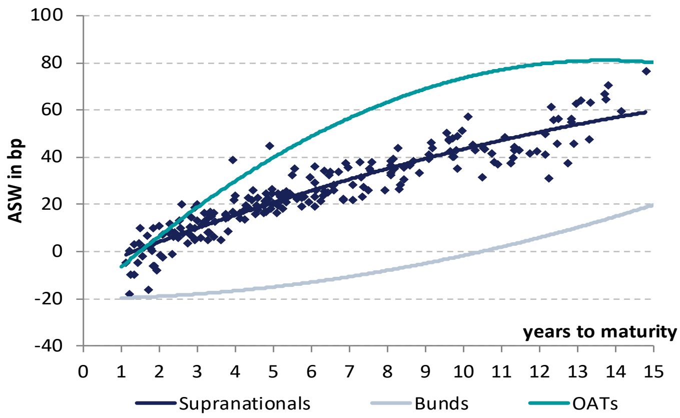
France (by risk weight)



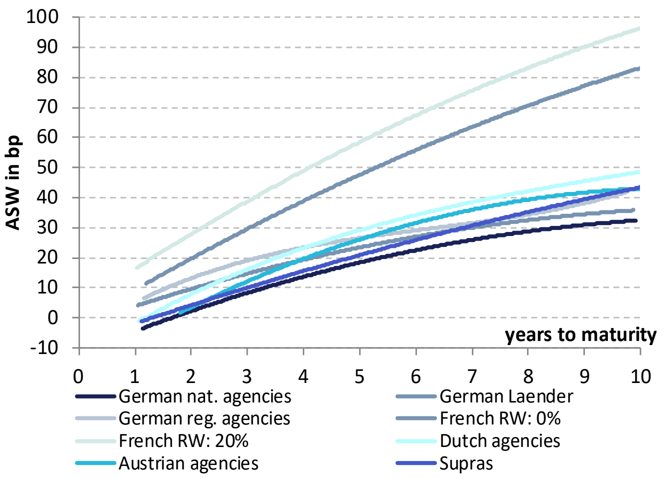
Netherlands & Austria



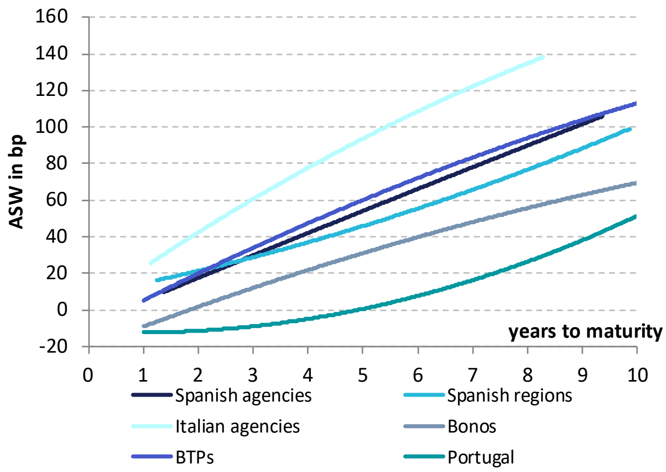
Supranationals



Core



Periphery



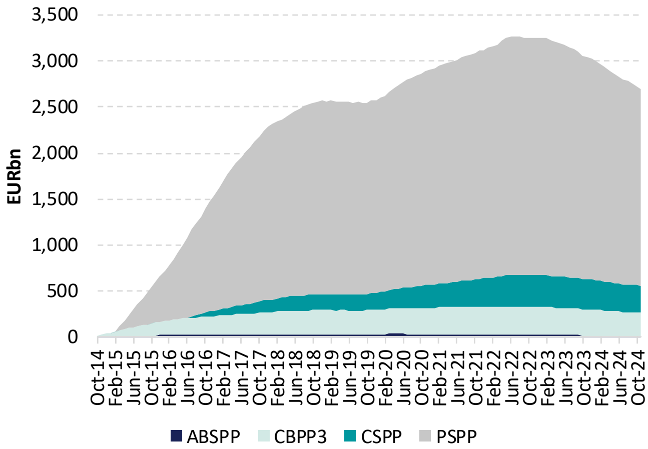
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

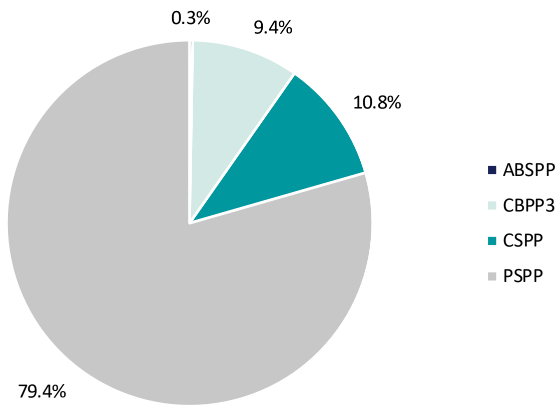
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Oct-24	7,607	258,032	294,507	2,165,737	2,725,883
Nov-24	7,425	254,896	292,299	2,143,646	2,698,266
Δ	-182	-3,136	-2,208	-22,091	-27,617

Portfolio development

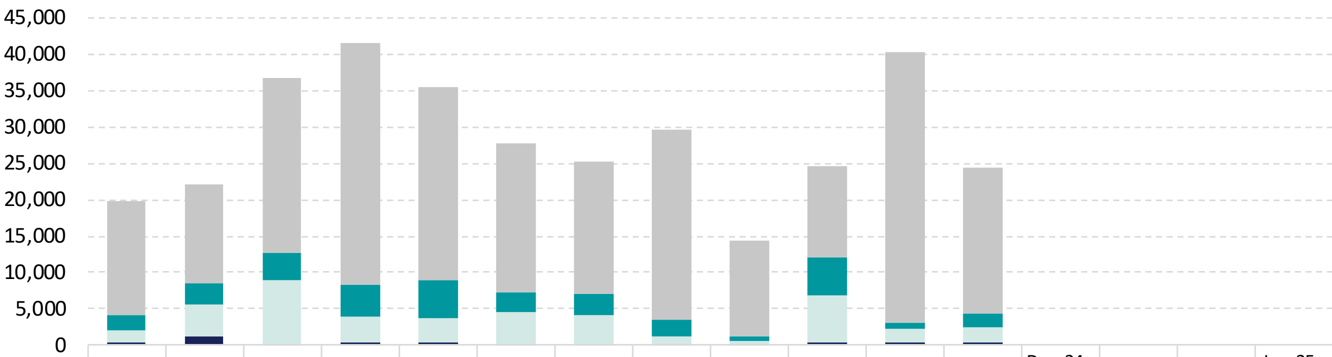


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

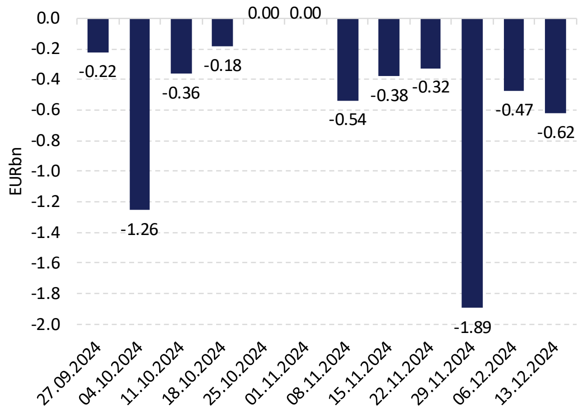


	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-24 - Nov-25	2023	2024	Jan-25 - Nov-25
APP	19,721	22,039	36,658	41,660	35,527	27,846	25,290	29,618	14,310	24,596	40,249	24,445	341,959	331,565	334,302	334,255
PSPP	15,643	13,463	24,021	33,379	26,671	20,541	18,261	26,161	13,114	12,568	37,073	20,060	260,955	255,025	264,480	253,586
CSPP	1,944	2,973	3,788	4,279	5,137	2,699	2,940	2,156	562	5,259	1,005	2,008	34,750	31,251	31,380	34,499
CBPP3	1,790	4,335	8,635	3,709	3,373	4,448	3,864	1,135	468	6,492	1,864	2,106	42,219	35,147	32,173	42,332
ABSPP	344	1,268	214	293	346	158	225	166	166	277	307	271	4,035	10,142	6,269	3,838

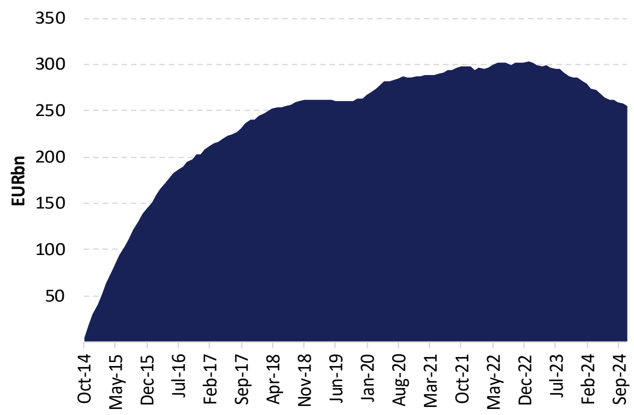
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

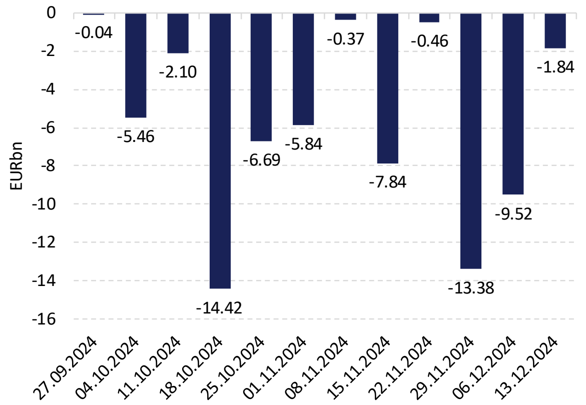


Development of CBPP3 volume

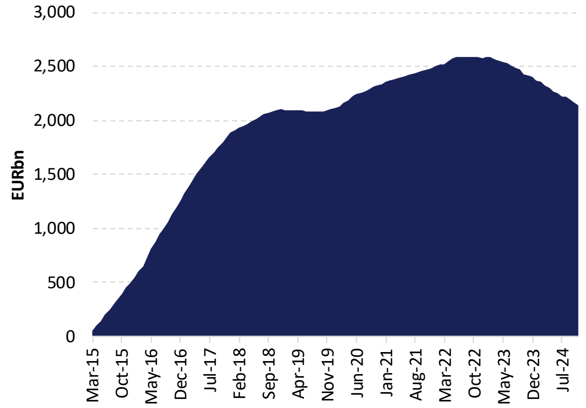


Public Sector Purchase Programme (PSPP)

Weekly purchases



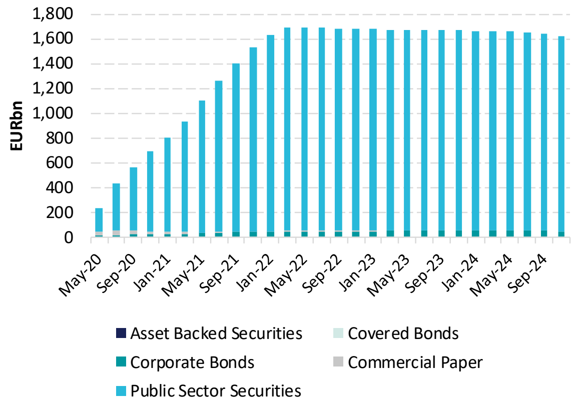
Development of PSPP volume



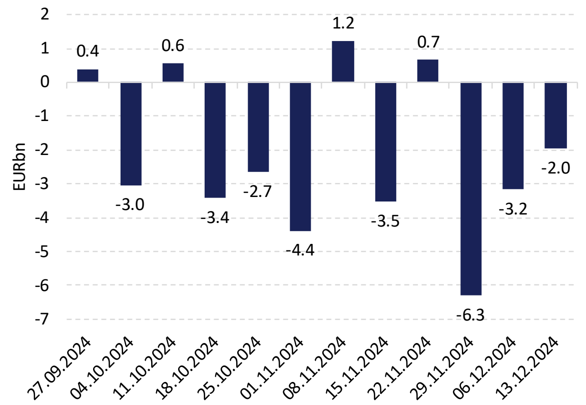
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

NORD/LB

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
41/2024 ♦ 11 December	▪ Focus on France: Covered bond view of Groupe CCF ▪ Teaser: Issuer Guide – French Agencies 2024
40/2024 ♦ 04 December	▪ Our outlook for the covered bond market in 2025 ▪ SSA Outlook 2025: Risk premiums are back in town
39/2024 ♦ 27 November	▪ What's going on outside of the EUR benchmark segment? ▪ Teaser: Issuer Guide – Down Under 2024
38/2024 ♦ 20 November	▪ Transparency requirements §28 PfandBG Q3/2024 ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
37/2024 ♦ 13 November	▪ Development of German property market (vdp index) ▪ Auvergne-Rhône-Alpes Region – spotlight on REGRHO
36/2024 ♦ 06 November	▪ ESG covered bonds: Benchmark segment on a growth trajectory ▪ Current LCR classification for our SSA coverage
35/2024 ♦ 30 October	▪ Maturities the future driver in the primary market? ▪ German-speaking Community of Belgium – spotlight on DGBE
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

NORD/LB:	NORD/LB:	NORD/LB:	Bloomberg:
Floor Research	Covered Bond Research	SSA/Public Issuers Research	RESP NRDR <GO>

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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 Q3/2024 (quarterly update)
- Transparency requirements §28 PfandBG Q3/2024 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
- Silent night, lower rates: ECB prepares for the new year

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