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Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

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Market overview Covered Bonds

Authors: Alexander Grenner // Lukas Kühne

Primary market makes an impressive comeback after the holiday break!
The primary market took a short break for the holidays last week, but made an impressive comeback on Tuesday (06 May) with a total of three deals. Among these, Banco Santander (Santander; ES) undoubtedly stands out in terms of the assets included in the cover pool. All loans contained in the cover pool of Santander's ECA covered bond programme are guaranteed by a government export credit agency (ECA). Santander's new issue started the marketing phase on Tuesday with a guidance of ms +45bp area and expected to raise a volume of EUR 500m. The deal (5y) attracted considerable investor interest (bid-to-cover ratio: 4.8x), with the result that fresh bonds could be placed at ms +36bp. In addition to Santander, issuers from Norway and Austria in the shape of SpareBank 1 Boligkreditt (SpareBank 1) and Hypo Vorarlberg were active on the market. Both of them are regular issuers in the EUR benchmark segment, although they had not previously placed any EUR benchmarks in 2025. While Hypo Vorarlberg limited the expected issuance volume to EUR 500m (WNG) at the start of the marketing phase, SpareBank 1 approached investors without making any such prior commitment. In the end, Hypo Vorarlberg was able to successfully issue its new EUR benchmark with a maturity of seven years and a reoffer spread of ms +48bp (guidance: ms +53bp area). Sparebank 1's new issue started the marketing phase with a guidance of ms +38bp area. The deal (4.75y) met with keen interest from investors, with the final order book totalling EUR 1.6bn and the spread narrowing by six basis points compared to the guidance. With a reoffer spread of ms +32bp, Sparebank 1 issued covered bonds with a volume of EUR 1.25bn. Sparebank 1's transaction brings the total volume of EUR benchmarks from Norway placed in 2025 to EUR 6bn. We are expecting further benchmark issues from the Nordic jurisdiction in 2025 with a volume of EUR 1bn.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Banco Santander	ES	06.05.	ES0413900988	5.0y	0.50bn	ms +36bp	- / Aa1 / -	-
Hypo Vorarlberg Bank	AT	06.05.	AT0000A3LMM1	7.0y	0.50bn	ms +48bp	- / Aaa / -	-
SpareBank 1 Boligkreditt	NO	06.05.	XS3070628014	4.8y	1.25bn	ms +32bp	- / Aaa / -	-

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

Secondary market: Buyers continue to dominate
Not only the primary market has had a somewhat easier time of it in recent trading days due to the holidays, the same goes for the players on the secondary market. It continues to be dominated by buyers, with a low transaction volume. Market participants are focusing on maturities between five and seven years from the core jurisdictions of France and Germany. High beta names such as covered bonds from Italian issuers are also attracting considerable interest.

Hypo Oberösterreich and Stadtsparkasse München with EUR sub-benchmark deals

Besides the brisk activity on the primary market for covered bonds in EUR benchmark format last week, the EUR sub-benchmark segment also reopened at the end of last week's trading after a break of over a month. More precisely, it was Hypo Oberösterreich (ticker: OBLB) that approached investors on Friday with a new EUR 250m bond in WNG format (6.9y). OBLB chose a level of ms +55bp area as guidance and the final spread was set at ms +49bp at the end of the marketing phase. The bank is a regular issuer on the primary market and has already placed eight new issues in sub-benchmark format in the past, most recently in October 2024. In addition to OBLB, Stadtsparkasse München (ticker: SSPMUE) also announced a transaction worth EUR 250m in WNG format at the start of the new trading week on Monday, but chose to execute it on the following Tuesday. The Munich-based bank opted for a six-year maturity and achieved a reoffer spread of ms +38bp (compared with the original guidance of ms +43bp area). In contrast with OBLB, SSPMUE has recently been less frequently represented on the primary market for EUR sub-benchmarks and last issued a covered bond in October 2023. After the very active start to the year (seven deals by the end of February), we hope that the EUR sub-benchmark segment will now also pick up momentum again, in line with the benchmark segment.

Fitch's covered bond rating approach in today's focus article

The ratings of the various covered bond programmes play a highly significant role in our coverage. We regularly draw on the ratings and assessments of the five largest rating agencies Fitch, Moody's, S&P, DBRS and Scope. Their assessments are, for example, one of the criteria for including a bond in the iBoxx EUR Covered benchmark index, which serves as the basis for our "BMK universe". Ratings are also relevant for determining the risk weight (with the help of the Capital Requirements Regulation – CRR) and LCR management (see also our regular Covered Bond Special – Risk Weights and LCR Level of Covered Bonds). Here, for example, the ratings of recognised External Credit Assessment Institutions (ECAI), which include the above agencies, are used to derive the credit quality steps of a covered bond. The assessments of rating agencies are also used to determine the central bank eligibility of covered bonds; as a rule, there are minimum requirements for the number or level of available ratings (cf. Covered Bond Special – Covered bonds as eligible collateral for central banks). Many investors also base their investment criteria on the different ratings. As a result of this particular relevance, we regularly analyse the different rating methodologies of the individual agencies and also address them in our Issuer Guide Covered Bonds. In this issue, our weekly publication takes a closer look at the features of Fitch's covered bond rating approach. Fitch uses a two-step process that is based on an issuer's default rating and defines the level of a possible uplift based on various characteristics as a first step. In the second step, the break-even OC – i.e. the minimum over-collateralisation required to achieve a certain rating level – is taken into account and compared with the programme's OC held by the issuer. You will find more details below in the Focus Article.

S&P upgrades the rating for UniCredit's mortgage covered bond programme to AA

As a result of the upgrade of Italy's sovereign rating to BBB+ (from previously BBB) with a stable outlook on 11 April 2025, S&P's rating experts are now also adjusting the rating of UniCredit's mortgage covered bond programme from AA- to AA (also with a stable outlook). Under S&P's sovereign risk criteria, Italian covered bond programmes can be a maximum of five notches above the sovereign rating as long as the programme has sufficient overcollateralisation (OC) to withstand a possible sovereign default. UniCredit's covered bond programme meets this requirement and can therefore benefit from the improved valuation. At the same time, on 18 April, S&P also upgraded UniCredit's Long-Term Issuer Credit Rating (ICR) from BBB to BBB+ and confirmed the Short-Term Issuer Credit Rating of A-2. As a result, UniCredit's covered bond rating continues to benefit from an unutilised notch uplift (collateral-based), which would actually lead to a maximum covered bond rating of AA+. However, this cannot be achieved because of the sovereign risk criteria described above. So far this year, we have only been able to record issues from Italy totalling EUR 2.35bn (most recently in the shape of Iccrea Banca; EUR 600m; maturity: 5.5y) and anticipate a further EUR 5.65bn in our forecast.

ECB: The "new" operational framework in the Eurosystem and covered bonds

As part of our coverage of the SSA/public issuers universe and the covered bond segment, we regularly focus on the direct and indirect influences of monetary policy in the Eurozone. In addition to the key interest rate, the purchasing programmes (especially CBPP3, PSSP and PEPP) as well as the extraordinary refinancing instruments (TLTRO I–III) have become firmly established in the minds of market participants. Essentially, the ECB operates within a self-imposed operational framework (Operational Framework for Implementing Monetary Policy). Significant adjustments were already made by the Eurosystem in March 2024 (cf. Press release). In its "ECB Blog" publication series, the ECB has now presented its assessment of the first year of the "new" operational framework (cf. ECB Blog from 25 April). The report, which reflects the authors' opinion and should therefore not be seen as the ECB's opinion, concludes that the framework is working as intended and that the commercial banks have been able to meet their liquidity needs "almost exclusively" via market-based funding. In terms of refinancing via the market, we also see covered bonds as highly important. For the ECB authors, there are also implications for investors: "As excess liquidity declines, banks are increasingly focusing on their regulatory liquidity buffers. This has led to increased holdings of government bonds and non-retained covered bonds to offset the reduction in reserves within their HQLA portfolios."

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Market overview
SSA/Public Issuers

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

Schleswig-Holstein: 2024 budget declared unconstitutional

In mid April, the state constitutional court in Schleswig ruled that the 2024 budget of the German sub-sovereign Schleswig-Holstein (ticker: SCHHOL) was unconstitutional. This ruling was in response to a complaint of unconstitutionality submitted by the FDP and SPD in September last year. From the perspective of the competent judges, the state government had failed to provide adequate explanations as to why the emergency loans had to be raised and also why the budget would be significantly affected by the respective crises. By way of background, in spring last year, the state's black-green government had adopted the budget for 2024, which contained emergency loans for dealing with the consequences of the COVID-19 pandemic (EUR 573m), the Russian war of aggression against Ukraine (EUR 800m) and the devastating floods in 2023 (EUR 145m). Since it subsequently became clear that the full amount of the estimated emergency loan would not be required, the emergency loan was reduced by around EUR -327m through a supplementary budget in autumn 2024. Following the final closing of the budget, the government eventually announced that only around EUR 494m of emergency loans was utilised. In explaining the grounds on which its judgement was based, the constitutional court acknowledged that the sub-sovereign had faced an emergency situation that was also outside its control. However, there must be a causal relationship between the financial requirements and the emergency situations, and these must have a significant impact on the budget. In the opinion of the judges, this had not been the case. There was no constitutional repayment plan either. This ruling is, however, unlikely to affect the 2024 budget, but could have an impact on the 2025 budget, since it includes an emergency loan of EUR 272m – albeit this is solely based on the consequences of the Russian war of aggression against Ukraine.

EBRD presents its annual report – rising revenue, lower net profit

The European Bank for Reconstruction and Development (ticker: EBRD) has provided a first glimpse of the figures in its 2024 annual report in the course of a press release: accordingly, the bank generated a net profit of EUR 1.7bn in the past year. Even though the bank's total revenues were up on the previous year, its net profit fell slightly, by EUR -0.4bn, compared with the 2023 reporting date. This fall was mainly attributable to higher funding costs resulting from higher-than-average interest rates and an expansion of the balance sheet. On the revenue side, lending business again provided a stable income stream, which totalled EUR 2.5bn last year, accounting for around 46% of total revenues. At the same time, the proportion of non-performing loans fell to 6.3%, which was both a significant improvement on the previous year (2023: 7.9%) and the lowest figure since the start of the Ukraine war. The bank's equity participations contributed approximately EUR 865m (16%) and its treasury activities EUR 2.1bn (39%). Equity increased by EUR +3bn to EUR 25.3bn. As far as funding is concerned, the EBRD had announced a total funding target of EUR 14.5bn. The multilateral development bank has already ventured onto the SSA primary market this year with a EUR benchmark: it raised new funding of EUR 1bn (7y) at ms +32bp in March.

NRW.BANK 2024 promotional year – new record in promoting housing

NRW.BANK (ticker: NRWBK) has presented its promotional funding figures for 2024. As the relevant press release makes clear, NRW.BANK made available promotional funding of EUR 11.4bn in total in the past financial year (2023: EUR 11.8bn). However, developments in the individual promotional fields were mixed: while new commitments in “Housing” posted growth of +20% compared with the same period in the previous year thanks to more favourable terms, which made promotion even more attractive in a period of higher market rates, achieving a new record of EUR 4.5bn (2023: EUR 3.8bn), committed promotional funding in “Economy” fell sharply, by -16% (2024: EUR 2.7bn; 2023: EUR 3.2bn). Demand for new financing in “Infrastructure/Municipalities” also fell by -12% in total to EUR 4.3bn (2023: EUR 4.8bn), which was attributable first and foremost to the high EU reference rate, which led to non-promotional terms, such as in the “NRW.BANK.Infrastruktur” funding programme, being higher than the terms for market financing. Overall, the promotional bank closed 2024 with operating earnings of EUR 295.1m – following EUR 568.4m in the previous year. The Common Equity Tier 1 (CET1) ratio was unchanged at 42.5%, having stood at EUR 18bn in the previous year, reported equity fell by -0.3bn to EUR 17.7bn.

CEB: financials and Social Inclusion Bond Report for 2024 published

The Council of Europe Development Bank (CEB, ticker: COE) has presented its financials and, thanks to strong lending, achieved net earnings of EUR 124.3m, which is +13.8% up on the previous year (2023: EUR 109.2m). Consolidated earnings, which excludes volatile elements, such as risk costs and the measurement of financial instruments, came to EUR 133.4m, which in turn equated to an increase of +14.8% compared with the previous year (2023: EUR 116.2m). New loans totalling EUR 4.5bn (2023: EUR 4.1bn) were awarded for a total of 44 projects and loans of EUR 3.5bn were disbursed up to the end of 2024. At the year-end, outstanding loans therefore totalled EUR 22.9bn – after EUR 21.5bn in the previous year. The bank has also further strengthened its financial stability through the seventh capital increase, which was concluded successfully in the past financial year (cf. weekly publication dated 12 February), as a consequence of which CEB’s subscribed capital rose to around EUR 9.6bn. With the publication of its Social Inclusion Bond Report, the CEB also provided an insight into the uses to which the funds raised by bonds of this kind are put: in 2024, the promotional bank issued “social inclusion bonds” totalling a record amount of EUR 2.8bn in six different currencies. Since the introduction of this type of bond in 2017, the CEB has now issued 23 bonds with a total value of over EUR 11bn. Having initially been denominated in EUR, they have also been denominated in USD since June 2020, and issues in SEK, CAD and AUD have followed since 2023, before a bond in NOK was also placed for the first time in 2024. The proceeds were used for investments in four areas of activity defined in the Social Bond Framework: for instance, around 141,000 homes and just under 1,900 healthcare facilities were constructed or modernised in the “Social and affordable housing” and “Health and social care” segments, respectively, in 2024. Around 3.6m students benefited from new or improved educational facilities in the “Education and vocational training” cluster, while some 1.4m jobs were preserved and 71,000 new jobs created in the “MSME financing” area of activity.

EU: 2024 activity report published – halfway point for the NextGenerationEU programme

The European Union (ticker: EU) has presented its annual activity report. Despite various challenges, the Union has succeeded in achieving the goals it has set itself in all areas of policy. For illustrative purposes, we would like to look at a few aspects of the activity report. With regard to the implementation of political priorities for the 2019-2024 mandate, the EU has reached key milestones in boosting the resilience of the European economy: having started the "NextGenerationEU" (NGEU) economic programme to mobilise funds to support Member States so that they can recover from the economic consequences of the COVID-19 pandemic, 2024 marked the halfway point for this development plan. A good point at which to draw an interim conclusion: according to the activity report, a total of EUR 306bn – around 47% of the earmarked resources – had been disbursed up to the end of 2024, and consequently more than 500 projects had received direct or indirect support. The halfway point assessment by the EU also revealed that real European GDP could increase by up to +1.4% in 2026 thanks to NGEU compared with a scenario where such a programme was not in place – and that is without taking account of the positive effects of the reforms of the Recovery and Resilience Facility, which should gradually materialise over the next few years. With regard to the long-term budget for 2021-2027, which was decided in 2020, a number of different challenges – such as the consequences of Russia's war of aggression – have, however, increased the budgetary burden. In response, the European Parliament and the Council of the European Union agreed on the first ever halftime revision of the long-term EU budget: as a result of this, additional resources of EUR 64.6bn were provided to cope with the new challenges and to comply with the EU's legal obligations, which would have no longer been possible within the original budget ceilings. A figure of EUR 192.8bn was agreed for the 2025 annual budget, which will be supplemented by payments of around EUR 72bn under NGEU. The next annual EU budget conference, where the spending priorities for the coming years are defined in the form of a multiannual financial framework, will take place on 20/21 May. With regard to funding, the European Commission is expected to announce its financial planning for H2/2025 by the end of June. The EU's five-year institutional cycle also ended in 2024. Political priorities were redefined for the new 2024-2029 cycle and adopted by the heads of state and government in summer last year. The strategic agenda comprises the main priorities "A free and democratic Europe", "A strong and secure Europe" as well as "A prosperous and competitive Europe", which were broken down into seven further areas of activity.

Coverage expands further – the EIB also commissions the European rating agency Scope

Following the ESM's recent decision to task Scope with assessing its creditworthiness (cf. weekly publication dated 9 April), the agency, which previously only rated the European Investment Bank (ticker: EIB) on an *unsolicited* basis, has now been asked to do so officially. The risk experts at Scope currently give the supranational an "AAA" rating with a stable outlook. "Rating agencies play a key role with access to capital markets by major institutions to small and medium-sized enterprises. The appointment of the European rating agency Scope Ratings by the EIB underlines our commitment to fostering European capital markets and making them more efficient," said Nadia Calviño, President of the EIB.

Eurex introduces futures on EU bonds

Eurex, the leading European futures exchange, which is part of the Deutsche Börse Group, has announced the introduction of futures contracts based on European Union bonds. Trading in these "Euro-EU Bond Futures" (FBEU) should start on 10 September. They are expected – like existing Eurex Fixed Income Futures as well – to feature a 6% coupon and an identical maturity (10-year Bund, OAT, BTP and BONO futures). In contrast, deliverable bonds may have maturities of 8-12 years and would therefore reflect the issuance activity of the EU. A physically deliverable futures contract is likely to increase liquidity on EU bond markets and further consolidate the EU's position as a key issuer on European and global capital markets. "The introduction of the Euro-EU Bond Future is more than a new product for Eurex. It is a strategic commitment to support European aspirations to more autonomy in a period in which the continent is reliant on additional issues of debt instruments and investors are looking for bespoke instruments to channel their involvement in EU debt instruments […]," said Matthias Graulich, Global Head of Products & Markets at Eurex.

KfW Global Investor Broadcast

Kreditanstalt für Wiederaufbau (KfW, ticker: KFW) has announced the date for its next half-yearly Global Investor Broadcast: the promotional bank will once again provide insight into various topics within this framework on Monday 12 May at 14.00 (CET); these will include, for example, the expected impact of the new government coalition on business activity, the bank's current business development, the funding activities planned for 2025 and the economic prospects for Germany in the current year. The "1KOMMA5" start-up promoted by KfW, which has set itself the target of accelerating the energy revolution through digital solutions to optimise energy consumption, will also be presented.

Primary market

Even though the trading week under consideration closed quietly, issuers from the SSA segment were not entirely idle. However, we could only mark one EUR benchmark from an issuer on the Iberian peninsula on our notepad: the Spanish autonomous community of Castile and León (ticker: CASTIL) approached investors with a sustainability bond worth EUR 500m with a short maturity of seven years. It was finally priced at SPGB +19bp (guidance: SPGB +25bp area), which equated to approximately ms +57bp. The EU has also sent an RfP for the upcoming fifth syndicated transaction in H1/2025 (cf. funding plan) to the relevant banking group. Based on the issue of new instructions, we also expect the following transaction in the near future: The Belgian region Wallonia (ticker: WALLOO) intends to issue an EUR benchmark with a long maturity of seven years. At the same time, the sub-sovereign plans to increase its 2043 social bond. We have also published issue-related research for Wallonia's dual tranche, which will be appearing on our screens in the very near future.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
CASTIL	ES	06.05.	ES0001351610	6.9y	0.50bn	ms +57bp	- / Baa1 / -	X

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

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Covered Bonds
Fitch: rating approach covered bonds

Author: Alexander Grenner

Issuer rating as starting point

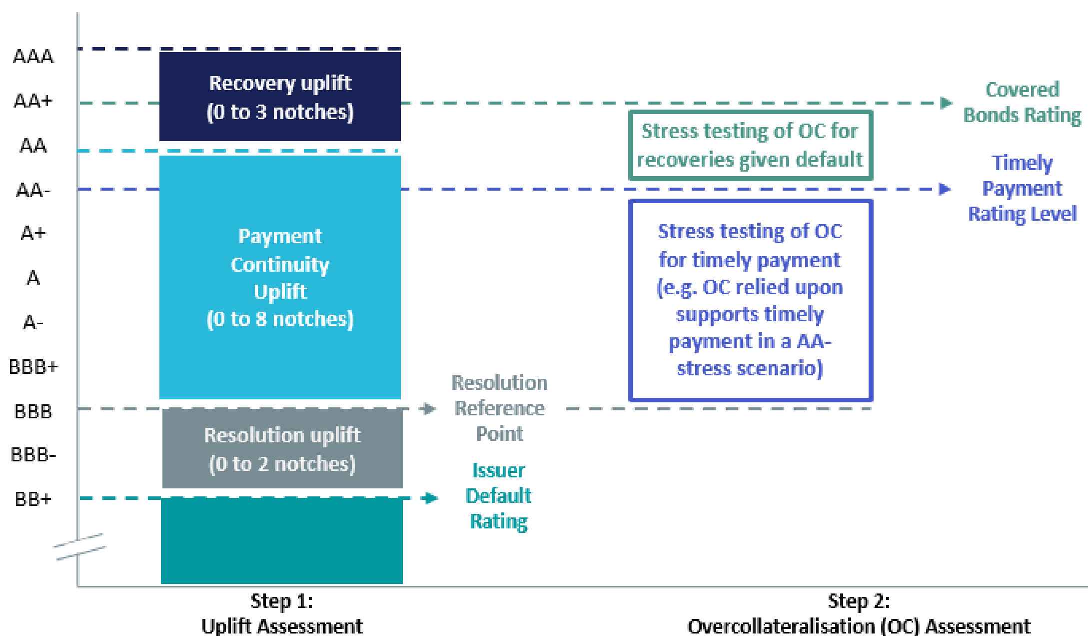
Fitch uses a two-step process to determine its covered bond ratings, taking into account both the probability of a default on a bond as well as the recovery given default. The first step involves assessing the resolution uplift of up to two notches above the Long-Term Issuer Default Rating (IDR). A resolution uplift may be granted to covered bonds falling under a jurisdiction that has, among other things, an advanced bank resolution mechanism that provides for a bail-in of senior bonds and excludes fully collateralised covered bonds from this. Moreover, an uplift is only awarded when the risk of a coverage deficit in relation to outstanding liabilities is minimal at the time a resolution threat exists. From the rating agency's perspective, this is then expected when, for example, a legal framework or contractual provisions, a responsible supervisory authority and an asset monitor are all in place. If all criteria are met, Fitch will award a resolution uplift above the IDR of a maximum of two notches. This expresses the preferred status of a covered bond in comparison with unsecured bonds in the case of a resolution and creditor participation. The conditions for a resolution uplift can be seen in the table below, as well as those conditions that do not involve such uplift.

Fitch: Resolution Uplift

Issuer Characteristics	Maximum Resolution Uplift in Notches
• No support: Institutions with an IDR not driven by institutional or state support and their subsidiaries whose IDR is equalised with their parent's • Support schemes: institutions with an IDR based on their participation/integration in a mutual support scheme and equalised with group IDR • Temporary support: institutions and their subsidiaries with an IDR driven by support, when support is deemed to be temporary	2
• Support: Institution with an IDR driven by support and their subsidiaries	1
• Specialised mortgage or public-sector lenders that form part of a broader banking group and are not operationally integrated with the parent • Institution without debt buffers requirement such as Minimum Requirement for Own Funds and Liabilities and for which Fitch does not expect resolution to be applied in case of a failure or default	0

Source: Fitch, NORD/LB Floor Research

Overview of the covered bond rating process



Source: Fitch, NORD/LB Floor Research

Determining the Payment Continuity Uplift (PCU)

Fitch additionally determines the Payment Continuity Uplift (PCU). The PCU reflects the rating agency's assessment as to how likely a delay or interruption to interest and capital payments is to occur during transfer of the payment flow from the issuer to the cover pool (following issuer insolvency). The PCU can range from zero to eight notches and together with the resolution uplift and the IDR reflects the maximum possible covered bond rating on timely payment basis. The following applies: the higher the PCU, the less likely the disturbance of the cash flow is considered. Where Fitch assumes that an interruption to payment due to a lack of liquidity mechanisms is likely, the assessed covered bond programme receives a PCU of zero notches, whereas programmes with a soft-bullet structure (and 12 month extension) could be granted a PCU of up to six notches (above the IDR adjusted by the resolution uplift) as long as they are backed by standard cover pool assets in developed banking markets. Issues with a pass-through structure receive a PCU of up to eight notches. In line with the methodology presented on the following page, German Pfandbriefe benefit from a PCU of six notches reflecting the 180 day liquidity buffer and 12-months principal maturity extension feature. Other risks, e.g. resulting from insufficient separation of assets or high risks related to alternative cover pool management, can lead to a reduction in the PCU uplifts.

Level of Payment Continuity Uplift

Maximum PCU in Notches	Effective Liquidity Protection for Principal Payments	Programme Types
8	Maturity date extends beyond the longest maturing asset in the cover pool	Pass-through programmes
6	At least 12 months	Mortgage and public-sector programmes predominantly exposed to developed banking markets
5	At least 6 months	Public-sector programmes predominantly exposed to developed banking markets
4	At least 9 months	Mortgage programmes predominantly exposed to developed banking markets
3	At least 6 months	Mortgage programmes predominantly exposed to developed banking markets
0	No protection	Any programme exposed to maturity mismatches

Source: Fitch, NORD/LB Floor Research

Recovery uplift – additional uplift of up to two or three notches possible

As covered bonds offer a recovery given default even in the event of a payment default on account of the associated assets, the respective programmes may receive a further uplift over the timely payment rating level of up to two notches based on the recovery prospects; for covered bonds with a non-investment grade timely payment rating, this can be up to three notches. The maximum number of notches is awarded when the programme's relied upon overcollateralisation ratio sufficiently covers the credit risk in the relevant rating scenario and in the absence of additional material downside risk to recoveries. The uplift can be limited if, for example, the bulk of the cover assets are denominated in a currency which differs from the covered bond issued.

Limit to the maximum covered bond rating via break-even OC for the rating

Finally, in a second step, the overcollateralisation ratio for the respective rating level (break-even OC) is determined. This ensures timely payment of outstanding covered bonds during stress scenarios at the timely payment rating level above the IDR adjusted by the resolution uplift (i.e. issuer default) and also meets the threshold for the applied recovery uplift. The break-even OC reflects the amount of assets needed in excess of covered bonds issued; it is composed of (i) the ALM loss (non-credit loss) and (ii) the credit loss. The break-even OC calculated by Fitch for a given rating is then compared with the OC expected to be maintained over the long term by the issuers from the perspective of the rating agency. If the OC maintained by the issuer is below the break-even OC for the maximum possible rating, Fitch tests the next-lowest rating scenario. Usually, the covered bond rating is floored at the IDR plus available notches of resolution uplift and at least one notch of recovery uplift.

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SSA/Public Issuers
Credit authorisations of the German Laender for 2025

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

Distorted (gross) credit authorisations of over EUR 90bn expected

The German Laender have largely concluded their credit planning for the current year, although some sub-sovereigns still need to finalise their figures for credit authorisations in 2025. In the past, the data – the gross numbers for which can be viewed in the broadest sense as funding targets – mostly provided a comparatively good indicator of how active the Laender were likely to be in the capital market during the year. This planning also includes Schuldscheindarlehen (SSD) as well as private placements – and does not necessarily have to be exhausted, as the recent past has continuously demonstrated. The gross figure currently aggregated across just eleven Laender stands at (a provisional) EUR 81.7bn for this year, which corresponds to both a decline compared with the figures that were distorted upwards by COVID-19 (2020: EUR 156.6bn; 2021: EUR 119.4bn) and a further decline on the previous year (2024: EUR 91.6bn). However, our presentation for 2025 still does not include the approvals of budgets for Brandenburg, Hesse, Rhineland-Palatinate, Saxony and Thuringia. Here, we expect a further aggregated EUR 16bn at least, which would take the total amount for all 16 Laender to just above EUR 97bn. Once again, the cherished picture "suffers" from an upward distortion by Baden-Wuerttemberg. The increasing concentration of the Laender on budget consolidation in the recent past is likely to ease for the time being in the course of the debt brake reform at the federal and Laender level adopted in March 2025. Sub-sovereigns are now permitted to incur a new annual debt equivalent to 0.35% of their respective GDP. Until now, this regulation only applied to the Bund.

German Laender credit authorisations 2025 (EURbn)*

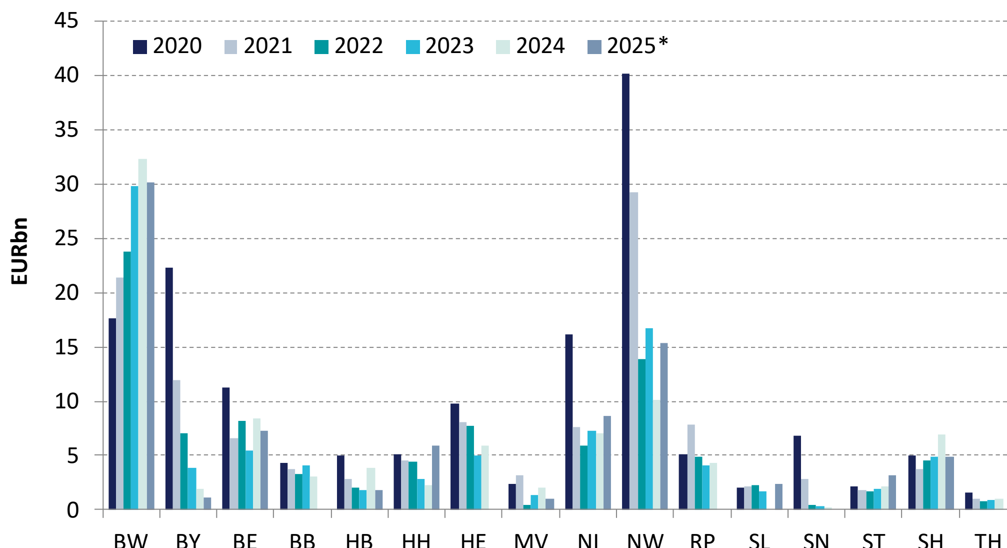
	Net	Gross
Baden-Wuerttemberg	1.02	30.10
Bavaria	-0.05	1.17
Berlin	1.79	7.23
Brandenburg		
Bremen	0.13	1.84
Hamburg	2.29	5.93
Hesse		
Mecklenburg-Western Pomerania	0.00	1.00
Lower Saxony	1.52	8.65
North Rhine-Westphalia	1.64	15.34
Rhineland-Palatinate		
Saarland	0.25	2.40
Saxony		
Saxony-Anhalt	0.00	3.20
Schleswig-Holstein	0.91	4.87
Thuringia		
Total	**9.50**	**81.73**

Source: Bloomberg, NORD/LB Floor Research
* Some figures may be rounded or preliminary figures

Baden-Wuerttemberg "hoarding"
In the past, NRW had always reported the highest gross figure by far among all the Laender. In 2022, a change could be observed in both the presented figures and the published credit authorisations. In the form in which they are presented, they can no longer be taken at face value for individual Laender, above all Baden-Wuerttemberg: specifically, BADWUR had planned for EUR 23.78bn in 2022, but failed to issue even a single benchmark bond. Instead, the approved EUR 14.6bn in special loans to combat the COVID-19 pandemic was postponed entirely, since it was not really needed to deal with the financial difficulties at the time. The German Taxpayers Federation even reported deferred borrowing of EUR 23.6bn as at the end of 2022. Its study shows that the federal state is actually "hoarding" these authorisations for subsequent financial years, thereby enabling its future budget management to formally comply with the debt brake. In fact, this budget management represents a breach of the debt brake. In the spirit of the principle of budgetary clarity, these credit authorisations should be withdrawn as quickly as possible. But we should also remember that a debt repayment of around EUR 0.2bn per year is planned in the Baden-Wuerttemberg budget for both 2025 and 2026.

Refinancing activity of Laender already advanced in some cases
In the past, it was the case that the higher the gross value, the more often the respective German sub-sovereign made an appearance on the primary market. At any rate, we should not set too much store by the figures, since, as we explained above, credit authorisations can either not be exploited or be adjusted during the year. According to the official list, NRW ranks second with EUR 15.34bn, followed by Lower Saxony with EUR 8.65bn. It is then followed by BERGER, HAMBRG and SCHHOL. A comparison of credit authorisations with actual primary market activity up to the present is extremely revealing: NIESA has so far placed six EUR benchmarks on the market with an aggregated new issue volume of EUR 6bn, thus having taken a lion's share off the table already. Furthermore, BAYERN (EUR 1bn) and SACHAN (EUR 1.75bn) have also already issued significant amounts. In the further course of the year, supply from the Laender segment is therefore likely to tend to decline.

Credit authorisations of the German Laender over time



Source: Bloomberg, NORD/LB Floor Research; * Some figures may be rounded or preliminary figures
BW = BADWUR, BY = BAYERN, BE = BERGER, BB = BRABUR, HB = BREMEN, HH = HAMBRG, HE = HESSEN, MV = MECVOR, NI = NIESA, NW = NRW, RP = RHIPAL, SL = SAARLD, SN = SAXONY, ST = SACHAN, SH = SCHHOL, TH = THRGN

Background to the debt brake in Germany

The principle of balanced budgeting has been applicable at both the Bund and Laender level since 2009 and included transitional periods. The aim of the debt brake is to ensure the sustainability of German public finances. It puts a stop to the "propensity to run a deficit" in politics and ensures that good times are used to consolidate public finances and that there are limits on the preference of government for the present. There are now numerous myths surrounding the debt brake. This has been recognised by the Federal Ministry of Finance, which attempted to dispel these myths last year. Top of the list here is that the debt brake prevents innovation and investment, growth and tax cuts. It is true that developments from the introduction up to 2020 were very consistently for the better. However, they have headed in the "wrong" direction since then: on the one hand, it took huge efforts on the part of the Laender to maintain economic conditions as much as possible in the face of the COVID-19 pandemic. Due to the consequences of the war, this also included disrupted supply chains, inflation, and coping with migration and refugees. On the other hand, the debt brake which has (essentially) also been in force at Laender level since 2020 calls for (even) greater budgetary discipline. Some Laender had been managing without any new borrowing on a sustained basis before the debt brake officially started, and their development has in some cases now been set back several years. Among other consequences, this led to downgrades for Baden-Wuerttemberg and Saxony-Anhalt, though their ratings are still at a high level, as well as rating outlook changes to "negative" for other Laender.

Bundestag adopts reform – chances and risks for Laender

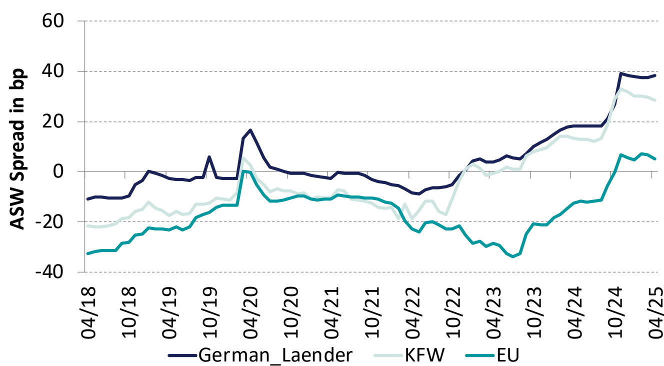
On 21 March, the German parliament passed a colossal "Rambo Zambo" investment package for defence, infrastructure and climate protection as well as for the Laender and municipalities in the amount of almost EUR 1,000bn aggregate – including EUR 100bn for regional governments and local authorities. Furthermore, the Laender are to be given greater leeway for their own debt in the future. Specifically, the sub-sovereigns will be permitted to borrow up to 0.35% of nominal GDP, a level previously reserved only for the Bund and strictly prohibited for the Laender. The allocation to individual Laender of permissible borrowing for all federal states as a whole is governed by ordinary law. Existing state regulations, such as in the financial regulations or state constitutions, which fall short of this credit limit cease to apply following the adoption of the reform. According to our reading of the reforms, with regard to the additional EUR 100bn earmarked for investment projects in the Laender, the corresponding funds are first collected by the Bund and then redistributed to the sub-sovereigns. This approach should therefore have a positive effect on their finances. For example, it is conceivable that individual Laender will substitute self-financed investments with contributions from transfer payments. In the context of an expected increase in new debt, not all Laender are likely to make full use of the flexibility that is now allowed. We assume that especially financially strong ones such as Bavaria or Hesse will not completely exhaust the leeway in their budget planning. Nevertheless, we think it is likely that the enhanced fiscal policy framework will also weigh on the budgets of financially stronger sub-sovereigns and consequently put a strain on creditworthiness – as was already evident in the case of S&P's lowered outlook for BADWUR. In addition, the challenges are not getting fewer: for example, as the Federal Statistical Office reported at the start of April, at EUR -24.8bn, the budgets of German municipalities in 2024 showed the highest financial deficit since reunification, which is likely to have further negative effects on the Laender budgets.

NORD/LB

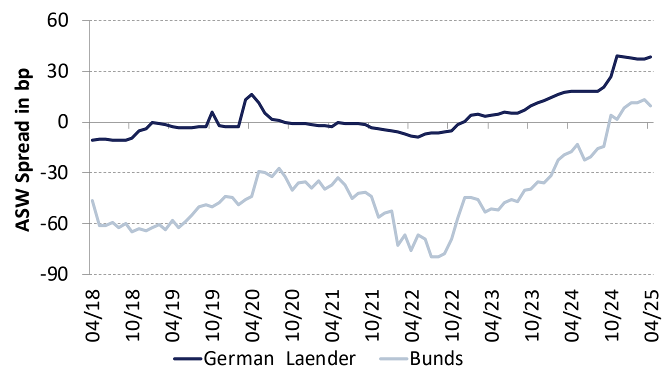
High new supply determines repricing

As outlined on the previous pages, German Laender have already ensured a very high supply in the SSA primary market due to high financing requirements in combination with the uncertain political situation surrounding the Bundestag elections this year. Overall, the new issue volume in benchmark format currently amounts to EUR 30.1bn. Only BRABUR has not yet appeared on the primary market this year. The bottom line is that new supply met with corresponding demand from investors and was therefore very well absorbed. From a relative value point of view, German Laender bonds currently seem attractive compared to KfW as well as covered bonds – due to the most recent spread movements. Despite the ECB's ongoing interest rate cuts, spreads have gone in the opposite direction in recent months. For the foreseeable future, we predict that this trend will continue on account of the expected additional expenditure and funding activities – even if short-term spread tightening cannot be ruled out due to an initial decline in supply.

Spread development Laender vs. KFW and EU – 10y



Spread development Laender vs. Bunds – 10y



Source: Bloomberg, Markit, NORD/LB Floor Research

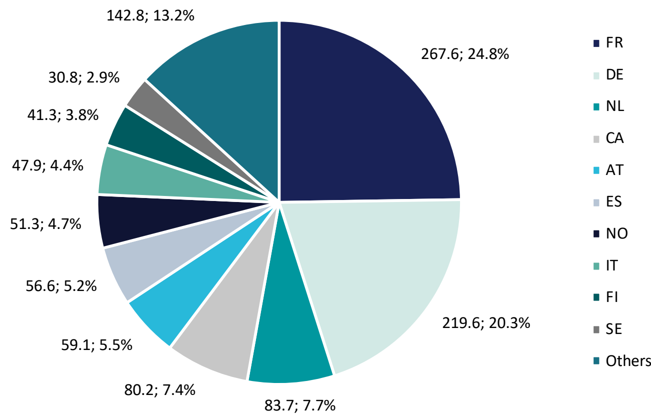
Conclusion and outlook

The German Laender have largely completed their credit planning for 2025 and published their credit authorisations in the process. In the years before the pandemic, a clearly declining trend was apparent for net and gross credit authorisations, which had or would have stabilised at around EUR 70bn for 2020 before the COVID-19 crisis. For the third time in succession, the net credit authorisations would have been negative according to the initial estimates – aggregated across all Laender – which would have equated to a reduction in total debt. As we know, this did not happen. The majority of the data for the current year has now been published, with the credit authorisations for eleven of the 16 German Laender totalling EUR 81.7bn. Once all the figures are available, we expect to exceed EUR 90bn again. However, we still believe that these figures are heavily distorted by Baden-Wuerttemberg and therefore requiring explanation. On the capital market side, the Laender have already contributed a considerable volume in the current year. Even though some sub-sovereigns are therefore well advanced in their funding activities, or have already completed them, we see scope for further supply and consequently for sustained – albeit modest – spread widening due to the reform of the debt brake.

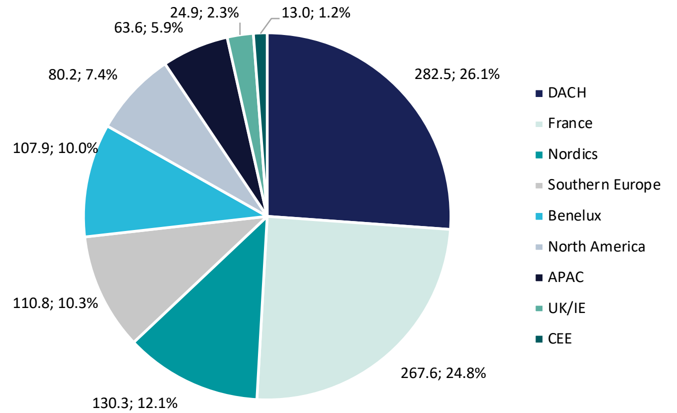
NORD/LB

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



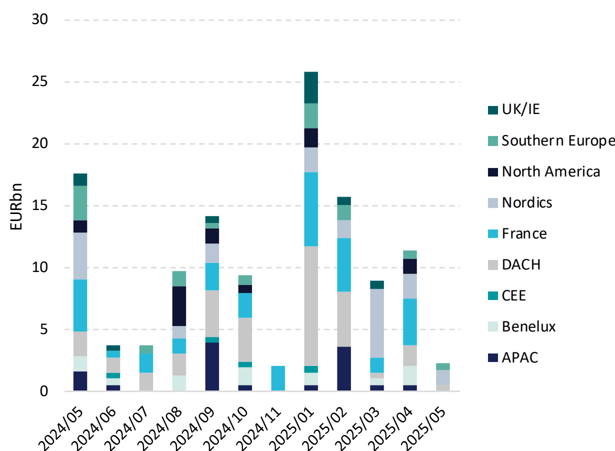
EUR benchmark volume by region (in EURbn)



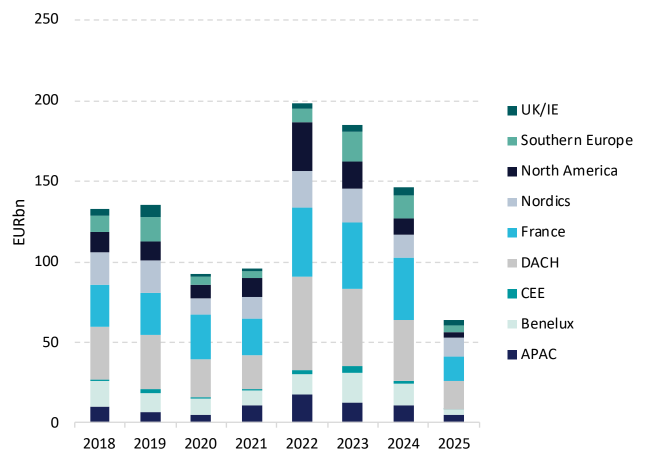
Top-10 jurisdictions

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	267.6	257	31	0.98	9.2	4.6	1.63
2	DE	219.6	306	49	0.66	7.7	3.7	1.65
3	NL	83.7	84	4	0.93	10.3	5.5	1.43
4	CA	80.2	58	1	1.36	5.6	2.4	1.54
5	AT	59.1	98	5	0.59	7.9	3.9	1.62
6	ES	56.6	47	6	1.06	10.6	3.3	2.26
7	NO	51.3	61	12	0.84	7.1	3.3	1.30
8	IT	47.9	62	6	0.75	8.3	3.9	2.09
9	FI	41.3	47	5	0.86	6.6	3.0	1.80
10	SE	30.8	34	1	0.90	7.0	2.9	1.50

EUR benchmark issue volume by month



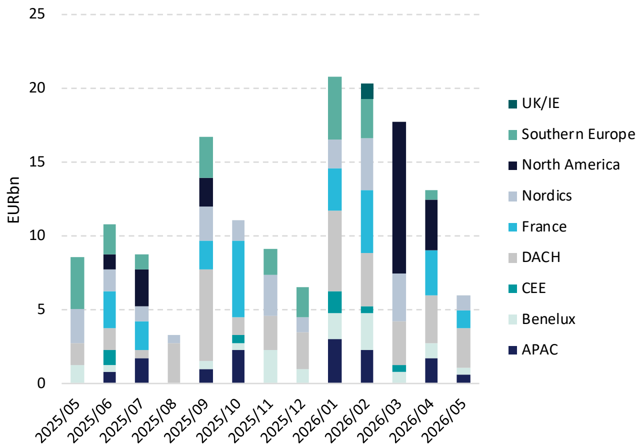
EUR benchmark issue volume by year



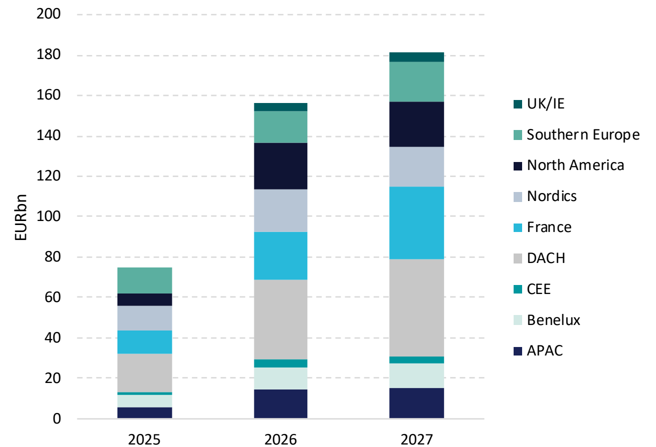
Source: Market data, Bloomberg, NORD/LB Floor Research

NORD/LB

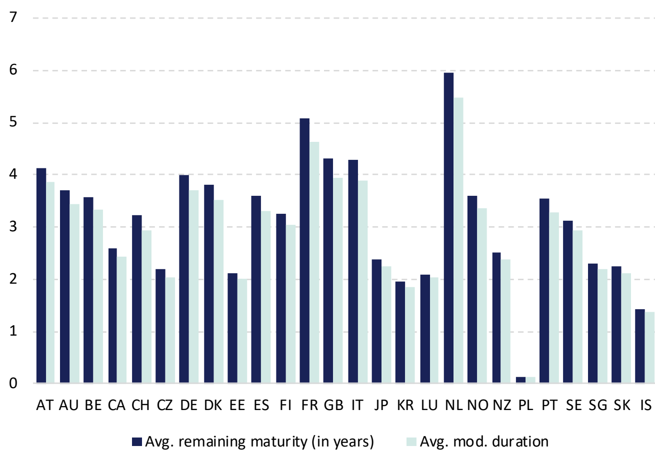
EUR benchmark maturities by month



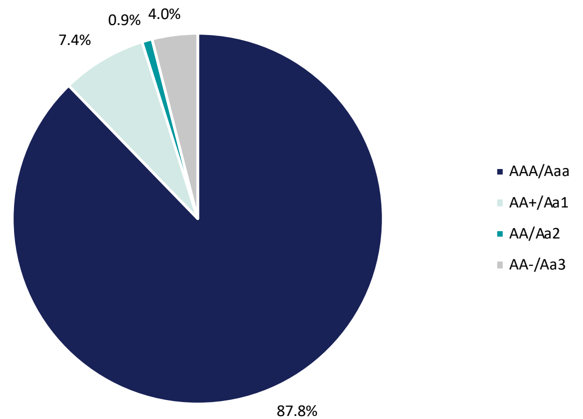
EUR benchmark maturities by year



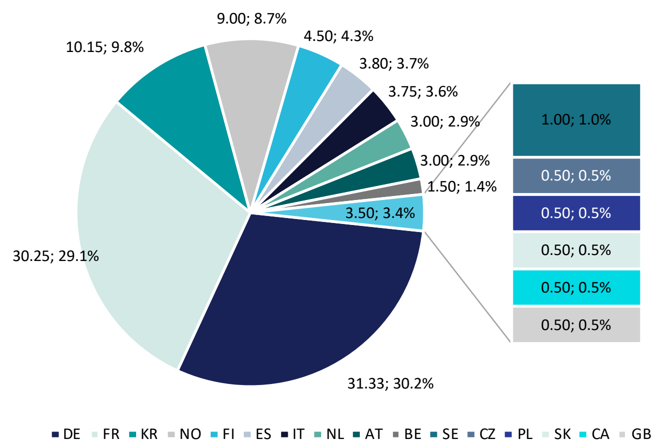
Modified duration and time to maturity by country



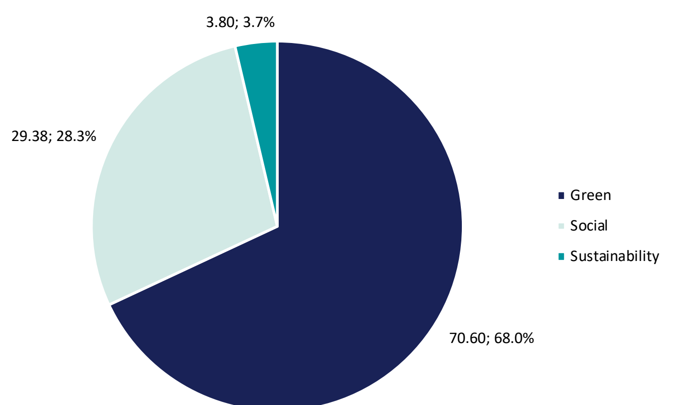
Rating distribution (volume weighted)



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



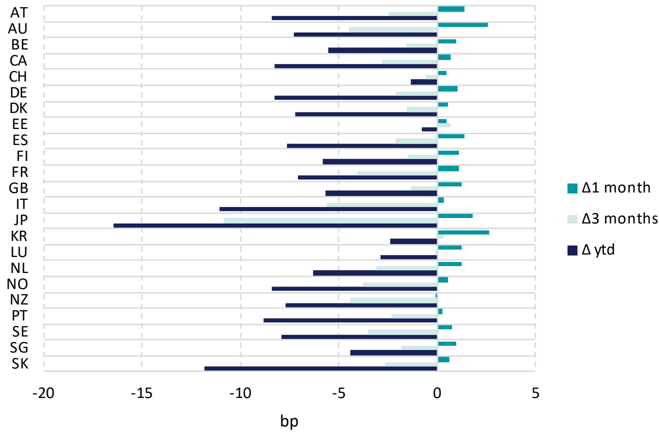
EUR benchmark volume (ESG) by type (in EURbn)



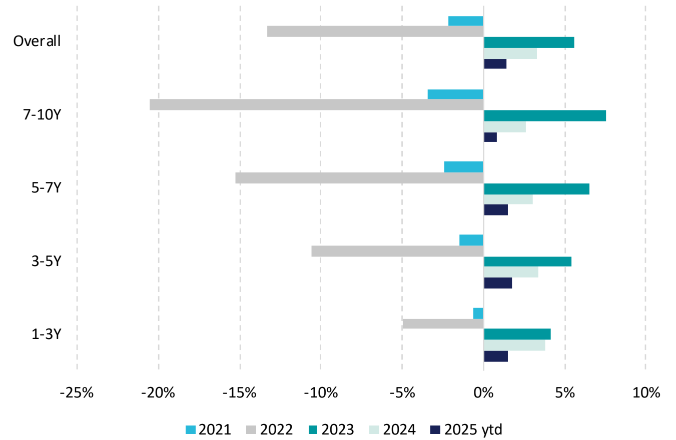
Source: Market data, Bloomberg, NORD/LB Floor Research

NORD/LB

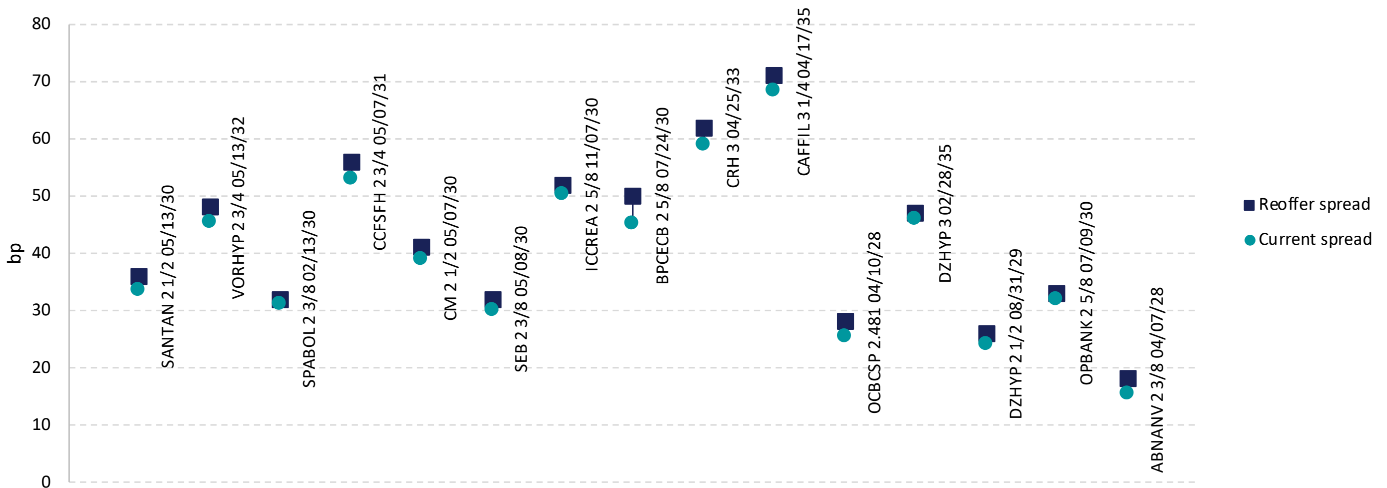
EUR benchmark emission pattern



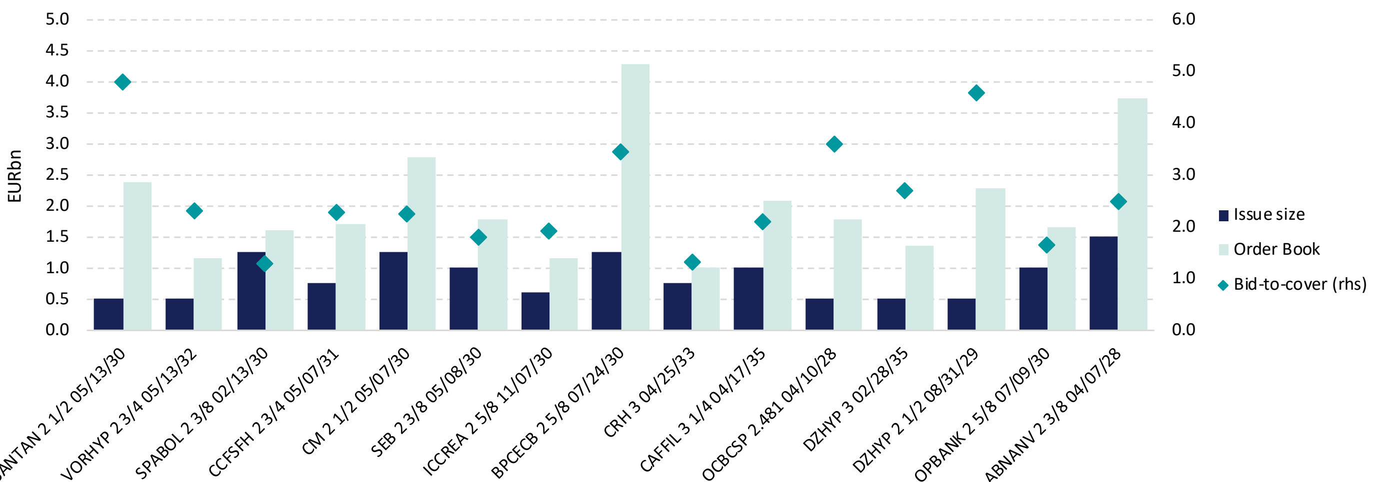
Covered bond performance (Total return)



Spread development (last 15 issues)

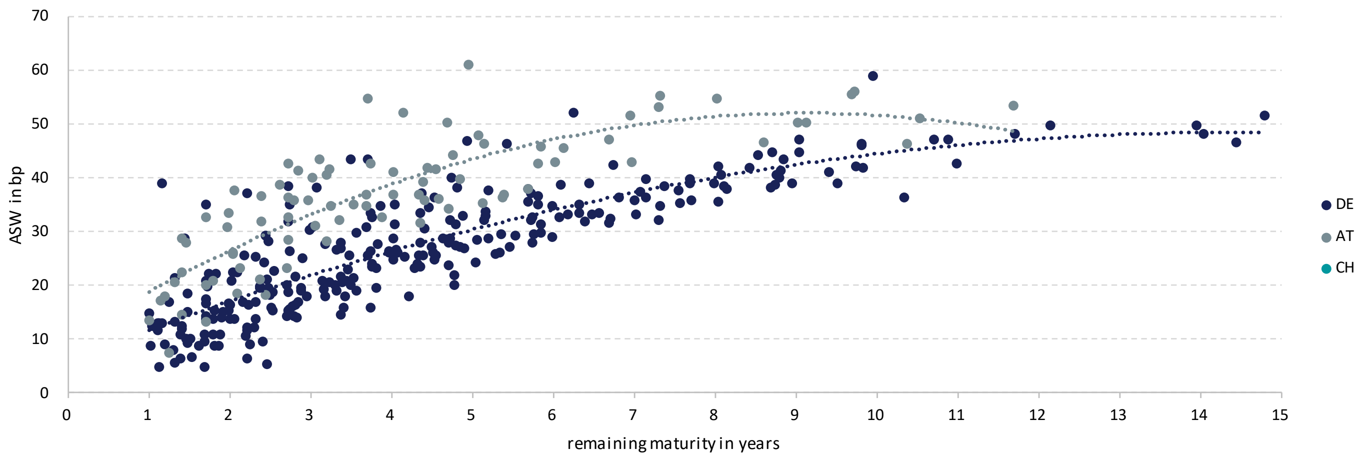


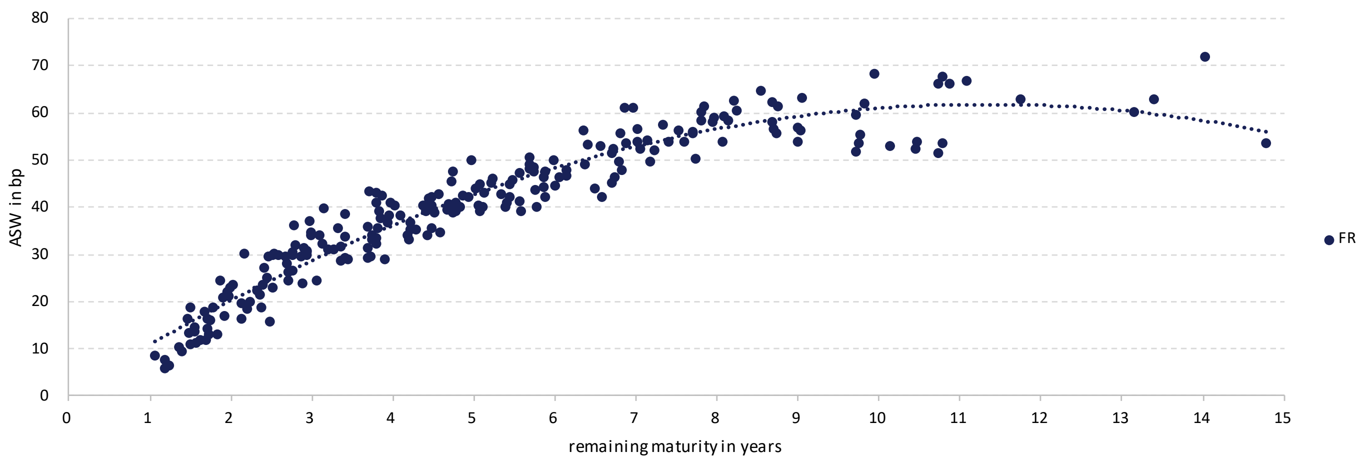
Order books (last 15 issues)

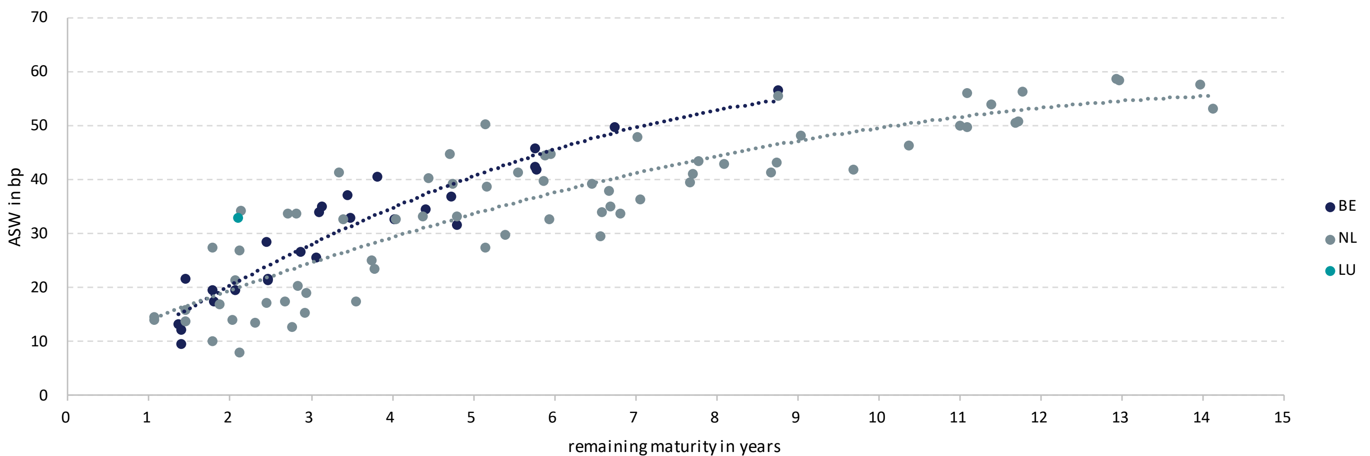


Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

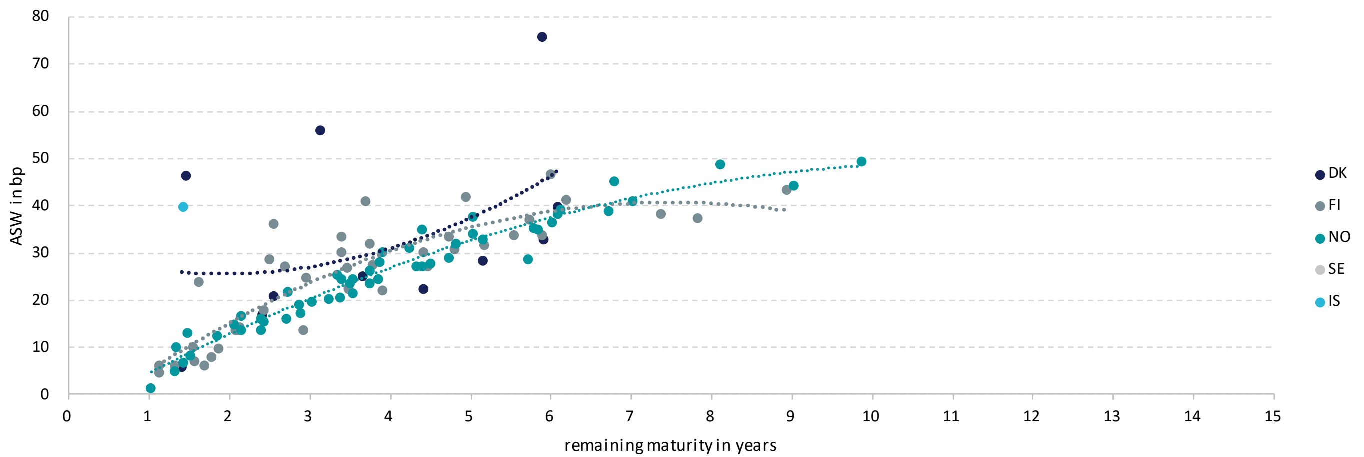




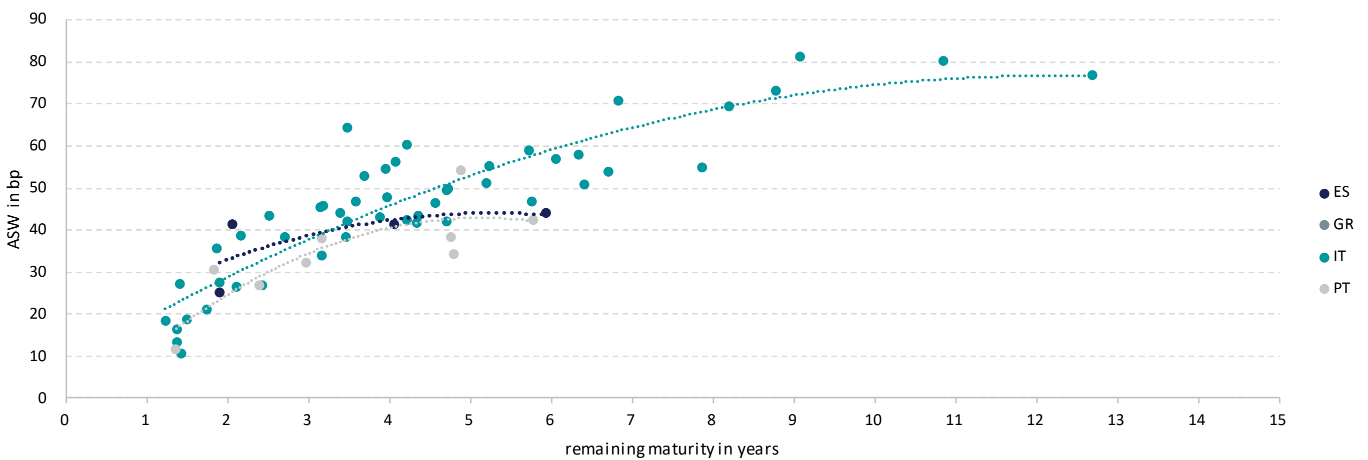


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

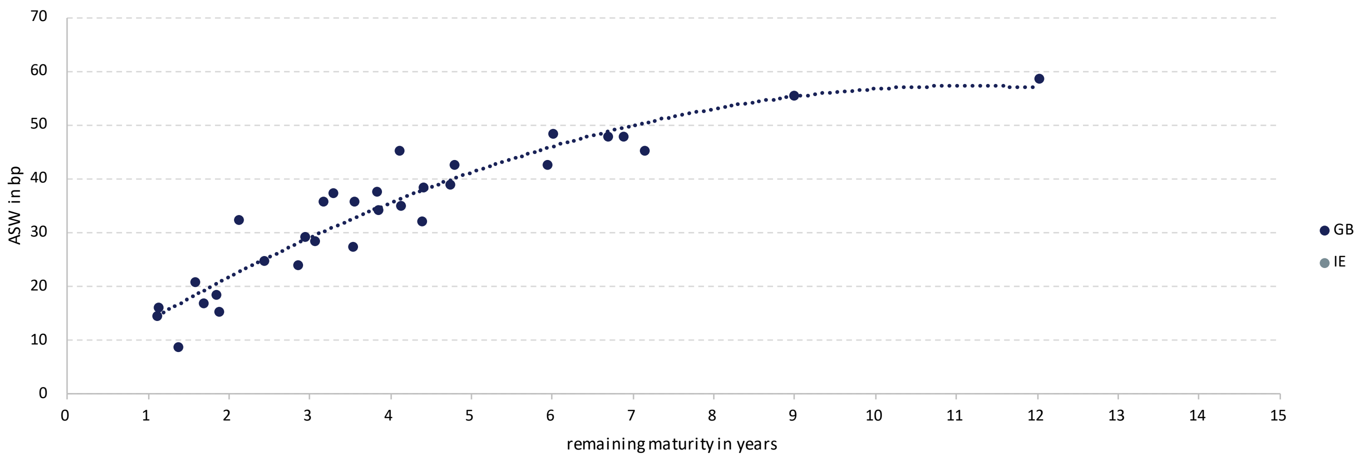
Nordics



Southern Europe

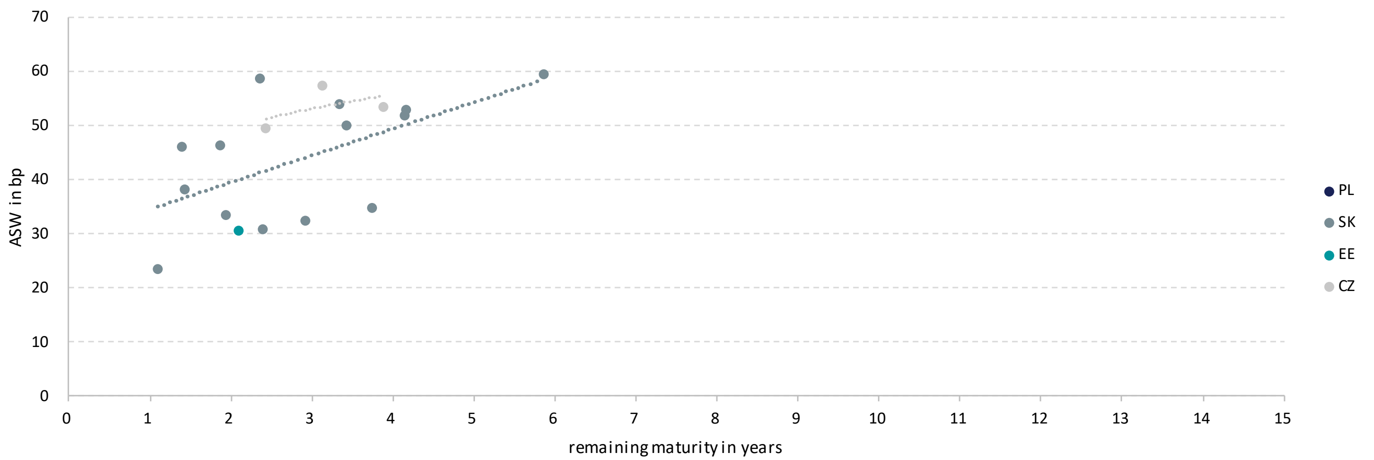


UK/IE

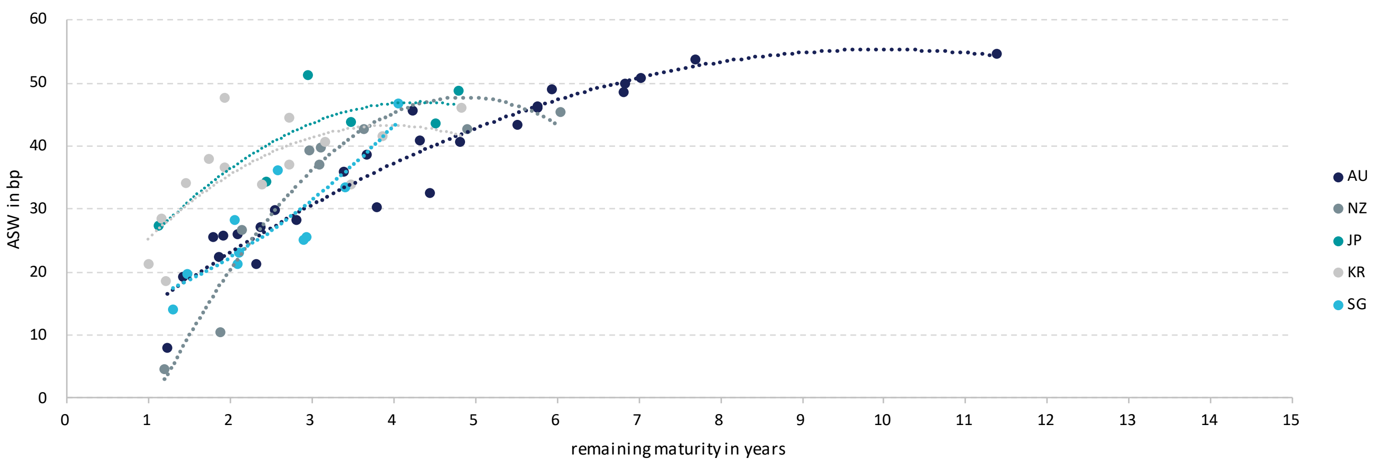


Source: Market data, Bloomberg, NORD/LB Floor Research

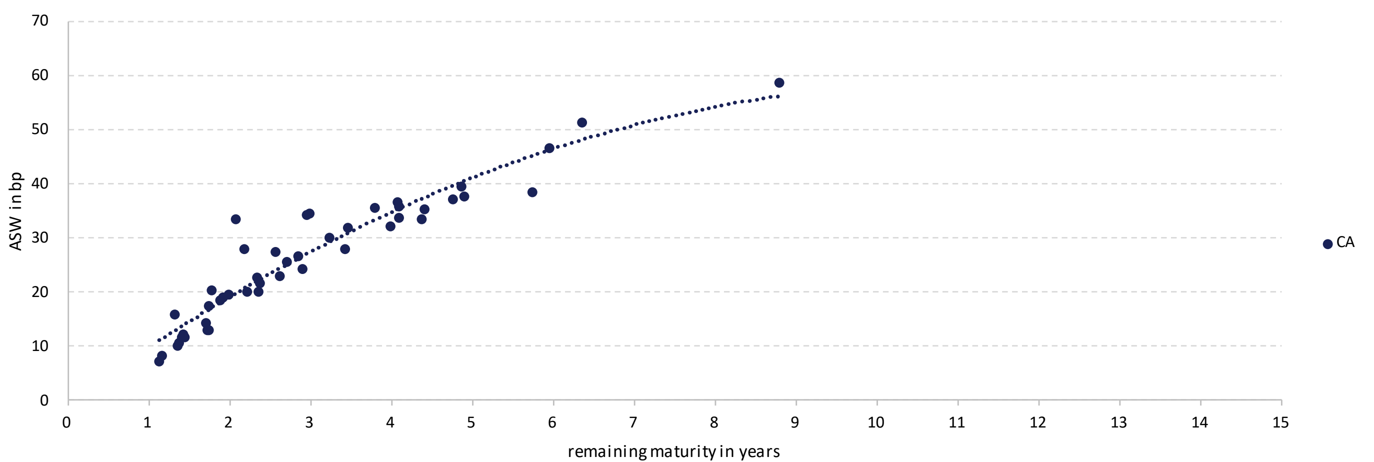
CEE



APAC



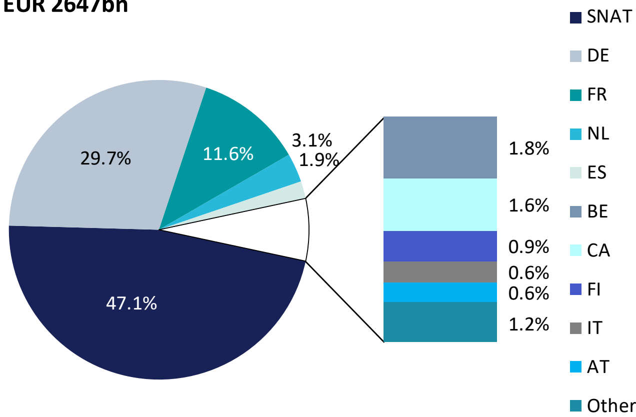
North America



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

Charts & Figures
SSA/Public Issuers

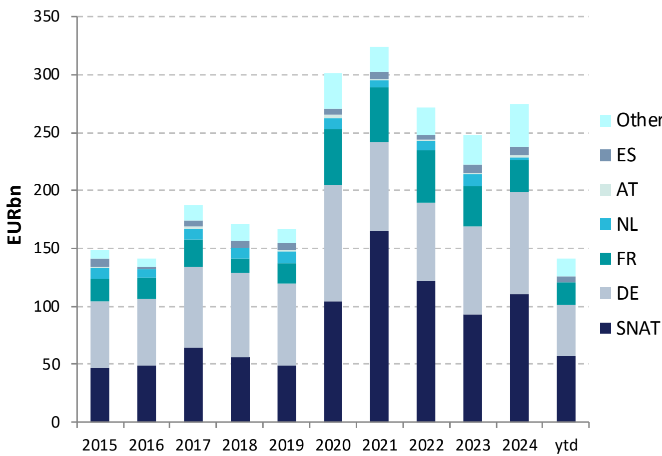
Outstanding volume (bmk)



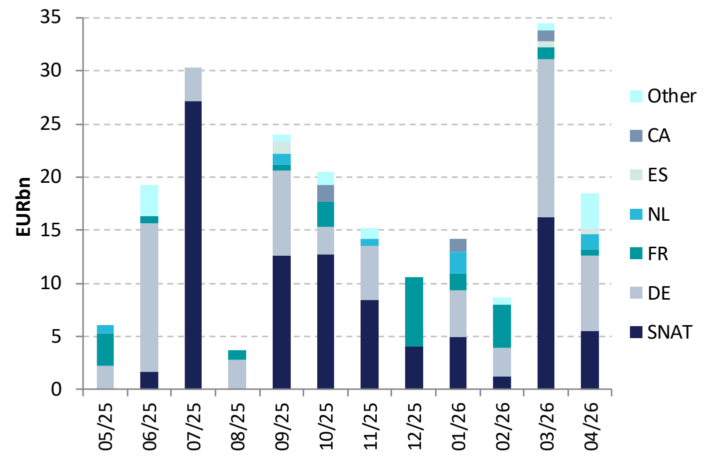
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,246.4	253	4.9	7.6
DE	785.2	593	1.3	6.1
FR	305.8	206	1.5	5.6
NL	82.4	67	1.2	6.4
ES	49.6	70	0.7	5.1
BE	48.4	49	1.0	9.7
CA	42.0	29	1.4	5.5
FI	24.0	25	1.0	4.3
IT	16.1	20	0.8	4.3
AT	16.0	21	0.8	4.5

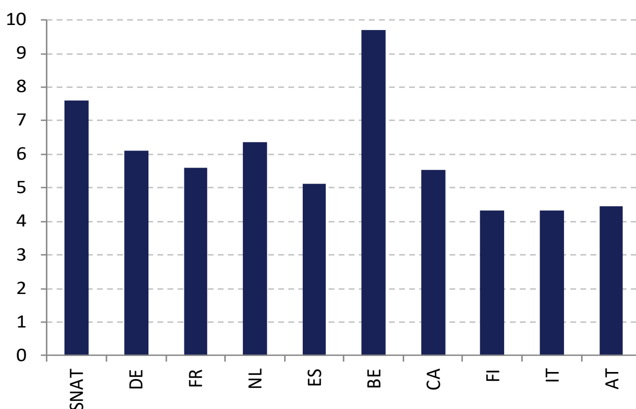
Issue volume by year (bmk)



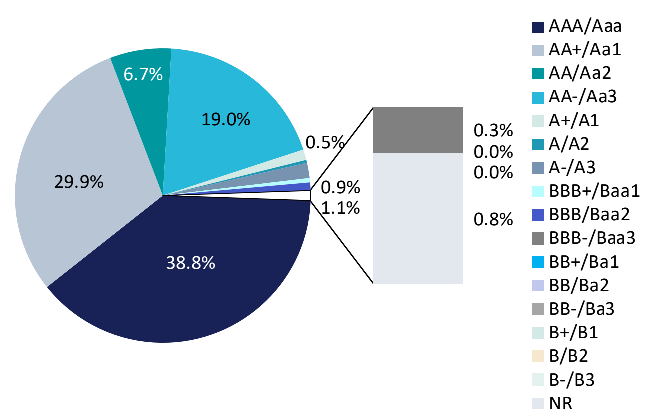
Maturities next 12 months (bmk)



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



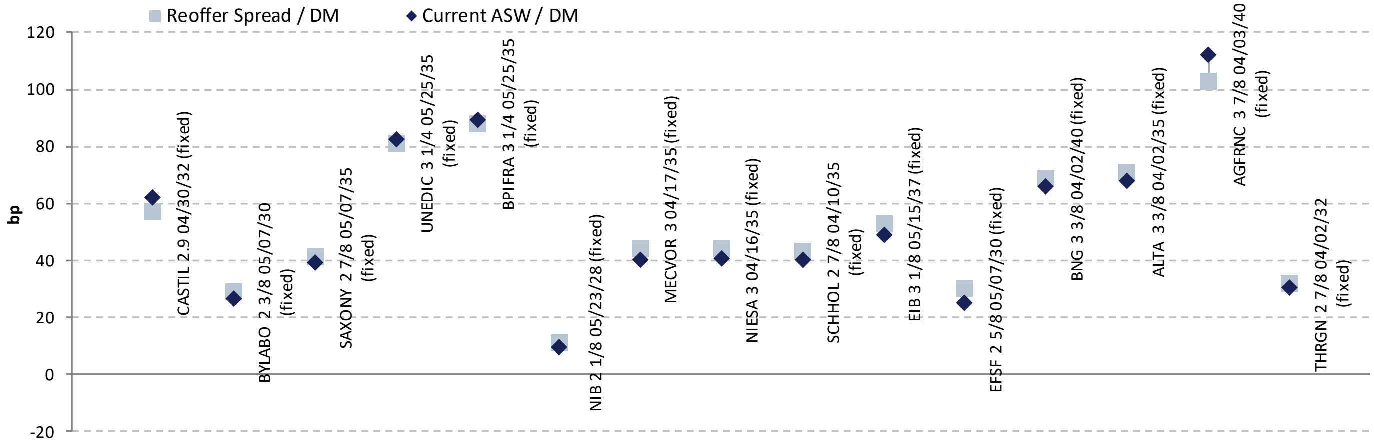
Rating distribution (vol. weighted)



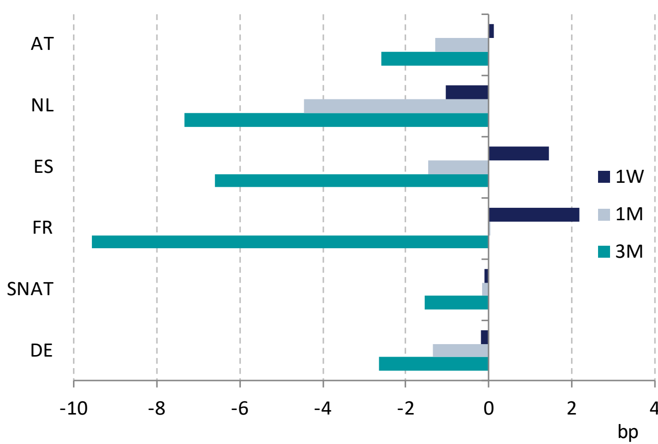
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

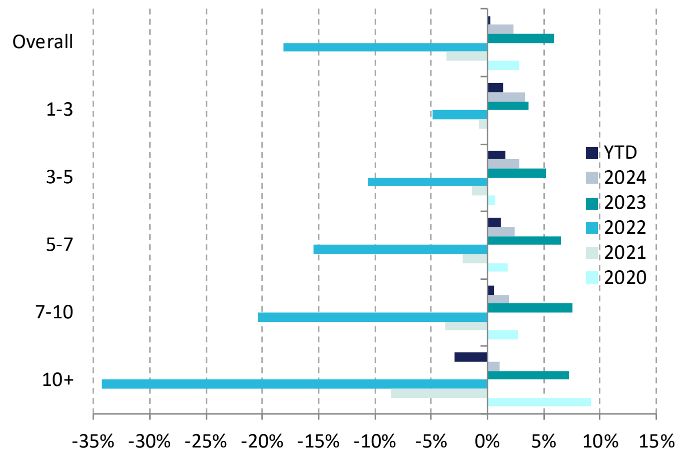
Spread development (last 15 issues)



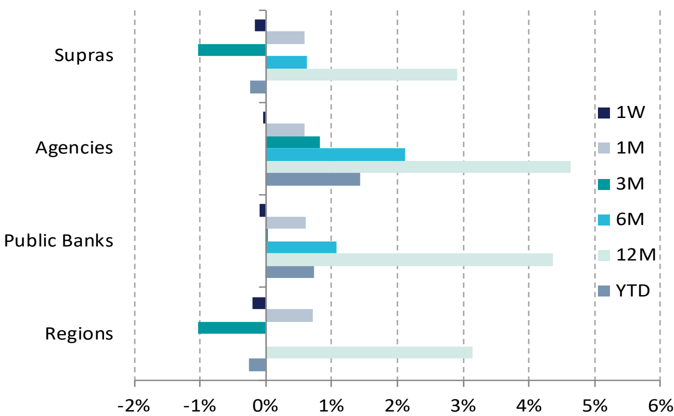
Spread development by country



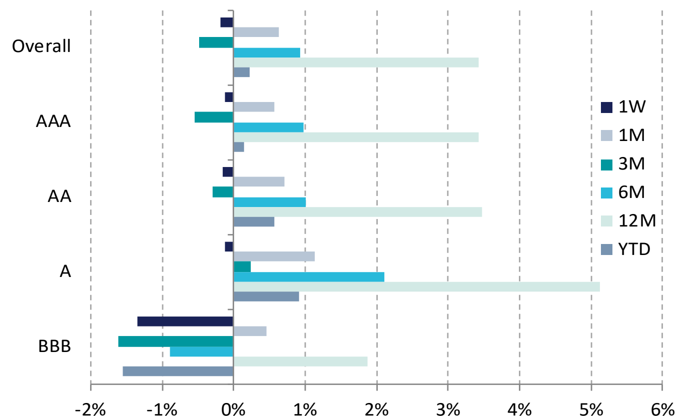
Performance (total return)



Performance (total return) by segments



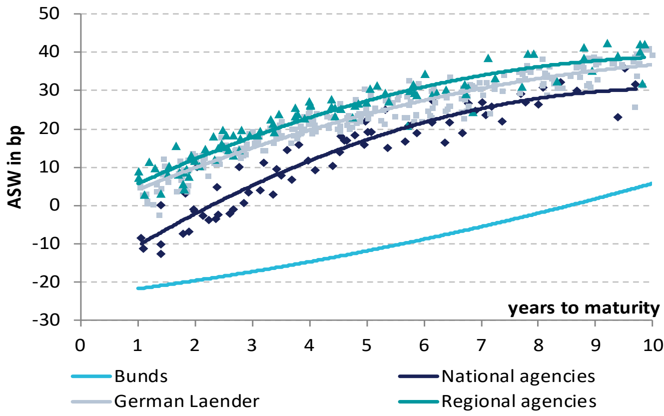
Performance (total return) by rating



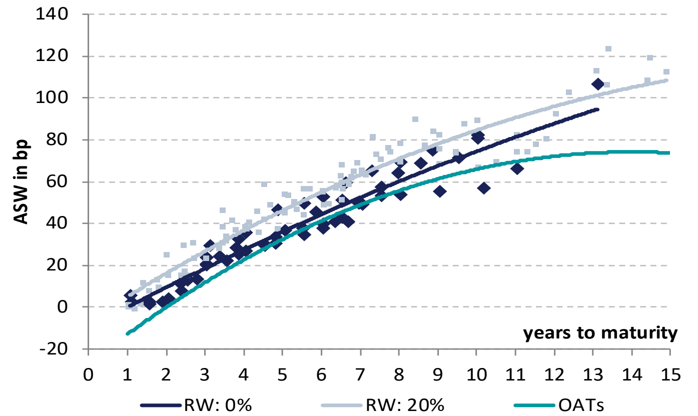
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

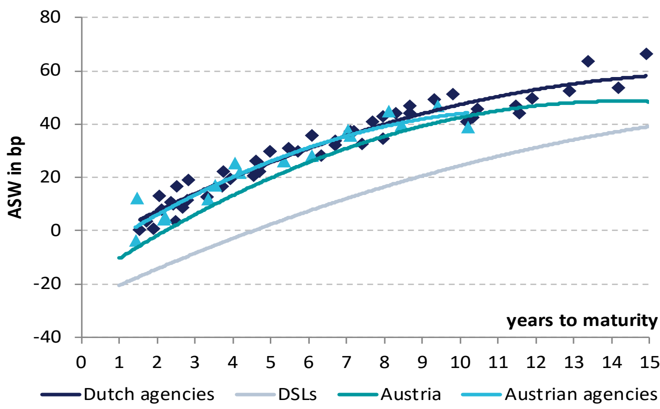
Germany (by segments)



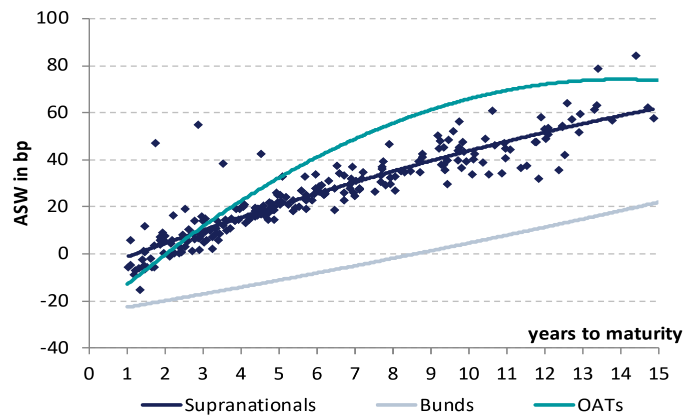
France (by risk weight)



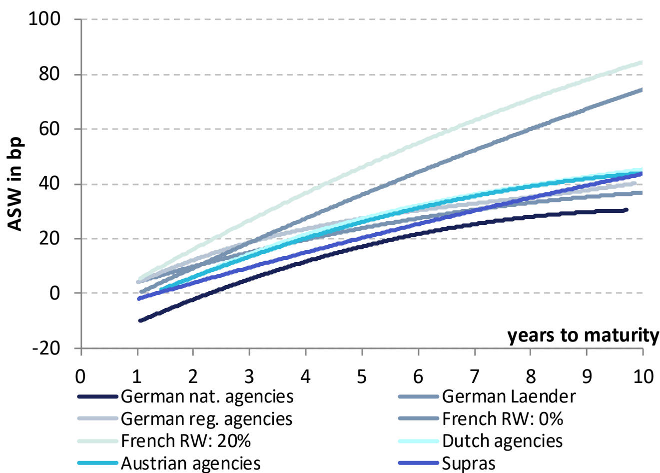
Netherlands & Austria



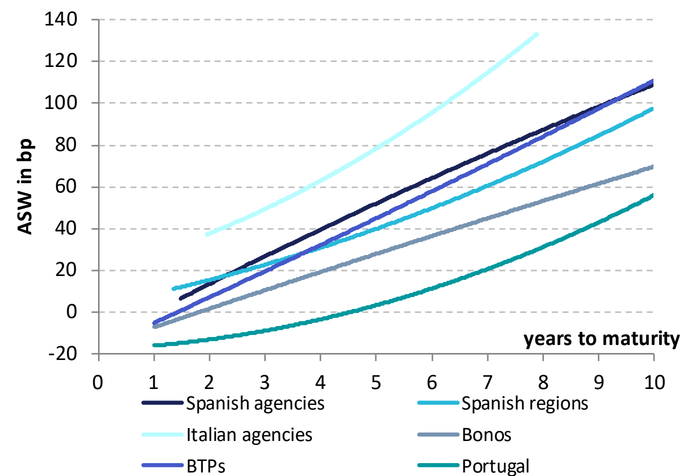
Supranationals



Core



Periphery



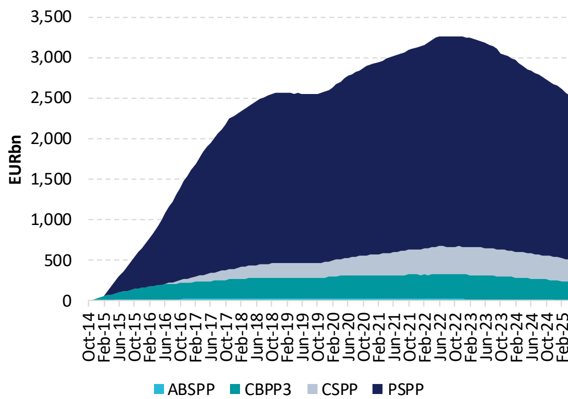
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

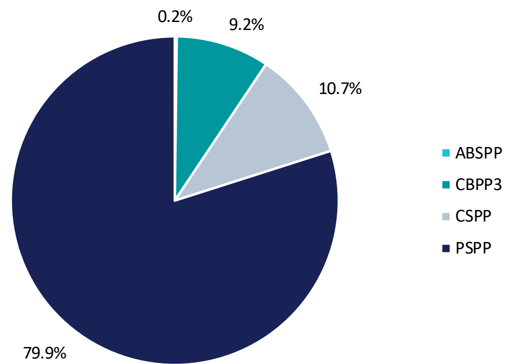
Charts & Figures
ECB tracker

Asset Purchase Programme (APP)

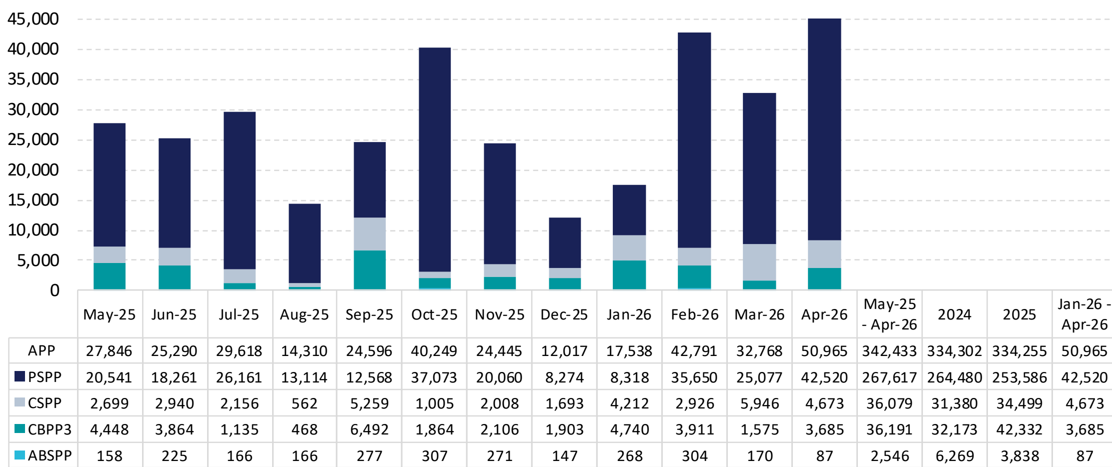
APP: Portfolio development



APP: Portfolio structure

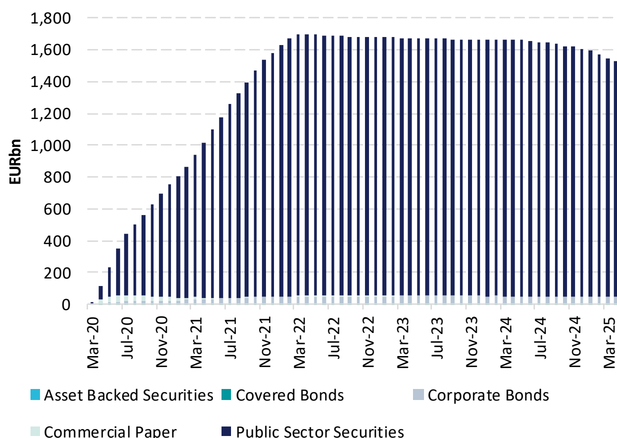


Expected monthly redemptions (in EURm)

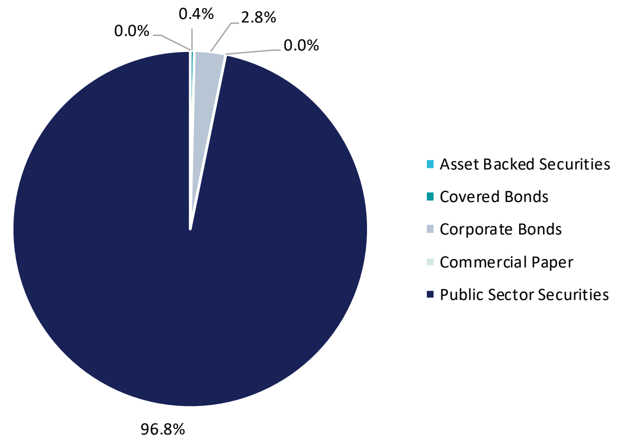


	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-25 - Apr-26	2024	2025	Jan-26 - Apr-26
APP	27,846	25,290	29,618	14,310	24,596	40,249	24,445	12,017	17,538	42,791	32,768	50,965	342,433	334,302	334,255	50,965
PSPP	20,541	18,261	26,161	13,114	12,568	37,073	20,060	8,274	8,318	35,650	25,077	42,520	267,617	264,480	253,586	42,520
CSPP	2,699	2,940	2,156	562	5,259	1,005	2,008	1,693	4,212	2,926	5,946	4,673	36,079	31,380	34,499	4,673
CBPP3	4,448	3,864	1,135	468	6,492	1,864	2,106	1,903	4,740	3,911	1,575	3,685	36,191	32,173	42,332	3,685
ABSPP	158	225	166	166	277	307	271	147	268	304	170	87	2,546	6,269	3,838	87

PEPP: Portfolio development



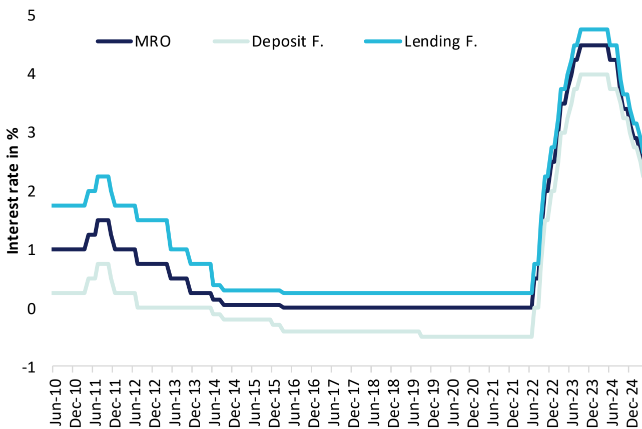
PEPP: Portfolio structure



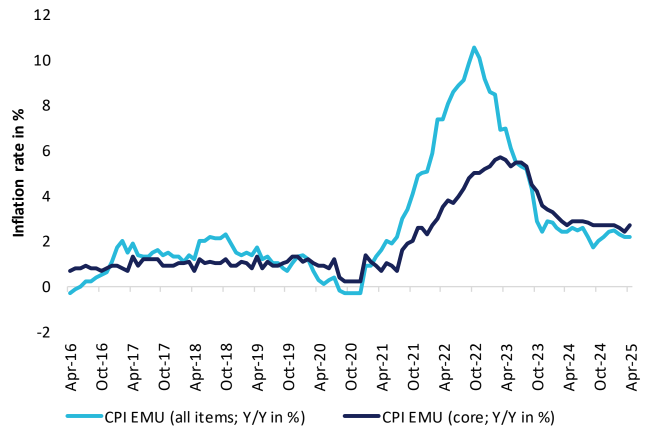
Source: ECB, NORD/LB Floor Research

Charts & Figures
Cross Asset

ECB key interest rates

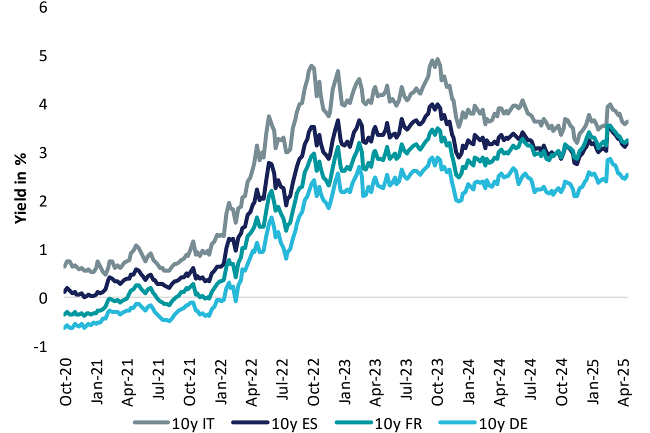


Inflation development in the euro area

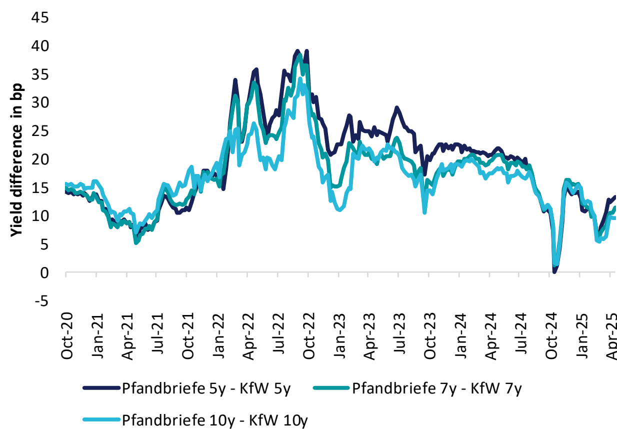


Bund-swap-spread

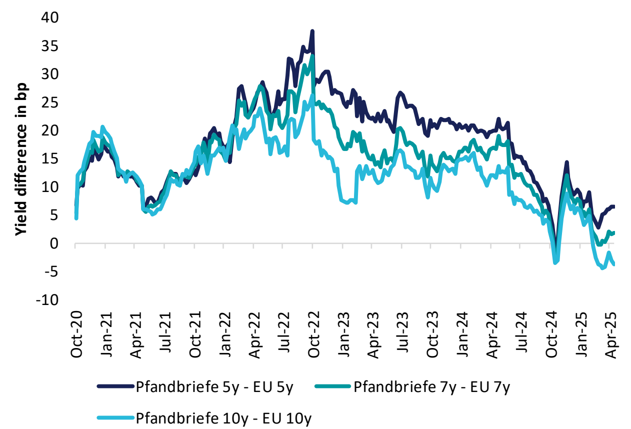
Selected yield developments (sovereigns)



Pfandbriefe vs. KfW



Pfandbriefe vs. EU



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
16/2025 ♦ 30 April	▪ Special report on LCR classification and risk weights: a (regulatory) look at the EUR benchmark segment ▪ Teaser: Issuer Guide – Dutch Agencies 2025
15/2025 ♦ 16 April	▪ Cross Asset: Relative value – What is the state of play?
14/2025 ♦ 09 April	▪ The covered bond universe of Moody's: an overview ▪ SSA review: EUR-ESG benchmarks in Q1/2025
13/2025 ♦ 02 April	▪ Review of the first quarter in the covered bond segment ▪ A review of Q1/2025 in the SSA segment
12/2025 ♦ 26 March	▪ A look at the Danish covered bond market ▪ Teaser: Issuer Guide – Non-European Supras (MDBs) 2025
11/2025 ♦ 19 March	▪ Eligibility of covered bonds for repo transactions ▪ Current risk weight of supranationals & agencies
10/2025 ♦ 12 March	▪ Covereds vs. sovereign bonds: A question of attractiveness ▪ NGEU: Green Bond Dashboard
09/2025 ♦ 05 March	▪ Transparency requirements §28 PfandBG ▪ Teaser: Issuer Guide – Non-European Agencies 2025
08/2025 ♦ 26 February	▪ Overseas Covered Bonds – A Brave New Spread World? ▪ Update: Joint Laender – Laender jumbos
07/2025 ♦ 19 February	▪ An overview of the EUR sub-benchmark segment ▪ Export Development Canada – spotlight on EDC
06/2025 ♦ 12 February	▪ Development of the German property market (vdp index) ▪ Occitania – spotlight on OCCTNE
05/2025 ♦ 05 February	▪ Crelan Home Loan plans return to the covered bond market ▪ SSA January recap: record start to 2025
04/2025 ♦ 29 January	▪ Cross Asset – ESG pilot project: First EU Green Bond in our coverage
03/2025 ♦ 22 January	▪ Focus on the banking sector: EBA Risk Dashboard in Q3/2024 ▪ 30th meeting of the Stability Council (December 2024)
02/2025 ♦ 15 January	▪ The Moody's covered bond universe – an overview ▪ Review: EUR-ESG benchmarks 2024 in the SSA segment
01/2025 ♦ 08 January	▪ Annual review of 2024 – Covered Bonds ▪ SSA: Annual review of 2024
42/2024 ♦ 18 December	▪ A regulatory look at the iBoxx EUR Covered ▪ Teaser: Beyond Bundeslaender – Belgium
41/2024 ♦ 11 December	▪ Focus on France: Covered bond view of Groupe CCF ▪ Teaser: Issuer Guide – French Agencies 2024

NORD/LB: Floor Research

NORD/LB: Covered Bond Research

NORD/LB: SSA/Public Issuers Research

Bloomberg: RESP NRDR <GO>

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Appendix
Publication overview

Covered Bonds:

Issuer Guide – Covered Bonds 2024

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

Transparency requirements §28 PfandBG Q4/2024 (quarterly update)

Transparency requirements §28 PfandBG Q4/2024 Sparkassen (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2024

Issuer Guide – Canadian Provinces & Territories 2024

Issuer Guide – Down Under 2024

Issuer Guide – European Supranationals 2024

Issuer Guide – Non-European Supranationals (MDBs) 2025

Issuer Guide – German Agencies 2024

Issuer Guide – French Agencies 2024

Issuer Guide – Nordic Agencies 2024

Issuer Guide – Dutch Agencies 2025

Issuer Guide – Austrian Agencies 2024

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2024

Another ECB rate cut: "You say it's urgent, so urgent"

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

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