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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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Covered Bonds
Market overview

Authors: Elias Degener // Lukas Kühne // Dr Norman Rudschuck, CIIA

Primary market: optimism about ending the Iran conflict stabilises the bond markets

Neither the international financial markets nor political developments on both sides of the Atlantic can, at the moment, be described as boring. The core event in this regard was without doubt the results of the US midterms, which ended up delivering more of a surprise than many political commentators initially expected. The so-called "blue wave" that washed over a series of states throughout the country, allowing the Democrats to romp home and claim control of both houses in the US Congress, certainly left its mark on the financial markets as well. In particular, the faint hope for an emerging solution to bring the conflict with Iran to an end caused oil prices to fall sharply. At the same time, there was a fall in credit risk premiums in the interbank market. For instance, the iTraxx Senior Financial index dropped from 75bp at the end of October to around 66bp currently. This led to a number of issuers opting to make their way back into the primary market. In this context, the issuing banks were primarily focused on senior bonds. The high spreads compared with the covered bond segment resulted in full order books for the majority of deals, meaning that the market as a whole appears receptive and that issuers with outstanding funding requirements should certainly be willing to emerge from cover. Although traditionally we tend to focus on the covered bond market, on this occasion we would like to examine a deal in the senior non-preferred segment. After weeks of sharply rising spreads and increasing concerns about a deepening sovereign debt crisis, Société Générale became the first French issuer to return to the primary market. The major bank issued a deal worth EUR 1.25bn with an initial term to maturity of 6.0 years. The eagerly anticipated guidance was defined in a range of ms +165-170bp upon opening of the books. At this spread level, investors were evidently quite willing to get involved and add French exposure to their books, which ultimately led to the reoffer spread being fixed at ms +135bp. The deal is likely to encourage other French banks to test the primary market waters should they still need to raise funds before the year is out. In the covered bond market, two rarer names appeared on our screens with primary market activities in the shape of Novo Banco from Portugal and the Austrian bank Raiffeisenlandesbank Oberösterreich (RLB Oberösterreich). Both deals were well received by investors, with fit-to-bursting order books leading to the issue volumes being upped to EUR 750m for both deals. At the same time, high new issue premiums were again recorded for deals in this trading week.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
RLB Oberösterreich	AT	10.11.	AT0000A3YBG9	3.0y	0.75bn	ms +25bp	- / Aaa / -	-
Novo Banco	PT	05.11.	PTNOBQOM0006	4.0y	0.75bn	ms +33bp	- / Aaa / -	-

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

Secondary market: spreads trend sideways amid further stabilisation

The trend towards stabilisation of covered bond spreads continued over the past five trading days. Purchase interest from investors was observed in the medium-term maturity segment in particular. Despite fairly modest trading volumes overall, spreads within the EUR benchmark segment largely trended sideways, supported by cautious normalisation trends in French OAT spreads and a generally supportive market environment.

Fitch: French issuers defy challenging spreads with high rating buffers

The European financial markets have been decidedly gripped by the French fiscal and debt crisis across virtually all asset classes. Since the widening of risk premiums for French bonds accelerated and gained momentum in September, French issuers have been conspicuous by their absence in the primary market for covered bonds, with the most recent deal from this jurisdiction dating back to 03 September, when Crédit Agricole placed a EUR 500m public sector covered bond with a maturity of 6 years at a reoffer spread of ms +35bp. At present, the bond is trading at a spread of ms +57bp, which highlights the significant widening of spreads on French deals. It is therefore unclear when exactly French issuers will return to the primary market. The fact that this cessation of issuance activities is primarily driven by the crisis – although perhaps crises in the plural would be more apt – of the French state is also confirmed by Fitch's rating experts in their recently published Peer Credit Analysis, in which they continue to ascribe high rating buffers to French covered bond programmes. For example, all programmes from France that form part of the Fitch rating universe retain a AAA rating with a stable outlook and, on average, have 5.4 unused notches to protect against an issuer downgrade. According to Fitch, the high levels of overcollateralisation are the cornerstones of this rating stability. Moreover, the cover pools continue to benefit from high credit quality. The relative strength of the covered bonds is also particularly evident when we consider the G-spreads, i.e. the spread between covered bonds placed by French issuers and bonds issued by the French state with matching maturities. While the G-spread is positive in the vast majority of jurisdictions represented in the EUR benchmark segment, it stands at -16bp for 3y bonds and -48bp for 7y bonds in France. Conversely, this means that the market views French covered bonds as less risky when set against the OATs issued by the French government, whereby similar trends are currently in evidence in Belgium, Italy and Spain. As such, the situation in France is by no means an isolated case.

S&P downgrades rating for public sector covered bonds of Kommunalkredit Austria

On 06 October, the rating agency S&P downgraded the issuer rating of Kommunalkredit Austria by a single notch to BBB- (outlook: stable). The rating experts justified this decision by highlighting that the profitability of the bank, which specialises in financing European infrastructure and energy projects, was weaker than initially assumed. As a result of the downgrade, and in accordance with its rating methodology, S&P has also revised the rating of the publicly secured Covered Bonds downward to AA (outlook: stable; previously: negative). As such, the covered bond programme of Kommunalkredit Austria benefits from a rating uplift amounting to seven notches. According to S&P, no haircuts will be applied here, as the institution has committed to maintaining OC of 13% and retains sufficient liquidity to cover all outstanding covered bonds. At present, Kommunalkredit Austria has two covered bonds in the EUR benchmark segment, plus two others in sub-benchmark format (aggregated volume: EUR 1.65bn). The specialist finance provider was most recently active in the primary market for EUR benchmarks in April this year. The underlying cover pool of Kommunalkredit Austria has a volume of EUR 1.9bn as at 30 June 2026. The primary cover assets are characterised by a high degree of granularity. For example, the exposure is not only split between numerous jurisdictions across Europe, but also across various levels of regional authorities.

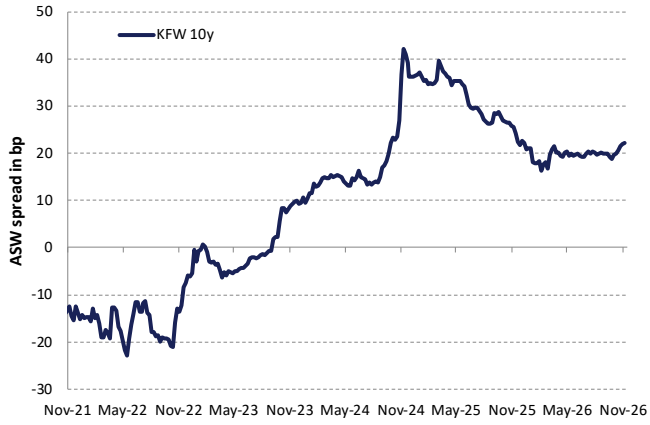
SSA/Public Issuers
Market overview

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

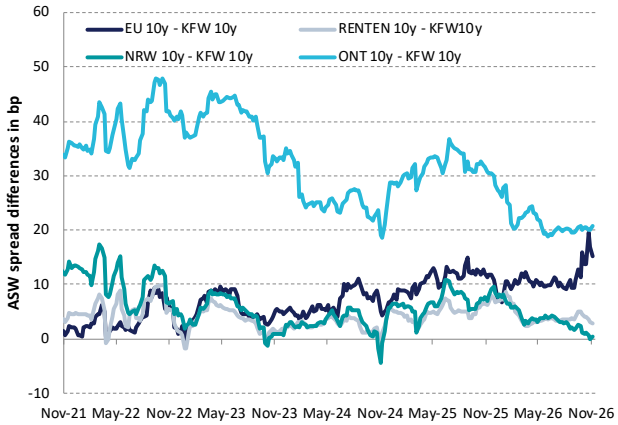
KfW presents promotional figures for Q3/2026

Germany's largest promotional bank KfW (Kreditanstalt für Wiederaufbau, ticker: KFW) has published its promotional figures for Q3/2026 and the first nine months of the current year. As stated in the relevant press release, KfW's promotional volume during the period from January to the end of September 2026 rose by an impressive EUR +26.5bn compared to the figure for the same period last year, reaching a record EUR 87.9bn (+43,2% Y/Y). In particular, domestic promotion saw strong growth, rising by +39.4% Y/Y to EUR 57.0bn. In especially high demand was funding for energy efficiency and renewable energies, with the volume of commitments for these sectors almost doubling in the period under review to EUR 20.3bn. New business in export and project finance rose by EUR +8.8bn Y/Y compared with the same period last year to around EUR 24.8bn, which represented an increase of +55% Y/Y. DEG's new commitments were also at a new record high of EUR 1.9bn, having previously been in decline in Q1-Q3/2025. KfW Development Bank's promotional business committed a total of EUR 5bn to new financing and around 68% of this volume was raised through the capital market rather than from the federal budget. Overall, KfW increased both its operating result (EUR 2.0bn; +47.1% Y/Y) and its consolidated profit (EUR 1.4bn; +115.4% Y/Y) significantly. Growth in net lending also enabled KfW to increase its total assets as at the reporting date to EUR 546.0bn (year-end 2025: EUR 540.7bn). On the funding side, the promotional bank has raised EUR 83.8bn on the international capital markets since the start of the year according to its latest investor presentation. The funding target for the year as a whole is in the range of EUR 80-85bn and in this respect it is conceivable that KfW will return to the EUR primary market one more time to make full use of the scope available. However, it is also possible that the remaining amount could be raised through foreign currencies or private placements.

KFW: ASW spread development (10y)



KFW vs. EU, RENTEN, NRW & ONT (10y)

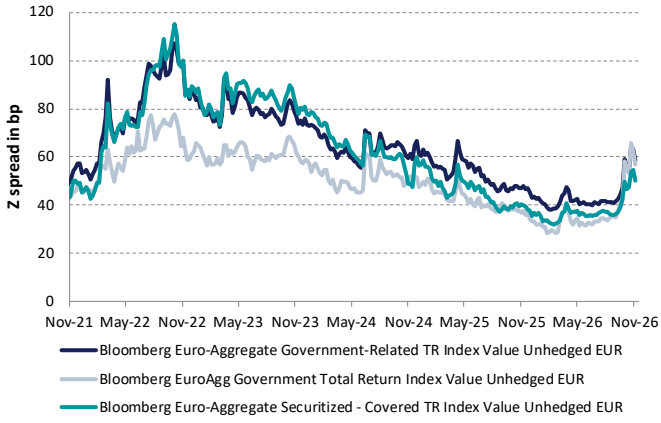


Source: Bloomberg, NORD/LB Floor Research

Relative value update: SSA remain attractive compared to covered bonds

The challenges for public finances remain high, as rising expenditures for social services, infrastructure, defence and climate protection is coming up against a demand side whose risk tolerance is increasingly being strained. Additional competition is coming from US hyperscalers, who are increasingly tapping the EUR bond market to fund their AI investments. Another negative factor is the (fiscal) political uncertainty in France, which is impacting the development of spreads across various asset classes. An analysis of the Z-spreads of representative Bloomberg indices for **SSA**, **sovereigns** and **covered bonds** also reflects the market's changing risk propensity. From a relative value perspective, public issuers have recently become significantly more expensive compared to government bonds. Even when measured against the swap curve as a benchmark, SSA have recently performed significantly better than sovereigns in relative terms. Although it is always important to bear in mind index-specific differences when interpreting data, the aggregate trend currently paints a clear picture. Compared with covered bonds, SSA continue to offer pick-up opportunities. Z-spreads at index level have almost doubled compared with the middle of the year, which we believe still supports the attractiveness of public issuers, particularly in view of their frequently more favourable regulatory treatment. Even given the recent performance of both asset classes relative to swaps, SSA therefore appear to be valued favourably in our opinion.

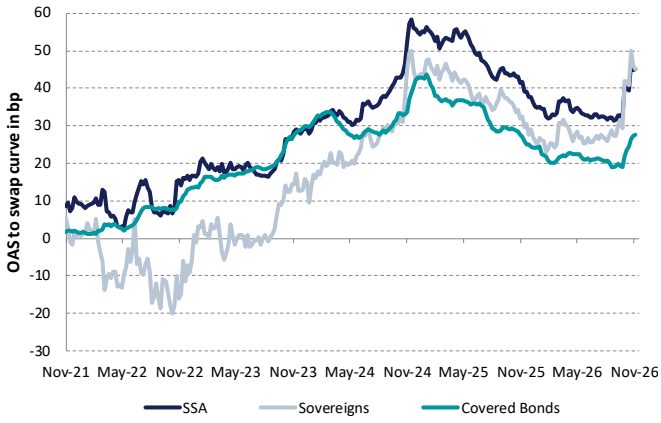
Z spreads: SSA, Sovereigns & Covereds



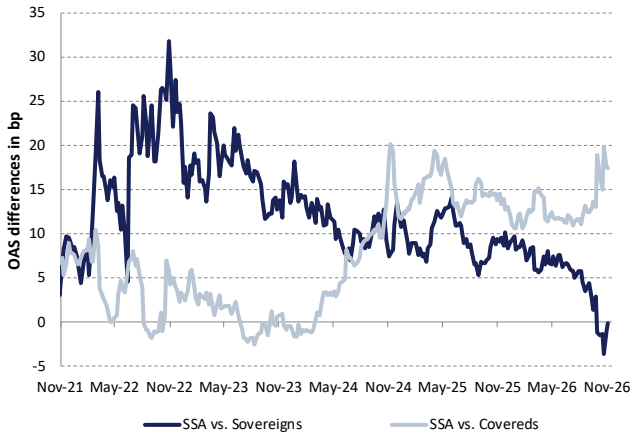
Z spreads: SSA vs. Sovereigns & Covereds



OAS to swap curve



OAS differences: SSA vs. Sovereigns & Covereds



Source: Bloomberg, NORD/LB Floor Research

SFIL: Interim results significantly impacted by local elections

The French export and municipal financier Société de Financement Local (SFIL, ticker: SFILFR) has presented its interim report for H1/2026. In a volatile economic environment, net income fell by -44% Y/Y to EUR 24m. Net interest income (EUR 103m), which was 20% lower year on year than in the first half of 2025, played an essential part in this. Operating expenses, however, fell by just -3% Y/Y to EUR 62m. The volume of lending to French local authorities fell by -35% Y/Y compared with the first half of 2025 to a total of EUR 1.3bn, which was in particular due to the local elections in spring 2026. 47% of loans granted to the public sector were green and social. SFIL states that since the launch of the corresponding formats in 2019 and 2022 respectively, it has granted EUR 5bn in green loans to the French public sector and EUR 3bn in social loans to support public hospitals and socially oriented investments. This activity was underpinned by a financial structure that remained strong in terms of consistently low credit risk indicators. The non-performing exposures rate stood at just 0.1% in H1/2026. However, the CET1 ratio dipped slightly at the end of Q2/2026 and amounted to 46.5% (46.8% in December 2025). On the liquidity side, the LCR and NSFR reached 2.104% and 130% respectively. Philippe Mills, Chief Executive Officer of SFIL, commented on the figures as follows: "Despite the uncertain economic and geopolitical environment, these results demonstrate once more the strength and relevance of our public development bank model. The performance of this first semester emphasizes the confidence of our investors, who continue to support our development. I also deeply thank our employees for their commitment to the successful delivery of our projects."

Primary market

During the past trading week under review, activity on the SSA primary market practically came to a standstill. In view of this, we can only report on a dual tranche from the European Union (ticker: EU) in today's edition. As part of its final syndicated transaction this year (cf. funding plan), the European Union increased the size of two bonds: the volume of the longer term EU 4% 10/12/2046 was increased by EUR 4bn at EU +4bp (guidance: EU +6bp area; order book: EUR 81bn), while the shorter-dated EU 2.875% 10/13/2031 was increased by EUR 4bn at a final spread of EU +7bp (guidance: EU +10bp area; bid-to-cover ratio: 17.8x). Looking ahead, however, activity in the SSA segment is likely to pick up again. Auckland Council (ticker: AUCKCN) is planning to issue a new green bond with a volume of EUR 500m (WNG) and a seven-year maturity. The New Zealand sub-sovereign is holding talks with investors on this matter from today. Furthermore, the Free and Hanseatic City of Hamburg (ticker: HAMBRG) intends to issue a EUR 750m state treasury note with a five-year maturity. This would be Hamburg's sixth EUR benchmark bond this year and would take its aggregate volume of new issues to EUR 3.75bn.

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

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

Covered Bonds
Belgian covered bonds overshadowed by high public debt

Authors: Elias Degener // Lukas Kühne // Dr Norman Rudschuck, CIIA

Focus on Belgian covered bond market

In this week's focus article, we want to turn our attention to the Belgian covered bond jurisdiction. With five active issuers in the EUR benchmark segment, Belgium is one of the smaller European covered bond markets. In addition to providing an overview of covered bond issuers, we shall focus on the spread developments compared with other jurisdictions, taking into account the budgetary situation, the development of public debt and the stability of Belgium's banking sector. The recent example of its French neighbour clearly illustrates the negative effects that a loss of confidence amongst market participants in the soundness of public finances and political stability can have.

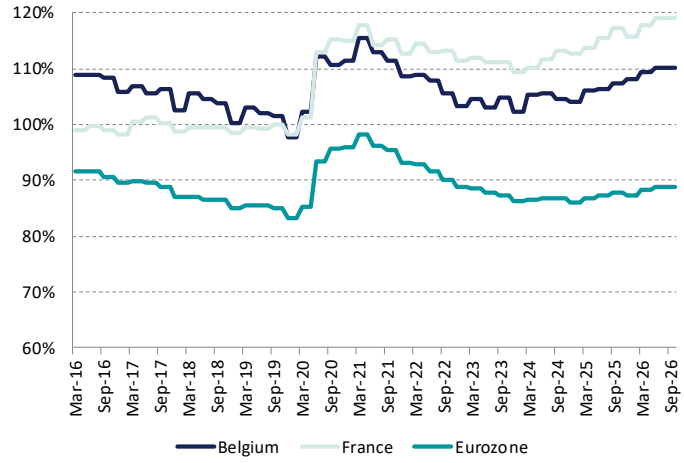
Belgium's national debt has a negative impact on its credit rating

As the example of France has clearly demonstrated over recent months and years, factors extending beyond the soundness of the banking sector or the asset quality of the cover pools are often the key drivers of spread developments across individual jurisdiction. In France, the high budget deficit and ongoing political instability are being accompanied by downgrades of the sovereign rating and are leading to a significant rise in spreads. In Belgium, too, high public debt was a key argument cited by the rating agency Moody's for downgrading its sovereign rating from Aa3 to A1 in April 2026. It maintained that further significant consolidation measures would be needed to stabilise public debt. In addition, Moody's points to the reduced effectiveness of fiscal policy, which in recent years has been insufficient to stabilise public debt. Prior to Moody's, the rating agencies Fitch and S&P had already downgraded Belgium by one notch from AA- to A+. At present, market participants are paying less attention to the strained fiscal situation in Belgium than to the one in France, but it could become more of an issue given the recent failed negotiations on the 2027 budget. Specifically, the proposed draft budget, which would have provided for savings of EUR 10bn, failed to secure a majority amongst the five coalition partners. Against this backdrop, Prime Minister Bart De Wever offered his resignation.

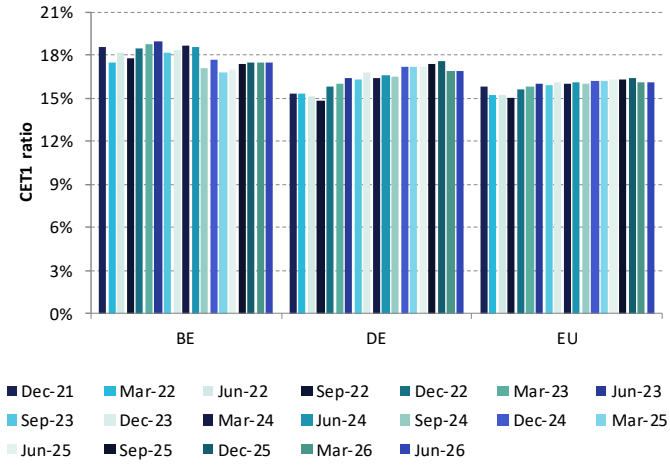
Currently no fiscal consolidation in sight

At the end of the second quarter of 2026 Belgium's public debt to GDP ratio was 110.2%, well above the eurozone average (88.8%), but around nine percentage points below the corresponding figure for France (119,1%). In recent years, this figure has risen steadily in Belgium, albeit at a slightly slower rate than its crisis-hit neighbour. The Belgian central bank is not expecting this trend to reverse even in the medium term. According to the central bankers, the public debt to GDP ratio could rise to just under 115% by the end of 2028. The same applies to the budget deficit, which is expected to increase from -5.3% (Q2/2026; as a percentage of GDP) to -5.7% (2028). Furthermore, inflation in October stood at 5.3%, well above the eurozone average (4,0%). In order to offset a potential loss of purchasing power, salaries in Belgium are automatically adjusted in line with inflation.

Public debt as a percentage of GDP



Overview of CET1 ratio



Source: Bloomberg, NORD/LB Floor Research

Banking sector in Belgium dominated by large universal banks

The Belgian banking market is dominated by a small number of large universal banks, including BNP Paribas Fortis, KBC Bank and Belfius Bank. The banking landscape in Belgium is complemented by a number of small and medium-sized banks. The large universal banks have more diversified business models, which also include investment services in addition to retail and corporate banking and are not solely restricted to domestic business. By contrast, small and medium-sized banks mainly concentrate on the deposit and lending business with retail customers. According to the EBA Risk Dashboard, Belgian banks' capital and liquidity resources are well above the European average at 17.5% (CET1) and 185.0% (LCR) respectively. Loans to retail customers and loans to non-financial institutions (FY/2025: 58% of assets) and loans to the public sector (12%) account for the majority of the Belgian banking sector's assets. At 1.4% (H1/2026), the NPL ratio for banks in Belgium was below the European average of 1.8% and therefore at a comparatively low level. The funding mix consists mainly of customer deposits (FY/2025: 57%). This is supplemented by issuing bonds (10%).

Overview of EUR benchmark issuers from Belgium

Five Belgian issuers with a total of six programmes are currently active in the EUR benchmark segment. Of these, five are mortgage-backed covered bond programmes, while only Belfius Bank also has a programme for issuing publicly guaranteed covered bonds. All mortgage-backed covered bond programmes from Belgium carry at least one top rating from one of the three rating agencies Fitch, Moody's or S&P. Moreover, the primary cover assets of these programmes are made up of exclusively of residential mortgage loans. Geographically, the cover assets are located entirely in Belgium. Based on their credit rating, the covered bonds issued by EUR benchmark issuers are subject to a preferential risk weight of 10% under the CRR. In addition, we believe that the relevant covered bonds are eligible as Level 1 assets for LCR management purposes. Moreover, the associated covered bonds are suitable as collateral in transactions with the ECB and can be marketed under the European Covered Bond (Premium) label.

Overview of Belgian EUR benchmark issuers

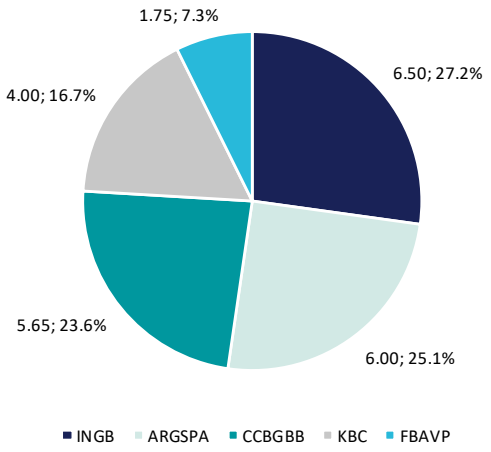
Issuer	Type	Cover pool (EURbn)	Outst. Volume (EURbn)	OC (nominal)	LTV (indexed)	NPL	LCR level / Risk weight	Rating (Fitch / Moody's / S&P)
Argenta Spaarbank[1]	M	7.648	6.250	22.4%	52.3%	0.0%	1 / 10%	- / - / AAA
Belfius Bank[2]	M	17.880	14.045	27.3%	40.3%	0.0%	1 / 10%	AAA / - / AAA
	P	1.705	1.211	40.8%	-	0.0%	1 / 10%	AAA / - / AA+
BNP Paribas Fortis[2]	M	2.460	1.750	40.6%	48.4%	0.0%	1 / 10%	- / Aaa / AAA
ING Belgium[1]	M	14.226	9.500	49.7%	53.6%	0.0%	1 / 10%	AAA / Aaa / -
KBC Bank[1]	M	20.175	13.420	50.3%	47.9%	0.0%	1 / 10%	AAA / Aaa / -

[1] Cut-off date 30 September 2026; [2] Cut-off date 31 October 2026
Source: Issuers, rating agencies, NORD/LB Floor Research

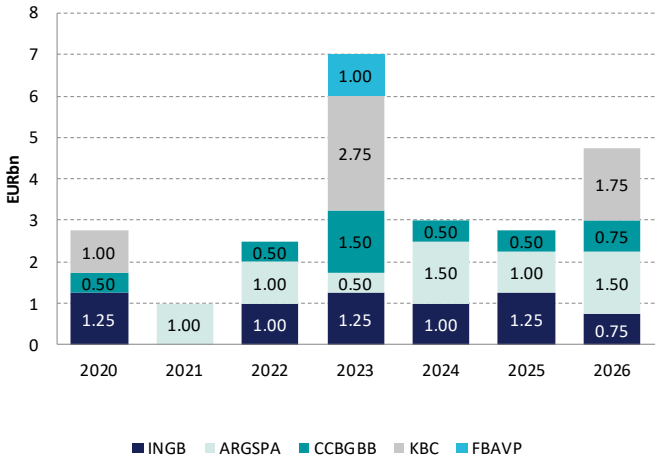
Primary market activity in 2026 and outlook for 2027

Proportionately, ING Belgium has the largest share of the outstanding volume amongst EUR benchmark issuers, at 27.2%, closely followed by Argenta Spaarbank (25.1%) and Belfius Bank (23.6%). Belfius Bank also currently has an outstanding public covered bond (volume: EUR 500m). KBC Bank has also been active in the market this year alongside the three banks mentioned above, placing new bonds with a volume of EUR 1.75bn with its investors. The bank returned to the primary market after a two-year abstinence and currently accounts for the highest volume of new issues in 2026. BNP Paribas Fortis is the only one that has not yet launched a new product on the market this year. Argenta Spaarbank successfully placed its first two European green bonds in the EUR benchmark segment in 2026, making it undoubtedly one of the pioneers in this still emerging sustainability segment. No other Belgian issuer currently has ESG covered bonds in this sub-market. We are expecting new issues from Belgium totalling EUR 5.0bn in 2027. The main drivers are likely to be the maturities, which will total EUR 4.7bn in 2027. This would result in modest market growth of EUR 300m. In terms of maturities, particular attention should be paid to ING Belgium, Belfius Bank and KBC Bank, which together account for expiring EUR benchmark bonds with a volume of more than EUR 1.0bn.

BE: Outstanding EUR benchmarks (EURbn)



BE: Issuance activity: EUR benchmark (EURbn)

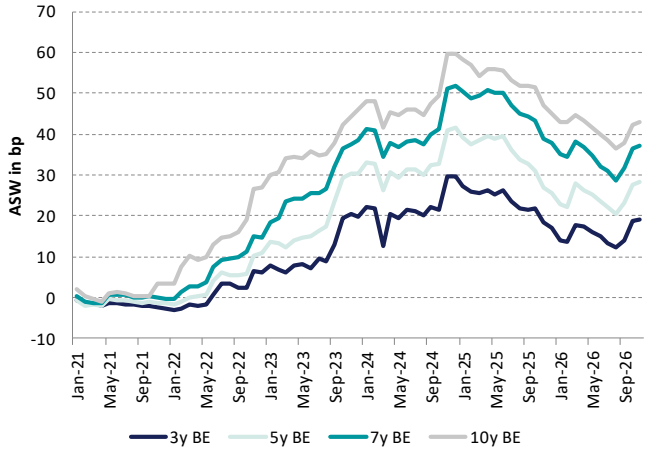


Source: Bloomberg, NORD/LB Floor Research

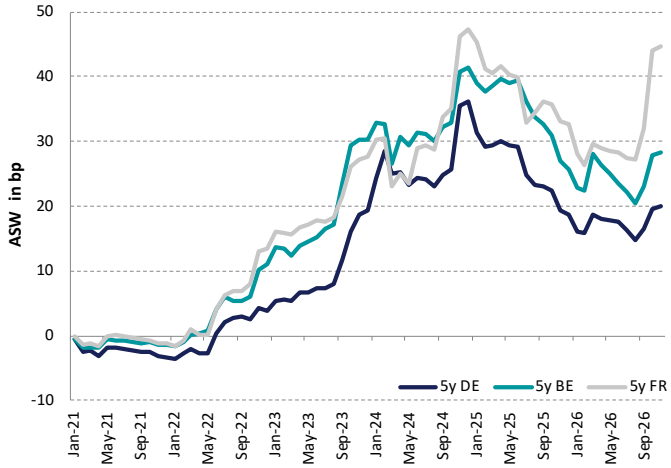
Spread widening in Belgium more pronounced than in other jurisdictions

Over the past few months, we have seen a significant increase in secondary market spreads on Belgian covered bonds. This is accompanied by a general repricing in the fixed income markets, but is somewhat more pronounced in Belgium than in other jurisdictions. This repricing was triggered by the debate surrounding France's debt sustainability and the political instability in France. Nevertheless, in our generic analysis, the spreads on five-year Belgian covered bonds are at a similar level to that seen in November 2025. The somewhat more pronounced spread widening in Belgium compared to other jurisdictions can be attributed to the equally high budget deficit and the as yet unchecked rise in debt levels. The most notable difference between Paris and Brussels currently appears to be less to do with macroeconomic indicators and more to do with the markets' confidence that policymakers can implement significant reforms to stabilise public finances. It seems that the capital markets still have more confidence in the Belgian government than in the French government. Furthermore, as the second-largest economy in the eurozone, France is more important to the stability of the EU and the Eurozone. Consequently, the focus will in all probability remain on France. Nevertheless, the French example shows that market confidence can be quickly exhausted and this can lead to substantial risk premiums on covered bonds. We expect a further moderate increase in secondary market spreads by the end of the year.

ASW spreads in Belgium (generic)



Spread comparison: DE, BE, FR (5y generic)



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

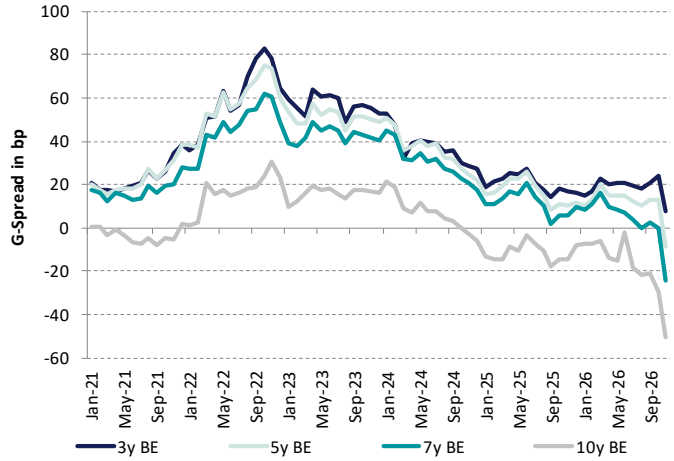
G-spreads in Belgium are largely in negative territory...

While the spread differences between Belgian covered bonds and Belgian government bonds (BGBs) at the long end have been negative since 2024, this has also been the case for five and seven-year maturity bands for several months now. A negative G-spread is not a new phenomenon; it has been observed in Italy for several years now and more recently in France too. In the case of the G-spread in the ten-year maturity band, it is important to note that there is only one covered bond from Belgium that falls into this category. Consequently, we believe that the basis for calculating G-spreads in this maturity band is less meaningful.

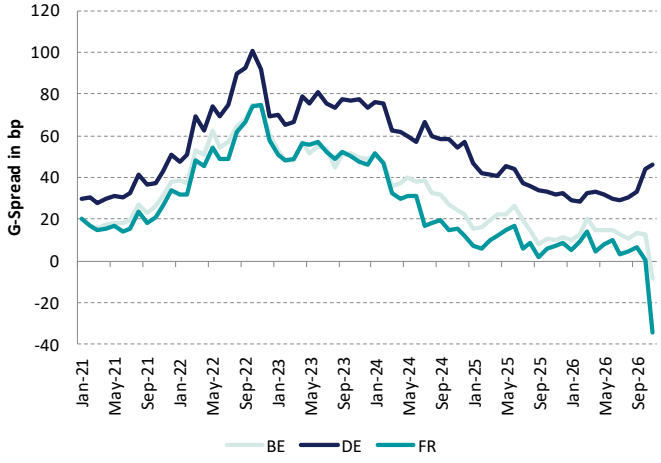
...but do not necessarily make covered bonds less attractive

In terms of attractiveness, negative G-spreads have no significant impact on the attractiveness of covered bonds from the respective jurisdictions, as the examples of France and Italy have already demonstrated. The outperformance of Belgian covered bonds relative to BGBs can be attributed, amongst other things, to the stable banking sector, the consistently high ratings of covered bonds and the low volatility of covered bonds. Given the ongoing debate over the public debt of individual EU Member States, limited efforts to achieve greater fiscal consolidation and a very challenging political environment, we are not expecting a rapid trend reversal in Belgium either. While it is still a little too early to make comparisons Belgium with France, there does seem to be a growing divide between individual jurisdictions in relation to the G-spread.

G-spreads: Belgium (generic)



G-spread: DE, BE, FR (5y generic)



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

Conclusion and outlook

Both in a political sense and in the covered bond market, the fact remains that Paris is not Brussels. While the parallels between the two countries, particularly in terms of the public debt trend, cannot be denied, the confidence of market participants in Belgian policymakers currently appears to be even higher than in France. Even so, the recent failure of the draft budget and the potential resignation of the Belgian prime minister De Wever are unlikely to help bolster the capital markets' confidence in a sustained positive trend in Belgian's public finances. Consequently, the rise in spreads on Belgian covered bonds on the secondary market is less pronounced than for French covered bonds, but significantly more pronounced than for Pfandbriefe, for example. In terms of G-spreads, Belgian covered bonds in maturity bands >3y are currently in negative territory. Accordingly, market participants' confidence in the quality of covered bonds appears to be higher than the confidence placed in the Belgian government. In the short term, we do not anticipate a rapid trend reversal regarding spreads on the secondary market, but a further slight increase by the end of the year. The future trend in secondary market prices will undoubtedly continue to be shaped by the debate surrounding the debt sustainability of certain EU Member States, which, as the example of France has demonstrated, can cause the spread structure on the covered bond market to shift relatively quickly.

SSA/Public Issuers
36th meeting of the Stability Council

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese // Tobias Cordes // assisted by Luc Depping

Introduction

The 36th meeting of the Stability Council took place on 12 October 2026 and was chaired by the Federal Minister of Finance, Lars Klingbeil, and the Senator for Finance of the Free Hanseatic City of Bremen, Björn Fecker. During the meeting, the national budget monitoring committee discussed the trend in general government finances in Germany up to 2030 on the basis of a current general government fiscal projection. In addition, the Stability Council reviewed compliance with the net expenditure path as a key benchmark of the EU's fiscal rules, which was set out by Germany in its medium-term fiscal-structural plan (FSP) for the years from 2025 to 2029 and previously adopted by the Council of the European Union in October 2025.

Signs of economic recovery are emerging – tax forecast revised upwards

Following several years of widespread economic stagnation, economic growth in Germany appears to be picking up again, although this is largely the result of an increase in government spending. Following a rise of just +0.2% Y/Y in GDP last year, the national economy after price, seasonal and calendar adjustment registered Q/Q growth of +0.4% in Q1/2026 and +0.3% in Q2/2026, proving somewhat more resilient than expected. This growth was being driven primarily by robust exports. However, uncertainties remain high against the backdrop of ongoing geopolitical and trade policy conflicts. Nevertheless, the economic recovery is expected to continue this year and next, underpinned above all by rising state investment in infrastructure, defence and climate protection. According to the German government's autumn forecast published in October, economic growth of +1.3% Y/Y is now expected for 2026 (previously: +0.5% Y/Y). Real GDP is forecast to grow by +1.1% Y/Y in 2027, while the German economy is projected to expand by +0.8% Y/Y in 2028. The autumn projection also serves as the basis for tax estimates and for the budget planning of local authorities and social security organisations. Furthermore, at the end of October, the tax revenue forecast working group presented its findings on the projected trend in tax revenue, with encouraging news to report. According to these findings, tax revenue for the Bund, the Laender and municipalities is expected to total EUR 1,044.2bn in 2027, which is EUR 10.9bn higher than previously forecast in the May tax estimate (EUR 1,033.3bn). The same applies to the remaining years of the forecast period: compared with the spring estimates, a consistently more positive trend is also anticipated for the years 2028 to 2030, meaning that estimated tax revenue for each year is, on average, around EUR 11bn higher than previously expected in May. Unlike for the Laender and municipalities, the Bund's tax revenue does not increase every year: while the Bund can expect EUR 4.1bn more in 2027 and EUR 3.2bn more in 2029 than previously assumed, (slightly) lower tax revenues are anticipated in the remaining years. However, on balance, the Bund can expect around EUR 3.3bn in additional financial resources on a cumulative basis up to and including 2030.

Compliance with net expenditure path only due to application of national escape clause

The reform of the Stability and Growth Pact (SGP) in 2024 brought about fundamental changes to the common fiscal framework. EU Regulation 2024/1263 has since no longer contained an annual target for the general government structural deficit, but rather a multi-year ceiling on expenditure growth – the net expenditure path. This ceiling is essentially aimed at ensuring compliance with the Maastricht criteria for annual net borrowing and the level of debt over time, and was set in mid-July 2025 as part of the medium-term SGP for the years 2025 to 2029. Compliance with the net expenditure path is, in turn, annually reviewed by the Stability Council in accordance with §7(2) of the Stability Council Act (StabiRatG). Last year, net expenditure growth stood at +4.3% Y/Y and was therefore below the maximum permissible net expenditure growth of +4.4% Y/Y for 2025. However, net expenditure is expected to rise by around +5.8% Y/Y and +3.8% Y/Y respectively in 2026 and 2027, thereby exceeding the respective annual ceiling agreed for each year. From 2028 up to and including 2030, growth in net expenditure is then expected to slow slightly again. This would mean that, while compliance with the net expenditure path up to 2028 is ensured by applying the national escape clause (NEC) for defence expenditure, the buffer to cushion negative developments in the coming years is limited. For context, the NEC will apply in the years 2025 to 2028. Deviations from the net expenditure path, adjusted for the increase in defence spending, will be recorded in a control account. Any spending that falls below the net expenditure path may be used to offset spending in excess of it in subsequent years, but under EU fiscal rules, the cumulative overspend must not exceed 0.6% of GDP. Furthermore, based on the projection, the net expenditure path for 2029 will only be adhered to if an extension of the NEC is requested and approved by the Council of the EU on the recommendation of the European Commission.

Projection of the growth in net expenditure, the general government fiscal balance and government debt

	2025	2026	2027	2028	2029	2030
Net expenditure			**Year-on-year change**			
Maximum permitted growth in net expenditure under the fiscal-structural plan	4.4%	4.5%	2.3%	1.7%	1.6%	-
Growth in net expenditure	4.3%	5.75%	3.75%	1.5%	1.75%	2.5%
Control account			**In units of GDP**			
Control account	0.0%	0.5%	1.25%	1.25%	1.25%	-
Control account (NEC)[1]	-0.4%	0.0%	0.0%	-0.25%	-	-
Fiscal balance and debt			**In units of GDP**			
General government fiscal balance (Maastricht)	-3.0%	-4.75%	-5.25%	-4.75%	-4.5%	4.5%
General government fiscal balance (NEC)[1]	-2.6%	-4.25%	-4.0%	-3.5%	-	-
Structural balance	-2.0%	-3.75%	-4.75%	-4.5%	-4.5%	-4.5%
Debt (Maastricht)	62.8%	65.75%	68.75%	72.25%	75.25%	78.25%

[1] The National Escape Clause (NEC) allows EU Member States to temporarily deviate from the usual budgetary and deficit limits in order to finance higher defence expenditure. The net fiscal balance has been adjusted for the deductible increase in defence expenditure. The NEC is currently in force until the end of 2028.
Source: Stability Council Working Group, NORD/LB Floor Research

Breaches of Maastricht criteria remain problematic

The EU Regulation on the reformed SGP requires Member States not only to submit the FSP but also to provide an annual report on progress in implementing the net expenditure path. At the end of April, the German government submitted its 2026 Annual Progress Report to the European Commission, setting out a fiscal policy projection for the current year as at 31 March. Furthermore, at its most recent meeting, the Stability Council examined the latest trends in the general government deficit and debt-to-GDP ratios. The projection for 2026 assumes a general government deficit of 4.75% of GDP and a debt-to-GDP ratio of 65.75%. By the end of the projection period in 2030, the deficit and debt-to-GDP ratio are expected to stand at 4.5% and 78.25% respectively. Even taking into account the NEC for defence-related expenditure, the deficit ratio is likely to exceed the upper limit for the Maastricht deficit of 3% in the coming years. As the debt-to-GDP ratio is also consistently above the permissible reference value of 60%, the Stability Council describes this development as “a cause for concern”. The rise in the deficit is attributable to the sharp increase in federal government spending, particularly in connection with the Special Fund for Infrastructure and Climate Neutrality and in the defence sector, while revenue is expected to grow only moderately. The maximum permissible growth in expenditure, as set out in the net expenditure path for Germany, varies from year to year (2026: +4.5%; 2027: +2.3%). In its projection for 2026, the Stability Council reported net expenditure growth of +5.75% compared with the previous year. Germany will therefore significantly exceed the permitted limit in these years, after being under by 0.5% in 2025. However, defence-related expenditure was temporarily excluded from this calculation under the NEC. Furthermore, any deviations above or below the limit in the net expenditure path will be offset over time via a control account. According to the current projection, the cumulative control account balance will rise from 0.5% of GDP for 2026 to 1.25% from 2027 onwards, and remain at this level until 2029. However, application of the NEC reduces the cumulative deviation from the net expenditure path, meaning that exceeding the permissible threshold (0.6% of GDP) is likely to be avoided up to and including 2028. With regard to the aforementioned ratios, the Stability Council highlighted that if the Maastricht criteria are exceeded over an extended period, this will jeopardise the sustainability of public finances.

Consolidation necessary to improve the fiscal situation

The Stability Council supports the federal government’s efforts to strengthen potential growth, with the aim of safeguarding the long-term resilience of public finances. In this regard, the advisory board views positively the measures introduced by the Bund and the Laender to improve the economic framework conditions and to increase efficiency on both the revenue and expenditure sides of public budgets. Nevertheless, it continues to highlight a considerable need for action. The advisory board identifies the swift implementation of the investment projects under the Special Fund, progress in the federal modernisation agenda and implantation of structural reforms of the social security systems as key prerequisites for strengthening the fiscal outlook. The Stability Council therefore sees a need for further reforms to limit the rise in government debt and gradually bring public finances back into line with EU criteria. According to current projections, the targets of the net expenditure path will be met by 2028, taking the NEC into account. However, in the medium term, the national exemption clause is expected to expire. Consequently, expenditure will have to be financed through regular budget revenue in future. As a result, the need for fiscal consolidation is likely to increase significantly, meaning that further measures will be required both to strengthen the revenue base and to limit the expenditure base.

Independent advisory board sees need for improvement in national budget monitoring

The independent advisory board has once again taken the Stability Council's regular meeting as an opportunity to comment on the shape of national budget monitoring in Germany. In the board's view, the deficit projections for 2026 and 2027 are too high, while that for 2028 is deemed plausible. However, at the same time, the independent advisory board points out that the assumed decline in deficits from 2029 onwards probably does not fully reflect the actual fiscal challenges. This is based on the observation that medium-term financial planning increasingly relies on substantial consolidation measures, which have not yet been specified in concrete terms, as well as significant expenditure cuts. Without appropriate countermeasures, expenditure would grow at a much faster rate than revenue, suggesting a higher general government deficit than has so far been assumed in the official projections. In view of the high level of uncertainty surrounding the underlying assumptions and projections, the independent advisory board also recommends a more transparent presentation of the information used to derive net expenditure. Overall, the independent advisory board therefore highlights the considerable risks to compliance with the European fiscal framework and, at the same time, voices strong criticism of the Stability Council's interpretation and application of the EU regulations. In the independent advisory board's view, this gives the impression that the intention is to cushion existing adjustment requirements primarily through the generous use of exemptions, rather than tackling the underlying structural challenges. In this context, the independent advisory board makes it clear that it rejects an extension of the NEC to compensate for possible deviations from the net expenditure path. Instead, fiscal policy should be geared towards complying with EU requirements even without further exemptions. Against this background, the independent advisory board calls for the development of concrete consolidation measures to limit net expenditure as well as a reform of the debt brake. The latter is no longer fully compatible with EU rules due to the defence spending exemption, for which the duration and amount remains undefined. The current projection makes it clear that, even with formal debt brake compliance, breaches of the European deficit and expenditure rules remain possible.

Sustainability of public finances must be maintained – reforms necessary

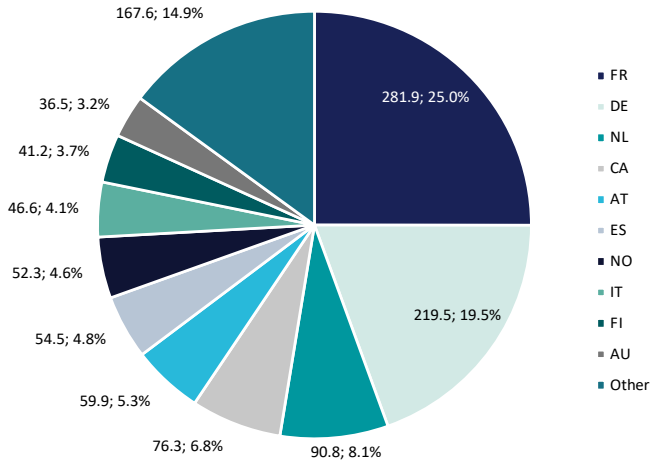
In the advisory board's view, the deficit limit could be adhered to through disciplined budget management and the consistent financing of additional expenditure via consolidation measures. It is particularly crucial, in this regard, that existing expenditure structures, such as subsidies and funding programmes, are systematically reviewed for potential savings and efficiency gains. In principle, the advisory board considers higher levels of debt associated with earmarked expenditure to be justifiable, but only as long as the sustainability of public finances is maintained. At the same time, plans are in place to limit or reduce debt or reduce it in future, which is a key component of EU rules. Despite the challenging fiscal environment, Germany is still regarded as being in a relatively sound position by European standards and should maintain this position in future. However, the advisory board considers the existing national budget rules to be inadequate and therefore sees a certain need for adjustment. In particular, once the NEC expires in 2028, these rules will no longer be compatible with European fiscal requirements and will not ensure a sustainable trend in the debt-to-GDP ratio. Against this background, the advisory board takes a critical view of extending the NEC in order to comply with the expenditure targets. However, the advisory board emphasises that measures should be taken at an early stage to ensure that future additional expenditure requirements are financed to a greater extent from regular budget revenue. However, no such forward-looking fiscal policy can currently be identified.

Conclusion

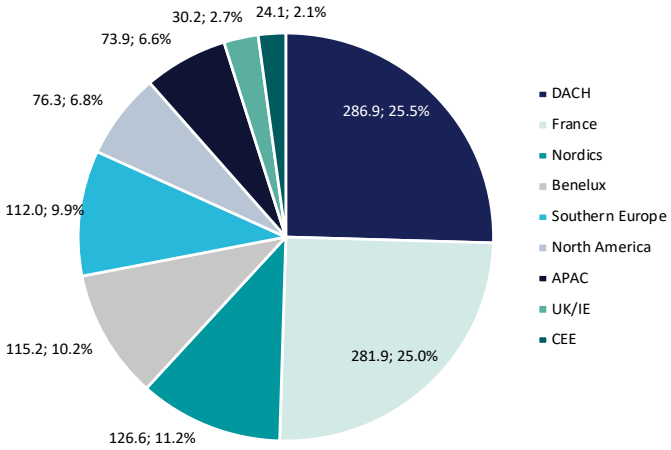
At its 36th meeting, the Stability Council noted that, while the economic situation in Germany had improved after years of persistent stagnation, public finances remained under considerable pressure. The federal government expects stronger economic growth in 2026 than previously assumed which is also reflected in the upwardly revised tax estimate. However, the additional revenue is unlikely to be sufficient to fully offset the sharp rise in expenditure. In our view, fiscal leeway therefore remains limited. While there was compliance with the net expenditure path in 2025, in subsequent years the planned increases in expenditure will only be compatible with European fiscal rules if the NEC is applied to defence spending. Compliance with the targets is therefore increasingly reliant on exemptions and leaves only a small buffer for unexpected pressures. We also view the development of the Maastricht criteria as particularly critical. According to the projections, both the deficit ratio and the debt-to-GDP ratio would remain consistently above the permissible EU reference values up to and including 2030. This is likely to be driven primarily by structurally rising expenditure on infrastructure, climate protection and defence, which is offset by significantly weaker revenue growth. The Stability Council therefore sees considerable risks to the long-term sustainability of the public finances. In this context, the independent advisory board emphasised the need for credible consolidation measures and structural reforms. It cites a more efficient structuring of expenditure programmes, reforms of the social security systems, progress in the federal modernisation agenda and a strengthening of long-term growth potential as key prerequisites for a sustainable fiscal policy.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



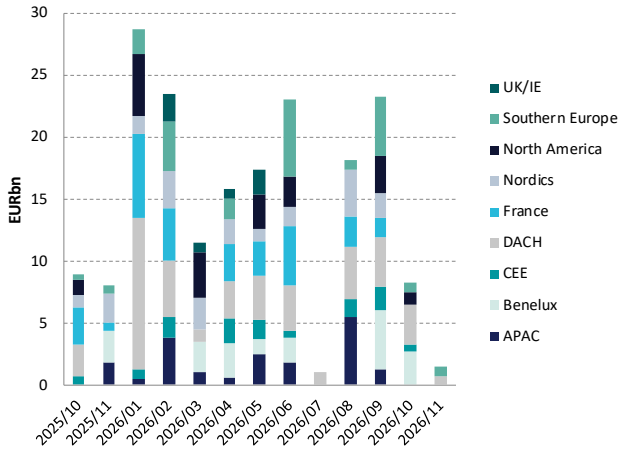
EUR benchmark volume by region (in EURbn)



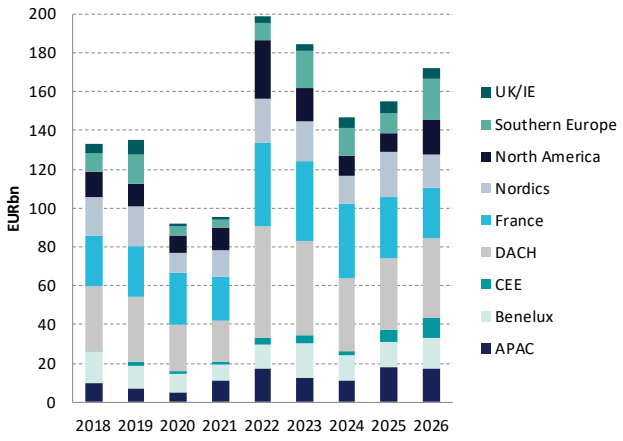
Top 10 jurisdictions

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	281.9	276	42	0.97	9.0	4.0	1.91
2	DE	219.5	303	49	0.68	7.8	3.5	1.99
3	NL	90.8	90	5	0.95	10.0	4.9	1.82
4	CA	76.3	61	1	1.24	5.7	2.5	2.13
5	AT	59.9	98	5	0.60	8.1	3.4	1.84
6	ES	54.5	50	4	0.99	9.3	3.2	2.40
7	NO	52.3	62	12	0.84	7.0	3.2	1.87
8	IT	46.6	59	6	0.74	7.8	3.7	2.46
9	FI	41.2	51	4	0.80	6.6	2.7	2.13
10	AU	36.5	37	0	0.99	7.2	3.1	2.20

EUR benchmark issue volume by month

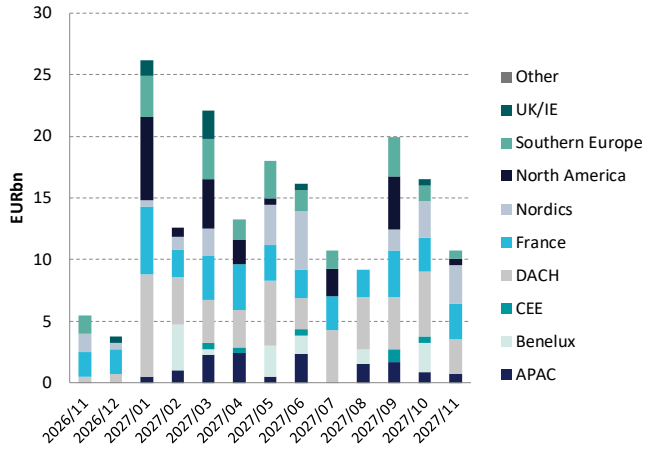


EUR benchmark issue volume by year

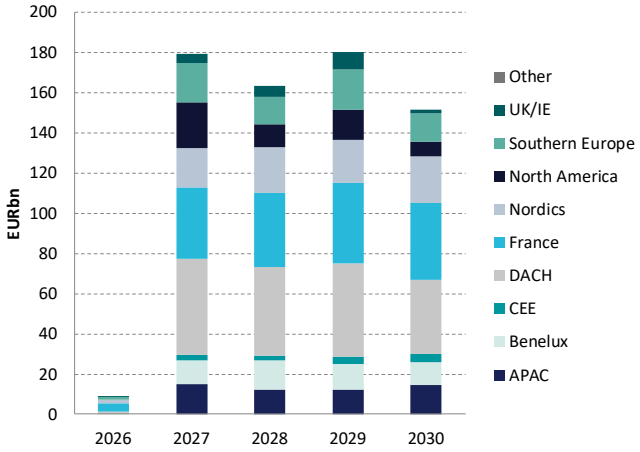


Source: Market data, Bloomberg, NORD/LB Floor Research

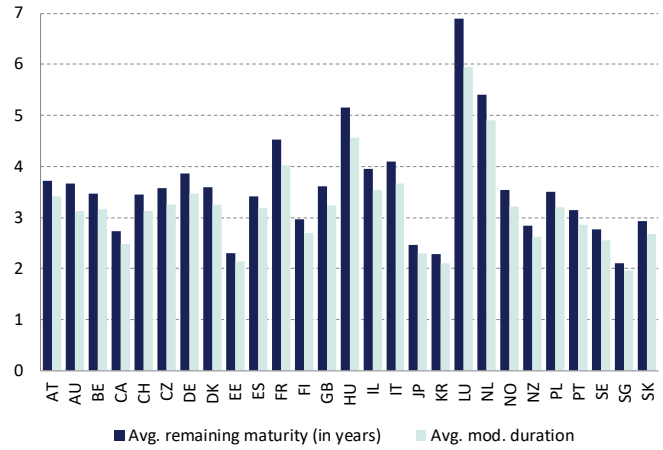
EUR benchmark maturities by month



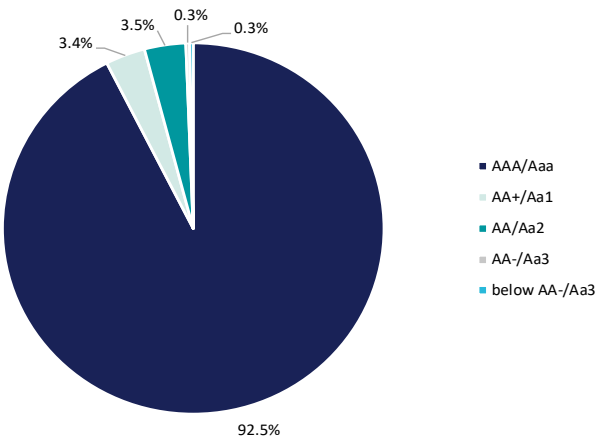
EUR benchmark maturities by year



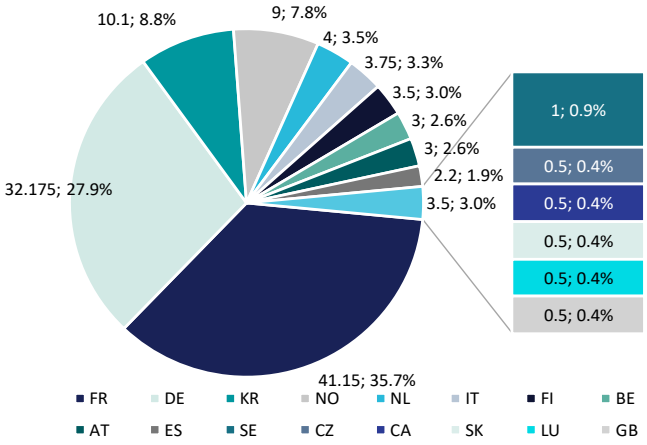
Modified duration and time to maturity by country



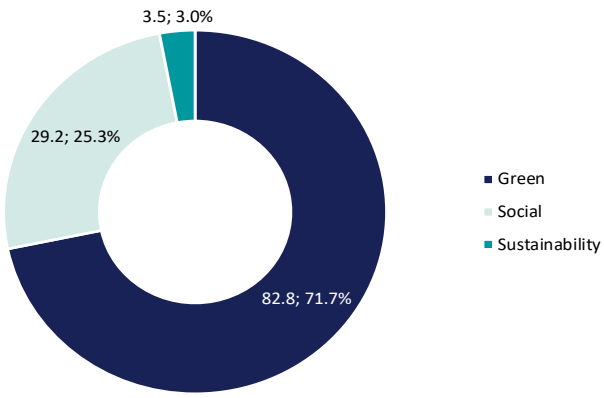
Rating distribution (volume weighted)



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

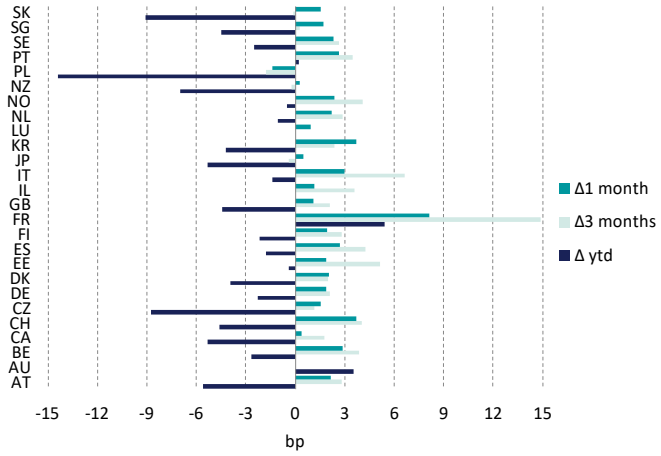


EUR benchmark volume (ESG) by type (in EURbn)

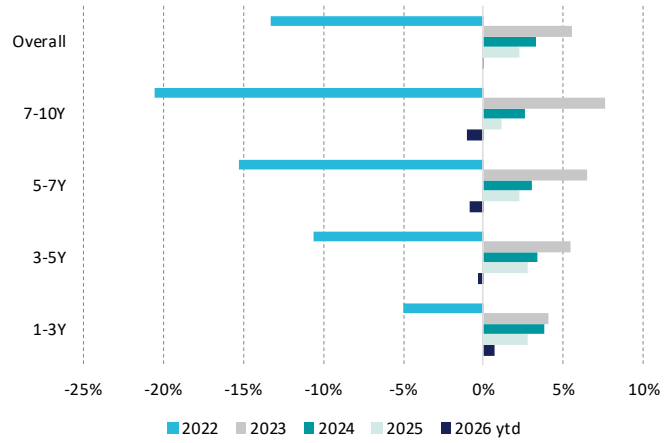


Source: Market data, Bloomberg, NORD/LB Floor Research

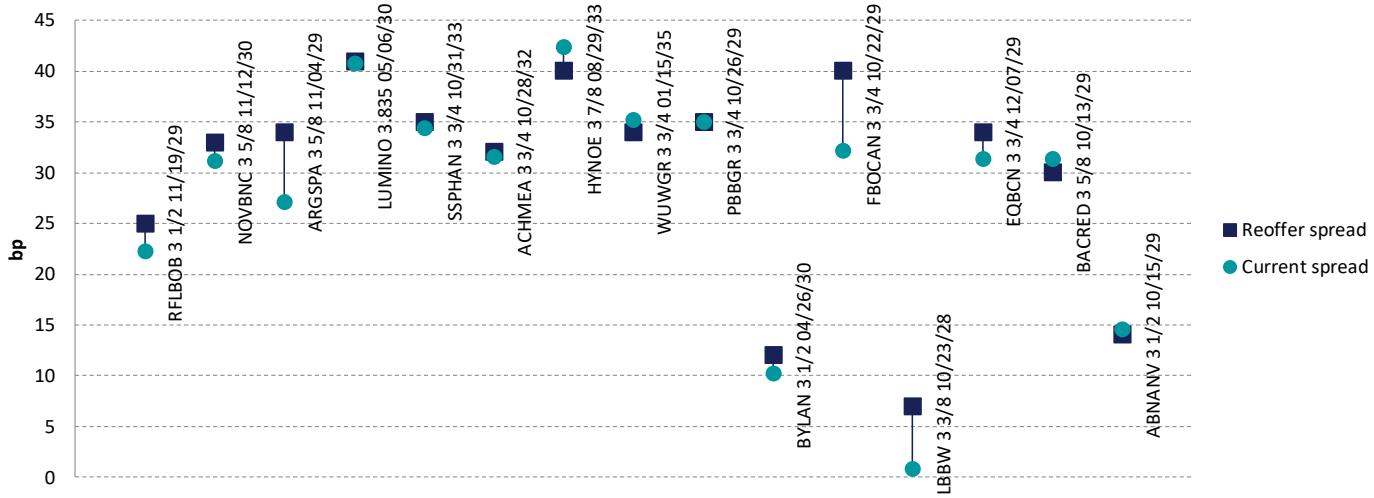
Spread development by country



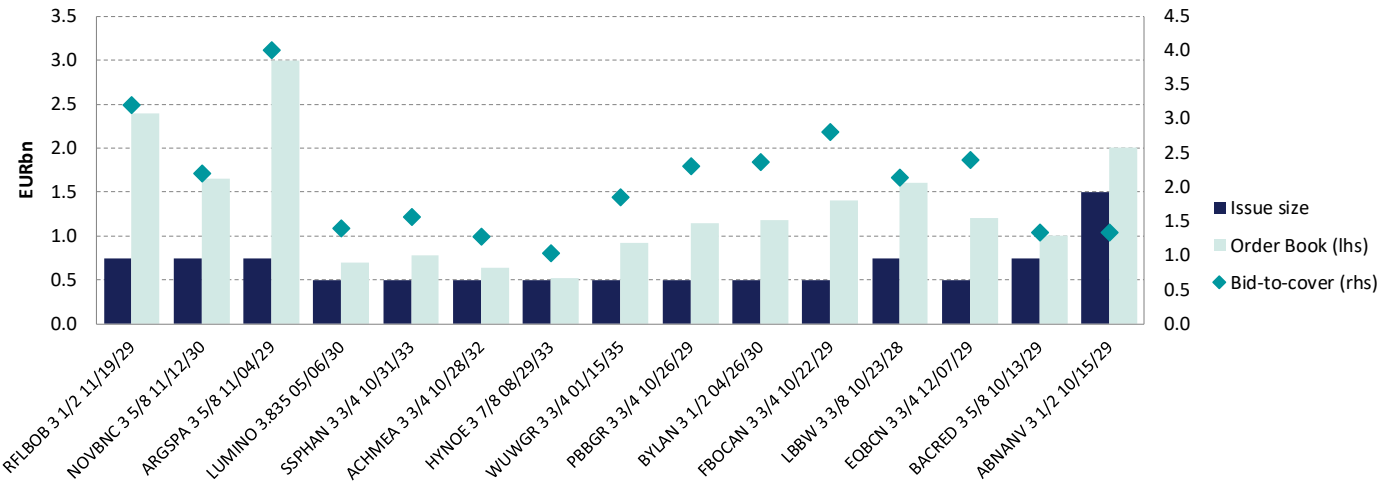
Covered bond performance (Total return)



Spread development (last 15 issues)



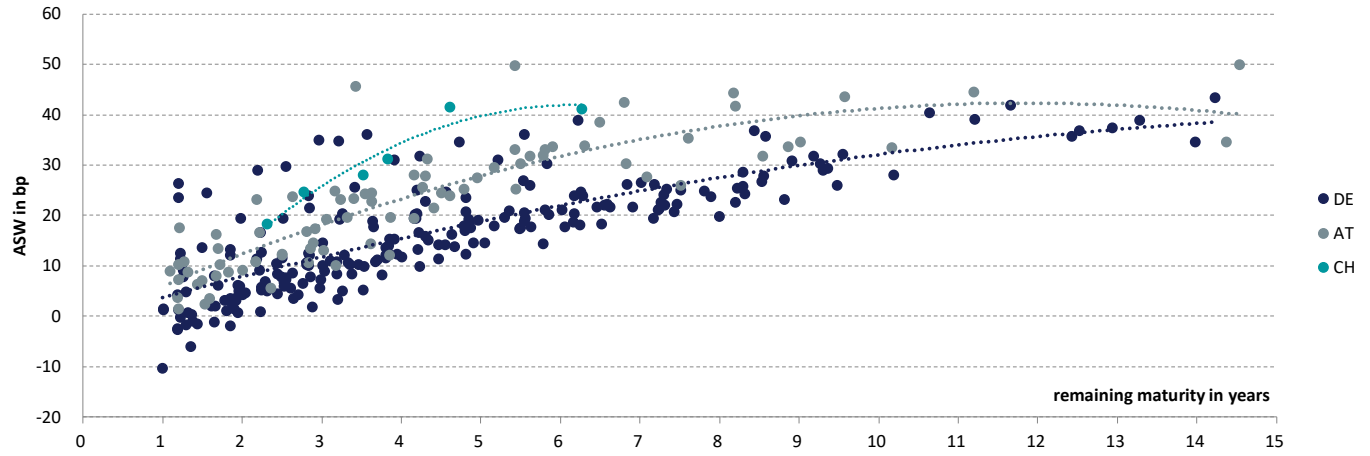
Order books (last 15 issues)



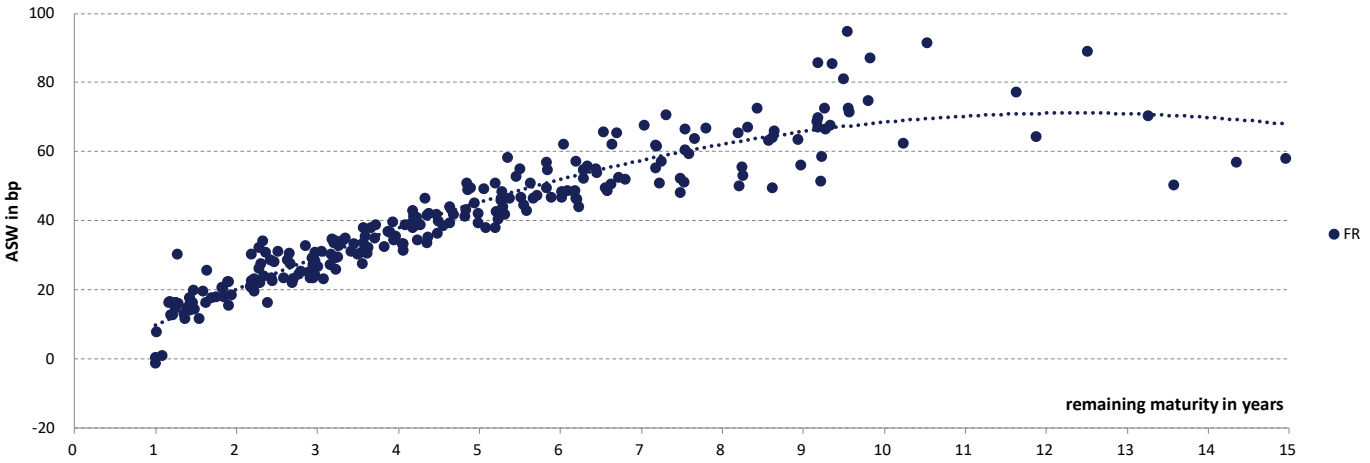
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

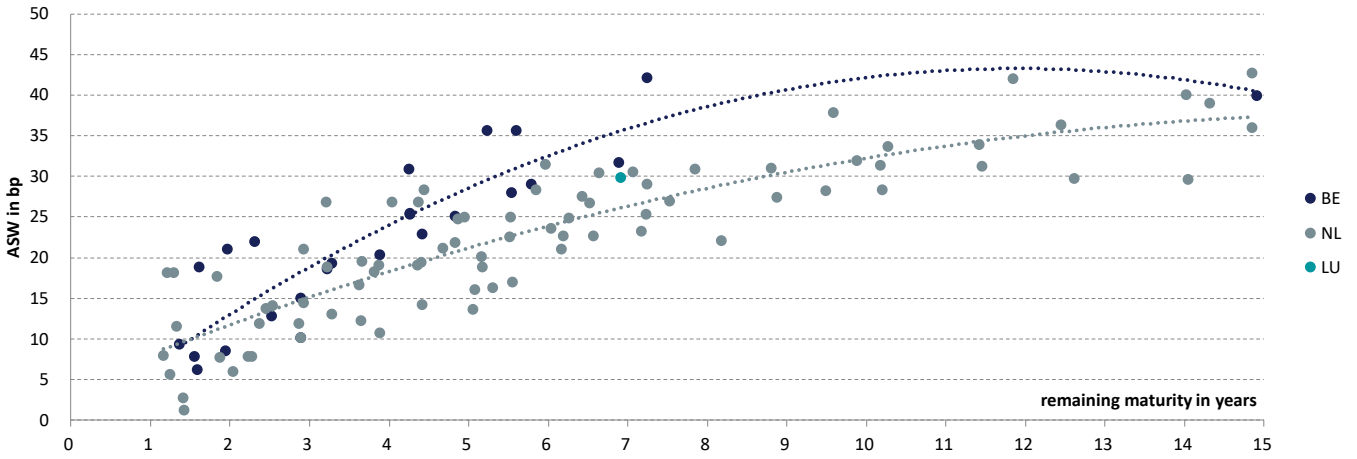
DACH



France

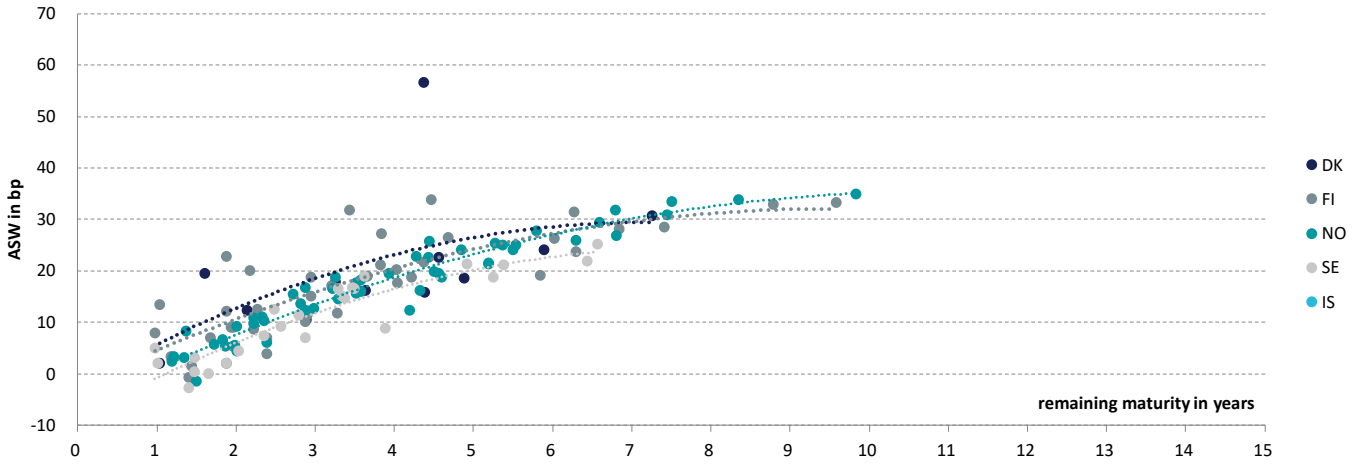


Benelux

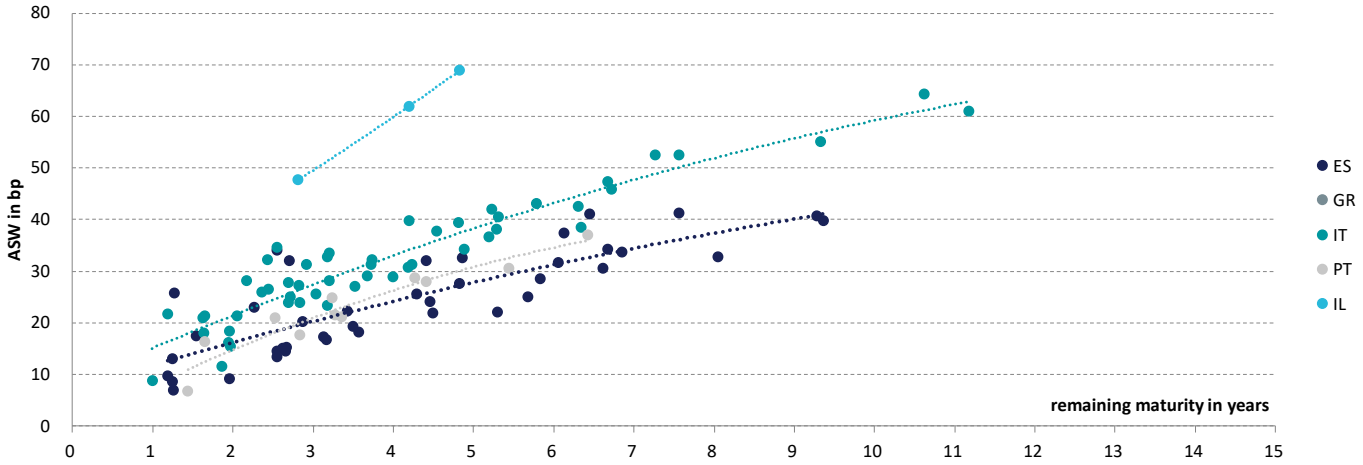


Source: Market data, Bloomberg, NORD/LB Floor Research [1] Time to maturity 1 ≤ y ≤ 15

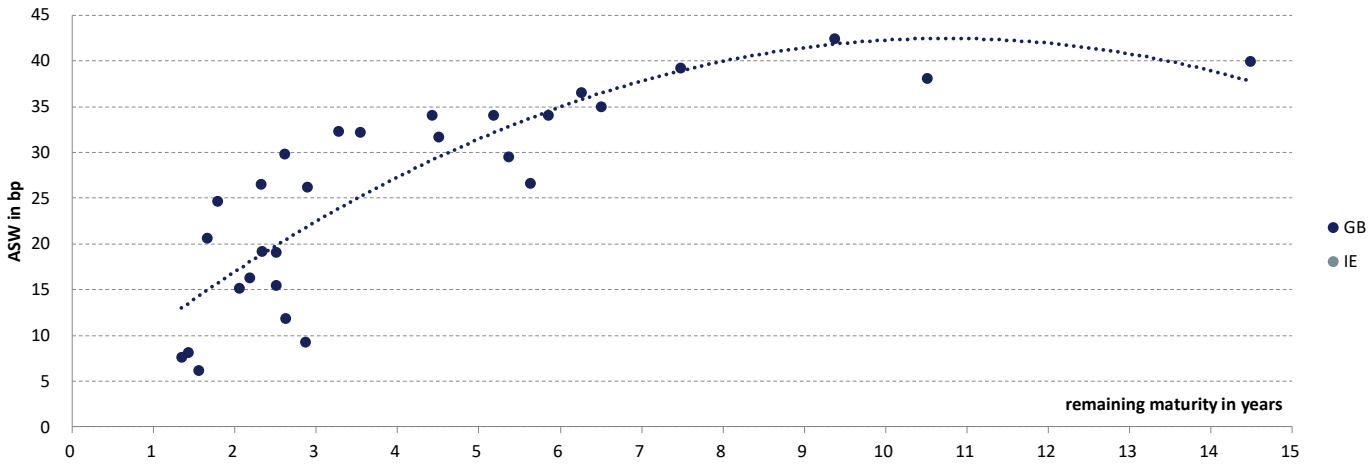
Nordics



Southern Europe

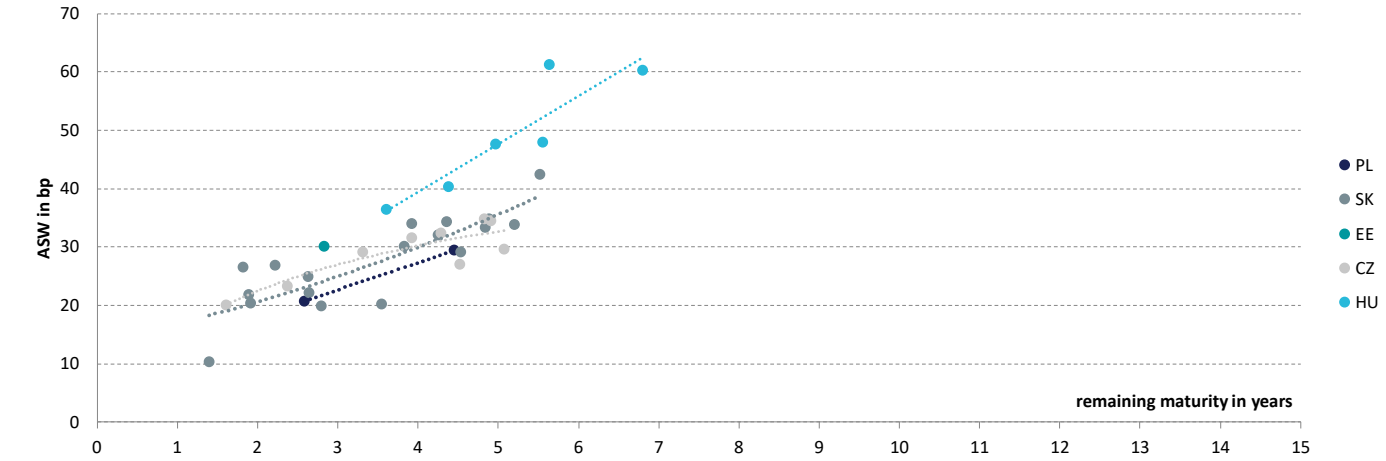


UK/IE

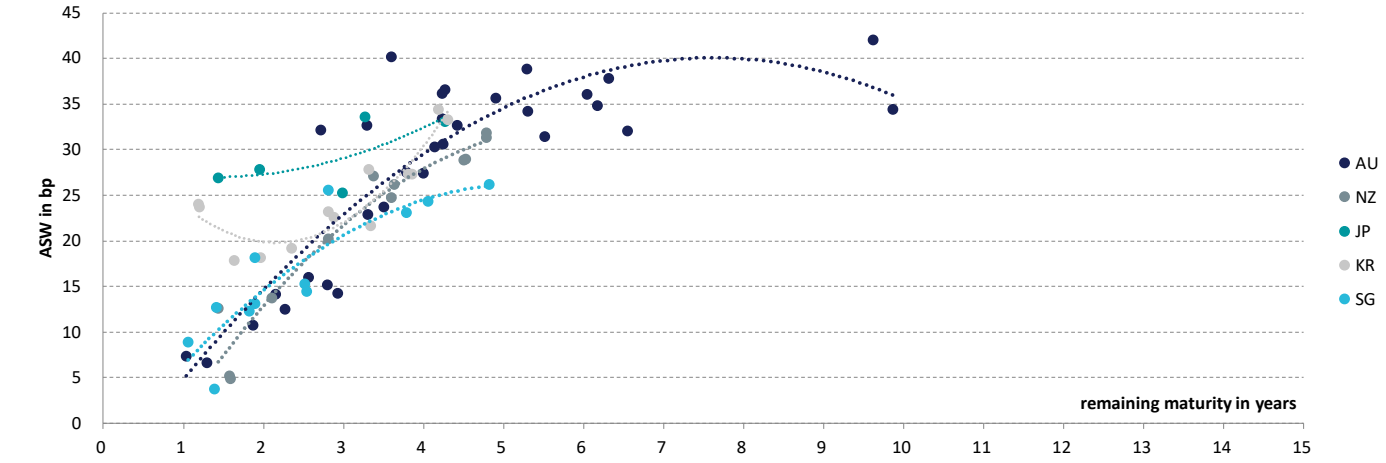


Source: Market data, Bloomberg, NORD/LB Floor Research

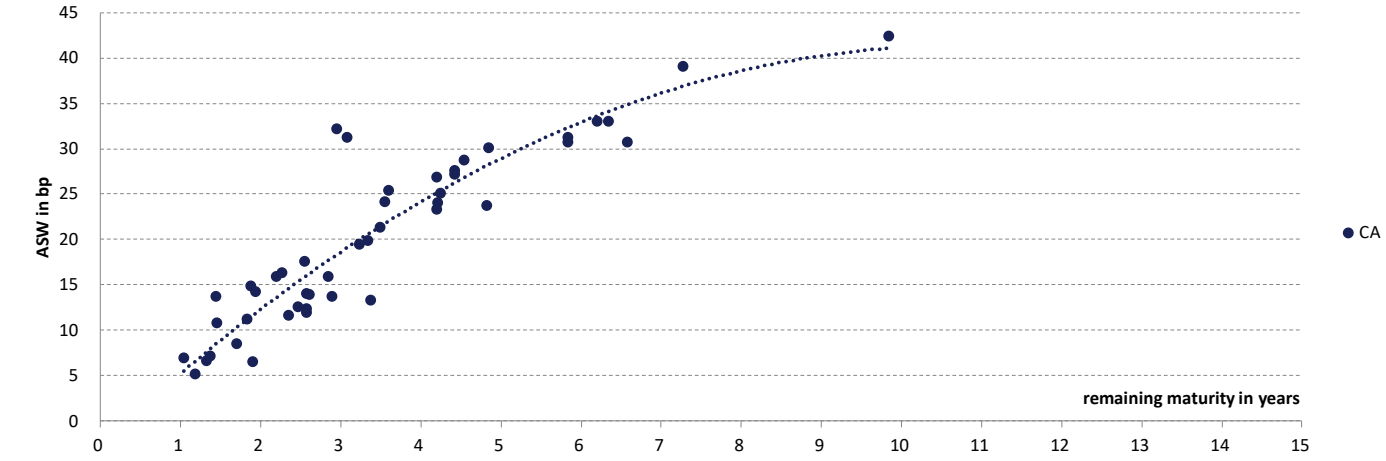
CEE



APAC



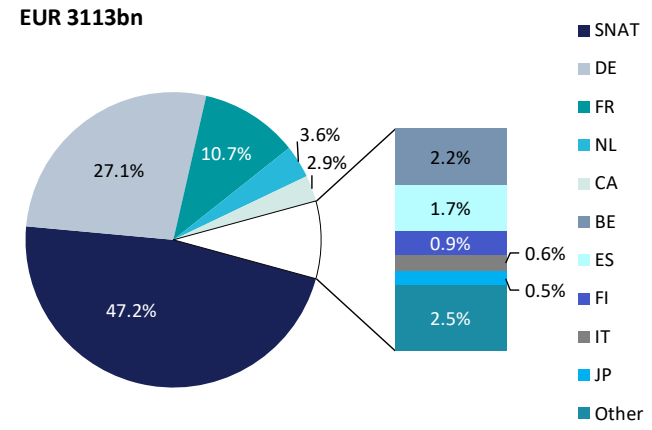
North America



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

Charts & Figures
SSA/Public Issuers

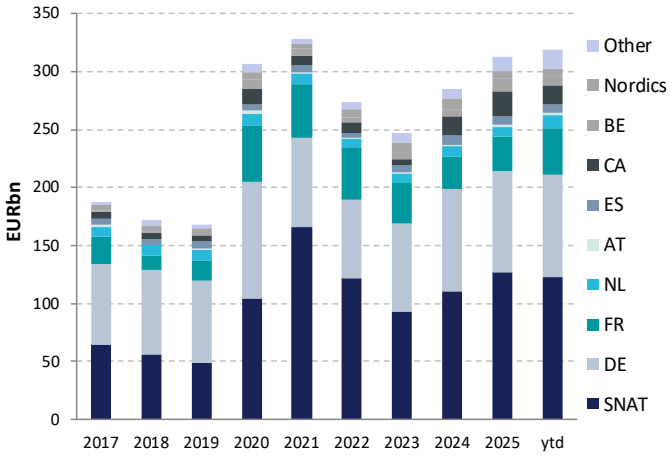
Outstanding volume (EUR bmk)



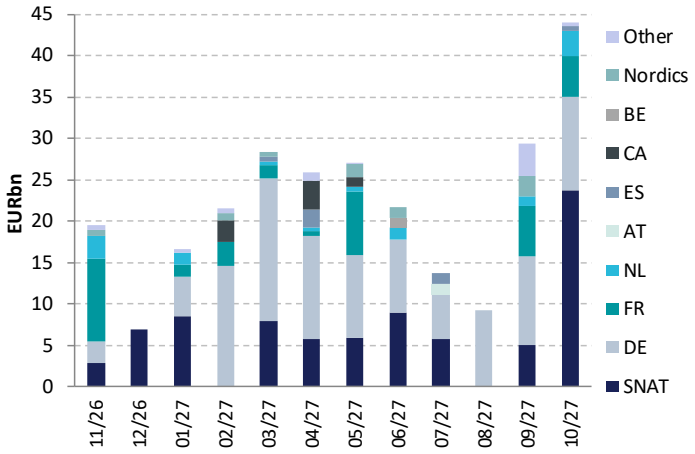
Top 10 overview (EUR bmk)

Jurisdiction	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,469.6	288	5.1	7.3
DE	844.2	641	1.3	5.5
FR	334.6	219	1.5	4.8
NL	111.4	94	1.2	5.4
CA	88.8	75	1.2	5.9
BE	67.3	59	1.1	8.5
ES	54.2	81	0.7	4.6
FI	28.5	29	1.0	3.3
IT	19.9	27	0.7	3.9
JP	16.0	19	0.8	2.7

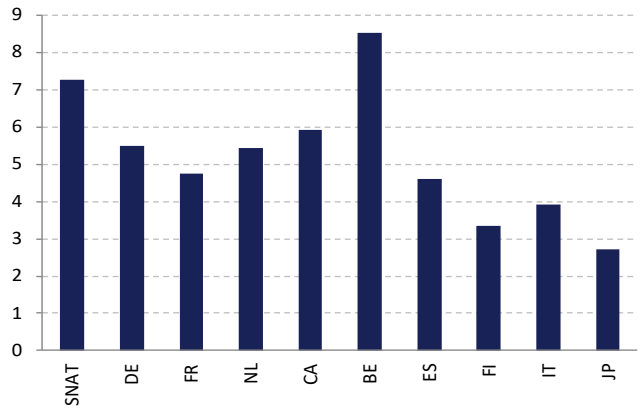
Issue volume by year (EUR bmk)



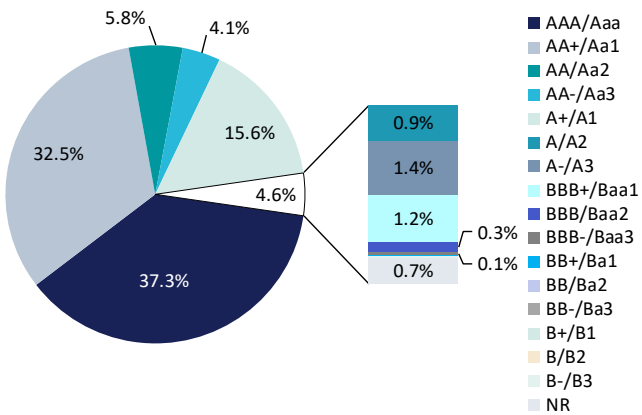
Maturities next 12 months (EUR bmk)



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

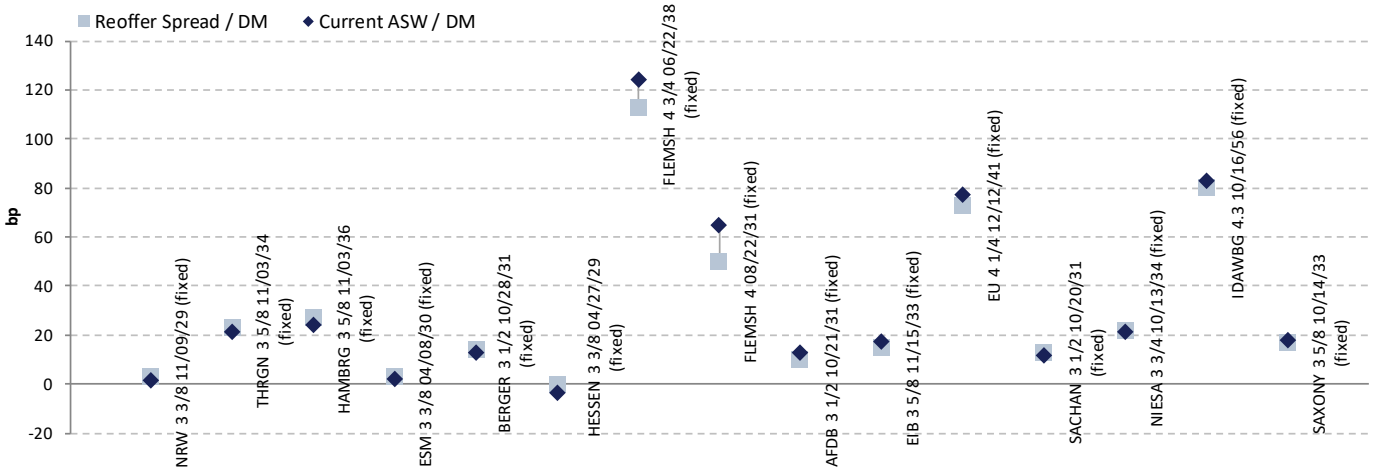


Rating distribution (vol. weighted)

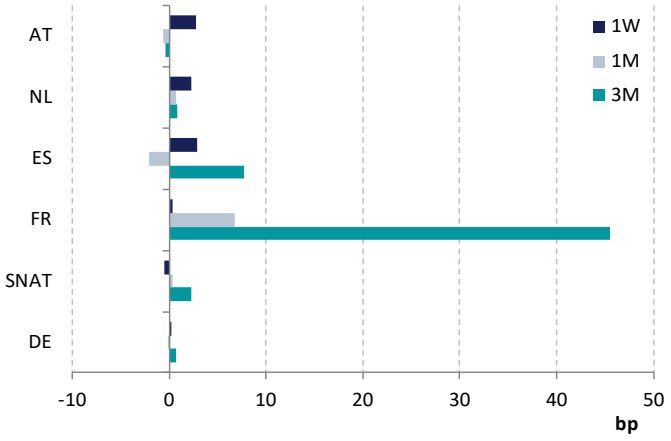


Source: Bloomberg, NORD/LB Floor Research

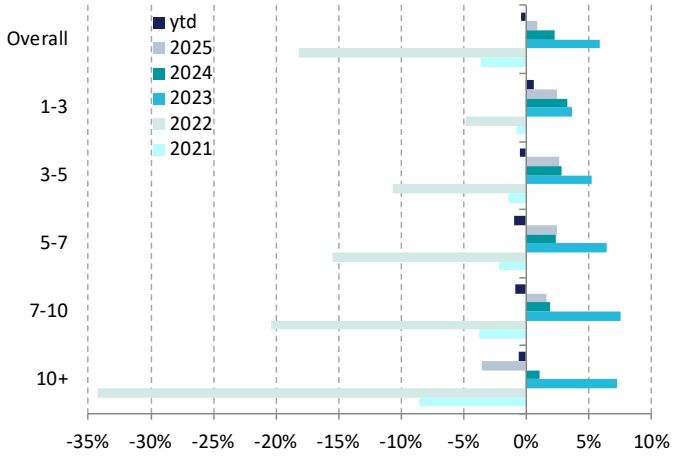
Spread development (last 15 issues)



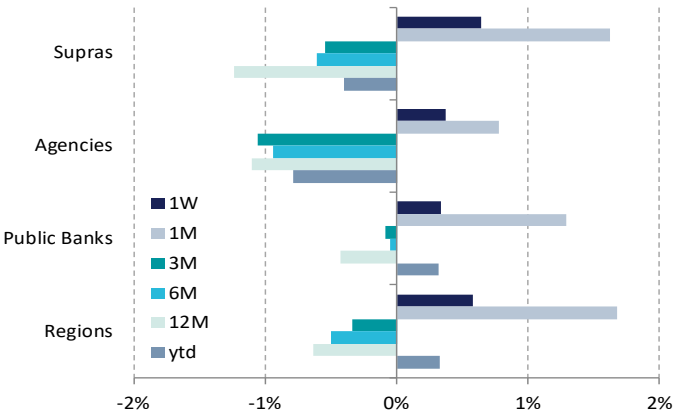
Spread development by jurisdiction



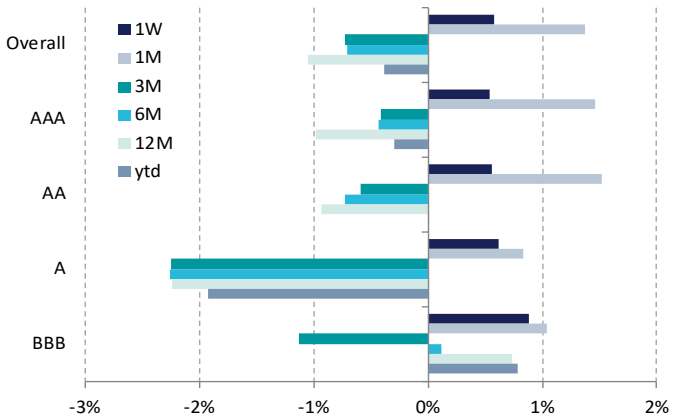
Performance (total return)



Performance (total return) by segments

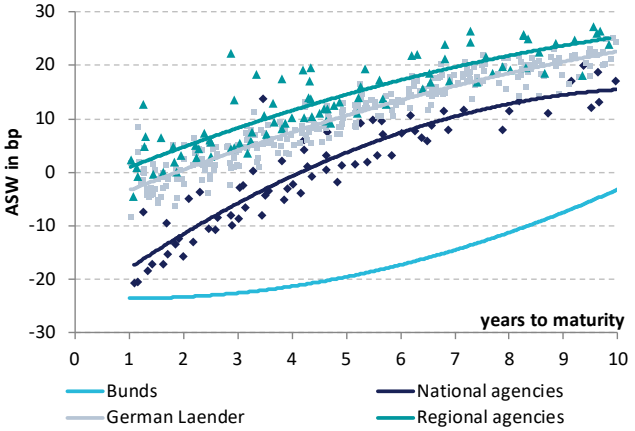


Performance (total return) by rating

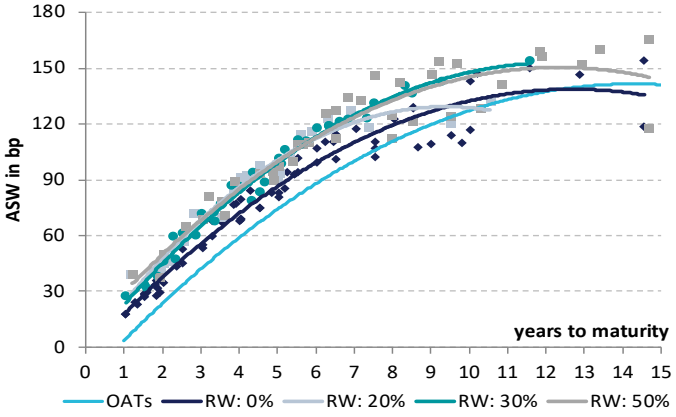


Source: Bloomberg, NORD/LB Floor Research

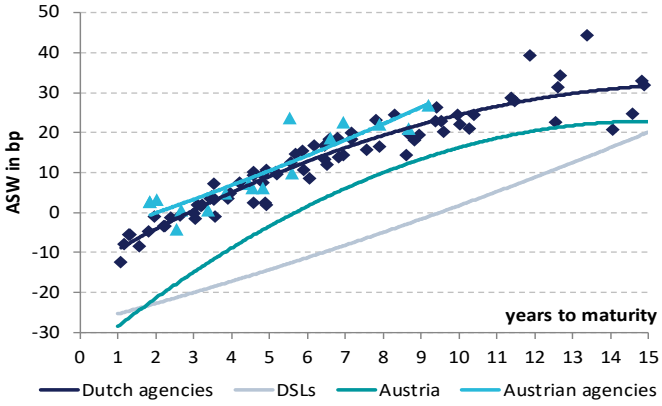
Germany (by segments)



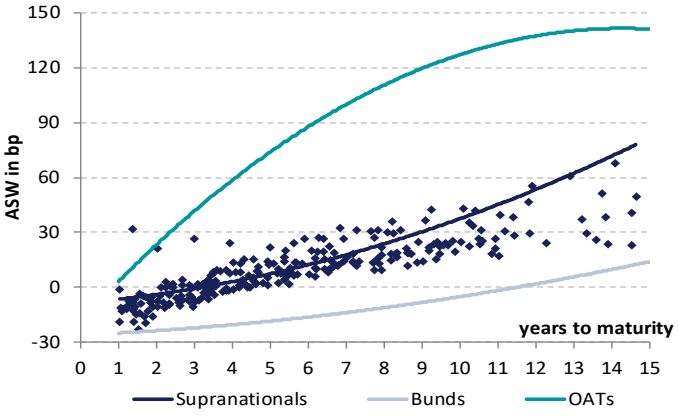
France (by risk weight)



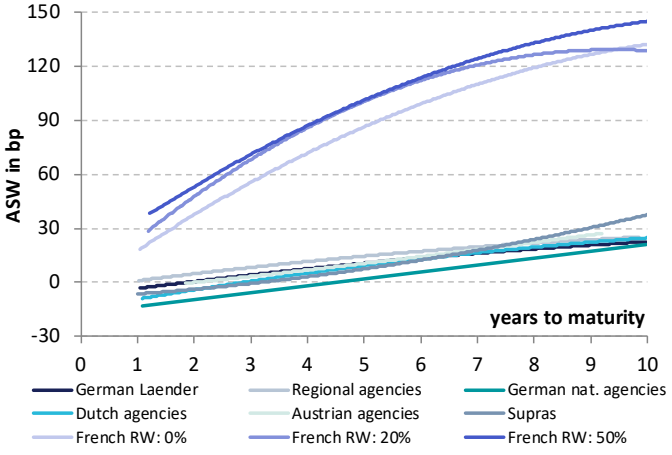
Netherlands & Austria



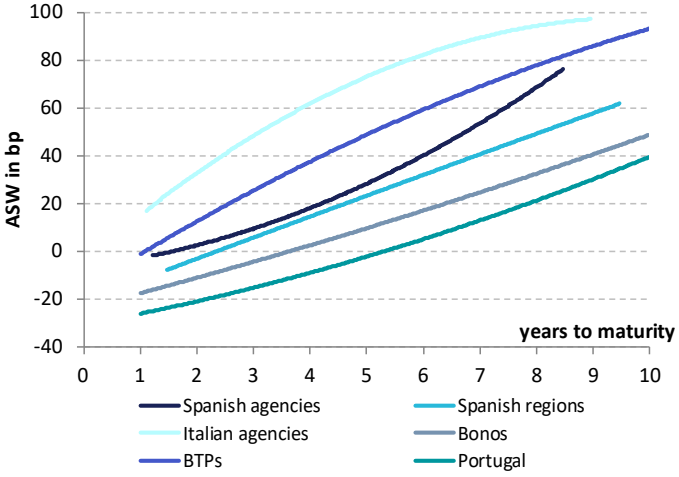
Supranationals



Core



Periphery

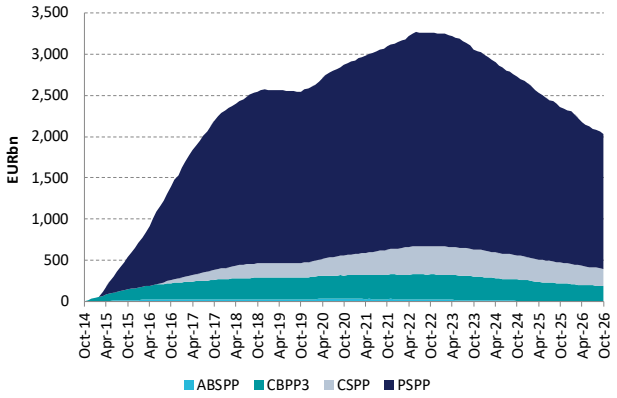


Source: Bloomberg, NORD/LB Floor Research

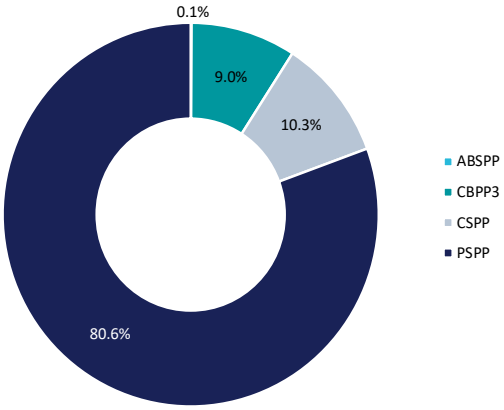
Charts & Figures
ECB tracker

Asset Purchase Programme (APP)

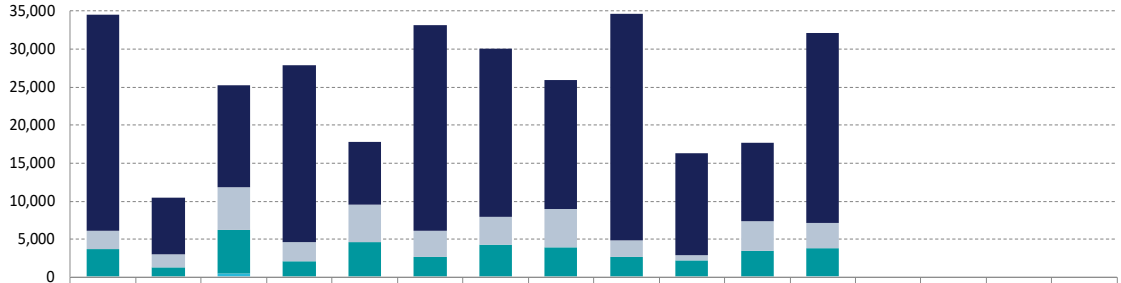
APP: Portfolio development



APP: Portfolio structure

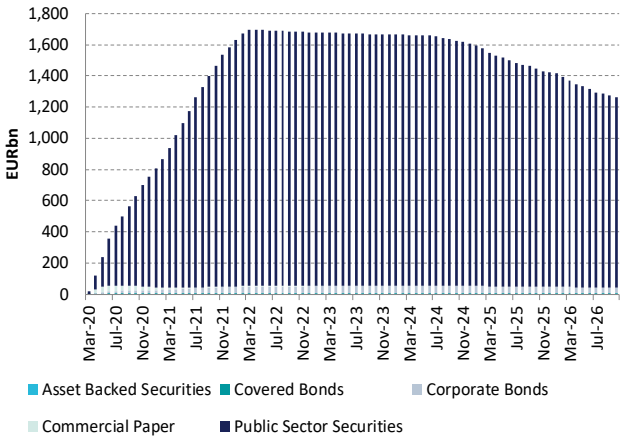


Expected monthly redemptions (in EURm)

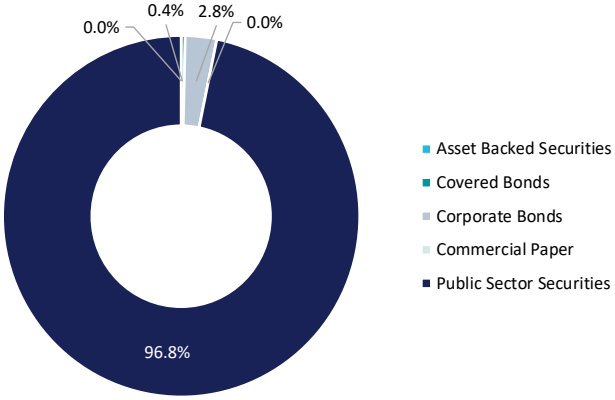


	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27	Jul-27	Aug-27	Sep-27	Oct-27	Nov-26 - Oct-27	2026	2027	Jan-27 - Oct-27
APP	34,540	10,429	25,280	27,868	17,762	33,181	30,087	25,909	34,639	16,343	17,652	32,072	305,762	327,399	293,162	235,513
PSPP	28,397	7,420	13,473	23,270	8,239	27,014	22,109	16,903	29,798	13,389	10,251	24,924	225,187	252,715	213,446	175,897
CSPP	2,398	1,741	5,580	2,432	4,919	3,455	3,716	5,038	2,172	681	3,941	3,320	39,393	41,212	41,071	29,674
CBPP3	3,692	1,216	5,765	2,093	4,493	2,695	4,251	3,938	2,653	2,262	3,429	3,695	40,182	31,663	37,700	29,509
ABSPP	53	52	462	73	111	17	11	30	16	11	31	133	1,000	1,809	945	433

PEPP: Portfolio development



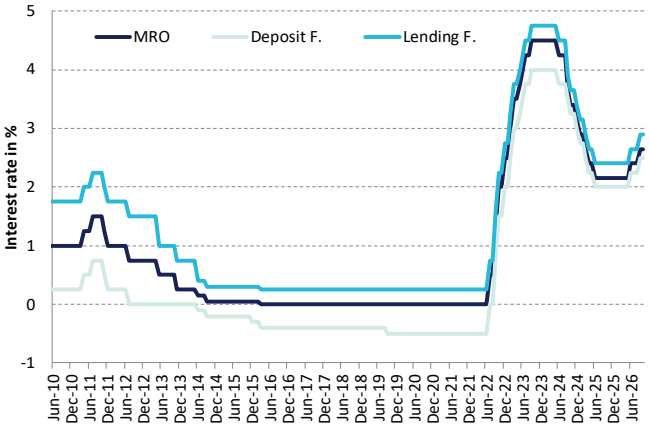
PEPP: Portfolio structure



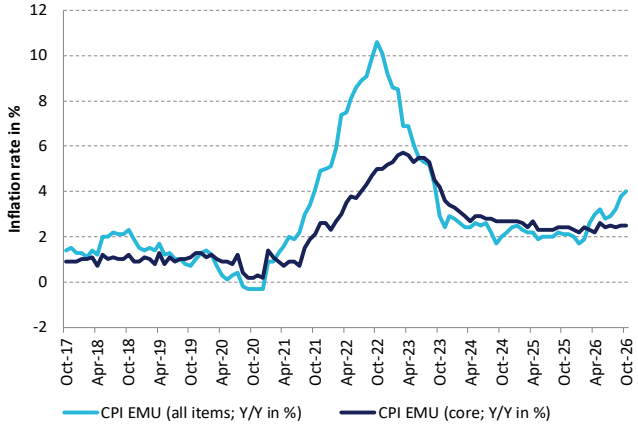
Source: ECB, NORD/LB Floor Research

Charts & Figures
Cross Asset

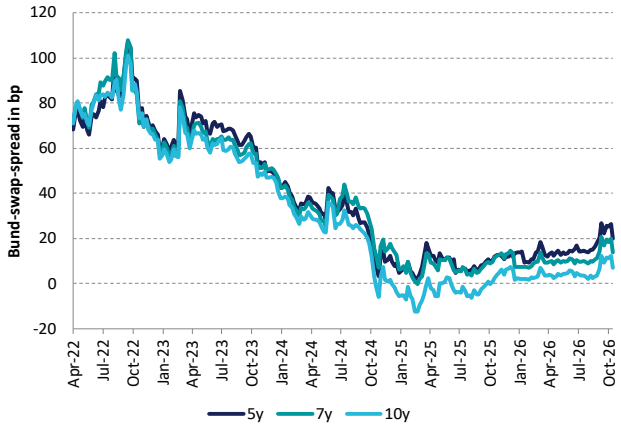
ECB key interest rates



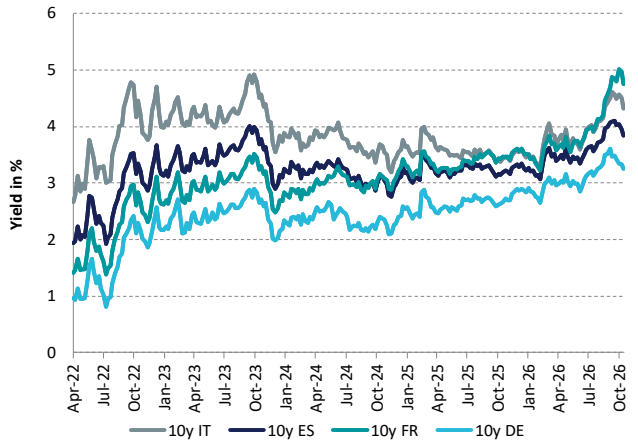
Inflation development in the euro area



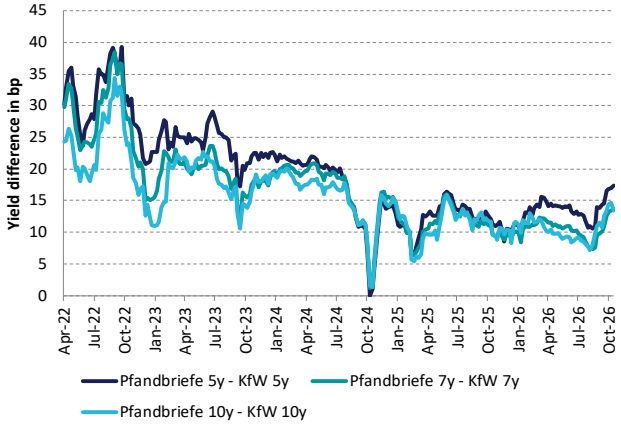
Bund-swap-spread



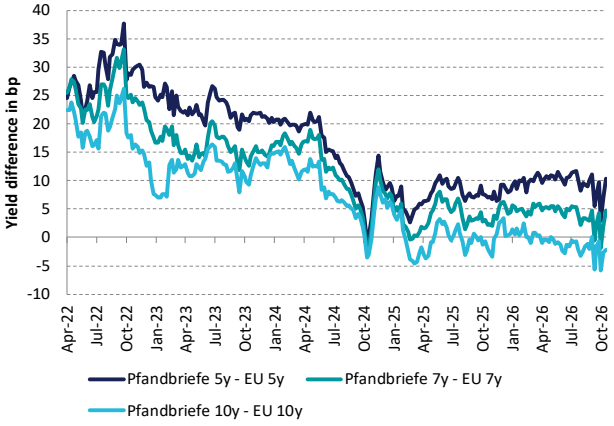
Selected yield developments (sovereigns)



Pfandbriefe vs. KfW



Pfandbriefe vs. EU



Source: ECB, Bloomberg, NORD/LB Floor Research

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
32/2026 // 04 November	▪ The covered bond universe of Moodys: an overview ▪ Update: Canadian pension funds in the SSA market
31/2026 // 28 October	▪ Cross Asset: Relative Value – yellow card shown by the market
30/2026 // 21 October	▪ Repayment structures on the covered bond market ▪ Update on German municipal bonds: DEUSTD and NRWGK
29/2026 // 07 October	▪ The rating approach of Morningstar DBRS ▪ The Spanish agency market – an overview
28/2026 // 30 September	▪ Fitch: covered bond rating approach ▪ Teaser: Issuer Guide – German Agencies 2026
27/2026 // 16 September	▪ Transparency requirements §28 PfandBG ▪ A closer look at Italian agencies
26/2026 // 09 September	▪ ECBC publishes annual statistics for 2025 ▪ ECB repo collateral rules and their implications for Supras & Agencies
25/2026 // 26 August	▪ Solvency II and Covered Bonds ▪ The clock is ticking for the Recovery and Resilience Facility (RRF)
24/2026 // 19 August	▪ Covereds: A look beyond the EUR benchmark segment ▪ Teaser: Issuer Guide – French Agencies 2026
23/2026 // 15 July	▪ Moody's: rating approach ▪ Pension obligations as a strain on German Laender finances
22/2026 // 08 July	▪ The covered bond universe of Moody's: an overview ▪ Spotlight on the EU as a mega issuer
21/2026 // 01 July	▪ Outlook for the covered bond market in H2/2026 ▪ SSA Hydration break – how large will the thirst be in H2/2026?
20/2026 // 24 June	▪ Focus on the banking sector: EBA Risk Dashboard in Q1/2026 ▪ NGEU: Green Bond Dashboard
19/2026 // 17 June	▪ Central bank eligibility of covered bonds ▪ Classification of Supranationals and Agencies under Solvency II
18/2026 // 10 June	▪ Triodos Bank – new issuer from the Netherlands ▪ Auckland Council – AUCKCN in the spotlight
17/2026 // 03 June	▪ Focus on the relative value of covered vs government bonds ▪ Teaser: Issuer Guide – Nordic Agencies 2026
16/2026 // 27 May	▪ Focus on covered bond jurisdictions: Canada in the spotlight ▪ Stability Council convenes for 35th meeting
15/2026 // 20 May	▪ Covereds: Transparency requirements §28 PfandBG – Q1/2026 ▪ Teaser: Issuer Guide – Dutch Agencies 2026
14/2026 // 13 May	▪ Covereds – ESG benchmark segment: limited market growth expected ▪ Current LCR classification for our SSA coverage
13/2026 // 29 April	▪ Cross Asset: Benchmark indices for Covered Bonds and SSA/Public issuers

NORD/LB:	NORD/LB:	NORD/LB:	Bloomberg:
Floor Research	Covered Bond Research	SSA/Public Issuers Research	Weekly: DS NDB <GO>

Appendix
Publication overview

Covered Bonds:

- **Issuer Guide – Covered Bonds 2026**
- **Risk weights and LCR levels of covered bonds** (updated annually)
- **Transparency requirements §28 PfandBG Q2/2026** (quarterly update)
- **Transparency requirements §28 PfandBG Q2/2026 Sparkassen** (quarterly update)
- **Covered bonds as eligible collateral for central banks**
- **EBA report on the review of the EU covered bond framework**

SSA/Public Issuers:

- **Issuer Guide – German Laender 2026**
- **Beyond Bundeslaender: Canadian Provinces**
- **Beyond Bundeslaender: Belgium**
- **Beyond Bundeslaender: Greater Paris (IDF/VDP)**
- **Beyond Bundeslaender: Spanish regions**
- **Issuer Guide – European Supranationals 2026**
- **Issuer Guide – Non-European Supranationals (MDBs) 2026**
- **Issuer Guide – German Agencies 2026**
- **Issuer Guide – French Agencies 2026**
- **Issuer Guide – Nordic Agencies 2026**
- **Issuer Guide – Dutch Agencies 2026**
- **Issuer Guide – Austrian Agencies 2025**

Fixed Income Specials:

- **ESG-Update 2026**
- **ECB preview: No weather for hiking**

Appendix
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Institutional Sales MM/FX	+49 511 361-9460
Retail & Structured Products	+49 511 361-9420

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
Frequent Issuers	+49 511 9818-9640

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Origination Corporates	+49 511 361-2911

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