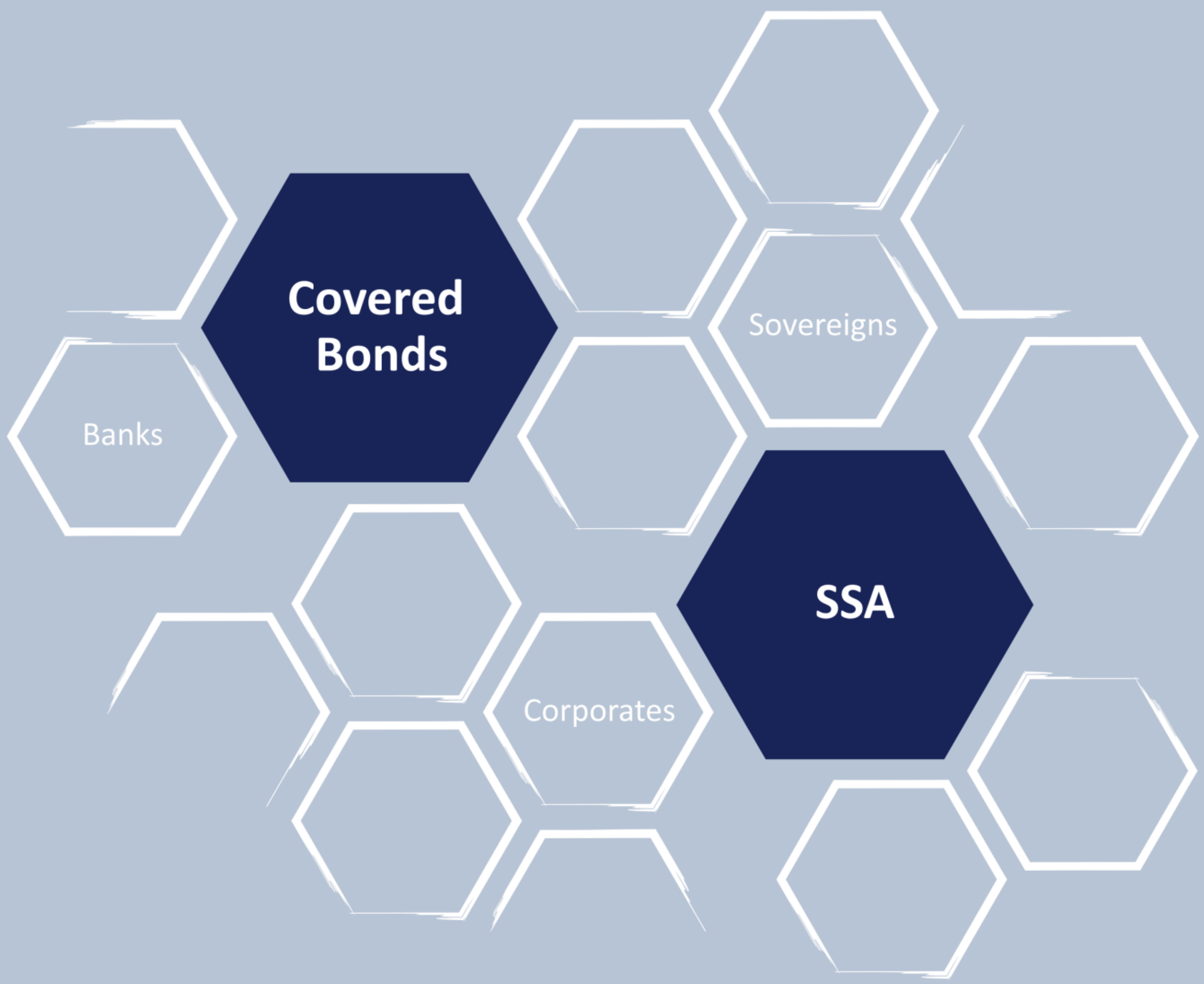
NORD/LB



Dear readers,

We shall be taking a brief break from our weekly publication. As such, we wanted to let you know that we will **not** be producing an edition of our weekly publication on 29 June.

Nevertheless, we look forward to welcoming you back on **Wednesday, 06 July**, when our Covered Bond & SSA View will be published via the familiar channels.

Your Markets Strategy & Floor Research team

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

22 June 2022 ♦ 21/2022

Marketing communication (see disclaimer on the last pages)

Finanzgruppe

NORD/LB

Agenda

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Market overview Covered Bonds

Authors: Melanie Kiene, CIIA // Dr Frederik Kunze

The primary market: new issue premiums required

The past five trading days were characterised by a comparatively high and at the same time surprising dynamic on the primary market in view of the number of newly placed deals alone. However, in actual fact, the most remarkable aspect of this is that the issuance activity was concentrated in a practically endless stream of deals placed across the first two trading days of this week. For example, on Monday four issuers from four countries approached investors, while another four banks from four jurisdictions followed hot on their heels yesterday, on Tuesday. On Monday, Bayern LB opened the books for its inaugural green deal. For this public sector Pfandbrief (EUR 500m; WNG; 10y), which serves the purposes of re(financing) projects in the area of railways (cf. Covered Bond article in this present edition), the issuer selected an initial guidance in the area of ms +10bp. The final re-offer spread came in at ms +8bp, while the order book amounted to EUR 900m. The Dutch bank Van Lanschot opened the books for its mortgage covered bond in the amount of EUR 500m (WNG; 5y) at ms +20bp area, before also closing the marketing phase at this level (re-offer spread: ms +20bp; order book: EUR 800m). Also on Monday, Crédit Mutuel Home Loan from France approached investors as well. The marketing phase for this mortgage-backed covered bond in benchmark format started out in the area of ms +14bp. The issuer eventually placed a volume of EUR 1.25bn, with the final re-offer spread of ms +12bp reflecting tightening of two basis points. With the recent primary market appearance from Kookmin Bank, we are able to welcome the second South Korean covered bond of the present year. The bank opted for a term to maturity of 3.5 years for this sustainable covered bond and committed to a volume of EUR 500m in advance. The final re-offer spread eventually came in at ms +27bp, which was also at the level of the initial guidance. Yesterday, on Tuesday, Raiffeisenlandesbank Oberösterreich approached investors for its EUR benchmark in the amount of EUR 500m (WNG; 7y). Following guidance of ms +21bp WPIR (+/-2bp), the final re-offer spread was set at ms +19bp. The Bank of New Zealand, an issuer from “Down Under”, offered a EUR-denominated benchmark (5y; guidance of ms +30bp area). The final volume was EUR 750m with a re-offer spread of ms +28bp. HSBC France (cf. NORD/LB Issuer View) was also able to successfully place a volume of EUR 750m on the market. The bond, which featured a term to maturity of six years, narrowed during the book-building process by two basis points against the initial guidance to ms +20bp. The third EUR-benchmark hailing from the UK in 2022 was attributable to Virgin Money (Clydesdale Bank). The bank placed a total of EUR 500m (5y) at ms +24bp (which was also the level at which this bond deal was guided). Overall, the market environment can be described as having a wide-open issuance window, with the deals overall showing that higher new issue premiums have to be offered. On average, more than nine basis points are now being reported for the eight deals in this context – also to mitigate execution risks. On balance, however, the recent dynamic must also be placed into the context of the anticipated reduction of the ECB order quote. With the most recent deals placed over the past five trading days, the primary market volume issued so far in 2022 has risen by EUR 5.25bn to now stand at EUR 114.45bn. We still expect further issuance activity up to the summer recess in both the benchmark size as well as deals in the EUR sub-benchmark segment.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Clydesdale Bank	GB	21.06.	XS2493830827	5.0y	0.50bn	ms +24bp	AAA /Aaa / -	-
HSBC France	FR	21.06.	FR001400AEA1	6.0y	0.75bn	ms +20bp	- / Aaa / AAA	-
BNZ	NZ	21.06.	XS2491074923	5.0y	0.75bn	ms +28bp	AAA /Aaa / -	-
RLB Oberösterreich	AT	21.06.	AT0000A2YD59	7.0y	0.50bn	ms +19bp	- / Aaa / -	-
Kookmin Bank	KR	20.06.	XS2488807244	3.6y	0.50bn	ms +27bp	AAA / - / AAA	X
CM Home Loan	FR	20.06.	FR001400B9U1	5.6y	1.25bn	ms +12bp	AAA/Aaa/AAA	-
Van Lanschot Kempen	NL	20.06.	XS2495966637	5.7y	0.50bn	ms +20bp	AAA / - / AAA	-
Bayerische Landesbank	DE	20.06.	DE000BLB6JP7	10.0y	0.50bn	ms +8bp	- / Aaa / -	X

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

Newcomer in the EUR sub-benchmark segment: POP Mortgage Bank

There is another first-time issuer to discuss in the EUR sub-benchmark segment, with POP Mortgage Bank from Finland raising the prospect of a covered bond deal in this segment. In the pre-sale rating report, the expected S&P rating is given as AAA. Information on the issuer and the parent company POP Bank Group can be found in the current investor presentation from June 2022. We welcome the imminent newcomer to the EUR sub-benchmark segment and once again see confirmation of our assessment that this covered bond sub-market represents a logical alternative for those issuers that are not able to conduct regular issuance activities in benchmark-size volumes.

Scope: German property price bubble not likely to burst any time soon

In the middle of the previous week, the rating agency Scope published an analysis on the German property market and pointed in particular to the increased mortgage interest rates, which have now climbed to their highest level in a decade. However, house prices are not expected to collapse. Nevertheless, an eye must be kept on economic developments. If, for example, banks give homebuyers more freedom by lowering financing standards, this could drive prices even further up. According to the Scope analysis, some German households will come under pressure, which, in addition to the rise in long-term interest rates for mortgage loans (now around 3%), can also be attributed to the rapid rise in food and energy prices. The bottom line is that there is less money left over for housing construction. At the same time, house prices have increased by 80% since 2013, while income has increased by only 25% over the same period. Overall, Scope therefore expects that although there will be falling transaction numbers and stagnating nominal prices, there will not be a real slump, which can also be explained by a lack of available housing – predominantly in the metropolitan areas. Another factor supporting the German property market is the fact that the majority of mortgages in the country are granted as fixed-rate arrangements with a long term. In this way, borrowers are more protected against rate hikes. Scope believes that property prices will only slump in the event of a severe recession coupled with higher unemployment, loan defaults and compulsory sales. However, the creditworthiness watchdog does not believe this scenario to be very likely.

GlobalCapital covered bond roadshow: Spotlight on Asian covered bonds:

On 23 June 2022, GlobalCapital, Euromoney/Conferences and the European Covered Bond Council (ECBC) are holding a virtual event in connection with their series of roadshows with the focus topic: "Asia Covered Bonds: Awakening the Sleeping Giants". NORD/LB is a sponsor of this event and we would be delighted to hear of your interest in taking part. Additional information can be found under the following link.

Covered Bond Directive entering into force on 08 July will also impact LCR eligibility

The Covered Bond Directive is set to come into force on 08 July 2022 and will also lead to changes in the LCR and LCR eligibility of covered bonds (both for existing bonds and those newly issued in the future). For example, issuers are compelled to comply with certain requirements in the Covered Bond Directive irrespective of their jurisdiction in order to be eligible for European banks under the LCR. This applies in particular to issuers from third countries, as the EU countries are implementing the directive on a national basis anyway, making it mandatory for these issuers. In the future, non-EU issuers will also have to meet the transparency requirements contained in Article 14 of the Covered Bond Directive. The additional disclosures include an ISIN list for all bonds issued under the programme, information on the valuation method as well as on credit and liquidity risks or the amount of required and available cover as well as the level of statutory, contractual and voluntary overcollateralisation. In informed circles, the talk is that issuers from Singapore are working on the implementation of the extended transparency requirements. Since the size of the (EUR) covered bond markets in Canada, the UK, Australia and New Zealand is of relevance, we expect this to be implemented over the medium term in these jurisdictions as well, since at least some European banks would no longer be available as investors.

Update on Basel III finalisation

After the implementation of Basel III was postponed due to the COVID-19 pandemic, consultations at European level have taken place again in recent months. We are taking this into account by once again referring to a statement from the Association of German Pfandbrief Banks (vdp) in June, which provides a compact account of the primary challenges that banks with larger real estate portfolios in particular are continuing to face. In this statement, the vdp directs criticism in particular at the ECON report from the start of June on the banking package. This continues to fall far short of the European Commission's draft law and also provides for extensive further tightening of regulations, which would lead to a significant additional burden on the banking industry. Moreover, it would even amount to an overfulfilment of the Basel requirements, since in some cases even stricter conditions would have to be met. For example, the Rapporteur of the European Parliament calls in their report for the facilitating transitional regulations for residential real estate financing and support for infrastructure financing to be linked to sustainability criteria. However, in this case the focus would not be on the risk of financing, but rather on the political will, which in our view is not expedient. Both the Commission draft and the report by the Rapporteur of the European Parliament show that banks that use internal risk models would be impacted by massively increasing capital requirements. It is in particular hard to grasp why this effect has a greater impact on low-risk transactions – which will therefore also affect real estate financing. In this context, shifts in business activities cannot be ruled out. For example, banks could potentially take more risks in the future because less equity would have to be deposited and more income could be earned or transactions could be refinanced off the balance sheet. It is also conceivable that financing would increasingly be taken on by the less strictly regulated non-banking sector, which would conflict with efforts to generate stability in the financial sector. In future talks at EU level, the vdp will be advocating for the parties to the discussions to "reduce substantially the burdens real estate finance providers are expected to face". One proposal envisages that the differential treatment of the particularly low-risk business of residential real estate financing "could apply permanently – not just temporarily until 2032 – and be extended to include commercial real estate financing, which is also low-risk".

Market overview SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIIA // Jan-Phillipp Hensing

ECB statements lead to disappointment across the board – spreads react nonetheless

The ECB's Governing Council has rarely been compelled to come together for an ad hoc meeting, most recently on a large scale in 2020, when it launched and increased the Pandemic Emergency Purchase Programme (PEPP). The reason for last Wednesday's meeting was clear: Italy's concerning rise in yields and consequently also the spread versus Bunds. Bond spreads have also been widening in other countries, but it is Italy that kept cropping up and was therefore clearly the focus of market turbulence. The outcome certainly left an impression: the meeting alone provided a certain reassurance, with 30bp already a respectable shift here through simple "verbal acrobatics". The statement that was issued afterwards did not require an ad hoc meeting as such: the Governing Council decided that it will apply flexibility in reinvesting redemptions coming due in the PEPP portfolio. Well, to be honest, it has been doing this for some time anyway, while leading the public to believe that it is sticking to the same percentage as always, this has been regarded as relaxed internally already. It can deviate from this proportion allocated according to the ECB's capital key in any case, applicable not only to the already concluded PEPP (keyword: net purchases), but also to the Asset Purchase Programme (APP), under which net purchases are set to end on 1 July. Here, we have always welcomed the fact that the Eurosystem acts flexibly, that the different portfolios can breathe and that the ECB does not get bogged down by the percentage figures with its national central banks. In our opinion, an ad hoc meeting was not necessary for this either. The news flow would have been more exciting if the ECB had put something on the table on another front. Instead, the ECB's Governing Council decided to mandate the relevant Eurosystem Committees "to accelerate the completion of the design of a new anti-fragmentation instrument". We would have liked this statement – not much longer than a post-it – to have been more specific and not simply underlining that work is being done internally, which can be assumed anyway in the context of a monetary policy turnaround. The ECB wants to intensify the fight against widening spreads between the government bonds of different Eurozone countries. At this point, we would like to refer again to the ECB's Outright Monetary Transactions (OMTs) programme, which was agreed in September 2012. In the course of the "whatever it takes" announcement in July 2012, the Securities Markets Programme (SMP) amounting to approximately EUR 220bn was terminated. As a reminder: not a single euro has flowed into the OMT to date, as the conditions would have required that Eurozone countries surrender some of their economic sovereignty. What are the implications for the new instrument? No conditionality? This will be a difficult balancing act for the central bankers in Frankfurt. Certain political costs will need to be taken on board, and in our view the ECB must not give anyone a free ride here. Monetary policy must under no circumstances fall into the tow of the fiscal policy of some countries, for instance, Italy. With Mario Draghi at the helm in Italy, there are already personal interdependencies between monetary and fiscal policy. The ECB must also reflect on its expertise: it has often emphasised that the exchange rate should be managed not through its actions but by inflation alone. Now it has to be careful it is not in fact managing individual spreads. The July meeting (21 July) has therefore once again become more relevant.

KfW-ifo SME Barometer: situation of SMEs is improving but fears remain…
On 7 June, KfW published the latest results of its KfW-ifo SME Barometer. The slight improvement in sentiment among SMEs continued for the second consecutive month, after business confidence collapsed in March because of Russia's invasion of Ukraine. At -5.9 balance points now, it has risen 1.2 points on the previous month, but remains well below the pre-war level. This rise in business sentiment is due to improved situation assessments: while business expectations fell by 0.7 points to -21.0 balance points, a notable gain of 3.6 points was registered for the business situation to 11.0 balance points. The pessimistic business expectations reflect that the war is driving up prices, material shortages and an added strain on global supply chains. With regard to individual segments, construction firms reported the strongest improvement in business confidence (+4.7 points to -8.2 balance points). However, the current improvements offset only around half the decline in the previous month. Construction demand remains strong but is facing significant problems on the supply side, such as material shortages, rapidly rising costs of energy and building materials and a shortage of skilled workers. Higher interest rates are raising the costs of already expensive new building projects. According to KfW, this is illustrated by the severe mood swings from month to month in construction. Service providers are currently the most optimistic. Their business sentiment improved by 4.4 points on the previous month, to -1.4 balance points. As a result, sentiment is only just below the zero line, which stands for the long-term average. Business sentiment in retail has declined slightly by -0.1 points to -4.6 balance points. After it was hoped that business would improve following the lifting of coronavirus measures, Putin's illegal war has clearly thrown a spanner in the works. Due to increased uncertainty and the currently high energy prices and cost of living, retail is feeling the effects of a reduction in real purchasing power. A different business climate was evident among large manufacturers: confidence improved sharply. Business sentiment in this sector rose by more than two and a half times a typical monthly variation: +9.6 points to 1.1 balance points.

…similar results in NRW.BANK.ifo Business Climate
The NRW.BANK.ifo Business Climate provides an insight into the business climate of the most populous federal state, North Rhine-Westphalia. Eckhard Forst, Chairman of the Management Board of NRW.BANK, shared the following assessment of the climate: "The situation is strongly reminiscent of that at the start of the coronavirus pandemic in March 2020. However, a difference to then is that we do not currently see any signs of recession. The economy is robust. We are seeing a post-pandemic catch-up effect." The results from NRW largely mirror the KfW-ifo SME Barometer: the climate in NRW increased by 2.6 points to 7.2 balance points – the second consecutive increase, albeit remaining below its pre-war level. In NRW, too, the increase is solely due to an improvement in the current business situation, with company expectations almost unchanged – a large majority continue to take a pessimistic view of the future, which indicates the currently prevailing uncertainty in the economy. The mood among service providers improved most: for the first time since the outbreak of the war in Ukraine, companies were cautiously optimistic about the next six months. Due to the lifting of coronavirus restrictions, the business climate even climbed to a new all-time high in the hospitality sector.

Primary market

The primary market in the SSA segment has been rather quiet since last week. It is not likely to deliver any great surprises: in view of inflation rates in July, the ECB is turning the screw on interest rates, the harbingers of this have long been visible in yields. Nonetheless, in view of the market response, a "new anti-fragmentation instrument" is already being worked on to keep the yields of highly indebted euro countries in check. In addition, the ongoing war continues to put pressure on national economies. Due to the resulting volatile market situation, a defensive attitude is prevailing among market players. However, we did see a mandate from France on Monday: SAGESS – which is also this issuer's ticker – has been holding investor talks since 21 June regarding a EUR benchmark bond with a maturity of between seven and twelve years. Created by the French state in 1988 at the initiative of oil operators, the agency has the purpose of building up, storing and maintaining France's strategic oil reserves. As we already pointed out in our last edition, the European Union is planning to issue a bond this week. On Monday, further details emerged in the form of the mandate: the term is 25 years and it is a green bond. This deal came to market yesterday, on Tuesday: guidance for the bond was in the region of ms +30bp, but it was ultimately priced at ms +28bp. As is customary for EU bonds, the order book was oversubscribed multiple times. With a bond volume of EUR 5.0bn, the book amounted to a more than healthy EUR 32bn, which consequently generated a bid-to-cover ratio of 6.4x. We would also like to draw attention to the upcoming EU auction on 27 June. As a reminder, the European Union conducts auctions for bonds according to the funding plan on every fourth Monday of a month, most recently on 23 May. In addition, we expect the EU to present its funding update for the second half of the year any day now. We anticipate that this will exceed the EUR 50bn in the first half of the year and would not be surprised by values between EUR 80-100bn.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EU	SNAT	20.06.	EU000A3K4DM9	25.6y	5.00bn	ms +28bp	AAA / Aaa / AA+	X

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

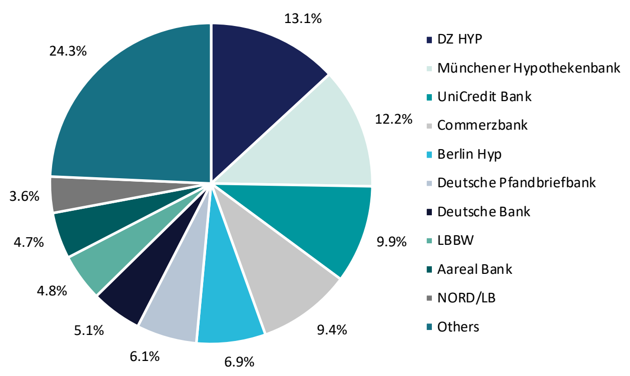
Covered Bonds
Focus on ESG covered bonds: BayernLB's "green rail" public sector Pfandbrief

Authors: Melanie Kiene // Dr Frederik Kunze

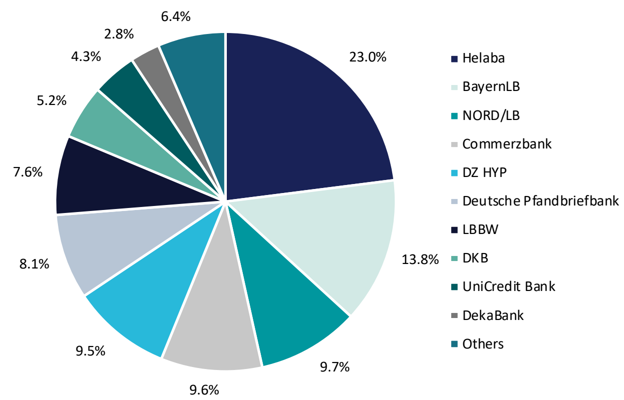
BayernLB adds a new facet to the ESG Pfandbrief submarket

With BayernLB, another established Pfandbrief issuer has now joined those institutions that have successfully placed ESG covered bonds on the market. At the same time, the public sector Pfandbrief from Bavaria is adding an additional facet to the market for green Pfandbriefe. The issuance of the "green rail bond" is to provide funding for specific projects in the areas of rail infrastructure and public transport as well as low-carbon mobility. Linked to this is the aim of reducing the need for private vehicles. Explicitly named in BayernLB's Sustainable Financing Framework are "Electrical locomotives and multiple unit trains for passenger transport". In the following, we propose to provide a brief overview of the framework that forms the basis for BayernLB's first green Pfandbrief.

Section 28 PfandBG: market share – mortgage Pfandbriefe



Section 28 PfandBG: market share – public sector Pfandbriefe



Source: vdp, NORD/LB Markets Strategy & Floor Research

The euro as the dominant currency both in Australia…

According to [ECBC statistics] at the end of 2020, the outstanding total volume of the covered bond market came to EUR 2,908.7bn across the world. Of this figure, a total of EUR 62.6bn was attributable to Australia and EUR 9.7bn to New Zealand. Both countries only issue mortgage-backed covered bonds. Here, the ECBC estimates the total market at EUR 2,579.8bn. Of the previously mentioned EUR 62.6bn, the Australian banks have issued "only" the equivalent of EUR 8.8bn in their domestic currency (AUD) and a further EUR 18.1bn in other currencies outside the euro.

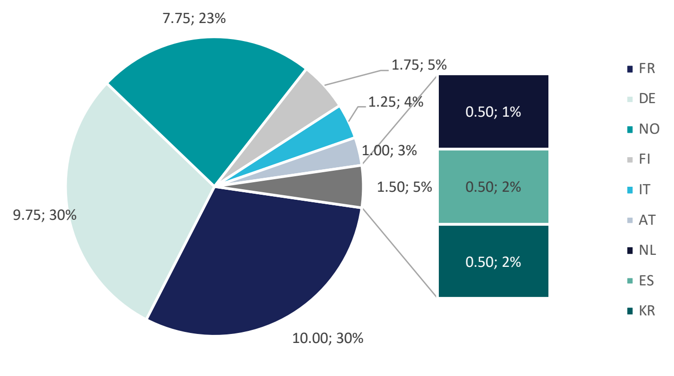
BayernLB Sustainable Financing Framework: update in May 2022

In May 2022, BayernLB presented an updated version of its Sustainable Financing Framework. As usual, BayernLB provide guidelines in the key areas of the use of proceeds, process for project evaluation and selection, management of proceeds, reporting and external review. The latter was adopted by the ISS-ESG in a second party opinion (SPO). In the context of the SPO from May 2022, alignment of the framework with the ICMA Green Bond Principles is confirmed, among other aspects. Contributions to the Sustainable Development Goals (SDG) 7 "Affordable and Clean Energy" and 12 "Climate Action" are evaluated as "positive". In relation to EU taxonomy, the project categories for financing in rail transport are based on robust processes and therefore appropriate. Consequently, the projects are aligned with the climate change mitigation criteria, the "do no significant harm" criteria and the minimum social safeguards requirements.

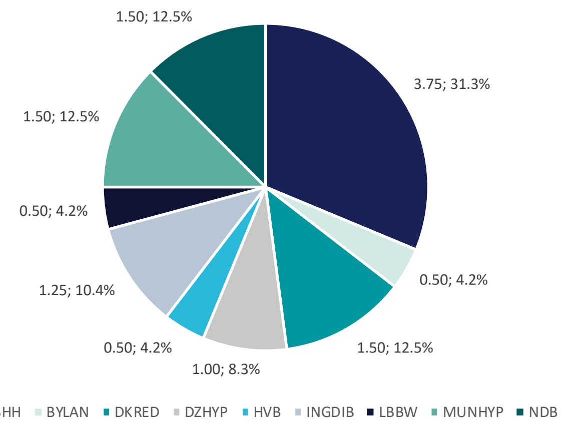
Specific use of proceeds for the green rail covered bond

For the purposes of the current Sustainable Financing Framework, BayernLB has identified the following Eligible Sustainable Loans (ESL) categories "renewable energy" covering photovoltaic and solar thermal plants and wind farms, alongside the previously mentioned category of "mobility". With regard to real estate, the issuer is also proposing green real estate and its (re)financing might be added as possible components of the "sustainable loan portfolio" in the future. With regard to focusing on rail infrastructure, BayernLB expressly mentions in a press release on 7 June 2022 that it has broadened its ESG financing framework to also apply for rail transport, with the ISS-ESG confirming that this portfolio is fully aligned with the goals and standards of the EU Taxonomy Regulation. For BayernLB, this broadening "is another important building block in our efforts as a financier of progress to make a decisive contribution to decarbonisation and, in turn, to a viable future".

Outstanding volume of ESG by jurisdiction (BMK; EUR bn)



Germany: Outstanding volume of ESG (BMK; EUR bn)



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Green Pfandbrief market

With a new issuer on the green Pfandbrief scene, the number of institutions active in the EUR benchmark segment has risen to nine. The volume outstanding from the 20 bonds amounts to EUR 12bn. Green Pfandbriefe account for a total of 16 issues, totalling EUR 9.75bn. Based on the outstanding volume of EUR benchmarks in an ESG format, Germany remains in second place (EUR 12bn; share of 24%) behind France (EUR 14.25bn; share of 29%) and ahead of Norway (EUR 7.75bn; share of 16%). In terms of green covered bonds in a benchmark format, Germany is also ranked second, although the gap to the leader France is much smaller. While EUR 9.75bn can be attributed to German issuers, institutions from France account for a green covered bonds volume of EUR 10bn. Compared with market as a whole, there is still considerable catch-up potential for Germany, at least with regard to the ratio of ESG covered bonds to the overall market. With an outstanding EUR benchmark volume of EUR 167.31bn, ESG issuances account for just under 16.5%.

ESG Pfandbriefe: EUR benchmark issuers

Issuer	Volume (in EUR)	ESG Type	No. of ESG BMKs	Second Party Opinion	Framework based on ICMA principles
BayernLB	0.50bn	Green Pfandbrief	1	ISS ESG (Link)	YES (Link)
Berlin Hyp	3.00bn	Green Pfandbrief	6	ISS ESG (Link)	YES (Link)
	0.75bn	Social Pfandbrief	1	ISS ESG (Link)	YES (Link)
Deutsche Kreditbank	1.50bn	Social Pfandbrief	3	ISS ESG (Link)	YES (Link)
DZ HYP	1.00bn	Green Pfandbrief	1	ISS ESG (Link)	YES (Link)
ING-DiBa	1.25bn	Green Pfandbrief	1	ISS ESG (Link)	YES (Link)
LBBW	0.50bn	Green Pfandbrief	1	ISS ESG (Link)	YES (Link)
Münchener Hypothekenbank	1.50bn	ESG Pfandbrief	2	ISS ESG (Link)	YES (Link)
NORD/LB	1.50bn	Green Pfandbrief	3	ISS ESG (Link)	YES (Link)
UniCredit Bank	0.50bn	Green Pfandbrief	1	ISS ESG (Link)	YES (Link)

Source: Issuer, market data, NORD/LB Markets Strategy & Floor Research

Conclusion

BayernLB is sending a further growth signal out of the market for green covered bonds "Made in Germany". By focusing on rail transport, SDGs 7 "Affordable and Clean Energy" and 12 "Climate Action" are to be addressed in particular. As part of the SPO, ISS-ESG confirms that BayernLB's framework complies with the criteria of the EU Taxonomy Regulation with regard to financing mobility infrastructure. In our opinion, a selection of green assets geared towards sustainable or green real estate financing would be subject to much higher requirements with regard to conformity with the taxonomy, which is at least theoretically likely to have been a reason for the issuer to initially focus on rail transport. With regard to the market for German ESG covered bonds, we maintain our assessment that even stronger growth is to be expected. However, in the coming months and years, the requirements for criteria and reporting are likely to increase, which will raise costs for issuers in the short term, at least. Measured against the potential that needs to be leveraged globally for sustainability and decarbonisation, especially in the real estate financing segment, we continue to see covered bonds as an important support.

SSA/Public Issuers
Stability Council convenes for 25th meeting

Authors: Dr Norman Rudschuck, CIIA // Jan-Phillipp Hensing

Introduction

The Stability Council, chaired by the finance minister of Rhineland-Palatinate and the German Minister of Finance, held its 25th meeting on 28 April 2022. The meeting focused on compliance with the upper limit for the general government structural deficit and examining the threat of a budgetary emergency in Bremen.

Macroeconomic framework

In a press release, the Stability Council explained the current crisis situation in public sector budgets. New short and medium-term challenges are arising, not all of which are due to the ongoing impact of the coronavirus pandemic. The illegal war of aggression against the Ukraine by Russia, in particular, is also putting new pressures on budgets. These are reflected in concrete terms by measures to secure the energy supply whilst curbing rising energy prices at the same time and financing the cost of refugees. Against the backdrop of this crisis situation that is fraught with uncertainty, the Stability Council stressed the need for maintaining sustainable public sector budgets. The long-term goal is sustainable, stable public financing.

Funding deficit upper limit likely to be exceeded until 2025

A funding deficit of 3.5% of gross domestic product (GDP) is expected for the government budget in 2022. The deficit is set to be successively reduced so that the upper limit for the structural deficit of 0.5% of GDP would be met in 2026. The Stability Council estimates that exceeding the European upper limit for the general government structural deficit will be unavoidable in the years 2022-2025. However, due to the ongoing activation of the escape clause in the European Stability and Growth Pact, the overrun in 2022 is permissible. The European Commission’s budget policy guidelines are consistent with those pursued by the German government and Laender and this justifies the permissibility of overruns in years 2023-2025 as well. Congruent budget contents include, for instance, the budget adjustment from 2023 onwards through the steady reduction of high public sector debt. Overall however, the Stability Council emphasised that the financial planning was fraught with uncertainty in the context of the current conflict between Russia and Ukraine.

Improvement in general government budget 2021

The general government budget includes the core budgets of the Bund, Laender and municipalities as well as their respective extra-budgetary funds. In 2021, the financing balance in the general government budget amounted to EUR -122.3bn. By comparison with the previous year, this was an improvement of around EUR 38.6bn. This positive development in the general government budget was mainly driven by the tax situation with revenue here up 12.1% to EUR 112.0bn. The federal government’s tax receipts were up 12.0% on the previous year (2020), producing a tax surplus of EUR 88.7bn.

Despite improvement: expenditure in general government budget continues to rise

Like the trend in income, expenditure also rose in 2021. Increases in aid to businesses (EUR +31.8bn), larger subsidies for social security (EUR +33.4bn), higher asset transfers (EUR +20.7bn) and increased tax expenditure (EUR +15.2bn), for example, contributed to this effect. Only loans under the Economic Stabilisation Fund (ESF) reduced by around EUR 32.7bn. Overall, expenditure was up by around EUR 73.3bn or 6.7%.

Outlook: movement in general government budget in 2022

The budget planning last December for the year 2022 forecast a funding deficit of EUR 91bn. According to current projections, this will now be exceeded by EUR 44.5bn. The financing balance for the current year is therefore expected to stand at EUR -136bn. Both income and expenditure are currently up by comparison with the previous year. Income is set to rise by around 2%, while public budgets are set to spend around 3% more than in the previous year. Overall, the rise in the financing deficit versus 2021 is estimated to reach some EUR 13.2bn. According to the Stability Council, the forecasts provide for a steady reduction in the financial deficit in cash terms in subsequent years. At the end of the planning period, a financing deficit of EUR 42bn is therefore expected for the general government budget.

Estimate of general government structural financing balance pursuant to Sec. 6 Stability Council Act (as % of GDP)

	2021	2022	2023	2024	2025	2026
General government structural financing balance	-2.1	-3.5	-2.25	-2.0	-1.0	-0.5
General government financing balance	-3.7	-3.75	-2.0	-1.75	-1	-0.5
Of which:						
Federal government	-4.0	-3.0	-1.5	-1.5	-1	-1
Laender	0.1	-0.25	0	0	0.25	0.25
Municipalities	0.0	0	0	0	0	0.25
Social security	0.1	-0.25	-0.5	-0.5	-0.25	-0.25

For information on the function of the Stability Council, its key indicators and definitions, see the latest Issuer Guide German Laender 2021.
Source: Stability Council, NORD/LB Markets Strategy & Floor Research

Federal government level: parallels with developments in general government budget

The impact of the coronavirus pandemic is continuing to make itself felt at federal government level. By comparison with the previous year, the federal government is reporting a rise in the financing deficit, including extra-budgetary funds, of EUR 1.1bn to around EUR 130.4bn. There have been increases on both the income and expenditure sides. Expenditure is up 10.4% versus 2020, while income has risen by 13.7%. According to the Stability Council, the increase in the core budget deficit of EUR 84.9bn to EUR 215.6bn has been virtually offset by high surpluses of EUR 83.8bn in the federal government's extra-budgetary funds. An improvement in the federal government's financing balance to around EUR -117bn is expected for the current year, excluding supplementary budgets.

Significant increase in expenditure in federal government's core budget
Compared with the previous year, there was a significant increase in expenditure in the federal government's core budget in 2021 of +26.0%, or EUR +114.8bn. At 45%, almost half of this was attributable to transfers to various special funds. For example, EUR 16bn went to the "Aufbauhilfe 2021" (reconstruction aid) special fund. Allocations to the Energy and Climate Fund and to social security were also up EUR +68.3bn year-on-year. The Health Fund set up for costs incurred as a result of the coronavirus pandemic also recorded additional expenditure of EUR +14.5bn compared with 2020. As with developments in the general government budget, the federal government budget also saw an increase on the income side in 2021, with tax revenue in particular up by around EUR 30.3bn (10.7%). Consequently, the federal government budget posted income growth of 9.6% or EUR 29.9bn in 2021.

Impact from coronavirus at federal government level to continue until at least 2022
The coronavirus pandemic will continue to impact the financial policy situation of the federal government budget in 2022 as well. The financing balance is set to stand at EUR -100.5bn at the end of the year. The government aims to provide the corresponding support through coronavirus-related assistance for businesses (EUR 11.9bn), payments to the Health Fund for burdens caused by the SARS-CoV-2 pandemic (EUR 21.7bn), subsidies for central procurement of vaccines (EUR 6.3bn) and bonuses for nursing and care staff in hospitals and nursing/care institutions (EUR 1bn). The assistance measures serve to provide economic support on the one hand and to curb the pandemic-related impact at Laender and municipality level on the other. The federal government will provide up to 90% of this support in 2022 and more than 90% in the following years. This explains why the budgetary situation at federal government level appears worse than at Laender or municipality level.

After previous year's deficit: Laender financing balance in positive territory
The significant improvement in 2021 resulted in a positive financing balance following the financing deficit reported at Laender level in the previous year. The increase in the previous year's balance of around EUR 37.1bn to around EUR +3.5bn is mainly due to the surplus achieved in the extra-budgetary funds. At EUR 5.8bn, this outstripped the deficit in the Laender budgets of EUR 2.3bn and ultimately ensured a positive overall balance. Looking at the financial situation expected in the current year, it is evident that COVID-19 related effects are impacting the financing balance. The decline in income of 3% (EUR -16bn) and rise in expenditure of 0.5% (EUR 3bn) mean that a financing deficit of EUR 15bn is expected for the end of the year. While federal government allocations for investments are likely to rise by around EUR 7bn and tax revenue by around EUR 4bn, the forecast decrease in income in the current year will primarily be due to lower allocations in the federal government budget for business assistance. At the same time, increases in expenditure for fixed asset investments as well as for support for municipalities and companies in the investment sector are also expected. The Laender budget deficit is expected to reduce in the coming year, and the forecast financing balance for 2023 is around EUR -1.25bn. Subsequent years are expected to move in line with this forecast and surpluses are expected in the Laender core and extra-budgetary funds as of 2024.

Opinion of Advisory Board: macroeconomic outlook characterised by uncertainty
The independent Advisory Board of the Stability Council commented on the development in general government finances up to 2026. It stressed that the current situation is characterised by uncertainty due to the war of aggression by Russia in Ukraine. The ensuing downturn in the macroeconomic situation in turn is affecting the economic outlook. The forecast for further growth performance in the German economy, in particular, can therefore only be made with a degree of caution.

Evaluation of general government planning for financing balance up to 2026
The independent Advisory Board also made a statement on the deficit planning outlined above, including the upper limit overrun. It is noted that the calculations for the planned deficits up to 2025 are too high and thereafter too low. The past two years have shown that the credit financing requirement for 2022 is once again not as high as the calculation would suggest. Against the backdrop of current information, the Advisory Board also explained that the estimates for deficits later on in the planning period are too low and that these would subsequently increase. On the whole, the forecast macroeconomic downturn can be explained by the Russian war of aggression. In its opinion, the Advisory Board also presented its position on the renewed emergency situation in the federal government budget in 2022. As a result of the emergency, the federal government is seeking to use the exception clauses for the general government deficit and the debt brake. In budget year 2022, this facilitates financing by means of special loans. The Advisory Board highlighted that detailed grounds are required for the use of these exception clauses. In light of the ongoing uncertainty, the Advisory Board confirmed the deficit projections for the next few years. It went on to note that the debt brake does not fully guarantee that the medium-term budget goal will be reached. This observation is due in particular to the credit leeway in the special funds. The credit-financed special funds helped the federal government and Laender build up reserves during the coronavirus pandemic especially, which are set to be invested in measures outside the debt brake in subsequent years. However, there is a discrepancy in that such special funds increase the general government deficit. Consequently, the Advisory Board noted that the exception clause used in 2020 and 2021 to finance non-crisis related measures contradicts the original intention of the debt brake. This makes the monitoring of the budget by the Stability Council even more important.

Economic outlook: developments in 2022 and 2023
As a result of the unexpectedly severe pandemic waves in the winter and resultant impact on private consumption, the German government is expecting an increase in the price-adjusted gross domestic product (GDP) of 3.6% in 2022. For the following year, the government is expecting growth in price-adjusted GDP of 2.3%. Despite the severe pandemic waves in the winter and their impact on private consumption, the government is forecasting growth of 6% in this sector. Its projection also sees an increase in the consumption deflator of 3%, while gross wages will rise by 3.7% in 2022 and 3% in 2023. Given the recent revisions made by the ECB to its own projections, the figures in this section could already be out of date, which naturally is not the fault of the Stability Council.

Negative economic developments: repercussions of Russia's war of aggression

The Stability Council's evaluation of the present national economic situation is characterised by the fundamental changes resulting from the illegal attack on Ukraine by Russia. Previous assumptions of an economic upturn, especially in private consumption, following a harsher-than-expected coronavirus wave in winter, are now only applicable to a certain degree. The conflict between Russia and Ukraine is primarily affecting deliveries of energy goods and other commodities. Consequently, prices are rising not just in the energy sector, but also in food and other product groups. This is eroding people's purchasing power in Germany, whilst increased uncertainty is affecting the export and investment outlook. Repeated lockdowns in China could also disrupt supply chains again. This has already proven to be the case since the Stability Council meeting was some weeks ago. As a result, the Spring Joint Economic Forecast is predicting much slower economic momentum than the forecast for the year from the German government. The likely increase in domestic inflation this year and next will lead to higher public sector income. At the same time, inflation abroad is causing prices to go up and imports to get more expensive, as well as incomes to increase. Foreign wages are not taxed in Germany and therefore generate no tax revenue. In conclusion, the Stability Council stressed the uncertainty of the economic outlook. Consequently, further negative repercussions, such as an energy embargo or other substantial impact to the economy, cannot be ruled out.

Bremen's story: adjustment programme 2011 to 2021 completed

The federal state of Bremen underwent a restructuring programme in the years 2011 to 2020. This programme was deemed completed by resolution of the Stability Council adopted on 21 June 2021. Prior to completion of the restructuring programme, both budget improvements achieved on the back of a new arrangement for Bund-Laender financial relations, and the fact that the pandemic meant the key indicators for 2020 were not very meaningful, resulted in the signs of an impending short and medium-term budgetary emergency being adequately rebutted in the examination carried out on completion of the restructuring programme. At the time, the argument against a renewed impending budgetary emergency was the fact that the key indicator system for the financial planning period 2021 to 2024 showed no anomalies. Nonetheless, in its resolution, the Stability Council noted that the financial situation remained strained. In general, the process requires a separate examination of the budgetary situation of a federal state if the previously determined key indicators or standard projection(s) indicate an impending budgetary emergency. Through the stability report 2021, the Hanseatic City of Bremen presented both the key indicators for current budgetary monitoring and financial planning as well as the results of its standard projection.

Key indicator analysis: Bremen faces renewed impending budgetary emergency

Contrary to the findings in the concluding examination for the restructuring programme, the financial key indicators in the financial planning now also point to an impending budgetary emergency. The documents submitted reveal that there appears to be an impending budgetary emergency in both the current budget period and in the financial planning period. Expenditure growth rates also exceed the permitted thresholds in both projection periods under review.

The examination reveals: Bremen remains under observation

In response, on 10 December 2021 the Stability Council instigated an examination of a possible budgetary emergency by an evaluation committee. The committee was tasked with either rebutting the assumption of an impending budgetary emergency by means of adequate arguments gained during the examination process, or recommending to the Stability Council that a budgetary emergency be determined. Various aspects spoke in favour of Bremen and rebuttal of the assumption: not only had the Free Hanseatic City of Bremen strengthened its income side as a result of the newly regulated Bund-Laender financial relations as of 2020, but there was also limited comparability of how the different Laender handled the coronavirus pandemic as well as budget improvements in 2020 and 2021, according to the Stability Council. Nevertheless, the exact influence of these effects on the initially negative key indicators could not yet be definitively estimated. Consequently, the argument basis was insufficient to fully rebut the assumed hypothesis of an impending budgetary emergency. At the same time, the indicators available do not clearly signal the budgetary emergency in Bremen assumed in the hypothesis. With regard to the current status of the examination, the evaluation committee pointed out that Bremen should limit any opportunity for further emergency-related borrowing to a minimum. Against the backdrop of the high debt burden, driven by liabilities resulting from taking out emergency loans, the evaluation committee stressed that Bremen's budgetary situation remains strained. Overall, in light of the current situation, the committee recommended that a comprehensive examination should be continued upon submission of further information in autumn.

Conclusion

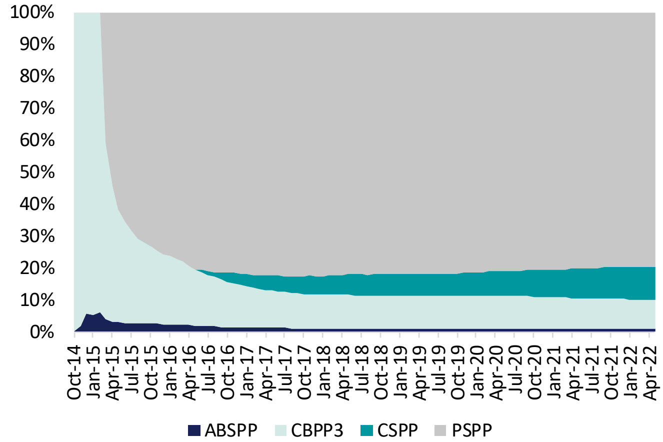
The 25th meeting of the Stability Council dealt with the present budgetary plans against the backdrop of current global political events. The examination of the projected budgets for the coming years at public, federal government and Laender level takes current circumstances into consideration. Here, it is not just the coronavirus pandemic that is adversely affecting budget planning. In particular, the illegal war of aggression against Ukraine by Russia is seriously curbing the economic outlook. The Stability Council reviewed the ongoing emergency situation in 2022 and resultant overrun of the deficit upper limit that will last until 2025. It determined that, although the emergency situation was justified by sufficient arguments, the focus must remain on the goal of sustainable long-term general government financing. As part of its budgetary monitoring, the Council also looked at a potential impending budgetary emergency that was identified in the Free Hanseatic City of Bremen. As a result, an evaluation committee was established during the December meeting. This committee submitted its report to the Stability Council in April. The report showed that there are arguments to rebut the situation that was assumed initially, but that a final assessment of the situation cannot be made until additional information is submitted this autumn.

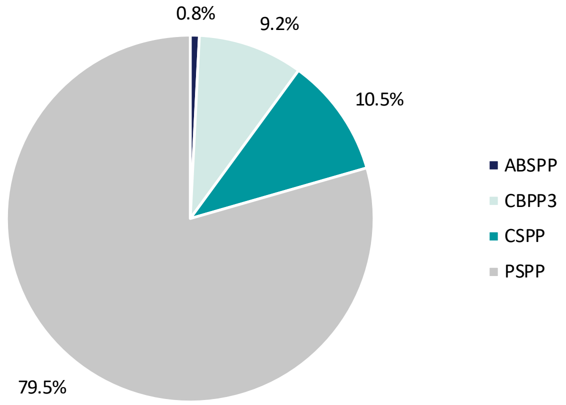
ECB tracker

Asset Purchase Programme (APP)

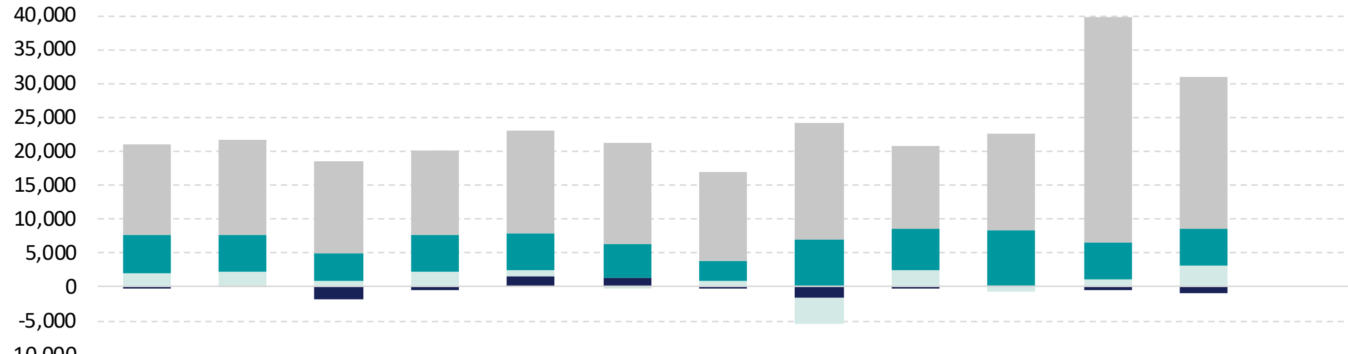
	ABSPP	CBPP3	CSPP	PSPP	APP
Apr-22	26,603	296,924	336,066	2,558,848	3,218,441
May-22	25,780	300,171	341,432	2,581,291	3,248,674
Δ	-823	+3,247	+5,366	+22,443	+30,233

Portfolio structure





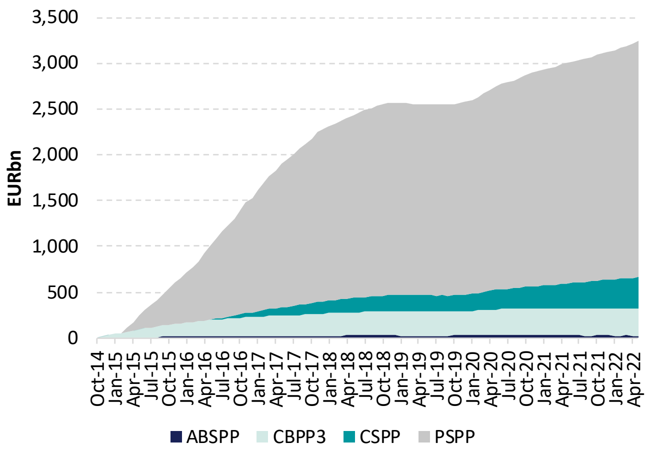
Monthly net purchases (in EURm)



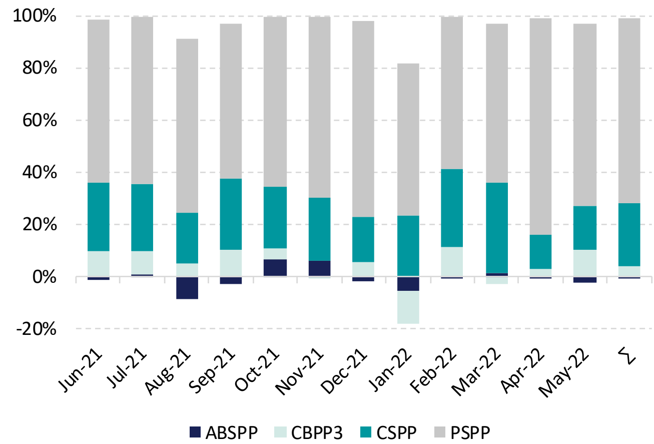
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	∑
APP	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	20,698	21,929	39,397	30,233	270,553
PSPP	13,320	13,943	13,563	12,423	15,038	14,815	12,989	17,292	12,095	14,172	33,238	22,443	195,331
CSPP	5,602	5,502	3,936	5,590	5,481	5,142	3,007	6,970	6,272	8,042	5,461	5,366	66,371
CBPP3	2,037	2,011	999	2,184	1,008	-12	942	-3,761	2,376	-606	1,074	3,247	11,499
ABSPP	-319	141	-1,749	-538	1,490	1,255	-342	-1,663	-45	321	-376	-823	-2,648

Source: ECB, NORD/LB Markets Strategy & Floor Research

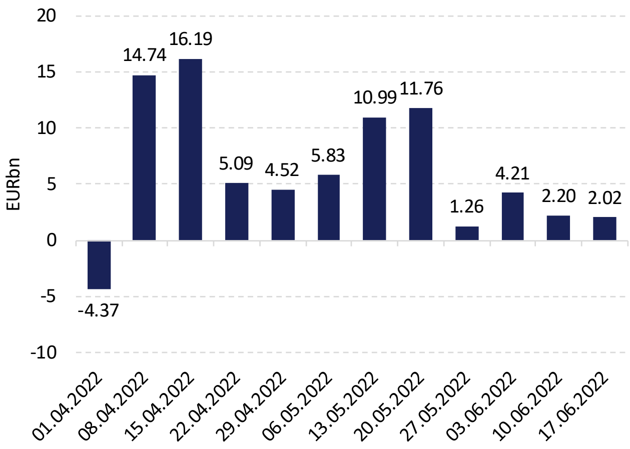
Portfolio development



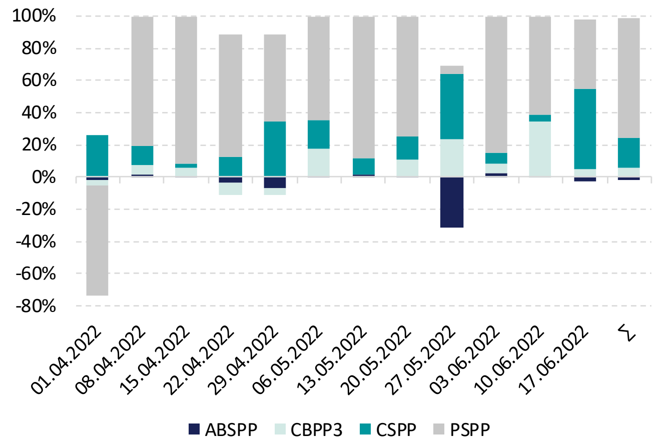
Distribution of monthly purchases



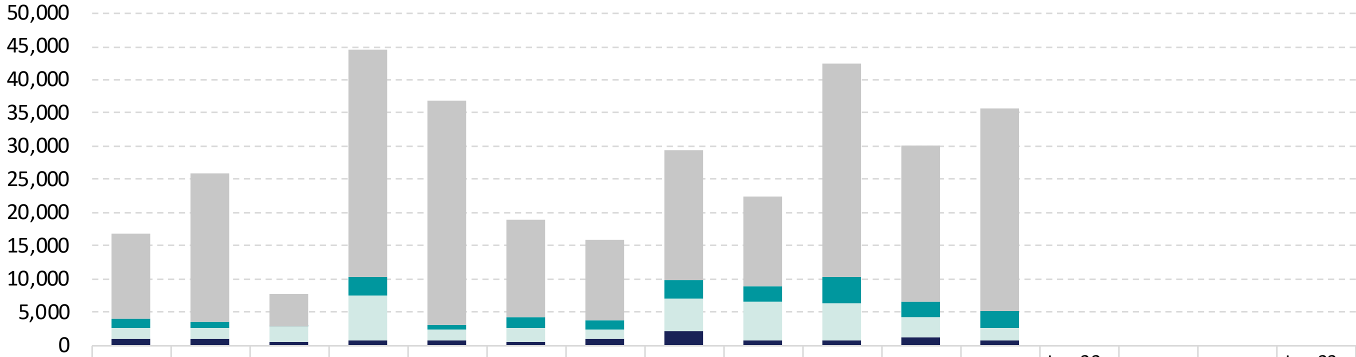
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)



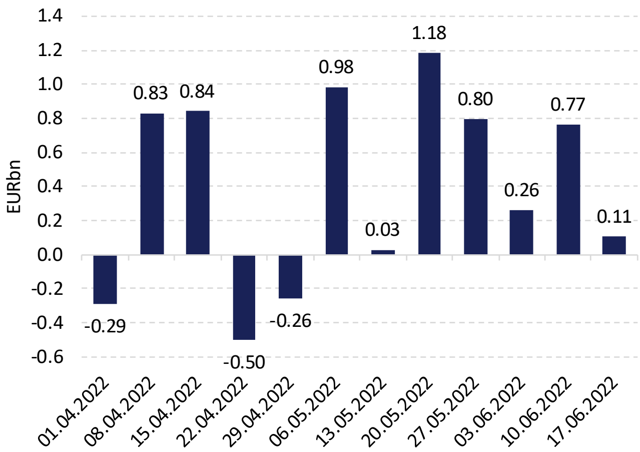
	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-22 - May-23	2021	2022	Jan-23 - May-23
APP	16,722	26,013	7,685	44,565	36,969	18,879	15,832	29,308	22,459	42,437	30,038	35,798	326,705	247,069	298,690	160,040
PSPP	12,638	22,415	4,841	34,354	33,927	14,669	12,016	19,469	13,656	32,033	23,521	30,548	254,087	188,494	228,527	119,227
CSPP	1,491	978	96	2,684	674	1,557	1,416	2,902	2,158	4,101	2,361	2,566	22,984	17,134	17,326	14,088
CBPP3	1,582	1,629	2,227	6,873	1,651	2,167	1,485	4,786	5,957	5,631	2,917	1,872	38,777	30,143	41,242	21,163
ABSPP	1,011	991	521	654	717	486	915	2,151	688	672	1,239	812	10,857	11,298	11,595	5,562

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

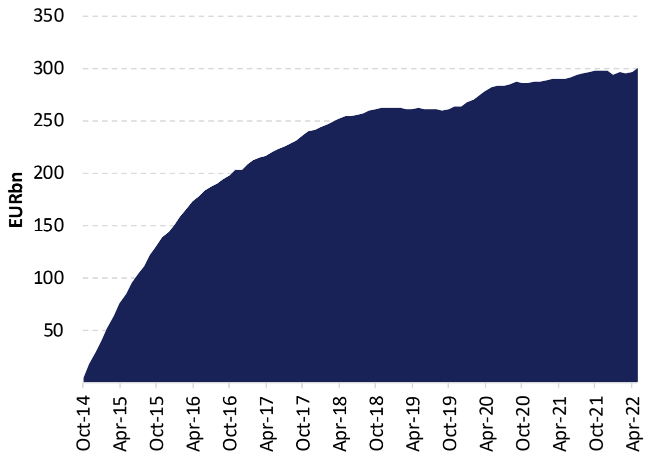
NORD/LB

Covered Bond Purchase Programme 3 (CBPP3)

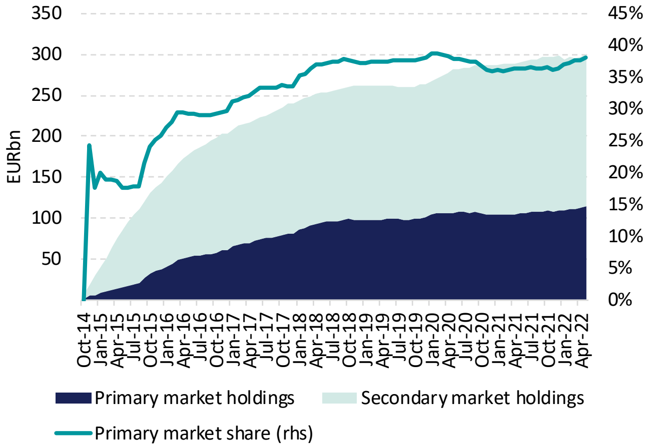
Weekly purchases



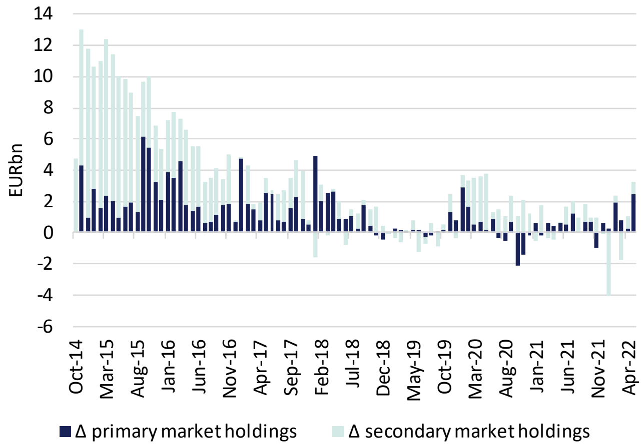
Development of CBPP3 volume



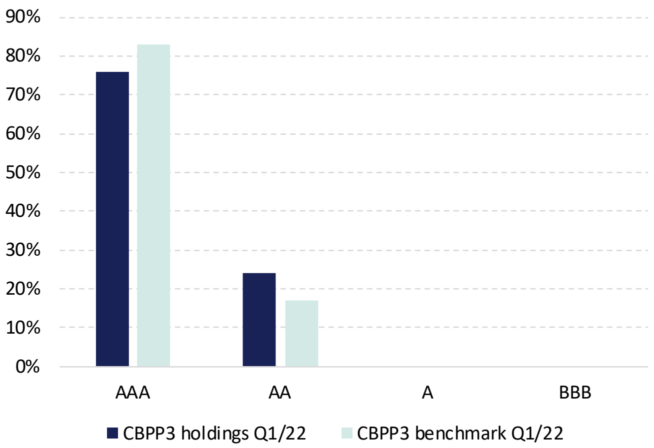
Primary and secondary market holdings



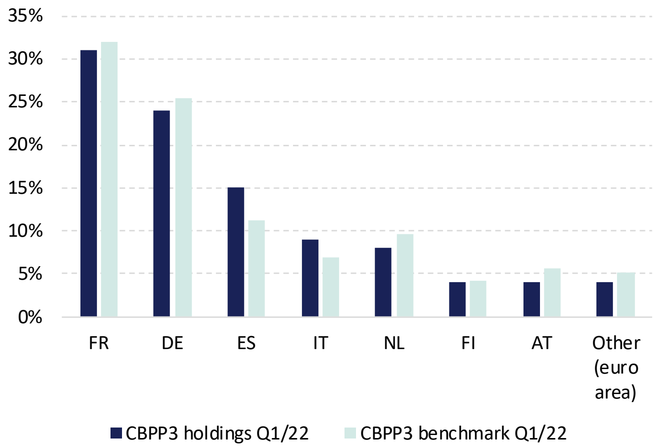
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



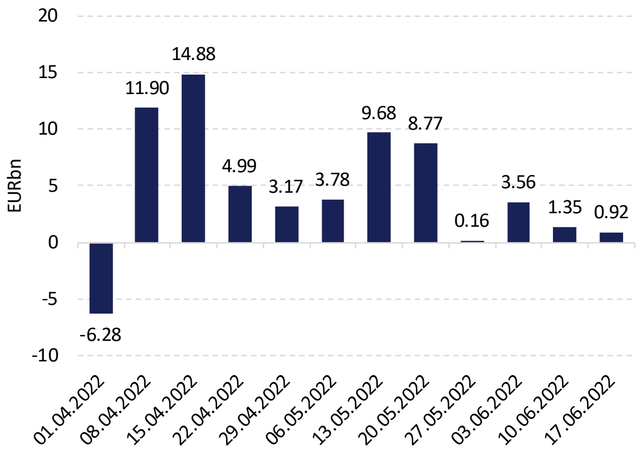
Distribution of CBPP3 by country of risk



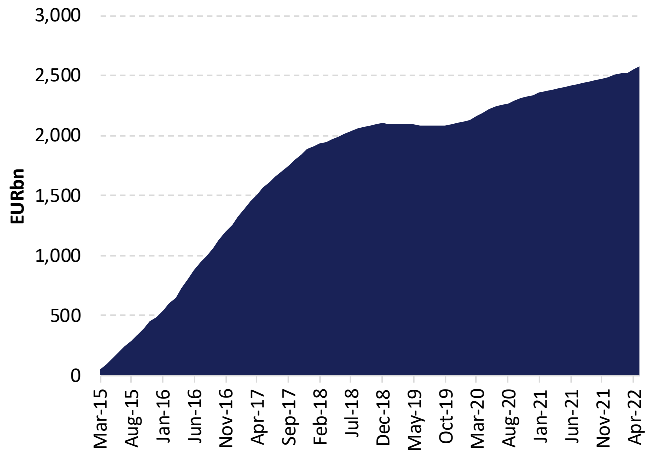
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



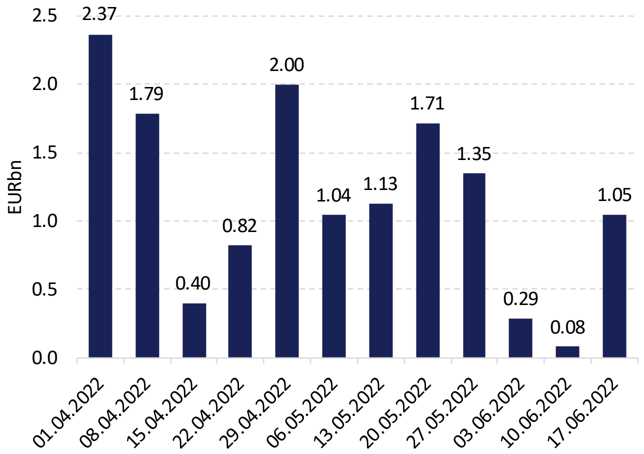
Overall distribution of PSPP buying at month-end

Jurisdiction	Adjusted distribution key[1]	Holdings (EURm)	Expected holdings (EURm)[2]	Difference (EURm)	Current WAM of portfolio[3] (in years)	WAM of eligible universe[4] (in years)	Difference (in years)
AT	2.7%	76,789	73,747	3,042	7.3	8.1	-0.8
BE	3.4%	94,131	91,796	2,335	7.5	9.9	-2.4
CY	0.2%	4,199	5,422	-1,223	8.5	8.9	-0.5
DE	24.3%	666,481	664,213	2,268	6.7	8.0	-1.3
EE	0.3%	438	7,098	-6,660	8.1	8.1	0.0
ES	11.0%	312,269	300,456	11,813	8.0	8.2	-0.2
FI	1.7%	43,170	46,282	-3,112	7.9	8.9	-1.0
FR	18.8%	526,667	514,618	12,049	6.9	8.4	-1.5
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	41,978	42,667	-689	8.4	10.1	-1.7
IT	15.7%	447,877	428,048	19,829	7.2	7.8	-0.7
LT	0.5%	5,791	14,583	-8,792	10.6	10.4	0.1
LU	0.3%	3,719	8,300	-4,581	5.8	6.1	-0.3
LV	0.4%	3,751	9,818	-6,067	9.5	9.4	0.1
MT	0.1%	1,403	2,643	-1,240	11.1	9.8	1.3
NL	5.4%	131,267	147,661	-16,394	7.7	9.3	-1.6
PT	2.2%	54,508	58,972	-4,464	7.5	7.9	-0.4
SI	0.4%	10,694	12,132	-1,438	9.7	9.9	-0.2
SK	1.1%	18,022	28,856	-10,834	8.1	8.8	-0.7
SNAT	10.0%	287,194	273,035	14,159	8.2	9.4	-1.2
Total / Avg.	**100.0%**	**2,730,346**	**2,730,346**	**0**	**7.3**	**8.4**	**-1.1**

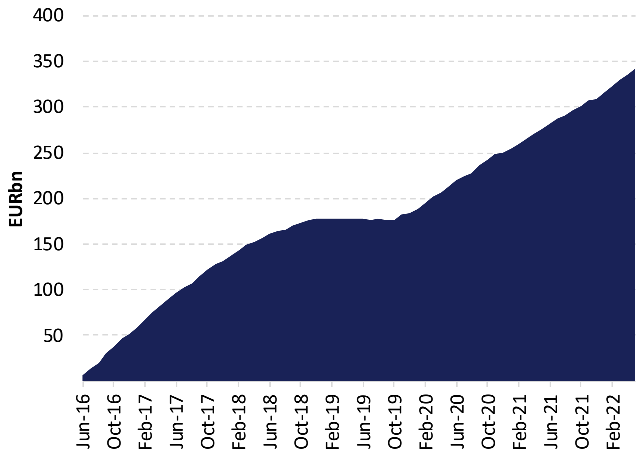
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of PSPP portfolio holdings
[4] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

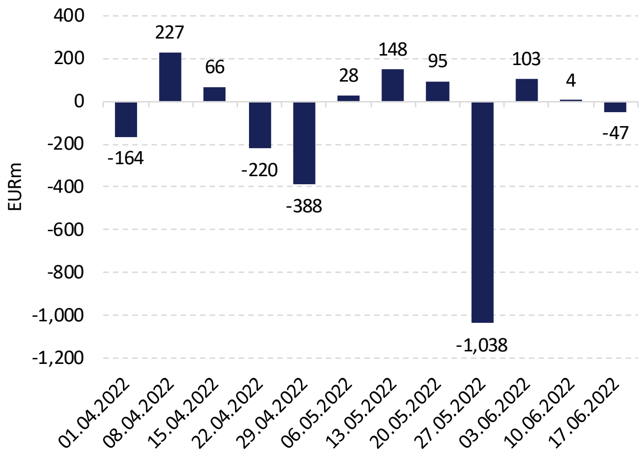


Development of CSPP volume

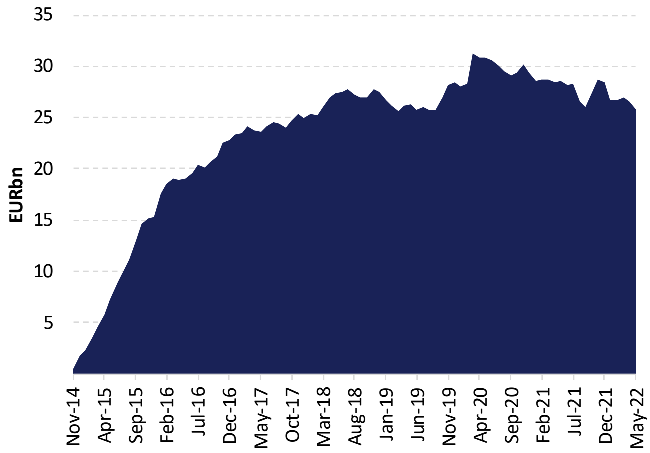


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



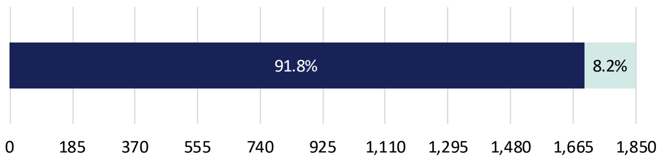
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

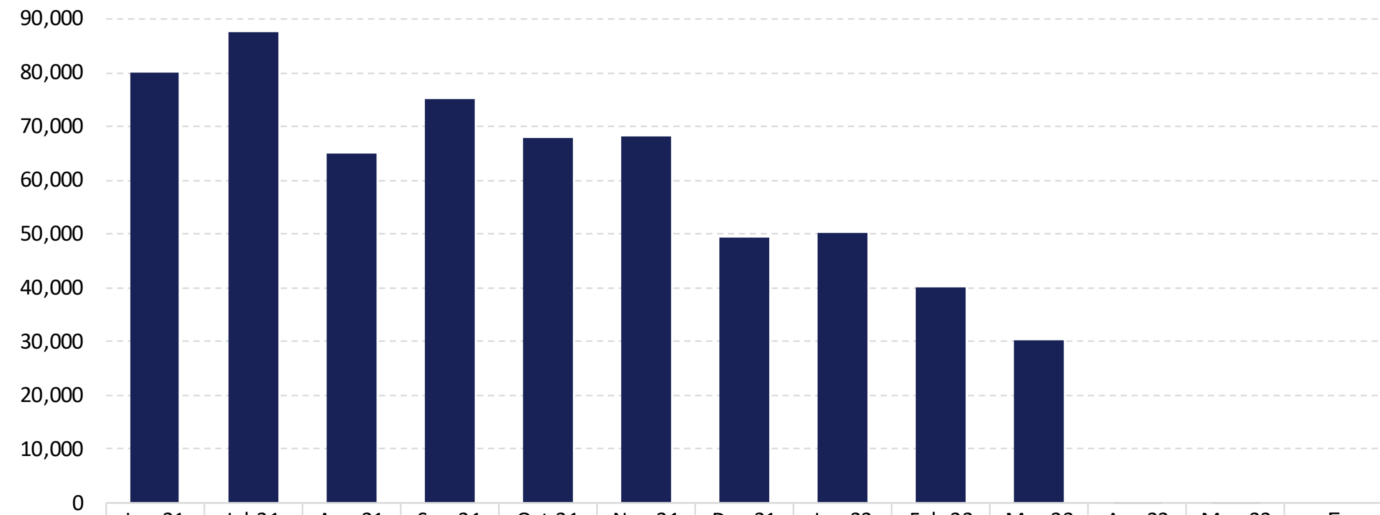
Holdings (in EURm)

	PEPP
Apr-22	1,718,071
May-22	1,718,061
Δ (net purchases)	-10

Invested share of PEPP envelope (in EURbn)

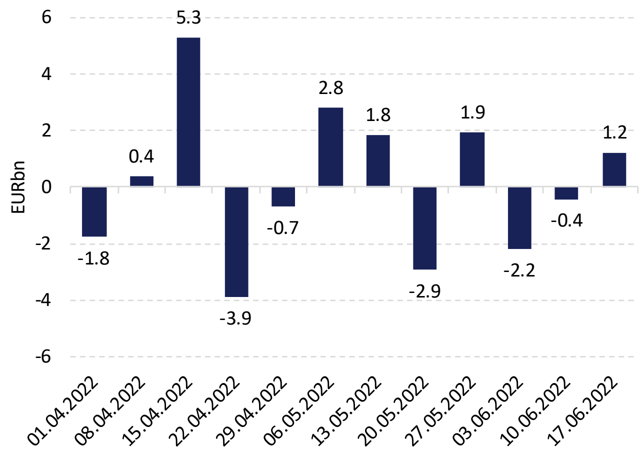


Monthly net purchases (in EURm)

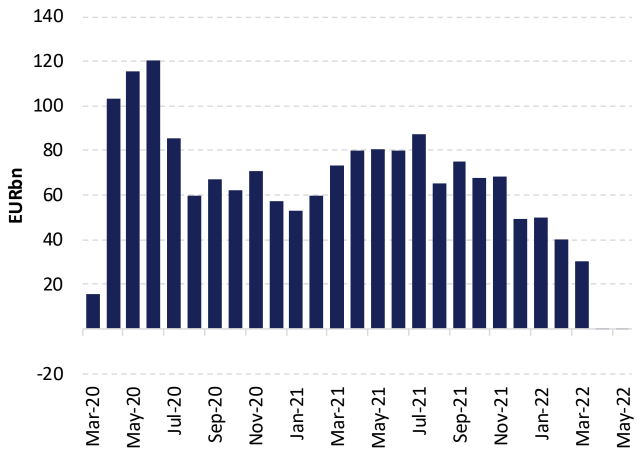


	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	∑
PEPP	80,168	87,557	65,050	75,051	67,855	68,045	49,375	50,113	40,184	30,214	-4	-10	613,598

Weekly purchases



Development of PEPP volume

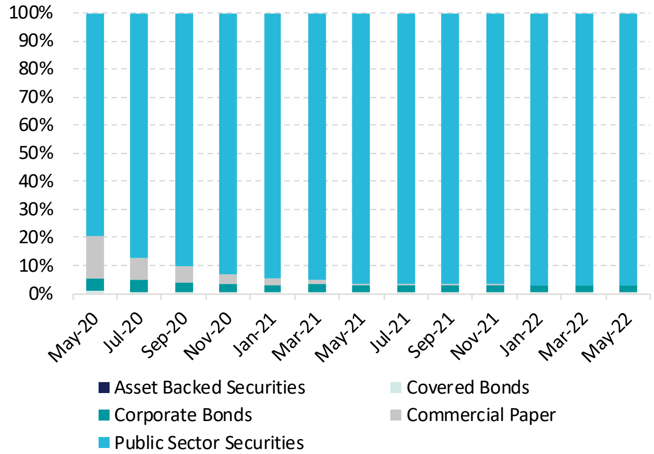


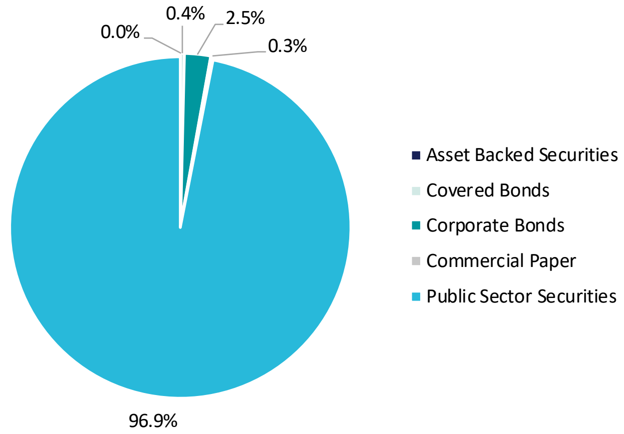
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

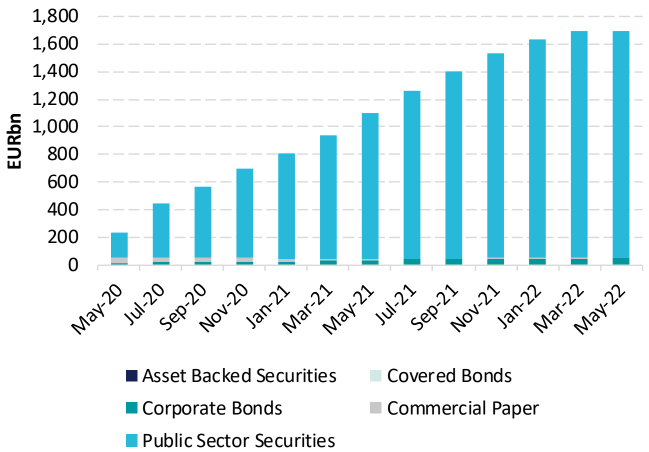
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Mar-22	0	6,067	40,313	5,862	1,644,247	1,696,489
May-22	0	6,067	41,825	4,352	1,644,230	1,696,474
Δ (net purchases)	0	0	+1,512	-1,510	-17	-14

Portfolio structure

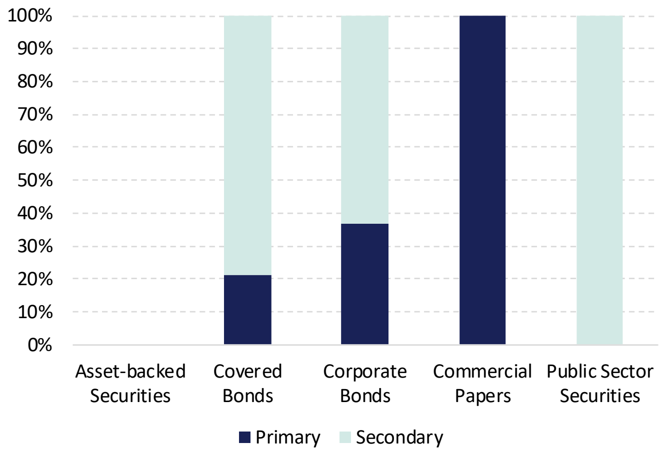




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

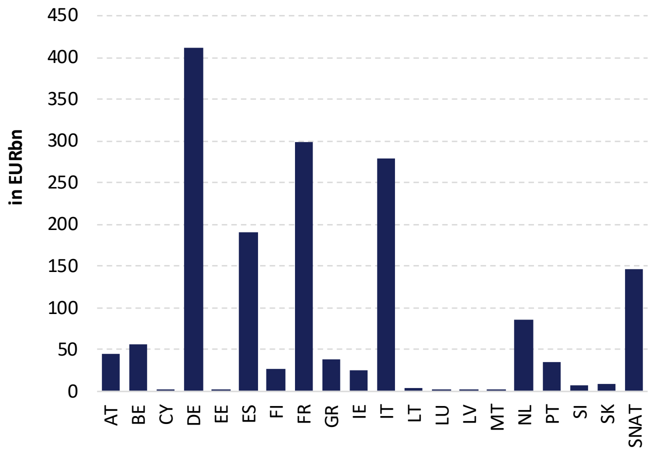
May-22	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Holdings in EURm	0	0	1,298	4,769	15,332	26,493	4,353	0
Share	0.0%	0.0%	21.4%	78.6%	36.7%	63.3%	100.0%	0.0%

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

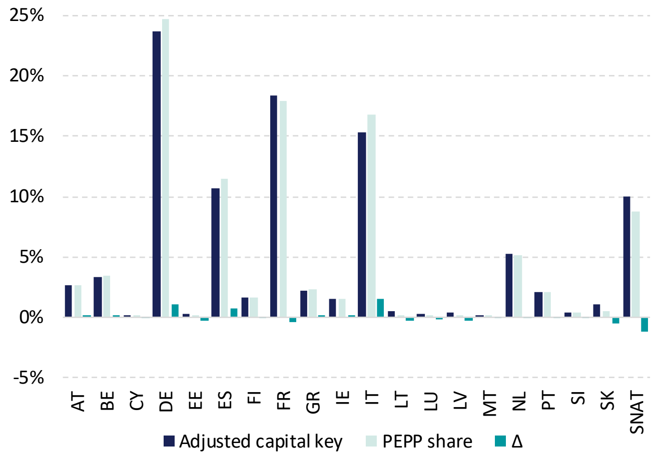
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	Current WAM[3] (in years)	WAM of eligible universe[4] (in years)	Difference (in years)
AT	44,280	2.6%	2.7%	0.0%	7.8	7.3	0.5
BE	57,052	3.3%	3.4%	0.1%	6.5	8.9	-2.4
CY	2,464	0.2%	0.1%	0.0%	9.0	8.3	0.7
DE	412,492	23.7%	24.8%	1.0%	6.4	6.8	-0.4
EE	256	0.3%	0.0%	-0.2%	8.0	6.5	1.6
ES	190,463	10.7%	11.4%	0.7%	7.6	7.5	0.1
FI	26,918	1.7%	1.6%	0.0%	7.2	7.8	-0.6
FR	298,979	18.4%	17.9%	-0.4%	8.1	7.8	0.2
GR	38,677	2.2%	2.3%	0.1%	8.6	9.7	-1.0
IE	25,832	1.5%	1.6%	0.0%	9.0	9.2	-0.2
IT	279,302	15.3%	16.8%	1.5%	7.2	7.0	0.2
LT	3,216	0.5%	0.2%	-0.3%	10.1	9.6	0.5
LU	1,853	0.3%	0.1%	-0.2%	6.3	7.2	-0.9
LV	1,890	0.4%	0.1%	-0.2%	8.6	8.5	0.1
MT	609	0.1%	0.0%	-0.1%	10.9	9.1	1.8
NL	86,124	5.3%	5.2%	-0.1%	7.7	8.6	-0.9
PT	34,802	2.1%	2.1%	0.0%	6.8	7.1	-0.3
SI	6,532	0.4%	0.4%	0.0%	9.2	9.2	0.0
SK	7,966	1.0%	0.5%	-0.6%	8.8	8.3	0.5
SNAT	145,953	10.0%	8.8%	-1.2%	10.4	8.5	1.9
Total / Avg.	**1,665,660**	**100.0%**	**100.0%**	**0.0%**	**7.6**	**7.6**	**0.0**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Current WAM of public sector securities holdings under the PEPP [4] WAM of eligible universe of public sector securities holdings under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

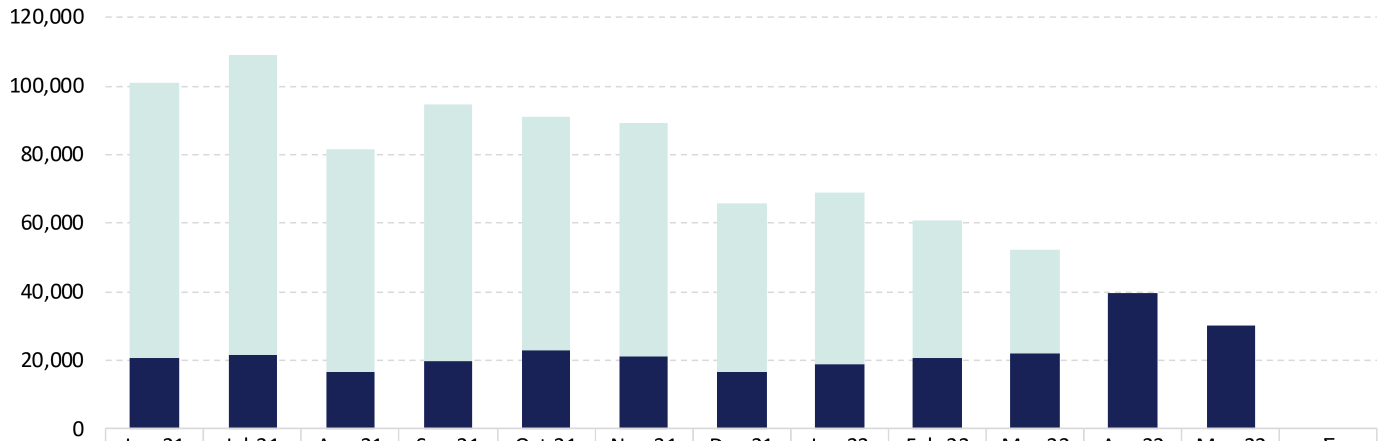
NORD/LB

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

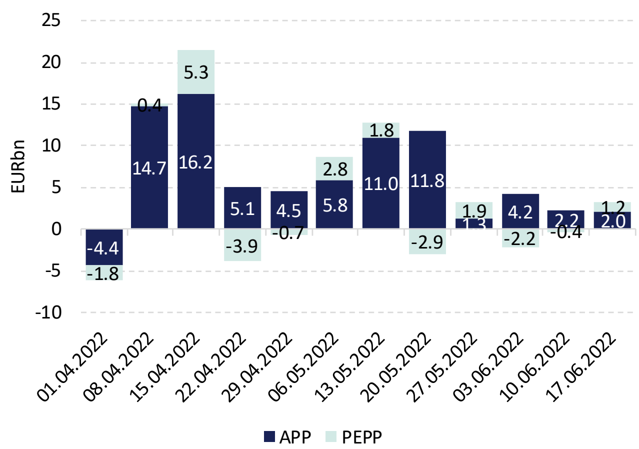
	APP	PEPP	APP & PEPP
Apr-22	3,218,441	1,718,071	4,936,512
May-22	3,248,674	1,718,061	4,966,735
Δ	+30,233	-10	+30,223

Monthly net purchases (in EURm)

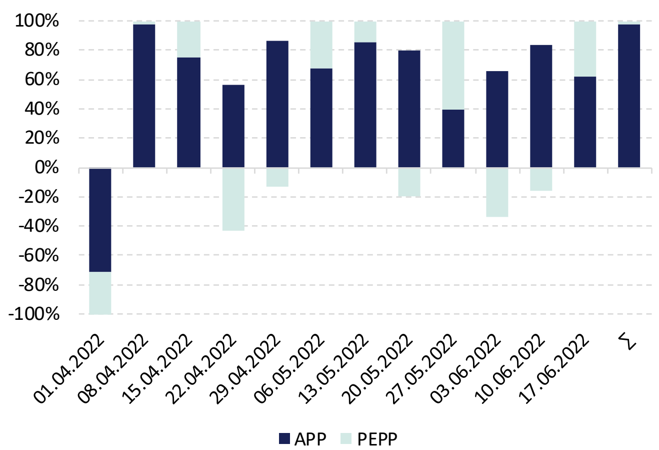


	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	∑
∑	100,808	109,154	81,799	94,710	90,872	89,245	65,971	68,951	60,882	52,143	39,393	30,223	884,151
PEPP	80,168	87,557	65,050	75,051	67,855	68,045	49,375	50,113	40,184	30,214	-4	-10	613,598
APP	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	20,698	21,929	39,397	30,233	270,553

Weekly purchases



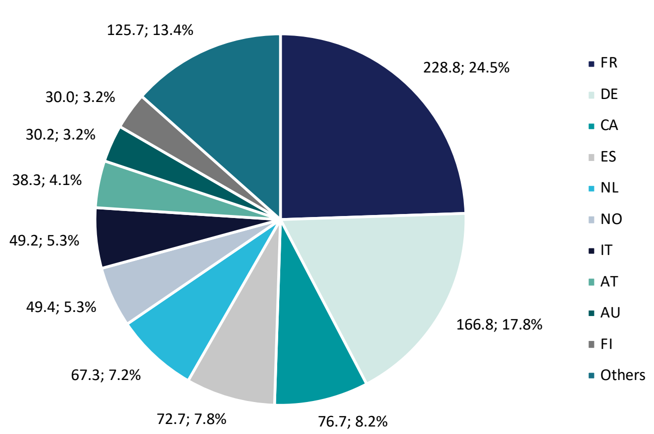
Distribution of weekly purchases



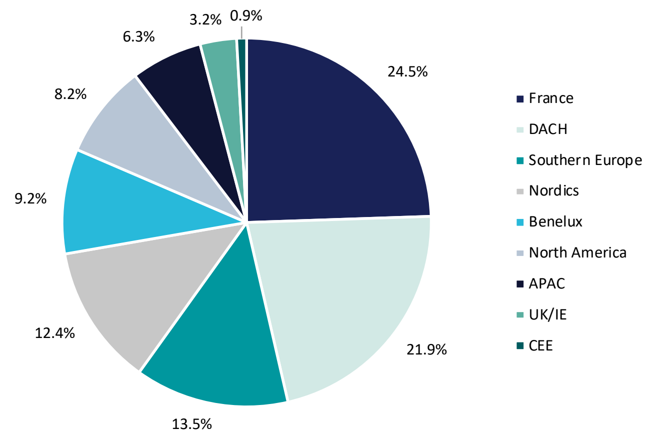
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



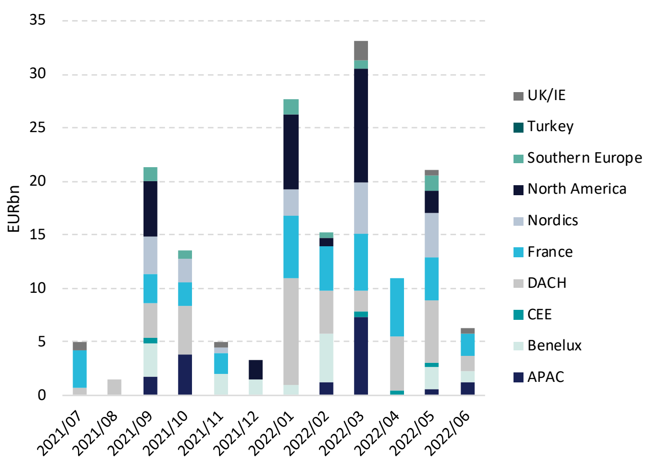
EUR benchmark volume by region (in EURbn)



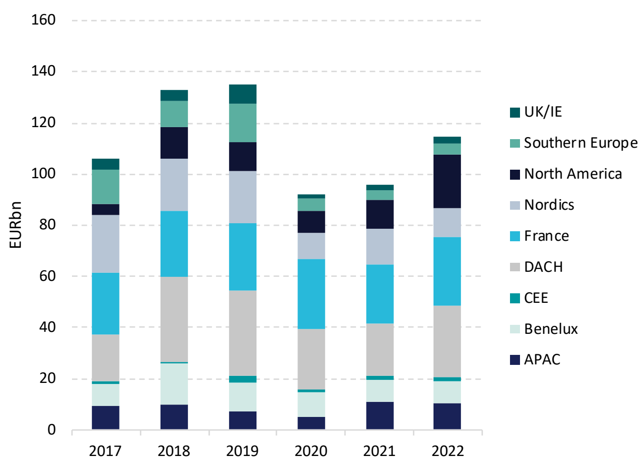
Top-10 jurisdictions

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	228.8	220	14	0.94	10.0	5.5	0.83
2	DE	166.8	242	20	0.63	8.4	4.5	0.45
3	CA	76.7	60	0	1.24	5.9	3.2	0.28
4	ES	72.7	59	5	1.12	11.7	3.7	1.73
5	NL	67.3	69	1	0.91	11.5	7.5	0.79
6	NO	49.4	58	9	0.85	7.5	4.0	0.40
7	IT	49.2	59	2	0.80	9.2	4.1	1.25
8	AT	38.3	70	3	0.54	9.4	6.0	0.63
9	AU	30.2	31	0	0.97	8.2	3.9	0.88
10	FI	30.0	32	2	0.94	7.7	3.8	0.40

EUR benchmark issue volume by month

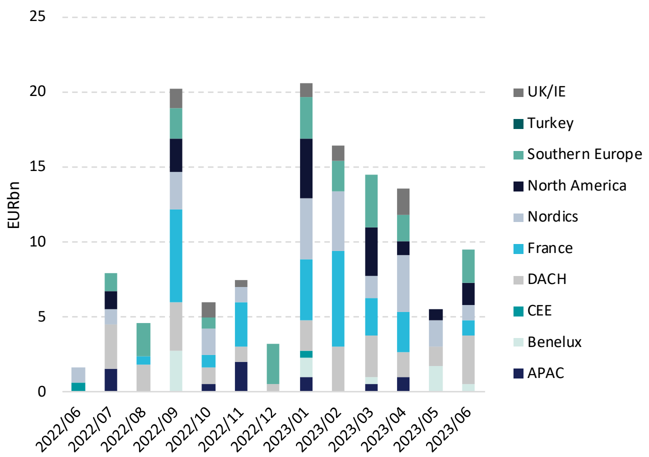


EUR benchmark issue volume by year

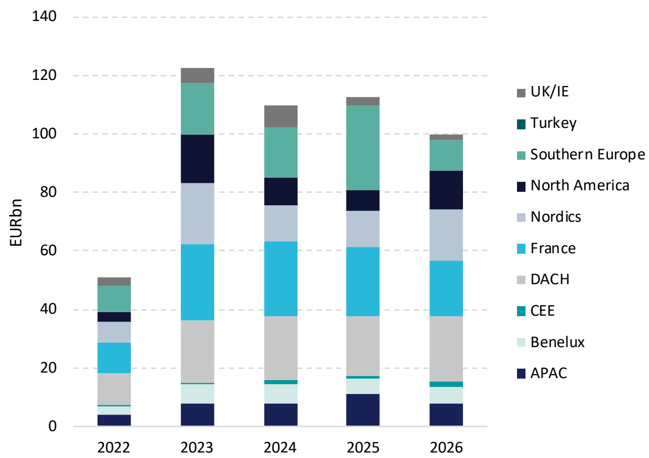


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

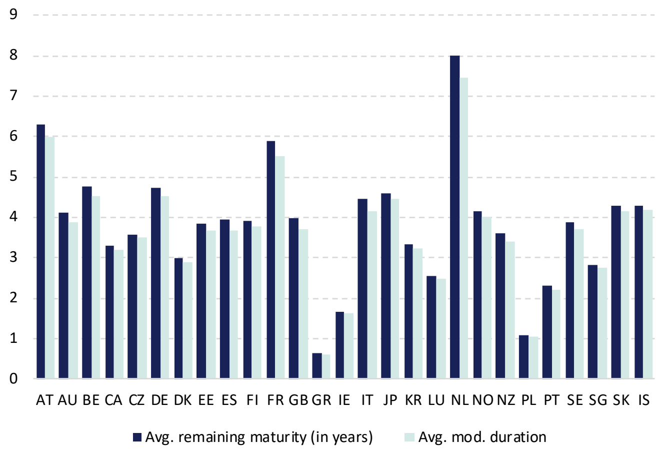
EUR benchmark maturities by month



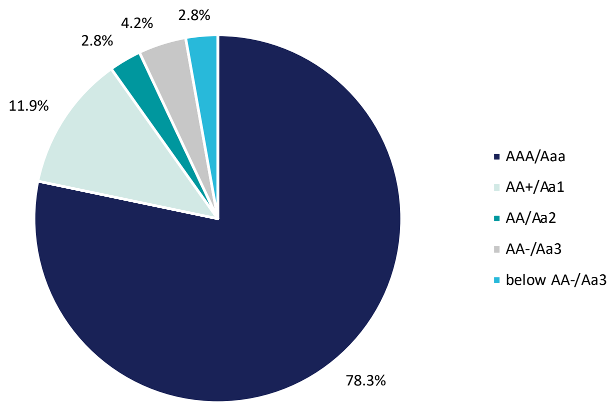
EUR benchmark maturities by year



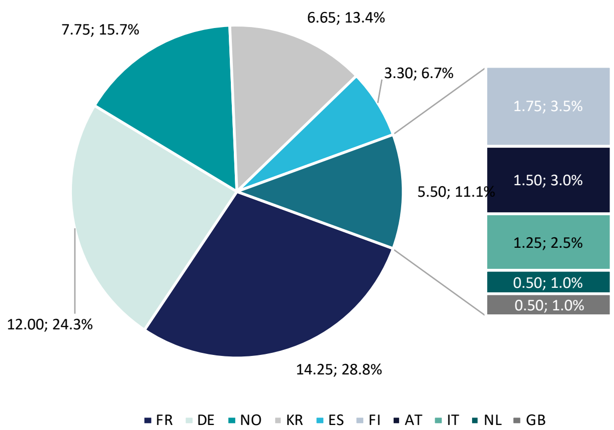
Modified duration and time to maturity by country



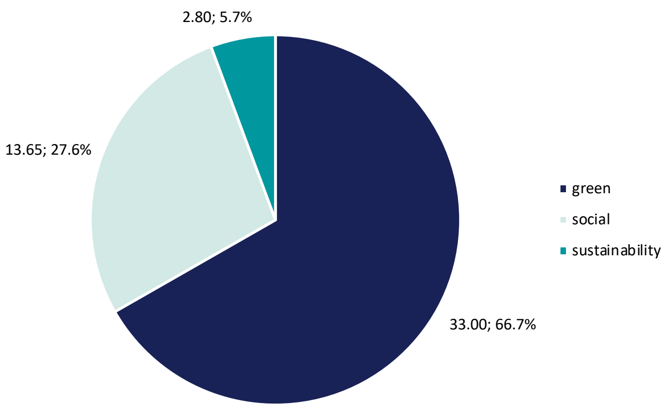
Rating distribution (volume weighted)



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

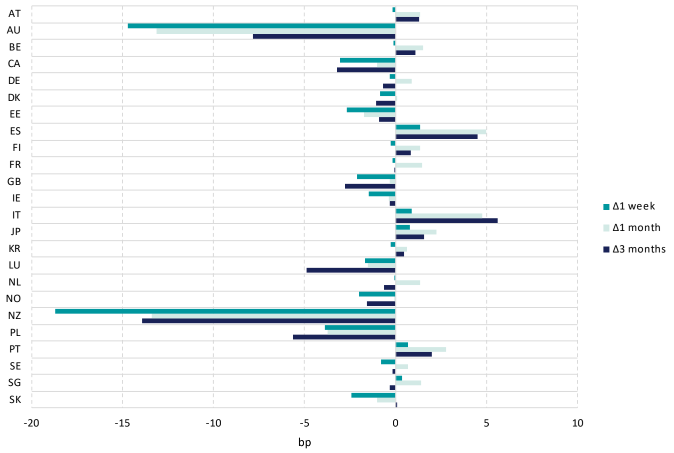


EUR benchmark volume (ESG) by type (in EURbn)

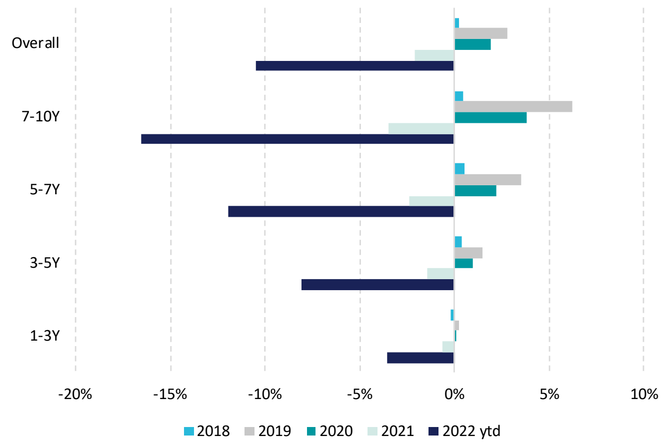


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

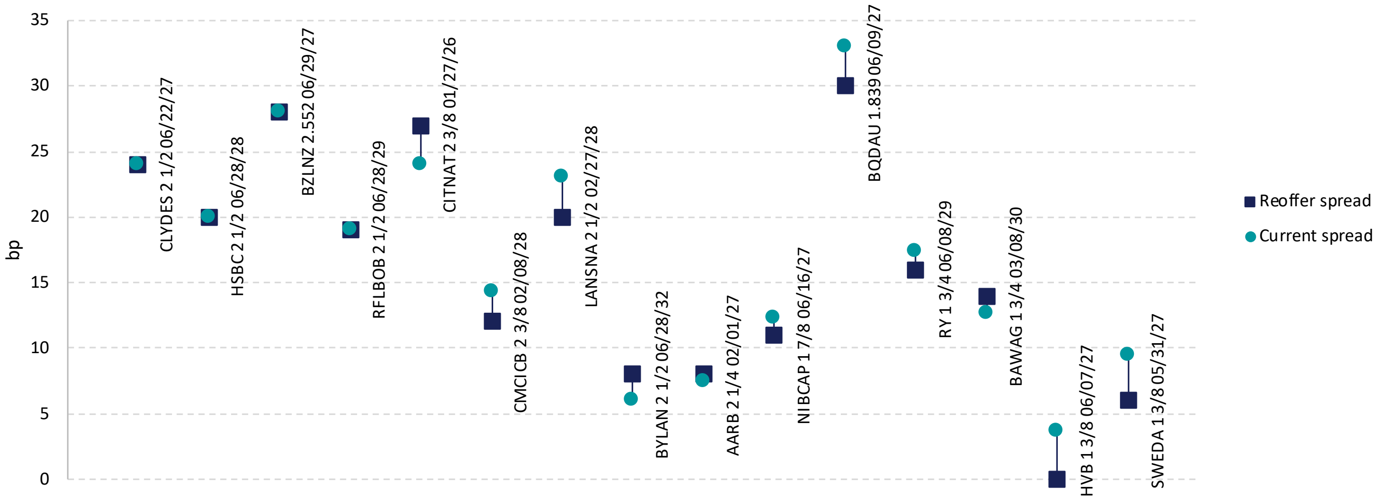
Spread development by country



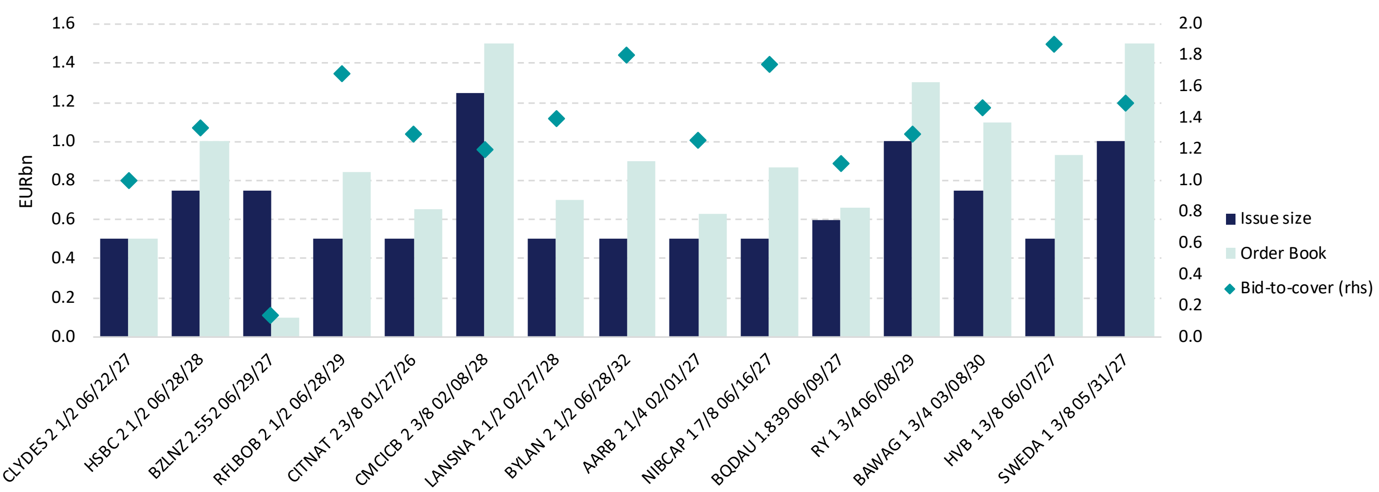
Covered bond performance (Total return)



Spread development (last 15 issues)



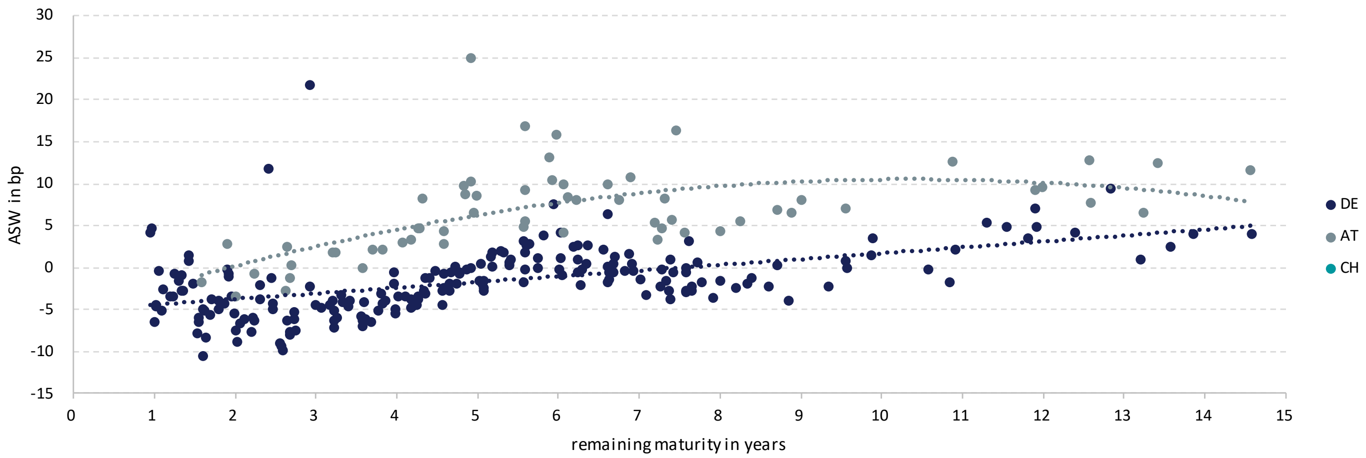
Order books (last 15 issues)



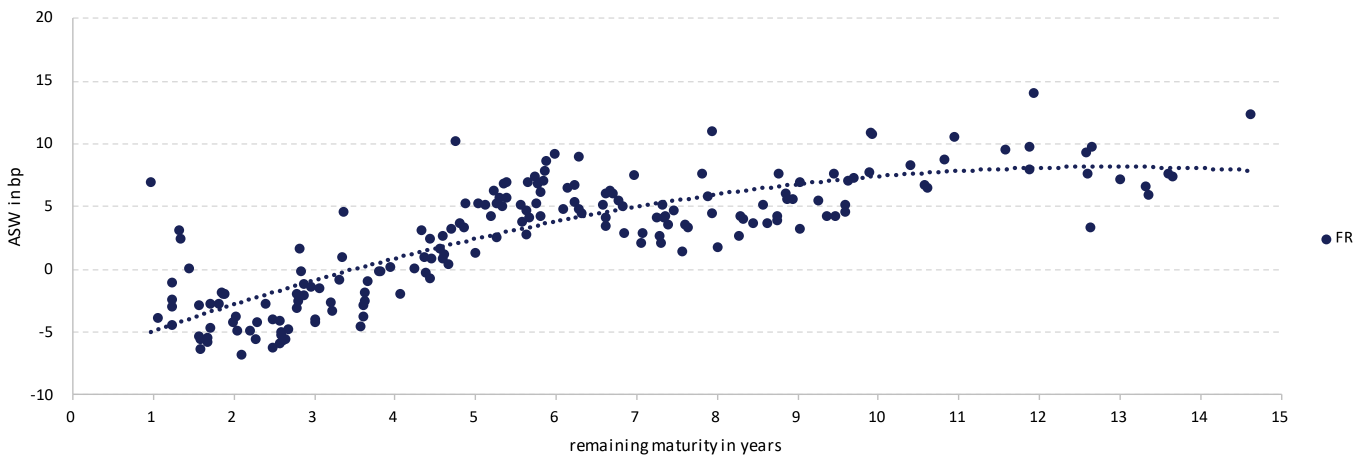
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

DACH



France

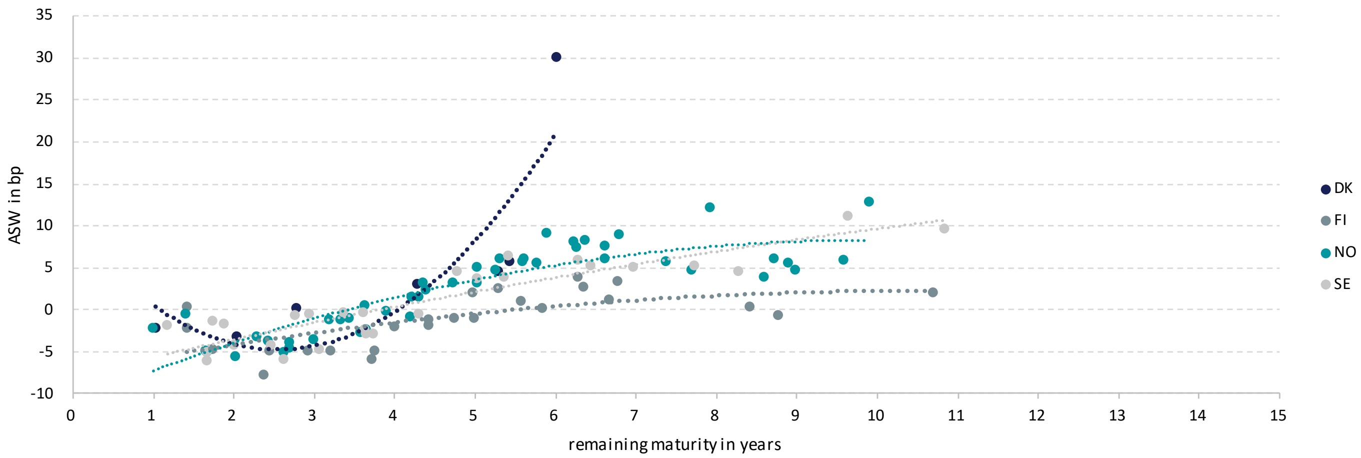


Benelux

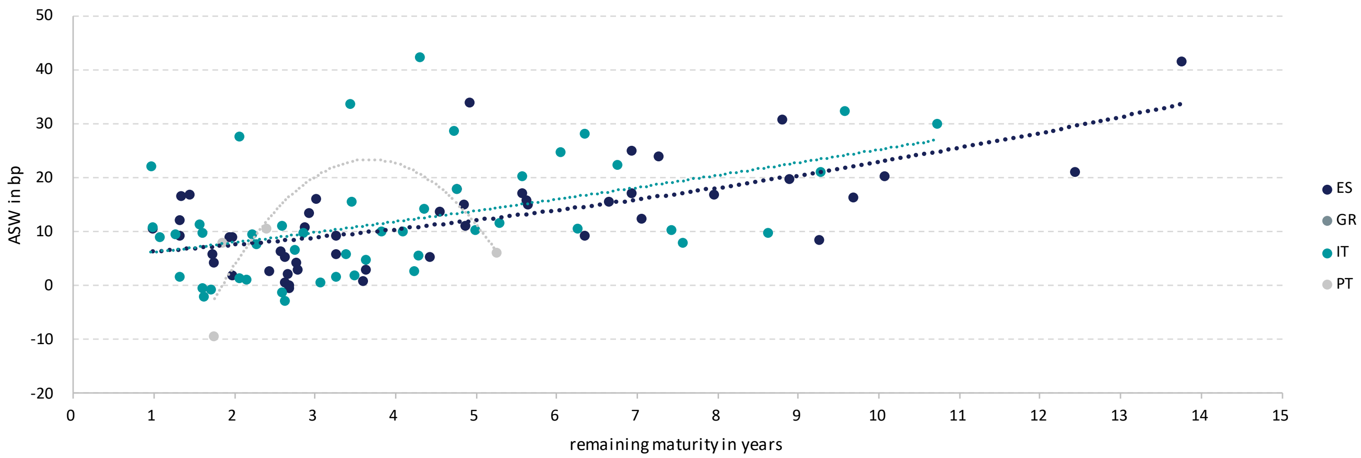
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

NORD/LB

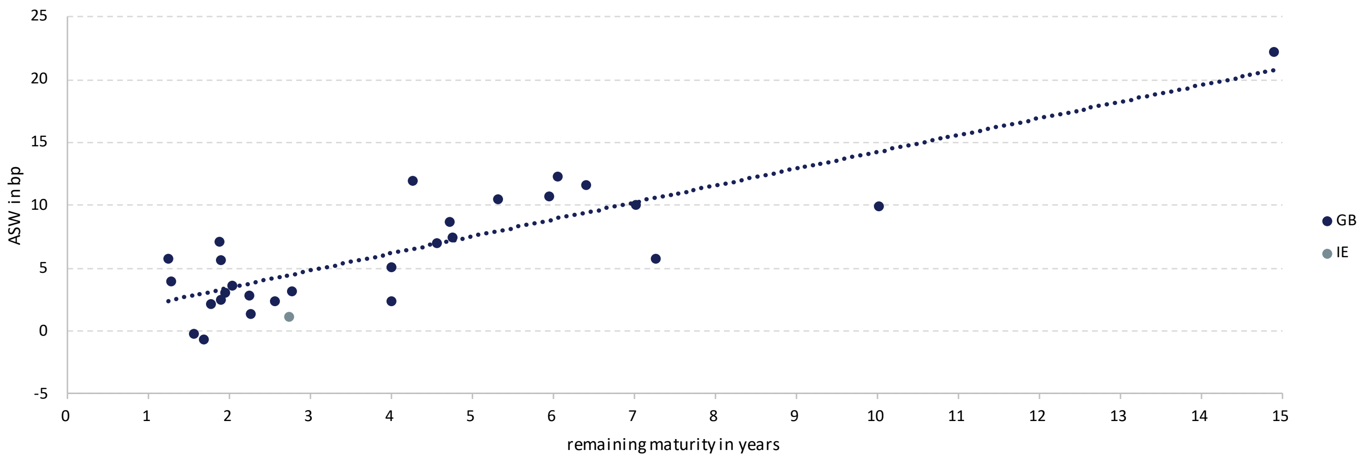
Nordics



Southern Europe

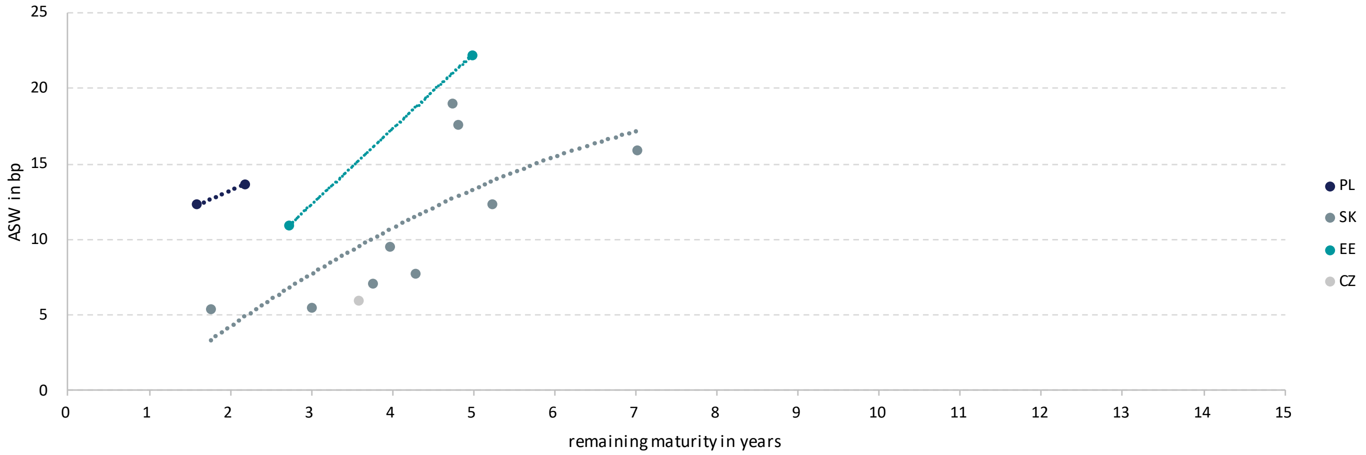


UK/IE

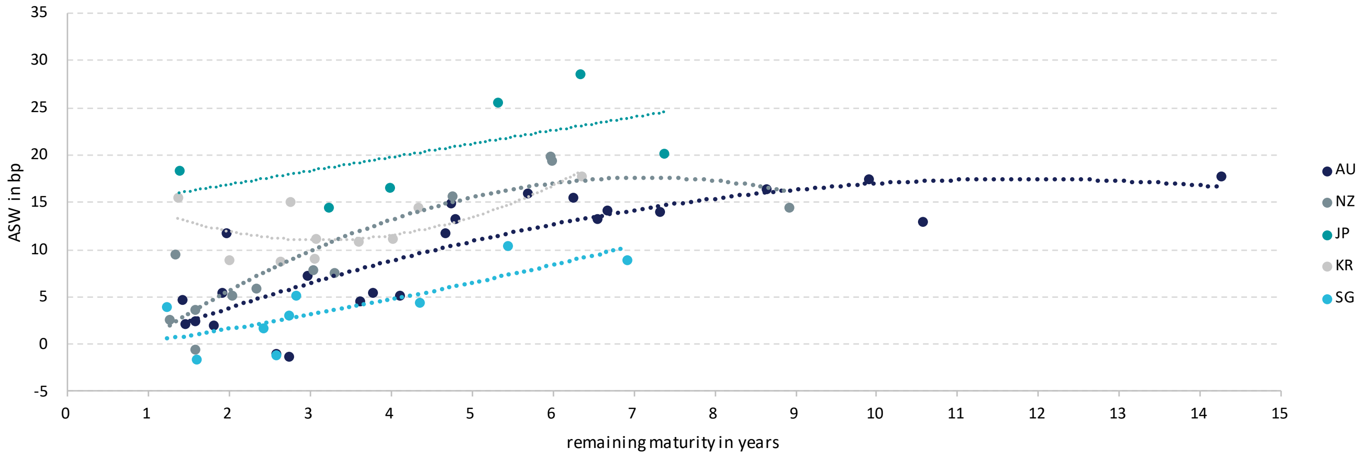


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

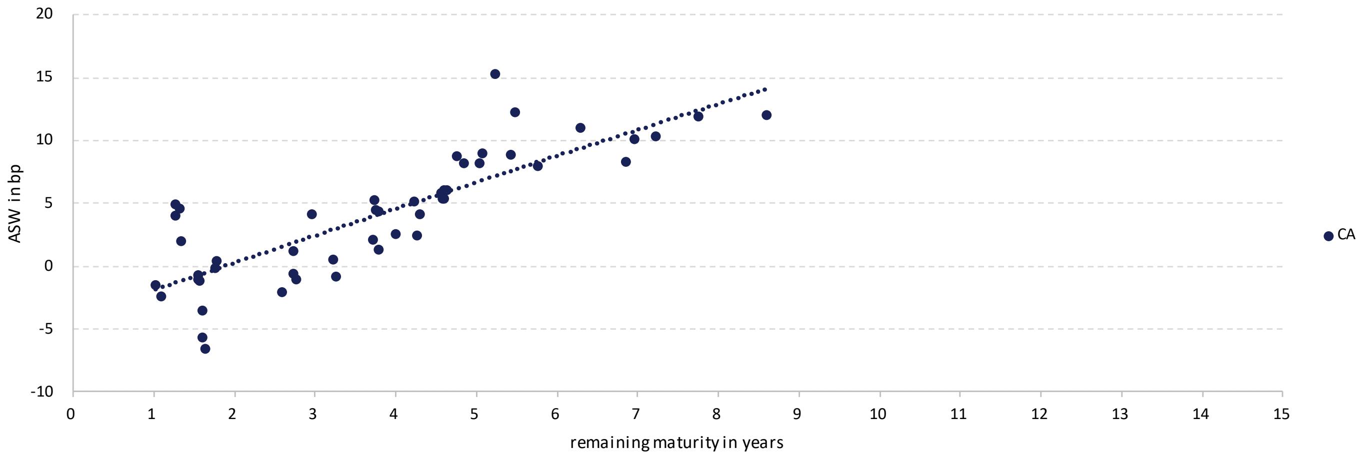
CEE



APAC



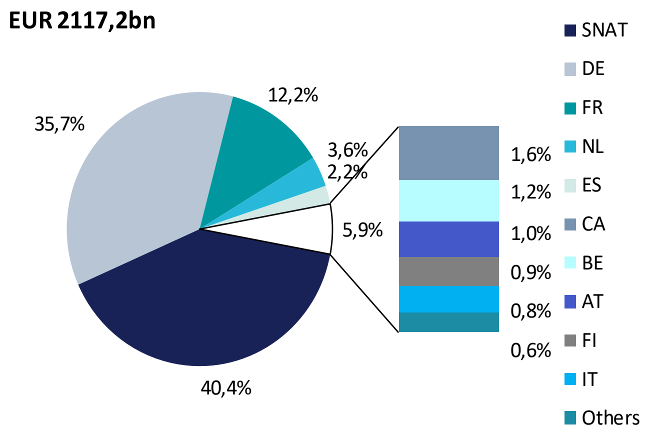
North America



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
SSA/Public Issuers

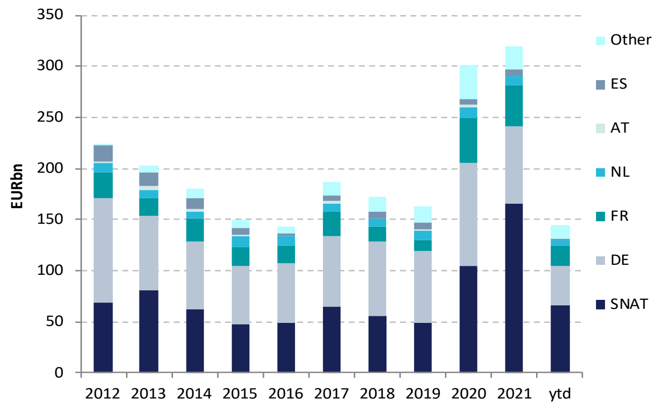
Outstanding volume (bmk)



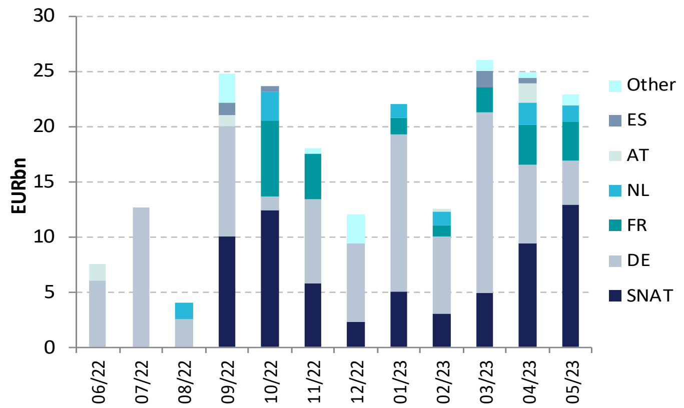
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	855,5	209	4,1	8,2
DE	755,8	569	1,3	6,4
FR	259,3	175	1,5	6,5
NL	76,0	68	1,1	6,6
ES	45,8	59	0,8	5,0
CA	33,2	22	1,5	5,0
BE	24,5	28	0,9	12,5
AT	21,2	23	0,9	4,4
FI	18,0	22	0,8	5,7
IT	16,0	19	0,8	5,3

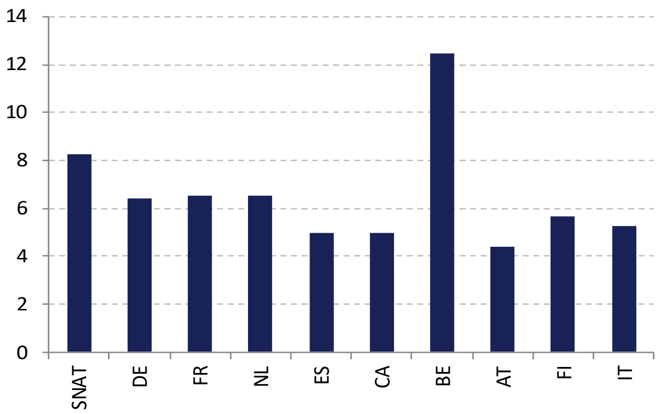
Issue volume by year (bmk)



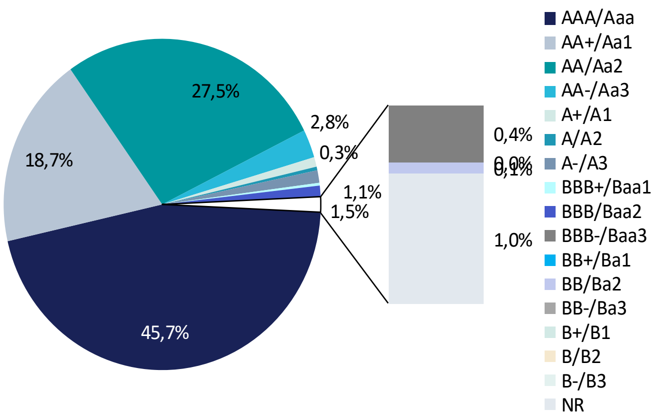
Maturities next 12 months (bmk)



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

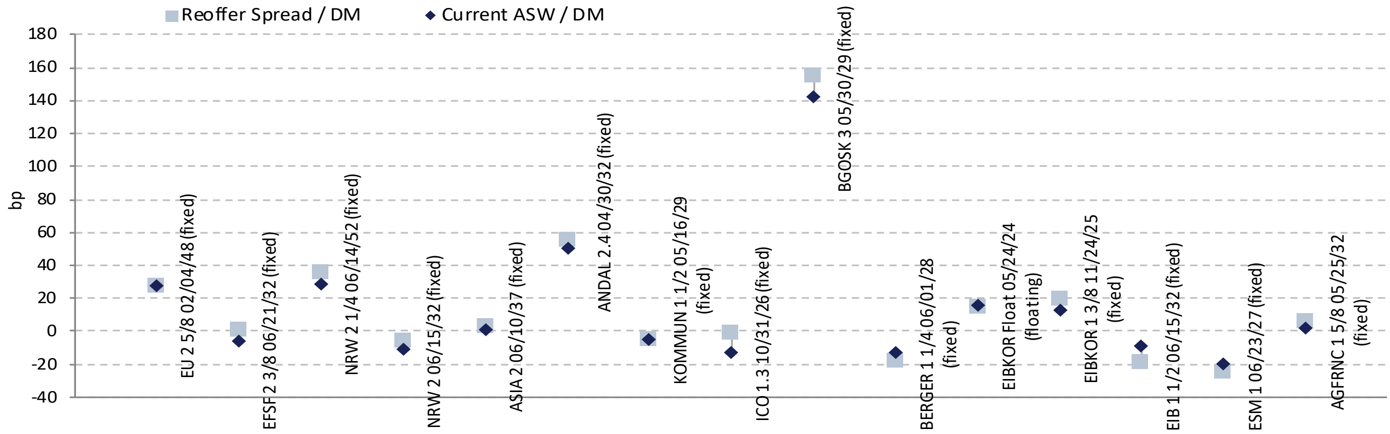


Rating distribution (vol. weighted)

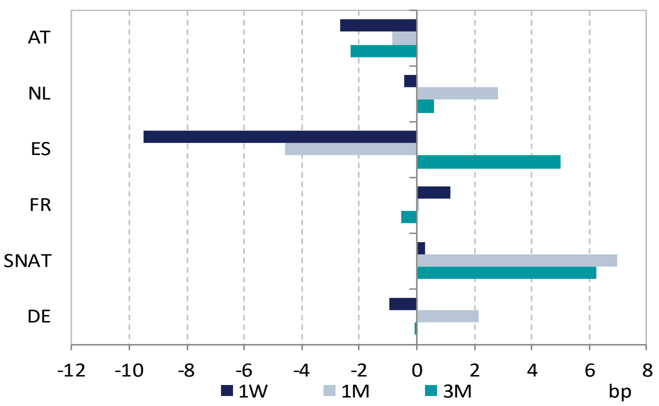


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

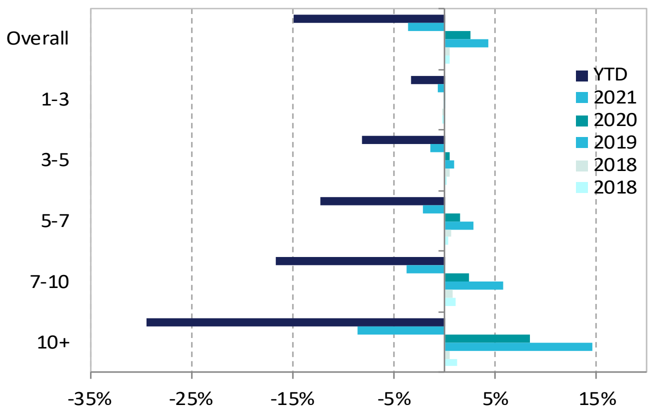
Spread development (last 15 issues)



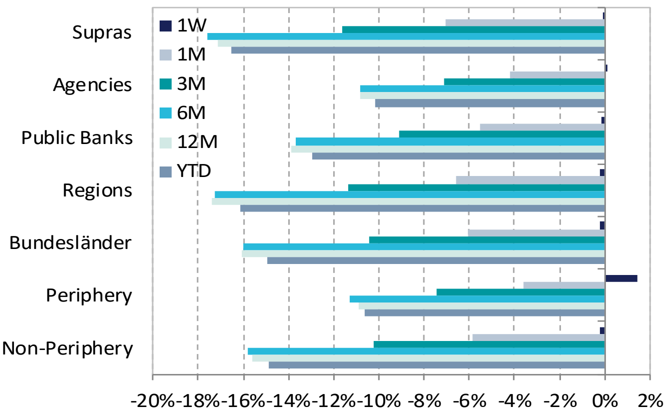
Spread development by country



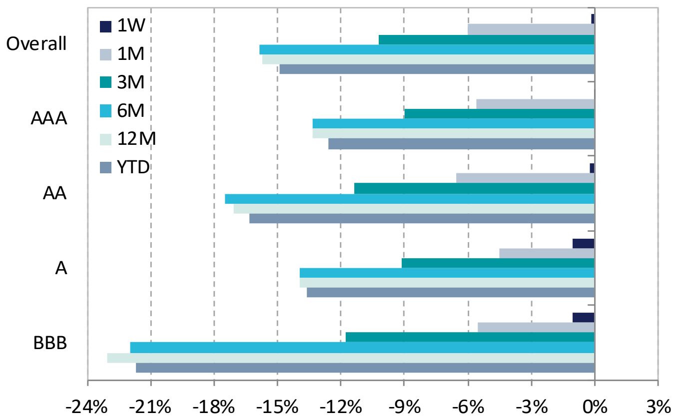
Performance (total return)



Performance (total return) by segments



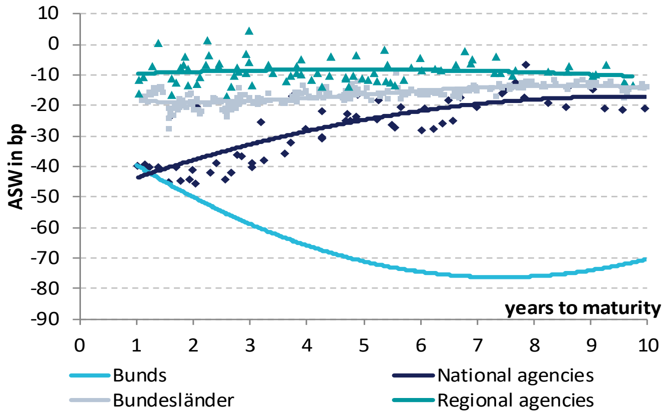
Performance (total return) by rating



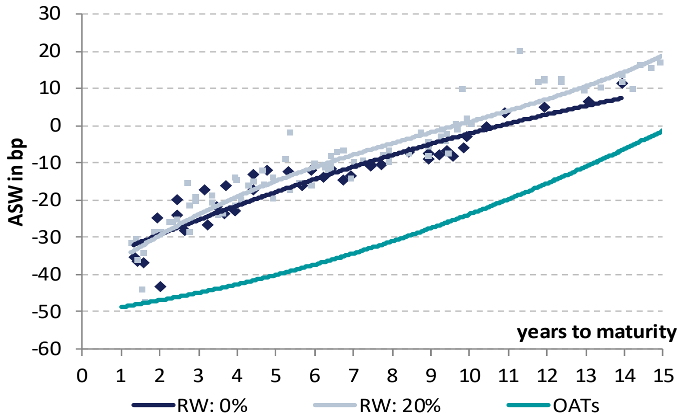
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

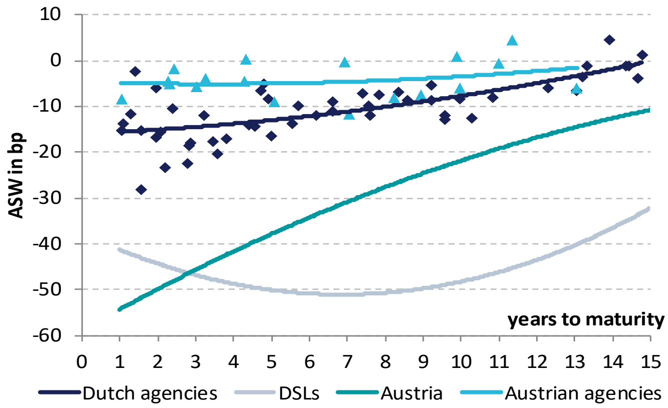
Germany (by segments)



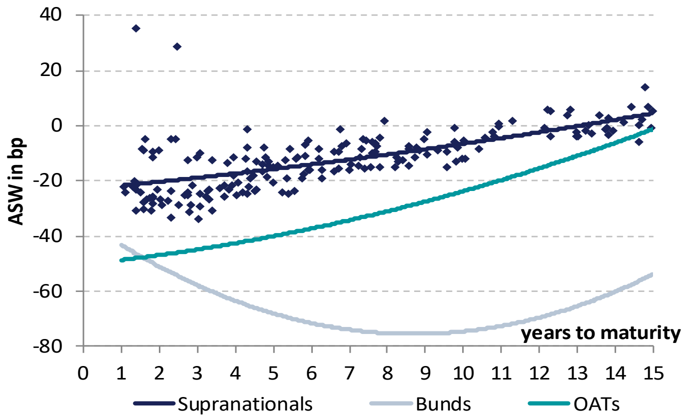
France (by risk weight)



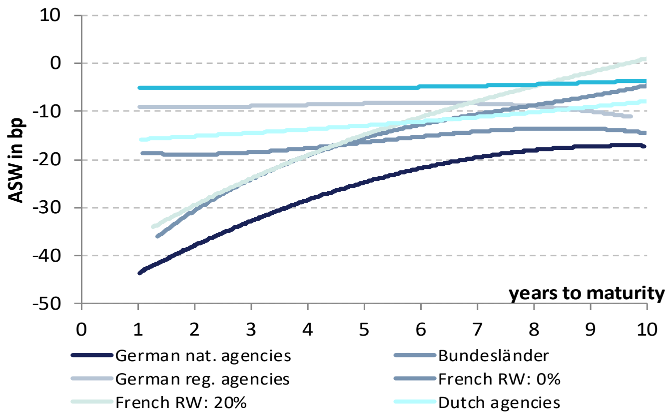
Netherlands & Austria



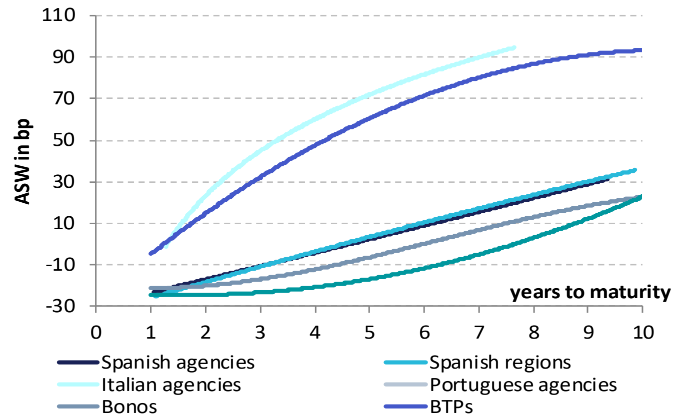
Supranationals



Core



Periphery



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
20/2022 ♦ 15 June	▪ Covered bond jurisdictions in focus: a look at Australia and New Zealand ▪ NGEU: Green Bond Dashboard
19/2022 ♦ 01 June	▪ ECB: 3, 2, 1 – lift-off! Decisive June, active summer ahead ▪ The covered bond universe of Moody's: an overview ▪ ECB Financial Stability Review identifies increasing risks in the eurozone: a brief overview of covered bonds
18/2022 ♦ 25 May	▪ Transparency requirements §28 PfandBG Q1 2022 ▪ ESG: EUR-benchmarks 2022 in the SSA segment (ytd)
17/2022 ♦ 18 May	▪ Development of the German property market ▪ The SSA market in 2022 a review of the first four months
16/2022 ♦ 11 May	▪ Focus on covered bond jurisdictions: a look at Austria ▪ Update on DEUSTD – Joint German cities (bond No. 1)
15/2022 ♦ 04 May	▪ Focus on covered bond jurisdictions: Spotlight on Sweden ▪ ESG covered bonds from Germany: DKB issues social Pfandbrief in the form of a "Berlin Social Housing Bond" ▪ Issuer Guide SSA 2022: The Spanish agency market
14/2022 ♦ 13 April	▪ First ECB meeting after the end of the PEPP: (Not) a non-event!? ▪ PEPP reporting: (Not) an obituary
13/2022 ♦ 06 April	▪ ECB adjusts order behaviour in time for the new quarter ▪ United Kingdom: spotlight on the EUR benchmark segment ▪ Issuer Guide SSA 2022: the Nordic agency market
12/2022 ♦ 30 March	▪ An overview of the market for ESG covered bonds ▪ Issuer Guide SSA 2022: the Austrian agency market
11/2022 ♦ 23 March	▪ ESG update 2022 in the spotlight ▪ The ratings approach of DBRS
10/2022 ♦ 16 March	▪ What does the recent ECB meeting mean for covered bonds? ▪ Credit authorisations of the German Laender for 2022
09/2022 ♦ 09 March	▪ Transparency requirements § 28 PfandBG Q4/2021 ▪ Issuer Guide SSA 2022: The Dutch agency market
08/2022 ♦ 02 March	▪ ECB: Not everyone can get their act together at a turning point ▪ Welcome expansion of the covered bond ESG universe: Banco BPM green covered bond ▪ War in Ukraine and sanctions on Russia: spotlight on the European banking landscape
07/2022 ♦ 23 February	▪ ECB banking regulator also views the residential real estate market as a potential risk driver for banks ▪ Development of the German property market ▪ Beyond Bundeslaender: Paris metropolitan area (IDF and VDP)
06/2022 ♦ 16 February	▪ PEPP reporting: Finish line in sight, but no photo finish expected ▪ DZ HYP issues inaugural green Pfandbrief: ESG market in Germany continues its growth trajectory

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2021

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

Transparency requirements §28 PfandBG (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2021

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – Supranationals & Agencies 2019 (update planned for 2022)

Issuer Guide – Down Under 2019

Fixed Income Specials:

ESG-Update 2022

Face-saving ECB decision: Hawks have won – for now

ECB decision: PEPP benched for now, APP comes in as Point Guard

ECB holds course, but ups the ante – PEPP running until 2022

ECB launches PEPP (Pandemic Emergency Purchase Programme)

Appendix
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