

Global Covered Bond Insights Q1 2025: Overall A Healthy Year

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This report does not constitute a rating action



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Key Takeaways

- Issuance volume slightly decreased, but remained close to recent highs in 2024, and will likely remain elevated at about €140 billion in 2025.
- Some sectors of European commercial real estate (CRE) now face market value declines that exceed those during the global financial crisis. While we believe that overall CRE asset performance will remain weak in 2025, the availability of significant excess credit enhancement remains a key strength for the programs we rate.
- Our Covered Bonds Outlook 2025 highlights why we believe lower interest rates will support sound collateral performance. Our 2025 ratings outlook remains stable.

Benchmark European covered bond issuance in 2024 marginally ebbed but remained close to recent highs. Activity declined across most European covered bond markets, resulting in an overall year-on-year reduction in issuance of about 15% to €145 billion.

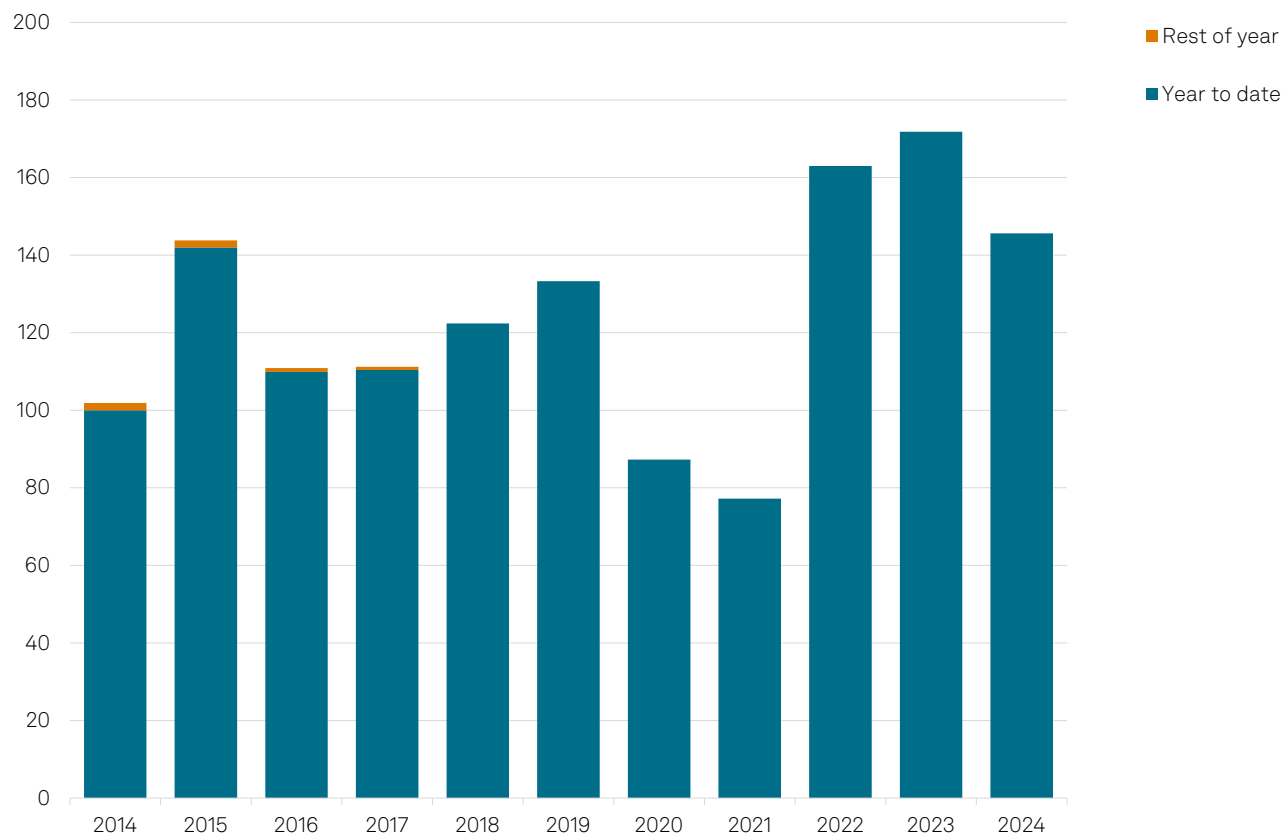
That said, the drivers of new supply look slightly weaker, as scheduled covered bond redemptions remain flat and bank deposits are picking up while lending remains lackluster. We therefore expect issuance activity will likely remain elevated, at about €140 billion, in 2025.

Our ratings outlook on covered bonds remains stable, supported by potential further reductions in central bank interest rates. Overcollateralization should absorb any increase in losses. Also, the availability of unused notches of uplift in our ratings on covered bonds reduces the likelihood of covered bond downgrades, even in the event of lowering our issuer credit ratings.

Chart 1

European investor-placed benchmark covered bond issuance

Bil. €



Year-to-date figures as of Dec. 2 each year. Source: S&P Global Ratings.

Market Insight Highlights

The below roundup compiles some of the key takeaways from our research this quarter.

Covered Bonds Outlook 2025: Lower Rates, Higher Uncertainty

- Lower rates will underpin asset and covered bond performance, but a long period of very stable macroeconomic forecasts might come to an end as new leaders in the U.S., the EU, and Germany could take decisions early next year on tariffs, defense, and general spending that could reshape the economic outlook.
- In our base-case scenario, eurozone GDP will grow 1.2% in 2025, with Germany's GDP growth falling short of eurozone peers¹, while Spain will continue to outperform. We expect inflation to fall to 2.1% and the European Central Bank to cut rates to 2.5% before midyear.
- House price corrections and increasing income have returned affordability to 2015 levels. Higher-for-longer mortgage rates are taking their toll on residential mortgage performance, but it remains strong thanks to tight labor markets. Easing interest rates and a return to growth will limit the risk of further deterioration.
- High interest rates, e-commerce, and working from home have produced unprecedented levels of stress in European CRE. Some sectors now face market value declines that exceed those during the global financial crisis. While we believe that overall CRE asset performance will remain weak in 2025, the availability of significant excess credit enhancement remains a key strength for programs we rate.
- Our covered bond rating outlook remains stable, underpinned by the ample credit enhancement available to most of the programs that we rate and the presence of unused rating notches, both of which reduce the risk of downgrades.

Blockchain Meets Covered Bonds

- Digital Pfandbrief issuances by Germany-based Berlin Hyp AG and Natixis Pfandbriefbank AG in August 2024 have sparked discussions about integrating blockchain technology in covered bond issuances.
- Key Benefits: Digital bonds promise improved collateral mobility. Using blockchains to issue covered bonds can increase accuracy and transparency.
- Challenges: An established secondary market for digital bonds does not yet exist. Interoperability challenges will continue to limit the growth of an on-chain secondary market over the short term. Investors need to access the blockchains on which the bonds are issued, and institutions need to connect their legacy systems to these blockchains. Without on-chain cash payments, investors do not get the benefits of digital bonds.

Swedish Covered Bond Market Insights 2024

- Increasing salaries and declining interest rates will support the credit performance while the correction in Swedish house prices will drive the Swedish housing market.
- Swedish covered bond issuers have avoided the credit and liquidity concerns of Swedish real estate companies, but could offer a secure refinancing option for attractive assets in need of refinance.
- Although the number of borrowers receiving a temporary exemption from the amortization requirement has recently increased, it remains low in relation to the whole market.

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- Year-to-date public euro-denominated benchmark covered bond issuance from Sweden remains subdued compared to the 2023 level. We expect easing interest rates, economic recovery, and the end of the central bank's purchase program will support higher market-based covered bond issuances.

German Covered Bond Market Insights 2024

- Year-to-date German benchmark covered bond issuance is lower compared to the same period in 2023 but remained buoyant with €26 billion issued by the beginning of September.
- German households' debt servicing risks remain below historical figures despite sharply rising interest rates, which have cooled the housing market.
- There are initial signs of a stabilization of house and CRE prices as policy rates fall.
- Foreclosures on immobile real estate in Germany increased in 2023 but remain below historical figures.

Core Characteristics And Risk Indicators

Our Global Covered Bond Insights Dashboard presents interactive data on the core characteristics and risk indicators that we assess regularly in our analysis. Drill down and explore data on covered bond ratings and outlooks and compare characteristics of mortgage and public sector covered bond programs from 18 jurisdictions, with core characteristics and risk indicators. Access the dashboard [here](#).

Global Covered Bond Insights Q1 2025

Overview
Tutorial video: How to navigate Global Covered Bond Interactive

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Key insights

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European investor-placed benchmark covered bond issuance (bil. €)

YTD figures are as of Dec. 2 each year. Source: S&P Global Ratings.

Covered bond rating actions (count)

Source: S&P Global Ratings.

Recent covered bond rating actions

New issue	Withdrawn	Affirmed	Upgraded	Downgraded	On CreditWatch	
Issuer	Country of issuer	Covered bond type	Asset type	Current covered bond rating	Covered bond rating Q3 2024	ICR
Nothing on new issue for Q4 2024						

LCB—Legislation-enabled covered bonds. HYPF—Hypothekenspfandbrief. SCB—Structured Covered Bonds. JL—Jelzáloglevél.

As of Dec. 17, 2024

Related Research

- [Covered Bonds Outlook 2025: Lower Rates, Higher Uncertainty](#), Dec. 6, 2024
- [Blockchain Meets Covered Bonds](#), Nov. 28, 2024
- [Swedish Covered Bond Market Insights 2024](#), Oct. 10, 2024
- [German Covered Bond Market Insights 2024](#), Oct. 3, 2024

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