GlobalCapital

German Sub-Sovereign Issuers' Roundtable

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German regions seek new investors as capital needs grow

Germany's 16 Bundesländer (federal states) and their regional development banks are active and highly rated bond issuers. Despite Germany's strict 'debt brake' which limits public sector borrowing — reinforced last year by a Constitutional Court ruling that caused a €60bn budget headache for the Federal government — the borrowing needs of the Länder are gradually increasing.

Some are recapitalising public sector banks or companies, some have allowances to cover cyclical deficits.

Meanwhile there is widespread acknowledgement that Germany's infrastructure needs upgrading, and the climate transition will require large scale investment.

GlobalCapital gathered experts from three leading issuers, an investor and two investment banks for a roundtable in Frankfurt in September to discuss the challenges facing the sector.

They explained the effects of the debt brake and weighed up the market implications of recent elections in three eastern regions. The group explored how regions and development banks are changing their bond programmes to meet their funding needs, including issuing bigger benchmarks and seeking to grow their already substantial foreign investor bases.

And they debated the value of funding with different environmental, social and governance labels.

***GlobalCapital*: Last year the Federal Constitutional Court ruled that the government was not allowed to repurpose €60bn of special borrowing allowed for the Covid pandemic to finance the green transition, because it violated the debt brake law. The effect was to reduce the Climate and Transformation Fund or KTF by €60bn. How have the Länder adapted their funding needs this year as a result? And what effect is the debt brake having on their funding activities?**

Alexander Labermeier, State of Hesse: Good question. We expected the Constitutional Court's ruling. We did the same approach in our Covid special fund and got a ruling by the local Constitutional Court of Hesse two years ago, saying that this was unconstitutional because of the long period of availability of our Covid special fund and related measures that are not directly connected to Covid.

This ruling ordered us to transfer the measures against Covid back to the central budget. So there was no effect from the constitutional ruling on the federal level for us — we didn't have to do anything else.

The debt brake is still visible for us. This year we made, in line with

Roundtable participants

Elke Badack-Hebig, head of treasury, Senate Department of Finance, State of Berlin

Christopher Bergmann, head of liquidity portfolio, DZ BANK

Dr Alexander Labermeier, head of treasury, State of Hesse

Christian Mundt, SSA syndicate manager, DZ BANK

Johannes Lischke, head of money and capital markets, Investitionsbank Berlin

Moderator: **Ralph Sinclair**, London bureau chief, *GlobalCapital*

Dr Norman Rudschuck, managing director, floor research — SSA/public issuers, NORD/LB

the debt brake exemptions, two exemptions with our supplemental budget.

One is a small deficit allowance because of cyclical deficits. If income declines, we are allowed to make good a cyclical deficit with net funding. And €2bn was a one-time action to refund the Landesbank. We took back a silent participation worth up to €2bn and therefore invested €2bn for capital.

This was all in line with the debt brake and the federal ruling on the federal budget doesn't affect us.

Elke Badack-Hebig, State of Berlin: The German Constitutional Court's ruling affected our planned special fund for climate transition. As you may know, we already had a legislative proposal for a €5bn special fund for climate transition, which was stopped in November when the court's ruling was clear. The coalition has decided instead to do a so-called energy budget, the building block of our state climate protection and resilience strategy.

This year, in addition to our refinancing needs for 2024, we have been authorised to take on up to €2bn in supplementary borrowing for so-called financial transactions. These are loans to inject capital into certain state-owned companies. It is not a breach of the debt brake rules.

A large part of this €2bn, a share of €975m, covers the capital injection for the purchase of the direct heating network from Vattenfall. This company now operates under the name BEW (Berliner Energie und Wärme) and is intended to supply Berlin with climate-neutral district heating in the future.

***GlobalCapital*: Johannes, IBB obviously is not a state. However, how have these matters affected your approach to financing?**

Johannes Lischke, Investitionsbank Berlin: It did not affect this year's financing so much. We don't see an immediate effect for development banks, but we do see one going forward because the debt brake very much limits the investment potential for local governments. You already heard two examples of the possibilities to inject equity into public state-owned companies.

We are providing another arm for this construct, now and in the future, as a lender, especially to state-owned companies. We leverage this possibility to create investment and help growing demand for infrastructure of all kinds in the states, particularly in Berlin, which has been outgrowing Germany over the last 10 years in terms of GDP growth, but also in population.

This is a strain on the infrastructure, schools and hospitals, but also the public providers, for example, the heating grid. They all have to adjust to a growing economy and a growing population.

To be able to invest in your public infrastructure in a situation where the debt brake doesn't really allow as much investment means that you need to go for these constructs where the state has companies into which it injects equity and then leverages it through loans. This is very much a point where a local development bank — whose purpose is to fund activities with promotional aspects — can come in and generate further investment through its loans.

We do expect that this construct will also result in our funding requirements increasing over the next years and we are very much planning for that in the way we approach the market and try to attract a wider investor base.

***GlobalCapital*: We will certainly come back to that topic later. Norman, could you give a broader view of that question about the KTF ruling and the debt brake, encompassing the regions that aren't represented around the table and the sector in general?**

Norman Rudschuck, NORD/LB: Everybody was talking about the new paper, which demands more investment, and then on the other side you have the debt brake on the

Länder, which we are discussing a lot because, when it was effective in 2020, Covid kicked in.

So the Länder did all the homework to stick to their budgets before, and now we have those exemptions and stuff like that and we want to see, not only that there's net zero that everyone is saving for, but also with this horrible bridge collapse in Dresden for example, you can see that we are lagging behind with a lot of infrastructure, a lot of transformation, a lot of innovation. We clearly have to cope with those challenges in the future.

For several Länder, it looks a bit sticky with their funding needs and their investment needs at the same time.

Lischke, Investitionsbank: The German Bundesländer are not alone. It's a European, or even a worldwide topic. Whether it be in France, or other European neighbours, there's a question of using the state balance sheet or whether you try to put it in the hands of a public institution, which in some cases might be even a better project manager than the state itself.

There's potentially good and bad in it, but generally speaking, it feels like everybody, Europe-wide, is looking for a solution to still be able to invest and push the economy while at the same time trying to stick to the rules that they've applied to themselves. So it's really a European problem, not just a German one.

***GlobalCapital*: Christopher, how have you looked at it from an investor's point of view and the influences of those two factors in particular?**

Christopher Bergmann, DZ BANK: We welcome new Länder primary supply because their bonds are expensive and scarce in the secondary market. Thus, we would very much appreciate seeing more supply. But we also see spreads are quite narrow these days. They have come back a bit, but they're still tighter than those of other issuers like KfW, for example.

In the primary market, however, we are seeing new Länder issues coming at the same level, or even slightly wider than KfW, and that's what we want to see.

***GlobalCapital*: That leads neatly on to the next question, which is about spreads and the other big topic this year everywhere — elections. What sort of spread movements did you notice around the Saxony, Thuringia and Brandenburg elections?**

Bergmann, DZ BANK: Not much. Spreads didn't really move by a lot. Nevertheless, coming to the market right before the regional elections was well timed by Thuringia. Issuing one week later would probably still have affected pricing negatively.

However, the Länder have a strong domestic investor base, and I believe if investors were more internationally diversified, the spread movements would be even more pronounced. While we are not observing a strong disruption from the Länder elections right now, this could be the case if the political landscape continues to change.

Christian Mundt, DZ BANK: I would underline that. Obviously, what happened in the elections was not that much of a surprise for anyone following German politics.

It feels like investors are waiting to find out which route the still-to-be-formed new government is taking and then to act accordingly when necessary.

For the time being, spreads of German state bonds have been pretty stable, mainly because the pick-up of the German investor base for Länder bonds is very high, in general about two thirds probably. Obviously, we know our country pretty well, so there is no panic selling or anything like that.

And as Christopher already pointed out, a lot of those bonds are lying with buy-and-hold investors; they are not the typical product that people would use to speculate on sudden movements on the back of economic data or anything, so that is certainly helping.

Rudschuck, NORD/LB: Three points on this. I fully agree that investors I was talking to said: "We're not buying, for example, because we don't have a line, we don't see the spreads as a perfect spread right now", but no one told us it's about the elections. That's point one.

The second point is these were local elections. People from foreign countries are looking at the German government right now and the first time I was asked whether the German government could also announce snap elections was when we were at the Global Borrowers' Forum in London [in June] this year.

That brings me to the third point: snap elections in France, which are not comparable to the German local elections because, in the aftermath of those snap elections, we saw the pulling of an ESG bond from an agency, which would never happen to German Länder. That was the good part of the story. People are afraid, but obviously we have an eye on it.

Lischke, Investitionsbank: When we are talking about spreads and you look at a timeline of the last

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Johannes Lischke, Investitionsbank Berlin

five years you see the spike in March 2020 and we are currently rather close to that spike again.

Higher swap yields and higher spreads combined make Bundesländer and fixed income in general a very attractive investment. A lot of investors are still playing catch-up with their fixed income quotas and that supports the market and maybe helps them not to get too nervous around some news, especially as it's more on a sub-sovereign level, as you just mentioned, than really on a German level.

GlobalCapital: Would any of the issuers like to comment? I realise these are elections in different states, but have you noticed any effect on your own bond spreads? Do you anticipate any? And there's a federal election next year — what are your thoughts on that?

Labermeier, Hesse: Speaking for Hesse, I think it's all about stability. Investors want to see a stable government. It's a state election, so it's different to France where you have a federal election. In Hesse we had an election for a new parliament, at the beginning of January 2024, where the Christian Democrats and the Social Democrats were voted in for five years, so we have a stable government, so it doesn't affect us.

The spread discussion is all about fair pricing. Our aim is also to incentivise primary investors to come into our order books for the first time to benefit from spread developments on secondary markets. So it's all about fair spreads.

If you have a product which is not enlargeable because of the debt brake, because of your issuance behaviour, and you issue only €8bn a year, it's clear that the spreads could be tighter than other products.

You have to take into account that at least 50% of every bond is sold outside Germany. So we still have a large investor base outside Germany willing to pay, from our perspective, for fair price spread products — even from a European perspective, not a German perspective.

So we feel confident that, if you have a broad investor base, foreign investors — French for example, with higher OAT levels — are buying state bonds. It's a good sign for us that we show a fair spread.

"We are lagging behind with a lot of infrastructure, a lot of transformation, a lot of innovation. We clearly have to cope with those challenges in the future"

Norman Rudschuck, NORD/LB

Badack-Hebig, Berlin: It had no impact on spreads. But I just have the idea that investors may be holding back in the segment of longer bond maturities. I don't know. If you look at the November 2032 bond from Thuringia, there was no impact in the week just after the election on September 1. So we will see in the longer run. We realise order books are smaller at the moment, but is this due to the political situation? No, I don't think so.

Lischke, Investitionsbank: Yes. I would definitely agree with the other speakers that there was no noticeable effect from Thuringia. I think it's due to the fact that there's just not that much free float in the market where someone would have something to sell in that situation.

What we're currently seeing is some spread widening, but I see this more as a reaction from France to the European Union, to Scandinavia and agencies that have widened. If there's a broad widening, then obviously you also have to look at that.

We have about 50% of international investors coming from central banks and bank treasuries outside Germany and when you have this broad investor base, I don't think you can completely isolate yourself, even though the much reduced volatility and the lower overall debt levels allow us to trade at a lower spread compared to others.

Rudschuck, NORD/LB: The thing I just looked up before I came here was the offer sides on different local entities, and you don't really see any offers for their bonds. So that basically means, if you can't see any offers, you can't really judge the spread where it's actually trading.

From what we hear, if someone asks for a spread, spreads are usually wider than what you see on the screen. So if there was really any back and forth trading in the bonds, then we probably would be at a different spread level.

What separates those state elections from France and the UK [during the Liz Truss premiership in 2022] is that there was a budget component in France and in the UK which led to wider spread levels, and we didn't have that in Germany.

GlobalCapital: I guess that is budgets covered off, which then brings us to how to fund them. How are your borrowing plans evolving? What should investors expect from the Länder or German regional issuers in general, in terms of bond issuance?

Lischke, Investitionsbank: We try to make issuance as regular as possible in the way that we structure our liabilities, in order to come very regularly to the market.

We have been steadily growing with the amount we roll over. Five or six years back we were rolling over more in the range of €1.5bn to €2bn each year. Now it's around €3bn and we expect with further balance sheet growth to go up to €3.5bn or €4bn in the years to come.

Now, I don't have an exact plan for next year, yet. What I can announce is that since we are trying to attract additional investors, we have made the strategic decision to go to €1bn issuance volumes in the future and thereby increase liquidity in our bonds.

So far, we have only done €500m issues in one go and in the last two years for the first time, taps to €1bn. Now we also want to start issuing €1bn in a transaction, to attract an even broader investor base.

We got a second financial rating from Moody's a few months back, which is an important criterion for some central banks we were talking to. Two years ago we started with our social bond programme to attract more sustainability-oriented investors.

Regarding the European Central Bank, we've got recognition for their quantitative criteria that will reduce our ECB haircuts. By doing all these many small things, we try to keep our bonds boring, safe, but at the same time in a way still a bit fun to hold for our investors.

Labermeier, Hesse: Right now, we are starting to discuss the budget for 2025. With a more sidewards developing economy you can expect also a sidewards development on tax revenues, so it will also be tricky in the next year.

This year it's a bit unusual. I already explained the supplemental budget, so this year we aim to issue €9.5bn on capital markets. Of that, €8bn is already issued in four large benchmarks, very successfully, up to five, seven, 10 and 15 years, with quite good demand, especially for the 15 year, but all for the other large benchmarks I already described.

So there is €1.5bn to come for the end of the year. Right now we are thinking of what's next on capital markets, so we could be out soon with another benchmark format.

We try to compensate for the fact that ECB buying is no longer active. Honestly, it wasn't so active in our bonds as our bonds were primarily sold out. We do not rely so much on central bank buying anymore.

We tried to broaden our investor base with a large roadshow programme this year. We roadshowed to Scandi, to the Dutch regions, to Italian and English regions, so we are trying to broaden our investor base to show our benchmark programme.

One large step is our green format programme. We have successfully had two large green bonds so far; the second one was the largest sub-sovereign green bond in Europe. With this green format we are trying to establish ourselves as a dedicated green issuer, to show our sustainability approach to investors. This has an effect on normal bond issuance, so it's quite a good story if you focus on green issuance.

Badack-Hebig, Berlin: I think Berlin's budget will be under pressure for 2025. We have reached €40bn so far in expenditure, so the finance minister decided to go for a supplementary budget for next year, given the strong aim to reduce several budget positions.

Given a broad 2% reduction as a basis in 2024, the Ministry will decide which expenses must be reduced to an overall level of about €36bn — that would be a decline of 10%. So we will have a supplementary budget for 2025 in discussion at the end of October or beginning of November.

What does it mean for our funding volume? The refinancing of maturing loans amounts to €5.4bn, I guess, and in addition we have these financial transactions with a volume of €440m as I said before, but I think it could be closer to €1bn, so it will rise.

And thirdly, we have to refinance our reserves. We built up reserves from 2012 to 2019 and these are still on our liquidity book. We are currently using these as interest-free internal loans, which must be refinanced when the reserves are used for their intended purpose.

We assume that we will have to refinance €1.5bn on this side, so our gross funding volume will be roughly €8bn next year. This year we have done €7.3bn so far, so next year's volume is no surprise for us. We will go ahead with our strategy, which I could talk about now or later if you want.

***GlobalCapital*: Why don't you tell us now?**

Badack-Hebig, Berlin: We changed our strategy in 2024 compared to 2023. Last year we entered the market with bonds of €500m and that was fine for us. We tapped these bonds later on and that was OK.

At the beginning of 2024, we were aware that we had to do €9.6bn. This figure has now been revised, but we have decided to follow two approaches.

Like Johannes said, we went for a €1.5bn issuance volume and some bonds of €1.25bn and tried to have a good maturity mix.

We started with a seven year maturity; several other states started with a 10 year at the beginning of January, so we decided to issue the seven year first and the 10 year afterwards. We had a dual tranche of €1.75bn, which went very well, with a new 30 year tenor and a tap of an existing four year bond at the same time.

We had a very successful five year trade with an order book of €2bn,

allowing a final volume of €1.25bn. That was tapped later on.

We had a successful placement of 50% outside Germany. That was interesting because we had a virtual Nordic roadshow just before and the share of Nordic investors was 16%. So €200m went to the Nordics and that was quite a nice success.

That was 2024 so far and I have the idea to follow up on this in 2025 — to have a volume of €1bn up to €1.5bn for the first issue, or if we have a €1bn issue, going for the tap later on. We will also keep the maturity mix, to build up a smooth maturity profile for next year as well.

***GlobalCapital*: Alex, what has Hesse to do next year and how might you do it?**

Labermeier, Hesse: Flexibility is already set. We are flexible on the maturity side and on the issue size. We are flexible on the issue date. We have shown that we could open a summer market with a Monday transaction with a €1.5bn 10 year, oversubscribed. That's a good thing.

We tried to issue promissory notes or private placements for 15 years and got the feedback from market participants that they were more interested in a large benchmark, so we started the year with a 15 year transaction for €1bn. It was three times oversubscribed and no other issuer [has issued] at 15 years this year so far.

We rely on a three pillar approach: up to five years with a floating rate note book around the large benchmark; the second pillar is five to 10 years in the large liquid benchmark programme. Five, seven and 10 years could be up to €2bn, at least €1bn, to compensate investors for liquidity as well.

The third pillar is up to 20 years, but if promissory notes or smaller private placements are not in favour for investors anymore, we are able to issue large benchmark sizes as well. For example, our 15 year transaction goes only 25% into bank treasuries, the rest was central banks, institutions and wealth investors who are interested in a 15 year with an interesting coupon.

***GlobalCapital*: For our final topic, turning to environmental, social and governance-labelled issuance, I'd like to know what the sector's future funding plans. How much of your programmes do you intend to issue as labelled bonds and will those issues comply with the EU Taxonomy or Green Bond Standard?**

Lischke, Investitionsbank: We issue social bonds, which by definition are social and do not follow the new EU Green Bond Standard.

This is a function of trying to make the product feasible with our loan products, which have very often social characteristics and a much smaller green share.

We use a lookback period of three years and want the allocated loans with their redemption path to be above the nominal [size] of the bond at the end of the maturity, already at time of issue.

This limits the maturities we can issue for social bonds and requires us to hold a much larger portfolio of loans in comparison to the bonds we bring to the market.

So when I look into our loan business and I see new business, it's often 50%, 60%, sometimes 70% in sectors that I know are generally in the space of eligibility for our social bond programme.

Then we look at the details — when it's paid out, what the redemption profiles are — and we make sure to stay within the portfolio redemption path. We end up closer to 15% or 20% of our bonds that we can comfortably issue under the social label, often due to these technicalities, to make matches between the asset and the liability side.

Because of these complexities, I do not believe our labelled bond issuance will increase much more. What we try is to make it visible in our investor relations material. We have two bonds outstanding right now with the social label, but the portfolio in our social bond programme is not €1bn, but €2.5bn of assets, and these are just loans given out in the last years. If you look further back in our balance sheet, the share of social loans would be even larger.

In addition, we try to give investors more visibility on the overall sustainability of our balance sheet, to explain that it's not just the two labelled bonds which are funding sustainable loans, but that the vast amounts of money within our conventional bonds are also going to sustainable loans and investments.

Labermeier, Hesse: If you take into account that a labelled bond takes my team one year of preparation instead of four days for a normal bond, you can just imagine how hard the task is to issue a labelled bond, so we have a clear approach of issuing only green bonds.

We are following the Bund refinancing approach, and the main reason is that a state is a social entity already.

If I issue €9bn this year, I can issue 100% social bonds, because overall our social expenditures per year — if you look at schools, at universities, at social measures of the state — are above €10bn per year, so I could declare every bond social.

"At least 50% of every bond is sold outside Germany. So we still have a large investor base outside Germany willing to pay ... for fair price spread products"

Alexander Labermeier, State of Hesse

"The second sustainability bond will follow in the first half of 2025. That is our idea and due to the 25% proportion of green projects, an alignment to the green Taxonomy is not so important for us"

Elke Badack-Hebig, State of Berlin

Our aim is to issue green bonds only in benchmark size formats, so every two years we want to issue a green bond of at least €1bn. Looking at the environmental expenditure of the state, our largest projects are around €600m per year, slightly increasing over the years to come.

So that's our aim — to deliver really green — and the feedback we get from investors is a pretty clear message that green is preferred instead of social. Some investors already are treating us as a social entity and treating our bonds as social bonds. That's for us the clear message.

The second question is: future plans to comply with the Taxonomy and EU standards. The one year preparation work is for ICMA green labelled bonds.

We have simulated already to issue a green bond under the EU Taxonomy. If we want to focus on less bureaucracy and fewer things instead of doing even more paperwork right now, we will still issue the next one in an ICMA green bond format, because the EU Taxonomy is really hard to document.

Some projects, especially the interesting ones — for example the state's farming and reforesting measures, which take up about 20% of our green bonds — would be really hard to declare under the EU Taxonomy regulation. So for us, one year of preparation work for one bond every two years is really enough.

***GlobalCapital*: Just to clarify, when you say you take the same approach as the Bund, do you mean you issue a conventional issue alongside a green bond with the same maturity?**

Labermeier, Hesse: No, [I mean] we issue bonds with a similar framework [to the green Bund]. This means we do a refinancing approach; we follow the ICMA Green Bond Principles.

The difference from the Bund is we issue every two fiscal years to allow our bond to have a maximum size of at least €1bn. But we don't have a twin concept because we don't need it.

Every bond as a state bond has the same spreads. We have a small premium on it, but we have the same spreads, there is no need to incentivise [investors] with a switch [to] the much more liquid bonds instead of another green bond like the Bund has to do. So we issue under a similar framework but not with a twin bond concept because we don't need it.

***GlobalCapital*: It seems a bit of an irony that issuing a green bond costs so many extra trees in terms of the paperwork. But doesn't it get easier with each new issue — more programmatic?**

Labermeier, Hesse: Yes. It's digital paper, so no trees have to be cut down hopefully. It's getting easier over time, yes, but you have new projects, you have new questions from the second party opinion providers, even from investors. They have built up larger ESG teams, raising new questions.

You imagine if you do it the third time it could be somehow much easier, but you have to reflect the standard of that time, and some new projects. For sure, the first one was one and a half years' preparation work, so we have already saved half a year.

Badack-Hebig, Berlin: I have a slightly different approach. Just to remind your readers, 2023 was a good year for German federal states in terms of sustainable bond issuance.

With three issuers already in the market, NRW, Baden-Württemberg and Hesse, Saxony-Anhalt coming in with a social bond and Berlin with its inaugural sustainability bond. Let me explain why.

It wouldn't be possible [for Berlin] to issue a green bond in terms of volume. For example, our reforestation area as a city state is so much smaller that we can't use this category in a meaningful way.

So we opted for a sustainability bond, and even if one could say that our budget is generally a social budget, we still had to do so much work to identify social projects which have a unique character for the State of Berlin, such as our Special Olympic World Games or our free school lunches, to document them and to give impact indicators about how we are special in the social sector.

That is really important for us and it fits with the idea that our promotional bank will have a social bond for the housing sector — so you won't find any social housing activities in our sustainability bond.

The proportion of green expenditures in our sustainability bond was around 25%, so given a volume of €750m for the whole sustainability bond, it would be even worse to have done this work for so small a green bond, which wouldn't have been even €250m. That was the approach and we decided to go for a sustainability bond.

Berlin has the same idea to go every two years because of the expenditure scheme we have in the biennial budget. The second sustainability bond will follow in the first half of 2025.

That is our idea and due to the 25% proportion of green projects, an alignment to the green Taxonomy is not so important for us. It would be so much work to have this categorisation for such a small issue amount, that we decided not to refer to the Taxonomy.

***GlobalCapital*: Christopher, I realise you don't speak for the entire buy-side, but do you welcome a greater proportion of ESG issuance? Are you happy to pay a greenium, given the extra work Alex is doing for your benefit?**

Bergmann, DZ BANK: It depends. At DZ Treasury we are forming our ESG approach for our liquidity portfolio currently. For now, it's definitely a plus to have some sort of ESG format, but not a must for us. To be honest, right now it's a matter of where we get the most spread. So yes, that applies to the SSA space. For the corporate space, we have a different approach, but for the SSA space that's where it is right now.

***GlobalCapital*: What about the rest of the German sub-sovereign sector, Christian? What are you expecting in terms of ESG issuance to come?**

Mundt, DZ BANK: What has been mentioned here is exemplary for what other issuers experience as well. Most clients tell us that reaching full compliance with the EU Taxonomy is more or less impossible at this stage.

The resulting reduction in eligible assets makes all the necessary work that needs to be put into the framework not really feasible. So either the current approach needs to be made more practical, or the whole EU Taxonomy will probably have a hard time getting off the starting block.

***GlobalCapital*: Which is ironic, isn't it, because the EU Taxonomy is already accused of being watered down?**

Mundt, DZ BANK: Well, it feels like this is the classic situation where political goals meet with the economic realities of our business. What now needs to happen is that ambitious political goals need to be balanced and maybe stretched out over a longer period of time, to allow issuers an economically feasible transition to this new rule set.

But while this is being worked on, the ICMA Green Bond Principles are providing a good guideline already and that is something that investors do like and accept as a standard. So there's no reason to worry about a lack of credible standards.

Generally speaking, from what we are experiencing, ESG-themed bonds are well sought after by investors, so that is certainly something issuers can rely on and adds to product variety.

Another important aspect of ESG-themed bonds is execution security. I think that especially green bonds, but also sustainability bonds and social bonds, tend to be a bit stickier, as a lot of investors want to fulfil their ESG investment quotas. If an investor needs to sell something for liquidity purposes, most likely it's not the ESG bond but rather a conventional bond, so that they don't hurt their quotas, and that's adding a layer of execution security in primary and a bit of stability in secondary markets as well.

Rudschuck, NORD/LB: Funnily enough, NRW was the only [Land] for a long, long time to have an ESG framework. Elke has mentioned the five, so five out of 16 are not that many, not even half, and we don't see exponential growth at all.

There hasn't even been an ESG bond so far from a German state this year and we are already in the third quarter, so we expect one or two to come.

It's a bit more on the development bank side. I've counted six ESG frameworks: KfW, Rentenbank and the four smaller ones, like NRW.Bank, plus one is sitting here.

And there are some interesting parts: so for the German sub-sovereigns, we would expect a cap at €5bn, for example, because with all those projects we have just mentioned, even for those who have a framework already, it's not even feasible for one benchmark per year.

Then you have the new LFIESG ticker, where several German development agencies have teamed up together [to issue a €500m social bond financing affordable housing in 2022]. Maybe this is also an approach.

We have seen also, for the German municipalities, the DEUSTD [Deutsche Städteanleihe] which was a one-off in the past where municipalities from different states have teamed up together. So this could also be an approach, where different cities go together. Like with NRWGK [Gemeinsame NRW Kommunen, a joint issuer of localities in North Rhine-Westphalia], maybe with ESG context in the future.

Eleven [Länder] not having ESG frameworks makes it obviously a share of 0% [of their funding being green. That goes] all the way up to Société des Grands Projets in Paris with 100% now. That's the whole range from 0% to 100% and German sub-sovereigns have to fit in wherever they feel best with their projects. GC

"Most clients tell us that reaching full compliance with the EU Taxonomy is more or less impossible at this stage"

Christian Mundt, DZ BANK