Covered Bonds Quarterly

European market pulse: recovery, risks and regulatory harmonisation

16 July 2025

Executive summary

The European covered bond market has staged a remarkable comeback in 2025. The EUR benchmark segment has posted record issuance volumes. with EUR 20.4bn in June alone, lifting the second quarter to its highest level since 2019.

Total issuance YTD stands at EUR 100bn, on track to meet our annual forecast of EUR 155bn. French and German issuers continue to lead the pack while Norway and Australia maintain a notable presence. Covered bond spreads have widened to their highest levels since 2019; French and Italian covered bonds have the highest new-issue premiums. But compared to banks' senior unsecured funding spreads, which strongly widened around 'liberation day', covered bond spreads have flatlined. The market's maturity profile remains broadly stable, though select issuers are testing longer durations. Green and sustainable covered bonds remain a steady niche.

Total issuance YTD stands at EUR 100bn, on track to meet our annual forecast of EUR 155bn. French and German issuers continue to lead the pack while non-EU participants such as Norway and Australia maintain a notable presence. Covered bond spreads have widened to their highest levels since 2019 with French and Italian covered bonds having the highest new-issue premiums. Compared to banks' senior unsecured funding spreads, which strongly widened around "liberation day", covered bond spreads flatlined. The maturity profile remains broadly stable, though select issuers are testing longer durations. Themed bonds like green and sustainable covered bonds remain a steady niche.

The EBA's ESG disclosure debate reflects a core tension between investor demand for transparency and issuers' operational constraints. Transparency reports provided by banks to comply with Article 14 of the European covered bond directive offer a clear, consolidated platform that could also be used for ESG data. We would prefer issuers to embed this information into the industry standard Harmonised Transparency Template (HTT), as would investors, as it would allow comparability and provide for more regular updates. Issuers, by contrast, are lobbying for inclusion in the Pillar 3 framework. Integrating data into existing risk disclosures presents a less burdensome approach but risks fragmenting information and making investor due diligence more cumbersome.

Higher interest and mortgage rates across Europe are increasing pressure on household finances. But the prevalence of fixed-rate mortgages acts as a natural shock absorber. Unlike markets dominated by floating-rate loans, the term structure of European mortgages – approximately 75% are fixed-rate at medium to long tenors – slows the transmission of higher interest rates to consumers.

Affordability challenges mounting for borrowers who took out mortgages in the ultra-low interest-rate period and whose fixed periods are ending, although delays in repricing has helped borrowers adjust consumption patterns and reduce default risks. Longer fixing periods significantly limit the potential for abrupt shocks to household finances and the broader banking system, underpinning the resilience of euro area mortgage markets.

The European Systemic Risk Board continues to push for harmonised borrower-based macroprudential measures to enhance financial stability. Loan-to-value, debt-to-income and debt-service-to-income limits are widely in place in 18 of the 21 banking union countries and have proven effective in curbing systemic risks, particularly in overheating property markets. Germany, Spain, and Italy have yet to formally implement borrower-based protections, relying instead on internal bank practices and supervisory guidance. The ESRB warns that without uniform BBM adoption, markets may remain vulnerable to credit-driven housing booms and sharp corrections, reinforcing the need for a consistent regulatory framework across the EU.

European property markets have entered a new phase of regional divergence, following a decade that went from stability to extreme volatility. After a period of broad-based growth from 2015 to 2019, the Covid-19 pandemic sparked an unexpected housing boom, which gave way to a sharp correction in 2022 amid aggressive monetary tightening. Southern Europe, led by Spain and Portugal, has emerged as the current growth engine, with double-digit annual house price increases amid strong macroeconomic support, including robust GDP growth and untapped mortgage potential. Central and Northern European markets are stabilising after recent declines, while Eastern European markets may be approaching their own turning points. The European property cycle now appears increasingly shaped by region-specific fundamentals rather than broad, synchronised trends.

The wave of banking mergers across Europe reflects the underlying strength of European banks. The normalised interest-rate curve has allowed banks to benefit from mismatching loans and deposits. Differentiated repricing patterns have allowed banks to boost profitability and capitalisation in the last two years. Not surprisingly, this also led to a positive rating outlook, tainted by just one downgrade.

The credit quality of covered bonds remains solid and they remain strongly protected against issuer downgrades. For most issuers, buffers against rating downgrades are solid and in some cases have even increased. We do not expect this resilience to weaken any time soon. Nevertheless, idiosyncratic issuer events plus uncertain geopolitics and their macroeconomic impacts continue to pose risks.

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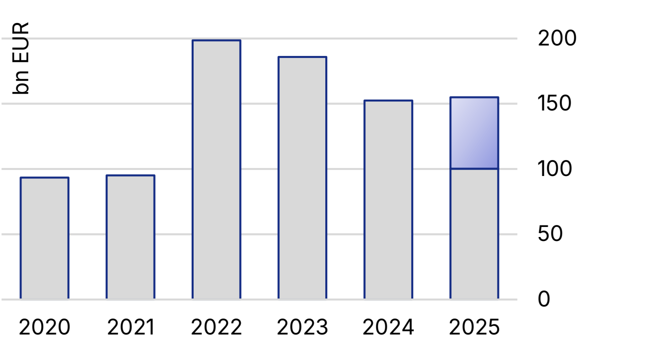
1. A striking comeback for EUR benchmarks

The covered bond market has staged a striking comeback after some sluggish early months, with June delivering a blockbuster EUR 20.4bn in the EUR benchmark segment, the highest monthly figure to-date. This robust performance catapulted the second quarter to its strongest showing since 2019, counterbalancing the early-year lull and setting a positive tone for the year.

With EUR 100bn issued year-to-date against our full-year forecast of EUR 155bn, approximately 35% of the target remains to be secured. The traditionally quiet third quarter may slow the pace, but the current momentum suggests a solid foundation for meeting the target.

Figure 1: EUR benchmark issuance volumes



Source: Bond Radar, Scope Ratings

Leading the charge in the EUR benchmark segment are French and German issuers, each with around EUR 23bn; Germany edging France out by just EUR 250m. Franco-German issuing supremacy has left issuers from other countries trailing some way behind. Among those are mainly non-EU issuers, with strong issuance from Norway (EUR 8.25bn), Australia (EUR 6.1bn), and the UK (EUR 4.7bn).

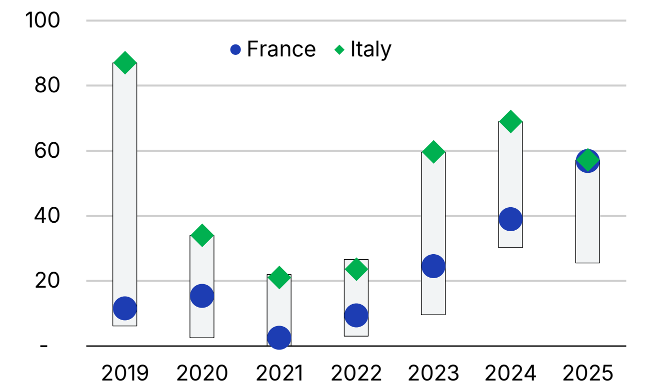
By issuer, Commerzbank has spearheaded the charge with EUR 4.25bn of supply, closely followed by DNB Boligkredit (EUR 4bn) and BPCE (EUR 3.8bn), underscoring a highly competitive field.

1.1 Spread levels: rising averages and narrowing gaps

Covered-bond spreads hit their highest mark since 2019, averaging 47bp in June 2025, according to Bond Radar, compared to 40bp in 2024. But spread divergence between issuers has narrowed. New-issue spread differentials among major issuers of just 42bp-52bp indicate that the market is not currently seen as a credit market but a rates market.

Despite their second place in new-issuance volumes, French issuers priced on average at 51bp, elevated compared to previous years. The government's persistent fiscal pressures and specific concerns around public-debt levels have dragged the sovereign curve upwards. Some French covered bonds even priced through the sovereign curve, a novelty and an anomaly only seen in the euro area periphery so far. High French covered bond spreads are aligned with those of Italian issuers, which only trade one basis point wider on average, at 52bp. Figure 3 illustrates this variance, highlighting the shifting economic dynamics in Europe.

Figure 2: Spread variance top10 issuers



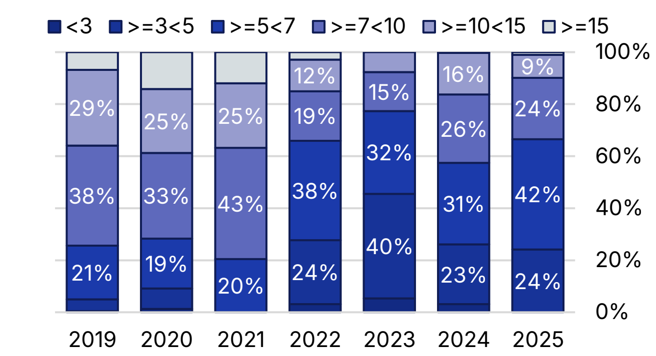
Source: Bond Radar, Scope Ratings

1.2 Maturities: embracing the long haul

The new-issue maturity profile in the first half of 2025 mirrors that of 2024. The weighted average maturity of six years is only slightly below the 6.4 years of the year before, reflecting a slight shift toward shorter terms amid cautious market sentiment.

Stand-out issues from a maturity perspective include Deutsche Kreditbank's 20-year, the longest since Caffil and Crédit Agricole Italia in 2022. This pivot toward longer tenors may stem from issuers locking in funding amid rate uncertainty or catering to institutional demand for extended maturities, particularly from pension funds seeking duration matching. Figure 4 underscores these exceptions, though it is not yet a trend reversal: only 1% of total issuance has exceeded 15-year tenors and maturities above 10 years represent just 10% of issuance compared to 16% in 2024.

Figure 3: EUR benchmark maturity buckets

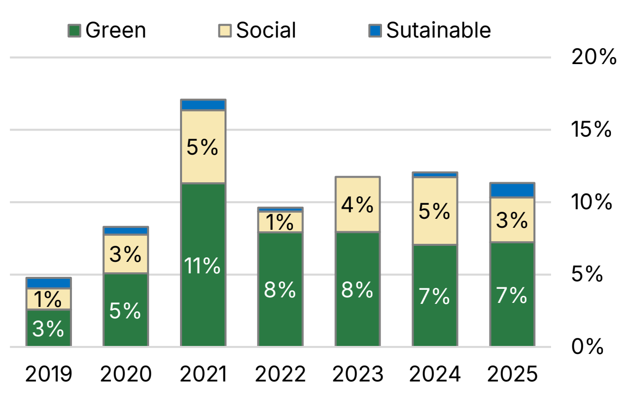


Source: Bond Radar, Scope Ratings

1.3 Themed bonds: holding steady

Green, social, and sustainable covered bonds make up 11% of EUR benchmark issuance YTD, totalling EUR 12.1bn, unchanged from 2024 (EUR 12.5bn) but 40% lower than in 2021 (EUR 20bn). As detailed in our 2025 Outlook, this plateauing reflects the increasing burden of ESG compliance, with the EU Green Bond Standard adding complexity and costs, particularly for smaller issuers navigating new reporting requirements. The greenium has remained at a modest 1-3 basis points since 2019, offering little economic incentive.

Figure 4: EUR benchmark ESG themed issuance



Source: Bond Radar, Scope Ratings

2. The disclosure dilemma: Article 14 vs. Pillar 3

The EBA's public consultation on proposed amendments to the Commission's Implementing Regulation on Pillar 3 disclosures under CRR3 highlights two potential frameworks for ESG disclosures: Article 14 of the covered bond directive, which mandates quarterly transparency reports for covered bonds; and the Pillar 3 framework, which focuses on broader banking risk.

What appears to be a straightforward question – whether and to what extent ESG disclosures should be required –reveals a complex interplay between issuer practicality and investor transparency needs. The choice between Article 14 and Pillar 3 for ESG disclosures hinges on a trade-off: investor-friendly transparency versus issuer-friendly efficiency.

Article 14 offers consolidated, investor-centric disclosure but risks over-burdening smaller and third-country issuers, potentially affecting LCR eligibility. Pillar 3 disclosure minimises issuer burden and aligns with existing risk reporting but fragments data access for investors, undermining transparency. From a rating agency perspective, we favour Article 14 as it will ensure more frequent and more diligent reporting.

2.1 Article 14: investors' –and Scope's Choice

For investors and stakeholders such as rating agencies, Article 14 transparency reports are the natural home for ESG disclosures. These reports consolidate critical covered-bond data, such as cover-pool composition and performance metrics, making them a one-stop shop for due diligence.

The EMF-ECBC's Harmonised Transparency Template (HTT) provides what is needed to comply with Article 14 and already enhances this framework by offering optional ESG disclosures, including breakdowns by property type (commercial vs. residential) and alignment with Pillar 3 formats for energy performance and labelling. This synergy facilitates comparability and streamlines the credit analysis of covered bonds.

However, mandating ESG disclosures under Article 14 could pose challenges, particularly for smaller issuers and third-country covered bond issuers. Compliance with CBD transparency requirements is a pre-requisite for Liquidity Coverage Ratio level 2b eligibility in the EU. Failure to meet ESG reporting standards could jeopardise LCR status, creating unintended consequences for issuers, especially those with limited resources or less developed ESG data infrastructures.

2.2 Pillar 3: the pragmatic solution for issuers

For issuers, integrating ESG disclosures into Pillar 3 reports is far less burdensome. Adding cover pool-specific data would complement existing Pillar 3 entity-level ESG risk reporting, such as transition risk metrics for property loans. It is just another filter to be applied. Smaller issuers may also benefit, as they are often exempt from Pillar 3 reporting or face only annual requirements, reducing administrative strain.

The downside for investors is clear: Pillar 3 reports (where available) often span 150 to 300+ pages. They are comprehensive but unwieldy. Cover-pool ESG data is not consolidated with regular transparency reports, forcing investors to navigate multiple sources, which complicates analysis and increases due-diligence efforts. Also, less frequent reporting (semi-annual or annual, if that) may fail to capture the dynamic nature of cover-pool collateral, potentially reducing the timeliness of ESG risk assessments.

3. Fixed-rate mortgages buffer the impact of monetary tightening

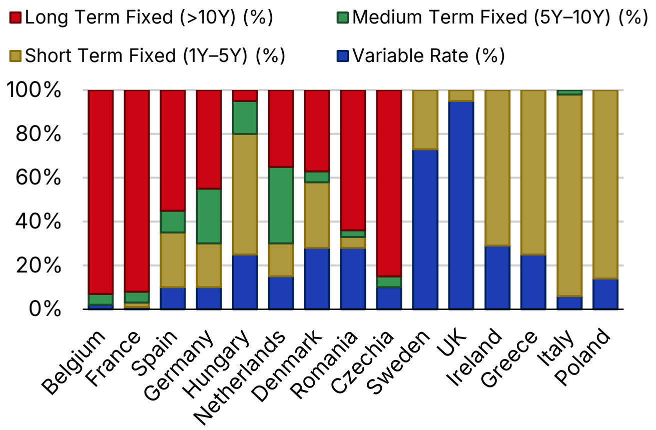
The ECB's 4/2025 Economic Bulletin highlighted the pressure that rising mortgage rates are exerting on euro area households. With a substantial volume of loans set to reprice at higher rates in coming years, the implications for household affordability, consumption patterns, and ultimately economic growth are becoming increasingly relevant. But the structural characteristics of European mortgage markets, particularly the prevalence of fixed-rate loans, play a critical role in mitigating these pressures.

3.1 Fixed-rate mortgages: a built-in stabiliser

Unlike markets dominated by floating-rate mortgages where monetary policy adjustments pass through almost immediately to borrowers, Europe's mortgage landscape offers a more gradual transmission of rate hikes to households. According to the ECB, around 75% of European mortgages are fixed rate, with reset periods mostly staggered across three to 10 years. Mortgages fixed for extended periods reduce the sensitivity of borrower affordability to policy rate changes in the short term.

For borrowers whose fixed-rate periods are expiring and who maximised the size of their loans in the low-interest rate period, affordability stress is real and immediate. Higher mortgage repayments from rate resets will squeeze disposable income and consumption. But the widespread use of medium and long-term fixed rates across much of Europe flattens the impact compared to economies with predominantly floating-rate exposures.

Figure 5: Selected mortgage markets by interest reset type
Loans originated in Q4 2024



For Sweden, UK, Greece and Italy, short, medium and long-term fixing periods have been grouped as one bucket and reported as short term fixed
Source: EMF Quarterly Review of European Mortgage Markets

3.2 Smoothing consumption and default risk

The delayed transmission of higher rates to households offers a cushioning effect against abrupt consumption shocks. Before repricing takes place, most borrowers will likely have benefited from nominal wage increases allowing them to adapt gradually to the new interest-rate environment.

Households can also adjust by modifying spending patterns, re-negotiating loan terms, or extending amortisation periods to mitigate the immediate affordability strain.

Delaying rate-induced payment shocks likely reduces the likelihood of mortgage defaults. Stretched affordability presents direct credit risks to lenders but also have negative effects on household consumption so can impact broader wealth levels in an economy. The stabilising role of fixed-rate structures therefore extends beyond individual loan performance and contributes to macroeconomic resilience.

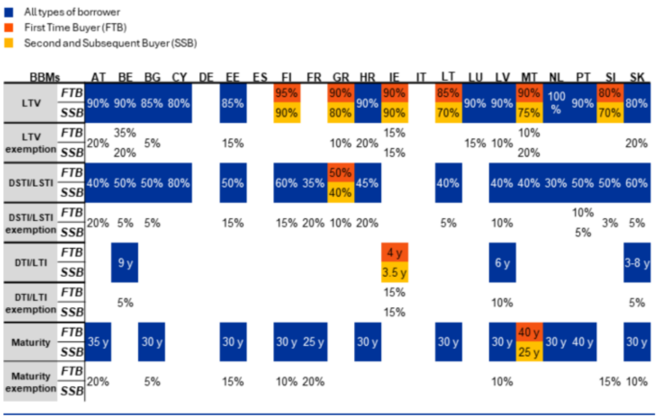
4. Harmonising borrower-based macroprudential measures

The European Systemic Risk Board (ESRB) continues to advocate for the harmonisation of borrower-based macroprudential measures (BBMs) across the European Union, a critical step to strengthening financial stability amid rising real estate risks.

Over the past decade, BBMs such as loan-to-value (LTV) limits, debt-to-income (DTI) caps, and debt-service-to-income (DSTI) constraints have become an essential part of the regulatory toolkit within the European Banking Union.

According to the ECB's June 2025 Macroprudential Bulletin, the increasing adoption and persistence of BBMs demonstrate their effectiveness in mitigating systemic risks, particularly in overheating property markets. When house prices rise rapidly and credit cycles accelerate, BBMs anchor prudent lending standards, protecting borrowers and financial institutions from market corrections.

Figure 6: Implemented and announced BBMs across banking union countries



Source: ECB Macroprudential Bulletin June 2025

4.1 Widespread adoption but not universal

As of today, 18 of the 21 countries within the banking union have adopted at least one BBM. Most employ a combination of tools, including differentiated limits for first-time buyers, exemptions for specific mortgage types, or allowances for green financing, to balance resilience and credit access. However, despite the ECB's strong endorsement, Germany, Spain, and Italy have yet to formally adopt any of these measures and rely instead on internal bank lending standards, supervisory expectations, and voluntary codes of conduct. While these internal processes can encourage prudent behaviour, they lack the binding regulatory force and proven effectiveness of formal BBMs.

The ECB warns that the absence of strict borrower-based constraints may heighten vulnerability to housing market imbalances, particularly during periods of rapid credit expansion. Without structural borrower protections, these markets could face sudden adjustments and amplified financial stress in downturns. Consequently, the ESRB has reiterated its call for broad and harmonised adoption of BBMs across the banking union, viewing the gradual convergence of national frameworks as essential to ensuring the resilience of the euro area financial system.

5. European property prices: a decade of divergence and momentum shifts

The European housing market is showing renewed life but with increasingly divergent regional dynamics. As of Q1 2025, Central and Northern European countries are once again seeing solid property-price growth, with annual increases averaging around 5% year-on-year. Following a sharp correction in 2022 and 2023, the recovery suggests that most of these markets may have found their bottom, despite persistent affordability challenges.

Southern Europe leads the European property growth story. Spain and Portugal reported exceptional year-on-year house price growth in Q1 2025, at 16.3% and 12.3% respectively. While such sharp increases are unlikely to be sustainable in the long run, they reflect a strong catch-up dynamic and underscore the region's ongoing structural recovery.

Strong economic fundamentals continue to support this story. Scope forecasts that Spain, Greece, and Portugal will outpace EU growth rates in coming years. For 2024, the three countries posted GDP growth between 1.9% and 2.4%, well above the EU average of around 1.1%. This momentum is likely to continue into 2025, further supporting labour markets and public finances.

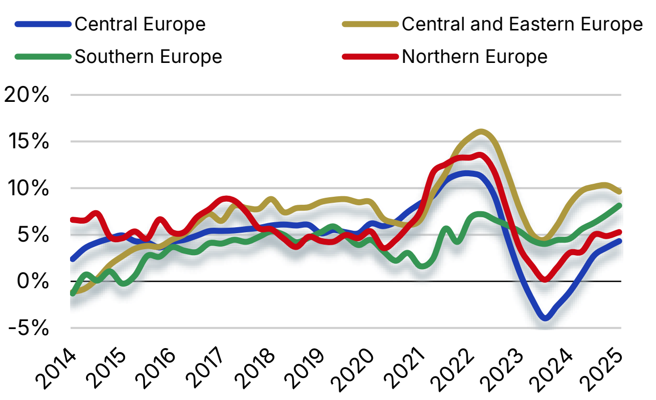
Southern Europe has emerged as a key growth engine for the euro area, driven by improving consumer spending, a thriving services sector, and significant investment inflows from EU recovery funds. Additionally, mortgage markets still hold considerable potential to further support property prices. Just half of the population in Southern Europe holds a mortgage, well below levels seen in Northern and Central Europe, where Netherlands (89%) and Denmark (87%) lead the continent in mortgage debt.

5.1 European property trends: from stability to volatility

Today's resilience and renewed growth in European property markets must be viewed in the context of extraordinary price developments over the past decade. Between 2015 and 2019, the European housing market experienced a period of low volatility and broadly synchronised growth across regions.

This stability was largely underpinned by the ultra-low interest-rate environment, which made real estate an attractive investment class in the absence of major macroeconomic or political disruptions. Demand was robust, supply remained constrained, and valuations climbed steadily across most European countries.

Figure 7: European house prices



Source: Eurostat, Scope Ratings

Growth was amplified when the Covid-19 pandemic reshaped the housing landscape. Contrary to initial expectations of a market downturn, property prices surged. Historically-low interest rates, expansive fiscal support and a shift in housing preferences fuelled an intense property boom across much of Europe.

The rapid expansion was followed by a hard landing beginning in 2022. As central banks aggressively tightened monetary policy to combat inflation, borrowing costs soared, affordability eroded, and housing demand cooled sharply. Most European countries experienced significant price declines, with Northern and Central Europe seeing some of the steepest corrections.

Southern Europe proved more resilient. Having entered the cycle with comparatively lower valuations following a prolonged recovery from the euro sovereign crisis, Spain, Portugal, and Greece faced less overheating pressure. They continued to post moderate growth even as others contracted sharply.

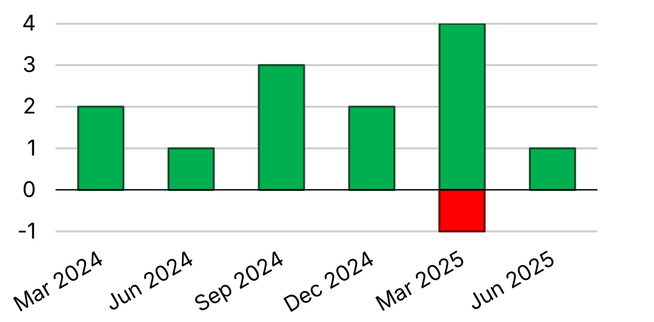
Poland, Hungary, and the Czech Republic have also posted remarkable property price increases in recent years, but prices in these countries which remain outside of the euro area, are now beginning to show signs of softening.

Overall, the past five years have stood in stark contrast to the period of relative calm that preceded them, a time defined by pronounced cycles of expansion and correction.

6. Covered bond rating stability likely to persist

The recent wave of banking mergers in Europe reflects the underlying strength of European banks. The normalised interest-rate curve allows banks to benefit from mismatching loans and deposits. Different repricing patterns have boosted profitability and capital, in particular after the sharp interest-rate increases. Unsurprisingly, this also led to a positive rating outlook for the sector, tainted by just one downgrade in the last two years.

Figure 1: Rating changes of European banking groups



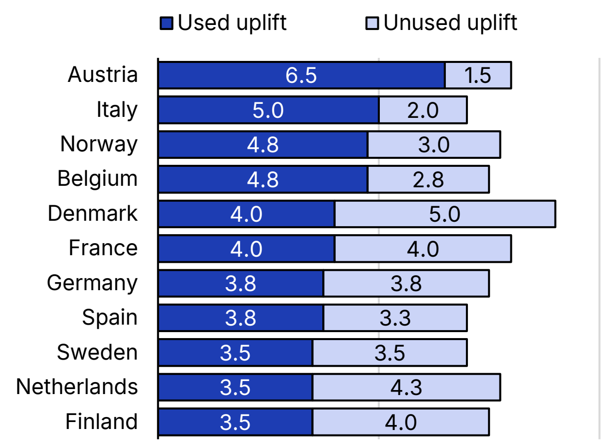
Source: Scope Ratings

The credit quality of covered bonds remains solid and they remain strongly protected against issuer downgrades. For most issuers, buffers against downgrades have even increased. We do not expect this resilience to weaken any time soon. Nevertheless, idiosyncratic issuer events plus uncertain geopolitical developments and their macroeconomic impacts continue to pose risks.

7. Scope's covered bond universe

All of Scope's covered bonds are currently rated AAA with a stable outlook (see here). Danish, French, Dutch, and Finnish covered bond are the least sensitive to issuer downgrades thanks to the combination of their banks' higher average credit quality as well as the transaction-specific interplay between complexity and transparency

Figure 9: Downgrade sensitivity Covered bonds

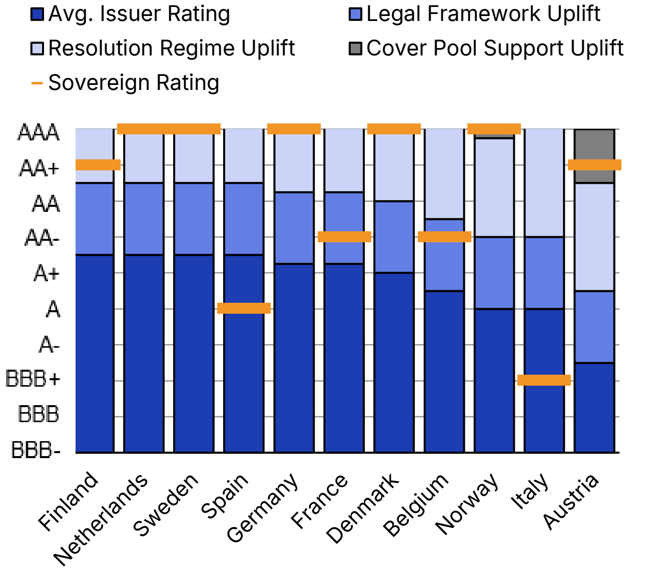


Source: Scope Ratings

Strong bank ratings and very supportive legal and resolution frameworks allow 89% of our rated covered bond programmes to achieve the highest ratings without additional cover-pool support. The strength of the cover pool does provide additional rating stability, however.

On average, covered bond programmes rated by Scope can withstand issuer downgrades of up to three notches. That is unchanged from last quarter, on condition that the programmes' risk characteristics and protection provided through over-collateralisation (OC) do not materially change.

Figure 2: Rating constructs by country



Source: Scope Ratings

At the same time, the dual recourse nature of covered bonds allows the remaining 11% of covered bond programmes to maintain the highest ratings based on cover-pool support. Notably, covered bonds in Austria and Norway achieve AAA ratings with the help of this structural credit support.

The buffer against issuer downgrades is lower for such programmes. For all, strong cover-pool support can mitigate a downgrade of the issuer rating by at least one notch.

We do not expect rating-supporting OC to constrain ratings in the short to medium term, either through increased issuance activity or through a deterioration in cover-pool quality (including a drop in eligible assets from value depreciation).

Appendix 1. Scope 2025 outlooks

Covered Bond outlooks

Covered Bond Outlook 2025: Credit stability at times of increasing uncertainty

Bank outlooks

Spanish banks 2025 outlook: strong economy supports loan growth; tax extension could erode profits

French banks outlook: Fundamentals support profitability; political uncertainty clouds loan growth

Norway: positive credit implications from banking sector consolidation

Public Finance and sovereign outlooks

Sovereign Outlook 2025: robust fundamentals, rising fiscal pressures and geopolitical uncertainty

CEE Sovereign Outlook 2025: risk balance to ratings broadly neutral for 2025

Other relevant outlooks

Structured finance monitoring report and 2025 rating outlook

European Commercial Real Estate loan/CMBS 2025 Outlook: cautiously optimistic

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