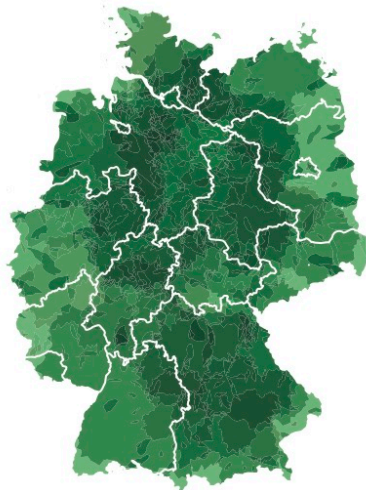


## Germany adds to green bond curve

Germany has just launched its third green bond, with a 30Y maturity. We can now calculate the green premium - dare we say greenium - at this maturity. The deal should help build non-sovereign green bond volumes at the long end of the curve



### Greener for longer

The launch of the green Bund Aug50 green line complements the existing 5Y 10/25 and 10Y 08/30 issues. In fact, it is the longest green Euro government bond issue to date. Note, though, that fellow eurozone sovereigns have also exhibited a preference for long-dated green issues, albeit slightly shorter.

---

*Germany's approach to green issuance differs from that of other sovereigns*

---

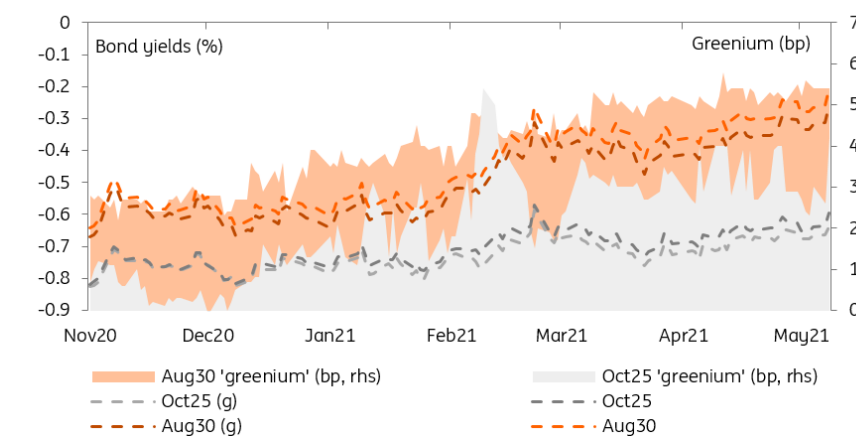
Germany's approach to green issuance differs from that of other sovereigns in that it consists of 'twin' lines that are fungible into matched coupon and maturity issues. For each of the three existing green German sovereigns bonds (5Y, 10Y, and 30Y) there is thus an identical 'non-green'

bond.

## How does one say greenium in German?

This allows for a simple 'one-to-one' comparison between green and non-green bonds. Readers familiar with green bonds will immediately see the advantage of this approach. Namely, the yield difference between these twins bonds represents accurate measures of the 'greenium', the additional price (measured in yield) investors are willing to pay to invest in green bonds rather than non-green equivalents.

## Other green Bunds offer a lower yields than non-green twins

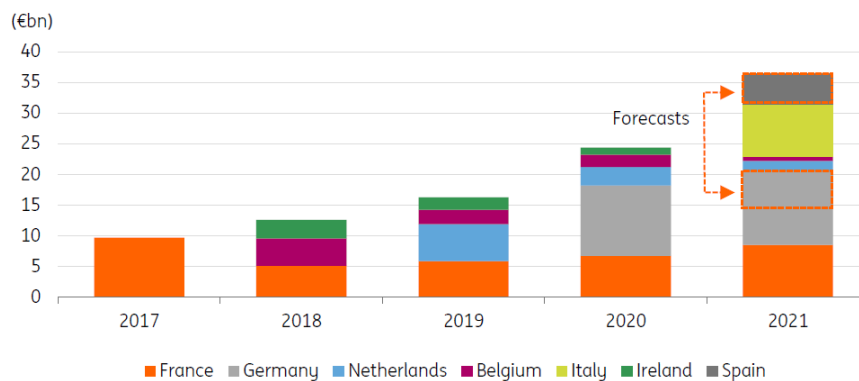


From the point of view of borrowers, in this instance the German federal state, this represents a saving on the interest rates carried by the (lower-yielding) green bond. At this point, one might object that green bonds do not necessarily trade with lower yields than non-green bonds. Except, in the current case, they do. The new 08/50 green Bund was issued at a yield 2bp lower than its non-green peer. As per today's secondary market data indicate that the 5Y and 10Y equivalent 'greenium' is around 3bp and 5bp respectively.

## It's all a matter of incentives

As long as this 'greenium' remains positive, it carries an incentive for borrowers to issue green bonds rather than non-green equivalents. As the funds raised in this way are ring-fenced for 'green' uses, the cost of financing green projects is lower. In the case of a sovereign, this could either take the form of additional 'green' expenses or simply lower the breakeven rate of return on already planned projects.

## Germany is a relatively latecomer to the green bond party



Source: Refinitiv, ING

But green sovereign issuance brings another benefit: it creates benchmark green issues off which other issuers, whether financials and corporates, can price off. Germany is a relative latecomer among eurozone sovereigns, but it is taking it seriously. Its approach is fast building a standard for the pricing of green bonds across maturities, including in shorter tenors where other sovereign green bond issuance is more scarce.

### Author

#### Antoine Bouvet

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

#### Benjamin Schroeder

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).