



In which way does the redemption amount and coupon calculation of inflation linked German government bonds react to deflation?

The nominal value of an inflation linked security is adjusted by the development of the inflation index (European HICP ex tobacco). At maturity at least the original nominal value will be paid back.

The real coupon is always paid on basis of the capital, indexed by the inflation. In case of deflation the indexation coefficient could quote below 1. Therefore the nominal amount could theoretically quote below 100 during the life time of the bond. Regarding to the interest payment this means that a coupon payment amount could be below the coupon related to the original nominal amount (100).

Could the coupon of an inflation linked German government security be 0 or negative?

The coupon is always fixed and defined in the terms and conditions of the individual securities. The interest payment could vary based on the fact that the coupon is paid on the inflation indexed capital. The calculation of the interest amount stems from nominal amount \times indexation-coefficient \times coupon. The indexation-coefficient results from inflation index at T_n / inflation index at T_0 . For an interest payment of 0 or negative the indexation-coefficient would need to be 0 or negative. Though the inflation index at time T_0 is fixed, variable is only the inflation index at time T_n . And this is the value of the underlying basket of goods where the inflation index is calculated from, which always has to be >0 . Therefore the indexation-coefficient and the interest payment can not be below 0 or negative.

How is the indexation-coefficient for the first trading days in March of a year calculated even when the publication of the price index for January by Eurostat is delayed?

An alternative index is calculated instead of the official price index (HICP ex tobacco) for January published by Eurostat. The alternative index results from the average inflation of the previous year (details please see terms and conditions of the individual securities). Based on the alternative index the index-coefficients for the first days of March are calculated. After publication of the official index the missing indexation-coefficients are calculated and published. The indexation-coefficients calculated based on the alternative index stay valid.