



The European Union

A new AAA benchmark issuer

#EUBudget #EUSolidarity #StrongerTogether

The European Union: Who we are

EUROPEAN UNION

Key facts

- Economic and political union of **27** countries, with a single market of **450 million** people and a GDP per capita of over **€25,000**.
- The **largest trading bloc in the world**, number #1 in both inbound and outbound international investments. Top trading partner for **80** countries.
- Responsibility for customs union, competition, single market (intra EU-trade), external trade centralised at EU level.
- **Single monetary policy** for the Eurozone countries implemented by the **European Central Bank**.
- A **common EU budget** to boost growth in less developed regions, finance cross-border projects and address challenges like climate change, migration, natural disasters.



The coronavirus response: A game-changer for the EU as an issuer

THE CORONAVIRUS CRISIS

EU economic response (1)

- In 2020, the EU Member States **joined forces** in response to the coronavirus crisis. On the economic front, this included:



EUR 575 bn

National measures taken under the flexibility of EU budgetary rules (general escape clause)



EUR 70 bn

Direct EU support including the CRII



EUR 3 045 bn

National liquidity measures, including schemes approved under temporary, flexible, EU State aid rules



EUR 240 bn

European Stability Mechanism pandemic crisis support for Member States



EUR 200 bn

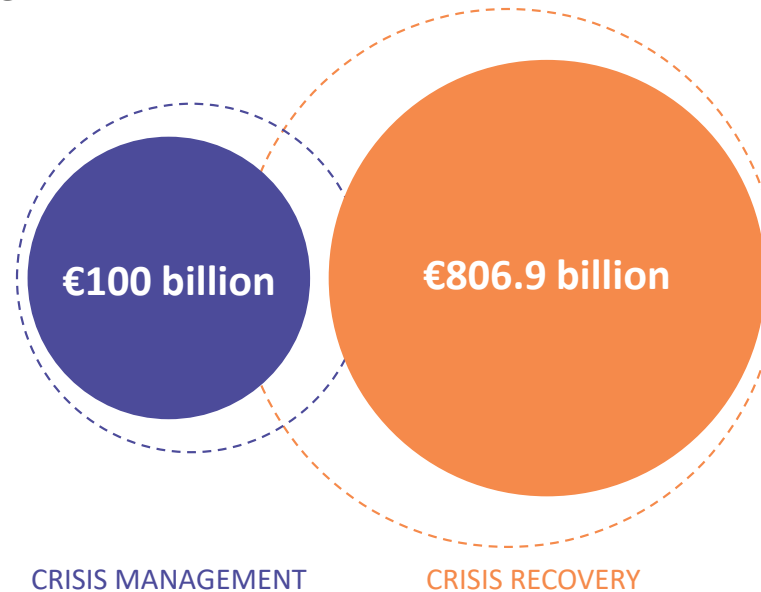
EIB - European Investment Bank Group financing for businesses

THE CORONAVIRUS CRISIS

EU economic response (2)

- In addition, EU Member States agreed **two new joint issuance programmes**, both unprecedented in scale:

SURE
Protecting jobs and
incomes during COVID-19



NextGenerationEU
Supporting the EU's post
COVID-19 recovery

Note: All amounts are in current prices.

NextGenerationEU: Building a more resilient Europe

NextGenerationEU

Programme overview

- By 2026, NGEU will provide up to **€806.9 billion** to support Europe's recovery from the coronavirus pandemic and build a **greener**, **more digital** and **more resilient** Europe.
- NGEU borrowing backed by **budgetary headroom** (the difference between the Own Resources Ceiling of the long-term EU budget and actual EU spending) that has been increased by an additional **0.6 percentage points of EU GNI until 2058**.
- At least **37%** of the **Recovery and Resilience Facility** will finance **green investments**.
- A further **20%** of the facility will finance **digital investments**.

NextGenerationEU: Funding approach

Transforming EU issuances

- To finance NextGenerationEU, the European Commission will raise up to around **€800 billion** through **bond issuance**.
- This will translate into borrowing volumes of on average **roughly €150 billion per year** between **mid-2021** and **2026** (actual volumes may vary depending on disbursement needs).
- Thanks to the EU's high credit rating, the Commission is able to borrow on **advantageous financial terms**.
- Borrowing must be **repaid by 2058**.
- The Commission will seek to raise **30%** of the funds through issuance of **NextGenerationEU green bonds**, the proceeds of which will finance green policies.

Given the scale and complexity of NGEU borrowing, the EU has adopted a DIVERSIFIED FUNDING STRATEGY similar to that of large sovereigns.

The Diversified Funding Strategy

- The **diversified funding strategy** gives the Commission the **flexibility** to adapt to changing market circumstances and investor needs.
- Mirroring the approach of **large sovereigns**, the strategy is underpinned by:



Multiple instruments: EU-Bonds & EU-Bills, green bonds, liquidity buffer at the ECB.



Different funding techniques: auctions and syndications.



6-monthly funding plans: clear and transparent communication with the markets.



Primary Dealer Network: structured relationships with the banks.



Robust governance framework and risk management.

EU funding pillar (1) – EU Bonds

- **Long-term borrowing: EU-Bonds**
 - › Regular issuance of **liquid benchmark bonds from 3 to 30 years**
 - › **Conventional and green bonds** via new bonds or taps
 - › Expected total volume and issuance weeks announced in 6-monthly funding plans.
 - › As a general rule, **one syndicated transaction and one auction per month**, subject to market conditions.
 - › Issuance weeks for syndicated transactions announced in the funding plan
 - › As a general rule, bond auctions on the 4th Monday of every month
 - › **Should market conditions or funding needs dictate that transactions cannot take place as scheduled**, timely communication to the market will follow.

EU funding pillar (2) – EU Bills

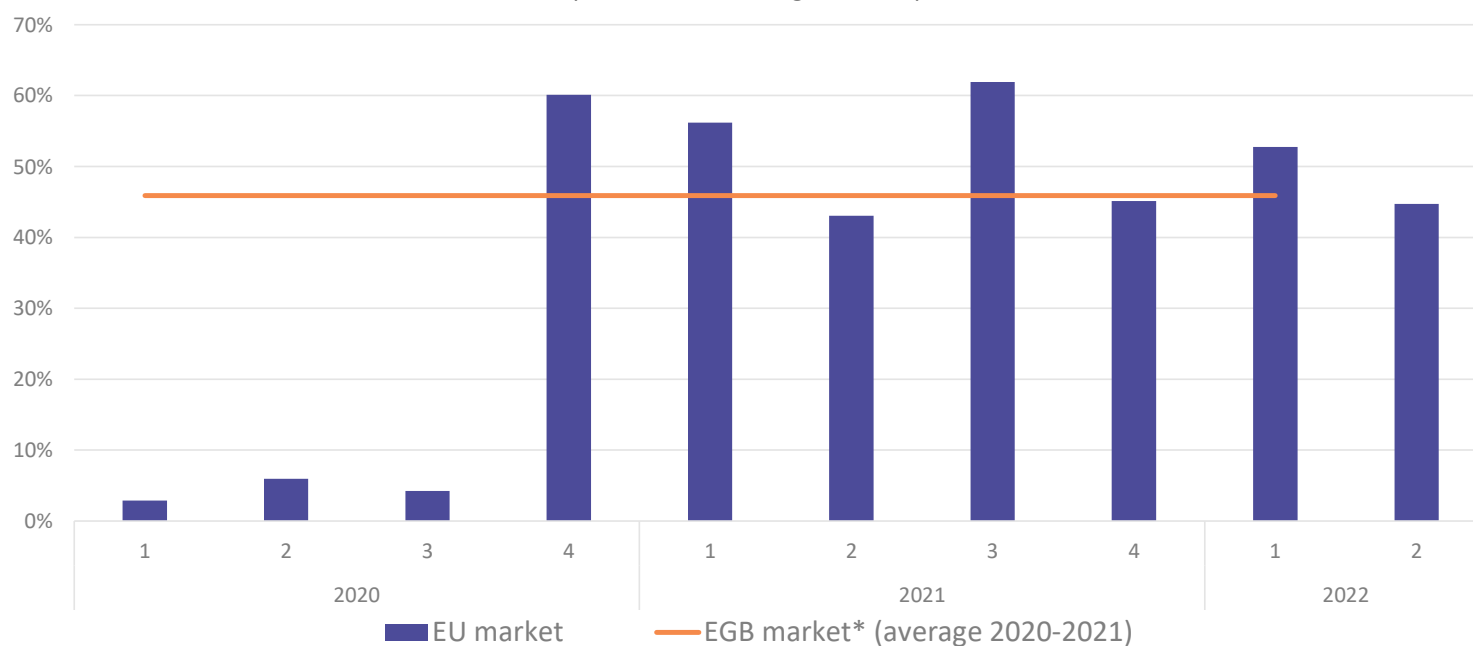
- **Short-term borrowing: EU-Bills**
 - › Cost efficient way to fund the cash holdings needed **to manage liquidity risk** and **temporarily fund NGEU disbursements**
 - › **Access to the deep and liquid money market** enabling the EU to **widen its investor base by attracting new investors or additional portfolios of existing investors.**
 - › As a general rule, two EU-Bills auctions per month, in 3-month and 6-month maturities.
 - › On the **first Wednesday of the month**, a new line with 6-month maturity is created and an established line with 3-months to maturity is tapped. On the **third Wednesday**, both lines are then tapped.
 - › Auction dates announced in the 6-monthly funding plans, with details of each EU-Bills auction released on the Friday preceding the auction in question.

EU issuance: market performance

MARKET PERFORMANCE OF EU ISSUANCE

EU bonds' liquidity on par with European sovereigns

Quarterly secondary market turnover of EU and European Government Bonds (EGB)
(% of outstanding volume)



Source: European Commission based on Bloomberg data.

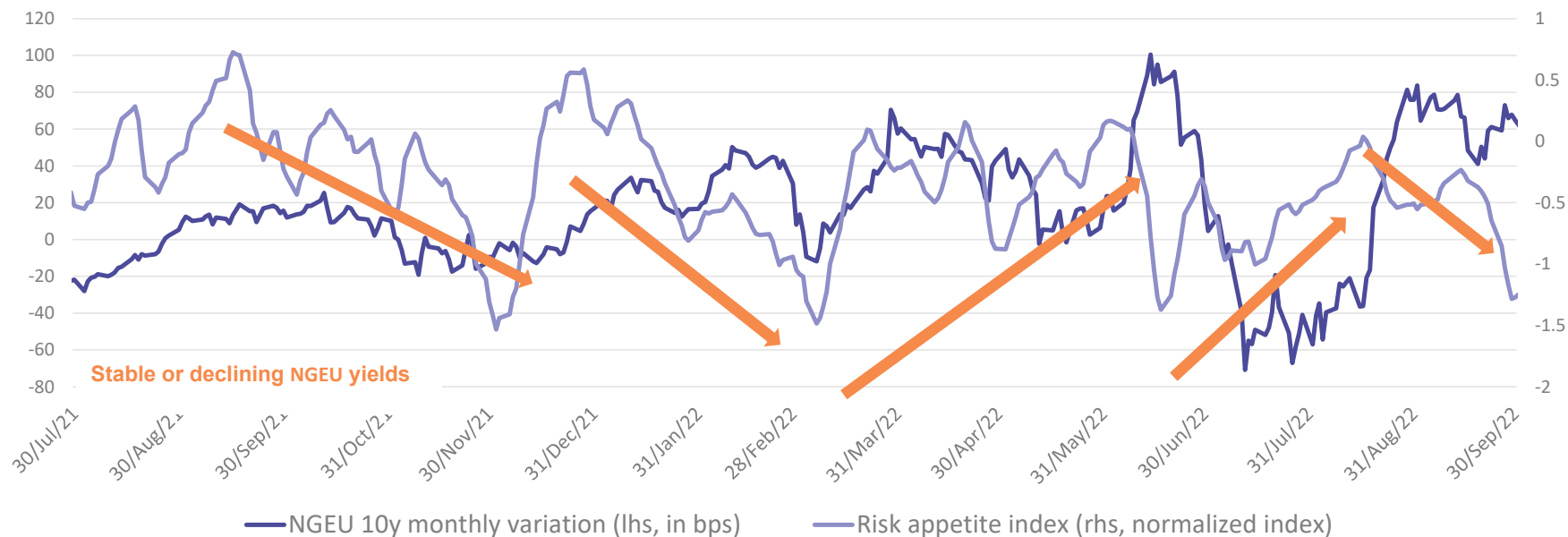
Note: European Government Bond (EGB) market here comprises Euro-area sovereigns, the European Financial Stability Fund and the European Stability Mechanism. Data for this market was not available for Q2 2022.

MARKET PERFORMANCE OF EU ISSUANCE

EU bonds acting as a safe haven

There is a strong correlation between **NGEU yields** and **risk appetite**

basis points

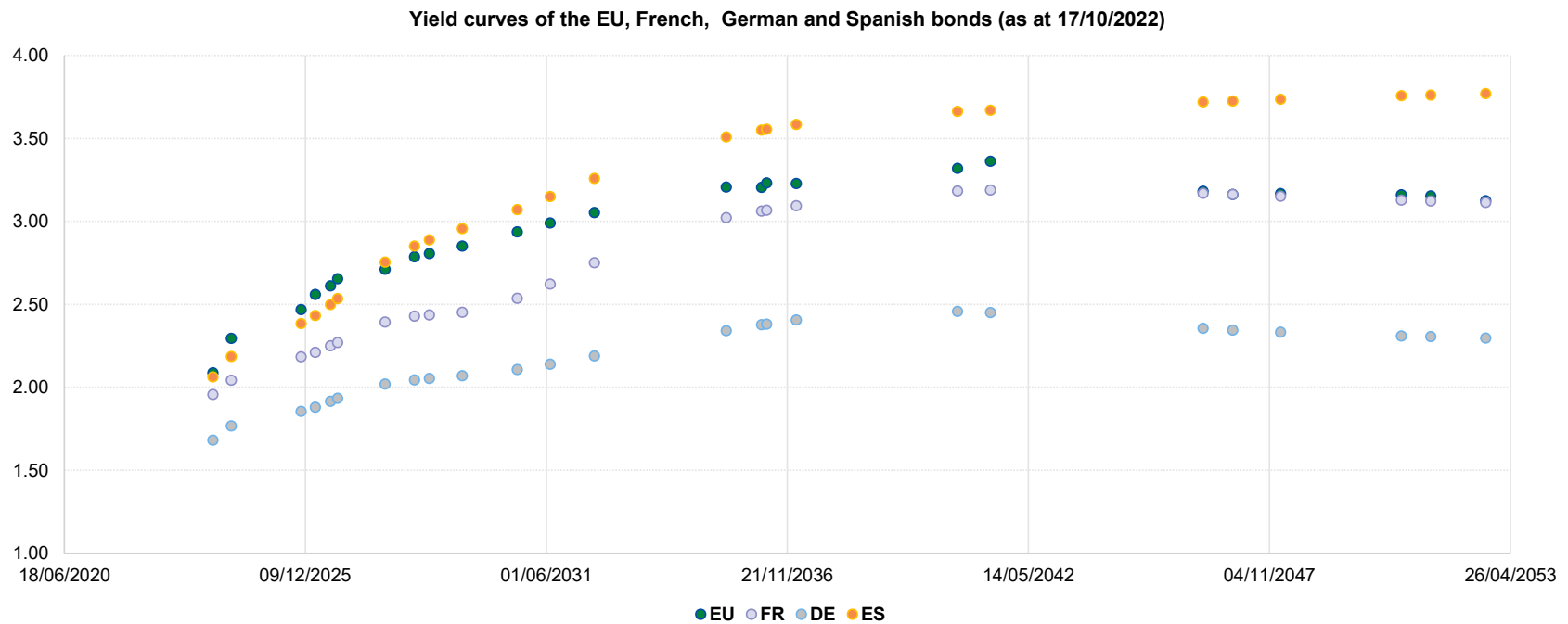


Source: European Commission based on Bloomberg data.

Note: risk appetite index calculated based on factors such as credit spreads and volatilities of financial assets. When these variables increase, the risk appetite index decreases.

MARKET PERFORMANCE OF EU ISSUANCE

EU bonds are offering attractive relative returns



Source: Bloomberg data

NextGenerationEU: Green bonds

NextGenerationEU GREEN BONDS

Driving Europe's sustainable future

- By law, a **minimum of 37%** of each Recovery and Resilience Plan – the national spending roadmaps under the Recovery and Resilience Facility - must be devoted to climate-related reforms and investments, with **many Member States striving to do more.**
- The Commission is seeking to issue 30% of NextGenerationEU (up to **€250 billion** in current prices) in the form of **green bonds** to finance this expenditure. This will make the EU the world's largest green bond issuer.

Why the NGEU green bonds matter:

- › Confirmation of the Commission's **commitment to sustainable finance**
- › A new, highly rated, liquid, **green asset**
- › Access to a **wider range of investors for the European Commission**
- › New **portfolio diversification opportunities** for green investments
- › Boost to the **green bond market** helping accelerate a **virtuous circle of sustainable investments**

The NGEU Green Bond Framework

- The Commission has established the **NGEU green bond framework** to govern NGEU green bond issuances.
- The framework has been assessed by Vigeo Eiris, a second party opinion provider, who found that:
 - › The NGEU green bond framework is aligned with the **ICMA green bond principles** and coherent with the Commission's **overall ESG strategy**;
 - › NGEU green bonds provide a **robust contribution to sustainability**; and
 - › The Commission provides an **advanced level of ESG risk management**.
- On the basis of the framework, NGEU green bonds have also been added to **the MSCI Global Green Bond Index**.

EU issuance: future outlook

NGEU funding plan – H2 2022

- To facilitate communication with investors and coordination with sovereign issuers, the Commission publishes **biannual funding plans** which frame the NGEU borrowing activities it will undertake in the coming 6 months.
- **The NGEU funding plan for the second half of 2022 was released in June 2022**
- **NGEU target for long-term funding** for the second half of 2022: **€50 bn** via both conventional and NGEU green bonds*.
- Further use of auctions with exact ratio between auctions and syndications to depend on the market conditions and the Commission's exact funding needs.

The Funding Plan frames the borrowing to be undertaken over the coming 6 months and facilitates communication with investors and coordination with sovereign issuers.

**The Commission will also continue to be present in the market in the context of its other financing programmes (SURE and MFA), with an estimated funding volume over the period October to December 2022 of up to ca. €11.6 billion.*

For more information:



Check out our EU as a borrower website: <https://europa.eu/!mq99rn>



Get an overview of the NGEU borrowing in its 1st year of operations:
<https://europa.eu/!3QB7Qv>



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