

NextGenerationEU GREEN BONDS

#EUbudget #GreenBonds #RecoveryEurope

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NextGenerationEU and green bonds

NextGenerationEU is a temporary recovery instrument worth €750 billion in 2018 prices or some €800 billion in current prices. It is at the heart of the European Union (EU) response to the coronavirus crisis and aims to support the economic recovery and build a greener, more digital and more resilient future.

To finance NextGenerationEU, the European Commission, on behalf of the EU, will borrow on the capital markets. The borrowing will be concentrated between mid-2021 and 2026. All borrowing will be repaid by 2058.

The Commission will seek to raise 30% of the funds through the issuance of **NextGenerationEU green bonds** and use the proceeds to finance green policies. European Commission President Ursula von der Leyen voiced this Commission ambition in her 2020 State of the European Union speech.

EU presence on the market of sustainable bonds

Environmental, Social, and Corporate Governance (ESG) labelled bonds are a fast growing segment in capital markets. These instruments connect issuers seeking to raise finance for activities with an evident sustainable character with investors wishing to make their capital available to support projects with sustainable environmental and social impact.

The two most popular types of ESG-labelled bonds are social bonds and green bonds. The size of the social bond market reached almost €170 billion globally by the end of 2020. Cumulative Green bond issuance worldwide surpassed €850 billion in 2020. The EU Member States and EU institutions account for around 50% of the €1.1 trillion of global ESG issuance to date.

The Commission entered the sustainability market in 2020 with its SURE social bond. Under this programme, the Commission is raising up to €100 billion (of which €75 billion has already been raised as of mid-April 2021) on the capital markets. It has used the proceeds to provide back-to-back loans to beneficiary Member States. With the funds, Member States finance different short-time work schemes, and other similar measures to preserve employment and support incomes. All EU SURE social bonds are compliant with the Social Bond Principles of the International Capital Market Association (ICMA).



This, paired with the EU's strong credit rating, has attracted strong investors' interest over a number of separate issuances up to date. The first EU SURE bond of €17 billion broke many records on the market, including the one for the largest European bond issuance to date.

With NextGenerationEU, the Commission will also enter the green bonds segment of the ESG market.

NextGenerationEU green bonds: the added value

The European Commission's intention to issue 30% of NextGenerationEU as green bonds, amounting to up to €250 billion in current prices, aims to:

- Provide access to a wide range of investors, in particular ESG-focused investors, in line with the objectives of the NextGenerationEU funding strategy.
- Reconfirm the Commission's commitment to sustainable finance and to green policies and cement Europe's leading role in sustainable finance markets.
- **Support the European green transition** on advantageous financial terms to the EU.

- Boost the size of the green bonds' market and inspire more issuers to issue green bonds.
- The increased availability of a safe and sizeable green asset will enable portfolio managers to diversify further their portfolio of green investments. Investments in riskier green projects can be balanced out with safe NextGenerationEU green bonds. This would increase the financial flows to green technologies with risk potential, thus benefitting the real economy in the longer run.

The intention of the European Commission to issue 30% of NextGenerationEU as green bonds is a clear illustration of its commitment to sustainability. It will allow NextGenerationEU to harness market demand for ESG bonds and create added value for the ESG market as well as for the real economy. It is a win-win for all.

NextGenerationEU green bonds: the way forward

90% of the funds under NextGenerationEU will be spent under the Recovery and Resilience Facility, an instrument to offer grants and loans to support reforms and investments in the EU Member States at a maximum total value of €672.5 billion in 2018 prices or €723.8 billion in current prices.

37% of the funds under this instrument will support the transition towards a green future. The tracking of green expenditures will be done via the EU climate marker tracking system, the basis of which is contained in the rules governing the Recovery and Resilience Facility. The EU climate marker tracking system embedded in the Recovery and Resilience Facility has aimed to anticipate as many elements as possible of the EU Taxonomy.

The remaining 10% of NextGenerationEU will go to several EU programmes, which also allocate significant funding to climate-related expenditure. That expenditure will also be tracked by EU climate markers in a consistent fashion. Spending for these policy areas is therefore also eligible for green bond financing under NextGenerationEU.

The decision to integrate elements of the EU Taxonomy into the rules governing the Recovery and Resilience Facility before they have been implemented is a clear expression of the EU commitment to sustainability.

Within the legal framework already established for the instruments to be financed from NextGenerationEU, Member States will have to provide information to demonstrate that proceeds have been used to finance climate transition activities. Accordingly, the Commission is preparing a green bond issuance framework based on the four pillars enshrined in the Green Bond Principles of the International Capital Market Association and taking into account the future EU Green Bond Standard to the extent possible. The framework aims to provide the necessary confidence to investors that proceeds raised through NextGenerationEU green bond issuance will be used for green investments. The Commission is working on a green bond framework and we are confident that Member States will live up to their responsibility in this regard as well.

Through the issuance of NextGenerationEU green bonds, the Commission intends to further develop the green bond market, strengthen Europe's leading role in sustainable finance and attract the interest of the growing community of ESG-oriented investors.



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