

# Budgetary safeguards protecting investors in EU-Bonds and EU-Bills

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#EUBudget #RecoveryEurope

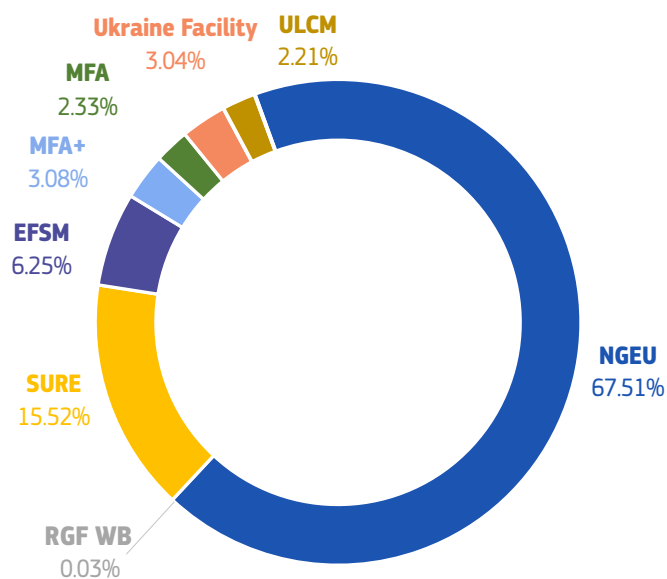
EU-Bonds enjoy high credit ratings thanks to the backing by the EU budget which allows the EU to mobilise resources needed to ensure payments of interest and principal to investors.

This factsheet describes how the EU meets its commitments towards investors.

## Main principles

Most EU programmes that rely on debt financing use the proceeds to finance loans to Member States or third countries.

### Use of proceeds from EU Bonds outstanding at end 2023



Source: European Commission, data as of 31 October 2025

**NGEU:** NextGenerationEU

**RGF WB:** Reform and Growth Facility for the Western Balkans

**SURE:** Support to mitigate Unemployment Risks in an Emergency

**EFSM:** European Financial Stabilisation Mechanism

**MFA+:** Macro-Financial Assistance +

**MFA:** Macro-Financial Assistance

**Ukraine Facility:** Ukraine Facility

**ULCM:** Ukraine Loan Cooperation Mechanism

Under these loans, interest and principal repayments will be repaid to the EU budget by the beneficiaries in due time to allow the EU to meet its corresponding commitments to bond investors. To date, the EU has never experienced any instance of repayment failure by a Member State or third country beneficiary.

If a beneficiary was to default on its repayments, the EU budget provides for alternative recourses so that the required funds can be mobilised to repay bond investors in good order and in due time. In this context, Article 323 of the Treaty of the Functioning of the European Union (TFEU) obliges the EU institutions to ensure that the financial means are made available to allow the EU to fulfil its legal obligations in respect of third parties. There is thus a clear overriding legal principle that the EU must be able in all circumstances to mobilise the resources needed to honour its commitments to its bond investors in a timely manner.

The ultimate alternative recourse to which the EU would turn – after having exhausted other possibilities – is the so-called EU budgetary “headroom” under the own resources ceiling (see below for more details)<sup>1</sup>. In accordance with Article 3 of the Own Resources Decision (ORD), the EU has a right to call on contributions from Member States for up to 1.4% of the EU’s Gross National Income, (GNI) per annum (including planned contributions to the annual budget of the EU). Member States are bound to meet this call according to a pro-rata which is based on the GNI. This additional callable resource is more than adequate to meet annual amounts falling due for payment as a result of EU borrowings.

In the particular case of NGEU, which allowed the EU to finance not only loans to Member States but also for the first time non-repayable support (grants) to Member States (up to EUR 338 billion under the Recovery and Resilience Facility (RRF)) and some reinforcement of EU structural policies (EUR 83.1 billion) through bond issuances, the principal on amounts borrowed for non-repayable support will start to be repaid from the annual EU budgets from 2028 onwards. In the unlikely scenario that annual budgets will not provide for the needed resources, the EU would have the right to call on Member State contributions of up to 0.6% GNI per annum (on top of the 1.4% GNI up to 2058) in order to make all repayments arising from NGEU financing.

## **Main alternative budgetary recourses that underpin the different EU programmes financed by bond issuance.**

### **1. AVAILABLE BUDGETARY HEADROOM UNDER THE OWN RESOURCES CEILING:**

- The own resources ceiling is the maximum amount of resources that the Commission can ask Member States to contribute in a given year. Currently, this ceiling stands at 1.4% of the GNI (see above) for payments.
- Contributions to the EU budget are an unconditional legal obligation of all Member States. This legal obligation has always been honoured by Member States, in all circumstances, including crisis.
- The provisions relating to the system of own resources of the EU are laid down in the ORD, a Decision adopted at unanimity in the Council, and approved by each Member State according to its constitutional requirements (legal basis: Article 311, third paragraph, TFEU).
- EU programmes that rely on the budgetary headroom under the own resources ceiling of 1.4% of EU GNI include: financial assistance programmes to Member States (EFSM, Balance of Payments (BoP), SURE reinforced by Member State guarantees, SAFE); the Ukraine MFA+ instrument; loan support under the Ukraine Facility (Regulation (EU) 2024/792); and exceptional MFA to Ukraine under the ULCM (see section 3 below).

### **2. AVAILABLE BUDGETARY HEADROOM UNDER THE TEMPORARY NGEU OWN RESOURCES CEILING:**

- To guarantee EU borrowing used to fund NGEU, the ORD introduced a temporary (until 31 December 2058) increase of the own resources ceiling by 0.6% of EU GNI per annum (thus on top of the 1.4% GNI).
- These 0.6 % of EU GNI can only be used to guarantee the liabilities arising from NGEU. This increase in the Own Resource Ceiling will expire when all funds have been repaid and all liabilities associated with NGEU have ceased to exist (at the latest by 31 December 2058).
- This means that the EU Budget is fully resourced to meet all NGEU-related payments whenever they fall due.



<sup>1</sup> Headroom is the difference between the own resources ceiling (i.e. the maximum amount of resources that the Commission can ask Member States to contribute in a given year) and the funds that the Commission actually needs to cover the expenses foreseen by the budget.

### 3. EX-ANTE PROVISIONING FROM THE ANNUAL BUDGET TO ABSORB POTENTIAL LOSSES ON SOME LOANS TO THIRD COUNTRIES FINANCED THROUGH EU-BOND ISSUANCE:

- For most programmes that are financing loans to third countries reserves/provisions are set aside within the annual budget if ever the beneficiary third country failed to make its repayments to the EU. This is the case for MFA loans to third countries (with the exception of the 2023 MFA+ loans to Ukraine, loans under the Ukraine Facility and the exceptional MFA to Ukraine under the ULCM, which rely directly on the budgetary headroom), as well as for the Reform and Growth Facilities for the Western Balkans and for the Republic of Moldova.
- These provisions are paid annually from the EU budget and are also foreseen in the financial programming of the Multiannual Financial Framework (MFF) 2021-2027, the EU's long-term budget.
- The amounts set aside for MFA loans and Facilities are held in a dedicated compartment of the so-called Common Provisioning Fund, which holds funds for coverage of budgetary guarantees and macro financial assistance to third countries. For MFA loans and Facilities to third countries, the EU annual budget currently sets aside as reserves/provisions 9% of the amounts lent. The 9% contribution has been established also taking account of diversification effects between the credit risk of the different loans (i.e. given that all loans granted will not default simultaneously, the provisioning held does not cover the full amount of expected losses).
- EUR 5 billion of NGEU issuance is also used to provision the InvestEU compartment of the Common Provisioning Fund set aside to cover potential calls on budgetary guarantees that support investment within the EU. The amounts to repay the borrowings needed to provision the InvestEU compartment will be repaid from future annual budgets under the EU budget headroom under the temporary NGEU own resources ceiling (see section 2).

### 4. COMPLEMENTARY GUARANTEES PROVIDED BY EU MEMBER STATES TO ENHANCE EU BUDGET PROTECTION:

- In two specific instances in recent years, the available budgetary headroom under the own resources ceiling, or provisions to the Common Provisioning Fund made available by the annual EU budget, were complemented by additional ad-hoc guarantee commitments from all Member States to provide additional amounts up to a clear limit, under certain conditions. Such additional layer of protection is first laid down in the EU legislation by which the EU legislator authorised the two EU financial assistance programmes concerned:
  - **SURE:** the SURE loan programme (Council Regulation (EU) 2020/672 of 19 May 2020) was agreed at the end of the last MFF (2014-20) when amounts to be available under the Own Resources permanent budgetary headroom for MFF 2021-2027 were not yet known. In order to alleviate the headroom from bearing the risk of the full amount of liabilities arising if one or several Member States defaulted on their repayments of loans to the EU, Member States agreed to provide collective pro-rata (to GNI) guarantees to cover up to EUR 25 billion of potential losses on the SURE loans only.



- **MFA loans to Ukraine made in July-December 2022 (EUR 6 billion):** given the elevated risks associated with these loans, the EU considered it prudent to provision for losses of up to 70% of their value. As there were not sufficient resources in the Common Provisioning Fund to establish the desired provisioning, Member States agreed to provide collective pro-rata (to GNI) guarantees of 61% of the amount alongside the 9% provisioning from the EU budget to the Common Provisioning Fund.



# Summary

EU programme funded by borrowing	System of protection
<b>Security Action for Europe (SAFE)</b>	Budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI
<b>Reform and Growth Facility for the Republic of Moldova</b>	Common Provisioning Fund (9% of the loan to the third country)
<b>Exceptional MFA to Ukraine under the ULCM (2024)</b>	Budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI
<b>Reform and Growth Facility for the Western Balkans (RGF WB)</b>	Common Provisioning Fund (9% of the loan to the third country)
<b>NextGenerationEU (NGEU)</b>	Budgetary headroom under the temporary own resources ceiling of the EU budget – an extra 0.6% of EU GNI above the own resources ceiling of the EU budget of 1.4% of EU GNI.
<b>SURE</b>	Guarantee provided by all EU Member States (25%) + budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI
<b>MFA (standard)</b>	Common Provisioning Fund (9% of the loan to the third country)
<b>Exceptional MFA to Ukraine (2022)</b>	Common Provisioning Fund (9% of the 2022 loan to Ukraine) + guarantees by all EU Member States (61% of the 2022 loan)
<b>MFA+ to Ukraine (2023)</b>	Budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI
<b>Ukraine Facility (2024)</b>	Budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI
<b>Balance of Payments (BoP)</b>	Budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI
<b>European Financial Stabilisation Mechanism (EFSM)</b>	Budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI
<b>Euratom loans to third countries</b>	Common Provisioning Fund (9% of the loan) and counter-guarantees by third countries
<b>Euratom loans to Member States</b>	Budgetary headroom under the own resources ceiling of the EU budget of 1.4% of EU GNI

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