



EU Investor Presentation

INVESTING IN EU-Bonds & EU-Bills

#EUBudget #EUSolidarity #StrongerTogether

The European Union: Who we are



The EU: A unique union of sovereign states

- The EU is an **economic and political** union of **27 sovereign Member States**, defined by a **unique institutional structure** unlike a typical supranational entity:
 - › The EU has **decision-making capacity** in areas where Member States have transferred their sovereignty to the EU through the EU Treaties.
 - › The EU Treaties empower the EU to establish **EU laws** in certain areas, which the EU has **legislative power** to implement and enforce.
 - › The EU has **a distinct legal personality**, participating in international fora like the WTO (as a member) and the UN (as an observer).
 - › The EU has a **common currency** for the eurozone and an **independent central bank** (ECB) responsible for monetary policy.
 - › The EU has a **common budget** to finance EU policy priorities and **back EU debt issuance** (unlike a typical supranational with debt backed by pooled or committed capital).



The EU as an issuer



EU issuances support EU policy objectives






- The European Commission has been using bond issuance to support EU policies for over 40 years.
- Policies that have been funded by EU-Bonds include:
 - › **NextGenerationEU (NGEU):** An instrument under which the EU is expected to raise up to €712 billion (out of a maximum envelope of €806.9 billion) to support the EU's recovery from the Covid-19 pandemic and build a greener, more digital and more resilient future.
 - › **SURE:** Up to €100 billion instrument to **preserve employment and incomes** throughout the coronavirus crisis.
 - › **Macro-Financial Assistance (MFA):** Financial aid programme for countries outside of the EU.
 - › **European Financial Stabilisation Mechanism (EFSM):** Up to €60 billion programme to support EU Member States threatened by severe financial difficulties.
 - › **Balance of Payments (BoP):** Assistance facility for EU countries outside the euro area experiencing or threatened by difficulties regarding their balance of payments.
 - › **Euratom:** Financing eligible projects on behalf of the European Atomic Energy Community

How EU debt is guaranteed

- The **European Commission** is empowered by the **EU Treaties** to borrow from international capital markets on behalf of the European Union.
- All Commission borrowings are hence **direct and unconditional obligations of the EU**, and the EU is **legally bound** by the Treaty on the Functioning of the EU (Article 323) to service this debt.
- The EU's debt service is further ensured through multiple layers of **debt-service protection**, including:
 - › **Loan agreements:** EU loan beneficiaries have always serviced their debt; and
 - › **The EU budget:** the ultimate guarantor for all EU debt
- A summary of the **EU's budgetary safeguards** can be found [here](#)

High credit strength

- The EU enjoys a **high credit rating** from all major ratings agencies:

| AGENCY |  |  |  |  |  |
|------------------|---|--|---|---|---|
| EU CREDIT RATING | <p>AAA / F1+ Outlook stable</p> | <p>Aaa / (P)P-1 Outlook stable</p> | <p>AA+ / A-1+ Outlook stable</p> | <p>AAA / S-1+ Outlook stable</p> | <p>AAA* / R-1 (high)* Outlook stable</p> |

* Unsolicited rating

Favourable regulatory treatment of EU-Bonds

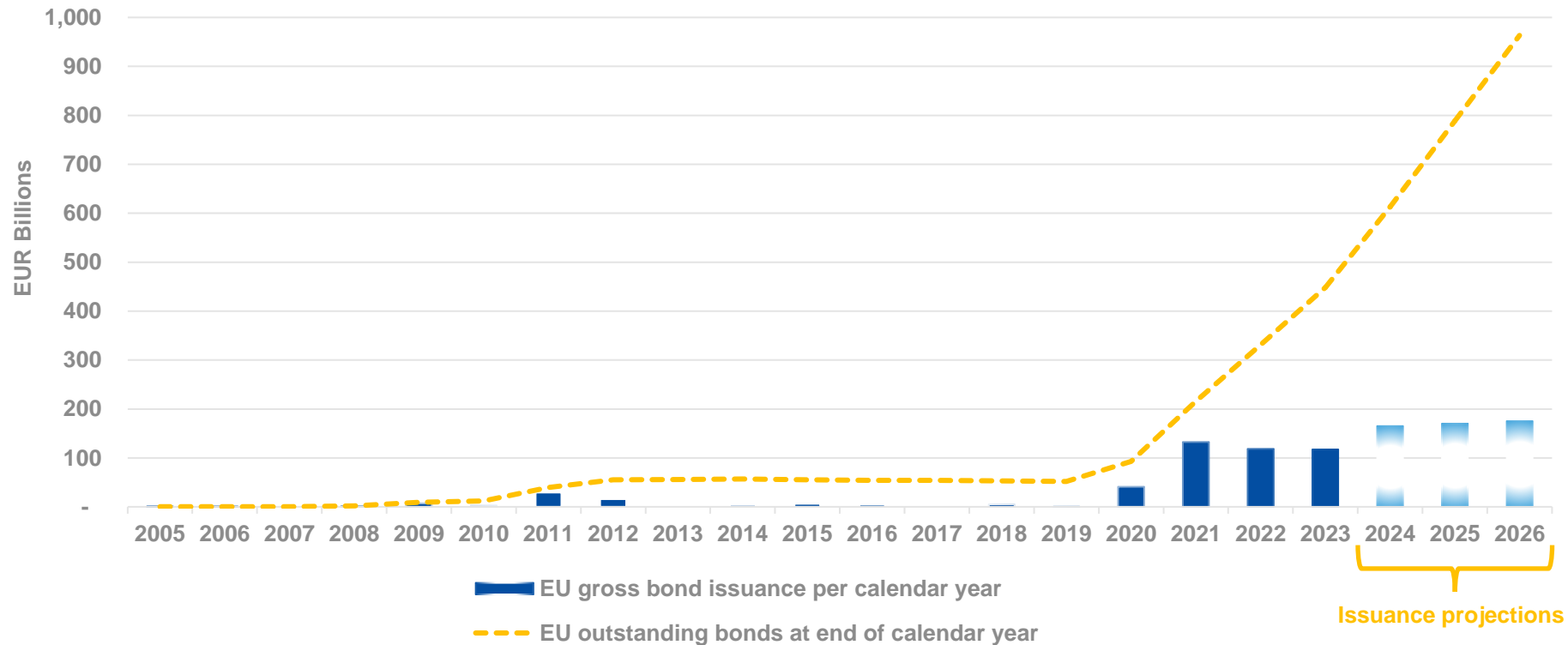
- **EU-Bonds** are:
 - › Considered **Level 1 HQLA** (High Quality Liquid Assets) for Liquidity Coverage Ratio calculation under the Basel framework, with 0% risk weight.
 - › Eligible as collateral for Eurosystem credit operations (**ECB eligible**).
 - › Re-assigned to **haircut category I**, the same as used for debt instruments issued by central governments, in the ECB's risk control framework for credit operations since 29 June 2023.
 - › Usable as collateral with several central counterparty clearing houses (**CCPs**) (Eurex, LCH).
 - › Available on multiple trading platforms for **cash and repo trading**.



The Evolution of EU issuances

EVOLUTION OF EU ISSUANCES

EU issuances: Supporting EU political priorities at unprecedented scale





Covid-19 crisis: A game-changer for EU issuances

- With the onset of the Covid-19 crisis in 2020, Member States **joined forces** and proposed **two new EU issuance programmes**, both unprecedented in scale:

Scale of funding

Up to **€100 billion** in social bonds

SURE

Purpose

Fund back-to-back loans for short-term work schemes to preserve incomes and jobs.

Current status

SURE is **complete** following 9 issuances from 2020 – 2022 which raised €98.4 billion

Key results

Up to 31.5 million people supported at the height of the pandemic in 2020

Scale of funding

Up to **€712 billion** expected to be raised (from €806.9 billion total programme envelope), with up to 30% in **green bonds**

NGEU

Purpose

Finance the EU's green and digital recovery with grants/loans under the RRF and to the EU budget

Current status

NGEU is **ongoing**, with funding needs of on average €150bn from 2024 – 2026

RePowerEU

From Autumn '22 – Summer '23 recovery plans were modified to include energy diversification chapters

Financial assistance for Ukraine



- In response to Russia's invasion of Ukraine, the EU has used EU-Bond issuance to support Ukraine with:
 - **2022: €7.2 billion** in emergency MFA loans.
 - **2023: €18 billion** in concessional MFA+ loans.
- Between **2024 - 2027**, the EU will provide Ukraine with up to **€50 billion** in financial support under the **Ukraine Facility**, of which up to **€33 billion** will be funded by EU-Bond issuance.
- These amounts come on top of the **€5 billion** the EU provided Ukraine through various MFA programmes between 2014 and 2021.

EU Funding approach

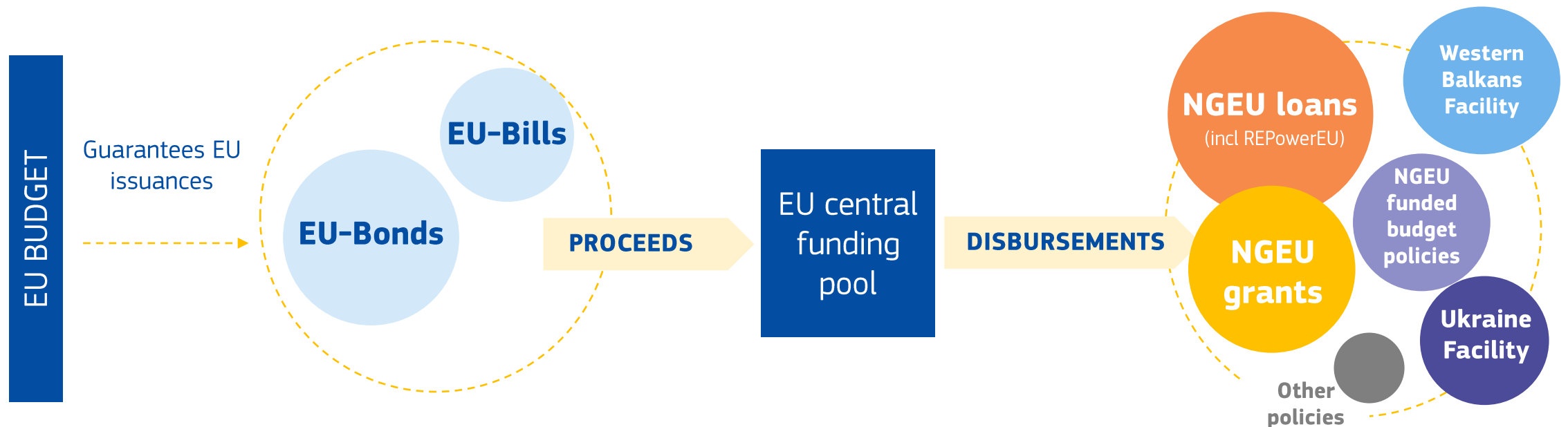


The unified funding approach: EU's single funding approach

- In January 2023, the Commission **extended the diversified funding strategy** established in 2021 to finance NextGenerationEU to all future programmes.
- All EU issuances are now **consolidated under a single EU-Bonds umbrella**. This benefits the EU funding programme by:
 - › **Ending programme fragmentation**, moving to a uniform “EU-Bonds” label for all EU issuances.
 - › Supporting the maintenance of a **liquid, homogeneous EU curve** going forward.
 - › Unifying the **risk, compliance and governance frameworks** underlying all EU borrowing operations.
 - › Bringing all EU issuances under the scope of the Commission’s 6-monthly funding plans.
 - › Enabling the EU to make payments to debtors and creditors using a **single liquidity pool**.
 - › Extending the **flexibility** embedded in the diversified funding strategy established for NGEU to all EU issuances.

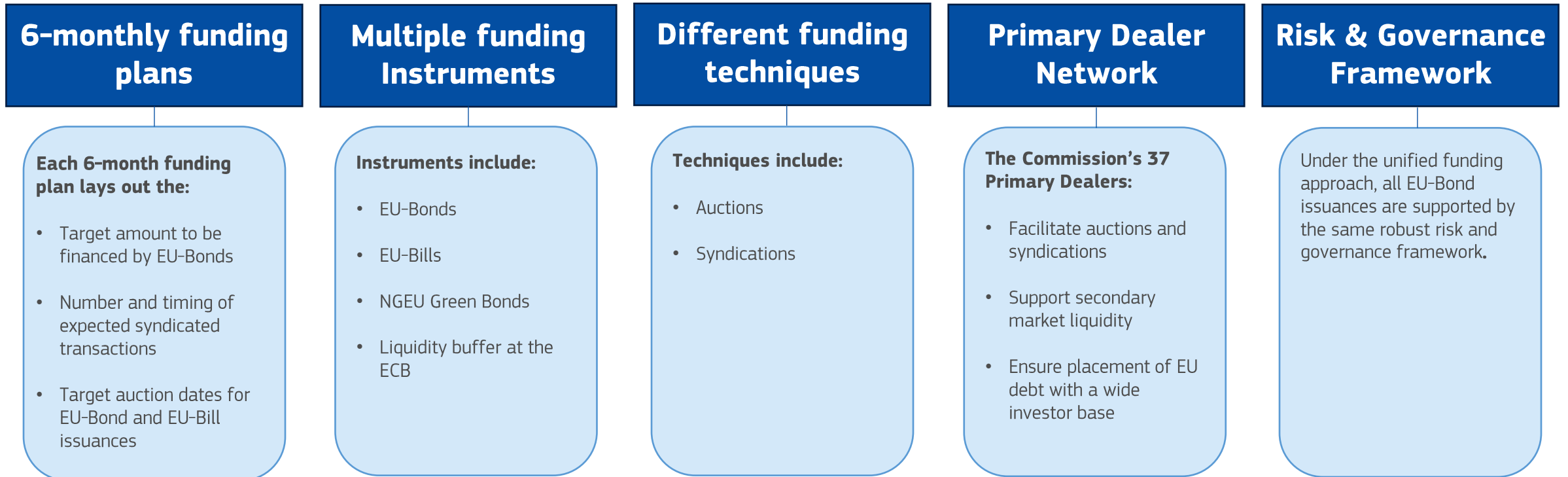
The unified funding approach in a nutshell

- Under the unified funding approach **all EU borrowing policies** are financed by a **central funding pool**, integrated with existing outstanding debt:



The unified funding approach is applied for conventional bonds. NextGenerationEU Green Bond issuances continue to finance only measures eligible under the NextGenerationEU Green Bond framework. Other policies to include existing or potential future programmes financed by EU borrowing. REPowerEU relies on financing from remaining Recovery and Resilience loans.

Characteristics of the unified funding approach



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 issues or taps
 - › Expected total volume and issuance weeks announced in 6-monthly funding plans.
 - › **Bond issuances via syndicated transactions and auctions**, on basis of pre-announced [issuance windows](#)
 - › Any changes related to information in the funding plan will be communicated to the market in a timely manner.

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 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.
 - › In the **first auction of the month**, a new line with 6-month maturity is created and an established line 3-months to maturity is tapped. On the second auction of the month 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 FUNDING APPROACH

Primary Dealer Network

- The EU has built a strong and geographically diverse group of **37 Primary Dealers** to support EU-Bonds and EU-Bills in primary and secondary markets;



NextGenerationEU: Green Bonds



NextGenerationEU: driving EU's green transformation

- 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 up to **30% of NextGenerationEU** in the form of **green bonds** to finance this expenditure. This is expected to make the EU the world's largest green bond issuer.

Why 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**

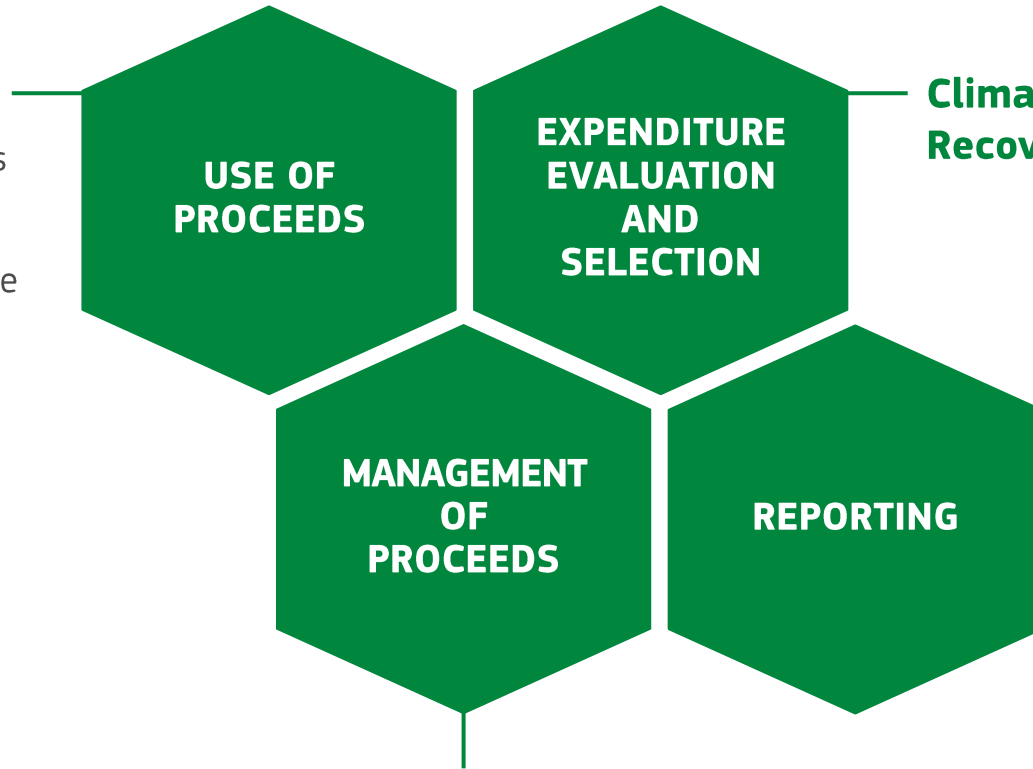
The NGEU Green Bond Framework (1)

- 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**.

The NGEU Green Bond Framework (2)

Nine eligible categories:

-  Research and innovation activities supporting the green transition
-  Digital technologies supporting the green transition
-  Energy efficiency
-  Clean energy & network
-  Climate change adaptation
-  Water & Waste management
-  Clean transport & Infrastructure
-  Nature protection, rehabilitation and biodiversity
- Other.



Climate investments in the Recovery and Resilience Facility

Allocation reporting

- Showing how funds have been spent
- Subject to independent external limited assurance audit

Impact reporting

- Showing what funds have achieved
- Subject to external expert advice
- Subject to independent external limited assurance audit

Tracking the funds spent on green projects

- Real-time green bond “dashboard” launched in March 2022 (Link [here](#))

NGEU Green Bond Dashboard

- Launched in March 2022, the [green bond dashboard](#) **allows tracking of planned expenditure eligible to be financed by green bonds**

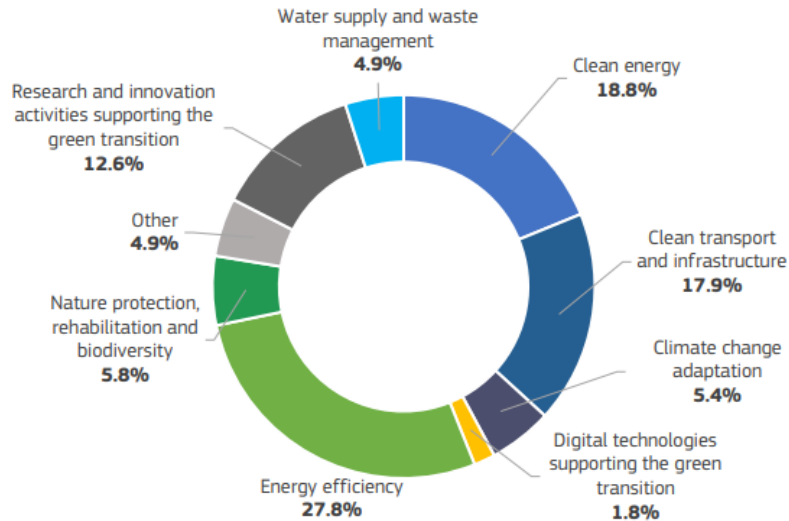
| | |
|---|--|
| <p>NextGenerationEU amount eligible for financing through green bonds</p> <p>190 606</p> <p>Expenditure in Member States' Recovery and Resilience Plans that is eligible for being included in the pool of NextGenerationEU Green Bonds financing.</p> | <p>NextGenerationEU Green Bonds issued to date</p> <p>55 911</p> <p>Funds raised from capital markets via NextGenerationEU Green Bonds. For an overview of the NextGenerationEU transactions data to date click here.</p> |
| <p>NextGenerationEU expected eligible expenditure</p> <p>58 257</p> <p>Expected expenditure, based on actual payments to Member States and the share of green bond eligible expenditure in their respective RRP.</p> | <p>NextGenerationEU Green Bonds expenditure</p> <p>34 080</p> <p>Reported eligible expenditures by Member States to which green bond proceeds have been allocated to date.</p> |

Figures in EUR million
Source: Green bond dashboard

NGEU Green Bonds Allocation and Impact Report

- In December 2023, the Commission published the first annual [comprehensive report](#) on the **allocation** of NGEU Green Bond proceeds and the **impacts** of investments financed by NGEU.

Fulfilled milestones and targets per expenditure category (as of 1 August 2023)



Estimated impact per expenditure category*

| Expenditure Category | GHG Emissions avoided (in tCO2e/year) - Total expected by 2026 |
|--|--|
| Research and innovation activities supporting the green transition | 3,499,281 |
| Energy efficiency | 7,407,791 |
| Clean energy & network | 18,648,956 |
| Water supply & waste management | 992,881 |
| Clean transport & infrastructure | 13,656,781 |
| Grand Total | 44,205,690 |

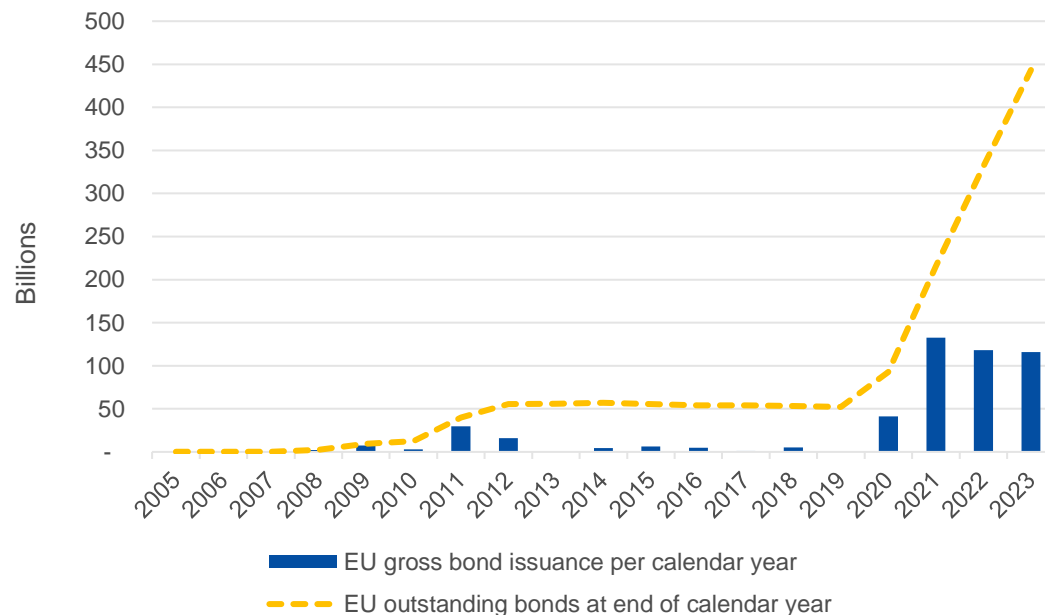
*As of 1 August 2023, realised impacts are only a small fraction of this amount (0.5%) reflecting the early stage of implementation of policies financed by NGEU Green Bonds.

EU Issuances: State of play

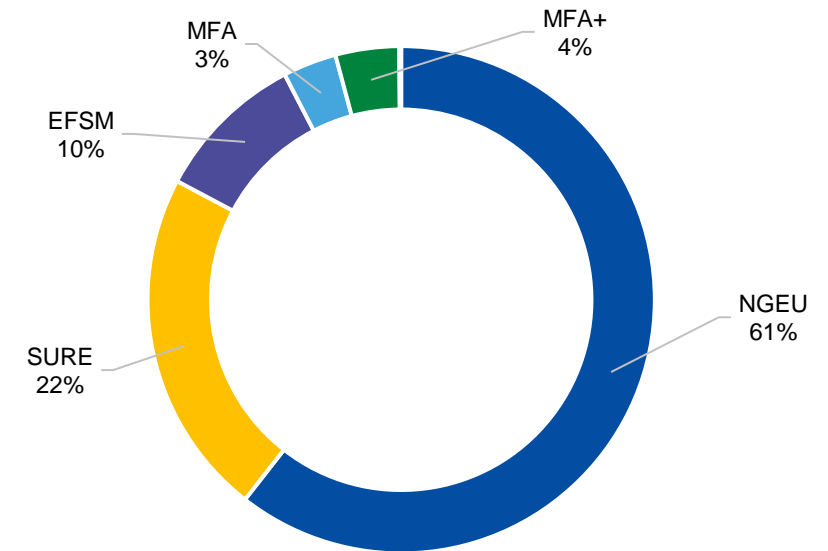
Increasing amounts of EU outstanding bonds

- As of 26 April 2024, EU outstanding bonds of over **€488 billion** with the majority of bond proceeds allocated to NGEU.

Evolution of EU outstanding bonds 2005 – 2023

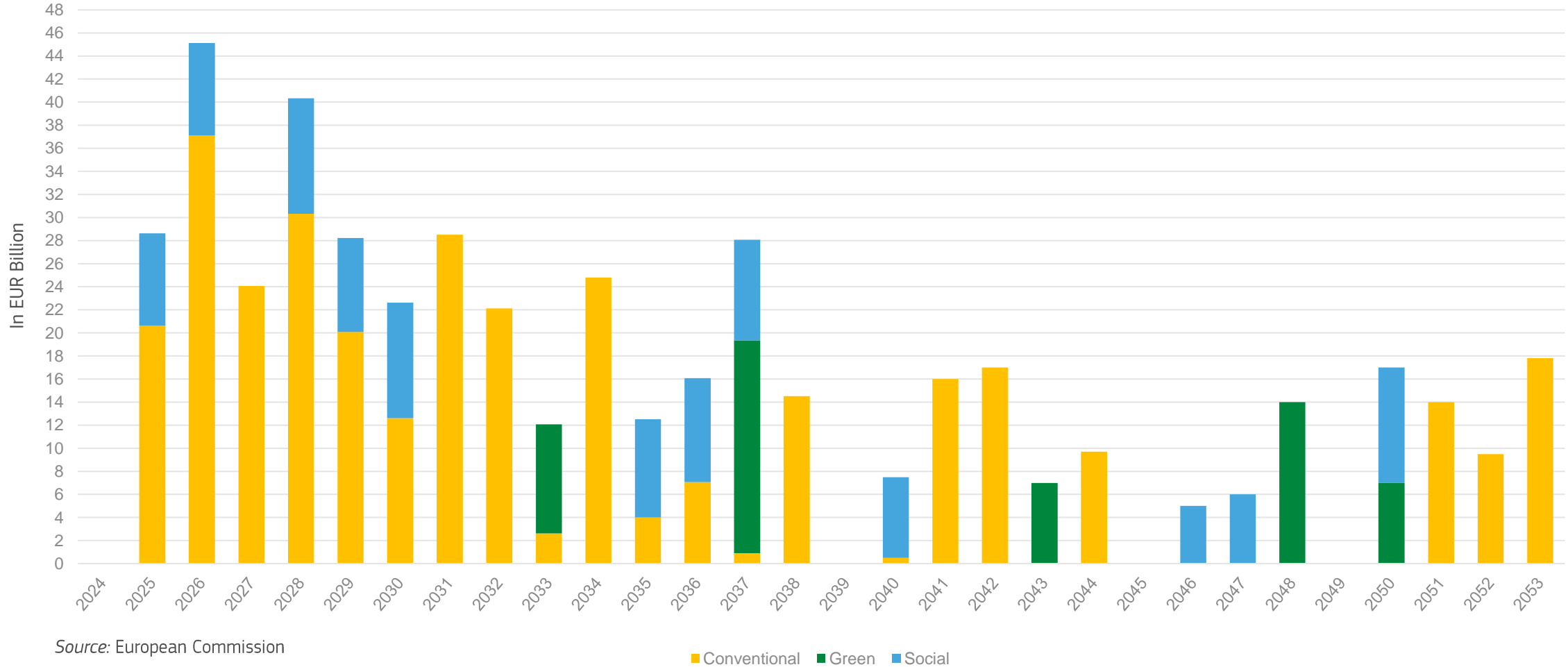


Use of proceeds from EU bonds outstanding at end 2023





A liquid curve of EU benchmark bonds

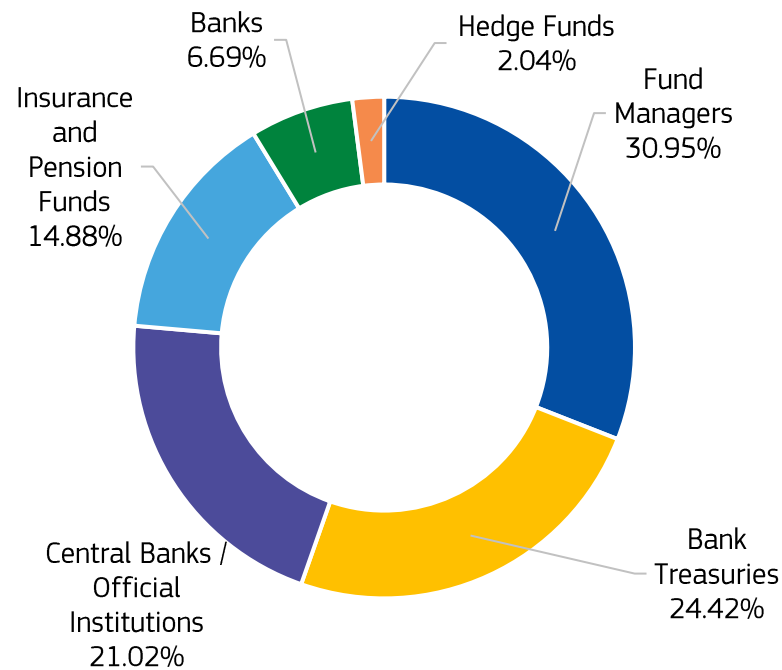


Source: European Commission

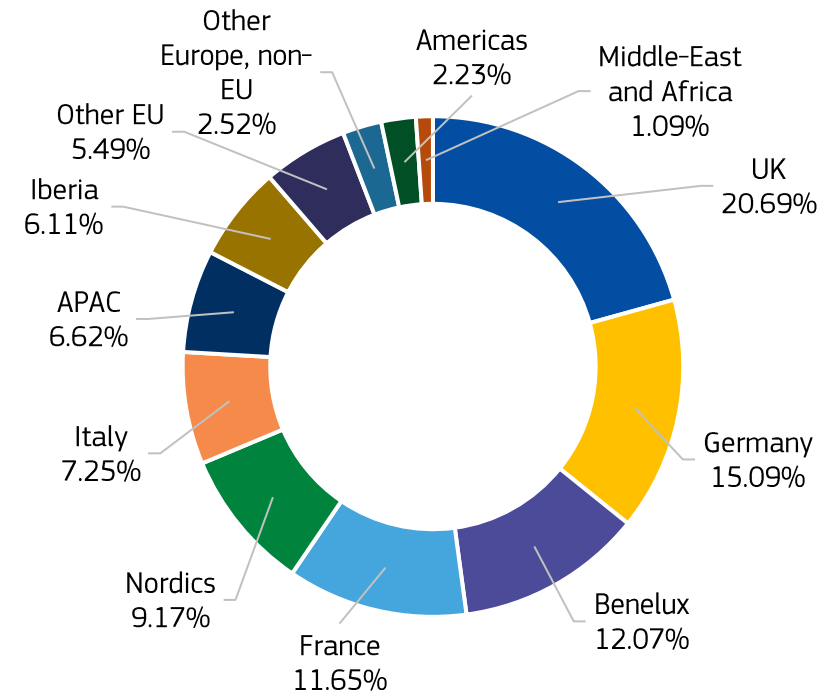
Strong demand from a diversified investor base

- The EU has a diverse investor base of around **1,700 different investors** from around **70 countries**.

Investor distribution by investor type



Investor distribution by country / region



Green bonds issuances

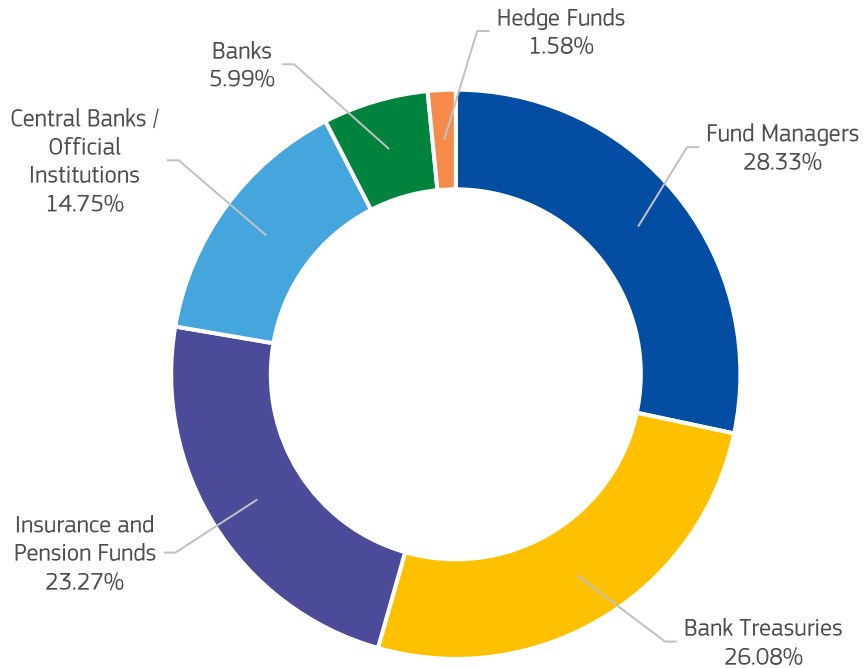
- The NGEU Green Bond programme got off to a strong start in October 2021, as the Commission issued its inaugural **€12 billion**, 15-year green bond – at the time, the **world’s largest green bond transaction**.
- As of end March 2024, the Commission has completed seven green bond syndications and six green bond auctions, bringing the total amount of green bonds outstanding to **€55.91 billion**.
- Outstanding NGEU Green Bond maturities: **2033, 2037, 2043, 2048** and **2050**.
- All green bond transactions have received strong orderbooks in terms of **quality** and **size**.
- This reflects the value that investors are placing in the NGEU Green Bond programme, as well as the **sustainability credentials** of the EU.

The NGEU Green Bond programme is continuing to build momentum

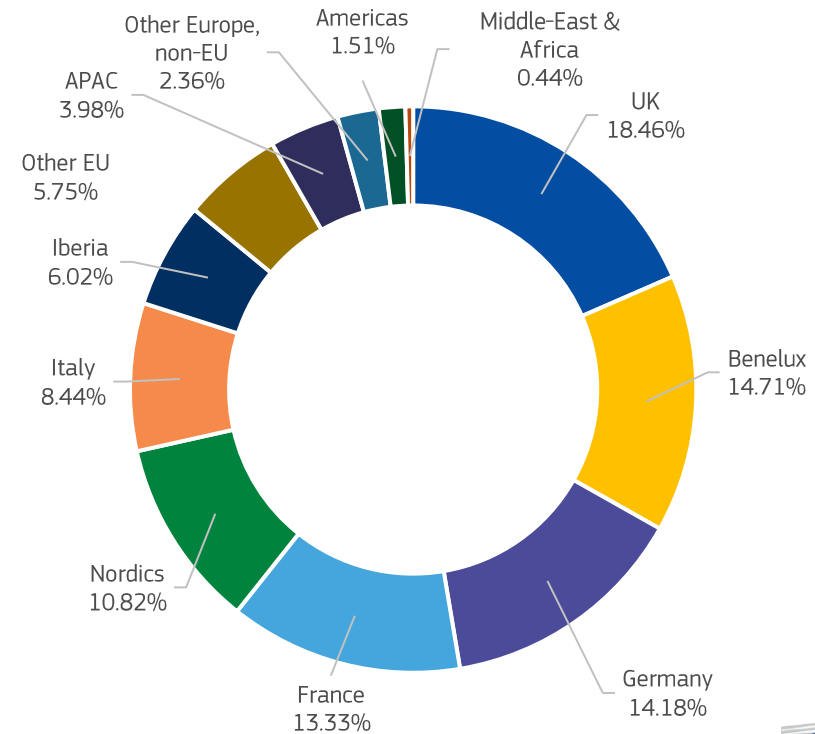
Green bonds – investor base

- NGEU Green Bonds have attracted around **800 investors** from around **45 different countries**

Investor distribution by investor type



Investor distribution by country / region

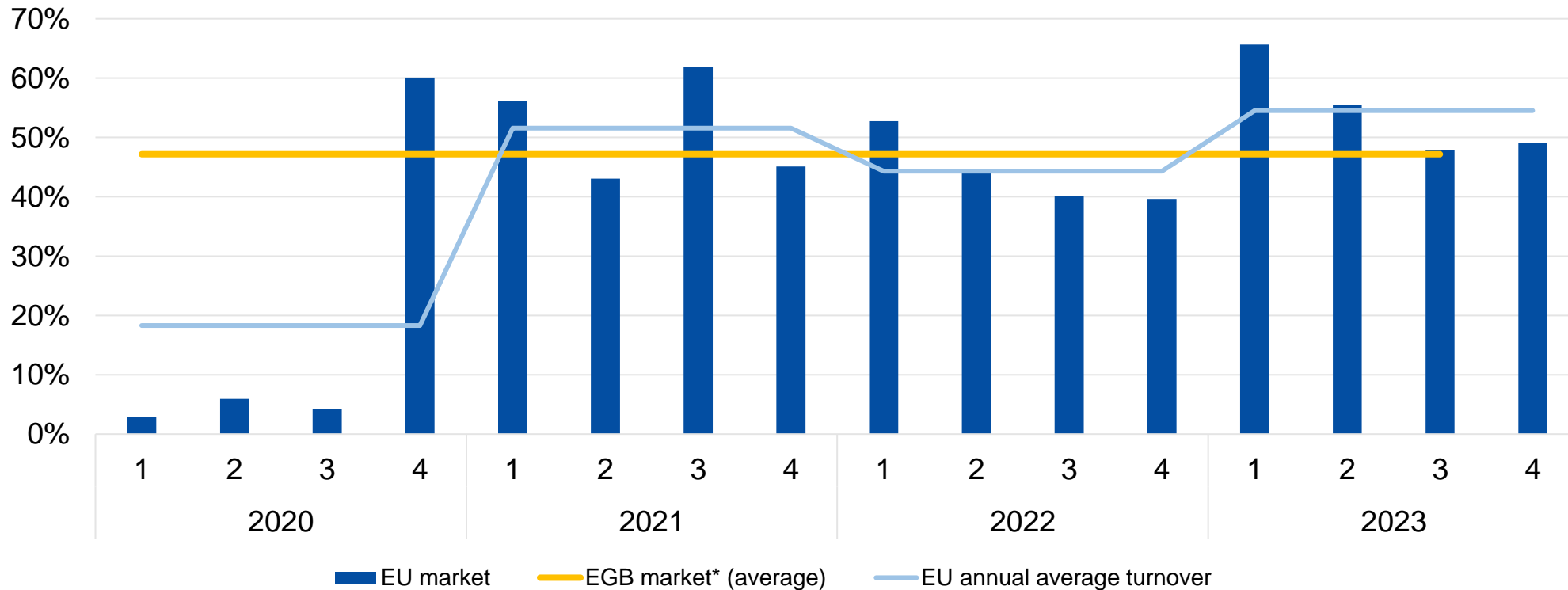


EU issuances: market performance



EU-Bonds' liquidity similar to 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.

EU-Bonds are offering attractive relative returns (1)

EU-Bond yields are **highly correlated to DE/FR basket** (99% correlation) while **offering a good pick-up**

| Tenor | Correlation of the basket composed of DE-FR with EU yields | Average EU pick-up over the basket (in bps) |
|----------|--|---|
| 5 years | 99% | 28 |
| 10 years | 99% | 34 |
| 30 years | 99% | 32 |

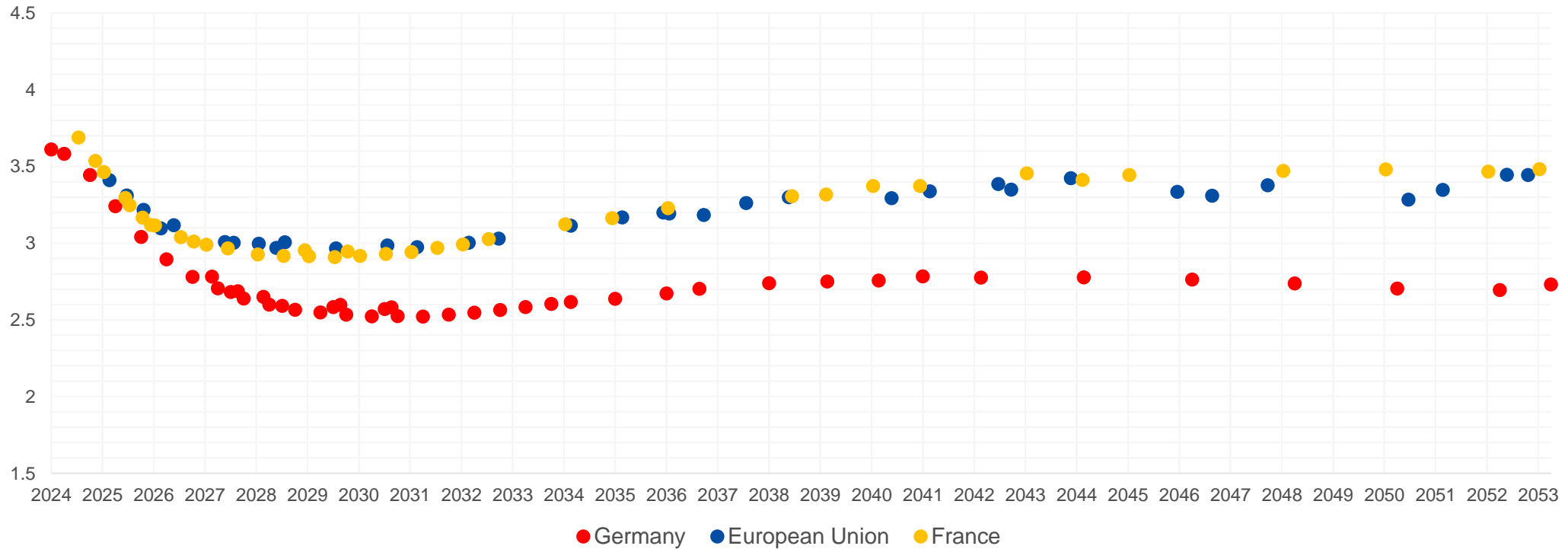
Source: European Commission based on Bloomberg data

Note: based on EU benchmark bonds over the period from 01 July 2021 to 29 March 2024. Correlation based on weekly changes in yields. Weights of the basket (approximately 50-50) calculated on a daily basis as a function of the volatility of DE and FR yields



EU-Bonds are offering attractive relative returns (2)

Yield curve of EU, French and German bonds (as at 25/04/2024)



Source: Bloomberg data

Note: Only conventional German bonds are displayed. French and German bond maturities beyond 2053 are not displayed.

The background of the slide is a blue field with a yellow arc in the top-left corner and a pattern of yellow stars on the right side, reminiscent of the European Union flag. The text is centered in the left half of the slide.

EU Investor Survey - results

The view from investors: Current perception of EU-Bonds

- **Inaugural EU Investor Survey** (taken two years after the launch of NGEU) shows that:
 - **80% of investors see EU-Bonds as substitutes for core area EGBs** and over half (53.7%) regard EU-Bonds as comparable to the bonds of large, highly-rated issuers (versus 26% who compare EU-Bonds to the bonds of medium-size sovereigns).
 - When investing in EGB bonds, **investors focus on liquidity in the secondary market** (88% “strong importance”) **and long-term perspective of the issuance programme** (60% “strong importance”). EU compares well to EGB issuers on these fundamentals.
 - Respondents also appreciate the **high volumes of outstanding debt** (60%) and **regular high-volume supply** which are seen as comparable to large EGBs (98%).
 - Investors see **EU’s communication** (62%), **use of auctions** (58%) **and overall funding strategy** (55%) as **highly comparable to EGB market practices**.

The view from investors: Desired next steps

- In November 2023, the EU introduced **quoting arrangements**, and work is currently underway to build a **repo facility**. Both measures are seen as **very important** in further aligning the functioning of EU-Bond markets with those of large EGBs.
- **Inclusion of EU-Bonds in ‘sovereign indices’ is the single-most important remaining step to further align EU-Bond markets with EGB markets** (strong importance for 75% of the sample). This would significantly boost demand for EU-Bonds for about 48% of respondents.
- The absence of direct taxing powers for EU – often advanced as a reason for distinguishing EU from sovereigns – is not seen as important by investors (23% “strong importance”).
- **The use of EU bonds as collateral needs to be further developed.**
- **Introduction of a “futures” contract could be a useful** additional measure (strong importance for 53% of respondents).



EU issuances: future outlook and further developments

H1 2024 funding plan

- To facilitate communication with investors and coordination with sovereign issuers, the Commission publishes **biannual funding plans** which frame the borrowing activities it will undertake in the coming 6 months.
- **The EU published its funding plan for H1 2024 in December 2023:**
 - › **Target for long-term funding** for the first half of 2024: **€75 bn** via both conventional and NGEU Green Bonds.
 - › **Use of auctions and syndications**, with share of long-term funding issued via auction expected to increase from ~40% level achieved in 2023.
 - › Transactions will be used to **tap existing lines and create new lines**.
- More details are available on the [funding plans](#) section of the EU as a Borrower web page.

Funding beyond H1 2024

- The Commission will continue to be **present in the market in the context of ongoing policies.**
- This will include continuation of funding for:
 - › **NGEU:** Expected borrowing needs of on **average up to roughly €150 billion per year until 2026** (exact volumes may fluctuate throughout this period, depending on the Commission's disbursement needs).
 - › **Ukraine Facility:** Up to **€33 billion in total between 2024 and 2027**
 - › **Western Balkans Reform and Growth Facility:** Up to **€4 billion** in total between 2024 and 2027
- Ongoing **roll-over of maturing issuances until at least 2058**

Supporting the Secondary Market Liquidity of EU-Bonds

- To support the liquidity of EU-Bonds (and in line with the outcome of the EU Investor Survey) the Commission is taking **active steps to help investors access EU-Bonds in the secondary market.**
- In 2023, the Commission:
 - › Introduced the **unified funding approach**;
 - › Implemented a **quoting arrangement** to incentivise Primary Dealers to provide liquidity via firm quotes on EU-Bond prices on recognised interdealer platforms;
 - › **Initiated the process for establishing** a repo facility which will allow EU primary dealers get access to EU securities on a temporary basis in case of scarcity (**operational in 2024**);
- The Commission is also encouraging market counterparties to provide to EU-Bonds the same quality of **collateral treatment** as sovereign bonds



**In summary: EU-Bond markets
increasingly like those of large,
liquid EGBs**

EU institutional structure is unlike a typical supranational

- The EU is a **unique economic and political union** of 27 Member States, each of whom have transferred part of their sovereignty to the Union under the EU treaties.
- Further unlike a typical supranational, the EU:
 - › Has a **budget-based financial structure**, which relies on Member State commitments (like sovereign budgets rely on taxpayers) rather than pooled or committed capital.
 - › Has a **'sui generis' legal structure** which is more comparable to a sovereign than a supranational.
 - › Has the power to **legislate, implement** and **enforce laws** in certain areas defined under the EU treaties.
 - › The EU has a **common currency** for the eurozone and an **independent central bank** (ECB) responsible for monetary policy.
 - › Gives **EU citizenship** to all citizens of the 27 Member States under Article 20 of the Treaty on the Functioning of the EU.

EU-Bonds in transition to EGB Market

EU-Bond market increasingly like market of large, liquid EGBs



UNIFIED FUNDING APPROACH

Multiple funding instruments

EU-Bonds, EU-Bills, NGEU Green Bonds

Different funding techniques

~40% of long-term funding by auction in 2023

Proven support from PDN

Consistent support of 37 banks in network

Structured market communication

via 6-monthly funding plans

Robust governance framework

Implemented by independent Chief Risk Officer

Large stock of outstanding debt

5th largest issuer in European capital markets

Favorable regulatory treatment

Level 1 HQLA, 0% risk weight under Basel Framework

High Secondary Market Liquidity

Greater than average liquidity of EGB market

Improving price transparency

Via introduction of price quoting system

Repo facility

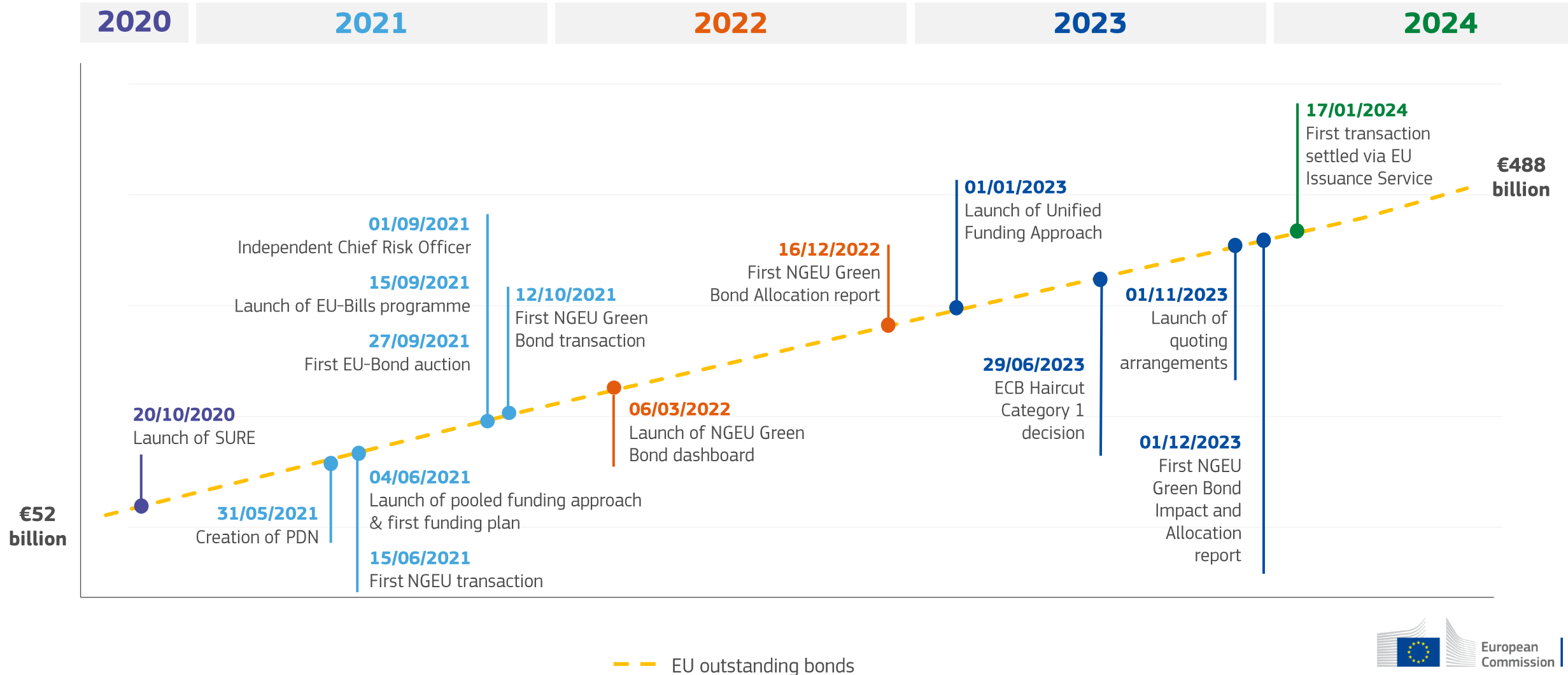
Expected in 2024: Will give PDs temporary access to EU securities

HIGHLY DEVELOPED EU-BOND MARKET



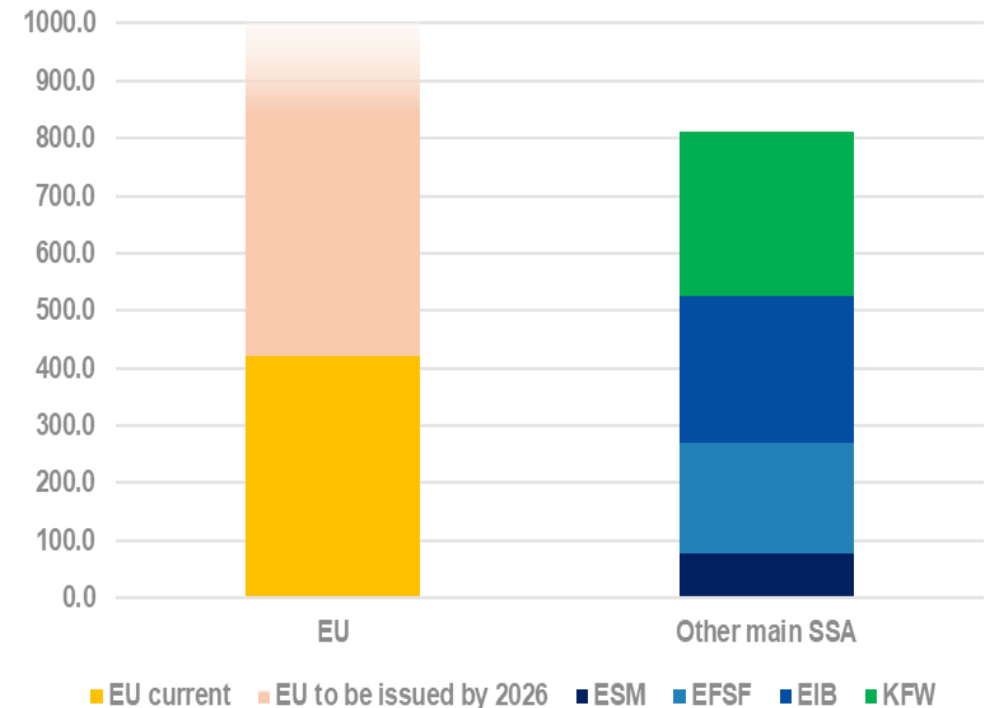
EU-Bonds in transition to EGB Market

Key milestones in this development



Expected EU-Bonds outstanding of almost €1 trillion by 2026

- This will have significant impact on euro public debt markets:
 - › EU-Bonds are expected to make up almost **40%** of the outstanding AAA rated government debt.
 - › Quantity of EU-Bonds outstanding will be larger than the cumulative quantity of the main Supranational, Sub-sovereign and Agency (SSA) issuers in euro.
 - › If the status quo treatment of EU-Bonds holds, SSA indices risk becoming **imbalanced**, with EU weight estimated to reach **60% - 70%**.



Awards to EU borrowing and lending activities



IFR/ Refinitiv

- SSAR Issuer of the Year 2020 & 2021
- Euro Bond of the Year 2021 for NGEU's 1st bond
- SSAR Bond of the Year 2021 for NGEU's 1st bond
- Sustainable Bond of the Year 2021 for NGEU's 1st green bond



Risk.net

- SSAR Risk Manager of the Year 2021



Global Capital

- Supranational Euro Bond of the Year 2020 for SURE's 1st issuance
- Most Impressive SSA Issuer of the year in Euros for 2021 and 2023
- Most impressive supranational funding team 2023



NEXT
GEN
EU



For more information:



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



Get in touch: EU-INVESTOR-RELATIONS@ec.europa.eu



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