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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**Half-yearly report on the implementation of borrowing, debt management and related
lending operations pursuant to Article 12 of Commission Implementing Decision
C(2022)9700**

1 January 2023 - 30 June 2023

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1. Introduction

The Commission has been borrowing funds on behalf of the European Union for over 40 years. In the past 3 years, the EU has seen a profound transformation of its presence in and use of European capital markets as it implements large programmes such as SURE¹, NextGenerationEU, and Macro-Financial Assistance (MFA)+ for Ukraine. The EU currently has just over EUR 400 billion in outstanding liabilities resulting from its bond issuance, of which about EUR 370 billion have been issued since 2020.

The Commission needed a completely new play-book to successfully finance bond-issuances on this scale. When it set up NextGenerationEU, it drew up a diversified funding strategy of the type implemented by the largest euro-area sovereign issuers. In line with the best practices used by these issuers, the diversified funding strategy uses different funding instruments (EU-Bonds and EU-Bills) and funding techniques (syndications and auctions) to cover long-term and short-term funding needs.

The scope of the diversified funding strategy was expanded in December 2022 to enable the Commission to extend the benefits of this more flexible and cost-efficient debt management strategy to MFA+ for Ukraine and other potential future borrowing and lending programmes, thereby creating a unified funding approach for all EU borrowing and lending programmes. Under this unified funding approach, the Commission issues single-branded EU-Bonds, as opposed to running separately designated issuances per policy as in the past.

Box 1: Use of proceeds of EU Bond issuance

Under NextGenerationEU (NGEU), the Commission can raise up to EUR 806.9 billion between mid-2021 and 2026 through the issuance of EU-Bonds, making the EU one of the largest issuers of euro-denominated debt in this period. To date, more than EUR 183 billion has been disbursed: EUR 153.4 billion to Member States under the Recovery and Resilience Facility (RRF) and EUR 29.8 billion to the EU budget. Member States are currently revising their recovery and resilience plans to, among others, reflect the revised non-reimbursable support allocation, request additional loans if they wish, or adjust to new priorities and additional funding opportunities, under REPowerEU. The revision of these plans will lead to an increased take-up of NGEU loans. Upon submission, these plans must be assessed by the Commission and then approved by the Council.

In addition, in 2023, the EU is providing up to EUR 18 billion in highly concessional MFA+ loans to Ukraine. These will be disbursed in regular instalments covering around half of Ukraine's short-term funding needs for 2023 as estimated by the Ukrainian authorities and the International Monetary Fund. In the first half of 2023, EUR 9 billion has already been disbursed to Ukraine under the MFA+ programme.

On 20 June 2023, the Commission proposed setting up a dedicated financing instrument for Ukraine with up to EUR 50 billion in grants and loans for 2024-2027. It is anticipated that EUR 33 billion will take the form of loans, to be financed by EU-Bond issuance commencing in 2024 subject to the agreement European Parliament and Council.

¹ The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE).

This half-yearly report, produced in line with Article 12 of Commission Implementing Decision C(2022)9700 reviews the first 6 months of implementation of the unified funding approach. It does not evaluate how the proceeds have been used, including for green expenditure, as that will be covered in separate reports under the Regulations for each instrument. It also looks into the steps that the Commission is taking to further develop the EU-Bonds ecosystem – with the aim of increasing the liquidity of EU-Bonds and facilitating a market treatment that reflects the EU’s issuance volumes and credit strength. Finally, it provides an outlook for EU-Bond issuance in the second half of 2023.

The annex to this report also presents the overarching debt management strategy guiding the Commission’s implementation of the unified funding approach. The Commission formulated this in response to a recommendation from the European Court of Auditors (ECA) calling for the formulation of such a strategy and the specification of indicators that can be used to monitor its implementation. The objectives and means underpinning the strategy are presented in the annex, along with the indicators that the Commission will use to monitor its implementation.

The half-yearly report is part of a regular flow of information to Parliament and the Council, providing transparency and accountability on the implementation of the EU’s debt management operations. With the diversified funding strategy becoming the central approach for EU borrowing and lending operations in the Financial Regulation, this report and all future reporting is being prepared in accordance with Article 220a of the Financial Regulation, which requires regular and comprehensive reporting on all aspects of EU’s borrowing and debt management strategy.

2. Implementation of borrowing operations in first half of 2023

In the first half of 2023 the Commission continued to pursue its objectives of raising funds in the markets in an effective and efficient way by applying its unified funding approach. In doing so the Commission was able, despite market volatility, to meet all of its disbursement commitments under NextGenerationEU and MFA+ on time. At the same time, issuance amounts and maturities remained within the pre-set parameters, and financing terms were in line with those of an issuer of the EU’s size and favourable rating. The sections below present some of the key components of the Commission’s borrowing and lending operations in the first half of 2023. Further details on the execution of the Commission’s funding strategy during that period are given in the Annex.

Execution of funding plan for the first half of 2023

In December 2022, the Commission announced its funding plan for January to end-June 2023. This was the first funding plan that covered not only NextGenerationEU, but also other borrowing and lending programmes, notably MFA+ for Ukraine.

In the first half of 2023, the Commission announced long-term funding operations of up to EUR 80 billion and eventually issued EUR 78 billion in EU-Bonds, with an average maturity of around 14 years. The Commission used a mix of syndications (60%) and auctions (40%). The 15 transactions were spread over the full six months to ensure a regular presence in the market. In the first half of 2023 (H1 2023), a higher number of transactions was implemented than in the second half of 2022, reflecting the higher funding target in H1 2023 (up to EUR 80 billion in H1 2023 vs. EUR 50 billion in H2 2022). Transactions were also of lower average size given the challenging and volatile market conditions prevailing in the first half of 2023.

The transactions in the first six months of 2023 have brought the total outstanding amount of EU-Bonds to just over EUR 400 billion of which over EUR 44 billion were raised by issuing NGEU green bonds. In the first half of 2023, the Commission raised EUR 7.732 billion by tapping two existing green bonds. These two transactions increased the outstanding amount of these two bonds and thereby contributed to building a highly liquid NextGenerationEU green bond curve in what is set to be the biggest green bond programme worldwide.

In the first half of 2023, the Commission also issued 3-month and 6-month EU-Bills through bi-monthly auctions to meet short-term funding needs, with EUR 18.7 billion in EU-Bills outstanding at the end of June 2023. Twelve auctions were used to issue 24 EU-Bills, with an average size of around EUR 1 billion each.

Disbursements

On the back of these transactions, the EU has been able to continue the smooth funding of Member States' recovery and resilience plans through timely disbursement of proceeds. The Commission made all disbursements to Member States under the Recovery and Resilience Facility as soon as they fell due, on average within 6 working days of authorisation of the disbursement. There were no delays.

In the first half of 2023, the Commission disbursed EUR 14.7 billion to Member States under the RRF. Of this, EUR 12.7 billion was in the form of non-reimbursable support and EUR 2.0 billion in the form of loans. The Commission also transferred, in the first half of 2023, EUR 6.9 billion to the EU budget to contribute to programmes such as Horizon Europe, InvestEU Fund, ReactEU, the EU Civil Protection Mechanism (RescEU), the European Agricultural Fund for Rural Development (EAFRD), and the Just Transition Fund.

Overall, since the start of NextGenerationEU in the summer of 2021, the Commission has made EUR 184.2 billion available: EUR 153.4 billion non-reimbursable support and loans for Member States (EUR 106.3 billion in non-reimbursable support and EUR 47.1 billion in loans) under the Recovery and Resilience Facility and EUR 30.9 billion for the other NextGenerationEU-funded spending programmes.

In addition to these disbursements for NextGenerationEU, in the first half of 2023, the Commission disbursed EUR 9 billion to Ukraine under the MFA+ programme, funded by bond issuance under the unified funding approach. Overall in the first half of 2023 the Commission disbursed a total of around EUR 30 billion for NGEU and Ukraine MFA+ combined. The pace of NGEU disbursements has been influenced by the ongoing revision of recovery and resilience plans by the Member States. According to the legal framework, Member States have until August 2023 to request additional loans and the Commission must commit the remaining 30% of the non-reimbursable support and additional loans by the end of 2023. At the same time, the new REPowerEU priorities, with the additional resources, need to be reflected as well. All Member States are therefore focusing their efforts to revise their plans to meet these legal deadlines and new priorities.

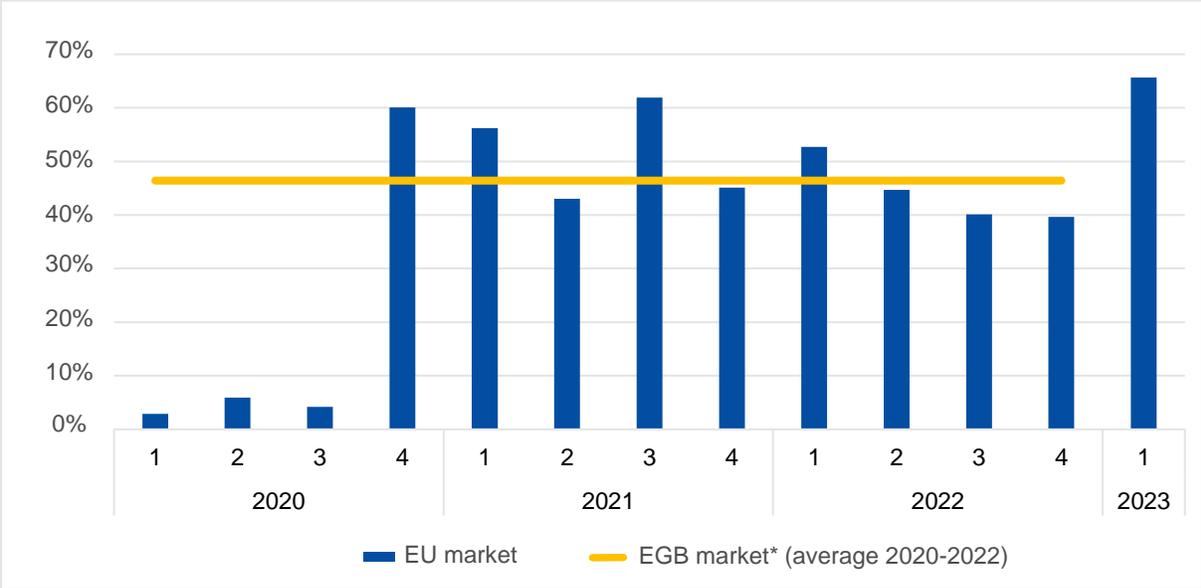
Investor demand and secondary market liquidity

Despite the volatility in rates observed over the period, transactions continued to enjoy strong market support, with syndicated transactions in the first half of 2023 being between 6 and 15

times oversubscribed. The EU benefits from a well-balanced and diversified investor base with a good representation of different types of investors from all across the world².

This strong support is reflected in consistently low new issue premiums (NIPs)³ demanded by investors as a concession when the EU issues bonds through syndication. NIPs were somewhat lower than in the second half of 2022. For the funding operations in the first half of this year, the average new issue premium was slightly below 2 basis points, with the lowest at 1 basis point and the highest at 3 basis points. The modest level of the price concession at issuance reflects the fact that the EU remained a regular, predictable issuer throughout this period. This, coupled with the continued strong demand from investors, is a sign of trust from the markets, and provides confidence that the EU can continue to place its bonds successfully.

Quarterly secondary market turnover of EU and European government bonds (% 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 (EFSF) and the European Stability Mechanism (ESM).
 Data for this market was not available for Q1 2023.

² To date, EU issuances have in total attracted more than 1600 different investors from 70 different countries. About 65% of investors are located in the EU, more than 20% are international investors operating from the UK, and the remainder are other international investors, mainly based in Asia. Almost 70% of the EU-Bonds issued have been going to buy-and-hold investors (i.e. fund managers, insurance companies, pension funds and central banks). There is also a good representation of investors demanding different maturities. Central banks and bank treasuries (which usually prefer to invest in maturities up to 10 years) account for about 45% of purchases of EU-Bonds in the primary markets, while pension funds and insurance companies (which prefer maturities above 10 years) account for almost 15%.

³ This new issue premium (NIP) is a premium that the issuer pays in order to persuade investors to buy its bonds in the primary market rather than in the secondary market.

Secondary market liquidity of EU-Bonds also remained on par with that observed in the markets for European government bonds (EGBs), relative to the amounts outstanding. This liquidity was boosted in the first half of 2023 by the extensive tapping of existing funding lines, with 70% of the funding volume mobilised via taps. New funding lines were also launched to provide the market with new benchmark lines.

3. Cost of funding and liquidity balances

Cost of funding

In the first half of 2023, interest and debt management costs increased in line with general market conditions. The cost of funding⁴ for January to June 2023 is estimated to be close to 3.2%, compared to 2.6% in the previous semester.

Since the start of 2022, the pace of increase in interest rates for all issuers including the EU has been one of the steepest witnessed in financial markets in the past decades. Interest rates on 10-year EU-Bonds have increased from 0.09% at the time of the inaugural 10-year NextGenerationEU bond in June 2021 to 1.53% in May 2022, 2.82% in November 2022, and 3.05% in the most recent issuance in June 2023. Comparable increases have been observed for highly-rated euro-sovereign issuers. For example, interest rates on 10-year German government bonds increased from around -0.20% in June 2021 to close to 1.0% in May 2022, 2.56% at the end of December 2022, and 2.39% in June 2023. To address the unprecedented sharp increase in borrowing costs, the Commission proposed as part of the mid-term review of the multiannual framework 2021-2027 to establish a special instrument exclusively to cover the interest costs overrun.⁵

The yields on EU-Bonds have been consistently higher than those paid by large sovereign issuers, despite the enhanced liquidity, high creditworthiness, and steady supply of EU-Bonds. The divergence between yields on EU-Bonds and those of large sovereigns can largely be explained by the established market convention of pricing EU-Bonds against the swap curve. Recent analysis by Bruegel⁶ showed that the swap-pricing is the main driver for most of the premium paid by EU and other similarly priced issuers to EGBs with some indications that this factor accounts for 90% of the premium.

Movements in the swap curve relative to the price of large sovereigns are driven by a range of technical and structural factors unrelated to the underlying quality of the bonds or efficiency of EU's issuance programme. Foremost amongst these considerations is the investor preference for established sovereign bonds which can be used readily and cheaply as collateral, a preference which is accentuated in times of market stress. These factors were very much in play towards the

⁴ The interest costs incurred are allocated to the budget and the Member States receiving loans in accordance with the methodology set out in Commission Implementing Decision (EU) 2021/1095 and its successor (EU) 2022/9701. This methodology distinguishes between three different cost categories: (i) cost of funding to finance non-reimbursable support and loan disbursements calculated for six-monthly time compartments, (ii) cost of holding and managing liquidity, and (iii) administrative costs.

⁵ See for more information: [Documents \(europa.eu\)](https://european-council.europa.eu/media/en/press-areas/pages/default.aspx?id=14624)

⁶ [EU borrowing costs: Drivers and dynamics in times of rising rates \(europa.eu\)](https://bruegel.org/2023/06/eu-borrowing-costs-drivers-and-dynamics-in-times-of-rising-rates/)

end of the first quarter, following banking turmoil in the US and the take-over of Credit Suisse by UBS in Europe.⁷ As financial stability fears receded, the spread between sub-sovereign or supranational bonds (SSA) and European government bonds returned to levels observed at the start of the semester. The spread of 10-year EU-Bonds versus 10-year German bunds stood at 62 basis points at 30 June 2023, down from a peak of 83 basis points in March 2023, and in line with levels seen at the start of the semester.

In order to bring the pricing of EU-Bonds into line with the underlying volumes, liquidity and creditworthiness of the programme, the Commission is taking steps (see Section 5) to create conditions conducive to the trading and pricing of EU-Bonds similar to that of large, liquid sovereign issuers. Achieving this result also depends on market participants adapting their conventions and assessment of EU-Bonds. While there are encouraging signs that this change is underway, it may take time.

Liquidity management

The Commission maintained a regular and predictable presence in financial markets in line with the funding plan announced in December 2022, with planned dates for auctions and syndications. However, cash outflows were slower than initially planned, leading to higher average cash holdings in the first half of 2023, averaging EUR 36.8 billion compared to EUR 25.1 billion in the previous semester. The Commission reduced its cash intake through Bill issuance to ensure continued market presence while minimising the increase in cash balances.

The higher amounts of liquidity holdings did not translate into material costs for the programmes supported. These amounted to EUR 23.3 million on the cash holdings from January to June 2023. These costs will be shared proportionately between the EU budget and loan beneficiaries at the end of 2023.

4. Other milestones in H1 2023

On 12 June 2023, the European Court of Auditors published the findings of its special report on the NextGenerationEU debt management operations. In this report, the ECA assessed whether the Commission had developed effective systems to manage the debt raised to finance NextGenerationEU. The report provides a comprehensive review of the setting up and management of EU's funding operations to date, accompanied by useful recommendations for future actions.

The ECA concluded that 'the Commission quickly developed a debt management system which allowed the funds required for NextGenerationEU to be borrowed in a timely fashion (...)’ and that '(...) borrowing costs reflected the Commission's market position. The Commission also met all key regulatory requirements concerning debt portfolio and risk management.'

The report also included five recommendations for further improvements in the Commission's debt management: (i) establishing a separate middle-office function; (ii) reinforcing the role of

⁷ Risk-off moves generally tend to lead to a strong re-allocation to traditional safe-haven assets, such as government bonds, hence leading to the SSA-EGB spread to widen.

the Chief Risk Officer; (iii) implementing a workforce strategy; (iv) formulating clear debt management objectives and related indicators; and (v) ensuring consistency on internal documentation.

The ECA recommendations are welcome input to the Commission's efforts to improve its standing on capital markets (see Section 5 below). The Commission is already working to implement these recommendations in a timely manner.

The present report already responds to ECA's fourth recommendation, which calls for the elaboration of an overarching debt management strategy to inform the Commission's implementation of its unified funding approach. The annex to this report presents such a debt management strategy, starting from the primary objectives that guide it, and the manner in which the key levers at the Commission's disposal are implemented. The strategy is supported by a set of indicators which will be used to monitor the way in which the strategy is implemented. These indicators will be updated and commented upon in future editions.

5. Steps to further develop the ecosystem of EU-Bonds

The establishment of a unified funding approach as of January 2023 represented a key milestone in building a robust framework for meeting the EU's funding needs as efficiently as possible. This approach allows the Commission to plan, execute and communicate all issuances in an agile and coherent way, under a common risk, compliance, and governance framework for all borrowing operations.

Nevertheless, despite this ongoing transformation of the EU as an issuer and the gradual shift in the treatment of EU-Bonds⁸, markets continue to treat and price EU-Bonds against the swap curve. In order to support a transition towards a pricing method that better reflects the fundamentals of EU issuances, the Commission is taking a number of actions to support the evolution and liquidity of EU-Bonds.

To facilitate the trading of EU-Bonds in the secondary market, in Q4 2023, the Commission will implement a framework for providing investors with pricing quotes on EU securities. The framework will be implemented via the EU primary dealers who will provide these quotes through widely-used trading platforms, thereby enhancing the price discovery of the EU securities and reducing uncertainty on trade execution for dealers and investors. This quoting system will enable investors to trust that the market prices quoted for EU securities on trading platforms are reliable and supported by the EU's primary dealers. The Commission Decision establishing the Primary Dealer Network has been amended to establish these new arrangements. These arrangements will take effect in the autumn and be used as part of the system for selecting primary dealers to be given lead and co-lead mandates from next year.

⁸ For example, the re-assignment of EU-Bonds 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 as of 29 June 2023.

In addition, the Commission has started to make preparations for a repurchase ('repo') facility to support market participants in trading its bonds. Through the repo facility, the Commission will make its securities available on a temporary basis, thus helping EU primary dealers to provide liquidity in EU-Bonds. The Commission first needs to acquire and build the capacities required to implement such a repo facility, which will be operational mid-2024.

The Commission is also continuing its active engagement with market participants to identify the most effective way of further enhancing the liquidity of EU-Bonds and to allow them to be traded and priced in ways similar to European government bonds. To that effect, in June 2023, the Commission launched its inaugural investor survey, which sought investor feedback on the role of EGB indices as benchmarks in investors' investment decisions and on the perceived relevance of the inclusion of EU-Bonds in such indices. The Commission is also continuing to look at ways to improve the use of EU-Bonds as collateral in bilateral secured transactions.

Progress is also being made in the implementation of the EU issuance service (EIS), which will go live in early January 2024. With this service, the Commission will move from using a settlement system comprising commercial suppliers of settlement services to a Eurosystem-based settlement infrastructure for EU-Bonds issued after this date. EU-Bonds settled through the EIS will benefit from integration into the Eurosystem payment and settlement infrastructure (Target/Target2S) – as European government bonds – facilitating their use as collateral in the Eurosystem.

6. Issuance outlook for the second half of 2023

On 28 June 2023, the Commission issued its half-yearly funding plan for July to end-December 2023. In the second half of 2023, the Commission intends to issue EUR 40 billion in EU-Bonds, complemented by short-term EU-Bills. The Commission will use these funds to finance NextGenerationEU (including possible payments under REPowerEU) and MFA+ for Ukraine. Further issuances on a much smaller scale are also possible under existing MFA and ESM programmes.

While new issuance to support Ukraine through the Ukraine Finance Facility will involve additional issuance to provide further loans to Ukraine, this issuance will only start in 2024 once the legislation establishing the Facility has been adopted.

The funding target for the second half of 2023 reflects the expected disbursement needs of various beneficiaries, notably EU Member States under the Recovery and Resilience Facility. Currently, Member States are revising their recovery and resilience plans to reflect the revised non-reimbursable support allocations, request additional loans if they wish, or adjust to new priorities and additional funding opportunities, under REPowerEU. Against this background, a bond issuance of EUR 40 billion will enable the EU to raise the required amounts while maintaining a regular market presence throughout the second half of the year.

7. Conclusion

In the first 6 months of 2023, the unified funding approach enabled the Commission to raise close to EUR 80 billion for NextGenerationEU and MFA+ for Ukraine at rates commensurate to its standing in the market. As of 30 June 2023, almost EUR 250 billion has been raised under the unified funding approach to finance NextGenerationEU and MFA+ to Ukraine. The availability of large balances heading into the second half of the year, combined with a temporary slow-down in the pace of disbursements as Member States revise their recovery and resilience plans, is reflected in lower programmed bond issuance (EUR 40 billion) in the second half of the year.

During the first half of 2023, interest rates rose slightly, not only for the EU but for all (sovereign) issuers. The pace of increase is slower than last year, and rates have started to stabilise as markets expect that much of the central-bank rate-hiking needed to tame inflation has been completed. The period has seen considerable volatility in response to changing market expectations about further rate increases. EU bond issuance was met with strong and steady investor demand through this period, despite the backdrop of market volatility.

The market convention whereby the EU is priced against the swap curve results in the EU paying a premium above the rates paid by sovereign EGB issuers. This has exacerbated the underlying increase in market rates. The new unified funding approach for the issuance of EU-Bonds is a major step forward in consolidating the EU's market presence. However, the Commission is taking further steps to encourage pricing of EU-Bonds in line with that of bonds of highly rated sovereign issuers so as to reduce the premium it pays on its issuance. These measures include a price quoting system to become operational this autumn and the establishment of a repo facility (mid-2024). It is also encouraging the market to improve the use of EU-Bonds as collateral and recognise them as deserving of inclusion in sovereign bond market indices.

The conclusions and recommendations in the ECA special report on the NextGenerationEU debt management operations are welcome inputs for the Commission's efforts to improve the EU's standing in euro-capital markets. The Commission is already working to implement the recommendations in a timely manner, with the objectives and indicators described in the annex to this report as a first step.

Annex: EU Funding Strategy – Objectives, Means and Implementation indicators

Purpose of this annex

This annex frames the primary objectives that guide the Commission’s implementation of its diversified funding strategy to finance all EU borrowing and lending programmes (i.e. the unified funding approach). It presents a series of indicators for tracking the implementation of key aspects of the strategy, namely bond issuance, bill issuance, liquidity management, and communication.

Objectives of EU funding

The Commission is empowered by the EU legal framework to borrow from international capital markets on behalf of the EU for the implementation of specific EU programmes. The legislation setting up these programmes specifies the amounts and time-frames within which amounts should be raised, and lays down rules on the use of proceeds. In raising funds within this framework, the Commission has two primary objectives:

- **Effectiveness:** Ensuring that the EU is able to meet commitments under the related financial assistance programmes as they fall due for payment.
- **Efficiency:** Obtaining the most advantageous financial conditions for the EU in the medium to long run:
 - i. through the sound planning and smooth execution of transactions,
 - ii. by obtaining the best possible terms in the prevailing market conditions,
 - iii. while staying within the risk bearing capacity of the EU budget as set, notably, by the available budgetary cover for the relevant operations and within the risk management framework for EU financing operations, as set out in the Commission’s high-level risk and compliance Policy.⁹

To meet these objectives, in 2021, the Commission put in place a diversified funding strategy for the financing of NextGenerationEU (Commission Implementing Decision C(2021)2502) as described in the main report.

The overarching aim is to create and maintain a complete and highly liquid yield curve across all benchmark maturities which provides investors with an accessible and reliable financial asset for investing and trading. This, in turn, ensures the most advantageous funding conditions for the EU as an issuer while ensuring a proper management of the related risks.

The means to achieve the objectives

In implementing its funding approach, the Commission aims to make best use of all elements that are under its control with a view to achieving its primary objectives of efficiency and effectiveness. These elements span over five main dimensions:

⁹ [NGEU High Level Risk and Compliance Policy \(europa.eu\)](https://europa.eu)

- a) **The EU-Bond programme:** The Commission organises its bond issuance by making use of all benchmark maturities across the curve (up to 30 years). In choosing the appropriate tenors for the issuances, the Commission must ensure that the resulting future redemption levels remain within the levels needed to protect the EU budget headroom ceilings and EU's credit rating. At the same time it pays close attention to investor preferences and to the profile of outstanding bonds, as it supplies the market on a regular basis with a well-balanced set of maturities. In organising the issuance, the Commission uses syndicated transactions and auctions. The different formats have different features but a suitable mix of the two is sought for the successful execution of the funding programmes. As the issuance programme becomes firmly established, the use of auctions for bond issuances should continue to evolve and grow over time to levels comparable to that of sovereign issuers of the same calibre as the EU and with due respect to market conditions and financing needs.
- b) **The EU-Bill programme:** The Commission implements a programme of EU-Bills that provides the EU with access to the money market (maturities up to 1 year via auction). This programme is used as an essential risk management tool to maintain sufficient levels of cash at all times and to cope with unpredictable financial market conditions or funding needs.
- c) **Liquidity management:** The Commission takes a prudent approach to internal management of cash flows, which ensures that all payment commitments are honoured on time and avoids liquidity shortfalls. It also endeavours to manage liquidity balances based on forecast disbursements to keep liquidity balances in line with needs and to limit any real or opportunity costs arising from the balances.
- d) **Primary Dealer Network:** A successful implementation of the funding strategy requires support from a strong Primary Dealer Network, which is able to distribute the issuances to a global investor base and manage and warehouse the financial risks related to auctions and syndications. The Commission seeks to keep its Primary Dealer Network open, to enable a wide range of financial institutions to participate. At the same time, it aims to sustain competition and leverage skills within the group to help ensure the successful implementation and development of the funding strategy, including supporting the secondary market liquidity of EU issuances.
- e) **Communication with diverse market stakeholders and peer issuers:** The Commission ensures regular, timely and open communication with market participants which is a precondition for remaining a reliable and trusted issuer. The Commission therefore communicates transparently on aspects of its funding plans and the execution of the funding transactions. The six-monthly funding plans constitute the mainstay of this communication, announcing target amounts and dates for syndications and auctions over the subsequent 6 months. Through consistent, effective communication around its activities as a regular, large-scale issuer, the EU seeks both to deepen its investor base and broaden it (geographically). Through pro-active investor relations management, the Commission builds and maintains trust with its investor base and obtains a thorough understanding of their needs.

Implementation of the above activities is supported by a set of controls, comprising two organisationally independent 'lines of defence'. These enable transactions to be executed and settled efficiently and help frame the behaviour of all parties involved in the programme

implementation. The *ex ante* and *ex post* controls also ensure that EU issuances are carried out in line with the governance and take account of prevailing market conditions.

Final considerations

The programme's key levers enable the EU to make best use of its high credit rating while providing investors with a regular and predictable sequence of sizeable issuances. This in turn creates a platform for the EU to attract strong demand from investors with a low risk appetite and large investment needs, and from investors with regulation-driven investment needs (central banks, bank treasuries, asset managers, pension funds and insurance companies).

Table 1 below presents some indicators that can be considered when tracking the Commission's implementation of the five core elements of the EU's funding approach and hence its progress towards its overarching effectiveness and efficiency objectives. The Commission will report on these indicators in its half-yearly report on the implementation of borrowing, debt management and related lending operations pursuant to Article 12 of Commission Implementing Decision C(2022)9700 and will comment on any observed noteworthy developments.

By conducting the above activities proficiently, the Commission can deliver the most cost-effective outcomes from its issuance on behalf of beneficiaries, including the EU budget, which bears the costs for non-reimbursable support financed by loans. The cost of funding for EU issuance, calculated on the basis of the weighted average of its funding transactions, is determined predominantly by factors beyond the EU's control – principally, wider market rates but currently also movements in the swap curve relative to the market rate. The absolute cost of funding for EU operations is therefore impacted mainly by factors other than the efficient and effective implementation of the unified funding approach. However, sustained, effective implementation is important for the EU's standing in the market and for its efforts to gradually bring the trading and pricing of EU-Bonds more in line with the processes used for liquid EGB sovereigns. It is for this reason that a cost metric is not considered to be an appropriate indicator for assessing the Commission's use of the means under its control for achieving the primary objectives of efficiency and effectiveness.

Even though they are not indicators that can be influenced by the way that the Commission uses the levers at its disposal under the funding strategy, information on volumes and costs is clearly of central importance to understanding how the funding programme is evolving. The Commission will therefore include information on overall volumes and average cost of funding in its half-yearly reports.

It is recalled that the dimensions of the borrowing and debt management operations to be undertaken are set out in the Commission's annual borrowing decision and accompanying bi-annual funding plans, which limits the overall exposure of the EU's budget and of loan beneficiaries.¹⁰

¹⁰ [C_2022_9702_F1_COMMISSION_IMPLEMENTING_DECISION_EN_V7_P1_2416109.PDF \(europa.eu\)](#)

Table 1: Implementation indicators on the use of the means for delivering against the Commission’s efficiency and effectiveness objectives

Means		Indicator	Value in H1 2023 (unless indicated otherwise)	Commentary on execution in H1 2023
1) Implementation of the EU-Bond programme	a) <u>Regular issuances across the curve</u> Regular EU-Bond (and NGEU green bond) issuances in all maturities across the curve (up to 30 years) to provide different types of investors with investment opportunities as way of maintaining strong investor demand and thus the flexibility to determine issuance volumes and maturities for individual transactions based on market conditions.	<i>i. Maturity split of issuance programme</i>	1-4 years: 22% 4-8 years: 15% 8-12 years: 17% 12y-17 years: 11% 17-23 years: 16% 23-31 years: 19%	In H1 2023 the Commission pursued its objective through regular bond issuances across different tenors to provide the EU curve with liquidity on all segments. The funding transactions were spread over the full semester to ensure a regular presence in the market. Over the semester, a greater number of transactions were made than in the previous semester due to a) the H1 2022 funding target of up to EUR 80 billion (compared with EUR 50 billion in H1 2022) and b) the lower average size of transactions in light of the challenging and volatile market conditions when the funding plan for the first half of 2023 was drawn up.
		<i>ii. Timely distribution of issuances</i>	7 syndications and 8 bond auctions, resulting in 2-3 issuances per month.	
		<i>iii. Green issuances¹¹</i>	Approximately EUR 8 billion through taps of 2048 and 2033 bonds.	While ensuring a presence in all benchmark maturity buckets, the issuances were, on average, geared slightly towards the long-end of the curve (with an average maturity of issuances of 13.5 years), in light of the need to spread redemptions over time but also stronger demand from investors for long-dated EU-Bonds. Green bond issuances were also maintained albeit at a lower level than in past semester, in tune with cumulative reported green expenditures by Member States and appropriate calibration of green bond issuances to these expenditures.

¹¹ Additional information on the NGEU green bonds can be found in the NGEU Green Bond Dashboard here: [Dashboard \(europa.eu\)](https://europa.eu/ndp/ndp-portal/ndp-portal)

	<p>b) <u>Achieving a proper balance of auctions and syndications</u> Use of different funding techniques with a proper balance, depending on total issuance volumes and market conditions, in order to manage execution risks, improve secondary market liquidity and improve borrowing costs.</p>	<p>iv. <i>Split auction / syndication in %</i></p>	<p>Approximately 40 % of bond issuances via auction.</p>	<p>In H1 2023, the Commission increased the share of bonds issued via auctions to close to 40%, a higher level than in the previous funding semesters. This was in line with the objective of expanding the use of this technique, while taking account of market specificities (e.g. market absorption capacity) and issuance needs (e.g. ability to tap existing bonds via auction vs need for issuance of new lines via syndications).</p>
	<p>c) <u>Establishment of large and liquid benchmark bonds</u> Tapping of EU-Bonds to bring the outstanding volume of different lines to levels commensurate with large and liquid benchmark lines.</p>	<p>i. <i>Issuances via new bonds vs volume issued via taps</i></p>	<ul style="list-style-type: none"> • EUR 18 billion via new bonds • EUR 60.2 billion via taps 	<p>With the liquidity of its securities in mind, the Commission used its transactions for tapping existing funding lines, with 70% of the funding volume mobilised via taps.</p> <p>New funding lines were launched to provide the market with new benchmark lines where needed on the curve and based on the recommendations of the EU primary dealers. New 3-year, 10-year and 15-year bonds were launched during the semester.</p> <p>As a result, the average amount outstanding per bond increased by around EUR 4 billion to over EUR 13 billion by the end of the semester, which helped to improve the liquidity of the bonds.</p>
<p>ii. <i>Speed of tapping of new bonds¹²</i></p>	<p>2 months</p>			
<p>iii. <i>Average size of outstanding bonds¹³</i></p>	<p>13-14 billion</p>			
<p>iv. <i>Turnover</i></p>	<p>Approximately 80%</p>			

¹² Based on average number of months between new issuance and first tap when considering the new lines tapped over the semester

¹³ Outstanding bonds over number of bonds as at end of semester. Based on bonds issued under the diversified funding strategy

		<i>relative to issuance volume</i>	over H2 2022	
		v. <i>Absolute turnover</i>	EUR 241 billion in H2 2022 vs EUR 236 billion in H1 2022	
	d) <u>Management of the maturity profile of EU-Bond issuances with due regard to:</u>	i. <i>Average maturity of issuance</i>	13-14 years	<p>In H1 2023, the bond issuances had an average maturity of 13-14 years. This reflected the Commission’s objective of spreading the redemptions profile over time while, at the same time, attracting investors to EU primary market transactions. The average maturity remained below the maximum average maturity of 17 years set out in the annual borrowing decision for 2023.</p> <p>The average time to maturity of outstanding debt remained stable (at around 12 years) – driven largely by past issuances.</p> <p>Refinancing also remained stable, a reflection of the past issuances and related the redemption profile.</p>
	<ul style="list-style-type: none"> The temporary additional headroom (for NGEU-related borrowing) and permanent headroom (for MFA+) under the EU budget 	ii. <i>Average time to maturity of outstanding debt</i>	Around 12 years.	
	<ul style="list-style-type: none"> Future redemption of disbursements in any given year 	iii. <i>Refinancing in the short term, i.e. percentage of outstanding stock of bonds and bills maturing in the next 12 months</i>	Less than 10 %	
	<ul style="list-style-type: none"> Stable future roll-over needs The need to protect the EU’s rating to ensure low borrowing costs in the long run and strong demand from core investor base. 	iv. <i>Refinancing in the medium term, i.e. percentage of outstanding stock of bonds and bills maturing in the next 5 years</i>	Less than 30 %.	
2) Implementation	Regular issuance of EU-	i. <i>Outstanding</i>	EUR 15-20 billion	The Commission maintained issuances under the EU-Bills

of the EU-Bill-programme	Bills with maturities of up to 1 year via auction to attract additional investors (or additional portfolios of existing investors) and support liquidity management.	<i>volume EU-Bills</i>		programme at the minimum level in light of low liquidity needs and sufficient long-term funding. Two auctions a month were held, just to cover redemptions. Outstanding debt under the EU-Bill programme thus remained stable at around EUR 15-20 billion over the period.
		<i>ii. Number of EU-Bill auctions</i>	12	
3) Liquidity Management	Management of a liquidity pool in view of payment obligations, disbursement needs and costs of cash holding, with due regard to prevailing account market conditions.	<i>i. Number of payment failures due to lack of liquidity</i>	None	The Commission successfully met disbursement needs and there were no settlement failures during the semester.
4) Primary Dealer Network	Attracting a wide range of financial institutions showing strong commitment to support the EU issuances	<i>i. Number of institutions which signed underwriting commitments for transactions over the past 6 months</i>	19	The Commission continued to be supported by EU primary dealers and rotation was at the syndications helped the Commission to make best use of all banks eligible to be part of a syndicate.
5) Communication with diverse	Maintaining and building trust with investor base,	<i>i. Deviations from the pre-</i>	None	The Commission maintained regular and predictable communication with the markets, in line with previous

market stakeholders and peer issuers	market participants and peer issuers to support demand for EU debt and improve the EU's understanding of market dynamics and investor needs	<i>announced timings for the publication of funding plans</i>		<p>announcements. There was no deviation from the initial funding target announced during the semester.</p> <p>The Commission regularly published investor statistics which remained stable and continued to see an increase in its diversified investor base.</p>
		<i>ii. Deviation from the volumes announced in the funding plan</i>	Less than EUR 2 billion or less than 2%.	
		<i>iii. Investor distribution statistics</i>	<p>Per type: fund managers 31.4%, bank treasuries 30.3%, central banks/official institutions 16.4%, insurance and pension funds 14.7%, banks 5.2%, hedge funds 2.0%</p> <p>Per country/region: UK 21.0%, Germany 12.9%, France 12.9%, Benelux 9.7%, Nordics 8.7%, Italy 8.4%, Asia-Pacific 5.5%, Iberia 9.6%, other EU 7.0%, other Europe 2.2, Americas 0.4%, Middle-East and Africa 1.5%</p>	