European Commission

Deepening the market for EU-Bonds

EU-Bond Investor Survey

Summary of responses

September 2023

Purpose of the EU Investor Survey

- Since the **launch of NGEU in June 2021**, the EU has implemented **a diversified funding strategy** in line with standard practice of European Government Bonds (EGB) issuers.

- The Commission undertook an inaugural **investor survey** (07/06 to 07/07 2023) to:

  - collect feedback from market participants **on the extent to which the functioning of the EU-Bond market resembles the markets of the larger and more liquid EGB issuers**;

  - receive feedback on **how the new measures the Commission announced in December 2022 to further develop the EU's position in financial markets are perceived by investors**;

  - solicit views **on further steps to improve the functioning of markets in EU-Bonds from an investor perspective.** In this context, one part of the survey collected feedback on the importance of inclusion of EU Bonds in sovereign EGB indices used as key benchmarks for investment decisions.

KEY FINDINGS

State of play

- **80% of investors see EU-Bonds as substitutes for core area EGBs and over half (53.7%) regard EU-Bonds as comparable to large, highly-rated issuers (versus 26% who compare to medium-size sovereigns).**

- **Investors focus on liquidity in the secondary market** (88% “strong importance”) **and long-term perspective of the issuance programme** (60% “strong importance”) when investing in EGB bonds. 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**.

- Work is underway to introduce **quoting arrangements** and build a **repo facility.** Both are seen as **very important** in further aligning the functioning of markets for EU bonds with those of large EGBs.

KEY FINDINGS

Looking forward

- **Inclusion of EU-Bonds in ‘sovereign indices’ is the single-most important remaining step to align further with EGB markets** (strong importance for 75% of the sample). This would significantly boost demand for EU-Bonds for about 48% of respondents.

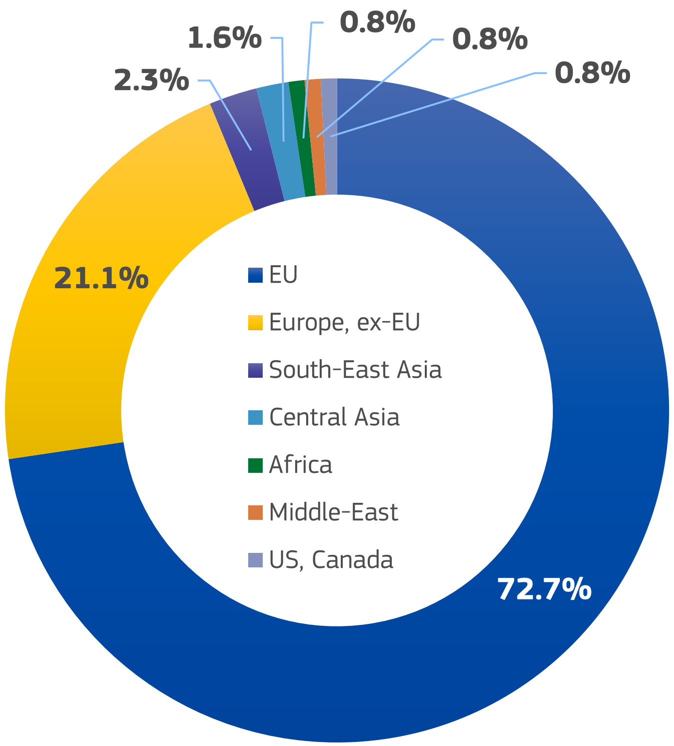
- The absence of direct taxing powers for EU – often advanced as reason for distinguishing EU from sovereign - is not seen as important by investors (23% “strong importance”).

- **The use of EU bonds as collateral needs to be further developed**. Investors see the **introduction of a "futures” contract as an important** additional measure (strong importance for 53% of respondents).

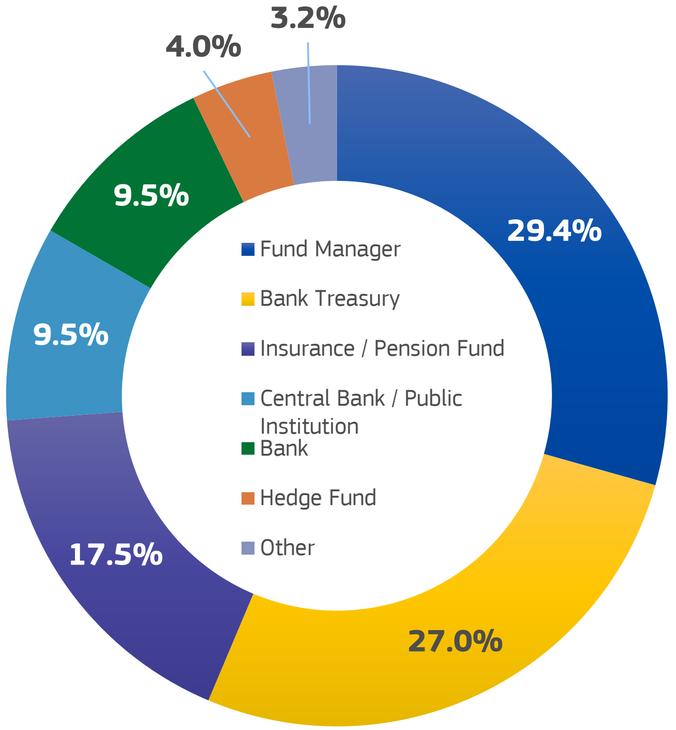
Profile of respondents

128 responses accounting for over **60% of EU-Bond volumes** issued over the last 3 years

Well diversified **geography**

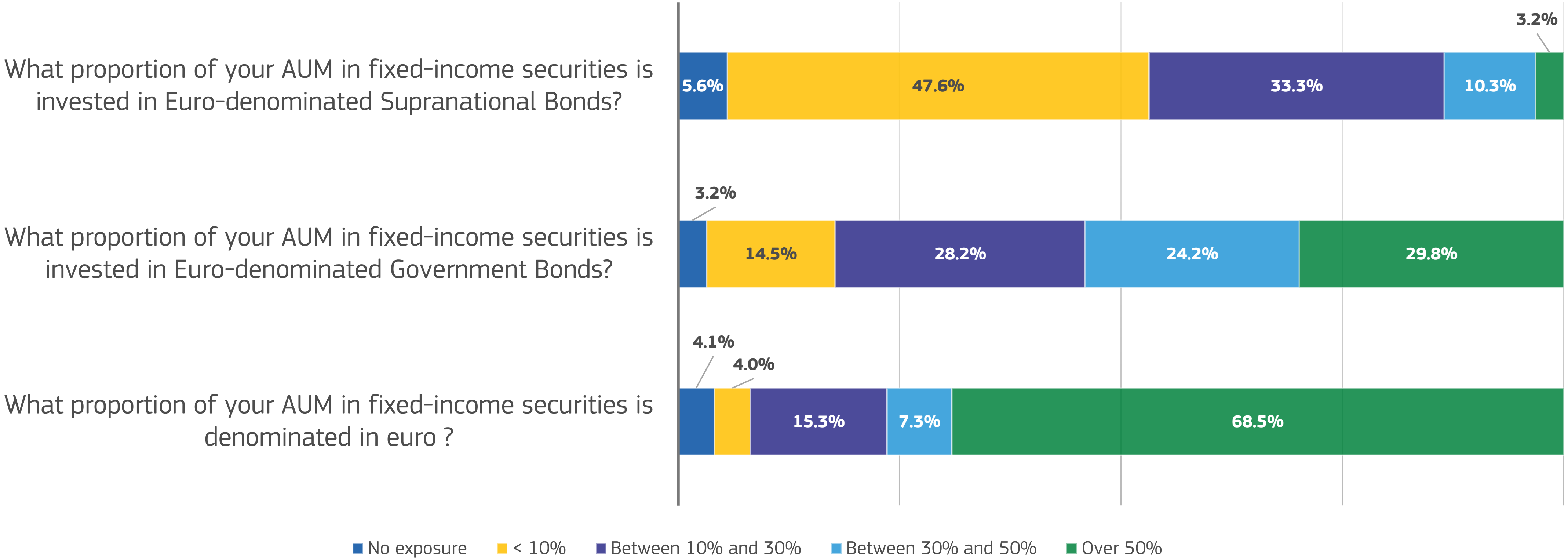


Well diversified by **investor category**
(16 out of 20 largest EU-Bond purchasers)



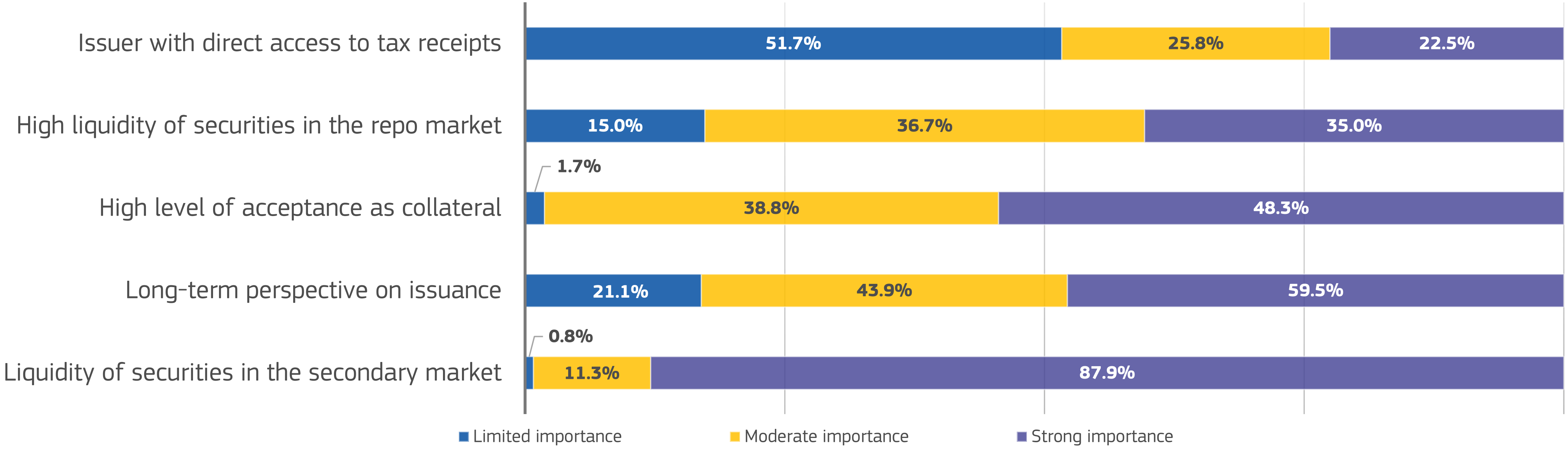
Respondents: strongly euro-focussed

Investment **portfolios of respondents** heavily oriented towards **euro-currency investments**, with large share of their fixed-income euro **investments in government bonds**.



Views on key features of the EGB market

Respondents main focus when assessing prospective bond investments: **secondary market liquidity** and **longer-term perspective** on the **issuance programme**. Direct taxing powers of the issuers of much lower importance.



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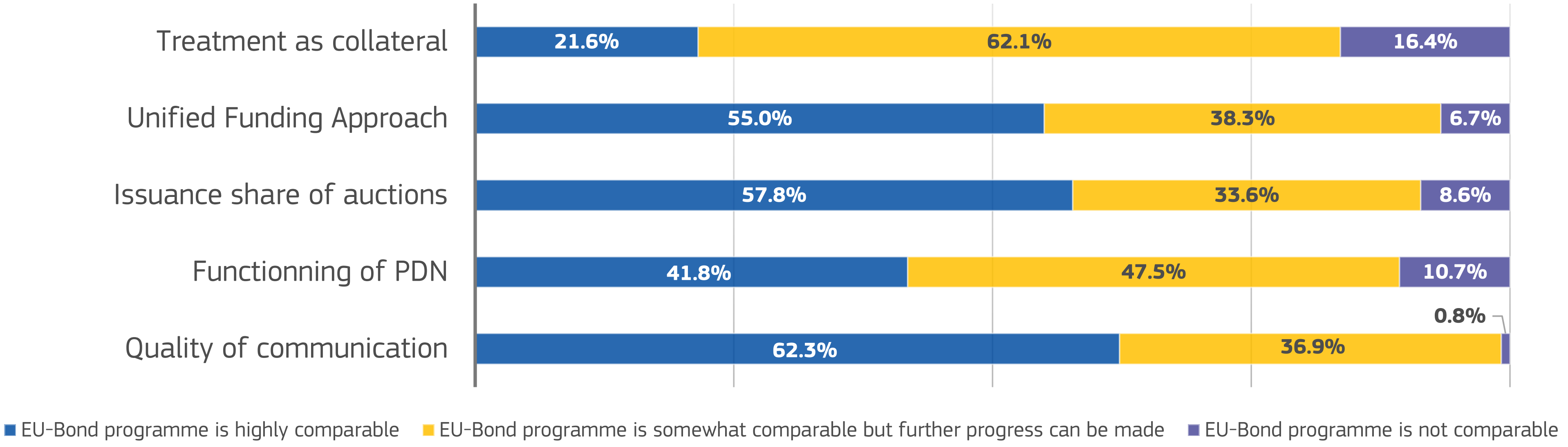
THE RESULTS

Comparability of EU Bond programme versus EGB

EU's transparency of communication, the Unified Funding Strategy and syndication/auction mix are assessed by the majority of respondents as **highly comparable to the EGB issuers**.

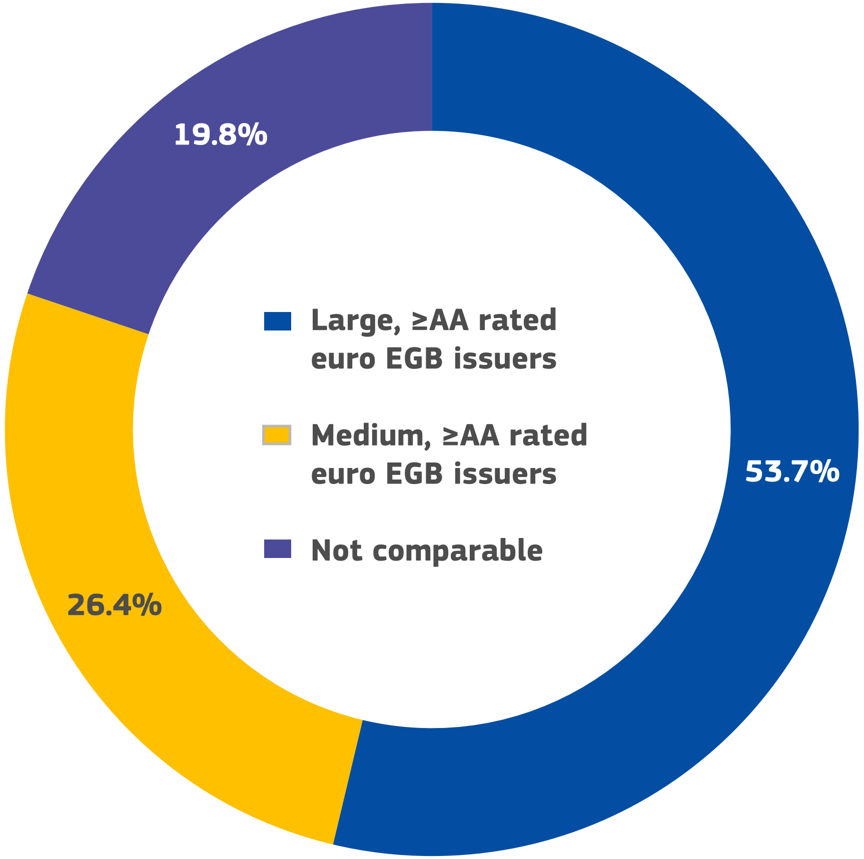
The treatment of **EU-Bonds as collateral** is seen as requiring **further progress** by about 62% of respondents.



Comparability of EU Bond versus EGB

For **80% of the respondents,** the functioning of the **EU Bond** market **resembles closely** that of the bond markets for liquid and highly rated (at least AA) **euro government bond issuers.***

54% consider the EU Bond comparable to the larger issuers in this group

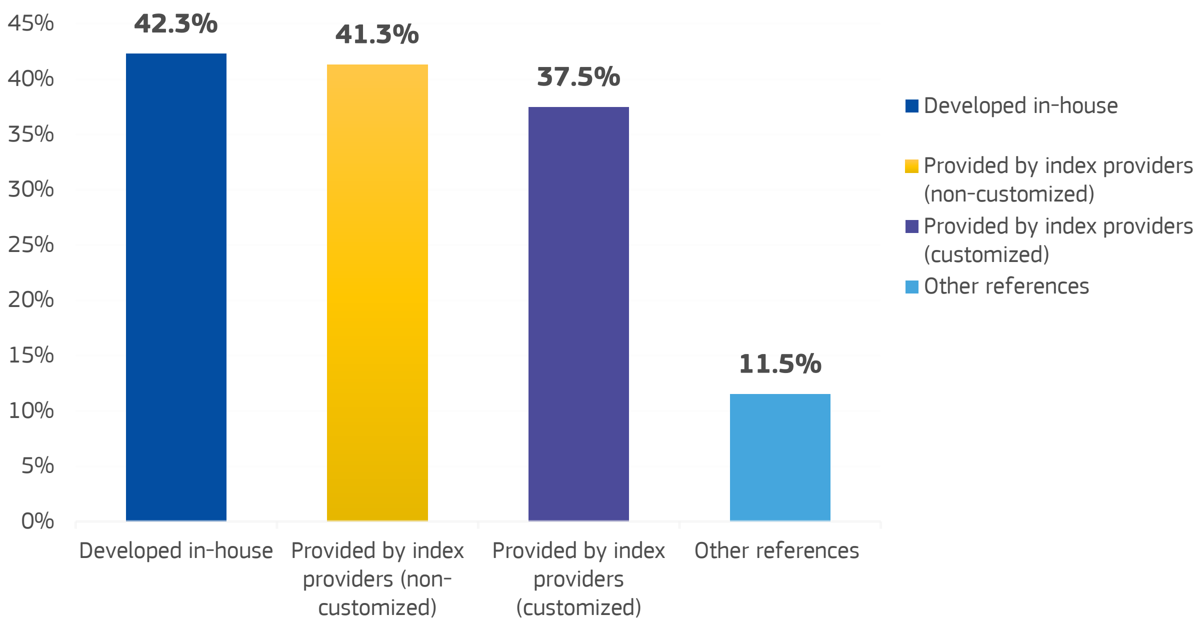


* Defined for the purposes of this survey as: Germany, France, Belgium, Finland, Netherlands, Austria

Relevance of EGB indices

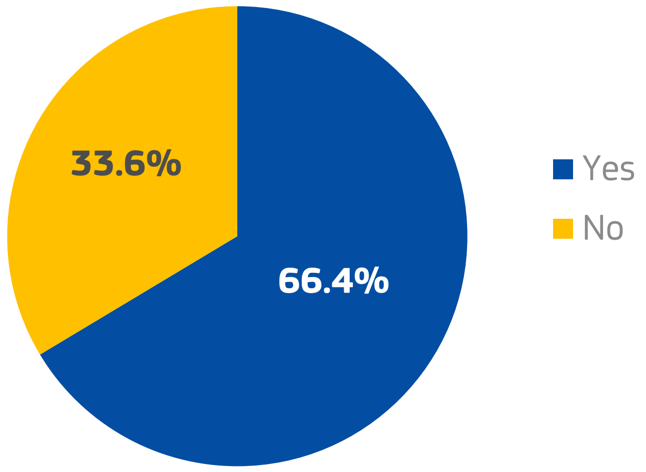
79% of respondents use indices from the main index providers (customized indices: 38%, non-customized indices: 41%).

Benchmarking approach of respondents (in-house or external providers)



About 2/3 of investors would increase their exposure to EU debt if EU-Bonds were to be included in an EGB/sovereign index. **This increase would be significant for almost 48% of respondents.**

Impact of EU-Bonds inclusion in EGB indices



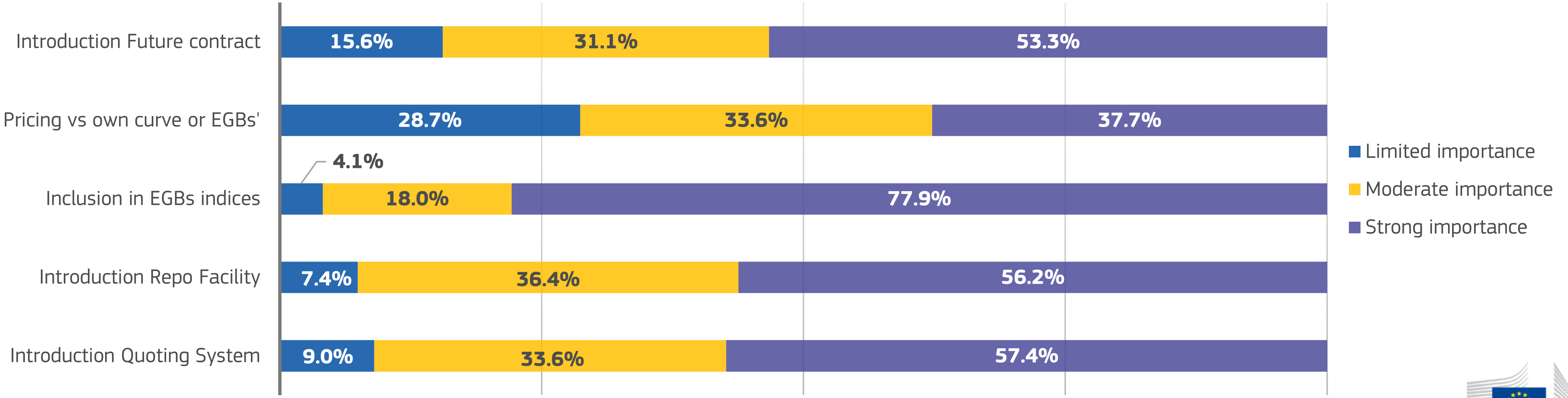
THE RESULTS

Further steps to deepen the EU Bond market

Investors regard the planned **introduction of quoting arrangements for EU Bonds this autumn and of the repo facility by mid-2024** as very important steps in aligning EU Bond markets with those of EGBs.

The introduction of a "futures" contract (alongside a repo facility) is seen as being of 'strong importance' by 53% of respondents.

Investors consider the **inclusion of EU securities in 'sovereign indices' as the single-most important remaining step** in order for EU Bonds to trade and price similarly to the EGB.



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