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Making the recovery work: NextGenerationEU as a game changer on the capital markets

2020 was an extraordinary year in EU policy making. The EU was hit by an unprecedented crisis. Politicians and policy-makers had to act quickly and comprehensively to find and offer solutions.

NextGenerationEU – a game changer

The EU provided a very concrete response. At the heart of this was an unprecedented €1.8 trillion package – backed by the EU budget – to support the economic recovery and build a greener, more digital and more resilient future. To finance a part of it – the €750 billion NextGenerationEU instrument – the EU will borrow on the capital markets.

The European Commission, on behalf of the EU, has been present on the capital markets for years. We have been running lending programmes to support EU Member States and third countries.

In 2020, the Commission also started borrowing for SURE – the up to €100 billion instrument to help protect jobs. As of mid-March 2021, we had raised 2/3rds of EU SURE funds in 5 very successful issuances. All EU SURE bonds benefit from the social bond label.

NextGenerationEU is a game-changer. With volumes of €150-200 billion per year, it will make the Commission one of the biggest issuers in euro, at par with the largest sovereigns.

Facing the growth challenges

This has called for a fundamental change in our approach. Given the volumes, frequency and complexity of the borrowing, the Commission will have to act like a sovereign borrower.

We will, therefore, implement a diversified funding strategy. This will allow more flexibility in the timing of funding transactions and the choice of funding instruments and maturities. As part of this, we will also be using short-term debt instruments – EU-Bills. Recourse will also be given to auctions as an issuance channel, in addition to syndication. The Commission intends to raise 30% of the funds as green bonds.

Our ambition is to have a regular presence on all parts of the yield curve with large, liquid and safe EU-Bonds.

In this way, we will be able to reconcile the demands and constraints of the NextGenerationEU funding, and deliver all funds as required on the most advantageous terms for the EU.

Next steps

The Commission intends to start issuing funds under NextGenerationEU in the summer of 2021.

For this to happen, two key conditions have to be met. First, Member States need to complete the ratification of the Own Resources Decision, the piece of legislation that will enable the Commission to borrow. Good progress is being made and we expect the process to be completed in due course. Second, for Member States to receive funding under the €672.5 billion Recovery and Resilience Facility (RRF), their Recovery and Resilience Plans need to be submitted and approved, with all relevant details settled. The RRF accounts for 90% of the funds under NextGenerationEU, the rest will go to several EU programmes that will all be up and running in the summer. Once the plans have been approved, the Commission will be able to start disbursing the first funds.

The big picture

NextGenerationEU gives an ambitious answer to an unprecedented crisis. It demonstrates solidarity at difficult times. It has shown that the EU can and will stand together to face challenges. It will help transform our economies and societies for the better.

There is more. NextGenerationEU – building on the success of SURE – will turn the EU into a major player on the global capital markets. The EU bonds represent safe financial instruments in euro, which are appealing for international investors as we see in the huge oversubscription rates of our recent issuances. Financial market participants tell us that they will look at the EU-B yield curve as they price other papers. Should this materialise at scale, then the issuances will further the EU capital market integration. Finally, the bonds are making euro denominated papers – a much more attractive investment destination and, in the process, strengthening the international role of the euro.

The EU SURE social bonds and the future NextGenerationEU green bonds are making the EU one of the biggest Environmental, Social, and Corporate Governance (ESG) issuers – which is inspiring others to choose this approach.

The big challenge now is to make all of this start on time. The Commission is working hard to that end – and we count on the support of all interested stakeholders. Together, we stand stronger.