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Impacts of the NGEU package on EU capital markets and the international role of the euro

Thank you very much, David, for your very kind words. It is good to see you. I regret that I cannot be with you in Ljubljana. I would have very much liked to do that, but Next Generation EU is keeping me very busy, notably on the funding side where a number of important decisions were taken and announced earlier this week. I am delighted to be able to join you virtually and say a few words about how this programme is impacting the EU capital markets and the international role of the euro.

I will start with where we were a year ago. The past year has been a journey for us. A year ago we were a small issuer of debt doing back-to-back financing at small scale for instruments like the European Financial Stabilisation Mechanism (EFSM), the Macro-Financial Assistance (MFA) and the Balance of Payments programmes. This was in the range of a few billions a year.

With the onset of the pandemic, this has changed completely, following historic decisions by the EU Leaders in the course of 2020. As a result, in September 2020 we started rolling out our social bond programme, known as SURE, that has had a huge impact on the markets. Then, in the summer of this year, we managed to get the Next Generation EU funding going, allowing us in the space of 12 months to raise about €150 billion for the European Union. That is the largest ever amount raised by institutions in the EU and it puts us at the same level as many large Members States.

Naturally, that has had a profound impact on the EU capital markets and what we see is a very strong interest, not just from European investors but also from global investors in these bonds. I will come to that in a moment, but I thought it might be interesting to speak a little bit about these different steps and how we have actually gotten to this point. What investors might want to look at is the very rigorous legal framework that we have built and that sets out a first-class governance framework for this very important operation. We have also naturally been working very, very closely with the investor community and the rating agencies to explain how funding the budget through borrowing, which is a historic evolution, is actually a very safe investment proposition given the guarantees enshrined in primary EU law.

That legal framework gives us a lot of comfort, given that, at the end of the day, we are still a supranational issuer. It is backed up by a very robust delivery capacity which we have essentially built from scratch in the space of a year. We have tripled the size of the teams by bringing in some very experienced colleagues from Member States' DMOs and from international organisations, and we have also built the infrastructure that has allowed us to quickly go to the markets in full transparency. A few examples. In May this year, we decided to use Système de Télétransmission des soumissions aux adjudications du Trésor (TELSAT), the Banque de France operator of French issuances, to organise our EU-Bills and EU-Bonds auctions, and the first auction is taking place next week on Wednesday. We also created a Primary Dealer Network group, where we now have 41 institutions supporting us.

Given the size and the scale of these operations, we had to provide the necessary guidance and predictability to the market, so we issued a funding plan which we first did in June. In a spirit of full transparency, this week on Tuesday we confirmed our funding plan for 2021 as originally announced in May. The unchanged parameters of the funding plan demonstrate that our forecasting capacities and management of proceeds processes are robust, which has given confidence to the market.

As of the beginning of September, we still have €35 billion of long-term bonds to raise in the remainder of this year and we will be issuing several tens of billions' of EU-Bills, which of course is a novelty. That will allow us to get to the point by the end of the year where we will have built a complementary reference curve for a triple A safe euro asset. I think that is very important. Market participants tell us that they are looking for this and we will be offering that through these mechanisms. By having resort to money-market operations, but also bills, we essentially have an iron cast guarantee that all of our liquidity needs can be met at all points in time. This is important given the nature of disbursements we undertake under our programmes, which are dependent on decisions by the politicians in the Council.

The latest addition to this is the Next Generation EU Green Bond framework, which we announced just two days ago, and which will comprise up to €250 billion worth of green bonds. This is a very rigorous framework anchored not only on the International Capital Market (ICMA) principles for green bonds but already incorporating strict taxonomy standards in its design. It is truly a very ambitious framework with rigorous reporting, both on the use of proceeds but also on impact side, which we published on Tuesday. On this basis, we will be organising the inaugural Next Generation EU green bond issuance as soon as next month. This programme will make the EU the biggest green bond issuer and we in the Commission will be running the biggest green bond programme in the world. This is yet another testimony to the priority that the Commission attaches to sustainability. These are big steps. I think with that we are extremely well-prepared to go to the market and not just fund the needs of the budget and loans to our Member States but also to strengthen the EU capital markets and the international role of the euro.

I would like to say a little bit more about this as it is highly pertinent. The availability of a highly rated and liquid asset in euros has been something that we have been debating ever since I joined the Commission more than 30 years ago now. It has been a long journey where I think the determination to stand together and address the challenges of the crisis has actually allowed us to build this instrument. I must admit that there was some trepidation ahead of the first issuances, because obviously we knew it worked in theory, but whether it would work in practice would remain to be seen.

The reality reassured us. These bond issuances were massively oversubscribed by a factor of eight to 10, even though the size and the volume of these issuances has been record-breaking in many dimensions. In practice, the appetite was confirmed.

As I said, talking to international investors, it is very clear that we are only at the beginning of this process and that the diversification in their portfolios across the globe is something that they intend to do also by including our bonds. I already mentioned that we are building this complementary reference initiative by issuing at different maturities throughout the curve, from very short-dated bonds of three or five years, all the way up to 30-year bonds. Given the nature of this scheme, we will actually be maintaining that curve by being very regularly present along it for the next two to three decades. By entering the money market with EU-Bills, we will give investors access to liquidity in a new instrument which benefits from a triple A rating, and which has a lot of advantages. We are already seeing a lot of interest to date, even before we have organised the first auction and I am very, very pleased to see that this interest is not just limited to Europe.

Finally, I think the European capital markets, as the home of Environment, Social and Governance (ESG) investing, has been bolstered by the SURE programme. It is the biggest social bond programme in the world and actually doubled the entire size of this market after its introduction. I already spoke about the Next Generation EU green bonds which are the largest green programme worldwide. In that sense we are also changing or assisting, I would say, European capital markets to evolve in a direction for which there is an enormous amount of interest.

There has been a debate, and I would like to close with it, about whether moving so boldly into the capital markets, as a supranational issuer, we are at risk of crowding out our sovereigns. I think the evidence that we see to date, and admittedly it is early days, is that exactly the contrary has happened. What we see is crowding in.

We see no evidence of peers in the Member States coming under pressure as a result of this programme. In fact, there is a recognition in many third countries beyond the borders of the EU, that actually this is going to strengthen our capital markets and will lead to a more attractive investment proposition, not just for us and not just for the debt class of assets but probably also for other capital market asset classes going forward. We think that we have made a good start. The omens are very positive, but clearly now the challenge is to continue and realise the potential fully. This means very close attention to execution and delivery, and I look forward to many contacts with colleagues who are now in Ljubljana but also colleagues in the capitals to continue this conversation.

Thank you very much.