

Beat: Politics

€800 billion to fund the recovery

EU Commission

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USPA NEWS - NextGenerationEU: Commission gets ready to raise up to €800 billion to fund the recovery.

The Commission has today taken steps to ensure that borrowing under the temporary recovery instrument NextGenerationEU will be financed on the most advantageous terms for EU Member States and their citizens. The Commission will use a diversified funding strategy to raise up to around €800 billion in current prices until 2026. This approach, which will be in line with the best practices of sovereign issuers, will enable the Commission to raise the needed volumes in a smooth and efficient way. This will also attract investors to Europe and strengthen the international role of the euro.

Johannes Hahn, Commissioner in charge of Budget and Administration, said: "NextGenerationEU is a game changer for European capital markets. Today, we are unveiling the engine that will pump the fuel to power NextGenerationEU. The funding strategy will operationalise the NextGenerationEU borrowing, so we will have all necessary tools in place to kick-start the social and economic recovery and promote our green, digital and resilient growth. The message is clear: as soon as the Commission has been legally enabled to borrow, we are ready to get going!"^[7]

Borrowing to finance the recovery

NextGenerationEU "" at the heart of the EU's response to the coronavirus pandemic "" will be funded by borrowing on the capital markets. We will raise up to around €800 billion between now and end-2026.

This will translate into borrowing volumes of on average roughly €150 billion per year, which will make the EU one of the largest issuers in euro. All borrowing will be repaid by 2058.

While the Commission has been borrowing before "" to support EU Member States and third countries "" the volumes, frequency and complexity of the NextGenerationEU borrowing have called for a fundamental change in the approach to capital markets.

A diversified funding strategy will respond to these new funding needs. It will enable the Commission to mobilise all funds when required on the most advantageous terms for the EU Member States and their citizens.

Diversified funding strategy: a snapshot

A diversified funding strategy combines the use of different funding instruments and funding techniques with an open and transparent communication to the market participants.

The Commission's diversified funding strategy would combine:

Annual decision on borrowing volumes and 6-monthly communication on the funding plan's key parameters, to offer transparency and predictability to investors and other stakeholders;

Structured and transparent relationships with banks supporting the issuance programme (via a Primary Dealer Network);

Multiple funding instruments (medium and long-term bonds, some of which will be issued as NextGenerationEU green bonds, and EU-Bills) to maintain flexibility in terms of market access and to manage liquidity needs and the maturity profile;

A combination of auctions and syndications, to ensure cost efficient access to the necessary funding on advantageous terms.

The borrowing operations will be embedded in a robust governance framework, which will ensure coherent and consistent execution.

In its work, the Commission will continue to coordinate with other issuers, including the EU Member States and supranationals.

The added value of a diversified funding strategy

The diversified funding strategy will help the Commission to achieve two main objectives: address the large funding needs of NextGenerationEU and obtain the desired low cost and low execution risk in the interest of all Member States and their citizens:

By using a wide range of maturities and instruments and by making funding operations more predictable, the Commission will ensure a larger market absorption capacity. The ability to auction debt will make the funding operations even more efficient. This will help address the large funding needs.

By allowing flexibility to decide when to execute funding operations and which funding techniques or instruments to use, the Commission will obtain the desired low cost and low execution risk in the interest of all Member States.

Next steps

Following today's package, the Commission will proceed with a series of steps to operationalise the diversified funding strategy. Among them:

Setting up a Primary Dealer Network. In line with practices of comparable issuers, the Commission will set up a Primary Dealer Network to facilitate the efficient execution of auctions and syndicated transactions, support liquidity in the secondary markets, and ensure the placement of our debt with the widest possible investor base. The application form and the General Terms and Conditions for participation will be published shortly.

Publish the first annual Borrowing Decision (and accompanying Financing Decision) and first NextGenerationEU funding plan. To ensure transparent communication with the markets, the Commission will adopt its first annual borrowing decision and communicate the information related to its first funding plan before the start of the NextGenerationEU borrowing, expected this summer (timing being dependent on the approval of the Own Resources Decision by all Member States which will empower the Commission to borrow for NextGenerationEU). The borrowing operations can then start as soon as the Own Resources Decision will enter into force. Funding plans will then be updated semi-annually.

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<https://www.uspa24.com/bericht-18542/800-billion-to-fund-the-recovery.html>

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