The borrowing strategy to finance Next Generation EU, the Union’s Recovery instrument

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The Committee on Budgets adopted the own-initiative report presented by José Manuel FERNANDES (EPP, PT) and Valérie HAYER (Renew, FR) on the implementation of the borrowing strategy to finance NextGenerationEU, the Union’s recovery instrument.

Members recall that Next Generation EU is the **EU's largest common borrowing programme** and the first to not only provide loans to Member States, but also to ensure direct spending from the EU budget on EU programmes and policies. With average borrowing volumes of EUR 150 billion per year until 2026, the Next Generation EU borrowing programme makes the EU a key player in the financial markets, putting it on a par with other major European sovereign issuers and making it the largest supranational issuer and the largest green bond issuer.

Description and assessment of Next Generation EU's borrowing strategy to date

Members note that the Commission has developed and implemented a new and extensive funding programme and has rapidly and effectively strengthened its debt management capabilities. They welcome the fact that issuance has proceeded at a steady pace since the first one in 2021 and that all of them have been largely oversubscribed. Furthermore, the Commission's funding strategy is diversified and offers a wide range of products (bonds and bills) and maturities (from three months to 30 years).

Members noted the Commission's decision to rely on a large **Primary Dealer Network**, which constitute important partners in ensuring well-functioning primary and secondary markets and reporting to the Commission on market conditions. The Commission is asked to ensure that members of the Primary Dealer Network have sufficient incentives and obligations in order to play their role.

The report stresses that **transparency of the Commission's borrowing strategy and operations** is key to achieving successful coordination with other market players and to ensure accountability, awareness and ownership among decision makers and the general public. It calls on the Commission to inform Parliament promptly and systematically with disaggregated data on all costs incurred in issuing EU debt.

Potential positive effects and challenges of NextGeneration EU borrowing

Members believe that by making the EU one of the largest bond issuers in Europe, Next Generation EU can have a positive impact on the stability and liquidity of EU capital markets, improve the EU's economic outlook, complement the macroeconomic architecture of the euro area and strengthen the international role of the euro.

The report stresses that the EU could set **benchmarks for sustainable investments** as the world's largest issuer of green bonds, while diversifying its investor base and ensuring lower borrowing costs. Members expect the Commission to fully respect its commitment to exclude problematic projects from green bond financing as soon as there are well-founded suspicions of **greenwashing**. The Commission should make use of robust auditing measures to ensure proper implementation of the Recovery and Resilience Facility, including to reduce the risk of greenwashing.

The report notes that despite its scale, Next Generation EU has so far successfully mitigated the risk of demand for other European sovereign bonds being crowded out. It further argues that Next Generation EU has a positive effect on the attractiveness and sustainability of Member States' debt. Members believe that **giving EU citizens the opportunity to buy EU bonds directly** could enhance their sense of belonging to the EU. The Commission is invited to develop a simple and transparent mechanism for this purpose.

Members note with concern the **new challenges** arising from the lack of security in the global environment as a result of Russia's aggression against Ukraine, as well as the sharp rise in inflation and interest rates, which is affecting sovereign issuers. They expect this increase to be reflected in the repayment line of the EU recovery instrument in the EU budget. The Commission is asked to monitor the situation closely and to provide regular information to the budgetary authority.

The report stresses that **new investment in EU policies will be needed** to strengthen the EU's competitiveness, resilience and strategic autonomy, especially in industry and climate action. Members believe that permanent redeployment is not a viable long-term solution for financing the EU's priorities and stress the need for additional resources.

In view of climate change and the ongoing war in Ukraine, Members stress the need to **rapidly end the EU's dependence on third countries** in key sectors of its economy, such as energy, raw materials, industry and agriculture. In this respect, they consider that the statement of Commission President Ursula von der Leyen on the creation of a **European Sovereignty Fund** is in line with Parliament's resolution of 19 May 2022.

The Commission and the Member States are invited to further examine, in line with the recommendations of the Conference on the Future of Europe, the **possibility of common borrowing at European level**, with a view to creating more favourable borrowing conditions, while maintaining responsible fiscal policies at Member State level.

The EU budget and new own resources

Stressing that the Union's borrowing and lending capacity has increased considerably with Next Generation EU, the report insists on the need to **involve the budgetary authority** in all stages of the lending and borrowing process. It urges that budgetary appropriations for the repayment costs of the EU Recovery Instrument be entered in the EU budget over and above the MFF ceilings, in order to safeguard the margins and flexibility mechanisms for their intended purposes.

Members are convinced that the ultimate success of Next Generation will also be assessed against the Union’s ability to **repay the common debt** with new own resources in the environmental and corporate sector, rather than with increased gross national income-based contributions from the Member States. They therefore invite the Council to **approve the first basket of new own resources** based on the EU Emissions Trading Scheme, the Carbon Border Adjustment Mechanism and Pillar I of the OECD International Agreement on Minimum Taxation of Multinationals, before the end of 2022.

The Commission is invited to present a **proposal for the second basket of new own resources** before December 2023, including a proposal for a financial transaction tax, in order to ensure sufficient resources for Next Generation EU debt repayments.