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From: Secretary-General of the European Commission, signed by Ms Martine
DEPREZ, Director

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To: Ms Thérèse BLANCHET, Secretary-General of the Council of the
European Union

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Subject: COMMISSION IMPLEMENTING DECISION of 19.12.2022 establishing
the framework for EU borrowing and debt management operations in
2023 under the diversified funding strategy

Delegations will find attached document C(2022) 9702 final.

Encl.: C(2022) 9702 final



Brussels, 19.12.2022
C(2022) 9702 final

COMMISSION IMPLEMENTING DECISION

of 19.12.2022

**establishing the framework for EU borrowing and debt management operations in 2023
under the diversified funding strategy**

COMMISSION IMPLEMENTING DECISION

of 19.12.2022

establishing the framework for EU borrowing and debt management operations in 2023 under the diversified funding strategy

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to the Treaty establishing the European Atomic Energy Community,

Having regard to Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012¹, and in particular article 220a thereof,

Having regard to Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom², and in particular Article 5(1), point (a), thereof,

Having regard to Regulation (EU) 2022/2463 of the European Parliament and of the Council of 14 December 2022 establishing an Instrument for providing support to Ukraine for 2023 (macro-financial assistance +)³, and in particular Article 14(1) thereof,

Whereas:

- (1) Article 3 of Commission Implementing Decision C(2022) 9700⁴ provides for adoption of a framework borrowing decision which sets the maximum limits for the borrowing operations and debt management operations, as implemented through the diversified funding strategy established in accordance with Article 220a of Regulation 2018/1046, which are to cover a period of one calendar year. On this basis, it is necessary to adopt a framework borrowing decision for 2023.
- (2) Implementing Decision C(2022) 9700 establishes a diversified funding strategy as the means to fund programmes of financial assistance and the borrowings authorised under Article 5(1) of Decision (EU, Euratom) 2020/2053. It provides that borrowing instruments under the diversified funding strategy are to include a combination of long-term bonds and short-term funding in the form of EU-Bills or credit lines. Borrowing operations will henceforth be organised as auctions, syndicated transactions, private placement depending on which format is most appropriate given the size and nature of the operation.

¹ OJ L 193, 30.7.2018, p. 1.

² OJ L 424, 15.12.2020, p. 1.

³ OJ L 322, 16.12.2022, p. 1.

⁴ Commission Implementing Decision C(2022) 9700 establishing the arrangements for the administration and implementation of the EU borrowing and debt management operations under the diversified funding strategy and related lending operations.

- (3) It is necessary to set the maximum limits for the borrowing operations and debt management operations to enable the Commission to implement borrowing and debt management operations. It is necessary to fix limits for the borrowing operations in order to establish clear boundaries for the amount of long-term and short-term funding. In particular, it is necessary to ensure that the volume of operations to be undertaken is aligned with the planned disbursements under the relevant programmes. This is important to avoid situations where funds are not available to allow disbursements in a timely manner or situations where large amounts of excess funding are accumulated far in advance of disbursements.
- (4) It is therefore necessary to set a range for maximum amounts of long-term and short-term funding, the average maturity of the Union's long-term funding and a limit for the amount per issuance.
- (5) The funding needs should, over time, be met through the issuance of long-term funding instruments. The maximum amount of long-term funding for 2023 should be based on the amounts communicated by the programme authorising officers to the Directorate General for the Budget in line with Article 5(3) of Implementing Decision C(2022) 9700. The maximum amounts laid down in this Decision reflect the most recent information available at the time of adoption.
- (6) The funding needs are driven by the disbursements schedule under the Recovery and Resilience Facility (RRF) established by Regulation (EU) 2021/241 of the European Parliament and of the Council⁵. Additionally, Regulation (EU) 2022/2463 authorises the EU to disburse up to EUR 18 billion in the form of highly concessional loans to Ukraine during 2023. The EU will raise this amount through debt issuance, which is included in the funding needs for 2023.
- (7) In 2023, proceeds destined for disbursement to Member States under the RRF will be established on the basis of assessments of the fulfilment of the milestones and targets set in the national plans. The precise amounts and exact timing of RRF disbursements to be made from NGEU to the Member States will therefore not be fully predictable. This will result in some uncertainty in the distribution of disbursements in 2023 and could affect the overall annual total predicted disbursement level.
- (8) On 18 May 2022, the Commission proposed to amend the RRF Regulation to include REPowerEU chapters aimed at phasing out Europe's dependency from Russian fossil fuels. The amounts to be distributed as RRF loans during 2023 may therefore increase to allow the disbursement of loans to Member States for energy diversification investments under the REPowerEU initiative, including the possible pre-financing of payments. This programme is in the final stages of adoption by the legislative authority at the time of adoption of this Decision. In the context of the REPowerEU initiative, and subject to the final version of the RRF Regulation as amended, RRF grants and loans might also be subject to pre-financing, thus generating funding needs additional to those foreseen in this decision. Therefore, the maximum amounts laid out in this Decision may need to be amended based on the RRF Regulation as amended following the REPowerEU initiative, and on the possible funding needs stemming from it.
- (9) On this basis, it is appropriate to set the amount of the long-term funding of up to EUR 170 billion, reflecting the current forecasts for amounts to be disbursed to

⁵ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.02.2021, p. 17).

Member States for implementation of the RRF and the programmed NGEU financing for Union policies as provided by Council Regulation (EU) 2020/2094⁶ and the recently agreed support to Ukraine under Regulation (EU) 2022/2463. Given that the disbursement to Ukraine is conditional, *inter alia*, upon the entry into force of a loan facility agreement, it is appropriate to temporarily suspend the corresponding amount.

- (10) In addition to the issuance of long-term bonds, Implementing Decision C(2022) 9700 also provides for the issuance of short-term funding in order to provide flexibility in the management of the funding capacity of the EU.
- (11) Short-term funding should be arranged in a way that would allow it to play a valuable role in implementing prudent liquidity management, enabling the Commission to meet all disbursement commitments in a timely and cost-efficient manner. Issuance of short-term paper, and the ability to participate in secured and unsecured money market instruments should also, where appropriate, provide an attractive temporary substitute for long-term funding operations when market conditions are less supportive of bond issuance. The maximum outstanding amount of short-term funding should be based on the size of the expected liquidity buffer that is needed to facilitate the smooth and continuous capacity to make all payments. Based on a conservative assessment of liquidity needs, which risk being higher in the initial stages of funding, an upper bound of EUR 60 billion of short-term funding should be set, including under a scenario of adverse market conditions.
- (12) Implementing Decision C(2022) 9700 requires the Commission to establish the maximum outstanding amount per issuance reflecting the concentration risk at maturity. This limit is necessary to help avoiding the concentration of too much debt maturing at a particular point in time in the future, creating strain on the capacity of the Union budget to repay debt. This is therefore an important parameter in programming a smooth and steady repayment of EU debt over time. At the same time, in order to facilitate the good reception of the Commission long-term funding operations, the maximum maturity per issuance should be sufficiently high to favour the liquidity of the debt securities of the Union, which leads to issue at lower possible costs by attracting the interest of more investors.
- (13) It is therefore appropriate to retain a maximum amount per issuance of EUR 20 billion, based on a sufficiently conservative scenario for raising the total of EUR 170 billion.
- (14) The maximum average maturity of long-term funding should ensure sufficient flexibility in the implementation of the programmes covered by the diversified funding strategy in order to attract investor demand while respecting the limits linked to the budgetary capacities to back contingent liabilities. Taking into account the current market conditions, the interest from investors across the maturities spectrum and the budgetary capacities, the maximum average maturity of long-term funding at issuance should be set at 17 years. The maximum of 17 years reflects a sufficiently conservative scenario in which several benchmark EU-bonds would be launched and tapped on the longer-term maturities, to issue the maximum of EUR 170 billion, taking EUR 20 billion as a maximum outstanding amount.

⁶ Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis (OJ L 433I, 22.12.2020, p. 23).

HAS DECIDED AS FOLLOWS:

Article 1

1. From 1 January 2023 to 31 December 2023 the Commission shall implement borrowing operations within the following limits:
 - (a) long-term funding, up to a maximum amount of EUR 170 billion, out of which an amount of EUR 18 billion shall be temporarily suspended;
Upon entry into force of a loan facility agreement concluded with Ukraine under Regulation (EU) 2022/2463, the suspension shall be lifted for amounts corresponding to the financing of that loan agreement; and;
 - (b) short-term funding, up to a maximum outstanding amount of EUR 60 billion.
2. The maximum amount per issuance of long-term funding is set at EUR 20 billion.
3. The maximum average maturity of long-term funding is set at 17 years.
4. The maximum outstanding amount of own issuances which can be held on own account and can be used for secured money market transactions and/or to support the secondary market in EU bonds shall be zero in 2023.

Article 2

This Decision shall apply as of the date of entry into force of Commission Implementing Decision C(2022) 9700.

Done at Brussels, 19.12.2022

For the Commission
Johannes HAHN
Member of the Commission