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OUTCOME OF PROCEEDINGS

From: General Secretariat of the Council

To: Delegations

Subject: European Court of Auditors' Special Report 16/2023

“NGEU debt management at the Commission – An encouraging start, but further alignment with best practice needed”

- Council conclusions (8 December 2023)

Delegations will find attached the Council conclusions on the Court of Auditors' 16/2023 special report “NGEU debt management at the Commission – An encouraging start, but further alignment with best practice needed”, approved at the Council (ECOFIN) meeting held on 8 December 2023.

Council conclusions on the European Court of Auditors' Special Report 16/2023

“NGEU debt management at the Commission – An encouraging start, but further alignment with best practice needed”

THE COUNCIL OF THE EUROPEAN UNION:

1. WELCOMES the publication in June 2023 of the Special Report of the European Court of Auditors (ECA) Special report 16/2023: “NextGenerationEU (NGEU) debt management at the Commission – An encouraging start, but further alignment with best practice needed” (“ECA Special Report”)¹, and TAKES NOTES of the Commission’s reply attached to the ECA Special Report.
2. RECALLS the Conclusions of the Special meeting of the European Council of the 17, 18, 19, 20 and 21 July 2020², according to which “in order to provide the Union with the necessary means to address the challenges posed by the COVID-19 pandemic, the Commission will be authorized to borrow funds on behalf of the Union on the capital markets”, and HIGHLIGHTS in particular that, according to those Conclusions, “given that NGEU is an exceptional response to those temporary but extreme circumstances, the powers granted to the Commission to borrow are clearly limited in size, duration and scope”.

¹ [Special report 16/2023: NGEU debt management at the Commission \(europa.eu\)](https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf)

² <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

3. RECALLS the Council Decision 2020/2053 of 14 December 2020 on the system of own resources of the European Union (the "Own Resources Decision")³ which requires that “the Commission shall establish the necessary arrangements for the administration of the borrowing operations. The Commission shall regularly and comprehensively inform the European Parliament and the Council about all aspects of its debt management strategy”.
4. ACKNOWLEDGES the creation by the European Commission, in a tight schedule, of the elements allowing it to implement the Own Resources Decision, in particular the NGEU debt management system relying on a primary market infrastructure, including an auction system, a primary dealer’s network, and the issuance of numerous bonds and bills as part of the NGEU recovery instrument, including green bonds; RECALLS that, for the purpose of financing the NGEU, the Commission is empowered to borrow funds up to EUR 806.9 billion (current prices) on capital markets by 2026; this is done through the issuance of EU bonds; TAKES NOTE of the fact that the amount of up to EUR 723.8 billion (current prices) is allocated to the Recovery and Resilience Facility in order to promote the Union’s economic, social and territorial cohesion by providing Member States with financial support with a view to their investments and reforms in six thematic pillars, including green transition and digital transformation, thereby helping them to address the economic and social impact of the COVID-19 pandemic⁴;

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020D2053>

⁴ See Regulation (EU) 2021/241 of the European Parliament and the Council establishing the Recovery and Resilience Facility.

5. RECALLS the temporary nature of NGEU given that all liabilities incurred by the exceptional and temporary empowerment of the Commission to borrow funds must be fully repaid at the latest by 31 December 2058; RECALLS that the repayment of the principal and the related interest in respect of the funds borrowed to be used for non-repayable support will be borne by the Union budget and that the repayment of loans and of all related costs incurred by the Union shall be borne by the beneficiary country;
6. TAKES NOTE that, in view of the unified funding strategy, as established in Regulation 2022/2434 of 6 December 2022⁵ and in Commission Implementing Decision 2022/2544 of 19 December 2022⁶, the Commission issuances for NGEU, the Macro-Financial Assistance (MFA) + for Ukraine and other potential future borrowing and lending programmes will no longer be specific to the individual European programme that the bond would fund.
7. POINTS OUT that the Commission's inaugural NGEU issuance took place in June 2021, i.e., immediately after the entry into force of the Own Resources Decision; HIGHLIGHTS that the EU presently ranks as one of the largest issuers of euro-denominated debt and the largest green bond issuer globally.

⁵ Regulation (EU, Euratom) 2022/2434 of the European Parliament and of the Council of 6 December 2022 amending Regulation (EU, Euratom) 2018/1046 as regards the establishment of a diversified funding strategy as a general borrowing method. Source: [EUR-Lex - 32022R2434 - EN - EUR-Lex \(europa.eu\)](#)

⁶ Commission Implementing Decision (EU, Euratom) 2022/2544 of 19 December 2022 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. [EUR-Lex - 32022D2544 - EN - EUR-Lex \(europa.eu\)](#)

8. OBSERVES that since early 2022, market yields have risen and price volatility has increased, triggered by the geopolitical context including Russia's war of aggression against Ukraine and the tightening of monetary policy in advanced economies; NOTES that the changed environment resulted in rising borrowing costs also for the NGEU borrowing operations.
9. NOTES that the ECA Special Report assesses inter alia the system developed by the Commission to manage the debt raised to finance NGEU, based on the design and early operation of the NGEU debt management system from June 2021 to June 2022; UNDERLINES that the ECA consulted with the 27 Member States' national debt management offices to identify in particular potential improvements to the EU's debt management arrangements.
10. CONCURS with the ECA's acknowledgement that:
- The Commission borrowed the funds on time and in compliance with regulatory limits and at costs corresponding to its market position.
 - The new structures and competences allowed NGEU funding to begin quickly, but they need reinforcement as set out in the recommendations in the ECA Special Report.
 - The Commission's debt management objectives were not clearly set out at the outset, which limited assessment of performance.

11. CONSIDERS that the recommendations made by the ECA are relevant and can contribute to the further improvement of the debt management by the Commission; WELCOMES the acceptance by the Commission of all the recommendations made by the ECA, and its commitment to implement correcting actions by mid-2024⁷.
12. NOTES in particular that the ECA recommends that the Commission formulates clear debt management objectives and reports on performance in their implementation; OBSERVES that the ECA Special Report does not set detailed guidelines for the direction, indicators and principles of an overall debt management strategy aiming at a balanced cost and risk structure of the debt portfolio within debt / liability risk parameters for the overall debt management; TAKES NOTE that the Commission's actions have aimed at ensuring that the EU obtains the most advantageous borrowing conditions for the EU in the medium to long run; RECALLS that the Commission, in managing its debt and loan portfolio should organise its bond issuance in accordance with a risk management framework which ensures that the redemptions in any given year remain within the EU's budgetary capacity and respect the relevant EU budgetary resources stipulated in the legislative acts setting up the programmes financed by debt issuance (the Own Resources Decision in case of NGEU).

⁷ Source: Commission's reply to the ECA Special Report SR/2023/16.

13. WELCOMES the adoption by the Commission of an overarching debt management strategy⁸ which guides the implementation of a new unified funding approach whereby the instruments developed for NGEU will be used in the same way for other lending programmes being established after December 2022, making EU securities more homogenous and liquid.
14. RECALLS that the Economic and Financial Committee (EFC) has been regularly informed since 2021 by the Commission on the organisation of NGEU issuances, the NGEU maturity management and repayment of debt, the Green Bond Framework and issuance, the funding plans, and the financial situation of the NGEU recovery instrument; RECALLS that the EFC mandated on 23 September 2021 its Sub-Committee On EU Sovereign Debt Markets (ESDM) to further discuss the financing of NGEU based on the Commission's reporting ; EMPHASISES the benefits for the Commission of the information sharing and the expertise of the national debt management offices (DMOs) represented in the ESDM; WELCOMES the continuation of these regular reports and exchanges on best practices on the EU borrowing operations and issuance planning to the ESDM and the EFC.

⁸ [Fourth half-yearly report on the execution of the EU borrowing and lending operations.PDF \(europa.eu\)](#)

15. WELCOMES the Commission's intention to align the organizational structure of its debt management office better with international best practices, to establish a separate middle-office, to reinforce the role of the Chief Risk Officer, and to gradually replace the external and temporary staff working on the EU debt management by more permanent EU staff while fully respecting the ceilings of the current Multiannual Financial Framework 2021-2027, while acknowledging the benefit to the Commission of having seconded staff from other DMOs bringing in their expertise.
16. LOOKS FORWARD to the continued implementation of Member States' national recovery and resilience plans (RRPs) under the Recovery and Resilience Facility as a part of NGEU, including, where applicable, the REPowerEU chapters of that Facility, which, when addressing the consequences of the COVID-19 pandemic, provide also funding for key investments and reforms to strengthen the strategic autonomy of the Union by diversifying energy supplies and boosting the independence and security of the Union's energy supply.