EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

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European Parliament
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Frankfurt am Main, 22 December 2020

L/CL/20/317

Re: Your letter (QZ-061)

Honourable Members of the European Parliament,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 3 November 2020.

Euro area bond markets have experienced record high issuance levels by Member States and supranational institutions this year in response to the coronavirus (COVID-19) pandemic. The European Union itself, as part of its emergency support package to tackle the economic impact of the COVID-19 pandemic, has put in place a temporary instrument to support national short-time work schemes (SURE – Support to mitigate Unemployment Risks in an Emergency) to help workers keep their jobs during the crisis. In addition, EU leaders have agreed on a comprehensive package of more than €1.8 trillion to be disbursed starting in 2021, including the 2021-2027 Multiannual Financial Framework (MFF) and an extraordinary recovery effort under the Next Generation EU (NGEU) instrument. The recent issuance by the EU under the SURE programme marks the start of a significant increase in EU issuance over the coming years, which – subject to final adoption of the MFF/NGEU package by legislators – is expected to make the EU one of the largest issuers in Europe.

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As the EU bonds are highly rated, much focus has been on the potential impact on similarly rated euro area sovereign bonds which, on a relative value basis, are seen as the main substitutes. There has not been any significant evidence of an impact on demand in euro area sovereign bond markets from the EU issuance so far. In fact, recent statistics on euro area primary market sovereign auctions indicate that they have generally been well received by investors across tenors and jurisdictions. At the same time, the EU SURE issuance that have taken place so far has met very high demand, indicating little concern over the sharp supply increase.

Regarding your specific question related to the impact on lower rated sovereign euro area issuers, EU issuance has not and is not expected to negatively affect these issuers. On the contrary, the strong response at EU level – epitomised by the SURE and NGEU instruments – is reinforcing national responses and helping to cushion the effects of the pandemic on the euro area economy. By focusing support on the Member States most affected by the pandemic, both instruments contribute to preventing further divergences between countries and thus benefit the EU as a whole.

Yours sincerely,
[signed]

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