Questions and Answers: European Commission to issue EU SURE bonds of up to €100 billion as social bonds

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What is the objective of the Social Bond Framework?

The EU SURE Social Bond Framework is a document which will enable the Commission to issue its SURE bonds worth up to €100 billion, as social bonds.

To ensure that, it explains to potential investors how the EU SURE social bonds are aligned with the four components of the Social Bond Principles (SBP) established by the International Capital Market Association (ICMA). These are the use of proceeds, selection of projects, management of proceeds and reporting.

The EU SURE Social Bond Framework will safeguard that the proceeds from the EU SURE social bonds will be used exclusively to finance programmes with a positive social impact.

How has it been established?

The Social Bond Framework has been prepared by the European Commission, in full compliance with the social bond principles established by the ICMA. In line with best market practice, it has then been independently evaluated by an external evaluator, the market leader Sustainalytics.

How is it linked to the SURE bonds?

The Framework will allow the European Commission, on behalf of the Union, to issue the EU bonds under the SURE instrument as social bonds.

In this way, the EU will use the social bonds under the SURE instrument as an Environment, Social, and Governance (ESG) debt instrument.

This approach will enable the investor community to direct its funds towards a clearly identified objective: the social needs of EU Member States following the coronavirus pandemic and its consequences. This will contribute to the further development of the social bond market, which promotes in full transparency the 'Use of Proceeds' for social purposes.

The social bond label represents yet another guarantee that the funds will be used to finance social measures.

Is it a standard practice that the issuer of social bonds establishes the criteria for their labelling?

Preparing and presenting a Social Bond Framework is a best market practice for any issuer of Environmental, Social and Corporate governance (ESG) bonds.

It is therefore only natural that the Commission publishes its Social Bond Framework ahead of the forthcoming SURE issuance.

How will this Framework guarantee that the SURE bonds are really social bonds?

The SURE Regulation – the document which sets up the SURE instrument - requires from all Member States to be regularly reporting to the Commission on how the borrowed funds have been spent.

At a later stage, they have to report on the concrete social impact achieved through the EU SURE bonds.

The European Commission will collect and aggregate the data collected by Member States and publish it in consolidated reports. These will demonstrate to investors that the EU SURE bonds have indeed been used to finance programmes with a positive social impact.

When will the first SURE bonds be issued?

For the Commission to start issuing bonds under the SURE programme, a set of legal and administrative procedures need to be completed.

To activate the SURE instrument, all Member States signed guarantee agreements with the Commission worth a total of €25 billion. These guarantees are necessary to expand the volume of loans that can be provided to Member States while safeguarding the Union's prime credit rating and strong position on international capital markets. As a second step, the Council approved €87.4 billion of financial support to 16 Member States, based on Commission's proposals.

All relevant legal and administrative procedures are currently being finalised with the objective to carry out the first SURE issuance in the second half of October.

Is it the first time that the EU will issue bonds?

No, the EU is an established issuer in the market and has borrowed in the past to provide back-to-back loans to Member States.

Currently, the EU has close to €52 billion in outstanding bonds, distributed as back-to-back loans to Member States and some third countries under the following 3 financial assistance programmes:

- European Financial Stabilisation Mechanism (EFSM): Established in 2010 with a view to preserving the financial stability of the European Union. Under this programme, the EU has €46.8 billion in outstanding loans disbursed to Ireland and Portugal between 2011 and 2014.
- The Balance of Payments (BoP) programme provides support to non-euro-area Member States. A total of €13.4 billion were disbursed to Hungary, Latvia and Romania between 2008 and 2010, of which €200 million (Latvia) are outstanding.
- Macro-Financial Assistance (MFA) is a financial aid programme to assist non-EU countries benefiting from an IMF programme. The currently outstanding loans under this programme stand at €4.8 billion.

Which Member States will benefit from the EU SURE social bonds?

So far, 16 Member States will receive financial support under the SURE instrument to help protect jobs and people in work. The Commission has today also presented a proposal to the Council for a decision to grant €504 million in financial support to Hungary under the SURE instrument. Including Hungary, the Commission has now proposed a total of €87.8 billion in financial support under SURE to 17 Member States.

Financial support will be provided in the form of loans granted on favourable terms from the EU to Member States.

These loans will assist Member States in addressing sudden increases in public expenditure caused by measures to preserve employment in the context of the pandemic crisis. Specifically, they will help Member States to cover the costs directly related to the financing of national short-time work schemes, and other similar measures they have put in place as a response to the pandemic, in particular for the self-employed. SURE could also finance some health-related measures, in particular at the work place, used to ensure a safe return to normal economic activity.

Member States can still submit formal requests for support under SURE, which has an overall firepower of up to €100 billion to help protect jobs and workers affected by the pandemic.

For More Information

Press release

Social Bond Framework

SURE website

EU as a borrower website

Proposal for a Council Implementing Decision for Hungary

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