

European Union and Euratom



AAA
STABLE
OUTLOOK

Credit strengths

- Highly rated Member States, providing de facto joint and several support
- High liquidity buffers, excellent market access, budgetary flexibility
- Preferred creditor status

Credit challenges

- Significant increase in debt
- High guarantees, mostly to European Investment Bank

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Rating rationale and Outlook:

The AAA rating of the European Union (EU) reflects its 'excellent' Member support and 'excellent' intrinsic strength. In detail:

- **Shareholder support:** The EU benefits from: i) the largest European economies being its highly rated key Member States, with a weighted average rating of AA-; ii) a track record of and solid legal basis for receiving timely financial support; iii) extraordinary support mechanisms, ensuring de facto joint and several support; and iv) a legally enshrined debt service priority combined with significant budgetary flexibility.
- **Institutional profile:** The EU has a proven record of excellent governance and an irreplaceable mandate for its Member States, being at the heart of Europe's Covid-19 response via the SURE and NGEU programmes as well as leading the continent's transition towards a carbon-neutral and climate-resilient economy.
- **Financial profile:** The EU benefits from a very strong liquidity profile, driven by high, prudently managed liquid assets, excellent market access given its global benchmark issuer status, and a diversified funding base. The EU's excellent asset quality reflects its preferred creditor status. Challenges relate to the almost tenfold increase expected in its outstanding liabilities over the coming years, which will result in higher debt repayments going forward.
- **Outlook and triggers:** The Stable Outlook reflects our assessment of the EU's financial buffers to withstand shocks. The rating could be downgraded if: i) highly rated key Member States were downgraded; ii) the EU's institutional setup weakened; and/or iii) the EU's liquidity buffers declined.

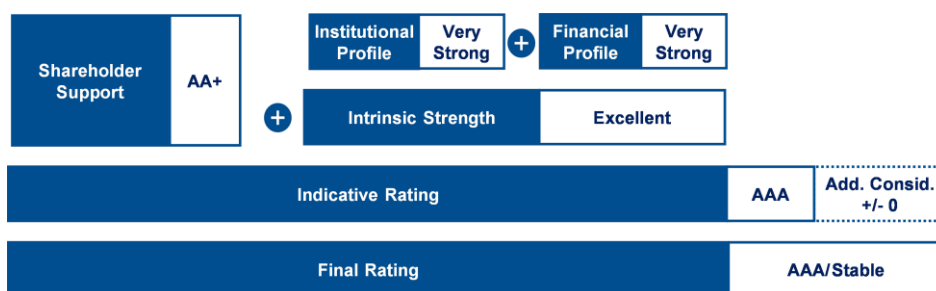
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Figure 1: Scope's assessment of the EU's rating drivers



Source: Scope Ratings GmbH

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12 to 18 months.

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Downgrades of key Member States
- Weakening in institutional setup
- Reduction in liquidity buffers

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Bloomberg: RESP SCOP

Credit profile

We determine a non-capitalised supranational's rating by assessing its shareholder support as well as its intrinsic strength based on its institutional and financial profiles. We map these two assessments to determine an indicative rating range that can be adjusted by up to one notch to determine the final rating. For details, please see our methodology.

Shareholder support: AA+

We assess an institution's shareholder support primarily via the weighted average rating of its key shareholders or members on the AAA-CCC rating scale. This indicative rating may be adjusted in case of a meaningful overlap between the key shareholders providing support and the countries of operation, as well as for any extraordinary support measures.

Scale AAA AA+ AA AA- A+ A A- BBB+ BBB BBB- BB+ BB BB- B+ B B- CCC

The EU's shareholder support is assessed at 'AA+'. This reflects the 'strong' ability and 'high' willingness of its Member States to provide financial support in case of need.

Key shareholder rating

The EU's and Euratom's¹ borrowings are ultimately backed by the EU budget. The EU budget is financed by several sources of revenues, which mostly comprise GNI-based transfers from EU Member States (around two-thirds) but also customs duties, VAT and a plastic based own resource. As the EU budget must not run a deficit, the GNI-based resource plays a budget-balancing role, financing the annual expenditure not covered by all other revenues.

We identify the most relevant EU Members based on the capital key of the European Central Bank (ECB), which is driven by the member states' nominal GDP and population. This balances several considerations: i) budgetary contributions based on the GNI of the Member States; ii) the fact that the EU budget benefits from its own revenue sources, which are at least partly dependent on the member states' economic size and population; iii) the political weight in decision-making processes; and iv) the relative stability of the ECB's capital key, which provides stability in this critical part of the credit analysis.

Figure 2: Key Member States

Key shareholders	Rating	Relative relevance (%)*	
		Original	Adjusted
Germany	AAA/Stable	21.4	27.4
France	AA/Stable	16.6	21.2
Italy	BBB+/Stable	13.8	17.6
Spain	A-/Stable	9.7	12.4
Poland	A+/Negative	6.0	7.7
Netherlands	AAA/Stable	4.8	6.1
Sweden	AAA/Stable	3.0	3.8
Belgium	AA-/Stable	3.0	3.8
		78.3	100.0
Key shareholder rating		AA-	

*Based on ECB key (nominal GDP and population). Source: Scope Ratings GmbH

EU budgetary contributions as proxy for ownership and control

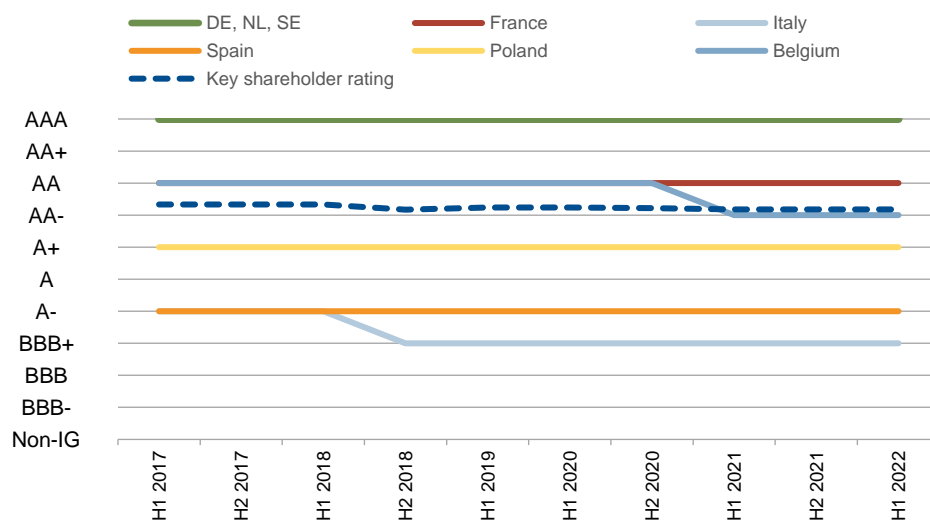
Highly rated Member States

No impact from Brexit

The eight largest European economies account for around 75%-80% of the EU's economy, population and GNI-based national budgetary transfers and thus constitute the EU's key Member States, with a weighted-average rating of AA-. This considers that the United Kingdom does not provide budgetary contributions for liabilities and obligations taken after 2021 due to its exit from the EU on 30 January 2020.

¹ Euratom is a separate legal entity but its credit profile is identical to the EU's as its debt repayment obligations are backed by the EU's budgetary resources.

Figure 3: EU's key shareholder rating



Source: Scope Ratings GmbH

Some overlap between key Member States and countries of operation, notably Italy and Spain

The EU's loan operations in Italy, Spain and Poland together account for about 44% of its outstanding loans. This could increase further in light of forthcoming disbursements from the Next Generation EU (NGEU) programme. In our view, this reflects a moderate risk of material credit deteriorations arising simultaneously in those countries that are expected to provide support if ever needed. However, we note positively that the other key Member States, notably, Germany, France, the Netherlands and Sweden, will have minimal loans, if any, from the EU, limiting this potential risk.

One notch for legal debt service priority and budgetary flexibility

Extraordinary support

The EU's debt servicing ability benefits from multiple layers of protection. The EU repays its debt using repayment proceeds from borrowing countries that received back-to-back financing of loans. However, in case a borrowing country fails to repay on time, 'the European Parliament, the Council and the Commission shall ensure that the financial means are made available to allow the Union to fulfil its legal obligations in respect of third parties'². We acknowledge this legal debt service priority with a one-notch positive adjustment, taking into account the actual budgetary flexibility of the European Commission to delay significant amounts of the EU's annual expenditure of about EUR 40bn-60bn from the European regional and cohesion funds.

One notch for de facto joint and several guarantee mechanism and three-day payment horizon

In addition, if the EU's available cash resources were insufficient to service debt, the EC would be legally entitled to draw funds from all Member States³. In such an adverse event, the additionally required funds 'shall be divided among the Member States, as far as possible, in proportion to the estimated budget revenue from each of them'⁴. Member States are legally obliged to 'execute the Commission's payment orders following the Commission's instructions and within not more than three working days of receipt'⁵. We consider this to be an exceptionally strong and timely guarantee mechanism with a de facto joint and several support framework, warranting a one-notch upward adjustment to our shareholder support assessment.

At the same time, we note that rebates for GNI-based contributions⁶ lower the final contributions to the EU budget from the highest-rated Members. Still, these lump-sum payments are fixed and will not increase over the coming years.

² Treaty on the Functioning of the European Union. Article 323

³ Article 14 of the Council Regulation (EU, Euratom) No. 609/2014

⁴ Article 14 (4) of the Council Regulation (EU, Euratom) No. 609/2014

⁵ Article 15 (1) of the Council Regulation (EU, Euratom) No. 609/2014

⁶ EUR 377m for Denmark, EUR 3.671bn for Germany, EUR 1.921bn for the Netherlands, EUR 565m for Austria and EUR 1.069bn for Sweden EU Council July 2020.

Intrinsic strength – Institutional profile: Very Strong

Scale	Very Strong	Strong	Moderate	Weak	Very Weak
	Very Strong	Strong	Moderate	Weak	Very Weak

We assess the credit risk of supnationals, placing a significant emphasis on the importance of their mandate to their shareholders and associated environmental, social and governance (ESG) considerations.

The EU's institutional profile is assessed as 'Very Strong'. This reflects its excellent governance and irreplaceable mandate for EU Members, being at the forefront of policy design and implementation. This role includes financial assistance programmes to help countries in financial distress, close Europe's investment gap, facilitate the recovery from the Covid-19 crisis, and foster Europe's transition to carbon neutrality.

Mandated activities

The EU budget guarantees the borrowings of the European Commission that finance: i) lending to Member and non-Member States in back-to-back transactions; and ii) non-repayable support (i.e. grants) to EU Member States in response to the Covid-19 shock.

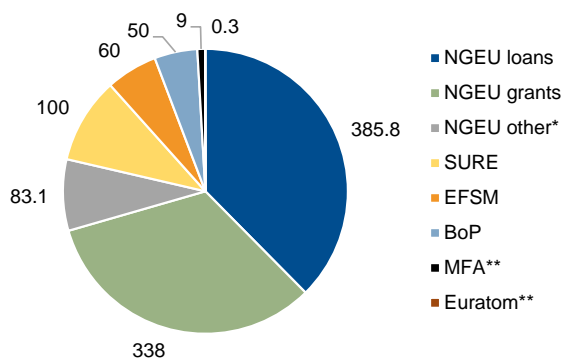
Social factors

The EU's borrowing is permitted to finance: i) loans to its Member States, via the European Financial Stabilisation Mechanism (EFSM)⁷, the Balance-of-Payments (BoP)⁸ financial assistance programmes, the Support to mitigate Unemployment Risks in an Emergency (SURE)⁹ and NGEU¹⁰ instruments; ii) grants to its Member States via NGEU instruments and payments to existing EU programmes; iii) loans to non-EU countries benefiting from an IMF programme through the Macro-Financial Assistance (MFA)¹¹ programme; and finally; iv) loans for Euratom, which lends to EU Member States and non-Member States and their entities to finance projects relating to energy installations¹².

Mandate to provide loans and grants mostly to EU Member States and not for profit

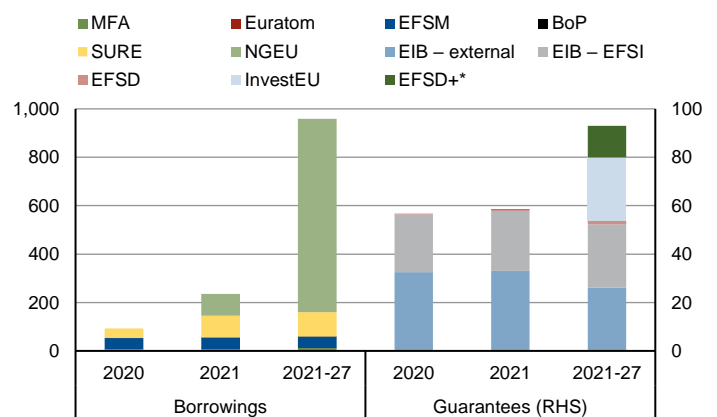
Loan exposure shifts to EU Member States following SURE and NGEU disbursements

Figure 4: EU's financing programmes
EUR bn, maximum ceilings where applicable



*Refers to payments to existing EU programmes. ** No official ceiling.
Source: European Commission, Scope Ratings GmbH

Figure 5: Total exposure including guarantees
EUR bn



*EFSD+ excludes EIB external action window.
Source: European Commission, Scope Ratings GmbH

Financial activities to increase almost tenfold

In response to the Covid-19 crisis, the EU's financial activities and outstanding liabilities will increase almost tenfold to around EUR 950bn, or about 7% of the EU's GDP, on account of SURE and NGEU over the coming years. This highlights the exceptional importance of these instruments to the EU.

⁷ EFSD enables financial assistance to be granted to a Member State in difficulty. This may take the form of a loan or a credit line. While the facility is limited at EUR 60bn, the EFSD is not foreseen to engage in new financing programmes or enter into new loan facility agreements.

⁸ The BoP facility, a policy-based financial instrument, provides medium-term financial assistance to EU Member States that have not adopted the euro. The maximum outstanding amount of loans granted under the instrument is EUR 50bn.

⁹ The SURE instrument has a limit of EUR 100bn and is temporary, to be concluded by the end of 2022.

¹⁰ The NGEU instrument has a limit of EUR 750bn (in 2018 prices) and is temporary, with net borrowing to be concluded by the end of 2026.

¹¹ MFA is a policy-based financial instrument of untied and undesignated balance-of-payment and/or budgetary support to partner countries under an IMF programme. These loans are guaranteed by the Guarantee Fund for External Actions and have no official ceiling although the External Action Guarantee ceiling of EUR 53.5bn, which also covers external actions of the EIB, cannot be exceeded.

¹² Guarantees from third parties are the first to cover outstanding Euratom loans. Otherwise, the Guarantee Fund for External Actions will cover the amounts.

SURE demonstrates EU solidarity

We highlight that in addition to traditional financial assistance instruments, which have a social dimension as they assist countries in financial distress, the SURE instrument has demonstrated solidarity among EU Member States. It is the world's largest social bond programme to date with EUR 91.8bn raised. Funds have been disbursed to 19 Member States since October 2020 to help finance the sudden increases in public expenditure for the preservation of employment following the Covid-19 shock.

Guarantees, mostly to EIB, demonstrate risk-sharing capacity

In addition, the EU is mandated to provide guarantees to: i) the EIB in the context of its non-EU activities and those classified under the European Fund for Strategic Investments (EFSI) and its successor, the InvestEU programme; and ii) the European Fund for Sustainable Development (EFSD) and its successor, EFSD+. These contingent liabilities are not funded by the EU on the capital markets. Still, they are ultimately backed by the EU budget and thus form an important and growing part of the EU's activities and overall credit risk.

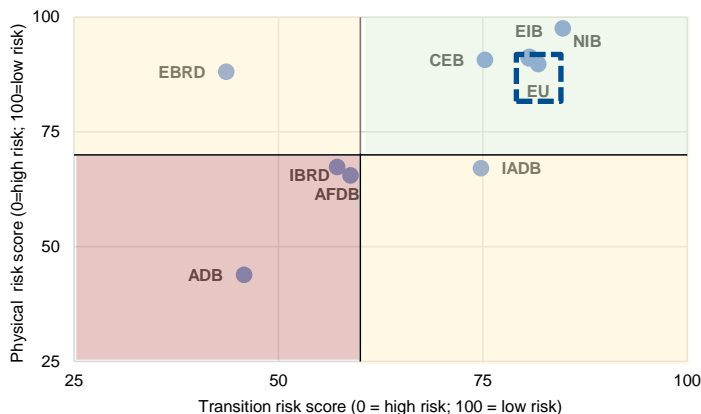
Environmental factors

European Green Deal and EU Taxonomy set policy stage for EU green bonds

To help meet EU climate and energy targets and European Green Deal objectives, the European Commission's Action Plan on Financing Sustainable Growth includes the development of a common classification system for sustainable economic activities called the EU Taxonomy. The ultimate objective is to direct investments towards sustainable projects and activities.

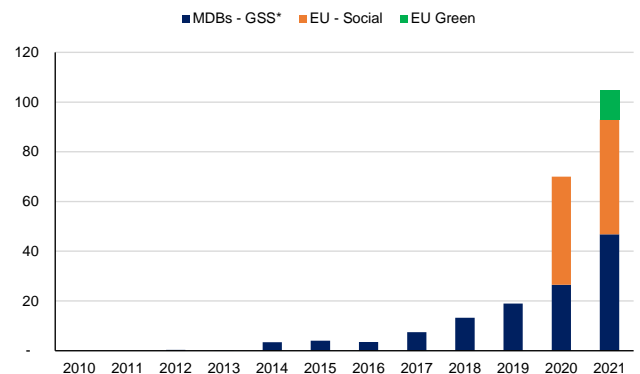
We therefore assess the EU's potential environmental risk exposure as lower than that of peers, including the risk of stranded assets as well as the reputational risk of pursuing activities that contradict its mandate and environmental objectives, either directly or indirectly through counterparties. This is due to the comparatively low transition and physical risk scores of the EU's main countries of operation as well as the effective measures already taken and underway regarding project selection.

Figure 6: Physical and transition risk scores
0 = high risk, 100 = low risk



NB. Transition risks measured via CO₂/GDP and physical risks via World Risk Institute. Variables transformed using min-max approach ranging from 1 to 100. Portfolio weighted by top 10 country exposures. Mid-point reflects median scores of a sample of 13 supranationals. Source: Scope Ratings GmbH

Figure 7: Green, social and sustainable bonds
EUR bn, annual issuance



*Refers to sum of AfDB, ADB, AIIB, CEB, EBRD, EIB, IADB and IBRD. Source: Bloomberg, Scope Ratings GmbH

EU to become largest green bond issuer worldwide

Specifically, we note positively that at least 37% of the Recovery and Resilience Facility – which accounts for 90% of NGEU – is set for green investments. As a result, at least 30%, or EUR 250bn, of NGEU bond issuance will be directly linked to the objectives of a green and sustainable economic recovery. This will transform the EU into the largest green bond issuer worldwide and underline its commitment to achieving climate targets. To date, the EU has raised EUR 28bn via green bonds – all based on the EU's Green Bond Framework, which is aligned with the green bond principles of the International Capital Market Association.

These measures reduce the risk of financing projects with transition risks and critically support the EU's goals to boost the green bond market, accelerating a virtuous circle of sustainable investments and thus mobilising private capital to achieve environmental aims.

Governance

The EU's exceptionally strong governance and regulatory frameworks translate its political priorities into financial terms, including the operationalisation of the EU budget via the multiannual financial framework and the annual budget. Every year the European Court of Auditors verifies the reliability of the EU's accounts, which are prepared based on the International Public Sector Accounting Standards.

EU Treaty provides solid legal basis for EU budget

The [Treaty on the Functioning of the EU](#) sets out: i) general principles governing budget procedures and the principle of sound financial management (Article 310); ii) the principle of funding the budget from own resources (Article 311); iii) the multiannual financial framework, with annual expenditure ceilings for at least five years (Article 312); iv) the schedule for the financial year (Articles 313-316); and v) procedures for budget implementation and control and confers the necessary powers (Articles 317-319). On this basis, the EU's conservative budgetary practices aim at ensuring a balanced budget, although normally there are annual surpluses that are carried forward to the next year's budget.

No single EU Member State dominates decision-making

The adoption of the EU budget requires a proposal from the European Commission followed by a qualified majority approval from the Member States (i.e. 15 of the 27 Member States representing at least 65% of the EU population) and majority approval from the European Parliament. The most relevant EU Members economically and politically are Germany, France, Italy and Spain (see [Annex I](#)) following the departure of the UK. Still, we note positively that no single Member States can dominate the EU's strategic and operational activities because a blocking minority requires at least four Member States representing more than 35% of the EU population.

Withdrawal Agreement with EU regulates UK's financial obligations

Finally, under the 'Withdrawal Agreement', the UK agreed to honour all financial obligations undertaken while it was an EU Member. The UK will therefore continue to contribute to the EU budget and benefit from pre-2021 EU programmes and expenditure. These obligations create liabilities and receivables for the EU that amount to EUR 41.8bn on a net basis as of end-2021. At the end of 2022, this amount is set to decline to about EUR 31bn, which will be paid by the UK over the coming years.

Figure 8: EU-UK financial obligations

EUR bn

	2020	2021
Due from the UK	49.6	44.0
Due to the UK	2.1	2.2
Net receivable from UK	47.5	41.8
UK payment (expected following year)	6.8	10.9

Source: European Commission

Intrinsic strength – Financial profile: Very Strong

We assess a non-capitalised institution's financial profile along two rating factors: i) liquidity and funding; and ii) asset quality.

Scale	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
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The EU's financial profile is assessed as 'Very Strong'. This reflects its: i) 'excellent' liquidity coverage and 'excellent' funding profile to meet its high disbursement needs; and ii) 'very strong' portfolio quality and 'excellent' asset performance.

Liquidity and funding

Scale	+8	+7	+6	+5	+4	+3	+2	+1	0	-1	-2	-3	-4
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Our analysis focuses on the supranational's: i) available liquid assets to meet financial obligations and expected disbursements over an extended period; and ii) funding operations, including the stability and diversification of its market access.

Our assessment balances the EU's 'excellent' liquid assets coverage with its excellent market access, given its global benchmark issuer status, diversified funding base, and the significant ESG-related issuance.

Liquidity coverage

We note the EU's conservative liquidity management and budgetary practices, including its recently launched diversified funding strategy to meet short-term liquidity needs in the context of NGEU disbursements.

Looking at liquid assets, we note the cyclical nature of the EU's high cash balances. During 2022, the cash balance averaged EUR 28.9bn until June, with a low of EUR 18.5bn in March. As of June 2022, the cash balance rebounded to EUR 35.9bn, above the previous years' levels given some delays in programme disbursements. Over the past seven years, the cash balance never dropped below EUR 10bn; the lowest balance was EUR 7.4bn in July 2012. We also include the funds held in the NGEU off-budget account, which is maintained to meet upcoming NGEU disbursements and repayments. At end-2021, this account held liquid assets of EUR 18bn.

We also include the budgetary margin in the EU's liquid assets. Specifically, the EU's total own resources ceiling – the maximum it can draw on from Member States without the need for any subsequent decision by national authorities – is now set at 1.40% of the EU's estimated GNI. In addition, Member States have agreed to set aside a further 0.6pp until 2058 to cover the repayment of all liabilities from NGEU borrowings. The total ceiling is thus 2.00% of the EU's GNI, or about EUR 310bn for 2022, of which EUR 93bn relate to NGEU activities.

Conversely, regarding expenditures, we note that total payment appropriations, meaning actual authorised disbursements in a given year in the EU's seven policy areas¹³, may not exceed EUR 171bn on average each year.

The own resources ceiling is legally binding, and it has never been reached. Thus, we estimate the EU's liquid assets using a conservative approach, by adjusting the budgetary margin for the pro-rata budgetary contributions of Member States rated AA- or above¹⁴. Based on Scope's sovereign ratings and the [adopted 2022 GNI-based budgetary contributions](#), this share is currently at around 65%.

On this basis, the margin between the potential maximum contribution from the EU's highly rated Members and the actual payments during 2021-27, adjusted for 'other revenues'¹⁵ that increase the budgetary margin, averages around EUR 111bn over the 2021-27 period. Together with the estimated average cash balance of EUR 23.9bn¹⁶ and the NGEU-specific liquidity account of around EUR 18bn, this results in liquid assets of around EUR 150bn for 2021-27.

High cash balances and NGEU-specific liquidity account

Significant additional liquidity buffer given budgetary margin

Budgetary margin adjusted for pro-rata share of highly rated Members

¹³ Single market, innovation and digital; cohesion, resilience and values; natural resources and environment; migration and border management; security and defence; neighbourhood and the world; European public administration

¹⁴ This adjustment is in line with Scope's methodology of only using assets rated AA- or above for the calculation of liquid assets.

¹⁵ Includes taxes paid by EU staff, payments from the UK stemming from the Withdrawal Agreement, fines paid by companies and budget balance from previous year.

¹⁶ Based on full-year average cash balances for the 2019-21 period.

Figure 9: Monthly cash balances

EUR bn

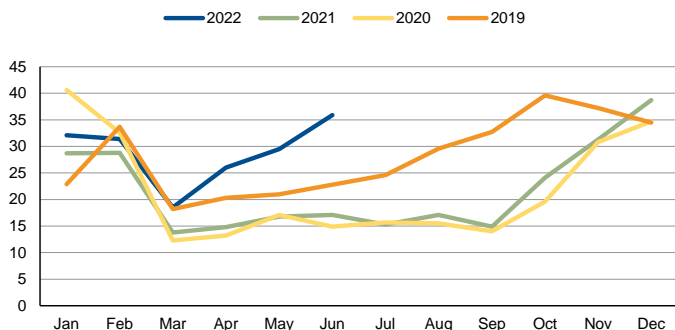
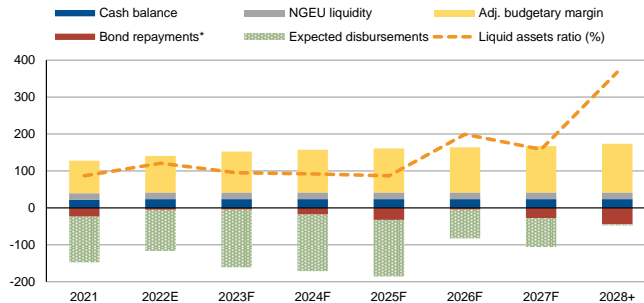


Figure 10: Liquidity coverage

EUR bn; %



*Assumes maximum bond repayments from 2028 of EUR 10bn for SURE, EUR 29.25bn for NGEU and EUR 5bn for EFSM/BoP/MFA. Source: European Commission, Scope Ratings GmbH

Modest bond repayments due within next 12 months ...

Conversely, we estimate the EU's liabilities maturing within 12 months at around EUR 116bn for 2022. This includes bond repayments (EUR 5.1bn) and disbursements of around EUR 110bn, driven mostly by NGEU (EUR 100bn). Looking ahead, we estimate that the EU's disbursements will remain elevated over the coming years, mostly on account of NGEU following the de facto completion of SURE, at around EUR 125bn-150bn each year during 2021-25. While precise disbursements are unknown, we assume, conservatively, that the full envelope for NGEU funding of around EUR 800bn will be used over 2021-26. This also reflects our assumption that Member States will use NGEU loans in the context of the REPowerEU Plan to finance the phase out of Russian fossil fuel imports. Loan requests can be made until August 2023.

... but significant disbursements in the years to come given NGEU

On this basis, we estimate the liquid assets ratio will remain broadly stable at around 90%-100% for 2021-25 before increasing above 150% by 2027¹⁷. We acknowledge that our liquidity coverage ratio is very conservative because NGEU disbursements can only be made once the funds are raised on the markets, pointing to a higher liquidity coverage ratio that exactly matches liquidity needs with available funds. Excluding disbursements from our calculation and assuming conservatively the maximum bond repayments due in any given year for SURE and NGEU, we arrive at a liquidity coverage of around 400%¹⁸. However, as the EU has credibly announced these disbursements, any funds that cannot be raised and thus disbursed could cast doubt on the EU's ability to fulfil its mandate.

Disbursements can be postponed until funds are actually raised

To balance these considerations, we include credibly announced disbursements to assess the liquidity coverage and needs of the EU but make an additional positive adjustment to our overall liquidity assessment to account for the fact that disbursements are only made after the funds are actually raised. This contrasts with most supranationals, whose announced disbursements often include a high share of contractually committed disbursements.

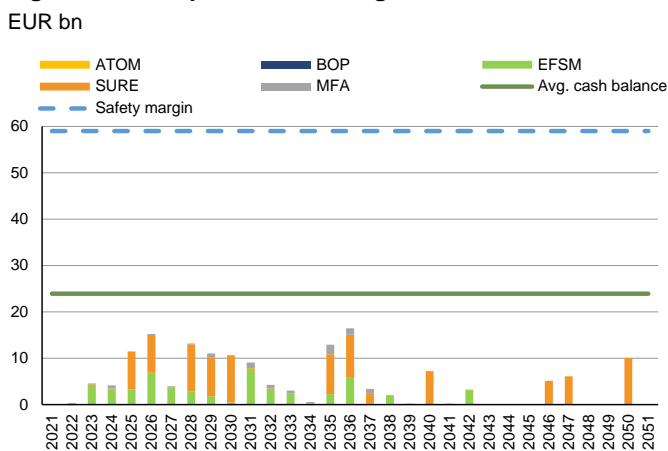
Future bond repayments covered by cash balance and budgetary margin

Looking ahead, the EU will have to repay its outstanding liabilities. We estimate the maximum annual repayment of bonds due within one year to amount to less than EUR 45bn. This assumes, conservatively, that the EU repays each year the maximum amounts of EUR 10bn under SURE and EUR 29.25bn under NGEU. Actual figures are likely to be lower, as shown by the EU's current debt profile. Critically, these will be well below the 0.6% of GNI earmarked until 2058 to cover repayment of all NGEU borrowings.

¹⁷ Our scorecard uses a projected average of 120% for the 2021-27 period.

¹⁸ This assumes an adjusted budgetary margin of around EUR 130bn, a cash balance of EUR 24bn, the NGEU liquidity account of EUR 18bn, and bond repayments of around EUR 44bn.

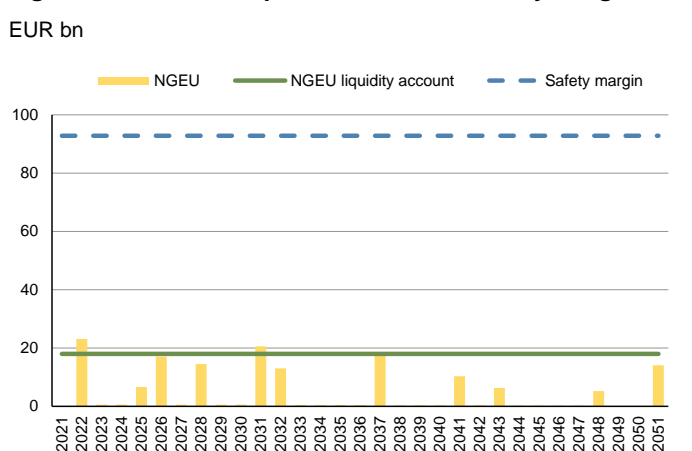
Figure 11: Debt profile, excluding NGEU



Safety margin refers to budgetary margin excluding 0.6% of EU-27 GNI earmarked for NGEU.

Source: European Commission, Scope Ratings GmbH

Figure 12: NGEU debt profile and related safety margin



Safety margin refers to 0.6% of EU-27 GNI to cover NGEU repayments.

Source: European Commission, Scope Ratings GmbH

Additional direct revenues may further bolster repayment capacity

In addition, we note that the possible liquidity risk arising from borrowings is offset by loan repayments made by Member States under the EFSM, BoP, SURE and NGEU loan operations. For MFA and Euratom loans, the Guarantee Fund for External Actions – whose assets have now been transferred to the Common Provisioning Fund – serves as a first liquidity reserve in case of a payment missed by its borrowers. As of December 2021, the net assets in the fund stood at EUR 2.7bn.

We also note that repayment of NGEU borrowings may benefit from new own resources (even though these are not directly linked). The EU obtained revenues of EUR 5.8bn in 2021 from plastic packaging waste. Going forward, these may be further complemented with revenues from a carbon border adjustment mechanism, the revised Emissions Trading Scheme, a contribution based on reallocated profits of very large multinational companies (OECD Pillar One) as well as new own resources related to the corporate sector and a Financial Transaction Tax or a similar alternative linked to the financial sector. Depending on the final proposals and the timeline of their adoption, these new own resources should be sufficient to cover an amount corresponding to the expected expenditure related to the repayment of NGEU.

In our view, the high liquidity buffer (comprising cash and potential resources the EU can draw from Member States without requiring additional decision-making processes) allows the EU to increase issuances and disbursements in line with its mandate, which is to provide loans and grants to Member States during the most financially distressed times. See [Annex IV](#) for detailed calculations.

Funding

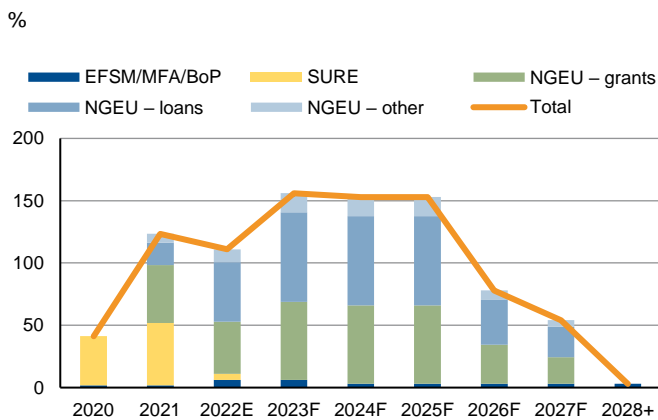
EUR 800bn of issuances for NGEU until 2026 will make EU largest supranational issuer

Issuances of around EUR 800bn for NGEU are transforming the EU into the largest supranational issuer. The European Commission will issue the funds until 2026, with some frontloading expected in 2021-25. We thus expect funding volumes of around EUR 125bn-150bn over the coming years, significantly above the 2020 volume of around EUR 41.3bn. We note that the SURE programme, with a maximum size of EUR 100bn via an ICMA-compliant Social Bond Principles framework, is almost complete with EUR 91.8bn raised since October 2020.

Diversified funding strategy with auctions and syndications; EU bills programme

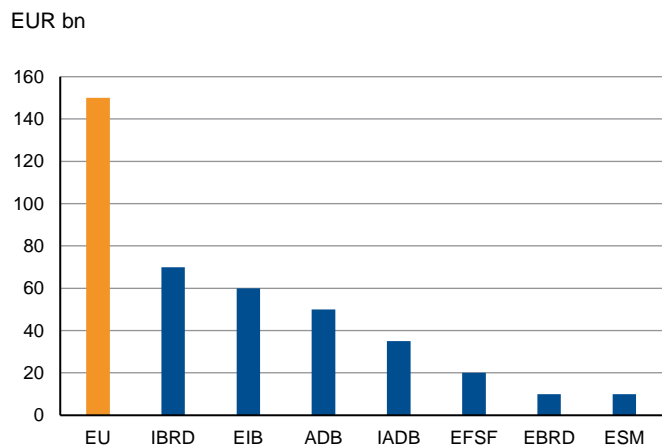
To meet liquidity needs under NGEU, the European Commission relies on a diversified funding strategy that mirrors sovereign-style funding programmes. This is centred around a clear funding schedule, a bill programme and a combination of auctions and syndications of medium- and long-term bonds, green bonds, and EU bills. In addition, the Commission's stated aim is to raise 30% of NGEU funds under its Green Bonds Framework.

Figure 13: Expected disbursements/funding 2021-28



Assumes NGEU loans are fully requested.
Source: European Commission, Scope Ratings GmbH

Figure 14: Estimated annual funding volume vs peers



* Source: European Commission, respective issuers. Approximate values. Assumes full use of NGEU loans. Actual 2022 NGEU funding plan of EUR 100bn. Scope Ratings GmbH

Extraordinary investor demand; only euro issues

We note that the EU's SURE and NGEU issuances have been benefiting from extraordinary investor demand, being multiple times oversubscribed and resulting in highly favourable funding costs across the yield curve. In fact, the EU's issuances have recorded the largest-ever order books for a supranational issuer in the euro market, underpinning investor confidence.

While demand is coming from a diverse range of investors, they are mostly based in Europe, potentially reflecting the fact that the EU's funding currency is exclusively the euro. This eliminates currency risks but may also make the issuances less appealing to non-euro investors. Still, we note positively that the EU can use its issuances to enhance the euro's role as a global safe asset. In addition, the changing interest rate environment, resulting in higher rates also for the EU, provides an additional incentive for foreign investors to increase their exposure to the EU. In this context, we note the gradual transition away from the ECB as a key investor given the end of its purchase programmes towards other long-term investors, including foreign central banks attracted by the frequent, high volume and positive-yielding EU securities.

World's largest green bond issuer

This may particularly be the case for the EU's green bond issuances, which will become the world's largest green bond scheme, providing the EU with access to a wider range of investors and boosting the green bonds market in line with its commitment to sustainable finance. To date, the EU has raised EUR 28bn via green bonds.

Additional considerations

We note that the EU's budget is materially exposed to contingent liabilities, specifically from its guarantees to the EIB for non-EU operations and those classified under the EFSI, the InvestEU programme, the EFSD, and EFSD+ (Global Europe).

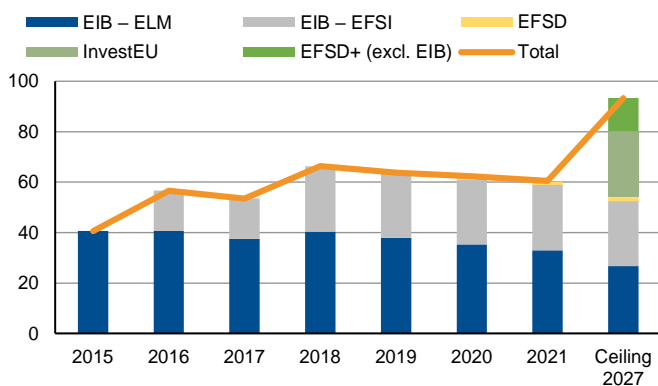
The overall size of guarantees has increased substantially since 2015 on account of the EFSI to around EUR 60bn at end-2021. These will continue to rise over the coming years and likely reach around EUR 90bn, mostly driven by the InvestEU and EFSD+ programmes. Critically, any calls under the guarantees are covered by the Common Provisioning Fund (CPF), reducing the direct impact on the EU budget. Since 2021, the CPF combines the assets of all guarantee funds, which thus constitute separate compartments within this fund. The invested funds are very liquid, with an average portfolio duration of 3.1 years.

Three specific risks from EU guarantees ...

In assessing the EU's contingent liabilities, we highlight three specific risks to the EU budget: i) the low asset quality of operations covered by the Guarantee Fund for External Actions, particularly regarding the high and rising exposure to Ukraine (CC/Negative) and Turkey (B-/Negative); ii) the potential risks covered by the EFSI Guarantee Fund, including the short operational record of the comparatively new client base; and iii) the potential risks covered by the EFSD and, going forward, the InvestEU and EFSD+ programmes, which will result in additional operations and new clients.

Figure 15: EU's guarantee programmes

EUR bn, maximum ceilings

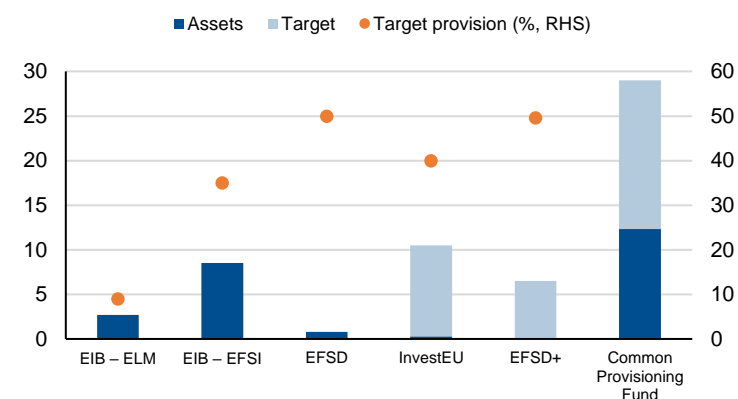


2015 value based on 2016 as maximum ceiling for 2015 not available.
2027 EIB-ELM refers to EU 26.7bn EIB window under EFSD+ guarantee;
EFSD+ refers to remaining EUR 13.1bn.

Source: European Commission, Scope Ratings GmbH

Figure 16: Guarantee fund assets and provision rates

EUR bn; % (RHS)



InvestEU EUR 0.3bn actual and 10.5bn target level. EFSD+ provision rate based on provisioning target of EUR 5.1bn for 'open architecture' ceiling of EUR 13.1bn.

Source: European Commission, Scope Ratings GmbH

... mitigated by liquid assets, record of low defaults and conservative financial management

At the same time, the risk borne by the EU budget is significantly curtailed by: i) the assets of the guarantee funds, with a relatively high provisioning rate for newer programmes that would absorb any losses before EU budgetary resources would be needed; ii) the very low annual default payments to date, which have never exceeded EUR 110m in a given year; and iii) the EU's conservative financial management, including ample liquidity buffers and upfront provisioning of the funds.

70% provisioning for new Ukraine exposures

In this context, we also note that exposures to Ukraine conducted since the start of the Russia-Ukraine war are exceptionally provisioned for at 70%. The EU's direct loan exposure amounts to EUR 6.6bn as of August 2022 and an additional EUR 4.2bn via its guarantee to the EIB. Given the prevailing framework and the overall External Action Guarantee ceiling of EUR 53.5bn, the financing of the reconstruction of Ukraine will necessitate a dedicated facility beyond the MFA programme. Of the recently announced EUR 9bn MFA programme in May, EUR 1bn has been disbursed so far.

Finally, the European Commission assesses the adequacy of the respective provisions vis-a-vis the covered risks and has concluded that only the provisioning under the ELM-related amount needs to be topped up. This also reflects the fact that under its assessment the ELM-related provisioning will be sufficient in 91% of the cases to cover all future calls made under the EU guarantee over the next five years.

Figure 17: Adequacy of provisioning

Confidence level for coverage of expected guarantee calls over next five years, %

	2021
ELM	91.0
EFSI	95.0
EFSD	98.5
InvestEU, EFSD+	N/A

Source: European Commission

We could adjust the liquidity assessment negatively by one notch if: i) the credit quality of the largest exposures under the EIB's external lending mandate deteriorated further; ii) the magnitude of the guarantee calls increased meaningfully; and/or iii) the overall size of the EU's guarantees increased further without a commensurate increase in liquid assets/ provisions.

1. Guarantee for EFSI activities

The EU budget also guarantees a part of the signed investments under the EFSI, which is implemented by the EIB and the European Investment Fund via the Infrastructure and Innovation Window and SME Window respectively.

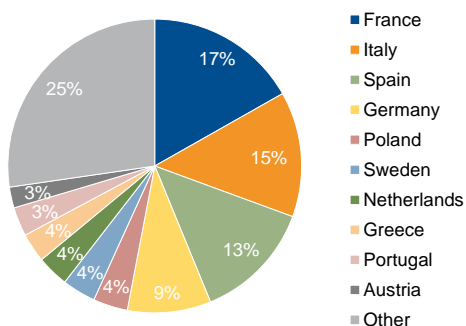
Following the EFSI's extension in 2017, the EU budget now provides a EUR 26bn guarantee ceiling on the EIB's related investments, which are riskier on average than the traditional risk profile of the EIB's portfolio, resulting in a significant increase in new clients for the EIB. However, we note that the first-loss coverage would not necessarily affect the EU's budget balance as called guarantees would be covered by the EFSI Guarantee Fund, which had assets of EUR 8.6bn at end-2021.

The EFSI Guarantee Fund started in April 2016 and was originally intended to gradually reach EUR 8bn by 2022, provisioning for 50% of the maximum exposure of the original EU guarantee of EUR 16bn. Following the EFSI's extension, its guarantee fund is now set to gradually reach EUR 9.1bn by 2022, i.e. 35% of total EU guarantees for EFSI operations. As of the end of December 2021, the assets of the EFSI Guarantee Fund already covered 35% of the actual exposure covered by the EU guarantee.

EUR 26bn EFSI guarantee

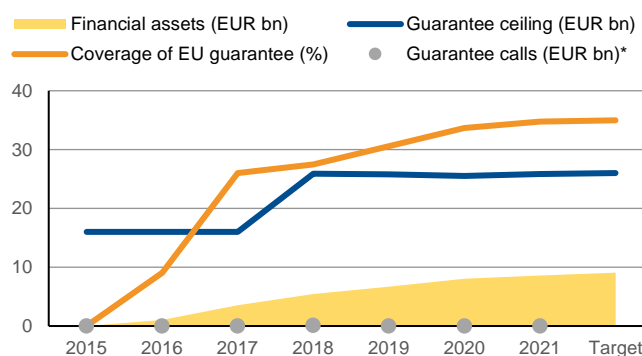
EFSI Guarantee Fund to gradually reach EUR 9.1bn to cover 35% of EFSI guarantees

Figure 18: Distribution of signed EFSI operations



EFSI operations carry higher risks but limited guarantee calls

Figure 19: EFSI Guarantee Fund, assets and exposure



*Relate to defaulted operations only. Source: European Commission, Scope Ratings GmbH

Despite the higher risk profile of loans, guarantee calls for defaulted exposures have been very limited so far at EUR 162m in total, of which EUR 91m relates to five defaulted operations and EUR 71m relates to negative value adjustments. Recoveries amount to EUR 1.6m so far.

Looking ahead, given the gradual withdrawal of Covid-19 related support and the challenging economic outlook for Europe in H2 2022, guarantee calls could increase. Still, we note that all operations are: i) within the EU; and ii) highly diversified across countries and sectors, with research, development and innovation constituting the highest share (34%), followed by energy sectors (17%) and smaller companies (15%).

InvestEU is based on EFSI and expands its financial partners

Fund covers EIB's non-EU operations, and MFA and Euratom loans to third countries

Elevated exposure to Ukraine and Turkey but low guarantee calls to date

EFSD very small, related to activities in Africa

2. InvestEU

As a follow-up to the EFSI under the 2021-27 Multiannual Financial Framework, the European Council established the InvestEU fund, whose objective is to mobilise public and private investment within the EU. The overall guarantee amounts to EUR 26.2bn.

The guarantee is open to the EIB Group, which signed the agreement for a guarantee up to the ceiling of EUR 19.6bn (75% of the guarantee) in March 2022, and other partners including national promotional banks and international financial institutions. Via these institutions and the private sector, the European Commission aims to mobilise EUR 372bn by 2027. The guarantee will be provisioned at 40% or EUR 10.5bn. Any calls emanating under the programme will be covered first by these provisions, which will be kept in the CPF.

3. Guarantee for EIB's external (non-EU) activities

Under the External Lending Mandate, the EU budget guarantees the EIB's non-EU activities with an overall ceiling of EUR 33bn as of December 2021. The Guarantee Fund for External Actions covers potential losses from the EIB's external financing activities as well as from MFA and Euratom loans to third countries. We note that EIB activities outside the EU will be covered by the EFSD+ guarantee starting in 2022. As of end-2021, about 80% of the amount covered by the fund consisted of guarantees on EIB loans, down from 85% in 2020 on account of the increasing MFA exposures.

The Guarantee Fund for External Actions covers defaults within three months of a request by the EIB¹⁹. It has a minimum provision under the EU budget of 9% of outstanding loans and guarantees covered by the fund. If the fund's resources are insufficient, the EU budget will provide the necessary funds. As of end-2021, the fund's net assets were EUR 2.7bn.

The fund's main exposure relates to high-risk countries in the EU's southern and eastern neighbourhood, such as Turkey (B-/Negative), Ukraine (CC/Negative), Morocco, Egypt and Tunisia. The proportion of loans guaranteed by the fund to investment-grade borrowers has decreased markedly over time, particularly due to developments in and exposures to Turkey and Ukraine. Back in 2014, the European Commission itself noted that the share of investment-grade credit exposures, at about 50%, justified the 9% target rate. Still, since 2011, the EIB has only drawn EU guarantees to cover EUR 658.6m in defaulted payments for operations in Syria, Tunisia and Lebanon. EUR 3.4m has been recovered to date. In 2021, guarantee calls were EUR 93.3m (2020: EUR 52m).

4. European Fund for Sustainable Development (EFSD)

Since 2018, the EU budget also covers the financing of operations in Africa and countries neighbouring the EU, with its EUR 1.55bn guarantee intended to serve as a risk mitigation mechanism to leverage private sector financing.

The EFSD Guarantee Fund provides a liquidity cushion from which counterparts can be paid in the event an EFSD guarantee is called. The amount to be provisioned is 50%. As of end-2021, the fund had assets of EUR 804m, 16 EFSD guarantee agreements worth EUR 1.39bn had been concluded, of which EUR 400m were disbursed to COVAX, and no calls had been made.

5. European Fund for Sustainable Development Plus (EFSD+)

The Neighbourhood, Development and International Cooperation Instrument – Global Europe – is the follow-up programme to the EFSD, and it replaces the ELM guarantee for new EIB operations outside the EU for the 2022-27 period. It has a total ceiling of EUR 39.8bn, of which EUR 26.7bn is dedicated to the EIB's operations outside the EU, while EUR 13.1bn is available for investment proposals from various development finance counterparties ('open architecture'). As of end-2021, one guarantee agreement was signed for a total amount of EUR 200m. The targeted provisioning for EFSD+ activities is EUR 6.5bn to cover the EUR 13.1bn under the 'open architecture' leg, resulting in a high provisioning rate of almost 50%. As of end-2021, no provisions had been made yet but EUR 1.3bn is set to be paid in during the course of 2022.

Other considerations

Interest rate risk, foreign exchange rate risk, derivatives and collateral management have resulted in no adjustment for the liquidity and funding assessment.

¹⁹ For Euratom and MFA loans, the European Commission draws on the fund to cover defaults and replenish its treasury resources.

Asset quality

Scale	+5	+4	+3	+2	+1	0	-1	-2	-3
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Our analysis is structured around a forward-looking qualitative assessment of the supranational's portfolio quality, including an evaluation of possible credit enhancements, and a quantitative assessment of the portfolio's past asset performance.

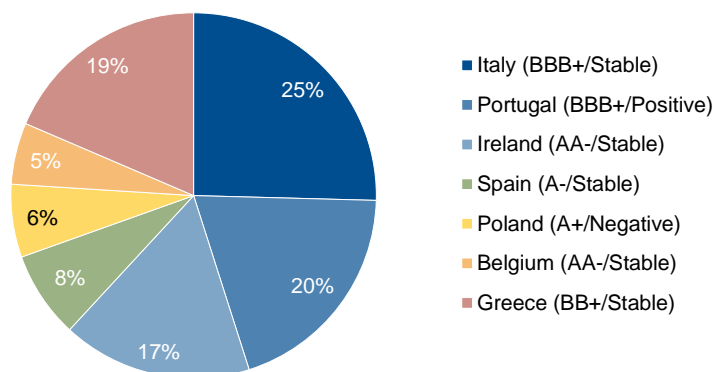
The EU's excellent asset quality reflects its conditional lending policies and preferred creditor status as well as its diversified portfolio across geographies.

Portfolio quality

The EU's main exposure for borrowings relates to financial assistance provided via its SURE²⁰, NGEU and EFSM programmes. Overall, the exposures via these programmes to Italy (BBB+/Stable), Portugal (BBB+/Positive), Ireland (AA-/Stable), Spain (A-/Stable), Poland (A+/Negative), Belgium (AA-/Stable) and Greece (BB+/Stable) account for around 85% of the EU's total direct loan exposure. On this basis, we estimate the weighted-average borrower quality at around A-, which corresponds to a 'strong' portfolio quality assessment based on our methodology.

Excellent asset quality reflects sovereign lending only and preferred creditor status

Figure 20: Country exposure, borrowings
%



Source: European Commission, Scope Ratings GmbH

Indirect guarantee exposures to EIB's non-EU and riskier activities

Similarly, we also account for the EU's credit risk resulting from its guarantees to: i) the EIB, in the context of its non-EU activities as well as those classified under the EFSI; ii) the EFSM; and, iii) the InvestEU and EFSM+ programmes via separate assessments in the liquidity section. As mentioned earlier, these contingent liabilities are not funded by the EU on the capital markets but are ultimately backed by the EU budget and thus form an important and growing part of the EU's overall credit risk.

Portfolio quality – credit enhancements

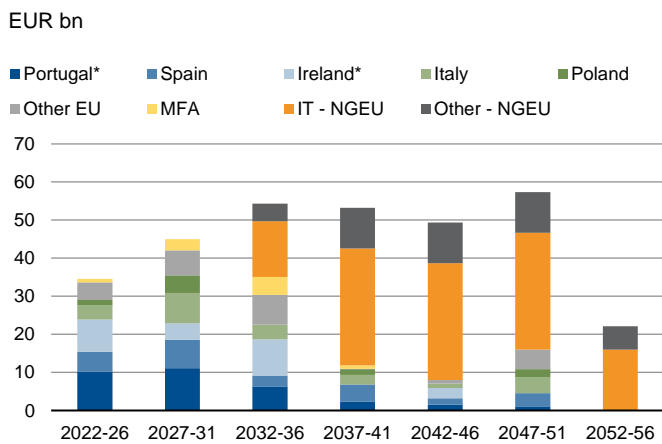
We provide some uplift to our initial estimate of the EU's portfolio quality given the EU's credit enhancements, which improve our final assessment of its portfolio quality to 'very strong' from 'strong' (see Annex III). This primarily reflects the EU's preferred creditor status and diversified portfolio across countries.

EU has clear track record of benefiting from preferred creditor status

We note positively that the EU, which lends counter-cyclically during crises as a lender of last resort, has a clear record of its loans being exempt from any debt restructurings. Despite lending to crisis-hit countries, the EU's loans have always been exempted from debt restructuring operations; however, for completion, we note that the EU's loans have been extended in the past. NGEU loans to Cyprus, Greece, Italy and Portugal will start to be repaid in 2032 with annual payments of 5% of the disbursed amounts, making the final payment due of already disbursed amounts in 2051, while the maturity of SURE loans varies between 5-30 years. Overall, all NGEU loans will need to be repaid by 2058 at the latest.

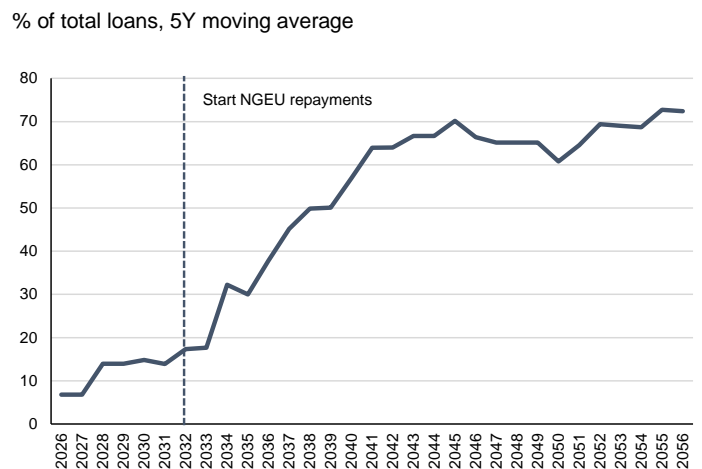
²⁰ We note that SURE loans also benefit from guarantees of up to EUR 25bn from Member States.

Figure 21: Country exposure loan repayment profile



*Includes SURE and EFSM loans, otherwise SURE loans only for EU Member States. NGEU undisbursed but approved loan amounts assumed to be disbursed equally until 2026 and respective repayments to start 10Y after.
Source: European Commission, Scope Ratings GmbH

Figure 22: Share of exposure to Italy



Source: European Commission, Scope Ratings GmbH

Exposure risk to shift towards Italy starting in 2032

We expect SURE and NGEU loans to benefit from preferred credit status should any Member States face financial distress. At the same time, given its mandate to lend to sovereigns that require financial assistance, the EU's portfolio is concentrated across sectors and individual counterparties. While the overall loan repayment profile is broadly balanced with a peak of around EUR 23bn in 2036, the country and concentration risk will markedly shift towards Italy starting in 2032 given its NGEU loans. This depends, however, on whether other Member States will request NGEU loans until next year and the final volume of the EU's growing exposure to Ukraine.

No risks from equity participations

Finally, the EU is not permitted to invest in equity aside from its holdings in the European Bank for Reconstruction and Development (AAA/Stable, capital subscription of 3%, paid-in capital of EUR 187m) and the European Investment Fund (capital subscription of 29.7%, paid-in capital of EUR 267.4m).

No non-performing loans given preferred creditor status

Asset performance

Despite lending counter-cyclically to crisis-hit countries, the EU has not suffered any losses on its loan portfolio to date. This is because loan disbursements depend on governments' compliance with agreed policy conditions, which are also monitored by the European Commission in the context of financial assistance programmes. As of end-2021, loans of EUR 29m were in Stage 3, and EUR 48m were impaired loans from the EIB's EFSI and ELM programmes, constituting less than 0.1% of the EU's total loan exposure.

Looking ahead, while no strict conditionality and monitoring will apply to loans under SURE, disbursements under NGEU are conditional on the achievement of agreed milestones and targets in the context of the approved recovery and resilience plans. Member States are thus expected to honour repayment obligations under these loans in full and on time. We therefore expect these programmes to have no adverse impact on the EU's asset performance, demonstrating the EU's preferred creditor status.

Indicative rating: AAA

To determine the final rating, we map our assessments of the institution's shareholder support, which ranges from AAA to CCC, against its intrinsic strength, which is driven by its institutional and financial profiles and assessed on a seven-point scale ranging from Excellent to Very Weak.

Figure 23a: Mapping institutional and financial profiles for the EU

Intrinsic Strength		Institutional Profile				
		Very Strong	Strong	Moderate	Weak	Very Weak
Financial Profile	Excellent	Excellent	Excellent	Excellent	Very Strong	Very Strong
	Very Strong	Excellent	Very Strong	Very Strong	Very Strong	Strong
	Strong	Very Strong	Strong	Strong	Strong	Adequate
	Adequate	Strong	Adequate	Adequate	Adequate	Moderate
	Moderate	Adequate	Moderate	Moderate	Moderate	Weak
	Weak	Moderate	Weak	Weak	Weak	Very Weak
	Very Weak	Weak	Very Weak	Very Weak	Very Weak	Very Weak

Figure 23b: Mapping intrinsic strength and shareholder support for the EU

Indicative Rating		Intrinsic Strength						
		Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
Shareholder Support	AAA	AAA	AAA	AAA	AAA	AAA	AAA / AA+	AA+ / A+
	AA+	AAA	AAA	AAA	AAA	AAA	AAA / AA	AA / A
	AA	AAA	AAA	AAA	AAA	AAA / AA+	AA+ / AA-	AA- / A-
	AA-	AAA	AAA	AAA	AAA	AAA / AA	AA / A+	A+ / BBB+
	A+	AAA	AAA	AAA	AAA / AA+	AA+ / AA-	AA- / A	A / BBB
	A	AAA	AAA	AAA	AAA / AA	AA / A+	A+ / A-	A- / BBB-
	A-	AAA	AAA	AAA / AA+	AA+ / AA-	AA- / A	A / BBB+	BBB+ / BB+
	BBB+	AAA	AAA	AAA / AA	AA / A+	A+ / A-	A- / BBB	BBB / BB
	BBB	AAA	AAA / AA+	AA+ / AA-	AA- / A	A / BBB+	BBB+ / BBB-	BBB- / BB-
	BBB-	AAA	AAA / AA	AA / A+	A+ / A-	A- / BBB	BBB / BB+	BB+ / B+
	BB+	AAA / AA+	AA+ / AA-	AA- / A	A / BBB+	BBB+ / BBB-	BBB- / BB	BB / B
	BB	AAA / AA	AA / A+	A+ / A-	A- / BBB	BBB / BB+	BB+ / BB-	BB- / B-
	BB-	AA+ / AA-	AA- / A	A / BBB+	BBB+ / BBB-	BBB- / BB	BB / B+	B+ / CCC
	B+	AA / A+	A+ / A-	A- / BBB	BBB / BB+	BB+ / BB-	BB- / B	B / CCC
	B	AA- / A	A / BBB+	BBB+ / BBB-	BBB- / BB	BB / B+	B+ / B-	B- / CCC
	B-	A+ / A-	A- / BBB	BBB / BB+	BB+ / BB-	BB- / B	B / CCC	CCC
CCC	A / BBB+	BBB+ / BBB-	BBB- / BB	BB / B+	B+ / B-	B- / CCC	CCC	

For non-capitalised supranationals, the assessment of the financial profile is capped at 'Very Strong'.

Source: Scope Ratings GmbH

Additional considerations

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational.

In the case of the EU, we have not made an adjustment to our indicative rating.

Rating history

Date	Rating Action	Outlook
1 February 2019	AAA	Stable

Source: Scope Ratings GmbH

I Members: European Union

EU Member States	Population (m)	GDP (EUR bn)	2022 Budgetary contribution (EUR bn)*	ECB capital key (%)**	Rating (latest)	Share ≥ AA- (%)
Germany	83.2	3,601.8	37.3	21.4	AAA	21.4
France	67.8	2,500.9	28.0	16.6	AA	16.6
Italy	59.0	1,775.4	19.9	13.8	BBB+	
Spain	47.4	1,205.1	14.4	9.7	A-	
Poland	37.7	574.4	6.7	6.0	A+	
Netherlands	17.6	856.4	9.8	4.8	AAA	4.8
Sweden	10.5	537.8	4.8	3.0	AAA	3.0
Belgium	11.6	506.2	7.0	3.0	AA-	3.0
Romania	19.0	240.2	2.6	2.8	BBB-	
Austria	9.0	402.7	3.8	2.4	AAA	2.4
Greece	10.6	182.8	2.0	2.0	BB+	
Portugal	10.4	211.3	2.5	1.9	BBB+	
Czech Republic	10.5	238.2	2.5	1.9	AA	1.9
Denmark	5.9	336.7	3.4	1.8	AAA	1.8
Hungary	9.7	154.1	1.8	1.5	BBB+	
Finland	5.5	251.4	2.7	1.5	AA+	1.5
Ireland	5.1	426.3	3.3	1.4	AA-	1.4
Bulgaria	6.8	67.9	0.8	1.0	BBB+	
Slovakia	5.4	97.1	1.1	0.9	A+	
Croatia	3.9	57.2	0.6	0.7	BBB+	
Lithuania	2.8	55.4	0.6	0.5	A	
Slovenia	2.1	52.0	0.6	0.4	A	
Latvia	1.9	32.9	0.4	0.3	A-	
Luxembourg	0.6	73.3	0.5	0.3	AAA	0.3
Estonia	1.3	30.7	0.3	0.2	AA-	0.2
Cyprus	0.9	23.4	0.2	0.2	BBB-	
Malta	0.5	14.7	0.2	0.1	A+	
Total	446.8	14,506.2	157.7	100.0		58.1

*Refers to total own resources contribution according to the initial adopted Budget of 2022. **Weighted by GDP and population. Source: Scope Ratings GmbH

II Scope's supranational scorecard: European Union

	Risk factors	Variables	Unit								EU			
				+4	+3	+2	+1	0	-1	-2	Value	Assessment	Notches	
Shareholder Support	Key shareholder rating	Weighted average rating of key shareholders	AAA - CCC	--	--	--	--	--	--	--	--	AA-		
	Key shareholders & exposures (-1; 0)	Share of portfolio related to key shareholders	%	--	--	--	--	≤ 50	> 50	--	44.0	Low	0	
	Extraordinary Support (0; +2)	Additional support mechanisms	Qualitative	--	--	Very Strong	Strong	N/A	--	--	--	Very Strong	2	
Shareholder Support												AA+		
Institutional Profile	Mandate & ESG (-2; +2)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High		
		Mandate	Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	1
		Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong		
	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1100.0	Strong			
	Governance risks	Shareholder control	%	--	--	--	--	≤ 25	> 25	--	21.0	Strong	1	
		Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong		
Institutional Profile												Very Strong		
Intrinsic Strength	Liquidity & funding (-4; +8)	Liquid assets ratio	%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	120.0	Excellent	4	
		Maturity gap	Multiple	--	--	--	> 0.75	< 0.75; ≥ 0.5	< 0.5	--	0.9	Strong	1	
		Funding	Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	100.0	Very Strong	2
		Currency diversification	Top 1 share	--	--	--	≤ 70	> 70	--	--	100.0	Adequate	0	
	Trend (-1; +1)												1	
Financial Profile	Asset quality (-3; +5)	Portfolio quality	Incl. risk mitigants	Qualitative	--	Very Strong	Strong	Adequate	Moderate	Weak	Very Strong	Very Strong	2	
		Asset performance	NPLs	% total loans	≤ 0.5	> 0.5; ≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5	--	0.0	Excellent	3	
	Trend (-1; +1)												0	
Financial Profile												Very Strong		
Intrinsic Strength												Excellent		
Indicative Rating												AAA		
Additional considerations (-1; +1)												Neutral		
Final Rating												AAA		

Source: Scope Ratings GmbH

III Asset quality assessment

Portfolio quality (initial assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Indicative borrower quality	aaa/aa	a	bbb	bb	b/cc
Notches	+2	+1	0	-1	-2

Adjustments		Indicator	Assessment/ Thresholds									
Points			+5	+4	+3	+2	+1	0	-1	-2	-3	
Credit protection	Sovereign PCS	% of loan portfolio	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20				
	Private sector secured											
Diversification	Geography	HHI			≤ 1000		≤ 2000	> 2000				
	Sector	HHI			≤ 2000		> 2000					
	Top 10 exposures	% of loan portfolio			≤ 25		≤ 75		> 75			
Equity exposure		% of equity					≤ 25		> 25	> 50	> 75	

Total points	+6
Adjustments	+2 categories

Portfolio quality (final assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Notches	+2	+1	0	-1	-2

Source: Scope Ratings GmbH. Three points usually correspond to one assessment category. In the case of the EU, this implies up to two categories higher from the initial portfolio quality assessment based on the estimated average borrower quality.



European Union and Euratom

IV Scope's liquid assets ratio calculation for the European Union, 2021-28F

Budgetary margin (EUR bn)	2021	2022E	2023F	2024F	2025F	2026F	2027F	2028+
Own resources ceiling (% EU GNI)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Temporary increase (% EU GNI)	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Adj. own resources ceiling (% EU GNI)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Adj. own resources ceiling	289.6	309.5	326.9	335.0	343.4	352.0	360.8	369.8
Payment appropriations	163.5	170.6	168.6	168.9	172.2	175.7	179.2	179.2
Other revenue	9.20	12.90	12.10	11.4	12.1	11.9	11.8	11.9
Budgetary margin	135.3	151.8	170.4	177.6	183.3	188.2	193.4	202.6
of which pro-rata rated >= AA- (%)*	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
Adjusted budgetary margin	87.9	98.7	110.7	115.4	119.1	122.3	125.7	131.7
Cash deposits (EUR bn)**	21.8	23.9	23.9	23.9	23.9	23.9	23.9	23.9
NGEU liquidity account	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Liquid assets (EUR bn)	127.7	140.6	152.6	157.3	161.0	164.2	167.6	173.6
<i>Estimated annual disbursements (EUR bn)</i>	123.4	111.0	156.0	153.0	153.0	78.0	78.0	3.0
EFSM/MFA/BoP***	1.7	6.0	6.0	3.0	3.0	3.0	3.0	3.0
SURE	50.1	5.0	0.0	0.0	0.0	0.0	0.0	0.0
NGEU****	71.6	100.0	150.0	150.0	150.0	75.0	75.0	0.0
<i>Estimated annual bond repayments (EUR bn)*****</i>	23.8	5.1	4.7	18.1	32.2	4.5	27.7	44.3
EFSM/MFA/BoP	0.3	4.4	4.0	3.4	7.1	3.8	3.0	5.0
SURE	0.0	0.2	0.1	8.1	8.1	0.1	10.1	10.0
NGEU	23.1	0.6	0.6	6.6	17.0	0.5	14.5	29.3
Total liabilities (repayments and disbursements)	147.2	116.1	160.7	171.1	185.2	82.5	105.7	47.3
Liquid assets ratio (%)	86.8	121.1	95.0	91.9	86.9	199.1	158.5	367.3
Liquid assets ratio (excluding disbursements) (%)	537.3	2753.3	3219.0	869.7	499.7	3651.9	604.7	392.2
EU GNI (EUR trn)*****	14.5	15.5	16.3	16.8	17.2	17.6	18.0	18.5

Figures may not add up due to rounding. * Based on 2022 estimated GNI-based national contributions to EU budget and Scope's latest sovereign ratings

** 2022 figure is an estimate based on 2019-21 figures, assumed to remain constant.

*** Estimated MFA disbursements, based on Scope's expectation of future Ukraine MFA support.

**** Own estimates based on investor presentation, assumes all loans requested.

***** 2021 totals based on annual accounts, otherwise reflects debt profile; 2028+ based on maximum repayment for NGEU and SURE.

***** Based on latest European Commission forecast for 2022 in current prices, and constant 2.5% nominal growth thereafter

V Statistical tables

	2017	2018	2019	2020	2021
Shareholder support					
Key shareholder rating	AA-	AA-	AA-	AA-	AA-
Share of shareholders rated ≥ AA- (%)*	61.1	61.1	62.7	56.8	58.1
Liquidity (EUR m)					
Cash & cash equivalents	25,150.0	20,975.0	28,091.7	21,750.0	21,783.3
NGEU – cash account	-	-	-	-	18,000.0
Adj. budgetary margin**	48,311.5	33,636.3	39,985.0	23,019.1	87,933.1
Bond repayments within 12 months	6,700.0	2,350.0	1,273.0	10,410.0	23,769.0
Disbursements	1,063.0	565.0	420.0	41,275.0	123,502.0
Liquid assets ratio (%)	946.3	1,873.5	4,021.1	86.6	86.7
Funding (EUR m)					
Volume	1,063.0	5,065.0	420.0	41,275.0	157,599.0
Share of total (%)					
EUR	100.0	100.0	100.0	100.0	100.0
ESG issuance (SURE and green NGEU)	-	-	-	95.7	39.4
Borrowings (EUR m)					
Debts evidenced by certificates	54,674.0	53,725.0	52,433.0	93,192.0	236,720.0
% EU GDP	0.4	0.3	0.3	0.7	1.6
% Total budget revenue	40.1	33.0	32.7	41.6	132.3
Loans (EUR m)					
Debts evidenced by certificates	54,721.4	53,775.4	52,563.6	93,300.7	235,991.0
MFA	3,901.5	4,387.6	4,754.4	5,813.0	7,466.0
Euratom	249.8	253.9	213.7	392.2	350.0
EFSM	47,456.0	47,400.0	47,394.4	47,394.4	47,270.0
BoP	3,114.1	1,733.9	201.1	201.1	201.0
SURE	--	--	--	39,500.0	89,702.0
NGEU	--	--	--	--	91,002.0
Guarantees (EUR m)					
Total	53,479.0	66,315.0	63,776.0	62,285.0	60,243.0
EIB – external lending mandate	37,479.0	40,417.0	37,929.0	35,372.0	33,026.0
EIB – EFSI	16,000.0	25,898.0	25,797.0	25,543.0	25,826.0
EFSD	-	-	50.0	1,370.0	1,391.0
InvestEU	-	-	-	-	-
EFSD+				-	200.0
Budget (EUR m)					
Total revenues	136,183.0	162,932.0	160,288.0	224,027.0	178,948.0
of which, GNI-based own resource	78,620.0	105,780.0	108,820.0	125,393.0	115,955.0
Total expenditures	128,101.0	149,014.0	155,493.0	166,612.0	221,046.0
Budgetary surplus	6,405.0	555.0	1,803.0	3,218.0	1,769.0
Other					
EU GNI (EUR trn)	15.5	16.0	16.6	13.4	14.5
EU GDP (EUR trn)	15.4	16.0	16.5	13.4	14.5
EU population (m)	511.4	512.5	513.2	447.5	447.0

*ECB capital key. **Difference between own resources ceiling and total payments, adj. for other revenues and AA- ratings. Figures may not add up due to rounding. Source: EU, Scope Ratings GmbH



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