

European Union and Euratom



Credit strengths

- Highly rated shareholders 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' shareholder 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 (AA-); ii) the track record and solid legal basis for receiving timely financial support; iii) the 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 track 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 diversified funding base. The EU's excellent asset quality reflects its preferred creditor status. Challenges, which are marginal at the AAA level, 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 shareholders are downgraded; ii) the EU's institutional setup weakened; and/or iii) the EU's liquidity buffers declined.

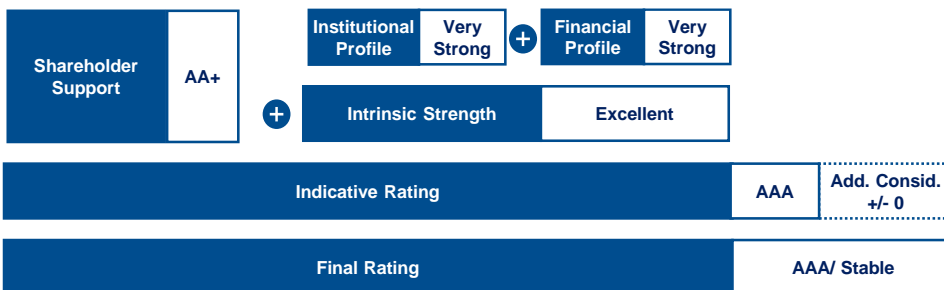
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Scope's assessment of the EU's rating drivers



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Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Downgrade of key shareholders
- Change in institutional setup
- Reduction in liquidity buffers

I Indicative Rating: European Union

Indicative rating: AAA

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.

Intrinsic Strength: 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

Indicative Rating: 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	

Source: Scope Ratings GmbH

II Members: European Union

EU member states	Population (m)	GDP (EUR bn)	2020 Budgetary contribution (EUR bn)*	ECB capital key (%)**	Rating (latest)	Share ≥ AA- (%)
Germany	83.2	3,367.6	28.1	21.4	AAA	21.4
France	67.3	2,302.9	23.7	16.6	AA	16.6
Italy	59.6	1,651.6	16.6	13.8	BBB+	
Spain	47.3	1,121.9	11.0	9.7	A-	
Poland	38.0	523.0	4.9	6.0	A+	
Netherlands	17.4	800.1	5.8	4.8	AAA	4.8
Sweden	10.3	475.3	4.1	3.0	AAA	3.0
Belgium	11.5	451.2	4.7	3.0	AA-	3.0
Romania	19.3	218.2	2.1	2.8	BBB-	
Austria	8.9	377.3	3.6	2.4	AAA	2.4
Greece	10.7	165.8	1.7	2.0	BB+	
Portugal	10.3	202.4	2.0	1.9	BBB+	
Czech Republic	10.7	215.3	2.0	1.9	AA	1.9
Denmark	5.8	312.5	2.8	1.8	AAA	1.8
Hungary	9.8	135.9	1.3	1.5	BBB+	
Finland	5.5	236.2	2.3	1.5	AA+	1.5
Ireland	5.0	372.9	2.4	1.4	AA-	1.4
Bulgaria	7.0	60.6	0.6	1.0	BBB+	
Slovakia	5.5	91.6	0.9	0.9	A+	
Croatia	4.1	49.3	0.5	0.7	BBB-	
Lithuania	2.8	48.9	0.4	0.5	A	
Slovenia	2.1	46.9	0.5	0.4	A	
Latvia	1.9	29.3	0.3	0.3	A-	
Luxembourg	0.6	64.1	0.4	0.3	AAA	0.3
Estonia	1.3	26.8	0.3	0.2	AA-	0.2
Cyprus	0.9	20.8	0.2	0.2	BBB-	
Malta	0.5	13.1	0.1	0.1	A+	
Total	447.3	13,381.6	123.1	100.0		58.1

*Refers to total national contribution. Total excludes UK (EUR 17.1bn) **Weighted by GDP and population. Source: Scope Ratings GmbH.

III 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	--	43.4	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		
		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		
Financial Profile	Liquidity & funding (-4; +8)	Liquid assets ratio	%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	105.0	Excellent	4	
		Maturity gap	Multiple	--	--	--	> 0.75	< 0.75; ≥ 0.50	< 0.50	--	1.0	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		
	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		
Financial Profile												Very Strong		
Intrinsic Strength												Excellent		
Indicative Rating												AAA		
Additional considerations (-1; +1)												Neutral		
Final Rating												AAA		

Nb. Refers mostly to end-2020 data. Funding volume refers to Scope's 2022 estimate on the basis of the EU's H1-2022 funding plan. The liquid assets ratio without disbursements covers, on average, more than 20x contractual obligations for the 2021-27 period¹. Source: Scope Ratings GmbH

¹ This sentence was added on 28 March 2022. In the original publication from 25 March 2022, the sentence was not included.

IV 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	<i>% of loan portfolio</i>	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
	Private sector secured										
Diversification	Geography	<i>HHI</i>				≤ 1000	≤ 2000	> 2000			
	Sector	<i>HHI</i>					≤ 2000	> 2000			
	Top 10 exposures	<i>% of loan portfolio</i>				≤ 25	≤ 75	> 75			
Equity Exposure		<i>% of equity</i>					≤ 25	> 25	> 50	> 75	
		Total points Adjustments	+6 +2 categories								

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

Source: Scope Ratings GmbH. Refers to end-2020 data. Three points usually correspond to one assessment category. In the case of the EU, this implies up to two categories from the initial portfolio quality assessment based on the estimated average borrower quality.

VI Statistical tables

	2016	2017	2018	2019	2020
Shareholder support					
Key shareholder rating	AA-	AA-	AA-	AA-	AA-
Share of shareholders rated ≥ AA- (%)*	61.1	61.1	61.1	62.7	56.8
Liquidity (EUR m)					
Cash & cash equivalents	21,883.3	25,150.0	20,975.0	28,091.7	21,750.0
Adj. budgetary margin**	38,801.5	48,311.5	33,636.3	39,985.0	31,346.0
Bond repayments within 12 months	2,094.0	6,700.0	2,350.0	1,273.0	10,410.0
Disbursements	4,760.0	1,013.0	5,015.0	420.0	41,275.0
Liquid assets ratio (%)	885.4	952.4	741.5	4,021.1	102.7
Funding (EUR m)					
Volume	4,760.0	1,013.0	5,015.0	420.0	41,275.0
<i>Share of total (%)</i>					
<i>Euro</i>	100.0	100.0	100.0	100.0	100.0
<i>ESG issuance (SURE and green NGEU)</i>	-	-	-	-	95.7
Borrowings (EUR m)					
Debts evidenced by certificates	54,951.0	54,674.0	53,725.0	52,433.0	92,514.0
% EU-GDP	0.4	0.4	0.3	0.4	0.7
% Total budget revenue	38.0	39.1	33.7	32.0	53.1
Loans (EUR m)					
Debts evidenced by certificates	54,951.0	54,674.0	53,725.0	52,433.0	92,514.0
MFA	2,963.9	3,901.5	4,387.6	4,754.4	5,813.0
Euratom	252.3	249.8	253.9	213.7	392.2
EFSM	47,455.8	47,456.0	47,400.0	47,394.4	47,394.4
BoP	4,217.6	3,114.1	1,733.9	201.1	201.1
SURE	--	--	--	--	39,500.0
NGEU	--	--	--	--	--
Non-performing loans	--	--	--	--	--
Guarantees (EUR m)					
Total	56,645.0	53,479.0	66,315.0	63,776.0	62,285.0
EIB – external lending mandate	40,645.0	37,479.0	40,417.0	37,929.0	35,372.0
EIB – EFSI	16,000.0	16,000.0	25,898.0	25,797.0	25,543.0
EFSD	-	-	-	50.0	1,370.0
InvestEU	-	-	-	-	-
Budget (EUR m)					
Total revenues	144,717.0	139,691.0	159,318.0	163,918.0	174,306.0
of which, GNI-based own resource	95,578.0	78,279.0	104,979.0	105,700.0	122,944.0
Total expenditures	138,312.0	139,136.0	157,517.0	160,700.0	172,538.0
Budgetary surplus	6,405.0	555.0	1,801.0	3,218.0	1,768.0
Other					
EU GNI (EUR trn)***	14.9	15.4	15.9	16.5	15.7
EU GDP (EUR trn)	15.0	15.4	16.0	16.5	13.4
EU population (m)	510.2	511.4	512.5	513.1	447.3

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



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