## Box 7
### Non-euro area investors and SURE bonds issued by the European Commission

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In October 2020 the European Commission carried out its first bond issuance under the Support to mitigate Unemployment Risks in an Emergency (SURE) programme.[79] This programme was created in response to the coronavirus (COVID-19) crisis, allowing the Commission to raise funds on behalf of the EU and provide back-to-back loans to Member States to support them in preserving employment. The first €17 billion SURE social bond represented the largest euro-denominated supranational transaction ever launched.[80] It was followed by two further issuances in November 2020 and one issuance in January 2021, which combined together amounted to €36.5 billion.[81] In total, the Commission is expected to issue up to €100 billion in SURE bonds between 2020 and 2021. This will be followed by the issuance of up to €750 billion in NGEU bonds over the years 2021-26.

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79 See European Commission, "The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)".

80 €17 billion dual tranche split over two tenors with a 10-year and a 20-year maturity (see the technical press release of 20 October 2020).

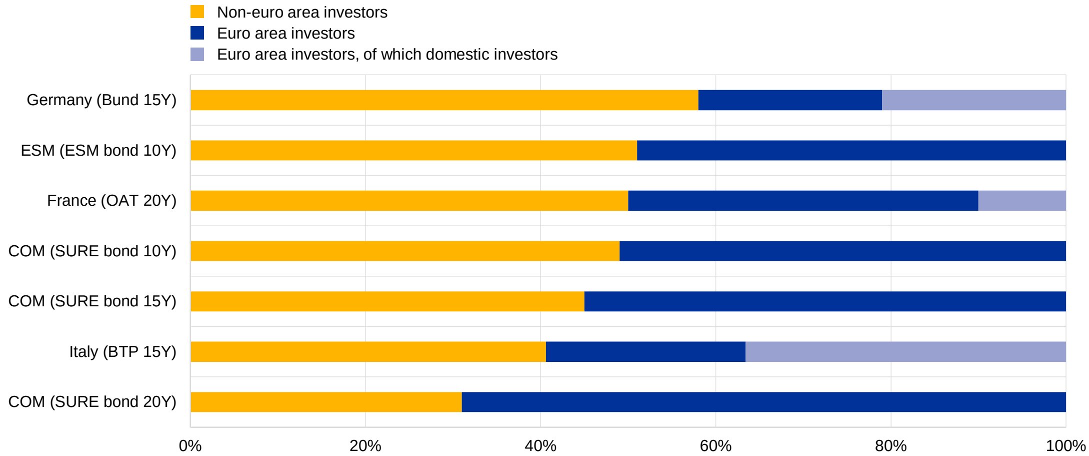
81 €14 billion dual tranche split over two tenors of 5-years and 30-years in early November 2020 (see the technical press release of 10 November 2020); €8.5 billion single tranche with a 15-year tenor in late November 2020 (see the technical press release of 24 November 2020); €14 billion dual tranche split over two tenors of 7-years and 30-years in January 2021 (see the technical press release of 27 January 2021).

The first issuances of SURE bonds, which received a AAA rating from most major rating agencies, attracted very strong investor interest. All the bonds issued in 2020 were highly oversubscribed (between 11.5 and 13 times), resulting in very favourable financing conditions. In the context of the international role of the euro, it is interesting to analyse the role of non-euro investors in absorbing the supply of these bonds. To this end, **Chart A** compares the geographical distribution of investors for SURE bonds (10-year, 15-year and 20-year issuances) and bonds of similar maturities issued by other EU sovereigns and supranational institutions in 2020. The data refer to distribution at the time of the first allocation of bonds. The chart confirms the strong interest in SURE bonds from investors outside the euro area, in particular for shorter maturities. Almost half of the take-up for the 10-year SURE bond came from investors located outside the euro area. This is comparable to the 10-year bond issued by the European Stability Mechanism (ESM) in 2020. A large share of the demand for the 10-year SURE bond came from investors based in the United Kingdom, who accounted for 20% of take-up, although ultimately some investors may be located in the euro area.[82] The participation of Asian (9%) and Nordic (8%) investors was also significant. For longer-term SURE bonds, the share of foreign investors was lower. Non-euro area investors accounted for 45% of the take-up for the 15-year SURE bond, which was comparable to foreign investor interest in the Italian 15-year BTP (41%). However, non-euro area investors accounted for only 31% of the take-up for the 20-year SURE bond, well below the equivalent value for the French 20-year OAT (50%).

**Chart A**

Geographical distribution of investors for different EU bonds

**Investor distribution at the time of allocation, bonds issued in 2020**




Sources: ECB staff calculations based on data released by the European Commission (COM), the ESM and national authorities.
Notes: The data refer to distribution at the time of the first allocation of bonds. Bond ratings (as assigned by at least two major rating agencies): German Bund (AAA); ESM bond (AAA); French OAT (AA); COM SURE bonds (AAA); and Italian BTP (BBB).

The available data suggest an inverse relationship between the maturity of the SURE bonds and interest from non-euro investors at their issuance, which presumably reflects the preferred habitat of investors participating in these bond purchases. **Table A** shows that the share of non-euro area investors in the bonds issued under the SURE programme progressively declines from 60% for the 5-year maturity to around 30-35% for bonds with a maturity longer than 20 years (see the last column of the table). At the same time, the table shows that the share of central banks and official investors ranges between 30% and 37% for shorter-dated bonds and declines to around 15% for longer

[82] According to IMF CPIS statistics, euro area investors accounted for around 24% of derived (from creditor data) total foreign portfolio equity and investment fund shares liabilities of the United Kingdom at the end of 2019.

maturities (see the fourth column of the table). Central banks and official institutions tend to have a lower tolerance for risk and to invest at shorter maturities. Since euro area central banks are not allowed under EU treaties to buy EU bonds directly in primary markets, the share of non-euro area investors for shorter-term bonds is larger. By contrast, pension and insurance funds generally invest at the long end of the maturity spectrum to match the duration of their balance sheet liabilities. These investors, however, tend to avoid foreign exchange risk, which may be subject to regulatory requirements and challenges in terms of hedging such risk. As a result, the EU's longer-term bonds attract more investors from within the euro area.

Overall, strong interest from international investors in the first issuances of the SURE bonds confirms that the outstanding demand for safe assets is particularly elevated on a global scale. Together with the planned NGEU securities, bonds issued by the EU could become an important benchmark for the euro-denominated bond market segment for international investors, in turn fostering the international role of the euro. This would be more likely if the planned issuance of bonds by the EU, currently envisaged to be temporary, were to become a permanent facility.

**Table A**

SURE bonds – distribution by investor type and foreign participation

**Investor distribution at the time of allocation of SURE bonds issued in 2020**

| Maturity (years) | Date of issuance | Value (€ billions) | Central banks and official institutions | Insurance and pension funds | Other asset managers | Non-euro area investors |
|---|---|---|---|---|---|---|
| 5 | 10/11/2020 | 8 | 30% | 5% | 65% | 60% |
| 10 | 04/10/2020 | 10 | 37% | 6% | 57% | 49% |
| 15 | 24/11/2020 | 8.5 | 15% | 14% | 71% | 45% |
| 20 | 04/10/2020 | 7 | 13% | 13% | 74% | 31% |
| 30 | 10/11/2020 | 6 | 15% | 23% | 62% | 35% |

Sources: ECB staff calculations based on data released by EU and national authorities.
Notes: Data refer to distribution at the time of the first allocation of SURE bonds. “Other asset managers” includes the following categories: fund managers, bank treasuries, banks, hedge funds, others.