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The Next Generation EU (NGEU) as a catalyst for the promotion of the international role of the euro

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Abstract

Recent developments in the global arena such as the COVID-19 pandemic and stresses in energy markets, made it clear that it is critical for the EU to ensure its strategic autonomy in the macroeconomic field. Strengthening the international role of the euro is one of the key elements in this regard. Through timely analysis of the changes stemming from the establishment of the Next Generation EU (NGEU), we seek to understand to what extent the NGEU can serve as a catalyst for the promotion of the international role of the euro.

While it is implausible that the euro will overcome the primacy of the US dollar, we center our analysis around the transformation of the EU's presence in capital markets. Following massive issuances of green bonds under the NGEU, the EU became the largest issuer of green bonds and has the potential to progress from a small supranational issuer to a sovereign size issuer. This means that the pool of highly rated euro-denominated safe assets will expand significantly. That is where we focus our analysis and where we see the opportunity of the NGEU for unlashing the potential of the euro and boosting its international role.

Keywords: *COVID-19, European Commission, next generation EU, euro, green bonds, safe assets*

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EXECUTIVE SUMMARY[3]

Over the past two decades, the European Union (EU) has undergone two major crises. First, due to the Global Financial Crisis (GFC)[4] and second, the COVID-19 pandemic.[5] This time, the lessons learned during the GFC helped the EU institutions and Member States to respond swiftly to the crisis. The support during the pandemic took various forms, from moratoria on loans and State guarantees at the national level to *ad-hoc* monetary and fiscal support at the supranational level provided by the European Stability Mechanism (ESM) Pandemic Crisis Support Tool[6] and the European Central Bank (ECB) Pandemic emergency purchase programme (PEPP).[7]

As the dimension of the pandemic crisis required courageous solutions, for the first time in history, the EU Member States decided to create instruments financed by common resources to aid and boost the Union's economic recovery while also pursuing broader goals such as digitalisation and combating climate change. In this context, the Next Generation EU (NGEU),[8] a macroeconomic stabilisation instrument supported by the EU's 2021-2027 long-term budget (the Multiannual Financial Framework - 'MFF'),[9] established a new chapter for solidarity within the EU.[10] The NGEU will deploy an unprecedented amount of funding through debt issuance at the EU level and, in line with its mandate, up to a third of its debt has to be issued in green

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[3] The cut-off date for the information included in this paper is 8 January 2023.

[4] In over a decade, the GFC and its subsequent regulatory *impetus* have resulted in an important wave of academic contributions which analysed nearly all possible aspects regarding this unprecedented event. Some of its causes are analysed, among others, in F. S. Mishkin, "Over the cliff: From the subprime to the global financial crisis" (2011) 25(1) *Journal of Economic Perspectives* and G. B. Gorton, "The Panic of 2007" (2008) *NBER Working Paper Series No. 14358*. For an interesting timeline of the period between 2007 and 2009, see G. Jones (ed), *Banking Crises: Perspectives from The New Palgrave Dictionary* (Palgrave Macmillan, New York, United States, 2016), 1 [44-69].

[5] Notwithstanding the impact of COVID-19 globally and particularly in the EU. While we argue that the largest share of the effect is not due to the chronological order and the strength of the impact of the pandemic in certain countries, such as Italy, the author rightly points at the legacy problems from previous crises and the sustainability or budgetary power or northern *versus* southern EU Member States. This division largely mirror the one between "core" and "peripheral" EU Member States. See A. Sapir, "Why has COVID-19 hit different European Union economies so differently?" (2020) *Bruegel Policy Contribution No. 18*, available at: https://www.jstor.org/stable/pdf/resrep28506.pdf, last accessed 2 November 2022.

[6] See European Stability Mechanism, *ESM Pandemic Crisis Support*, available at: https://www.esm.europa.eu/content/europe-response-corona-crisis, last accessed 2 November 2022. Please note that this ESM tool has not yet been used.

[7] See European Central Bank, *Pandemic emergency purchase programme (PEPP)*, available at: https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html, last accessed 2 November 2022.

[8] Preliminary assessments of the NGEU have been undertaken by L. Codogno and P. Van den Noord, "Assessing Next Generation EU" in L. Paganetto (ed), *Economic Challenges for Europe After the Pandemic* (Springer, Cham, Switzerland, 2022) and R. Christie et al., "Next Generation EU borrowing: a first assessment" (2021) *Bruegel Policy Contribution No. 22*, available at: https://www.sipotra.it/wp-content/uploads/2021/12/Next-Generation-EU-borrowing-a-first-assessment.pdf, last accessed 2 November 2022.

[9] For a wide analysis on the EU budget with a focus on the lack of an institutional balance between the Council and the Parliament, see G. Benedetto, "The EU budget after Lisbon: Rigidity and reduced spending?" (2013) 33(3) *Journal of Public Policy*.

[10] Solidary represents a key element for the EU in such challenging times. Arguably, solidarity is one of the few, if not the only driving force through which the EU can dispel profound divergences of views to arrive at concrete results which project the Union beyond obstacles.

bonds.

Throughout the pandemic, the share of euro-denominated outstanding international loans and the stock of international debt securities remained broadly stable. However, the euro's share of global foreign exchange reserves fell, as did the euro's share of foreign currency-denominated debt issuance and outstanding international deposits. Under the recent fiscal and monetary policy measures adopted by EU institutions and national governments, such a decline has been less severe compared to the period following the GFC (and the sovereign debt crisis),[11] which has been characterised by a prolonged period of low (and negative) interest rates that hindered diversification and impacted investors' appetite for euro-denominated bonds.

The international role of the euro is vital to boosting its economic and financial independence. It is also thought to help stabilise the global financial system and help EU firms and households. While it is unlikely for the euro to overcome the primacy of the US Dollar (USD), there are some sections of the markets, such as that of sustainable bonds, in which the euro has the potential to carve out essential market shares, thus consolidating its position as the second most significant global currency. The EU has led the world as the first issuer of this kind of product and it is currently considered the main currency in a restricted but rapidly growing segment of the international debt security markets. Although limited in size, compared to the magnitude of the debt markets, such issuances would significantly increase the overall volume of highly rated euro-denominated assets, making the EU the leading global green-bond issuer.

By analysing the legal basis and the structure of the issuance of green bonds under the NGEU, including compliance with international and European sustainability standards, we seek to understand to what extent the NGEU is a catalyst for the promotion of the international role of the euro. In this paper, we do not discuss the international role of the euro according to numerous conditions developed by Papadia and Efstathiou[12] or Constâncio.[13] Our analysis is instead centered around one of the factors indicated by Papadia and Efstathiou, namely policies that EU could put in place to promote a wider role of the euro.[14] Our methodology focuses on the role of the European Commission (EC) and on policies such as the NGEU, dedicating the necessary space to the EU as an issuer in the capital markets.

[11] On the sovereign-debt crisis, also known as "euro crisis", for its repercussions on the stability of the common currency, see C. Lapavitsas et al., "Breaking up? A Route out of the Eurozone Crisis" (2011) *RMF Occasional Report No. 3*.

[12] Papadia and Efstathiou drew from Krugman. See P. Krugman, "The International Role of the Dollar: Theory and Prospect" in J. F. O. Bilson and R. C. Marston (eds), *Exchange Rate Theory and Practice* (University of Chicago Press, Chicago, United States 1984).

[13] See V. Constâncio, "The internationalisation of the euro requires CMU and a European safe asset" (2019) *Eurofi Views Magazine*, available at: https://www.eurofi.net/wp-content/uploads/2020/04/the-internationalisation-of-the-euro-requires-cmu-and-a-european-safe-asset_constancio_helsinli_september2019.pdf, last accessed 13 November 2022. See also M. Dabrowski, "Increasing the International Role of the Euro: A Long Way to Go" (2020) *Case Reports No. 502*, 1 [20].

[14] F. Papadia and K. Efstathiou, "The euro as an international currency" (2018) *Bruegel Policy Contribution No. 25*, 1.

1. INTRODUCTION: THE RESPONSE OF THE EUROPEAN UNION TO THE COVID-19 CRISIS

The COVID-19 pandemic has caused social and economic disruptions worldwide due to the preventive measures and restrictions put in place by governments to stop or limit the spread of the virus. Although the EU has been relatively coordinated in applying specific measures,[15] the severity of the pandemic cannot be considered uniform within the EU, with the southern EU Member States, such as Italy, being damaged the most.[16] The discrepancy in the impact of the pandemic, together with the weak sustainability of the debt of the latter EU Member States, summoned ghosts of the past as "peripheral"[17] Member States engaged in heavy expenditure to support businesses and households without having the "deep pockets" of the "core" Member States. These circumstances served as a political push to find a joint solution at the EU level to deal with an emergency that had gone far beyond national borders, and, similarly to the past, to justify the supranational intervention reference was made to unity and, above all, to the solidarity of the Union.

It is well-known that solidarity at the EU level, as well as crucial reforms,[18] saw their highest peaks in turbulent times when the same "survival" of one EU Member States (or the Union as a whole)[19] was at stake. From a legal and institutional perspective, solidarity in the EU is not just an abstract concept. It has been inserted for the first time in Article 222 of the Treaty on the Functioning of the European Union (TFEU)[20] by the Lisbon Treaty.[21] However, according to a strict reading of this Article, known as the "Solidarity Clause", it is difficult to correctly categorise the COVID-19 pandemic among those types of disasters. This complexity is not only a matter of type but also of consequences which affected EU Member States from public health,

[15] Coordination at the EU level was put in place, with varied rates of success, for measures such as joint-purchase of vaccines, EU-wide certifications (i.e., the "covid pass") and restrictions to the freedom of movement between Member States. From the macroeconomic perspective, other measures have been taken such as the suspension of State aid rules and those of the Stability and Growth Pact. As for measures addressing the banking and financial sector, there was a relaxation of capital requirements and the provision of State guarantees.

[16] See A. Sapir, "Why has COVID-19 hit different European Union economies so differently?".

[17] Southern EU Member States such as Cyprus, Greece, Italy, Portugal, and Spain have generally been considered "peripheral" due to the high levels of debt and their sustainability compared to more financially solid Member States (i.e., Germany). The economic policies brought at the EU level by those Member States are frequently opposed by the "core" Member States, such as Austria, Germany, or the Netherlands. In this regard, see C. Lapavitsas et al., "Breaking up? A Route out of the Eurozone Crisis" and N. Véron, "Europe must change course on banks" (2011) *Bruegel Blog Post*, available at: https://www.bruegel.org/blog-post/europe-must-change-course-banks, last accessed 4 May 2019.

[18] The expression "crucial reforms" here is meant at those reforms that led to advancements in the integration of the EU at different levels. In the same way as the NGEU opened the possibility for joint borrowings, the post euro crisis led to common supervisory and resolution frameworks within a European Banking Union.

[19] Here, reference is made to the case of Greece and the related sovereign debt crisis.

[20] Consolidated version of the Treaty on the Functioning of the European Union [2012] OJ C326/47.

[21] See Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, signed at Lisbon, 13 December 2007 [2007] OJ C306/1. Please note that solidarity in EU Treaties is present as one of the core values of the Union, as stated in Article 2 of the Treaty on the European Union (TEU). See Consolidated version of the Treaty on European Union [2012] OJ C326/13.

social or economic perspectives.[22]

As the pandemic worsened, and so did the economic outlook, the debate over jointly financed instruments at the EU level came back into the limelight. This discussion was familiar as it was one of the main drivers for creating the ESM during the sovereign debt crisis. Unlike the previous situation, there was a broader consensus on some solidarity at the EU level as the COVID-19 crisis was not idiosyncratic as the previous one but still asymmetric. This time the debate was over the modalities of this support, and divisions among the two "factions" were "crystallized".[23] Indeed, "core" EU Member States such as Germany, the Netherlands and Sweden favoured "back-to-back lending" solutions.[24] The latter solutions would have prevented the EU from directly financing troubled Member States through jointly backed instruments established at the supranational level (such as the NGEU), thus leaving the ultimate responsibility within the Member States beneficiary of the loan for its repayment. In this respect, we argue that these "core" Member States were still afraid to expose themselves to legacy problems from the previous crisis.

According to the Conclusions of the European Council of 23 April 2020,[25] an agreement on back-to-back lending was reached to provide "a backstop for national unemployment and employment protection arrangements"[26] through the creation of the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE).[27] Whereas, the possibility for euro-area sovereigns to recourse to the bailout fund, the ESM, was still present. However, in the same meeting, the President of the Council announced the preparation of a recovery fund, but the "link with the MFF",[28] arguably, the most sensitive matter, needed to be clarified in the proposal under preparation.
At this moment, solidarity comes back again as the real game changer. The shift in the position of Germany and the call for the unity and solidarity of the Union allowed the proposal of the EC

[22] Concerning the impact of the pandemic on the loss of output in the EU, see J. M. De Vet et al., *Impacts of the COVID-19 pandemic on EU industries* (2021) Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Directorate-General for Internal Policies, PE 662.903.

[23] E. Jones, "Next Generation EU: Solidarity, Opportunity, and Confidence" (2021) *SIEPS European Policy Analysis No. 11*, 1 [3 and 5].

[24] Within this solution, those Member States pointed at the ESM as the correct institution equipped with conditionality to provide such funding. Indeed, in a period in which the Treaty Establishing the ESM was going into an important revision, the Contracting Parties (i.e., the euro area Member States) decided to amend the ESM lending toolkit by adding the ESM Pandemic Support tool characterised by a much lighter conditionality. Nevertheless, considering the strong mistrust of certain potential beneficiaries of ESM funds towards this institution, such a tool has not yet been used. See the Agreement amending the Treaty Establishing the ESM, signed on 27 January and 8 February 2021, T/ESM-AMD/en 1.

[25] European Council, *Conclusions of the President of the European Council following the video conference of the members of the European Council*, Press release, 23 April 2020, available at: https://www.consilium.europa.eu/en/press/press-releases/2020/04/23/conclusions-by-president-charles-michel-following-the-video-conference-with-members-of-the-european-council-on-23-april-2020/, last accessed 3 November 2022.

[26] E. Jones, "Next Generation EU: Solidarity, Opportunity, and Confidence", 1 [2].

[27] See European Commission, *SURE*, available at: https://economy-finance.ec.europa.eu/eu-financial-assistance/sure_en, last accessed 6 November 2022.

[28] European Council, *Conclusions of the President of the European Council following the video conference of the members of the European Council*. The debate was not limited only to the link with the MFF, but it included different views on the repayment of the funds, the responsible institution for the issuance and the modalities for the use of the funds. See E. Jones, "Next Generation EU: Solidarity, Opportunity, and Confidence", 1 [3].

to take ambitious steps forward. As a result, in May 2020, the EC presented a stimulus package made up of the MFF and a new recovery instrument, the NGEU.[29] Most of the NGEU funds constitute the Recovery and Resilience Facility (RRF), which is to be disbursed in loans and grants.[30] Most important, to finance the NGEU, the EC was authorised to borrow funds on capital markets on behalf of the Union,[31] which represents an unprecedented step towards further integration at the EU level.

The objective of the latter instrument is to support the recovery of the EU Member States after the pandemic and ensure the resilience of their economies. The ambition is, however, more significant than that, and there is a willingness to shape the post-pandemic future of the EU by making sure that it will be "greener" and fit for the digital age.[32] In addition, the EC set an ambitious plan of reforms and investments to answer to the demands of some "core"[33] Member States demanding more conditionality but, at the same time, "sustainable European growth".[34] This paradigm change was crucial to project the EU towards future challenges and opportunities. Instead of providing support only to tackle the loss of output, the NGEU should serve as a stimulus for what has been referred to as "a once in a lifetime chance"[35] that can make the EU more competitive, strategically independent, and sustainable. Among these objectives, this study also sees an opportunity for boosting the euro's international role.

To obtain funds from the RFF, EU Member States must prepare National Recovery and

[29] So far, it represents the most extensive package financed in Europe worth EUR 2.018 trillion (with the long-term budget amounting to EUR 1.211 trillion and NGEU instrument at the value of EUR 806.9 billion). See I. C. Hinsche, "A Greenium for the Next Generation EU Green Bonds. Analysis of a Potential Green Bond Premium and its Drivers" (2021) *Center for Financial Studies Working Paper No. 663*.

[30] EUR 385,8 billion and EUR 338,0 billion respectively. The remaining EUR 83,1 billion of NGEU funds are devoted to other programmes and policies such as, for example, the Cohesion Policy and the Just Transition Fund. See European Commission, *The Recovery and Resilience Facility*. The funds will be repaid after 2028 and the EU will have to introduce new taxes to raise sufficient funds for such repayment.

[31] European Council, *Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions*, EUCO 10/20, 21 July 2020, available at: https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf, last accessed 10 November 2022.

[32] The aim is therefore twofold: to support EU Member States after the COVID-19 crisis on one hand, and to support the transition towards a sustainable and digitalised EU, on the other hand. See European Commission, *The EU's 2021-2027 long-term Budget and NextGenerationEU. Facts and Figures* (2021) available at: https://op.europa.eu/en/publication-detail/-/publication/d3e77637-a963-11eb-9585-01aa75ed71a1/language-en, last accessed 10 November 2022. For the allocation of RRF funds according to those objectives, see Figures 1, 2 and 3 in K. Lannoo and A. Thomadakis, "From NGEU to a Green Capital Markets Union" (2022) *ECMI Policy Brief no 32*, 1 [2, 3, 4].

[33] By registering the shift of the German position, from "core" Member States, commentators passed to label to Member States still advocating for a more conservative approach and conditionality as "frugal four", namely Austria, the Netherlands, Denmark, and Sweden.

[34] In this respect, see S. Löfven, "'Frugal four' warn pandemic spending must be responsible", *Financial Times*, 16 June 2020, available at: https://www.ft.com/content/7c47fa9d-6d54-4bde-a1da-2c407a52e471, last accessed 10 November 2022.

[35] European Commission, *NextGenerationEU*, available at: https://next-generation-eu.europa.eu/index_en, last accessed 3 November 2022.

Resilience Plans (NRRPs) in compliance with EU priorities.[36] The overarching principle is that planned measures must be consistent with the principle enshrined in Article 17 of the EU Taxonomy Regulation[37] of "Do No Significant Harm (DNSH)".[38] NRRPs should allocate an amount that represents at least 37% of the total NRRP to contribute to the green transition and at least 20% to the digital transformation. The EC will not positively assess a plan which is not compliant with these thresholds.[39] Hitherto, from the 22 accepted NRRP, Member States allocated 40% of their spending on climate measures and over 26 % on digital transformation. Member States allocated more than required to create a buffer to safeguard that all green bond proceeds are spent exclusively on green investments.[40]

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[36] In the NRRPs which need to be implemented between 2021 and 2026, Member States must explain how planned reforms and investments contribute to the green transition and to the achievement of 2030 and 2050 climate targets. They also must be complaint with National Energy and Climate Plans.

[37] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ L198/13.

[38] The DNSH principle means that planned reforms and investments shall not cause significant harm to any of the environmental objectives listed in the latter Article. For an accurate analysis of this principle, see D. A. Zetzsche et al., *Towards a European Social Taxonomy: A Scorecard Approach* (2022), 1 [14-15], available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4218874, last accessed 20 December 2022.

[39] See European Commission, *Next Generation EU - Green Bond Framework*, SWD (2021) 242 final, 7 September 2021 and Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility [2021] OJ L57/17.

[40] In case an investment cannot be implemented as initially planned or does not entirely materialise, a higher share of green bonds eligible expenditure allows to substitute with another suitable green project. See European Commission, *Next Generation EU - Green Bond Framework*.

2. THE EUROPEAN UNION AS AN ISSUER IN CAPITAL MARKETS

2.1 TRANSFORMATION OF THE EU'S PRESENCE IN THE CAPITAL MARKETS

In line with Article 310(4) of the TFEU, the EU public spending should be financed within the limit of the Union's own resources and not with debt.[41] However, to finance various programmes, the EU had already raised funds in financial markets on several occasions. Examples include the Micro-Financial Assistance Programme,[42] the Balance of Payments (BoP) Assistance Programme,[43] the European Financial Stabilisation Mechanism (EFSM)[44] and, more recently, the SURE.[45] Therefore, it is not new for the EU to borrow from the markets. The challenge this time is nevertheless about the significant size of the debt and the type of disbursement.

To respond to the financing needs of the NGEU, the EU had to transit from the back-to-back approach, where proceeds from bonds were directly transferred to beneficiary countries on the same conditions as those on which the EC received it (i.e., same interest rate and maturity), to a new diversified funding strategy with a pooling of funding needs where the funding projects were separated from the use of their proceeds.[46] This new supranational approach reminds funding operations employed by sovereign issuers.

The NGEU provides an opportunity for the EU to change its position in the capital markets. Given the magnitude of issuance necessary to fund the NGEU, the EU is relentlessly changing its status from a small issuer to a major one. For comparison, in 2019 annual gross issuance volume of the EU amounted to EUR 0.4 billion, placing the EU on the fifteenth position among euro-area issuers. Whereas in 2021, it amounted to EUR 133 billion, putting the EU in the fifth position directly after France, Germany, Italy, and Spain.[47] While this progress is undisputed, if we would look at the magnitude of financial markets, this evolution cannot be considered as sufficient to strengthen the international role of the euro *versus* the USD. Nevertheless, by focusing on the specific type of financial products (i.e., green bonds) and the market in which they are allocated, we can see an opportunity for the EU to boost the role of the euro by consolidating or, even, expanding the presence of sustainable euro-denominated bonds.

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[41] On this matter, see C. Fuest, "The NGEU Economic Recovery Fund" (2021) 22(1) *CESifo Forum*. Please also note that according to Article 310(4) of the TFEU in combination with Article 312 of the same Treaty, new expenditure shall be in compliance with the MFF.

[42] The instrument established to provide financial aid to non-EU countries (which are however geographically, economically, and politically close to the EU such as, for example, candidate or potential candidate countries) experiencing a balance of payments crisis.

[43] The BoP facility offers help to non-euro EU Member States risking or facing difficulties regarding their BoP. See Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments [2022] OJ L 53/1.

[44] The EFSM ("ancestor" of the ESM) is the first instrument created to counter the early signs of the sovereign debt crisis, providing financial assistance to Ireland, Portugal, and Greece. See Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism [2010] OJ L118/1.

[45] To finance the latter instrument, established in May 2020 to address the unemployment risk following the COVID-19 pandemic, which has the exact temporary nature of the NGEU, the EC has been issuing social bonds.

[46] See European Commission, "The EU as an issuer: the NextGenerationEU Transformation" (2022) *EU Budget Policy Brief No. 3,* 1 [7-8].

[47] Ibid, at 14 and especially Figure 7 (based on Bloomberg data).

2.2 THE NGEU POSITIONING THE EU AS THE LARGEST ISSUER OF GREEN BONDS

The EU has always been at the forefront of the creation of financial products linked to sustainability objectives. This is proven by the fact that the world's first green bond was issued in July 2007 by the European Investment Bank (EIB) as a Climate Awareness Bond (CAB).[48] Since then, from being a niche product, green bonds have become increasingly popular among issuers and investors. Despite that, the green bond market remains relatively small compared to the traditional bond market.[49] To achieve the targets set in the Paris Agreement[50] this growth needs to accelerate.

In this context, we argue that the NGEU is giving a strong impulse to achieve the above goal as one-third of the NGEU funding will be issued by the RRF in green bonds.[51] The EC started such issuance in October 2021 with a 15-year bond from which EUR 12 billion were raised, "making it the world's largest green bond transaction to date".[52] As of 30 June 2022, the EC raised EUR 121 billion, of which EUR 28 billion in green bonds.[53] So far the demand for EU green bonds can be considered "massive" which facilitates the EC in issuing them at "favourable interest

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[48] See European Investment Bank, *15 years of EIB green bonds: leading sustainable investment from niche to mainstream, 5 July 2022*, available at: https://www.eib.org/en/press/all/2022-308-15-years-of-eib-green-bonds-leading-sustainable-investment-from-niche-to-mainstream, last accessed 12 December 2022. For more on the sustainable financial products issued by the EIB within the current applicable framework composed by the EU Taxonomy and the EU Green Bond Standard Regulations, see European Investment Bank, *Promoting clarity to facilitate sustainable investment*, October 2022, available at: https://www.eib.org/attachments/fi/eib-cab-sab-presentation.pdf, last accessed 12 December 2022.

[49] According to recent estimates, the green bond market represents only about 3 to 3.5 % of the overall issuance. See S. Spinaci, *European green bonds. A standard for Europe, open to the world* (2022) Briefing, European Parliament, European Parliamentary Research Service, PE 698.870, 1 [2].

[50] See Article 4 of the Paris Agreement in United Nations Framework Convention on Climate Change (2015) *Adoption of the Paris Agreement*, 21st Conference of the Parties. One of the objectives of the Paris Agreement is to achieve net-zero emissions by 2050. The European Council endorsed achieving a climate-neutral EU by 2050 in December 2019. See European Council, *European Council meeting (12 December 2019) – Conclusions*, EUCO 29/19, available at: https://www.consilium.europa.eu/media/41768/12-euco-final-conclusions-en.pdf, last accessed 13 December 2022.

[51] On this matter, considering recent developments, see Report from the Commission to the European Parliament and the Council on the implementation of the Recovery and Resilience Facility, COM/2022/75 final, 1 March 2022.

[52] The EC emphasised the success of this first issuance by stating that the "15-year bond due on 4 February 2037 was more than 11 times oversubscribed, with books exceeding €135 billion." See European Commission, *NextGenerationEU: European Commission successfully issues first green bond to finance the sustainable recovery*, Press release, 12 October 2021, available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5207, last accessed 15 December 2022. This shows the undisputed attractiveness of both the EU as a supranational issuer and the green bonds as a financial product linked to the NGEU and its related objectives. See also European Commission, *NextGenerationEU Green Bonds*, available at: https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu-green-bonds_en#nextgenerationeu-green-bond-framework, last accessed 15 December 2022. For more accurate data on all EU-bond issuances since June 2020, see European Commission, *Transactions data*, available at: https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/transactions-data_en, last accessed 20 December 2022. The very first EU-green bond can be consulted under the ISIN EU000A3K4C42.

[53] See Figure 2 (NGEU Issuances as of 30 June 2022) in European Commission, "The EU as an issuer: the NextGenerationEU Transformation", 1 [10].

rates".[54] In preliminary terms, we can say that the EU is on the right track to become the largest green bond issuer.

Green bonds issued to finance the NGEU are underpinned by the NGEU green bond framework,[55] which is consistent with the International Capital Market Association Green Bond Principles (ICMA GBP).[56] According to those principles, green bonds are committed to financing or refinancing eligible green projects and assets which provide clear environmental benefits.[57] In terms of characteristics, they are similar to conventional bonds, the main difference being that proceeds are used to finance green projects. The ultimate objective is to redirect more capital to environmentally friendly investments and encourage the transition towards a low-carbon economy.

In as much as possible, the NGEU green bond framework tries to align also with the EU Taxonomy and the upcoming Standard for European Green Bonds (EU GBS).[58] The latter framework provides details on the use of proceeds and specifies several eligible green expenditure categories[59] as, for example, energy efficiency and climate change adaptation.[60] It also contains provisions regarding the process for expenditure evaluation and investment selection, management of proceeds and reporting. We argue that the reason why NGEU green bond framework is, in the first place, aligned with ICMA GBP and only to the extent "as much as feasible" with the EU GBS is the divergence in time between the foreseen implementation of the RRPs and planned implementation of the EU GBS.

To ensure full transparency about how capital raised through NGEU green bonds is invested, in March 2022, the EC published the NGEU Green Bond Dashboard,[61] which informs on an ongoing basis about green bond allocations across Member States, expenditure categories and intervention fields. This kind of data granularity increases transparency and helps investors to make a more conscious choice, thus increasing the trust in the EU as an issuer.

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[54] Ibid, at 19.

[55] See European Commission, *Questions and Answers: NextGenerationEU Green Bond framework and funding plan update*, 7 September 2021, available at: https://ec.europa.eu/commission/presscorner/detail/it/qanda_21_4567, last accessed 18 December 2022.

[56] See International Capital Market Association, *Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds*, June 2021 (with June 2022 Appendix 1), available at: https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf, last accessed 20 December 2022. Please note that also the above EBI CAB are in line with those principles.

[57] Ibid, at 3.

[58] The EC's legislative proposal for the EU GBS was adopted in July 2021 and will enter into force only after adoption by the European Parliament and the Council. Most RPPs (submitted in April or May 2021) should already be implemented by that time. See European Commission, *Next Generation EU - Green Bond Framework*.

[59] Ibid.

[60] See European Commission, *Expenditures to be financed by NextGenerationEU green bonds*, March 2022, available at: https://commission.europa.eu/system/files/2022-03/green-expenditures.pdf, last accessed 21 December 2022.

[61] See European Commission, *NextGenerationEU Green Bond Dashboard*, available at: https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu-green-bonds/dashboard_en, last accessed 21 December 2022.

3. THE INTERNATIONAL ROLE OF THE EURO AND THE EU APPROACH

To take a thorough analysis of the international role of the euro and to understand if the NGEU can represent a catalyst for the latter, it is necessary to take a brief step back. The Maastricht Treaty paved the way for the single currency by establishing the European Economic and Monetary Union (EMU). Since its launch in 1999, the euro was believed to challenge the USD,[62] while it became the second most important currency in the international monetary system.[63] As argued by Temprano Arroyo and Ilzetzki et al., the euro is "still punching below its weight"[64] and, as pointed out by Wolff and Claeys,[65] this is the result of a sharp decline suffered by the euro since the GFC and the euro crisis.[66] Indeed, the life of the euro can be divided into two main periods, the first (until 2008) characterised by growth and manageable inflation, and the second one (as from 2008) in which the euro fell into an existential crisis which risked jeopardising its stability.[67] In light of the above events and to evaluate the euro's international role, we consider it helpful to focus on the engagement of EU stakeholders in promoting such a role.

Initially, the EU adopted a neutral approach regarding its global role[68] potentially due to the fact that, as flagged by Tuori, the euro lacks "a clear institutional or political locus".[69] The shift in attitude came in 2018,[70] when the EC started to advocate for the promotion of the euro.[71] In the

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[62] Portes and Rey envisaged "stiff competition" for the USD upon the creation of the euro mostly based on the level of international trade and financial markets. See R. Portes and H. Rey, "The Emergence of the Euro as an International Currency" (1998) 13(26) *Economic Policy*.

[63] See Article 3(4) of the TEU. The euro was officially issued in January 1999 and started functioning as a non-cash monetary unit. Therefore, its use was initially limited to financial markets and certain businesses. In 2002, the euro was issued as currency notes and coins. As of January 2023, 20 EU Member States have adopted the euro as Croatia became the 20th member of the euro area.

[64] H. Temprano Arroyo, "The EU's Response to the COVID-19 Crisis: A Game Changer for the International Role of the Euro?" (2022) *European Economy Discussion Paper No. 164*, 1 [6-12] and E. Ilzetzki et al., "Why is the euro punching below its weight?" (2020) 35(103) *Economic Policy*, 405 [423-431].

[65] See G. Wolff and G. Claeys, "Is the COVID-19 crisis an opportunity to boost the euro as a global currency? (2020) *Bruegel Policy Brief*, available at: https://www.bruegel.org/policy-brief/covid-19-crisis-opportunity-boost-euro-global-currency, last accessed 12 November 2022.

[66] See Chart 2 in Eurofi Secretariat, *Strengthening the International Role of the Euro* (2019) available at: https://www.eurofi.net/wp-content/uploads/2019/11/4.-strengthening-the-international-role-of-the-euro-how.pdf, last accessed 12 November 2012 and Figure 1 in B. Coeuré, "Should the ECB care about the euro's global role?", *VoxEU Column*, 25 February 2019, available at: https://cepr.org/voxeu/columns/should-ecb-care-about-euros-global-role, last accessed 12 November 2022.

[67] See F. Fabbrini, *Next Generation EU. Il futuro di Europa e Italia dopo la pandemia* (Il Mulino, Bologna, Italy 2022), 1 [37].

[68] H. Temprano Arroyo, "The EU's Response to the COVID-19 Crisis: A Game Changer for the International Role of the Euro?", 1 [12]. This is valid also for the ECB which has always claimed to monitor the international role of the euro but to do not engage in promoting it. See B. Coeuré, "Should the ECB care about the euro's global role?".

[69] Concerning the international role of a currency, the Tuori argues that it cannot be allocated to one specific area (i.e., economic, constitutional) but it encompasses elements which can be traceable to those areas. See K. Tuori, "The euro as an international currency - a critical assessment of the reinvigorated target for the euro" (2019) *Maastricht University Faculty of Law Working Papers Series No. 3*, 74 [74].

[70] Communication from the Commission to the European Parliament, the European Council (Euro Summit), the Council, the European Central Bank, the European Economic and Social Committee and the

then Communication, the EC noticed that global trends steer the transition towards a more diversified and multipolar system of several global currencies. An increased international role of the euro should be envisaged as adherence to this multilateral system and perceived as a commitment to an open and rule-based global economy. Nevertheless, the above consideration reflects the fact that the EC presented several suggestions that could generate positive effects for the international role of the euro, but that shall be pursued for different purposes, such as (in very general terms) removing the existing obstacles to the smooth functioning of the EU internal market.[72] In this sense, we can mention the need to complete the EMU, European Banking Union (EBU) and Capital Markets Union (CMU) as fundamental for boosting the euro's attractiveness.

This approach to actively promote the euro was further reiterated by the EC in 2021.[73] In its Communication, the EC expressly noted that the "issuance of high-quality euro-denominated bonds under Next Generation EU will add significant depth and liquidity to the EU's capital markets and make them and the euro more attractive for investors."[74] Currently, the EU is an active proponent of strengthening the international position of the euro.[75] Taking into consideration recent developments in the global arena,[76] it is critical for the EU to ensure its

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Committee of the Regions, COM (2018) 796/4, 5 December 2018. The content of this Communication was subject to discussions at the level of the Euro Summit and *ad-hoc* consultations. See Point n. 5 in Euro Summit, *Statement of the Euro Summit*, Press release, 14 December 2018, available at: https://www.consilium.europa.eu/en/press/press-releases/2018/12/14/statement-of-the-euro-summit-14-december-2018/, last accessed 15 November 2022.

[71] See H. Temprano Arroyo, "The EU's Response to the COVID-19 Crisis: A Game Changer for the International Role of the Euro?", 1 [12]. On the plan of the EC, see also F. Papadia and K. Efstathiou, "The euro as an international currency", 1 [13-14].

[72] Tuori criticised that the EC listed a series of benefits from the enhancement of the international role of the euro without providing clear argumentation for most of them. See K. Tuori, "The euro as an international currency - a critical assessment of the reinvigorated target for the euro", 74 [75-77]. Economic benefits (i.e., lower interest rates and lower exchange rate risk) and disadvantages (i.e., monetary policy complexity) generated by the international role of the euro are also discussed in M. Dabrowski, "Increasing the International Role of the Euro: A Long Way to Go", 1 [30-32]. Please note that lower exchange risk is disputed by Tuori because a stronger role for the role would increase polarisation.

[73] See Communication from the Commission to the European Parliament, the European Council (Euro Summit), the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, COM(2021) 32 final, 19 January 2021.

[74] Ibid. Other critical actions enumerated by the EC include promoting the euro as an international reference currency in the energy sector and enlarging euro-denominated trade in debt securities, commodities, and related financial instruments. On this matter, see the Commission Recommendation on the international role of the euro in the field of energy, C(2018) 8111 final, 5 December 2018. Moreover, as flagged by Tuori, the EC encouraged "European bodies and mechanisms […] to increase their share in euro-denominated debt". See K. Tuori, "The euro as an international currency - a critical assessment of the reinvigorated target for the euro", 74 [75].

[75] In a recent Conclusion, the Council of the European Union stressed the importance of the role played by the euro internationally. See Council of the European Union, *Council Conclusions on the EU's economic and financial strategic autonomy: one year after the Commission's Communication (6301/22)*, ECOFIN 132, 29 March 2022.

[76] COVID-19 pandemic, global shortages of supply in essential goods and services, deepen imbalances in energy markets and the resulting consequences therein.

strategic autonomy in an open economy.[77] One of the critical steps to achieve the abovementioned overall goal is to secure a more robust international role of the euro, primarily by boosting the global use of the euro and euro-denominated instruments. We consider instruments like the NGEU absolutely fit for this purpose.

[77] Council of the European Union, *Council Conclusions on the EU's economic and financial strategic autonomy: one year after the Commission's Communication (6301/22)*.

4. UNLASHING THE EURO'S UNTAPPED POTENTIAL AT THE INTERNATIONAL LEVEL

Indicators such as the share of the euro in global holdings of foreign exchange reserves, international bond issuance, and the outstanding stock of international loans and deposits confirm the overall attractiveness of the euro.[78] Despite its potential and attractiveness in financial markets, the euro remains a distant second behind the USD,[79] while in terms of international trade invoicing and global payments, the euro is neck and neck with the USD.

In the "aftermath"[80] of the COVID-19 pandemic, reinforced by extensive fiscal and monetary policy support, the euro area managed a rapid and surprising recovery, thus facilitating the stability of the euro.[81] As such, the COVID-19 crisis did not threaten the international status of the euro. However, significant bond-buying programs conceived by the ECB to counter the impact of the GFC and the euro crisis and, most recently, that of the COVID-19 pandemic (i.e., the PEPP)[82] contributed to the shortage of euro-denominated safe assets,[83] seen as one of the obstacles to a broader presence of the euro in international markets, thus affecting its global role.[84] Other obstacles such as the limited pool of euro-denominated safe assets[85] as well as insufficient depth, integration, efficiency and attractiveness of the euro area's capital markets are

[78] Ibid. This recent review prepared by the ECB reveals that all these indicators increased in 2021, and other factors such as the outstanding stock of international debt securities remained unchanged.

[79] The USD has a much larger share in several key international functions (i.e., foreign exchange reserves, international debt and loans, foreign exchange turnover, and trade invoicing. See Figure 2.1 in H. Temprano Arroyo, "The EU's Response to the COVID-19 Crisis: A Game Changer for the International Role of the Euro?" (2022) *European Economy Discussion Paper No. 164*, 1 [7] and G. Hudecz et al., "The euro in the world" (2021) *ESM Discussion Paper Series No. 16*.

[80] Please note that while the pandemic as a health-related emergency cannot be considered over, its "critical" phase, which led to heavy restrictions and the consequent loss of economic output in Europe, has passed.

[81] See European Central Bank, *The international role of the euro* (2022), 1 [3].

[82] As flagged by Eichengreen and Gros, the PEPP was meant "to have particularly strong impact on the availability of the new common safe assets". See B. Eichengreen and D. Gros, *Post-COVID-19 Global Currency Order: Risks and Opportunities for the Euro* (2020) Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Directorate-General for Internal Policies, PE 652.751, 1 [30-31]. However, due to the current inflationary pressures, the ECB is engaging in raising interest rates and announced the intention to start reducing its EUR 3 trillion bond portfolio. Therefore, these issues can be disregarded for the moment also because the ECB's Transmission Protection Instrument would most probably purchase euro-denominated debt of lower quality. See M. Arnold, "ECB to start talks on shrinking balance sheet amid bond market turmoil", *Financial Times*, 26 October 2022, available at: https://www.ft.com/content/a28fe5d6-3beb-4794-b49c-aff4fabc0cd7?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft:notification:daily-email:content, last accessed 3 January 2023 and European Central Bank, The Transmission Protection Instrument, Press release, available at: https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220721~973e6e7273.en.html, last accessed 3 January 2023.

[83] Safe assets are described in M. M. Habib et al., "The fundamentals of safe assets" (2020) *ECB Working Paper Series No. 2355* and R. J. Caballlero et al., "The Safe Assets Shortage Conundrum" (2017) 31(3) *Journal of Economic Perspectives*.

[84] Temprano Arroyo and Ilzetzki et al. stressed this shortage as a major reason for the poor performance of the euro at the international level. See Temprano Arroyo, "The EU's Response to the COVID-19 Crisis: A Game Changer for the International Role of the Euro?", 1 [14 and 16] and E. Ilzetzki et al., "Why is the euro punching below its weight?", 405 [423-427].

[85] Euro-denominated safe assets are bonds of the highest credit rating issued in euros.

some of the reasons explaining why the euro is still punching below its potential. In this sense, the NGEU represents a one-time opportunity to foster this role whilst enhancing the competitive advantage that it has built in green bond markets.

In this respect, we collected two leading solutions[86] to increase the pool of euro-based safe assets, meaning the supply of more euro-denominated debt by those Member States which enjoy a "triple A" rating[87] and the creation of safe assets issued at the supranational level (exactly as in the case of the NGEU).[88] As expected, all solutions have their fair share of issues and ambiguity.

Regarding the first solution, the current "triple A" EU Member States are Germany, the Netherlands, Sweden, Denmark, and Luxembourg.[89] This means that only five EU Member States out of 27 and 3-euro area Member States out of 20 can issue those safe assets.[90] The first solution foresees those Member States to enlarge their fiscal capacity, have a higher debt and potentially put the sustainability of their debt at risk if those issuances are not accompanied by adequate investments or other policies to maintain such sustainability. This is without considering complex political choices during inflationary pressures and recession outlooks.[91]

The second solution is at the heart of our analysis. Indeed, instruments such as the NGEU, although temporary, provide an optimal alternative to the need for sufficient issuance of safe assets at the national level. Those assets are highly marketable and linked to a set of reforms and monitoring, ensuring that the funding raised will fulfil its objectives. The success story of the NGEU, at least according to preliminary analyses, has attracted encouragement for such supranational solutions to become permanent by creating a mechanism that would support future

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86 These solutions have been developed in F. Papadia and H. Temprano Arroyo, "Don't look only to Brussels to increase the supply of safe assets in the European Union" (2022) *Bruegel Policy Contribution No. 25*.

87 This solution was already envisaged in the 2019's Communication by the EC in which it stated that it was necessary to increase "the pool of euro-denominated assets with a higher credit rating." See COM (2018) 796/4. Other solutions for increasing those assets without mutualising debt have been developed in Á. Leandro and J. Zettelmeyer, "Creating a Euro Area Safe Asset without Mutualizing Risk (Much)" (2019) *PIIE Working Papers 19-14*.

88 Among the available solutions we should also mention the issuance of certificates of deposits by the ECB. However, since the focus of this work is the NGEU, we chose not to take this solution into close consideration. This solution is analysed in B. Eichengreen and D. Gros, *Post-COVID-19 Global Currency Order: Risks and Opportunities for the Euro*, 1 [31-33].

89 See Fitch Ratings, *Fitch Affirms European Union and Euratom at 'AAA'; Outlook Stable*, 18 February 2022, available at: https://www.fitchratings.com/research/sovereigns/fitch-affirms-european-union-euratom-at-aaa-outlook-stable-18-02-2022, last accessed 4 January 2023.

90 Temprano Arroyo, in Table 4.1, shows the downward trend registered by sovereign ratings of the euro area. While in 2005, the euro area could count on 8 "triple A" Member States, a thing that would have strongly facilitated the increase of the pool of high-quality euro-denominated bonds, now it can count only to 3 Member States. This is mainly the result of the GFC and the subsequent sovereign debt crisis which severely impacted the sustainability of the debt of many Member States. See Temprano Arroyo, "The EU's Response to the COVID-19 Crisis: A Game Changer for the International Role of the Euro?", 1 [17].

91 These concerns affect a closely related solution that envisages upgrading those Member States below the "triple A" rating. For the same reasons, in the current economic and financial situation, it would be unlikely for these countries to undertake significant reforms to improve the sustainability of their debt. The recent inflationary pressures and the increased energy cost resulting from the war in Ukraine are prompting EU Member States to enable fiscal expenditure to shield the most vulnerable. These policies to dot facilitate the achievement of debt sustainability.

challenges and opportunities for the EU.[92] However, the issuance of common bonds, especially in the euro area, does not see only positive opinions. In this sense, it is helpful to recall Issing's analysis.[93] Even if dating back to 2009 and mostly referring to a context (i.e., post-GFC) in which the impact of the crisis was distinctly asymmetric, there are elements representing some food for thought for the current situation. By referring to solidarity, Issing argued that those advocating for common bonds wrongly favour solutions where the "'strongest' guarantee for the 'weakest'",[94] as countries with lower spreads (i.e., Germany) would have to pay more to raise funds and, without fiscal responsibility, there is the risk of a widespread loss of credibility. However, he pointed out that a suitable solution would be "a credible commitment by all its members to reform".[95] Arguably, enlarging the scope to the whole EU, this argument mirrors the NGEU, common bonds accompanied by adequate sustainability regarding objectives and, especially, type of debt issuance. Moreover, its temporary nature avoids that investors would mistake it for a bailout,[96] a role still assigned to the ESM, at least for what concerns the euro area.

By taking stock of the analysis made so far in this text, we argue that enlarging the quantity of euro-denominated safe assets represents a straightforward way to strengthen the euro's international role. In this respect, we see the NGEU and, especially, the euro-denominated green bonds valuable to finance the RRF as suitable instruments to achieve the above objective.[97] In light of the above analysis, the NGEU represents the least risky solution to increase the pool of euro-denominated safe assets and, thus, strengthen the euro's international role. However, for this instrument to be successful, all the conditions for what has been conceived must be respected. In this sense, much of its weight is on the shoulders of EU Member States, and among them, a stronger emphasis shall be put on those EU Member States benefiting from NGEU funds to a more significant extent (i.e., Italy).

[92] Among the potential positive features, it is necessary to consider that such programs can be a driver for strengthening EU's competition in a world which is increasingly moving from globalisation to regionalisation.

[93] O. Issing, "Why a Common Eurozone Bond Isn't Such a Good Idea" (2009) *Center for Financial Studies White Paper No. III*.

[94] O. Issing, "Why a Common Eurozone Bond Isn't Such a Good Idea", 1 [2].

[95] Ibid, at 3. Giudice et al. favour common euro-denominated safe assets for the international role of the euro and for enhancing market discipline at the level of the euro area. See G. Giudice et al., "A European safe asset to complement national government bonds" (2019) *MPRA Paper No. 95748*.

[96] Bailouts at the EU level are forbidden by Article 125 of TFEU. On this matter, see F. Fabbrini, *Next Generation EU. Il futuro di Europa e Italia dopo la pandemia* (Il Mulino, Bologna, Italy 2022), 1 [32-35].

[97] This objective is a critical path for completing the EMU. Accordingly, it would also represent a step forward for a fully-fledged EBU and CMU.

CONCLUDING REMARKS

This paper aimed to test whether the NGEU could be a catalyst for the international role of the euro. Concerning this role, we analysed it from different perspectives as, for example, the creation of policies for its promotion. Indeed, since the shift in policy registered in 2018, EU institutions and bodies have been increasingly proactive in this sense. By focusing on the NGEU, it was possible to understand the impact of the latter instrument on the international role of the euro and, considering the present analysis, we wanted to give some food for thought on how to enhance the euro's international role.

Under the rules of the NGEU, the EC has time until 2026 to borrow funds in the capital markets, considering that 30% of them will have to be allocated via green bonds. Before this deadline, it would certainly be possible for the EC, the ECB and academia to undertake a first comprehensive assessment of the performance in the allocation of euro-denominated bonds and the fulfilment of the commitments made by the EU Member States under the respective NRRPs. Should the NGEU continue pursuing the promising track that we are currently registering, the EU would need to decide whether to transform this mechanism into a permanent one or whether to come up with a new *ad-hoc* temporary mechanism that would follow the progress of the NGEU but focus on the new challenges that the Union will have to face in the future.

We consider the first option as outstanding, as it would imply fundamental reforms in the Union's fiscal architecture and the related governance, meaning that important Treaty reforms will need to be undertaken to ensure that instruments such as the NGEU and its conditionality is abiding by principles of democratic control and accountability. Whereas should we continue the current path, it comes logically to favour a sort of "renewal" of the current instrument to be rebalanced according to future needs.

Instruments such as the NGEU have shown a valid and successful alternative to the supply of high-quality euro-denominated bonds at the national level and therefore we consider it as imperative for the international role of the euro. As the financial world is increasing its appetite for sustainable products, the EC shall take advantage of this comparative advantage against the USD and other currencies within "green" financial markets and, thus, increase the share of green bonds while maintaining current levels of regulatory compliance and transparency.

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