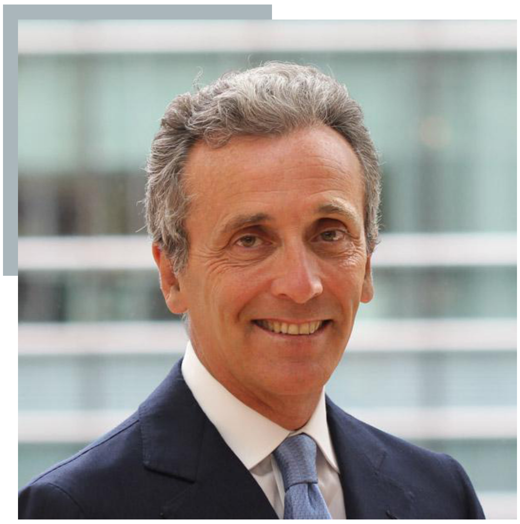

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Strengthening the internationalisation of the euro and the EU's future competitiveness through common debt issuance

The unprecedented EU recovery package was a milestone for deeper fiscal integration, with extraordinary measures enacted to support Member States grappling with the fallout of COVID-19. Common debt issuance is a potential game-changer for Europe's economic growth dynamics through the Recovery Fund, with the potential to strengthen the internationalisation of the euro and the EU's future competitiveness.

The recovery package's focus on investment could lift Europe out of secular stagnation. Average annual (inflation-adjusted) growth in EU investment declined from c.3.4% (1999-2007) to c.2.6% (2011-2019), whilst the euro-destabilising variance in investment across Member States has been even more dramatic across the same period. Italy, Greece, and Portugal have experienced negative average investment growth, and even France and the Netherlands saw a decline in investment growth of nearly half. The package could help hard-hit Member States improve levels of investment which could bring GDP growth in-line with the rest of the EU and thus strengthen the entire compact.

If the EU were inclined towards the creation of a "safe asset", common debt issuance could contribute to this goal, possibly facilitating ECB monetary policy. There is likely appetite for a safe asset since debt issued by highly-rated EU countries represented only c.29% of outstanding sovereign EU debt as of end-2020; with €750bn, that would increase to c.35% of 2020 debt. Continued, regular issuances and a liquid curve will also be necessary for the full development of a safe asset.

Though implementation of investment and reform will remain critical, a safe asset coupled with a more dynamic, balanced and cohesive EU economy could lessen concerns of tail risks and thus support the international role of the euro.

SURE has proved a successful instrument for debt issuance due to the clear communication to the market on deal sizes, tenors, timetable and "what" investors would be buying, as well as coordination with other supranationals. The use of a Social Bond Framework proved fruitful given the thematic dominance of ESG amongst global investors, whilst the general market backdrop was favourable and led to record order books for SSA issuers in recent months.

J.P. Morgan was delighted to be appointed as joint-lead on a SURE transaction and we endeavour to continue supporting SURE and the deployment of the Recovery Fund. We have operated in the region for close to 200 years and our commitment to companies and our clients remains unwavering.

As the Recovery Fund goes live and with a view to a common debt instrument, we are confident the EU will continue to work with best-in-class arrangers to be well-positioned for successful issuance in different market conditions. This will allow access to a diverse and increasingly global investor base, in terms of type and geography, and the broadest possible market intelligence for future transactions. It would be reinforcing to see more EU countries making use of these programmes.