EDITORIAL

WILL THE EURO BE THE TRUE GREENBACK IN THE FUTURE?

The dollar is involved in nine out of ten foreign exchange transactions and still accounts for 58% of total foreign exchange reserves. Commodities, interest rates, derivatives: it is the dominant currency in almost all markets, with one exception: green bonds, which are mainly denominated in euros and whose take-off is mainly driven by companies and public actors based in Europe. In 2025, the green bond market is expected to see another record volume of issuance. It remains to be seen whether the US counteroffensive on social and environmental responsibility will be a threat or an opportunity for sustainable finance. There are many arguments in favor of the latter hypothesis.

Since the 2015 Paris Climate Agreement and the introduction of applicable principles by the International Capital Market Association (ICMA), the green bond market has skyrocketed. Although still modest in global terms (USD 2.9 trillion, or just 2.5% of total bond outstanding), its size has more than quintupled over the past five years. The Eurozone has been the driving force behind this takeoff, followed at a distance by the United States and China. In terms of cumulative issuance, the single currency accounts for the lion's share: 46% of the market in 2024, compared with only 28% for the US dollar (*see chart*).

However, the geopolitical context, marked by the war in Ukraine, the arms race and Donald Trump's return to business, raises questions about the continuation of this expansion. Isn't there a risk that the backlash from governments on climate and environmental issues will dampen the momentum of the green bond market and, incidentally, the use of the euro associated with it? This is actually unlikely, as sustainable finance continues to counter the political attacks against it with solid arguments.

In its fight against social and governance criteria, the Trump administration cannot decide on behalf of investors. The spread of environmental, social and governance (ESG) factors is a major trend, driven not only by governments but also by the aspirations of the private sector. Symptomatically, major asset managers who have been "asked" to stop favoring responsible investments in the United States are maintaining their offerings elsewhere, if not strengthening them (Financial Times, 2025[1]). In Europe, ESG criteria continue to be part of "business as usual" for many companies. Beyond regulation, the market remains driven by a "wall of maturities" (debt repayments), creating a natural push for reinvestment. In 2025, green bond issuance is expected to grow by a further 8% to reach USD 660 billion[2].

For savers, ESG remains a key factor in investment decisions, particularly since the European Green Bond Standard (EuGBS) has provided greater transparency and a stronger regulatory framework. A recent study by the Bank for International Settlements (BIS, 2025)[3] also highlights a strong statistical correlation between taxonomy and sustainable investments.

Green bonds are increasingly meeting their decarbonization objective and are also an attractive financing tool for issuers, whether sovereign or private. Without denying the existence of windfall effects or greenwashing, the above-mentioned study shows that the green bond market nevertheless makes a significant contribution to the decarbonization of companies. Those that use them reduce their unit greenhouse gas (GHG) emissions by an average of 21% after one year, with the most significant progress being made in energy-intensive sectors[4].

THE GREEN BOND MARKET BY CURRENCY

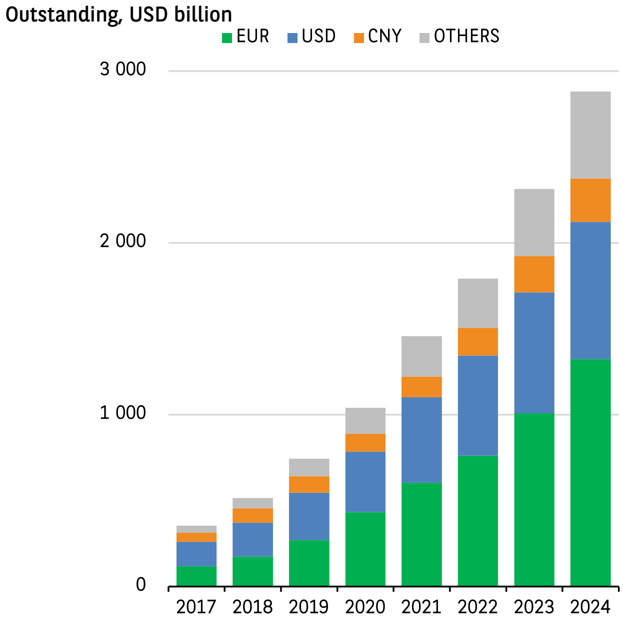

CHART 1 SOURCE : BIS

If public policymakers were to slow down the expansion of the green bond market, they would potentially be acting against their own interests. Rating agencies are increasingly incorporating CO_2 emission reduction trajectories into their assessments of government debt, with the best performers minimizing the risk of a disorderly transition, and thus obtaining better ratings (Capiello et al., 2025). On the markets, green bond issuance premiums (greenium) are still variable and, overall, modest (a few basis points). But this initial recognition is worth noting at a time when the issue of public finance sustainability is resurfacing.

In summary, although responsible and sustainable finance is in the crosshairs of the US authorities, it continues to advance. Less welcome in the United States, it is redeploying to the benefit of its traditional stronghold, Europe. Just as petrodollars contributed to the internationalization of the dollar fifty years ago, the ecological transition could well establish the euro as a truly "green" currency in the future.

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1 Ross A. (2025) Can sustainable investing survive Trump 2.0?, Financial Times, January 17.
2 For an updated view on green bonds market, see the BNP Paribas institutional website: Sustainable bonds in 2025: a rapidly evolving market - BNP Paribas
3 BIS (2025), Growth of the green bond market and greenhouse gas emissions, Quarterly Review, March.
4 Ibid, pp 64-65. The results – obtained over ten years from a panel of 736 companies – are significant at the 5% threshold (95% confidence interval) and take into account the addition of control variables, such as GDP losses related to Covid-19. GHG emissions are reported as a percentage of total revenue.
5 Cappiello, L., Ferrucci G., Maddaloni A., Vegente, V. (2025), Creditworthy: do climate change risks matter for sovereign credit ratings?, European Central Bank Working Paper No.