

European safe assets are back in focus

di Pierpaolo Benigno e Edoardo Reviglio

With US Treasuries under growing scrutiny from investors, Europe has a strategic opportunity to develop its own safe asset, write Pierpaolo Benigno, professor of monetary economics at the University of Bern, and Edoardo Reviglio, visiting senior research scholar at Yale Law School

The US administration's turn towards protectionism – epitomised by the renewed push for tariffs – has cast a cloud over the global economic outlook. Simultaneously, Washington's expansive fiscal package is stoking investor concerns about the long-term sustainability of US public debt. With both inflation and geopolitical volatility back on the radar, investors are once again seeking refuge in reliable, liquid instruments. And Europe is being called upon to respond.

At the same time, the European Union is facing pressure to accelerate plans for a common defence architecture, a political imperative driven by deteriorating global stability and an evolving security landscape. But financing such ambitions requires new tools.

As investors increasingly question the long-standing dominance of US Treasuries, the euro area faces a strategic opportunity to develop its own safe asset. The question is no longer whether such an instrument is necessary, but whether Europe is prepared to deliver it – and on what terms.

Don't underestimate importance of solvency

The rationale for a permanent European safe asset is well established – but it must not be mistaken for a cost-free proposition. By definition, safe debt is debt that is repaid. That requires either the creation of new EU-level revenues or a lasting reallocation of national fiscal capacity.

It is all the more striking, then, that at a time when US Treasuries are under growing scrutiny over long-term fiscal sustainability, some Eurobond proposals understate the importance of solvency. This is not just misguided – it is anachronistic. The original proposition by Alexander Hamilton, first US Treasury secretary, was not simply about issuing federal debt. It was about establishing enforceable, centralised taxation to guarantee its repayment. A safe asset, ultimately, rests on sound revenue.

Recent proposals, by contrast, are often premised on the notion that debt need not be repaid, or that public spending financed by so-called ‘good debt’ will eventually be covered by growth – while taxes are barely mentioned.

[One such proposal](#), advanced by economist and professor Olivier Blanchard and Ángel Ubide, head of economic research for global fixed income and macro at Citadel, envisions replacing national debt – up to 25% of the euro area’s aggregate gross domestic product, or roughly €5tn – with jointly issued ‘blue bonds’ that would hold seniority over remaining national liabilities. The structure, however, is deeply problematic. It foresees member states covering only the interest payments through value-added taxes, while the principal would be perpetually rolled over via new issuance. This relies on a precarious assumption: that sovereign debt can be indefinitely refinanced without credible fiscal backing. In today’s environment, that is a fragile bet.

The mutualisation dilemma

Any serious plan for European debt mutualisation must confront the reality of already high national tax burdens and focus on establishing genuine EU-level fiscal capacity – one that substitutes for, rather than adds to, existing commitments.

Still, the case for a European safe asset is not without merit. Recent policy analysis has attempted to quantify the potential gains. [Our own estimates suggest](#) that a common instrument – backed by stronger credit quality and greater liquidity – could carry yields up to 50 basis points lower than national benchmarks. If 60% of the euro area’s roughly €13tn in sovereign debt were pooled, annual interest savings could reach €39bn. These gains reflect the so-called convenience yield that investors are willing to accept for holding liquid, low-risk assets.

But these benefits come with offsetting risks. A reallocation of investor demand towards the common instrument could increase borrowing costs for national

sovereigns, especially those with weaker credit profiles. Without credible fiscal integration and prudent oversight, the result could easily turn into a zero-sum game.

The real challenge lies in turning economic logic into durable institutional design. Legal and political constraints remain formidable, and fiscal trade-offs cannot be ignored. A European safe asset can only succeed if it is embedded in a broader framework of fiscal responsibility, credible repayment structures and clearly defined rules.

How to guarantee European safe assets

A common debt of the scale proposed by Blanchard and Ubidé requires sovereign-level guarantees based on the ability to tax. But the EU is not a sovereign state.

So, there are four main possibilities for guaranteeing European safe assets, each with distinct institutional and political implications.

The first is the use of joint and several guarantees, whereby all participating member states would be collectively responsible for the full repayment of the Eurobonds (the strongest possible guarantee, akin to German Bunds or better). This approach would most likely result in the lowest yields and highest market confidence, but it raises major political obstacles, particularly among fiscally conservative countries wary of assuming open-ended liabilities.

The second option is a system of several but not joint guarantees, in which each member state guarantees only its own share of the issuance. This model reduces mutual liability and may be more politically acceptable, but it offers weaker security from the market's perspective and may still lead to interest rate differentials across the bonds.

A third approach relies on capitalised institutions such as the European Stability Mechanism or the European Investment Bank to issue debt on behalf of the EU, using paid-in capital and callable commitments from member states as backing. However, capitalised institutions such as the ESM and EIB provide only debt instruments at favourable interest rates and do not offer non-repayable grants. Furthermore, despite their scale, their financial capacity remains limited when compared to the potential size of a mutualised European debt issuance capable of competing directly with US Treasuries.

A fourth approach, exemplified by the Next Generation EU and Support to mitigate Unemployment Risks in an Emergency programmes, involves debt issuance by the European Commission backed by the EU budget – via partial but irrevocable member state guarantees in the case of SURE, and a temporary increase in the own resources ceiling for NGEU. These arrangements enable borrowing without recourse to fully capitalised entities, relying instead on budget-based credit enhancement. Interest payments are serviced through the EU budget, while principal repayment is deferred over the long term and ultimately financed by future national contributions or new own resources. While this framework has allowed the EU to achieve favourable market conditions, its long-term credibility depends on sustained member state support and market confidence in the EU’s collective fiscal capacity, which remains constrained by the absence of a permanent central taxing authority.

A European safe asset is not just a technocratic fix – it is a long-term political and fiscal commitment. If Europe is to seize this moment, it must move beyond financial engineering and face the hard choices that true risk-sharing entails. That means building institutions capable of enforcing repayment, ensuring fiscal discipline and commanding public trust. Without these foundations, no design – however elegant – will stand the test of time.