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Eurobonds for Europe? European Debt Instruments, Their Uses and Prospects

Proposals to establish “Eurobonds” have gained significant attention as part of ongoing negotiations on the EU’s upcoming Multiannual Financial Framework (MFF). However, the Eurobond discussion frequently overlooks that the EU already has a wide range of debt instruments at its disposal. At the end of 2024, joint European debt stood at just over 800 billion euros. Existing agreements alone will cause this figure to rise to some 1.15 trillion euros by 2030. As part of MFF deliberations, Eurobond advocates cite the extensive financing needs for common European tasks as a justification for new debt instruments. Against this backdrop, it is revealing to consider how existing debt instruments are actually used; one can identify four discrete uses of joint European debt:

- **Loans to Member States (MSL):** Loans to Member States to fund national expenditures (share of all EU debt by the end of 2030: 57%).
- **Grants to Member States (MSG):** Non-repayable grants to Member States financed through European borrowing (24% share).
- **Financial aid to third countries (TCA):** Loans given to third countries (primarily Ukraine at present) (14% share).
- **EU programmes in the EU budget (EUP):** Joint debt used to finance EU programmes (5% share).



KEY FINDINGS

- The primary use of joint European debt is to provide loans and grants to Member States. This does not suggest a primary focus on the financing of European public goods.
- Aid to Ukraine qualifies most readily as a common European task.
- Countries with low credit ratings take advantage of European credit lines first and foremost because of favourable interest rates. Guarantees provided by Member States with higher credit ratings allow this benefit to be provided free of charge.
- Germany’s debt burden from MSG, EUP, and the share of TCA at risk of default will total approximately 120 billion euros by 2030 (this is equivalent to 2.8% of German GDP in 2025). This shadow debt is not visible in national debt statistics. National exposure to such joint liabilities should be made transparent.
- In the upcoming MFF, new credit lines for Member States must be evaluated critically, as such credit lines are only of interest to countries with below-average credit ratings – however, this is not a reasonable criterion for gaining access to European funding.

THE EVOLUTION OF EU DEBT INSTRUMENTS

Proposals to establish Eurobonds as a new joint debt instrument have played a prominent role in deliberations regarding the Multiannual Financial Framework (MFF) for 2028 to 2034. Proponents argue that issuing Eurobonds is justified by Europe's urgent funding needs in the domains of defence, climate action, and industrial policy. Considering past experiences with European debt instruments can help to contextualise this debate.

The Multiannual Financial Framework: Setting the course for future EU debt

The EU's financial structure was characterised by strict decentralisation up to 2010: public debt was issued by Member States under their own financial responsibility, while debt-financed loans at the EU level were limited to marginal tranches and special facilities such as Euratom loans and temporary balance-of-payments assistance.

Historical decentralisation

This architecture was fundamentally altered by a series of crises, including the European sovereign debt crisis, COVID-19 pandemic, and war in Ukraine. Today, the universe of EU debt encompasses a multitude of instruments that are novel not only in terms of their volume but also, in some cases, their nature.

Crisis-driven transformation

In a fundamental paradigm shift, the EU has developed into a major independent player in capital markets. "Back-to-back" bond issuance on an ad hoc basis has been replaced by regular issuance of joint debt under the "unified funding" approach.

Regular issuances instead of "back-to-back"

Liability structures have also been transformed. While the European Stability Mechanism (ESM) still operated under limited partial liability, newer instruments such as the loans from the Recovery and Resilience Facility (RRF) follow a de facto joint and several liability structure through the EU budget, as liabilities in default may be allocated to all other Member States in accordance with the Own Resources Decision.

Joint and several liability via call-up obligations to the EU budget

THE ARCHITECTURE OF EU DEBT INSTRUMENTS

Current European debt instruments can be subdivided into four main types based on their use, although their quantitative significance and intended purpose differ fundamentally.

European debt instruments: Four types of use

Debt-financed loans to Member States (MSL) account for the largest share in terms of volume (57%). Here, the EU or a European entity raises debt on capital markets to support national budgets, extending identical terms to Member States. Examples include the ESM, RRF loans from the NextGeneration EU package (NGEU), and SAFE loans for defence financing.

Loans to Member States (MSL)

Debt-financed grants to Member States (MSG) account for just over 24% of joint EU debt. These are direct financial transfers to national budgets for which no repayment by Member States is required (sole example: RRF grant components).

Grants to Member States (MSG)

Debt-financed aid to third countries (TCA) accounts for 14% of the total volume. This category of joint debt includes loans and grants to partner countries outside the EU, including in particular support for Ukraine. Macro-Financial Assistance (MFA) and the Ukraine Facility are two examples of this usage type.

Financial aid to third countries (TCA)

Debt-financed EU programmes in the EU budget (EUP) account for just under 5% of outstanding debt. This includes direct operational expenditures under the regular EU budget, with allocations decided centrally at the European level. Examples include the REACT-EU Cohesion Programme and Just Transition Fund for climate protection, both of which are (partially) financed through NGEU loans.

EU programmes in the EU budget (EUP)

While outstanding joint debt was virtually negligible prior to 2008, it rose to around 300 billion euros during the European sovereign debt crisis and reached 800 billion euros by the end of 2024. Driven by approved disbursements from the NGEU COVID-19 recovery plan, scheduled assistance for Ukraine, and the SAFE defence instrument, joint EU debt is projected to exceed €1.15 trillion by 2030. This figure marks a new chapter in European fiscal policy, as it represents 7% of the aggregate national public debt of all EU Member States, or, alternatively, the combined national debt burdens of Ireland, Austria, and the Netherlands.

Rise in EU debt since 2008

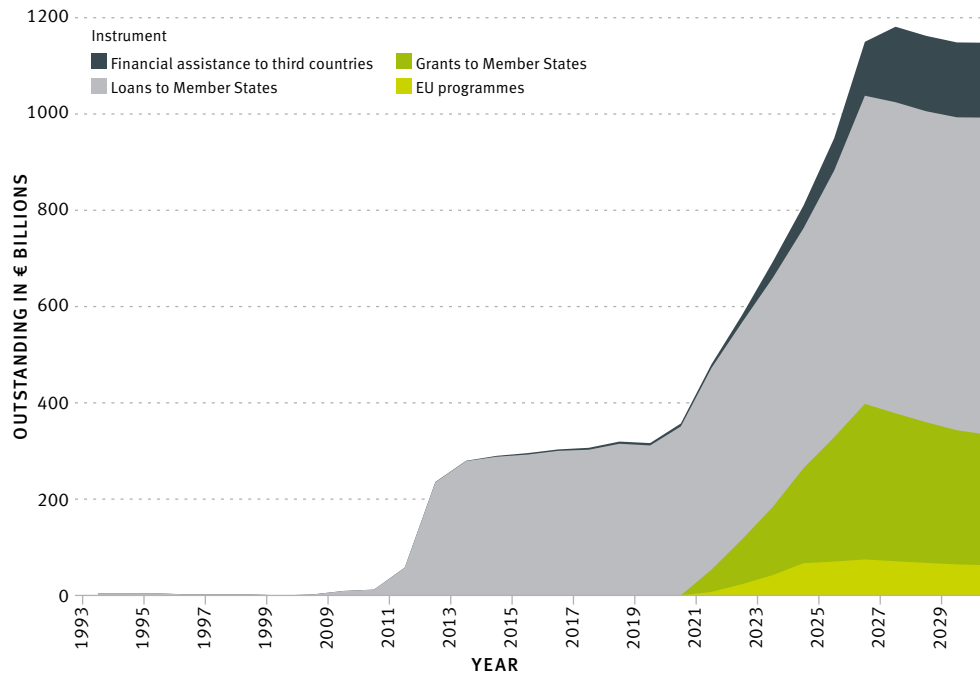
1.15 trillion euros in debt by 2030

TABLE 1: GROWTH IN EU DEBT LEVELS

| | DEBT INSTRUMENT | OUTSTANDING EU DEBT (2024) (IN € BILLIONS) | OUTSTANDING EU DEBT (2030 PROJECTION) (IN € BILLIONS) |
|--|---|---|--|
| Loans to Member States (MSL) | BoP (1975) | 0.2 | 0.0 |
| | EFSM (2010) | 42.0 | 24.9 |
| | EFSF (2010) | 171.1 | 152.3 |
| | ESM (2012) | 78.0 | 60.4 |
| | SURE (2020) | 98.3 | 54.2 |
| | RRF loans (2020) | 108.7 | 219.4 |
| | SAFE (2025) | 0.0 | 147.5 |
| | TOTAL | 498.3 | 658.7 |
| Grants to Member States (MSG) | RRF grants (2020) | 197.5 | 271.1 |
| Financial assistance to third countries (TCA) | Euratom (1977) | 0.3 | 0.2 |
| | MFA (1990) | 15.8 | 14.3 |
| | MFA+ (2023) | 18.0 | 18.0 |
| | Ukraine Facility (2024) | 13.1 | 33.0 |
| | Ukraine Loan (2026) | 0.0 | 90.0 |
| | TOTAL | 47.2 | 155.5 |
| EU programmes (EUP) | EU programmes funded by the NGEU (2020) | 66.9 | 62.7 |
| TOTAL | | 809.9 | 1,148.0 |

BoP: Balance of Payments (balance of payments assistance for Member States outside the eurozone); EFSM: European Financial Stabilisation Mechanism; EFSF: European Financial Stability Facility; ESM: European Stability Mechanism; SURE: Short-Time Work Support Instrument; RRF: Recovery and Resilience Facility; SAFE: Security Action for Europe, a defence financing instrument; MFA: Macro-Financial Assistance (for third countries); NGEU: Next Generation EU.

FIGURE 1: OUTSTANDING EU DEBT, 1990 TO 2030



ARGUMENTATIVE JUSTIFICATIONS AND ACTUAL USE

Official justifications for new debt instruments typically cite the need to provide European public goods, such as climate protection or collective security. However, closer examination of associated allocation mechanisms and disbursement profiles casts doubt on this narrative, as the rhetoric deployed to justify such instruments often stands at odds with their actual use.

The regional allocation of RRF grants, for example, correlates only minimally with the actual economic damage caused by the pandemic. Indeed, their disbursement formula specifically considers per capita income and structural unemployment, a methodology that bears strong resemblance to traditional cohesion policy. The stabilisation policy narrative is additionally undermined by long time lags: as disbursements have largely occurred years after the pandemic shock, the instrument functions de facto not as crisis aid but as a long-term transfer programme.

A similar picture emerges from the demand patterns for EU loans. Instruments such as SURE and SAFE, which officially intend to promote general policy objectives, are used almost exclusively by Member States with below-average credit ratings. This suggests a primary purpose of providing cheap liquidity to fiscally strained Member States that would otherwise have to pay significantly higher interest rates on capital markets.

Member States with high credit ratings, such as Germany and the Scandinavian countries, are also strongly committed to European public goods (for example, in the context of aid to Ukraine). However, a financing instrument that offers no incentives to countries with high credit ratings excludes these countries and can hardly be considered a targeted tool for promoting European public goods.

Discrepancy between justifications and actual use

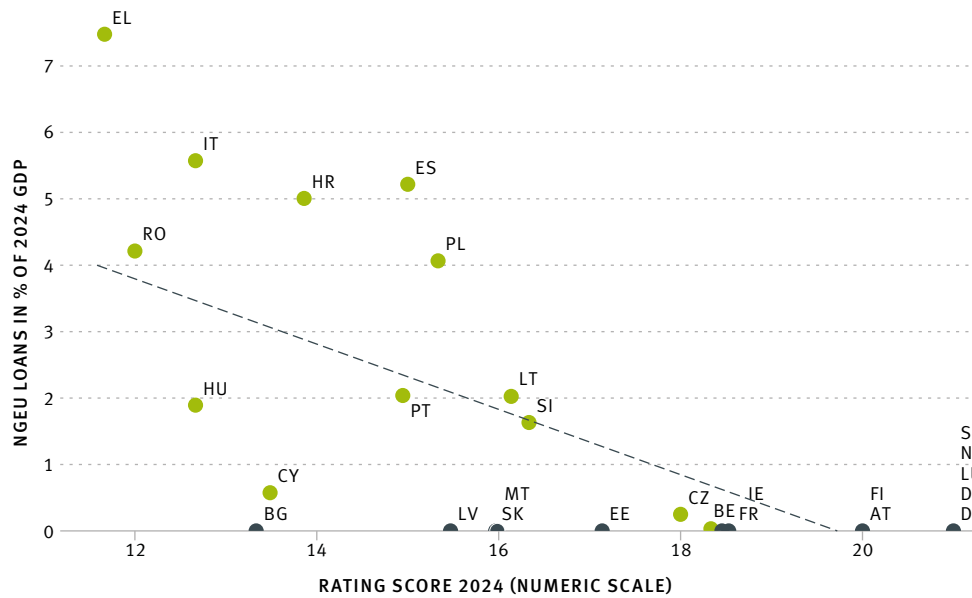
Allocation formula based on the traditional cohesion principle

Time lag in disbursement

Member States with lower credit ratings exhibit strongest credit demand

Countries with high credit ratings given no incentives to provide European public goods

FIGURE 2: NGEU LOAN DISBURSEMENT IN RELATION TO MEMBER STATE CREDIT RATINGS



Countries further to the right on the horizontal axis have a better credit rating. Sweden, the Netherlands, Luxembourg, Denmark, and Germany have top ratings (21/ AAA). The vertical axis shows the drawdown of loans from the Recovery and Resilience Facility under NGEU. It is evident that countries with high credit ratings do not draw on these loans.

HIDDEN TRANSFERS AND THEIR FINANCIAL IMPLICATIONS FOR GERMANY

Germany remains one of the Member States with the highest credit ratings (alongside countries such as Sweden and the Netherlands). As the largest economy in Europe and thus the most significant guarantor of EU debt, Germany plays a central role in backing the EU’s financial instruments.

Germany as the main guarantor of European creditworthiness

Germany and the few other countries with top credit ratings make their creditworthiness available to other Member States free of charge. This form of “reputation lending” represents an implicit transfer, as top-rated countries assume risks for the liabilities of less fiscally sound Member States, yet without receiving a risk premium based on a market assessment of default risk.

Providing its creditworthiness free of charge acts as an implicit transfer

In addition to such liability risks, there are direct repayment obligations that do not find expression in national debt statistics. In the coming years, Germany must use domestic funds to service interest and repayment obligations accruing on joint EU debt, insofar it finances grants, EU programmes, and loans to Ukraine, which have a very high probability of default. If all instruments are fully disbursed by 2030, Germany’s share of these obligations will amount to approximately €120 billion, which corresponds to about 2.8% of 2025 GDP. Lack of transparency regarding this debt burden is cause for concern, as has been noted by the German Bundesbank, among others.

Germany has repayment obligations totalling 120 billion euros that do not appear in national debt data

CONCLUSIONS AND RECOMMENDATIONS

The debate over the potential introduction of “Eurobonds” overlooks the fact that European debt instruments with joint liability already exist on a significant scale.

Eurobonds already exist in practice

The actual use of these instruments – particularly to support national budgets through loans – conflicts with the justification that joint debt should finance European public goods. To be sure, a poor credit rating is hardly a suitable criterion for an instrument that is to incentivise European public goods.

Poor creditworthiness determines eligibility, yet this is not a suitable criterion for support

The use of joint guarantees to finance highly indebted states also contradicts the fundamental intent of the Maastricht Treaty. The no-bailout clause in the EU Treaty intended to ensure market discipline. Specifically, countries with deteriorating credit ratings were to be subjected to rising interest rates. This mechanism of market discipline is weakened when EU loans are issued with uniform financing conditions.

Growth in EU credit lines for Member States weakens market discipline

Politically, these instruments are attractive, as they allow Member States with poor credit ratings to receive low-interest loans. From an economic perspective, this amounts to a transfer payment from countries with high credit ratings. However, these transfers are hidden, so they are hardly noticed by the public in top-rated countries.

Politically attractive, because transfers remain hidden

The foregoing analysis leads to the following recommendations:

In the next MFF, new EU credit arrangements should focus preferentially on applications with compelling European benefits. In addition to aid for Ukraine, this could include funding for EU programmes in the areas of defence or technology policy.

New EU debt instruments for Ukraine and selected EU programmes are conceivable

Policymakers should not establish any new loan programmes financed through EU debt for the budgetary financing of Member States. As an alternative, crisis facilities such as the ESM could be expanded in scope. This would provide a safety net for future bond market crises, without undermining the incentives for fiscal discipline.

No new EU credit lines for Member States; instead, further development of the ESM

To improve fiscal transparency, the repayment obligations for EU debt attributable to Member States should be reported in national debt statistics. The German Bundesbank has undertaken groundbreaking preliminary work in this regard.

Inclusion of EU repayment obligations in national debt statistics

The implementation of these recommendations as part of the MFF could help to strengthen confidence in Europe’s fiscal architecture while improving the coherence between explicit justifications for European debt instruments and their actual use.

A coherent MFF



Imprint

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