

FOCAL POINT

Is the EU on the way to being classified as a sovereign entity by investors?

Florian Späte, Martin Wolburg
July 15, 2025

Our Focal Point series explores topical issues on macro, markets and investment

- The EU's goal of having its debt treated as sovereign is constrained by limited own revenues resources – just ~1% of GDP (€150 bn in 2025) – mainly from member state contributions (65%), with smaller shares from customs duties (14%), VAT (16%), and plastic waste levies (5%).
- Even if the EC's suggested new measures to increase the EU's proprietary income by €36.5 bn in the next budget were fully adopted, the proprietary own resources would still be very small.
- Meanwhile, the EU continues its issuance activity. Following almost €90 bn gross issuance in H1 (net issuance €85 bn), it will issue €70 bn of bonds in H2/2025 according to its recently published funding plan.
- In 2024, major index providers rejected the inclusion of the EU in a government bond index, not least due to the bifurcation of opinion within the investment community. However, in the absence of broader fiscal sovereignty or joint debt issuance, we believe that EU bonds – despite the upcoming introduction of an EU bond future in September and growing liquidity – will remain, for the time being, in the twilight zone between sovereign and supranational debt.

In mid-July, the Commission is expected to present its proposal for the next Multiannual Financial Framework (MFF), which will begin in 2028. As is typical with these 7-year EU budgets, a final agreement is likely to come at the last minute. In the absence of new 'own resources' or additional borrowing capacity, a 20% cut across major EU programmes is anticipated, primarily due to the need to start repaying the Next Generation EU (NGEU) funds.

The EU could propose very important reforms and prepare the European community for the necessary roll-over of NGEU. In the meantime, the Commission has announced that the Covid-era Recovery and Resilience Facility (RRF) will indeed end in August 2026, even though it is providing some

flexibility for the untapped funds to be redirected to some EU programmes or national banks that promote the RRF's goals.

The idea of permanent and even extended common borrowing favoured by some member states also finds some support in the [European Parliament](#). However, we see only a low probability for this, unless in case of a renewed major urgency. Germany for instance is not entirely opposed, but domestic constraints, especially the political capital expended to pass the recent debt brake reform, significantly reduce Merz's room for manoeuvre. In what follows we assume that in the end member states will agree to roll over common debt, a politically more widely acceptable approach.

There is little appetite for reopening the debate on fiscal rules. However, shifts are taking place at the national level. For

example, Denmark is preparing changes to the structure of public spending within its national budget. As noted above, it is striking that some are not yet taking up the national escape clause for more defence spending.

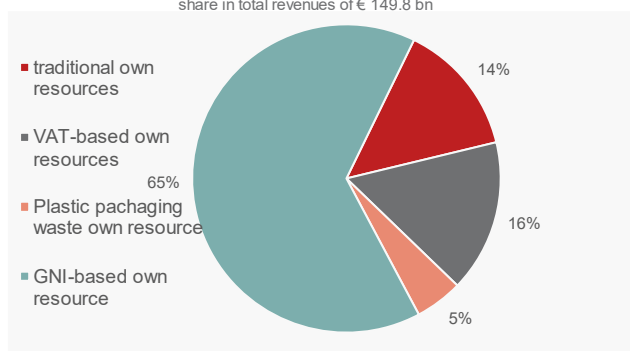
Support is growing for a new budget approach, focusing first on strategic priorities – what the EU wants to do, what it needs to buy and how much that will cost – rather than arguing about headline figures. The debate on funding European public goods like grids and border protection is advancing, possibly prompting a review of the budget structure. But the negotiations will be very difficult and the French election in May 2027 may encourage the EU to find a deal before then.

EU only has limited own resources

Unlike a normal sovereign, the EU has **limited own resources**. Traditional own resources mainly comprise custom duties (75% of those collected by member states at the external border). Over the past years, these have been augmented by VAT-based contributions (standard rate of 0.3% of each member state's VAT base, contribution is capped at 50% of the country's gross national income (GNI)) from member states. Since 2021, national contributions based on the amount of non-recycled plastic packaging waste generated by a member state have also been included. However, the **bulk of the budget comes from direct contributions from member states** (based on their GNI) which are adjusted to balance revenue and expenditure. The available budget is slightly increased if the previous year's budget has not been fully exhausted or by other sources like fines on companies infringing EU competition law. Own resources account to more than 90% of the revenues.

EU's own resources in 2025

share in total revenues of € 149.8 bn



Source: GenAM, Financing the EU budget - Consilium

Over the past years, there was overall agreement in Brussels that the revenue system needs reform, and the EP called for new revenue sources. In May 2023 the [EP](#) approved a report containing new sources, and in June 2023, the [EC](#) submitted a proposal for new revenues from member states: Contributions based on companies' gross operating surplus (~€16 bn), 30% of the Emissions Trading System (ETS) generated revenues plus revenues from new ETS (expected

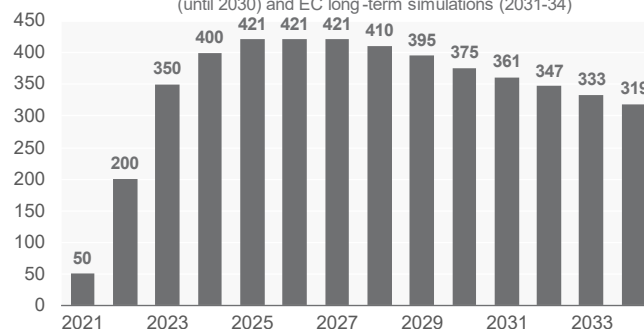
to reach ~€19 bn by 2028) and revenues from the Carbon Border Adjustment Mechanism (~€1.5 bn by 2028). If fully adopted, this would increase the EU budget by €36.5 bn but even with this increase in current own resources, the volume would be around €200 bn or 1% of EU GDP. While sizeable in absolute terms it is low compared to normal sovereigns and most importantly, the EU is not allowed to issue its own debt but fully relies on member states' contributions.

NGEU common debt repayment likely postponed

Since January 2023, all EU issuances fall under a single EU-Bonds umbrella, irrespective of the programme being financed – making EU debt more sovereign-like. A true leap would be issuing common debt. The only step towards debt mutualization so far has been the provision of grants as part of the NGEU funds to mitigate the detrimental effects of the pandemic. They are collectively paid back by the EU budget. With a volume of €421 bn reached in 2025, this will constitute the bulk of the **expected** total outstanding debt of about €750-770 bn. Repayments are scheduled from 2028 to 2958, roughly halving debt from the current 4% to 2% of GDP. That said, there are mounting fiscal strains. The Commission's [2025 budget outlook](#) highlights that the repayment of NGEU debt will be a major constraint on future EU spending, alongside other pressures like defence, support for Ukraine, and enlargement. Some countries, like Spain, support delaying repayments to ease short-term fiscal pressure and maintain investment capacity. In contrast, Germany and other fiscally conservative states oppose this, fearing it could lead to a permanent fiscal union. Member states will not be very keen on increasing the EU's own resources, as it ultimately reduces their revenues. Therefore, postponing the repayment of the common NGEU debt eases the pressure a bit. [Simulations](#) for the 2028 to 2034 period suggest that cumulated repayments between €66 bn and €97 bn could be avoided. This is our central case and implies that commonly held EU debt will remain in the market longer than initially scheduled.

Evolution of outstanding NGEU debt

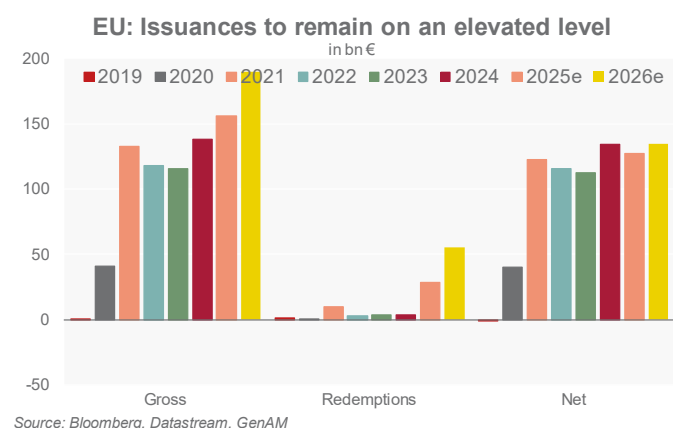
bn €, grants, short-term projections based on planning documents (until 2030) and EC long-term simulations (2031-34)



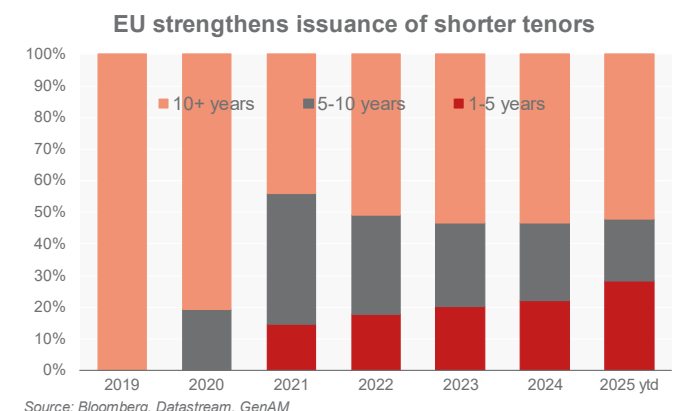
Source: European Commission, European Parliament

EU has become a major player in the bond market

The EU's efforts to permanently increase its resources fit in well with the EU's ambition to be increasingly perceived by investors as a sovereign rather than a supranational entity.



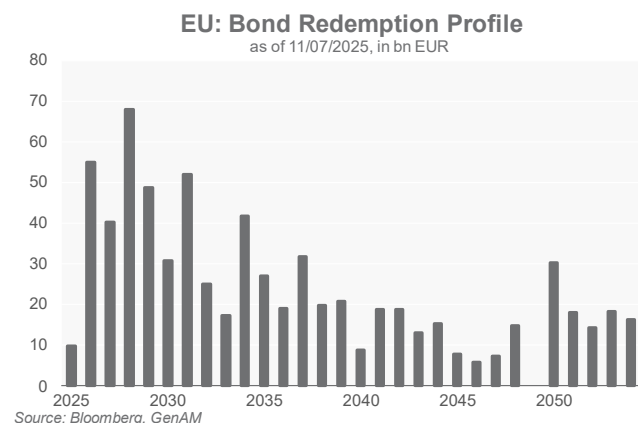
The EU has become a key player in the European bond market, with €639 bn in outstanding bonds (original maturity > 1 year), ranking fifth – just ahead of Belgium. In H1 2025, it issued over €85 bn to fund various programmes and plans to issue another €70 bn in H2. Total gross issuance in 2025 will reach a record €160 bn (net: nearly €130 bn).



The recently launched SAFE (Security Action for Europe) instrument, with a volume of up to €150 bn is not expected to trigger financing activity before 2026. Unlike NGEU loans, SAFE loans have terms of up to 45 years, contrary to the trend of reducing the EU's weighted average maturity. In Q2 2025, EA sovereign issuers notably reduced very long-term bond issuance due to investors' declining appetite for duration. Unless this trend reverses soon, the EU yield curve will likely remain under steepening pressure. Since 2021, the EU has complemented its initially long-dated issuance with bonds of up to five years maturity. Bonds with original tenor under 10 years now make up nearly half of total issuance.

Future EU funding will depend significantly on programme implementation. As noted above, we expect NGEU loans to

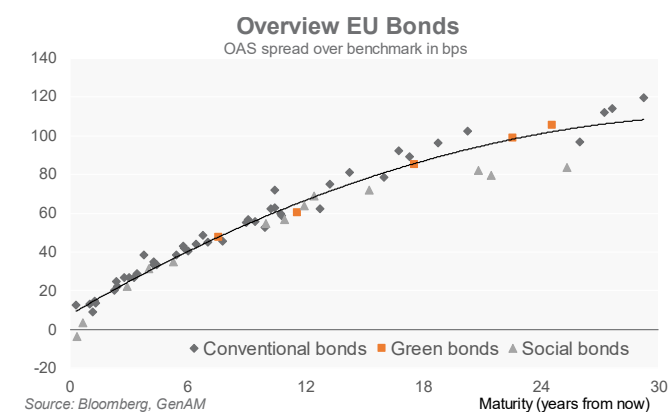
be extended, requiring bond refinancing. As the chart shows, bonds with a volume of over €55 bn will have to be rolled over in 2026 alone (compared to €26 bn in 2025).



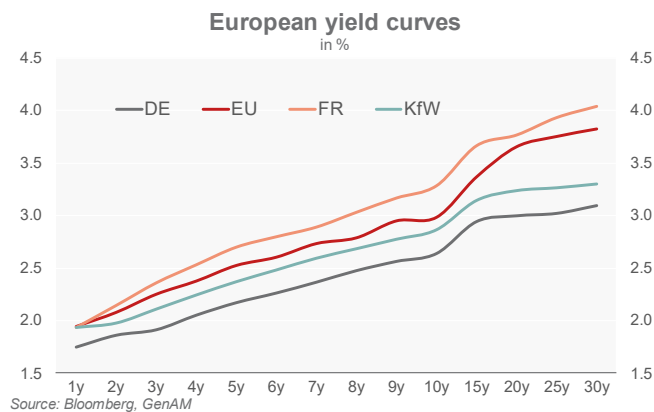
New funds from the NGEU programme will be available in 2026, and the SAFE programme is expected to lead to further bond issuances in the coming years. However, it should be noted that not all countries will take advantage of the SAFE loans (as well as the NGEU loans), as some countries can finance themselves at cheaper levels on the bond market than the EU. This leads to considerable uncertainty regarding financing needs in 2026. Nevertheless, considering further ongoing programmes we expect a new record for both net and gross bond issuance. Taking these uncertainties into account, we forecast a net bond issuance volume of close to €135 bn (gross issuance volume of around €190 bn) in 2026.

Pricing of EU conventional and ESG bonds

The EU is a global leader in ESG bond issuance. During the COVID-19 pandemic, it issued over €98bn in social bonds through the SURE programme and over €75 bn in green bonds via the NGEU Green Bond Programme. Up to 30% of total NGEU funding (€210 bn) is earmarked for green bonds, but currently, the share is around 15%. This indicates, there is still some catching up to do, so we expect the EU to remain one of the largest issuers of green bonds.

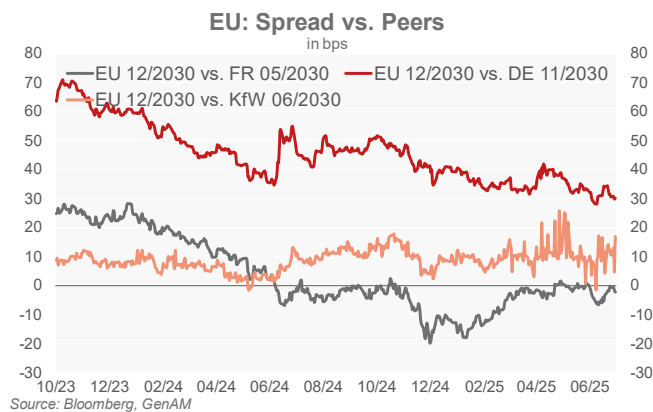


In H1, the EU did not issue new green bonds but increased the issuance volume of two bonds by a total of just under €7 bn. The greenium has changed little in recent months and remains at a low level, indicating the segment's advancement.



EU bonds are now generally traded through OATs. However, in recent months, the narrowing trend has come to a halt. EU bonds have also outperformed Bunds, while the spread against other supranational bonds has tended to move sideways. The swap spread has even widened noticeably.

Another positive aspect is the low volatility, which is below that of, for example, OATS and Bunds. Risk-adjusted, EU bonds continue to offer attractive yields despite the narrowing of spreads compared to euro area sovereigns.



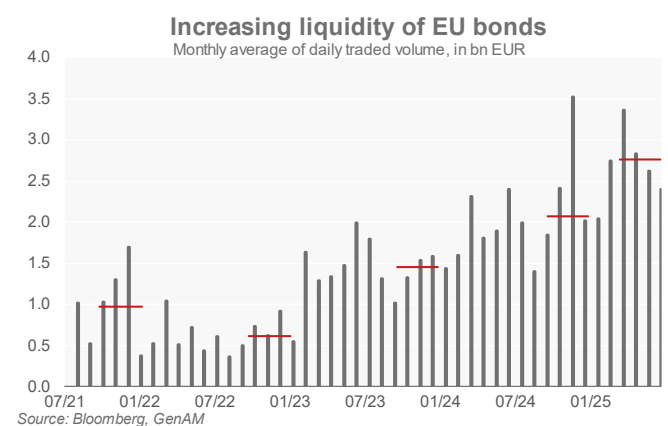
Given the low spread levels reached, further narrowing is unlikely. However, the persistently high EU issuance activity suggests a potential spread widening versus Bunds and especially versus other supranationals. We do not expect underperformance relative to OATs due to ongoing political and fundamental issues in France.

EU remains torn between supras and sovereigns

Rolling over NGEU debt helps maintain the EU's outstanding bond volume high. SAFE will also keep the EU a major issuer for now. Based on the outstanding bond volume alone, the EU qualifies as a sovereign. It holds a AAA rating (Moody's,

Fitch), complementing Germany and the Netherlands in the AAA EGB index. Secondary market liquidity has improved in recent years, though traded volumes remain well below OATs and some other EGBs. Tapping existing bonds has helped ensure a liquid EU yield curve. Finally, an EU deliverable Eurex future, launching in September. After a slow start, this will also contribute to improved liquidity of EU bonds.

Despite the decision by major index providers (MSCI, ICE, Bloomberg) last year to not add EU bonds to the government bond index, MSCI noted the bifurcation of opinion within the investment community as one reason. MSCI also mentioned that it will reassess the eligibility criteria in the future. With increased trading volumes and an EU deliverable Eurex future, the EU is expected to better meet the criteria in the future compared to 2024.



However, the EU is still not entitled to collect material own taxes, and its financing largely depends on capital commitments from member states. Additionally, the use of funds is mostly earmarked (e.g., ReArm Europe, NGEU), and the EU currently has a limited lifetime as a major issuer. Consequently, inclusion in government bond indexes remains unlikely in the short term. Nonetheless, a political agreement on the permanent issuance of mutualized debt would fundamentally alter the situation and pave the way for inclusion in government bond indexes.

Conclusion

The EU as a player in the bond market is here to stay. However, its future shape remains largely determined by political decisions. Therefore, we consider it relatively unlikely that EU bonds will receive a further boost in the short term through inclusion in government bond indices. Instead, the persistently high issuance volume is likely to weigh on performance, making new investments currently not advisable.



Imprint

Issued by: Generali Asset Management S.p.A.
Società di gestione del risparmio, Research Department

Head of Research: Vincent Chaigneau

Head of Macro & Market Research: Dr. Thomas Hempell, CFA

Team: Elisabeth Assmuth | Research Operations
Elisa Belgacem | Senior Credit Strategist
Radomír Jách | GI CEE Chief Economist
Jakub Krátký | GI CEE Financial Analyst
Michele Morganti | Head of Insurance & AM Research, Senior Equity Strategist
Vladimir Oleinikov, CFA | Senior Quantitative Analyst
Dr. Thorsten Runde | Senior Quantitative Analyst
Dr. Christoph Siepmann | Senior Economist
Dr. Florian Späte, CIIA | Senior Bond Strategist
Guillaume Tresca | Senior Emerging Market Strategist
Dr. Martin Wolburg, CIIA | Senior Economist
Paolo Zanghieri, PhD | Senior Economist

“Edited by the Macro & Market Research Team. The team of 14 analysts based in Paris, Cologne, Trieste, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues. The team translates macro and quant views into investment ideas that feed into the investment process.”

This document is based on information and opinions which Generali Asset Management S.p.A. Società di gestione del risparmio has obtained from sources within and outside of the Generali Group. While such information is believed to be reliable for the purposes used herein, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. The information, opinions estimates and forecasts expressed in this document are as of the date of this publication and represent only the judgment of Generali Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Asset Management S.p.A. Società di gestione del risparmio may have taken or, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein. Generali Asset Management S.p.A. Società di gestione del risparmio relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. It is recommended to look over the regulation, available on our website www.generali-am.com. Generali Asset Management S.p.A. Società di gestione del risparmio is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro Italiane.