Pandemic crisis as a catalyst for a common European safe asset

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The European Union will soon join the European Stability Mechanism (ESM)/European Financial Stability Facility (EFSF) and the European Investment Bank (EIB) as a major issuer of common European safe assets – low-risk highly liquid assets. After years of academic discussions, it took an unprecedented health and economic crisis for European countries to agree to such large-scale common issuance. In this blog post, we argue that this increased European safe asset issuance will bring benefits to the European economy beyond the direct benefits of financing economic recovery by, for instance, enhancing financial stability, improving the monetary policy transmission, and contributing to the international role of the euro. Luckily, the euro area can reap these benefits through existing supranational institutions such as the ESM, already at work fulfilling this role.