

## Question of the day: should we be issuing perpetual bon...

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George Soros recently made an interesting, and potentially controversial, [call for the European Union](#) to issue what are called perpetual bonds.

Perpetual bonds are unusual beasts, and not very commonly issued. There is very good reason for this. They do, in effect, guarantee to pay a fixed sum in interest forever, but never promise to redeem the capital locked up in the bond, although the option to do is usually retained by the issuer. It takes a lot of faith for an investor to believe that these two offerings represent value.

It is also quite challenging to understand just what that offering really represents. Their categorisation as financial instruments is, as a result, sometimes open to dispute. That is because as there is no plan to repay them they have the appearance of being equity capital i.e. they do in some ways behave like shares. On the other hand, unlike most shares, they carry a fixed right to be paid interest whether or not the entity issuing them has made a profit in the period, and whether or not its directors agree that such payment is appropriate or otherwise, which is required in the case of shares.

That confusion, and the fact that almost no one believes that any company will last forever, mean that perpetual bonds are almost unknown now in the commercial world.

They have, however, been issued by governments. The most famous, at least in the case of the United Kingdom, is the 3.5% war bond issued in 1915, which was always problematic. Although this debt was issued as a perpetual, in practice it was redeemed in 2015 at the whim of the UK government.

That bond issue was not, of course, equity. No one thought it was. It was just a bond issued at a moment of crisis that was intended to fund an exceptional circumstance when no one knew when the capacity to repay might exist. It would seem that such circumstances have to exist for perpetual to be considered.

So, why might perpetual bonds be of appeal at present? There are three very good reasons.

The first, and perhaps most obvious of these, is that current interest rates throughout most major economies are at record lows, and after adjusting for inflation usually represent negative return upon any bond that is currently issued. This, it has to be stressed, has not prevented such issues: the fact that governments alone can issue bonds that are guaranteed not to fail so long as the government in question has its own central-bank creates an appeal to the investors seeking security that very few other investments or deposit-taking mechanisms can supply. The demand for bonds is high when all else looks like it could fail. We are living in such times. That means a government that knows it is likely to borrow in perpetuity (and that is true of almost every government on earth now) can now lock into these low rates knowing that they will, because of the impact inflation, almost certainly also diminish over time.

Second, it is simply because they can. In exceptional circumstances exceptional things can be done. And when all else is impermanent a permanent bond offering can be made when usually that would not be possible.

But third, and perhaps most importantly, the change in nature of the market for government securities makes perpetual bonds a very attractive proposition for government at present. If it is known, and many governments do have this understanding, that a government will be repurchasing some or all of the bonds that they issue through a quantitative easing programme, then to have perpetual bonds in issue makes their central banking operations significantly easier to manage. This is again for three reasons.

First, this removes the need to keep rolling over bonds subject to QE as they come to redemption as is required at present. This is a process that requires significant market intervention, some cost if rates change and certainly some transaction cost, all of which can be avoided by perpetual bonds that have never to be redeemed.

Second, the cancelled interest (because interest is not paid on QE bonds, since it would merely be the government paying itself) is conveniently small forever, and so can never be claimed to be distortionary.

And third, this is in effect monetisation by any other name without actually having to say that it is: after all, there is absolutely no pressure to return these bonds to the market, or to have to return to the market to replace them, and that means such bonds can be used as cover to create money in perpetuity. That is as close to an equity issue of financial instruments as any government can get.

So, when what is required right now is equity to rebuild out economy perpetuals make sense. But within reason. Equity, and anything that looks like it, should be used for investment. And that means that perpetuals can be used to fund the recovery and rebuilding from this crisis by delivering a Green New Deal.

George Soros [seems to think that](#). So do I. The question of the day is, then, should we

be issuing perpetual bonds to fund the Green New Deal?