

# From mission polity to mission economy: Making the EU a strategic investment power

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# Executive summary

The EU's number one challenge in addressing today's intertwined economic, technological, social, climate, and security-related shocks is a lack of investment. Simply stated, in order to remain prosperous, free, and secure, the EU must overcome its massive funding gaps and become a strategic investment power like its principal competitors, the US and China. In doing so, while learning from their investment models, the EU must develop a "third way" based on its own multi-level governance, aligning its strategic goal setting and policy design (*mission polity*) with financial tools to achieve them (*mission economy*).

Currently, the EU's public investment infrastructure suffers from a shortage of resources, weak coordination, fragmentation, complexity, rigidity, and insufficient risk alleviation to generate the required investments for EU strategic objectives. It also lacks effective mechanisms to leverage the investment potential and expertise of member states, national promotional banks, and international financial institutions, as well as the deep pockets of international, institutional investors and savers towards these goals.

Now is the time for change. The volatility of US economic policy, the decline of rules-based institutions, and the rapid erosion of the "Washington consensus"<sup>1</sup> herald profound shifts in international capital allocation and markets. An investment surge has already started heading towards Europe. If it adopts the right reforms, the EU is well-positioned to reap the dividends of its model, based on rules and predictability, an open trading system, a stable "global euro", and the supply of strong, high-quality investment opportunities.

In July 2025 the European Commission will present its plans for the EU's long-term budget, setting overall spending limits and priorities for the period of 2028-2034. Member states have long quarrelled about the idea of a bigger EU budget but should make no mistake: the belief that the EU can meet present-day challenges without significant increases in common EU expenditures equates to magical thinking. At the same time, in the context of constrained resources and inevitable trade-offs, policymakers must seize the opportunity to thoroughly review the EU's public-private financing infrastructure based on four principles of action:

1. Concentration of EU spending where added value is greatest, i.e. on common European Public Goods (EPGs);
2. Mobilisation of a wider circle of public and private financial institutions from the EU and beyond;
3. Active building of Europe's investment market and financial attractiveness, including through the supply of high-quality tradable assets.
4. Cooperation beyond established frameworks through off-budget instruments and coalitions of the willing, if necessary.

This paper spells out nine recommendations for the EU to develop its strategic investment capacity given these new realities.

## Recommendations

### I. REGEARING EU SPENDING TOWARDS STRATEGIC INVESTMENT

**Recommendation 1: Create a €300 billion EU Competitiveness Fund on the InvestEU model to maximise de-risking of strategic investment.**

The Competitiveness Fund should be structured by investment missions in support of strategic infrastructure, value chains, and ecosystems such as the EU Industrial Alliances. Building further on an open architecture, it should leverage the financial firepower and expertise of implementing partners, such as the EIB Group, national promotional banks and institutions (NPBIs), and international financial institutions (IFIs), through open, rolling calls for bespoke financial instruments. The Fund should unify existing EU funding programmes within a single rulebook.

**Recommendation 2: Adjoin a special purpose off-budget EU Sovereignty Instrument.**

While the Competitiveness Fund would mainly derisk through grants and guarantees, a more flexible, equity-based instrument is needed to pool EU, member state and private investments into critical, future-oriented companies and assets. The EU Sovereignty Instrument should be established as a special purpose vehicle off-budget, with financing contributions from the EU and willing member states and open to selected sovereign wealth funds. It would provide the financial backing for a set of sub-funds focussed on critical value chains and assets where Europe's sovereignty is at stake, such as in AI, chips, quantum, robotics and clean tech.

## II. ALIGNING AND LEVERAGING NATIONAL SPENDING

### **Recommendation 3: Deploy the European Semester as an investment coordination tool.**

As noted by the Draghi report, the EU needs to foster EU-wide coordination of competitiveness policies and investment. This said, the proposed ‘Competitiveness Coordination Framework’ adds another bureaucratic layer to existing instruments. The better option consists of utilising the existing European Semester process to the fullest in order to steer and align member state investment agendas with EU strategic goals.

### **Recommendation 4: Revamp the EU’s IPCEI-framework to better coordinate and pool national industrial financing.**

The EU’s Important Projects of Common European Interest-framework has not lived up to its initial promises. “IPCEIs 2.0” should be developed as strategic investment platforms for willing member states, NPBI and other public and private investors, and include EU co-funding in line with common investment priorities.

## III. UNLOCKING PRIVATE INVESTMENT THROUGH TRADABLE ASSETS

### **Recommendation 5: Securitise EU-backed projects to boost the supply of European high-quality tradable assets in strategic sectors.**

To attract capital from institutional investors, EU financing of infrastructure, tech and defence must also translate into the creation of safe, tradable ‘European Public Goods’ asset classes. In parallel to the ongoing review of overly restrictive regulation on securitisation, the EIB should be mandated to develop a securitisation platform for EU-backed projects as part of the more active building of Europe’s investment markets.

### **Recommendation 6: Create a demand-side push for EU securities through regulatory simplification, ECB asset purchases, and financial crowding-in.**

In parallel to improving the supply of European securitised assets, the EU must act forcefully on the demand side. Targeted updates to prudential rules and capital requirements will play a role, but the real market-creating bazooka lies in Euro-system asset purchases, which in turn must unlock insurance, pension fund and retail investments, including through Exchange Traded Funds (ETFs).

## IV. BOOSTING DEFENCE INVESTMENTS OFF-BUDGET

### **Recommendation 7: Establish a permanent, out-of-treaties European Security Funding Facility (ESeFF).**

To finance and coordinate spending on common European defence and security public goods such as air and missile defence, willing EU members and likeminded third countries should set up a European Security Funding Facility. The Facility would be financed through common debt and be used to match national defence investments, with participating countries remaining responsible for interest payments and the roll-over of debt.

## V. ATTRACTING MORE FOREIGN INVESTMENT

### **Recommendation 8: Seize the capital inflow surge with regulatory adjustments to enhance the EU’s global investment appeal.**

A shortage of investment opportunities, low returns, and rising regulatory burdens have limited and provided a narrative of decline of foreign investments in the EU. However, the tide is turning, and to seize the momentum it is crucial to advance the Savings and Investment Union and accelerate harmonisation and simplification across the Single Market while preserving long-term regulatory consistency as a European asset.

### **Recommendation 9: Attract foreign strategic investment through EU-led promotion, partnerships, and joint investment vehicles.**

In an age of geo-economic competition, the EU should take a more active role in attracting foreign investment in strategic sectors. This should be done through an EU Investment Promotion Agency launching “Invest in Europe” campaigns, strategic investment partnerships, and joint investment vehicles with like-minded countries and their sovereign wealth funds. Norway’s Government Pension Fund Global, with its current European underexposure, is a prime candidate to co-invest in the proposed EU Sovereignty Instrument.

# 1. Introduction

In an age of unprecedented geopolitical, environmental, and social challenges, and a global shift from a free trade-dominated order to one marked by state coercion and economic statecraft, the EU must evolve into a more strategic investment power. The United States and China have gained an edge in the escalating geo-economic competition, primarily through massive resource mobilisation directed at strategic sectors.

If the EU is to defend its prosperity, security, and values, it must follow suit—not by replicating the US or Chinese models, but by acting on its own terms. The moment for this could not be better. Compared with the aggressive and unpredictable economic policies of the Trump administration and an increasingly closed, authoritarian China, the EU's model, based on rules and consensus, increasingly stands out as a beacon of transparency and predictability for international investors.

The EU does not lack strategic ambition. The European Commission has articulated numerous strategies, objectives, and in many areas, even concrete targets. What is needed now is the financial firepower to implement them. In other words, the EU must make the leap from being a *mission polity* to becoming a *mission economy*, equipped with the instruments of financial statecraft to safeguard its values and sustain prosperity in a far more competitive and confrontational world.

In this context, the second von der Leyen Commission has positioned itself as an “investment Commission” to achieve the EU's overarching strategic goals as laid out in the Strategic Agenda for 2024–2029—namely, security and peace, prosperity and competitiveness, and freedom and democracy. In particular, the Commission has prioritised two main objectives: competitiveness and security.

In both these fields, the EU faces substantial investment gaps that private capital alone cannot be expected to bridge. This market failure necessitates the use of public funds to provide directionality, mitigate risk and crowd in private investment. Currently, the bulk of such public financing is coming from national budgets, which are highly uneven and increasingly constrained.

The belief that the EU can meet present-day challenges without significant increases in common EU expenditures is magical thinking. At the same time, there is little or no political consensus to expand the current budget and to take on more common debt.<sup>2</sup> Therefore, it is essential to ensure that EU-level spending is concentrated where the European added value is highest—on common European Public Goods (EPGs) such as clean energy infrastructure, defence, and breakthrough innovation, all of which are closely aligned with the Union's strategic objectives.

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To finance those, the EU's public-private investment infrastructure needs an overhaul. In the absence of more common resources, the EU must put in place effective financial statecraft tools to better leverage the EU's resources, as well as networks of strong partners for additional financing and expertise. These include member states, implementing partners like NPBIs and IFIs, and private investors such as insurance companies and pension funds.

This paper will devise principles for EU strategic investment, pinpoint weaknesses in the EU's current public investment infrastructure, and identify investment potential and expertise currently underutilised for EU strategic investment, namely by member states, NPBIs, IFIs and private financial institutions. It will then provide recommendations for developing effective financial tools to make EU spending more effective, mobilise more investment from partners and steer more public and private investment towards EU strategic goals.

## 2. The case for the EU as a strategic investment power

### CONFRONTING A PERFECT STORM OF CRISES

The EU is facing unprecedented challenges across the board. Russia's invasion of Ukraine poses a direct threat to the EU's security, while US support for Ukraine

and NATO is uncertain. The multilateral world order and the transatlantic alliance are in decline, and US President Donald Trump has cast doubt on the future of US military engagement in Europe. This makes it more urgent than ever for the EU to take responsibility

for its own security. At the same time, the climate crisis is hitting the EU increasingly hard. An ever-higher incidence of extreme weather events has an increasingly devastating effect on people's lives and the economy.<sup>3</sup>

Moreover, the EU is increasingly falling behind in competition with other economic blocs. The productivity gap with the US has been widening since the 1990s, and the EU is struggling to keep up on key technologies like AI. With the help of massive, often market distorting industrial policies, China has swiftly overtaken the EU in clean-tech and electric mobility and is catching up in middle technology sectors where the EU used to excel, all the while racing ahead with the US in critical and emerging technologies.<sup>4</sup>

The US—Europe's largest export market—has imposed sweeping tariffs; the global use of economic statecraft and sanctions is on the rise. This points to a more general decline of the global free trade system, on which the EU has relied for its prosperity more than other parts of the world. Increased weaponisation of economic relations raises the need for more strategic autonomy and the homeshoring or friendshoring of critical supply chains.

These challenges are compounded by demographic shifts which exacerbate skill shortages and threaten the sustainability of European welfare systems. This is particularly problematic in a situation where the ambitious triple green, digital and security transition put Europe's social and political cohesion to the test. Moreover, external powers will likely further exploit

divisions within the EU, threatening the very model the Union is built on.

## THE INVESTMENT IMPERATIVE: A EUROPEAN PATH BETWEEN THE US AND CHINA

To achieve its strategic agenda<sup>5</sup> amid significant challenges, the EU needs radical changes. While reducing regulatory burdens is important, it alone won't drive the necessary structural shifts for the digital, green, and security transitions and help the EU to keep up with geopolitical competitors. Transforming the European economy to enhance defence readiness, adopting new technologies quickly, and transitioning to affordable, independent, clean energy requires substantial long-term investments. To achieve this, the EU must become a strategic investment power comparable to its competitors across the Atlantic and in East Asia. The distinguishing factor of the American and Chinese economies is not their size—which is approximately equivalent to that of the EU—but their ability to make strategic investments on a large scale.

## THE AMERICAN INVESTMENT ENGINE: ECONOMIC STATECRAFT MEETS UNPARALLELED PRIVATE RISK FINANCING

The US has an unparalleled private investment ecosystem ready to take on high risk for scaling up innovation. The deep capital markets and risk-taking

### GOVERNMENT SUPPORT BEHIND US INNOVATION CHAMPIONS

Leading technology and biotechnology companies in the United States have benefited from essential support provided by public institutions. These institutions invested in companies based on a strategic vision, long before they attained global success.

- Moderna received \$25 million from DARPA in 2013 to develop its mRNA platform - years before COVID-19. In 2020, it secured advance purchase agreements and nearly \$1 billion from *Operation Warp Speed* to enable rapid vaccine deployment.
- Tesla was granted a \$465 million low-interest loan in 2009 through the Department of Energy's Advanced Technology Vehicles Manufacturing (ATVM) program. This preferential financing helped scale production of the Model S. Tesla repaid it early in 2013.
- Google grew out of academic research supported by the National Science Foundation (NSF) and DARPA-

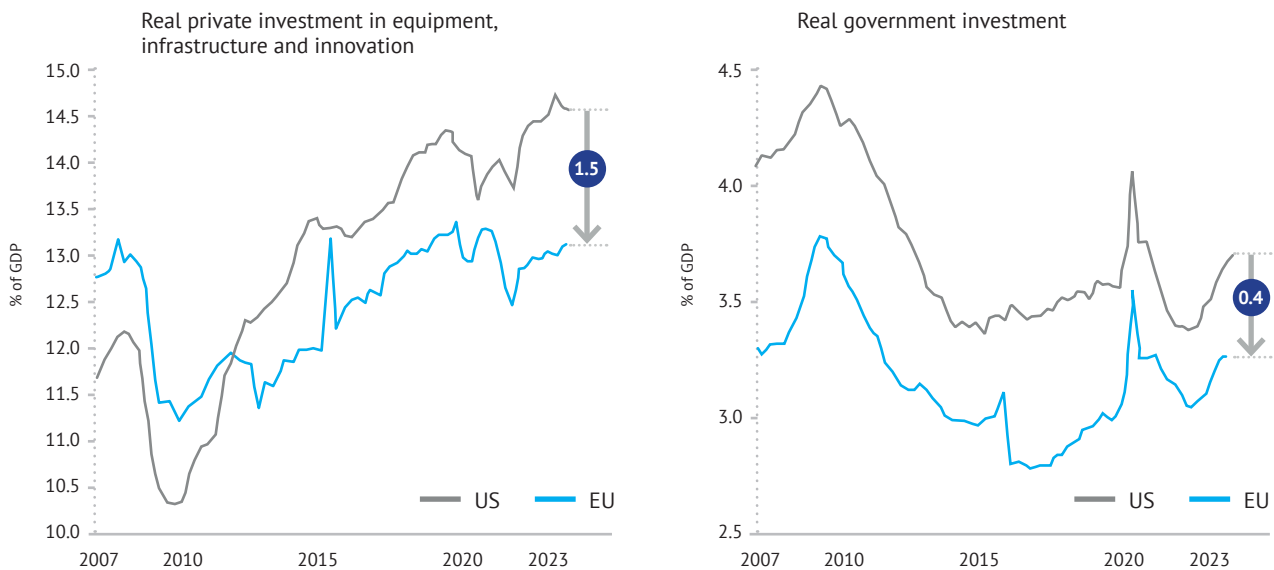
funded projects in the 1990s. Its search algorithm was initially developed at Stanford University with public research funding.

- Intel benefited from decades of US government R&D and procurement, especially in the early semiconductor era. Key support included DARPA contracts, military demand, and involvement in SEMATECH, a public-private initiative launched in 1987 to revitalize domestic chip production.

These examples reflect a broader pattern: In addition to highly skilled labour and high-quality infrastructure, many US strategic firms—SpaceX, Boeing, Lockheed Martin, First Solar, GlobalFoundries, IBM, Ginkgo Bioworks, Plug Power and Texas Instruments, etc.—have relied on public R&D, grants, tax credits, and procurement contracts to innovate and grow in critical industries.

Figure 1

## PRIVATE AND GOVERNMENT INVESTMENT IN THE EU AND US



Source: Draghi report.

culture in the US have bolstered the American lead in innovation-driven industries, with investors often willing to invest \$50 million with just a 10% chance of success.<sup>6</sup> The leading role of the dollar, vast investment opportunities, and high investment returns have also made the US the primary destination for foreign capital.

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In parallel, the US economy has long profited from a successful public investment infrastructure, channelling funds into scaling breakthrough technology through its ARPA agencies. The US government has supported key industries through favourable procurement contracts, tax credits, subsidies, bailouts, and R&D funding, aiding companies like Boeing, Lockheed Martin, Tesla, Google, and Moderna (see box). Under the Biden administration, the US further increased its subsidies for industrial production capacity and infrastructure at the scale of several hundred billion through the Chips and Science

Act and the Inflation Reduction Act. While the Trump administration has discontinued some of these initiatives, it has announced the creation of a sovereign wealth fund and the 500 billion 'Stargate' AI infrastructure fund pooling private and foreign investments.

### STATE CAPITALISM REFINED: HOW CHINA DIRECTS INVESTMENT TO SCALE INNOVATION

China on the other hand, has perfected its model of state capitalism, with a system of large Government Guidance Funds (GGFs) and sub-funds to foster and scale-up innovation, manufacturing, and infrastructure. These lead the way in public-private partnerships steering investment through derisking and strong positive and negative incentives for efficiency and achieving concrete targets (see box below).

### A THIRD WAY FOR EU STRATEGIC INVESTMENT: LEVERAGING THE EUROPEAN MODEL

While these models hold important learnings, the EU should not copy the centralised economy of China and cannot easily replicate the private risk-taking culture of the US. The EU is unique, and it will have to find ways to overcome its shortcomings (see chapter 3) and become a strategic investment power in its own right.<sup>8</sup> Unlike the US and China, the EU is not a nation state. The bulk of its public spending is fragmented across member states, making it less effective as long as it is not coordinated more.<sup>9</sup>

## HOW CHINA'S GOVERNMENT GUIDANCE FUNDS WORK

Government Guidance Funds (GGFs) are a core instrument of China's industrial policy, designed to channel public and private capital into strategically important sectors such as semiconductors, AI, clean energy, and advanced manufacturing. GGFs operate as market-oriented investment vehicles, blending public objectives with commercial returns. A key feature is the mother fund–sub-fund structure.<sup>7</sup>

The mother fund pools capital from government sources and acts as an anchor investor in multiple sub-funds, each focused on specific sectors, regions, or stages of investment (e.g. early-stage tech vs. industrial scale-up). This public risk alleviation and political support draws in private investors. Private managers handle the day-to-day investment decisions of the sub-funds, targeting startups, scale-ups, or infrastructure projects aligned with state priorities.

A distinctive feature of GGFs is the 'exit policy': government capital often accepts lower returns, deferred profits, or early exits, allowing private investors to benefit disproportionately. This asymmetric structure is meant to

incentivise private capital to flow into high-tech or long-term projects that might otherwise struggle to attract financing.

By 2022, China had established GGFs with RMB 6 trillion (\$900+ billion) in total capital. Notable examples include the China Integrated Circuit Industry Investment Fund ("Big Fund") for semiconductors and funds focused on electric vehicles, biotechnology, and aerospace. Supported companies include champions such as CATL (batteries), BYD (EVs), DJI (the world's leading drone maker), ByteDance (the parent company of TikTok), Huawei and Xiaomi.

Critics note that while GGFs have mobilised vast investment, they have also led to overcapacity, misallocation, and opacity, particularly at the local level. Several mismanagement scandals have prompted efforts to improve oversight. Still, GGFs have proven to be an agile, effective, and powerful tool in China's economic playbook, combining industrial targeting with financial leverage to steer and scale strategic innovation, manufacturing, and infrastructure.

As a collection of different economic traditions and a system of multi-level governance—comprised of the EU, member states, regional, and local levels—the EU must find an effective investment strategy that accommodates its unique characteristics. For example, the US can rely on leaner investment incentives such as tax credits, prominent in the US Inflation Reduction Act, which cannot be easily replicated because of limited tax policy competencies at the EU level.

At the same time, the EU model has its strengths, and the current global context of high uncertainty offers a unique chance to leverage them for more strategic investment. As US economic policy is becoming increasingly aggressive and unpredictable, investors are divesting from American assets and increasingly investing in European and euro denominated ones. Moreover, American retreat in strategic sectors such as clean tech and vaccine research offer opportunities for the EU. Its emphasis on rules and compromise makes EU policy predictable, which is highly valued by investors. If the EU sticks to its values and adopts the right reforms, it can become a major strategic investment power. The time for this is now.<sup>10</sup>

## A MISSION POLITY WITHOUT A MISSION ECONOMY

Over the past two decades, the EU has developed into quite a sophisticated mission polity. Across fundamental domains of societal development, the EU has identified strategic goals increasingly associated with ambitious

and concrete targets. The stand-out example has long been the EU's climate objectives, where the transformational aim of 'Climate neutrality' by 2050, now set in EU law, is translated into intermediate targets for 2030 and 2040, with a myriad of associated aims and policies.

In security and defence, the EU has similarly operated with a significant but long neglected 'headline goal' of autonomous military capacity since 1999. In March 2022, just weeks after Russia's full-scale invasion of Ukraine, a 'Strategic Compass' was approved, providing a new common vision for strengthening the EU's security and defence policy by 2030. It has since been developed and overtaken by further 'Readiness 2030 / Rearm' objectives.

In other policy dimensions, the EU is now pursuing its idea of a human-centric and sustainable digital society through a 'Digital Decade' policy programme setting measurable goals for connectivity, skills, business and public services. A 'Competitiveness Compass' and 'Economic Security Strategy' are recent additions to the EU's ambitious objective-setting. Even in areas where EU competences and capacities for direct action are less affirmed, such as the 'European Pillar of Social Rights', headline targets have been set for the EU by 2030.

The EU's goals and objective-setting is not operating in a vacuum. They are further operationalised by an undergrowth of associated aims, policies, legislative packages and action plans. In later years of EU policymaking, the Commission has even taken to the

habit of adopting US-style ‘Acts’, consisting of legal texts that mix target-setting, regulatory provisions, economic incentives, and financing provisions—the 2023 Chips Act and 2024 Net Zero Industry Act being prominent examples. EU policymaking also increasingly focuses on cross-objective and cross-sectoral initiatives, such as the 2025 Clean Industrial Deal which proposes concrete actions to turn decarbonisation into a driver of growth for European industries.

Yet what many of these policies have in common is a lack of a conclusive plan to generate sufficient investment to realise them. The Chips Act, the EU’s most developed industrial policy initiative, purports to address semiconductor shortages and strengthen Europe’s technological leadership by mobilising more than €43 billion in public and private investments, which is not insignificant. Yet the available means are widely accepted as falling far short of what would be necessary to reach the target of increasing the EU’s share of global production capacity from 10 to 20%.

The example of the Chips Act is only one case in point. Across major EU policies there is a significant disconnect between stated ambitions and the means to

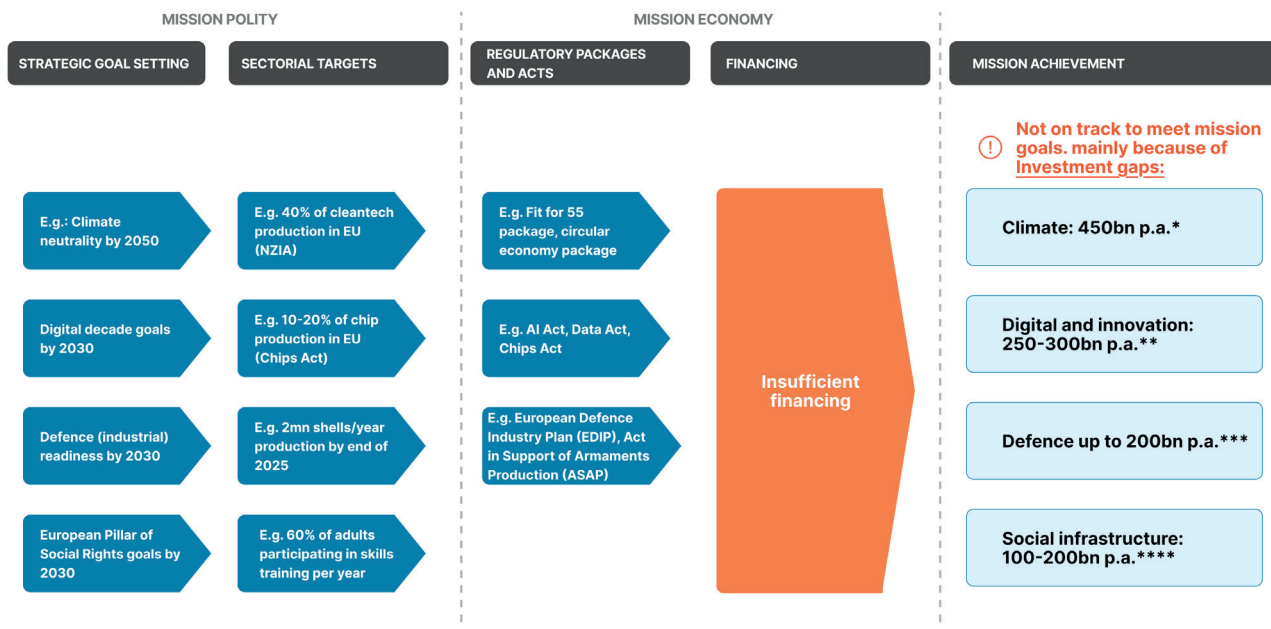
operationalise them. In other words, the EU is a *mission polity* without a functioning *mission economy* to deliver its most fundamental ambitions (see Figure 2).

The principal challenge is a glaring investment gap in Europe. ECB researchers calculated additional investment needs of €5.4 trillion alone for the twin green and digital transition and defence in the period of 2025-2031.<sup>11</sup> Mario Draghi estimates that for the EU to achieve its strategic goals and avoid the “slow agony” of decline, a minimum annual additional investment of EUR 750 to 800 billion is needed to digitalise and decarbonise the economy and increase the EU’s defence capacity—corresponding to 4.4-4.7% of EU GDP in 2023.<sup>12</sup>

If one includes other long-term goals like economic security or social and territorial cohesion, the figures would be even higher. In infrastructure investment, the gap for the EU and the UK is estimated to be \$591 billion per year.<sup>13</sup> In defence, the urgency to invest is currently perceived as highest. In March 2025, Commission President Ursula von der Leyen proposed the ‘ReArm Europe’ plan,<sup>14</sup> aiming to mobilise an additional 800 billion over the next four years to bolster European defence capabilities. Moreover, the Commission has

Figure 2

### THE EU AS A MISSION POLITY WITHOUT A MISSION ECONOMY



Source: Author.

\*According to the Draghi report.

\*\*Ibid.

\*\*\*Additional investment needs according to Readiness 2030. Some of them might have been covered by recent investment pushes in several member states.

\*\*\*\*100-150bn according to Fransen, del Bufalo and Reviglio 2018, 197bn according to the EU Commission 2020.

pledged to further support Ukraine in its defence against Russia and help with reconstruction of its infrastructure and economy, which will require additional funds.

To fill these enormous investment gaps, the EU must develop a public-private financing ecosystem that can deliver and achieve its transformation into a mission economy.

### **TURNING CONSTRAINTS INTO STRATEGY: USING EXISTING RESOURCES MORE EFFECTIVELY**

To date, private finance has not succeeded in addressing these gaps. Although the European Union possesses substantial savings,<sup>15</sup> these resources are not adequately directed toward productive investments in financial instruments and sectors critical to achieving the EU's strategic objectives. Notably, there is a significant shortfall in financing for risk, growth, and infrastructure.

The Commission is proposing a Savings and Investment Union (SIU) to address fragmented European financial markets and mobilise savings for strategic aims. However, progress is slow as member states resist harmonising insolvency and tax laws or giving more supervisory power to ESMA. Investors would also need to be less risk-averse, which is unlikely to change quickly. As a result, the SIU may only help ease EU financing challenges in the medium to long-term, while investment is urgently needed now to react to crises and advance necessary transitions.<sup>16</sup>

As the market cannot deliver alone, public financing must lead the way—mainly through derisking to activate private investment. The bulk of Europe's fiscal firepower lies with national budgets, which make up about 50% of the EU's GDP. With the government debt to GDP ratio at only 82%, the EU has more fiscal space than the US and Japan. But after several crisis years and expansionary

fiscal policies, the picture is highly uneven across member states.

The revised Stability and Growth Pact aims to protect investments during fiscal consolidation. This increased investment space has been expanded further with an additional 1.5% of GDP in defence spending now excluded from fiscal disciplines, as recently proposed by the Commission.<sup>17</sup> However, bond markets and investor confidence will remain a disciplining force.<sup>18</sup> Some southern member states have declined EU-guaranteed loans for defence due to debt concerns. As fiscal space varies widely across countries, uneven investment could weaken the Single Market.

In addition, investments made independently by member states typically yield significantly less impact compared to a coordinated European investment initiative, which can leverage economies of scale and benefit from spill-over effects (see section 3). However, the European Union budget has traditionally been capped at 1% of GDP, with only a temporary increase to nearly 1.7% implemented through the NextGenerationEU (NGEU) initiative in the context of the EU's pandemic response. This pales in comparison to the United States federal budget of 22.5% of American GDP in 2023, which allows for important public investments on the federal rather than state level.

NGEU funding ends in 2026, and starting in 2028, its repayments could require up to 30 billion per year, a fifth of the annual EU budget. For the time being, no agreement on new own resources to make up for coming shortages is in sight.<sup>19</sup> Discussions on different forms of joint borrowing for specific purposes are already well underway, but consensus among member states on new EU debt is likely to take time to emerge. As negotiations for the next MFF begin, attention must therefore be firmly on using existing resources more effectively and finding innovative ways to mobilise more financing in support of EU strategic goals.

## **3. Principles for EU strategic investment**

### **I. FOCUSING - CONCENTRATE ON WHERE EU ADDED VALUE IS GREATEST: EUROPEAN PUBLIC GOODS (EPGs)**

EU spending should focus primarily on financing European Public Goods (EPGs), which is where it can have the highest impact. EPGs have been defined as “policies and initiatives whose value to the citizens are higher when conducted at EU rather than at national level”.<sup>20</sup> Such added value for EU-level financing mainly occurs through economies of scale and positive spillovers with respect to challenges that often cannot be effectively tackled by individual countries alone due to their cross-border, supranational nature.

Because European Public Goods display a high level of non-excludability and are non-rivalrous, they benefit many or all EU members, which decreases incentives to produce them on the national level, making EU (co-) financing or at least a coordinated financing effort among member states essential to get such projects off the ground. At the same time, positive externalities for many or all member states make EPG provision on the EU level less politically contentious.

European Public Goods can be found with respect to the digital, green, and social transition as well as health, security and defence, and often involve developing breakthrough innovation, infrastructure

and manufacturing capacity, and joint procurement efforts. They typically require large-scale risk and growth financing and long-term commitment and align well with the current political priorities and focus of the European Commission on competitiveness and security.

Stand-out examples of European Public Goods include cross-border digital and energy infrastructure, R&I funding, military strategic enablers, joint procurement of armaments<sup>21</sup> and raw materials, and EU cooperation on labour mobility and skills acquisition (see table).

Altogether, a focus on European public goods provision for EU-level funding means that the EU should only step in when a market failure is supplemented by a national public policy failure in financing goods that would benefit the EU as a whole. In this case, the EU should either intervene directly or by closely coordinating member state investment. However, this approach only works if member states are ready to coordinate effectively for the good of all and have the means to contribute sufficiently. In a resource-constrained environment, the delivery of EPGs also faces trade-offs and a process of political prioritisation, which however is beyond the scope of this paper.

## II. LEVERAGING - MOBILISE ADDITIONAL RESOURCES FROM PUBLIC AND PRIVATE FINANCIAL INSTITUTIONS

Given the limited availability of EU resources, investments at the EU level should prioritise leveraging funding and expertise from additional sources and directing these towards the provision of European Public Goods. This approach must encompass collaboration with other public institutions as well as the private financial sector, both within the EU and internationally.

Public financial institutions such as NPBIs, IFIs, and international SWFs in the EU and globally have significant capital and expertise that remains untapped. Private institutional investors, including re/insurance companies and pension funds, hold about a third of the EU's long-term investment assets and possess strong risk management and capital markets knowledge.

## III. ATTRACTING - BUILDING EUROPE'S INVESTMENT MARKET AND FINANCIAL ATTRACTIVENESS

The need to mobilise wider resources in Europe and internationally in pursuit of Europe's strategic goals

**Table 1. European Public Goods**

	Strategic goals	Examples for EPGs
Defence and Security	<ul style="list-style-type: none"> <li>Protection from military and hybrid threats, strategic autonomy, competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Military mobility, space and cyber capabilities, intelligence and surveillance infrastructure and common air defence, defence R&amp;I, common arms procurement, common border management</li> </ul>
Digital transition	<ul style="list-style-type: none"> <li>Boosting competitiveness, decreasing dependencies</li> </ul>	<ul style="list-style-type: none"> <li>Cross-border digital infrastructure such as 5G, backbone networks, quantum communication infrastructure, deep tech R&amp;I</li> </ul>
Green transition and energy	<ul style="list-style-type: none"> <li>Increasing sustainability, boosting competitiveness, decreasing dependencies</li> </ul>	<ul style="list-style-type: none"> <li>Cross-border energy projects, e.g. cross-border electricity grids, clean tech R&amp;I and manufacturing</li> </ul>
Raw materials	<ul style="list-style-type: none"> <li>Supply chain security/strategic autonomy, competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Raw materials extraction and common purchasing</li> </ul>
Social transition	<ul style="list-style-type: none"> <li>Social cohesion, competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>EU-wide upskilling and reskilling frameworks, enabling labour mobility</li> </ul>
Health	<ul style="list-style-type: none"> <li>Protection against health catastrophes, competitiveness, strategic autonomy</li> </ul>	<ul style="list-style-type: none"> <li>Procurement of critical medicines, securing medical supply chains, R&amp;I</li> </ul>

Source: Author, inspired by Buti et al. 2023.<sup>22</sup>

includes the active building of Europe's investment market and financial attractiveness. Central to this effort are regulatory harmonisation and simplification, as well as ensuring a sufficient supply of high-quality, tradable assets. As noted recently by Christine Lagarde, Europe is lagging behind, with recent estimates suggesting outstanding AA-rated sovereign bonds represent less than 50% of European GDP, compared to over 100% in the US.<sup>23</sup> As strategic industries such as green technologies and defence are supported through co-ordinated EU policies, joint financing must be used to help the creation of more high-quality tradable assets.

#### **IV. INNOVATING - USING OFF-BUDGET INSTRUMENTS AND COALITIONS OF THE WILLING WHEN NECESSARY**

Optimising the current EU budget is challenging due to the rigidity of the MFF's seven year programming and the difficulty of increasing EU resources, which requires unanimous approval. To address new challenges, the EU increasingly uses off-budget instruments for greater flexibility and funding. These tools should be used to

finance major initiatives when the regular budget falls short and can attract extra contributions from member states, private investors, and international partners.

In other instances, as political polarisation grows within the EU and some member states obstruct joint initiatives—for instance in security and defence—it may prove more effective to establish 'coalitions of the willing'. Such coalitions can on a case-by-case basis include key like-minded non-EU partners or candidate countries, working together in a supranational capacity to pool resources and pursue shared strategic objectives.<sup>24</sup>

The idea of a multi-speed Europe has a long history. While ideally it should operate within the EU's legal framework, this may not always be feasible. To prevent freeriding, benefits must go only to contributors, making European public goods more like club goods. Though not perfect, these strategies—if well-designed and managed—can help address major challenges to EU security and prosperity, and ultimately, if successful as seen in past examples of EU integration, they could attract broader participation leading to their full EU integration.

## **4. Why the EU's current investment model falls short**

### **WEAKNESSES IN THE EU'S PUBLIC INVESTMENT INFRASTRUCTURE**

#### **Complexity, rigidity and limited coordination for common goals**

While the introduction of InvestEU has already reduced the number of funding programmes, the EU still boasts close to 50 spending programmes which prevents the budget from reaching sufficient scale for larger projects at pan-European level. This creates duplication and overlaps, as multiple EU and national funding instruments cover the same policy areas. Programmes often lack coordination, for example in aligning supply and demand measures for emerging technologies. The Commission has recognised this problem and has proposed establishing a competitiveness fund to combine several EU funding programmes.<sup>25</sup>

The multitude of different programmes has resulted in complicated, overly bureaucratic access to public financing for both project promoters and beneficiaries, increasing management and application costs while lowering the visibility of EU funding. For example, the EU has several funds to support clean-tech, and deep and digital technologies, but these funds are spread across various spending programmes and follow different rules. In comparison, the US IRA streamlined processes through a federal system of tax incentives.

The EU budget is more rigid than national budgets, making it difficult to shift funds between MFF headings or programmes. Flexible funding accounts for less than

4% of the total, limiting responses to new priorities and unforeseen events.<sup>26</sup> While the reactions to Covid-19 and Russia's invasion of Ukraine were effective, they were ad-hoc and not always aligned with long-term objectives.<sup>27</sup>

EU funding is often not coordinated enough to reap EU synergy effects necessary to deliver EPGs, for example in the cases of the Common Agricultural Policy and Cohesion Policy programmes which together make up more than 60% of the EU budget. While there has been some progress in tuning funding more towards EU goals, notably in Cohesion Policy,<sup>28</sup> funds still often finance projects that are not sufficiently integrated in a European strategy.<sup>29</sup>

Additionally, the EU budget is often not aligned in timing, prioritisation, or sectoral focus with national spending. This reduces the coherence of funding and limits multiplier effects of public investment, weakening the Union's capacity to deliver common goals. So far, the EU lacks a shared framework for effectively coordinating EU and national investments.

#### **Insufficient risk alleviation capacity**

While large parts of the EU budget are still underleveraged, the EU has increasingly used financial instruments to increase the impact of its funding. Through the European Fund for Strategic Investments (EFSI) and then InvestEU and the European Innovation Council (EIC), the EU budget has been de-risking innovative projects with significant success in crowding in capital.<sup>30</sup> 95% of project promoters under InvestEU

reported that their projects would have either not proceeded at all or not as planned without InvestEU financing, while 58% said that the InvestEU guaranteed financing had impacted other financiers or investors' decisions to commit to the project.<sup>31</sup>

However, financial instruments are still insufficiently deployed for more risky projects and companies linked to EPGs, such as in scaling up breakthrough innovation, manufacturing capacity, raw materials extraction, and infrastructure.<sup>32</sup> Those are often commercially viable only in the longer run as they are surrounded by high technological uncertainties or construction risks that makes accessing market financing more difficult. Making matters worse, the (long-term) physical impact of climate risk is increasing overall investment risk, especially for infrastructure projects—for example in renewable energy.<sup>33</sup>

The de-risking of most EU programmes is often too weak to crowd in investment into such projects.<sup>34</sup> Factors playing into this are the relatively low provisioning rate of the InvestEU guarantee and the risk aversity of the EIB and other implementing partners sticking to their investment ratings; but also, the preference for debt-type over equity-type instruments. Programmes that consistently provide for higher EU stakes in projects to steer the market and provide effective scale-up funding, such as the Innovation Fund, have been relatively small.<sup>35</sup>

The US kickstarted its now mainly private innovation cycle with state investment, whereas China relies significantly on government-backed funds for industrial policy. On its side, the EU has largely avoided direct

public investment in startups and scaleups. Instead, public funding is primarily being provided through the European Investment Fund (EIF) to private venture capital (VC) funds.<sup>36</sup> These funds typically seek low risk, quick returns and seldom invest in the longer-term investment cycles of breakthrough innovation, manufacturing capacities, raw materials, or infrastructure projects.<sup>37</sup>

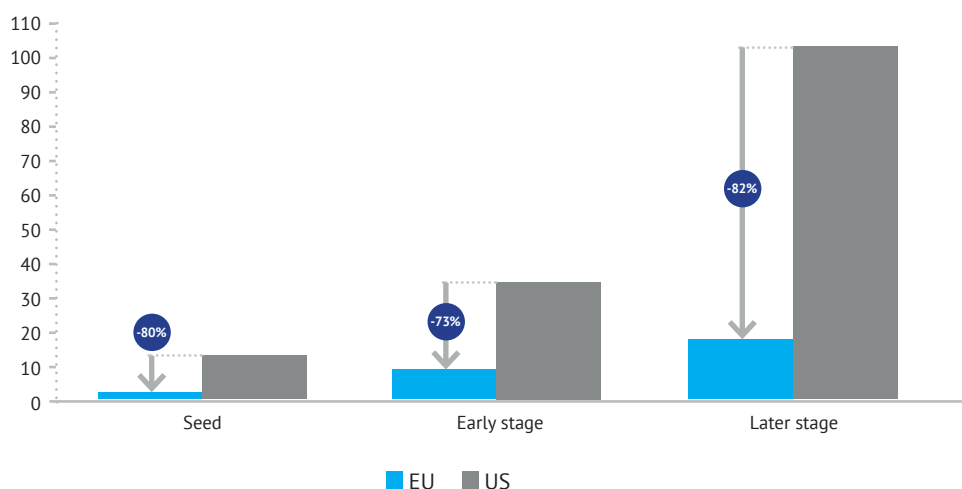
As a consequence, a small pool of private finance with limited interest in EU strategic investments ends up shaping Europe's investment profile, perpetuating market failures rather than addressing them effectively.

Even if they wanted to, few European VCs are large enough to deliver big ticket scale-up financing, largely because of insufficient investment by risk-averse institutional investors.<sup>38</sup> Altogether, venture capital raised in Europe accounts for just 5 per cent globally, versus 52 per cent in the US and 40 per cent in China.<sup>39</sup> As a result, many of the EU's most promising tech companies have looked for scale up funding in the US and Asia,<sup>40</sup> which by some estimates has cost Europe €3-5 trillion in wealth creation.<sup>41</sup>

**Few European VCs are large enough to deliver big ticket scale-up financing, largely because of insufficient investment by risk-averse institutional investors.**

Figure 3

VENTURE CAPITAL INVESTMENT IN THE EU AND US BY DEVELOPMENT STAGE, USD BILLION, 2023



Source: Pitchbook data/Draghi Report.

There have been attempts to address these issues, most notably through two EIF managed instruments. Under InvestEU, ESCALAR offers non-pari passu instruments, decreasing the investment risk for public money and institutional investors in riskier projects. The European Tech Champions Initiative (ETCI) pools €3.45 billion from several member states to invest in larger VC funds,<sup>42</sup> with plans to also open it to private investors.<sup>43</sup> In the broader picture, these initiatives are small, and they are not applied in a systematic way across different sectors and investment classes. A step in the right direction could be the proposed €100 billion Industrial Decarbonisation Bank, which could play an important role in bridging the funding gap for first-of-a-kind, industrial-scale decarbonisation and infrastructure projects mainly using the Innovation Fund model.<sup>44</sup>

Altogether, EU budget instruments have been unable to help the development of a finance ecosystem willing and able to execute large scale-up financing of breakthrough innovation and manufacturing capacity.<sup>45</sup> Nor is there a sufficiently developed financing ecosystem to take on enough large-scale infrastructure and raw material projects.

To create more business cases for projects linked to the EU strategic goals, the risk-absorbing capacity of EU investment instruments should increase.<sup>46</sup> This could be done through higher provisioning for guarantees and loans and increasing the use of blended grants and direct equity. Without additional resources, this would mean that more would have to be spent on fewer but more strategic projects. It is therefore essential to better leverage additional existing pools of capital.

Altogether, what is needed is a more comprehensive de-risking approach across strategic sectors, crowding in money from various sources to facilitate high-risk and scale-up financing and eco-system creation.

## UNDERUTILISED INVESTMENT POTENTIAL AND EXPERTISE

### Member states: State aid and IPCEIs

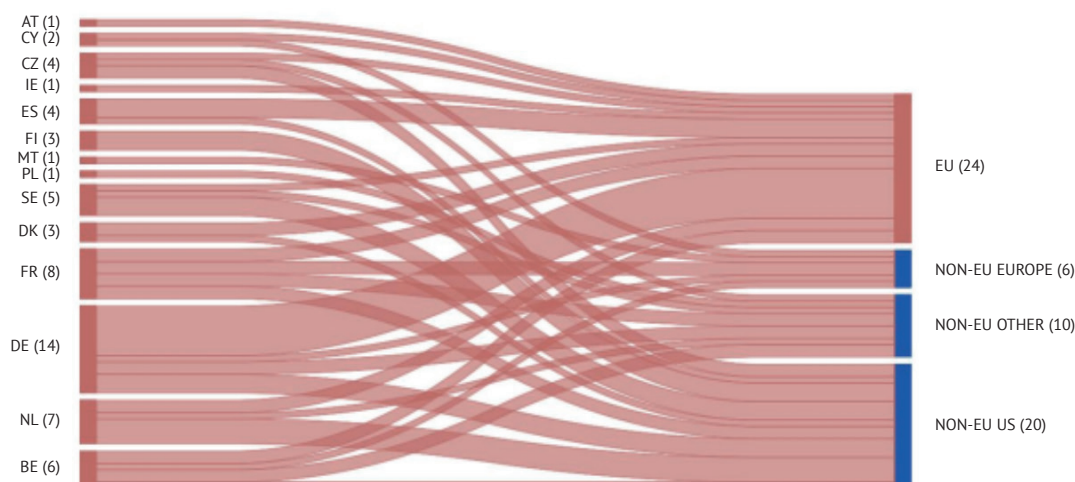
With their budgets commanding 50% of EU GDP, member states are the key drivers of strategic investments and industrial policy in Europe. But data from 280,000 state aid awards shows that of the €353 billion granted in state aid since 2019, only 12% targeted sectors the EU identified as strategically important.<sup>47</sup> With the right policy interventions, a much larger portion of this money should be channelled towards strategic goals and EPG provision.

Through the Important Projects of Common European Interest (IPCEI) framework, the EU has an instrument that facilitates state aid, in the form of grants, loans and guarantees for innovative and large-scale value-chain and infrastructure projects that support EU-wide objectives. In contrast to other state aid frameworks, such as the Temporary Crisis and Transition Framework (TCTF), which offer aid intensity of up to 45%, IPCEIs allow for grants covering up to 100% of the funding gap in project development, offering great de-risking power.<sup>48</sup>

Since 2018, 10 IPCEIs have been set up, targeting microelectronics, cloud infrastructure, health, batteries and hydrogen value chains for which the Commission

Figure 4

LOCATION OF EU SCALE-UPS THAT UNDERWENT AN M&A BETWEEN 2013 AND 2023 (LEFT) VS. LOCATION OF THE ACQUIRER (RIGHT)



Source: PitchBook Data/European Investment Bank.

theoretically allows €37.2 billion in state aid across 22 member states, which it expects to crowd in additional private investment of €66 billion.<sup>49</sup>

Although several IPCEIs have achieved a degree of success, the framework still has significant potential yet to be fully realised.<sup>50</sup> By the end of 2023, just €5.13 billion in IPCEI aid had been disbursed.<sup>51</sup> The slow, complex process of establishing IPCEIs and getting state aid approval has delayed projects and hindered planning and funding efforts.<sup>52</sup> This has diminished their appeal to member states and implementing partners, such as NPBIs, primarily enabling only larger member states and organisations with substantial administrative resources to utilise the framework.<sup>53</sup>

The Commission has limited influence over investment direction, so IPCEIs tend to reflect the interests of major member states rather than EU industrial policy goals. Funds can only contribute to R&D and first industrial deployment in highly innovative projects. But while the EU has no lack of innovative and technologically advanced start-ups, it needs more financing for industrial scale-up and infrastructure projects, which are mostly not eligible for support under the current IPCEI framework.<sup>54</sup>

Both Enrico Letta and Mario Draghi have called for reforms to the IPCEI framework in their reports, and the Commission has recognized its potential.<sup>55</sup>

It has proposed a new IPCEI design hub to get projects off the ground more quickly, which is a step in the right direction.<sup>56</sup> However, so far not enough has been done to make use of the full potential of the framework.

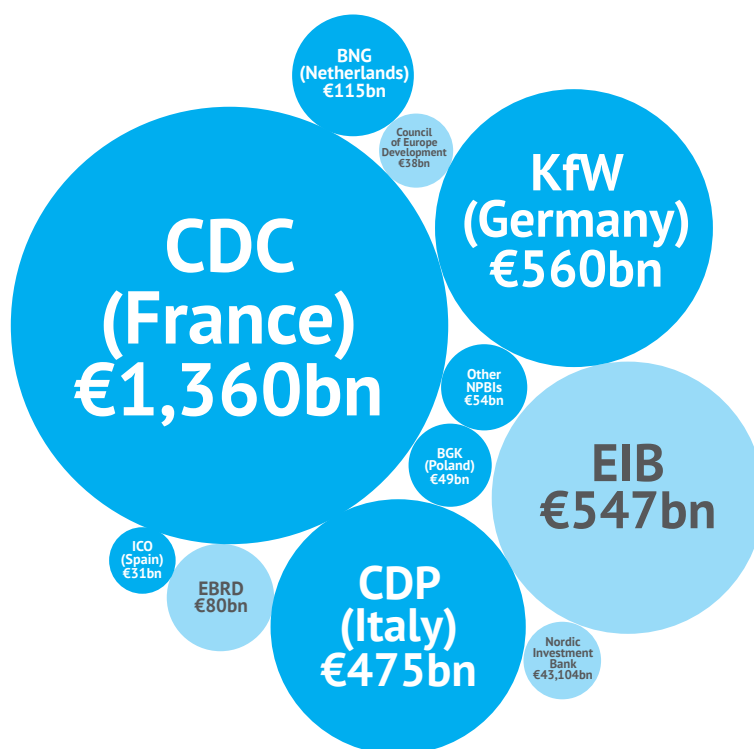
### National Promotional Banks and International Financial Institutions: Open architecture and blended finance

The EU also does not make enough use of National Promotional Banks and Institutions (NPBIs) and International Financial Institutions (IFIs) to mobilise investment for EU strategic goals. NPBIs and IFIs are particularly well-placed to leverage the EU’s diversity and navigate its multi-level governance structure to channel investment more effectively across the EU.

While IFIs such as the EIB, EBRD, and CEB have strong international expertise and capacity for large-scale funding, NPBIs are well-positioned to use their local knowledge to select and oversee projects and offer financial products tailored to local needs. They also manage huge pools of capital, of which a much larger portion could be spent under EU programmes or in a more coordinated way across member states. At the end of 2023, European NPBIs held approximately €2.6 trillion in assets—around 5 times as much as the EIB (see Figure 5).<sup>57</sup>

Figure 5

SIZE OF DIFFERENT NPBIS AND IFIS ACTIVE IN THE EU



Source: Annual reports of featured NPBIs and IFIs.

The EU increasingly leverages the financing potential and expertise of NPBIs and IFIs for investment in EU projects. Under InvestEU 25% of the €26 billion budget guarantee can be used by NPBIs and IFIs as implementing partners, while the EIB Group manages the rest.<sup>58</sup>

Under a similar open architecture approach, NPBIs and IFIs act as co-investors on a case-by-case basis in Connecting Europe Facility (CEF) supported projects, and as implementing partners at the CEF’s Alternative Fuels Infrastructure Facility (AFIF). Similarly to under InvestEU, they help blend CEF EU funds with financial instruments like loans and equity, boosting de-risking and leveraging EU grants for major projects in transport, energy, and digital networks.<sup>59</sup>

Blended finance has resulted in increased investment and reduced risk compared to using EU funds such as grants or guarantees alone. However, it is not extensively implemented across EU funding programmes.<sup>60</sup> For example, 77% of the current RRF envelope is not blended with financial instruments, limiting its leverage effect.<sup>61</sup> A much wider use of the open architecture approach and blended finance across all EU programmes could bring in additional resources and expertise from implementing partners and provide significantly more leverage to the EU budget while strengthening its derisking potential.

While there are currently limited options for NPBIs and IFIs to invest under EU budget instruments and blend with EU money, high administrative burdens also disincentivise them from doing so. NPBIs are subject to complex reporting and auditing requirements which do not sufficiently take into account the pillar assessment process results necessary for becoming implementing partners in the first place.<sup>62</sup> For example, one NPBI reports it has not invested under InvestEU, citing the large administrative and compliance burden as a reason.<sup>63</sup>

Currently, only a small portion of NPBI financing is provided through EU programmes like InvestEU and CEF. Additional co-investment projects exist with the EIB Group—such as the Investment Platform for Energy Efficiency, the Joint Initiative on Circular Economy, and the EIF-NPI Equity Platform—but these efforts are fragmented and limited in scale.<sup>64</sup>

### Institutional investors and savings: A lack of tradable assets and underutilised de-risking expertise

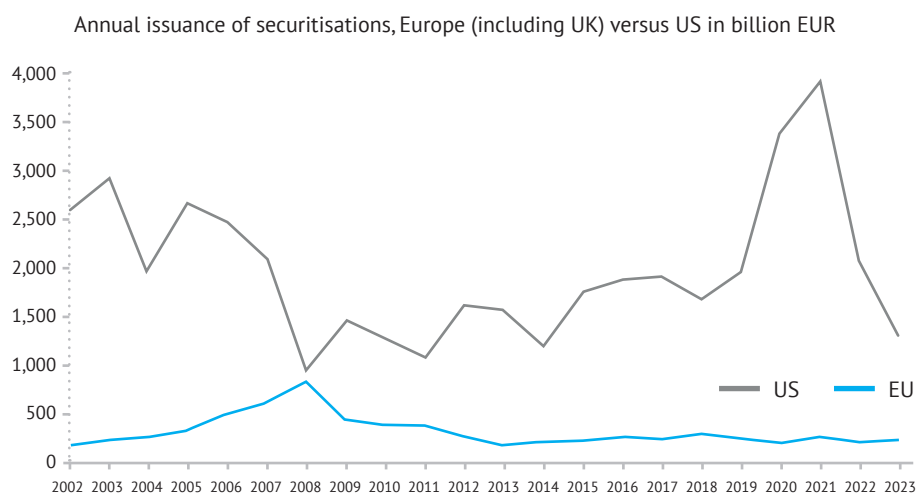
EU citizens save three times as much as Americans,<sup>65</sup> holding a staggering €33 trillion in private savings, predominantly held in currency and deposits.<sup>66</sup> Moreover, European insurance companies hold €9.6 trillion in assets<sup>67</sup> and pension funds €3.55 trillion.<sup>68</sup> These enormous capital pools are very insufficiently channelled towards strategic goals.

A key obstacle is a shortage of standardised tradable assets, such as stocks, bonds and securitised products. These are liquid and, if well-designed, diversify risk, enhance price discovery, allow for relatively easy exits, and offer long-term, stable returns—features that make them attractive to institutional investors like re/insurance companies and pension funds. They also facilitate long-term investment at scale in riskier ventures and projects such as deep tech scale-ups, bespoke clean energy infrastructure, and other EPG-linked projects. Further, tradable assets can be a powerful driver of deeper, more integrated European capital markets.

Currently, the volume of tradable assets in the EU is low, especially compared to the US. For example, America held about 43% of global stock market capitalisation compared to the EU’s 11% in 2024.<sup>69</sup> Most EU tech companies go public on US stock markets rather than in the EU.<sup>70</sup> A large share of European savings is kept

Figure 6

### SECURITISATION VOLUMES EU VERSUS US



Source: AFME/Draghi Report.

as bank deposits, while €300 billion are invested in the US financial markets every year, which offer more expertise, diversification and higher returns than the underdeveloped European financial markets.

The creation of a Savings and Investment Union is crucial for channelling more private capital into productive investment. However, short of any major harmonisation of legislation and centralisation of supervision, which seems currently difficult to achieve given widespread opposition by member states, there are other ways to create more tradable assets.

Securitisation of bank loans would leverage the high reliance on banks for saving and financing in the EU and offer a possibility to create many more tradable assets relatively quickly. It would help to tap into the enormous resources of institutional investors while enhancing banks' lending capacity by freeing up capital.

EU yearly issuance of securitisations stood at just 0.3% of GDP in 2022, while in the US it amounted to 4% of GDP—14 times as much.<sup>71</sup> Key factors making securitisation less attractive in the EU include overly complex and costly compliance requirements, notably strict transparency and reporting requirements as well as the high-risk retention rate for the originators of securitised assets (mainly banks) of 5% under EU banking regulation (Basel III/CRR). Since the financial crisis, the EU has adopted a—admittedly still incomplete—banking union and its banking system is now well capitalised and robust allowing for more leverage.<sup>72</sup> Moreover, the investment in securitised assets by institutional investors is made less attractive by strict capital requirements and rules for example under Solvency II.

In addition, there are insufficient incentives to develop securitised products in areas of strategic importance

and for banks to reinvest the capital freed up through securitisation in these sectors. Such a targeted expansion of securitisation could also mitigate the formation of real estate bubbles which have proven so disruptive for financial stability in the past.

The EU could also leverage better the financial modelling, risk evaluation and pricing capacities of insurance companies. Their in-depth knowledge of risk could help design and structure more effective instruments to de-risk projects related to the provision of European Public Goods (EPGs)—particularly in infrastructure and renewable energy, where exposure to weather-related uncertainty is high.

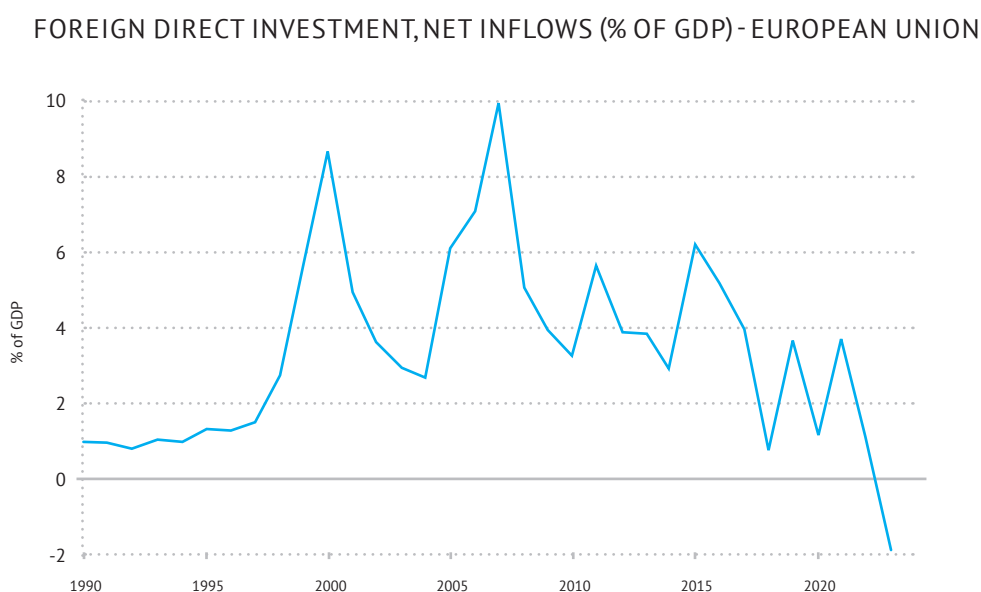
With growing climate risks, insurance is crucial for securing strategic infrastructure investments. Over half of the \$19 trillion committed to the net-zero transition by 2030 will require extra insurance protection.<sup>73</sup>

Insurance-based de-risking tools, such as performance guarantees, parametric insurance, and finance-embedded risk transfers (FERT), should be more effectively included in the EU's risk mitigation framework. These tools support project bankability by protecting against extreme weather events, variability in renewable energy output, and market risks.

#### Foreign investment: FDI, sovereign wealth funds, partnerships

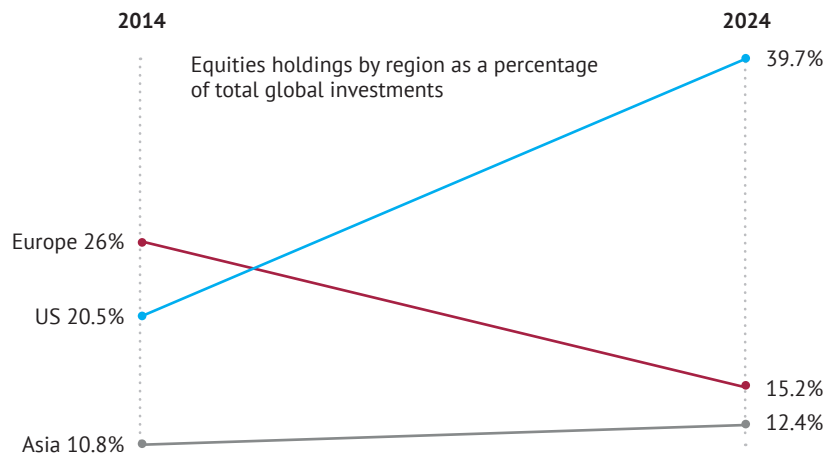
The need for more strategic autonomy makes the increase of domestic investment a priority. But while the reduction of investment of unreliable or hostile powers is important, investment from like-minded, allied or neutral nations could play a larger role in filling the vast investment gaps the EU faces.

Figure 7



Source: [World Bank](#).

## NORWAY'S OIL FUND HAS SHRUNK ITS EUROPEAN EQUITY ALLOCATION



Source: Norges Bank Investment Management/Financial Times.

Foreign investment in the EU has increased in recent months, as investors have been pulling back from the United States in response to the Trump administration's erratic and aggressive trade and economic policies. However, this recent uptick contrasts with a longer-term decline in foreign direct investment (FDI) into the EU.<sup>74</sup> In 2023, the EU recorded net FDI outflows of €50 billion, in stark contrast to net inflows of \$148.8 billion to the United States and \$142.6 billion to China. In 2024, the US attracted over 2100 new greenfield FDI projects, while Germany saw a decline to 470 projects, the lowest in 18 years.<sup>75</sup>

The US recently announced the \$500bn Stargate AI fund, which draws on large foreign investment from the UAE-based sovereign investment vehicle MGX Group and Japan's Softbank.<sup>76</sup> The US has also long attracted massive amounts of portfolio investment because of its deep and dynamic capital markets and competitive economy, and China's steep growth trajectory and massive manufacturing build up have attracted substantial foreign investments. These have included American VC and private equity funds' investment in innovative industries through Chinese GGFs and FDI from big European companies such as Volkswagen or BASF, that have included significant knowledge transfer.

At the same time, nations like Norway, the UAE, Kuwait, Saudi Arabia, and Singapore hold enormous investment capacities pooled in sovereign wealth funds (SWFs), a model that others like the US and Indonesia are planning to replicate. SWFs often engage in long-term investment globally, often in innovation and infrastructure—the type of investment the EU needs most. However, SWFs' investment share in the EU is not proportional to the Union's economic size and bilateral trade volumes.

For example, Norway's Government Pension Fund Global (GPF), the largest Sovereign Wealth Fund (SWF) in the world, reached a record valuation of approximately \$1.9 trillion in January 2025. While 67.5% of Norway's exports

go to the EU, the share of European equities (including the UK and Switzerland) in the GPF has fallen from 26% to 15% in the past decade. The US share has risen from 20.5% to 39.7%.<sup>77</sup> If one counts only equities of EU-based companies the share is less than 10%.

One reason for this is that the EU has become a less attractive place to invest. Investors cite increased regulatory burdens and complexity across the Single Market.<sup>78</sup> For example, while investment screening is becoming increasingly important to guarantee the EU's economic security, screening processes are often untransparent and differ significantly across member states, creating uncertainty for potential investors with negative effects for investment, for example from the Gulf states.<sup>79</sup> Another crucial factor holding back investors is the lack of deep, integrated financial markets, limited exit options and low returns.<sup>80</sup> Related to this is a limited availability of investable and tradable assets, particularly when it comes to assets linked to EU strategic goals (see above).

**Another crucial factor holding back investors is the lack of deep, integrated financial markets, limited exit options and low returns.**

While the EU has been successful in concluding free trade agreements (FTA), this has been less the case with investment partnerships. While many FTAs such as CETA and the EU-Mercosur agreement hold special investment chapters to guarantee security for investors, there are few concrete deals like the American Stargate initiative

or bilateral funds pooling investment, such as the India-Japan Fund.<sup>81</sup> This vehicle brings together India's National Investment and Infrastructure Fund (NIIF, a hybrid sort of Indian SWF) and JBIC (one of Japan's NPBIs) to co-finance infrastructure and sustainable development projects in India. Similarly, the idea for an US-Japan joint sovereign fund has recently been floated.<sup>82</sup>

Finally, the EU hardly includes third country public finance in its industrial policy financing. For example, subsidies under IPCEIs are only open to EU and EEA members, not to other countries. Horizon Europe increasingly allows associated third countries (like Switzerland, Norway or the UK, under specific agreements) to co-fund research projects—but this is still the exception, not the norm.<sup>83</sup>

## 5. Recommendations

### I. REGEARING EU SPENDING TOWARDS STRATEGIC INVESTMENT

#### **Recommendation 1: Create a €300bn EU Competitiveness Fund on the InvestEU model to maximise de-risking of strategic investment**

An EU Competitiveness Fund has long been announced as Europe's new flagship strategic investment vehicle answering the need to unify existing EU financing programmes and rationalise the EU's public-private investment infrastructure.

The centralisation of EU investment policy instruments will help to decrease duplication, fragmentation and complexity in the EU's funding architecture. A single rulebook, with streamlined eligibility rules, application processes, compliance and reporting requirements, is likely to both significantly reduce bureaucratic costs for the EU, implementing partners and beneficiaries, and increase the speed and flexibility of deployment of EU funds.

#### **i) Mission-driven investment windows**

The new Competitiveness Fund should be structured as mission-oriented investment windows in support of strategic economic infrastructure, value chains and ecosystems with the aim of overcoming current investment gaps.

Investment windows and sub-windows should provide directionality through clear sector and value chain-specific investment missions. Together with the long-term commitment inherent in the EU's seven-year financial programming, this would provide public and private investors with the necessary confidence to invest in these fields.

In the development of its investment policies and calls under these windows, the Fund should bring in the expertise of relevant ecosystems and private stakeholders, a case in point being the EU Industrial Alliances.<sup>84</sup>

#### **ii) Financial firepower to maximise risk-alleviation capacity**

Given the scale of current investment gaps, the Fund would need to be equipped with ample budgetary resources at a scale of at least €300 billion over seven

years. This should be the basis for significantly increasing the risk-absorbing capacity necessary to create more business cases for projects linked to EPG provision, drawing risk-averse European private financial institutions towards innovative, long-term projects. The European Commission has already announced its intention to create a €100 billion Industrial Decarbonisation Bank to address industrial decarbonisation and innovation, which should fall under the Competitiveness Fund.

By comparison, under the current InvestEU programme, the EU provided a €26.2 billion budget guarantee over the past seven years to back up investments of the European Investment Bank (EIB) Group and other implementing partners. HorizonEurope, the EU's current research & innovation framework programme, has a budget of €95.5 billion for 2021-2027. The EU allocated €33.7 billion to the Connecting Europe Facility (CEF) while the EU Innovation Fund was projected to mobilise resources of up to €40 billion over ten years based on ETS-revenues.

#### **iii) An open architecture approach to implementation**

Building further on the InvestEU model, the Competitiveness Fund should aim to leverage the financial firepower of a group as broad as possible of implementing partners (IPs), consisting not only of the EIB Group but also of National Promotional Banks (NPBIs) and Institutions, International Financial Institutions (IFIs) and possibly others.

Keeping with the logic of an open architecture, implementing partners would be selected through open calls, allowing the EIB Group, NPBIs, IFIs and other IPs to respond to the calls for which they are best placed to implement, and creating a competitive environment to pick the best candidates.

The Fund should then extend risk alleviation in grants and guarantees to IPs deploying the financial instruments necessary to derisk and crowd-in investments in strategic projects and companies. To facilitate investment in the type of long-term, high-risk investment necessary for the provision of many EPGs, a high enough provisioning rate for guarantees and grants should be achieved.

Building on the Commission's long-standing expertise in grant provision, the Fund should also be able to disburse grants directly to projects and companies

where necessary.<sup>85</sup> Wherever possible, grants should be blended with financial instruments provided by IPs to multiply their de-risking effect. This could be achieved by making blending either an eligibility or selection criterion for receiving EU grants.

**A more flexible, equity-focussed instrument is needed to channel EU, member state and private investments into critical future-oriented companies and assets.**

Calls should happen on a rolling basis, allowing to react to unforeseen developments and adjust the investment focus when needed. This would increase flexibility of the EU’s financial capacity and allow for swifter response in times of crises, while at the same time being anchored in a long-term investment logic provided by the policy windows.

The Competitiveness Fund should also function as a centralised project portal and advisory hub for implementing partners and financial intermediaries, based on the experience to date with equivalent

InvestEU institutions and the more recent Strategic Technologies for Europe Platform (‘STEP’).

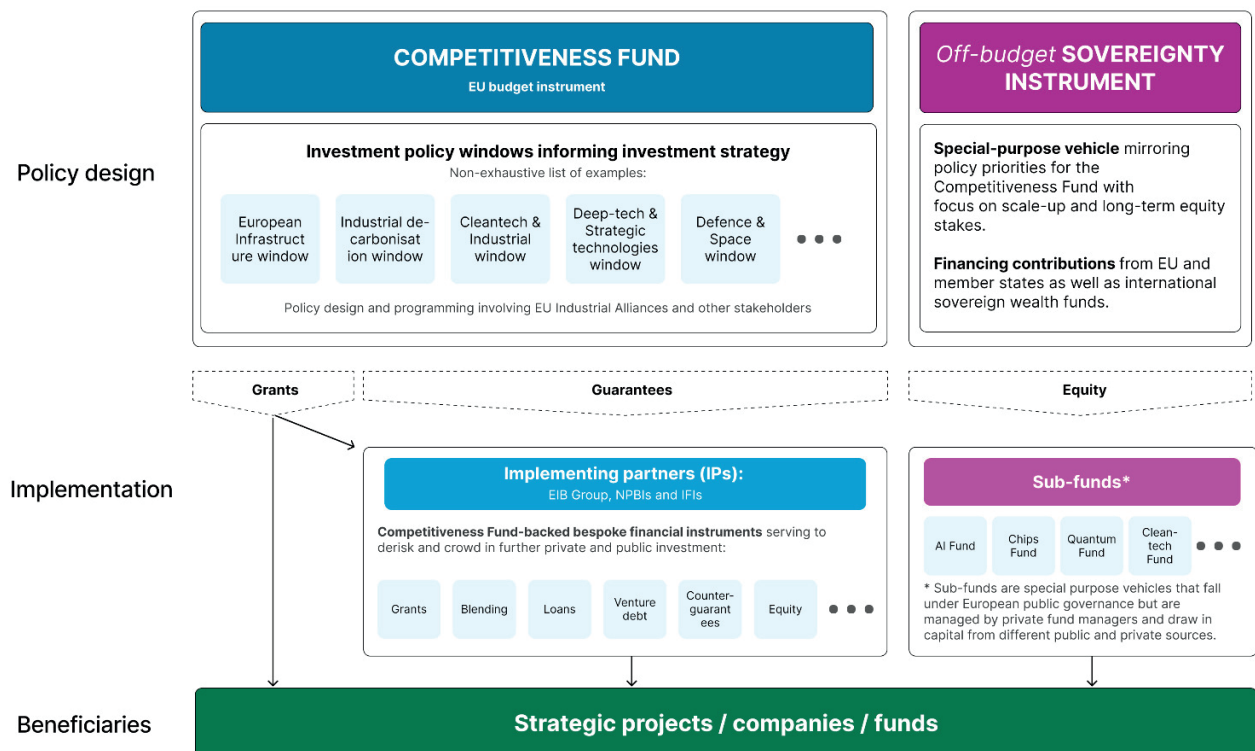
**Recommendation 2: Adjoin a special purpose off-budget EU Sovereignty Instrument**

While the Competitiveness Fund serves to align EU investment programmes under a single rulebook and works through grants and guarantees, a more flexible, equity-focussed instrument is needed to channel EU, member state and private investments into critical, future-oriented companies and assets. Drawing on the experience of other EU off-budget instruments such as the Innovation Fund and the European Peace Facility, the EU Sovereignty Instrument should be established as a special purpose vehicle off-budget to ensure sufficient flexibility and agility. It should draw financing contributions from the EU and willing member states and be open to selected sovereign wealth funds (SWF).

The EU Sovereignty Instrument would provide the financial backing for a set of specialised sub-funds focussed on critical technological and industrial value chains where Europe’s sovereignty is at stake, such as AI, chips, quantum, robotics and selected clean tech domains. Each of the sub-funds would in their given domains play the dual role of providing equity towards scale-up and of holding long-term stakes in strategic companies and critical assets.

Figure 9

**A DUAL ENGINE FOR EU STRATEGIC INVESTMENT**



Source: Author.

Sub-funds would be set up as investment funds falling under the EU Sovereignty Instrument's public governance but being managed by private fund managers or other suitable implementing partners such as the European Investment Fund. To maximise their reach and derisking capacity, they should be able to draw in additional equity from a wide range of public and private sources – from institutional investors to individual companies – as long this remains compatible with the overall purpose and governance of the instrument.

## II. ALIGNING AND LEVERAGING NATIONAL SPENDING

### **Recommendation 3: Deploy the European Semester as an investment coordination tool**

As noted by the Draghi report, the EU needs to foster EU-wide coordination of competitiveness policies and investment. That said, the 'Competitiveness Coordination Framework' proposed by Draghi runs itself the risk of adding another bureaucratic layer to existing instruments. Instead of building additional bureaucratic coordination mechanisms, the better option consists in utilising the existing European Semester process to the fullest to steer and align member state investment agendas with EU strategic goals.

In addition to enforcing the Stability and Growth Pact, the European Semester oversees National Recovery and Resilience Plans, coordinates Energy and Climate Plans, and manages frameworks that support EU objectives at the national level. It therefore has significant potential and could be more effectively utilised by the Commission and member states to coordinate EU investment policy and align industrial agendas.

### **Recommendation 4: Revamp the EU's IPCEI-framework to better coordinate and pool national industrial financing**

In addition to funding from the centrally managed Competitiveness Fund and its national compartments, improved coordination and pooling of investments from member states, NPBIs, and IFIs within a revised IPCEI framework may be beneficial. The Commission should therefore consider developing IPCEIs as part of industrial policy, shifting the emphasis from competition policy.

To this end, the framework's scope should be expanded beyond the current focus on pre-commercial production to encompass broader industrial development, thereby supporting a fully-fledged industrial policy aligned with the provision of EPGs.<sup>86</sup>

To align projects more with EU industrial policy goals, EU funding should be blended with member state investments in the framework of IPCEIs. Co-financing via the proposed EU Competitiveness Fund (see recommendation 1) would strengthen central oversight, ensure EU added value, and reduce risks for innovative industrial projects related to EPG provision.

To make IPCEIs more effective and attractive, the Commission should streamline and simplify its state aid approval process through a fast-track notification procedure with concrete deadlines, allowing for quicker project implementation and making it easier for project promoters to plan ahead and attract additional funding.

The Commission should pro-actively identify priority areas for additional IPCEIs in close cooperation with member states, notably in the context of the EU Industrial Alliances. This could include areas such as defence industrial supply chains, where broad support for more financing and cooperation across all EU member states is currently lacking. IPCEIs should be opened to participation for like-minded countries beyond the EU and EEA such as the UK, or Ukraine, which could add value for example on defence value chains.

Moreover, dedicated IPCEI strategic investment platforms could allow NPBIs and other financial institutions to pool resources and expertise across the EU and beyond in support of EU shared industrial goals. To derisk the creation of such platforms and increase EU steer, these platforms should be backed by EU budget headroom or the Competitiveness Fund. For instance, platforms for equity investment or joint guarantees could be developed to support new IPCEIs in areas such as defence industrial value chains. Fund management could be delegated to private fund managers, following the model of the Marguerite funds.<sup>87</sup> To encourage broad NPBI participation, state aid rules for co-investment under these platforms should be simplified and fast-tracked.

## III. UNLOCKING PRIVATE INVESTMENT THROUGH TRADABLE ASSETS

### **Recommendation 5: Securitise EU-backed projects to boost the supply of European high-quality tradable assets in strategic sectors**

To deliver on its strategic priorities, the EU must attract private investment at unprecedented scale and speed. This in turn depends on the supply of strong investment opportunities in the form of safe and liquid assets. Increased EU financing for infrastructure, technology and defence should therefore translate into the creation of high-quality tradeable 'European Public Goods' securities that can be marketed and sold to institutional investors, such as pension funds, insurance companies or impact investors interested in long-term investments in EU policy goals.

With that aim and as a fundamental step towards revitalising European securitisation, the EIB should be mandated to develop a securitisation platform focusing on the securitisation of assets in strategic areas. As a long-standing pan-European financial institution with relevant expertise, the EIB is well-suited to lead institutional, national and private sector partners in the development of such a platform.

On the model of similar platforms in the US, Canada, and Japan, the platform would pool loan portfolios provided

by asset originators, such as implementing partners under the Competitiveness Fund, as well as other financial institutions. It would also play an important role in standardising issuance processes, enhancing transparency, and significantly reducing costs for issuers and investors.<sup>88</sup>

The bundling of multiple assets not only makes them tradable but also improves their risk-return profile, making them attractive for institutional investors.<sup>89</sup> To enhance creditworthiness and increase attractiveness, a substantial share of the underlying assets should be linked to projects benefiting from de-risking mechanisms under the Competitiveness Fund or other EU or national instruments. Different tranches with different risk profiles can then be sold, with a senior low-risk, low return tranche serving as an important new liquid safe asset in European capital markets.

Moreover, the securitisation platform could make the eligibility of asset originators conditional on reinvesting freed-up capital into EU strategic sectors. Such a virtuous investment circle would not only help mobilise additional funds for long-term strategic investment but also reduce the risk that financial institutions fuel real estate bubbles.

The liquidity, standardised nature, steady revenue streams and relatively low risk of such tradeable assets would additionally signal trust for projects in strategic sectors and stimulate the development of deeper and more integrated European capital markets further crowding in private investment into EU strategic sectors.

In parallel it is essential to push forward the review of overly restrictive regulation on securitisation. The package proposed by the Commission on 17 June 2025 goes a long way in addressing needed changes as recommended in the Draghi report,<sup>90</sup> such as simplifying and harmonising transparency and reporting requirements and adjusting risk retention rules in the securitisation regulation. This will further facilitate the creation and marketing of securities and other tradable assets the EU.

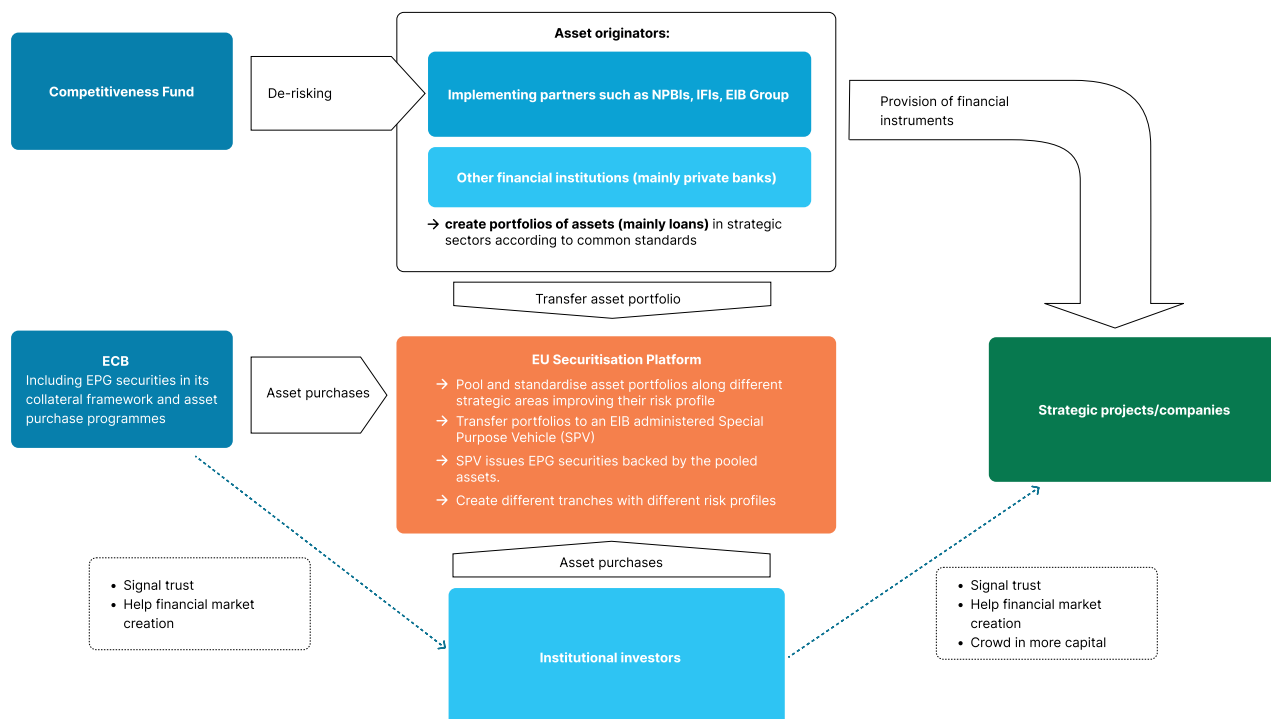
**Recommendation 6: Create a demand-side push for EU securities through regulatory simplification, ECB asset purchases and financial crowding-in**

In parallel to improving the supply of European securitised assets, the EU must act forcefully on the demand side. Regulatory reform can play a role also here, using the institutional investors but also the banking channel to stimulate the demand for securities and the emergence of Europe’s capital markets union. Possible measures include targeted updates to prudential rules granting preferential treatment, such as lower capital requirements and streamlined compliance, for EU-backed safe assets in strategic sectors.

This said, the real demand-side push will likely be a function first and foremost of public asset purchases. While one-to-one comparisons with the US make little sense, given both the scale of the US securitisation and its focus on home ownership, it is noteworthy that approximately 80% are bought by state-funded platforms like Freddie Mac and Fannie Mae.<sup>91</sup>

Figure 10

**AN EU SECURITISATION PLATFORM TURNING LOANS IN STRATEGIC SECTORS INTO TRADABLE EUROPEAN PUBLIC GOODS (EPG) SECURITIES**



In Europe, the European Central Bank's (ECB) asset purchase programmes have, in the past, proved critical in creating the market for green bonds. Even as the amount of green bonds held remained relatively small, there is evidence that asset purchases both reduced yields and supported the issuance of green bonds by non-financial corporations.<sup>92</sup> In a similar fashion, the inclusion of 'European Public Goods' securities in the Eurosystem's collateral framework and asset purchase programmes could be the market-creating bazooka needed for EU-backed securities.

ECB asset purchases can be expected to significantly impact and influence institutional investors such as pension funds and insurance companies by influencing asset prices, yields and portfolio allocation strategies. Looking beyond these institutional actors, it will also be important to attract the vast pool of European retail investors, which can be done through Exchange Traded Funds (ETFs).

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### **ECB asset purchase programmes have proved critical in creating the market for green bonds.**

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In the United States, infrastructure-focused ETFs have successfully channelled investments into transportation and energy sectors, and in Asia there has been a surge of defence ETFs,<sup>93</sup> with Europe set to follow suit.<sup>94</sup> Analysts estimate the ETF market in Europe could grow from about \$50 billion to more than \$1 trillion by 2030.<sup>95</sup>

The EU and its member states should leverage that trend for EU strategic goals by supporting the creation of ETFs focused on EU-backed securities and EPGs. This could be done by creating public private partnerships in which the implementing partners of the Competitiveness Fund collaborate with investment fund managers to launch ETFs. For example, a European Energy Transition or Sustainable Infrastructure ETF could focus on renewable energy companies, smart grids, and hydrogen projects. Other ETFs could be created in defence and other strategic areas along the lines of the investment windows of the EU's Competitiveness Fund.

## **IV. BOOSTING DEFENCE INVESTMENT OFF-BUDGET**

### **Recommendation 7: Establish a permanent, out-of-Treaties European Security Funding Facility (ESeFF)**

The EU budget supports defence R&D via the European Defence Fund, joint production with the Act in Support of Ammunition Production (ASAP), and procurement through the European Defence Industry Reinforcement through common Procurement Act (EDIRPA). However, expanding

defence funding further under the MFF faces legal constraints,<sup>96</sup> limited consensus on increased spending, and reluctance from some member states to strengthen the EU's defence role due to political or constitutional reasons.

As part of the Readiness 2030 plan, the Commission has proposed SAFE,<sup>97</sup> a €150 billion loan instrument for member states, modelled on SURE,<sup>98</sup> backed by the EU budget for joint procurement.<sup>99</sup> However, highly indebted countries have so far shown little interest to use SAFE loans due to debt concerns, and instead France, Spain and Italy have called for grants funded by common borrowing. While this could streamline EU-wide financing, it would likely need unanimous approval from all member states.

A more ambitious response is therefore needed to overcome the massive military capability gaps the EU is facing. To that end, interested EU member states should establish a permanent, off-budget European Security Funding Facility (ESeFF) taking on debt on behalf of its members under a new defence financing treaty structured as a rolling balance sheet. Built on a coalition of the willing, it could also include non-EU members such as the UK and Norway, while including an exit mechanism where, by unanimous vote of the remaining members, a country that moves away from the common security commitments could be excluded from the mechanism.

The ESeFF would co-finance EPGs in defence such as air and missile defence, military mobility and joint arms production and procurement. These are investments that are unlikely to be financed sufficiently by national governments otherwise.

Under a national match funding system, recipients would be required to contribute national funds as a prerequisite for receiving grants.<sup>100</sup> This approach would increase the impact of ESeFF spending while providing incentives for member states to increase their spending in an efficient, coordinated way. It would also allow for a certain degree of member state control.

To strengthen the European defence industry long-term, procurement should be limited to within the EU or ESeFF members. The ESeFF should also make use of existing EU instruments such as EDIRPA for joint procurement and ASAP for joint investment in production. If successful ESeFF could attract additional EU member states, which could eventually lead to a full integration in EU structures.

## **V. ATTRACTING MORE FOREIGN INVESTMENT**

The volatility of US economic policy, the decline of rules-based institutions, and the rapid erosion of the "Washington consensus" herald profound shifts in international capital allocation and markets. An investment surge has already started heading towards Europe. If it adopts the right reforms, the EU is well-positioned to reap the dividends of its model, based on rules and predictability, an open trading system, a stable "global euro", and the supply of strong, high-quality investment opportunities.

To increase international long-term investment in EPGs, the EU and its member states should pursue a combination of regulatory reform, investment promotion and international partnerships.

**Recommendation 8: Create a favourable regulatory environment to enhance the EU’s global investment appeal**

The EU should attract more foreign investment by moving forward with the Savings and Investment Union (SIU) and deepening internal market integration. This will help to create deeper capital markets offering higher returns and more investment and exit opportunities while reducing regulatory burdens and complexity. As suggested above, standardised EPG securities and ETFs (see recommendation 3) could play a role in this.

The EU should also speed up its simplification agenda by reducing regulatory burdens in investment procedures, while ensuring regulatory consistency in key sectors like clean energy, electric mobility, and defence. Regulatory predictability is crucial for attracting international investors and should remain a key European competitive asset. Harmonising and clarifying investment screening across member states would further boost predictability for foreign investors.

Further steps to boost international investment in Europe should include strengthening the global role of the euro. This requires completing the Single Market and increasing the supply of euro-denominated safe assets. In addition, the development of a sovereign payments infrastructure and the introduction of a digital euro should be accelerated.

**Recommendation 9: Attract foreign strategic investment through EU-led promotion, partnerships, and joint investment vehicles**

An EU Investment Promotion Agency should be established to boost foreign investment for strategic EU goals. Its structure and authority within the EU remain to be decided, but the European Investment Bank, alongside a group of NPBI, could serve as visible gateways for third-country investors under the Team Europe approach. Such an investment promotion initiative could launch “Invest in Europe” campaigns targeting global financial hubs and sovereign investors, for example the Gulf countries, US pension funds, and Asian institutional investors.

The EU should build more strategic investment partnerships with allied countries, especially as global economic fragmentation increases. These partnerships could ease investment screening and allow substantial foreign ownership based on alignment with EU values. Incentives such as harmonised tax breaks, co-financing, and guarantees could be provided EU-wide. For instance, foreign co-investment in competitiveness fund or IPCEI-backed projects might qualify for tax reductions.

The EU should explore joint investment partnerships with like-minded countries. Norway’s Government Pension Fund Global, with nearly €1.9 trillion in assets and currently very limited European exposure, would be a prime candidate to co-invest in the proposed EU Sovereignty Instrument. A Norway-EU Strategic Investment Fund pooling resources from the Norwegian Sovereign Wealth Fund, the EIB Group, European NPBI, and private investors could also be envisaged to finance green energy, infrastructure, and digitalisation projects in line with common ESG priorities. Together with other financial institutions, it could also invest in Sovereignty Instrument sub-funds and Competitiveness Fund-backed projects.

## 6. Conclusion

The EU has the potential to become a leading strategic investment power. As one of the three main centres of gravity in the global economy, the EU combines economic scale, vast pools of public and private capital, a highly diverse innovation and industrial base, and a rich ecosystem of financial institutions—ranging from strong banking networks to large national promotional banks and world-leading re/insurance firms.

Over the past years, the EU has built up its *mission polity* across a wide range of strategic areas, but it still lacks effective financial statecraft and investment tools suited to its multilevel governance, diverse regions and economic strengths and challenges.

This paper has presented five sets of recommendations to equip the EU with such tools, leveraging existing resources while addressing persistent weaknesses.

However, these measures involve trade-offs. In a 27-member Union, compromise is not a bug—it is the operating system. With fiscal limits, advancing strategic investment means balancing short-term realities with long-term goals, EU-wide strategies with national interests, and priorities such as security, competitiveness, sustainability, cohesion, and resilience.

Change within the EU—especially linked to resources and budgets—has never come easy. But history shows that the EU tends to move forward when crises force the pace. Today’s overlapping geopolitical, technological, environmental, and demographic challenges require a decisive, unified EU response. The EU’s stable, rules-based system offers a strategic advantage in a volatile world, potentially attracting long-term investment if reforms are enacted. Now is a crucial time to strengthen the EU’s strategic investment.

- <sup>1</sup> Current US and international policy changes mark a dramatic shift away from the core economic policies that characterised much of the post-WWII economic order often summed up by the term “Washington Consensus” coined by English economist John Williamson. Cf. Irwin, Douglas A. and Ward, Oliver (2021), [“What is the Washington Consensus?”](#), Peterson Institute of International Economics, September 2021.
- <sup>2</sup> Deutsche Bundesregierung (2025), [“Position der Bundesregierung zum Mehrjährigen Finanzrahmen \(MFR\) ab 2028”](#), June 2025.
- <sup>3</sup> Banerjee, Chandan, Bevere, Lucia, Garbers, Hendre, and Saner, Patrick (2024), [“Changing climates: the heat is \(still\) on”](#), Swiss Re Institute; Global insured losses from natural catastrophes reached USD 137 billion in 2024, see: SwissRe Institute (2025), [“Natural catastrophes: insured losses on trend to USD 145 billion in 2025”](#), Sigma 1/2025.
- <sup>4</sup> Setser, Brad, Tordoir, Sander (2025), [“How German industry can survive the second China shock”](#), Policy Brief, Berlin: Centre for European Reform.
- <sup>5</sup> It includes the following priorities: security and peace, prosperity and competitiveness and freedom and democracy. See: [European Commission, European Union priorities 2024-2029](#) (accessed 02 July 2025).
- <sup>6</sup> Jeff Bezos: The EU lags behind US in creating new startups and unicorns with only one newly minted EU unicorn in 2024-Q4 vs. 21 in US, [file bin](#).
- <sup>7</sup> Xuan Li, Xuan and Ban, Cornel (2025) [“Financing Technological Innovation in China: Neo-Developmental Financial Statecraft through Government Guidance Funds”](#); Boston: Boston University Global Development Policy Centre.
- <sup>8</sup> Successful Asian countries did not just copy the US VC model but adapted it to local circumstances. See: Klingler-Vidra, Robyn (2018), [“The venture capital state: the Silicon Valley model in East Asia”](#), Cornell University Press.
- <sup>9</sup> For example, while the EU public sector invests a comparable share of its GDP in research and innovation as the US, only about one-tenth of its spending occurs at the EU-level. In contrast, in the US, the majority of public R&I investment is managed on the federal level, which allows for a more coherent strategy and larger economies of scale. See Draghi, Mario (2024), [“The future of European competitiveness”](#), p.235.
- <sup>10</sup> Lausberg, Philipp (2025), [“Could the euro profit from Trumps aggressive economic policy?”](#), Brussels: European Policy Centre.
- <sup>11</sup> Bouabdallah, Othman et al. (2024), [“Mind the gap: Europe’s strategic investment needs and how to support them”](#), Frankfurt: European Central Bank.
- <sup>12</sup> Draghi, Mario (2024), [“The Future of European Competitiveness”](#), p.59.
- <sup>13</sup> International Federation of Consulting Engineers, EY (2023) [“Closing the sustainable infrastructure gap to achieve net zero”](#).
- <sup>14</sup> Now called Readiness 2030 plan. See: European Commission, [White Paper for European Defence – Readiness 2030](#) (accessed 02 July 2025).
- <sup>15</sup> Letta, Enrico (2024), [“Much more than a market”](#).
- <sup>16</sup> Mario Draghi argues that SIU could reduce private financing costs but not enough to unlock private financing of the order necessary. See Draghi, Mario (2024), [“The Future of European Competitiveness”](#), p. 283.
- <sup>17</sup> European Commission (2025), [Joint White Paper for European Defence Readiness](#), Brussels.
- <sup>18</sup> Bouabdallah, Othman et al. (2024) [“Mind the gap: Europe’s strategic investment needs and how to support them”](#), Frankfurt: European Central Bank.
- <sup>19</sup> The political agreement reached in 2020 envisaged that the repayment of both interest and principal on the grant component of NGEU borrowing would be financed by new own resources. The Commission tabled a proposal to this end in June 2023, but so far no agreement on own resources has been reached.
- <sup>20</sup> Fuest, Clemens, Pisani-Ferry, Jean (2019), [“A Primer on Developing European Public Goods”](#), EconPol Policy Report, No. 16, ifo Institute - Leibniz Institute for Economic Research at the University of Munich, Munich.
- <sup>21</sup> Beetsma, R, M Buti and F Nicoli (2024), [“Investing in defence as a European public good”](#); VoxEU Column, 16 September; Nicoli, Francesco, Beetsma, Roel, Beetsma (2024), [“Joint public procurement as a tool for European Union industrial policy”](#); Bruegel Policy Brief No. 18/24.
- <sup>22</sup> Marco, Buti, Alessandro, Coloccia, Marcello, Messori (2023), [“European public goods | CEPR”](#), Centre for Economic Policy Research.
- <sup>23</sup> Lagarde, Christine, [“Europe’s “global euro” moment”](#), The ECB Blog, 17 June 2025.
- <sup>24</sup> Zuleeg, Fabian, Emmanouilidis, Janis A., and Möller, Almut (2024). [“Confronting the permacrises: Time for a supra- governmental avantgarde”](#), Brussels: European Policy Centre.
- <sup>25</sup> European Commission, [“The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation”](#), p.10.
- <sup>26</sup> Ursula von der Leyen (2025), [Speech by President von der Leyen at the Annual EU Budget Conference 2025](#), Brussels, 20 May 2025.
- <sup>27</sup> Lausberg, Philipp, Rubio, Eulalia (2025) [“Beyond ad-hoc responses: Strengthening the EU’s fiscal capacity for security and climate”](#), Brussels: European Policy Centre.
- <sup>28</sup> See reforms in 2014: European Parliament (2014), [REPORT on cohesion policy and the review of the Europe 2020 strategy](#).
- <sup>29</sup> European Court of Auditors (2017), [Special Report No. 2](#).
- <sup>30</sup> Ibid.; Based on the operations approved as of end-2023, the InvestEU Fund is estimated to mobilise around EUR 218 billion, with EUR 141 billion expected from private sources.
- <sup>31</sup> European Commission (2025), [Interim Evaluation of the InvestEU Programme](#), Final Report, p.109.
- <sup>32</sup> European Commission (2025), [The road to the next multiannual financial framework](#), Strasbourg. Draghi, Mario (2024), [“The Future of European Competitiveness”](#), p. 289; Mack, Sebastian, Findeisen, Francesco (2024), [“Do more with more - How the EU can improve funding for the European Green Deal”](#), Berlin: Jacques Delors Centre.
- <sup>33</sup> See for example: Gahlot, Silpha (2024), [“Catching the sun: Adapting solar power to the challenges of climate change: Avoiding gridlock: The Impact of climate on electric grids”](#), SwissRe Institute.
- <sup>34</sup> European Commission (2025), [The road to the next multiannual financial framework](#), Strasbourg. Draghi, Mario (2024), [“The Future of European Competitiveness”](#), p. 289; Mack, Sebastian, Findeisen, Francesco (2024), [“Do more with more - How the EU can improve funding for the European Green Deal”](#), Berlin: Jacques Delors Centre.
- <sup>35</sup> Covering up to 60% of additional capital and operational costs mainly through grants helping to leverage private capital for innovative, large-scale decarbonisation projects, the Innovation Fund is a suitable vehicle to address the issue of scale-up financing. However, the total money available for the fund is likely not to exceed 40 billion euro between 2020 to 2030 from ETS revenues, which is not enough to effectively address the green financing gap.
- <sup>36</sup> Both the EIB and the EIF have some equity programmes, but they are limited. Moreover, the European Innovation Council (EIC) Fund provides startups directly with equity, but only until their early-growth phase.
- <sup>37</sup> Mack, Sebastian (2024), [“Europe ventures forward: Getting the scaleup of cleantech right”](#), Berlin: Jacques Delors Centre.
- <sup>38</sup> Ibid. In the EU institutional investors provide only 30% of VC funds capital compared to 72% in the US.
- <sup>39</sup> Draghi, Mario (2024), [“The Future of European Competitiveness”](#).
- <sup>40</sup> European Investment Bank (2024), [“The scale-up gap: Financial market constraints holding back innovative firms in the European Union”](#); see for example: Milne, Richard (2024), [“Klarna’s US listing is a sad reflection of Europe’s failings”](#), *Financial Times*, 20 November 2024.
- <sup>41</sup> Tamma, Paola (2025), [“Can Europe finally fix its capital markets?”](#), *Financial Times*, 13 May 2025.
- <sup>42</sup> The European Tech Champions’ Initiative (ETCI) was launched in February 2023, providing funding to create larger VC funds. Currently, four EU member states provide 3,75 billion euro targeting 15 funds, with the goal to provide more large ticket financing. The European Tech Champions’ Initiative (ETCI) was launched in February 2023, providing funding to create larger VC funds. Currently, four EU member states provide 3,75 billion euro targeting 15 funds, with the goal to provide more large ticket financing.
- <sup>43</sup> The EIB has proposed expanding the ETCI. See: European Investment Bank (2024), [“EU finance ministers welcome proposals for new EIB Group initiatives to deepen Europe’s capital markets, channel savings into productive investments and boost”](#).
- <sup>44</sup> European Commission, [“The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation”](#), p.10.
- <sup>45</sup> EU venture capital is still underdeveloped, with funds raising just 5% of global venture capital versus 52% in the US. Only 2 VC funds are larger than 1 billion, compared to 13 in the US. See: European Chiara Fratto, Chiara, Gatti, Matteo, Kivernyk, Anastasia, Sinnot, Emily, van der Wielen, Wouter (2024) [“The scale-up gap: Financial market constraints holding back innovative firms in the European Union”](#), European Investment Bank.

- <sup>46</sup> European Commission (2025), [The road to the next multiannual financial framework](#).
- <sup>47</sup> Jäger, Philipp, Redeker, Nils (2025), [“Delivering on Draghi – The EU’s clean industrial strategy”](#). Berlin: Jacques Delors institute.
- <sup>48</sup> The Hydrogen Europe Quarterly Magazine, (2025) [“Funding the transition”](#), Issue Q1.
- <sup>49</sup> European Commission, (2025) [Approved integrated Important Projects of Common European Interest \(IPCEI\)](#), (accessed 02 July 2025).
- <sup>50</sup> For example, the IPCEI on Microelectronics provided some €1.9 billion worth of state aid (2019-2023) to support the development of multiple chip fabrication facilities and pilot lines that have been extended for mass chip production, as well as accelerating the first application of Extreme Ultraviolet (EUV) chip nano-lithography. See: European Court of Auditors (2025), [“The EU’s strategy for microchips – Reasonable progress in its implementation but the Chips Act is very unlikely to be sufficient to reach the overly ambitious Digital Decade target”](#), special report 12/2025.
- <sup>51</sup> European Commission (2025), [State aid Scoreboard 2024](#), 8 April 2025, p.100.
- <sup>52</sup> [“Assessing the implementation of hydrogen IPCEIs: Challenges and Opportunities”](#), The Hydrogen Europe Quarterly Magazine (accessed 02 July 2025).
- <sup>53</sup> Poitiers, Nicolas, Weil, Pauline (2022) [“Opaque and ill defined: the problems with Europe’s IPCEI subsidy framework”](#), blogpost, Brussels: Bruegel.
- <sup>54</sup> Lausberg, Philipp, Folkman, Varg, Allen Chris (2025), [“Making IPCEIs a new vanguard for EU industrial policy”](#), Brussels: European Policy Centre.
- <sup>55</sup> See: Letta, Enrico (2024), [“Much more than a market”](#), p.40; Draghi, Mario (2024), [“The Future of European Competitiveness”](#), e.g. p.305.
- <sup>56</sup> European Commission (2025), [The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation](#), Brussels, p.12.
- <sup>57</sup> European Investment Bank (2024), [“Financial Report 2023”](#), Luxembourg.
- <sup>58</sup> The National Promotional Banks and Institutions (NPBIs) participating under InvestEU include Cassa Depositi e Prestiti Equity (CDPE, Italy), Caisse des Dépôts et Consignations (CDC, France), Instituto de Credito Oficial (ICO, Spain), Cassa Depositi e Prestiti (CDP, Italy), Bank Gospodarstwa Krajowego (BGK, Poland), Bpifrance (France), Invest-NL (Netherlands), Garantiqa (Hungary) and Participatie Maatschappij Vlaanderen NV (PMV, Belgium); Two additional IPs – Bulgarian Development Bank (BDB, Bulgaria) and Národní Rozvojová Banka, a.s. (NRB, Czech Republic) are exclusively involved in the implementation of the Member State Compartment. The International Financial Institutions (IFIs) participating under InvestEU include the Council of Europe Development Bank (CEB), the Nordic Investment Bank (NIB), and the European Bank for Reconstruction and Development (EBRD).
- <sup>59</sup> Since 2019, the project promoters AFIF has supported have benefitted from almost 2 billion in grants.
- <sup>60</sup> Apart from the CEF and InvestEU, it is used in the Public Sector Loan Facility, the third pillar of the Just Transition Mechanism.
- <sup>61</sup> DG ECFIN, European Commission, April 2025.
- <sup>62</sup> European Commission (2024), [Interim Evaluation of the InvestEU Programme](#), Final Report, Brussels.
- <sup>63</sup> Interviews with NPBI representatives.
- <sup>64</sup> European Investment Fund, [“NPI Equity Platform”](#), (accessed 02 July 2025).
- <sup>65</sup> Tamma, Paola (2025), [“Can Europe finally fix its capital markets?”](#), *Financial Times*, 13 May 2025.
- <sup>66</sup> Letta, Enrico (2024), [“Much more than a market”](#).
- <sup>67</sup> European Insurance and Occupational Pensions Authority (EIOPA) (2024), [“EIOPA Financial Stability Report”](#).
- <sup>68</sup> Pension funds are much smaller than in other regions, such as in the US due to a fragmented market. See: Pensions Europe (2025), [Economics and Finance](#).
- <sup>69</sup> John Thornhill (2024), [“Why Europe needs its own Nasdaq”](#), *Financial Times*, 5 September 2024.
- <sup>70</sup> Richard Milne (2025), [“Europe must act to stop tech start-ups leaving to list in US, Swedish PM warns”](#), *Financial Times*, 21 March 2025.
- <sup>71</sup> Draghi, Mario (2024), [“The Future of European Competitiveness”](#).
- <sup>72</sup> The EU banking system proved its resilience when it was unaffected by systemic pressures from the Silicon Valley bank crisis in the US and the failure of Credit Swiss in 2023. See: Bourgerie-Gonse, Théo (2023), [“SVB collapse has ‘limited’ impact on EU banks, Commission says”](#), *Euractiv*, 16 March 2023.
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- <sup>78</sup> EY (2024) [“Amid global competition for investment, what more can Europe do?”](#), Attractiveness Survey.
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- <sup>80</sup> European Commission (2025), [Savings and Investments Union. A Strategy to Foster Citizens’ Wealth and Economic Competitiveness in the EU](#) (accessed 02 July 2025).
- <sup>81</sup> National Investment and Infrastructure Fund Limited (NIIFL), [“NIIFL launches ~USD 600 million bi-lateral India-Japan Fund”](#) (accessed 02 July 2025).
- <sup>82</sup> Lewis, Leo, Keohane, David, Sevastopulo, Demetri (2025), [“SoftBank’s Masayoshi Son floats idea of US-Japan sovereign wealth fund”](#), *Financial Times*, 25 May 2025.
- <sup>83</sup> European Commission (2025), [“List of participating countries in Horizon Europe”](#), Brussels.
- <sup>84</sup> Since 2017, the EU has launched eleven Industrial Alliances, which play an active role in Europe’s technological and industrial ecosystem development, covering most of today’s critical areas of industrial competition and dependencies, from raw materials to batteries, cloud technologies, and small nuclear reactors. These platforms bring together industry, researchers, civil society, and public authorities to foster partnerships across value chain partnerships and drive coordinated action. See Bosticco, R. (2025), [“Could European industrial alliances be the hidden drivers of European growth?”](#), Brussels: European Policy Centre.
- <sup>85</sup> In some suitable cases, grants could also be administered by Implementing Partners.
- <sup>86</sup> See Draghi, Mario (2024), [“The Future of European Competitiveness”](#), e.g. p.305.
- <sup>87</sup> [“Marguerite”](#), (02 July 2025).
- <sup>88</sup> Noyer, Christian (2025), [“Revitalizing securitisation is a strategic necessity for the EU”](#), *The EUROFI Magazine*, Warsaw.
- <sup>89</sup> [SwissRe suggest](#) that creating aggregation platforms, to securitise infrastructure assets can improve the risk-return profile and overall financial attractiveness of infrastructure projects, attracting institutional investors.
- <sup>90</sup> Draghi, Mario (2024), [“The Future of European Competitiveness”](#), p.289 (accessed 02 July 2025).
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- <sup>92</sup> De Santis, Roberto A., Hettler, Katja, Roos, Madelaine, Tamburrini, Fabio (2018), [“Purchases of green bonds under the Eurosystem’s asset purchase programme”](#), ECB Economic Bulletin, Issue 7/2018.
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- <sup>94</sup> Mari Novik, Mary McDougall and Harriet Agnew (2025), [“Asset managers race to set up European defence funds”](#), *Financial Times*, 27 March 2025.
- <sup>95</sup> Dunkley, Emma (2025) [“Global asset managers gear up for active ETF boom in Europe”](#), *Financial Times*, 19 January 2025.
- <sup>96</sup> Direct procurement of weapons for EU military operations using the EU budget remains prohibited under Article 41(2) TEU.
- <sup>97</sup> Security Action for Europe
- <sup>98</sup> Support to mitigate Unemployment Risks in an Emergency
- <sup>99</sup> To get this initiative past opposed member states like Hungary, the Commission plans to use Article 122 TFEU allowing for qualified majority voting.
- <sup>100</sup> Lausberg, Philipp, Zuleeg, Fabian (2025), [“Thinking outside the Multiannual Financial Framework: Financing Europe’s security priorities”](#), Brussels: European policy Centre.

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