



PUBLIC INVESTMENT IN THE PROPOSED 2028-2034 EU BUDGET

NEEDS, GAPS AND OPTIONS

ABSTRACT

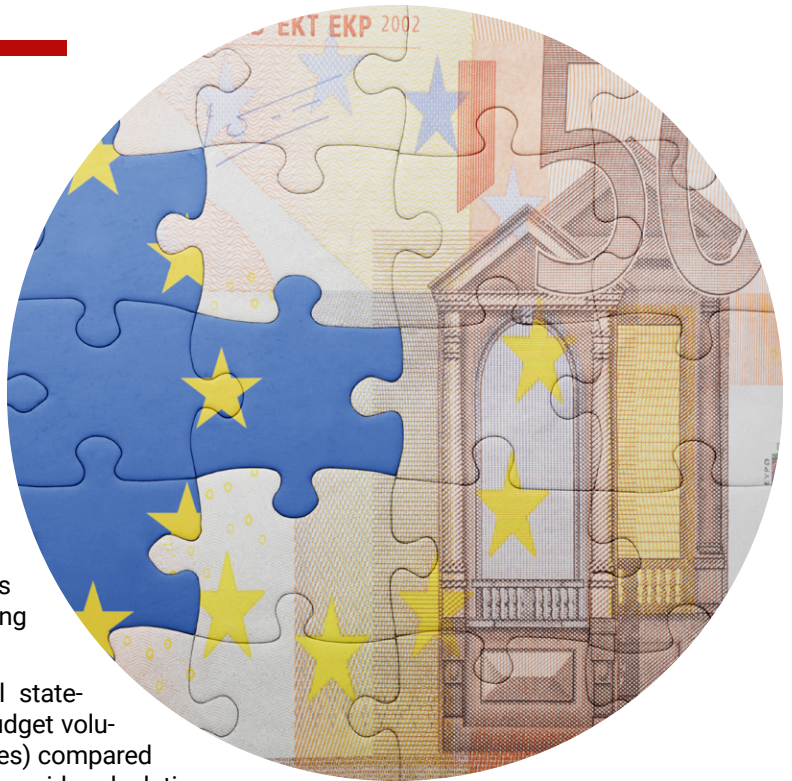
While the political debate on the Multiannual Financial Framework (MFF) has until now concentrated on the architecture of agricultural and cohesion spending, we argue that the European Commission's proposal for the next EU MFF 2028-34 should also be assessed based on its ability to address the EU's current and future challenges. Does the EU budget provide sufficient public investment for digitalisation, just transition, geo-economic resilience and defence to prevent rising costs threatening fiscal sustainability in the future? Based on an in-depth analysis of the Commission's proposal and contrasting it with studies on investment needs across policy fields and the current budget, we draw the following conclusions.

Firstly, contrary to the European Commission's official statements, the MFF proposal is far from ambitious. When budget volumes – the proposed increase to €1,763 billion (2025 prices) compared with the current MFF of €1,234 billion (2025 prices) – are considered relative to the size of the EU economy, it becomes clear that the proposal largely just offsets inflation and the repayment of Next Generation EU (NGEU) bonds. Member states would face some contribution increases in 2028, but these equally largely reflect lower-than-expected contributions today due to the inflation crisis, rather than financing a marked growth of the EU budget. The picture worsens when off-budget instruments are considered. In particular, NGEU significantly boosted the financial capacity of the current MFF period, a boost that is not fully compensated for, even when including all off-budget and loan instruments, such as Catalyst Europe, Security Action for Europe (SAFE) and the Crisis Response Mechanism.

Secondly, despite a stronger investment focus in the proposed MFF, the public investment gap remains substantial from 2028 onwards if the proposal were to pass as it stands: around 1.5% of gross national income at the EU level and over 2% at the national level in necessary additional investments remain each year. While public investment gaps in defence and resilience are likely to narrow, they widen considerably regarding decarbonisation.

To address these shortfalls without raising member state contributions, we propose and discuss three concrete reform avenues to strengthen public investment during the next EU budget period:

- 1) Reform the EU fiscal rules to be more friendly to national investment.
- 2) Expand EU own resources more ambitiously to fund more EU-level investment.
- 3) Use the national escape clause more comprehensively to fully unlock planned off-budget loan instruments.



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TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
1. HOW MUCH ADDITIONAL FIREPOWER DOES THE PROPOSED MULTIANNUAL FINANCIAL FRAMEWORK (MFF) BRING TO DELIVER ON EU GOALS?	5
2. IS THE PROPOSED MFF ABLE TO ADDRESS EXISTING PUBLIC INVESTMENT GAPS IN THE EU?	8
2.1 Investment needs for a sustainable, competitive and resilient EU.....	8
2.2 Why the MFF proposal fails to close EU investment gaps despite strengthening public investment.....	10
2.3 Why the EU fiscal rules prevent closing public investment gaps at the national level.....	13
2.4 Why even the new national escape clauses (NECs) for defence do not close public investment gaps	14
3. HOW MORE PUBLIC INVESTMENT COULD BE UNLOCKED IN THE NEXT EU BUDGET WITHOUT ADDITIONAL MEMBER STATE CONTRIBUTIONS.....	16
3.1 Strengthen national public investment in the EU's fiscal rules	17
3.1.1 Exempting fiscally sustainable public investment from the fiscal rules	17
3.1.2 Exempting co-financing of EU investments from the fiscal rules.....	18
3.2 More own resources for more EU-level investment.....	18
3.2.1 Purpose and legal basis of an EU investment fund.....	19
3.2.2 Needed own resources to finance an EU investment funds	19
3.3 Strengthen EU off-budget loan instruments' fiscal firepower.....	20
Annex	24
1 Comparing the current and proposed next MFF including off-budget instruments.....	24
2 Classifying investment in the (new and old) EU budget.....	25
Endnotes	40
About the authors	42
About FEPS and partners	43

EXECUTIVE SUMMARY

In July 2025, the European Commission presented its long-awaited proposal for the next budget of the EU, the so-called Multiannual Financial Framework (MFF) for 2028-2034. The negotiations are expected to last for up to two years. Its outcome will decisively shape EU policy for the next decade, not least since the proposal entails a radical restructuring of the EU budget. In the Commission's own words, the proposal „aims at squaring the circle between a budget fit for our ambitions, stable national contributions and the need for new sources of revenue“.¹

The political debate on the MFF in the Council has so far focussed particularly on the volume of the MFF. Negotiations on limiting the volume of the MFF are always contentious, as the EU budget constitutes an important source of funding for public expenditure for some member states. Others, however, fear increased contributions to the EU budget, which would further limit their fiscal room for manoeuvre at the national level. This is especially so today because negotiations follow the crisis years of 2020-2023, where many member states rightly opted for an expansive fiscal policy to support economic activity and cushion negative social impacts. Since last year, however, a reformed fiscal framework has been adopted, tightening significantly the fiscal space available to member states and requiring sustained consolidation.

In the European Parliament, the debate instead primarily focuses on the governance and structure of the MFF. Particularly, the so-called „Multifund“ proposal has aroused staunch criticism in the European Parliament. There is rightly criticism that merging previously separate funds could create distributional conflicts, with cohesion, social and rural development objectives potentially being crowded out by short-term security and migration priorities. Another problem is the strong link between the Multifund and the European Semester and the potential downgrading of the European Parliament, regional actors and civil society organisations including trade unions in the allocation, management and monitoring of cohesion funds.

In our view, the EU budget must be assessed based on whether it can adequately address the challenges facing the EU today. A crucial missing question therefore is whether the EU budget provides sufficient public investment to unlock private investment and address pressing needs in digitalisation, just transition, geoeconomic resilience and defence. How does the MFF compare in terms of investment firepower? Will the next MFF make the public investment gap smaller or bigger? In which sectors are investment gaps adequately addressed by the proposal?

To address these questions, this policy brief provides an in-depth analysis of the MFF proposal and its investment capacity. Specifically, we identify the share of public investment spending in each programme of the proposed MFF headings and categorise the sectors that will particularly profit from each spending programme. We then contrast the MFF proposal (against the baseline of today's MFF) with existing estimates for investment needs across key investment fields (defence, decarbonisation, digitalisation, international climate finance, environmental protection and geoeconomic resilience) to assess whether the MFF proposal is fit for the future.

Our results show that, despite an increased focus on public investment, the proposed MFF will fail to close the large public investment gaps in the EU. Worse, the remaining public investment gaps of around 1.5% of gross national income (GNI) at the EU level and over 2% at the national level cannot be closed by member states under the current fiscal rules (despite the new escape clauses for defence).

In response, we offer three reform avenues to unlock greater public investment without additional member state contributions: (1) a national-investment-friendly reform of the fiscal rules; (2) more EU own resources for more EU investment; and (3) more comprehensive use of the escape clause from 2028 onwards to unlock the full firepower of off-budget loan instruments.

A focus on the investment firepower of the MFF was rightly at the core of progressive demands in

the last years – but has not materialised to date. Progressive actors such as the S&D in the European Parliament;² the European trade union confederation ETUC;³ and even the EESC,⁴ which includes business representatives alongside civil society and trade unions, have demanded an investment capacity to hold investment levels on a competitive level (ETUC) or even more specifically to „ensure at least 1% of EU GDP annually of additional public investment funding“ (S&D).⁵ These demands were clearly not met by the new MFF proposal, according to our analysis, despite a laudably growing focus on investment into European public goods.

With this analysis, we aim to bring the issue of public investment back to the centre of the political debate and provide solid data to inform the upcoming negotiations. In many observers' view, the current debate seems closed off to significantly greater public investment both in the EU institutions and within member states given the shifting of power to the (far) right in 2024. However, the European Parliament equally needs to agree to pass the next EU budget in the end and if conservatives do not want to pass one with the far right alone, they will need support from progressives to do so. Furthermore, tightening fiscal constraints and domestic opposition to cuts in a still barely growing EU economy facing several external crises may eventually render member states more open to negotiate solutions as 2028 approaches – especially if progressives in the European Parliament and trade unions offer both principled pressure and constructive proposals.

1. HOW MUCH ADDITIONAL FIREPOWER DOES THE PROPOSED MULTIANNUAL FINANCIAL FRAMEWORK (MFF) BRING TO DELIVER ON EU GOALS?

The next EU budget proposal implies a substantial increase in contributions for member states, which makes it seem ambitious to the Commission and too large to some capitals. The Commission proposal in July 2025 contained a widely circulated headline volume of around €2 trillion in current prices. This seems like a very large increase of around 40 percentage points from today's budget of €1,211

billion in equivalent terms. While the Commission also proposed new EU own resources, as things stand, the proposal would imply greater annual payments being made by member states to Brussels for EU programmes, leading the Commission to call the proposal ambitious and frugal capitals immediately signalling that such contribution increases are too high.

However, this perspective and comparison to today's budget is misleading for several reasons. Firstly, the Commission's use of a current price level corrects the budget's size upwards using ten-year forecasts to account for inflation and allow proper budgetary planning, even though today's budgetary commitments cannot buy more future goods when their value decreases with inflation. The 2024 revision of the MFF in response to the preceding inflation crisis illustrates this point: commitments had to be increased compared to the planned budget, precisely because inflation had eroded its real value. Secondly, using (real) 2025 euro volumes instead thus more accurately captures the purchasing power of both budgets today to reveal changes between them. Doing so already shows that the increase is more limited: the proposal amounts to €1,763 billion in 2025 prices using the EU's official 2% fixed deflator, a 30-percentage-point increase from today's budget of €1,234 billion in the same unit. Finally, considering budget volumes relative to the EU economy shows most clearly how significant the absolute numbers discussed until now are in practice (including to member states who also receive greater revenues as their economies grow). In these terms, the proposal foresees a budget of 1.26% of the EU's gross national income (GNI), corresponding to a 20-percentage-point increase from today's budget, which stands at 1.01% of EU GNI in today's prices.

More meaningful comparisons instead show that the proposed increases almost exclusively compensate for inflation losses and repaying Next Generation EU (NGEU) bonds. Firstly, judging the current MFF from the perspective of when member states passed it more accurately shows its ambition than today's viewpoint using 2025 prices and GNI estimates. Put simply, today's budget was worth

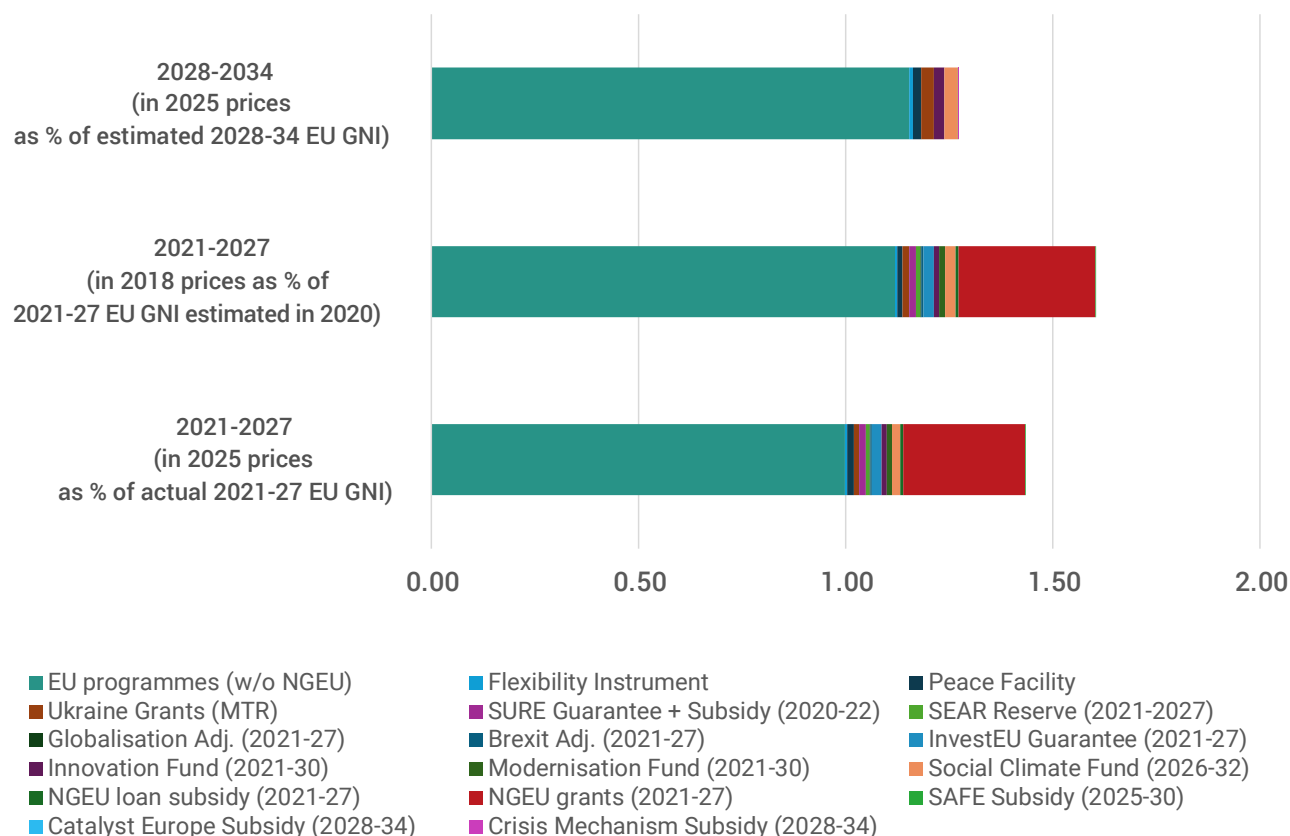
considerably more when it was politically agreed in 2020 due to much-higher-than-expected inflation from 2022 onwards and the EU's use of a fixed 2% deflator for MFF commitments: using the estimates of GNI for the current budget available in late 2020, today's MFF of €1,074 billion (in 2018 prices) passed with greater ambition, as this volume seemed (then) to amount to 1.13% of EU GNI. Member states thus signed up to pay more in contributions back then, with inflation reducing actual payments since then considerably (put simply, they increased by 2% annually relative to an EU economy inflating by over 5% on average until 2024). Secondly, member states promised⁶ in 2020 that the firepower generated by NGEU to fight COVID-19 would not lower future EU budgets to repay the bonds. In the now proposed next budget, however, NGEU repayment makes up around €149 billion (in 2025 prices) or 0.11% of EU GNI – meaning that 9% of the total proposed budget would not add any firepower to deliver on EU goals from 2028 onwards. Without these, the proposal amounts to 1.15% of EU GNI. The absolute increases in the MFF proposal compared to today thus almost exclusively compensate for the purchasing power losses since the inflation crisis and for repaying the COVID-19 recovery fund, rather than adding fresh funds to address growing demands on the EU in a time of multiple global crises.

Taking this into account, the proposed firepower of the next budget is arguably less ambitious than today's, especially once we consider NGEU. Stripping NGEU repayments out from the proposal, the next budget would only be around 0.03% of EU GNI larger than today's MFF (also without NGEU repayment) was when it was agreed – and this is before any negotiations with member states, who are likely to demand (and achieve) further cuts to the overall budget. Furthermore, when we include that the last MFF grew substantially in response to the COVID-19 pandemic, the proposed new budget's firepower is already much smaller than the current one, even when we ignore that today's MFF's original value eroded due to high inflation. Adding the grant component of NGEU and reinforcements of EU programmes, the current budget grew to €1,464 billion in 2018 prices, which corresponded to 1.54% of EU GNI at the time of agreement. Even when

we strip out inflation to compare the two budgets' economic firepower in practice, today's MFF remains larger including the NGEU grants: in 2025 prices and using the latest GNI estimates, today's MFF including the grant portion of NGEU amounts to €1,674 billion or 1.37% of the EU's GNI.

Off-budget instruments add considerable extra volume to the current and proposed next budget but tell a similar story of large absolute numbers masking a less ambitious proposal. Nominally, the Commission proposed a total of three large off-budget instruments for the next MFF period: the Catalyst Europe instrument of around €115 billion for member states to increase funding for the new national and regional partnership plans; the Crisis Response Mechanism of around €350 billion to be activated in crisis time; and the Security Action for Europe (SAFE) instrument of €150 billion for defence financing, which is already in place and will last until 2030 (all values in 2025 prices). In each of these, the Commission proposes to borrow from capital markets and lend the money to member states up to the specified volumes. However, under the current fiscal rules such loan instruments only offer additional firepower in the form of an implied interest rate subsidy: most member states cannot take on additional debt, even from the EU itself, without making cuts elsewhere. This is because the fiscal rules contain so-called safeguards for minimum debt and deficit reduction, which operate based on total debt and deficit levels, meaning that greater expenditure using EU loan instruments would need lower expenditure elsewhere. In contrast, EU loan instruments do offer direct financial advantages for those member states with more expensive borrowing conditions than the EU itself in the form of an implied interest rate subsidy. However, while relevant for individual states, this adds little overall firepower to the MFF proposal: On average, Bruegel recently estimated that the SAFE instrument, for example, would imply an interest rate subsidy worth around 1% of the total instrument volume of €150 billion.

**Figure 1: Comparison of MFF firepower incl. off-budget elements
(grants, guarantees and implied interest rate subsidies only)**



Including off-budget instruments, the proposed new budget would be smaller relative to the EU economy than today's MFF including NGEU grants, even when we ignore the inflation loss being replaced since 2020. If we include all additional money in the form of budget guarantees, direct contributions and implied interest rate subsidies to the SAFE instrument (to finance defence spending loans), the European Peace Facility (EPF; to finance crisis missions and military equipment), the EU's Ukraine support, the Flexibility Instrument (to cover unplanned crisis costs), and the estimated implied interest rate subsidies for the proposed Catalyst Fund and for the Crisis Instrument loans (see Annex for details), the proposed next budget would rise to €1,784 billion in today's prices, or 1.28% of the EU's GNI (or €1,934 billion, which is 1.38% of EU GNI, including NGEU repayment). This is more than today's budget offers only in absolute terms: if we

add – in addition to the NGEU grant portion – the budget guarantees, direct contributions or implied interest rate subsidies of the various off-budget instruments existing today (see Annex for details), the total volume of the 2021-2027 MFF rises to €1,528 billion in 2018 prices. That corresponds to 1.6% of the EU's estimated GNI over the 2021-2027 period. Adjusting these volumes to the inflation losses since then, the last EU budget had a value of €1,755 billion in 2025 prices using the fixed MFF deflator, corresponding only to 1.43% of the EU's latest GNI estimates. Relative to the EU's (grown and more expensive) economy, the proposal's firepower including off-budget instruments but without NGEU repayments is thus around 14 percentage points larger than today's MFF, which has been devalued since its adoption, but much smaller when we include the NGEU grants. And its ambition without NGEU repayments is similar to the last budget

agreement, even without the additional NGEU grants passed at the same time.⁷

2. IS THE PROPOSED MFF ABLE TO ADDRESS EXISTING PUBLIC INVESTMENT GAPS IN THE EU?

Even more importantly in our view, the EU budget needs to be judged against the task of securing the continent's future given the massive challenges it faces and the commitments it has agreed to in response. As we have argued more extensively in [previous work](#) – and as few would disagree with across the political spectrum – the EU faces a historically challenging moment, which is marked by geopolitical aggression and vulnerabilities, the accelerating climate and biodiversity crises, as well as an increasingly multipolar world order where Europe's wealth is challenged by rising powers and their rapidly improving positions in global value chains.

2.1 Investment needs for a sustainable, competitive and resilient EU

To evaluate the new EU budget proposal's capacity to invest in securing the EU's future, we compare its additional investments to the most comprehensive existing estimates of EU-level public investment gaps in the EU across six key sectors: defence; decarbonisation; digitalisation; international climate finance; environmental protection; and geoeconomic resilience. For each sector, the EU and its member states have agreed on political goals to help confront the challenges it faces today, but funding to achieve these goals in practice is widely acknowledged to remain insufficient to date.

Building on our [previous work](#),⁸ we derive conservative estimates of investment gaps for each sector in two steps: (1) we quantify the total investment gap (both private and public); (2) within the public investment gap, we differentiate between national- and EU-level investment gaps, according to which parts are most efficiently and effectively delivered at the regional level. We use data from three main sources: Bruegel's 2025 MFF blueprint

study, which brought together several existing studies of investment gaps in the EU and estimated private, public and EU-level investment shares for each of the first five sectors from the bottom up. Furthermore, the [Rousseau Institute](#) estimated in 2024 the annual investment needs to decarbonise agriculture, which we use here, as it is missing from the Bruegel blueprint. The European Commission's 2023 [strategic foresight report](#) estimated additional total investment needs for a geoeconomically resilient green economy in the EU, for which we estimate appropriate public and EU shares below. Each of these estimates refers to annual investment needs until 2030 and is converted into 2025 prices using a 2% deflator from the original 2024 prices for comparability.

Figure 2 visualises the estimated investment gaps. We justify them for each sector below:

- In the defence sector, the underlying study of Burilkov and Wolff estimates investment needs in rearmament and equipment procurement for a scenario where the EU would need to defend itself (and Ukraine) without the USA.⁹ The authors estimate that €250 billion annually would be needed in public investment to plug the US gap in European defence, of which €125 billion should be financed by the EU. This likely constitutes a lower-bound estimate, given that other defence-related expenditures are not covered, especially industrial policy and R&D.
- In the decarbonisation sector, the average estimate of total annual investments needed until 2030 from studies cited in the Bruegel blueprint¹⁰ (in their Table 3) amounts to €533 billion (consistent with estimates provided by the Rousseau Institute,¹¹ which they do not include in their study). Estimating the EU's share of total public investment with around 20% qualifying as European public goods (EPGs; as per their Table 3), the EU should provide €49 billion annually. This yields a remaining public investment gap of €245 billion and a private one of €288 billion. We add to this the costs to decarbonise agriculture in the EU, drawing on the Rousseau Institute's estimate of €44 billion of annual additional

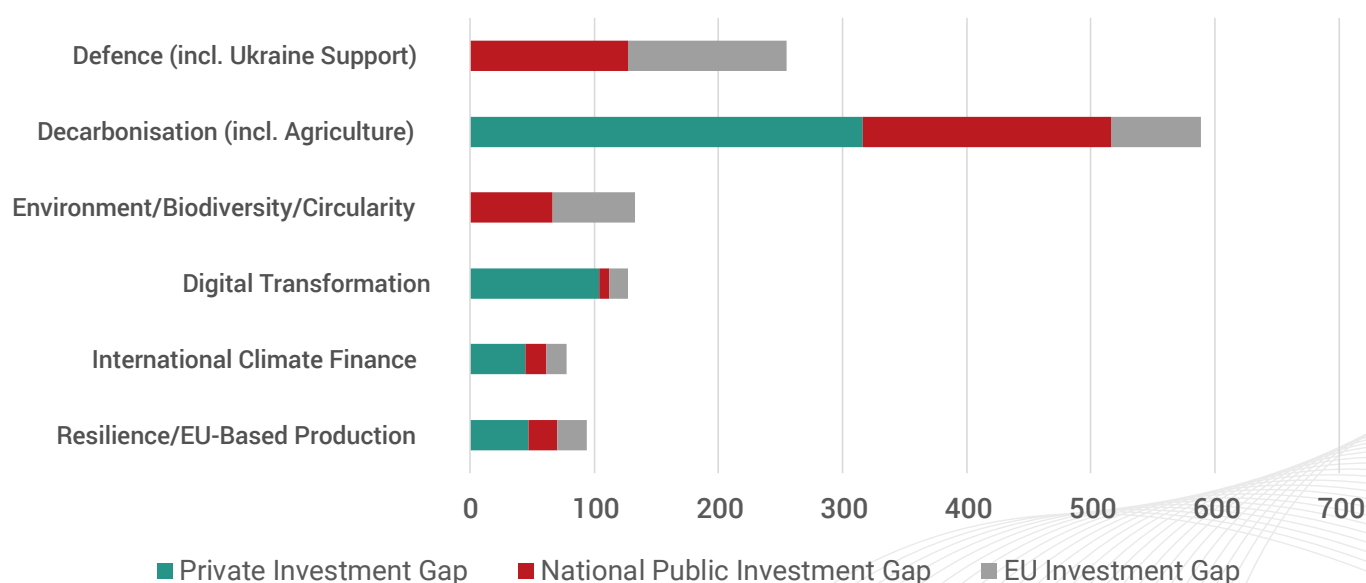
public investment needed (as well as €111 billion of additional annual private investment). Given that the EU has considerable authority under the Common Agricultural Policy and considers food security a EPG, we attribute half of this gap to the EU and the rest to national authorities.

- Next, the Bruegel blueprint estimated the annual costs of international climate finance at €410 billion globally, suggesting an EU-level investment gap of €16 billion annually to complement a €16 billion public investment gap for member states (after subtracting current annual EU and member state global climate financing of €28.5 billion). The global private sector is estimated as needing to contribute €301 billion annually, of which we display roughly €45 billion in Figure 2, which corresponds to the EU's share of global GDP.¹²
- In the digital sector, the Bruegel blueprint reports a total investment gap of €125 billion annually until 2030 based on the Commission's 2023 strategic foresight report and estimates that of these, the EU should provide €15 billion per

year where the case for a EPG is strong. Member states should bear another €8 billion annually, and the private sector should carry the rest.

- For environmental protection and biodiversity (which are textbook EPGs), they estimate that the EU should carry all of the 50% public share of total investments. As the Commission's 2023 foresight report estimates a €130 billion gap annually, this yields a private investment gap of €65 billion and an equal EU-level investment gap.
- Finally, to estimate the costs to ensure resilient supply chains in a world of geoeconomic competition, we rely on the same Commission report's estimates of costs to implement the Net-Zero Industry Act and its goal to secure 40% EU production across critical green technologies and supply chains. The Commission estimates €92 billion annually will be needed until 2030 to achieve this goal, of which we estimate a 50% public share and a 50% EU share of this public component given clear market failures to produce in the EU without public support and strong single market externalities.

Figure 2: Annual additional investment needs in the EU based on Bruegel (2025), Rousseau Institute (2024) and COM (2023), in billion € (2025 prices)



Sources: Bruegel, Rousseau Institute and European Commission.

Altogether, these estimates yield a total EU-level public investment gap of €321 billion annually until 2030, corresponding to over 1.8% of EU GNI.

Additionally, a national public investment gap of €442 billion per year remains, alongside a private investment gap of €512 billion annually. While these estimates are only calculated until 2030 (including in the data sources we used, other than those for agricultural decarbonisation), we consider that investment needs in each of these sectors is unlikely to decrease until 2034 when the next budget runs out. Put simply, the necessity to rearm and defend Europe won't be over or fully financed after five years, nor will the green and digital transitions, the biodiversity crisis, or the geoeconomic vulnerabilities justifying resilience investments into EU-based production.

Furthermore, despite these huge numbers, these estimates are arguably conservative because they likely underestimate public investment needs in several of these sectors:

- In defence, many important expenditures outside of physical equipment and procurement are not covered in these estimates.
- In decarbonisation and international climate finance, studies suggest that greater costs arise the longer existing targets are missed. As investment gaps cumulate, future costs rise disproportionately, leading to annual investment gaps growing the longer states delay closing them. Climate adaptation costs, in turn, are not included either. However, a recent [European Environmental Agency](#) report indicates a total investment gap of €49 billion annually for these alone.
- In environmental protection, not all costs of maintaining planetary health are included. A recent study by the European Environmental Agency, for example, estimated the investments needed to maintain biodiversity alone to be €21 billion annually in the EU, with water protection measures facing a gap of another €21 billion in financing annually.

- Regarding resilient supply chains and a minimum share of production for critical components located in the EU, the estimates refer only to net-zero technologies. However, many would argue that similar efforts to reduce dependencies are needed in other sectors like the digital economy (see, e.g., demands for a “Eurostack”).
- Finally, none of the studies quantify the needs in the field of social investments. The just transition will only be successful if social investments, especially in qualifications and training, are increased to smooth structural adjustment. Parts of these investments will have to be shouldered by the public sector, as individual firms have no sufficient incentive to provide social investments for intra- and intersectoral reskilling.

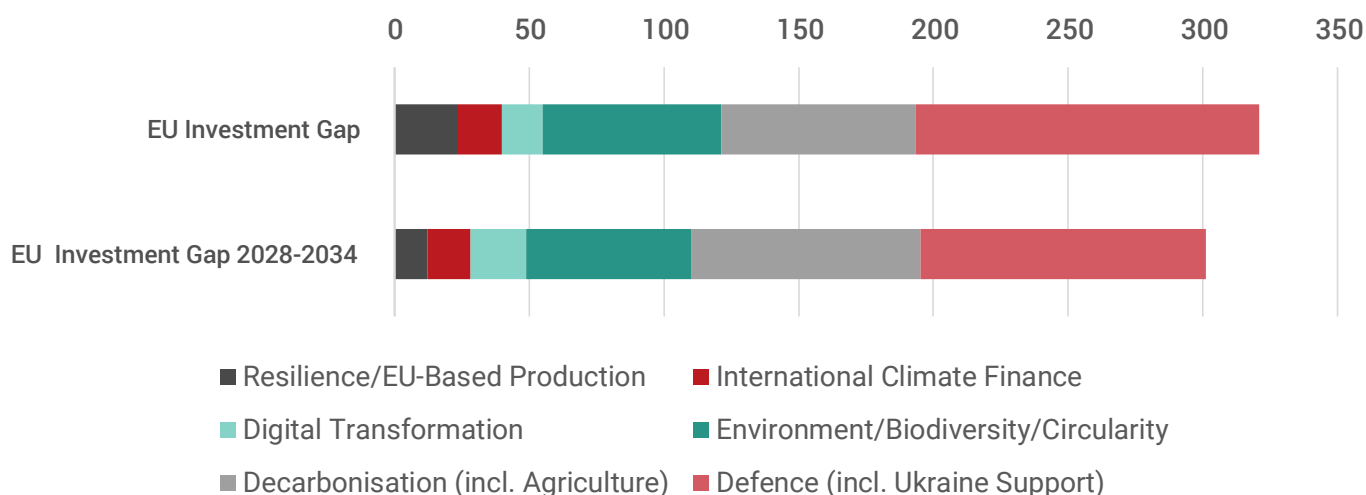
Our EU-level public investment gap of €321 billion or around 1.8% of EU GNI per year, and our even larger national public investment gap of €442 billion, thus constitute lower-bound estimates.

2.2 Why the MFF proposal fails to close EU investment gaps despite strengthening public investment

The proposed next MFF would fail to close these existing gaps in public investment at the EU level, despite increasing the level of EU investment compared to today. To arrive at this conclusion, we identify in the following the additional funding for EU investments the proposal offers compared to today's MFF. This means that we estimate the investment capacity of the current and proposed MFFs to calculate the additional investments that the proposed budget would provide from 2028 onwards. Then, we subtract this additional investment from the existing investment gaps calculated above. The result thus shows us the remaining annual EU-level public investment gap from 2028 onwards, if the current proposal were to pass as is.

To estimate the additional EU investments the proposal brings, we first categorise all spending in the proposal and in the current MFFs according to whether (and how much) it contains investment

Figure 3: Annual EU-level public investment gap in 2028-2034 vs. 2021-2027, in billion € (2025 prices)



expenditure. We define investment as spending on net fixed capital formation (which includes intangible assets like R&D) and additionally include explicitly capital assets such as natural resources into which investment can flow to contribute to future production as well as maintenance of the capital stock's value relative to environmental or military threats. In addition, in our analysis, public funds that aim to de-risk and thus crowd in private investment (for instance, in the form of guarantees, low-interest loans, subsidies etc.) are also categorised as investment expenditure. Finally, we include here off-budget instruments' additional firepower, both in the current budget and in the proposed next one, following the rationale of including only grants, guarantees and implied interest rate subsidies we discussed above. We provide tables with detailed information on our categorisation and estimated investment contributions by budget headings in the Annex.

Next, we attribute each investment expenditure of the current and proposed next MFF to one of the six sectors above for which we estimated EU investment gaps. For the current MFF, we also include here the spending shares of the NGEU grants, which contributed to each of the sectors above. Furthermore, we also consider here the mid-

term revision of the budget in 2024, which shuffled the budget's priorities and changed investment levels in some sectors, as well as creating a new (off-budget) fund to support Ukraine against the Russian invasion. Again, all categorisations and the sources for investment shares into our categories can be found in the Annex.

Our results show that EU-level investment gaps would shrink from 2028 onwards, despite a smaller budget relative to the EU economy, because the proposed EU budget increases the share of EU-level investment in its spending. As Figure 3 visualises, the total EU-level public investment gap would decrease with the proposed new EU budget from €320 billion to €301 billion per year. Expressed relative to the EU economy, the EU-level investment gap in these sectors would shrink from around 1.8% of the EU's GNI during today's budget to around 1.5% of the EU's GNI during the next budget. This is possible because the proposed next budget would increase the share of its spending that flows into investments into these six sectors (our estimates in Figure 4 suggest the MFF investment share into these investment fields would increase by 7 percentage points). This reflects a stronger focus on investments into key sectors in the proposed EU budget which is positive.¹³

Figure 4: Annual EU investments by sector & MFF incl. off-budget instruments, in billion € (2025 prices)

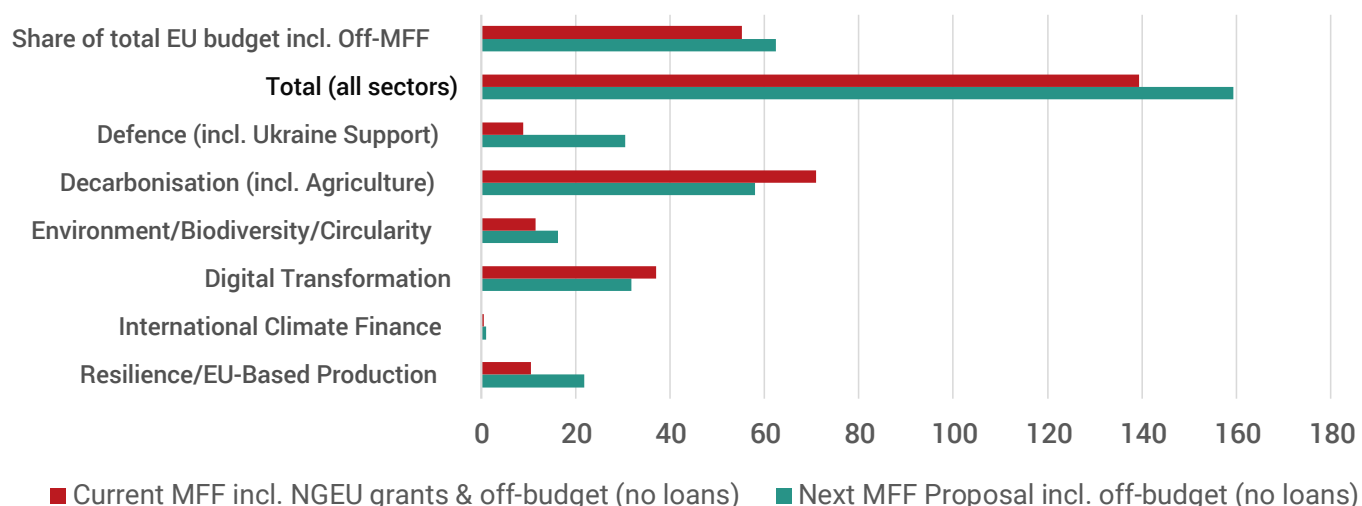
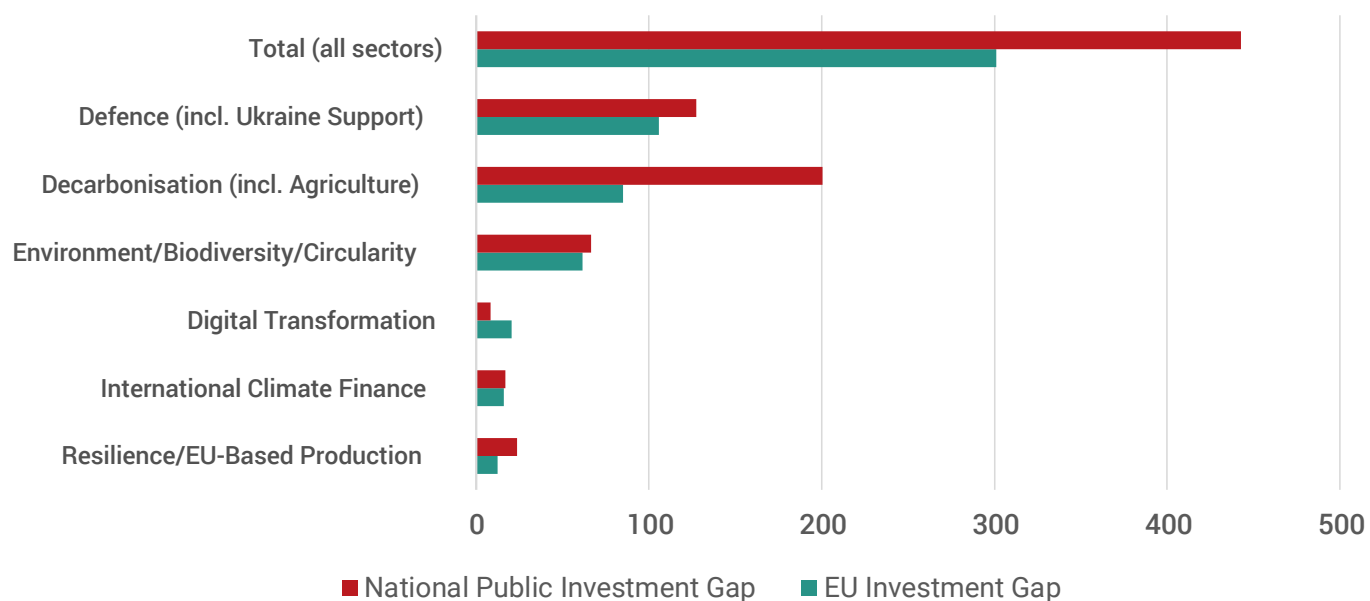


Figure 5: Remaining annual public investments gap in the EU from 2028 onwards, in billion € (2025 prices)



This limited advance in reducing existing investment gaps results from a reprioritisation away from the Green Deal towards defence and competitiveness without adding sufficient fresh funds. As Figure 4 summarises, in some sectors, the proposed EU

budget and its reprioritisations would contribute to narrowing existing investment gaps. This would be the case most notably in defence and regarding the resilience of net-zero value chains. On the contrary, the proposed EU budget would leave even greater

investment gaps, especially in decarbonisation but also for the digital transformation.

However, even with a greater public investment focus in the next MFF and its off-budget instruments, the EU would remain around 1.5% of its GNI short of its contribution to closing the investment gaps most critical to securing the continent's future. Importantly, these gaps refer only to public investment most efficiently and effectively done by the EU due to their EPG character. Additionally, member states would need to stem the remaining public investment gap for these sectors, which we estimated at around €440 billion per year (see Figure 5).

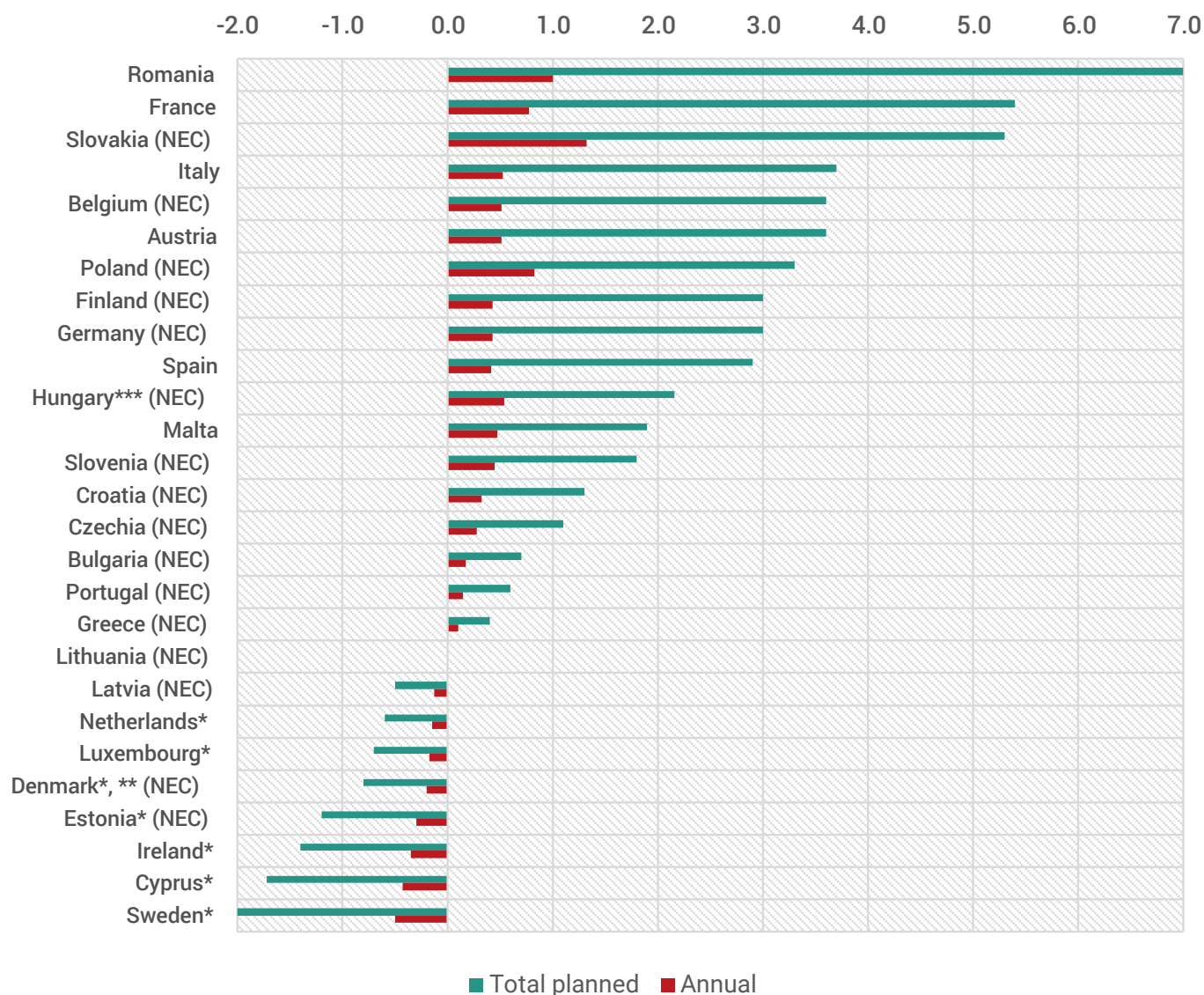
2.3 Why the EU fiscal rules prevent closing public investment gaps at the national level

Because the new EU fiscal rules imply contractionary fiscal policy in the coming years, these massive investment gaps cannot be closed by member states. According to new data from EU member states' fiscal-structural plans collected by Darvas et al. (forthcoming), two thirds of countries will face significant consolidation pressure in the coming years. As Figure 6 visualises, only Latvia, the Netherlands, Luxembourg, Denmark, Estonia, Ireland, Cyprus and Sweden have (limited) fiscal room to manoeuvre under the new fiscal rules.¹⁴ All others committed to reductions in their SPB (excluding interest rate costs and cyclical factors) from 2025 onwards, with differing levels of severity, depending on the Commission's debt sustainability analysis, the length of the adjustment period (4 or 7 years), and alternative methodological assumptions and justifications made by governments in their medium-term fiscal-structural plans (see Boivin and Darvas¹⁵). The Commission itself recently stated in its report on public finances that fiscal policy overall will be slightly contractionary until 2028.¹⁶

These consolidation demands on member state fiscal policy risk further undermining public investment levels to maintain growth, and thus fiscal sustainability, let alone begin to close the

above public investment gaps at the national and EU levels. Public investment is not systematically excluded from the safeguards on deficits and debt levels imposed by the new fiscal framework, nor from the calculation of the net expenditure path. Nonetheless, the Commission's recent report on public finances hopes that member state public investment levels will be protected during these consolidations because the rules enable a longer adjustment of seven years, including to protect public investment levels.¹⁷ However, according to a recent analysis of the first set of fiscal-structural plans,¹⁸ a third of countries already plan to decrease their public investment levels in the coming years to meet the new fiscal rules, and larger planned adjustments go along with deeper cuts to nationally financed public investment. Inversely, we know from evaluations of the Recovery and Resilience Facility (RRF) that the EU-level financing which NGEU provided has so far helped by boosting national-level investment levels during the COVID-19 and energy crises, especially compared to previous crises.¹⁹ More generally, public investment has positive effects on fiscal sustainability by boosting output and employment without crowding out private investment.²⁰ Overall, stronger consolidation requirements in the new fiscal rules are thus likely to bring about greater public investment decreases in the coming years, endangering fiscal sustainability and failing to close existing public investment gaps to prevent rising future costs.

Figure 6: Adjustments in structural primary balance under member states' medium-term fiscal-structural plans, in % of GDP from 2025 until 2028/2031 (based on Darvas et al., forthcoming)



Authors' own, elaboration, based on data from Darvas, Welslau, and Zettelmeyer (2025).

2.4 Why even the new national escape clauses (NECs) for defence do not close public investment gaps

In addition to these agreed net expenditure pathways for the coming four or seven years, member states have access to a NEC for defence-related expenditures proposed by von der Leyen's

Commission in response to the Ukraine war. This NEC was specified in a Commission communication as allowing a temporary deviation from these agreed expenditure pathways from 2025 until 2028 to a maximum extent of 1.5% of GDP *in total* (i.e., *not every year*). This additional leeway is available in practice only for those member states with expenditure pathways that are effectively limited by

the safeguards contained in the new EU fiscal rules – all others would first need to use all available fiscal space to reach one of the binding safeguards before the additionally allowed 1.5% of GDP came into play.

The net expenditure paths agreed with the Commission this year do not include the impact of the NEC yet (thus allowing additional expenditure for defence beyond the agreed maximums). As the German medium-term fiscal-structural plan (MTFSP), which the Commission later agreed, states:

“

This net expenditure path does not yet take into account the activation of the NEC for the German general government budget, which the Council will consult upon together with this MTFSP. This is not therefore the net expenditure path constituting the fiscal commitment in respect of which compliance is to be monitored on the basis of the annual progress reports over the duration of this MTFSP.²¹

”

In the case of Belgium, for example, temporary deviations from the agreed net expenditure path were granted between 2025 and 2028 up to a maximum of 1.5% of GDP relative to its defence expenditure in 2021.

To date, 16 member states have activated this NEC by applying to the Commission, including most recently Germany. In Figure 6, these states are highlighted with “(NEC)”. The remaining states chose not to activate the clause, primarily because they plan less defence expenditure increases, like Spain (partly a function of greater distance from Moscow), and/or due to fear of stoking bond markets and rising associated interest rate costs.

France and Italy, notably, have chosen not to use the NEC for the latter reason. The Commission’s assessments of fiscal-structural plans for member states like Germany show how the NEC works in practice: it suspends the safeguards between 2025 and 2028; verifies that substantial increases in defence spending (as defined by the Commission communication) happened since the NEC reference year of 2021 (0.5% of GDP in the case of Germany until 2025); and excludes annual defence expenditure increases between 2025 and 2028 (planned to rise up to 3% of GDP in Germany) from the control account up to the cap of 1.5% of GDP relative to 2021 (i.e., 2.5% of the total 3%). Increases beyond that (i.e., the remaining 0.5% of GDP in 2028 and the additional 0.33% the German government plans for 2029) would be subject to normal rules (both the Debt Sustainability Analysis and safeguards from 2029 onwards, as they may apply if the NEC is not prolonged) and assessed in annual progress reports delivered to the Commission.

Importantly, the NEC is not only limited until 2028 but will require even greater fiscal adjustments (and associated risks to public investment) from that point onwards by member states who activate it beforehand. The Commission recently calculated that the additional consolidation required could reach over 1% of GDP over the next adjustment period for some member states under four-year plans. Even if they were extended it to seven years, the additional consolidation requirements would range between 0.1 and 0.5% of GDP. Any positive effects on overall defence investment levels that the NEC allowed until 2028 would thus be followed by stronger consolidation efforts from 2029 onwards, risking greater cuts to public investment levels, as discussed above. In our understanding of the implementation of the NEC, for member states with seven-year plans (like Germany), the additional consolidation to make up for the NEC increases would start not in 2029 but only in 2032 with the next round of plans.²²

While the NECs are intended to help finance short-term increases in defence investments by member states, their effectiveness to close existing investment gaps remains limited in

practice. Whereas the Commission claims that the NEC would allow up to €650 billion in additional defence spending, it is difficult to calculate precisely the degree of fiscal room the NEC will deliver in practice: the states that activated the clause (see Figure 6) do not correspond fully to those with fiscal trajectories limited by the safeguards of the fiscal rules (according to the calculations of Darvas et al., Table 1²³). However, even an optimistic back-of-the-envelope calculation suggests that the effects until 2028 will fall far short of plugging the defence investment gaps calculated above. If the 16 member states that activated the NEC (are able to) use the full 1.5% of GDP fiscal leeway, this would correspond to around 45% of the EU's total economic size (according to the Commission's AMECO database). Full use of the maximum 1.5% in additional spending would thus yield about 0.675% of GDP (or around €113 billion) in additional defence investment until 2028. Compared to the national public defence investment gap of around €125 billion per year calculated above, this leaves a gap of around €387 billion without financing until 2028 or around €96 billion annually at the national level alone.

As things stand, the NEC thus would close only around 25% of the estimated national-level public defence investment gap (until 2028). We do not consider here the additional fiscal room implied by suspending the safeguards until 2028, which is considerable for several member states, but which also entails greater consolidation for the next plan, as discussed above. And of course, the NECs will not contribute to closing the additional EU-level investment gap in defence of around €105 billion annually estimated above.

3. HOW MORE PUBLIC INVESTMENT COULD BE UNLOCKED IN THE NEXT EU BUDGET WITHOUT ADDITIONAL MEMBER STATE CONTRIBUTIONS

Against this background of large public investment gaps, insufficient EU investment in the new MFF, and given the limits of existing fiscal rules, it is imperative to expand public investment in the next legislative period beyond the current proposal as much as possible. In particular, the European

Parliament, progressives and trade unions have a crucial role in this context: without sustained pressure from the European Parliament achieved by progressive and trade union pressure in line with their demands prior to the MFF proposal, member states in the European Council are unlikely to agree to higher expenditures. We offer three different routes to unlock greater public investment going forward without requiring additional contributions from member states, all of which should be pursued (perhaps as a joint public investment package to complement the proposed MFF) in the upcoming inter-institutional negotiations.

Firstly, national public investment could be strengthened by a targeted revision of the EU fiscal rules based on existing legislative provisions, addressing shortcomings and inconsistencies of the recent reform. Given the massive investment needs facing all member states and the positive effects of public investment on fiscal sustainability, a targeted investment-friendly reform that ensures additionality may (eventually come to) be in the interest of all member states who would otherwise face unrealistic budget cuts, including Germany.

Secondly, significantly more EU-level investment could be unlocked by agreeing on more ambitious EU own resources to fund additional EU bonds. While the resistance to EU-level borrowing remains strong in some capitals, member states would not need to shoulder additional contributions to achieve considerably more investment and thus growth and fiscal sustainability if they can agree on sufficient new own resources which do not subtract from existing tax bases.

Thirdly, the proposed off-budget EU loan instruments' firepower could be strengthened through a more comprehensive coordinated activation of the NEC for the Crisis Response Mechanism, possibly reinforced by the funds currently foreseen for Catalyst Europe. This would allow member states to fully use the available EU loan volumes. In contrast to the de facto golden rule for defence spending we have at the moment, it is fiscally sustainable to fight, for example, the climate

and biodiversity crisis, in particular if the escalating costs of inaction are taken into account.

3.1 Strengthen national public investment in the EU's fiscal rules

One avenue to address the EU's public underinvestment problem at the national level consists of a targeted investment-friendly reform of the EU fiscal rules. As the figures presented above reiterate, in addition to the investments best undertaken by the EU, member states face massive additional public investment gaps of over €440 billion per year to address key challenges on which their security and welfare depend. These are orders of magnitude more than can be saved through efficiency gains and fiscal consolidation efforts within national budgets in democracies, not least since far-right populists (continue to) gain from austerity episodes without economic growth. Indeed, greater public investment in the sectors sketched above would even support fiscal sustainability by crowding in private investments currently not provided at market rates, raising growth and potential output, and thereby lowering debt and deficit ratios over the medium term.

At present, however, the EU fiscal rules remain unfriendly to greater public investment, despite positive effects on fiscal sustainability. Most importantly, the safeguards for minimum debt and deficit reduction in the preventive and corrective arms of the rules apply to overall debt levels and deficits without differentiating public investment from other public expenditure. For all member states with more than 60% of GDP worth of debt (currently 14 out of 27), the stricter and undifferentiated demands of the two (deficit resilience and debt sustainability) safeguards in the preventive arm override the net expenditure path where a fiscally sustainable evolution of the government deficit in line with the treaties is negotiated. For states in an excessive deficit procedure, two further safeguards for stricter minimal deficit reduction apply. The net expenditure paths equally do not exclude public investment from the calculation of deficits and future debt levels. However, fiscally positive effects of greater (future)

public investment can be introduced by governments both to receive a longer adjustment path and to apply alternative assumptions on potential output and other variables underlying the expenditure path when submitting their MTFSPs.²⁴

We see two main pathways through which national public investment could be strengthened by a targeted reform of the EU fiscal rules that build on existing provisions: by exempting fiscally sustainable public investment fully from the fiscal rules; or by exempting national co-financing of EU investments as a more limited option.

3.1.1 Exempting fiscally sustainable public investment from the fiscal rules

Some version of a golden rule to exempt investments from the fiscal rules would thus help free up significant public investment space without endangering fiscal sustainability. As many have demanded before and during the last reform in 2024, a golden rule makes macroeconomic sense and would be fiscally sustainable.²⁵ For that to hold, it is essential that additionality of the exempted expenditures is enshrined in the legal implementation. Building on the recent experience with the new German exemptions to its fiscal rule for defence and infrastructure, requiring at least equal investment quotas in national budgets compared to before the exemption for it to apply could be an option to secure additionality.

A targeted reform towards a golden rule for public investment could build on existing primary law. The European treaties are not blind to the issue of public investment in fiscal surveillance: indeed, Article 126(3) enshrines that the EU Commission should take into account “whether the government deficit exceeds government investment expenditure and take into account all other relevant factors” in its decision whether to open an excessive deficit procedure. A targeted reform of the fiscal rules could build on this provision and ensure that government investment expenditure is taken into account by excluding them from the calculation of expenditure pathways in the preventive arm and

from the deficit and debt level calculations for the safeguards in the preventive and possibly corrective arm. Methods have also been proposed to include the effects of *planned* investments and reforms in the net expenditure path calculation.²⁶

3.1.2 Exempting co-financing of EU investments from the fiscal rules

Another more limited avenue to unlock greater public investment lies in making national contributions to EU investments in the MFF more fiscally attractive under the fiscal rules. Due to sustained pressure from progressives in the European Parliament, the recent reform of the EU fiscal rules contains some elements that give national contributions to EU investment programmes a special role. In the preventive arm, the central operational indicator of net expenditure is defined as



*Government expenditure net of interest expenditure, discretionary revenue measures, **expenditure on programmes of the Union fully matched by revenue from Union funds**, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.*



(Regulation 2024/1263, Art. 2 II)

In the MFF proposal itself, the Multifund expenditures (on national and regional partnership plans) are co-financed by member states and both the proposals for the Multifund regulation (Art. 11) and for the European Competitiveness Fund (ECF; Art. 5) envisage the possibility of additional voluntary contributions by member states to the two largest funds of the MFF.

However, the fiscal rules currently prevent the full use of planned member state contributions to EU investments due to the safeguards overriding existing exemptions, which were negotiated during last year's reform. As with investment expenditure in general, the safeguards in the preventive and corrective arms of the rules would imply that member states with more than 60% of GDP in debt or deficits larger than 3% who seek to contribute additional money to the two large domestic funds in the MFF proposal would need to cut spending elsewhere: the net expenditure path calculated with favourable treatment of these contributions would be overridden by the minimum required adjustment. Only for the minority of EU states with less than 60% debt and lower than 3% deficits would the negotiated privileged treatment apply.

This contradiction within the fiscal rules could be changed by a targeted reform to unlock additional national investment – while additionally strengthening incentives for more coordinated EU investment policy. To unlock this potential, exemptions for these types of expenditures would need to be introduced into the safeguards, especially in the preventive arm (again, requiring additionality from member states to prevent abuse). In the corrective arm, the Commission already has more leeway in deciding when to open an excessive deficit procedure, including taking “relevant factors” into account, which include investments and reforms into Union priorities and defence expenditures. Privileging member state contributions to EU investments in this way would not only unlock significant additional public investment at the national level. It would also provide powerful incentives for a more coordinated EU investment policy in line with agreed priorities of the budget.

3.2 More own resources for more EU-level investment

To address the underinvestment problem at the European level, more (ambitious) new own resources could unlock significantly more EU investment without impacting fiscal rules or endangering fiscal sustainability. The macroeconomic case to expand

EU investments through common debt issuance is strong, including for fiscal sustainability: an EU investment fund would raise growth and potential output; help crowd in private investment; and reduce public deficit and debt levels over the medium-term, helping to consolidate public finances.²⁷ These positive effects are especially large if we consider the large (and rising) costs of inaction in the context of the climate and biodiversity crises, which impact public budgets and fiscal sustainability.

3.2.1 Purpose and legal basis of an EU investment fund

An EU investment fund financed by EU bonds can deliver concrete EU added value and can generate returns to help refinance investments. Concrete projects like a European high-speed rail network or transnational electricity infrastructure would provide clear EU added value by unlocking positive externalities and spillovers and offer a visible rebuke to eurosceptics in European and national parliaments who question the value of the European project. Such EU-level financing could also generate its own returns to refinance borrowing costs: EU equity stakes allow for the generation of future returns from any investments made, offering a genuine new own resource to repay principal and interest in the years ahead and reduce future risks to fiscal sustainability. Such equity stakes are already part of the EU's financial instrument toolkit within the ECF but are to be reinvested fully into the ECF according to the proposal.

Financing additional EU-level investments through EU bonds is also legally viable within the treaties and towards the German Constitutional Court. There are at least two legal pathways to allow for additional EU bond issuance on behalf of union priorities:²⁸ Art. 122 could be used (again) like it was for NGEU to address, for example, urgent investments in the green transition if the climate and biodiversity crisis is defended as a “rapidly worsening crisis unforeseeable in terms of [its] nature and scale”, as would be possible according to some legal experts. Furthermore, the German constitutional court would likely challenge implementation (again), even

though its interpretation would not be binding given the primacy of the European Court of Justice and no principled conflict between Karlsruhe's interpretation of German basic law and European law. In this case, the European Parliament would however (again) be excluded from the governance of the funds. As a second avenue, Art. 175 of the Treaty on the Functioning of the EU (TFEU) on cohesion policy (which allows for European Parliament inclusion and qualified majority voting in the Council) could offer another basis to justify more EU spending, possibly in combination with Art. 192/195 TFEU on environmental and energy policy (which, however, entail unanimity in the Council).

3.2.2 Needed own resources to finance an EU investment fund

The most stringent constraint for additional EU-financed investment is that sufficient new own resources need to be introduced to cover growing outstanding liabilities. Legally, sufficiently ambitious new own resources are needed to increase the EU's borrowing beyond current levels. At present, EU debt issuance is limited, as outstanding liabilities need to be broadly equivalent to the total EU budget because EU bond issuance for NGEU was introduced as “other revenue” under Art. 311 II TFEU. To overcome these limits, the own-resources decision based on Art. 311 III (2) TFEU would allow for additional EU debt to be issued instead as a new category of own resources, which automatically includes the European Parliament and auditing by the European Court of Auditors (contrary to EU debt as “other revenue”). Binding constraints on new EU debt are however that the total “amount must be determined in the own resources decision and the repayment must be secured in this amount by guaranteed (i.e. not borrowed) own resources”.²⁹ This, of course, also makes economic and fiscal sense: greater bond issuance should entail greater revenue, for which the EU needs new own resources because it would not benefit from greater revenues in existing taxes, even if the economy was boosted by greater bond-financed investment.

Promising candidates exist for more ambitious own resources, which do not subtract from existing member state revenues and generate EU added value, including ones based on previous EU agreements. Firstly, a financial transaction tax (FTT) was already agreed by a group of member states via enhanced cooperation in 2014, but despite another revival attempt by a more modest Franco-German initiative in 2020, implementation has stalled since. The Commission has recently pulled a planned proposal for a new Council Directive to implement a FTT from its 2026 work programme, where it originally was foreseen. This could be revived given enough pressure from co-legislators, especially from influential Council members. Secondly, during the recent inflation crisis, the European Council agreed on a so-called “solidarity contribution”, a windfall profit tax on fossil fuel companies to recuperate undue gains from the energy cost inflation and bottlenecks in the market. According to the recent evaluation of this measure, it brought €14 billion annually into member states’ fiscal coffers, around as much as each of the two largest new own resources proposed by the Commission this summer. In the context of the ongoing energy transition needs, re-introducing such a tax could build on a previous political agreement and this positive revenue experience. Its proceeds would flow to member states but could be agreed by the Council to be at least partly designated as own resources for the EU.

While the detailed technical and political feasibility of various proposals would go beyond the scope of this study, other promising candidates for new own resources with desirable properties have been suggested. Most prominently among these are taxing wealth, dividend payouts or share buybacks, digital services, pollution in the shipping and aviation sectors, or minimum corporate taxation. Of course, new own resources are always politically daunting, as they require ratification in addition to unanimity in the Council. Furthermore, the legal basis (Art. 122(1) TFEU) used to obtain qualified majority voting for the solidarity contribution mentioned above, rather than unanimity and ratification, restricts its use to (supply-chain) crisis contexts and was controversial due to its fiscal aspects. Some of the above candidates are further challenged given the Trump administration’s

aggressive behaviour towards EU regulatory sovereignty. We leave it to others to continue this debate in more detail, including an upcoming FEPS policy brief specifically concerned with new own resources (Schratzstaller, forthcoming). What matters in our view is that the EU receives part of any new revenues that are agreed, given the direct added value of coordinating such revenue measures at the European level. Put simply: the more (ambitious) new own resources are agreed, the greater the financial room for additional EU investment financed by EU bond issuance to tackle the public underinvestment problem.

3.3 Strengthen EU off-budget loan instruments’ fiscal firepower

A third avenue to achieve more public investment in the next budget period focuses on unlocking the full potential firepower of the new proposed off-budget loan instruments. The proposal for the next MFF contains two such large loan instruments where the EU Commission would be empowered to borrow on behalf of member states and lend it on to capitals (aside from the already active SAFE instrument for defence procurement): Catalyst Europe, which is part of the Multifund Regulation can mobilise up to around €115 billion in 2025 prices and the Crisis Response Mechanism, which was announced in the proposed own resources decision, can mobilise up to €350 billion in 2025 prices in the case of the next crisis hitting (to be activated by qualified majority voting in the Council with consent from the European Parliament using Art. 311 (4)). The proposed own resources decision specifies that the two loan instruments are to be guaranteed by creating additional headroom in the budget, that is, lifting the current GNI ceiling from 1.4% (without the 0.6% that guarantees the NGEU bonds) to 1.75% of GNI to guarantee Catalyst Europe loans and other instruments in the next MFF, and by another 0.25% for the Crisis Mechanism when activated. In effect, member states thus jointly guarantee these EU-financed loan instruments, but member states who borrow from the facility would individually repay the loans to the EU.

However, the Crisis Response Mechanism is only to be activated at an unspecified crisis arising in the future, rather than being available immediately for pressing EU challenges. In addition, some sceptical observers from frugal states already oppose the instrument as being too similar in purpose to the already existing European Stability Mechanism (ESM), where over €400 billion are already reserved to finance loans to member states in financial distress. However, the ESM is currently reserved for eurozone states and its strict conditionalities imply very limited uptake of available funds, even in crisis times, in contrast to the less restrictive SURE or SAFE instruments.³⁰ In theory, however, the Council could immediately activate the new instrument (with consent from the European Parliament) and specify the crisis conditions and justification for activating the use of additional funds as it sees fit, as the own resources decision proposal explicitly states: “The activation of this extraordinary and targeted crisis response mechanism will be decided by the Council taking into account the specificities and needs of a given crisis”.³¹ The proposal itself specifies only vaguely that the mechanism should be a “limited, extraordinary and targeted tool to respond solely to severe crises, severe hardship or serious threat thereof”.³²

Furthermore, the firepower of these loan instruments (amounting to around 0.36% of EU GNI) cannot be fully used to deliver on EU goals due to their interaction with the fiscal rules. As things stand, the fiscal rules would require cuts elsewhere in national budgets from states that wish to access these loan instruments, as member state expenditures (however they are financed) would nonetheless count under the safeguards’ calculation of deficit and debt levels for those states with more than 60% of GDP in debt (currently 14 out of 27). As we discussed above, the only direct financial benefit that such loan instruments offer to member states is an implied interest rate subsidy for those states with greater borrowing costs than the EU itself. While not irrelevant for individual states, this corresponds only to very small shares of the overall instrument bringing genuine additional firepower (Bruegel estimates the implied interest rate subsidy

for the similarly structured SAFE instrument to be worth around 1% of the total envelope).

In contrast, the firepower of the SAFE defence procurement loan instrument was maximised by the Commission to exempt defence expenditures fully from the fiscal rules until 2028. In its March 2025 communication, the Commission both excluded defence spending from the calculation of the net expenditure path in the preventive arm and from the additional safeguards when it proposed a coordinated activation of the NEC contained in the fiscal rules: the exemptions “will be applied on the net expenditure path net of the impact of the debt sustainability safeguard and the deficit resilience safeguard”.³³ It justified this rather creatively as ensuring that the sustainability-based criteria would thus dominate over the stricter safeguard adjustments, so that every member state can benefit from the escape clause equally:

“

*Not taking these safeguards into account when determining the flexibility that can be granted during the activation of the national escape clause would ensure that the sustainability condition of the national escape clause is applied equally to all member states.*³⁴

”

More generally, the Commission has considerable legal room to manoeuvre when proposing the activation of the NECs in the fiscal rules. Requiring only a delegated act, the Commission itself decides when to propose an activation of the escape clauses in the rules and it can specify itself the exact conditions for how the escape clause should be implemented – the Council then gets to decide on the activation for each member state applying under the rules specified by the Commission using reinforced qualified majority voting. The underlying regulation 2024/1263 of the fiscal rules only

prescribes that the escape clause should be limited (how much additional leeway is not specified), temporary (how long is left to the Commission) and can only be prolonged again by one year through a Council decision (explicitly not limited how often). Rather than suspending the fiscal rules entirely for one member state, the Commission used this clause (successfully) to exempt specific (defence) expenditure from the rules, specifying itself in its Communication how to identify and delimit the exempted spending from the rest.

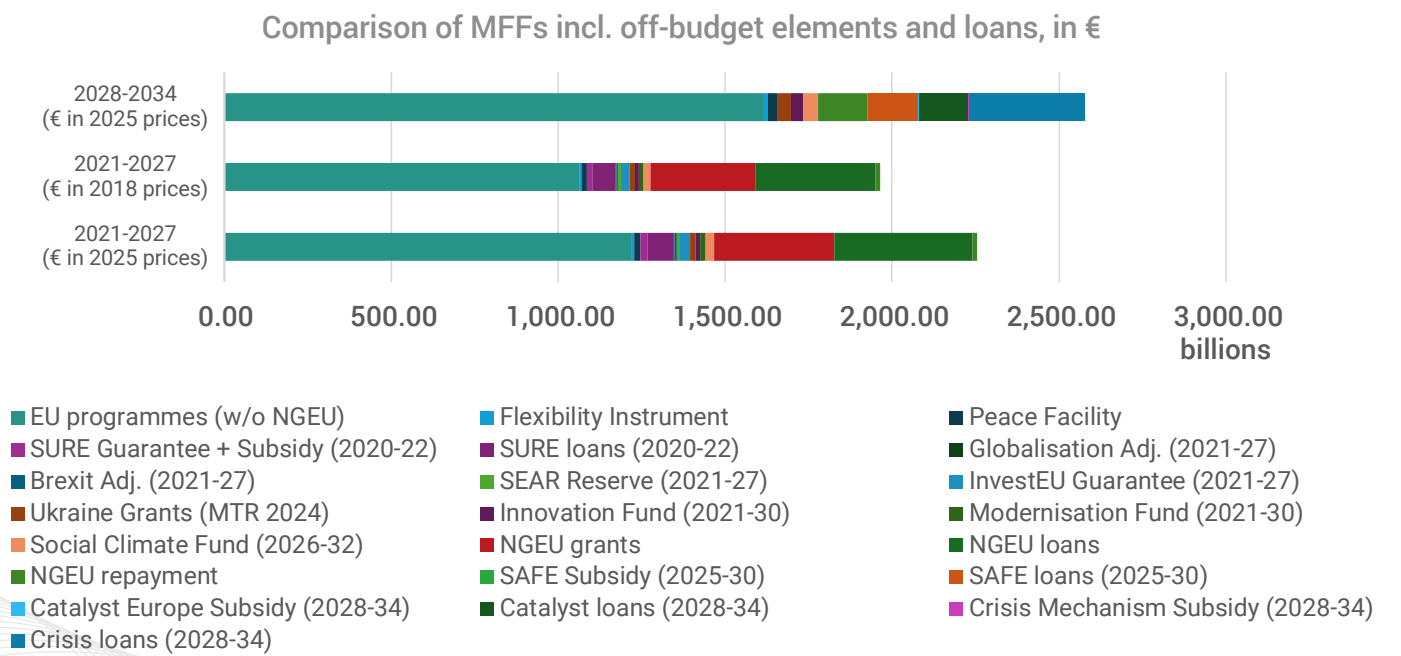
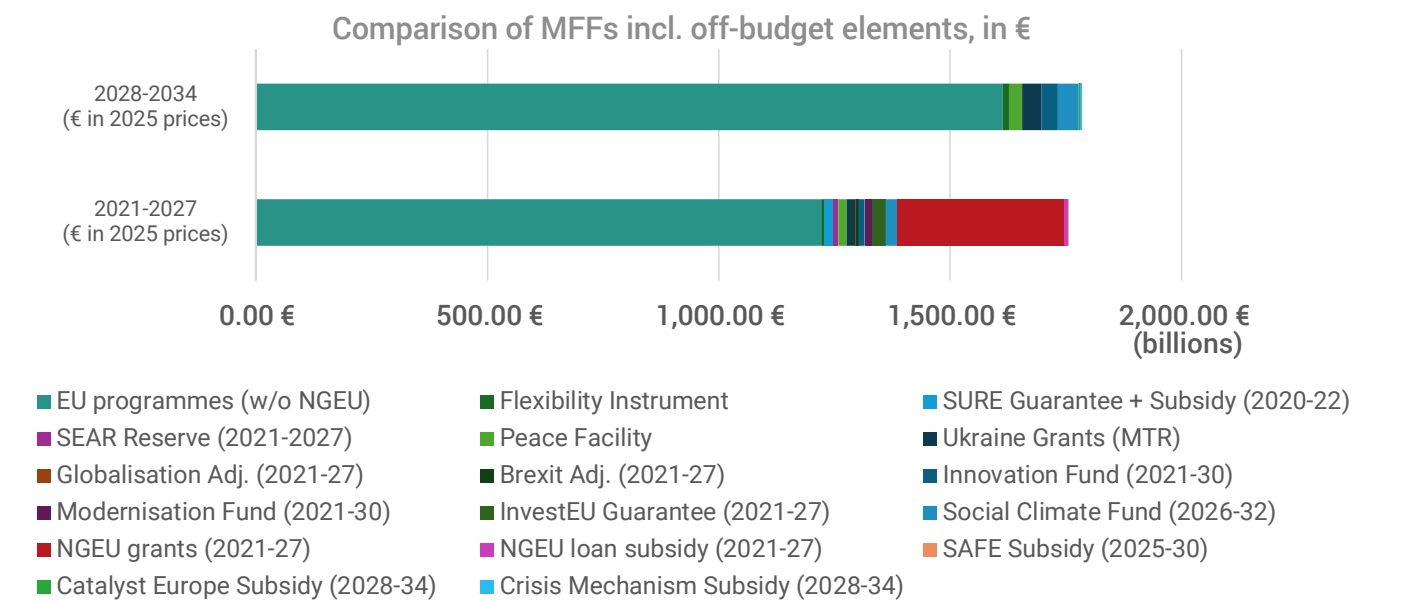
A targeted reform package could allow the full potential of these loan instruments to be unlocked by exempting them from the EU fiscal rules. Building on the experience of SAFE, the Commission could (be asked to) propose another, more comprehensive coordinated activation of the NECs in accordance with the fiscal rules. The underlying regulation specifies that activation requires “exceptional circumstances outside the control of the member state with a major impact on its public finances, provided that it does not endanger fiscal sustainability over the medium term”. Especially the climate and biodiversity crises may clearly apply: they are exceptional and outside any member state’s control; they already impact public finances massively; and they endanger fiscal sustainability over the medium term, justifying additional expenditure to fight them. The flexibility of determining the length of an escape clause could be used to define it until net zero (and stable biodiversity) is reached, for example, based on the EU’s legal requirement to decarbonise by 2050. The type of expenditure to be exempted could be more comprehensively defined as investments not only in defence, but additionally investments to mitigate the climate and biodiversity crises. The Commission would be free to specify additional requirements as may be necessary for Council approval, such as additionality of the exempted investments.

Both proposed loan instruments could be merged into a joint crisis fund tailored to finance the expenditure exempted from the fiscal rules in this way. Under such a more comprehensive coordinated NEC, the additional firepower generated by increasing the headroom between the budget and the (increased) GNI ceiling could be used

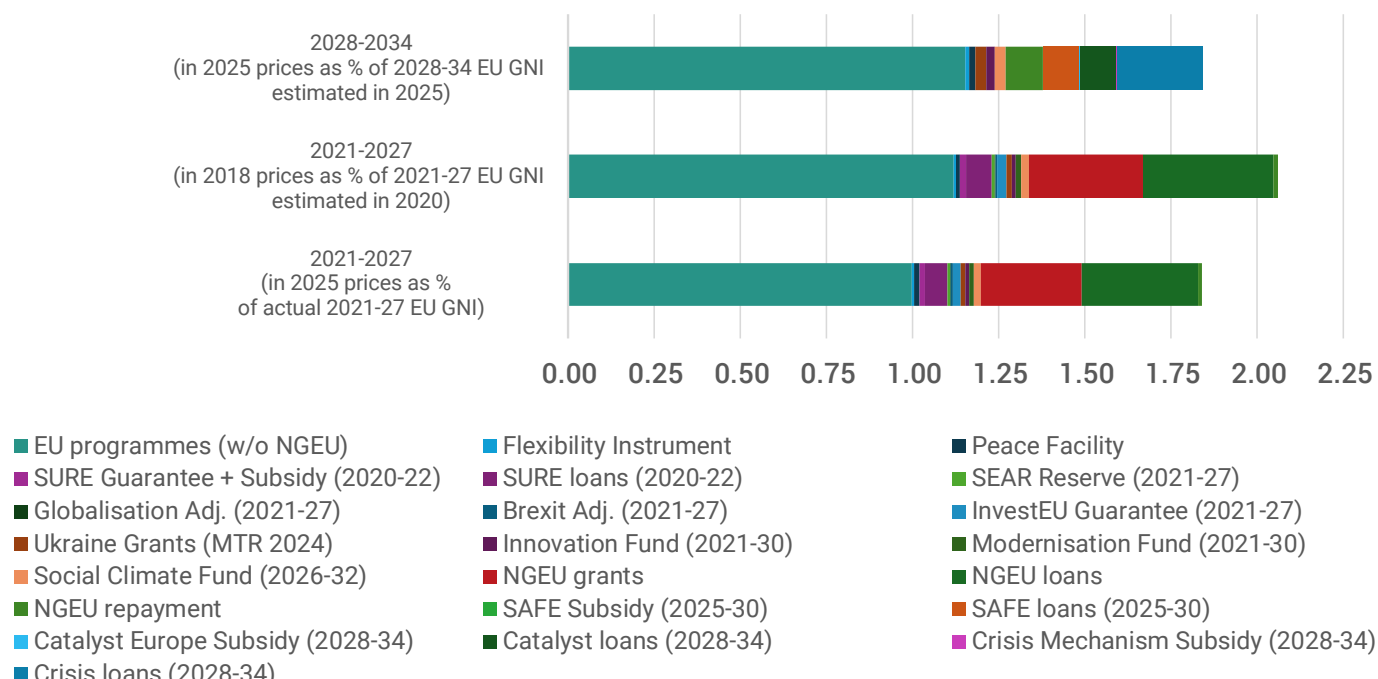
fully by all member states to finance expenditures exempted from the fiscal rules. In contrast, if part of these funds remain for national and regional partnership plans within the Multifund, only a fraction of their firepower (the implied interest rate subsidy) will generate additional public investment relative to the status quo. Similarly to the Crisis Response Mechanism proposal as it stands, the Council could choose to activate this additional funding immediately in 2028 through qualified majority voting with consent from the European Parliament using Art. 311 (4). This would allow the full 0.36% of EU GDP, which the two off-budget loan instruments together would provide, to be unlocked, helping to close around a quarter of the annual EU level investment gap we calculated to remain from 2028 onwards without requiring additional member state contributions to the MFF. Of course, this proposal would also eliminate a potential recession-fighting fund should another economic crisis hit the EU during the next budget period. While we are strongly in favour of the EU financially fighting crises together, we consider it more important at this point to increase investment in securing the EU’s future from current crisis conditions. Furthermore, we remain optimistic that member states would agree on additional measures to stabilise demand should a new economic or financial crisis hit the EU, as they did (with varying success) during both the eurozone and COVID-19 crises.

ANNEX

1. COMPARING THE CURRENT AND PROPOSED NEXT MFF INCLUDING OFF-BUDGET INSTRUMENTS



Comparison of MFFs incl. off-budget elements and loans , in % of EU GNI



2. CLASSIFYING INVESTMENT IN THE (NEW AND OLD) EU BUDGET

We define investment as spending on net fixed capital formation (which includes intangible assets like R&D) and additionally include explicitly capital assets, such as natural resources, into which investment can flow to contribute to future production as well as to maintain the capital stock's value, including relative to environmental or military threats. To identify public investment, we consider direct public spending on such investment, but also public funds that aim to de-risk and crowd in private investment (e.g., guarantees, low-interest loans and subsidies). On this basis, we categorise the current and proposed future MFF envelopes plus off-budget instruments of the EU into non-investment and investment elements in Tables 1-4.

Furthermore, we distinguish within the identified investment elements between different sectors of investment, based on existing studies estimating

investment needs in different policy areas. Specifically, the categories we use are as follows: defence; decarbonisation; digital transformation; environmental protection/biodiversity/circularity; international climate finance; and resilience/EU-based production. For each of these sectors, we consider the above investment definitions to apply clearly, as spending in these sectors either directly contributes to (gross) fixed capital formation or prevents (future) depletion of the (net) capital assets stock.

Rather than seeking to identify the entirety of investments within the EU budget(s), we therefore analyse only those investments that flow into categories for which estimates of investment needs exist. This means, most notably, that two categories which could be reasonably considered investment are not counted here: investments into other economic sectors, which, of course, contribute to fixed capital formation as defined above (especially the European Competitiveness Fund's Health/Biotech/Agriculture window); and social expenditures, which contribute

to the maintenance and formation of human capital for (future) production processes alongside capital assets. Both matter enormously, of course, but are not included here, as we compare EU investments against estimated investment needs in those sectors for which estimates exist. Where EU budget elements contribute to several investment categories, we decided for the predominant one in our view or estimated shares for each category according to official secondary literature. We justify our choices in Tables 1-4 in a separate column.

With regard to investment volumes contained in the various financial instruments of the budget(s), we focus only on grants, budgetary guarantees or equivalent implied interest rate subsidies, which increase net investment spending among beneficiaries. Our reasoning here is that other financial instruments (most importantly loans) may have valid benefits (such as pooling and coordinating funding or smoothing expenditures in crisis times), but within the current fiscal rules they are likely not to increase net investment levels. Since the new EU fiscal rules count all loans received, including from the EU, into a total sum of deficits and debt levels for which fixed safeguards of minimum reduction apply without exception, member states are inherently limited in how much debt they can amass. Except for the (eight) member states that still have fiscal room under the current rules (see Darvas et al., forthcoming), none can increase investment, even with additional EU loan instruments. And even those with remaining space under the fiscal rules can equally take on debt nationally, and many have better financing conditions than the EU itself has. Most importantly, this affects the off-budget instruments NGEU and SURE in the last MFF, and SAFE, Catalyst and the Crisis Mechanism in the proposed next budget. We thus calculate not the total envelope of loan instruments for the next MFF, but instead estimate (very roughly) the implied interest rate subsidy they entail for member states. For consistency and conservative estimates, we apply the same logic to the last budget's loan instruments and use the guarantee amount plus the implied interest rate subsidy (for SURE) and the grant component plus implied interest rate subsidy of the loan component (for NGEU).

Table 2. Relevant investment instruments outside the MFF, 2028-34, billion euros, in 2025 prices.

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume	Investment volumes by category	Sources for investment shares & categorisation
1) Cohesion, agriculture, maritime, security		Cohesion, fisheries and rural communities	98%	352.25	Decarbonisation: 56% = 201.7 digitalisation: 38% = 132.1 environment: 4% = 13.9	Estimates for sectors based on data on current distribution of cohesion spending
		Interreg	100%	9.0	Decarbonisation: 9.0	
		EU Facility	50%	28.1 (+4.75 cushion)	Environment: 50% = 14.05 (+2.37 cushion) resilience: 50% = 14.05 (+2.37 cushion)	The concrete measures (and the corresponding amounts in billion euros) to be financed by the EU Facility are to be specified in an implementing act by the European Commission (see Art. 31, Com (2025) 565 final). Here, we estimate the expected volumes for each sector based on our reading of Com (2025) 565 final, Annex XV
	NGEU repayment; migration, asylum & home; Turkish-Cypriot Community; ESF+, CAP income support, Margin, decentralised agencies					

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume	Investment volumes by category	Sources for investment shares & categorisation
2) Competitiveness, prosperity and security		ECF (excl. Innovation Fund & Horizon Europe, incl. InvestEU Instrument)	100%	207.4	decarbonisation: 11.3% = 23.2 defence: 55.8% = 115.7 digital: 23.2% = 48.5	The policy window "clean transition and industrial decarbonisation", as defined in article 3 (2a) in Com (2025) 0555 final, is attributed to the decarbonisation category; The policy windows "health & biotech" in article 3 (2b) in Com (2025) 0555 final is not counted towards any of our investment categories as no investment needs estimates exist for it
		Horizon Europe	100%	154.88	Decarbonisation: 31.96% = 49.49 resilience: 24.33% = 37.68 digital: 22.72% = 35.19 defence: 8.16% = 12.64	According to the Horizon regulation proposal, the Programme's Part II will be similar to the ECF with a focus on the same four policy windows, plus society as an additional funding focus. We thus distribute Part II according to the official shares for each window of the ECF. For our purposes, policy windows "health & biotech" are attributed to the category resilience, the policy windows "society" and "industrial decarbonisation" are attributed to the decarbonisation category (given our interpretation of the society window in the regulation proposal); We distribute the funds for Part I (Excellent Science) and Part IV (European Research Area) equally to all our investment categories, except for defence (explicitly barred from access to these funds) and international climate finance; Part III (Innovation) funding is distributed equally to all our categories, excluding climate finance but including defence, as dual-use research is permitted under this heading
		Connecting Europe Facility (CEF)	100%	72.3	Defence: 15.8 decarbonisation: 56.5	
		Single Market Programme	100%	5.54	Resilience: 5.54	

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume	Investment volumes by category	Sources for investment shares & categorisation
		InvestEU	100%	0		Amounts contributed by the InvestEU guarantee (which now amounts to €61 billion) are already included in the respective ECF windows listed above in this MFF proposal (see p. 32). Before, additional contributions from the InvestEU Guarantee were off-MFF (see Table 4 below), whereas the InvestEU instrument and technical support financing was in the MFF (see Table 3 below)
	Agora EU, Euratom Research and Training Programme, ESI, Protection of the euro against counterfeiting, nuclear decommissioning and safety, justice, decentralised agencies, other & margin					
3) Global Europe		Global Europe Instrument (GEI)	54%	96.72	Resilience: 90.1 international climate finance: 6.62	Since Global Gateway is now integrated into the regional windows of the GEI, which also distribute development assistance and humanitarian aid, we estimate the next Global Gateway budget using the overall increase in the global Europe budget of 1.7 times (according to the MFF proposal, p. 15) as a proxy to multiply the current budget of €53 billion by and count this as investments into resilience of the EU's global supply chains; From the global issues window of the GEI, we estimate 50% to be for global climate and ocean finance; the rest we attribute to the other global issue purposes mentioned in the (pp.15-16)
	Common Foreign and Security Policy, Overseas Countries & Territories, Margin					

Table 2. Relevant investment instruments outside the MFF, 2028-34, billion euros, in 2025 prices.

Fund	Total volume	Investment share of total envelope	Total investment volume	Investment volumes by sectors	Sources for investment share & categorisation
Social Climate Fund (SCF) (2028-2032)	45.4	62.5%	28.4	Decarbonisation: 28.4	According to the SCF regulation EU 2023/955 Art. 8(2), member states are allowed to allocate up to 37.5% of their envelope of the SCF to income support measures for vulnerable households and transport users, who are particularly affected by the increase in road transport and heating fuel prices. This is why we estimate the investment share of the fund to be 62.5%; We have allocated the investment sums provided by the SCF to the decarbonisation category, in accordance with the objectives set out in Art. 3 of the SCF regulation
Innovation Fund (2028-2030)	35.5	100%	35.5	Decarbonisation: 35.5	
Modernisation Fund (2028-2030)	6	100%	6	Decarbonisation: 6	Same value annually assumed than for 2021-2027 (14 billion in total)
EPF	27.1	100%	27.1	Defence: 27.1	
Ukraine Support	88.87	47.9%	42.66	Defence: 42.66	Underlying guarantee corresponds to €42.66 billion, according to Global Europe Regulation proposal. The rest are loans, which we do not count here in line with the other loan instruments

Fund	Total volume	Investment share of total envelope	Total investment volume	Investment volumes by sectors	Sources for investment share & categorisation
SAFE (2028-2030)	150	1%	1.5	Defence: 1.5	Assuming an implied interest rate subsidy of 1% of procurement costs on average (over 10 years); Based on a recent Bruegel study's estimates, Italy's implied interest rate subsidy (as the EU state with the highest spread in the EU) for the entire SAFE budget would correspond to 0.45% of the total costs annually. Spain/France have around 1/3 to 1/4 the spread of Italy; For simplicity, we thus assume a ten-year loan and calculate: $0.1\% \times 10 = 1\%$
Catalyst	150	1%	1.5	Decarbonisation: 56% = 1.96 digitalisation: 38% = 1.33 environment: 4% = 0.14	Assuming an implied interest rate subsidy of 1% of procurement costs on average (over 10 years); Based on a recent Bruegel study's estimates, Italy's implied interest rate subsidy (as the EU state with the highest spread in the EU) for the entire SAFE budget would correspond to 0.45% of the total costs annually. Spain/France have around 1/3 to 1/4 the spread of Italy; For simplicity, we thus assume a ten-year loan and calculate: $0.1\% \times 10 = 1\%$; Since both are intended to be aligned with the national plans, we use the same shares as above in the Multifund to distribute the resulting implied interest rate subsidies onto our investment categories
Crisis mechanism	350	1%	3.5		
Flexibility instrument	14	0%	0		

Table 3. Relevant investment instruments inside the MFF, 2021-27, billion euros, in 2025 prices.

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume (2025 prices)	Investment volumes by category (2025 prices)	Sources for investment share & categorisation
1) Single market, innovation & digital		Horizon Europe	59%	58.09	Decarbonisation: 16.93% = 16.51 digital: 16.93% = 16.51 resilience: 8.79% = 8.7 environment: 16.93% = 16.5	Volume of total funding and funding by pillar from the European Parliamentary Research Service; We distribute Pillar 1 (Excellent Science) and Pillar 3 (Innovative Europe) equally to each of our categories (except for defence, covered separately by the EDF outside the MFF, and except for international climate finance, which is not related to Horizon); From Pillar 2 with its six clusters, we select those clusters that correspond most closely to our categories, assume an equal share for each cluster and accordingly attribute 1/6 to digital, 1/6 to decarbonisation, and 1/6 to environment
		International Thermo-nuclear Experimental Reactor (ITER)	100%	5.74	Decarbonisation: 5.74	
		InvestEU Fund	100%	3.22 (+ 6.43 from NGEU)	Decarbonisation: 50.9% = 1.64 (+3.27 from NGEU) digital: 38.3% = 1.23 (+2.46 from NGEU)	Policy window shares for decarbonisation and digitalisation; SME window distributed equally to sustainable infrastructure and digitalisation windows; social investment is not counted

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume (2025 prices)	Investment volumes by category (2025 prices)	Sources for investment share & categorisation
		Connecting Europe Facility – Transport, Energy, Digital	100%	21.12	Decarbonisation: 19.03 digital: 2.09	
		Digital Europe Programme	100%	7.77	Digital: 7.77	
		Single Market Programme	100%	4.29	Resilience: 4.29	
		European Space Programme	100%	15.16	Defence: 15.16	
	Euratom, other, decentralised agencies, EU anti-fraud programme, FIS-CALIS, CUSTOMS, Margin					
2) Cohesion, resilience and values		European Regional Development Fund	100%	230.13	Decarbonisation: 60% = 138.08 digital: 40% = 92.05	Estimated shares based on the Cohesion Open Data Platform
		Cohesion Fund	100%	48.88	Decarbonisation: 50% = 24.44 digital: 50% = 24.44	Estimated shares based on the Cohesion Open Data Platform

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume (2025 prices)	Investment volumes by category (2025 prices)	Sources for investment share & categorisation
		REACT EU	100%	54.56	Decarbonisation: 60% = 32.74 digital: 40% = 21.82	Estimated shares based on the Cohesion Open Data Platform
	Turkish-Cypriot Community, Protection against Counterfeiting, EU4Health, Decentralised Agencies, Other, Union Civil Protection Mechanism (UCPM), European Social Fund+, Erasmus+, European Solidarity Corps, Creative Europe, Justice, Rights and Values, Margin					
3) Natural resources & environment		European Agricultural Fund for Rural Development (EAFRD)	100%	89.42 (+8.61 from NGEU)	Decarbonisation: 70% = 62.59 (+6.03 from NGEU) environment: 30% = 26.83 (+2.58 from NGEU)	EU countries implement EAFRD funding through rural development programmes (RDPs). According to information provided by the Commission at least 30% of the national RDPs must be spent on measures relevant for the environment. This is why we attribute 70% of EAFRD funding to the decarbonisation category and 30% of EAFRD funding to the environment category. See: Rural development - European Commission

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume (2025 prices)	Investment volumes by category (2025 prices)	Sources for investment share & categorisation
		Maritime, Fisheries and Aquaculture Fund (EMFAF)	100%	6.24	Environment: 6.24	
		Environment and Climate Action (LIFE)	100%	5.53	Environment: 5.53	
		Just Transition Fund	100%	8.61 (+11.49 from NGEU)	Decarbonisation: 8.61 (+11.49 from NGEU)	
4) Migration and border management	European Agricultural Guarantee Fund (EAGF), Other, Decentralised Agencies, Margin					
	Asylum, Migration and Integration Fund, Decentralised Agencies, Integrated Border Management Fund, Margin					
5) Security and defence		European Defence Fund	100%	8.06	Defence: 8.06	
		Military Mobility	100%	1.72	Defence: 1.72	
	Internal Security Fund, Nuclear Decommissioning, Nuclear Safety, Decentralised Agencies, Margin					

Budget heading	Non-investment elements	Investment elements	Investment share of total envelope	Total investment volume (2025 prices)	Investment volumes by category (2025 prices)	Sources for investment share & categorisation
6) Neighbourhood and the World		Neighbourhood, Development and International Cooperation Instrument (NDICI)	100%	60.88	Resilience: 60.88	Total budget guaranteed under Global Gateway of €53 billion in 2018 prices (financed from NDICI and smaller contributions from IPA, Connecting Europe and Horizon Europe (which we ignore here for simplicity), via the off-budget instrument EFSD+ and the External Action Guarantee)
	Humanitarian Aid, Common Foreign and Security Policy, Overseas Countries and Territories, Pre-Accession Assistance, Other, Decentralised Agencies, Margin					

Table 4. Relevant investment instruments outside the MFF, 2021-27, EUR billion, in 2025 prices.

Fund	Total volume	Investment share of total envelope	Total investment volume	Investment volumes by sectors	Sources for investment shares & categorisation
InvestEU budget guarantee	26.2	100%	26.2	Decarbonisation: 13.33 digital: 10.03	Policy window shares from InvestEU. SME window distributed equally to sustainable infrastructure and digitalisation windows, social investment not counted
Innovation Fund (2021-27)	13.78	100%	13.78	Decarbonisation: 13.78 billion	
Modernisation Fund (2021-27)	16.08	100%	16.08	Decarbonisation: 16.08 billion	Based on Modernisation Fund data
SCF (2026-27)	25.65	62.5%	16.03	Decarbonisation: 16.03	According to the SCF regulation EU 2023/955 Art. 8(2), member states are allowed to allocate up to 37.5% of their envelope of the SCF to income support measures for vulnerable households and transport users, who are particularly affected by the increase in road transport and heating fuel prices. This is why we estimate the investment share of the fund to be 62.5%; We have allocated the investment sums provided by the SCF to the decarbonisation category, in accordance with the objectives set out in Art. 3 of the SCF regulation
Solidarity and Emergency Aid Reserve (SEAR)	18.4	100%	18.4	Environment: 18.4	
RRF grants	359.82	100%	359.82	Decarbonisation: 45% = 161.92 digital: 22% = 79.16	Shares based on the economic impacts of RRF, Table 4. Therein, housing, green energy, transport and charging station investments are counted towards decarbonisation. Electricity and telecom, electronic products, digitisation, and software are counted towards the digital transformation; Excluding additional contributions to existing EU programmes financed by NGEU, for which shares and volumes are distributed according to Table 3

Fund	Total volume	Investment share of total envelope	Total investment volume	Investment volumes by sectors	Sources for investment shares & categorisation
RRF loans	413.5	2.2%	9.06	Decarbonisation: 45% = 4.09 digital: 22% = 2.0	We assume an implied interest rate subsidy of 2.2% of the total loan size on average (over 10 years of RRF loans); Based on a recent Bruegel study's estimates, Italy's implied interest rate subsidy (as the EU state with the highest spread in the EU) for the entire SAFE budget would correspond to 0.45% of the total costs annually. Spain/France have around 1/3 to 1/4 the spread of Italy today. However, during the RRF period, bond market stress was sizeable. Based on spreads at the time of the RRF announcement (see Chart 12 in this study), we assume market conditions were twice as extreme as today and calculate: $0.2 \times 10 = 2\%$; According to an ECB study from 2022, an additional effect of the RRF (including the loans part) took the form of compressing bond yields for most member states in this context. According to the study (pp. 34-36), this effect amounted to around 0.2% of GDP over five years on average across member states. We thus combine these two effects and assume an interest rate subsidy (directly and indirectly on national bond yields) of 2.2%; Since they are aligned with the national plans, we use the same shares as above in the grant component to distribute the resulting implied interest rate subsidies to our investment categories
Unemployment support (SURE) (2021-2022)	66	0%	0		Total volume refers to 2/3 of total budget of 100 billion (as the first year of operation was during the previous MFF). Loans were mobilised using an underlying minimum guarantees of 25% provided by MS according to SURE regulation
Flexibility instrument (2021-27)	7.4	0%			
Globalisation Adjustment Fund	1.53	0%			
Brexit Adjustment Reserve	5.73	0%			

Endnotes

- 1 “Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions”. COM570 final. European Commission, p. 1.
- 2 “Our key demands for 2024-2029”. S&D Group, 9 July 2024.
- 3 “ETUC priorities on the post-2027 EU budget and the next EU multiannual financial framework (MFF)”. European Trade Union Confederation.
- 4 “An EU investment fund for economic resilience and sustainable competitiveness”. European Economic and Social Committee, 2024.
- 5 “Our key demands for 2024-2029”. S&D Group.
- 6 “The repayment of the principal of such funds to be used for expenditure under the European Union Recovery Instrument and the related interest due will have to be financed by the general budget of the Union, including by sufficient proceeds from new own resources introduced after 2021. [...] *The expenditure from the Union budget related to the repayment of the European Union Recovery Instrument should not lead to an undue reduction in programme expenditure or investment instruments under the MFF.* It is also desirable to mitigate the increases in the GNI-based own resource for the member states”. OJ L 433 I/28, 22.12.2020, p. 44.
- 7 The comparison made here does not change when we include all off-budget loan instruments’ full nominal amounts in both budgets nor the additionally available spending they imply: the proposal remains larger in absolute terms, but only equally large relative to the EU economy of today and around 0.2 percentage points of GNI less ambitious than the last budget agreement when it was made (see Annex for details).
- 8 In previous work, we focused predominantly on the socio-ecological transition: drawing on the most detailed estimates available by the Rousseau Institute (2024), we conservatively estimated an annual minimum EU investment gap of 1% of EU GDP. Therein, we flagged but did not estimate the additional EU investment needs for other sectors. Here, we expand this work and cover not only the green and digital transitions, but also defence, environmental protection, and international climate finance.
- 9 Burilkov, A. and G. B. Wolff (2025) “Defending Europe without the US: First estimates of what is needed”. Policy brief no. 183. Kiel Institute for the World Economy.
- 10 Darvas, Z., R. Dom, M.-S. Lappe et al. (2025) “Bigger, better funded and focused on public goods: How to revamp the European Union budget”. Blueprint series 37. Bruegel.
- 11 “Road to net zero: Bridging the green investment gap”. Institut Rousseau, January 2024.
- 12 The remaining €265 billion of private investments and the remaining €76 billion of public investment for international climate finance annually are not included, as they refer to investment to be borne by the rest of the world.
- 13 However, it is important to recall that we make no judgment here about total investment levels or about the spending areas which have been cut or expanded in the proposal but do not belong to either of our categories: for example, while the proposed next budget contains an investment window of the European Competitiveness Fund for the Health/Biotech sector, we do not count it here as investing into the sectors for which we have investment needs estimates. Equally, we do not count all social spending, even though it of course has positive economic effects and is considered by some as a category of investment itself (see e.g. Darvas et al., 2024b).
- 14 NEC in Figure 6 indicates that the state has applied for (and been granted) a national escape clause. The stars mean the following: * for some states, the fiscal rules allow a fiscal expansion, but the Commission decided to include unchanged SPB in its prior guidance; in these cases, the plans comply with the new framework requirements, even if the SPB target is significantly below the Commission’s prior guidance (except for the Netherlands). ** Denmark uses an SPB concept that differs from the definition used in EU fiscal accounting, so there are large differences in SPB levels reported by the Commission and Denmark. *** The revised plan is considered for Hungary.
- 15 Boivin, N. E. and Z. Darvas (2025) “The European Union’s new fiscal framework: A good start, but challenges loom”. Policy brief 06/2025. Bruegel, February.
- 16 “Report on public finances in EMU 2024”. Institutional paper 325. European Commission, September 2025.
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- 19 Pekanov, A. (2025) “Lessons learned from the Recovery and Resilience Facility for a future European fiscal capacity”. Policy

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20 Heimberger, P. and C. Dabrowski (2025) "Achieving geoeconomic goals by boosting the economy without raising the public debt ratio?" Policy notes and reports 99. Vienna Institute for International Economic Studies, October.

21 "German medium-term fiscal-structural plan: 2025-2029". Federal Ministry of Finance and Federal Ministry for Economic Affairs and Energy, 19 August 2025, p. 26.

22 See: OJ C 5635, 22.10.2025, consideration (52).

23 Darvas, Z., L. Welslau and J. Zettelmeyer (2024) "The implications of the European Union's new fiscal rules". Policy brief 10/2024. Bruegel, June.

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25 See, for example: S. Dullien, C. Paetz, A. Watt et al. (2020) "Vorschläge zur Reform der europäischen Fiskalregeln und Economic Governance". Report no. 159. IMK, June; Darvas, Z. (2022) "Legal options for a green golden rule in the European Union's fiscal framework". Policy contribution 13/2022. Bruegel, July; J. Pisani-Ferry and S. Tagliapietra (2024) "An investment strategy to keep the European Green Deal on track". Policy brief 31/2024. Bruegel, December; O. Edenhofer, U. Eydam, M. Heinemann et al. (2025) "Rechtfertigt Klimapolitik eine Erhöhung der Verschuldung? Eine grün-goldene Regel für die Klimapolitik". Preprint, 6 March.

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27 See, for example: P. Heimberger and A. Lichtenberger (2025) "A permanent EU investment fund to promote the green transition in light of EU fiscal rules". *European Journal of Economics and Economic Policies*, 2(22): 181-188. DOI: 10.4337/ejeep.2024.0134; C. Paetz, Y. Rinee and S. Watzka (2025) "The macroeconomic effects of a green European public investment fund – taking climate change into account". Policy brief no. 197. IMK, September.

28 Steinbach, J. (2024) "More investments with Europe? Legal aspects of a debt-financed EU transformation fund". Deutscher Gewerkschaftsbund, November.

29 Ibid, p. 3.

30 de Lemos Peixoto, S., G. Loi and R. Mazzocchi (2025) "Implementing defence financing and spending under the Economic Governance Framework". PE 764.381. Directorate-General for Economy, Transformation and Industry, May.

31 "Proposal for a Council Decision on the system of own resources of the European Union and repealing Decision (EU, Euratom) 2020/2053". COM(2025) 574 final. European Commission, 16 July 2025, p. 3.

32 Ibid, p. 4.

33 "Communication from the Commission accommodating increased defence expenditure within the Stability and Growth Pact". C(2025) 2000 final. European Commission, 19 March 2025, p. 5.

34 Ibid, pp. 5-6.

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