

Relaunching investment in the EU in a context of over-indebtedness

The Chair opened the discussion on relaunching investment in the EU in a context of increasing concerns about excessive debt levels. The debate sought to diagnose the evolving macro-financial landscape and its consequences for productive investment, assess the structural constraints holding back growth, and set out the policy actions required to restore credibility, strengthen integration and mobilise private capital.

1. A changing macro financial landscape: debt, divergence and emerging vulnerabilities

1.1 Diverging macroeconomic policies reveal the limits of public support in addressing Europe's persistent productivity challenges

A policy maker emphasised that extended fiscal and monetary support has not resulted in long term improvements in productivity and investment. Following the Covid 19 pandemic, the Union's fiscal and monetary policies were broadly aligned. However, these policies diverged following the Russian invasion of Ukraine: fiscal policy remained largely supportive or neutral, but monetary policy was tightened. Macroeconomic policy is not usually the main driver of productivity growth. It can encourage private investment, but it is just one of many influencing factors. The energy shock following the invasion of Ukraine has had a significant impact. Europe's post Covid recovery initially matched that of the US, but the two jurisdictions' paths diverged after this point. Although the EU labour market has remained resilient, the energy shock has visibly impacted economic activity, inevitably leading to a decline in productivity. This demonstrates the importance of the nature of fiscal support. While the Recovery and Resilience Facility (RRF) successfully boosted public investment in Europe, post Covid and post invasion fiscal support has sought to shield workers and companies from the economic fallout. While this has maintained social cohesion, it has not contributed to productivity.

The Chair commented that unemployment in Europe has historically helped to prevent low levels of productivity. However, demographic changes have led to reduced unemployment, which in turn may have slowed down productivity growth in the short term.

1.2 High public debt in Europe: a risk to financial stability, but limited crowding out effects

A regulator stated that high public debt poses a significant challenge in the current geopolitical climate. The most indebted governments will struggle

to manage the increase in household energy bills resulting from the recent war. In the long term, high public debt poses a major threat to financial stability, as it is often exacerbated by the close relationship between banks and sovereign debt.

However, there is less reason to be concerned about the crowding out effects of high public debt on financial markets and their capacity to support the real economy. First, only a portion of national savings funds public debt. A substantial proportion of national savings may be effectively channelled into initiatives that align with individual risk return profiles and the wider Union's growth objectives. Data from 2025 shows that Italian investments in Undertakings for the Collective Investment in Transferable Securities (UCITS) were double those in government debt, with government bonds accounting for just a quarter of total real savings. Secondly, when public debt was at its peak in Italy, there was a thriving entrepreneurial scene and financing was available for private ventures. The market has always treated Italian public debt as sustainable, as evidenced by the strong demand for Italian government debt. Finally, Italy has relatively low levels of private debt alongside its high public debt, which may prove advantageous. Simply put, the crowding out effect of public debt on private debt can be viewed positively.

1.3 Stable on the surface, fragile underneath: debt, rates and Europe's urgent investment challenge

An official emphasised that the EU must focus its attention on restoring private investment, enhancing productivity and achieving long term growth. Remarkably, global debt markets have demonstrated resilience in recent weeks, months and years, demonstrating a strong capacity to absorb shocks despite geopolitical tensions, trade disputes and increasing uncertainties. Beneath this surface of stability, however, potential risks are accumulating.

1.3.1 The lack of productive investment

An official stated that advanced economies' reliance on demand support, public spending and highly accommodative monetary policy has not resulted in sustained productivity gains or a lasting recovery in investment because much of this borrowing has not been directed towards financing new productive investment. As older debt, financed at lower interest rates, matures and is refinanced at higher rates, fiscal pressure increases without necessarily fostering growth.

1.3.2 Mitigating crowding out risks and safeguarding investment in a high interest-rate environment

An official observed that over the past three years high borrowing costs and high yields have occurred

simultaneously, breaking the pattern that had existed since 2008. Notably, long term yields have risen significantly, partly due to higher term premia resulting from concerns about fiscal trajectories. As a consequence, higher sovereign borrowing costs can crowd out private investment either directly or indirectly through portfolio reallocation. Investors may shift away from riskier assets because sovereign yields now offer higher returns. This is particularly true in the EU, where capital markets remain relatively shallow. Additionally, governments are leaning towards shorter term borrowing. While this may mitigate the impact of higher interest costs in the short term, it increases refinancing risk and makes public finances more vulnerable to rate shocks. In the near term, these higher refinancing requirements can also restrict the scope for more productive investment. The issue is not only the level of public debt, but also its composition.

1.3.3 Managing rising market volatility as debt markets become more reactive

An official highlighted the growing reliance on more 'price sensitive' and leveraged investors in debt markets. As central banks reduce their balance sheets, markets become more dependent on investors who respond more strongly to changes in yield. These investors provide significant liquidity to the market, but this investor landscape may amplify volatility and reduce the stability of financing. This shows how the current policy mix may be causing distortions, such as capital misallocations and overreliance on public support, rather than encouraging dynamic private investment.

In conclusion, there are three policy priorities for the EU: restoring fiscal credibility in Member States; fostering better quality public and private spending; and further strengthening of the capital markets through initiatives such as the Savings and Investments Union (SIU).

1.4 More debt, less alignment: why Europe must rebuild credibility to unlock investment

An official emphasised that a new phase of more disciplined, investment oriented and market enabling policies is necessary at both national and European level. The OECD's 2026 Global Debt Report set out the increasing divergence in Member States' fiscal positions and the continued growth in aggregate borrowing. Global borrowing is on the rise and is forecast to grow even higher in 2026. Currently, there are 109 trillion in sovereign and corporate bonds outstanding, of which 75 trillion are sovereign and 34 trillion are corporate. Issuance in 2025 alone was 27 trillion and is projected to reach 29 trillion in 2026. These are extraordinary numbers. This growing reliance on debt is occurring at a time of increasingly demanding and uncertain financing conditions. The divergence in fiscal positions among EU Member States makes it difficult to take common action; the Union's fiscal credibility is only as strong as its weakest link. High debt levels in certain countries raise concerns about fiscal sustainability and can affect

investor confidence, which is particularly relevant because of the rise of price sensitive investors. This persistence of national approaches is partly due to the fact that incentives are not aligned, as Member States face different fiscal constraints, financing conditions, and political pressures.

2. Structural constraints on investment: fragmentation, competitiveness and external perception

2.1 High energy prices and fragmentation threaten investment and competitiveness

An industry speaker emphasised the importance of understanding the scale of Europe's investment needs. Moody's estimates that the EU will require €7 trillion in funding by 2030 to address structural challenges such as technological and geopolitical transformations, demographic shifts and climate related issues. This figure does not include the additional €0.5 trillion required annually until 2030 to meet other climate policy objectives. The stakes for policymakers are extremely high and urgent.

The conflict in the Middle East exacerbates Europe's existing vulnerabilities. This is demonstrated by the EU's exposure to high energy prices. As a net energy importer, Europe experiences a direct economic impact from global price shocks. Despite successful efforts to reduce dependence on Russian energy, Europe has not significantly narrowed the energy price gap with the US. Natural gas prices in Europe remain around three to five times higher than in the US. This poses a significant structural challenge to key European industries such as chemicals, steel and fertilisers.

The price pressure on European end users is expected to increase as the demands on Europe's energy networks grow. Investment in electricity grids is projected to rise from €36 billion to around €52 billion in 2027. Despite accounting for 27% of global imports as the world's largest LNG importer, the EU's bargaining power is limited by its fragmented purchasing and internal rules. This position of relative weakness constrains Europe's investment and policy decisions. Persistently high energy costs limit industrial competitiveness and restrict investment in technological transformation. For instance, European data centre capacity is expected to almost double by 2028. Investment in this capacity is expected to be around €375 billion over the next four years. Data centres are highly energy intensive and are expected to account for 5% of total electricity consumption by 2030, up from 2% in 2025. In light of these transmission needs, the cost of European energy is a strategic disadvantage. This could slow the pace of scaling up AI and infrastructure when speed is of the essence.

The Chair noted that the EU's energy policy was guided by the need to respond to an invasion rather than purely by cost. While diversification has diminished its

bargaining power, this was a lesson that was learned when the lack of diversification became problem. Until the green transition is achieved and Europe can harness its own natural resources, this weakness will persist.

2.2 Unlocking Europe's investment potential: tackling fragmentation and scaling innovation

2.2.1 Closing the gap in R&D and intangible investment by deepening the single market

An industry speaker explained that energy is not the only barrier holding back productive investment. Regulatory fragmentation and administrative burdens have a significant impact on the investment climate. The European Investment Bank (EIB) estimates that 62% of EU firms face a fragmented internal market when doing cross-border business. Eliminating these barriers could increase a firm's investment intensity by around 10%, with even greater benefits for intangible investment, which is crucial for innovation.

More broadly, Europe's lower spending on R&D and intangibles is the main reason why productive investment is lower in the EU than in countries such as the US. Europe tends to concentrate on mid tech industries such as automotive, telecommunications and consumer goods rather than high tech industries such as aerospace and software. The relative fragmentation of the capital markets, the regulatory environment and the lack of scale constrain EU small and medium sized enterprises (SMEs). There are ongoing initiatives seeking to address these challenges through simplification and the recently proposed 28th regime. These are welcome steps to improve the single market, but the EU's internal barriers, such as overly complex rules and limited Member State ownership, will test the commitment of European policymakers to deliver effective change in the coming years. In a rapidly changing environment, Europe cannot afford to postpone these crucial decisions.

2.2.2 Using defence investment as a catalyst for industrial growth and innovation

An industry speaker observed that the EU's fragmentation constrains defence spending. Defence is a sovereign capability with national and fiscal implications, but it cannot be viewed in isolation. EU defence procurement policy is currently fragmented and highly reliant on non European imports for advanced systems and technologies. As spending shifts away from personnel and pensions towards equipment, R&D and other operational expenditure, the EU based defence industry's ability to scale up will be critical. Spending on equipment is projected to rise from 29% of defence spending in 2024 to 40% by 2030. Addressing these challenges is crucial from a geopolitical perspective and an economic one. Increasing the proportion of equipment produced within the EU could stimulate local innovation, boost fiscal multipliers and promote economic growth. Defence R&D often leads to positive technological spillovers. In highly innovative regions, an increase of 1% of GDP in defence R&D can lead to an increase in private R&D of almost 2% of GDP over 10 years. Simplifying processes, acting with urgency and

prioritising key projects will be central to driving the EU's policy agenda.

2.3 Unlocking Europe's growth potential: from fragmentation to investment and resilience

An official observed that the conflict in the Middle East has illustrated Europe's ongoing susceptibility to shocks. However, the positive news is that Europe has a strategy to increase resilience. The EU must act swiftly and avoid taking shortcuts that could compromise the European economy.

2.3.1 Mobilising private investment by cultivating an attractive and integrated business environment

An official suggested that the best way to attract private investment is to ensure that firms perceive Europe as a place where they can earn competitive returns on capital and reap the rewards of innovation. Europe's fragmented markets disincentivise business investment. The European economy is composed of an excessive number of smaller and older firms. In the United States, stock market valuations for firms under 50 years old amount to \$42.9 trillion compared to \$5 trillion in the EU. Completing the single market and bridging domestic policy gaps could solve this issue entirely, enabling innovative firms to expand and enhancing productivity by around 20%. This higher productivity would subsequently attract up to €800 billion in additional investment over 10 years, which could lead to a 35% increase in GDP over time. There is no reason to leave this huge amount of money on the table. Around half of these gains would arise from domestic reforms to labour markets, a growth oriented tax system, reduced bureaucracy and strengthened innovation policies.

2.3.2 Completing the single market and advancing CMU will boost productivity and scale

An official explained that EU level initiatives also have a role to play. First, European firms must be able to sell across borders. Currently, the cost of doing business across EU Member States is two to three times higher than it is across US states. Reducing trade barriers could enable firms to grow while increasing competition. Secondly, the EU needs fully integrated capital and labour markets. Currently, there is extensive duplication across EU Member States. Achieving a true Capital Markets Union (CMU) would improve liquidity and enhance risk sharing. Similarly, the cost of migrating between EU countries is about eight times higher than the cost of migrating between US states. Qualifications should be recognised seamlessly and social security should be portable.

2.3.3 Reducing energy fragmentation to strengthen resilience and competitiveness

An official emphasised that energy fragmentation is a strategic vulnerability. Energy prices are too high and too susceptible to external shocks. Uncertainty must be reduced by maintaining carbon pricing. Access to cheaper and cleaner energy will increase resilience. By taking decisive action, Europe could again become a hub where ideas flourish, investment thrives and prosperity is shared.

The Chair commented that these remarks echo a recent speech given by Isabel Schnabel, who said that Europe's principal lack is scale rather than ideas, talent or resources.

2.4 How non EU investors view Europe

2.4.1 Limited concerns over EU debt levels

An industry representative described how non EU investors view the prospect of investing in the EU. First, financial investment remains stable as international such as Asian and Middle Eastern investors are diversifying from US dollar denominated assets. EU level indebtedness is not considered problematic because it is offset by balanced external trade figures and the euro's perceived strength. Although public debt in some EU countries is a concern, it is not a priority for most foreign investors. Several factors contribute to the EU's attractiveness as an investment destination. For equities, these include the quality of large European corporations and comparatively lower entry prices than some US or Asian stock exchanges. Euro denominated sovereign debt can be appealing due to its attractive ratings and broad liquidity. Currently, the debt levels of individual states are generally not viewed as problematic.

2.4.2 Industrial investment in the EU lacks competitiveness, but key sectors retain their appeal

An industry representative noted that non EU investors see challenges with industrial and physical investments in the EU due to the high labour costs, energy prices, taxes and levels of regulation in Europe. Europe's competitiveness is being further eroded by the ongoing crisis in the Middle East. However, the EU is strong in sectors where these challenges are less influential, such as luxury goods, cosmetics, wine and spirits, food, pharmaceuticals, defence, aeronautics and rail. Local content requirements also enhance the EU's attractiveness, particularly in the automotive industry. Lastly, infrastructure remains an appealing sector due to solid business cases, the stable legal environment and protection against inflation.

3. Policy priorities: integration, credibility and mobilisation of private capital

3.1 Fiscal constraints and political trade offs: advancing the investment and integration agenda

3.1.1 Improving the quality of public spending and financing the energy transition

A policy maker welcomed the demand for European debt but noted that the fiscal situation in the EU is very different to that in 2022. The quality of public spending is important, especially when national budgets are under pressure. This underlines the importance of reducing energy dependence, which will require substantial investment. There is mounting pressure for compensatory measure, but the action taken must not hinder the transition to energy independence.

Further deepening of the internal market, including the capital markets, is the right path in the present global climate.

3.1.2 Overcoming political fragmentation and national vested interests to deliver the single market

A policy maker commented that the challenge of making progress is not simply a national versus European issue. Policymaking at all levels involves a balance of interests and policies rarely benefit everyone equally. Genuine conflicts can and do arise between national and European interests, but these conflicts are usually due to a specific group successfully lobbying a national government. The SIU is a good example of this. It is widely recognised as beneficial for the Union as a whole, but any discussion of practical measures always becomes more complicated. The pushback against the proposed rules on reduced commission based retail distribution is a case in point. John Berrigan received letters from 14 finance ministries opposing this measure. The proposals aimed to enhance investor protection and market integration but clashed with certain business models. The owners of these business models were highly successful in lobbying governments against the new rules.

The benefits of the single market need to be communicated more widely, but communication alone is not enough. Meaningful European reform will require a shared sense of urgency and an understanding that inaction will make everyone worse off. Secondly, the negotiation package must be sufficiently comprehensive to ensure it is not actively opposed. Thirdly, proper reform requires stable and confident governments capable of withstanding pressure from opposing groups. Currently, the sense of urgency is more pronounced than it has been in some time. Concerted efforts from national governments, the European Union and the marketplace are required to take Europe forward in terms of investment.

3.2 Public private investment and a European safe asset: aligning finance with common goals

A regulator described how Italy has recently established strategic funds which combine public and private investments. These funds aim to invest in companies with robust growth prospects while also enhancing access to essential raw materials and strategic supply chains. At a national level, public private partnerships can significantly revitalise financial markets and channel resources towards more ambitious shared goals. As the Draghi report states, public initiatives will only succeed if they are linked to specific missions and projects. Ensuring greater coordination at the European level begins with a clear shared definition of the objectives. In this context, a fundamental debate on the development of a European safe asset is needed to ensure genuine financing capacity.

3.3 Why global investors could turn to Europe: integration, geopolitics and a trusted euro

An industry representative emphasised that reducing operational costs in the EU will require greater integration, increased scale, faster adoption of new

technologies and harmonised local regulations. There are three key ways to make the EU more appealing to non EU investors. First, the integration of financial services in the EU should be accelerated. The delivery of financial services is highly burdened by local regulations, particularly in retail. Secondly, the geostrategic context provides an opportunity for the EU to establish itself as a more important region for countries seeking to navigate relationships across the globe. This geopolitical position could stimulate investment in the EU as these countries seek to foster relationships with the EU. Thirdly, the euro is a reliable reserve currency thanks to the credibility of the European Central Bank (ECB). The current Middle East crisis is likely to reaffirm that the euro is well managed and represents long term stability.

3.3 Towards an EU industrial strategy: aligning national efforts and mobilising investment

3.3.1 Coordinating national strengths to build European champions and strategic autonomy

A regulator stated that a common EU industrial policy is needed to ensure that Member State level initiatives align with Europe's common objectives. First, it is crucial to avoid dispersing resources across many different Member States. Instead, tasks should be distributed in an organised manner to achieve European strategic autonomy in the medium to long term. This could involve establishing specialised centres of excellence to leverage a particular country's unique skills, geographical location or infrastructure. Politically, this will be challenging. While undoubtedly more complex than harmonising financial market regulation, it is essential. Only through this approach will Europe develop major champions on a sufficiently large scale to compete internationally. This is an integral part of the narrative set out in the Draghi report and should underpin the future of Europe. Reinforcing this narrative is vital. National governments require the support of their citizens to implement major reforms. The European Commission's recent call for evidence on intergenerational fairness, focusing on youth unemployment and pension reforms, is a prime example of this.

3.3.2 Leveraging pension reforms and long term savings to support investment and the SIU

A regulator noted that the European Commission's November communication as part of the SIU pension reforms successfully presented an effective narrative. This communication addressed pension monitoring systems, dashboards and automatic enrolment. Italy's government has recently introduced auto enrolment measures for new private sector employees in supplementary pension schemes. According to OECD figures, 97.4% of people aged 15 to 64 in the Netherlands participated in pension schemes in 2025, compared to 52% in the UK and just 26.7% in Italy. In Sweden, pension fund assets accounted for around 115% of GDP, whereas in Italy the figure was just 11.7%. If other Member States were to emulate these practices, it would contribute to the SIU by increasing long term savings, standardising default investment pathways

through lifecycle funds and enhancing the capacity of institutional investors to channel resources into the real economy. Importantly, it should also help to address the issue of Europe's ageing population.

The Chair emphasised that there are many areas where the industry and the public authorities could collaborate. The November communication on the SIU pension package received significant attention from the industry. Recent meetings with representatives from the banking and insurance sectors have suggested that a way forward is possible.

3.4 Rebuilding credibility to unlock investment: less debt and more alignment

3.4.1 Mobilising investment through integrated capital markets, credible policies and trust

An official highlighted the importance of the perceived value of European level action. The key consideration for the markets is whether an EU initiative enhances investment opportunities and risk return profiles. If this is not sufficiently apparent to citizens, taxpayers and voters, national self interest will naturally dominate. Initiatives such as the SIU can play a crucial role here. Europe has significant savings, but these are not always channelled efficiently towards productive investment. Strengthening the capital markets by improving debt, liquidity and integration would mobilise these savings more effectively and support private investment.

To achieve this, several conditions must be met. First, there must be a clear and credible policy framework. Investors need to have confidence that the rules will be stable and interpreted consistently, that the fiscal trajectories of Member States are sustainable and that markets will remain open and integrated. Secondly, the benefits must be tangible to everyone. For households, this means better investment opportunities and returns. For firms, this means improved access to financing. For governments, it means a more resilient and diversified investor base. Thirdly, there must be trust in financial markets and between Member States. Without a fundamental level of trust, it will be impossible to achieve fiscal discipline and policy coordination. Ultimately, national self interest prevails not because of a lack of ambition, but because of a lack of alignment in the underlying incentives and conditions. Addressing this will require stronger national fundamentals and a more credible and effective European level framework.

The Chair agreed that virtuous behaviour is needed to build trust. This is true in financial markets and between countries. Indeed, the word 'credit' comes from 'credere', which means 'trust'.

Overall, the discussion highlighted that Europe's investment challenge is not only financial, but also structural and political. Addressing it will require a combination of credible macroeconomic frameworks, deeper market integration and stronger alignment of national and European incentives.