EUROPE'S MAJOR INVESTMENT PROJECTS: AN INCREASINGLY COMPLEX FINANCIAL EQUATION

As a result of the post-Covid debts surge and rising interest rates, the financial burden on governments is increasing. In the OECD, it has reached 3.3% of GDP, its highest level since 2010. For the European Union, the end of the period of cheap money coincides with a substantial increase in its borrowing requirements, partly linked to the need of rearmament. Public finances, already confronted with climate change and ageing populations, are under pressure and will not be able to meet all the challenges alone.

Debt of advanced countries: the bill is getting heavier. There are some striking figures. By 2025, OECD[1] countries will be borrowing $17,000 billion (USD 17,000 bn), double the amount raised in 2019 and equivalent to the GDP of the Eurozone. Most of this money (almost 80%) will be used to refinance debt, which has exploded in the wake of the Covid-19 epidemic and is now approaching USD 60,000 bn, or 85% of advanced economies GDP. Governments are appealing to the markets not only for unprecedented amounts, but also under less favourable conditions. In the majority of cases, sovereign bonds coming to maturity within three years were issued before the tightening cycle of monetary policy in 2022[2]. Replacing them is more expensive, which means higher interest burden for governments. Reaching 3.3% of GDP in 2024 (its highest level since 2010), it now exceeds the budgets devoted to defence or housing. The OECD forecasts a further increase in 2025, while the downward turn in money market rates has not prevented a rise in long term yields.

More demanding financing conditions, a particular challenge for Europe. The rising cost of access to debt markets is an issue of growing importance in the European Union (EU), at a crucial moment in its history when its "peace dividend" is being counted. Traditionally low (barely 1.4% of GDP in the 2010s, compared with almost three times that in the United States), EU defence spending has taken off since the start of the war in Ukraine.

President Trump's questioning of the Transatlantic Alliance (and in particular its Article 5, which provides for mutual commitment by member countries in the event of aggression), followed by the shift of German policy in favour of a European defence, are poised to propel them into another dimension. Since March 19, with the publication of a "White Paper" by the European Commission, the cost of rearmament has become clearer: at least EUR 800 bn in additional expenditure over the next four years, to be met (up to EUR 150 bn) by a specific dedicated instrument and by the Member States, which will benefit from a relaxation of the rules of the Stability Pact[3].

The objective — to raise European defence spending to over 3% of GDP by 2030 and thus come closer to American standards — is ambitious in itself; it becomes even more so when considering that two of the main constraints weighing on budgets — population ageing on the one hand, and climate change on the other — will not ease. The Climate Law (which aims to achieve carbon neutrality by 2050) would require the EU to increase its investment in the energy transition considerably (by around EUR 400 to 500 billion a year, or at least two points of GDP)[4]. As for the demographic equation (the proportion of the population aged 65 and over has practically doubled over the last forty years, and now exceeds 20% of the European population), this is already putting considerable pressure on public pension systems: in 2019, EU countries devoted 11.5% of GDP to them, a ratio significantly higher than the OECD average (8.2% of GDP)[5].

The need to mobilize private savings. Rearmament, the fight against climate change, but also the imperative to invest in digital technologies to catch up with the United-States: the European Union is facing a wall of investments as rarely seen. In September 2024, the "Draghi" report on European competitiveness estimated that the EU-27 would need to spend some EUR 800 bn a year (equivalent to 4.7% of GDP, or at least two Marshall Plans)[6], figures consistent with those already quoted. In some cases, as in Germany, public finances retain some room for manoeuvre and will be able to contribute to the effort; but given the constraints weighing on them at European level, they will not be able to do everything. The "Draghi" report, and the "Letta" report that preceded it[7], indicate that Europe's future also depends on its ability to mobilize abundant private savings but which are too compartmentalized and insufficiently focused on productive investment[8].

The Savings and Investment Union (SIU) project recently unveiled by the Commission is precisely designed to reduce the fragmentation of capital markets in Europe, in order to better allocate savings. Here, the barriers are not so much financial as political and legal; the EU nevertheless needs to overcome them.

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1 Organization for Economic Co-operation and Development (2025), World Debt Report, March.
2 In the OECD zone, 60% of fixed-rate sovereign bonds maturing by the end of 2027 were issued before the 2022 monetary tightening cycle, ibid, p.13.
3 The SAFE (Security Action for Europe) instrument should enable the European Commission to raise up to EUR 150 bn on the capital markets, with the aim of supporting investment in defence, as well as aiding Ukraine. States will also be authorized to activate the national derogation clause in the Stability Pact for their additional defence spending, up to a limit of 1.5 points of GDP. Cf. European Commission (2025), White paper for European Defense Readiness 2030, March.
4 For an overview of additional "green" investment needs in the EU, see European Central Bank: ECB (2025), Investing in Europe's green future, Occasional Paper Series, No 367, January.
5 Source: OECD, Public and private social expenditures dataset.
6 High assessment. Cf. Draghi M. (2024), The Future of European competitiveness, September.
7 Letta E. (2024), Much more than a market: Speed, Security, Solidarity, Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens, Report, April.
8 Cf. Derrien G. et Quignon L., *The Eurozone is exporting its savings. But is it investing them advantageously?* BNP Paribas Charts of the week, December 2024. The authors point out that Eurozone savings invested abroad are characterized by a preference for debt instruments – with relatively low risk and low return - over equity instruments (shares and fund units).