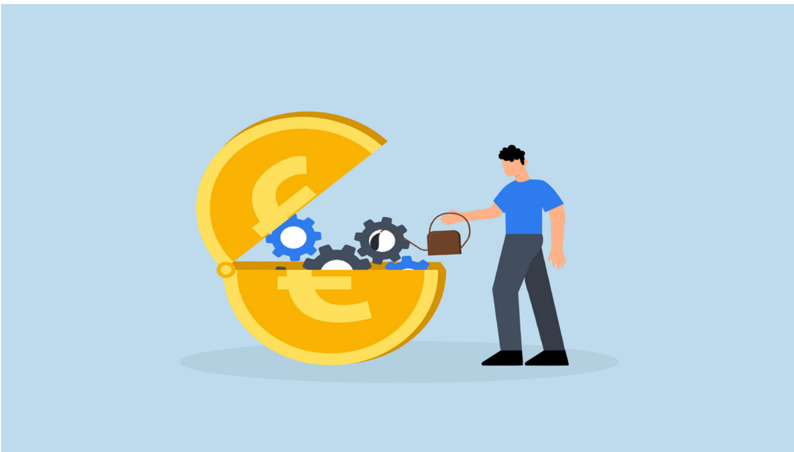
STUDY
Requested by the BUDG Committee

Investment needs identified in the Draghi and Letta reports and their implications for the EU budget



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Directorate-General for Budgetary Affairs
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Investment needs identified in the Draghi and Letta reports and their implications for the EU budget

Abstract

This study was provided by the Budgetary Support Unit at the request of the Committee on Budgets with the aim of examining the investment needs identified in the Draghi and Letta reports and their implications for the EU budget. It examines how the strategic orientations and quantified investment gaps set out in these two reports are reflected in the European Commission's proposals for the 2028-2034 Multiannual Financial Framework (MFF) and assesses the potential contribution of EU budgetary instruments in addressing Europe's competitiveness, resilience and strategic autonomy challenges.

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CONTENTS

LIST OF ABBREVIATIONS

AGRI	European Parliament's Committee on Agriculture and Rural Development
AI	Artificial Intelligence
BUDG	European Parliament's Committee on Budgets
CEF	Connecting Europe Facility
CWP	Commission work programme
DITB	Defence Industrial and Technologyl Base
EBRD	European Bank for Reconstruction and Development
ECA	European Court of Auditors
ECB	European Central Bank
ECF	European Competitiveness Fund
EDIRPA	EU Defence Industry Reinforcement through common Procurement Act
EDF	European Defence Fund
EDIP	European Defence Industrial Programme
EDIS	European Defence Industrial Strategy
EFSD+	European Fund for Sustainable Development Plus
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EP	European Parliament
EPG	European Public Good
EPRS	European Parliamentary Research Service
ESMA	European Securities and Market Authorities
GDP	Gross Domestic Product
GPU	Graphics Processing Unit
IFI	International Financial Institutions
IMF	International Monetary Fund
MFF	Multiannual Financial Framework
NGEU	NextGenerationEU
NPB	National Promotional Bank
PV	Photovoltaic
TEN-T	Trans-European Transport Network
SMEs	Small and medium-sized enterprises
STEP	Strategic Technologies for Europe Platform

LIST OF BOXES

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY – EUROPE AT A CROSSROADS: COMPETITIVENESS, SECURITY AND THE INVESTMENT GAP

Background

This study was requested by the European Parliament's Committee on Budgets (BUDG) with the aim of assessing the implications of the Draghi and Letta reports, the investment needs they identify, and their implications for the EU budget. It examines how the strategic orientations and quantified investment gaps set out in these two reports are reflected in the European Commission's proposals for the **2028-2034 Multiannual Financial Framework (MFF)** and assesses the potential contribution of EU-level budgetary instruments to addressing Europe's competitiveness, resilience and strategic autonomy challenges.

Published in 2024, the **Letta report** (*Much More than a Market*) and the **Draghi report** (*The Future of European Competitiveness*) provide complementary diagnoses. Letta focuses on the structural reform and deepening of the Single Market, notably through the introduction of a "fifth freedom" for knowledge, innovation and data, and the creation of a Savings and Investments Union. Draghi identifies Europe's widening competitiveness gap and estimates **additional annual investment needs of approximately EUR 750-800 billion**, concentrated in four main areas: energy, transport and infrastructure, digital technologies, defence and security, and innovation.

The study finds that the underlying competitiveness challenges identified in 2024 remain **structural and enduring**, reflecting long-standing factors such as fragmented capital markets, insufficient innovation-related investment, high energy costs and persistent strategic dependencies. Moreover, subsequent geopolitical and geo-economic developments suggest that the **order of magnitude of investment needs identified by Draghi should be viewed as indicative rather than exhaustive**. Sustaining competitiveness over the coming decade, particularly in defence, security, energy and advanced technologies, may require investment volumes exceeding those initially estimated.

To support the analysis, the study develops a **European Public Goods (EPG) framework**, combining economic criteria (spillovers, economies of scale) and governance considerations (preference heterogeneity). This framework helps to distinguish areas where EU-level intervention is most justified and complements purely financial performance indicators.

A detailed mapping of the **Letta and Draghi recommendations** shows that a significant share would have direct budgetary implications if implemented: around **23% of Letta's measures** and **28% of Draghi's measures**. These measures are concentrated in a limited number of strategic sectors, notably energy, digitalisation, critical raw materials, transport infrastructure and defence.

The analysis finds a **broad alignment between the Commission's proposal and the strategic priorities identified by Letta and Draghi**, although the overall scale of the EU budget remains insufficient to address the full investment gap on its own. The findings underline the necessity of **explicit prioritisation and strategic concentration** in the use of EU budgetary resources. Given the widening gap between investment needs and feasible public contributions, spreading resources thinly across sectors risks diluting impact.

A scenario exercise assesses how EU budgetary resources, combined with leverage mechanisms, could contribute to closing part of the investment gap. Depending on assumptions regarding budgetary ambition and multiplier effects, EU-level intervention could support the mobilisation of **approximately 10% to 30%** of the estimated annual investment needs. The analysis confirms that **EU instruments are primarily catalytic**, enabling private and national investment rather than substituting for them.

Importantly, the study finds that the key challenge lies **less in the absolute volume of public funding available than in the allocation and design of public instruments**. Well-targeted guarantees, blending mechanisms and equity-type instruments can significantly crowd in private capital, particularly in mature, capital-intensive sectors. Conversely, in areas with limited private returns or high preference heterogeneity, such as defence or certain strategic infrastructure, direct public funding remains critical despite lower leverage effects.

Overall, the study concludes that the **2028-2034 MFF constitutes an important component of the EU's response to competitiveness challenges**, but operates within a broader investment ecosystem involving Member States and private actors. Its effectiveness will depend on strategic prioritisation, instrument design, governance and monitoring, as well as on the capacity to align EU-level spending with clearly identified EPGs.

GENERAL INFORMATION

This study was requested by the European Parliament's BUDG committee. Its objective is to develop a detailed assessment and discussion of the investment needs identified in the Draghi report including a specific analysis of the investment gap estimated for the green transition and, to the extent possible, an attempt at quantifying the Letta report's findings.

Beyond the quantification of investment needs, the study also assesses the **degree to which the recommendations of the Draghi and Letta reports are reflected in the forthcoming MFF 2028–2034 proposals**. In this context, it analyses whether, and to what extent, these proposals address the **qualitative and quantitative gaps** highlighted in the two reports.

The study further includes:

- an assessment of the **respective roles of public funding** (at both Member State and EU levels) and **private financing** in addressing the identified investment gaps;
- an analysis of the **potential contribution of EU 'safe assets'** to closing these gaps; and
- an assessment of the **share of the identified gaps that can be qualified as EPGs funding gaps**.

The study employed a **seven-module analytical methodology** to constitute a coherent sequence that structures the entire analytical workflow of the study.

These modules progressively build:

- the evidence base,
- the analytical framework,
- the quantitative assessment of investment needs and gaps,
- the mapping of budgetary instruments under the MFF,
- the financing scenarios,
- the assessment of EPGs, and
- the formulation of policy conclusions.

Interviews were organised in three operational phases (Scoping, Deep dives and Scenario validation), which run in parallel with and support the analytical steps of the methodology.

Each phase provides targeted inputs to the relevant steps from shaping the evidence base, to refining the MFF mapping and financing assumptions, and validating the final scenarios and EPGs assessment.

Artificial Intelligence (AI) tools were used as supporting instruments for data processing purposes. In particular, the team relied on EYQ, EY's in-house AI solution, which complies with strict data protection, security and ethical AI standards. EYQ was used for tasks such as summarising large volumes of documentation and supporting data processing. The use of AI remained strictly complementary to the **professional judgement and expertise** of the research team. All AI-generated outputs were systematically reviewed and validated by the researchers to ensure accuracy, methodological robustness and analytical independence.

The study is subject to a number of methodological constraints linked to the current institutional and policy context:

- The legislative process on the MFF 2028–2034 remains ongoing, and key programme level allocations are not yet available.
- Several recommendations of the Draghi and Letta reports do not include quantified baselines, requiring the use of proxies and benchmarking.
- The conduct of certain interviews was affected by the limited availability of stakeholders within a constrained institutional context.
- The notion of EPGs is not legally defined and requires an analytical interpretation combining Bruegel criteria and STEP guidance.
- The limited information currently available on the use of financial instruments under the 2028-2034 MFF, together with the limited evidence to date regarding the performance of the 2021-2027 MFF financial instruments in leveraging private investment (except for InvestEU and Horizon Europe instruments), constrains the ability of the Study to develop fully calibrated and highly differentiated financing scenarios capable of addressing all identified investment needs.

1. A NEW DECADE OF INVESTMENT IMPERATIVES FOR EUROPE

Over the past decade and a half, the European Union (EU) has faced a succession of shocks that have re-shaped its growth model, fiscal architecture and policy priorities. These shocks are the post-global financial crisis ; the post-sovereign-debt recovery; the COVID-19 pandemic; a two energy shocks in less than a decade and the broader geopolitical fallout from Russia's war of aggression against Ukraine; intensifying geo-economic competition with the United States of America (USA) and China, and the recent escalation of tensions between Iran and the USA culminated in the outbreak of a conflict in the Middle East in March 2026, directly affecting Europe's immediate neighbourhood These shocks have exposed structural vulnerabilities – slowing productivity, fragmented capital markets, elevated energy costs and strategic dependencies – while simultaneously demanding higher, **better-targeted investment** to deliver the green, digital and security transitions.

The EU's budgetary response has evolved accordingly. In 2020, the Union launched **Next Generation EU (NGEU)**, an unprecedented, time-bound joint-borrowing instrument of **EUR 750 billion in 2018 prices (~EUR 806.9 billion current) embedded within the 2021-2027 Multiannual Financial Framework (MFF), bringing the overall package to ~EUR 2 000 billion in current prices**. Repayments stretch to 2058, with the grant portion serviced by the EU budget, an innovation that underlines the EU's capacity to mobilise resources on a scale when confronted with systemic shocks.

The 2022-2024 energy crisis further demonstrated how **geopolitics and energy security** have become central to competitiveness and welfare. The EU moved from emergency measures and demand reduction to a forward-looking agenda on lowering structural energy costs, accelerating the clean transition and completing the Energy Union (RepowerEU) while gas storage mandates, coordinated demand cuts and joint purchasing helped stabilise markets. This sequence has made clear that **cross-border externalities** and **network effects** justify EU-level intervention, especially where market fragmentation would otherwise raise costs and delay investment.

The European Commission mandated two strategic reviews in 2024: the **Draghi report** on the future of European competitiveness and the **Letta report** on revitalising the Single Market. Draghi quantifies **additional annual investment needs of roughly EUR 750-800billion** to restore Europe's growth potential, close innovation gaps and reduce dependencies, calling for deeper market integration and significantly greater common investment. Letta proposes to unlock a "**fifth freedom**"[1] (knowledge, research, innovation, education and data) and a Savings and Investments Union to channel private capital towards EU priorities, together framing competitiveness and strategic autonomy as mutually reinforcing.

The Draghi report argues that Europe faces an existential competitiveness challenge driven by i) slowing productivity growth, ii) a widening GDP gap with the USA), iii) rising global competition, especially from China, iv) demographic decline (shrinking workforce), v) higher energy costs after the loss of Russian gas and vi) increasing geopolitical instability. **Three strategic priorities** are identified by the report: close the innovation gap, joint plan for

[1] The four freedoms being the free movement of people, goods, services and capital

decarbonisation and competitiveness, increase security and reduce dependencies and **383 sectoral measures** are to be implemented.

Five months later, on 29 January 2025, the Commission presented the Competitiveness Compass a new roadmap to restore Europe's dynamism and boost economic growth, by addressing the challenges highlighted by Draghi in his report. "*Europe has everything it needs to succeed in the race to the top. But, at the same time, we must fix our weaknesses to regain competitiveness. **The Competitiveness Compass transforms the excellent recommendations of the Draghi report into a roadmap**. So now we have a plan. We have the political will. What matters is speed and unity. The world is not waiting for us. All Member States agree on this. So, let's turn this consensus into action.*" said President of the European Commission, Ursula von der Leyen, when presenting the Compass.

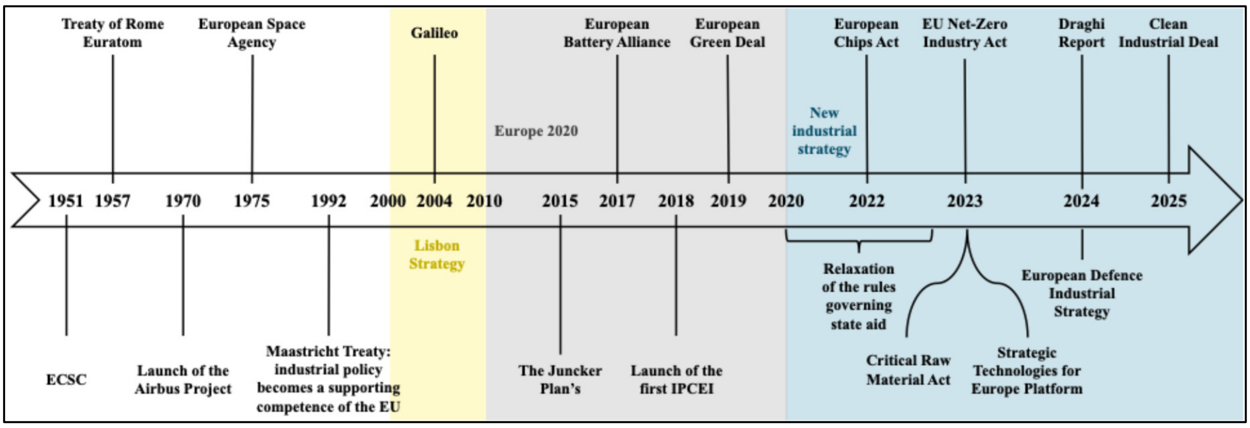
On 16-17 July 2025, as a concrete financial application of the roadmap, the Commission tabled the **2028-2034 MFF** proposal **(~EUR 2 000 billion)** explicitly dedicating **EUR 589 594 billion to "Competitiveness, prosperity and security"**.

The Commission's proposal sets the **2028-2034 MFF** with a stronger competitiveness thrust and streamlined instruments, provides the financial framework through which many of the Draghi and Letta recommendations could be operationalised. It aims to deliver a more **dynamic, flexible** and **strategic** EU budget-streamlining programmes, enhancing reactivity to shocks, and introducing a powerful **Competitiveness** thrust to secure supply chains, scale up clean and smart technologies and crowd in private investment. The Commission's political framing explicitly ties the next MFF to **security, defense, energy, food security and strategic autonomy**, reflecting a shift from crisis management to long-term resilience and EPG provision.

To achieve these investment objectives, the **European Investment Bank Group**'s role is getting reinforced as the EIB **recorded a record financing volume of EUR 100 billion in 2025**, from the ecological transition to defense, including health, the bank supports industrial sovereignty and European influence in the world.

The Union's budgetary transformation – **from NGEU's joint borrowing to a strategically oriented MFF** – reflects the new policy reality: Europe's competitiveness cannot be separated from its **strategic autonomy** in industry, defence, critical raw materials, agri-food, energy and digital infrastructure.

Figure 1: Timeline of EU Industrial Policy Measures



Source: Banque de France.

Key to reading Figure 1:
The Letta & Draghi's reports and the MFF 2028-2034 fall within the beginning of the second phase of the European New industrial strategy. The reports draw conclusions from the transformation initiated in 2020 and formulate recommendations for the next MFF to strengthen the New Industrial strategy.

This Study aims to answer the following questions:

- What are the investment needs and gaps identified in the Draghi report and, where applicable, in the Letta report? What is the rationale underpinning such identification and the respective public and private shares?
- To what extent and under what subsidisation scenarios and modalities could EU financial instruments crowd in/derisk private investments required for closing the Draghi report investment gap (notably the required reductions of capital costs assumed in the Draghi report)?
- To what extent does the Commission address the recommendations from the two reports in the proposal for the 2028-2034 MFF? What has been taken up and what is fully or partially missing?
- How much additional funding would be necessary to close the investment gap (in relation to the MFF proposal and projected fiscal and private investment trajectories/scenarios at Member States' level)? Which financing mechanisms could be envisaged and what implications – both budgetary and political – do they entail?

2. METHODOLOGY – BUILDING THE EVIDENCE BASE: METHODS AND ASSUMPTIONS

This study was built with a **seven-module analytical methodology** to constitute a coherent sequence that structures the entire analytical workflow of the study. Seven functional modules that progressively build the evidence base, the analytical framework, the quantitative assessment, the budgetary mapping, and the final policy conclusions.

Interviews were organised in three operational phases (Scoping, Deep-dives and Scenario validation), which run in parallel with and support the analytical steps of the methodology.

Each phase provides targeted inputs to the relevant steps from shaping the evidence base, to refining the MFF mapping and financing assumptions, and validating the final scenarios and EPG assessment.

2.1. A global view of our methodology and outputs to date

This study created databases with a consolidated view of the MFF, the recommendations, and literature review:

- First, a consolidated a database has been created with the vision of the European Commission's Multiannual Financial Framework (MFF) Proposal for 2028-2034 and a reminder of the architecture of the MFF for 2021-2027
- Then a database has been created with of all the Draghi & Letta reports' recommendations and measures, cross-analysed with the European Commission's MFF proposal for 2028-2034 with the following methodology:
  - Extract of the Draghi & Letta reports' recommendations and measures that would have a financial impact on the MFF if adopted
  - List of the MFF 2028-2034 programmes and their main legal topics/objects
  - First analysis and match between Draghi & Letta reports' recommendations and the programmes and their legal topics/objects
- A comprehensive literature review completed the analysis framework and data

After this global data analysis, sectors and programmes were prioritised to study concrete deep-dives and focus on the precise strategic recommendations and main MFF evolutions.

Our overall methodology is based on this global analysis completed with focuses and visuals.

Then the study estimated public vs private investment needs using Draghi's baseline, model capital-cost reductions from guarantees, and assessed the contribution of EU safe assets. Global outputs clarify how EU financial instruments can shift private investment incentives.

At the time of drafting, the European Parliament is in the process of finalising its position on the MFF, while no specific budgetary figures have yet been determined. Hence, three operational scenarios were designed combining:

- EU budget resources supporting competitiveness
  - **InvestEU annual budgetary guarantee**.

  - **Annual MFF contributions aimed at bridging the investment gap**, represented by the European Competitiveness Fund **(ECF)**, and the Connecting Europe Facility **(CEF)**.
- Budgetary provisioning
- Financing leverage
- Total investments mobilised
  - The estimation of total investment mobilisation is based on:
  - Programme specific multiplier ratios, reflecting the volume of investment generated by one euro of EU budget support (InvestEU, ECF, CEF);
  - Total investment mobilised per programme, obtained by applying the relevant multiplier effect ratio to the EU budgetary contribution.

Each scenario specifies the expected crowd in effect and policy trade-offs.

2.2. Limitations of the study

This study is delivered at a stage where:

- The legislative process on the MFF 2028–2034 remains ongoing, and key programme-level allocations are not yet available.
- Several recommendations of the Draghi and Letta reports do not include quantified baselines, requiring the use of proxies and benchmarking.
- The conduct of certain interviews may have been affected by the limited availability of stakeholders within a constrained institutional context.
- The notion of EPG is not legally defined and requires an analytical interpretation combining Bruegel criteria and Strategic Technologies for Europe Platform (STEP) guidance.
- The limited information currently available on the use of financial instruments under the 2028-2034 MFF, together with the insufficient evidence to date regarding the performance of the 2021–2027 MFF financial instruments in leveraging private investment, constrains the ability of the Study to develop calibrated and differentiated scenarios capable of addressing the identified investment needs.
- The limited availability of robust economic impact evaluations required several multiplier assumptions to rely on qualitative assessments and expert interviews for scenarios building

3. WHAT SHOULD EUROPE FUND? A FRAMEWORK FOR EUROPEAN PUBLIC GOODS

3.1. An absence of a formally agreed institutional definition of European Public Goods

While the notion of **EPG** has gained prominence in policy debates, particularly in the context of the Union's geopolitical, technological and climate challenges, it lacks a **clear, binding legal definition in EU primary or secondary law**. As highlighted by Claeys & Steinbach (2024)[2], the term is often used broadly in political speeches and strategic documents to capture tasks "*that should be provided at the central level*," yet **operational benchmarks remain undefined at EU-level**. Furthermore, the related concept of **"*EU added value*"**, which should theoretically guide the allocation of competences, budgetary instruments and investment priorities, is also **subject to varying interpretations** across institutions, Member States and analytical frameworks. Claeys & Steinbach note that the debate over "*which policy decisions should be taken at national level and which at EU level*" persists because preferences, efficiencies and political sensitivities differ widely across countries, sectors and policy domains.

This ambiguity complicates strategic investment decisions, as policymakers lack a shared analytical basis to determine **what should be financed nationally**, **what should be coordinated at EU level**, and **what should be prioritised and scaled through common European action**.

3.2. Methodology deployed and definition of European Public Goods in this study

The purpose of this sub-section is therefore to propose a coherent, evidence-based methodology to:

- define what constitutes a EPG;
- determine when EU-level intervention is justified;
- distinguish clearly between national tasks and European-level strategic investments.

To do so, **two complementary frameworks** are synthetised:

I. The economic and governance-based identification framework for EPG proposed by Claeys & Steinbach (Bruegel) in 2024;

II. The strategic criteria used under STEP, that identifies a set of criteria to target EU intervention toward technologies and sectors that are critical for Europe's competitiveness, resilience and strategic autonomy to direct investment toward technologies and capabilities essential for Europe's competitiveness and sovereignty.

Claeys & Steinbach propose a two-part definition combining economic and governance considerations: *"A European public good is (i) a good not supplied at an adequate level without public intervention and (ii) for which provision at EU level increases efficiency by internalising spillovers or realising economies of scale, even when national preferences diverge".*

[2] "A conceptual framework for the identification and governance of European public goods", Grégory Claeys and Armin Steinbach (Bruegel), working paper, issue 14/2024, 30 May 2024

This definition expands on the classical notion of public goods by recognising **coordination failures**, **network effects**, and **strategic complementarities**, which often justify public intervention beyond the strict non-rival[3]/non-excludable [4] criteria.

According to Section 2.2 of the Bruegel paper[5], identifying an EPG requires four analytical steps:

- **Analyse cross-border externalities**: determine whether EU-level provision internalises spillovers.
- **Evaluate economies of scale and scope**: assess whether EU-level provision reduces fixed costs or avoids fragmentation.
- **Assess preference heterogeneity**: preferences about the level of provision and the level of governance.
- **Weigh efficiency gains versus preference divergence**, resulting in three categories: i) Clear EPG (Group 1), and ii) "Trade-off" EPG requiring governance tools (Group 2) and iii) National goods (Group 3)

The **STEP** identifies a set of criteria to target EU intervention toward technologies and sectors that are critical for Europe's competitiveness, resilience and strategic autonomy.

The criteria include:

- Critical deep-tech breakthrough innovation;
- Reduction of strategic dependencies;
- Strengthening EU value chains;
- Need for coordinated action across programmes;
- De-risking needs and private capital mobilisation;
- Contribution to sovereignty, economic security and defence;
- Skills shortages in strategic sectors.

The convergence between the Bruegel EPG framework and the STEP criteria allows to build a hybrid institutional methodology that identifies and prioritises areas where EU-level investment is justified and necessary.

[3] Whenever, "the consumption of the good by someone does not diminish the consumption of others", EU Law and Economics, Armin Steinbach

[4] Whenever "the good can be consumed by anyone" EU Law and Economics, Armin Steinbach

[5] "An uphill struggle: a long-term perspective on the European public goods debate", 2024, Bruegel, Emmanuel Mourlon-Druol

Table 1: A mixed methodology to define EPG criteria

STEP Criterion	Bruegel Criterion – Externalities / Spillovers	Bruegel Criterion – Economies of Scale	Bruegel Criterion – Preference Heterogeneity
1. Critical deep-tech/breakthrough innovation	High positive spillovers: knowledge creation is a classic EPG driver	Strong scale effects in R&D and deployment	Preferences generally aligned
2. Reduction of strategic dependencies	Addresses cross-border vulnerability and economic security externalities	Scale benefits from joint capacity building and diversification	Preferences vary (energy mix, sourcing)
3. Strengthening EU value chains	Avoids negative spillovers from national industrial policies (e.g., distorted competition)	High fixed costs; fragmentation reduces efficiency	Medium preference heterogeneity
4. Need for coordination across programmes	Ensures spillovers are internalised through coherent EU-wide governance	Reduces duplication and increases scale efficiency	Not preference-dependent
5. Need for massive de-risking / private mobilisation	Addresses market failures and coordination failures (e.g., EV charging example)	High fixed investment requires scale	Low to medium heterogeneity
6. Contribution to sovereignty, economic security, defence	Defense and security are weak-link goods with major cross-border externalities	Major scale economies in procurement and interoperability	Very high preference heterogeneity (sovereignty)

Source: A conceptual framework for the identification and governance of European public goods", Grégory Claeys and Armin Steinbach (Bruegel), working paper, issue 14/2024, 30 May 2024, and Second Guidance Note on the Strategic Technologies for Europe Platform (STEP) clarifying elements of Regulation (EU) 2024/795 and Commission Communication C/2024/3209.

Based on the merged methodology, the Study can **classify candidates for EPG status** according to:

- **Category A:** Core EPG (high spillovers, high scale, aligned preferences)
  - Examples (Bruegel Group 1):
    - research & innovation,
    - cross-border infrastructure (energy, transport),
  - These overlap directly with STEP priorities (deep tech, digital, clean tech).
- **Category B:** Strategic EPG (high spillovers/scale, divergent preferences)
  - Examples (Bruegel Group 2):
    - Critical materials (rare earth especially),
    - Defense capabilities,
    - Climate protection,
    - Economic resilience,
    - Energy security.
  - Category B overlaps partially and conditionally with STEP, depending on whether the issue can be translated into a technology-centric, investment-ready intervention.
- **Category C**: National or local public goods (low spillovers, low scale)
  - Examples (Bruegel Group 3):
    - primary education,
    - local cultural and infrastructure services.

In this study, the EPG definition aims at identifying where EU-level budgetary intervention is most justified. The study includes the EPG as a criterion in the conceptual framework, to identify a list of investment categories according to EPG intensity.

In this study, a European Public Good is understood as an investment domain for which EU-level intervention is justified not only by the existence of cross-border spillovers and economies of scale, but also by its strategic contribution to Europe's competitiveness, resilience and strategic autonomy, as well as by the need for coordinated action to mobilise private capital and manage risks that cannot be efficiently addressed at national level alone.

4. DRAGHI & LETTA REPORTS – FROM SINGLE MARKET RENEWAL TO COMPETITIVENESS: A JOINT MANDATE

4.1. Context

The European Commission mandated two strategic reviews in 2024: the **Letta report** on revitalising the Single Market and the **Draghi report** on the future of European competitiveness.

4.1.1. Enrico Letta report: "Much More than a Market"

First, Enrico Letta prepared a high-level report on the future of the Single Market. After providing an overarching assessment of the Single Market's challenges and opportunities, the report entitled ***"Much More than a Market"*** (April 2024) sets out **23 key recommendations** aimed at redefining and modernising the European Single Market.

The report is composed of six thematic chapters:

- **"A 5th Freedom to enhance research, innovation, and education in the Single Market"**: often considered as the central proposition of Letta's report, this chapter develops the concept of a "fifth freedom" (regarding knowledge, research, innovation, education and data) to unlock EU's full innovation potential, and level EU's innovation capabilities to the international competition.
- **"A Single Market to finance strategic goals"**: Letta recommends creating a Savings and Investments Union to channel private capital towards EU priorities, and framing competitiveness and strategic autonomy.
- **"A Single Market to play big: scale matters"**: this section puts forward recommendations to support the growth and scaling-up of European industrial companies, highlighting the importance of size and integration in global markets.
- **"A sustainable Single Market for all"**: the focus here is on ensuring that the Single Market delivers inclusive benefits, with particular attention to citizens, small and medium-sized enterprises (SMEs) and regions, and contributes to a fair and sustainable economic model.
- **"A Single Market to go fast and go far"**: this chapter contains more operational propositions to strengthen the Single Market's actions through a new framework and new tools to improve speed and efficiency.
- **"The Single Market beyond its borders":** the final chapter addresses the external dimension of the Single Market, outlining the strategic partnerships that the EU should develop or reinforce in order to secure its position in a changing global environment.

4.1.2. Mario Draghi report: "The Future of European Competitiveness"

Subsequently, Mario Draghi published ***The Future of European Competitiveness*** (September 2024), a two-part report aimed at addressing the structural challenges facing the European economy and outlining a comprehensive strategy to restore and strengthen Europe's competitiveness.

The report is structured as follows:

- **Part A:** *A competitiveness strategy for Europe* focuses on diagnosing Europe's current economic and geopolitical challenges and identifying the strategic implications for productivity and growth.
- **Part B:** *In-depth analysis and recommendations* sets out a detailed package of policy recommendations to maintain and enhance Europe's long-term competitiveness.

a. Key diagnosis (Part A)

Part A establishes that Europe is operating in a **profoundly changed geopolitical and economic environment**, requiring a renewed competitiveness strategy centred on productivity growth. In this context, the report identifies **three overarching objectives** for the EU:

- **Accelerating innovation and identifying new drivers of growth, notably through advanced technologies and industrial transformation;**
- **Reducing structurally high energy prices while continuing the decarbonisation pathway, including the transition towards a circular economy;**
- **Strengthening Europe's capacity to act in an increasingly unstable geopolitical environment**, where excessive dependencies have become strategic vulnerabilities and where security can no longer be fully outsourced.

b. Recommendations and policy architecture (Part B)

Building on this strategic assessment, Part B proposes a highly granular policy agenda, comprising **170 recommendations**, translated into **415 concrete measures**. These measures are organised around **10 sectoral policies** and **5 horizontal policy pillars**.

Sectoral policies cover key areas of the European industrial and strategic base:

- Energy
- Critical raw materials
- Digitalisation and advanced technologies
- Energy-intensive industries
- Clean technologies
- Automotive
- Defence
- Space
- Pharmaceuticals
- Transport

Horizontal policies address cross-cutting enablers essential to competitiveness:

- Accelerating innovation
- Closing the skills gap
- Sustaining investment
- Revamping competition policy
- Strengthening governance frameworks

Taken together, the two parts of the report provide a coherent and comprehensive framework for restoring European competitiveness, coupling a strategic assessment of current challenges with an extensive set of sectoral and horizontal policy measures.

4.1.3. The Draghi and Letta reports: a dual blueprint for recasting Europe's competitiveness and Single Market foundations

The Draghi report underscores that "the EU's new industrial strategy rests on a series of building blocks, the first of which is the full implementation of the Single Market", and explicitly refers to the Letta report for an in-depth analysis of the challenges facing the Single Market and the reforms required to address them.

Taken together, the two reports articulate a coherent and mutually reinforcing vision. While the Draghi report sets out a comprehensive competitiveness strategy, the Letta report provides the structural and institutional foundations necessary to fully operationalise it. In this sense, the recommendations put forward by Letta constitute a prerequisite framework for the effective implementation of Draghi's agenda, positioning the deepening of the Single Market as a cornerstone of Europe's renewed competitiveness strategy.

4.2. Findings

The Letta and Draghi reports identify substantial investment needs, articulated through detailed and operational recommendations. If implemented, these recommendations would have significant implications for the 2028–2034 Multiannual Financial Framework (MFF), both in terms of scale and strategic orientation.

4.2.1. Investment needs

In the ***Sustaining investment*** chapter, Draghi highlights a structural weakness of the European economy, noting that "*productive investment is low and private sector saving is high, contributing to a substantial current account surplus.*" The report further observes that the investment gap between the EU and the United States of America (USA) has continued to widen since the 2007–2008 global financial crisis, undermining Europe's long-term productivity and competitiveness.

The Draghi report identifies **six main structural factors** explaining the EU's persistently low level of investment:

- Fragmented and undersupplied capital markets, linked to the Letta report.
- Excessive reliance on banks relative to capital markets.
- Specific constraints on the EU's banking sector.
- A lack of viable projects.
- Inefficiencies in EU public financing of investment.
- The lack of a common European safe asset, that would make the Capital Market Union easier to achieve and more complete.

To meet the competitiveness objectives outlined in the report and to achieve a targeted **annual productivity growth increase of approximately 6%**, Draghi estimates that the EU faces a **minimum additional investment requirement of EUR 750-800 billion per year over the period of 2025–2030**.

The investment need is split between four categories, as detailed in the table below:

- Achieving the **energy transition** (energy including clean technologies, and transport including charging infrastructures).
- Becoming a leader in **digital technologies.**
- Strengthening **defence and security capabilities.**
- Boosting productivity through breakthrough **innovation.**

Table 2: Annual additional investment needs (2025-2030) in EUR billion

Investment category		2025-2030
Achieving the energy transition	*Energy (including the deployment of clean technologies)*	*300*
	Transport (including charging infrastructure)	*150*
	Total – Achieving the energy transition	**450**
Becoming a leader in digital technologies		150
Strengthening defence and security capabilities		50
Boosting productivity through breakthrough innovation		100/150
Total annual additional investment needs		**750/800**

Source: Draghi report.

The report further concludes that the EU cannot, on its own, meet this **"massive and unprecedented" investment need**, which represents approximately **4.4–4.7% of EU GDP (at 2023 prices)**. It therefore identifies a set of complementary levers to mobilise investment at the required scale.

First, the report stresses the need to **prioritise a limited number of strategic sectors** in which EU-level investment is most critical to support innovation, economic growth and strategic autonomy. By identifying **ten priority sectors**, Draghi emphasises the necessarily selective nature of Europe's competitiveness strategy. The EU cannot realistically aim to achieve global leadership across all sectors simultaneously; prioritisation therefore implies accepting differentiated levels of competitiveness across technologies and value chains. As noted in the report, *"while some digital sectors are likely already 'lost', Europe still has an opportunity to capitalise on future waves of digital innovation."*

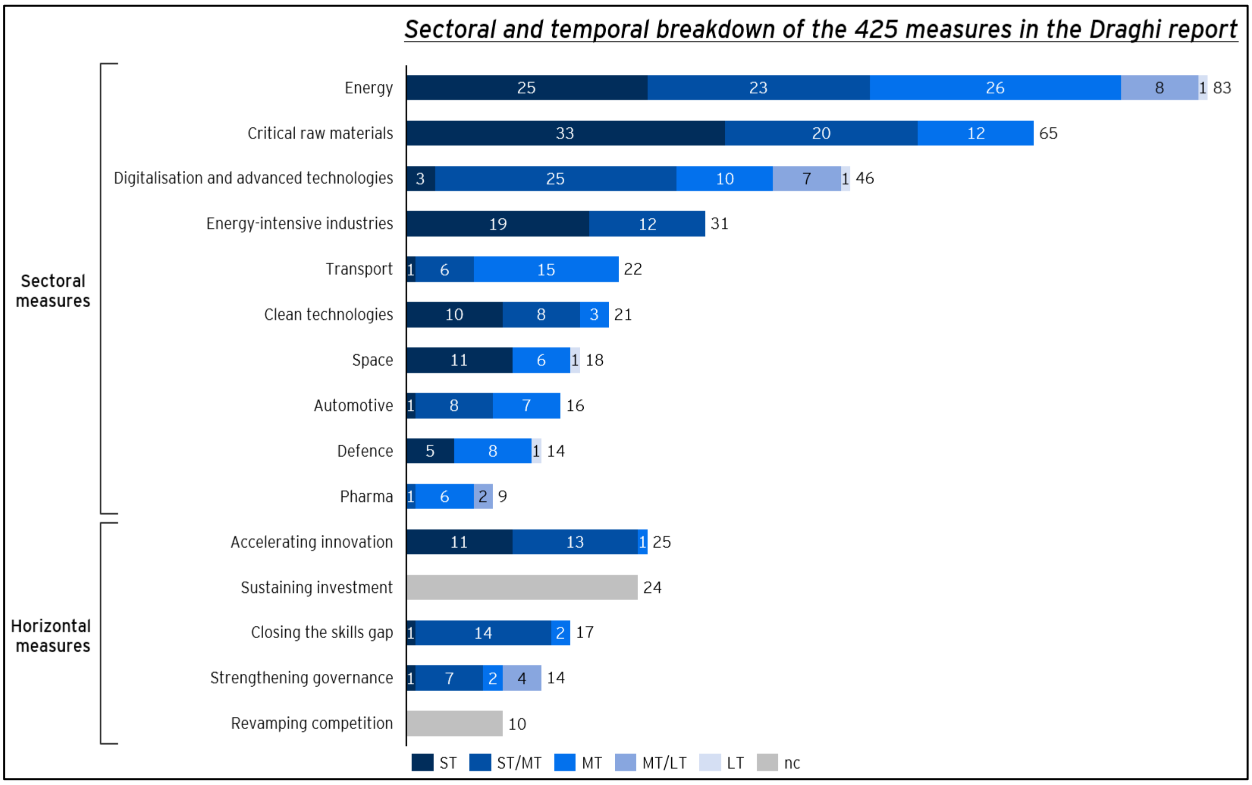
Second, the report highlights the importance of **mobilising private investment at scale**, through a broad range of financial tools, including subsidies, guarantees, loans, de-risking mechanisms and targeted fiscal incentives. These tools are intended to complement, and go beyond, the essential reforms aimed at improving capital market efficiency through the completion of the Capital Markets Union.

Third, the report calls for lowering the cost of capital, notably by directing public support towards sectors with the highest potential for private investment crowd in effects. Historically, private investment has accounted for approximately **80% of productivity-enhancing** investment in the EU, compared to **20% originating from public authorities**, underscoring the critical importance of leverage effects in any effective investment strategy.

4.2.2. Recommendations

Draghi's **170 recommendations** are declined into **415 operational measures** organised around **10 sectoral policies and 5 horizontal policies**. These measures are further sequenced along a phased implementation timeline: short-term actions (approximately 1 to 3 years), medium-term actions (3 to 5 years) and long-term actions extending beyond five years.

Figure 2: Sectoral and temporal breakdown of the 425 measures of the Draghi report



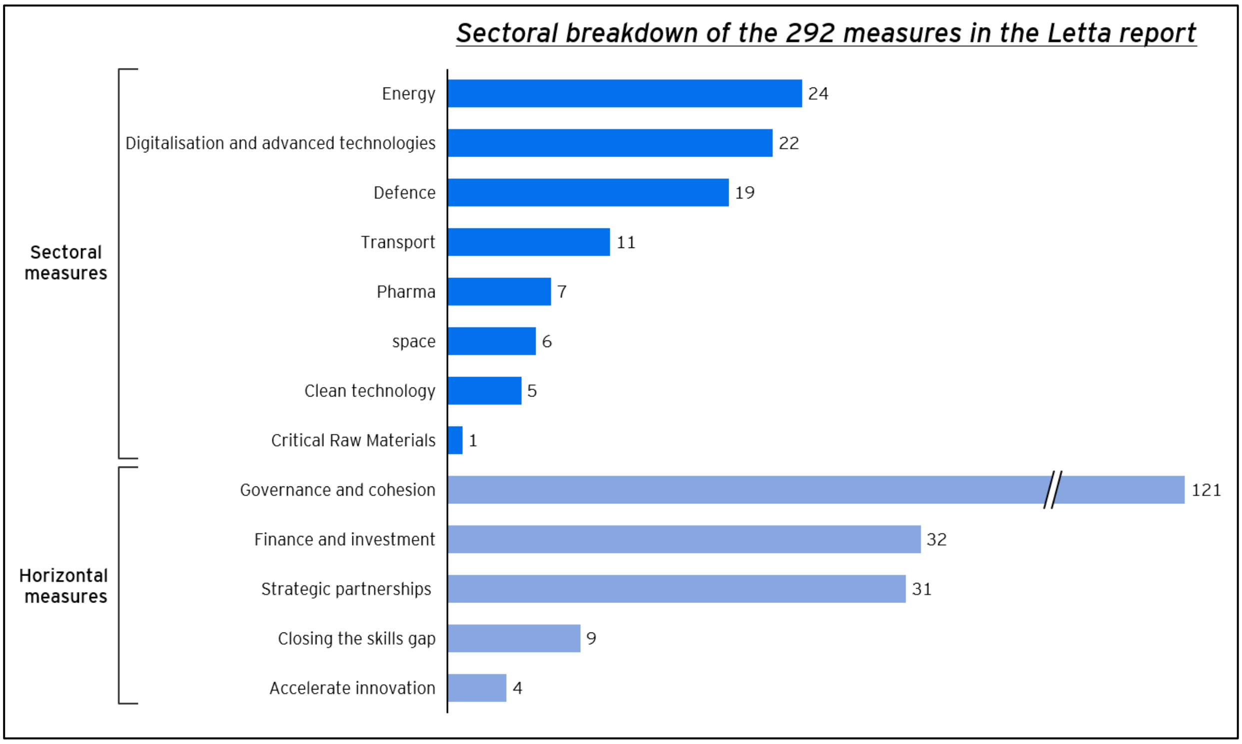
Source: Draghi report. EY Elaboration.

Key to reading Figure 2:

3 key sectors represent up to 50% of the total measures by Draghi – Energy, Critical raw materials, and Digitalisation and advanced technologies. These 3 sectors fall within the definition of EPG (categories A and B) and are pre-requisite for the European competitiveness and sovereignty. Short- and medium-term measures represent more than 80% of the total measures, as the report aims to address operational actions.

The recommendations set out in the **Letta** report are translated into **292 operational measures**, organised across the six thematic chapters described above, but without a formal temporal sequencing. To ensure analytical consistency and facilitate comparison across reports, this study proposes to apply a common structuring framework to both the Draghi and Letta measures. Accordingly, Figure 3 below reclassifies the Letta report's measures using the same categorisation into "sectoral policies" and "horizontal policies" as employed in the Draghi report.

Figure 3: Sectoral breakdown of the 292 measures of the Letta report



Source: Letta report. EY Elaboration.

Key to reading Figure 3:

Horizontal measures represent more than 65% of total measures, as the Letta report aims at identifying mainly transversal actions to redefine and modernise the European Single Market. Governance and cohesion category represents more than 40% of total the measures.

4.2.3. Budget impact-measures

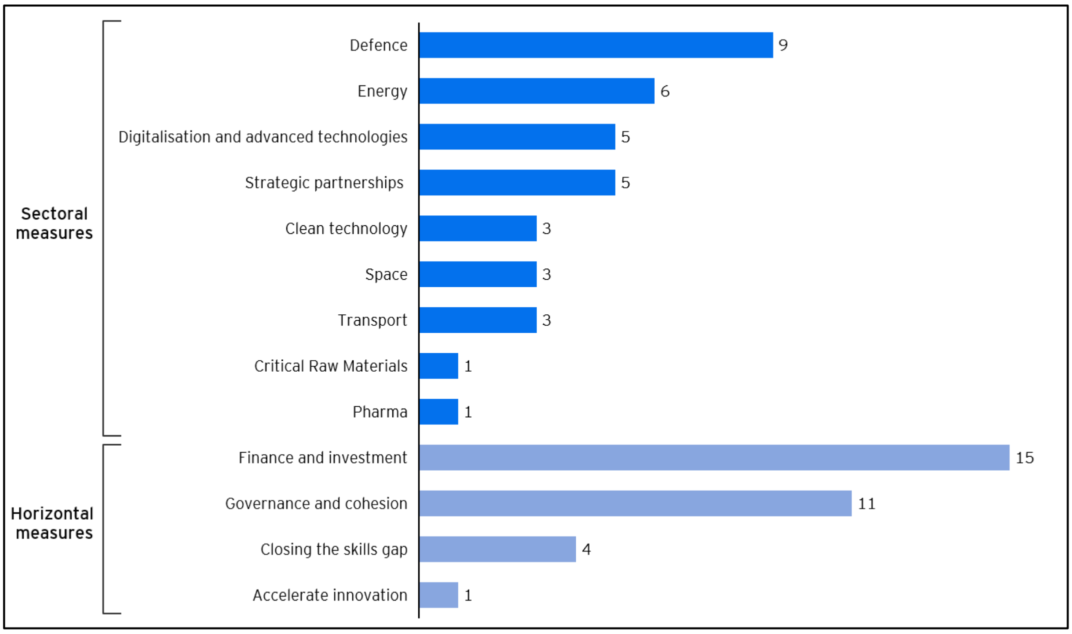
In order to analyse the link between the recommendations formulated in the Letta and Draghi reports and the 2028-2034 MFF, this study focuses specifically on those measures that would entail direct budgetary implications if implemented. Identifying such measures is a necessary step to assess their relevance for, and potential impact on, future EU expenditure priorities.

Accordingly, these budget-impact measures define the analytical scope of this study and constitute the basis for examining how the proposed policy agendas could translate into concrete financial requirements under the next MFF.

Key to reading Figure 4:

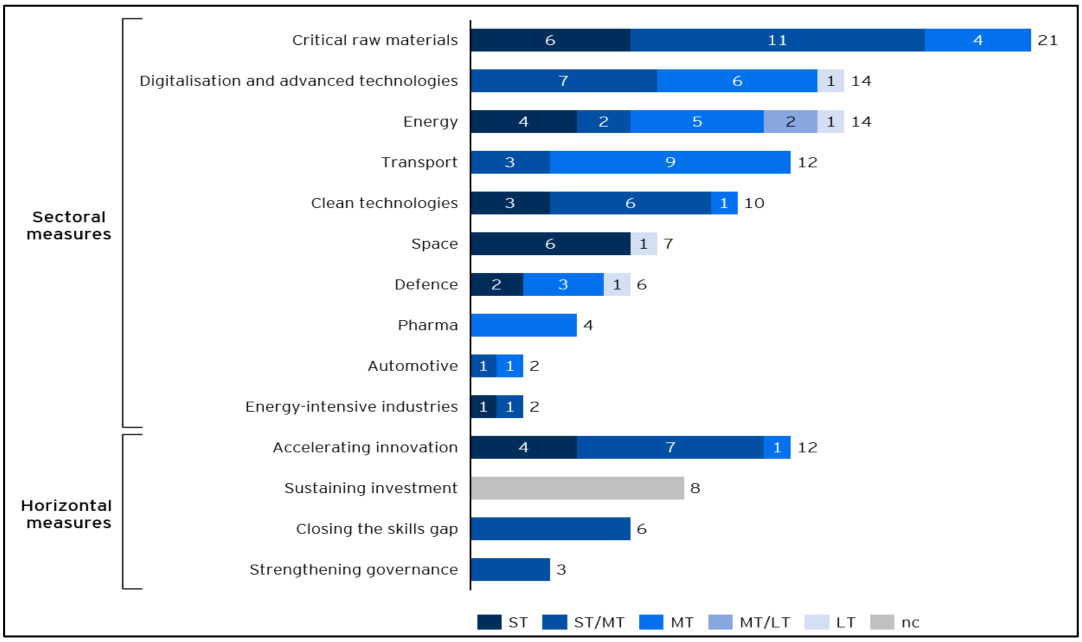
23% of the total measures identified by Letta would have a budget impact on the 2028-2034 MFF if applied. 46% of the budget impact measures are represented by horizontal measures.

Figure 4: Sectoral breakdown of the 67 budget impact measures of the Letta Report



Source: Letta report. EY Elaboration.

Figure 5: Sectoral and temporal breakdown of the 121 budget impact measures of the Draghi Report



Source: Draghi Report. EY elaboration.

Key to reading Figure 5:

28% of the total measures identified by Draghi would have a budget impact on the 2028-2034 MFF if applied. 40% of the budget impact measures are represented by the same 3 key sectors – Energy, Critical raw materials, and Digitalisation and advanced technologies.

Within the *Sustaining investment* chapter, these orientations are translated into **five core recommendations**, further broken down into **24 concrete measures**, **seven of which entail direct budgetary implications**. Together, they outline a key architectural pillar for the future MFF, including the proposed establishment of a dedicated **"Competitiveness Pillar".**

Table 3: Focus on Sustaining investments – Measures with a financial impact

Source	Sector	Recommendation	Title of the measure	Instrument nature	Actor impacted
Draghi	Sustaining investment	Reduce capital market fragmentation	Introduce a European Security Exchange Commission - modify European Securities and Market Authorities' (ESMA) governance and decision-making processes along similar lines as those of the ECB Governing Council, so as to detach them as much as possible from the national interests of EU Member States	funds	ESMA
Draghi	Sustaining investment	Increase the financing capacity of the banking sector	Enable the European securitisation market - The EU has to consider targeted public support	guarantee or warranty	
Draghi	Sustaining investment	Deploy the EU budget more effectively	Refocus EU funding on strategic priorities	funds	
Draghi	Sustaining investment	Deploy the EU budget more effectively	Simplify and streamline to achieve scale	funds	
Draghi	Sustaining investment	Deploy the EU budget more effectively	Increase leveraging of the EU budget	funds	
Draghi	Sustaining investment	Deploy the EU budget more effectively	Higher risk and more scale-up investment financed through the InvestEU programme and through a dedicated equity arm of the European Investment Bank (EIB) Group	funds; equity	EIB
Draghi	Sustaining investment	Deploy the EU budget more effectively	Together with the above reforms, to finance a variety of programmes focused on innovation and on raising productivity, Member States could consider increasing the resources available to the Commission through deferring the repayment of Next Generation EU (NGEU)	funds; loan	National promotional banks (NPBs)
Draghi	Sustaining investment	Issuance of a common safe asset to finance joint investment projects	If the political and institutional conditions are in place as outlined above, the EU should continue – building on the model of NGEU – to issue common debt instruments to finance joint investment projects that will increase the EU's competitiveness and security. As several of these projects are longer-term in nature, such as financing R&I and defence procurement, common issuance should over time produce a deeper and more liquid market in EU bonds, allowing this market to progressively support the integration of Europe's capital markets.	loan; joint procurement	

Source: Draghi and Letta Reports. EY Elaboration.

While the Draghi report identifies a range of financial instruments to support the required investment effort, it does not provide a quantitative allocation of investment needs by individual recommendation or measure. The report deliberately refrains from such granularity, considering decisions on the allocation of funding across policy areas and investment volumes to be inherently political choices, to be determined by policymakers.

Table 4: Typology of the financial instruments quoted in the measures

Nature of the budget impact	Budget-impact measures
funds	62
not specified	11
funds; ad hoc instrument	6
guarantee or warranty	5
subsidies	3
tax incentives	3
funds; loan; guarantee or warranty	3
funds; guarantee or warranty	2
funds; joint purchasing	2
joint procurement	2
loan	2
Others	20
Total	121

Source: Draghi Report. EY Elaboration.

Key to reading Table 4:

Half of the budget-impact measures would include what is mentioned as a "fund" or "funding", without any more precision on the nature of the financial instrument in the Draghi report.

Guarantees are mentioned for 10% of the budget impact measures, as the only financial instrument to apply the measure or within a combination of instruments.

4.2.4. Critical perspective on the reports' contextual assumptions

The Letta and Draghi reports were published respectively in April and September 2024. In light of developments since their publication, this study adopts a critical perspective on a number of recommendations, taking into account the **evolving geopolitical context of the past two years**. In particular, geopolitical instability has intensified significantly, driven by shifts in the USA's strategic positioning and the questioning of long-standing alliances. In addition, the escalation of tensions between Iran and the USA culminated in the outbreak of a conflict in the Middle East in March 2026, directly affecting Europe's immediate neighbourhood.

Both the Letta and Draghi reports already identify substantial investment needs in the defence sector, and the EU has initiated concrete responses through the deployment of instruments such as European Defence Industrial Strategy (EDIS) and the establishment of the European Defence Industry Programme (EDIP). However, in the current context of heightened instability and escalating geopolitical tensions, this study considers that defence-related investment needs are likely to exceed the EUR 50 billion per year estimated by Draghi[6] . As a result, the report may underestimate the scale of investment required for the EU to attain and sustain competitiveness in key strategic sectors.

A similar reassessment is warranted in relation to clean technologies. Draghi rightly highlights China's dominant position in this sector, notably in photovoltaic (PV) innovation and manufacturing. To meet its climate and energy transition objectives, the EU "*will need to nearly triple its installed capacity for solar PV*," and, under current policy assumptions, Chinese technologies may represent the lowest-cost pathway to achieving these targets. Accordingly, the report suggests that "*there are some industries where Europe's cost disadvantage is too large to be a serious competitor*," and that importing certain technologies, while diversifying suppliers, may be economically rational.

While the need for strategic prioritisation among sectors is broadly acknowledged, this study nonetheless questions the extent to which certain value chains, such as PV technologies, can be treated as non-strategic. Parts of the PV value chain overlap with capabilities that are also critical for the defence and space industries, raising issues of technological spillovers, industrial resilience and sovereignty.

Moreover, the Draghi report's emphasis on strengthening and securing strategic partnerships with China in the PV sector was formulated under assumptions of continued geopolitical stability and reliable transatlantic partnerships. Recent developments call for a reassessment of these assumptions through an economic security lens. In this context, the EU may need to reconsider which strategic segments of key value chains should be preserved or reinforced within its own territory, in order to safeguard technological sovereignty, resilience and long-term strategic autonomy.

Finally, another of the limitations of the Draghi report relates to its treatment of the leverage and multiplier effects of EU financial instruments. The underlying projections imply a level of private investment crowding-in that may not materialise consistently across sectors or Member States. As highlighted by the ECA, observed leverage effects have, in practice, tended to be more moderate than initially envisaged. The ECA's findings[7] point to persistent institutional, regulatory and market constraints that continue to limit effective financial multiplication. This suggests that a more cautious and differentiated assessment of expected impacts would be warranted when designing and scaling up EU-level financial instruments.

4.3. Three deep-dives into the European Public Goods sector and high leverage tools

Among the measures identified as having budgetary implications, a subset would require a substantial scaling-up of existing MFF programmes in order to be effectively implemented. These measures are of particular relevance, as they are closely linked to the provision of EPG and to instruments with strong leverage effects on public and private investment.

Against this backdrop, this study conducts two in-depth analyses, focusing on the **Connecting Europe Facility (CEF) and on EU defence-related programmes**, given their central role in supporting cross-border infrastructure, strategic capabilities and EU-level coordination, as well as their potential implications for the structure and size of the 2028–2034 MFF.

[6] Source: Interviews conducted with the stakeholders
[7] European Court of Auditors, Special report 07/2025: The European Fund for Strategic Investments

4.3.1. Transport, energy and military mobility recommendations with a potential budget impact on the Connecting Europe Facility (CEF)

The CEF is a key EU funding programme aimed at developing high-performing, sustainable and interconnected trans-European networks in the transport, energy and digital sectors. It supports strategic infrastructure investments designed to address missing links and bottlenecks in Europe's backbone networks, thereby contributing to economic growth, job creation and long-term competitiveness.

Running over the 2021–2027 programming period, the CEF is endowed with a budget of EUR 20.73 billion. It is structured around three strands - Transport, Energy and Digital - and explicitly promotes synergies across these sectors in order to maximise efficiency, coherence and added value. Through its investments, the programme aims to enhance cross-border mobility, strengthen energy security and integration of renewables, and improve Europe's overall connectivity.

Within this framework, the Draghi and Letta reports identify a significant number of recommendations and measures with potential implications for the CEF programme. In the area of transport and military mobility, the two reports put forward **32 measures**, 15 of which would entail a direct budgetary impact on the CEF if implemented.

Similarly, in the field of **energy transport and infrastructure**, the reports formulate **19 recommendations,** further translated into 73 operational measures, including 13 measures with a budget impact on the CEF programme if implemented.

<u>Key to reading Table 5 below:</u>

Recommendations are globally aiming at enhancing cross-border connectivity through rail, road, tunnels etc. and reinforcing the EU role as a de-risking stakeholder in the cross-border projects, notably through the European Investment Bank (EIB) support.

Among 15 transport measures with a budget impact, 5 measures concern military mobility. The EU has started to address military mobility in the precedent MFF from 2022 following beginning of the Ukraine war, and need to level up its budget and impact.

15 Recommendations	32 Measures	15 Measures with a budget impact	0 Quantification

Transport measures having a financial impact

Table 5: Focus on transports – Measures with a financial impact

Source	Sector	Recommendation	Title of the measure	Instrument nature	Actor impacted	MFF programme	Programme's budget (€M)
Draghi	Transport	Mobilise public and private financing: i) increase EU and Member State resources for cross border connectivity, military mobility, climate resilience; ii) introduce or reinforce schemes to attract and de-risk private financing.	The EU should reinforce EU funding, prioritising cross-border connections and national links with cross-border impact, together with military mobility, efficiency and climate risk resilience.	funds		Connecting Europe Facility – Transport	51 515
Draghi	Transport		The EU should adopt a conducive framework for the public sector to share risk with the private sector	guarantee or warranty	Member States	Connecting Europe Facility – Military mobility	17 651
Draghi	Transport		The EU should also define dedicated models for de-risking private finance, notably of mobile assets including ships	funds; loan; guarantee or warranty	Member States		
Draghi	Transport		The EIB should expand its support to transport projects aligned with EU strategic priorities (e.g. EU Competitiveness Missions)	guarantee or warranty	EIB; Member States		
Draghi	Transport	Introduce schemes to de-risk and finance decarbonisation solutions in hard-to-abate segments	De-risk investment in sustainable renewable and low carbon fuels,	funds; guarantee or warranty; ad hoc instrument	Hydrogen Bank	Connecting Europe Facility – Transport	51 515
Draghi	Transport		Ensure continuity and expand existing funding mechanisms (the current Transport Alternative Fuels Infra structure Facility (AFIF) under the Connecting Europe Facility	subsidies; funds; guarantee or warranty; ad hoc instrument	EIB; NPBs		
Draghi	Transport		Launch dedicated sectoral calls under the Innovation Fund for the first deployment of decarbonisation solutions, possibly even per technology	funds			
Draghi	Transport		Public procurement procedures rewarding innovative and sustainable solutions.	not specified			

Source	Sector	Recommendation	Title of the measure	Instrument nature	Actor impacted	MFF programme	Programme's budget (€M)
Draghi	Transport	Level the playing field for EU industries leveraging among others public procurement, foreign direct investment screening and an EU export credit facility.	An EU export credit facility	loan			
Draghi	Transport		The EU should equip its industries with the tools most suited to the specificities of each transport segment	not specified			
Draghi	Transport		To ensure autonomy in sustainable renewable and low-carbon fuels, the EU should secure necessary feed stock	joint procurement			
Draghi	Transport	Establish international partnerships and develop strategic infrastructure to increase global integration including in climate policy and resilience.	The EU should prepare its future enlargement by further strengthening the Solidarity Lanes with Ukraine and Moldova through investment in land and river infrastructure and ensuring procedures at its borders;	funds			
Letta	Transport	TEN-T network development	Connecting Europe Facility (CEF), the principal EU funding mechanism for TEN-T projects, should go beyond its current structure and objectives, to be redefined as a European fund that can meet the major investment needs as well as the new challenges that Europe will increasingly face over the coming years:	funds; guarantee or warranty		Connecting Europe Facility - Military mobility	17 651
Letta	Transport		In the broader context of the TEN-T development, focus should therefore also be on laying the base for connectivity between the EU, Ukraine and Moldova.	funds		Connecting Europe Facility - **Transport**	51 515
Letta	Transport	Enhancing rail transport for a sustainable and resilient future	Ensuring the deployment of rail's key digital enablers such as the European Rail Traffic Management System (ERTMS), Digital Automatic Coupling (DAC), and Digital Capacity Management (DCM) is paramount.	not specified	European Union Agency for Railways		

Source: Draghi and Letta Reports. EY Elaboration.

19 Recommendations	73 Measures	13 Measures with a budget impact	0 Quantification

Energy transport and infrastructure measures having a financial impact

Table 6: Focus on energy transport and infrastructure – Measures with a financial impact

Source	Sector	Recommendation	Title of the measure	Instrument nature	Actor impacted	MFF programme	Programme's budget (€M)
Draghi	Energy	Simplify and streamline permitting and administrative processes to accelerate renewables, flexibility infrastructures and grids deployment.	EU-level auctions for cross-border flexibility and renewables capacity.	joint procurement; auctions	Member States	Connecting Europe Facility – Energy	29 912
Draghi	Energy	Foster network upgrades and investments in grids to address the electrification of the economy and avoid bottlenecks.	Provide a 28th regime for interconnections.	funds; ad hoc instrument			
Draghi	Energy		Reinforce the EU budget tool exclusively dedicated to interconnections.	funds			
Draghi	Energy		Develop innovative financing models and competitive mechanisms to support the uptake of grid and interconnector deployment which is not directly translated into an increase in prices for the consumer (pay-back mechanisms).	funds; loan; equity or quasi-equity financing			
Draghi	Energy	Support PPAs for industrial users.	The EIB and National Promotional Banks could provide counter guarantees and specific financial products for industrial users' PPAs	not specified			
Draghi	Energy		Increase the availability of guarantees for financial counterparty risk. Where diversified sets of providers and contractual conditions...	not specified			

Source	Sector	Recommendation	Title of the measure	Instrument nature	Actor impacted	MFF programme	Programme's budget (€M)
Draghi	Energy	Reinforce system integration, storage and demand flexibility to keep total system costs in check with a competitive uptake of renewables.	Develop a mapping of EU flexibility needs and a strategy fostering investment in flexibility assets	funds			
Draghi	Energy	Maintain nuclear supply and accelerate the development of 'new nuclear' (including the domestic supply chain).	Allocate additional financial support to R&I in new nuclear technologies like SMRs, including from the EIB.	funds			
Draghi	Energy	Promote the role of carbon capture, utilisation and storage (CCUS) technologies as one of the tools needed to accelerate the EU's green transition.	ETS revenues could be used to provide capital support or premium payments to fill the current competitiveness gap vis-à-vis the market…	funds			
Draghi	Energy	Foster innovation in the energy sector.	Synergies need to be explored between the missions and partnerships under the successor programme of Horizon Europe, alongside private…	funds			
Draghi	Energy	Reinforce joint procurement.	Support joint purchasing via procurement.	funds; joint purchasing	EU Platform	Connecting Europe Facility - Transport	51 515
Draghi	Energy	Further develop selective strategic import infrastructures and improve the coordination of storage management across Europe.	Provide State counter-guarantees to de-risk gas storage in Ukraine and complement EU gas storage solutions. Ukraine holds significant and…	guarantee or warranty		Connecting Europe Facility - Transport	51 515

Source: Draghi and Letta Reports. EY Elaboration.

Key to reading Table 6: *Recommendations are globally aiming at enhancing endogenous low-cost resources, improve and diversify the energy sourcing, and provide financial means to support energy interconnection and decarbonisation.*

4.3.2. Defence

The scaling-up of European investment in the defence sector has already been initiated through the adoption of the EDIS and the establishment of the EDIP. Both the Letta and Draghi reports concur that these efforts must not only be maintained but significantly reinforced in order to address the rapidly deteriorating security environment and to strengthen the EU's industrial and technological defence base.

In this context, the two reports identify 15 defence-related recommendations, which are translated into 36 operational measures. Of these, **13 measures would entail a direct budgetary impact** if implemented, notably through increased EU-level funding, new financial instruments or the scaling-up of existing programmes.

15 Recommendations	36 Measures	13 Measures with a budget impact	0 Quantification

Defence measures having a financial impact

Key to reading Table 7 below: *Recommendations are globally aiming at expanding and reinforcing the European Defense Industrial and Technical Base's (DITB) production capacity, and strengthening research and innovation in this sector. The budget impact measures are unlocking the EU financing to the DITB through the creation and reinforcement of policies and tools.*

Table 7: Focus on Defence – Measures with a financial impact

Source	Sector	Recommendation	Title of the measure	Instrument nature	Actor impacted	MFF programme	Programme's budget (€M)
Draghi	Defence	Proceed with the swift implementation of the proposed European Defence Industrial Strategy (EDIS) and the adoption of the European Defence Industry Programme (EDIP).	Proceed with the swift implementation of the proposed European Defence Industrial Strategy (EDIS) and the adoption of the European Defence...	funds	Member States	European Competitiveness Fund – **Resilience and Security, Defence Industry, and Space**	130 704
Draghi	Defence	Provide EU-level funding for the development of the EU's defence industrial capacities.	Provide EU-level funding for the development of the EU's defence industrial capacities	funds			
Draghi	Defence	Improve access to finance for the European defence industry, including by removing restrictions on access to EU-funded financial instruments.	Improve access to finance for the European defence industry, including by removing restrictions on access to EU-funded financial instruments	funds			
Draghi	Defence	Concentrate efforts and resources on common EU R&D/R&T defence initiatives and maximise technological spillover between civil and defence innovation cycles.	Concentrate efforts and resources on common EU R&D/R&T defence initiatives and maximise technological spillover between civil and defence innovation cycles.	funds			

Source	Sector	Recommendation	Title of the measure	Instrument nature	Actor impacted	MFF programme	Programme's budget (€M)
Draghi	Defence	Deepen competences at the EU level for defence industrial policy to be reflected in the EU institutional set-up.	Establish a Defence Industry Commissioner, with the appropriate structure and funding to define, coordinate	funds; ad hoc instrument			
Draghi	Defence	Provide a substantial direct support through the EU budget, aimed at financing and/or co-financing joint research, development, and procurement of a well-defined set of critical projects of common interest remains paramount to the integration of the European industrial market.	Provide a substantial direct support through the EU budget, aimed at financing and/or co-financing joint research, development, and procurement of a well-defined set of critical projects of common interest remains paramount to the integration of the European industrial market.	Subsidies			
Draghi	Defence	Create a single instrument covering the capability's life-cycle, from the design phase to joint acquisition to in-service support, would provide Member States with a considerable incentive.	Create a single instrument covering the capability's life-cycle, from the design phase to joint acquisition to in-service support, would provide Member States with a considerable incentive	ad hoc instrument			
Draghi	Defence	Create Defence Eurobonds – to swiftly mobilise significant resources on one hand, and to foster the development of collaborative projects on the other.	Create Defence Eurobonds – to swiftly mobilise significant resources on one hand, and to foster the development of collaborative projects on the other	obligation (Eurobond)			
Draghi	Defence	Utilise the European Stability Mechanism (ESM) to introduce a specialised credit line for national defence spending.	Utilise the European Stability Mechanism (ESM) to introduce a specialised credit line for national defence spending (as this system was used during the Pandemic for countries healthcare expenses)	Loan			
Draghi	Defence	Empowering the EIB represents a crucial first step and a potent tool to bridge our investment gap in defence and enhance the EU's common military capabilities.	Empowering the European Investment Bank represents a crucial first step and a potent tool to bridge our investment gap in defence and enhance the EU's common military capabilities		EIB		
Draghi	Defence	Consider innovative financing as a means to mobilise and encourage private investment.	Consider innovative financing as a means to mobilise and encourage private investment. This could involve ensuring a portion of the risks tied to the financed project, offering guarantees for loans or certainty on future public procurements.	guarantee			

Source: Draghi and Letta Reports. EY Elaboration.

4.3.3. InvestEU

In 2021, the EU launched **InvestEU,** a new flagship investment programme designed to mobilise over EUR 372 billion in additional investment over the 2021–2027 period. The programme targets four areas characterised by long-standing investment gaps across the Union: sustainable infrastructure, innovation, SMEs, and the social sector. To achieve this scale of mobilisation, the Commission relies on an innovative mechanism: a budgetary guarantee granted to public financial institutions. Backed by this guarantee, implementing partners are able to provide debt and equity financing that would not have been possible otherwise, or only at significantly lower volumes. These EU-backed operations are designed to attract private investors through cascading crowding in effects. With a guarantee envelope of EUR 26 billion and a target leverage effect of 14, the Commission aims to reach the overall objective of EUR 372 billion of total investment mobilised across the EU.

InvestEU builds on the achievements of the previous Investment Plan for Europe (2014–2020), known as the Juncker Plan, which also relied on the leverage created by an EU financial guarantee. However, InvestEU marks a significant evolution. Unlike the Juncker Plan, which was implemented exclusively by the European Investment Bank (EIB) Group, InvestEU introduces a broader, more open architecture. Alongside the EIB and European Investment Fund (EIF), national promotional banks and institutions (NPBIs) —such as Caisse des Dépôts, Bpifrance or Cassa Depositi e Prestiti—and international financial institutions, including the European Bank for Reconstruction and Development (EBRD), may also implement the EU guarantee.

The **European Commission's interim evaluation**[8] claims that InvestEU is performing strongly across all evaluation criteria: relevance, effectiveness, additionality, efficiency, EU added value and coherence. The programme has emerged as a **central pillar of the EU's investment architecture**, thanks to its integrated model combining a single investment gateway, unified governance and a common EU guarantee.

The evaluation emphasises that the **EU guarantee of EUR 26.2 billion** significantly enhances the risk-bearing capacity of implementing partners – EIB Group, NPBIs and International Financial Institutions (IFIs) – and enables them to expand financing aligned with EU policy priorities. The guarantee is provisioned at **40%**, meaning **EUR 10.5 billion** of budgetary resources are set aside to secure it, originating from both **NextGenerationEU (EUR 5.93 billion)** and the **MFF (EUR 4.53 billion).**

The Commission reports that by end-2023:

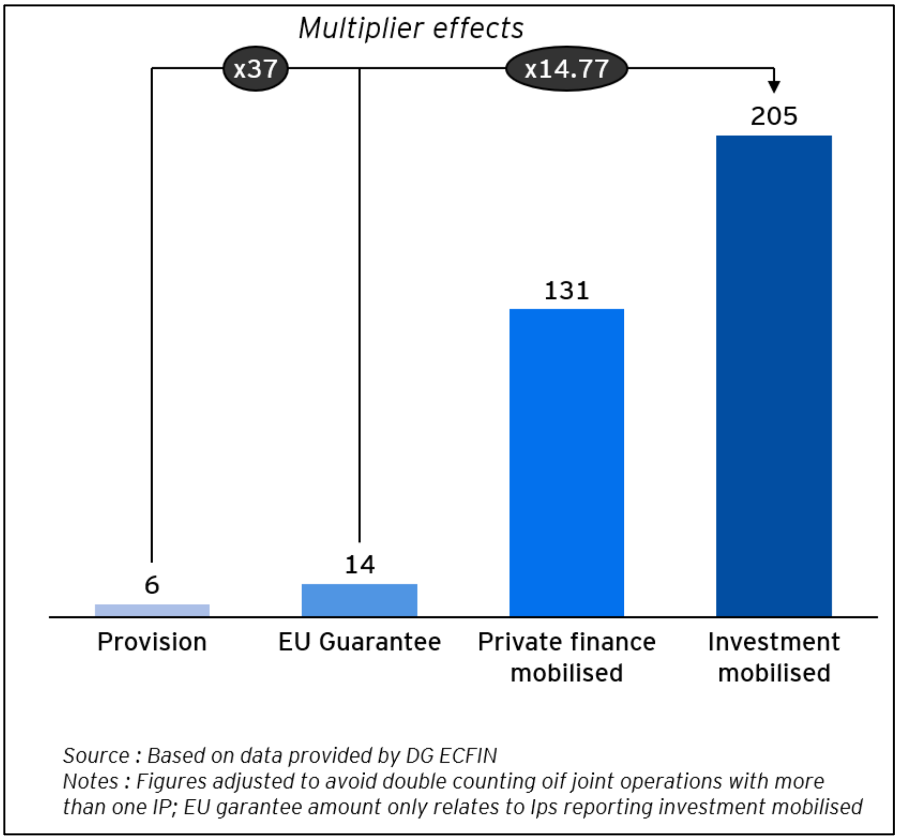
- 90% of the EU guarantee had already been allocated;
- ~80% of this allocation had been approved for financing;
- EUR 19 billion of financing had been signed by implementing partners;
- The programme is expected to mobilise EUR 218 billion in total investment, 65% from private sources.

"For the EU compartment alone, the Fund is estimated to mobilise EUR 204.8 billion (against an expectation of EUR 372 billion by 2028), with EUR 131 billion expected from private sources. This means that private financing will account for nearly 65% of the total mobilised investment,

[8] European Commission, "Interim evaluation of the InvestEU Programme – Final Report" (July 2024)

almost comparable with the 67% achieved under the EFSI at the end of 2023. However, the InvestEU portfolio is still building up".[9]

Figure 6: Investment mobilised based on approved financing as of 31 December 2023 under the EU compartment of InvestEU



Source: European Commission, "Interim evaluation of the InvestEU Programme – Final Report" (July 2024).

Key to reading Figure 6:

Within the first 3 years of the InvestEU Programme (2021-2023), the European Commission indicates that the EUR 14 billion of EU Guarantee generated EUR 205 billion investment total. Hence, the EU Guarantee is considered to have a multiplier effect of 14.77.

Table 8: Leverage and multiplier effect by Implementing Partner (IP) (based on operations approved as of 31 December 2023, EU compartment and MS-C)

Institution	Leverage Effect	Multiplier Effect
EIB	2,63	14,15
EIF	8,72	16,44
CEB	3,14	6,29
EBRD	4,21	8,18
NIB*	4,2	432,07
CDPE**	3,5	8,8
CDPE**	16,2	40,5
CDPE**	5,7	14,2

[9] Source: European Commission, "Interim evaluation of the InvestEU Programme – Final Report" (July 2024)

Institution	Leverage Effect	Multiplier Effect
ICO**	4,05	25,31
ICO**	3,9	3,9
ICO**	3,7	3,7
InvestNL**	2	4
InvestNL**	2	5,94
CDP**	2	2,66
CDP**	2	11
CDP**	2,4	8,4
Invest EU	5,62	14,85

Source: European Commission, "Interim evaluation of the InvestEU Programme – Final Report" (July 2024).

Key to reading Table 8:

According to the European Commission and when comparing with 16 other EU institutions, the InvestEU leverage and multiplier effects seem to be one of the highest, traducing the efficiency and the impact of the programme. Indeed, the InvestEU multiplier effect is slightly higher than the average EIB multiplier effect (14.15) and ranks as the 5th highest multiplier effect.

Table 9: Leverage and multiplier effect by programme

Programme	Type of instrument	Financial instruments/products	Leverage target	Leverage achieved	Multiplier target	Multiplier achieved
IPE	Budgetary guarantee	EFSI comprising a range of debt and equity products	N/A	13	15	15,75
Creative Europe Programme	Guarantee Instruments	Cultural and creative sectors CCS Guarantee Facility	5,7	5,7	13,39	9,76
CEF	Equity Instruments	CEF Equity	5,2	1,82	10	8,33
	Risk Sharing Instruments	Risk Sharing debt instruments (CEF DI)	N/A	2,88	8 to 15	24,02
COSME	Equity Instruments	EFG (COSME)	4 to 6	11	N/A	21
	Guarantee Instruments	Loan Guarantee Facility (LGF - COSME)	20 to 30	21	N/A	26
EaSI	Equity Instruments	EaSI CBI (Capacity Building Instrument)	2	1	3,8	1,8
	Guarantee Instruments	EaSI-G	5,5	7,5	7,7	10,5
Erasmus+	Guarantee Instruments	Student Loan Guarantee Facility (Erasmus+)	6,2	0,97	6,2	0,97
Horizon 2020	Equity Instruments	InnovFin Equity (H2020)	8	7,49	11,4	14,23

Programme	Type of instrument	Financial instruments/products	Leverage target	Leverage achieved	Multiplier target	Multiplier achieved
	Guarantee Instruments	InnovFin SME Guarantee (H2020)	9	8,95	12,6	12,53
	Risk Sharing Instruments	Horizon 2020 Loan Services for R&I Facility	9,09	5,95	18,18	15,24
LIFE	Guarantee Instruments	Private Finance for Energy Efficiency Instrument (PF4EE)	5,33	3,64	6,67	4,86
	Risk Sharing Instruments	Natural Capital Financing Facility (NCFF)	2 to 4	1,38	N/A	1,9

Source: European Commission, "Interim evaluation of the InvestEU Programme – Final Report" (July 2024).

This corresponds to an observed multiplier of approximately **x15**, fully consistent with the long-term target leverage search in the Draghi recommendation.

According to the European Commission, the **EU guarantee delivers additionality**, allowing implementing partners to finance projects **they would not have supported otherwise**, including:

- higher-risk SMEs and start-ups,
- deep-tech ventures and emerging technologies,
- demonstration projects,
- seed and early-stage innovation financing,
- innovative products such as venture debt or green securitisation instruments.

The guarantee effectively lowers the **cost of capital**, enabling investment into **technologies facing high technological or market risk**.

The InvestEU toolbox – equity, venture debt, guarantees, mezzanine finance[10], portfolio risk sharing, advisory support – constitutes a **comprehensive suite of financial instruments** suitable for addressing market failures across:

- innovation,
- green transition,
- infrastructures,
- SMEs and mid-caps,
- social investment and skills.

This confirms that InvestEU naturally supports sectors consistent with EPG:

- cross-border spillovers,
- high-risk and capital-intensive technologies,

[10] A hybrid form of capital that sits between senior debt and equity in a company's or project's capital structure. Mezzanine combines features of debt — such as fixed interest or scheduled payments — with equity-like upside via warrants, conversion rights or profit-sharing.

- strategic autonomy priorities,
- industrial resilience,
- climate and energy transition.

While it is widely acknowledged that an InvestEU type instrument will feature in the architecture of the 2028–2034 MFF, the Commission has, at this stage, only provided a minimum amount, as the ECF contains a EUR 17 billion total for the ECF InvestEU instrument (EUR 14 billion of guarantee and EUR 3 billion for financial instruments). This amount may be topped up by contributions from the 4 policy windows and no detail has been provided to this date. A maximum amount of guarantee was set to EUR 70 billion by the Commission.

4.3.4. Critical perspective on the European Fund for Strategic Investments and the InvestEU programme

In **February 2025**, the **European Court of Auditors (ECA)** published a special report entitled *"The European Fund for Strategic Investments (EFSI) contributed substantially to addressing the investment gap, but had not fully reached the EUR 500 billion target in the real economy by the end of 2022"*[11]. The report assesses the effectiveness of the EFSI, with particular attention to the use of **EU budgetary guarantees** and their actual impact on investment mobilisation.

The EFSI was launched in **2015** by the European Commission and the EIB in response to the persistent investment shortfall following the **2007–2008 financial crisis**. The programme combined various **debt and equity instruments**, supported by a **EUR 26 billion EU budgetary guarantee** and **EUR 7.5 billion in EIB resources**. Investments were structured around two main windows: **infrastructure and innovation**, and **support for SMEs**. The EFSI subsequently served as the **precursor to the InvestEU programme** for the 2021–2027 period.

While acknowledging that the EFSI made a meaningful contribution to narrowing the investment gap, the ECA identified **three major shortcomings** in its design, implementation and reporting:

- **Overestimation of mobilised investment**: the ECA estimates that the Commission overstated the volume of investment mobilised by EFSI by approximately **EUR 131 billion (around 26%)**, primarily due to methodological issues in the calculation of multiplier effects, notably:
    - the inclusion of investments that had been approved but not yet disbursed;
    - the **double counting of investments** financed through other EU instruments, sometimes only partially supported by EFSI.
- **Insufficient ex-post evaluation of additionality**: the ECA identified gaps in the assessment of the actual impact of EFSI guarantees, particularly with regard to whether funded operations would have taken place in the absence of EU support.
- **Transparency and data limitations**: the report highlights the need for improvements in the availability and quality of data, notably concerning:
    - investments implemented outside the EU;

[11] Special report 07/2025: The European Fund for Strategic Investments – Contributed substantially to addressing the investment gap, but had not fully reached the €500 billion target in the real economy by the end of 2022

- the concrete financial benefits passed on to final recipients;
- data management and reporting practices within the EIB Group.

The Court formulates a series of recommendations aimed at addressing these shortcomings and improving the overall effectiveness, transparency and accountability of EU-level guarantee-based instruments. These recommendations are explicitly intended to inform and strengthen the design and implementation of **InvestEU**, as the successor programme to EFSI for the **2021–2027** programming period.

Given that the ECA report was published in February 2025, its findings and recommendations are fully taken into account in this study when assessing the **performance, leverage effects and budgetary implications of the InvestEU programme**, as well as its relevance for the future **2028–2034 MFF**.

5. HOW WELL DOES THE 2028-2034 MFF RESPOND TO DRAGHI & LETTA?

5.1. Overall view

The strategic priorities and substantial investment needs identified in the Letta and Draghi reports provide the policy backdrop against which the European Commission has designed its proposals for the 2028–2034 Multiannual Financial Framework (MFF), seeking to align the EU budget more closely with competitiveness, resilience and strategic autonomy objectives.

5.1.1. A streamlined EU long-term budget aligned with evolving strategic priorities

The MFF for the period 2028-2034, worth almost **EUR 1.8 trillion in commitments (2025 prices)**, envisages a complete overhaul of the current MFF architecture.[12]

It aims to make "*the EU budget and its programmes simpler, more flexible and strategically attuned to the priorities of today*". The proposed new MFF structure is meant to reduce fragmentation, complexity, overlaps and the lack of flexibility in the EU's current funding instruments. Announced in the 2025 Commission work programme (CWP), the Commission released its proposals for the post-2027 MFF in two batches, in July and September 2025.

On 16 July 2025, the Commission presented a **package of proposals on the MFF for the period 2028-2034**, consisting of proposals for a Council Regulation laying down the MFF for the years 2028-2034, for an Interinstitutional agreement on budgetary discipline, cooperation in budgetary matters and on sound financial management, and for a Council Decision on the system of own resources of the EU, accompanied by a number of sectoral legislative proposals.

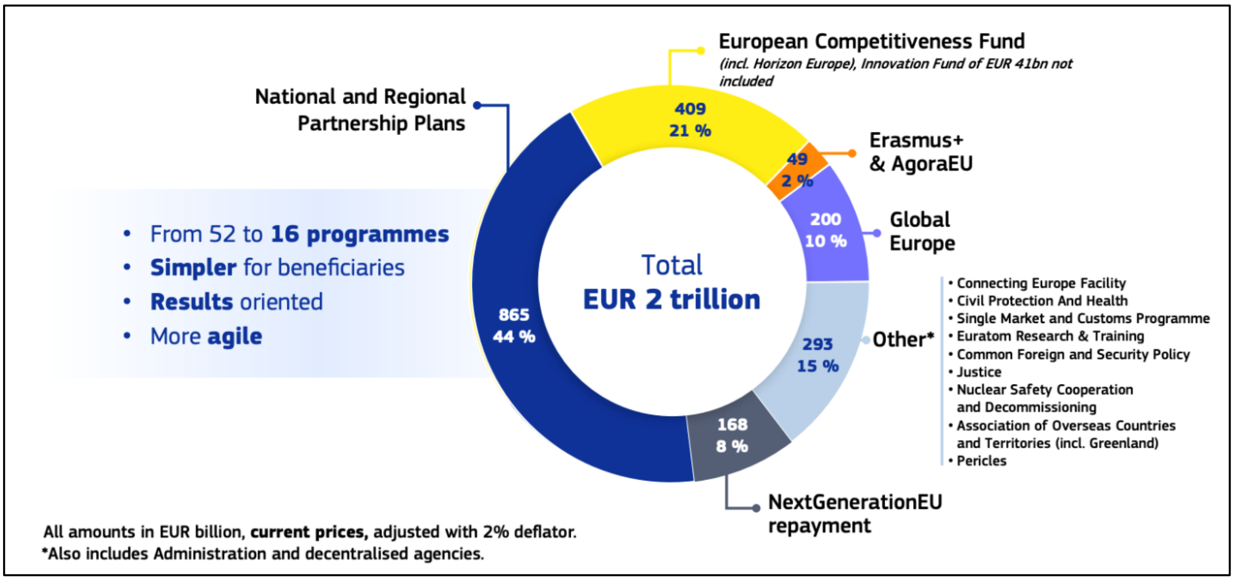
On 3 September 2025, the Commission presented **additional sectoral legislative proposals, including a framework for tracking EU budget expenditure and performance.**

The proposal introduces a more streamlined structure, with a reduced number of headings and programmes, passing from **52 programmes on the actual programming period to 16** for the 2028-2034MFF.

It also foresees enhanced flexibility within and between programmes through mechanisms such as reprogramming possibilities, financial buffers, special instruments and increased unallocated margins.

[12] 2028-2034 MFF: Quality analysis of the Commission's impact assessment

Figure 7: The 2028-2034 MFF proposal architecture



Source : European Commission: Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, Europe's budget – Competitiveness – July 2025, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2873/0084774.

Achieving the EU's policy goals requires significant investment, far more than EU public funding alone can realistically provide under current institutional and political contraints. To bridge this gap, the EU budget must be used strategically to 'crowd in' private capital, particularly in areas where market failures persist.

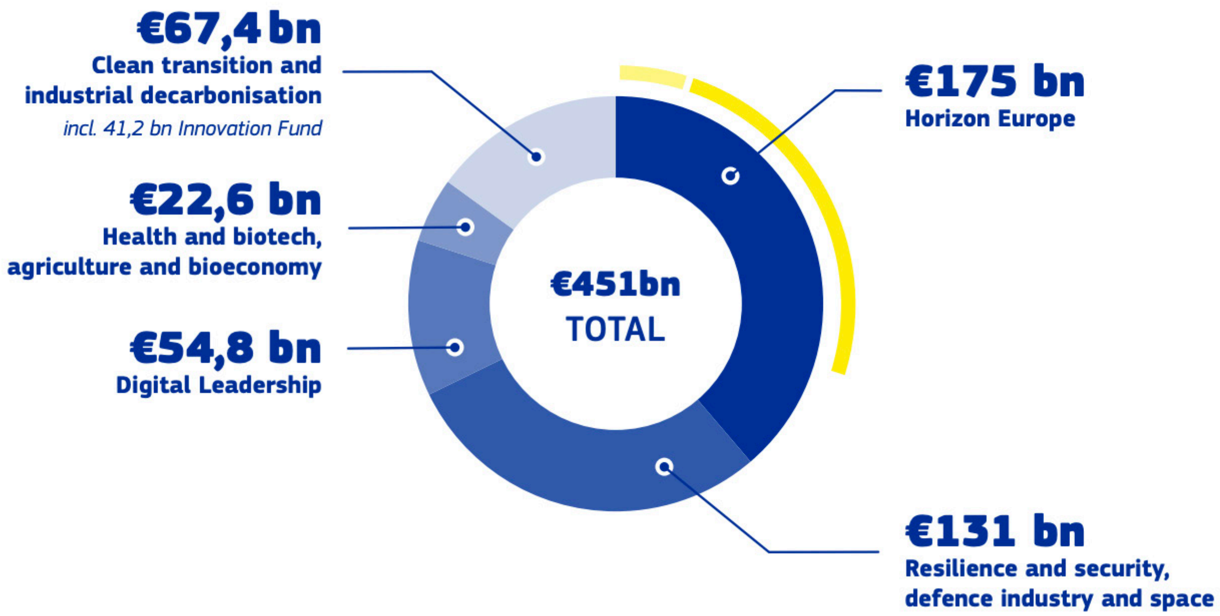
The EU budget will continue to use budgetary guarantees, financial instruments providing loans and equity, and blending mechanisms which are essential in fostering private involvement.

Building on the success of initiatives like InvestEU and European Fund for Sustainable Development Plus (EFSD+), the Commission also aims to further harmonise its approach for budgetary guarantees and financial instruments across internal and external dimensions — with the aim of making it simpler and more efficient for implementing partners and final recipients.

5.1.2. The competitiveness boost

In the framework pillar 2 "Competitiveness, prosperity and security", composed of twelve programmes, the new long-term budget aims to deliver a powerful competitiveness boost for Europe, to secure supply chains, scale up innovation, and lead the global race for clean and smart technology, with **EUR 451 billion** dedicated to competitiveness and research, a fivefold increase in digital investment, and six times more investment in clean tech, the bioeconomy and decarbonisation.

Figure 8: The European Competitiveness Fund



Source: European Commission: Directorate-General for Budget, Europe's budget – An ambitious budget for a stronger Europe 2028-2034, 2025, https://data.europa.eu/doi/10.2761/3758793.

The European Competitiveness Fund is in line with the recommendations of the Letta and Draghi reports, and will channel resources into strategic technologies that strengthen the Single Market.

The Fund allocates **EUR 175 billion to Horizon Europe**, reinforcing the Union's commitment to scientific excellence and breakthrough innovation. A further EUR **131 billion is dedicated to resilience and security**, including the defence industry and space, underpinning Europe's economic and geopolitical security. The Competitiveness Fund also invests **EUR 54.8 billion in digital leadership**, accelerating Europe's capabilities in artificial intelligence, data infrastructure and cybersecurity. In parallel, EUR **67.4 billion will support the clean transition and industrial decarbonisation**, including EUR 41.2 billion through the Innovation Fund, **while EUR 22.6 billion are earmarked for health, biotechnology, agriculture and the bioeconomy**. Supported by a flexible financial toolbox, combining grants, equity, guarantees, debt instruments, public procurement and business support services, the Fund aims to accelerate investment, reduce risks and crowd in substantial private capital to secure Europe's long-term competitiveness across critical technologies.

5.2. Evolution over the 2021-2027 programming period

The 2021-2027 MFF structures EU expenditures under seven headings, which are further broken down into subheadings and spending lines.

The transition from the 2021–2027 to the 2028–2034 MFF marks a substantial strengthening of the Union's investment effort in the areas grouped under **Pillar 2: Competitiveness, Prosperity and Security**. The overall allocation rises from EUR 220.6 billion to EUR 589.3 billion, reflecting a 167% increase that underscores a strategic shift toward reinforcing Europe's technological base, industrial resilience and geopolitical autonomy.

One of the most notable developments is the consolidation of multiple previously fragmented programmes into the newly created European Competitiveness Fund (ECF). Under the 2021–2027 MFF, support for research, clean technologies, innovation financing, Small and Medium Enterprises (SME) competitiveness, digital capacities, health and industrial ecosystems was distributed across numerous individual programmes, such as Horizon Europe, LIFE, the Innovation Fund, InvestEU and the Digital Europe Programme. In the new MFF, these elements are brought together under a single strategic architecture. This consolidation serves several institutional objectives: strengthening strategic steering, reducing administrative fragmentation, improving accessibility for beneficiaries, and enabling more coherent cross-sectoral deployment of EU resources.

The most significant increase concerns the expenditure cluster labelled **Resilience and Security, Defence Industry and Space**, which rises from EUR 26.36 billion in the 2021–2027 MFF to EUR 130.2 billion in the 2028–2034 (+396%). This cluster now integrates a range of initiatives previously managed through separate instruments, such as the European Defence Fund (EDF), the EU Defence Industry Reinforcement through common Procurement Act (EDIRPA), short-term procurement tools and the European Defence Industry Programme (EDIP). The magnitude of this increase reflects the Union’s determination to address Europe’s defence capability gaps, strengthen industrial capacity, enhance interoperability, and respond more effectively to the geopolitical environment.

Investments in **Digital Leadership** also expand sharply. The allocation rises from EUR 10.96 billion in 2021–2027 to EUR 54.8 billion in 2028–2034, representing almost a five-fold increase. This reorganisation integrates previously separate components such as the Digital Europe Programme, the digital strand of the Connecting Europe Facility (CEF) and parts of the SME competitiveness strand. The steep increase in funding confirms the centrality of digital infrastructures, advanced computing, cybersecurity and data technologies to Europe’s economic competitiveness. It also reflects the Union’s effort to overcome persistent fragmentation in digital investment and accelerate the deployment of EU-wide capacities.

The **Clean Transition and Industrial Decarbonisation** cluster nearly doubles, from **EUR 33.6 billion** to **EUR 67.4 billion**. Moreover, a substantial portion of the Innovation Fund (notably the EUR 41.2 billion referenced in the table) will be directed to the Clean Transition and Industrial Decarbonisation, hence complementing the MFF to place greater emphasis on large-scale industrial transformation, green value chains and technological deployment required to achieve climate neutrality. This reinforces the EU’s ambition to remain competitive in global clean-tech markets while reducing energy dependencies and supporting the adaptation of industrial ecosystems.

The combined cluster for **Health, Biotech, Agriculture and the Bioeconomy** nearly doubles from **EUR 22.6 billion** to **EUR 43.0 billion**. Programmes such as EU4Health and various bioeconomy support measures are brought together to form an integrated approach to Europe’s biological and agri-food resilience. The increase reflects the lessons of recent crises, pandemic preparedness, supply chain disruptions, and food security challenges, and responds to the need for a more competitive and innovative European life-science ecosystem.

The **CEF registers** some of the most substantial proportional increases across the MFF.

- CEF-Transport doubles, from EUR 25.7 billion in 2021–2027 to EUR 51.5 billion in 2028–2034.
- CEF-Energy quadruples from EUR 1.5 billion to EUR 5.9 billion.

These increases reflect the strategic importance of cross-border infrastructure for the Single Market, energy transition, and via military mobility, Europe's defence readiness. The emphasis on energy also aligns with the Union's decarbonisation objectives and the need for resilient, interconnected energy grids.

Other programmes such as Erasmus+, the European Solidarity Corps, nuclear decommissioning, nuclear safety, Fiscalis, Customs and the Single Market and Customs Programme continue to receive significant support, though with more moderate changes.

5.2.1. Synoptic view of 2021-2027 and 2028-2034 MFF

Table 10: Comparison of the programmes financed under the 2021–2027 and 2028–2034 Multiannual Financial Frameworks, in millions EUR

MFF 2028-2034 Heading	MFF 2028-2034 Programme	MFF 2021-2027 predecessor programme	Total 2021-2027	Total 2028-2034	Changes in %
1. Economic, social and territorial cohesion, agriculture, rural and maritime prosperity and security			819981	1062220	30%
	National and Regional Partnership Plans, of which:		784807	865076	10%
	Common Agricultural Policy (CAP) income support and fisheries of which interventions of the Common Fisheries Policy	Direct payments, market measures and EAFRD	282514	295699	5%
	Migration and border management	AMIF, BMVI, and ISF (shared management)	11406	34215	200%
	Economic, territorial and social cohesion including fisheries and rural communities and tourism	EAFRD, EMFAF, CF, ERDF, ESF+, JTF	452964	452964	0%
	p.m. Social Climate Fund	Social Climate Fund	14900	50100	236%
	Interreg	Interreg	8935	10264	15%
	EU Facility – Union actions, of which:		28989	63223	118%
	Unity Safety Net / Agricultural reserve	EAGF reserve	3132	6301	101%
	EU Solidarity Fund	European Solidarity Reserve	6706	20117	200%
	HOME Thematic facilities	Thematic facilities under AMIF, BMVI, ISF	8429	25285	200%
	Other (cities, employment & social innovation...)	Other	10722	11520	7%
	EU Facility – Cushion			8710	
	Support to the Turkish-Cypriot Community	Support to the Turkish-Cypriot Community	241	438	81%

MFF 2028-2034 Heading	MFF 2028-2034 Programme	MFF 2021-2027 predecessor programme	Total 2021-2027	Total 2028-2034	Changes in %
	Decentralised agencies	Decentralised agencies	12217	22888	87%
	Repayment of NGEU	Financing cost of the European Union Recovery Instrument (EURI)	22715	168000	100%
2. Competitiveness, prosperity and security			220637	589594	167%
	European Competitiveness Fund	Horizon Europe	87654	175002	100%
	Clean Transition and Industrial Decarbonisation	Programme for Environment and Climate Action (LIFE)	3346	67416	99%
		Innovation Fund (IF)	29425		
		InvestEU Fund	778		
		Single Market Programme – SME competitiveness strand	244		
	Resilience and Security, Defence Industry, and Space	European Defence Fund	7292	130704	396%
		Short-term Defence instrument on common procurement	290		
		Defence Industrial Reinforcement Instrument	500		
		European Defence Industry Programme	1500		
		European Space Programme	14388		
		Union Secure Connectivity	1368		
		InvestEU Fund	778		
		Single Market Programme – SME competitiveness strand	244		
	Digital Leadership	Connecting Europe Facility (CEF) - Digital	1806	54793	400%
		Digital Europe Programme	8130		
		InvestEU Fund	778		
		Single Market Programme – SME competitiveness strand	244		
	Health, Biotech, Agriculture and Bioeconomy	EU4Health	4015	22593	349%
		InvestEU Fund	778		

MFF 2028-2034 Heading	MFF 2028-2034 Programme	MFF 2021-2027 predecessor programme	Total 2021-2027	Total 2028-2034	Changes in %
		Single Market Programme – SME competitiveness strand	244		
	Erasmus+	Erasmus+	26354	40827	49%
	European Solidarity Corps (ESC)		1015		
	Connecting Europe Facility	Connecting Europe Facility (CEF) - Transport	12664	51515	100%
		Cohesion Fund (CF), contribution to CEF - Transport	11285		
		Military Mobility	1765		
		Connecting Europe Facility (CEF) - Energy	5917	29912	406%
	Union Civil Protection Mechanism+ (UCPM+)	Union Civil Protection Mechanism (RescEU)	1589	10675	400%
	AgoraEU	EU4Health	547	8582	100%
		Actions financed under the prerogatives of the Commission	152		
		Creative Europe	2546		
		Rights and Values	1587		
	Single Market and Customs Programme	Single Market Programme	1647	6238	106%
		EU Anti-Fraud Programme	182		
		Cooperation in the field of taxation (Fiscalis)	268		
		Cooperation in the field of customs (Customs)	934		
	Euratom Research and Training Programme	Euratom Research and Training Programme	1987	9794	50%
		International Thermonuclear Experimental Reactor (ITER)	4562		
	Instrument for emergency support within the Union (ESI)	Instrument for emergency support within the Union (ESI)	232	/	/
	Protection of the euro against counterfeiting (the 'Pericles V programme')	Protection of the euro against counterfeiting (the 'Pericles IV programme')	6	7	13%

MFF 2028-2034 Heading	MFF 2028-2034 Programme	MFF 2021-2027 predecessor programme	Total 2021-2027	Total 2028-2034	Changes in %
	Nuclear decommissioning (Lithuania) (Ignalina programme)	Nuclear decommissioning (Lithuania)	539	678	26%
	Nuclear safety cooperation and decommissioning	Nuclear Safety and decommissioning (incl. Bulgaria and Slovakia)	469	678	26%
3. Global Europe			119989	215203	79%
	Global Europe	Neighbourhood, Development and International Cooperation Instrument - Global Europe (NDICI-Global Europe)	80337	200309	74%
		Pre-Accession Assistance (IPA III)	15030		
		Humanitarian Aid (HUMA)	15346		
		Reform and Growth Facility for Western Balkans	2000		
		Other actions (MFA grants)	262		
		Emergency Aid Reserve	1827		
	Common Foreign and Security Policy (CFSP)	Common Foreign and Security Policy (CFSP)	2683	3369	26%
	SFPA and RFMO	Sustainable Fisheries Partnership Agreements (SFPA) and Regional Fisheries Management Organisations (RFMO)	1050	1331	27%
	Decision on the Overseas Association, including Greenland	Overseas Countries and Territories (OCT) (including Greenland)	500	900	100%
	Prerogatives	Prerogatives	674	1124	18%
	Other actions	Other	279		
4. Administration			84871	117877	39%
Special instruments			24380		
	Discontinued	European Globalisation Adjustment Fund (EGF)	743		
		Brexit Adjustment Reserve	4886		

MFF 2028-2034 Heading	MFF 2028-2034 Programme	MFF 2021-2027 predecessor programme	Total 2021-2027	Total 2028-2034	Changes in %
		EURI Instrument	0		
	Flexibility Instrument	Flexibility Instrument	1744	15777	
	Ukraine	MFA+	6		
		Ukraine Reserve	17000	100002	
Overall remaining margin			1175		
Other			990		
	Discontinued	Integrated Border Management Fund (IBMF) – CCEi	990		
TOTAL			1272021	1984894	36%

Key to reading Table 10:

If several envelopes have increased or decreased, the aims of the previous 52 programmes in the 2021-2027 MFF will be transferred to the new 16 ones in the 2028-2034 MFF.

5.2.2. Deep-dive focus: Connecting Europe Facility

The **CEF** continues to constitute the Union's primary instrument for financing strategic cross-border infrastructure in transport and energy. The evolution of its budget between the 2021–2027 and 2028–2034 programming periods reflects both the scale of the EU's long-term infrastructure needs and the increasing geopolitical and energy-security challenges faced by the Union.

According to the European Parliamentary Research Service (EPRS)[13], the 2021–2027 CEF has performed strongly, with the majority of transport resources already allocated and the military mobility envelope entirely committed by early 2024 as a consequence of the rapid response required after Russia's full-scale invasion of Ukraine.

Against this backdrop, **the proposed budget for CEF Transport in the 2028–2034 MFF rises from EUR 25751 million in the current period to EUR 51515 million** in the next, amounting to a doubling of the envelope. This substantial increase responds to the persistent need to complete the core and extended Trans-European Transport Network (TEN-T) by 2030 and 2040 and to ensure the interoperable, safe and resilient functioning of transport infrastructures across the Union. It also reflects heightened demands linked to defence and military mobility, which the Commission identifies as a strategic priority requiring significant and urgent investment. The EPRS briefing notes that CEF-funded actions support major cross-border rail corridors, inland waterways, port connections, European traffic management systems, as well as strengthened connectivity with neighbouring countries, notably Ukraine and Moldova, including preparatory work for rail-gauge alignment with EU standards.

Box 1: Focus on the Alternative Fuels Infrastructure Facility (AFIF) instrument

The **Alternative Fuels Infrastructure Facility** (AFIF), implemented under the transport pillar of the CEF, has emerged as one of the most effective instruments of the 2021–2027 programme cycle for accelerating the deployment of infrastructure supporting alternative fuels. According to the Commission's interim evaluation of the CEF 2021–2027 programme[1], AFIF has been instrumental in enabling the roll-out of charging and refuelling infrastructure for road transport, including electricity and hydrogen, in circumstances where national or private financing alone would not have ensured timely delivery. The Commission confirms that CEF Transport support has been indispensable for bringing forward projects that would otherwise have faced substantial delays, limited scope or failure to materialise due to insufficient funding at national level. AFIF plays a central role in this regard, helping Member States advance the implementation of the Alternative Fuels Infrastructure Regulation and supporting the decarbonisation of the transport sector across the TEN-T network.

The Commission's official performance reporting further illustrates the extent of AFIF's impact: **2 600 alternative fuel supply points** were supported during the 2021–2027 period, and **a cumulative total of 17 000 supply points** have been deployed across the EU under the two generations of the CEF programme (2014–2020 and 2021–2027). These outputs underline the programme's contribution to enhancing the availability, continuity and quality

[13] Briefing EPRS « Connecting Europe Facility 2028-2034 Financing EU infrastructure networks"

of charging and refuelling networks across Member States, which is essential for the uptake of zero-emission mobility and the completion of the TEN-T core network.

At the same time, investment needs for the TEN-T network remain high. According to the position paper of the TEN-T Coordinators from April 2024, the total investment needed to complete the core and extended core TEN-T network is EUR 845 billion over the next 15 years. This number takes account of all the new requirements added during the revision of the TEN-T Regulation. For projects with the highest EU added value alone, the remaining amount to be invested is estimated at around EUR 210 billion.

1 (AFIF box): European Commission, Progress report on the implementation of the 2021-2027 Connecting Europe Facility for the years 2021-2024.

In the **energy sector**, the budgetary framework records an equally significant reinforcement. The CEF Energy envelope increases from EUR **5 917 million in 2021–2027** to **EUR 17 651 million in 2028–2034**. This tripling of funding confirms the central role of CEF in delivering the Energy Union and supporting the transformation of Europe's energy system. As highlighted in the Commission's proposal and assessed by the EPRS, CEF Energy finances cross-border infrastructure of strategic importance, including electricity transmission, hydrogen networks, and carbon dioxide transport systems, as well as cross-border renewable energy projects undertaken pursuant to the Renewable Energy Directive. These investments are essential for addressing systemic needs such as grid reinforcement, which the Commissioner for Energy and Housing described as not only the backbone of the energy system but of Europe itself, and for strengthening the Union's preparedness and resilience in the face of energy shocks and climate-related disruptions.

The reinforcement of CEF across its transport and energy components must also be understood in light of the Commission's broader simplification agenda for the post-2027 MFF. The new CEF regulation is designed to align with the principles applied across the next MFF, notably through a clearer demarcation between CEF-funded cross-border projects and investments supported under National and Regional Partnership Plans (NRPPs). The EPRS underlines that this alignment is intended to enhance coherence, reduce fragmentation and streamline implementation, although Members of the European Parliament have stressed that simplification should not come at the expense of parliamentary scrutiny and accountability, particularly in the context of large-scale infrastructure investment.

Overall, the evolution of the CEF budget between the two programming periods demonstrates the Union's intention to reinforce its capacity to finance infrastructure that is indispensable for the functioning of the internal market, for the green and digital transitions and for Europe's geopolitical resilience. The doubling of CEF Transport and the tripling of CEF Energy constitute a clear signal that cross-border transport and energy networks remain at the heart of the EU's strategic investment priorities for 2028–2034.

5.2.3. Deep-dive focus: defence

The defence component of the 2028-2034 MFF is emerging as one of the most politically charged and strategically consequential elements of the next EU budget. According to the European Commission's official presentation of the future long-term budget, the Union proposes a five-fold increase in funding for Defence and Space, rising from approximately EUR 26 billion in 2021-2027 to EUR 131 billion in 2028-2034, channelled primarily through the new ECF. This unprecedented expansion reflects the EU's response to a radically transformed security environment, characterised by Russia's war of aggression against Ukraine, the erosion of transatlantic certainties, and growing geopolitical pressure on Europe's defence industrial base.

The Commission's proposal articulates several strategic priorities for this expanded envelope. It aims to strengthen defence industrial production capacity, accelerate disruptive innovation, and support investments across the full defence investment journey, from R&D to procurement and commercialisation. The proposal also integrates military mobility and dual-use infrastructure, notably through the CEF, acknowledging the structural deficiencies that have hindered the rapid movement of troops and equipment across Europe.

As highlighted by an article of Jacques Delors Institute[14] the question of scale is not yet settled. The budget remains significantly below the EUR 100 billion per year advocated by leading voices in the defence debate, such as (former) Commissioners Thierry Breton and Andrius Kubilius, for meaningful rearmament at the EU level.

Jacques Delors Institute notes that the EDF has now reached a "cruising speed" of around EUR 1 billion per year, and that the main bottleneck lies in large-scale procurement, production ramp-up and the financing of critical inputs such as ammunition, missile systems and industrial capacity expansion. The Commission's proposal responds partly to this diagnosis by enabling a broader range of tools: grants, equity, guarantees, procurement but without yet defining how these instruments will interact with the national rearmament strategies undertaken since 2022.

Finally, the defence section of the MFF raises unresolved questions about private financing, which the Commission acknowledges is essential to the scaling-up of Europe's defence industrial base. The proposal calls for improved access to finance for defence start-ups and SMEs, yet the sector continues to face constraints linked to environmental, social, and corporate governance (ESG) interpretations and financial sector hesitancy, as documented by the Parliament and the European Defence Agency.

[14] de Cordoue, B. "The uneasy equation of the future EU defence budget", Blogpost, Jacques Delors Institute, July 2025

6. SCENARIOS

This part develops **three operational financing scenarios** designed to assess how the investment needs identified by Mr. Draghi can be addressed. Given the absence of quantified investment needs in the Letta report, this part of the study is limited to an analysis of the total investment needs quantified in the Draghi report. The scenarios combine **EU budgetary resources**, **Member State contributions**, **financial leverage mechanisms** and **sovereignty impact considerations**, with the objective of evaluating the potential contribution of the EU budget to Europe's competitiveness agenda.

6.1. Objectives

The study takes as a reference point the Commission proposal. Hence, through the construction of alternative scenarios, this study pursues the following objectives:

- **Provide a consolidated view of the EU budget's contribution to European competitiveness**, combining MFF-based instruments (InvestEU, European Competitiveness Fund (ECF), Connecting Europe Facility (CEF)) and their associated budgetary provisioning.
- **Compare the volume of investment potentially mobilised through EU budget resources** with the investment needs identified by Mr Draghi, estimated at **EUR 800 billion per year**.
- **Identify overall investment gaps as well as sector-specific shortfalls**, highlighting areas where additional policy intervention may be required.

6.1.1. Methodology deployed and scenario construction framework

To support the scenario design, the study structures the analysis around a **three-component analytical table** comprising:

- **<u>EU budget resources supporting competitiveness</u>**

This component provides a consolidated annual view of EU-level resources mobilised in support of competitiveness, including:

  - **InvestEU annual budgetary guarantee**;
  - **Annual MFF contributions aimed at bridging the investment gap**, represented by:
    - the **ECF**, and
    - the **CEF**.

For the purposes of this study, it is assumed that **50% of the budgets of the ECF and CEF** would be allocated to the implementation of Draghi's recommendations, while the remaining 50% would continue to finance existing policy commitments.

  - **Budgetary provisioning** linked to the InvestEU guarantee

- **<u>Financing leverage</u>**

This component estimates the volume of **debt leveraged** by projects supported through EU budget resources, reflecting the crowd-in effects generated by EU intervention.

- **<u>Total investments mobilised</u>**

The estimation of total investment mobilisation is based on:

- **Programme-specific multiplier ratios**, reflecting the volume of investment generated by one euro of EU budget support (InvestEU, ECF, CEF);
- **Total investment mobilised** per programme, obtained by applying the relevant multiplier to the EU budgetary contribution.

6.1.2. Data sources

Table 11: Scenarios: sources

Sources	Information extracted
European Commission's Multiannual Financial Framework (MFF) Proposal for 2028-2034	EU budget resources
European Commission, "Interim evaluation of the InvestEU Programme – Final Report" (July 2024)	InvestEU leverage ratio InvestEU multiplier ratio
European Court of Auditors, "The European Fund for Strategic Investments Contributed" substantially to addressing the investment gap, but had not fully reached the EUR 500 billion target in the real economy by the end of 2022" (Feb. 2025)	InvestEU multiplier ratio
European Court of Auditors, "EU transport infrastructure - Further delays and some cost increases, but a reinforced governance framework is in place for the future (an update of ECA special report 10/2020)"	Transport infrastructure multiplier ratio (6)
Interviews conducted with the EIB	Qualification of sector multiplier effect

Source: EY Elaboration.

6.1.3. Assumptions on multiplier effects

Multiplier ratios are based on sector-specific estimations, reflecting both market maturity and the capacity to attract private investment:

- Clean technologies are considered mature and highly attractive to private investors, with strong leverage potential;
- Defence and transport infrastructure are traditionally driven by public investment and procurement, resulting in comparatively lower private leverage.

Accordingly:

- InvestEU multiplier ratios range from 6 to 19, depending on sector and scenario;
- MFF-based instruments (Horizon Europe and policy funds) apply multiplier ratios ranging from 1 to 4.

6.1.4. Scenario design

Three financing scenarios are developed, reflecting differing degrees of ambition:

- **Prudent scenario**:

  - InvestEU envelope of **EUR 17 billion** over 2028–2034 (minimum announced level).
  - with a budget provision of **50% of the InvestEU guarantee**, in line with the provisioning practices proposed for 2028-2034.
- **Intermediate scenario**:
  - InvestEU envelope of **EUR 40 billion**.
  - with a budget provision of **40% of the InvestEU guarantee**, in line with current provisioning practices.
- **Ambitious scenario**:
  - InvestEU envelope of **EUR 70billion** (corresponding to the announced maximum level of EU budgetary guarantees, noting that financial instruments themselves are not subject to a binding overall ceiling).
  - with a budget provision of **40% of the InvestEU guarantee**, in line with current provisioning practices.

To test the sensitivity of results to leverage assumptions, each scenario is further declined into **three simulations**:

- **Simulation A** – Intermediate and ambitious scenarios present increasing multiplier effects for InvestEU and MFF contribution, compared to the prudent scenario
- **Simulation B** – Intermediate and ambitious scenarios present increasing multiplier effects for InvestEU and Horizon Europe, and Policies multiplier effect are equal to the prudent scenario
- **Simulation C** – All scenarios present equal multiplier effects for InvestEU and MFF contribution

Table 12: Scenarios: variables

Variables	Simulation A	Simulation B	Simulation C
Multiplier ratio - Invest. mobilised / InvestEU Guarantee	Increasing ratio between scenarios	Increasing ratio between scenarios	Equal ratio between scenarios
Multiplier ratio - Invest. mobilised / Horizon Europe	Increasing ratio between scenarios	Increasing ratio between scenarios	Equal ratio between scenarios
Multiplier ratio - Invest. mobilised / MFF Contribution	Increasing ratio between scenarios	Equal ratio between scenarios	Equal ratio between scenarios

Source: EY Elaboration.

6.1.5. Limitations of the scenarios building

The scenarios building exercise is subject to specific limitations, generally due to a lack of data regarding:

- **The MFF**, as mentioned generally in part 3.1., as the legislative process remains ongoing, and key programme level allocations are not yet available.
- Furthermore, the limited information currently available on the use of financial instruments under the 2028-2034 MFF, together with the insufficient evidence to date regarding the performance of the 2021-2027 MFF financial instruments in leveraging private investment, constrains the ability of the study to develop calibrated and differentiated scenarios capable of addressing the identified investment needs.
- **Limited availability of robust economic impact evaluations**, requiring several multiplier assumptions to rely on qualitative assessments and expert interviews.
- **The multiplier effect** – Evaluations were made on several programmes, providing data regarding the investment mobilised through the EU investments. However, most programmes in our scope of work are lacking economic impact evaluation. Hence, the majority of multiplier ratios in our scenarios are hypotheses based on qualitative impact assessments or interviews conducted during this study.

6.2. Findings

Table 13: Financing for the scenarios

FINANCING SCENARII Amounts in current prices, EUR million	Simulation A			Simulation B			Simulation C		
	Prudent	Intermediat	Ambitious	Prudent	Intermediat	Ambitious	Prudent	Intermediat	Ambitious
EU budget resources									
InvestEU - Annual EU Garantee	2 429	5 714	10 000	2 429	5 714	10 000	2 429	5 714	10 000
InvestEU - Total EU Garantee on 2028-2034 timeframe	*17 000*	*40 000*	*70 000*	*17 000*	*40 000*	*70 000*	*17 000*	*40 000*	*70 000*
Number of years in the 2028-2034 timeframe	*7*	*7*	*7*	*7*	*7*	*7*	*7*	*7*	*7*
Budget provision	1 214	2 286	4 000	1 214	2 286	4 000	1 214	2 286	4 000
Provision percentage (%)	*50%*	*40%*	*40%*	*50%*	*40%*	*40%*	*50%*	*40%*	*40%*
Provision	**1 214**	**2 286**	**4 000**	**1 214**	**2 286**	**4 000**	**1 214**	**2 286**	**4 000**
MFF annual contribution	37 995	37 995	37 995	37 995	37 995	37 995	37 995	37 995	37 995
Contribution ratio	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*
European Competitiveness Fund	**32 179**	**32 179**	**32 179**	**32 179**	**32 179**	**32 179**	**32 179**	**32 179**	**32 179**
Horizon Europe	**12 500**	**12 500**	**12 500**	**12 500**	**12 500**	**12 500**	**12 500**	**12 500**	**12 500**
Clean Transition and Industrial Decarbonisation	**4 815**	**4 815**	**4 815**	**4 815**	**4 815**	**4 815**	**4 815**	**4 815**	**4 815**
Resilience and Security, Defence Industry, and Space	**9 336**	**9 336**	**9 336**	**9 336**	**9 336**	**9 336**	**9 336**	**9 336**	**9 336**
Digital Leadership	**3 914**	**3 914**	**3 914**	**3 914**	**3 914**	**3 914**	**3 914**	**3 914**	**3 914**
Health, Biotech, Agriculture and Bioeconomy	**1 614**	**1 614**	**1 614**	**1 614**	**1 614**	**1 614**	**1 614**	**1 614**	**1 614**
Connecting Europe Facility, of which:	**5 816**	**5 816**	**5 816**	**5 816**	**5 816**	**5 816**	**5 816**	**5 816**	**5 816**
Connecting Europe Facility (CEF) - Transport, of which:	**3 680**	**3 680**	**3 680**	**3 680**	**3 680**	**3 680**	**3 680**	**3 680**	**3 680**
Military mobility	*1 261*	*1 261*	*1 261*	*1 261*	*1 261*	*1 261*	*1 261*	*1 261*	*1 261*
Connecting Europe Facility (CEF) - Energy	**2 137**	**2 137**	**2 137**	**2 137**	**2 137**	**2 137**	**2 137**	**2 137**	**2 137**
Total EU budget ressource contribution	**39 210**	**40 281**	**41 995**	**39 210**	**40 281**	**41 995**	**39 210**	**40 281**	**41 995**
Financing leverage									
Leverage ratio - InvestEU	*5,0*	*5,5*	*6,0*	*5,0*	*5,5*	*6,0*	*5,0*	*5,5*	*6,0*
Leverage amount	**12 143**	**31 429**	**60 000**	**12 143**	**31 429**	**60 000**	**12 143**	**31 429**	**60 000**
Leverage - InvestEU	12 143	31 429	60 000	12 143	31 429	60 000	12 143	31 429	60 000
Total investments mobilised									
Multiplier effect									
Multiplier ratio - Invest. mobilised / Invest EU Garantee	*10,0*	*12,5*	*14,5*	*10,0*	*12,5*	*14,5*	*10,0*	*10,0*	*10,0*
Multiplier ratio - Invest. mobilised / Horizon Europe	*1,5*	*2,0*	*3,5*	*1,5*	*2,0*	*3,5*	*1,5*	*1,5*	*1,5*
Multiplier ratio - Invest. mobilised / Policies	*1,5*	*2,0*	*2,0*	*1,5*	*1,5*	*1,5*	*1,5*	*1,5*	*1,5*
Investment mobilised	**81 279**	**147 419**	**239 741**	**81 279**	**134 672**	**226 993**	**81 279**	**114 136**	**156 993**
Investment mobilised - InvestEU	**24 286**	**71 429**	**145 000**	**24 286**	**71 429**	**145 000**	**24 286**	**57 143**	**100 000**
Investment mobilised - MFF Contribution	**56 993**	**75 991**	**94 741**	**56 993**	**63 243**	**81 993**	**56 993**	**56 993**	**56 993**
Horizon Europe	**18 750**	**25 000**	**43 751**	**18 750**	**25 000**	**43 751**	**18 750**	**18 750**	**18 750**
Policies	**38 243**	**50 990**	**50 990**	**38 243**	**38 243**	**38 243**	**38 243**	**38 243**	**38 243**
Cost of capital reduction	**Low**	**Moderate**	**High**	**Low**	**Moderate**	**High**	**Low**	**Moderate**	**High**
Draghi's investment need covering	**10%**	**18%**	**30%**	**10%**	**17%**	**28%**	**10%**	**14%**	**20%**
Draghi's annual investment need	*800 000*	*800 000*	*800 000*	*800 000*	*800 000*	*800 000*	*800 000*	*800 000*	*800 000*
Investment gap	**718 721**	**652 581**	**560 259**	**718 721**	**665 328**	**573 007**	**718 721**	**685 864**	**643 007**

All investment needs and hypothesis figures are expressed on an annual basis, for consistency with the Draghi report. Source: EY Elaboration.

Key to reading Table 13:

Table 13 presents three financing simulations (A, B and C), each declined under prudent, intermediate and ambitious scenarios, with the objective of illustrating the potential scale of financing and investment mobilised annually by InvestEU under the 2028-2034 MFF. All figures are expressed on an annual basis, in line with the consistency requirements used in the Draghi report.

6.2.1. Scenario results

Financing leverage:

- *Definition*: The leverage ratio for InvestEU is estimated around 6 in the European Commission "Interim evaluation of the InvestEU Programme – Final Report" (July 2024). This means that for EUR 1 invested in a project by InvestEU, the project unlocks an average debt of EUR 6 with banking stakeholders. Hence, the range Leverage amount represents the estimated amount of debt obtained annually by projects funded by InvestEU.
- *Hypothesis on the table*:
    - The prudent scenario considers conservative leverage ratio of 5, and a yearly InvestEU Guarantee amount of EUR 2 429 million (equals to the announced minimum amount of EUR 17 000 million for the total 2028-2034 MFF divided by 7 years *// 17 000 / 7 = 2 429).*
    - The ambitious scenario considers a leverage ratio of 6, and a yearly InvestEU Guarantee amount of EUR 10 000 million (equals to the announced maximum amount of EUR 70 000 million for the total 2028-2034 MFF divided by 7 years // *70 000 / 7 = 10 000).*
- *Interpretations:*
    - With these hypotheses, the scenario show that the yearly financing amount leveraged can vary from EUR 12 143 million to EUR 60 000 million.

Total investment mobilised – multiplier ratio:

- *Definition*:
    - The total investment mobilised represents the total amount of the project, including debt, equity, and other financing. The corresponding multiplier ratio reflects the capacity of financial instruments support to catalyse overall investment.
    - As an example, the multiplier ratio for InvestEU is estimated around 14 in the European Commission "Interim evaluation of the InvestEU Programme – Final Report" (July 2024). This significate that for EUR 1 invested in a project by InvestEU, the project mobilises an average total of EUR 14. Hence, the range "investment mobilised" represents the estimated amount of the project mobilised annually by projects supported by InvestEU.
- *Hypothesis on the table*:
    - The main hypothesis, as mentioned in the methodology part, concerns the multiplier ratios which are average based on assessments and estimations on specific sectors and financial instruments.

    - As an example, Clean technologies are considered mature and highly attractive to private investors, with strong leverage potential. Hence, the InvestEU multiplier ratio hypothesis varies from 14 in the prudent scenario to 18 in the ambitious scenario.
    - On the other hand, Transport infrastructures are traditionally driven by public investment and procurement, resulting in comparatively lower private leverage. Hence, the InvestEU multiplier ratio hypothesis varies from 6 in the prudent scenario to 10 in the ambitious scenario.
- *Interpretations:*
    - The scenarios show that the yearly total investment amount mobilised can vary from EUR 81 279 million to EUR 239 741 million, depending on the amount InvestEU and the multiplier ratios applied.

6.2.2. Scenarios' global impact on investment needs

The three simulations reveal that:

- **The prudent scenario covers 10%** of the annual EUR 800 billion investment gap identified by Draghi, which corresponds to half of the objective set by Draghi to reach a 20% of public generated investment.
- **The intermediate scenario covers a range of 14% to 18%** of the investment gap, depending on the simulation and the estimated multiplier effect.
- **The ambitious scenario covers a range of 20% to 30%** of the investment gap, depending on the simulation and the estimated multiplier effect.

These three scenarios provide a structured and comparative assessment of the EU budget's potential contribution to addressing the investment gap identified by Draghi, estimated at EUR 800billion per year. Despite differences in ambition and leverage assumptions, several consistent patterns emerge.

First, the results confirm that **EU-level public intervention alone can only cover at best a modest share of the investment gap**, regardless of the scenario considered. Even under the ambitious scenario, combining a substantially increased InvestEU envelope with higher multiplier assumptions, the EU budget is able to mobilise **between 20% and 30% of the annual investment need**.

Second, the comparison across simulations shows that **the scale of budgetary commitment has a stronger impact than variations in multiplier assumptions**. While higher leverage ratios do improve mobilisation outcomes at the margin, their effect is relatively limited compared to the impact of increasing the size of InvestEU and MFF-based contributions. This suggests that policy debates focusing excessively on leverage optimisation may overlook the more decisive role played by **absolute budgetary volumes**.

Third, the prudent scenario, based on a conservative InvestEU envelope and cautious leverage assumptions, covers only **around 10% of the investment gap**. This level would fall short not only of Draghi's recommendations, but also of the scale required to materially shift Europe's competitiveness trajectory. By contrast, the intermediate scenario, mobilising **14% to 18% of the gap**, already marks a significant step-up and could deliver meaningful impacts, provided that investments are well targeted towards sectors with the highest spillovers and European value added.

Finally, the scenarios highlight a structural reality: **EU instruments are most effective as catalysts rather than substitutes**. Their primary role lies in de-risking, coordination and signaling, enabling Member States and private investors to scale up involvement. In this respect, high-leverage tools such as InvestEU play a central role, but only if they are embedded within a broader and coherent investment architecture under the MFF.

6.2.3. Questions raised and arbitrations to be made

The scenario analysis highlights a number of **key questions and policy trade-offs** that will need to be addressed in future discussions on the design, prioritisation and calibration of EU-level investment instruments.

First, **investment mobilisation patterns differ significantly across sectors, policy windows and financial products**. In general, mobilisation tends to be stronger in **mature markets**, where technologies are proven, project pipelines are well developed and private investors are readily available. By contrast, **niche, frontier or emerging segments**, despite their strategic importance, often generate lower immediate mobilisation and weaker multiplier effects. Mobilisation outcomes are also shaped by the **nature of the financial instruments used**, with guarantee-based and senior debt products typically achieving higher leverage than more innovative or risk-bearing instruments.

As a result, **mobilisation and multiplier metrics, while essential, cannot serve as the sole criteria for success**. An exclusive focus on leverage would risk systematically favouring high-multiplier, mature markets, potentially at the expense of sectors that are less mature but **highly additional, strategically relevant and critical for long-term competitiveness**.

Second, to maximise the impact of EU-level investment, **the EPG dimension of each sector must play a central role in investment prioritisation**. Sectors generating strong cross-border spillovers, network effects or economies of scale may warrant EU intervention even when their short-term mobilisation potential is comparatively lower. This calls for explicit political arbitrations between **financial efficiency, additionality, strategic value and sovereignty objectives**.

These trade-offs can be illustrated by contrasting sectoral examples, which highlight how EU-level investment performs differently depending on market maturity, strategic relevance and the nature of the intervention. The clean technologies sector, and in particular wind energy, provides a first example of how high mobilisation can be achieved in a mature market while delivering clear EPG benefits.

Box 2. Clean technologies – The example of the Wind Power Package

The Wind Power Package illustrates a case of high mobilisation and high additionality in a mature sector. InvestEU support has enabled large, capital-intensive offshore wind projects that contribute meaningfully to the EU's climate and energy objectives.

Indeed the European Wind Power Package, launched by the European Commission on 24 October 2023, is an initiative designed to strengthen the competitiveness, resilience, and scaling capacity of the EU wind energy sector while supporting the Union's climate and energy objectives. The program aims to address structural challenges affecting the wind industry, including slow and complex permitting procedures, insufficient demand predictability, limited access to finance, supply-chain bottlenecks, skills shortages, and increasing international competitive pressure. The Package consists of a European Wind Power Action Plan and a complementary communication on offshore renewable energy, and sets out 15 coordinated measures to be implemented by the Commission, Member States, the European Investment Bank (EIB), and industry stakeholders.

While the Package itself does not define a single budget envelope, it is closely associated with substantial public financial support mechanisms, most notably a **EUR 5 billion EIB counter-guarantee facility dedicated to wind energy manufacturing and supply chains**. **According to the EIB, this facility is expected to mobilise up to EUR 80 billion of total wind-related investments through financial leverage, notably by de-risking commercial bank guarantees and unlocking private capital.** The leverage effect arises from the use of EU-backed guarantees to support advance payments, performance bonds, and investment loans required by wind turbine manufacturers and their suppliers. As an illustrative example, the EIB has implemented a EUR 500 million counter-guarantee operation with financial intermediaries such as Deutsche Bank and BNP Paribas, with the latter transaction alone expected to trigger up to EUR 8 billion in wind energy investments across the EU. These funds are intended to support wind farm deployment, grid components, and industrial manufacturing capacity, contributing to the installation of approximately 32 GW of wind capacity by 2030.

By contrast, other strategic sectors illustrate a markedly different investment profile, where high potential impact is accompanied by greater uncertainty, weaker short-term mobilisation and stronger reliance on public risk-sharing mechanisms. This is notably the case for frontier digital infrastructures, such as artificial intelligence computing capacity.

Box 3: Digital Leadership – The example of AI Gigafactories

The European Commission's initiative to establish **AI gigafactories** aims to strengthen Europe's position in the global artificial intelligence landscape by addressing structural gaps in advanced computing infrastructure. Announced in June 2025, the program generated significant interest, with **76 expressions of interest submitted** following the allocation of **EUR 20 billion** for the development of **five large-scale facilities**. AI gigafactories are designed as high-capacity supercomputing centers equipped with more than 100 000 Graphics Processing Units (GPUs, a specialised electronic circuit that accelerates AI workloads), offering substantially greater computational power than existing AI-focused data centers and enabling the training and deployment of large and complex AI models. By complementing the network of AI factories already under development, these facilities are intended to support innovation, industrial competitiveness, and technological autonomy within the EU. Numerous cross-sector consortia have emerged, typically involving telecommunications or data center operators, energy providers, infrastructure and construction firms, technology suppliers, and potential end users, often with the involvement of public authorities seeking to host a site.

While **public funding is expected to cover approximately one-third of the investment costs**, **the majority relies on private capital**, whose allocation depends on greater clarity regarding governance, funding instruments, and long-term demand for compute capacity. Uncertainty remains regarding future AI use cases, revenue models, and demand absorption, with national perspectives differing according to economic structure and policy priorities, such as public-sector digitalisation or advanced manufacturing. In this context, the article "The EU AI gigafactories initiative: why Europe can't afford to wait — and needs strong commitment now from both public and private sectors" highlights the importance of **complementing the supply-side focus of the program with clearer signals on demand**, including public-sector commitments and the identification of concrete private-sector use cases, in order to support investment decisions and ensure the effective utilisation of the planned infrastructure.

An as yet unquantified but potentially significant multiplier effect relates to the reduction of the cost of capital (debt + equity) within financial structuring, and the EU could help encourage user-led investment, as illustrated by this example.

Taken together, these two examples underline the need for a differentiated approach to EU investment policy. While mature sectors such as wind energy allow for strong leverage and rapid mobilisation, frontier domains such as AI infrastructure require greater public coordination, clearer demand signals and a stronger focus on strategic value rather than immediate multiplier effects. This reinforces the case for integrating EPG considerations alongside financial performance metrics when shaping future EU budgetary priorities.

6.2.4. Reflexions related to the potential contribution of EU safe assets

Closing Europe's investment gaps will require more than can be furnished by EU and national public budgets, which remain constrained by fiscal rules, debt sustainability concerns and uneven fiscal space across Member States. In this context, **EU safe assets can play a central role in expanding investment capacity without undermining fiscal sustainability.**

By scaling up the issuance of euro-denominated safe assets—through joint or supranational instruments—EU-level action can finance European public goods at scale, notably in defence, climate transition, energy and digital infrastructure, while avoiding the fragmentation and competitive distortions associated with purely national approaches. Evidence suggests that additional EU issuance could significantly improve market liquidity without eroding safety premia, thereby reducing borrowing costs through higher convenience yields and the establishment of a more robust euro yield curve.

Beyond direct public financing, EU safe assets are also a **key enabler for mobilising private capital at scale.** Deep and liquid safe-asset markets underpin repo markets, institutional investment strategies, long-term savings products and capital-market-based financing more broadly. Expanding the supply and usability of EU safe assets would therefore support the completion of the Capital Markets Union and its evolution towards a genuine Savings and Investments Union, improving the channelling of Europe's private savings into productive, long-term investments aligned with common EU priorities.

Finally, EU safe assets have an important **strategic dimension**. A larger and more homogeneous pool of euro-denominated safe assets would strengthen the international role of the euro, reduce Europe's reliance on the US dollar and enhance the EU's financial and geopolitical autonomy in an increasingly fragmented global environment.

7. CONCLUSION

Several overarching conclusions emerge from this study.

A competitiveness gap that is likely larger than initially estimated

First, the analysis confirms that Europe's competitiveness challenge is **structural, strategic and persistent**. As identified in the Letta and Draghi reports, it reflects long-standing weaknesses – fragmented capital markets, underinvestment in innovation and infrastructure, high energy costs and strategic dependencies – now compounded by heightened geopolitical instability.

Importantly, while the Draghi report estimates **additional investment needs of EUR 750–800 billion per year**, this study suggests that **maintaining and restoring European competitiveness over the coming decade is likely to require investment volumes exceeding this level**. The estimates presented in 2024 pre-date several adverse developments, including further geopolitical fragmentation, sustained defence and security requirements, and accelerating technological competition. As a result, the investment gap identified by Draghi should be viewed as a **baseline rather than a ceiling**, reinforcing the urgency of a robust and durable EU-level response.

The EU budget as a strategic catalyst rather than a volume provider

Second, the scenario analysis confirms that the **EU budget cannot, by itself, close the investment gap**, even under ambitious assumptions. Across all scenarios, EU-level instruments mobilise between **10% and 30%** of the annual investment needs. This reinforces a key insight of the Draghi report: **the primary function of EU intervention is catalytic, not substitutive**. To reach the amounts set out in the Draghi report and close the gap, the EU budget would need to be strengthened through national contributions totalling between 3.3 and 10 times the EU budget contribution, depending on the scenario considered (prudent, intermediate, ambitious), in order to reach the EUR 800 billion per year.

Crucially, the analysis shows that the core challenge is **not primarily the absolute volume of public funding available**, but rather **how public instruments are designed, combined and allocated**. The effectiveness of EU action depends less on maximising headline budgetary envelopes than on **using public resources in ways that optimise risk-sharing, de-risk private investment and crowd in capital at scale**. Well-calibrated guarantees, blending mechanisms, equity and quasi-equity instruments can unlock multiples of private investment—provided they are deployed where market failures are most evident.

Leverage instruments are necessary, but not sufficient

Third, high-leverage instruments such as **InvestEU** emerge as indispensable pillars of the EU investment architecture. Their capacity to lower the cost of capital and mobilise private investment is particularly effective in **capital-intensive and technologically mature sectors**, including clean technologies, digital infrastructure and innovation ecosystems.

However, the study also confirms clear limits to leverage-based approaches. In sectors characterised by **high preference heterogeneity, strategic sensitivities or limited private returns** – notably defence, certain security-critical infrastructures and early-stage frontier technologies – leveraging private capital alone is insufficient. In these cases, **direct EU funding, grants and coordinated public investment remain essential**, even if mobilisation ratios are lower in the short term.

Prioritisation, not dispersion, as the key to effectiveness

Fourth, the findings underline the necessity of **explicit prioritisation and strategic concentration** in the use of EU budgetary resources. Given the widening gap between investment needs and feasible public contributions, spreading resources thinly across sectors risks diluting impact.

The **EPG framework** developed in this study provides a robust analytical basis for guiding such choices. It complements financial metrics with qualitative criteria – cross-border spillovers, economies of scale, resilience and sovereignty – allowing EU intervention to be justified even where short-term financial leverage is limited. The contrasted examples of **wind energy** and **AI gigafactories** demonstrate that **high strategic value does not always coincide with immediate high multipliers**, and that differentiated approaches across sectors are necessary.

The MFF 2028-2034: a necessary but incomplete response

Fifth, the proposed **2028–2034 MFF** represents a significant qualitative shift towards a more **strategic, streamlined and flexibility-oriented EU budget**, broadly aligned with the priorities set out in the Draghi and Letta reports. The reinforcement of competitiveness-related spending, the consolidation of instruments and the expanded use of financial tools all move in the right direction.

Nevertheless, the study concludes that **the next MFF, while necessary, will not be sufficient on its own** to secure Europe's long-term competitiveness. Its success will depend on:

- the **strategic allocation** of resources rather than their dispersion;
- the effective **combination of grants and financial instruments**;
- complementarity with **national investment strategies and reforms.** While meaningful additional public investments are needed to complement EU-level action, Member States' capacity to scale up national investment remains structurally constrained by fiscal rules, debt sustainability considerations and uneven fiscal space. As underlined in the Letta report, this makes the large-scale mobilisation of private capital a necessity rather than a choice. Complementarity with national strategies therefore depends on completing the **Capital Markets Union** and advancing towards a genuine Savings and Investments Union, capable of redirecting Europe's private savings towards long-term investments aligned with common EU priorities.
- and the ability to mobilise private capital at scale through credible and predictable policy frameworks.

Governance, monitoring and project capacity as enabling conditions

Finally, scaling up EU-level investment requires parallel progress in **governance, monitoring and implementation capacity**. To maximise impact, future EU investment policy would benefit from:

- strengthened monitoring of **mobilised investments and crowd in effects**, beyond headline leverage indicators;
- **impact assessments explicitly integrating additionality and EPG dimensions**;
- reinforced **project and financial engineering support**, particularly for less mature sectors and regions with limited absorption capacity.

Overall assessment

In conclusion, this study finds that **Europe's competitiveness challenge is both larger and more enduring than initially estimated**, and that addressing it will require sustained investment efforts well beyond EUR 800billion per year. In this context, the EU budget must be understood not as the primary source of funding, but as a **strategic orchestrator of investment**, maximising private mobilisation through intelligent instrument design and targeted intervention.

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ANNEX

Scoping and deep dive interviews

ANNEX Table 1: List of interviews conducted during the study

Step	Objectives	Institution	Entity / Person
Phase 1: Scoping	Align the analytical grid, confirm priorities, surface blind spots	• European Commission • European Parliament • EIB • ECB	• **Johan Van Overtveldt** – Chair of the Committee on Budgets (EP) • **Caroline VANDIERENDONCK –** Head of Unit Competitiveness, Budgetary Guarantees/Financial Instruments, STEP (BUDG- EC)
Phase 2: Deep-dives	Quantify needs, refine cost and leverage assumptions, test feasibility by sector	• European Commission	• **Philippe Chantraine** – Head of Unit Transport Investment – DGMOVE • **Patrick HAMILTON** – Head of Administration – EUSPA • Asa JOHANNESSON LINDEN – Senior Expert – DGECFIN • Quentin DUPRIEZ – Senior Expert – DGCLIMA
Phase 3: Scenario validation	Stress test financing scenarios, trade offs and sequencing (2028–2034)	• European Commission • EIB	• **Stéphane Saurel** – Deputy Permanent Representative of the European Investment Bank (EIB) • **Ekaterini Kavvada –** Secure & Connected Space – DGDFIS

Additional DGs have been contacted but no response has been received to date.

This study was provided by the Budgetary Support Unit at the request of the Committee on Budgets with the aim of examining the investment needs identified in the Draghi and Letta reports and their implications for the EU budget. It examines how the strategic orientations and quantified investment gaps set out in these two reports are reflected in the European Commission's proposals for the 2028-2034 Multiannual Financial Framework (MFF) and assesses the potential contribution of EU budgetary instruments in addressing Europe's competitiveness, resilience and strategic autonomy challenges.