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BETWEEN PUBLIC DEFICITS AND ESSENTIAL INFRASTRUCTURE INVESTMENT IN EUROPE: WHAT FINANCING MODELS?

Among Europe's many strategic dilemmas, the state of public finances is not the least pressing. We often hear that we are living beyond our means or that Europe lacks the resources to match its ambitions. The reality is likely even harsher: we face major investment needs, yet the state of public finances in Europe no longer allows us to systematically address them using the mechanisms of the past. After the Second World War, thanks to the Marshall Plan and because public investment fuelled significant economic growth, we were able to modernise our infrastructure and establish a virtuous cycle of growth. Today's situation bears little resemblance to that era: growth is weak, Europe's demographics are stagnant, and industrial output has sharply declined. All of this compels us to rethink our investment mechanisms.

1. Today's Europe: A Deteriorating Macroeconomic Landscape Amidst Soaring Financing Needs

First, we must grasp the scale of Europe's infrastructure financing requirements. Drawing on various sources [1] and limiting our scope to four sectors (transport, energy, digital, water-health-education) while excluding two critical areas (housing and defence) we estimate a total need between €2 trillion and €2.8 trillion over the next five years. This rough estimate, valid as of 2026, does not account for the additional costs incurred by delays. A significant portion of these investments aims to address climate change: both adapting infrastructure to its impacts and funding the transitions needed to mitigate the crisis. In other words, delaying investment creates a dual mechanical effect of rising costs. Simply put, what we fail to do now will have to be done later at a higher price, with no guarantee that our financial position will have improved.

We repeatedly hear that public resources are in decline. Here, too, figures help clarify the situation. At the European level, three key indicators are useful: the annual public deficit, the cumulative public debt (which must be measured against GDP, now significantly higher), and the compulsory levy rate. To maintain a roughly consistent scope and account for the EU's geographical expansion [2], the data is limited to the 15 countries that have been EU members since 1995 i.e., before the eastern enlargement. The figures again reveal major trends.

In the 1980s, public debt in the EU-15 stood at 30-40% of GDP, with two outliers—Italy and Belgium—posting far higher ratios. By the 2000s, these ratios had risen significantly across the same group, reaching ~65% of GDP. By 2025, with persistent deficits, public debt in these countries had climbed to ~95% of GDP. The accumulation of these deficits led to an 11-fold increase in public debt, from roughly €1.2 trillion in 1980 to €13.5 trillion over 40 years (in constant euros). For the entire EU, the total exceeded €15 trillion in 2025.

The macroeconomic picture would be incomplete without considering the rise in compulsory levy rates, which increased from ~35% of GDP in the 1980s to over 40% today, with relative stagnation since the early 2000s. This average masks strong national disparities and inequalities in the distribution of these levies. Nevertheless, it seems unlikely that this already high level leaves much room for further increases.

Finally, private savings have grown substantially during this period. Estimated at €600 billion in the 1980s (12% of disposable income), they reached over €2.65 trillion in 2025 (15% of disposable income).

We can thus echo the Governor of the Banque de France's annual letter for 2026, generalising it to the European level: "Europe has poor public finance but strong private finances"[3]. One conclusion is clear: public finance alone cannot address the investment deficit. Yet, in the face of the climate crisis, it is more urgent than ever to direct structural investments towards these needs.

2. What is to be done?" was asked at the dawn of the 20th century; "How is it to be done?" is the question of the 21st

The needs are well identified, political will is often declared, and private liquidity exists—but the pieces struggle to fall into place because the risk-return balance is not always there. When it is, it sometimes comes at the cost of privatized profits and socialized losses. This stems from the fact that the negative externalities of underinvestment are not accounted for—or, more precisely, they are considered by public authorities but not by private investors, who

are primarily remunerated based on project-specific risks (financing, construction, operational...). The private sector lacks real incentives to prevent underinvestment in infrastructure.

To address this growing tension between needs and available means, it is increasingly clear that financial instruments must combine participants from different spheres: public, private, and hybrid actors such as National Public Banks and Financial Institutions (NPBIs). We have already highlighted [4] the essential role of the latter in mobilising savings and directing them towards projects of general interest. The scarcity of public financial resources inevitably leads to prioritisation of projects, which has a double negative effect. On the one hand, projects are not delivered on time. On the other hand, delayed projects incur higher costs. Those who believe that establishing priorities and sequencing funding is sufficient are mistaken. The reason is simple: what is not done today will cost more tomorrow. What appears to be savings or smart time management turns into additional costs. This is the so-called "tragedy of the horizon", as described by Mark Carney, then Governor of the Bank of England, in 2015 [5].

It is clear that, under these conditions, we must change scale to meet current challenges. This requires fostering the implementation of legal and financial tools, at both national and European levels, which—thanks to a powerful leveraging effect—ensure the mobilization of these actors and thus enable the simultaneous financing of essential infrastructure projects for Europe's economic transformation.

The debate on financing models for major infrastructure projects illustrates this difficulty. Broadly speaking, there are three main types of public contracts that can be used: global public contracts, partnership contracts (or PPPs), and concessions. Public ownership of the project is retained only in the first case. The global public contract, financed solely by public funds, long offered a significant advantage: the debt issued by European states was cheaper than private debt. But times have changed. The scarcity of public funds and the increase in total public debt have narrowed this gap, and other drawbacks have become more pronounced. These include the risks of budgetary "stop-and-go" policies, delayed payments by the public sector, and extended timelines. While public financing still offers a major advantage, eliminating the need to remunerate shareholders of construction and infrastructure management companies, it no longer allows for rapid, low-cost, and simultaneous execution. In short, it forces choices to be made, ultimately significantly increasing the total cost of financing all infrastructure needs. To break out of this budgetary and financial deadlock while maintaining political direction, it is necessary to bring public and private financing closer together. Europe has a role to play here.

European financing for infrastructure rarely covers the full cost but often provides major incentives for implementation. We know the European Investment Bank (EIB)'s capacity to provide loans to help close funding gaps, but Europe can go further by promoting mixed financing—whether through Public-Private Partnerships (PPPs), concessions, or other forms of public contracts. By encouraging member states to adopt these instruments, Europe would fulfil a dual role: first, by relieving the public finances of its states, and second, by providing an indispensable boost to infrastructure projects, which are the bedrock of European construction.

Beyond political will, three conditions must be met to create this new dynamic. First, we must avoid past mistakes, which can be achieved by upskilling public actors who are better equipped to draft specifications and evaluate responses. Second, Europe must better account for the cost of inaction and accumulated delays. This requires a more comprehensive integration of negative externalities in comparisons between different models. Finally, we must facilitate access to private financing by limiting the costs imposed by prudential banking rules that do not always reflect the lifespan of assets.

Europe therefore has two key actions it could usefully take. First, it could establish dedicated infrastructure financing mechanisms that would benefit from a premium whenever they involve private actors in financing. Second, it could continue refining accounting and prudential rules, no longer treating them as static but as tools to guide useful investments and those that generate positive externalities.

On both fronts, Europe has shown it can evolve—now it must accelerate, and it must do so now!

Footnotes:

[1] See EIB, European Commission, International Energy Agency, OECD.

[2] In 1995, the EU comprised 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. They became 25 in 2004, then 28 in 2013, and finally 27 after Brexit.

[3] Letter to the President of the Republic, Villeroy de Galhau F., 4 May 2026.

[4] Long-term investment, the cornerstone of a decarbonised, sovereign, and competitive Europe, Attali B., Derdevet M., Zylberberg L., 3 January 2023.

[5] Breaking the tragedy of the horizon - climate change and financial stability - speech by Mark Carney, 29 September 2015.