# Infrastructure Research

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# Infrastructure Update: Transforming Europe's Competitiveness

IN A NUTSHELL

- Europe's long-term attractiveness as an infrastructure market is rapidly being complemented by governments in the region addressing competitiveness issues in the context of a less certain geopolitical environment, and reduced confidence in the US as an infrastrcture investment destination.
- Policymakers in Europe have set out a range of reforms and policy developments to remove structural competitiveness barriers and develop strategic sectors in clean energy, industry, defence, and the digital spheres.
- In addition to policy improvements, there is also more capital set to flow into the European infrastructure market, with notable commitments from the EU, French and German governments to significant additional funding to leverage in private sector investors into improving European infrastructure. Germany also amended its Constitution to achieve climate neutrality by 2045, giving strategic underpinning for clean energy investment.
- Through the stimulation of the wider European economy given higher levels of investment, as well as greater support for private capital's role in infrastructure development, investors are likely to look more favorably on the dynamics in the European region given uncertainty elsewhere in the world.

## European Reaction to External Pressures & Internal Challenges

European infrastructure markets are likely to be key beneficiaries of the growing momentum within the region's response to a number of challenges, both internal and external. More targeted and efficient European Union funding packages for energy, infrastructure and digital sectors, lower bureaucracy and reporting requirements for businesses and removing barriers to pan-European entities' operations are all under development, as well as consequential shifts in attitudes to spending and investment. Germany's EUR500bn infrastructure investment (including EUR100bn for climate) is particularly noteworthy, given Germany's historic reluctance to take on more debt.

The combination of shifts in both trade and security relations with the United States and growing security risks from Russia has prompted a greater recognition that the EU and European governments needs to do more. DWS analysts have been writing about Europe's Transformation[1] since 2022 and as seen during the 2022 energy crisis, Europe has a track record of

[1] DWS European Transformation Research Hub 2025,

positive policy development when facing external pressure; REPowerEU – the policy response to the Russia-Ukraine conflict's impact on energy markets – now forms a central pillar in European energy policy. One of the major drivers behind the current momentum in European policy making is the long-standing issue of European competitiveness needing more urgent attention in the context of a more volatile relationship with the United States. The Trump administration has enacted a number of policy measures and trade tariffs which both cast doubt over the future trajectory of US economic and infrastructure policy, but also have encouraged European policy makers to react and address long-standing investment barriers.

We have previously highlighted the strengths of exposure to the European infrastructure market within an infrastructure allocation[2] and Europe's private market investment appeal within a Strategic Asset Allocation[3]. We also previously analysed highlighted that strong infrastructure fundraising into ever-larger Core/Core+ funds risks underfunding smaller, innovative infrastructure businesses, crucial for the energy and digital transitions, which at the same time offer access to potentially higher returns for investors[4]. In our view, Europe offers the deepest and most diverse asset base for private investors, with businesses operating in a stable and well-rounded regulatory environment, and the region's complexity offers the ability to access deals at attractive valuations. However, this attractive combination of factors has been complimented over the first quarter of 2025 with several developments with potentially positive implications for infrastructure investors.

[2] DWS Infrastructure Research, Infrastructure Strategic Outlook, July 2023
[3] DWS, Europe's Investment Appeal, November 2024
[4] DWS, Infrastructure's Missing Capital, November 2024

**Table 1: Major European Union Policy Announcements, 2025**

| Policy Development | Key Takeaways & Timelines | Potential Infrastructure Benefits |
|---|---|---|
| EU Competitiveness Compass[5] (January 2025) | • Builds on suggestions of Draghi Report (October 2024).<br>• The document is the Commission's strategy document laying out their agenda for the next five years. Objectives include:<br>  o Improve the EU's business environment with simplification and lowering barriers to the Single Market.<br>  o Industrial policy to promote clean tech and industrial capacity in security-sensitive sectors and the decarbonisation of energy-intensive industry;<br>  o Public-investment push, particularly in energy and digital infrastructure. | • Greater ability to create pan-European businesses<br>  o Focus on removal of remaining intra-EU Single Market barriers – particularly around the logistics market.<br>  o Simplified EU rules – a 28th legal regime<br>  o Revised guidelines for mergers and acquisitions<br>• Investment into strategic infrastructure sectors, with future policy and legislation announcements (several of which are detailed below)<br>  o Renewable assets to benefit from expanded use of guarantees, PPAs, better designed tariffs to support affordable energy.<br>  o Digital Networks Act likely will drive investment into data centres, fibre and 6G<br>  o Support for implementing AI across key sectors, boosting demand for data services.<br>  o Targeted state aid to be permissible for decarbonisation<br>  o Sustainable Transport Investment Plan (charging infrastructure and low-carbon fuels). |
| InvestAI[6] (February 2025) | • Aims to mobilise EUR200bn across EU, national and private sector investment for developing the European AI ecosystem.<br>• Builds on focus of EU Competitiveness Compass by supporting the scaling of AI businesses, talent pool. | • EUR20bn to invest in PPPs for AI gigafactories (1GW+ capacity data centres). Mostly targeting hyperscale AI model training data centres.<br>• Multiple initiatives that will support the need for data centres outside of gigafactories, i.e:<br>  o Support AI start-ups and scale-ups with VC or equity support<br>  o Common European Data Spaces to train and improve models<br>  o GenAI4EU to support novel use cases in robotics, health, manufacturing, transport etc.<br>  o Apply AI to drive industrial adoption of AI in key sectors |

[5] European Commission, A Competitiveness Compass for the EU, January 2025
[6] European Commission, InvestAI, February 2025

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| Clean Industrial Deal[7] (February 2025) | • Aims to turn decarbonisation into a growth opportunity rather than cost burden.<br>• Support for decarbonisation of energy-intensive sectors e.g. steel, metals, chemicals<br>• New state aid framework to accelerate renewables, decarbonise industry, develop clean manufacturing.<br>• Complete the internal EU energy market through investment in interconnections.<br>• European manufacturing preference criteria for procurement in strategic sectors.<br>• Circular Economy Act to enshrine materials circularity target of 24% by 2030. | • European renewables developers likely a key beneficiary of more streamlined process to develop assets and integrate greater energy storage/interconnections.<br>• Energy efficiency, low-carbon alternative fuels and electrification businesses to benefit from greater demand and EU public support for large industrial companies.<br>• Potential benefits to transport and logistics assets are more equipment manufacturing to take place within Europe.<br>• Waste processing, recycling and bio-energy assets to continue to benefit from greater requirements to reduce waste. |
| Affordable energy action plan[8] (February 2025) | A number of actions (many of which aim be delivered in 2025), including:<br>• Aiming to help reduce bills by ensuring network charges incentivise efficiency and working with Member States to reduce electricity taxes<br>• More long-term contracts, energy flexibility, faster permitting<br>• Increase offers of financing solutions of energy efficiency<br>• Demand side flexibility incentives to reduce peak energy demand | • Reducing taxes on electricity and energy efficiency financing support, should improve the incentive for heat pump and electric vehicle adoption<br>• Faster permitting and long-term contracts would support more renewable power investment<br>• Demand side flexibility could create 'revenue for retrofits' |
| EU Omnibus[9] (February 2025) | • Proposed changes to EU laws on sustainability reporting, diligence, and trade.<br>• Focus on CSRD, CSDDD, and CBAM (carbon border tax).<br>• Estimates suggest an 80% reduction in the number of companies captured by CSRD standards, based on revised criteria.<br>• Exclusion of smaller importers to EU of carbon intensive products (90% of participants) from CBAM scope while still covering 99% of emissions.<br>• Substantial reduction in the number of datapoints to be mandatory for corporate disclosures in future . | • Lower CSRD reporting burden for assets/businesses with fewer than 250 employees.<br>• EU carbon prices likely to rise significantly from 2026 as Carbon border tax (CBAM) starts, increasing incentive for industrial decarbonisation investment |

[7] European Commission, Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation, February 2025
[8] European Commission, Affordable energy action plan, March 2025
[9] European Commission, Sustainability and Investment Omnibus, February 2025

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| Savings and Investment Union[10] (March 2025) | • Proposal in Q2 to reform securitisation framework<br>• Increase retail investor participation in capital markets, including with financial literacy support, development of auto-enrolment pension products, incentives for long-term investment products toward EU priorities<br>• Reform Solvency II delegated act to improve insurers' incentive to allocate to long-term equity investments, with similar clarification for pension funds<br>• EU will encourage EIB to help facilitate investors exiting private companies and develop measure such as multilateral intermittent trading of private company shares<br>• EU will develop more harmonised approach to ownership of investments and fund structures<br>• EU will remove remaining barriers to the distribution of EU authorised funds across the EU and reduce operational barriers facing asset managers | • Helping shift the EUR10 trn held as bank deposits into investment products could create flows of EUR 350bn annually: potential funding for infrastructure funds and investments.<br>• Potential improvement in insurers and pension funds' ability to make infrastructure, PE and venture capital allocations<br>• Higher cross-border tax certainty and ability to distribute funds, would be beneficial |

Source: DWS Infrastructure Research, European Commission, March 2025.

One of the themes running throughout recently proposed changes to EU policy is the centrality of private capital in enabling the key goals that have been outlined. There is additional capital at the EU-level being made available to support these initiatives which may help to leverage investors into certain infrastructure sectors, although the focus is more on creating a sustainable flow of private capital into the European economy by making investing in infrastructure (and the wider economy) potentially a more attractive and streamlined proposition. The Draghi report[11] and the DWS European Transformation initiative[12] have both highlighted the significant capital requirements up to 2030 to achieve the EU's goals. Within the proposed Competitiveness Compass, there is a significant focus on achieving a more integrated capital markets union and developing a strategy for a Savings and Investment Union – a prospect which would continue to trend for the so-called 'democratisation' of the infrastructure asset class as it opens to more retail capital. While similar ambitions have previously failed to create a fully integrated capital markets union in Europe, any more efficient mobilisation of Europe's private capital markets should address give a significant boost to the region's infrastructure market. Likewise, a focus on more effective and streamlined deployment of EU grants, loans and subsidies, as proposed in aspects like the Clean Industrial Deal, would help to address one of the key challenges to Europe's attractiveness to international capital, which has been complex and bureaucratic processes for infrastructure compared to the direct financial incentives on offer in the US clean energy infrastructure market through the Inflation Reduction Act.

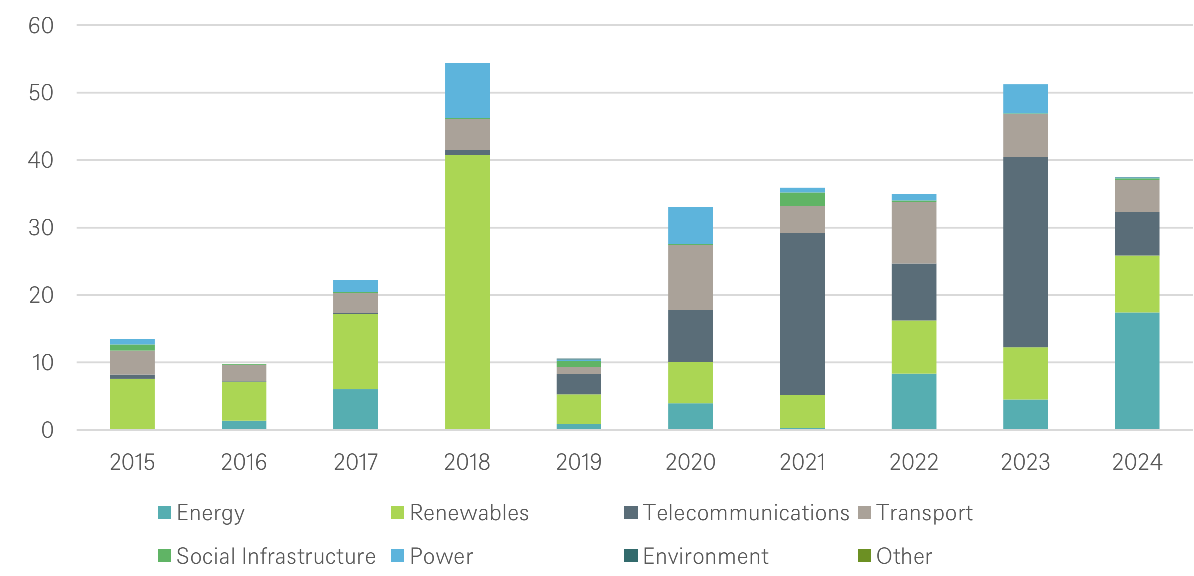
[10] European Commission, Savings and Investment Union, March 2025
[11] European Commission, Future of European competitiveness, September 2024
[12] DWS, European Transformation Research Hub, 2025

## Investment Levels expected to Increase, notably in Germany

In addition to the recent policy developments, there has also been a complementary shift in attitude towards higher levels of investment in Europe. At the EU level, the potential to mobilise over EUR800bn towards defence spending will potentially have spillover impacts on the infrastructure market, both through boosting demand in the wider economy, but also by creating opportunities in sectors like leasing, facilities management and logistics, delivered through public-private partnerships (PPP).

However, there has also been more directly impactful announcements for the European infrastructure market. In February 2025, France announced a broad EUR200bn push for AI investment, inclusive of both data centre and semiconductor production assets. More recently, attention has been directed towards Germany. Negotiations within the political parties likely to form the next German coalition government have yielded a significant shift in policy stance towards debt. On March 18, the Bundestag voted to approve a seismic shift in German government spending policy, including essentially nullifying the long-standing 0.35% of GDP debt limit for spending on defence, as well as the creation of a EUR500bn infrastructure fund. This has now been approved by the Bundesrat, meaning that regardless of the outcomes of the ongoing coalition negotiations, the fiscal room to create the infrastructure fund is a given. Over 2024 nearly EUR40bn of private market infrastructure deals were closed in Germany[13], making the annual quantum of capital set to be deployed through the new fund significant.

Figure 1: Value of Closed Infrastructure Transactions, Germany (EURbn)




Source: Infralogic, March 2025.

[13] Infralogic, March 2025

Details on how the infrastructure funds will be deployed are still to be confirmed, but key takeaways include:

– Total vehicle size: EUR500bn raised in off-budget funds to be spent over a 12-year period (EUR40bn per annum)
– EUR100bn of this will be allocated directly to the German states, EUR100bn for climate protection and the remaining EUR300bn will be directed by the federal government.
– Major focus will be on infrastructure renewal (more traditional infrastructure assets like road and railway upgrades and repairs) and municipal infrastructure investment (local heating, energy and water infrastructure, telecommunications, schools, universities, and hospitals).
– In addition, the energy is a large winner, with the Climate and Transformation Fund (KTF) being endowed with the EUR100bn for achieving climate neutrality by 2045 (now enshrined in the German constitution). In addition to grid investments and further renewables deployment, this should also see increased capital availability for energy efficiency, EV charging infrastructure and hydrogen.

While the increased fiscal firepower emerging in European markets is a net positive for infrastructure markets, there are number of considerations. Before governments like France and Germany are able to deploy capital at scale into their economy, we note that – while in line with the more open position of the EU towards state aid in strategic sectors – some markets which do not have the fiscal headroom to inject capital at scale may push back and challenge the investment plans, highlighting the distorting effect on the single market it may have. Similarly, much EU-level policy developed in recent years for the infrastructure sectors have looked to increase private sector investment into infrastructure and thus flooding the market with public money potentially risks crowding out private capital.

It is likely that much of the additional capital from the German fund will be deployed into what would be considered large-cap, Core infrastructure – particularly in the transport sector, where there is less of a role for the private market outside of PPPs. However, to deliver investment across areas such as decarbonisation in transport, industrial energy efficiency, EV charging infrastructure, digital infrastructure and to meet renewable energy targets, the funding could potentially be deployed to crowd-in further private capital into these sectors, given this part of the infrastructure market is more commercial in nature with private companies active in such segments. For the German infrastructure market, German government bond yields have risen as a result of the anticipated increase in debt issuance, potentially increasing the expected return on German private infrastructure assets.

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