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Imbalance of State Aid in the European Union

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Key Figures

EUR 187 billion – total state aid expenditures by EU Member States in 2023, equivalent to **1.09% of the EU GDP** and surpassing the annual EU budget (EUR 169 billion)

In 2023, state aid spending was **43%** higher than in 2019, the last pre-pandemic year, when it totalled **EUR 131 billion**

48% – Germany's share of expenditures under the TCTF mechanism in 2022–2023. During the same period, its share of total state aid stood at **30%**

3737 – Herfindahl–Hirschman Index (HHI) value for notified state aid in the fields of environmental protection and energy savings in 2023. By contrast, the corresponding HHI for Member States' share of EU GDP was 1230

EUR 9.3 billion – state aid approved by the European Commission in 2024 under the IPCEI mechanism, supporting investments across several Member States

Key Conclusions

- **State aid granted to businesses in the EU is distributed unevenly. In 2023, France and Germany together accounted for 47% of all state aid disbursed in the EU, and in 2022 this figure reached 52%**. Under a single post-invasion programme - the Temporary Crisis and Transition Framework (TCTF) - Germany alone provided 48% of all state aid to its domestic firms.

- This results from a state aid system reliant on individual Member State actions rather than coordinated mechanisms at the EU level. **Direct government subsidies encourage a race for support among countries and enable firms to negotiate more favourable terms by leveraging cross-border competition**. Coordinating such funding at the EU level could mitigate this risk.

- **An effective analysis of state aid impact must also account for sector-specific disparities**. In several sectors, particularly those vital to economic growth, discrepancies are markedly greater than at the aggregate level of aid across the internal market. Imbalances in these areas may significantly hinder equitable development across Member States.

- **The new Clean Industrial State Aid Framework (CISAF), adopted by the European Commission on 25 June 2025, will not fundamentally overhaul state aid mechanisms in the EU**. CISAF will partially extend the TCTF, which was launched in 2022 to address the consequences of Russia's invasion of Ukraine and to support the transition toward a low-emission economy. While TCTF pursued both objectives, CISAF will focus solely on the latter. Its implementation may further exacerbate disparities in the allocation of state aid, especially since both TCTF and aid earmarked for environmental protection and energy efficiency (closely aligned with CISAF) have **shown the greatest degrees of imbalance**.

- **An additional risk to the single market arises from Germany's potential fiscal expansion**. This poses a particular concern for Poland, which faces more limited fiscal capacity to support its industrial sector. The uneven growth of subsidies could undermine Poland's efforts to move up the value chain.

- **Nonetheless, the current international context makes continued support for European businesses indispensable**. Maintaining relaxed state aid rule or introducing alternative support mechanisms appears unavoidable. However, it is essential to embed safeguards that prevent the further deepening of internal imbalances. **Consideration should also be given to reinforcing instruments that facilitate investment projects spanning multiple Member States**.

- **Enrico Letta's proposed solution - introducing levies on excessive state aid - offers a potential means of financing initiatives that are crucial to the integrity of the single market or target under-supported regions**.

State Aid in the EU

- **The EU single market is founded on the principles of free competition and minimal state intervention in the economy**. For years, competition policy aimed to ensure equal conditions for companies and Member States. In recent years, however, these principles have been progressively loosened - initially due to the pandemic, followed by Russia's invasion of Ukraine, and more recently as a response to intensifying global tensions. Competitive pressure from China and the United States has compelled the EU to increase state support for businesses, resulting in a more flexible approach to state aid and the evolution of its regulatory mechanisms (Ilnicki et al., 2023).

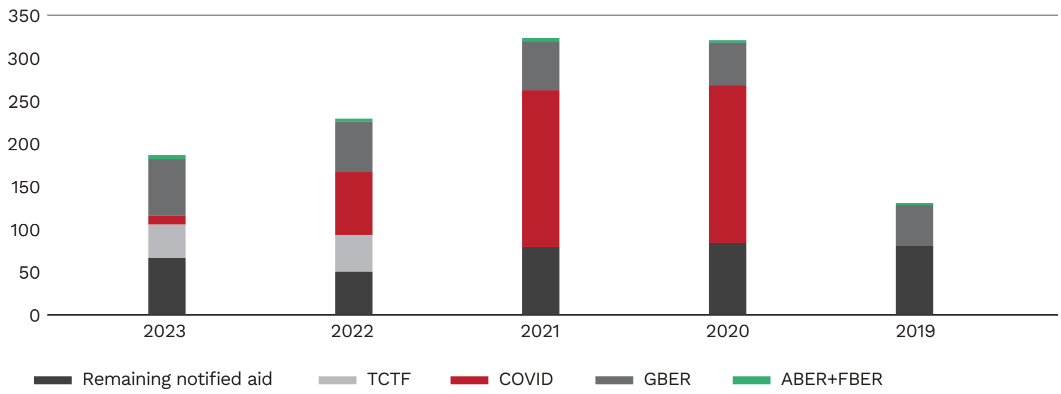
- **The EU's state aid system is built on three pillars: de minimis aid, non-notified aid, and notified aid**. De minimis aid allows Member States to provide support of up to EUR 300,000 per company over a three-year period without prior approval from the European Commission. Member States are also not obliged to report the utilisation of this aid, which complicates comprehensive EU-level analysis. In 2023, Poland granted more than **PLN 10 million** in de minimis aid.

- Non-notified aid, governed by the **General Block Exemption Regulation (GBER)**, enables Member States to award support without advance Commission approval, provided the Commission is notified afterward. In 2023, **EUR 65.78 billion** was disbursed in this manner. An additional EUR 4.69 billion and EUR 65.8 million were granted under the Agriculture Block Exemption Regulation (ABER) and Fisheries Block Exemption Regulation (FBER), respectively.

- **Notified aid encompasses two mechanisms**. The first is based on EU guidelines such as CEEAG, RDI, RAG, and IPCEI, under which **EUR 66.24 billion** was granted in 2023. The second is the **Temporary Crisis and Transition Framework (TCTF)**, introduced in 2022 as a response to the effects of Russia's invasion of Ukraine. The TCTF remains in effect through the end of 2025 for measures supporting the transition to a zero-emission economy. In 2023, **EUR 39.45 billion** was allocated under the TCTF.

- While notified aid permits more substantial support than non-notified mechanisms, it is generally associated with a significantly longer period awaiting a decision by the European Commission, often extending over **several months**. The TCTF bridged this gap by enabling broader state aid disbursement while reducing the Commission's decision-making timeframe to just **three weeks**. Data from 2023 suggest that all three types of state aid (for which data are available) played similarly important roles.

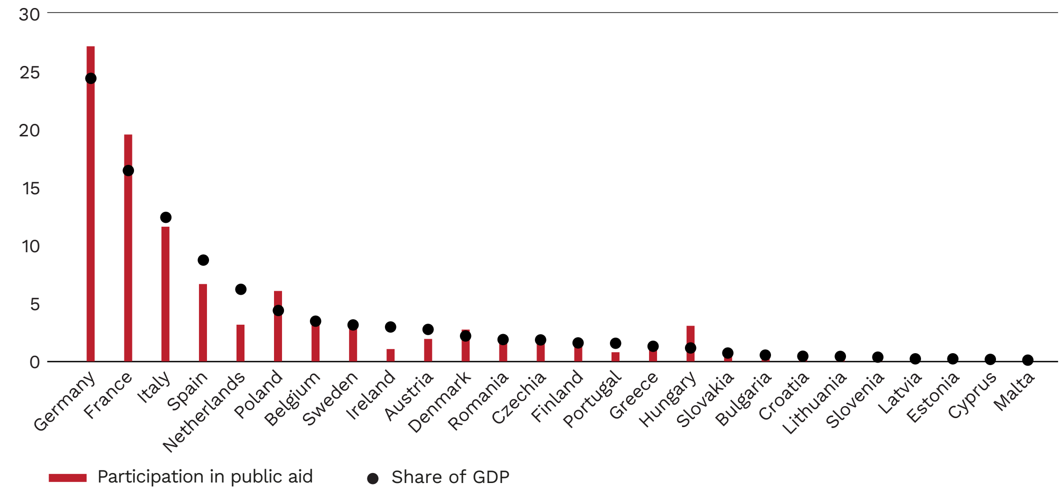
Figure 1. State aid in the EU by mechanism (in EUR billion)



Source: Prepared by PEI based on Scoreboard State Aid data.

In 2023, the largest recipients of state aid were companies from Germany (EUR 50 billion; 27% of total aid), France (EUR 36 billion; 20%), and Italy (EUR 21 billion; 12%). Poland allocated EUR 11 billion (6%). Notably, the rise in Poland's share of total EU state aid in 2023 was largely driven by spending aimed at mitigating disruptions in the agricultural market following Russia's invasion of Ukraine. In 2022, Poland's share of EU state aid expenditure stood at just 2.8%, while Germany accounted for 32%.

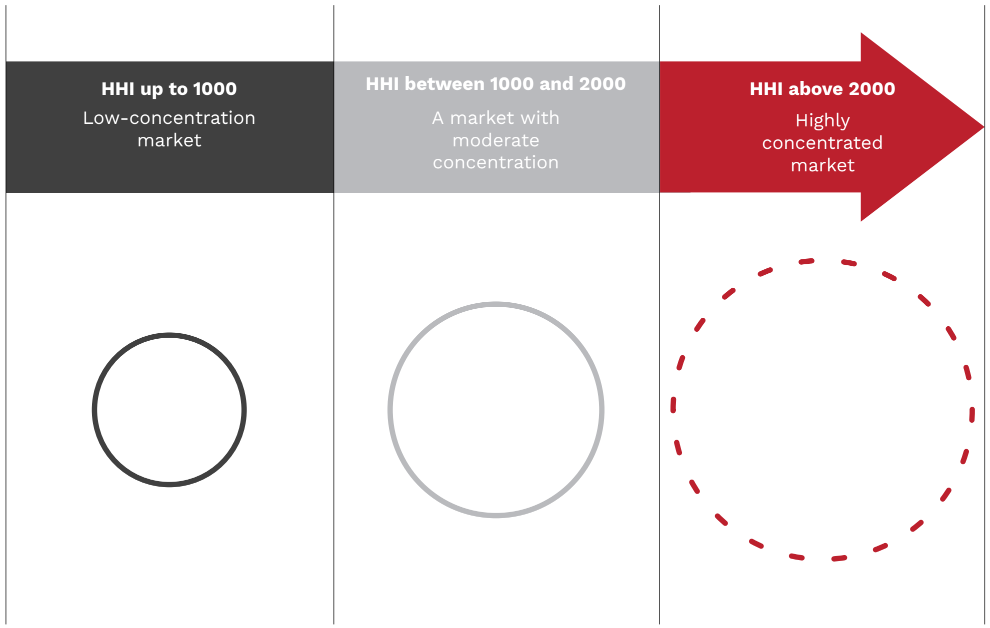
Figure 2. Member States' share of state aid expenditure and GDP in 2023 (in %)



Source: Prepared by PEI based on Scoreboard State Aid data.

New Mechanism May Exacerbate Imbalances

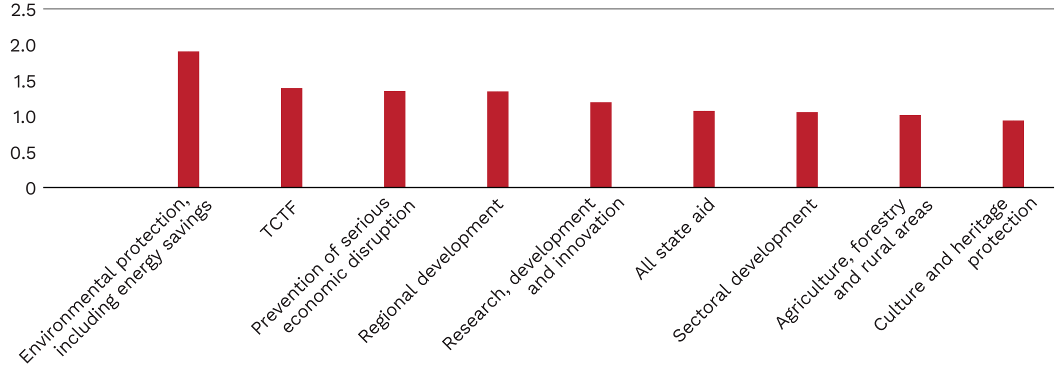
- In response to geopolitical challenges, the European Commission is introducing a new state aid mechanism - **the Clean Industrial State Aid Framework (CISAF)**. It is intended to replace the **Temporary Crisis and Transition Framework (TCTF)** and will build on its experience. While the TCTF aimed both to counteract the consequences of Russia's invasion of Ukraine and to support the transition toward a low-emission economy, CISAF focuses exclusively on the latter. However, its introduction poses significant risks to the balance of state aid within the EU. The greatest threat to the internal market may stem from the potential to reduce industrial energy prices, though the impact will depend heavily on the practical implementation of authorisations. While the European Commission analyses the effects of state aid based on internal market-wide data, the most serious imbalances are found at the sectoral level, particularly in sectors critical to energy transition.



- This imbalance can be estimated using a concentration measure, specifically, the **Herfindahl–Hirschman Index (HHI), whose formula is provided in the annex**. The index is calculated for Member States' state aid expenditures and compared to a corresponding HHI based on their share of the EU's GDP. When the HHI for state aid significantly exceeds that for GDP, it suggests that the largest economies are spending disproportionately more than their relative economic weight in the Union would imply. For overall state aid expenditures, this divergence is modest: **in 2023, the HHI for state aid stood at 1393, compared to 1230 for GDP**. However, the picture changes considerably when examining specific aid categories.

- In the category of **'Environmental protection and energy savings'** - the one most closely aligned with the scope of CISAF - the **HHI rose to 2146** between 2020 and 2023, and under the **TCTF for that same category, reached as high as 4243**. In 2023, among the categories receiving the largest volumes of funding, the HHI for environmental protection was 2480, while the next most concentrated category, 'Addressing serious economic disturbances', recorded a value of 1758. This indicates that the area where the European Commission intends to further relax state aid rules is one of the most unequal and concentrated within the EU's entire public support structure.

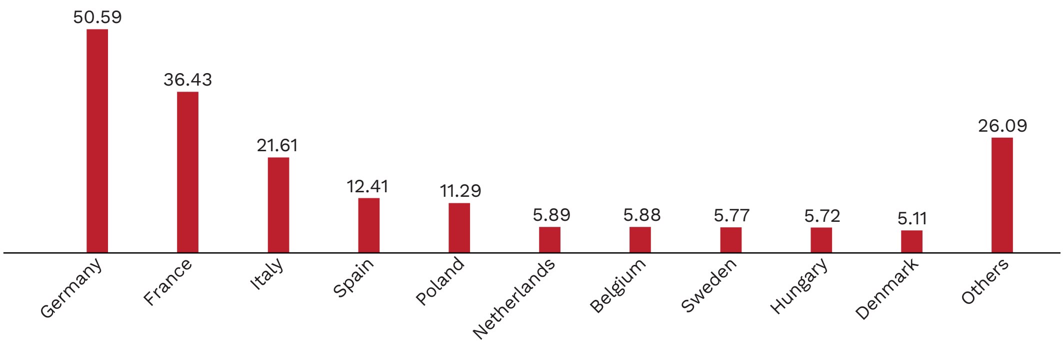
Figure 3. Ratio of HHI for the largest state aid categories to the GDP-based HHI in the EU, 2023



Source: Prepared by PEI based on Scoreboard State Aid data.

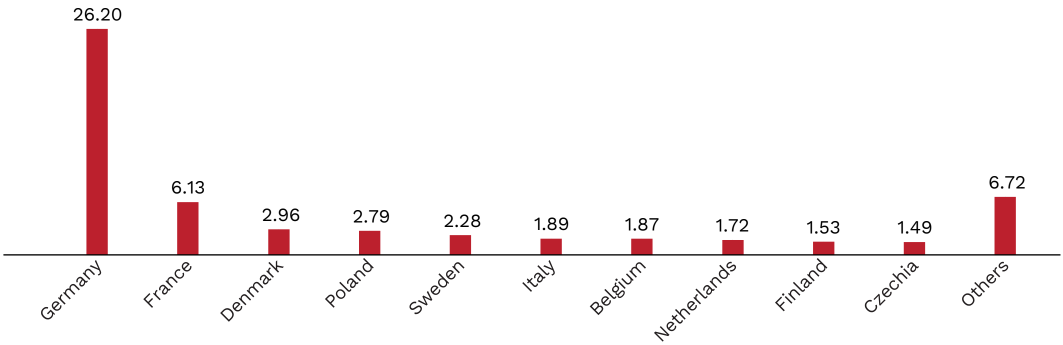
- **Between 2022 and 2023, Germany accounted for 48% of expenditures under the TCTF mechanism**, while its share of total state aid was 30%, and its share of the EU GDP stood at 24%. Germany's likely fiscal expansion, and the more limited capacity of other Member States to offer comparable support, creates a risk of growing disparities within the EU single market.

Figure 4. State aid expenditures in 2023 among the top 10 spending Member States (in EUR billion)



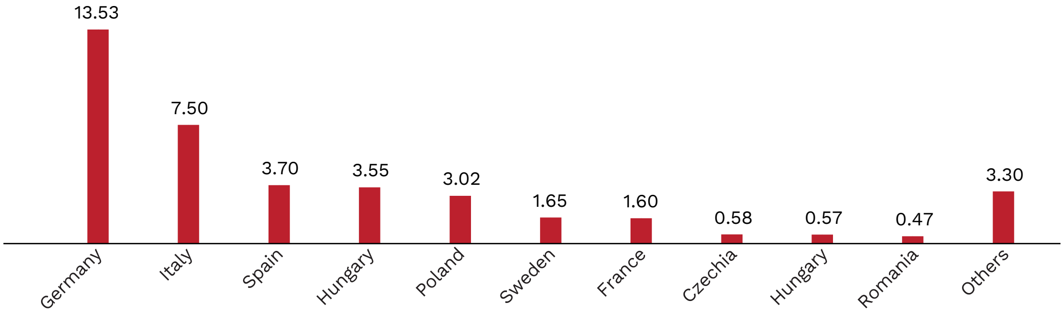
Source: Prepared by PEI based on Scoreboard State Aid data.

Figure 5. State aid in the category of 'Environmental Protection and Energy Savings' in 2023 among the top 10 spending Member States (in EUR billion)



Source: Prepared by PEI based on Scoreboard State Aid data.

Figure 6. State aid under the TCTF mechanism in 2023 among the top 10 spending Member States (in EUR billion)

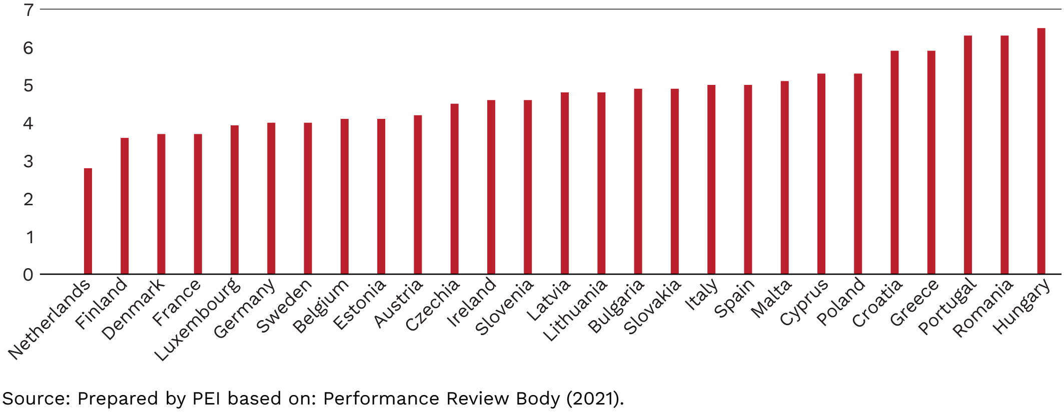


Source: Prepared by PEI based on Scoreboard State Aid data.

Inequality in Access to Capital

Beyond sectoral disparities in state aid, another critical yet often overlooked issue is **the inadequate consideration of capital costs**. It is precisely in environments with elevated capital costs that state aid is most warranted - enabling the financing of projects that, in other countries, would attract market-based investment without public intervention. In the current context, companies operating in Member States with less developed capital markets frequently face structural barriers to raising private capital. At the same time, they must compete with foreign firms that benefit not only from robust public support but also from easier and cheaper access to private financing. This asymmetry in capital access is reflected in the **Weighted Average Cost of Capital (WACC)**, with lower WACC values indicating more favourable conditions for private funding. An EU-wide analysis of WACC reveals that countries enjoying the greatest access to capital such as France and Germany are also those making the most extensive use of state aid. This underscores the need for the European Commission to consider WACC more systematically in its assessment of national state aid schemes. Rather than relying solely on investment gap estimates, WACC should be integrated into the broader risk evaluation of potential distortions to the single market. For example, incorporating WACC into the Herfindahl–Hirschman Index (HHI) calculation increases the 2023 HHI value for notified aid in the category of 'environmental protection and energy savings' from 3737 to 5103, highlighting the scale of underlying financial asymmetries.

Figure 7. Estimated WACC values for EU Member States in 2023



Source: Prepared by PEI based on: Performance Review Body (2021).

The Need to Strengthen Cross-Border Projects

- The growing inequality in the use of state aid can be addressed by **promoting projects jointly implemented by several Member States**. Currently, such initiatives are pursued in the EU through the **Important Projects of Common European Interest (IPCEI)** instrument. Between 2018 and 2024, the European Commission approved **EUR 37 billion** under this mechanism for 335 projects across 22 Member States. This is not a particularly impressive figure, especially when compared to the EUR 187 billion in state aid disbursed across the EU in 2023 alone. Strengthening the IPCEI mechanism should incentivise Member States to distribute supply chain investments more broadly across the Union. This could be achieved by introducing EU budget co-financing for IPCEI projects. Alternatively, a contribution-based mechanism could be established for Member States willing to allocate more state aid than their share of the EU's GDP—providing targeted funding for investments within the IPCEI framework. Such a proposal was put forward by Enrico Letta in the course of preparing his report on the future of the single market, in which he underscored the market distortions caused by state aid. The suggested levies or contributions would reflect the degree of imbalance between the amount of aid granted by a given Member State and its share in the EU's overall GDP. This issue is particularly timely, as proposals to expand the IPCEI mechanism are also included in the so-called Draghi Report (2024). In response to growing geopolitical pressures, Mario Draghi advocates broadening the IPCEI's scope to cover all forms of innovation that can propel Europe toward the technological frontier in strategic sectors—such as renewable energy, clean technologies, biotechnology, telecommunications, and the defence industry. Expanding the definition in this way would enhance the instrument's attractiveness compared to nationally led projects.

Methodological Annex

- **Formula for the Herfindahl–Hirschman Index (HHI):**

$$HHI_{PP} = \sum_{i=1}^{N}\left(\left(\frac{PP_i}{PP_{UE}}\right)*100\right)^2,$$

where:

PP_i – amount of state aid granted in the Member State i,

PP_{UE} – total amount of state aid granted in a given year across all EU Member States.

- **Formula for the Herfindahl-Hirschman Index (HHI) adjusted for Weighted Average Cost of Capital (WACC):**

$$HHI_{PP} = \sum_{i=1}^{N}\left(\left(\frac{PP_i}{PP_{UE}}\right)*100*\frac{WACC_{UE}}{WACC_i}\right)^2,$$

where:

$WACC_{UE}$ – EU average weighted cost of capital, calculated as the weighted average of sector-level WACC values, weighted by their share in total state aid,

$WACC_i$ – average weighted cost of capital in Member State i, calculated as the weighted average of sectoral WACC values in that state, weighted by their share in total state aid granted in that state.

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