

EU countries spurn €74bn of unused Covid loan allocations

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PAOLA TAMMA — BRUSSELS BARNEY JOPSON — MADRID

Only half the loans have been disbursed with less than seven months until the deadline to spend the cash, and eight countries have substantially cut their planned borrowing, according to the European Commission.

Spain, the second-largest beneficiary of the EU's post-pandemic recovery fund after Italy, has turned down €60.5bn of €83bn in loans made available to it. Romania, Poland, the Czech Republic, Portugal, Cyprus, Slovenia and Belgium decided to forgo a combined €13bn of their loan allocations. That brings countries' total borrowing under the instrument down to €217bn, or about 65 per cent of the €385bn originally on offer.

EU finance ministers meeting yesterday were set to sign off on the changes.

Agreed in 2020, the fund is a one-off €800bn joint debt instrument that disburses cash in exchange for investment and reforms, divided roughly equally into loans and grants.

Countries have been more enthusiastic about taking a total of €359bn in grants, which do not have to be repaid, from the NextGeneration EU initiative.

The subdued demand for loans partly reflects the difficulty some member states have faced in finding public or private sector projects that meet the criteria to receive funding.

Although funds started flowing in 2021, EU members have to spend the money or lose it by the end of August.

Countries are also turning down the loans because of the rise in interest rates and the narrowing of borrowing cost differentials between EU countries and the European Commission. That means EU-level debt is becoming less attractive compared to national borrowing.

Government borrowing costs in Spain and Italy, two of the Eurozone's highest-debt countries, have recently fallen to their lowest level relative to Germany in 16 years. Countries that still face higher borrowing costs than the Commission, including Spain, feel the marginal savings generated by the EU's triple-A rating are not attractive enough to justify the conditions attached to the loans.

The Spanish economy ministry said: "There is no financial advantage in requesting the full loan envelope, since Spain can issue its own debt at a similar cost without facing the August 2026 deadline or the additional administrative requirements tied to EU financing."

Instead, Spain has chosen to use €10.5bn of its remaining loan package to launch a sovereign investment fund seeking to raise €120bn in private debt to be invested in housing, renewable energy, digitalisation, AI, re-industrialisation, infrastructure, water, health, the circular economy and security, the government announced last week.

Countries are also still trying to absorb a large amount of grant funding, which, contrary to the loans, do not add to countries' debt levels. Capitals have prioritised grant-funded projects.