Europe’s Defence Build-Up

Macroeconomic, fiscal, and financial stability challenges

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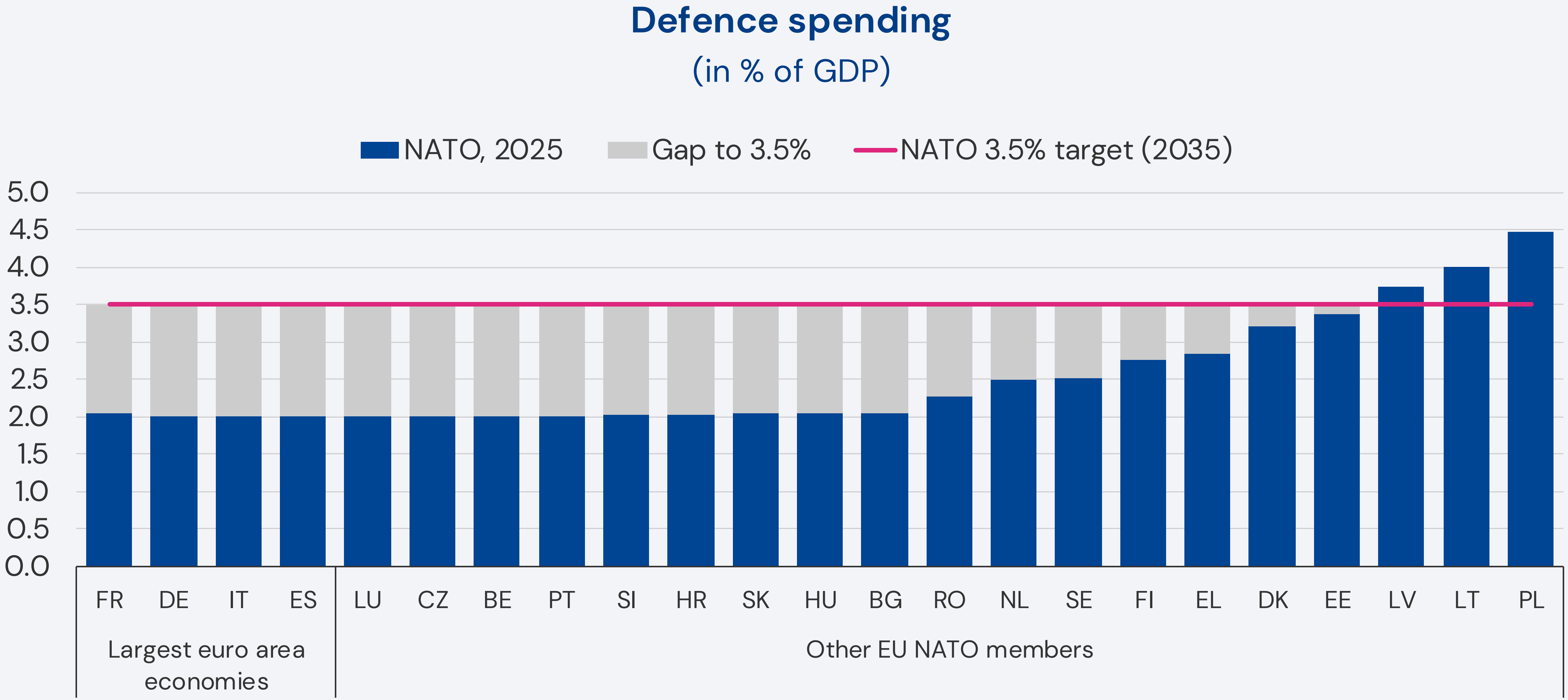
European Stability Mechanism

EU NATO Members’ defence spending gap

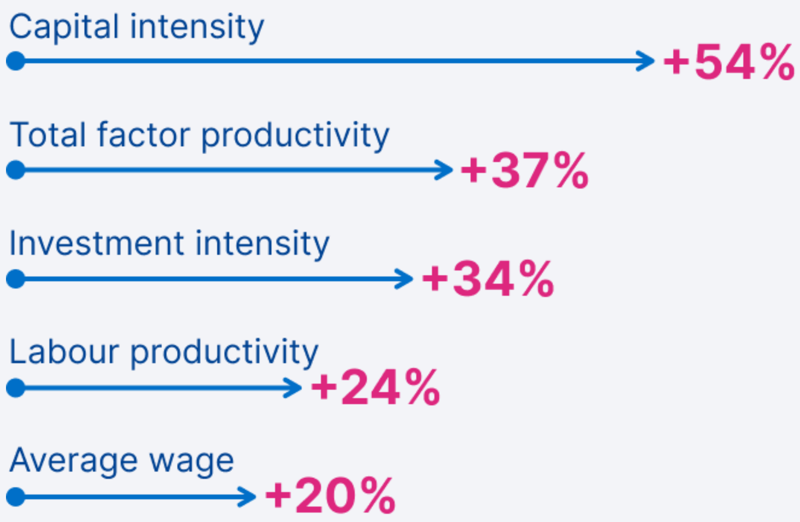


Source: ESM calculations based on NATO data. Note: Data are based on NATO definitions. These may differ from Eurostat/COFOG owing to accounting differences, including the treatment of military pensions and equipment downpayments. The broad trends are consistent across sources.

Defence as a catalyst for overall productivity gains

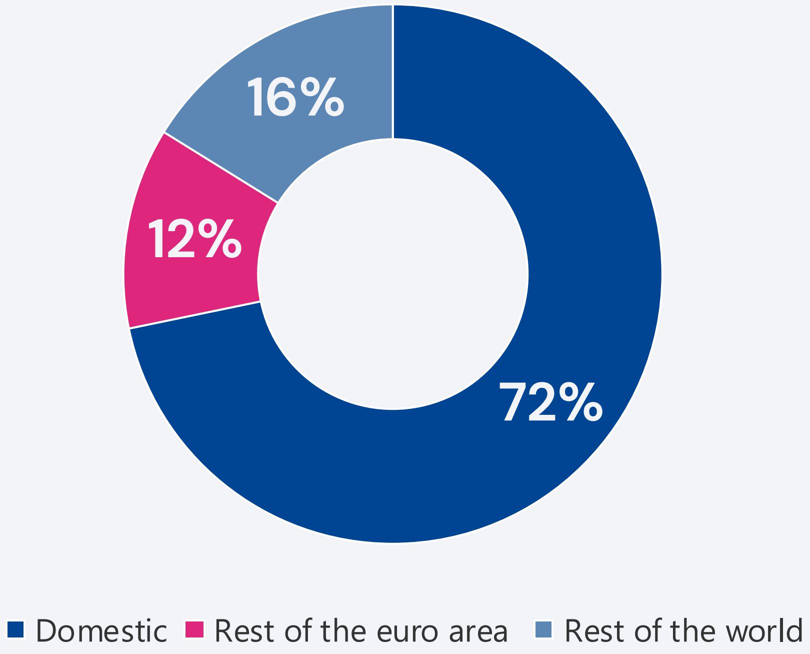
Characteristics of defence firms in the four largest euro area economies

(average difference relative to civilian firms)



Defence sector is heavily reliant on domestic supply chains

(share of total intermediate inputs)



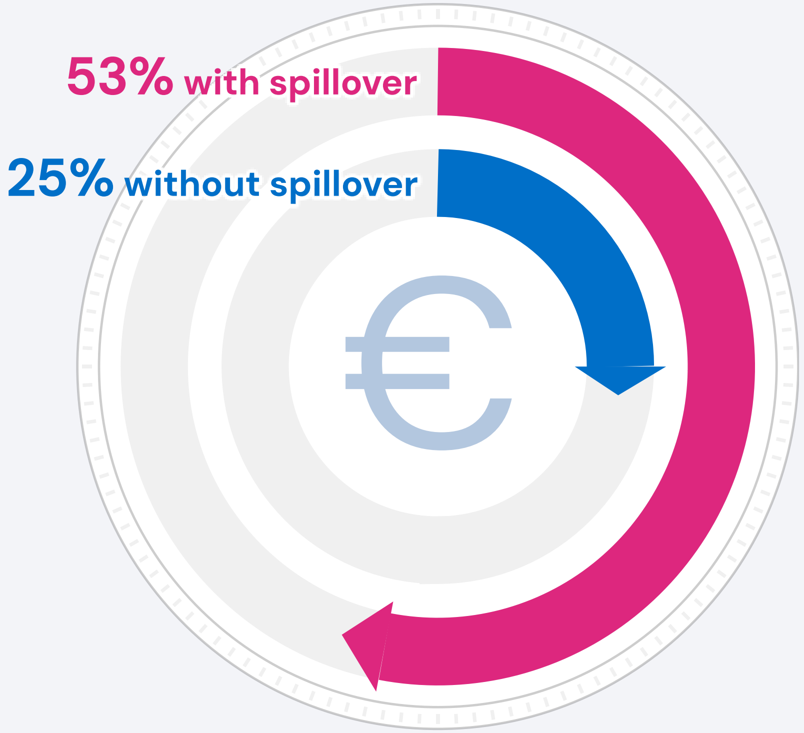
Source: ESM calculations based on ESM firm-level database and Orbis (Moody's Analytics) data. See more details in the Euro Area Stability Watch Chapter 2

Well-designed defence spending can partly pay for itself

Productivity spillovers to the civilian economy yield higher growth and revenues

Self-financing ratio of defence spending

(% recovered in the long-term)



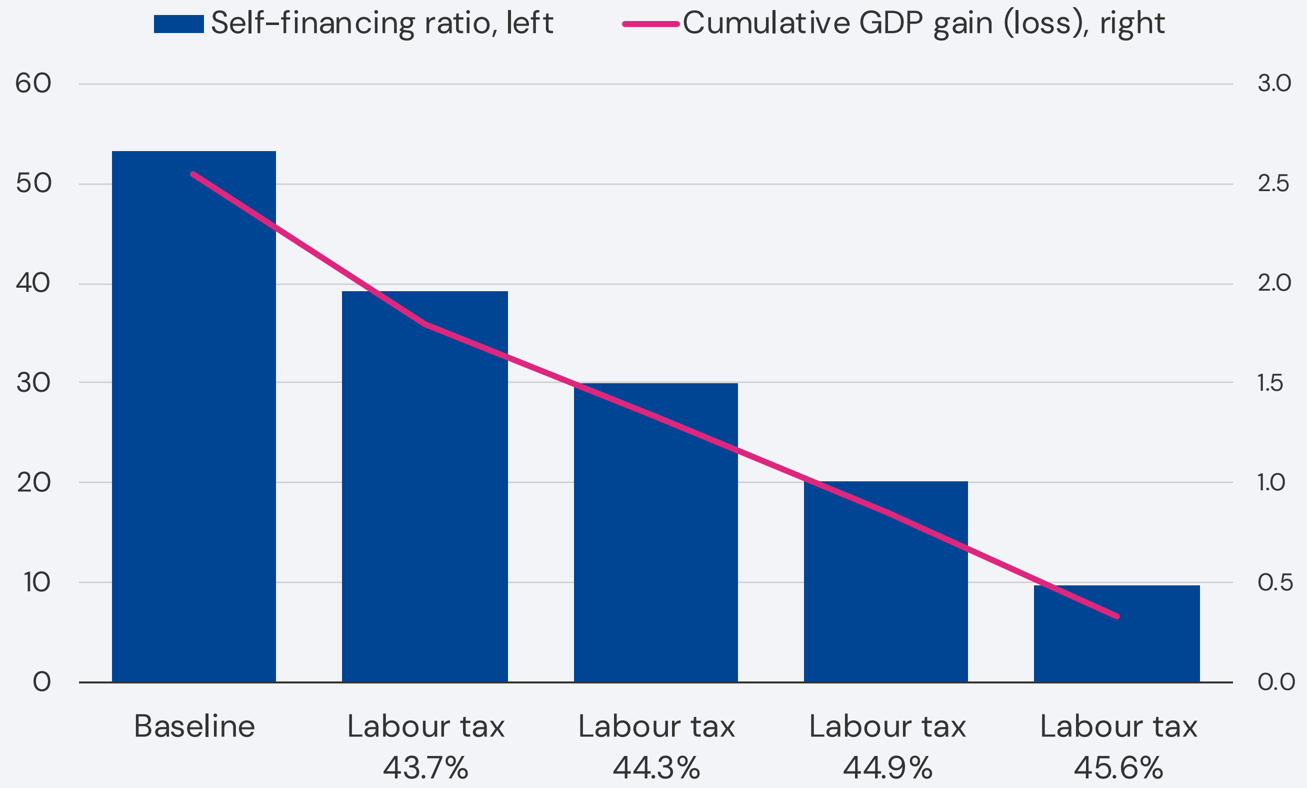
- **Targeted to investment and R&D**
- **EU-sourced**
- **Backed by public spending reallocation**
- **Anchored in a credible fiscal framework**

Source: ESM calculations

Financing choices shape fiscal outcomes

Spending discipline preserves self-financing; tax increases fail

(self-financing in % of defence spending recovered; long-run GDP impact in %)



Source: ESM calculations

Note: The baseline assumes expenditure adjustment only. The baseline labour tax rate corresponds to the current average of 42.6% across the four largest euro area economies. See more details in the Euro Area Stability Watch Chapter 2.

European coordination amplifies the defence dividend

Cross-border security benefits and supply-chain spillovers make defence a European-level challenge.

National-only funding
National procurement and financing

Under-provision risk
Higher unit cost and duplication across states

Coordinated approach
Joint procurement and financing

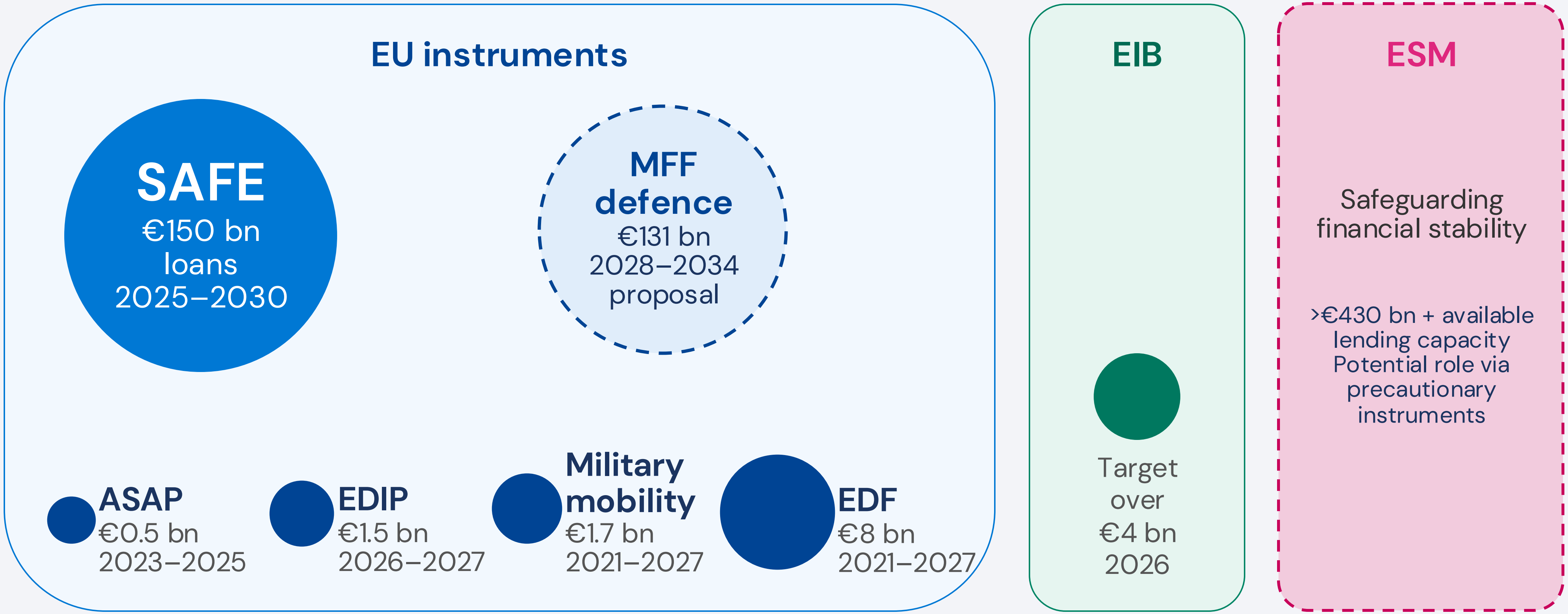
Risk sharing across countries
Reduces pressure on national budgets

Larger scale and integration
Integrated European supply chains

Wider productivity spillovers
Productivity spillovers, fiscal payback

Europe's emerging defence financing initiatives

Standalone scale view — bubble size indicates approximate financial magnitude, not a legal or programme hierarchy.



Abbreviations: **SAFE** = Security Action for Europe; **MFF** = Multiannual Financial Framework; **EDF** = European Defence Fund; **EIB** = European Investment Bank; **Military Mobility**: cross-border troop transport; **EDIP** = European Defence Industry Programme; and **ASAP** = Act in Support of Ammunition Production.

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Euro Area Stability Watch

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