

Opinion | 15 September 2026

Europe's Pitch Book: Defence is costly. But Europe can afford it

Europe's rearmament is expensive, fragmented and politically difficult. Yet progress has been faster than many expected. Defence spending is rising fast, production is increasingly European, and the financial burden may turn out to be manageable



If you ask Europeans which challenges matter most today, economic growth no longer tops the list. Security, defence and geopolitical instability have moved to the forefront.

The reasons are obvious. Russia's war against Ukraine continues. Europe's relationship with the United States has become less predictable. Security concerns increasingly shape trade, technology and energy policy. And supporting Ukraine remains both a military and financial commitment.

Against this backdrop, Europe has committed to a substantial increase in defence spending, from less than 1.5% of GDP in 2019 to 3.5% by 2035. Unsurprisingly, security and defence are [expected](#) to take centre stage at [this week's](#) State of the Union.

[Critics](#) point to fragmented industries, procurement inefficiencies, production bottlenecks and

concerns about public debt.

Yet amid the long list of challenges, an important question often receives less attention: what is actually going right?

Quite a lot, as it turns out.

No macro boost, but that's not the point

You might expect me to argue that higher defence spending will boost economic growth. But that is not the argument I want to make.

The economic impact of defence spending depends on how and where the money is spent. Benefits tend to be greater in economies with spare capacity, higher unemployment, stronger domestic production, and higher investment in research and development. At the same time, increased spending can add inflationary pressure and prompt higher interest rates, offsetting some of the stimulus.

And over the long run, defence spending must be financed through higher taxes or lower spending elsewhere, making it more likely to change the composition of the economy than to raise its growth rate permanently.

The strongest economic case for defence spending is therefore not faster growth, but greater security. By reducing the risk of future economic disruption, it helps ensure that Europe remains a safe place to live, work and invest.

Now back to what is going well.

The surprising speed of progress

The jump in spending has been quite remarkable. As recently as 2019, defence spending was roughly 1.4% of GDP, while for 2026 it is estimated to be [2.4% of GDP](#). The last couple of years saw an increase of almost 0.2 percentage points of GDP per year. This increase has been [faster than the European Commission expected](#). And four EU member states are spending more than 3.5% of GDP already: Poland and the Baltic states of Estonia, Latvia and Lithuania.

From now until 2035, there is another 1.1% of GDP to go, which is about what was achieved over the last seven years. Europe is at the halfway point and the speed of the increase can come down somewhat from here.

A catalyst for joint financing

The decision to exempt defence spending from EU fiscal rules through the temporary escape clause, which allows deficits to exceed 3% of GDP until 2028, may have reinforced concerns

that Europe is bending its rules once again. Yet the evidence points in a more nuanced direction. The two most heavily indebted member states, France and Italy, have not activated the clause. Italy remains focused on fiscal consolidation, while France has already incorporated much of the additional defence spending into its existing plans.

Instead, both countries are making use of the Security Action for Europe (SAFE) facility, borrowing through the European Commission rather than relying solely on national issuance, helping to limit financing costs. The same principle applies to the €90 billion Europe has borrowed to support Ukraine. In that sense, higher defence spending has become a catalyst for more European joint financing. This can [lower overall financing costs and make Europe more stable](#).

The burden looks manageable

Although current deficits may be manageable, another 1.1 percentage points of GDP still needs to be added to reach the 3.5% target. Yet this translates into an increase of just 0.1 percentage point of GDP per year.

The figures become even more tangible when expressed on a per capita basis. In 2025, defence spending amounted to roughly [€850 per European](#), equivalent to about 2.2% of GDP. Had spending reached 3.5% of GDP, that would have implied roughly an additional €500 per person per year. Spread over a decade, however, this amounts to an increase of just €50 per person per year.

Over that time period, we would expect real GDP in the EU to grow by around 1% per year on average. This suggests that roughly one-tenth of that growth would need to be allocated to defence spending.

Domestic production reduces the budgetary strain

As we argued [previously](#), most of the increase in defence spending has been directed towards equipment, and the latest data confirms that assessment. Between 2020 and 2025, the bulk of the rise in defence expenditure took the form of [investment spending](#), primarily on military equipment.

The crucial question is how much of that equipment is sourced from abroad. An earlier estimate by the European Commission suggested that [78%](#) of the additional equipment spending was imported, implying limited benefits for domestic economies. More recent evidence paints a less pessimistic picture. According to [IISS research](#), 53% of the value of defence procurement contracts signed by European NATO members between February 2022 and July 2025 went to European suppliers.

That matters for public finances. When equipment is produced domestically, part of the spending flows back to governments through higher tax revenues on wages, profits and

business activity, reducing the net cost to public budgets.

A fast-growing industry

While Europe's defence industry remains relatively small, it is expanding rapidly, with four consecutive years of [double-digit growth rates](#). Europe has also delivered ammunition to Ukraine [more quickly](#) than initially planned.

Most companies are based in France, Germany, Italy, Spain and the United Kingdom. Growth in this sector has supported industrial production, particularly in countries such as [France](#). Over time, the share of domestic production is expected to rise further, implying that the industry can grow faster than total spending on equipment for the years to come.

The industry estimates it spent [€16bn](#) on defence-related R&D in 2024, up almost 14% from a year earlier. The research covers fields like air and missile defence and ground and naval combat, as well as dual-use technologies like cyber security, digitalisation, AI and quantum computing. While the overall benefit to the economy may be limited over time, it is clear that there are winners as well as potential spillovers to the broader economy.

Moving from fragmentation to scale

Several studies suggest that better coordination of procurement could reduce total costs by [tens of billions](#) of euros while making military cooperation more effective. There is strength in unity.

This is relevant for the broader picture, too. Europe is often criticised for lacking military power, but its challenge is not a lack of spending. Taken together, European countries already account for [the world's second-largest defence budget](#) after the United States. The gap with every other country is substantial. Europe's problem is fragmentation, not scale.

Joint procurement is already [incentivised via joint financing](#). The low point appears to have passed, and a gradual pickup is now [expected](#). Looking forward, the Commission has proposed merging and refocusing funding vehicles like the European Competitiveness Fund (ECF) and the [European Defence Fund](#) to support and streamline defence capabilities and security.

Meanwhile, EU institutions have established dedicated governance structures, reinforced political oversight, and expanded parliamentary scrutiny. This is important because the amount of money that Europe ultimately needs to spend depends not only on how much equipment it buys, but also on how efficiently it organises its defence.

Beyond the halfway point

Europe still faces a long road ahead. But spending is rising faster than expected, the industry is scaling up, cooperation is improving, and the financing burden looks manageable. For a continent that is often accused of moving too slowly, that should be a surprisingly encouraging combination.

Author

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.