

READINESS 2030: ONE YEAR AFTER ITS ANNOUNCEMENT, THE EUROPEAN REARMAMENT PLAN IS ON TRACK

Following the announcement on 4 March 2025 of a joint plan to invest EUR 800 billion in defence within the European Union (EU) by 2030, Member States have been gearing up for action. One year on, the initial assessment is fairly positive. Promises are being kept and, according to our estimates, EU countries spent nearly EUR 400 billion in 2025, slightly more than expected. Germany, the countries of Northern Europe and those that spent the least (including Spain) have agreed to a significant increase in spending. They are therefore aligning with the countries of Central and Eastern Europe that had already implemented this effort (in particular Poland and the Baltic states). Investment represents a growing share of expenditure and R&D is increasing rapidly. Spillover effects are emerging in European industry, contributing to the rebound in its production. Member States and the European Union have adopted instruments, which were virtually non-existent before, to facilitate the additional increase in investment in 2026. Military spending is projected to reach 2.5% of European GDP (+0.6 pp more in two years) and exceed the 2% of GDP threshold in over three-quarters of Member States.

MILITARY SPENDING IN THE EU: NEARLY EUR 400 BILLION IN 2025

According to our estimates, military spending in the European Union increased slightly faster than initially expected by the European Defence Agency (EDA). It has reached nearly EUR 400 billion in 2025 (compared to EUR 392 billion according to the EDA), marking an increase of almost 17% relative to 2024. European countries allocated an additional quarter of a percentage point of GDP to this sector (2.15% in 2025, as opposed to 1.9% in 2024), in line with our [June 2025 estimate](#).

Germany's effort has been significant (+20% compared to 2024). The country is continuing a trend that began several years ago, which has resulted in it having the second largest military budget in NATO since 2023 (having been fourth until 2021). However, the effort is not confined to Germany alone. According to data from the IISS's [The Military Balance 2026 report](#), other countries have significantly increased their defence spending as well, notably Denmark (+114%), Belgium (+59%), Spain (+43%) and Sweden (+31%). The total spending increase in these four countries exceeds Germany's in absolute terms.

As a result of these budget increases, 18 of the 27 EU countries have already met the 2% of GDP threshold for annual military spending. Italy and Spain remain slightly below this threshold but are expected to reach it by 2026.

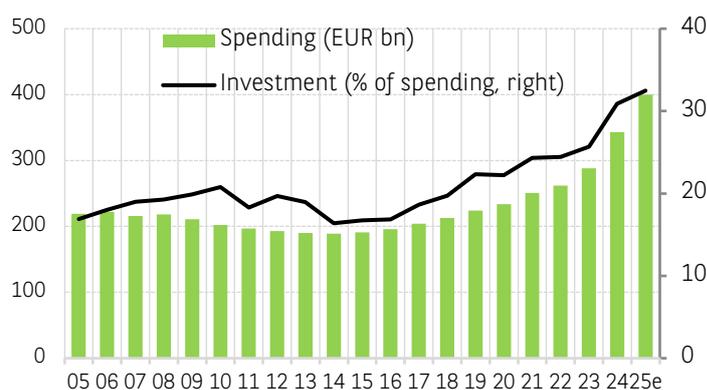
However, there is still some way to go before more countries reach the target of 3.5% of GDP by the end of the decade (only Poland and the Baltic States are currently on track). 2026 should see a further acceleration in military spending, with expenditure increasing by nearly EUR 80 billion to reach 2.5% of EU GDP.

INVESTMENT SPENDING IS ON THE RISE

According to EDA estimates, investment should have reached nearly EUR 130 billion in 2025 (up from EUR 106 billion in 2024), and its share of total expenditure is expected to have kept increasing: 32.5% in 2025 compared to 31% in 2024. Consequently, EU armed forces are seeing their capital intensity increase: investment spending reached nearly EUR 90,000 per soldier in 2025, nearly double the amount from 2020.

Out of the total investment expenditure, estimated at EUR 130 billion, equipment should have exceeded EUR 100 billion (103 billion) for the first time in 2025, but not at a rate faster than total expenditure (+17% y/y). A more rapid increase will be necessary to raise the equipment levels in European armies, but this will remain limited in the short term by the production capacity of the sector.

DEFENCE : SIGNIFICANT INCREASE IN MILITARY SPENDING AND SHARE OF INVESTMENT IN THE EUROPEAN UNION



CHART

SOURCE: EUROPEAN DEFENSE AGENCY, BNP PARIBAS

The net increase in other investment expenditure is encouraging. Research and development spending is estimated to have reached nearly EUR 17 billion in 2025 (+30% y/y, and +67% compared to 2022), and EUR 6 billion in research and technology (+20% y/y and +67% over three years). This technological shift in investment spending reflects the desire to improve a European production in cutting-edge sectors, ranging from drones to satellite systems, which will enable European armies to establish their own communication infrastructures.

More good news: the knock-on effects for industrial activity are beginning to materialise, and the outlook for activity is improving. The manufacturing PMI rose to 50.8 in February in the Eurozone, marking its highest level since June 2022, buoyed by new orders, particularly in the aeronautics and defence sectors.

This improvement is extending to a growing number of sectors. According to the European Commission's manufacturing sector survey, the balance of opinions regarding future production improved from +5 in July 2025 to +17 in January 2026 in the computer, electronics and optics sector in the EU. The ripple effects should also benefit the construction sector and those producing essential intermediate goods (e.g. metallurgy). This is reflected in the net improvement in industrial orders in Germany ([see our analysis](#)).



This momentum is also evident in France, where the business climate in industry averaged 103.2 over the last three months, the highest since the end of 2022.

The impact on growth should be visible in the Eurozone. Growth is projected to reach 1.6% in 2026 (due to the direct and knock-on effects of additional defence spending), compared with 1% without an increase in spending.

THE EU IS ORGANISING ITSELF TO SOURCE MORE SUPPLIES INTERNALLY

In 2025, initial steps were taken towards the EUR 800 billion plan announced on 4 March 2025. However, defence remains a national responsibility, and its ramp-up is primarily a matter of domestic policy. In particular, alongside budget increases, a number of countries have launched initiatives to finance defence sector companies, such as the Public Investment Bank's defence fund in France, which is set to receive EUR 450 million.

However, the EU has also developed mechanisms to boost momentum and increase procurement within its borders, as nearly half of military equipment is still sourced from outside the EU, mainly from the United States. This includes the SAFE (Security Action For Europe) programme, which offers EUR 150 billion in financing through long-term loans. This instrument can only be mobilised if the share of non-European inputs is less than 35% of the project's total value. The national plans of eight countries, including Spain, Belgium and Denmark, have been approved, amounting to EUR 38 billion, paving the way for the first disbursements. The EU has also established tools in order to coordinate joint public procurement, known as EDIRPA (European Defence Industry Reinforcement through common Procurement Act), which enabled EUR 11 billion in joint purchases to be financed in 2024, with figures for 2025 yet to be released.

These public initiatives must also be accompanied by increased market financing for defence companies, especially for new players. The IISS's Military Balance report indicates that these funds, which did not exist in 2024 and are of the venture capital or VC type, successfully raised nearly EUR 2.4 billion at European level in 2025, starting from a very low level.

In 2025, there was an initial increase in military spending across Europe, which is expected to gain momentum due to the projects planned for 2026. There are numerous calls for tenders, and more than ever before, these will have to be submitted to European companies, which means developing a European offer. Production capabilities may be constrained in the short term by a shortage of available labour. Unemployment is low in many countries, and skilled workers, who are by definition scarce, will be essential for carrying out these projects.

However, the industrial dimension of European rearmament presents a potential opportunity, especially considering the challenges faced by European industry recently, particularly in the automotive sector. Current production capacity is not being fully utilised. The process of converting industrial sites has begun, with additional sites likely to follow. According to our estimates, the production capacity available for reallocation within the EU could amount to approximately EUR 180 billion ([see our study](#)).

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