BRIEFING

European Parliament

ReArm Europe Plan/Readiness 2030

SUMMARY

The European Commission's ReArm Europe Plan/Readiness 2030, presented in March 2025, proposes to leverage over €800 billion in defence spending through national fiscal flexibility, a new €150 billion loan instrument (SAFE) for joint procurement, potential redirection of cohesion funds, and expanded European Investment Bank support. It also aims to mobilise private capital through the savings and investments union.

ReArm Europe has sparked debate. While many welcome its ambition and the EU's growing role in defence, concerns remain about democratic oversight, defence market fragmentation, and economic sustainability. Alternative ideas, such as creating a new Rearmament Bank, or a Defence, Security and Resilience Bank, have gained traction. These could offer low-interest loans and risk guarantees to support European and allied defence investment. Experts caution that, while the ReArm Europe Plan is an important political signal, it must be followed by practical measures to ensure impact. They stress the need to pool procurement, prioritise European-made equipment, and build a more integrated defence industrial base. Others argue the plan should go further, including options for grant-based financing and more robust governance structures. The coming months will be crucial in determining whether ReArm Europe can deliver a truly coordinated and resilient European defence effort.

During a March 2025 debate, the majority of political groups in the European Parliament voiced strong support for boosting Europe's defence, backing the ReArm Europe Plan while calling for a long-term strategy. Many urged enhanced strategic autonomy, secure access to resources, and continued aid to Ukraine. Concerns were raised over the sidelining of Parliament through use of Article 122 TFEU and the risk of over-reliance on emergency measures. Some warned that defence spending must not come at the expense of green, social, and R&D funding.

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Authors: Sebastian Clapp, Martin Höflmayer, Elena Lazarou and Marianna Pari
Members' Research Service

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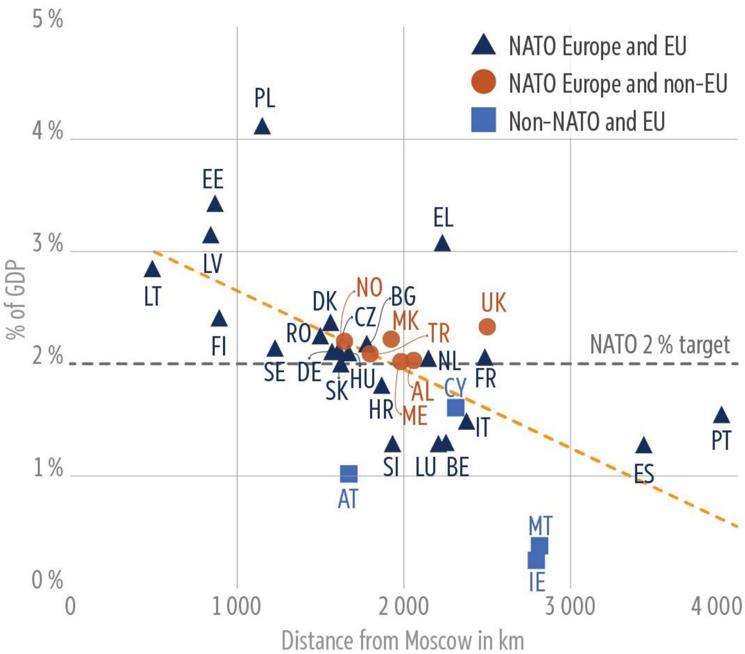
Introduction

There has been growing interest in debates on how to finance the EU defence industry since the first-ever decision to dedicate EU funds for this purpose through the European Defence Fund (EDF) – established under the 2021-2027 multiannual financial framework (MFF) – and its predecessor pilot and preparatory actions. Nonetheless, it was Russia's unprovoked invasion of Ukraine in 2022 which precipitated and elevated these debates, adding urgency and momentum. This was reflected in the 2022 Strategic Compass, which guides the EU's security and defence action to 2030, and in the EU leaders' Versailles Declaration the same year.

This briefing analyses options for financing EU defence from a legal (in terms of what the EU Treaties permit), budgetary, fiscal and purpose-related perspective. The establishment of the EDF on the basis of Article 173 TFEU, which gives the EU competence regarding the competitiveness of its industry, opened the path for the adoption of the Act in Support of Ammunition Production (ASAP) and the European Defence Industrial Reinforcement through Procurement Act (EDIRPA), both of which draw on funding from the EU budget. Beyond those regulations, mechanisms such as the off-budget European Peace Facility and Member States' individual defence spending (see Figure 1) have been key sources of EU defence financing. And in areas such as space, transport and technology, other EU budgetary sources have supported spending on dual-use (civilian and military) projects and products.

The inclusion of security and defence as a key priority for the 2024-2029 Commission, and President Ursula von der Leyen's commitment to moving towards a European Defence Union in her political guidelines, has brought the defence financing discussion to the centre of attention. In the preparatory work for the first-ever white paper for European defence, presented on 19 March 2025, financing – together with industry and capabilities – is one of the key pillars of the future of EU defence. The white paper follows the presentation, on 4 March, of the ReArm Europe Plan. It highlights that 'Member States need to spend better, work together, and prioritise European companies', with EU support for the coordination and development of defence equipment within Europe. Its proposals echo those of the Letta and Draghi reports, presented in 2024, on the single market and competitiveness respectively. Figure 1 shows that defence spending by NATO countries as a percentage of their GDP correlates with their proximity to Russia, with some notable exceptions.

Figure 1 – Defence expenditure as % of GDP, and distance from Moscow of country's capital



Data source: NATO, IISS, author's depiction.

The ReArm Europe Plan/Readiness 2030

On 4 March, President von der Leyen presented the defence package also known as the 'ReArm Europe Plan'. She also presented it in a letter to Heads of State or Government before the special European Council meeting on 6 March. The plan was later rebranded as the 'ReArm Europe Plan/Readiness 2030' after a backlash from the prime ministers of Italy and Spain.

President von der Leyen noted that Europe is facing unprecedented security threats. The focus is no longer on whether Europe should take responsibility for its own security but on how decisively and swiftly it can act. Recent meetings have confirmed that Europe is entering an 'era of rearmament' and is committed to significantly increasing defence spending, both to support Ukraine in the short term and to ensure long-term security. To address this, the ReArm Europe Plan has been introduced as a strategic proposal to boost European defence spending through various financial mechanisms. It aims to enable €800 billion in defence investment, structured around five key pillars:

- **Security Action for Europe (SAFE) – A new financial instrument**: If approved, the Commission will raise up to €150 billion in capital markets to accelerate defence investments. Member States can access these funds through structured long-term loans, backed by the EU budget, to enhance their military capabilities via common procurement from European defence industries. SAFE aims to improve interoperability, cost efficiency, and strategic coordination across the EU. Ukraine, EFTA/EEA nations, accession candidates, and Security and Defence Partnership countries will also be able to participate in joint procurement, fostering deeper integration.
- **Boosting national defence funding**: EU Member States are encouraged to activate the Stability and Growth Pact's national escape clause, allowing them additional budgetary flexibility for defence spending within EU fiscal rules. To ensure fiscal responsibility, this increase is restricted to defence-related expenditure only, based on the classification of the functions of government (COFOG), which is 'close to the aggregate used by NATO'; a cap of 1.5 % of GDP annually per country; and a maximum duration of four years.
- **Making EU instruments more flexible to allow greater defence investment**: In the short term, the EU can better use its budget to urgently scale up defence spending. Cohesion policy already supports defence-related projects that also drive regional development, as defence industries foster innovation and local economic ecosystems. Authorities at all levels can use the ongoing mid-term review of cohesion funds to shift existing resources towards new priorities like defence and security. The Commission will propose measures to make this process more flexible and attractive.
- **Contributions from the European Investment Bank**: To complement public funding, the European Investment Bank (EIB) is asked to expand its lending scope to defence and security projects, while safeguarding its financing capacity. This approach not only secures financing but also strengthens market confidence.
- **Mobilising private capital**: Additionally, the Savings and Investments Union strategy will facilitate the mobilisation of private capital, ensuring sustainable funding for the defence sector, from start-ups to major industry players.

At the special European Council meeting on 6 March 2025, leaders noted that the EU is committed to strengthening its defence capabilities and enhancing its autonomy in responding to current and future security threats, particularly in light of Russia's war on Ukraine and its impact on European security. This challenge is seen as existential for the EU, necessitating urgent and coordinated action. To accelerate the supply of defence equipment and financing, EU leaders welcomed the European Commission's intention to recommend activating the escape clause in the Stability and Growth Pact (SGP), which would allow Member States to increase national defence spending more easily. They also took note of the Commission's plan to propose €150 billion in defence loans for Member States, urging the Council to examine the proposal without delay. Additionally, leaders supported the EIB's plans to expand its support for Europe's security and defence industry.

EU leaders further called on the Commission to explore additional measures to facilitate national defence spending and to propose new EU-level funding sources and incentives for defence investments. They also urged the Commission to consider ways to mobilise private financing for the sector. In addition, the EIB was asked to urgently adapt its lending policies for the defence industry, reassess its list of excluded activities, and increase the volume of available funding. The Commission, Council and European Parliament were encouraged to advance efforts to simplify the legal and administrative framework for defence-related initiatives, with the Commission prioritising a defence-specific simplification omnibus package. These measures aim to reduce the EU's strategic dependencies while boosting European industrial and technological competitiveness, ensuring a more resilient and self-sufficient defence sector.

At the European Council meeting on 20 March 2025, EU leaders urged a swift acceleration of all related initiatives to enhance Europe's defence capabilities over the next five years. They also stressed the urgent need to begin implementing the measures outlined in the European Council conclusions of 6 March, particularly in relation to defence capabilities, and to continue exploring suitable financing options. Furthermore, they emphasised that a more robust and capable EU would contribute positively to global and transatlantic security, serving as a complement to NATO, which remains the cornerstone of collective defence for EU Member States that belong to the Alliance.

Expert reactions to the new initiatives have been positive but cautious. Paul Dermine, Professor of European Union Law at the Université Libre de Bruxelles, views the ReArm Europe Plan as a significant first step in strengthening EU defence policy. The plan marks the EU's intention to transform strategic goals into actionable defence policies. It also strengthens the Commission's role in shaping EU defence. However, he notes that it remains focused on national defence spending, leaving fragmentation and interoperability issues unresolved. Although politically and financially significant, Dermine argues it is not a transformative shift. The €800 billion in projected funding may not fully materialise, and more ambitious tools like ESM borrowing or a Next Generation EU-style facility were left out. If the security crisis deepens, such options could still be revived.

Defence spending through loosening the fiscal rules

After a four-year pause, in 2024 the EU's fiscal rules resumed under a newly established economic governance framework. While 2025 marks a return to regular economic and budgetary coordination, evolving geopolitical dynamics and shifting US policies have ignited urgent debates over defence spending and the fiscal flexibility needed.

Indeed, the new fiscal framework does allow Member States to deviate temporarily from fiscal rules, through two distinct 'escape clauses': the general escape clause and the national escape clause. The **general escape clause** allows EU Member States to temporarily deviate from their fiscal rules during a severe economic downturn affecting the euro area or the Union as a whole. The **national escape clause (NEC)**, in contrast, offers broader flexibility. It applies to exceptional, country-specific circumstances outside a Member State's control that significantly impact its public finances. Crucially, the reading of this clause envisages a wider range of situations beyond a general economic downturn, making it a more adaptable tool for addressing national challenges. However, it does not refer to single expenditure that can be excluded (e.g. defence or others). While contingent on fiscal sustainability, the Council shall specify a time limit for such deviation, rather than a one-year renewable suspension in the case of the general escape clause.

In both cases, the European Parliament is involved via its scrutiny role in the European Semester exercise, in particular through an 'economic dialogue' at both committee and plenary level. To fulfil this role, both the Council and the Commission have reporting requirements, including the Commission's analysis on the escape clauses.

The Commission, in its white paper on European defence, and in an accompanying communication, proposes the relaxation of EU fiscal rules through coordinated activation of the **NEC**. The NEC would permit deviations from Member States' net expenditure paths due to higher defence spending. Notably, the 'control account mechanism' included in the revised economic governance framework would grant only a temporary exemption. During NEC activation, permitted defence spending would not be debited (per Article 22(7) of Regulation (EU) 2024/1263) but would still be tracked as a memo item, reinforcing the temporary nature of flexibility while maintaining fiscal transparency. According to the Commission's guidance (in its communication), activating the NEC should enable Member States to allocate additional public funding for national defence of up to 1.5 % of GDP. There are also other provisions in the revised SGP that allow for specific treatment of defence expenditure, such as when assessing a recommendation to open an Excessive Deficit Procedure (EDP).[1]

Increases of total defence expenditure, including both investment and current expenditure, would qualify for flexibility under the NEC. The interpretation of 'defence' expenditure would be based on the COFOG. The COFOG category of 'Defence' includes the purchase of military equipment and infrastructure, dual-use goods and services when used by armed forces, expenditure on military personnel and their training, as well as military aid.

The Commission estimates that this could translate into **approximately €650 billion in additional defence expenditure across the EU over the next four years**. In contrast to the €150 billion loan borrowed at EU level, this expenditure is decided at national level and would not have any geographical restrictions on where the additional money could be spent.

The activation of the NEC in order to encourage national defence spending has been received with mixed reactions from experts. Bertrand De Cordoue, writing for the Jacques Delors Institute, stresses the urgency of breaking down national barriers in EU armaments policy. As US support for Ukraine wavers, Europe must strengthen its own defence. However, without structural reforms, increased national spending may lead to duplication and inefficiencies. He calls for three key principles: pooled procurement, prioritisation of European-made weapons, and integration of Ukraine's military innovation.

Fenella McGerty of the International Institute for Strategic Studies (IISS) views the ReArm Europe Plan as a necessary but economically challenging response to shifting security dynamics, particularly the potential retrenchment of US support. While acknowledging the importance of increased defence spending for European strategic autonomy, she highlights significant fiscal and political risks. She notes that, while measures like relaxing debt rules and off-budget funds could provide short-term financial flexibility, they also exacerbate long-term debt concerns, especially given existing financial pressure from demographics and climate commitments. She presents ReArm Europe as a bold but fraught initiative, requiring careful fiscal management to avoid economic instability.

New loan for defence investment

The Commission's proposal on ReArmEU includes a new financial instrument, Security Action for Europe (SAFE), of up to €150 billion in loans, to increase defence investment in the Member States and also complement EU support to Ukraine; the Commission proposes to establish this instrument for five years (2025-2030). The proposal is based on Article 122 TFEU (emergency instrument) to allow Member States to engage in public spending in support of the European defence technological and industrial base (EDTIB). Article 122 requires a Council decision, **excluding the European Parliament from the process**.

Article 122 was also used to adopt the NGEU funds during the COVID-19 pandemic. Back then, following Parliament's concerns and discontent over the use of Article 122 TFEU as a legal basis for legislation that they believed could also be dealt with under the ordinary legislative procedure, the European Parliament, the Council and the Commission agreed, in a joint declaration, on a budgetary scrutiny procedure. It envisages that, in case of legislation proposed under Article 122, the budgetary authority (Council and Parliament) should deliberate on the budgetary implications of such envisaged acts; the Commission should assist by presenting them together with a budgetary assessment. The procedure should take place in a Joint Committee and cannot last longer than two months; it is detailed in Parliament's Rules of Procedure (Rule 138).

The instrument's specific purpose is to provide Member States with financial assistance, through loans, for 'urgent and major public investments in European defence industry aiming at a rapid increase of its production capacity'. The Commission clarifies that the loan will strengthen the EU defence industry and therefore concerns expenditure that can be financed under the EU budget and does not go against Article 41(2) TEU. Similarly to NGEU, it is a temporary instrument.[2]

Financial support will allow **common procurement procedures** for the acquisition of defence procurement in critical areas (ammunition and missiles, artillery systems, space, AI, cyber). Procurements should involve two partners: either at least two Member States or at least one Member State – receiving financial assistance under SAFE – and Ukraine or one Member State and an EFTA/EEA country. The SAFE instrument 'should also provide for the possibility for acceding countries, candidate countries and potential candidates, as well as third countries with whom the Union has entered into a Security and Defence Partnership, to participate in common procurements'.

SAFE includes a '**European preference**' clause, i.e. the infrastructure, facilities, assets and resources of the contractors/subcontractors involved in the common procurement shall be located in a Member State, an EEA/EFTA State, or Ukraine. Where contractors or subcontractors involved have no readily available alternatives on such territories, they may use their facilities located abroad, provided that such use does not contravene the security and defence interests of the EU and its Member States. The cost of components originating in the Union, in EEA/EFTA States or Ukraine shall not be lower than 65 % of the estimated cost of the end product.

To receive financing, Member States will first have to express their interest and submit their financial request together with a European defence industry investment plan (within two and six months respectively from the entry into force of the Regulation). After assessment, the Commission will present an implementing decision, including the details of the financial assistance. If funds are not fully consumed, a new call for expressions of interest will be possible before 31 December 2026, with the latest deadline for approving financial support being 30 June 2027; payments can be made until 31 December 2027. Support will be provided by the Union in the form of a loan, with a maximum duration of 45 years. The Commission will borrow the funds on behalf of the Union – €150 billion overall – on the capital markets. These will be guaranteed by the EU budget's headroom (the difference between the own resources ceiling and the MFF payment ceiling), ensuring that the EU will be able to make repayments in case of default. The pre-financing amount is proposed for an amount of up to 15 % of the loan support, provided in one or more tranches, with the deadline for disbursements set at the end of December 2030. This proposal entails only administrative expenditure for the EU budget (heading 7), estimated for this financial period (until the end of 2027) at €19.4 million.

The EU borrowed money on a much larger scale on the financial markets when NGEU was established in 2021 to support the EU's recovery following the COVID-19 pandemic (NGEU provided funds in the form of grants as well). When challenged before the German Constitutional Court, it highlighted that NGEU is exceptional, serves a specific purpose for a specified amount, and is backed up by EU own resources. This is the case for SAFE as well.

When NGEU was established, it was necessary to (i) underwrite the borrowing, and (ii) support repaying the grants part of the borrowing, the loans part being reimbursed by the Member States. For the first of these, in the Own Resources Decision the maximum level of own resources that can be called on per year was increased, from 1.4 % of the EU's GNI to 2 % to assure investors that NGEU-related borrowing can always be repaid. For SAFE, the Commission clarifies that the new loan can be guaranteed within the own resources ceiling of 1.4 % of EU GNI. Financial sustainability will be ensured through rigorous financial management, although the proposed SAFE Regulation contains no specific monitoring mechanisms.

Experts have raised questions about the SAFE instrument. Daniel Fiott of the Centre for Security, Diplomacy, and Strategy (CSDS) cautions that, while the loans could drive investment in key defence capabilities like missile systems, drones, and cyber defence, they also present challenges. How these loans will be allocated among Member States, what selection criteria will be used, and how they will balance EU defence needs with support for Ukraine support remain open questions. Unlike traditional EU defence funding, which has relied on grants through the EDF, the shift to loans means repayment obligations that could deter some countries. While loans may benefit those with limited financial resources, Fiott highlights the risk that wealthier Member States might not require such financing, potentially undermining the scheme's impact. Moreover, the plan must avoid reinforcing national fragmentation in defence procurement.

Fiott further underscores the strategic implications of the ReArm Europe Plan, especially regarding the governance of EU defence policy. The proposal is based on Article 122 TFEU, a legal basis that allows the EU to provide financial assistance in emergencies, yet raises concerns about the European Parliament's role in oversight. While some argue this approach enhances the Commission's power, according to Fiott it could be argued that it ultimately empowers Member States. However, a broader challenge remains: ensuring that EU defence spending translates into a more integrated EDTIB rather than further market fragmentation. As the EU navigates uncertain US security commitments, the need for sustainable long-term defence financing, including revisions to the MFF and the European defence industry programme (EDIP), will be crucial. While the EU is clearly set to 'spend more' on defence, the real test will be whether it 'spends better and together'.

De Cordoue argues that the €150 billion loan should follow a NGEU-style model, with strict conditions for joint purchases from a set list. While these conditions were outlined at the March 2025 Summit, their legal enforceability remains uncertain.

In their analysis, Janssens et al. of global law firm Freshfields warn that the push for consolidation could potentially clash with antitrust rules, and that the need for a possible relaxation of merger control and State aid frameworks could distort competition and create legal uncertainty. They also question the proposed 'Buy European' procurement preference, which may limit third-country participation and strain alliances, and warn that broader regulatory changes, though aimed at streamlining, could unsettle the balance between strategic autonomy and market integrity.

Redirection of cohesion funds

Another source of financing is the use of European Regional Development Fund (ERDF) money that has not yet been committed, after a change to the legislation, to be decided by the Parliament and the Council. According to President von der Leyen, it will be at the discretion of the Member States to decide whether to use this option and thus redirect funds, within their national allocations, towards defence-related projects, such as infrastructure, research and development. This adaptation takes place in the context of the mid-term review of the cohesion policy funds, (Article 18, Regulation (EU) 2021/1060), in the context of which Member States are required to submit an assessment for each programme. At the same time, they have to propose the allocation of a flexibility amount[3] that is currently reserved.

At the start of this financial period in 2021, Member States had given priority to implementing NGEU funds, since they had a significantly shorter deadline for requesting commitments (end of December 2023) than cohesion funds. This contributed to a delay at the start of the 2021-2027 cohesion programmes, which had an allocation of €372.6 billion. At the end of October 2024, Member States had decided on 30 % of the cohesion funds and received payments on 6.4 % of the total EU allocation. In 2025, implementation of cohesion programmes and payment needs are expected to increase significantly compared to 2024. Implementation is accelerating but is lagging behind, compared to the previous financial period, by almost a year.

Cohesion policy has been used in recent years to help cope with multiple challenges, providing emergency support to people fleeing from Russia's invasion of Ukraine and helping Member States face the consequences of the war (e.g. initiatives such as CARE, FAST-CARE). In its Opinion on 'A Strong European Defence Industry' of 20 February, the European Committee of the Regions called 'for any transfer of cohesion policy funds to finance EDIP projects to focus on projects that cannot be financed under the shared management of cohesion policy and that support regions' territorial, economic and social cohesion, particularly existing regional defence or dual-use clusters or clusters relating to items needed to maintain military capabilities, and regions that are more exposed to the risk of conventional or non-conventional military threats'. Parliament's co-rapporteurs for the post-2027 MFF, in their draft report, express the need to provide the budget with increased crisis response capacity so that cohesion funds are used for their intended investment objectives.

Accelerating the Savings and Investment Union

To address the urgent need for increased defence spending amid fiscal constraints, mobilising private capital emerges as a key pillar of ReArm Europe. Access to finance remains a major barrier for EU SMEs and Mid-caps, including for those from the defence sector. Central to this effort is advancing the European Savings and Investment Union, which seeks to fully realise the single market for financial services. This includes completing the Banking Union and the Capital Markets Union, initiatives launched in response to the global financial crisis, while minimising any associated regulatory burden. Once established, this union aims to unlock significant private capital to drive critical priorities – not only the green, digital, and social transitions, but also the robust funding of Europe's defence industry, spanning the entire value chain from research and development to production and delivery. At the same time, as pointed out by McGerty, structural challenges, such as the reluctance of banks and pension funds to invest in defence due to environmental, social, and governance (ESG) concerns, remain.

The European Investment Bank

The ReArm Europe Plan envisages stronger involvement of the EIB. The European Investment Bank Group (EIBG) consists of the EIB, whose shareholders are the Member States, and the European Investment Fund (EIF). As one of the largest multilateral financial institutions globally, the EIB provides loans, guarantees, equity investments, and advisory services. The EIF focuses on enhancing access to finance for small businesses within the EU and several third countries. With an AAA credit rating, the EIB can secure financing under highly favourable conditions. To qualify for EIB financing, a project must (i) align with one of the Bank's core public policy objectives, (ii) not involve any excluded activities, and (iii) demonstrate additionality. While the Bank explicitly excludes financing for ammunition, weaponry, and military infrastructure, it allows investments within the EU for dual-use items, defined as services and technologies which 'serve both civilian and military purposes'. In particular, 'a project must show at least one current or potential civilian application' to qualify as dual-use. Per the EIB list, 'ammunition and weapons, including explosives and sporting weapons, as well as equipment or infrastructure dedicated to military/police use' are excluded. However, investments within the EU 'within the potential to be used for both civil and military/police purposes (dual use)' are eligible for EIB funding.

Following the 2022 invasion of Ukraine, the EIB launched the Strategic European Security Initiative (SESI), committing to finance up to €6 billion for eligible dual-use research, development and innovation (RDI) projects, civilian security infrastructure, and advanced technology initiatives. In June 2023, in response to the shifting geopolitical landscape, the EIB's Board decided to increase security and defence financing to €8 billion until 2027, while broadening its support for the sector, though still excluding the financing of weapons, ammunition, and essential military and police infrastructure. In January 2024, the Commission and EIF launched the €175 million Defence Equity Facility (DEF) within the wider EU defence innovation scheme (EUDIS) to support SMEs and mid-sized companies in developing innovative dual-use defence technologies, with total investment projected to reach €500 million.

Several EU Member States have urged the EIB to invest in core defence projects, a move that would require a change to its exclusion policy. On 28 February 2024, Nadia Calviño, in her first speech as EIB President in Parliament's plenary session, highlighted her priority of increasing investments in security and defence to bolster European industry and enhance the EU's deterrence and self-defence capabilities. In May 2024, the EIB announced a significant shift in its long-standing policy of not investing in military products by relaxing restrictions on dual-use investments. The EIB's Board of Directors formally adopted an action plan to update its financing rules for security and defence projects. The Bank thus no longer requires dual-use projects to generate more than 50 % of their expected revenues from civilian use. It will now also finance projects and infrastructure that serve both military or police and civilian needs, removing the minimum threshold for civilian applications or users. Additionally, the EIBG will revise its rules for financing SMEs in security and defence, creating dedicated credit lines for dual-use projects by smaller companies and start-ups. EU companies with partial defence activity will be eligible for financing through these intermediated credit lines.

At the same time, the EIB launched a dedicated Security and Defence Office to provide streamlined financial support and expert assistance to strengthen Europe's security and defence capabilities. The EIBG has also strengthened partnerships with key stakeholders, including deepening its partnership with the EDA in October 2024. In July 2024, the EIBG and the NATO Innovation Fund (NIF) signed a MoU to support the long-term growth of the defence, security, and resilience sectors in Europe.

In a January 2025 letter, 19 EU countries urged the EIB to expand its role in defence financing. They made three key requests: revising its list of excluded activities to potentially fund military-related projects, doubling defence funding to €2 billion in 2025, and exploring the issuance of 'defence bonds' in consultation with financial markets and rating agencies.

On 4 March 2025, the Bank proposed significant changes to its defence lending policy, aiming to free up billions of euro for the defence industry in response to the EU's renewed defence push. In a letter to Member States, Calviño suggested expanding financing for non-lethal defence products, providing unlimited loans to the defence sector if EU countries approve, and encouraging commercial banks to follow suit. While lethal products like weapons and ammunition remain excluded, the revised criteria could enable funding for border protection, critical infrastructure, anti-jamming technologies, and space-related defence projects. Calviño also proposed creating a permanent defence financing line, elevating defence funding to the same level as sustainability and cohesion policy within the EIB's framework. On 21 March, the EIB Board of Directors further expanded the EIBG's eligibility to finance Europe's security and defence industry and infrastructure, to ensure that excluded activities are as limited as possible in scope, in line with the leaders' Conclusions of 6 March. The Group expects to at least 'double its investments for security and defence projects this year'.

Other defence financing ideas

Rearmament Bank

The idea of a 'Rearmament Bank' has been gaining traction recently, as it could provide a swift and effective means of mobilising Europe's significant savings to address the pressing need for increased defence expenditure, particularly during a period of tight public finances. Inspired by the model of the European Bank for Reconstruction and Development (EBRD), such an institution would operate without the procedural burdens and limitations that hinder current frameworks. According to this proposal, funded by EU countries, the UK, and Norway, such a bank could provide loans for military hardware and defence industry investments, leveraging €100 billion, or up to €500 billion according to another proposal. Such a financing vehicle, backed by national guarantees rather than the EU as a whole, would allow voluntary participation by both EU Member States and non-EU states such as the UK and Norway, avoiding the legal constraints of EU treaties on military spending. Importantly, it would also allow neutral EU Member States such as Austria, Malta, Ireland and Cyprus to opt out without vetoing such a plan. The EIB could play an administrative role in managing treasury functions, though it remains banned from directly funding arms investments. Support for the plan is reportedly growing, particularly from Greece, Poland, the Netherlands, Finland and Denmark. According to Poland's foreign minister, the idea makes sense and 'an added benefit would be that it could involve other like-minded countries such as Norway, the UK, and Japan'. He clarified that participation in the bank would be 'voluntary', given the neutrality of certain EU Member States.

An Atlantic Council expert proposes a broader Defence, Security, and Resilience (DSR) Bank, which aims to tackle underinvestment in defence by providing low-interest loans, equipment leasing, and financial support for NATO, the EU, and Indo-Pacific allies. It would underwrite risks for commercial banks, ensuring funding for small defence manufacturers while maintaining stability during economic downturns. To secure an AAA credit rating, it would rely on paid-in capital from member nations, with a contentious proposal to use seized Russian central bank funds – or at least the revenues generated from them – for initial funding. Designed to be independent from the EIB, for flexibility, the bank could be operational by 2027, strengthening defence investment and resilience across allied nations.

Landsman and Harding of the British Foreign Policy Group think-tank argue for the creation of a multilateral defence and security bank (DSRB) to address Europe's urgent funding gap in defence and security, exacerbated by shifting US policy on Ukraine. They highlight that European nations, including the UK, need between €500 billion and €800 billion for defence but will struggle to finance it through traditional means. A DSRB, with initial capitalisation from its members would offer AAA credit-rated borrowing, prevent additional national debt burdens, and improve procurement efficiency. The UK's involvement could support its geopolitical ambitions while reinforcing transatlantic security ties. The authors suggest leveraging UK institutions like UK Export Finance, the National Wealth Fund, and the British Business Bank to facilitate defence financing. Additionally, the DSRB could provide guarantees to commercial banks, encouraging private sector participation in defence procurement. By addressing procurement inefficiencies and capital deployment, the DSRB would enhance European security resilience while mitigating economic risks.

A relevant bank is currently being launched by Rob Murray, a former British Army officer and head of innovation at NATO, as a new multilateral institution – the Defence, Security and Resilience (DSR) Bank – which aims to be operational within 18 months. The bank plans to raise £100 billion in capital through AAA-rated bonds backed by shareholder nations, providing affordable funding for defence procurement in NATO countries.

Increasing the EU budget

In December 2024, EU Defence and Space Commissioner Andrius Kubilius proposed allocating €100 billion for defence in the EU's next seven-year budget, reflecting the urgency of bolstering EU defence capabilities in light of potential Russian aggression and to better integrate the EU's fragmented defence industry, enhance support for Ukraine, and improve coordination with NATO and the US. The EU budget cannot finance any expenditure that implies military or defence operations (Article 41(2) TEU). However, it can finance European defence projects related to the EU's competences, notably in the fields of research, technological development and space policy (Title XIX), the improvement of the EU's scientific and technological base (Article 179 TFEU), industrial policy (Article 173 TFEU) and the development and interconnection of trans-European networks (Article 170 TFEU). The EU budget thus supports the EU defence industry, research and military mobility, including space and dual-use technology.

In June 2024, President von der Leyen had estimated the EU's additional defence investment needs at €500 billion for the coming decade. In the Safer Together report, Sauli Niinistö, former President of Finland and special adviser to the Commission President, recommends that 20 % of the EU's budget be allocated to security and climate disasters.

The recent revision of the MFF reinforced heading 5 'Security and defence' by €1.5 billion (16 %) under the EDF. The Commission had proposed that this amount be redeployed to finance, from 2025 to 2027, the EDIP as a 'gap-filler' until the next MFF. The white paper for European defence calls on the co-legislators to adopt this proposal before the summer. Even so, heading 5 stands at €16.4 billion (current prices), or 1.3 % of the total MFF expenditure. The current EU budget does not have any leeway to provide additional funding, either by using available margins or flexibility instruments, particularly at the currently estimated scale, but the need to enhance defence expenditure even further has now become urgent.

The Commission's proposal on the post-2027 MFF is due by 1 July 2025, and it is expected that defence spending will be among the highest priorities. In a Commission working document on the next MFF, a thorough restructuring of the budget was considered, where defence would be part of a European Competitiveness Fund. Parliament has already started deliberations and will outline its vision for the future MFF with an own-initiative report on a revamped long-term budget for the EU in a changing world. In the draft report, the rapporteurs highlight the need to safeguard the Union against all kinds of threats and that defence capabilities and readiness should be allocated significantly more resources. Any future financing option within the EU budget would allow Parliament greater involvement and control through its budgetary powers. A financing solution outside the EU budget diminishes democratic accountability by excluding Parliament from legislative negotiations as well as from applying budgetary scrutiny.

Unused loans under the Recovery and Resilience Fund (RRF)

The use of RRF loans has also been discussed. Of the €385 billion in RRF loans that was envisaged, around €93 billion were not requested by the Member States within the legal deadline (end of August 2023). The idea would be to recover these funds and make use of them for defence purposes. However, several adjustments would need to be made, since, at this stage, these loans have 'lapsed'. To use these potential loans for defence financing would require modifying the NGEU (EURI) Regulation regarding the scope of the instrument and the deadlines for commitments and payments, as well as the RRF Regulation regarding its scope (coping with the recovery after the COVID-19 crisis), and the legal deadline for requesting RRF loans (31 August 2023) and payments (31 December 2026). Finally, it could have required modifying the Own Resources Decision on the deadline for reimbursing the borrowing costs of NGEU (currently set at 31 December 2058) and, eventually, extending the Commission's borrowing operations beyond 2026 (current deadline). This option would therefore require many legislative adjustments and would involve a lengthy process. It was not retained in the proposed defence package.[4]

European Parliament position

During a debate on 11 March 2025, MEPs, the Polish Council Presidency, and Presidents António Costa and von der Leyen debated the future of Europe's security and strengthening EU defence capabilities. A majority of political group leaders reaffirmed Parliament's longstanding commitment to bolstering EU security and welcomed the European Council's recent discussions aligned with this objective. Many MEPs expressed support for the European Commission's latest initiatives to strengthen Europe's defence industry, reinforce EU borders, and sustain aid for Ukraine in response to Russia's ongoing aggression. While the ReArm Europe Plan represents a notable step forward, several MEPs underscored the need for a long-term, comprehensive defence strategy to address current and future challenges, particularly along the EU's eastern borders and beyond. Some raised concerns over the use of Article 122 TFEU to approve ReArm Europe, as it would sideline Parliament from the decision-making process, and cautioned the Commission against over-reliance on such emergency provisions.

To uphold EU sovereignty, numerous MEPs highlighted the importance of boosting competitiveness, enhancing strategic autonomy, and ensuring secure and independent access to critical raw materials and energy supplies. Some criticised the Trump administration's shift away from its prior commitments to Ukraine's defence, and called for an EU strategy focused on investment and solidarity. Others urged the Commission to intensify diplomatic efforts for Ukraine beyond military assistance. Additionally, several MEPs warned that increased defence spending should not undermine funding for the green and social transitions, as well as research and development.

MAIN REFERENCES

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ENDNOTES

1 Deviations from the endorsed net expenditure path is the main focus of fiscal surveillance. In case of deviation from the net expenditure path, Member States with a substantial public debt challenge will undergo an excessive debt procedure (EDP) by default. The EDP would be opened for Member States with a moderate debt challenge, if the deviation is assessed as giving rise to 'gross errors'. Member States with a low public debt challenge would not face enforcement actions, unless the deviation entails a change in the public debt challenge category. See also section 3 of the Parliament Economic Governance and EMU Scrutiny Unit's in-depth analysis for further discussion.

2 NGEU was set up as an 'exceptional and temporary' measure. For more, see: Federal Constitutional Court, 'Constitutional complaints challenging the Act Ratifying the EU Own Resources Decision unsuccessful', press release, 6 December 2022.

3 The flexibility amount is the amount retained under the programmes for Investment for jobs and growth goal. It corresponds to 50 % of the contribution for the years 2026 and 2027 (Regulation (EU) 2021/1060, Article 86, paragraph 1).

4 A related discussion is on the use of frozen Russian assets for the reconstruction of Ukraine, see: Caprile, A., Immobilised Russian central bank assets, EPRS, European Parliament, March 2025; see also: Webb, P., Legal Options for Confiscation of Russian State Assets to Support the Reconstruction of Ukraine, EPRS study, February 2024.

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