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# Europe must finance its Power

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Europe has realised that if it does not want to fade into history, it must once again become a power, including in military terms. The question is no longer whether to rearm, but how to finance this historic effort.

At the 2025 NATO Summit, allies committed to raising their defence spending to 5% of GDP by 2035, with 3.5% dedicated to military expenditure. Yet European countries currently spend barely more than 2% of their GDP on defence (approximately €450 billion per year). Reaching 3.5% would require around €250 billion in additional annual spending, and nearly double that to reach 5%.

This effort comes against a backdrop of already strained public finances. The cumulative debt of European NATO allies exceeds €18 trillion, and several countries — including France and the UK — carry extremely high levels of debt. Given these conditions, states will not be able to finance this effort alone through taxation or national borrowing.

The EU has deployed instruments to support the defence industry and foster cooperation, but their scope remains limited, and they often rely on loans that add to the debt burden. On top of this come the needs related to supporting and rebuilding Ukraine, which could exceed €500 billion.

In this context, one conclusion is inescapable: European defence is transforming into a shared responsibility, and its financing must do the same. A two-speed Europe would undermine collective defence. The idea of issuing, at the European level, bonds dedicated to defence — “Defence Euro Bonds” — must be examined quite unrestrainedly. A large-scale, long-term European borrowing programme, totalling

€500 billion annually, would fund armament programmes and stimulate growth.

In a recent [report by a Eurodefense working group on financing European defence](#), chaired by former European Commissioner Yves-Thibault de Silguy, EuroDefense-France detailed the governance arrangements and implementation mechanisms required to establish this new financial instrument. It would offer several advantages: providing member states with immediately mobilizable financial resources for their military investments; attracting European and international savings, at a time when investors are seeking alternatives to the American bond market; and helping to strengthen the international role of the euro, the world’s second currency but which is still too rarely used in commercial and financial transactions.

However, public funding alone will not be enough. Europe also has a considerable asset: substantial private savings (€40,000 billion), some of which could be mobilised to support the thousands of SMEs and mid-cap companies operating in the defence sector.

Private defence financing instruments aim either to improve liquidity by redistributing risk, or to change scale by mobilising capital markets. The first group — contract financing, supplier financing, and factoring (particularly reverse factoring) — accelerates cash flows and secures the industrial supply chain by transferring part of the risk to prime contractors or banks. The

second group — securitisation, revenue bonds, and directed savings products — seeks to capture large volumes of capital by converting future flows into financial assets and broadening the investor base. Together, these instruments would allow the Defence Technological and Industrial Base (DITB) to gain liquidity in the short term and investment capacity over the long term.

This will require removing certain obstacles. For a long time, investments in the defence sector were held back by ideological or regulatory considerations. ESG standards (environmental, social, and governance) led banks and investors to shy away from this sector. This situation is now evolving towards a recognition of security as an essential public good.

Finally, there remains a political imperative: offering industry players and investors long-term visibility. Companies within the defence industrial and technological base — often SMEs and mid-sized firms — will only invest at scale if Europe and member states guarantee economic and fiscal stability, secure order books, and regulatory flexibility, supported by appropriate financial engineering.

The question of financing European defence goes beyond the purely military dimension. It touches on economic sovereignty, industrial vitality, and Europe's place in the world. In a strategic environment that has once again turned brutal, power has a price. Refusing to pay it would amount to accepting decline.

### **YET, IF WE ARE GOING TO SPEND MORE, ARE WE GOING TO SPEND BETTER?**

The sharp increase in European defence spending expected from 2026 represents a historic opportunity to strengthen Europe's security. However, additional funding alone will not guarantee greater military effectiveness. Without a coherent strategy, Europe risks spending more without significantly improving either its operational capabilities or its strategic autonomy (European sovereignty).

### **TWO MAJOR RISKS MUST BE ADDRESSED**

The first is the possibility that defence investments fail to meet the future operational needs of European armed forces. Too often, procurement decisions are influenced by industrial or political considerations rather than by military requirements. This can lead to the acquisition of capabilities designed to support specific industrial interests rather than to contribute to a coherent defence posture. Likewise, simply replicating capabilities observed in current conflicts or purchased by allies or adversaries may not provide the most effective response to future threats. The war in Ukraine offers valuable lessons, but it should not be treated as the sole model for future warfare.

The second risk is the persistence of Europe's technological and industrial dependence on external suppliers. Continued reliance on non-European equipment, particularly from the United States, or the production of foreign-designed systems under licence, weakens Europe's ambition to achieve strategic autonomy. Such dependence limits Europe's freedom of action and reduces the resilience of its defence ecosystem in times of crisis.

To avoid these pitfalls, Europe must adopt a more integrated approach to defence planning. A European Defence Planning Process, inspired by the NATO Defence Planning Process (NDPP), would help align political objectives, military requirements, industrial capacities and financial resources. Such a framework would also encourage investment in strategic enablers typically provided by the US—including command-and-control systems, space assets, communications networks and strategic transport capabilities—that remain essential for European military autonomy.

Europe must also strengthen its DITB through a genuine preference for European solutions. It must better exploit the economic potential of its defence industry. More integrated European supply chains, an expanded European internal market for more standardised equipment, and strong export

performance would help to maximise economies of scale and the economic return on defence spending. This would improve both military readiness and European sovereignty.

UK, Germany and France have a particular responsibility to lead this transformation. By

promoting a shared strategic culture, including a greater understanding of the role of nuclear deterrence, they can help align national interests with Europe's long-term collective security objectives. Only through such a coordinated approach will Europe be able to transform increased defence spending into lasting strategic power.

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