



Defense Industry Financing **2025**

Foreword

In the wake of rapidly evolving geopolitical tensions, defense financing has surged to the forefront of political, economic, and strategic discourse across Europe and beyond. The war in Ukraine, rising instability in adjacent regions, and increasing uncertainty around transatlantic security commitments have underscored a simple yet urgent reality: peace requires preparedness, and preparedness demands investment.

Today, we stand at a turning point. For decades, the European defense sector operated under the assumptions of relative peace, leading to leaner budgets, fragmented industrial bases, and chronic underinvestment. The consolidation wave of the 1990s, driven by mergers and acquisitions, created a few dominant players but also reduced diversity in the sector and contributed to the erosion of national defense capabilities¹. That calculus has changed in the wake of heightened geopolitical tensions, defense has returned to the forefront of national priorities. Governments are now racing to rebuild capabilities, reinforce alliances, and adapt to next-generation threats—from cyberattacks to space warfare and AI-powered systems. This renewed emphasis on defense is clearly reflected in market valuations. European defense firms have seen a remarkable surge in stock prices: Rheinmetall, the German weapons manufacturer, which stood below EUR 100 in February 2022, is now approaching the EUR 2,000 mark, while shares in Leonardo, an Italian defense corporation rose from EUR 6 in February 2022 to EUR 50 in March 2025, and the stock price of Colt CZ Group, a Czech arms manufacturer also went from EUR 500 to over EUR 750 over the same period².

Although political will to increase defense spending is growing, the financial architecture needed to support this transformation remains incomplete. The availability of financing for defense companies has been significantly restricted, particularly for small and medium-sized enterprises (SMEs). SMEs play a crucial role in the supply chain and are also a driving force behind innovation. According to the study published by the European Commission's Directorate-General for Defence Industry and Space (DG DEFIS)³ in January 2024, approximately 40% of the defense SMEs found access to finance to be either difficult or very difficult. The conservative estimate of this study quantifies an equity financing gap in average of EUR 2 billion and a debt financing gap between EUR 1 to 2 billion for SMEs in the defense sector. Bridging this gap in financing demands strong commitment from the governments of the EU member states and targeted funding mechanisms that are both collaborative and innovative.

Defense financing is no longer just about budget lines and procurement cycles. It touches every layer of the economy—from the ability of SMEs to secure innovation capital, to the role of national development banks and the emerging participation of private equity investors. New instruments like the NATO Innovation Fund and SAFE signal a more dynamic approach, yet challenges persist. Structural fragmentation, ESG-driven investment hesitance, and the long development cycles characteristic of defense projects continue to limit the sector's and specifically SMEs' ability to secure financing.

This study aims to highlight the financing instruments, policy tools, and collaborative efforts currently in motion, which could address the funding need of the European defense sector, ensuring security is not only promised, but sustainably delivered.

We hope that our study will provide valuable insights and serve as a thought-provoking read for potential lenders and stakeholders in the defense sector, both private and government.



Importance of defense financing

Defense financing in NATO and the EU has become critical and increasingly important in recent years due to a confluence of geopolitical, strategic, and economic factors. Russia's further invasion of Ukraine in 2022 fundamentally shifted the European security landscape, revealing major gaps in military preparedness and exposing the consequences of years of underinvestment. The EU has recognized that it can no longer rely solely on the U.S. for its security, especially amid uncertainties in American foreign policy (e.g., shifting NATO commitments). Strengthening the strategic autonomy of the EU requires robust, sustainable financing which appears to be lacking in the sector, despite the unprecedented political push for defense spending.

In the defense sector there is a remarkable difference between public companies and SMEs in their access to financing. Large public companies enjoy strong access to capital markets, as evidenced by the defense sector raising over EUR 1 billion in new funds since 2019 through IPOs—a development not unrelated to the outbreak of the war in Ukraine. Moreover, their access to debt financing is also wider through state-owned development banks, the European Investment Bank (EIB), or even commercial banks. On the other hand, SMEs in the defense sector rely on funding through government programs and are facing high barriers for both equity investments and debt financing. Equity investors often see high compliance risk in investing in defense SMEs due to the controversial nature of the sector while reluctance of banks stems mainly from concerns over reputational risk and the challenges in confidently evaluating dual-use technology. This issue is significantly more pronounced for defense SMEs, which generally face fewer financing barriers, as survey data collected by the European Commission's DG DEFIS in January 2024⁴ shows that defense SMEs are far less likely to seek or obtain external funding than SMEs in other sectors, highlighting a sector-specific financing gap.

European SMEs have massive financing needs, stemming from prolonged underinvestment and production infrastructures originally optimized for peacetime demands. A study published by DG DEFIS in January 2024 identifies a significant funding gap, defined as the unmet financing demand of defense companies as estimated from survey data, with estimated shortfalls ranging from EUR 1 to 2 billion for debt financing and EUR 1 to 3 billion for equity financing. This shortfall limits the companies' ability to invest in innovation, dual-use technologies, and capacity expansion, which are crucial for maintaining Europe's defense capabilities and strategic autonomy. To remain competitive, these firms must secure substantial funding to modernize their operations and incorporate advanced technologies such as artificial intelligence (AI), robotics, or even quantum computing, which can revolutionize cyber warfare by making current encryption methods obsolete. However, accessing adequate financial resources is hindered by multiple structural and regulatory barriers.

- **Long R&D periods of 5-10 years** – young companies in the defense industry have a lengthened period of research and development (R&D) as their products are often highly complex, with high development costs and stringent regulatory and safety requirements.
- **High barriers to entry** – strict government regulations, massive upfront investment requirements, and the need for specialized expertise make it difficult for new entrants to compete in the defense sector.
- **Low unit volumes** – defense products are produced in small batches due to limited government demand, high per-unit costs, and the long service life of military equipment.

- **High customer concentration** – most defense companies rely on contracts from a few national governments or international alliances, limiting market diversification and increasing dependency on political decisions.
- **Reasons for funding** – the main reasons why defense companies look for funding differ from that of traditional companies, as they seek new capital to invest in R&D, launch a new product or service, or establish new production facilities, as per the survey data collected by the European Commission's DG DEFIS.
- **Atypical go-to-market costs** – lengthy government procurement cycles, complex negotiations, and political factors drive up the cost and duration of securing defense contracts.
- **Government budget uncertainty** – defense spending fluctuates due to changing political priorities, economic conditions, and fiscal constraints imposed by national and EU policies.
- **Low spending on defense R&D in Europe** – EU member states' spending on defense R&D grew at a slower pace in 2024 than defense procurement, from EUR 11 billion to 13 billion (~18%), compared to EUR 61 billion to EUR 90 billion (48%) between 2023 and 2024, according to the European Defence Agency (EDA).
- **Political shifts and uncertainty** – evolving security threats, public skepticism toward defense spending, and arms export restrictions create an unpredictable market environment for defense companies.

Survey data presented in the January 2024 study by the European Commission's DG DEFIS shows that SMEs in the defense sector face higher barriers to credit compared to other industries, with 40% reporting difficulties in securing funding, and many avoiding traditional bank loans or equity financing altogether.

SMEs are regarded as the backbone of the defense supply chain, playing a crucial role in supplying the production of the prime defense contractors such as Rheinmetall, or Airbus. Moreover, SMEs are pivotal in driving innovation within the industry. However, their important role in the defense sector does not match their relative weight in the industry. According to the DG DEFIS study, there are more than 2,500 SMEs in Europe's Defense Technology and Industrial Base (EDTIB) but their contribution to the overall industry is very small in terms of revenue and employment. For instance, in Germany, only 5.4% of defense sector employees work in SMEs. Additionally, their combined annual revenues account for merely 3.4% of the country's total revenue. This pattern is observed across other EU countries, suggesting that challenges in securing financing hinder the defense SME sector from fulfilling its potential role in the industry.

In the following sections, the factors establishing the framework for defense spending and the potential financing options will be explored.





Defense Budgeting and Funding Mechanisms

The state budgets and the actual expenditures by countries on defense fundamentally define the demand for the defense industry, and consequently the financing required to meet this demand. Before we examine the various layers of defense budgeting (NATO, EU, country-level) and funding mechanisms, it is essential to understand what constitutes military/defense spending.

1. Definition of military spending

Under the framework of Classification of the Functions of Government (COFOG)⁵, Eurostat includes the following components in defense expenditure⁶:

- **Military Defense:** Covers the operation and maintenance of armed forces, including personnel costs, equipment procurement, and infrastructure.
- **Civil Defense:** Involves activities related to emergency preparedness and response to protect civilians during conflicts or disasters.
- **Foreign Military Aid:** Refers to financial or in-kind assistance provided to foreign governments for military purposes.
- **Defense-related Research and Development (R&D):** Encompasses expenditure on R&D activities specifically aimed at advancing defense capabilities.
- **Defense Expenditure Not Elsewhere Classified:**

While Eurostat adheres to the COFOG classification, NATO's definition⁷ is wider as it includes all current and capital expenditures on the armed forces, including peacekeeping forces, defense ministries, and other government agencies engaged in defense projects. In March 2025, the European Commission clarified, the COFOG classification will be used as the standard definition of defense expenditure.

The European Union (EU) and NATO have been actively working on enhancing their defense budgets and instruments to address the evolving security challenges, particularly considering the war in Ukraine.

Before discussing these defense programs and instruments, it is worth briefly addressing the NATO-EU relationship in the context of defense budgeting.

2.The implication of roles of NATO and EU on the defense budgeting.

NATO is primarily a military alliance focused on collective defense and serves as the main pillar of Europe's territorial defense. Although it has a relatively small common budget which covers operational costs of NATO itself but the main power behind its military strength is represented by each member state's commitment to spend a certain portion, currently 2%, of their GDP on defense⁷.

However, in the EU defense activities focus on capability development, research and innovation, coordination, and joint procurement, not on direct collective defense operations.

While NATO focuses on collective defense and operational readiness, the EU provides complementary support through funding mechanisms aimed at capability development, research, and joint procurement. There could be some areas overlapping (standardization projects or joint investments in new technologies) but there is no duplication in core military responsibilities.

3. NATO defense spending commitments

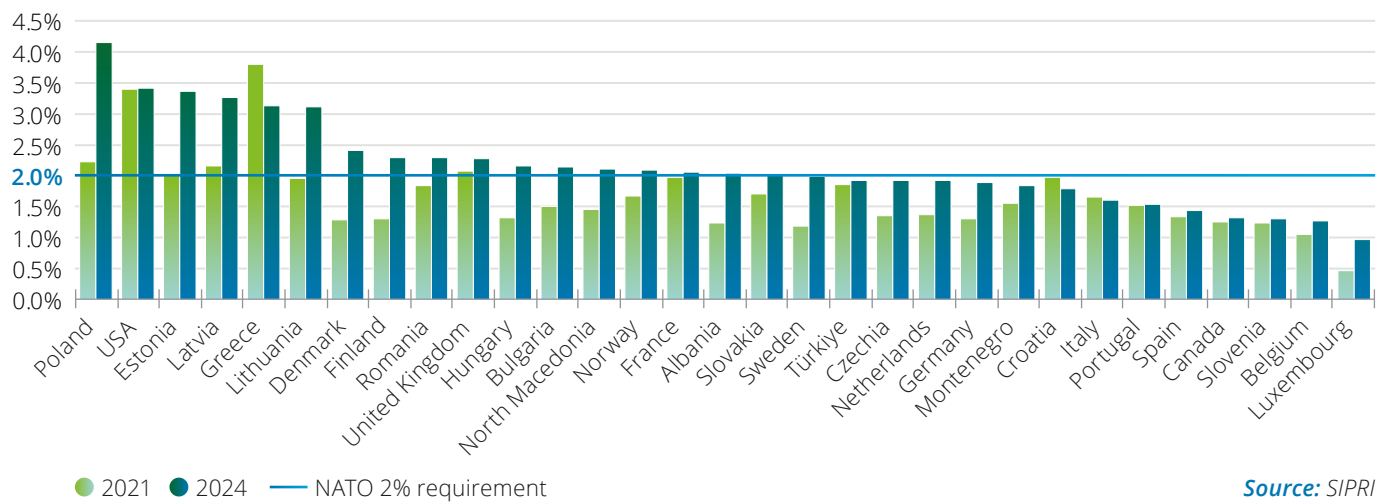
NATO has been actively working on enhancing its military capabilities and defense spending commitments, particularly in response to the evolving security landscape marked by the Russian-Ukrainian war.

NATO countries are urged to increase their defense budgets beyond the traditional target of 2% of GDP, with discussions underway to potentially raise this to 3% by 2030. Most recent declarations indicate even higher targets potentially reaching 5% of GDP (3.5% for core military spending plus 1.5% for broader security-related spending such as infrastructure or cybersecurity).⁸ This is driven by the growing need to replace Soviet-era equipment in some countries while simultaneously building up military capabilities rapidly that were neglected for decades. Additionally, there is external pressure from the new US administration, that has been vocal about the need for increased military investments. The alliance's commitment to strengthening its defense posture is further underscored by initiatives such as the European Deterrence Initiative, which aims to bolster NATO's capabilities in response to Russian threats.

To assess the military spending potential of European NATO countries and estimate the spending gap caused by the lack of government spending, we have calculated the actual military spending of these countries for the years 2019-2024, and their potential spending assuming every country with spending below 2% of GDP spent the NATO-mandated 2%. Additionally, we have also calculated the spending potential if the 3% of GDP spending target was reached.^{9,10}

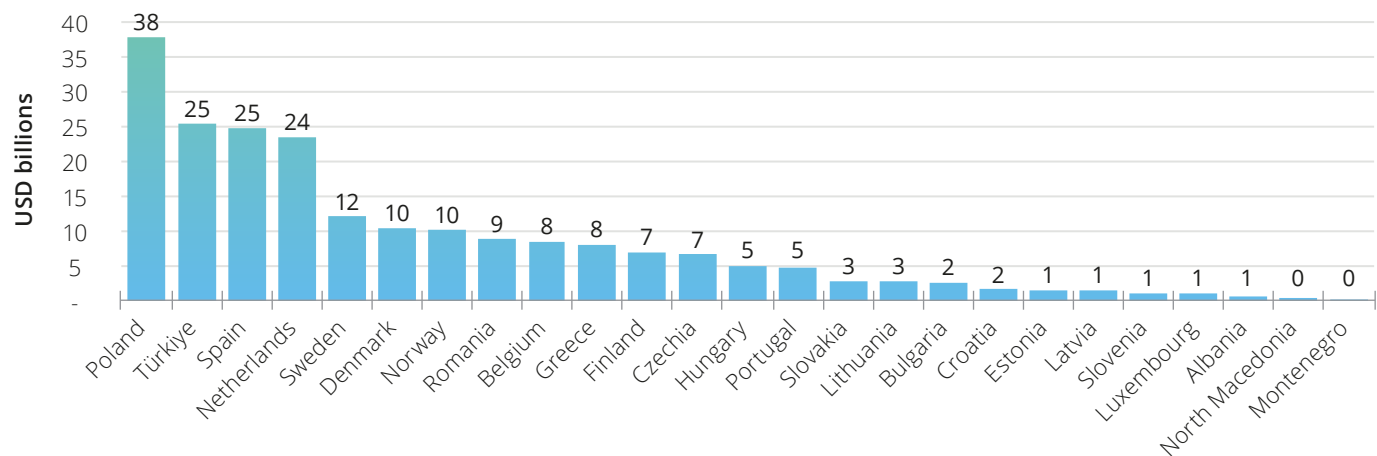
Our analysis shows us that although the overall spending converged to the 2% guideline by 2024, there were still countries below this spending level, while the 3% spending goal is still out of reach, and would require around EUR 250 billion additional spending annually by these countries. According to our estimates, the spending gap between 2019 and 2024, compared to the 2% spending guideline is over EUR 400 billion, while an additional EUR 1.6 trillion military spending could have been achieved, had countries spent at least 3% of their GDP on defense.

Military spending as a % of GDP of NATO countries



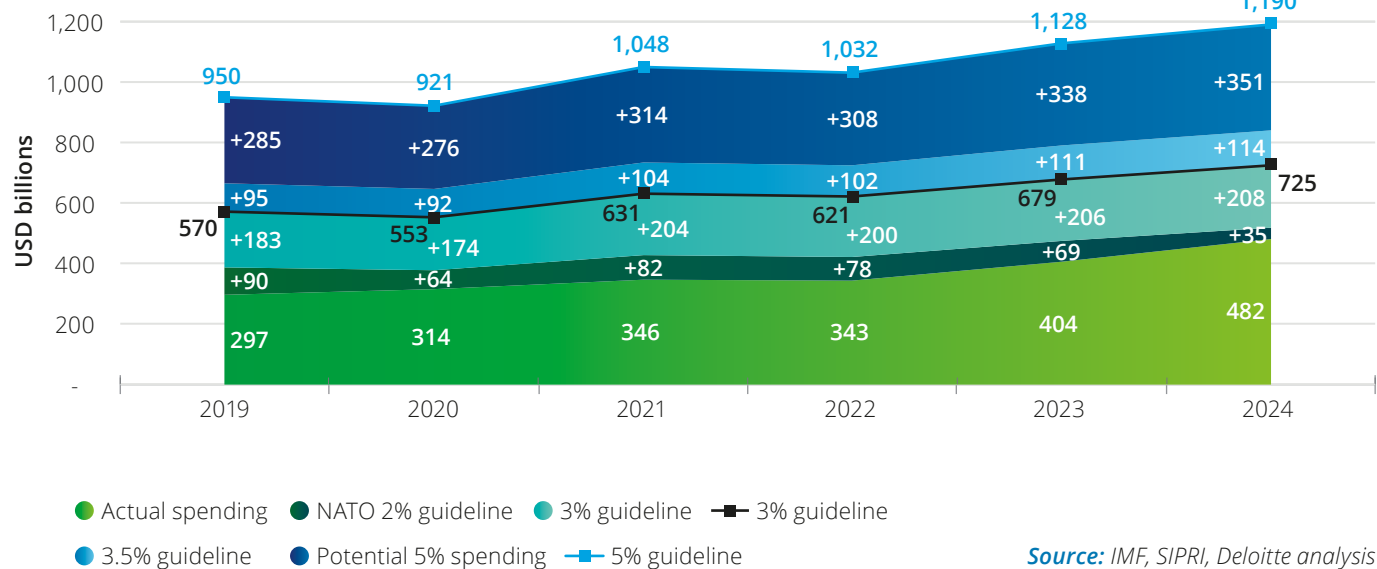
Source: SIPRI

Military spending of selected European countries in 2024



Source: SIPRI

Military spending of European NATO countries



Source: IMF, SIPRI, Deloitte analysis

To meet the proposed defense spending target of 3.5% of GDP, European NATO countries would have needed to raise their 2024 defense budgets by a combined EUR 357 billion. On top of that, reaching a 5% spending level would have required an additional EUR 351 billion. Had European NATO members allocated 5% of their GDP to defense annually between 2019 and 2024, the cumulative additional investment in the European defense industry would have reached approximately EUR 4 trillion.

Moreover, the influx of new military hardware requires additional investments in personnel training and infrastructure, such as storage facilities and maintenance capabilities. Countries like Poland are planning to double the number of professional soldiers while simultaneously committing to spend over 4% of their GDP on defense. This includes large-scale procurement programs for military hardware such as fighter jets, tanks, and helicopters. More broadly, Eastern European member states are leading the way in boosting defense budgets, collectively increasing their expenditures from below USD 50 billion in 2023 to approximately USD 70 billion in 2024. However, these additional expenditures add further economic pressure, as they risk straining state budgets and may necessitate cuts in other areas, such as social services or infrastructure development.¹¹

4. Supplementary funding option for the EU member states

Public opinion across the European Union strongly supports an increased role for the EU in defense and security. According to the Winter 2025 Eurobarometer survey, two-thirds of Europeans believe that the EU should take on a more important role in protecting its citizens from global crises and security risks, with even higher, 70% support among young people. Defense and security emerged as the top priority for reinforcing the EU's global position, selected by 36% of respondents. Furthermore, the perception of EU membership as beneficial is increasingly tied to its ability to protect peace and enhance security, now cited as the leading reason for supporting EU membership by 35% of citizens. Amid geopolitical tensions and shifts in transatlantic alliances, particularly following the U.S. election, Europeans are calling for greater unity among member states and more resources for the EU to address these challenges.

To meet the expectations of European citizens, the European Commission, as part of the ReArm Europe/Readiness 2030 initiative announced in March 2025, the European Commission has proposed exempting defense spending from EU fiscal rules that cap annual government expenditures, allowing member states to annually allocate up to 1.5% of their GDP to supplementary defense expenditure for a period of four years starting in 2025. The countries who have applied by May 2025 to exempt defense spending when calculating their budget criteria are Germany, Poland, Belgium, Denmark, Portugal, Estonia, Finland, Latvia, Greece, Slovakia, Hungary and Slovenia¹². After this period, governments will need to adjust their budgets to sustain higher defense expenditures. If all EU countries utilize the increased cap, this measure could generate up to EUR 1 trillion in new spending, though the European Commission's estimation is only around EUR 650 billion, as not all EU countries are likely to use this option to the full and not immediately. The 2021-2027 seven-year EU budget of EUR 1.2 trillion lacks substantial defense funding, but certain cohesion funds—typically used for regional economic development—could be redirected toward defense-related infrastructure, such as civilian shelters and reinforced transport routes for military mobility. The decision to use this exemption remains at the discretion of individual governments.¹³

In addition to the EUR 650 billion in increased national defense spending, the other pillar of the ReArm Europe / Readiness 2030 program is the Security Action for Europe (SAFE) instrument.¹⁴ This mechanism enables the European Commission to borrow EUR 150 billion from capital markets and provide it to member states as loans for defense projects. These loans are exempt from the usual EU debt and deficit rules, allowing member states to boost defense expenditures without breaching the fiscal constraints of the Stability and Growth Pact. Backed by the EU budget and benefiting from the EU's strong credit rating, these competitively priced, long-duration loans will be available upon request and tied to national Defense Industry Investment Plans. Disbursements will be demand-driven, with oversight through biannual progress reports.

While the EU encourages its member states to increase their defense spending by relaxing certain budgetary constraints, it also provides a range of community-level funding programs and instruments aimed at supporting capability development, research and innovation, coordination, and joint procurement in the defense sector.

In the following section, we are providing an overview of these funding programs and instruments.

Strategical directions

EDIS

Operational steps

EDIRPA | Common procurement

ASAP | Urgent production

EDIP | Mid-term steps

EDF | Research and development

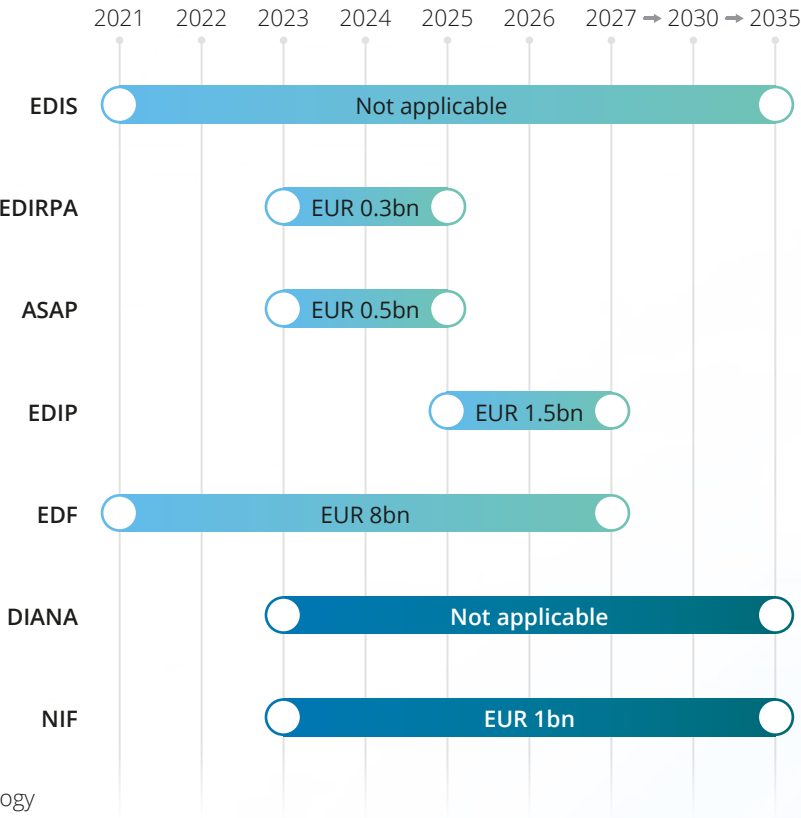
DIANA | Dual-use technologies

NIF | Defense tech VC

Procurement Manufacturing Technology

European Union NATO

Programme budget and timeline



Source: European Commission, NATO

5. Military funding programs and instruments in the EU

EDIS, the high-level strategic plan¹⁵

EDIS (European Defence Industrial Strategy) is the overarching strategic framework aimed at consolidating and enhancing the defense industrial readiness and competitiveness of the European Union. It sets a vision for the European defense industrial policy until 2035 by strengthening the European Defence Technological and Industrial Base (EDTIB). Key objectives include:

- At least 50% of defense procurement should come from European sources by 2030, increasing to 60% by 2035.
- 40% of defense equipment should be collaboratively procured.
- 35% of defense products should be traded among EU states.

As of April 2025, 4 programs have been announced and/or completed under the EDIS framework: the European Defence Industry Reinforcement Through Common Procurement

EU product ASAP, EDF

22%
March 2022 - June 2023 → min: 50%
Until 2030

Procurement based on member state cooperation, EDIRPA

35%
Goal set in 2007, unsuccessful → min: 40%
Until 2030

Trading among member states

18%
2022 → min: 35%
Until 2030

Source: European Commission

Act (EDIRPA), the Act in Support of Ammunition Production (ASAP), the European Defence Industry Programme (EDIP) and the European Defence Fund (EDF). In the following section, we provide an overview of these programs.

EDF, the core investment engine¹⁶

The European Defence Fund (EDF) has an EUR 8 billion budget for 2021-2027, with EUR 2.7 billion for collaborative defense research and EUR 5.3 billion for collaborative capability development. Funding is mainly provided through grants covering up to 100% of eligible costs, with bonuses for SMEs, mid-caps, and Permanent Structured Cooperation (PESCO) projects. PESCO is the framework that enables groups of EU countries to develop defense capabilities together more closely and more bindingly. Projects developed under PESCO can apply for co-funding from the EDF. PESCO and EDF are deeply interconnected — PESCO is the political cooperation umbrella; EDF is the financial enabler.

Applications to EDF funds require a consortium of at least three Member States or associated countries (currently Norway), except for disruptive technology projects, which need only two entities from two countries. EU-based recipients must have EU-based management. In 2023, SMEs made up 50% of participants and requested 30% of grants, with EUR 840 million expected to be allocated to SMEs by 2027

EDIRPA, the joint procurement accelerator¹⁷

As an emergency measure after the Russian invasion on Ukraine, the EC proposed a regulation establishing the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) on July 19 2022. The regulation was adopted by the European Parliament and the Council on 18 October 2023 and on 15 March 2024, the European Commission adopted the EDIRPA Work Programme and launched calls for proposals with a total budget of EUR 310 million, divided into three thematic calls of EUR 103.2 million each – in the joint procurement of ammunition, air and missile defense and platforms and systems replacement. The initiative aims to enhance EU defense cooperation by aggregating demand, simplifying common procurement, and improving interoperability among EU armed forces. A key goal is to increase manufacturing capacity and reduce fragmentation, given the EU’s 179 weapons systems compared to 33 in the U.S. in 2023.

ASAP to address critical shortages in defense products¹⁸

ASAP (Act in Support of Ammunition Production) aims to boost ammunition production across Europe to help member states replenish stocks and support Ukraine by addressing supply chain bottlenecks. With over EUR

500 million in identified projects, it funds production in explosives, powder, shells, missiles, and artillery munitions. ASAP and EDIRPA complement each other, addressing supply and demand, with total funding expected to exceed EUR 1.5 billion, expanding production capacity across Europe.

EDIP, the long-term joint procurement tool¹⁹

The European Defence Industry Programme (EDIP) aims to bridge the gap between the ending of the short-term emergency measures such as ASAP and EDIRPA and ensure the EU’s defense industrial readiness for the future by establishing a long-term instrument for permanent joint procurement at EU level. EDIP looks to:

- Provide financial support with EUR 1.5 billion from the EU budget over the period 2025-2027
- Strengthen the competitiveness and responsiveness of the European Defence Technological and Industrial Base (EDTIB)
- Ensure the availability and supply of defense products
- Promote cooperation with Ukraine on the recovery, reconstruction and modernization of its defense industry

Accessing financing from EU defense programs

Calls for proposals for these EU defense programs can be found on the EU Funding & Tenders Portal²⁰, with detailed descriptions of the application process, eligibility criteria, and requirements. However, for a successful application, companies must consider main strategic objectives and criteria of the respective programs. These include the following:

- Projects must align with EU-level strategic objectives, showing how they fit into or complement defense capabilities. SMEs can take part in EU and national defense strategy workshops to align with strategic initiatives. Some programs, including EDF, differentiate between research programs and capability development programs, making it crucial for applicants to define their role.
- Apply with collaborative or joint projects in a consortium, such as with a defense prime as lead contractor (e.g. PGZ in Poland or N7 in Hungary), together with a research institute, or with a national defense ministry as the end-user. SMEs can network at matchmaking events and programs like the EUDIS Business Accelerator and Matchmaking with larger companies to secure partnerships.
- To enhance collaboration among member states, EDF projects must involve at least three entities from 3 different EU or associated countries, however, for disruptive technology projects, 2 entities from different countries are also sufficient.
- Technologies with potential for both military and civilian use may (dual use) receive more favorable consideration, thanks to a more diverse accessible customer base.
- Funds often do not cover 100% of project costs, therefore co-financing from national grants, development programs, or private investors is required.
- Companies can stay updated at national EDF contact points or at the European Defense Agency.

Owing to the reasons mentioned above, it is essential that SMEs in the defense sector or SMEs looking to expand in the sector are coordinated, which can be achieved through government-level support and coordination.

6. NATO initiatives supporting defense innovation

Similar initiatives are available on NATO-level as well; below we highlight the two deeply connected programs focusing on accelerating dual-use innovation across the NATO countries.

NATO's **Defence Innovation Accelerator for the North Atlantic** (DIANA)²¹ is a program designed to foster innovation in dual-use technologies, which have both civilian and military applications. DIANA aims to support start-ups, scale-ups, and spin-out companies (focusing on energy resilience, undersea sensing and surveillance, secure information sharing, and other domains) by providing them with resources, networks, and guidance to develop technologies that address critical defense and security challenges. The program includes a network of accelerator sites and test centers across NATO member countries, offering mentorship, testing facilities, and access to investor and end-user networks.

DIANA is complemented by the **NATO Innovation Fund**²², a EUR 1 billion venture capital fund (launched in parallel) to invest in early-stage startups working on dual-use technologies. While DIANA provides acceleration and test facilities, this fund offers actual equity investment.

Having presented the collective funding schemes and programs available at the NATO and EU levels, we now turn our attention to how the increased demand for defense spending is translating into the national budgets of the largest countries in the CE region. This regional perspective allows us to assess not only the alignment with collective commitments, but also the capacity and priorities of individual member states in meeting the evolving security challenges.

7. Defense budgeting of the 4 selected CE countries, defense programs and initiatives in support of modernization and deterrence

Poland

Poland is leading the defense spending among NATO's Eastern European members, allocating over 3.8% of its GDP to defense in 2023. The country is investing in the production of military equipment domestically, with plans to allocate over 50% of its defense budget to develop its own production capabilities, which could benefit other linked sectors like battery, EV, and chip industries. Poland has launched Europe's first Defense and Security Fund, financed with PLN 30 billion (EUR 7.2 billion) from the EU's National Recovery Plan (KPO), to invest in shelters, dual-use infrastructure,

and the domestic defense industry. Prime Minister Donald Tusk emphasized that these investments, including the Shield East initiative and military modernization, aim to strengthen Poland's defense capabilities, deter aggression, and ensure long-term security.²³

Hungary

Hungary, spending 2.1% of its GDP on defense expenditure in 2023, is focusing on modernizing its military equipment and has also invested significantly in reviving its national arms industry, including the acquisition of Hirtenberger Defense Systems (Austria) and partnering with Colt CZ Group (Czech Republic) and Rheinmetall (Germany) to produce weapons domestically. Hungary's Zrínyi 2026 defense modernization program, with a EUR 13 billion investment, represents the most extensive military transformation in Central Europe since the Cold War, aligning Hungary's forces with NATO standards.²⁴

Hungary offers a broad range of investment incentives—particularly in the form of cash grants and tax benefits—across all industries, including the defense sector. Outside Budapest, investors can access a combination of cash grants and corporate tax allowances for manufacturing projects and research centers. For large enterprises, these incentives can cover between 30% and 60% of investment costs, depending on the region. While the military industry is not excluded, it is in fact especially favored in certain cases.

Nationwide, additional incentives are available for research and development (R&D) projects. These include cash grants covering 25% to 50% of project costs (depending on location) and tax incentives of up to 11.3%. Furthermore, energy efficiency projects are eligible for support through both corporate income tax benefits and cash grants.

Czech Republic

The Czech government's defense spending—including the Ministry of Defense and other relevant chapters—is projected at CZK 160.8 billion in 2025, which represents 2% of GDP. A similar amount was allocated in 2024, reflecting a 35.24% increase compared to the 2023 budget. The country is prioritizing the development of well-equipped, well-trained, and combat-ready armed forces for high-intensity defensive warfare. Its defense strategy emphasizes NATO cooperation, operational preparation of national territory for Allied support, expansion of military reserves, and strengthening resilience against hybrid threats such as cyber-attacks and disinformation.²⁵

Romania

Romania, which spent 1.6% of GDP on defense in 2023, is modernizing its military to counter regional security threats, particularly Russia's actions in the Black Sea. Its National Defense Strategy (2020-2024) prioritizes strengthening NATO's deterrence, maintaining at least 2% of GDP for defense, and investing in acquisitions, research, and innovation. As part of this effort, Romania is acquiring 32 F-35 fighter jets and upgrading its artillery, naval, and missile systems. The country also supports NATO resilience initiatives, hosts military bases, and participates in strategic exercises like Dacian Spring.

Romania's defense investment strategy is anchored in its increased budgetary commitment — raising defense spending from 2% to 2.5% of GDP, or approximately USD 7 billion annually — and grounded in the three pillars of its external security architecture: NATO membership, EU integration, and its strategic partnership with the United States. The urgency of these investments has intensified due to the proximity of the war in Ukraine, necessitating faster procurement timelines and modernization efforts.

Key upcoming public investments include:

- **C4ISTAR Systems:** Advanced integrated Command, Control, Computers, Communications, Intelligence, Surveillance, Target Acquisition, and Reconnaissance platforms to enhance situational awareness and decision-making.
- **SHORAD/VSHORAD Systems:** Short and very short-range surface-to-air missile systems to strengthen Romania's air defense network.
- **Counter-UAV (Unmanned Aerial Vehicle) Systems:** Modern anti-drone solutions aimed at neutralizing evolving aerial threats.
- **Tactical UAVs:** Procurement of seven Class II tactical-operational Unmanned Aircraft Systems to deliver continuous, real-time intelligence without risking personnel.
- **MANPADs:** Man-portable air-defense systems for rapid, flexible, and close-range protection against airborne threats.²⁶



Financing solutions in the defense sector

1. Government-related financing

1.1. PPPs in the defense sector

Public-private partnerships (PPPs) in the defense sector are set up to deliver certain infrastructure and equipment under a long-term contract between a public authority and a private partner. PPP structure typically requires the private party to finance the capital investment upfront while the public security and defense authority makes payment to the private party based on the delivery of contractually defined service outputs over the term of the contract. PPPs in the defense sector typically involve collaboration between government defense units (such as MoD, army, military procurement agencies) and companies from the private sector.

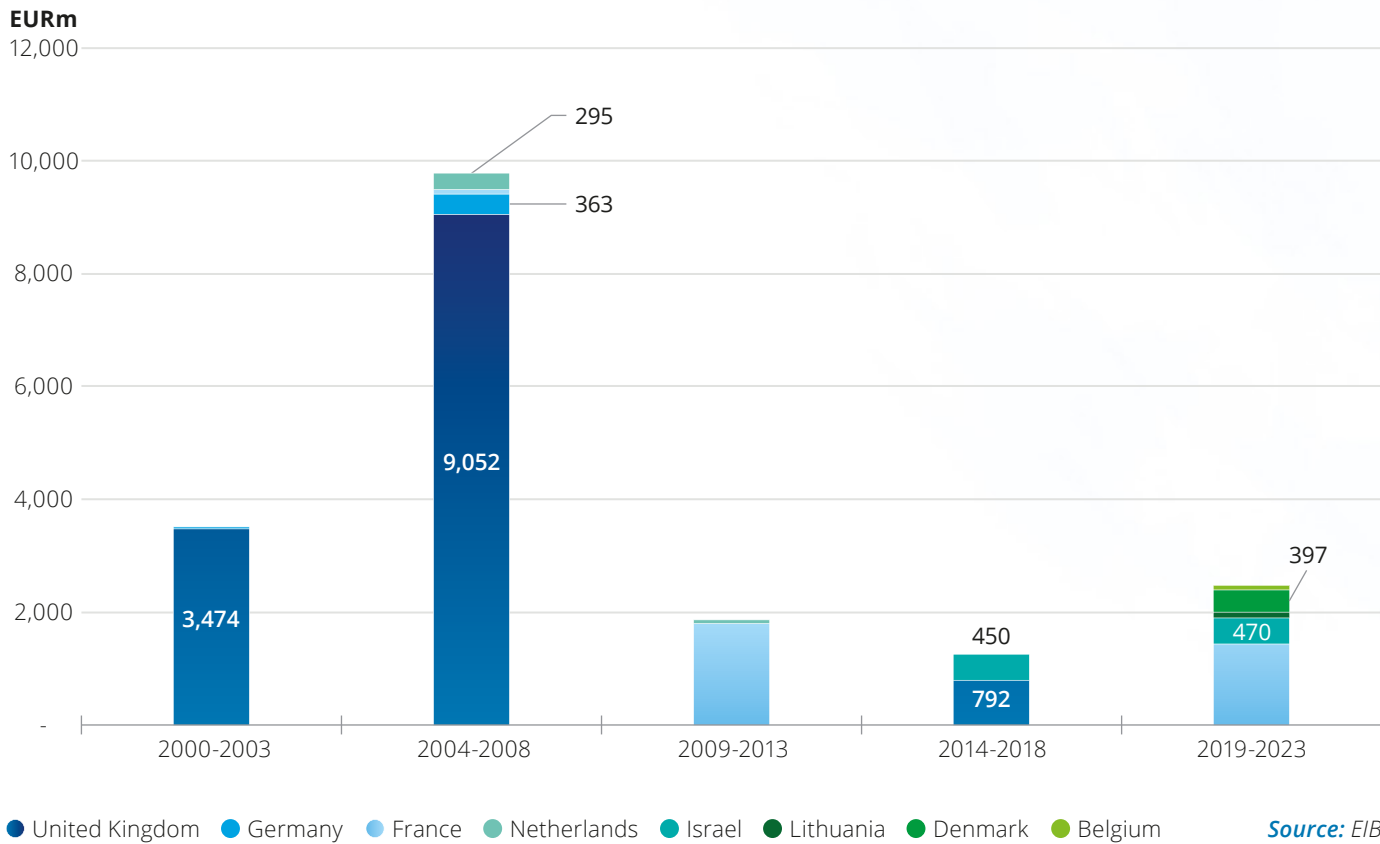
Many NATO and EU countries use PPPs in the defense/ military sector as it enables governments to effectively manage budgetary constraints while addressing their operational needs by mobilizing the technical and financial resources of the private sector. PPPs in defense are not considered part of defense spending if the government makes only availability or service payments over time while the private partner finances and operates the asset, and retains the associated risks (construction, availability, demand etc.). Governments sometimes structure defense PPPs specifically to avoid immediate impact on deficit and debt figures.

However, PPP structure is still less common compared to projects in the civilian sector, due to the defense sector’s unique sensitivity, security demands, and political visibility. Moreover, many PPP contracts are long-term (20–35 years) and rigid, limiting the government’s ability to adapt to evolving military needs or technologies.

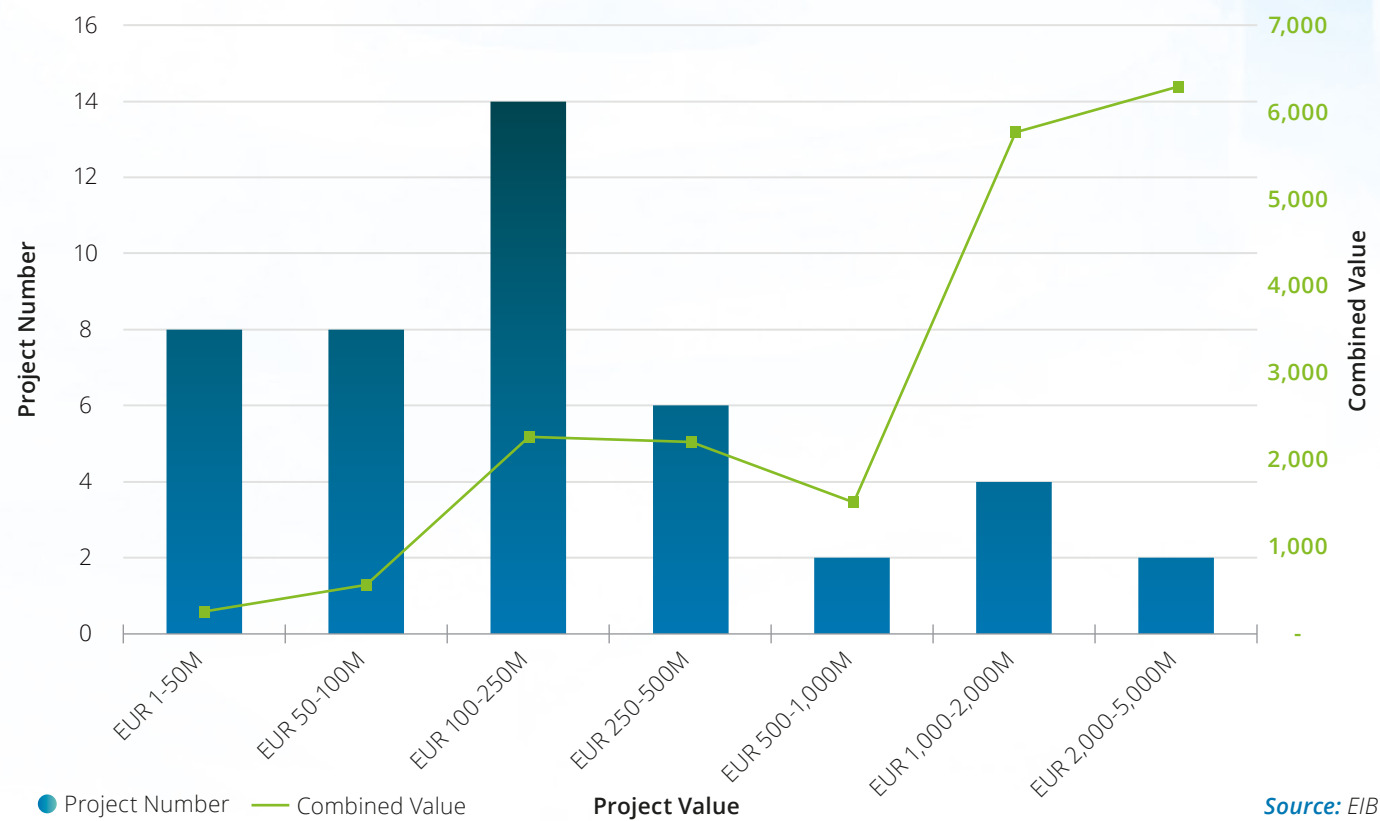
According to the database of European Public-Private Partnership Expertise Centre (EPEC)²⁷, the total value of PPP projects in Europe in the field of security and defense amounted to EUR 18.9 billion between 2000 and 2023, of which EUR 4.6 billion took place in EU Member States. The gap mainly relates to the UK market, which is by far the most active in defense PPP transactions. These projects typically fall under the scope of the Public Finance Initiative (PFI), the UK Government’s procurement policy, which currently has over 700 projects, with many of them starting to expire in 2025, leading to the assets being returned to the authority for ongoing management and maintenance, thus incurring greater costs. Among the member states of the EU, France has the highest number of PPP transactions.

In terms of transaction value, the majority of PPP investments have remained below EUR 250 million. However, a number of larger contracts have been signed since 2023 — the cut-off date of the EPEC analysis — suggesting that the combined contract value would show an uptick if these more recent PPP agreements were also included.

Value of PPPs in the Security and Defense sector reaching financial close 2000-2023 (EUR millions)



European Security and Defense PPP Market by Value Range, 2000-2023

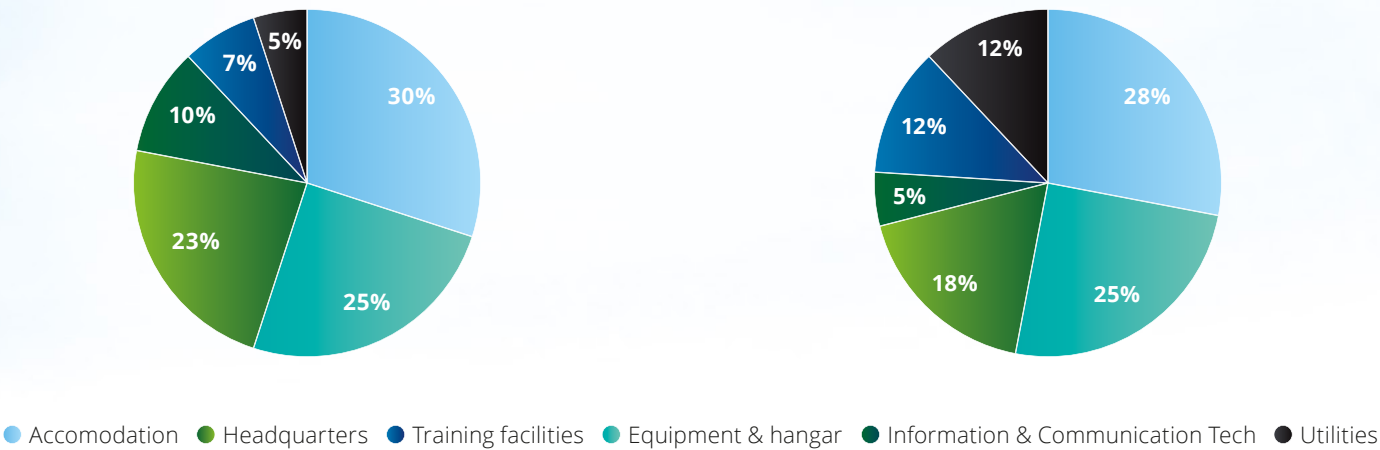


PPP projects relate to a wide range of sub-sectors, including both infrastructure projects – such as barracks – as well as equipment-type projects incorporating advanced technologies. The 2 main sub-sectors of private sector companies in defense PPPs are infrastructure and equipment maintenance & logistics. While the EPEC database provides a more granular project classification, the dominance of the aforementioned categories becomes even more pronounced when analyzing in detail.

Between 2000 and 2023, data from the EPEC database reveals that 27 banks have engaged in at least one security and defense PPP project within the European region. This indicates that there is an increased interest from commercial banks for financing for PPP projects in the defense. BBVA (Spain) and Lloyds Bank (UK) were the most active lenders, each participating in 5 PPP investments.³¹



Type of PPP projects by value, 2000-2023

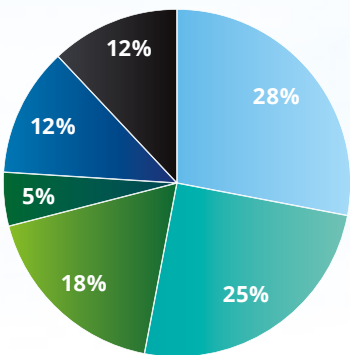


Source: EPEC

In infrastructural projects, private companies develop and manage assets such as army garrisons, barracks, training facilities or military-industrial complex. In logistics, infrastructure, and support services, private sector companies frequently demonstrate higher efficiency and can provide services at reduced cost levels over the long term.

- The construction of the Rūdninkai and Kairiai military towns Lithuania are the two largest PPP projects in the history of the country. The total investment is estimated at approximately EUR 1.6 billion and EUR 454 million, respectively, and the payments to the private partner expected to reach EUR 2.4 billion and EUR 694 million. Both projects will involve not only the design and construction of infrastructure but also the maintenance of the buildings. The maximum PPP contract term is planned at 15 years.²⁸
- Balard-Défense ("French Pentagon") is the 320k square meter headquarter of all three French military services (army, navy, and air force) and Ministry of the Armed Forces located the Balard district of south-west Paris. The PPP contract signed with Opale Defense consortium in 2011 involved the design, development, financing and operation & maintenance of the headquarters. The total project value amounted to EUR 1.55 billion and the term of the concession is 30 years.²⁹

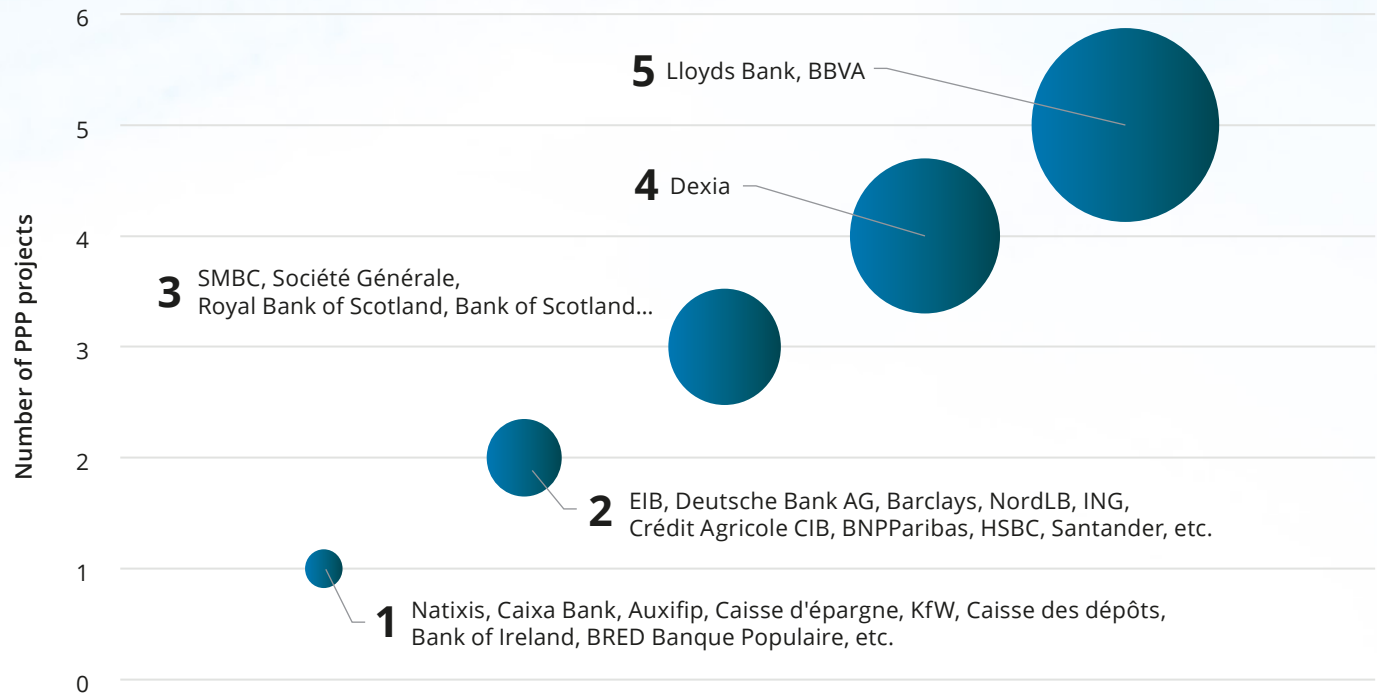
Type of PPP projects by number, 2000-2023



In PPP contracts in the field of equipment maintenance & logistics, the government sets operational goals and retains control over military readiness, while the private sector partner is responsible for handling various logistics functions such as transport, warehousing, maintenance, procurement, and even base operations. This setup allows the army to focus its core activities while leveraging commercial efficiency and innovation.

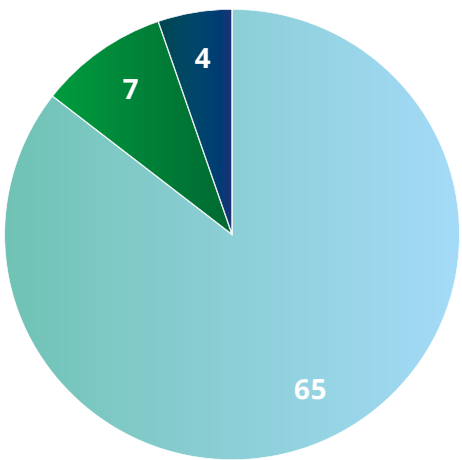
- Under the Logistics Commodities & Services Transformation (LCST) Program, consortium led by Leidos in partnership with Agility and Kühne+Nagel has been responsible for the managing the whole supply of the UK armed forces since 2015. The services provided by the consortium include storage, transportation, procurement, and delivery of food, clothing, fuel, and medical supplies. In this setup, the assets are owned by army/MoD and the Leidos-consortium is managing the operation. The contract term is 13 years with a total value of GBP 6.7 billion.³⁰

Number of PPPs financed, per bank, 2000-2023



Source: EPEC PPP database

Type of lenders in security and defense PPP projects, 2000-2023



When examining the types of lenders involved, commercial banks have financed security and defense PPP projects on 65 occasions. They are followed by national promotional banks and insurance companies.

Source: EIB

1.2. Export Credit Agencies (ECAs) and direct G2G agreements

These government-operated agencies are established to support national economic policy objectives by promoting exports. In the defense sector ECAs are instrumental in overcoming financial barriers and mitigating risks associated with international transactions. ECAs provide customized financial instruments to support domestic defense industry players in managing the complexities of international defense equipment trading which include high-value transactions, extended delivery periods, and political sensitivities.

Defense trade entails significant risks, including geopolitical instability and payment defaults. ECAs provide insurance and guarantees that mitigate these risks, ensuring exporters receive payment and reducing the financial strain. Moreover, the financial backing provided by ECAs enables domestic companies to offer competitive credit terms to foreign buyers, enhancing the attractiveness of their products in the global market. Finally, the assistance from ECAs may create new opportunities for defense exporters to extend their international reach by facilitating entry into.

The influence of ECAs from leading economies such as the United States, United Kingdom, France, and Germany extend beyond the borders of their home country. Their programs contribute to global security and defense collaboration and strengthen alliances by making defense equipment more accessible to partner countries.

The most typical forms of financial support provided by ECAs are the following³²:

- **Loan guarantees** for defense export encourage commercial banks to finance defense transactions by providing a financial backstop to them. If the foreign buyer of defense equipment, i.e. the debtor defaults on their loan given by a commercial bank, ECA covers the outstanding balance, ensuring minimal risk for the commercial lending institution. With ECA guarantees, local manufacturers can secure large export sales contracts, making their products more competitive in the export market due to the favorable loan conditions available to the potential buyers.
- **Direct financing** involves credit agencies (or state-owned banks) providing loans directly to foreign buyers to purchase military equipment from domestic suppliers. This ensures that buyers—especially those with limited financial resources—can secure funding for large-scale defense procurements or long-term construction projects such as naval shipbuilding or aircraft manufacturing. The main distinction between loan guarantees and direct financing is that the latter does not involve commercial banks. In addition to the general advantage of bolstering the local defense sector, direct financing also offers strategic leverage for the financing country by linking defense sales to their geopolitical and diplomatic interests. ECAs often offer preferential loan terms for strategic allies.

Notable governmental institutions which are active in the defense sector are the following:

- **France – BPIFrance Assurance Export:** the agency has a crucial role in strengthening the French defense industry by providing financing to support innovation, increase production capacity and facilitate export sales. BPIFrance has dedicated tools which were developed in partnership with the French government and its defense procurement and technology agency (Direction Générale de l'Armement DGA) to strengthen the competitiveness and resilience of the French defense industry. BPIFrance supports defense companies to raise equity financing as well via its two major schemes: Definvest, which finances strategic defense companies), and the Defence Innovation Fund, which supports start-ups in their defense-related innovation. Definvest helped U-Space, the French nanosatellite start-up U-Space in its successful equity-raise and supported the growth of players such as MC2 Technologies, which specializes in anti-drone systems. BPIFrance has also launched a 12-month financial accelerator program in 2024 which aims to help 30 selected key defense sector subcontractors to increase their productivity.
- **Sweden – SEK (Swedish Export Credit Corporation) & EKN (Exportkreditnämnden):** The role of SEK is to provide financing to Swedish exporters, their subcontractors, and foreign customers while EKN provides guarantee for the domestic exporter if the foreign payer fails to pay. Export sales of Saab, the manufacturer of Gripen fighter aircrafts, are usually backed by these agencies.³³
- **Germany – Euler Hermes:** Euler Hermes, acting on behalf of the German government, provides export credit guarantees—commonly known as “Hermes Cover”—to support German exporters across various industries, including the defense sector. Historically, Germany maintained a conservative stance on granting export credit guarantees for defense-related exports, however, in January 2025, reforms were introduced to enhance the scope of Euler Hermes’ support for the defense industry. These reforms included a standardized coverage policy for defense deals, streamlining application processes, and expanding support to more destination countries, particularly NATO members and key allies of Germany. The objective was to bolster Germany’s defense capabilities and support its industrial base in response to evolving geopolitical challenges.³⁴
- **UK – UKEF (UK Export Finance):** provides direct loans and guarantees to British defense firms like BAE Systems, the manufacturer of Typhoon jet.³⁵
- **US:** the Foreign Military Financing (FMF) program, administered by the U.S. government, provides grants and loans to foreign nations to purchase U.S. military equipment, often with financing support. In 2023 and 2024, the U.S. government provided in total USD 4 billion direct financing for Poland to acquire F-35 fighter jets through FMF.³⁶
- **South Korea:** South Korean state via its Defense Acquisition Program Administration (DAPA) signed a framework agreement with Poland for arms exports in July 2022. Under this agreement, the two nations sealed an arms export deal worth USD 12.4 billion, including the export of K239 Chunmoo multi-barreled missile launchers, K-2 tanks, K-9 self-propelled howitzers and FA-50 light combat aircrafts. Export financing covering about 70% of the contract’s value was provided by Export-Import Bank of Korea (KEXIM) and Korea Trade Insurance Corporation (K-Sure).³⁷
- **France & Belgium:** within the framework of CaMo (Capacité Motorisée), a binational military partnership established in 2019, Belgium purchased 382 Griffon armoured transport vehicles and 60 Jaguar armoured reconnaissance vehicles in frame of a EUR 1.6 billion contract with the French state. In 2022 under the CaMO2 agreement, the cooperation was extended to include 24 additional Griffon vehicles and 28 Caesar guns, with deliveries starting from 2027.³⁸

2. Financing from the capital market

2.1. Defense industry in the capital markets³⁹

The MSCI World Aerospace and Defense Index comprises stocks of large- and mid-cap entities from the aerospace and defense sector, representing companies across 23 developed countries. As of the end of February 2025, the index is heavily weighted toward U.S.-based firms, which account for over 67% of its total composition. The ten largest constituents are predominantly aerospace companies, with Northrop Grumman being the sole firm primarily focused on the defense industry.

Similarly, the MSCI Europe Aerospace and Defense Index includes companies from developed European markets within the aerospace and defense sector. France and the United Kingdom collectively make up more than 78% of the index's weighting. Unlike its global counterpart, the European index features a more balanced representation of aerospace and defense firms, with BAE Systems and Rheinmetall AG holding the highest weights among defense-focused companies.

Between 2015 and early 2020, the MSCI World Aerospace and Defense Index outperformed the S&P 500 by 20 percentage points, whereas the European aerospace and defense sector, represented by the MSCI Europe Aerospace and Defense Index, lagged behind, underperforming the S&P 500 index by 15 percentage points. During the market downturn triggered by the COVID-19 pandemic, the aerospace and defense sector experienced steeper losses than the broader market.

The MSCI World and MSCI Europe Aerospace and Defense indices declined by approximately 50% and 55%, respectively, compared to a 34% drop in the S&P 500. The underperformance of defense stocks can be attributed to multiple reasons, such as the industry's exposure to supply chain disruptions, manufacturing delays, and halted or slowed government spending programs.

Following the initial recovery from the pandemic, the sector continued to underperform until the outbreak of the Russian-Ukrainian war on February 24th, 2022. In the subsequent months, aerospace and defense stocks rallied 80% both in Europe and globally, though still trailing the S&P 500 by approximately 10 percentage points. The war significantly shifted investor sentiment, driving renewed interest in the defense sector, particularly as European governments announced increased defense budgets and procurement programs.

The inauguration of the Trump administration in January 2025 introduced further economic and geopolitical changes. The new U.S. government has expressed concerns over NATO allies' military funding levels, advocated protectionist trade policies, and in parallel, shifted the focus towards domestic industrial growth. These developments led to declines in U.S. equity markets, as they contradicted prior investor expectations. In contrast, European defense stocks surged in early 2025, with the sector gaining 37.6% year-to-date as of March 24th, driven largely by the strong performance of Rheinmetall AG.

MSCI Aerospace & Defense Index – World vs Europe, 2015-2025



2.2. Major European defense industry players

Besides German defense giant Rheinmetall, which manufactures armored vehicles, ammunition and air defense systems, other notable European defense companies are also experiencing growth due to rising defense expenditures driven by geopolitical tensions. Airbus SE is a leading European aerospace firm that manufactures commercial and military aircraft, helicopters, and provides space-related services, with a strong focus on research and development. Thales SA, a French multinational, designs electrical systems and provides services for aerospace, defense, transportation, and security, contributing to European defense advancements. Italy's Leonardo SpA focuses on aerospace, defense, and security, particularly excelling in electronics and land vehicle production through its joint venture with Rheinmetall. The UK-based BAE Systems Plc is one of Europe's largest defense contractors, offering military aircraft, ships, vehicles, weaponry, and electronic systems.

New major players are emerging in the European defense landscape, particularly from Central Europe. Notably, the Czechoslovak Group (CSG) has grown through acquisitions into a holding comprising more than 100 companies and over 10,000 employees worldwide. It has entered the global top 100 defense companies and has demonstrated the capacity to conduct mergers and acquisitions in mature markets, including the United States—where it acquired leading small arms ammunition producer Vista Outdoor for USD 1.91 billion. In Poland, Polska Grupa Zbrojeniowa (PGZ) is a defense conglomerate comprising production plants, service facilities, and research centers that develop advanced military technologies—including radar systems, armored vehicles, drones, and battlefield management tools—based on domestic innovations and global partnerships. As the primary industrial partner in Poland's Armed Forces Technical Modernisation Programme, PGZ collaborates with leading international defense companies to enhance national defense capabilities and technological competencies. Similar trajectories can be observed with Colt CZ Group, STV Group and N7 Holding, all of which have expanded their operations significantly.^{40,41,42}

2.3. IPOs in the defense sector

One of the ways for companies to gain equity financing is to raise capital by listing the stock on a stock exchange through an initial public offering (IPO). Since the beginning of 2019, a total of 13 European companies with defense-sector activities have gone public through IPOs. The most active years were 2021 and 2024, each with three defense-related IPOs. Geographically, France and Sweden led in IPO activity, also recording three offerings each.

In Central and Eastern Europe (CEE), two companies entered public markets: Colt CZ Group (named Česká zbrojovka Group at the time of its IPO), a Czech manufacturer specializing in small arms and ammunition, and Primoco UAV SE, a producer of unmanned aerial vehicles (UAVs). Other notable IPOs include Hensoldt AG, a German provider of electronic sensor solutions, and Theon International, a Cyprus-based imaging technology firm.

The rally in defense sector indexes clearly reflects increased investor interest in listed defense companies. However, this booming inflow of capital has primarily benefited large, publicly traded firms. For smaller or unlisted companies, the potential of raising finance via an IPO remains uncertain. European defense companies have raised little over EUR 1 billion through IPOs since 2019, driven by Hensoldt AG, Theon International and Exosens. Without the top 3 IPOs in the past 5 years, smaller companies have only been able to raise EUR 187 million, compared to the DG DEFIS estimate of the EUR 1 to 3 billion funding gap for equity financing.

IPOs of European defense companies since 2019

EUR million	IPO date	IPO value	Market cap 2025.03.25.	Country	Activity
RC Fornax Plc	2/5/2025	7.4	26.4	UK	Work-package solutions
Odyssee Technologies	12/10/2024	8.0	30.2	France	Precision mechanics
Scandinavian Astor Group AB	8/27/2024	5.7	112.4	Sweden	Defense holding group
Exosens	6/7/2024	349.7	1,742.3	France	Electro-optical technologies
Theon International Plc	2/7/2024	140.0	1,610.0	Cyprus	Night vision, electro-optics and thermal imaging
W5 Solutions AB	12/17/2021	3.4	73.4	Sweden	Training, power and integration solutions
MilDef Group AB	6/4/2021	56.8	907.5	Sweden	Defense IT solutions
Norsk Titanium AS	5/6/2021	27.5	176.4	Norway	3D printing of metal alloys
Colt CZ Group SE	10/2/2020	30.0	1,742.7	Czech Rep.	Firearm and ammunition manufacturing
Hensoldt AG	9/23/2020	400.0	7,819.4	Germany	Electronic sensor solutions
Frequentis AG	5/10/2019	48.6	483.0	Germany	Communication and information systems
Total		1,077.1	14,723.7		

Source: S&P Capital IQ

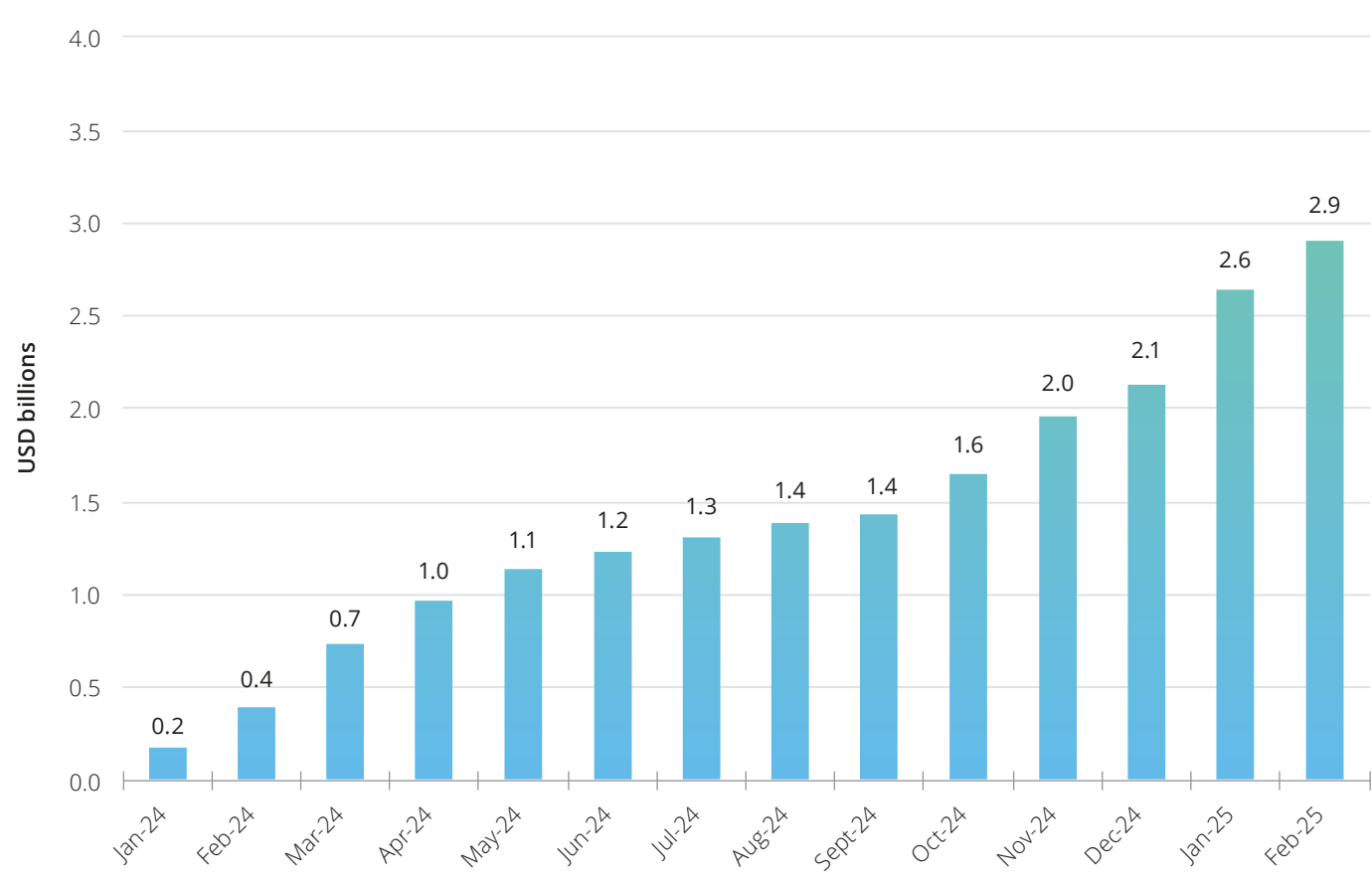
2.4. Asset managers and institutional investors

The number of defense IPOs in Europe might increase in the future as Euronext, the leading European stock exchange sets to extend its pre-IPO program, IPOready to the defense sector. The program will be launched in the third quart of 2025 as part of Euronext’s broader strategy to bolster Europe’s defense capabilities by facilitating access to capital markets for companies in strategic sectors. By providing specialized support and resources, IPOready Defence aims to support European aerospace and defense companies in preparing for public listings, thereby enhancing the continent’s strategic autonomy.

Asset managers play a crucial role in shaping the capital market performance of defense firms. As European governments increase defense spending, the sector is gradually shedding its historically controversial image among institutional investors. Many asset managers are reassessing their investment policies that previously excluded the defense sector, s growing government orders and heightened geopolitical awareness have significantly enhanced the sector’s investment appeal.

In 2024, the number of defense-focused investment funds doubled, approaching 50 in total. While defense-themed exchange-traded funds (ETFs) have gained popularity among retail investors, the sector remains largely dominated by institutional players, including pension funds and insurance companies. According to ETFbook data, the assets under management (AUM) of European defense ETFs have surpassed USD 4.2 billion by February 2025, with European-domiciled defense ETFs boasting USD 2.9 billion in AUM, highlighting the sector’s increasing integration into mainstream investment portfolios.⁴³

European-domiciled defense ETF holdings



Source: Financial Times

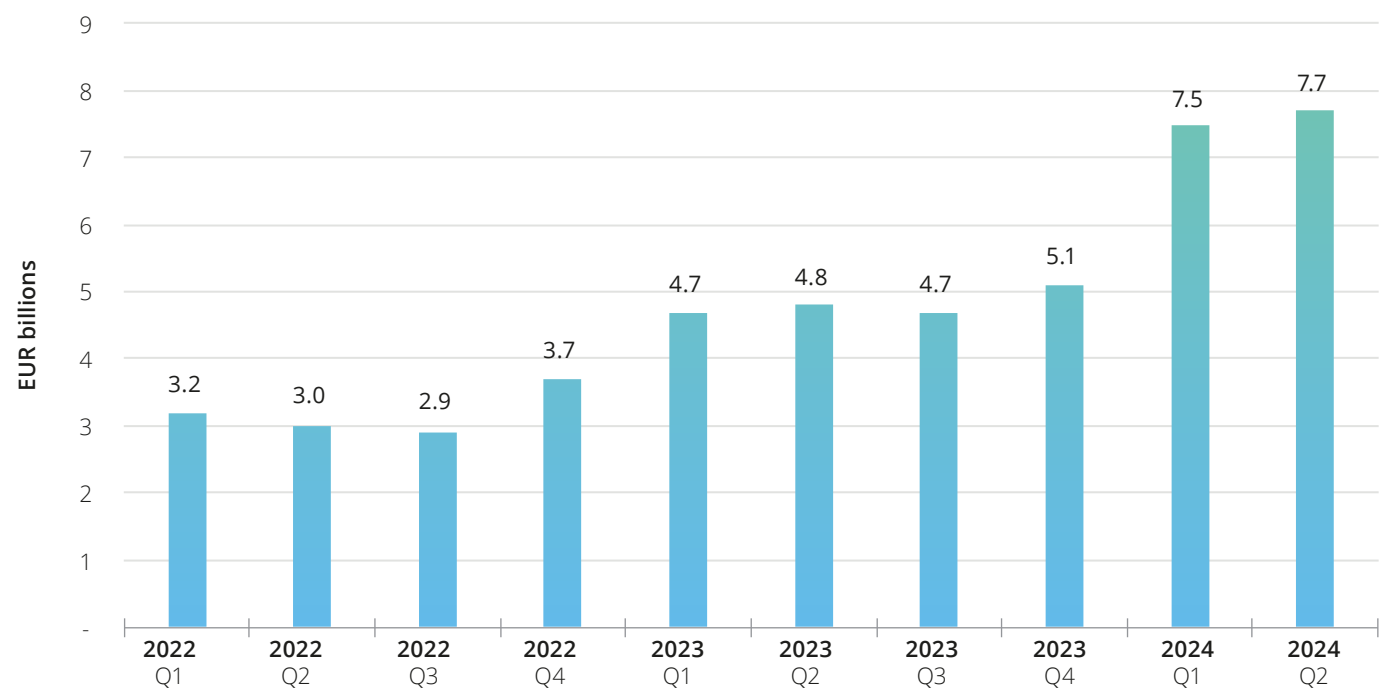
2.5. ESG in the defense industry, from a capital market perspective

The European Parliamentary Research Service, a think-tank aimed to support the European Parliament, is exploring the potential for ETFs to channel private investment into European defense companies, particularly considering shifting U.S. defense policies. Current European defense ETFs allocate a significant portion of their portfolios to U.S. companies, prompting discussions on the creation of a fund focused solely on European firms. However, the limited number of European defense companies poses challenges to meet diversification requirements, leading to broader inclusion criteria which allows the consideration of companies that derive a smaller portion of their revenue from the defense sector. While European defense ETFs have attracted substantial inflows due to geopolitical tensions, industry experts highlight that stock market investments primarily benefit shareholders rather than directly fund industry expansion.

On the ESG front, before the Russian invasion of Ukraine, defense stocks faced a decline in investor interest due to ESG and ethical concerns. There is a shift in public sentiment towards defense companies, coming from the understanding of the role the industry plays in protecting human rights, peace and stability.

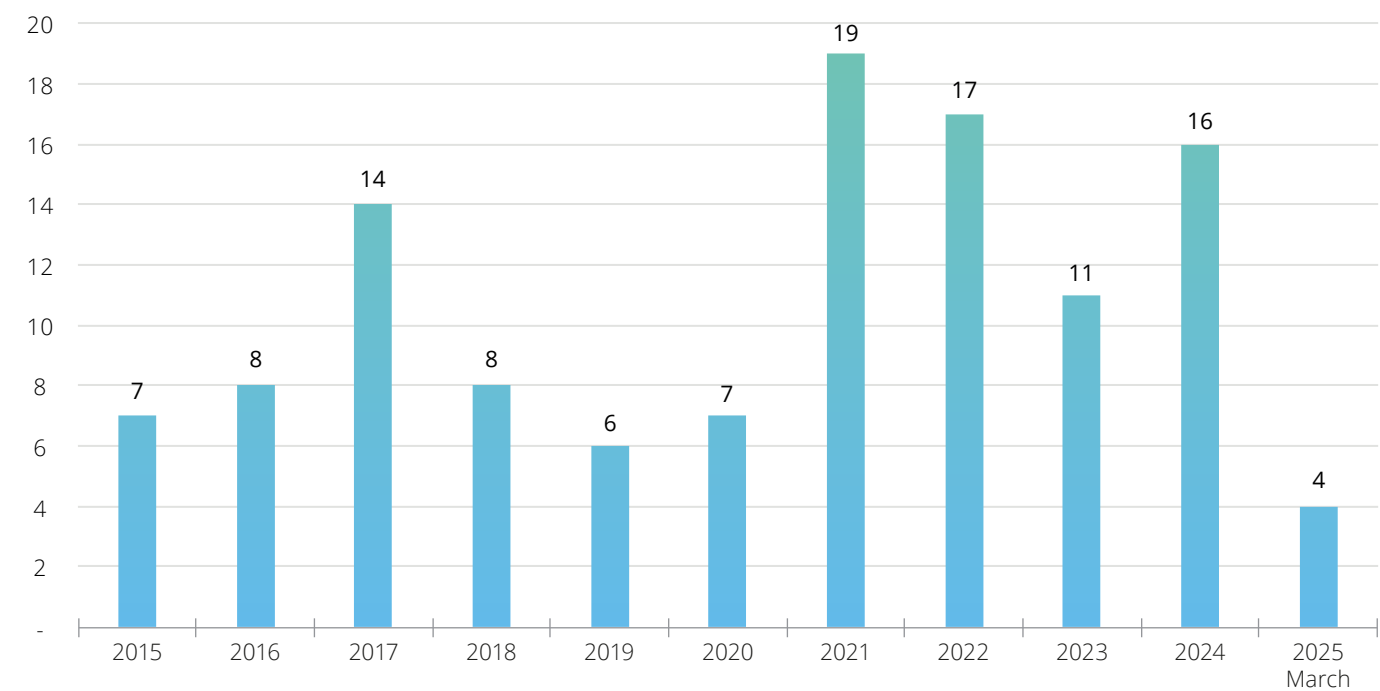
European sustainable investment funds have more than doubled their exposure to defense stocks since Russia’s invasion on Ukraine, reflecting both rising share prices and a strategic shift in investment perspectives. Policymakers are actively promoting a robust defense industrial base, encouraging private investment in the sector despite its traditionally negative perception from ESG point of view. The EU’s Sustainable Finance Disclosures Regulation (SFDR), one of the most well-known ESG frameworks, does not prevent the financing of the defense sector; however, the European Commission is committed to further clarifying the application guidelines of the SFDR.

European ESG fund defense holdings



Source: Financial Times

Number of defense industry deals



Source: MergerMarket, Deloitte analysis

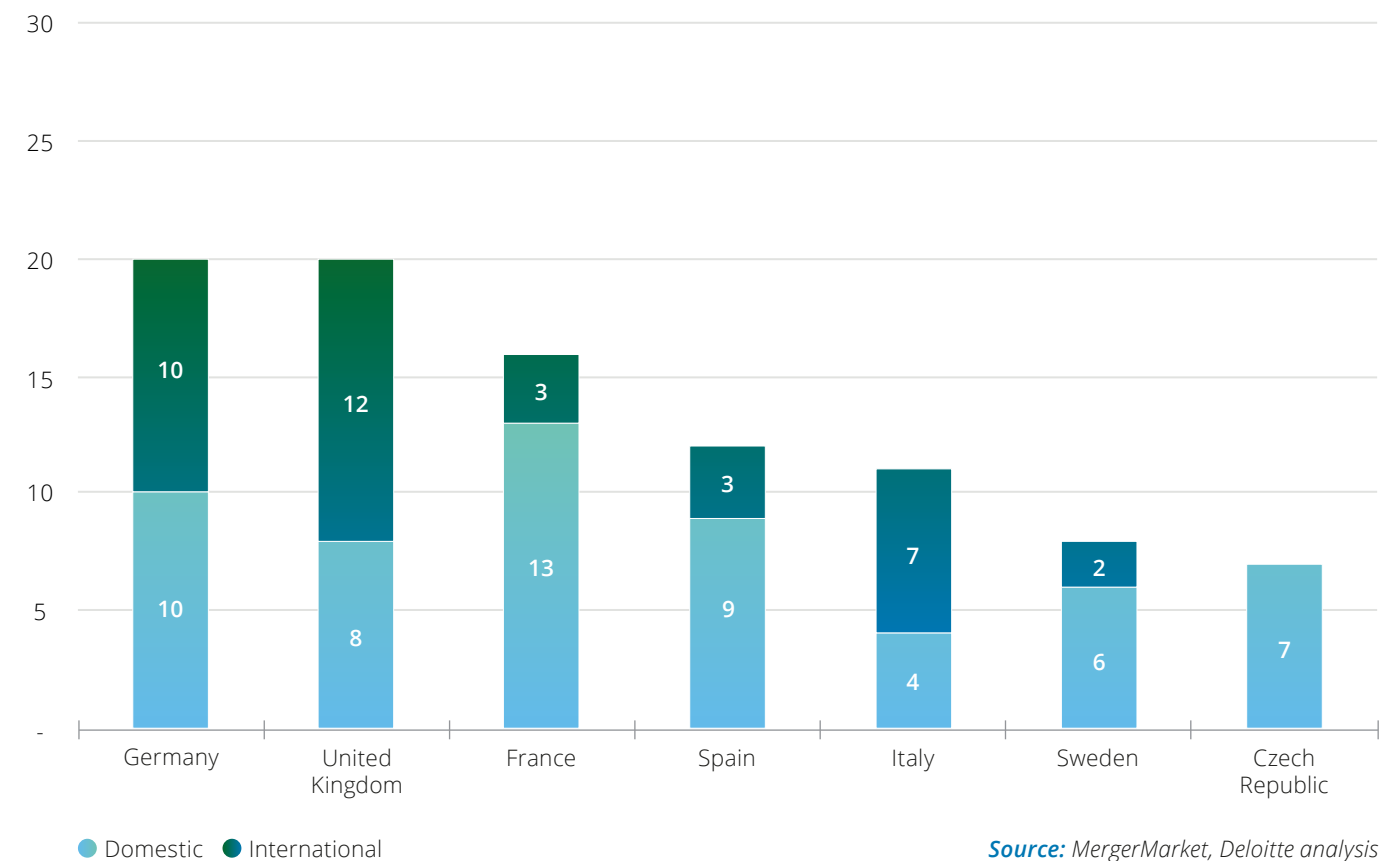
The growing presence of aerospace and defense holdings in ESG portfolios—evidenced by a tripling in the number of funds having more than 5 per cent exposure in the sector—underscores an emerging consensus that defense can meet sustainability criteria, when assessed on an individual, case-by-case basis. However, ethical concerns remain, as investments must navigate complex issues surrounding controversial weapons (i.e. cluster munitions, anti-personnel landmines, biological, chemical and nuclear weapons, incendiary weapons and blinding lasers) and the geopolitical implications of defense spending.⁴⁴

2.6. Transactions in the European defense market⁴⁵

Private companies can secure capital and equity financing through direct investment transactions. The following section provides an analysis of transaction activity within the defense sector since 2015, highlighting key trends in private investor interest, target segments, major acquirer types, and capital flows.

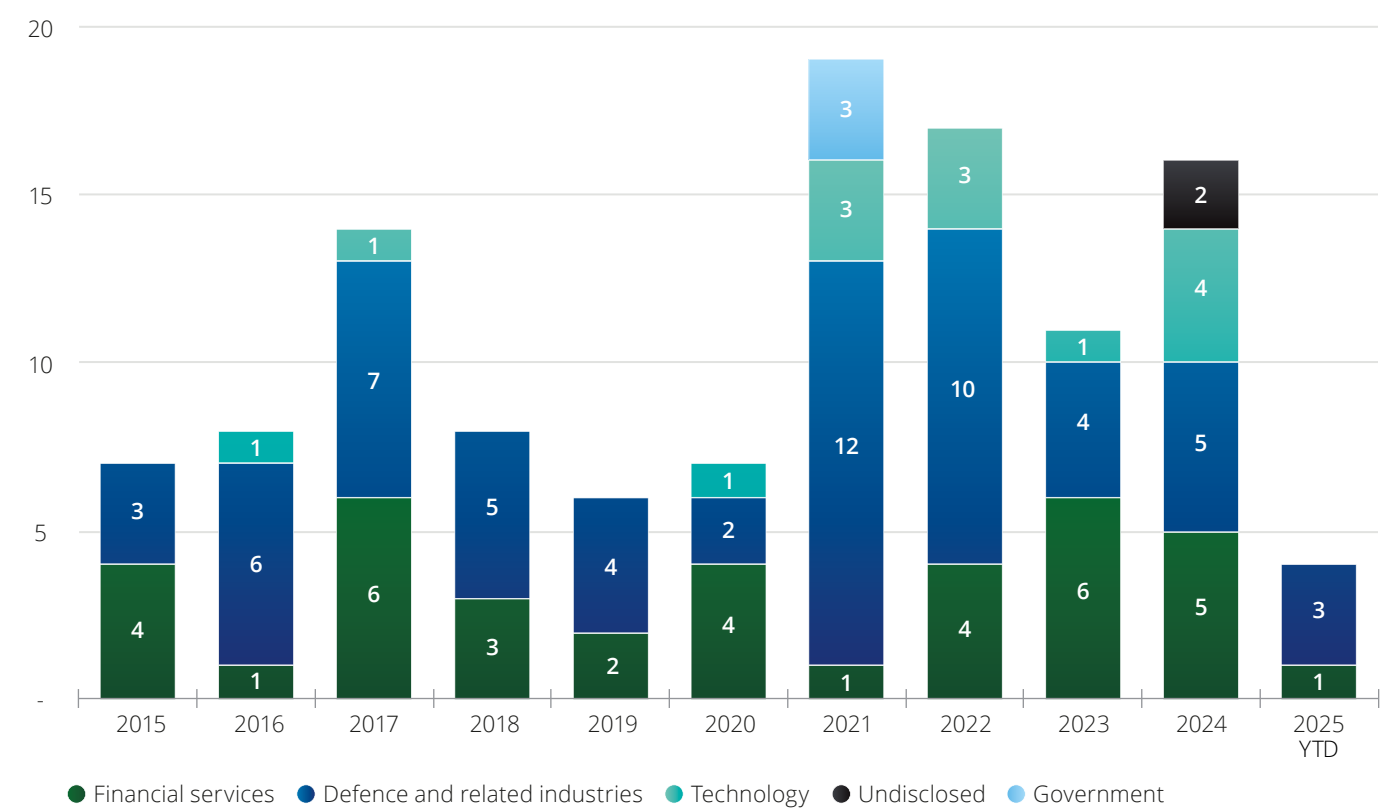
There have been 117 transactions involving a target company active in the defense industry (ca. 12 transactions per year since 2015), 67 of which (57%) have occurred since 2021. The upward trend since 2021 indicates that private investor interest in the sector is increasing, driven by heightened defense spending resulting from geopolitical instability, and the dual-use potential of new technologies. The most active countries in the last decade were Germany and the UK, followed by France.

Countries with the most defense deal activity, 2015-March 2025



Source: MergerMarket, Deloitte analysis

Number of deals by type of acquirer, 2015-2025 YTD



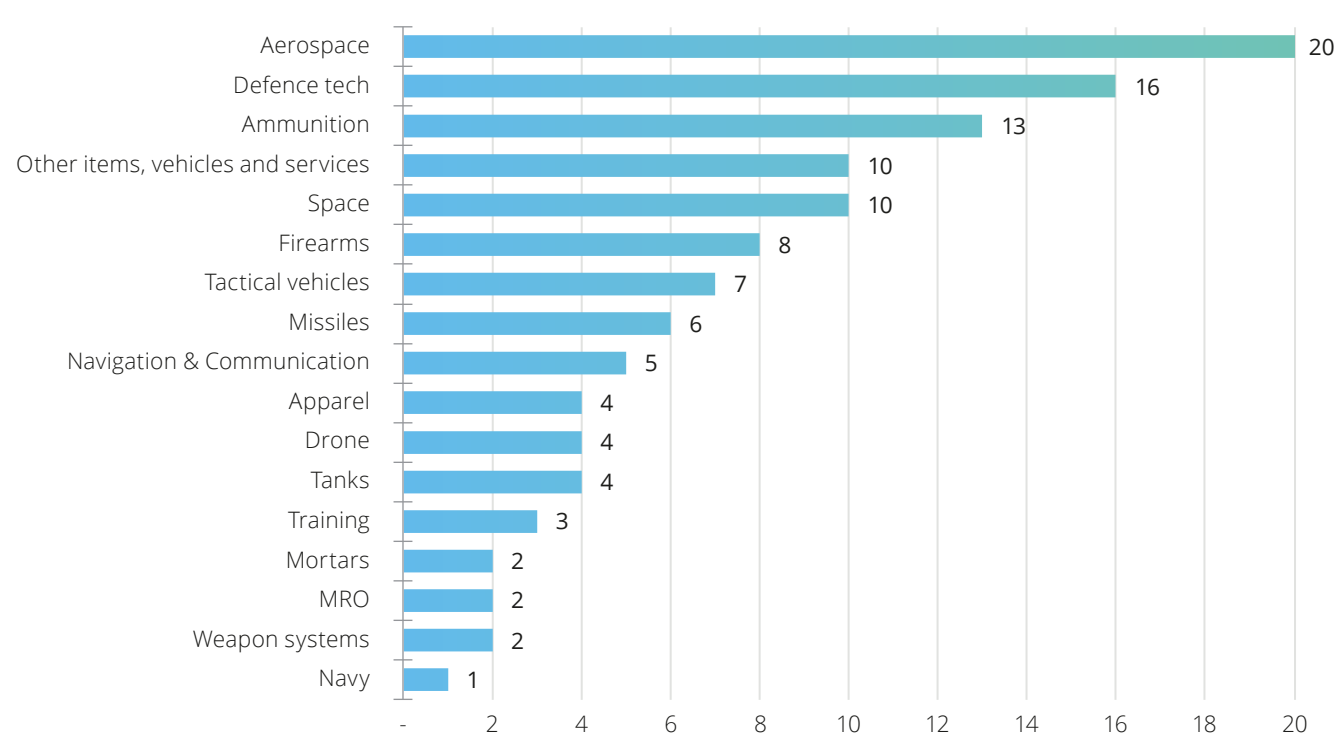
Source: MergerMarket, Deloitte analysis

However, challenges such as dependence on government contracts, ethical concerns, and evolving regulatory frameworks limit financing opportunities. Many financial institutions that could finance parties involved in transactions have exclusion policies for defense-related businesses, driven by ESG considerations and reputational risks. Additionally, foreign direct investment (FDI) controls and national security regulations discourage external investment, making exits difficult for investors, as reflected in capital flow patterns. Only 44% of the deals were international cross-border transactions while the majority involved parties from the same country. FDI controls across Europe are becoming stricter, with growing emphasis on protecting national security and critical sectors. While the EU's FDI Screening Regulation (2019/452) promotes coordination, each member state retains its own rules, resulting in uneven implementation, especially in Central and Eastern Europe. Countries like Austria, Hungary, and Poland already have screening systems, while others such as Bulgaria and Croatia are expected to adopt similar laws by 2025. These regulatory regimes can also provide assurance to investors that their co-investors meet a particular standard.⁴⁶

In the majority, 61 of the 117 transactions, the bidder company was a strategic buyer operating in the defense sector, mainly active in 2021 and 2022, while another sizeable part, 32% of all transactions are connected to financial investors. Of these deals, 25 involved private equity investors, who invest in stable, mature companies, and 9 deals involved venture capital firms, investing in growth-oriented young or start-up firms.

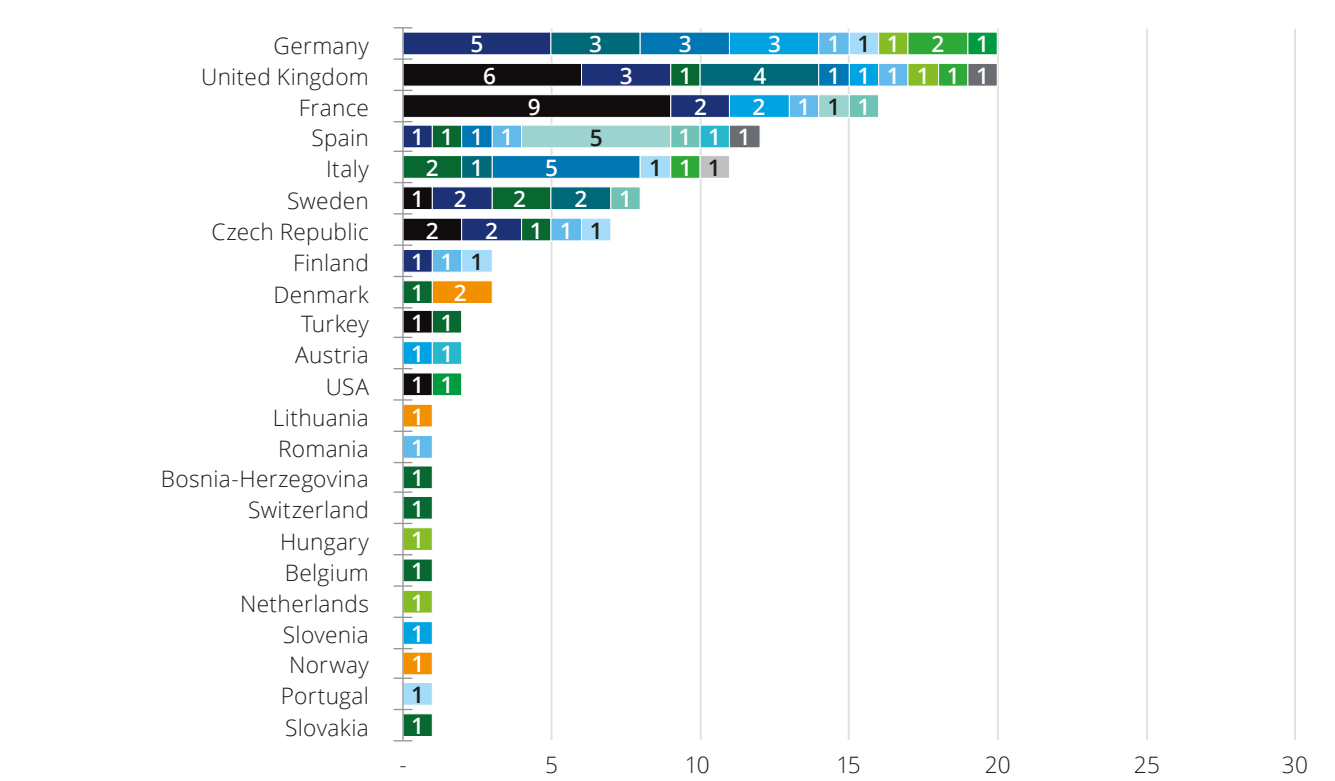
The segments which saw the most activity are the aerospace, defense technology and ammunition segments, totaling 49 transactions, 42% of all.

Number of deals by target sector, 2015-March 2025



Source: MergerMarket, Deloitte analysis

Number of deals by target country and sector, 2015-March 2025



Source: MergerMarket, Deloitte analysis

Transaction trends also highlight the convergence of commercial and defense technologies, and investors’ preference of companies with significant business in both military and commercial markets and technologies, offering broader revenues streams and better exit opportunities. Private equity investments are especially rare in companies focused primarily on defense. Venture capital deals, on the other hand, are gaining significant traction, as government funding begins to play an important role in supporting early-stage defense businesses with long commercialization timelines.

A noteworthy consequence of the current financing landscape is that many promising European defense tech firms might seek capital and equity financing outside the continent, particularly in the United States, where a more mature defense investment ecosystem exists. This transatlantic shift often results in the migration of intellectual property, high-value skills, and strategic capabilities away from Europe. As a result, both the European Union and the United Kingdom face the risk of long-term erosion of domestic defense innovation. To counter this trend, stronger incentives should be developed to retain such companies within Europe. A relevant example is the UK-based cybersecurity firm Darktrace, which was publicly listed on the FTSE 100 but later acquired by a U.S. private equity firm, effectively relocating strategic technological assets. Similar cases will likely happen across Central and Eastern Europe, further underscoring the need for robust support structures to nurture and retain homegrown defense tech talent and enterprises.

2.7. Government-sponsored research and early-stage investment centers

To address the early-stage risks of the defense sector related research and development projects, NATO and sovereign governments have special sponsoring vehicles in place.

NATO

NATO Innovation Fund (NIF)⁴⁷

The NATO Innovation Fund is a standalone venture capital fund, established in 2023 and backed by 24 NATO Allies, that invests in cutting-edge science and engineering startups to strengthen the defense, security and resilience of its members. The fund invests EUR 1 billion into startups and venture capital funds, focused on deep tech with defense applications. The fund's portfolio already includes 9 companies and 7 venture capital sub-funds.

Hungary

VIKI – Defense Innovation Research Institute (Védelmi Innovációs Kutatóintézet)⁴⁸

The goal of VIKI is to incentivize early-stage innovative companies to enhance future defensive capabilities by developing disruptive dual-use technologies and create a defense innovation ecosystem. A cooperative partner of the NATO Innovation Fund, the institute offers an accelerator program and research center for innovative companies in the fields of autonomous systems, Big Data, AI and biotechnology, among others.

Poland

Poland does not have a direct equivalent to Hungary’s VIKI—a government-sponsored center dedicated to research and early-stage investment in defense technologies, research and innovation activities are coordinated by Innovation Department of Ministry of Defense.

However, Poland actively participates in NATO’s innovation initiatives and has established mechanisms to support technological advancement. Beside the Amsterdam headquarters, the NATO Innovation Fund established regional offices in London and Warsaw. The local office can effectively identify and support Polish startups with potential applications in defense and security sectors. Poland’s contribution to the NIF is approximately 5% of the total fund value, the EUR 42 million investment is managed by PFR Ventures in collaboration with the Prime Minister’s Office and the Ministry of National Defense. PFR Ventures is government-backed fund-of-funds manager, operating as part of the Polish Development Fund (PFR).

Poland plays a significant role in NATO’s DIANA, contributing both through an accelerator site and multiple test centers. The Kraków DIANA Accelerator is a collaborative initiative between the AGH University of Science and Technology and the Krakow Technology Park (KPT) while the seven DIANA-affiliated test centers are specializing in different technological domains:

- Poznań Supercomputing and Networking Center (PSNC) – AerospaceLab;
- Łukasiewicz Research Network – EMAG Institute;
- WITPIS – Institute of Precision Mechanics;
- Industrial Research Institute for Automation and Measurements (PIAP);
- Military University of Technology – Institute of Robots and Machine Design;
- CENAGIS – Center for Artificial Intelligence and Geospatial Information Systems;
- Wrocław Institute of Technology and Innovation (WITI).⁴⁹

Czech Republic⁵⁰

Traditionally, around 0.3% of the Czech Ministry of Defense’s annual budget—CZK 454.3 million—is allocated to research. This research is primarily conducted through state-owned companies or in collaboration with institutions in the defense education sector, with the University of Defense playing a central role.

Research topics span a broad range, including electronic warfare, communication systems, material science, chemical protection, special vehicle design, and ballistic protection. However, the efforts generally lack a unified strategic direction.

A large portion of defense research is conducted by private companies within the Czech Republic’s well-developed defense industrial base. The limited and fragmented nature of government support for defense research has been identified as a strategic shortcoming.

To address this gap, the government launched the PRODEF defense research fund under the Czech Technology Agency. Between 2025 and 2031, it will allocate CZK 6.12 billion to support defense-related R&D.

In the field of early-stage innovation, the government agency CzechInvest—which supports entrepreneurship and innovation—has launched a local office of DIANA, NATO’s innovation accelerator. This initiative aims to enhance the scouting and development of promising Czech defense startups.

Romania⁵¹

ARCTIS

The Romanian Agency for Technological and Industrial Cooperation for Security and Defense marked a significant step forward in bolstering Romania’s defense industry, reflecting the country’s commitment to enhancing its strategic autonomy and integrating more robustly into European and NATO defense frameworks. Cooperation formats pursued by the Agency are:

- technology transfer,
- research and development,
- subcontracting/localizing production, and
- export of products, services and works.

3. Defense industry and the banking sector

To address the challenges posed by limited national policies, European banks must play a pivotal role in financing the continent’s rearmament efforts. By leveraging structured finance mechanisms like those used in energy transitions, the banking sector can bridge the gap between state-driven security priorities and capital markets, thereby attracting substantial private capital.

European banks must mobilize capital to ensure defense firms—ranging from traditional contractors to emerging technology players—have access to long-term structured financing. Corporate and investment banking divisions will have a crucial role in revitalizing securitization markets, structuring defense bonds, and establishing risk frameworks to facilitate private-sector participation. Close collaboration with governments and industry leaders is necessary to align capital flows with military procurement, supply chain resilience, and next-generation defense technology.⁵²

3.1. State-owned development banks and funds

State-owned development banks are well-positioned to complement the EIB and other financial alternatives during times of urgency. These institutions are adept at establishing European or regional financial vehicles with strong member-state control and significant access to capital markets. Their regional focus enables them to identify and support strategic companies in the defense supply chain, as well as in research and development initiatives.

A key proposal in the EU’s ReArm Europe⁵³ plan to urgently address the defense gap is the creation of regional or task-based military funds, such as those dedicated to NATO’s eastern flank. These funds would facilitate defense procurement spending and enhance manufacturing capacity, providing new financing opportunities to member states with constrained access to resources. Managed by a state-owned development bank, these funds could secure financing through guarantees from the European Commission and member states, anchored in the EU budget. Additionally, involving the private sector through financing guarantees would be crucial in expanding production capacities.

EIB

The European Investment Bank, as the long-term lending institution of the European Union, has played an increasingly active role in supporting the European defense industry. Recent policy updates have broadened the scope of eligible projects and lifted previous restrictions, allowing the EIB to invest EUR 2 billion in the European defense industry in 2025. This includes financing for dual-use projects with both civilian and military applications—such as infrastructure, services, and technologies, while continuing to exclude direct funding for weapons and ammunition.

In May 2024, the EIB's Board of Directors updated its definition of dual-use goods and infrastructure eligible for financing, removing the requirement that over 50% of expected revenues must come from civilian use. This change facilitates financing for projects with military or police applications that also serve civilian needs. The EIB now offers various financial instruments, including debt financing, venture debt, equity financing, intermediated loans, and advisory services.

Additionally, the EIB has established a dedicated Security and Defense Office to streamline financial support and provide expert assistance aimed at enhancing Europe's security and defense capabilities. The bank has also strengthened its collaboration with the European Defence Agency (EDA) to identify financing needs for collaborative defense projects. Initiatives such as the Strategic European Security Initiative (SESI) have been launched to provide EUR 6 billion in funding for projects related to military mobility, cybersecurity, and critical infrastructure.

Financing solutions for defense companies offered by the EIB are complementary to other EU-wide defense initiatives and programs, such as EDIS, and can be accessed through contacting the bank's Security and Defense Office, their one-stop shop for security and defense-related financing.⁵⁴

BGK (Poland)

Poland's development bank, Bank Gospodarstwa Krajowego (BGK), has shifted its priorities towards financing defense spending as the country significantly increases its military expenditures in response to the ongoing conflict in neighboring Ukraine. BGK plans to expand the specialized defense fund it manages to 76 billion zloty (EUR 18.5 billion) in 2025, accounting for 40% of Poland's projected military outlays for the year. Poland aims to allocate 4.7% of its GDP to defense in 2025, a substantial increase from previous years.

BGK's issuance of state-guaranteed bonds has significantly impacted the Polish government debt market, with 257 billion zloty raised over the past five years, including foreign-currency bonds specifically for military spending. While bond sales continue to support Poland's defense funding, the bank will increasingly rely on foreign financing to bolster the Armed Forces Support Fund, reducing dependence on domestic bond sales. Financing agreements with key military suppliers, including the United States and South Korea, will provide the bulk of funding. Despite environmental, social, and governance (ESG) concerns from some investors, BGK's defense-purpose bonds have received strong demand from major US financial institutions and European investors, reflecting the growing recognition of security funding needs.⁵⁵

National Capital Holding (Hungary)

The National Capital Holding of Hungary is planning to launch the Defense Industry Private Equity Fund, a closed-end private equity fund aimed at financing and developing defense industry companies in Hungary, including addressing temporary capital shortages and supporting both domestic and international market expansion. With a registered capital of 50 billion HUF, funded by the Hungarian State, the fund seeks to enhance defense capabilities, foster supplier relationships, and contribute to defense R&D. An open call is underway for private investors and fund managers to invest in and manage the fund, with a minimum of 30% of the total investment coming from private contributions. Applications were open until April 30, 2025, with the goal of securing additional capital for defense industry projects.⁵⁶

Czech Export Bank

The Czech Export Bank (CEB), a subsidiary of the Czech Development Bank, provides loans to Czech companies engaged in international exports. Recently, the bank has revised its operational policies. In addition to supporting individual export projects with signed contracts, it can now offer general-purpose loans to companies whose exports constitute at least 25% of their revenues.

In recent years, the defense sector has become a key area of focus for CEB. In 2024, defense-related transactions represented 40% of all supported cases.

CEB's operating model emphasizes synergies with commercial banks, helping them overcome risk aversion and ESG-related constraints by participating in joint financing solutions.⁵⁷

NATO Bank

The financing of national versus collective defense within NATO and the EU presents distinct challenges and opportunities. National defense financing involves individual countries allocating a portion of their GDP to military spending, influenced by domestic fiscal policies and strategic priorities. For example, Poland has significantly increased its defense budget, raising expenditure from 2.2% of GDP in 2021 to 3.8% in 2023, largely in response to perceived threats from Russia. While this approach allows states to address specific security needs, it also creates disparities in military capabilities among allies.

Conversely, collective defense financing aims to pool resources to achieve shared security objectives, as seen in proposals for a European air defense system. While this model enhances efficiency and reduces duplication, it can face political resistance, as member states may be reluctant to relinquish control over their defense budgets or encounter legal barriers to joint debt issuance.

The establishment of the Defense, Security, and Resilience Bank (DSR Bank, initially referred to as NATO Bank), a multilateral financial institution, has been proposed as a solution to address the financing challenges faced by NATO and EU members through public sector bond issuance. Considered the most advanced plan for establishing a multilateral defense financing entity, the DSR Bank would provide low-interest loans for defense modernization, facilitate equipment leasing, support critical infrastructure thereby supporting allies in meeting their defense spending obligations, and assist in rebuilding efforts in conflict zones such as Ukraine. Such a bank could also help overcome the free-rider problem inherent in collective defense, where nations benefit from shared security without proportionate contributions.

The bank seeks to secure EUR 100 billion in capital to bridge the defense financing gap in Western countries. By offering commercial banks risk guarantees and helping to standardize procurement rules in Europe, the DSR Bank aims to address the inefficiencies in current defense funding mechanisms. The institution is designed to support allied nations across the Euro-Atlantic and Indo-Pacific regions, providing a complementary financing solution for countries with high debt-to-GDP ratios or elevated borrowing costs. Additionally, by ensuring stable funding during economic downturns, the bank would enhance long-term security planning and resilience among allied nations.

A key component of the bank's financial strategy would be securing an AAA credit rating, allowing it to provide cost-effective loans to member states. Founding members with strong credit ratings, such as nations from the Joint Expeditionary Force (JEF), along with the United States and Japan, could serve as anchor nations to establish the bank's financial credibility. To bolster its capital base, one politically sensitive but potentially impactful proposal involves leveraging seized Russian central bank funds or the interest generated from these assets. If implemented, this approach could finance defense procurement for Ukraine while reducing the fiscal burden on member states.⁵⁸

3.2. Commercial banks

The reputational risks associated with financing defense firms have led many banks to establish exclusion criteria, primarily based on ESG and reputational considerations. These criteria are outlined in banks’ defense industry policies and often include the complete exclusion of companies involved in controversial weapons, such as chemical and biological weapons, antipersonnel landmines, or nuclear weapons, as well as those conducting business with embargoed countries.

Additionally, it is a common practice among major European banks to restrict financing to defense companies headquartered within their home countries. All leading European commercial banks enforce strict policies for conducting background checks on defense-related firms. As a result of these stringent policies, defense-sector SMEs encounter significant challenges in obtaining debt financing, increasing their dependence on government-backed loans and financing from development banks. Lately, after EIB official position to support the defense industry, part of the commercial banks operating across the region have initiated internal analysis for dropping this limitation.⁵⁹

We have conducted an analysis of the financing structures of the 20 largest publicly listed European defense firms, based on publicly available data.

We analyzed the financial statements and other filings of these companies to determine whether their operations are financed through commercial and/ or development bank loans. These bank loans were identified when explicitly disclosed by the company. However, the source of non-development bank loans remained undisclosed for five of the companies.

Our analysis reveals that the primary sources of debt funding include bonds, commercial paper, and loans from development banks such as the EIB and Germany’s KfW (Kreditanstalt für Wiederaufbau, state-owned investment and development bank). On the other hand, approximately half of the top 20 firms in the aerospace and defense sector also report commercial bank loans on their balance sheets. Given the long-term funding needs of defense companies, these loans are often structured as syndicated or term loans with maturities exceeding five years.

#	Company Name	Commercial bank loans	Development bank loans
1	Airbus SE	No	Yes
2	Safran SA	No	Yes
3	Rolls-Royce Holdings plc	No	No
4	Rheinmetall AG	Yes	Yes
5	BAE Systems plc	No	No
6	Thales S.A.	No	No
7	Leonardo S.p.a.	Undisclosed	Yes
8	Kongsberg Gruppen ASA	No	No
9	Dassault Aviation société anonyme	No	No
10	Saab AB	No	No
11	MTU Aero Engines AG	No	No
12	Melrose Industries PLC	Yes	No
13	Hensoldt AG	Yes	No
14	H&KAG	Undisclosed	No
15	Babcock International Group PLC	Yes	No
16	QinetiQ Group plc	Undisclosed	No
17	Theon International Plc	Undisclosed	No
18	Exosens	Undisclosed	No
19	Invisio AB	No	No
20	Colt CZ Group SE	Yes	No

Source: Financial statements, Deloitte analysis

3.3. Examples of commercial bank financing

In March 2025, BNP Paribas reinforced its commitment to financing the defense sector, primarily within NATO countries, with a strong focus on Europe. By the end of 2024, the bank had deployed EUR 24 billion to large corporations and SMEs in the sector, with EUR 12 billion directly allocated to defense. BNP Paribas has actively supported defense companies through credit, guarantees, bond issuances, export finance, asset management, and direct equity investments. In 2024 alone, the bank facilitated EUR 33 billion in bond issuances for the sector, contributing to a total of EUR 55 billion over three years. Additionally, BNP Paribas played a significant role in equity markets, providing EUR 2.2 billion in primary issuances for defense companies between 2023 and 2024. Its asset management division oversaw EUR 2.5 billion in defense-related investments, including direct equity investments in 46 French SMEs and third-party managed funds.⁶⁰





Opportunities and challenges of defense financing

As defense financing in Europe enters a new era of heightened urgency and scale, the landscape is marked by both unprecedented investment opportunities and persistent structural limitations. The war in Ukraine, mounting geopolitical tensions, and shifting transatlantic dynamics have accelerated political will and financial commitments toward defense. Yet this momentum also exposes deep-rooted challenges — from fragmented procurement systems and fiscal constraints to technological disruptions and vulnerabilities in supply chains — all of which have significant implications for financing.

1. Budgetary constraints and political disagreements⁶¹

Despite collective commitments to increase defense spending—potentially up to EUR 800 billion between 2022 and 2028—European countries face varying degrees of fiscal pressure. Defense budgets must balance with demands in healthcare, education, and climate investment, and are especially constrained in countries with high debt levels. In practice, this means that while allocation of funds to defense exists on paper, their full execution often lags due to administrative and political bottlenecks.

Political disagreements—both within and between member states—further complicate coordinated defense efforts. Differing procurement preferences, industrial protectionism, and diverging strategic priorities create fragmentation and inefficiencies. Initiatives aimed at collaborative procurement or joint platform development are frequently slowed or scaled back due to debates over governance, funding shares, or domestic industrial participation.

Moreover, defense budgeting faces volatility linked to political turnover and shifting public sentiment. Outside of crisis moments, defense may lose priority, affecting long-term budget commitments. The coexistence of EU, NATO, and national financing tools—each with its own procedures and priorities—can also blur responsibilities and delay decision-making. These dynamics introduce significant uncertainty into the defense investment landscape, affecting cohesion and effectiveness across the continent.

2. Supply chain vulnerabilities and industry base sustainability⁶¹

The resilience of European defense financing is closely tied to the fragility of its industrial and supply chain ecosystem. Europe's defense sector remains fragmented, with over 170 unique weapons systems compared to just 33 in the United States. This fragmentation contributes to inefficiencies in production, logistics, and training, and limits scalability in times of crisis or surge demand.

Recent global disruptions—from the COVID-19 pandemic to the war in Ukraine—have revealed critical dependencies in defense supply chains. Adding to this, protectionist trade policies and rising tariffs imposed by the U.S. are reshaping global value chains, with direct implications on European manufacturers dependent on transatlantic suppliers. Access to critical components like semiconductors and advanced electronics has become more uncertain and costly, complicating procurement planning and undermining delivery timelines.

These pressures are especially acute for SMEs, which face financing shortfalls and structural barriers. The limited scale and long development cycles typical in defense manufacturing—combined with exposure to trade fluctuations—place additional strain on the sustainability of Europe's industrial base. This raises long-term questions about the region's ability to maintain strategic autonomy while meeting growing demand.

3. Emerging technologies⁶¹

Emerging technologies are reshaping defense priorities, bringing new dimensions to both strategic capabilities and funding needs.

Increasingly, defense capabilities are being driven not only by legacy contractors but also by a new generation of agile, venture-backed start-ups and commercial tech giants. These new entrants are developing scalable, cost-effective, and mission-adaptable solutions tailored to multidomain operations—from disaggregated satellite networks to AI-powered command and control systems. While traditional defense firms bring deep mission expertise and programmatic rigor, emerging defense tech firms offer faster innovation cycles, top-tier software talent, and product-centric models. Together, they are reshaping the defense industrial base to meet the demands of joint all-domain operations in an uncertain global environment.

European defense spending is increasingly directed toward dual-use technologies such as artificial intelligence, autonomous systems, and secure communications infrastructure. Venture capital investment in defense-related tech has surged, supported not only by private actors but also by government-backed initiatives such as the NATO Innovation Fund — a EUR 1 billion venture capital vehicle—and national programs like Hungary's VIKI institute or France's Definvest. Despite this momentum, structural mismatches persist between the fast-paced innovation cycles of tech firms and the slow-moving nature of traditional defense procurement.

Artificial intelligence and cybersecurity now play central roles in modern warfare, supporting both autonomous platforms and digital resilience. Investment in these domains requires not only capital but also highly specialized talent and robust infrastructure—assets often in short supply across Europe's fragmented defense ecosystem. Long lead times and complex regulatory environments further complicate the scaling of these technologies.

Space has also emerged as a critical defense domain. The integration of satellite-based communications, surveillance, and missile detection into national and NATO strategies has introduced high-capital, high-risk investments. Funding space defense involves long development timelines, dual-use collaboration with civilian agencies, and dependence on commercial providers. These factors present unique financing challenges, particularly as the EU and NATO seek to ensure strategic autonomy in orbit as well as on land, sea, and air.

Conclusion

The evolving geopolitical environment has placed defense financing at the center of European policy and investment discourse. While the political will to increase defense spending is now evident across the continent, supported by public opinion, the financial infrastructure necessary to support this transformation is still taking shape. The urgency to rebuild military capabilities, enhance industrial readiness, and invest in next-generation technologies requires not only unprecedented levels of funding, but also new, collaborative financial mechanisms that are flexible, scalable, and strategically coordinated.

At the EU and NATO levels, the emergence of instruments such as the European Defence Fund or the NATO Innovation Fund demonstrates growing institutional recognition of the sector's unique challenges. Yet despite this progress, structural barriers remain — particularly for SMEs, which face persistent difficulties in accessing equity and debt markets.

Moreover, national disparities in fiscal capacity, fragmented procurement systems continue to dilute the efficiency of defense financing. Bridging the defense funding gap identified by the European Commission will require more than public spending. It will depend on stronger public-private partnerships, expanded roles for development banks, more inclusive capital markets, and financial tools that recognize the unique risk and return profile of defense investments.

If Europe is to meet its security obligations, sustain its industrial base, and achieve technological sovereignty, it must turn this current momentum into long-term, sustainable investment capacity. This is not just a defense imperative — it is an economic and strategic necessity.



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