

BBVA Research
February 2026
EOI

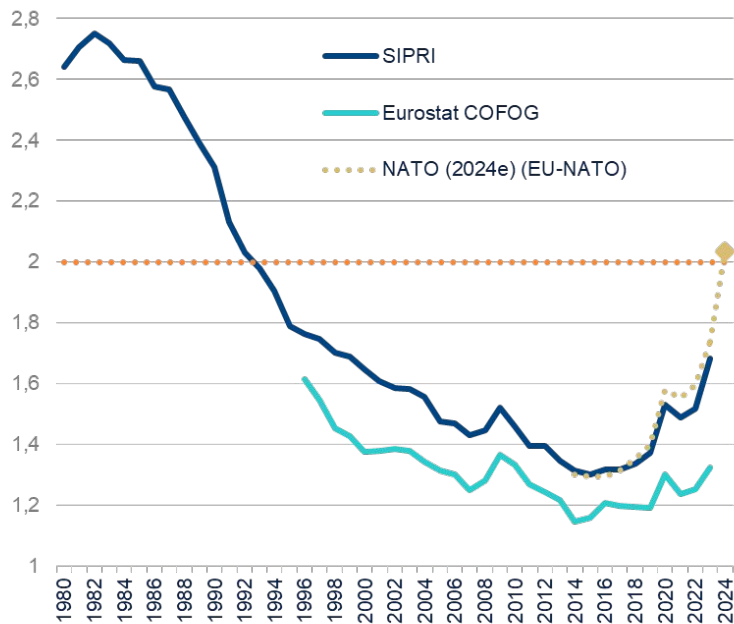
A Radiography of the EU Defence Sector

The historical evolution of defence spending in the EU

NATO, SIPRI and Eurostat Defence Data

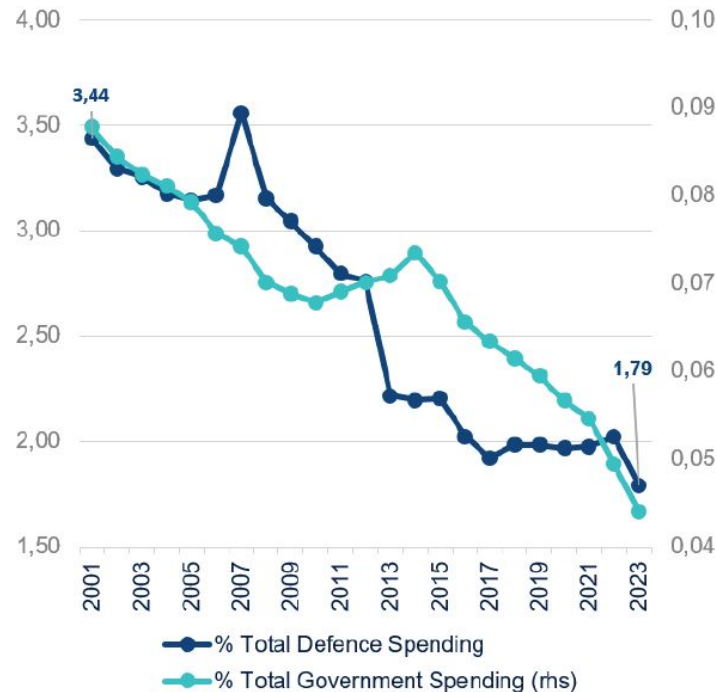
EU27 HISTORICAL DEFENCE SPENDING

(% GDP)



Source: BBVA Research from NATO.

HISTORICAL R&D DEFENCE SPENDING IN THE EU27 (2001-2023) (%; %)



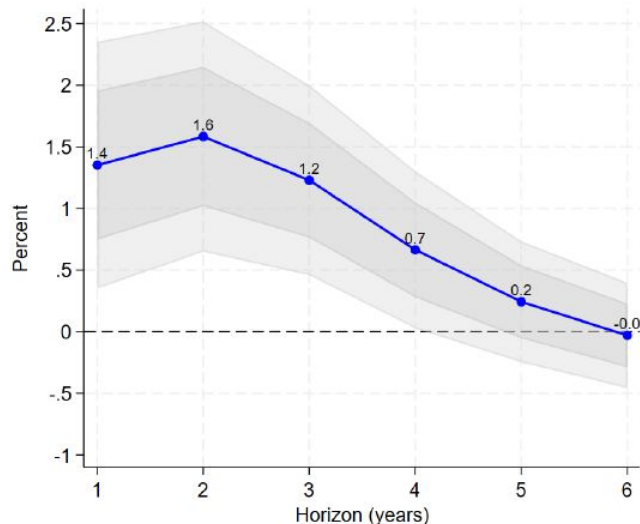
Source: García-Serrador, Sarasa-Flores and Ulloa (2025).

Cumulative Fiscal Multipliers: Panel Local Projections (LP):

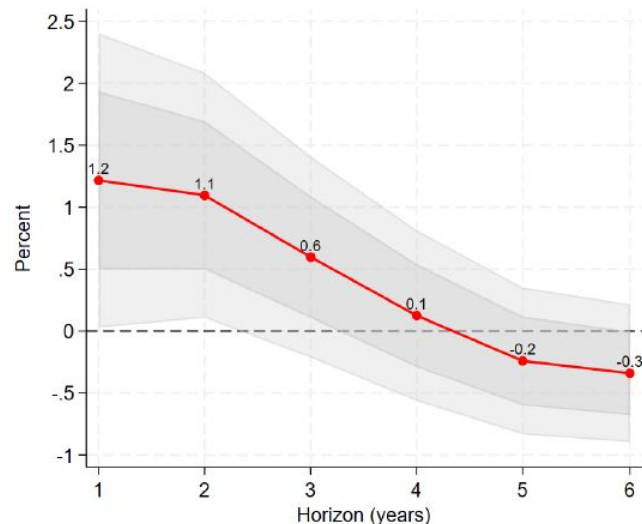
Elevated short-term defence spending multipliers (1.4-1.6), which fade in the medium-term (panel a), resulting in no lasting structural effects on output (panel b)

CUMULATIVE DEFENCE FISCAL MULTIPLIERS

(A) TREND-NORMALIZED OUTPUT



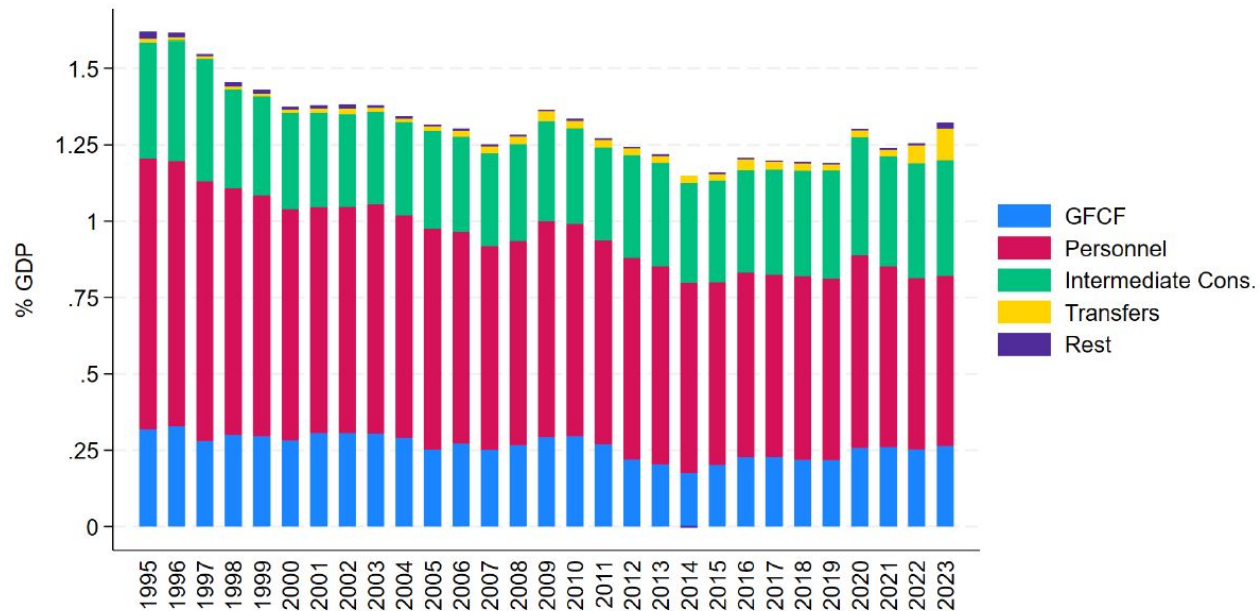
(B) REAL GDP



Historical EU Defence Spending Composition:

Over half of defence spending has gone to wages, with capital and intermediates each comprising a quarter. Together they constitute the bulk of total defence spending, and R&D?...

DEFENCE SPENDING COMPOSITION: EU 27

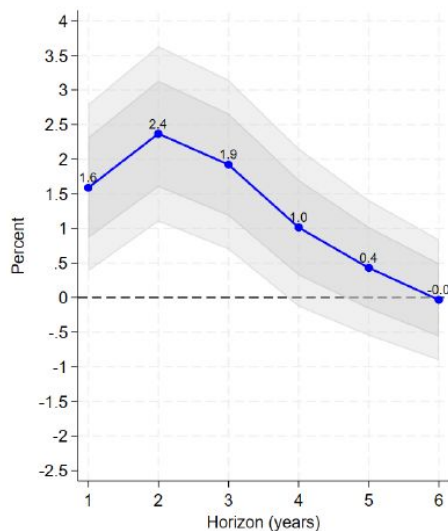


What the Money is Spent on Matters:

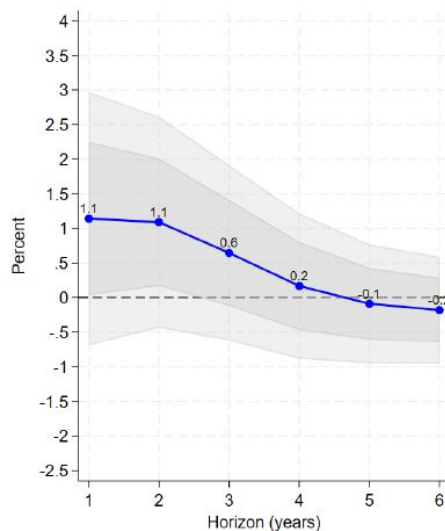
Disaggregating defence outlays confirms marked heterogeneity in the cumulative multiplier profile, where capital-intensive outlays drive yield substantial short-run multipliers

CUMULATIVE DEFENCE FISCAL MULTIPLIERS: SPENDING COMPOSITION

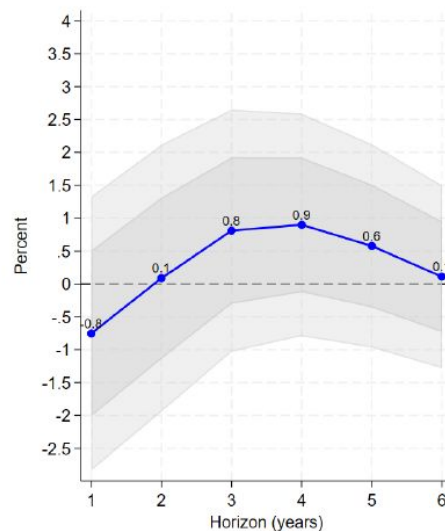
(A) GFCF



(B) PERSONNEL



(C) INT. CONS.



Guns or Roses?: Defence vs Non-defence Outlays

Stronger short-run crowding-in effects of defence outlays, though surpassed by non-defence spending in the medium term, due to the share defence spending allocated to wages

FISCAL MULTIPLIERS OF DEFENCE VS. REST OF SPENDING

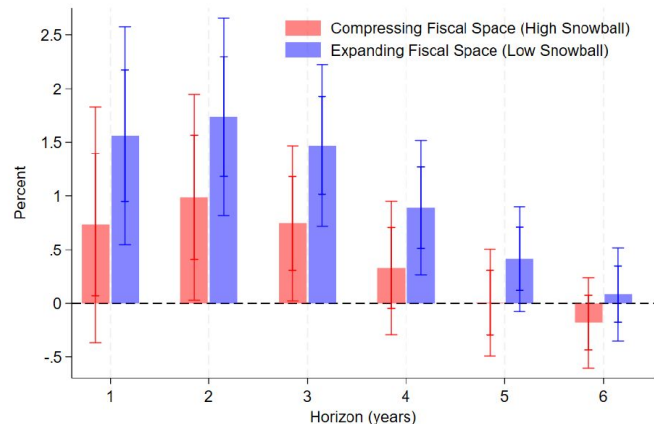
Horizon (h)	Current spending			Government purchases		
	Defence (1)	Total excl. def. (2)	Total (3)	Defence (4)	Total excl. def. (5)	Total (6)
1	1.11* (0.74)	0.33*** (0.07)	0.32*** (0.06)	0.68* (0.37)	0.55*** (0.09)	0.55*** (0.09)
2	1.04* (0.65)	0.31*** (0.06)	0.30*** (0.06)	0.81** (0.38)	0.53*** (0.07)	0.52*** (0.07)
3	0.84* (0.54)	0.27*** (0.05)	0.26*** (0.05)	0.44* (0.32)	0.47*** (0.06)	0.44*** (0.06)
4	0.44 (0.45)	0.23*** (0.05)	0.22*** (0.05)	0.06 (0.26)	0.38*** (0.06)	0.34*** (0.06)
5	0.08 (0.37)	0.20*** (0.04)	0.19*** (0.04)	-0.14 (0.21)	0.32*** (0.05)	0.29*** (0.05)
6	-0.11 (0.33)	0.15*** (0.33)	0.15*** (0.33)	-0.25 (0.18)	0.29*** (0.05)	0.25*** (0.05)

State-dependent LPs a la Auerbach & Gorodnichenko (2012)

Fiscal multipliers surpass unity when countries possess ample fiscal space and exhibit low military imports dependence

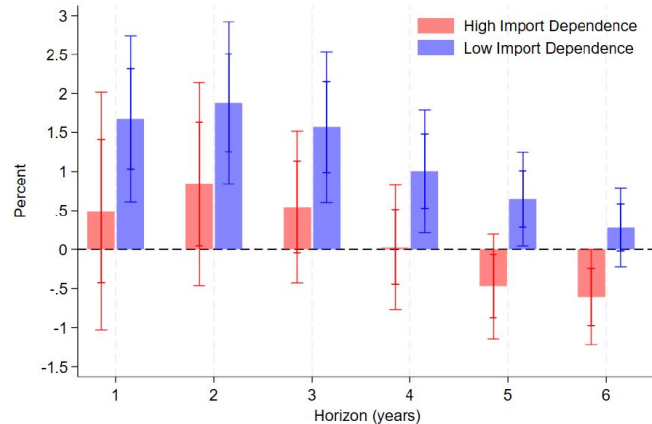
State indicator: **snowball effect**

CUMULATIVE DEFENCE FISCAL MULTIPLIERS: FISCAL SPACE STATE-DEPENDENCE



State indicator: **total military imports relative to total defence spending**

CUMULATIVE DEFENCE FISCAL MULTIPLIERS: IMPORTS RELIANCE STATE-DEPENDENCE

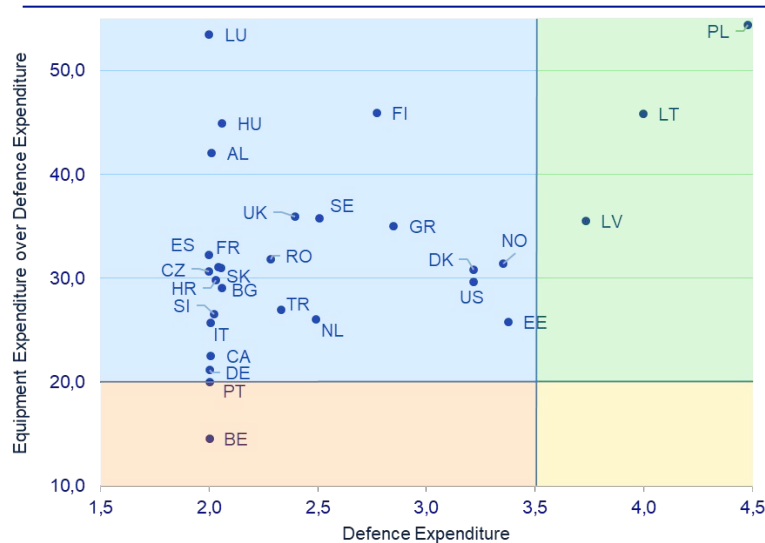


Latest Defence Spending Data

Only Ukraine and Russia-bordering countries surpass US spending, the rest place quite far from new NATO guideline (3.5% GDP), although most of EU countries fulfill 20% equipment-based defence spending NATO minimum threshold.

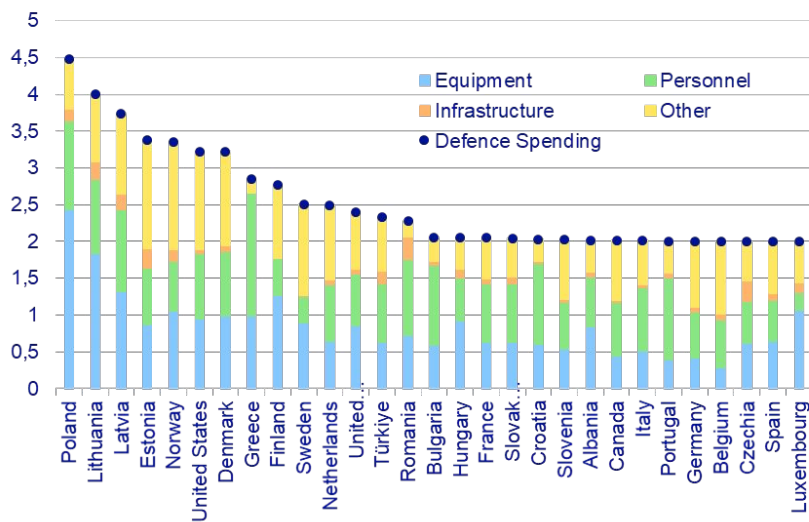
2025 NATO DEFENCE SPENDING

(% GDP; % TOTAL DEFENCE EXPENDITURE)



2025 NATO DEFENCE SPENDING COMPOSITION

(% GDP)

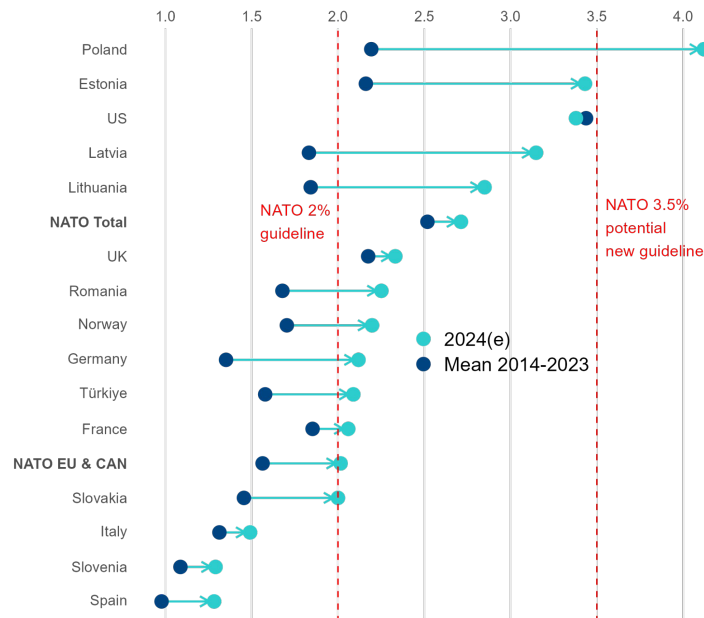


Far from Russia EU countries will still dedicate 30-40% of defence spending to personnel in 2025

The historical evolution of defence spending in the EU

NATO, SIPRI and Eurostat Defence Data

DEFENCE SPENDING VS NATO GUIDELINES (% GDP)

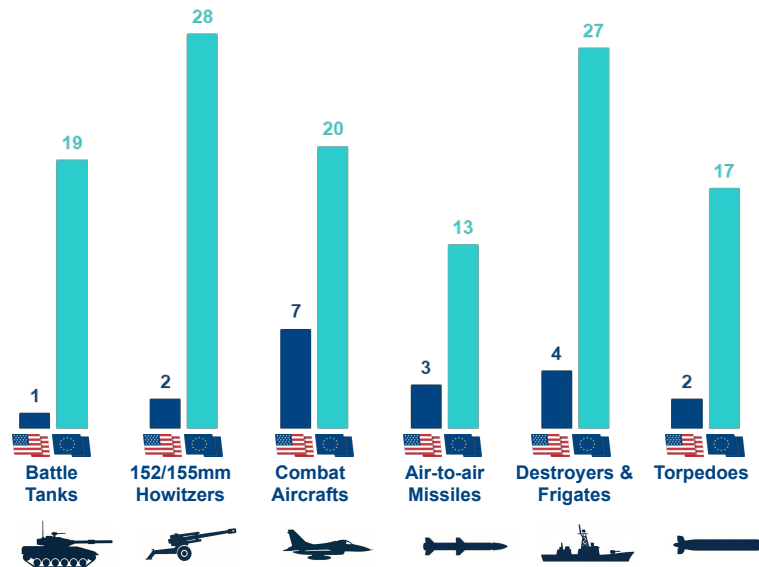


EU Military Equipment Systems in Service: EU market fragmentation is high compared with the US

SELECTED MILITARY EU EQUIPMENT SYSTEMS

EQUIPMENT CATEGORY	RELEVANT MODELS	COUNTRIES INVOLVED
Combat Aircrafts	Eurofighter Typhoon	
	Saab JAS 39 Gripen	
	Dassault Rafale	
	NHIIndustries NH90	
	Airbus A400M Atlas	
Missile Systems	MBDA Meteor	
	Aster 30	
	Exocet	
	IRIS-T*	
	Storm Shadow	
Tanks	Leopard 2	
	Leopard 1	
	Challenger 2	
	Leclerc	
	Ariete C1	

WEAPONS SYSTEMS IN SERVICE (2023): US VS EU

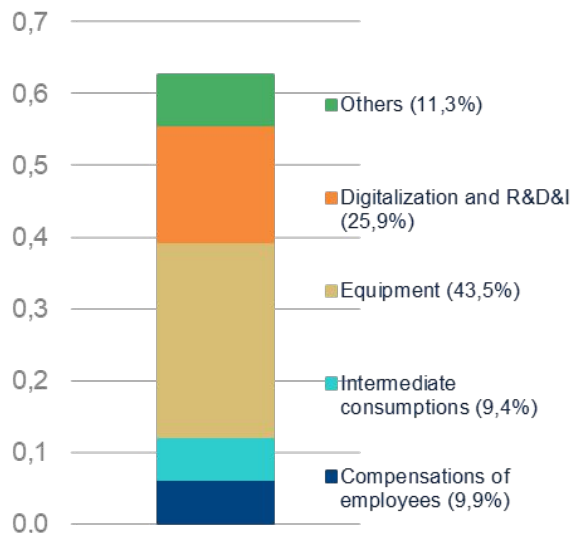


Note: models selected by ranked by active fleet size or overall strategic importance. IRIS-T also by Norway.

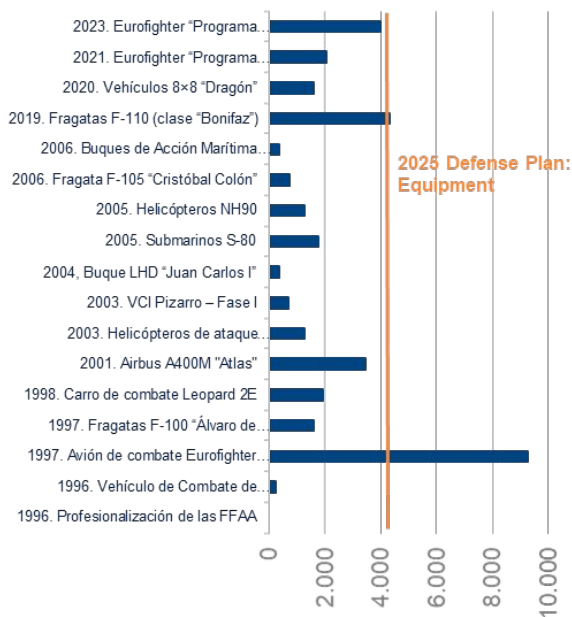
Source: BBVA Research from IHS Jane's Defence Equipment and Technology online database and The Military Balance 2023 (The International Institute for Strategic Studies).

Zoom in Spain: The new Defense Plan seeks to mobilize 0.6% of GDP in spending in 2025, thus reaching 2% GDP, with about 70% allocated to investments

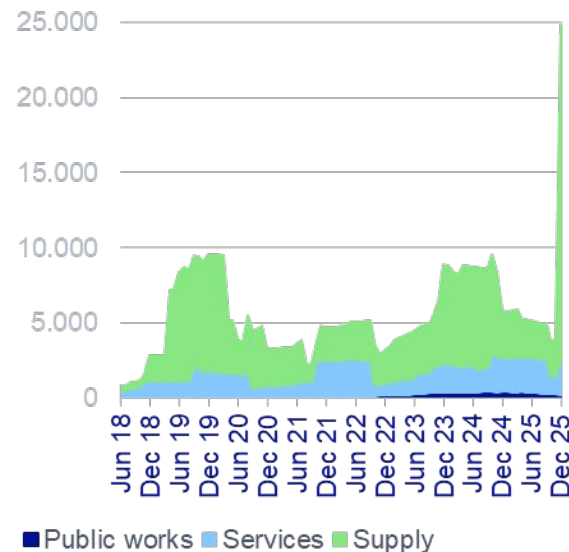
SPAIN: PLAN FOR SECURITY AND DEFENSE (% OF GDP)



SPECIAL DEFENSE MODERNIZATION PLANS (MILLION €)



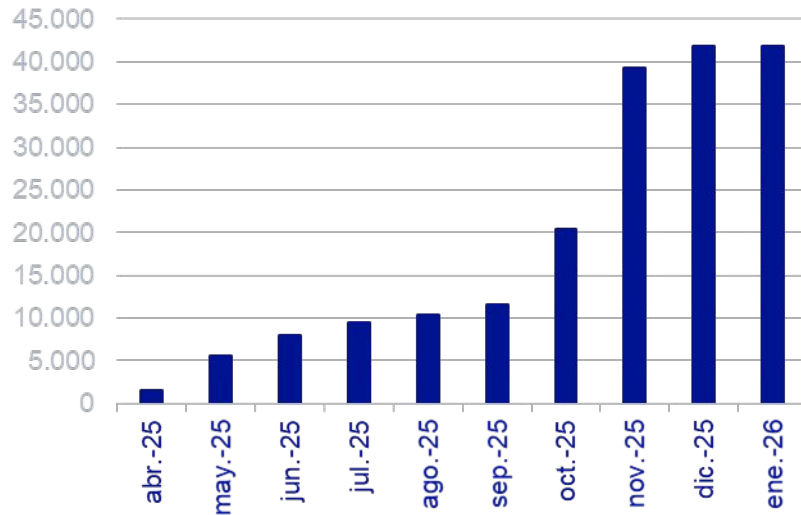
DEFENSE TENDERS (12-MONTH ROLLING SUM. MILLON €)



Zoom in Spain: The multiplier effects of increased defense spending depend on the stage of the economic cycle and the import content of the goods and services demanded

AGREEMENTS OF THE COUNCIL OF MINISTERS ON DEFENCE EXPENDITURE

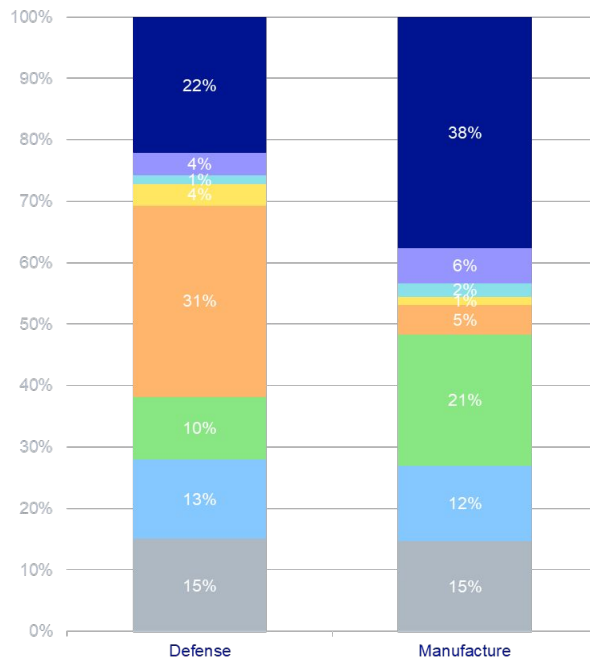
(ACCORDING TO THE PLANNED BUDGET, CUMULATED MILLIONS)



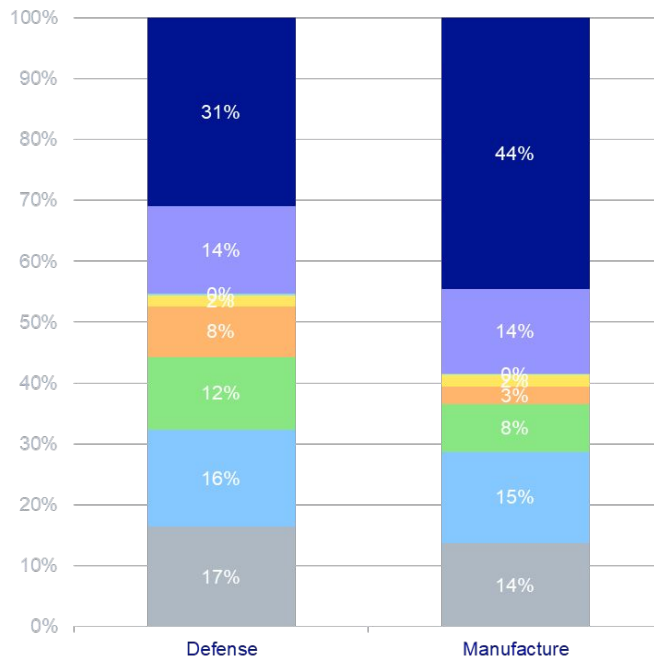
Tanks
Peacekeeping operations
Helicopters
Defense and cybersecurity
Aircraft R&D
Ships and frigates
Infrastructure
Satellites
Telecommunications
Logistics services
Personnel compensation

Defense firms: more leverage; large companies highly dependent on government funding

LIABILITY STRUCTURE LARGE FIRMS



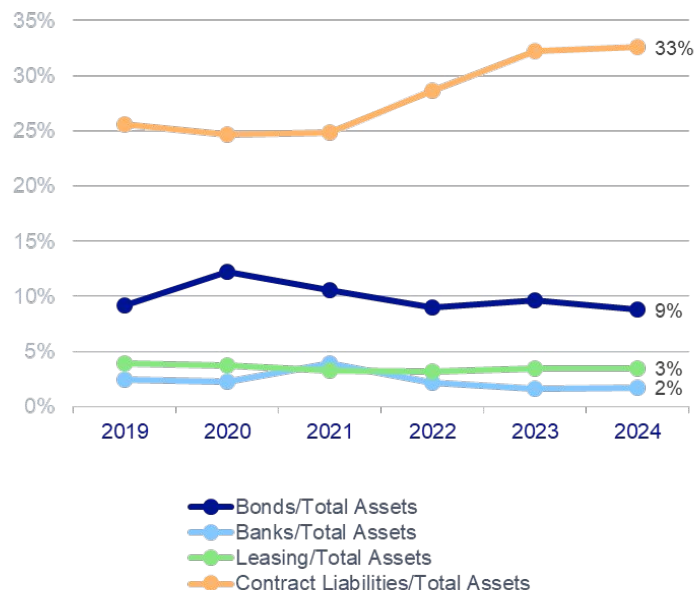
LIABILITY STRUCTURE SMEs



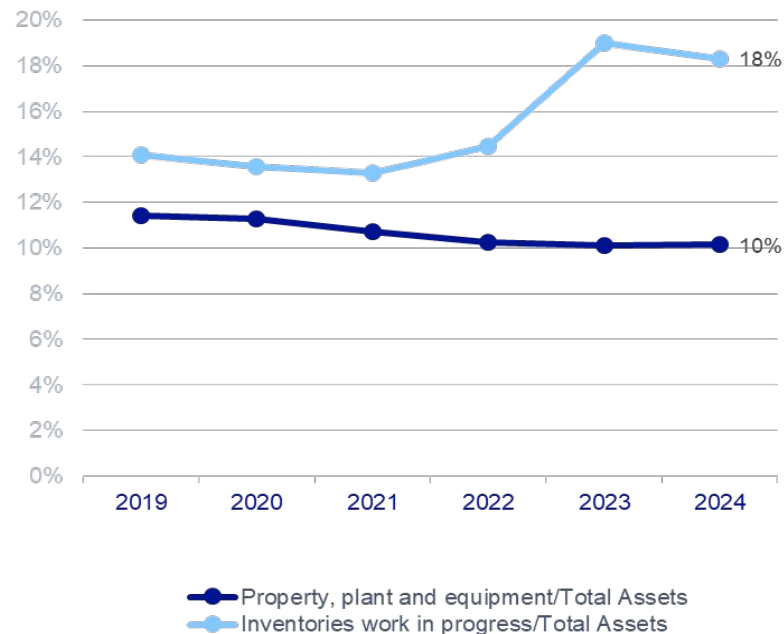
Note: "Banks" category includes financial leasing. Data corresponding to dic-23, NACE C30 (Manufacture of other transport equipment) for ES, FR, IT and DE.
Source: BACH database

Government advance payments are rising since Ukraine war

DEBT COMPONENTS (% TOTAL ASSETS): 2019-2024



PPE & INVENTORIES OVER TOTAL ASSETS (%)



Data from 15 European defense companies (Safran, BAE systems, Rolls Royce, Thales, Leonardo, Dassault, Rheinmetall, Saab AB, Naval Group, Navantia, Kongsberg, Indra, Hensold, Diehl, Nammo)
Contract liabilities represent advance payments from clients (i.e. governments in case of military purchases).
Source: Annual reports and BBVA Research

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