PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

POLICY BRIEF

26-1 The European Union and the War in Ukraine

More Money, but Not More Europe

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January 2026

The European Union has tended to stumble toward more integration as it has faced crises since at least the early 1990s. It has not done so in response to Russia's 2022 invasion of Ukraine.

Despite the increasingly direct military threat from Russia and a weakening US commitment to the North Atlantic Treaty Organization (NATO), the European Union's 27 member states have proven unwilling to harness their union to provide a common defense. Instead, EU members have responded individually, based on their own national interests and circumstances, such as their geographic proximity to Russia and levels of government debt.

Failure to act collectively represents a wasted opportunity with potentially far-reaching and negative implications for the prospects of any further meaningful EU institutional integration. If EU members cannot unite to fund and direct a more integrated approach to military affairs, they are unlikely to endow the union with the fiscal and institutional powers to pursue other shared goals in the future. Failing to do so will mean forgoing the potential economic and security benefits of deeper EU integration. EU businesses will not move closer to operating inside a single more fully fiscally integrated economy, and EU governments will still not reap the full benefits of completely integrated and deeper European financial markets.

At the same time, the European Union has taken on a critical role as the dominant financial supporter of Ukraine, paid for through common bond issuance. This role raises the question of the degree to which future crises can drive EU political and institutional integration beyond the occasional issuance of debt in response to the issue of the day. The answer may be that this process has reached its limit and that the European Union will not, as it did in recent decades, create deeper institutional ties in response to future crises.

This Policy Brief analyzes the drivers of rearmament, especially military aid to Ukraine, and the ways in which such aid is increasingly being provided by different "coalitions of the willing" consisting of subsets of EU members and other countries, working with the Ukrainian military industrial sector. It argues that this approach will likely reduce the European Union to a peripheral role in providing

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He is indebted to PIIE and Bruegel colleagues Olivier Blanchard, Zsolt Darvas, Stephen Gardner, Cullen Hendrix, Patrick Honohan, Maurice Obstfeld, Lucio Pench, Adam Posen, André Sapir, Ángel Ubide, Nicolas Véron, Alan Wolff, Guntram Wolff, and Jeromin Zettelmeyer for constructive comments on an earlier draft. All remaining errors and omissions are the responsibility of the author.

for the continent's military defense and national security. Instead, the European Union's principal role will be that of a financier, limited to continuing to provide financial support for Ukraine, increase sanctions pressure on Russia, oversee Kyiv's accession to the European Union, and try to carve out a coordinating role in EU defense-related research and development (R&D). Rather than the European Union as a single institution, subsets of EU members together with nonmembers will drive European rearmament and the establishment of a largely independent long-term military deterrent to Russia.

EU FISCAL INTEGRATION AND PROSPECTS FOR A NEW REARMAMENT COMPONENT

Jean Monnet's dictum that "Europe will be forged in crises and will be the sum of the solutions adopted for those crises" is frequently evoked to describe how recent decades of European crises have tended to be at least partly solved by adding to the continent's integrated institutional framework. Following the end of the Cold War, for example, the Maastricht Treaty, the Economic and Monetary Union (EMU), and the introduction of the euro paved the way for German reunification. After the global financial crisis and the euro area debt crisis, first the European Financial Stability Facility (EFSF) and then the European Stability Mechanism (ESM) provided the euro area with partial common fiscal insurance, ultimately complemented by the establishment of the European Central Bank (ECB) as the conditional lender of last resort in the Outright Monetary Transactions framework in 2012. As uncontrolled refugee inflows hit Europe in 2015–16, the first EU "uniformed personnel group"—a key symbol of statehood—was created in the form of the European Border and Coast Guard (EBCG). In 2020, in response to the COVID-19 pandemic, EU leaders created the NextGeneration EU (NGEU) fund, which ultimately provided €650 billion to EU member states.[1]

Given this history, it was reasonable to assume that a direct military threat would spur additional EU institutional and fiscal integration.[2]

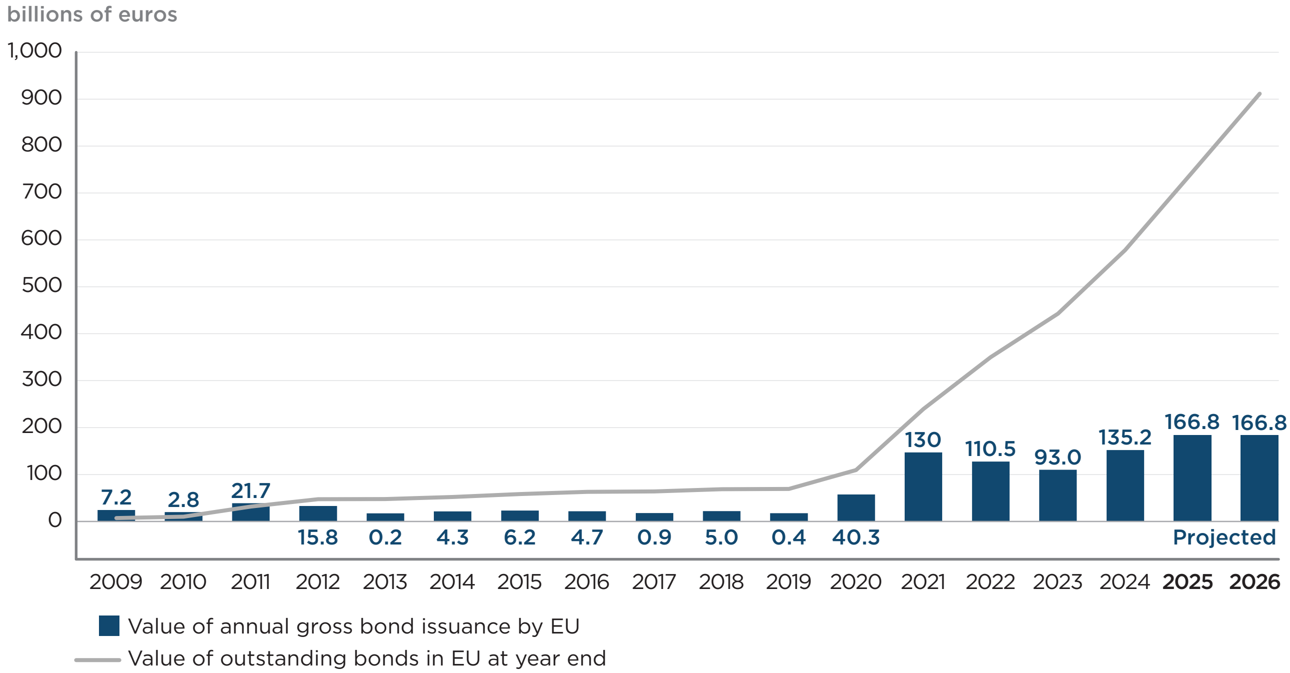
War is a costly business, however, and confronting issues of physical security and defense against a particular geographic threat poses problems for collective action (Olson 1971). If Russia's more immediate neighbors can deal with the threat, there is limited incentive for the European Union's geographically more distant members to support a joint effort—especially since arguably the European Union's only relevant military needs now and in the next few years are those of the fielded Ukrainian army fighting Russia, and the countries closest to Ukraine can do the heavy lifting.

Russia's invasion of Ukraine triggered a number of reactions from European countries. The European Union provided €73 billion in financial aid and €2.7 billion in humanitarian aid between January 2022 and October 2025, according to the Kiel Institute's Ukraine Tracker. The European Commission activated the national escape clause of the Stability and Growth Pact, which allows member states to increase defense spending without falling foul of the fiscal rules. The commission

1 The Recovery and Resilience Facility (RRF) and additional funding sources will distribute a total of €359 billion in grants and €291 billion in loans to EU members.

2 The intelligence services of several EU countries assess that by 2030, Vladimir Putin will test NATO's collective defense pledges, posing a direct threat to EU territory.

Figure 1
EU bond gross issuance and bonds outstanding, 2009–26



Note: Figures for 2025 and 2026 are projections.
Sources: Data for 2009–20: EC (2022); data for 2021–2025: EC (2022–2025); data for 2026: EC (2025a).

also launched a €150 billion common loan instrument—Security Action for Europe (SAFE)—to raise funds on capital markets and loan them to interested member states, based on national plans, with this borrowing counting toward national debt levels. To date, 16 member states have requested that their national escape clause be activated, and 19 have expressed interest in accessing SAFE loans.[3]

Historically, military and national defense spending has played a formative role in expanding the fiscal capacity of the central government of modern states.[4] In the United States, for example, the federal government issued debt only to cover wartime expenses until President Franklin Roosevelt's New Deal made federal deficits the norm (Kirkegaard and Posen 2018). Assuming a sizable role in the financing and organizing of efforts to meet the European Union's own urgent future military needs could help propel the European Union toward more complete statehood and expand the centralized fiscal capacity pioneered with the NGEU.

Cumulative EU bond issuance has risen since 2009 (figure 1). It is expected to continue to rise in 2025–26, as the last tranches of the NGEU are disbursed and issuance toward financial support of Ukraine continues.

3 The requests from Belgium, Bulgaria, Croatia, the Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia, and Slovenia have been approved; Germany's request is pending (see Council of the EU, Council Activates Flexibility in EU Fiscal Rules for 15 Member States to Increase Defence Spending, press release, July 8, 2025).

4 A large body of comparative literature, arguably starting with Charles Tilly's 1993 classic *Coercion, Capital, and European States, AD 990–1992*, describes the linkages between states' administrative capacity, war-like behavior, and tax revenues. See also Besley and Persson (2009).

The European Commission's initial proposal for the new seven-year EU budget includes modest annual allocations of about €18 billion (0.1 percent of the European Union's 2024 GDP of €18.02 trillion) for defense and military-related spending.[5] This allocation means that individual member states will continue to handle military issues; it does not shift long-term EU budget resources toward European rearmament. The new budget does, however, include a €100 billion special reserve to assist Ukraine between 2027 and 2034, highlighting the commission's intent to fully fund Ukraine's EU accession and maintain the European Union as the principal long-term financial supporter of Ukraine.

The commission's limited request for defense-related funds means that any additional EU-level entry into the military and defense realm will have to be initiated outside the regular EU budget, raising the political threshold for anything at the EU level to happen.[6] Politically, it appears unlikely that other categories of EU-wide public goods can be financed through more common debt in the coming years.[7]

The legally required unanimity among EU member states for common EU debt issuance also undermines the case for issuing more debt to improve the functioning of European financial markets or to promote the global role of the euro in the international financial system.[8,9] Fully politically integrated entities (such as the United States and Australia) can design their debt issuance operations to try to optimize financial market liquidity and reduce interest costs, regardless of the debt's purpose.[10] In contrast, in the European Union, member states hold almost complete control over fiscal issues. They must agree on the purpose of the common debt before issuing it.

The financing of support for Ukraine is likely to be even more dominated by the common EU level going forward, as support from the United States—and likely most other Group of Seven (G7) countries—gradually dwindles. The recent

5 This category includes intended budget allocations for resilience and security (e.g., supply chains and critical minerals); defense industrial readiness; space; and civil security. See the European Commission's Proposal for a Regulation of the European Parliament and of the Council on Establishing the European Competitiveness Fund ('ECF'), Including the Specific Programme for Defence Research and Innovation Activities, Repealing Regulations (EU) 2021/522, (EU) 2021/694, (EU) 2021/697, (EU) 2021/783, Repealing Provisions of Regulations (EU) 2021/696, (EU) 2023/588, and Amending Regulation (EU) [EDIP], July 16, 2025.

6 The NGEU was initially suggested, on May 18, 2020, as a €500 billion Franco-German initiative, conceptualized as a special fund to provide the EU budget with additional funds for COVID-19 recovery. In July 2020, it was implemented as part of the regular EU budget.

7 Article 3, Section 1 of the EU Treaty states the purpose of the European Union as follows: "The Union's aim is to promote peace, its values and the well-being of its peoples." The legal purpose of the European Union's pursuit of "European public goods" emerges from this statement as goods and services freely accessible and whose use by one EU member state or EU resident individual does not hinder use by another. For this reason, such goods can be provided only by the public sector in EU member states or by EU institutions.

8 Polling suggests that Viktor Orbán could lose power in the 2026 elections, removing the main political obstacle to unanimous EU support for more support for Ukraine. See Hungarian national poll average at EuropeElects. His defeat is not likely to be sufficient to secure the full backing of member states for more common debt issuance, however, as other members will still oppose it, for other political reasons.

9 Many authors and policymakers have forcefully put forward these arguments over the years. Philip R. Lane, a member of the Executive Board of the European Central Bank, expertly surveyed and summarized them in a speech at the Government Borrowers Forum 2025 on June 11.

10 See Olivier Blanchard and Ángel Ubide, Now Is the Time for Eurobonds: A Specific Proposal, RealTime Economics blog, Peterson Institute for International Economics, May 30, 2025.

EU decision to issue €90 billion in new common debt (EU Council 2025) sees the union committing to cover any Ukrainian budget shortfall for the 2026–27 period. Other countries can still volunteer support, but the European Union clearly has taken the role of Ukraine's financial backstop in the coming years.

At its October 2025 council meeting, the European Commission presented its Defense Readiness Roadmap 2030 (EC 2025b) to EU leaders. It includes no new concrete defense-related decisions, explicitly allocating leadership in European military and defense matters to member states (EC 2025a). The roadmap identifies nine initial priority capability areas for European defense investments (air/missile defense, strategic enablers, military mobility, artillery systems, cyber/AI/electronic warfare, missiles/ammunition, drones/counter-drones, ground combat, and maritime) and four initial European Readiness Flagships (the European Drone Defense Initiative, the Eastern Flank Watch, the European Air Shield, and the European Space Shield). Reflecting member states' continued sovereignty in defense, and the evident expected differences in priorities among them, the commission urges the completion of voluntary Capacity Coalitions of member states willing to actively participate in reaching common EU defense-related goals. Which member states will take the lead in these new initiatives and how they will do so remains to be seen, but it seems clear that although some common EU funds and SAFE bonds are available, member states' capacities to take an initiative forward will depend on their national defense spending levels. Diverging national spending levels will likely dictate a focus on better funded initiatives felt most keenly by member states now rearming rapidly in the shadow of Russia's aggression against Ukraine.

The commission's roadmap represents an attempt at improving coordination among sovereign member states in defense and military industrial issues. For the foreseeable future, however, the European Union's only material role in Europe's defense may be providing financial aid to Ukraine's government budget.

DRIVERS OF RISING EU DEFENSE EXPENDITURES AND MILITARY AID FOR UKRAINE

Since the founding of the European Union, military and defense-related issues have resided exclusively with member states. The European Commission's *White Paper for European Defense: Readiness 2030* notes that member states "will always retain responsibility for their own troops, from doctrine to deployment, and for the definition of needs of their armed forces" (EC 2025c, 6). The White Paper does envision the European Union "facilitating greater collaboration and efficient scale for the European defense industry in developing, producing and marketing weapons systems; facilitating efficiencies, interchangeability and interoperability, lowering costs by avoiding competitive purchasing and improving purchasing power for Member States, while helping to generate stability and predictability with multi-year industrial demand; supporting dual-use infrastructure for mobility and space-based communications, navigation, and observation; and enabling partnerships." This status quo could change if member states agreed to launch a new, commonly funded entity to procure critically important weapons systems for European security. To date, the political will for such initiatives has not materialized.

The political realism of the White Paper and the Roadmap leaves European rearmament and associated military aid to Ukraine at risk of being driven overwhelmingly by domestic factors in member states rather than by the common good. Member states' individual circumstances, such as their geographic proximity to Russia and government debt levels, have strongly influenced their responses to Russia's invasion. Non-EU members, such as the United Kingdom and Norway, have, as illustrated below, done more to support Ukraine than some member states.

National efforts by EU member states may have been shaped by the fact that at the start of Russia's full-scale invasion, in 2022, there were no highly indebted (defined here as gross debt levels above 90 percent of GDP in 2021) EU capitals within 2,000 kilometers of Moscow. The countries with the most to fear from Russian aggression also had the most fiscal space (e.g., ability to increase deficits and debt levels from higher defense spending) to react to it. Member states with the best fiscal starting points have also disproportionally been the countries that increased defense spending dramatically in recent years.[11] Neutrality with respect to the war in Ukraine is strongly correlated with a decline in the share of GDP spent on defense. Three of four neutral EU members—Ireland, Cyprus and Malta, though not Austria—saw declines (figure 2).

In the absence of forceful EU decisions on military rearmament and military aid to Ukraine, individual EU member states and other NATO allies are filling the gap. They have done so, however, at different rates, resulting in increasingly skewed support for Ukraine (figure 3).

Figure 3 shows that Northern and Eastern European NATO members and non-EU European NATO members have provided the most bilateral military assistance to Ukraine (measured as a share of their national economic output); in dollar terms, the United States is the largest individual bilateral donor to Ukraine. Figure 3 also shows that some EU and NATO members have contributed less than non-European NATO members.[12]

These large variations in military support for Ukraine highlight a fundamental difference in European countries' perceptions of the Russian threat—a gap that is rooted largely in geography. It is captured by plotting European countries' bilateral military support to Ukraine against the distance between their capital city and Moscow (figure 4). The distance between a country's capital and Moscow explains almost half of the variation among EU members' support. Either persistent neutrality or, in the case of Hungary, explicitly pro-Russian national policies are also powerful predictors of the scale of military aid to Ukraine.[13]

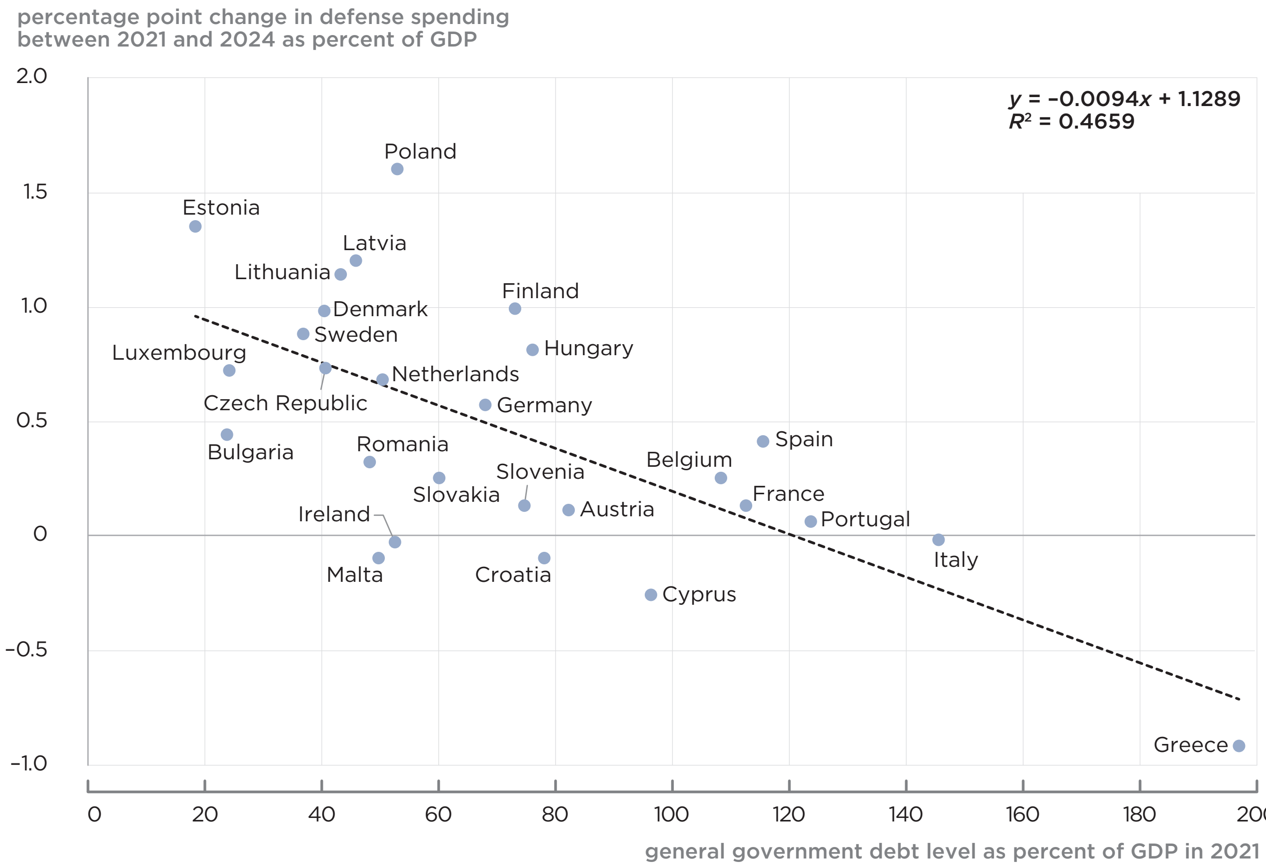
11 Figure 2 includes both NATO and non-NATO EU members. NATO country defense expenditure data are from NATO (2025). They use NATO's definition of defense expenditures, which includes, for instance, military pensions.

12 The fact that neutral Cyprus and Ireland will hold the rotating presidency during 2026 does not look likely to imbue the European Union's rearmament process with much urgency in the near term.

13 Following Russia's invasion of Ukraine, Sweden and Finland joined NATO. Austria, Cyprus, Ireland, and Malta remained outside the alliance, continuing to rely on the military protection of other European and NATO member countries.

Figure 2

Correlation between change in defense spending by EU and NATO members between 2021 and 2024 and general government gross debt levels in 2021



Note: Figures for 2024 are estimates.

Sources: Data on GDP: Eurostat. Data on NATO members: NATO (2025) and European Parliament (2025). Data on non-NATO members: SIPRI Military Expenditure Database.

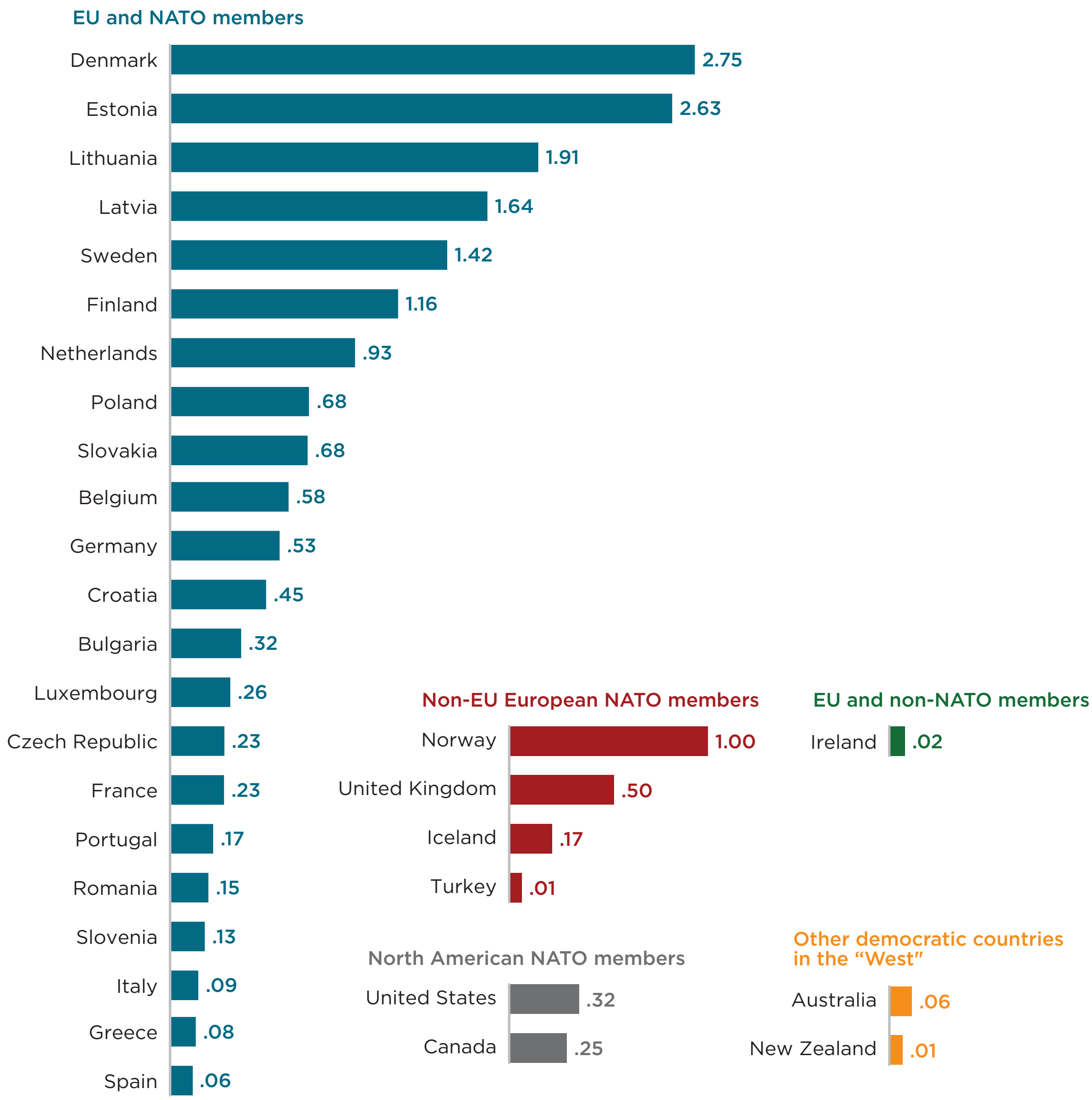
The second predictor of the scale of bilateral military aid to Ukraine is a country's fiscal position when Russia invaded (figure 5).[14] National governments with low debt levels could change political and economic priorities in response to Russian president Vladimir Putin's aggression relatively easily, providing support for Ukraine without jeopardizing other national domestic policy spending priorities.

Just four EU member states—Belgium, Finland (Russia's neighbor), Germany, and Slovakia—with debts above the Stability and Growth Pact's 60 percent gross debt/GDP threshold when Russia invaded have given more than 0.5 percent of their national GDP in bilateral military support for Ukraine since early 2022. High-debt EU members may have other national spending priorities, although countries with very low initial debt levels (such as Bulgaria and Luxembourg) have also

14 A deeper debt sustainability analysis of each EU member state might be a better measure of a "fiscal starting point." However, using ex ante gross general government debt levels arguably captures the most politically potent component of debt sustainability and facilitates graphic representation.

Figure 3
Bilaterial military aid to Ukraine, by country, January 2022–October 2025

percent of 2021 national GDP

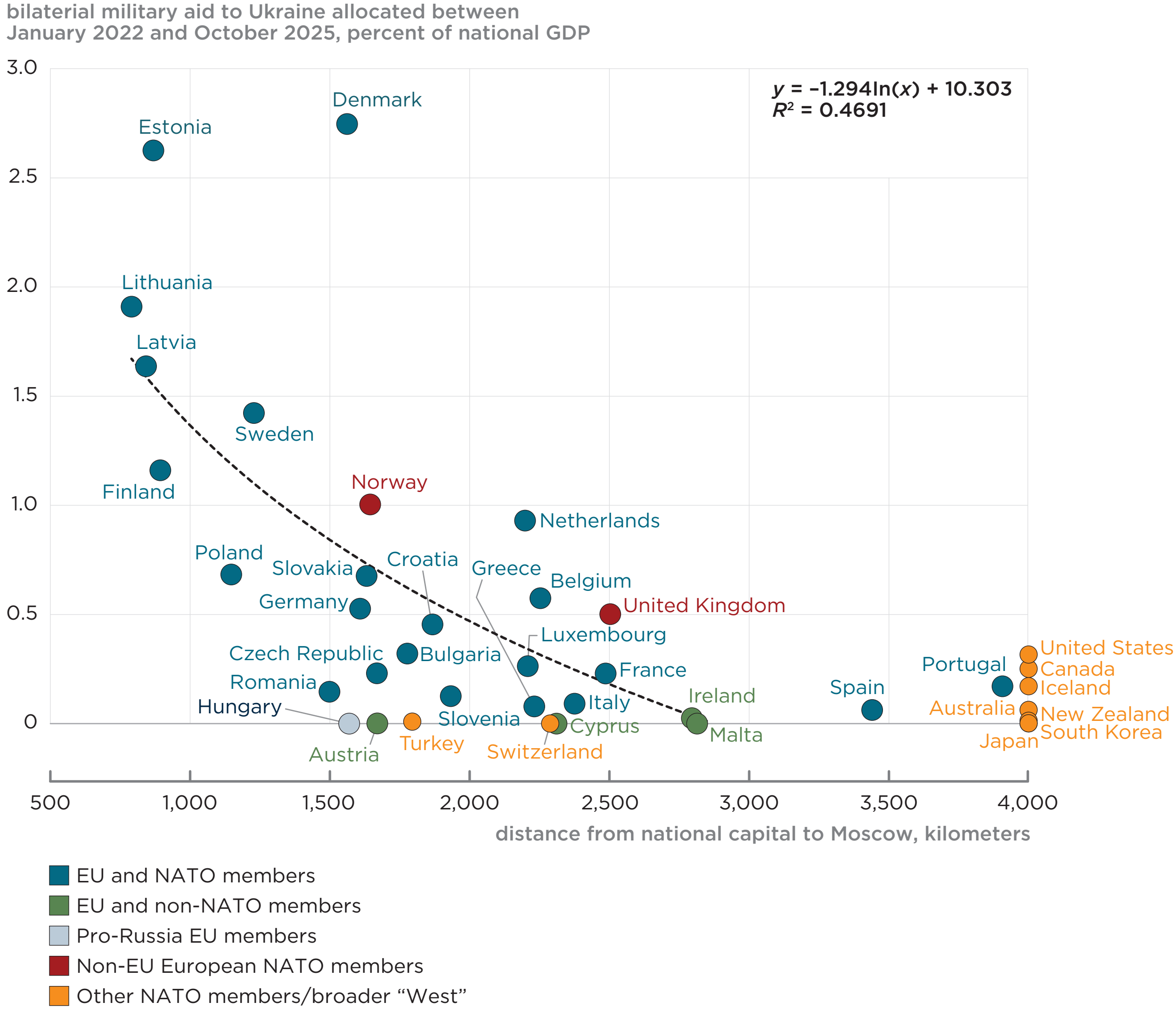


Note: Non-EU European countries and non-European countries are included for illustrative purposes. Countries not shown (Japan, South Korea, Austria, Switzerland, Malta, Hungary, and Cyprus) allocated less than 0.01 percent of their 2021 national GDP.

Source: Kiel Institute's Ukraine Tracker.

Figure 4

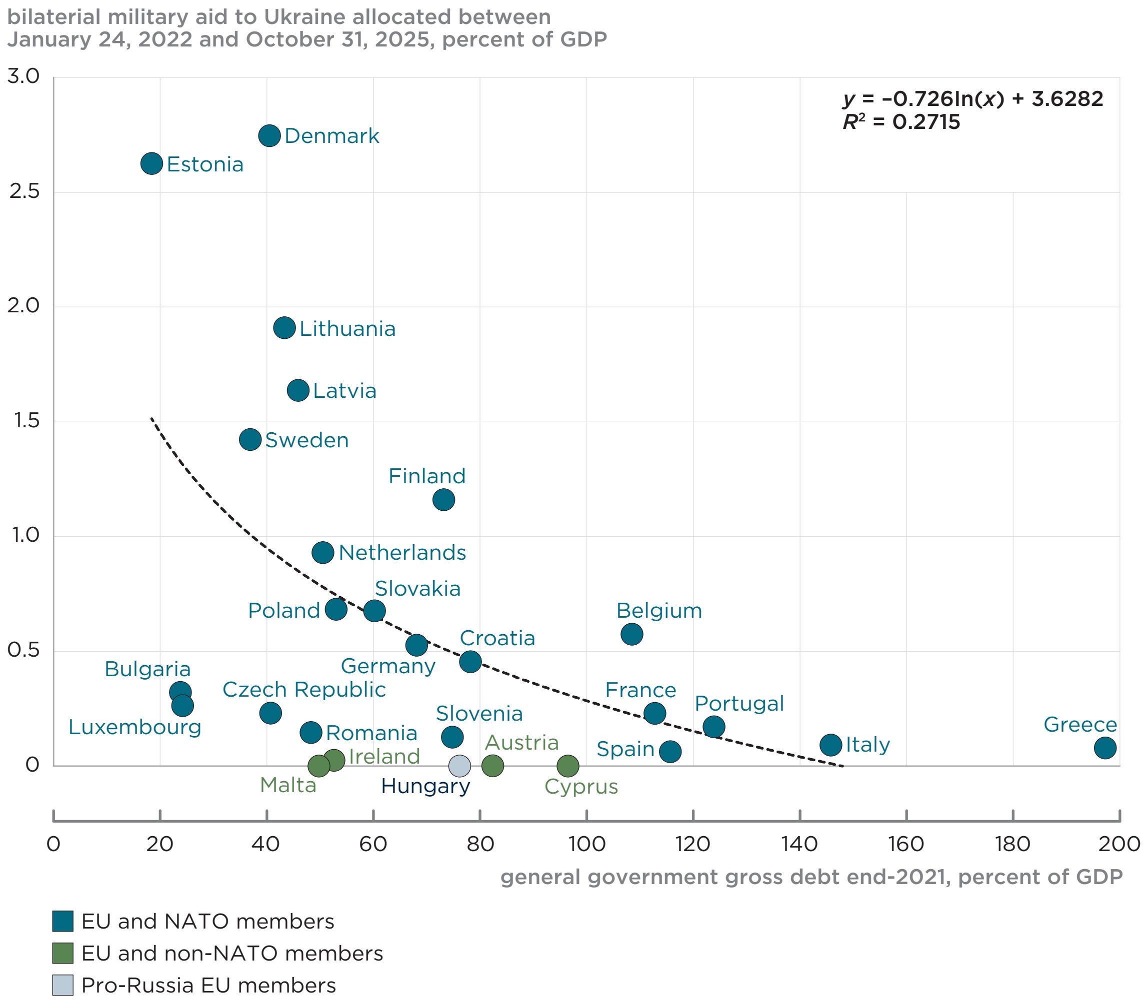
Correlation between bilateral military aid to Ukraine in January 2022–October 2025 and distance of country's capital to Moscow



Note: Non-EU European countries and non-European countries are included for illustrative purposes.
Sources: Kiel Institute's Ukraine Tracker; distancefromto.net.

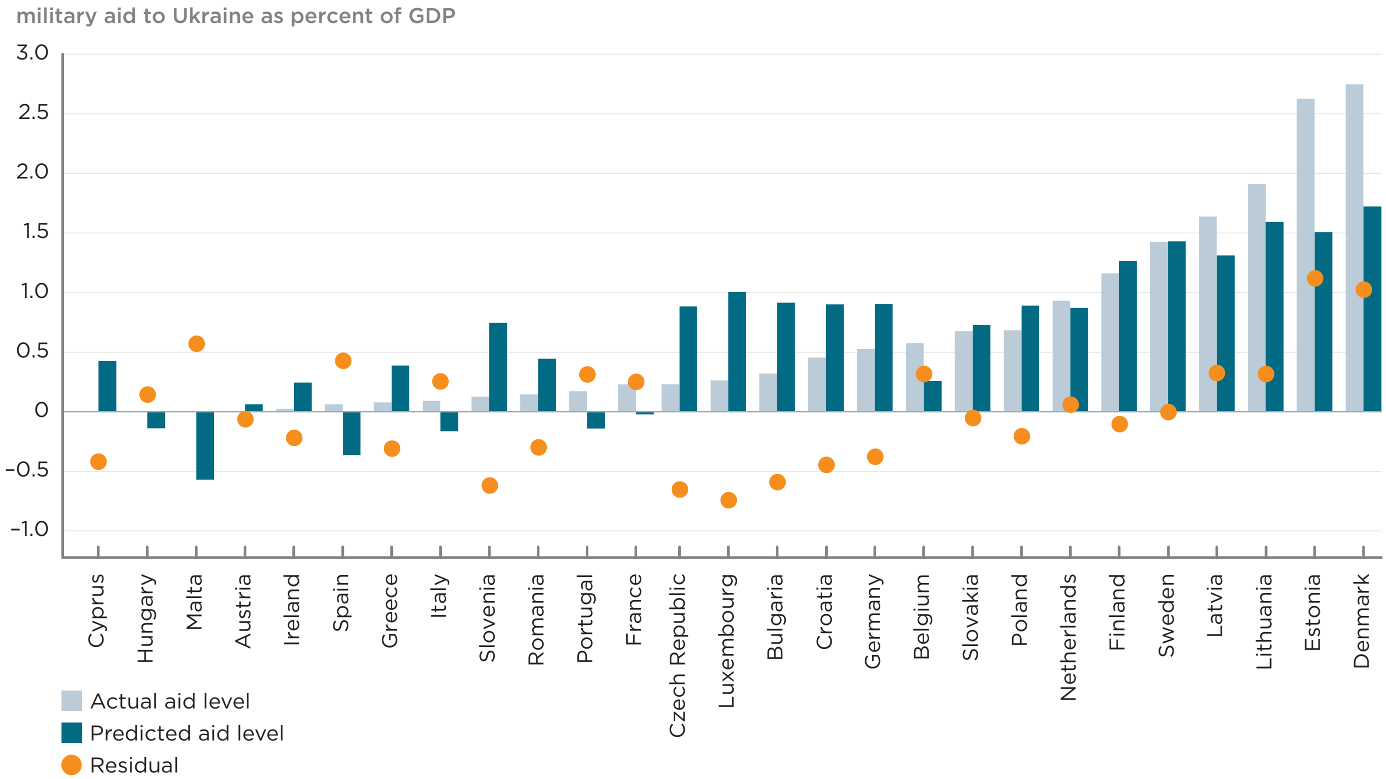
Figure 5

Correlation between bilateral military aid to Ukraine January 2022–October 2025 and gross government debt at end-2021



Sources: Kiel Institute's Ukraine Tracker; Eurostat.

Figure 6
Actual and predicted military aid to Ukraine by EU27 members, January 2022–October 2025



Source: Author's calculations based on data from the Kiel Institute's Ukraine Tracker.

provided little support. The domestic political spending calculus of "guns for Ukraine or butter for our voters" looms large for almost all EU members.

A quick back-of-the-envelope small population "poli-sci regression" of these two variables (geography and national debt/deficit levels) on bilateral military aid levels explains around 60 percent of the variance and reveals which countries have exceeded their predicted aid levels (figure 6).

Just two EU members—Estonia and Denmark—significantly exceeded their predicted level of support for Ukraine.[15] Latvia, Lithuania, and Belgium are above their expected values; Sweden, Finland, the Netherlands, and Slovakia are about as expected; and both Poland and Germany are below their expected values. The main "Ukraine laggards in the European Union" (around 0.5 percentage point of GDP below the expected level) are Croatia, Bulgaria, Luxembourg, the Czech Republic, and Slovenia.

15 France, Italy, Portugal, and Spain are also well above their expected levels, although the level of their support is very low.

SAFE, COALITION(S) OF THE WILLING, AND USURPED EUROPEAN POLICY SPACE

"Eurobonds mean that those who have already done or are doing their homework pay for what others don't do."

—Boris Pistorius, German defense minister, *Financial Times*, July 13, 2025

In May 2025, EU member states endorsed the €150 billion SAFE defense loan instrument to boost European defense capabilities through 2030. Using this instrument, the European Commission will raise funds and lend them to member states based on their defense industry investment plans, including possibly financing bilateral military assistance to Ukraine. SAFE loans can be used for common procurement of two main categories of defense products and defense purposes:[16]

- Ammunition and missiles, artillery systems, small drones and related anti-drone systems, critical infrastructure protection, and cyber and military mobility.
- Air and missile defense, drones other than small drones (NATO Class 2 and 3) and related anti-drone systems, strategic enablers, space assets protection, artificial intelligence and electronic warfare.

SAFE loan eligibility requires that at least 65 percent of the cost of components originate in the European Union, the European Economic Area (EEA), the European Free Trade Area (EFTA), or Ukraine or Security and Defense Partnership (SDP) countries, such as Canada. As loans can have a maturity of up to 45 years, SAFE loans may be outstanding until 2075, significantly beyond the 2058 envisioned duration of NGEU bonds.

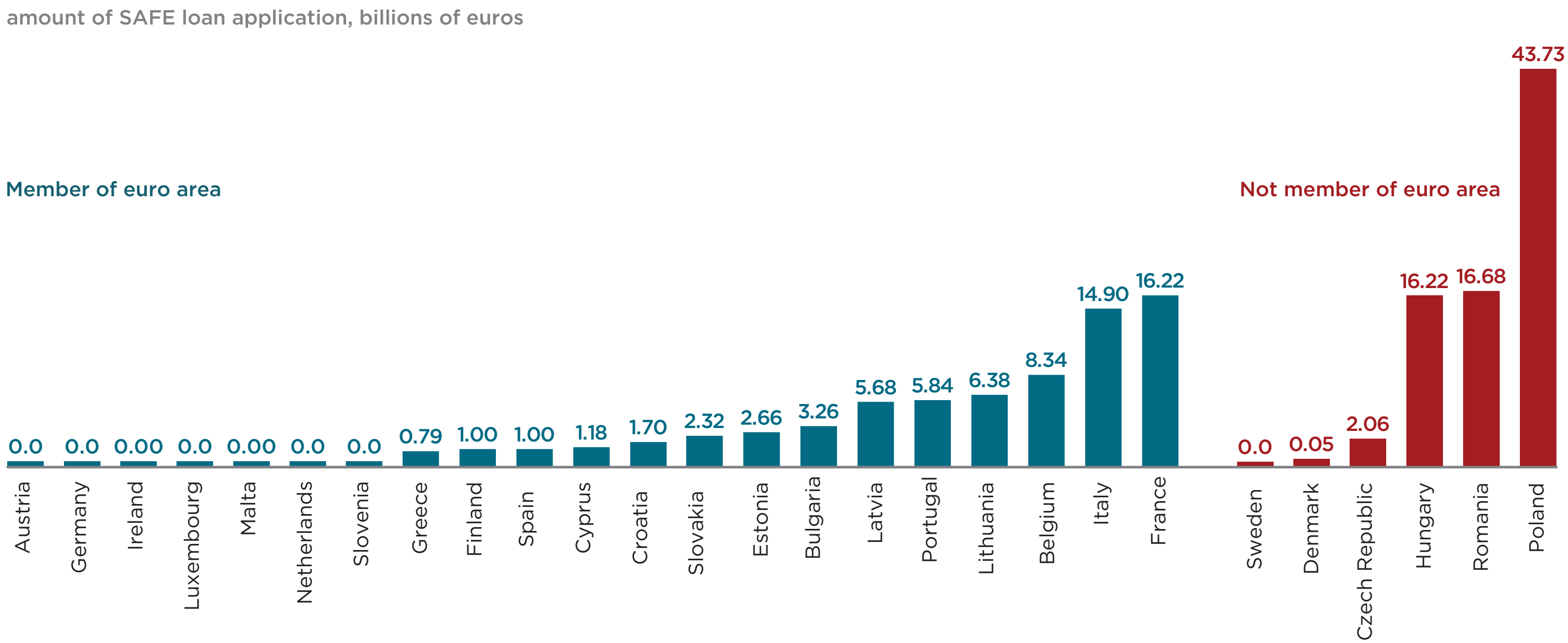
In early September 2025, the commission announced the tentative allocation of €150 billion, based on loan applications from 19 member states (figure 7).[17]

SAFE's borrowing costs are lower than those of most national rates, thanks to the European Union's high credit rating. One would therefore expect EU members that recognize the threat from Russia to be interested in tapping it. Some of the European Union's non–euro area members should be particularly interested in SAFE loans, as their domestic borrowing costs are on average higher than those in the euro area.

16 For SAFE purposes, common procurement is defined to mean "the procurement procedure of defence products or other products for defence purpose and the resulting contracts, carried out by at least one Member State receiving financial assistance under this instrument and one additional Member State or one Member of the European Free Trade Association which are members of the European Economic Area (EEA EFTA State) or Ukraine. In addition, the common procurement may include acceding countries, candidate countries and potential candidates, and other third countries with whom the Union has entered a Security and Defence Partnership (Non-Binding Instrument, NBI)." Common procurement thus means that one member state must buy its products either at home or in another EU, EEA, EFTA, or SDP country. It is not required that other member states share in the common procurement. Each member state thus has de facto control over what it wants to purchase in eligible categories. See European Commission, Proposal for a Council Regulation Establishing the Security Action for Europe (SAFE) through the Reinforcement of European Defence Industry Instrument, March 19, 2025.

17 See European Commission, SAFE | Security Action for Europe.

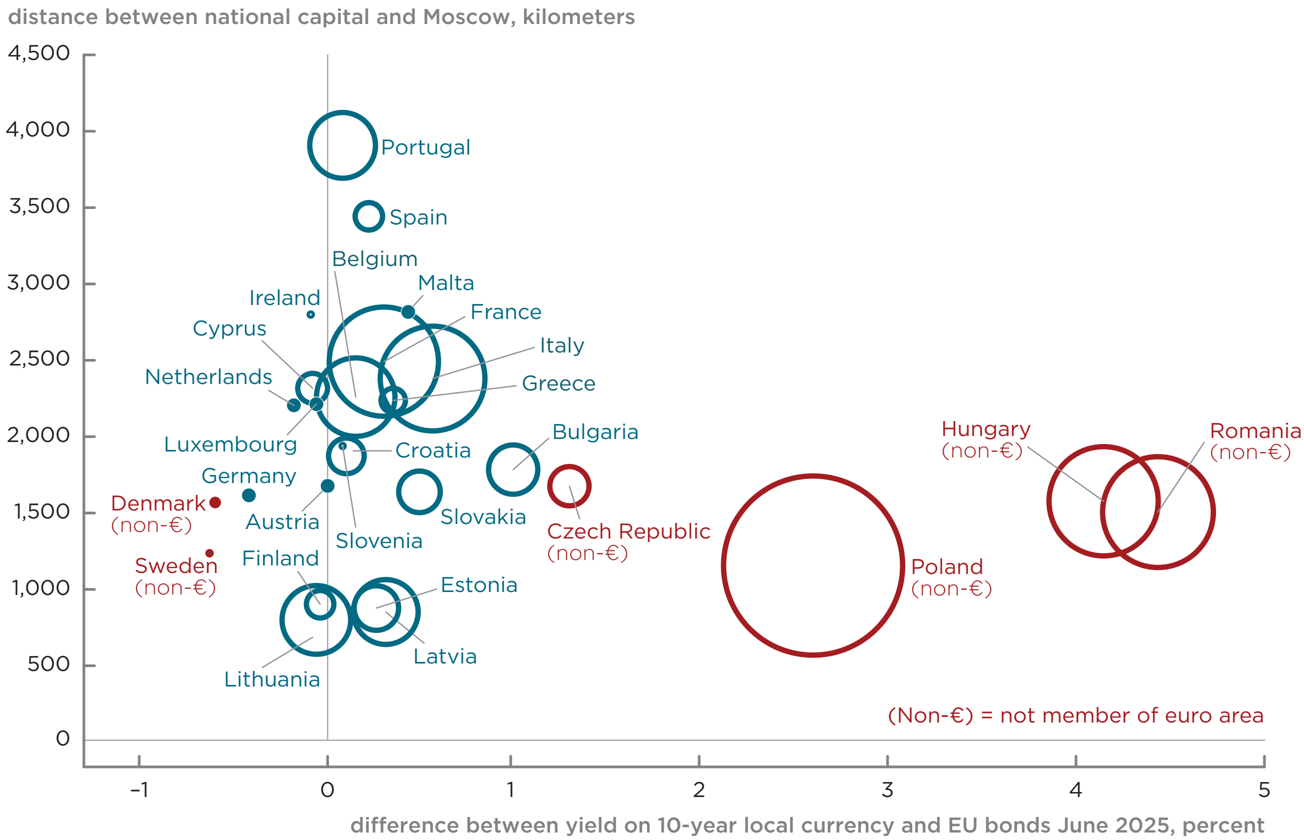
Figure 7
SAFE loan applications by EU member states, 2025



0.0 = negligible amount
Source: European Commission, SAFE | Security Action for Europe.

Figure 8

Correlation between size of requests for SAFE loans, distance to Moscow, and spread between domestic and EU bond yields



Note: Euro area members are in blue; nonmembers are in red. Size of bubbles represents size of SAFE loan requested.
Sources: Interest rates: Eurostat; SAFE loans: European Commission; distance to Moscow: distancefromto.net.

Non–euro area members are indeed disproportionally interested in SAFE loan applications, accounting for 55 percent of expressed interest despite accounting for less than 20 percent of EU GDP (figure 8). SAFE loan interest is also highly skewed with respect to the size of national defense budgets, with Latvia, Cyprus, Hungary, and Lithuania having expressed interest in loans worth more than three times their 2024 national defense budgets and Romania, Estonia, Bulgaria, Portugal, Poland, Croatia, and Belgium requesting loans worth more than 100 percent of their 2024 defense spending. Requests from Italy amount to almost half of its €32 billion 2024 budget, and requests from France represent just under 30 percent.

Unsurprisingly, EU member states whose national borrowing costs are lower than EU borrowing costs are generally uninterested in accessing SAFE bonds.[18]

18 The values in figure 8 are estimated based on average national 10-year government bond yields and the corresponding yield for similar maturity EU bonds issued by the European Commission. National local currency bond yields were used; the total average 10-year maturity yields may be different if a share of total issuance is in other currencies and euros. Given that all non–euro area members issue the vast majority of their government bonds in their local currencies, this discrepancy will not affect the conclusions from figure 8.

Distance to Moscow appears to have a more modest effect on SAFE bond interest. It did not discourage Portugal from seeking €5.8 billion, although it may have kept Spain from seeking more than €1 billion. At the same time, however, Poland and Romania (and in time maybe even Hungary), as neighbors of Ukraine with large SAFE loan requests, open the opportunities for using a material share of their SAFE loans to pay for joint cross-border military industrial production with Ukraine. SAFE hence represents an important policy push toward more integration of the defense of Ukraine with that of the European Union.

The expected full subscription from EU members to the €150 billion available in SAFE bonds underscores both the importance EU members attach to increased defense-related investments and the incentives provided by lower financing costs. This suggests both that the European Union might consider making more SAFE bonds available to member states in the future, but also that the current financial advantage of common EU bond financing for a sizeable part of the EU membership remains limited or nonexistent, as these members can finance their own defense spending at similar or lower costs than SAFE bonds. Unless future EU financing is made on a grant basis, uptake among EU members for SAFE bond–like instruments will remain heavily skewed toward a relatively small number of EU member states with higher national borrowing costs.

The fact that 15 of the 19 EU members participating in SAFE have explicitly included military support for Ukraine in their SAFE-funded National Defense Investment Plans suggests that SAFE, in addition to the possible financing of cross-border military industrial projects, will become a major source of general EU member state bilateral funding for military support for Kyiv. These commitments are in billions of euros, according to Andrius Kubilius, EU commissioner for defense and space.

SAFE resources will complement the near-term defense spending options of several EU members. But for the vast majority of EU defense expenditure and bilateral aid to Ukraine, spending will be dictated largely by immutable geography and (largely) immutable fiscal positions. It is therefore likely that military support for Ukraine will come mostly from a subgroup of predominantly Northern and Eastern relatively low-debt EU and NATO members, possibly together with Norway and the United Kingdom. These countries will probably take on the leadership roles in the ambitious Capability Coalitions as well as in future bilateral aid and the financing of US weaponry purchase for Ukraine.[19]

Even before the establishment of any of the proposed Capability Coalitions, the "coalitions of the willing" organizing format has been adopted at the leaders' level (e.g., the same format as that used by the European Council meetings is being used), with the most prominent role played by Europe's two nuclear powers, France and the United Kingdom.[20] The UK role underscores its continuing importance in European military and national security affairs. The regularization of leaders' meetings among the coalitions of the willing is a natural reflection

19 With its advanced weapons industry, already established links to Ukraine, and unique status as the European Union's sole nuclear power, France naturally "leans North." In 2023, the Czech government established a public-private team to search globally for available ammunition stocks and new production. Funded largely by other NATO members, the initiative supplied 1.5 million shells to Ukraine in 2024, 850,000 of which were delivered in 2025.

20 Political leaders from Australia, Canada, New Zealand, and Turkey joined the leaders of Ukraine and other European countries at the July 10, 2025, meeting in London.

of the United Kingdom's role. It also helps reintegrate the United Kingdom (as well as Norway and possibly other non-EU European countries) into the core of European defense-related decision making (beyond any preparatory work for any post-conflict stabilization force in Ukraine). It does, however, further crowd out parts of the possible future political space for a more prominent EU role in direct military and defense-related deployment and procurement policy areas.

The future role of EU institutions is clearer when it comes to areas such as the European defense industrial dimension, military R&D funding, and militarily relevant infrastructure investments. With respect to military infrastructure, improved land-, sea-, and air-related infrastructure across the European Union is facilitating the faster and more reliable movement of military equipment and personnel. Spending on such infrastructure should be a straightforward use of the up to 1.5 percent of GDP in defense-related investments recently agreed to at the 2025 NATO Summit.

The European Union has vast experience funding R&D across Europe. Boosting such programs and orienting them toward defense makes sense.

EU policies to improve supply security for critical minerals for the European economy will also have a positive effect on military industrial capacity.[21] Promoting military R&D are critical mineral access are additional policy areas in which the European Union can partner with like-minded nonmember states in Europe and elsewhere. A relaunched EU internal market extended to the military industrial sector and a reduction in the regulatory burden on all EU businesses would also improve the EU rearmament process. EU institutions can also adopt other trade, investment, or environmental policies that would indirectly promote this priority policy.

Continued calls from the European Commission and others for more common multiannual procurement from EU member states are likely to fall on deaf ears. The member states that are now rearming will make spending decisions based on their own national priorities and the battlefield-tested breakthrough weapons technologies uncovered in Ukraine, not based on a set of perceptions of hypothetical common threats formulated in Brussels. Procurement decisions by Germany—the only large EU member state dramatically increasing its defense spending—will therefore have outsized importance in determining what military equipment production lines will achieve economies of scale in Europe in the coming years.[22]

Germany's centrality will benefit German defense contractors, such as Rheinmetall. But Rheinmetall is increasingly a pan-European defense contractor, rather than a German national champion. Since Russia's invasion of Ukraine, it has produced military equipment in seven EU member states as well as Ukraine.[23] The gains of integration and scale from more integrated military production across

21 China's imposition of export control measures on rare earth metals is aimed largely at reducing their use in other countries' military production, according to Beijing.

22 The German government recently prepared a €377 billion national military procurement plan (Chris Lunday, "Germany's New €377B Military Wish List," *Politico*, October 27, 2025).

23 It has produced small and large caliber ammunition in Bulgaria, Hungary, Latvia, and Lithuania; armored vehicles in Germany and Ukraine; tanks in Hungary; gun powder and explosives in Greece, Hungary, and Romania; and robotic mine clearing equipment in Croatia (Slav Okov and Irina Vilcu, "Rheinmetall Reshapes East Europe's Soviet-Era Defence Industry," Bloomberg, October 28, 2025).

Europe may partly accrue to procuring governments, provided they buy from defense contractors with integrated pan-European supply chains rather than just domestic national defense champions.

The failure of the European Union to agree to and implement multiyear common military procurement may therefore not be as costly as frequently believed, as integrated European supply is gradually creating economies of scale. The main EU-wide cost reductions will surely come from the full firm-level integration of Ukraine's military industrial sector into the European one. Just as Russia's "military Purchasing Power Parity [PPP] adjusted defense spending levels are higher than the dollar figure indicates, Ukraine offers the European Union the opportunity to boost its military PPP spending by getting more bang (literally) for its buck by producing and developing in Ukraine."[24]

From a Ukrainian perspective, the assumption of practical responsibility for rearmament and military aid by a subset of EU and non-EU countries in different coalitions of the willing is likely to yield significant advantages. First, the willingness and ability of members of the coalition of the willing to support Ukraine immediately is arguably the most potent recognition of the urgency of sustaining Kyiv's war effort into the fourth year of an increasingly attritional war. The situation on the frontline is changing too quickly for common EU-level decisions on military issues.

Second, this group of countries has consistently engaged with and financed Ukrainian defense producers, either in Ukraine, through the so-called Danish Model,[25] or by enabling Ukrainian defense firms to establish weapons production on their territories. Producing weapons in Ukraine provides that country with the greatest degree of influence over the type of military aid it receives, supports the Ukrainian economy, and enables the Ukrainian defense industry to dramatically scale up production.

Third, the combined economic weight of the coalition of the willing—a minimum of €11 trillion to –€12 trillion in 2024 GDP—is five to six times that of Russia.[26] The group is thus easily large enough to sustain ongoing military aid to Ukraine, even if Russia allocates a larger share of its GDP to defense.

The accelerating integration of Ukraine's rapidly growing military production sector with those of the coalition of the willing countries also provides important benefits to rearming European countries. Ukraine has significantly lower labor costs than EU countries, as well as the ability to immediately field test new weapons designs and related military products.[27] The first existential interstate war between major industrial countries since World War II has already seen a dramatic acceleration of the military industrial R&D and product development cycle. Ukraine has initiated a "Test-In-Ukraine" program, in which foreign defense contractors transfer new products to Ukraine and provide online training on how to operate them, after which Ukrainian frontline troops use the products

24 See Kirkegaard (2025) for an in-depth discussion of military PPP data.

25 The "Danish Model" consists of individual European countries providing funding directly to Ukrainian defense producers to manufacture the weapons needed at the front inside Ukraine.

26 The combined 2024 GDP of Germany, France, the United Kingdom, Poland, the Netherlands, Sweden, Finland, and Denmark is just over €12 trillion.

27 See Kirkegaard (2025) for a detailed analysis of military production costs advantages in Ukraine.

against Russian forces and provide detailed feedback to the foreign producers. This program will give Ukraine insight into the technologies being developed by its allies and provide allied defense contractors with invaluable know-how about the performance of their products in battlefield conditions. Many start-up and innovative defense producers will likely be unable to resist the opportunity to test their products in this way, further accelerating corporate military industrial ties between coalition of the willing countries and Ukraine.[28]

The likely emergence of Ukraine as the largest postconflict regional military power opposed to Russia offers Europe the medium- to long-term prospect of being able to militarily deter Russia without relying on the United States. Even a partial Russian victory in Ukraine would force the rest of Europe to rearm itself at a cost more than double that of financing a successful Ukrainian defense (Bjørtvedt et al. 2025). Ukraine helps buy Europe's coalitions of the willing time to rearm, setting the stage for a gradual US withdrawal of military forces from Europe and a long-term reform of NATO away from the traditional US security guarantee to other members via Article 5 to an alliance focused on the interoperability of military forces.

Another reason for Europe to develop its own independent military deterrent of Russia is that rising US fiscal challenges are likely to drive a long-term reduction in the scale of US global military commitments, regardless of the presidential administration. The degree to which Europe will be compelled to replicate all relevant military capabilities inside NATO currently provided by the United States—especially full satellite-based signals and other intelligence-gathering capabilities—will be a function of the long-term political transatlantic relationship. Recent events—including the new NATO commitment to increase defense spending to 3.5 percent of GDP and to spend 1.5 percent of GDP on related infrastructure and industrial investments—increase the likelihood of establishing a reformed but still collaborative NATO military alliance.

The European Union's recent decision to provide €90 billion in financial support to Ukraine in 2026–27 (EU Council 2025) also notes the importance of "*strengthening of the European and Ukrainian defence industries,*" suggesting that a large part will go to purchasing weapons made in Ukraine and the rest of Europe.

EU leaders underlined "*the importance of Member States stepping up efforts to address Ukraine's pressing military and defence needs, in particular air defence and antidrone systems and large-calibre ammunition. In this context, further support for, development of and investment in Ukraine's defence industry remains crucial, including through the establishment of Ukrainian defence production in Member States. It is also important to further strengthen cooperation and integration between Ukraine's defence industry and the European defence industry, drawing on Ukraine's unique experience and know-how. In this context, the European Council welcomes the inclusion of cooperation with Ukraine in the defence industry investment plans of Member States in the framework of the Security Action for Europe (SAFE) instrument.*"

28 Around 25 Western defense companies produce weapons in Ukraine. This group includes BAE Systems, Rheinmetall, SAAB, and Northop Grumman (see "Build in Ukraine—An Initiative That Promotes the Localization of International Companies in Ukraine," *Odessa Journal*, October 22, 2025).

In other words, EU leaders see the funding as interlinked with earlier SAFE Loan proposals. This linkage represents, arguably, the most potent policy connection to date between EU-level funding and the promotion of first Ukrainian and eventually pan-European military industrial potential. Although the European Union will not have any direct control over how member states spend their national defense budgets, the European Union will—through its new €90 billion commitment to Ukraine—become the largest funder of Ukraine's defense sector and appropriately have a very direct voice in the future of Ukraine's military industrial production. This ought to provide full funding for Ukraine's domestic military industrial production from 2026 on (e.g., taking the potential of the "Danish Model" to the maximum), and in time facilitate the greatest possible integration of Ukrainian and European military industrial production and R&D capacity. This represents a very potent, if indirect, way of shaping future EU and Ukrainian defense integration.

CONCLUDING REMARKS

The warning signs that further EU integration will not occur are blinking. If it does not, the war in Ukraine may well become the first large crisis to affect the union since the euro crisis of 2009 that does not result in meaningful additional institutional EU integration.

The emergence of a militarily formidable Ukraine, European coalitions of the willing, and common EU funding for Ukraine would likely strengthen Europe's domestically generated physical security. The European Union would have little say in the military decisions and rearmament of its member states, but it would retain its indirect role as Ukraine's primary financial backer and would help fund and coordinate work on items such as EU military infrastructure and R&D. The new common €90 billion EU loan would also directly fund the military industrial integration of Ukraine, the European Union, and other relevant countries.

As Ukraine continues to fund roughly half of its war expenses from domestic sources,[29] ensuring the continued function of the Ukrainian economy remains critical. The multi-year budget support would provide the Ukrainian government with enough money to defend itself for several more years and fund Ukraine's ongoing military industrial integration with the rest of Europe.[30] The European Union's willingness to essentially close any gap in Ukraine's budget gives it crucial indirect impact on Kyiv's military capabilities, providing a near-term element of Europe's military defense. This European Union's role will continue in the longer term. The European Union also will be instrumental in Ukraine's overall future economic growth and European integration, enabling the country to eventually become a full EU member. There cannot be an economically successful Ukraine without the European Union.

The European Union will not, however, be the decision-making forum in which Europe's most crucial defense and military-related decisions will be made, and it will not provide the financing for European rearmament in any material

29 See Ukrin Form, "President Volodymyr Zelensky Said That the Budget for One Year of the War Amounts to USD 120 Billion," September 17, 2025.

30 See German Chancellor Friedrich Merz, "A New Financial Impetus for Peace in Ukraine," *Financial Times*, September 25, 2025.

sense outside Ukraine. Its direct capacity to produce economies of scale by consolidating member states' demand-side procurement decisions hence looks marginal at best. Scale effects can emerge on the firm-level supply side, however, as European weapons manufacturers locate production throughout the European Union and especially in Ukraine.[31]

It remains to be seen which member states will take the leadership roles in the European Union's new Capability Coalitions, but it appears likely that the same subset of mostly Northern countries will dominate the provision of bilateral military aid to Ukraine. The skewing of European military relevance northward is a predictable outcome of geographic and fiscal fundamentals. It does not reflect any broader degree of pan-European political solidarity.

Beyond Ukraine, therefore, Europe's need for broader rearmament and an independent military deterrent will not serve as the catalyst for further fiscal or institutional EU integration. The European Union will not take on additional characteristics of a sovereign state government. The war in Ukraine therefore represents a missed opportunity for crisis-driven integration of the kind seen in the European Union in recent decades. Europe will forgo the potential benefits of a stronger, more centralized fiscal authority funding also common military spending. This will deny EU member states and their businesses many of the benefits of the economies of scale and efficiencies of a more financially and politically integrated European economy. European financial markets will continue to only see more common Eurobond issuance to finance Ukraine, but not the common debt paying for directly shared common EU military capabilities. As a result, EU governments will not share the full financial benefits of much more increased financial market depth and liquidity.

These outcomes reflect lingering differences in EU members' fiscal starting points in 2022, their geographical locations, and their different perceptions of the threat Russia poses. Spanish prime minister Pedro Sanchez put it eloquently when he noted, "For any eastern European or Nordic or Baltic country, the threat demands a response in which deterrence relies primarily on defense investment. . . . But in Spain that is not the case. Our threat is not Russia bringing its troops across the Pyrenees."[32]

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31 Rheinmetall, for instance, has production facilities in 13 European countries and Ukraine.

32 "Spain's Pedro Sánchez calls for cyber and climate to count as defence spending," *Financial Times*, March 13, 2025.

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