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THE EUROPEAN UNION AND THE WAR IN UKRAINE: MORE MONEY, BUT NOT MORE EUROPE

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ABSTRACT

The European Union and the War in Ukraine: More Money, But Not More Europe

Since Russia's invasion of Ukraine in February 2022, the European Union has rallied to Kyiv's support, mobilising large sums to enable Kyiv to fight back. However, unlike previous crisis situations, when new powers were transferred to the EU level and the outcome was institutional deepening, the EU has since early 2022 not overcome collective-action problems associated with pooling military responsibilities and financing common defence. Instead, a subgroup of EU members geographically close to Russia, and with available fiscal space in 2022, has accounted for most military aid to Ukraine and most spending on Europe's broader rearmament. With geography immutable and fiscal positions only alterable very gradually, these coalitions of the willing' are likely to remain responsible for most of Europe's direct military response to Russian aggression. Meanwhile, the EU as a whole will continue to fulfil the leading financial provision role for Ukraine's defence and, through Kyiv, the emerging creation of a credible independent European military deterrent against Russia. Given the uniquely serious effects of armed aggression, the failure of the EU to agree more political and institutional integration since early 2022 makes future EU crisis-driven integration less likely

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1 Introduction

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

Boris Pistorius (SPD), German Defence Minister, July 2025[1]

Since early 2022, the European Union has, arguably for the first time in its history, acted to overcome collective action problems related to national security. This started immediately after Russia's invasion of Ukraine and involved unprecedented economic and financial sanctions on Russia, immobilising hundreds of billions in government assets held in the EU. Over time, 19 sanctions packages have been adopted and EU energy measures have expanded to the complete stop in the medium-term of any fossil-fuel imports from Russia.

Most importantly, however, the EU has mobilised an unprecedented amount of financial aid for Ukraine. The EU is the largest overall donor to Kyiv since early 2022 and will account for the vast amount of future financial assistance. Brussels has also adopted the €150 billion Security Action for Europe (SAFE) programme, providing long-maturity loans to member states intent on investing in relevant national defence capabilities[2]. New EU initiatives in regional military mobility infrastructure, military industrial coordination and defence research and development have also been launched.

None of these novel measures, however, amount to a material expansion of EU powers, capabilities or relevance in the core defence realm. In this area, the role of Brussels remains peripheral, despite the publication of several well-designed proposals on boosting the EU's role in common military planning and not least procurement – including the European Defence Mechanism from Steinbach *et al* (2025) and the proposal for common European air defence from Steinbach and Wolff (2024). This Working Paper argues that, though crucial decisions have been taken on financing Ukraine in particular, different geographically dictated threat perceptions and fiscal capacities across EU countries have obstructed more forceful solutions to collective action problems in core defence tasks. This has had potentially far-reaching and negative implications in terms of the prospects of any further meaningful future EU institutional integration that would fund and direct a more integrated set of EU military affairs.

This Working Paper analyses the drivers of rearmament and especially military aid to Ukraine, and how such aid is increasingly being carried out by 'coalitions of the willing' in different iterations, consisting of only subsets of EU countries and other likeminded non-EU countries, and increasingly directly integrating with the Ukrainian military industrial sector. It argues that this will likely leave the EU with a continuing peripheral role in the military defence and national security considerations of both EU countries and Europe more broadly. Instead, the EU's principal role will be limited to increasing

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[1] Laura Pitel and Anne-Sylvaine Chassany, 'German defence minister calls on arms makers to deliver', *Financial Times*, 13 July 2025, https://www.ft.com/content/a9c8d754-bea4-4f5a-887c-b2898b5d0dd3.

[2] See European Commission, 'SAFE | Security Action for Europe', undated, https://defence-industry-space.ec.europa.eu/eu-defence-industry/safe-security-action-europe_en.

sanctions pressure on Russia, providing financial support to Ukraine, overseeing Kyiv's successful accession to the EU, improving military related infrastructure and trying to carve out a coordinating role in EU defence-related R&D.

This outcome represents a much less-ambitious EU-level response to a new major crisis than seen in earlier instances in recent decades, when crises have triggered (admittedly in a stumbling manner) more integration. As such, the response to the Ukraine crisis is far from optimal from the perspective of collective action or 'crisis-driven European integration'. Nor is it in line with recent EU history. Yet, despite the failure to pursue 'more Europe' since 2022, an EU capable of adequately supporting war-time Ukraine and, in time, of welcoming it as a full member state, while capable military-related coalitions emerge from among a subset of EU members and other countries, will be a very positive outcome for the EU and Europe as a whole.

Credibly deterring Russia even without the United States is the most important policy task before the EU and Europe today, and it looks more likely than not to be achieved in the coming years. This will not be as a function of a linear, if crisis-driven, EU-centric integration process with France and Germany at the inevitable centre, but as the complex outcome of a heroic Ukraine, coalitions of the military willing including many EU members, and a lot more EU-provided money.

2 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 been at least partly resolved by adding to the integrative European institutional framework.

This was true following the end of the Cold War, as the Maastricht Treaty, Economic and Monetary Union and the introduction of the euro paved the way for German reunification and a more integrated Europe. It was true after the global financial crisis and the euro-area debt crisis, as 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 adoption by the European Central Bank of the conditional lender-of-last-resort Outright Monetary Transactions (OMT) framework in 2012 (Darvas and Papadia, 2025). It was true in 2015-16, as uncontrolled refugee inflows from Syria led to the creation of the first EU 'uniformed personnel group' – a key symbol of statehood – in the form of the European Border and Coast Guard (EBCG)[3]. And it was true in 2020, as EU leaders created NextGenerationEU (NGEU), which ultimately resulted in €650 billion in common funds provided to EU countries to overcome the effects of the COVID-19 pandemic[4].

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[3] The EBCG was in 2019 expanded to a planned 10,000 personnel by 2027 (Regulation (EU) 2019/1896).
[4] 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. See European Commission, 'NextGenerationEU', https://next-generation-eu.europa.eu/index_en.

Consequently, it would have been a reasonable assumption that the direct military threat to the EU posed by Russia and Russia's invasion of Ukraine[5] would spur additional institutional and fiscal integration in the EU. War and preparing for it are, after all, particular costly endeavours. However, the issue of physical security and defence against a particular geographic threat is prone to the problems associated with collective action (Olson, 1971): it's very expensive, and if Russia's more immediate neighbours can deal with the threat, the incentive for the EU's geographically more distant members to join in is very limited, as other domestic political priorities demand available scarce fiscal resources.

Russia's invasion of Ukraine has triggered a number of reactions from European nations, at national level, in the form of various new coalitions of the willing and at EU level. From January 2022 to October 2025, the EU itself has, though its common budget and other resources, provided a total of €67 billion in financial aid and €2.7 billion in humanitarian aid to Ukraine (Trebesch *et al*, 2025). The European Commission has activated the national escape clause of the Stability and Growth Pact (SGP), allowing EU countries to increase defence spending without breaching the EU fiscal rules. And it has launched a €150 billion common loan instrument – Security Action for Europe (SAFE; see footnote 2). Funds for this will be raised by the Commission on capital markets and loaned to interested member states, based on national plans and counting towards national debt levels. To date 16 member states have requested activation of their national escape clauses[6], while 19 member states have expressed interest in accessing SAFE loans (Box 1).

Historically, military and national defence expenditures have played a formative role in promoting the central government fiscal capacity of modern states[7]. This was certainly the case in the US, where until President Franklin D. Roosevelt's New Deal made federal deficits the norm, the federal government had only issued debt to cover wartime expenses (Kirkegaard and Posen, 2018). Were the EU, in addition to providing continuous financial support to Ukraine, to assume a sizeable role in the financing and organising of the EU's own urgent future military needs, it could help propel the EU further towards more complete 'statehood'[8], and expand the embryonic permanent centralised fiscal capacity launched with the common debt issued since 2020 for NGEU.

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[5] The intelligence services of a number of EU countries assess that Putin will by 2030 seek to test NATO's collective defence pledges, posing a direct threat to EU territory. See Thomas Escritt, 'Russia could send "little green men" to test NATO's resolve, German intelligence boss warns', *Reuters*, 9 June 2025, https://www.reuters.com/world/russia-has-plans-test-natos-resolve-german-intelligence-chief-warns-2025-06-09/.

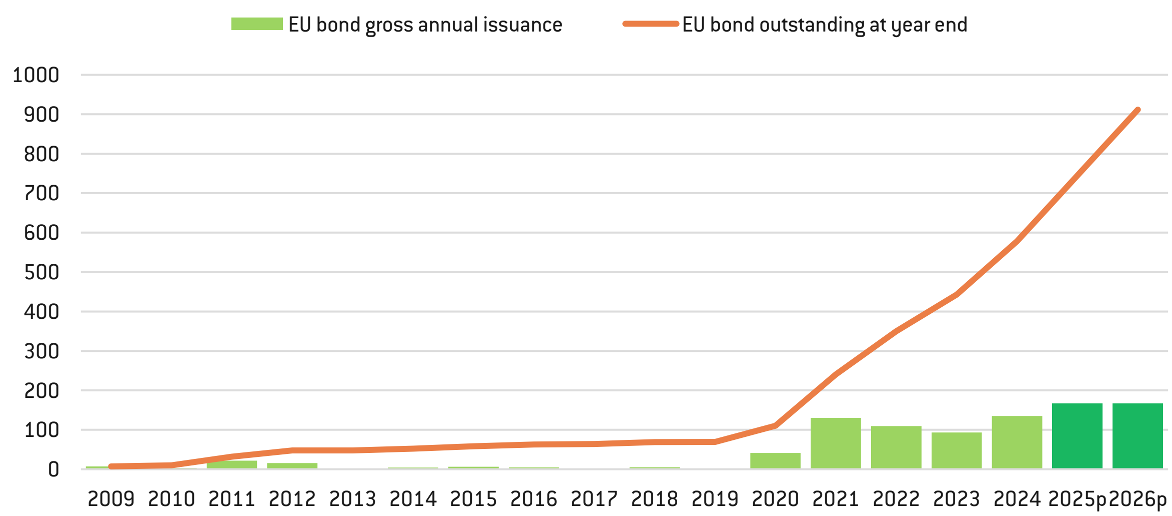
[6] Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia have been approved, while Germany is pending at time of writing. See Council of the EU press release of 8 July 2025, 'Council activates flexibility in EU fiscal rules for 15 member states to increase defence spending', https://www.consilium.europa.eu/en/press/press-releases/2025/07/08/council-activates-flexibility-in-eu-fiscal-rules-for-15-member-states-to-increase-defence-spending/.

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

[8] Self-defence of territory and resident population has been among the foundational responsibilities of states since at least the Peace of Westphalia. Were the EU to take over elements of such responsibilities, it would be taking on more 'state-like' capabilities.

As negotiations start on the EU's next seven-year budget (2028-2034), how to deal with the cost of the EU's existing debt will be an important point of discussion. Ukraine-related expenditure looks like the most probable (if not the only) area that will continue to drive expansion of total EU common liabilities (in common bonds or other forms), including when NGEU-related issuance ends in 2026 (Figure 1). It is visible in Figure 1 how cumulative EU bond issuance is expected to continue to rise in 2025-2026, as the final part of NGEU is disbursed and issuance to underpin financial support to Ukraine continues.

Figure 1: EU bond issuance 2005-2026, € billions



Source: European Commission (2025a). Note: values for 2025 and 2026 projected.

The European Commission's initial proposal, in July 2025, for a new EU budget included only modest suggested allocations for defence and military-related spending, amounting to €125 billion (or about €18 billion annually for the seven-year budget period)[9]. In other words (likely guided by the political directives received from member states, as discussed below), the Commission suggests keeping military issues as overwhelmingly member-state governed responsibilities, and does not intend to propose a material shift in long-term EU budget resources towards European rearmament. The new budget, however, does include a €100 billion special reserve to assist Ukraine between 2028 and 2034, highlighting the Commission's intent to *"fully fund Ukraine's EU accession"* and clearly maintain the EU as the principal long-term financial supporter of Ukraine (European Commission, 2025b).

The Commission's limited initial ask for defence-related funds in the budget (likely to be reduced in negotiations with member states and the European Parliament) means that any additional EU-level entry into the military and defence realm will have to be initiated outside the regular EU budget. This

[9] This category includes intended budget allocations for resilience and security (eg supply chains and critical minerals), defence industrial readiness, space and civil security. See page 37f in Commission (2025b). The budget proposal also includes a suggested €4.4 billion annually for the European Peace Facility (EPF), which has in the past been used to finance weapons purchases for Ukraine. The EPF however is outside the regular EU budget and financed through pooled voluntary contributions from member states and elements of the proceeds from immobilised Russian assets.

raises the political threshold for anything to happen at the common EU level, as no direct link is envisaged to the regular budget (the Multiannual Financial Framework, MFF). At the same time, politically, it appears unlikely that other categories of EU-wide public goods[10] will be financed through more common debt in the coming years.

COVID-19 for the first time breached the political 'urgency threshold' for largescale issuance of common EU debt, in the form of NGEU. With an EU candidate country already under direct military attack and seemingly no progress towards similar largescale direct common EU debt issuance in response, other non-war political topics in the EU seem similarly unlikely to rise above the urgency threshold that would enable common debt issuance. The basic political reality of required unanimity among EU member states for common EU debt issuance also undermines any otherwise sensible functional arguments in favour of more common European debt to improve the functioning of European financial markets[11] or – a more recent policy priority for many top EU officials – promote the global role of the euro in the international financial system[12].

The financing of support for Ukraine is likely to be even more dominated by the common EU level in future, as support from the US and possibly other non-EU G7 nations gradually dwindles. A proposal for an EU Reparations Loan, presented by the European Commission on 3 December 2025[13] would leverage frozen Russian assets and transfer cash to Ukraine, repayable by Ukraine only when Russia pays reparations for the war. This could see up to €165 billion in additional common EU financial support released to Ukraine in the coming years, and would fully cover Kyiv's financial needs in 2026-2027[14], though the loan looks unlikely to lead to additional common EU debt issuance[15]. But unless the EU level becomes the principal political level at which the EU's military support for Ukraine and

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[10] Article 3, Section 1 of the EU Treaty states that: *"The Union's aim is to promote peace, its values and the well-being of its peoples"*. It is from this the legal purpose that the EU's pursuit of European public goods has emerged, as freely accessible goods and services, use of which one EU member state or EU resident does not hinder use by someone else. For this reason, European public goods can only be provided by the public sector(s) in EU countries or by EU institutions.

[11] See for instance Blanchard and Ubide (2025). It is a political option for fully politically integrated entities – eg federal states – to design their debt issuance operations to try to optimise financial market liquidity and reduce interest costs, without regard to the purpose(s) for which the issued debt is to be used. This is not, however, the current institutional situation in the EU, as sovereignty remains distributed between the centre and member states, and the latter retain almost complete control over fiscal issues. The political chronology of distributed fiscal sovereignty demands that agreement among member states on the purpose for which common debt is to be used is reached first.

[12] These arguments have over the years been put forward forcefully by many authors and policymakers; ECB Executive Board member Philip Lane (2025) expertly surveyed and summarised them.

[13] See European Commission press release of 3 December 2025, 'Commission unveils two solutions to support Ukraine's financing needs in 2026-2027', https://ec.europa.eu/commission/presscorner/detail/en/ip_25_2903. See also European Commission (2025f).

[14] The Commission's proposed Reparations Loan will be up to €210 billion, of which €45 billion will already have been committed to covering the EU part of the G7 ERA loan, agreed in late 2024.

[15] See Andrew Gray, Jan Strupczewski and Lili Bayer, 'EU vows financial backing for Kyiv, holds off on frozen assets plan', *Reuters*, 24 October 2025, https://www.reuters.com/world/eu-leaders-show-support-zelenskiy-brussels-summit-2025-10-22/. The Reparations Loan proposal would see the EU offering to lend Ukraine up to the cash balance that since immobilisation has arisen from Russian underlying assets available at Euroclear, repayable by Ukraine only when Russia pays war reparations. If Russia does not pay reparations – and nuclear powers have yet to do so in history – the risk of the loan will be borne commonly by the EU as a whole or, presumably, by an adequate coalition of willing members. The reparations loan will also create a direct link between reparations to Ukraine and the end to EU sanctions on Russia. The EU would not lift sanctions until reparations have been paid by Russia, and the EU has been reimbursed by Ukraine.

related common rearmament is financed and therefore organised, the prospect of materially and constantly growing common EU debt beyond the duration of Ukraine issuance will dwindle. The warning signs for further EU integration are already flashing and the Ukraine War may become the first large crisis to affect the EU in decades that does not lead to meaningful additional institutional EU integration.

At an October 2025 summit of EU leaders, the European Commission presented a new Defence Readiness Roadmap 2030 (European Commission, 2025c) but EU heads of state made no new concrete defence-related decisions at the EU level. This was despite the Commission's explicit allocation of leadership in European military and defence matters to member states, noting: "*Member States are and will remain sovereign for their national security and defence. They are responsible for defining the capability objectives required to ensure the readiness of their national armed forces so that they can fulfil their strategic-military missions, including those undertaken within NATO. Their respective national objectives and the associated timelines for achieving them are a sovereign decision*." (European Commission, 2025c).

The Commission's roadmap identified nine initial priority capability areas (air/missile defence, strategic enablers, military mobility, artillery systems, cyber/AI/electronic warfare, missile/ammunition, drones/counter-drones, ground combat and maritime) and four initial European Readiness Flagships: the European Drone Defence Initiative, Eastern Flank Watch, European Air Shield and the European Space Shield. Reflecting member states' continued sovereignty in defence, and the evident expected differences in their priorities, the Commission urged the completion of voluntary 'capability coalitions' of member states willing to participate actively in reaching these EU-identified priority common defence-related goals[16].

It remains to be seen which EU countries will take the lead in these new initiatives, and how they will proceed, but it seems clear that while some common EU funds and SAFE bonds are available, the capacities of member states to take such an initiative forward will depend on their national defence spending levels. This will likely put the focus among the initiatives identified by the Commission's Roadmap on those most important to those member states that are rearming rapidly in the shadow of Russia's aggression against Ukraine.

The Commission's Roadmap, which also includes a useful annual stocktaking exercise in the Coordinated Annual Review of Defence, represents an attempt to improve coordination among member states, which are still sovereign in defence and military industrial issues. Yet, arguably the only pressing military need for the entire EU right now and in the next couple of years is the military needs of the Ukrainian army fighting Russia. Ukraine cannot wait for the details of EU-level rearmament to be completed through a Brussels-centric decision-making process. Providing the necessary financial aid

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[16] See European Commission news of 16 October 2025, 'Commission and High Representative present new Defence Roadmap to strengthen European defence capabilities', https://defence-industry-space.ec.europa.eu/commission-and-high-representative-present-new-defence-roadmap-strengthen-european-defence-2025-10-16_en.

to Ukraine's government budget may be the only material role for the EU in funding a military and national defence-related 'European public good' for the foreseeable future.

Box 1: The EU Security Action for Europe (SAFE) loan initiative

EU member states in May 2025 endorsed the €150 billion SAFE defence loan instrument to boost European defence capabilities up to 2030. On the basis of member states declaring their interest, funds will be raised by the Commission and lent on to EU countries according to their defence industry investment plans. SAFE loans can be used for common procurement[17] in two main areas (European Commission, 2025d):

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

SAFE loan eligibility requires at least 65 percent of components (measured by their cost) to originate in the countries of the EU, European Economic Area, European Free Trade Association and Security and Defence Partnership, or in Ukraine. Loans can have a maturity of up to 45 years, implying that in principle, SAFE loans may be outstanding until 2075, significantly beyond the 2058 envisioned duration of bonds issued under NGEU.

As of the time of writing, the €150 billion had been split tentatively between 19 member states (Figure 2)[18].

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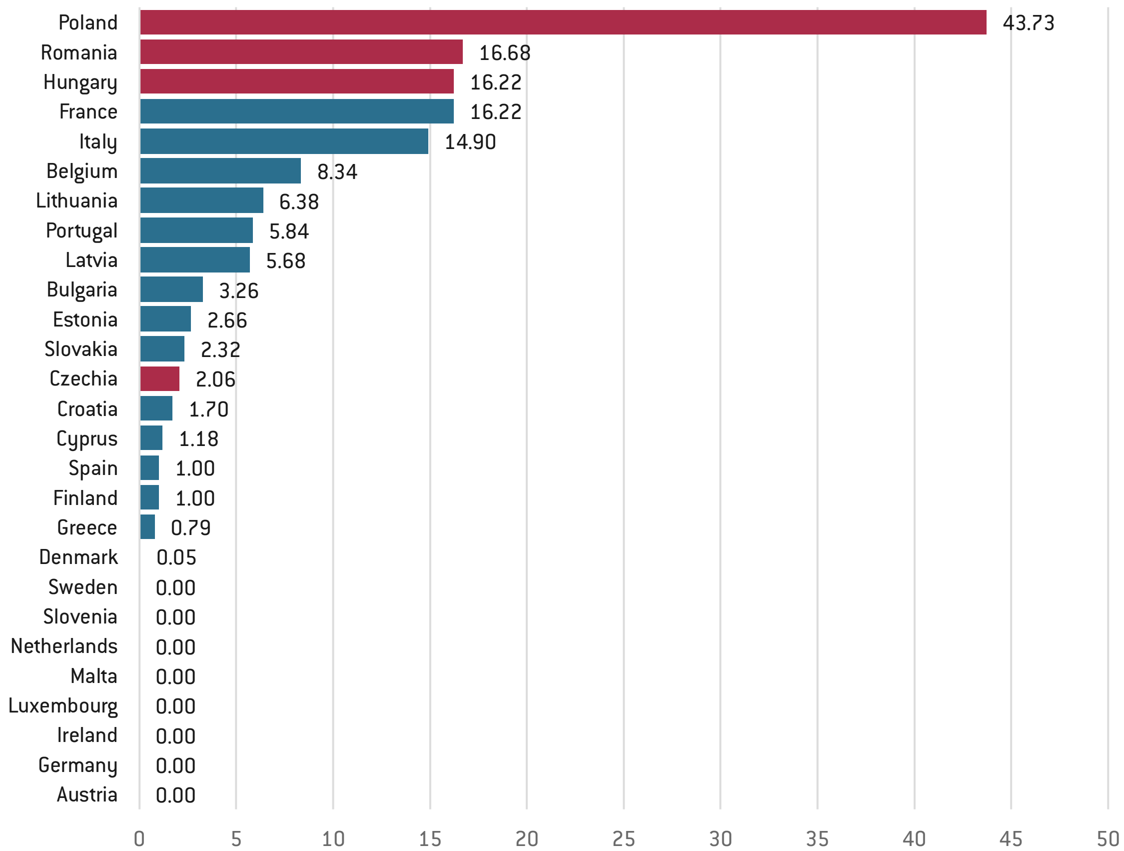
[17] Common procurement is defined for SAFE purposes to mean *"the procurement procedure of defence products or other products for defence purpose and the resulting contracts, carried out by at least one Member State receiving financial assistance under this instrument and one additional Member State or one Member of the European Free Trade Association which are members of the European Economic Area ('EEA EFTA States') 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)"*. In other words, it means that one member state buys such products either at home or in another EU, EEA, EFTA or SDP country. It is not required that more member states share in the common procurement. This gives member states *de-facto* control over what they want to purchase in eligible categories.

[18] See European Commission, 'SAFE | Security Action for Europe', undated, https://defence-industry-space.ec.europa.eu/eu-defence-industry/safe-security-action-europe_en.

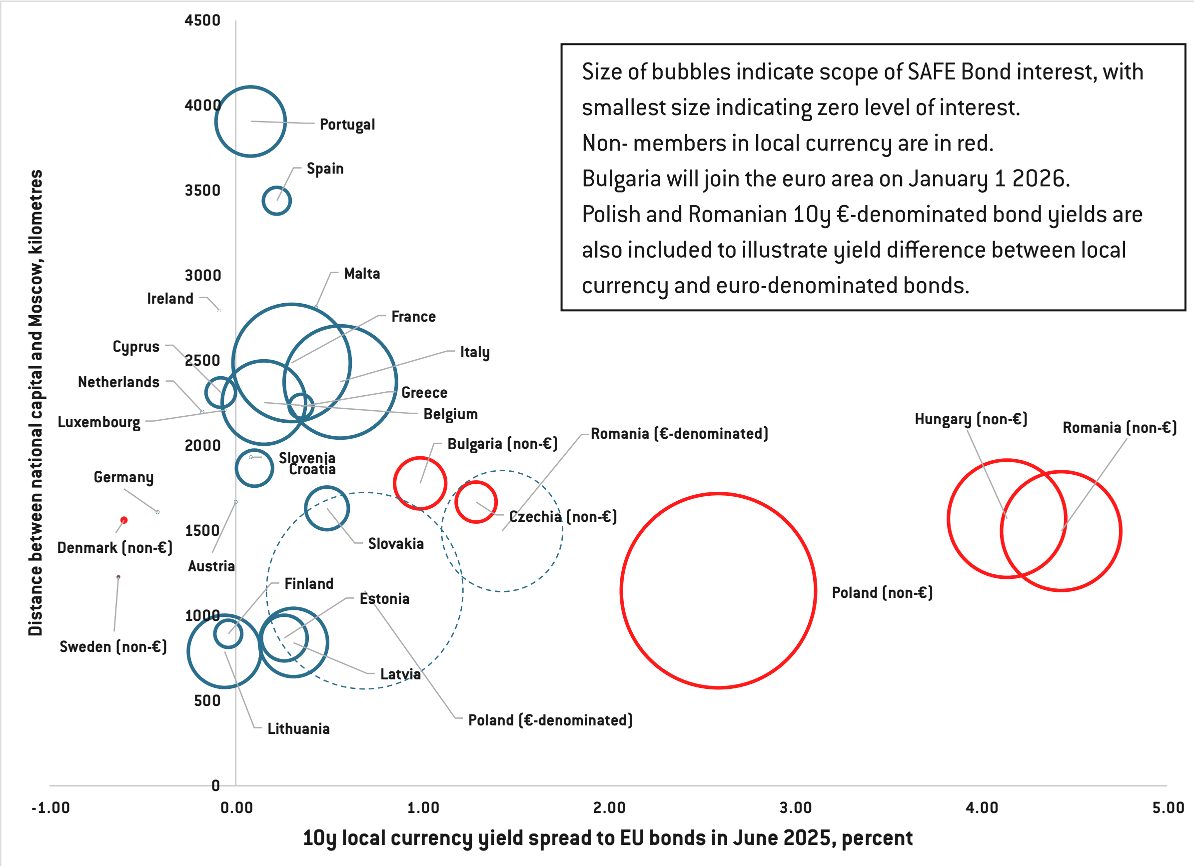
Figure 2: Member state interest in SAFE loans 2025, € billions



Source: European Commission. Note: countries in red are non-euro area countries.

Poland is requesting more than €43 billion in SAFE loans, followed by Romania with €16.7 billion, Hungary and France with €16.22 billion, and Italy with €14.90 billion. Belgium and a number of smaller EU members are requesting €5 billion to €10 billion, and a number of members have asked for what can only be considered 'token amounts', including Denmark at about €50 million and Finland, Greece and Spain's at €1 billion or less. As SAFE functions as a loan raised in financial markets benefitting from lower borrowing costs from the EU's high credit rating, it should be expected that EU members feeling the threat from Russia and with higher domestic borrowing costs would be particularly interested in tapping SAFE. This in turn would suggest that some of the EU's non-euro area members would be particularly interested in SAFE loans, as their domestic borrowing costs will generally be higher than those of the euro area. Figure 3 sets out the distribution of member states' interest in accessing SAFE loans, seen relative to their distance from Russia and national borrowing costs.

Figure 3: Requests for SAFE loans, distance to Moscow and domestic bond spreads over EU bonds



Source: Bruegel. Note: countries can choose to issue in local or foreign currency, and in the EU typically in euros. The yield differential is significant, as can be seen in Figure 3. Countries will rarely issue a large share of foreign currency debt to finance core state functions like defence. The counterfactual issuance cost for non-euro area members to SAFE is hence somewhere between their local currency and euro denominated bond yields.

Figure 3 illustrates how it is disproportionally non-euro countries that are interested in SAFE loans. They represent over half (55 percent) of total expressed interest, despite accounting for less than 20 percent of EU GDP. When related to the size of national defence budgets, interest in SAFE loans is also highly skewed in distribution. Latvia, Cyprus, Hungary and Lithuania have expressed interest in loans worth more than three times their 2024 national defence budgets (NATO definition), while Romania, Estonia, Bulgaria, Portugal, Poland, Croatia and Belgium have asked for loans worth more than 100 percent of their 2024 defence spending. Italy's request amount to almost half of its €31 billion 2024 defence budget, while for France the figure is just under 30 percent.

Figure 3 further illustrates how EU members with national borrowing costs below that of EU Bonds[19] are, unsurprisingly, generally uninterested in accessing SAFE loans. Distance to Russia is a strong

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[19] X-axis values in Figure 3 are estimated based on average national 10-year government bond yields and the corresponding yields for similar maturity EU Bonds issued by the European Commission. National local currency bond yields are used, suggesting that the total average 10-year maturity yields may be different if a share of total issuance is in other currencies, notably euros. Given that all non-euro area members issue the vast majority of their government bonds in their local currencies, this discrepancy will not, however, affect the conclusions from Figure 3.

determinant of SAFE loan interest, and Poland, Hungary and Romania are also neighbours of Ukraine. But as indicated also by the interest expressed by Portugal and Spain – with national borrowing costs relatively close to that of SAFE loans – this common instrument seems to have political attraction for some EU members far from Russia. Portugal is seeking a material amount and Spain more than €1 billion.

Poland and Romania (and in time maybe even Hungary), as neighbours of Ukraine with large SAFE loan requests, could potentially use material shares of their SAFE loans to implement joint military industrial production with Ukraine. Because SAFE rules allow the loans to be used for this purpose, SAFE thus represents a significant EU policy push towards more direct integration of the Ukrainian defence industry into that of the EU.

Overall, the expectation that the available €150 billion in SAFE loans will be fully subscribed underlines both the importance attached by EU governments to increased defence investment and the incentives available from – for some governments – materially lower financing costs from common EU borrowing. This suggests both that the EU might consider in future making more SAFE loans available to member states, but also that the current financial advantage of common EU financing remains limited or non-existent for a sizeable part of the EU membership. Unless EU financing takes the form of grants in the future, uptake among EU members for SAFE-like loan-based instruments will remain heavily skewed towards a small number of member states.

Lastly, the fact that 15 of the 19 EU members participating in SAFE have included military support for Ukraine in their SAFE-funded National Defence Investment Plans – commitments in the billions according to European Commissioner for Defence Andrius Kubilius[20] – suggests that SAFE will become a major source of funding for military support for Kyiv. This represents a significant European public good provided by SAFE.

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[20] See Commissioner Andrius Kubilius post on X, 1 December 2025, https://x.com/KubiliusA/status/1995416837585289384.

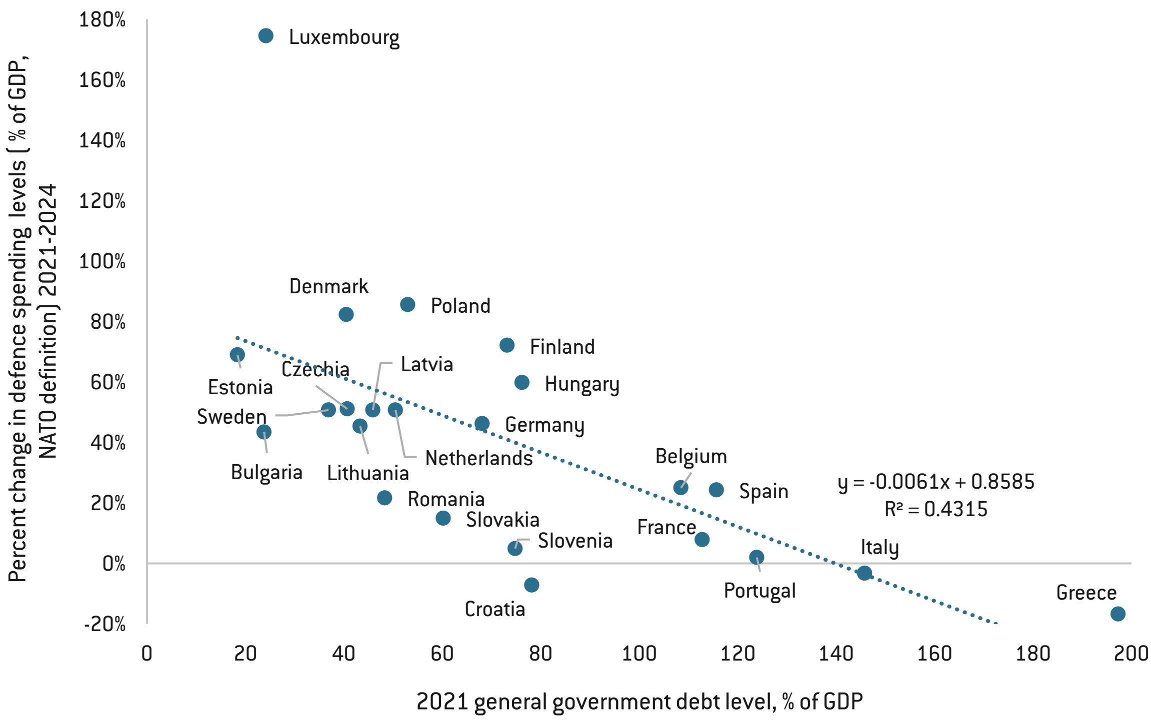
3 Drivers of rising EU defence expenditures and military aid for Ukraine

Military and defence-related issues have, since the founding of the EU, resided largely with member states. In addition to the Defence Readiness Roadmap 2030 (European Commission, 2025c), the European Commission's White Paper for European Defence – Readiness 2030 (European Commission, 2025e) notes prudently how, despite the Ukraine war and the need for the EU to play an increasing military-industrial role, this division of responsibilities will continue: "*Member States will always retain responsibility for their own troops, from doctrine to deployment, and for the definition needs of their armed forces*." (European Commission, 2025e, p.6). While the White Paper envisages the EU adding value by "*facilitating greater collaboration and efficient scale for the European defence 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*", it is clear-eyed about how military matters will remain primarily national in the EU. The only way this *status quo* could potentially change would be if EU countries – as during the COVID-19 pandemic with NGEU – were to agree to launch a commonly funded entity to procure, and not just research and design, critically important weapons systems for European security. To date, the political will to overcome the collective-action problem facing such initiatives has not materialised.

This political realism leaves European rearmament and associated military aid to Ukraine at risk of being driven overwhelmingly by idiosyncratic domestic factors in member states, rather than by the implementation of defence-related European public goods. Member-state circumstances, such as proximity to Russia or government debt levels, have influenced very significantly how Europe has fought back against Russia's full-scale invasion since 2022. Simply put, member states closer to Russia and disproportionally with available fiscal space have chosen to have guns *and* butter, while member states further away facing a choice of guns *or* butter, have generally chosen the latter.

National EU efforts may have been shaped by the perhaps coincidental 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 2,000km of Moscow. The countries with the most to fear from Russian aggression also had the most fiscal space (eg ability to increase deficits and debt levels from higher defence spending) available to react to it. Member states with the best fiscal starting points have also disproportionally been the countries that have increased defence spending dramatically in recent years (Figure 4).

Figure 4: Change in defence spending levels of EU NATO members, 2021-2024, and 2021 general government gross debt levels, % change and % of GDP

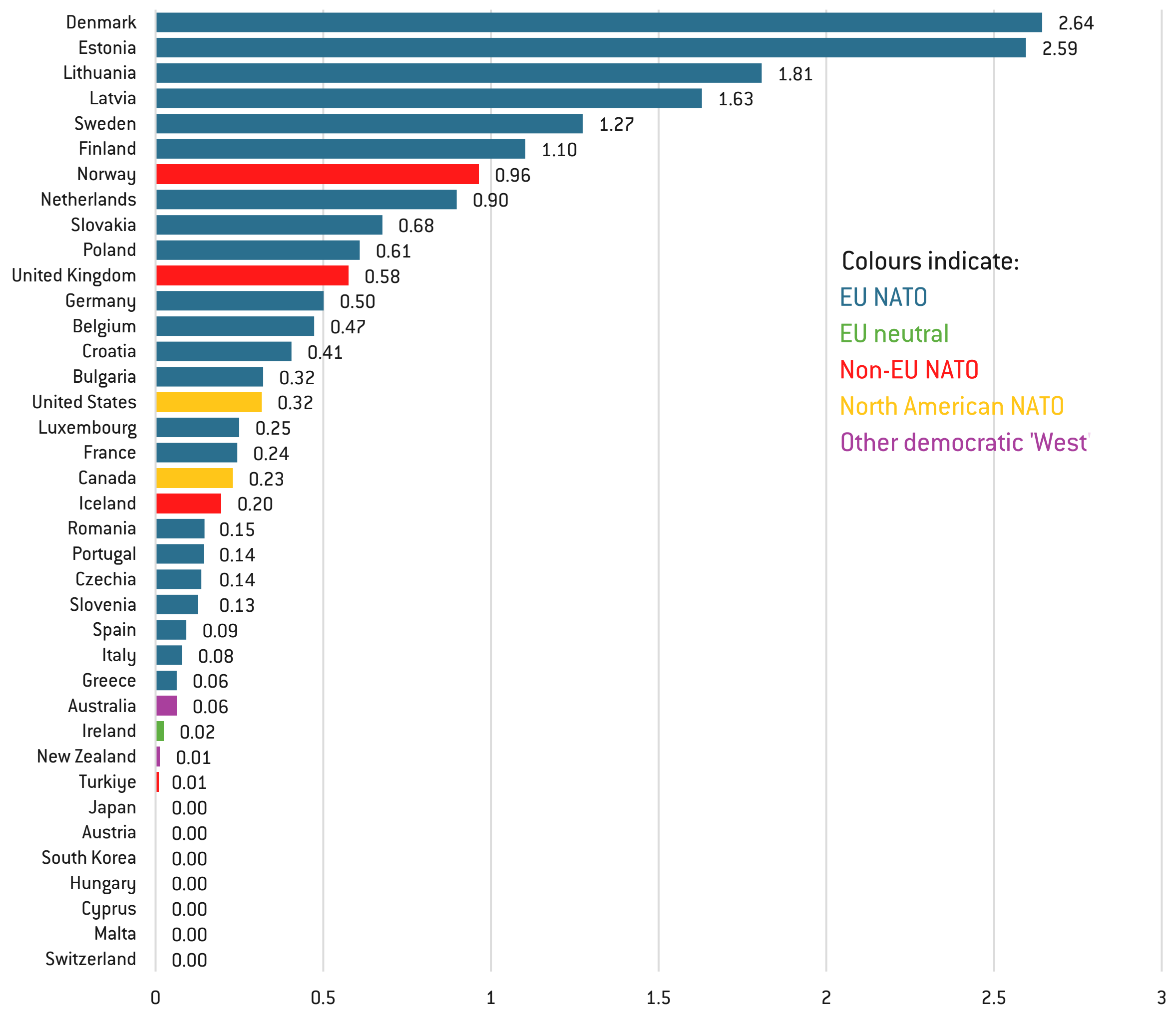


Source: Bruegel based on Eurostat and NATO. Note: the figure includes only EU countries that are also NATO members because it relies on NATO's definition of 'defence expenditures'. The Eurostat definition as general government expenditure by the defence function is narrower and, as such, not immediately applicable. Eurostat data for all EU members' defence spending however confirms that three out of four EU neutrals – Austria, Ireland and Malta, but not part-occupied Cyprus – are predictable 'free riders' inside the EU with defence spending levels in 2023 at less than half the EU average; Ireland's defence spending was just 15 percent of average EU defence spending. Data for 2024 is estimated.

The overlap of threat-driven incentives to act on Russia's threat and the fiscal ability to do so at national level ironically reduces the urgency for, and hence the political ability of, EU countries to overcome collective-action problems. Countries with the capacity to rearm will simply do so, driven, however, by national rather than common and harder-to-coordinate interests. However, the very significant financial needs of Ukraine (exceeding the immediately feasible capacity of any coalition of the willing), and the possibility of meeting them at EU level using existing institutional features, pushes EU members to overcome their collective action problems with regards to financial aid to Ukraine.

Something similar is playing out in relation to military aid to Ukraine. In the absence of common EU decisions on military rearmament and weapons aid to Ukraine, individual EU countries and other NATO allies are rushing to fill the gap by providing Kyiv with urgently needed aid. They have done so, however, at highly divergent rates, resulting in an increasingly skewed cumulative bilateral support level for Ukraine (Figure 5).

Figure 5: Bilateral military aid to Ukraine allocated between January 2022 and August 2025, % of GDP

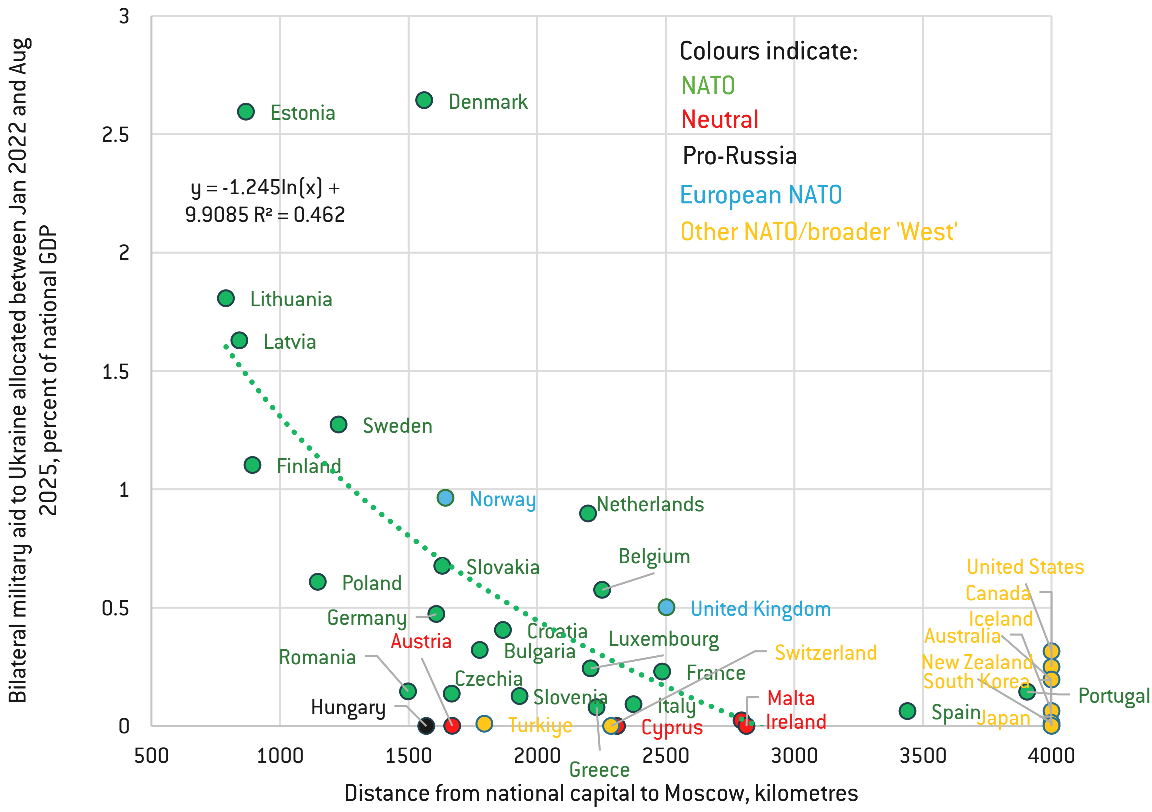


Source: Trebesch *et al* (2025).

Figure 5 highlights how northern and eastern European NATO members especially, and other non-EU European NATO members, have provided the bulk of bilateral military assistance to Ukraine, when measured as shares of national economic output. The United States alone, obviously with a much larger economy and military, has been the biggest individual bilateral donor to Ukraine. Figure 5 also shows how some EU and NATO members have contributed little military assistance to Ukraine (indeed less than non-European NATO members), and how neutral EU members have contributed little or nothing in military aid to Ukraine.

The very large differences in military support for Ukraine highlight a fundamental difference in how the threat of Russia is perceived by different countries. This difference is, as previously noted, rooted first in geography. It can be captured by plotting European countries' bilateral military support to Ukraine and how far their capital cities are from Moscow (Figure 6).

Figure 6: Bilateral military aid to Ukraine, January 2022 to August 2025, and distance to Moscow



Source: Bruegel based on Trebesch *et al* (2025) and distance.to.com.

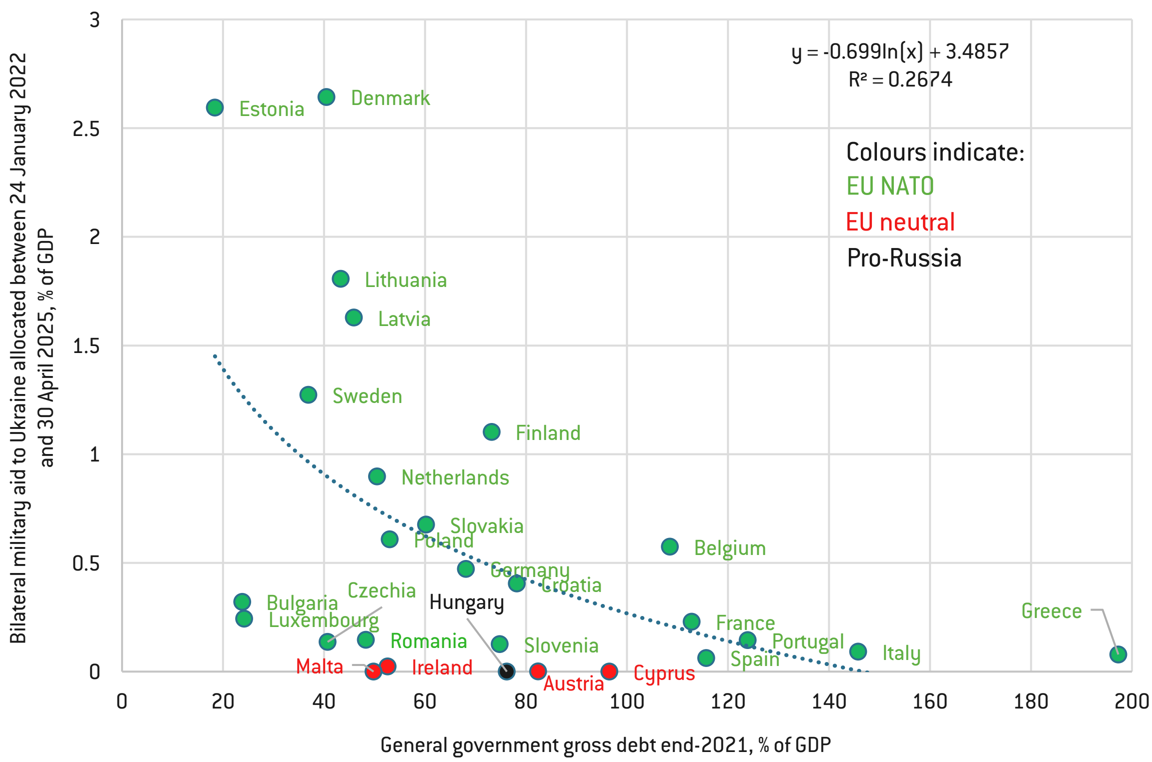
A simple plot of military support for Ukraine provided by European nations shows how distance to Moscow explains almost half of the variation among EU countries, while it is also evident in Figure 6 that persistent neutrality[21], or in the case of Hungary, explicitly pro-Russian national policies, are powerful predictors of the scale of military aid to Ukraine (eg it is at or near zero for neutral and pro-Russian countries).

The second predictable determinant of the scale of bilateral EU member-state military aid to Ukraine is – as with national defence expenditure increases in Figure 4 – each country's fiscal position when Russia invaded. National governments with plenty of fiscal space from low debt levels can change political and economic priorities relatively easily in response to Putin's aggression, and can provide support to Ukraine without jeopardising other national spending priorities, such as social spending, for

[21] Previously neutral Sweden and Finland joined NATO shortly after Russia's invasion of Ukraine, illustrating how national decisions to maintain neutrality in Austria, Ireland, Cyprus and Malta in the face of Russian aggression are active decisions to continue to rely on the military protection of other European and NATO nations. Recalling the extremely low levels of military spending in all these four EU members, their policies are more akin to free-riding pacifism than the well-prepared neutrality of Sweden and Finland previously, or Switzerland today.

instance. Figure 7 shows how the fiscal starting point[22] for EU members has been a simple yet powerful predictor of bilateral military support to date for Ukraine.

Figure 7: Bilateral military aid to Ukraine, January 2022 to August 2025, and general government gross debt, end-2021



Source: Bruegel based on Trebesch *et al* (2025) and Eurostat.

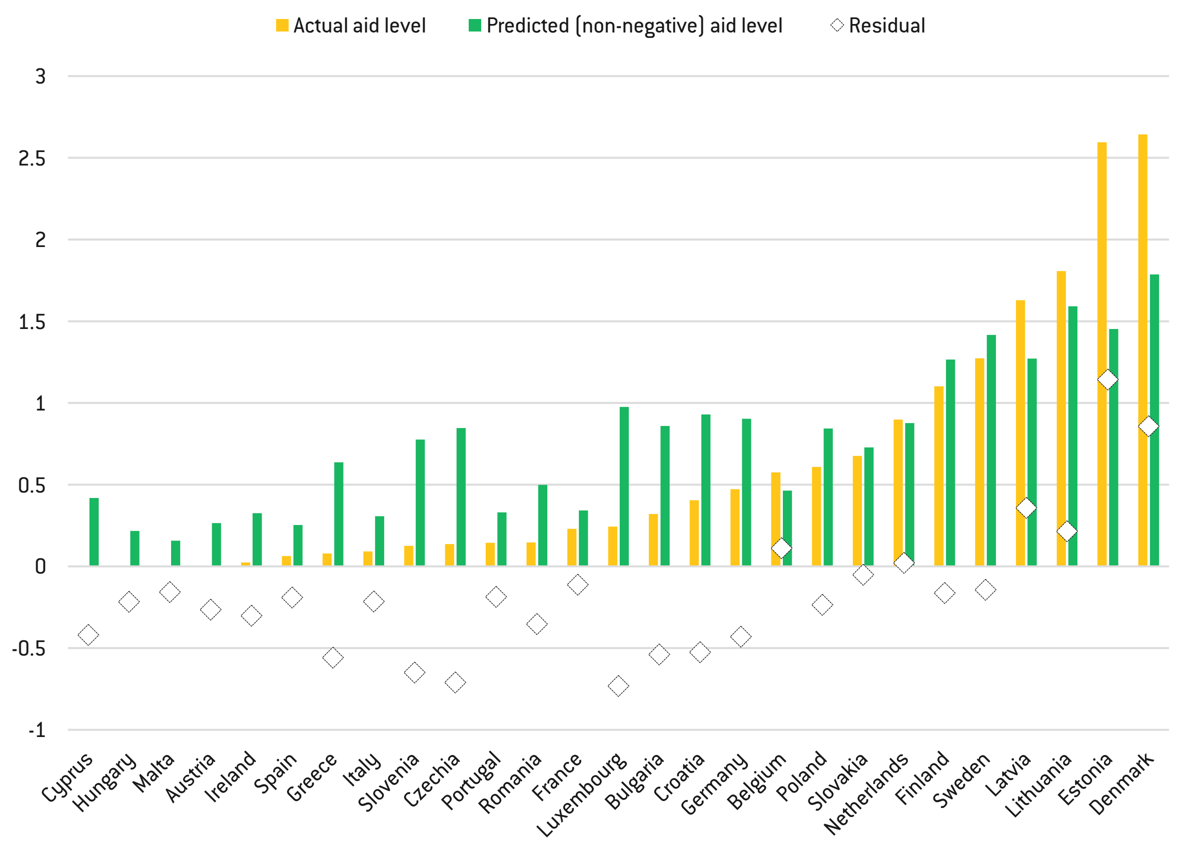
Figure 7 shows how only two EU countries with debts above the EU's 60 percent gross debt/GDP threshold when Russia invaded – Belgium and Russia's neighbour Finland – have given more than half a percent of national GDP in bilateral military support to Ukraine since early 2022. High-debt EU members have other national spending priorities that take precedence over helping Ukraine, though Figure 7 also illustrates that very low initial debt levels have not led Bulgaria or Luxembourg, for example, to support Ukraine much. The domestic political spending calculus of 'guns for Ukraine or butter for our voters' looms large in almost all EU members. Only countries that can do both 'guns and butter' have really stepped up for Ukraine.

A quick back-of-the-envelope small-population regression[23] of these variables (geography and *ex-ante* debt levels, plus the average annual general government deficits from 2022-2025 and the

[22] A more in-depth debt sustainability analysis of each EU country would arguably be a more valid predictor of a fiscal starting point. However, simply using *ex-ante* gross general government debt levels captures the arguably most politically potent component of debt sustainability, and facilitates its graphic representation.
[23] As predicted spending levels cannot logically fall below zero, the regression dependent variable is restricted from below at a zero value. Consequently, a Tobit rather than OLS regression is carried out.

dichotomous variable for whether a country is neutral/pro Russia or not) on bilateral military aid levels explains underlines the strong relationship[24]. Figure 8 depicts the actual, predicted bilateral military aid levels and the 'residual' indicating whether countries' actual military aid to Ukraine has been above or below the level predicted by geography and fiscal starting points.

Figure 8: Actual and predicted (non-negative) bilateral military aid to Ukraine from EU countries, January 2022 to August 2025, % of GDP



Source: Bruegel based on Trebesch *et al* (2025).

Figure 8 shows how only Estonia and Denmark have really significantly exceeded what would be expected from fundamentals in bilateral support given to Ukraine. Latvia, Lithuania and Belgium are also above, while Sweden, Finland, the Netherlands, France and Slovakia are about as expected, while Poland and Germany are below their expected values. The main EU laggards by this measure (at least half a percentage point of GDP below what might be expected) are Croatia, Bulgaria, Luxembourg, Czechia, Greece and Slovenia.

[24] In the restricted Tobit regression, the pseudo R2 predictive power is 0.48, rising to 0.61 in an unrestricted OLS regression.

4 The coalition(s) of the willing and usurped European policy space

Geography being immutable, and with fiscal positions tending to change only gradually, the strong impact the factors discussed in section 3 have had on rearmament spending in EU member states and their bilateral military support for Ukraine will almost certainly persist. Thus, military support for Ukraine appears *de facto* to be a matter for a sub-group of predominantly northern and eastern, relatively low debt, EU and NATO members, together with Norway and the UK.

Other EU and NATO members will continue to make other contributions. France 'leans north' with its advanced weapons industry – already with established links to Ukraine – and has provided Ukraine with crucial military capabilities in the form of cruise missiles (SCALPs) and fighter jets (Mirage 2000s). While Czechia hasn't given much, it has spearheaded the EU's 155mm artillery shell initiative[25]. Other EU members may also find alternative ways of supporting Ukraine, but it is clear where most military aid to Ukraine will continue to come from.

The organising format of 'coalitions of the willing' has moreover, before any of the proposed capability coalitions (see section 2) in the Commission's Defence Readiness Roadmap 2030 (European Commission, 2025c) are created, been adopted already at the leaders' level, with the most prominent roles played by Europe's two nuclear powers, France and the UK[26]. Ukraine has also already entered into an enhanced partnership with the Joint Expeditionary Force (JEF) group of Northern European countries, consisting of the UK, the five Nordic countries, the three Baltic states and the Netherlands[27]. The prominent role played by the UK underlines its continuing importance in European military and national security affairs. The regularisation of leaders' meetings among the coalition(s) of the willing is a natural reflection of the UK role, and good for the reintegration of the UK (in addition to Norway and possibly other non-EU European countries) into the core of European defence-related decision making (beyond any preparatory work for any post-conflict stabilisation force in Ukraine[28]). It does, however, shrink the political space for a more prominent EU role in these military and defence-related deployment and procurement policy areas.

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[25] The Czech government in 2023 established a public-private team to search globally for available ammunition stocks and new production. Funded mostly by other NATO governments, the initiative supplied 155mm shells to Ukraine in 2024, and has to date in 2025 delivered 850,000. Jan Lopatka, 'Czech-arranged ammunition shipments to Ukraine are increasing, says government', *Reuters*, 17 July 2025, https://www.reuters.com/business/aerospace-defense/czech-arranged-ammunition-shipments-ukraine-are-increasing-says-government-2025-07-17/.

[26] At a 10 July 2025 meeting in London, apart from European nations and of course Ukraine, political leaders from Türkiye, Canada, Australia and New Zealand also participated. See UK government press release of 10 July 2025, 'Statement of the Coalition of the Willing meeting by the leaders of the United Kingdom, France, and Ukraine: 10 July 2025', https://www.gov.uk/government/news/statement-of-the-coalition-of-the-willing-meeting-by-the-leaders-of-the-united-kingdom-france-and-ukraine-10-july-2025.

[27] See UK government press release of 5 November 2025, 'Joint Expeditionary Force launches enhanced partnership with Ukraine as allies step up further', https://www.gov.uk/government/news/joint-expeditionary-force-launches-enhanced-partnership-with-ukraine-as-allies-step-up-further.

[28] See UK government press release of 10 July 2025, 'New Coalition of the Willing headquarters as leaders step up support for Ukraine's immediate fight', https://www.gov.uk/government/news/new-coalition-of-the-willing-headquarters-as-leaders-step-up-support-for-ukraines-immediate-flight.

Instead, as also promoted in the Commission's Defence Readiness Roadmap 2030 (European Commission, 2025c), an active future role of EU institutions is more evident in areas including European defence industrial policy, military R&D funding and militarily-relevant infrastructure investment. On the latter point, there are self-evident opportunities for 'dual use' of improved land, sea and air related infrastructure across the EU to facilitate faster and more reliable movement of military equipment and personnel, while creating opportunities for civilian economic activity. This should be a straightforward use of the up to 1.5 percent of GDP pledged at NATO level for critical infrastructure and networks and *"civil preparedness and resilience"*[29]. Military infrastructure improvements offer the EU a good opportunity to do in the name of defence what it should do anyway for better growth prospects.

The EU, of course, also has plenty of experience in funding R&D across the European economy through, for instance, Horizon Europe. Boosting such programmes and orienting them more towards defence-related R&D makes sense, including by increasing the potential for two-way innovative spillovers between the military and civilian parts of the economy. EU policies to secure improved supply security for critical minerals for the European economy will similarly have a positive effect on military industrial capacity[30]. Promoting military R&D or critical mineral access are also policy areas in which the EU can partner with likeminded non-members in Europe and elsewhere. A relaunched EU internal market extended to the military industrial sector, and a successful general reduction in the regulatory burden on all EU businesses, would similarly benefit the EU rearmament process. There are, in other words, many useful things EU institutions can do to promote the priority policy of defence readiness.

Yet, member states' continuing control of defence spending, planning and related procurement means continued calls from the European Commission and others for more common multiannual procurement programmes are likely to fall on deaf ears. Those EU countries that are now rearming will make spending decisions according to their national priorities and the urgent battlefield logic in Ukraine, not based a set of hypothetical common threat perceptions elucidated in Brussels. Procurement decisions taken by Germany[31], as the only large EU country that is increasing defence spending dramatically, will quite naturally have an outsized importance in deciding what military equipment production will achieve economies of scale in Europe in the coming years. It is likely this will disproportionally benefit German defence contractors, such as Rheinmetall.

However, it is important to recognise that companies such as Rheinmetall are increasingly pan-European defence contractors, rather than just national champions. Rheinmetall has, since Russia's invasion of Ukraine, commenced the production of military equipment in seven EU countries, as well

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[29] See NATO, 'Defence expenditures and NATO's 5% commitment', 27 June 2025, https://www.nato.int/en/what-we-do/introduction-to-nato/defence-expenditures-and-natos-5-commitment.
[30] The imposition of Chinese rare earth export control measures is largely aimed – so Beijing claims – at reducing their use in others' nations military production.
[31] The German government has prepared a €377 billion national military procurement plan. Chris Lunday, 'Germany's new €377B military wish list', *Politico*, 27 October 2025, https://www.politico.eu/article/germany-military-wish-list-defense-politics-budget-domestic-industry/.

as Ukraine[32]. This suggests the gains of integration and scale from more integrated military production across Europe may to some extent accrue to procuring governments, provided they buy from defence contractors with integrated pan-European supply chains. The failure of the EU to agree and implement multiyear common military procurement on the demand side may therefore not be as costly as frequently believed, as economies of scale from integrated European supply are gradually developing. As described in Kirkegaard (2025), the main EU-wide cost benefits during the current rearmament process will surely come from the full firm-level integration of Ukraine's military industrial sector into the European one.

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 come with significant advantages. First, the willingness and ability of the coalition of the willing members 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 frontline situation has its own timeline, seemingly moving too fast for common EU-level decisions on military issues.

Second, this group of countries has consistently engaged with and financed Ukrainian defence producers, either in Ukraine through the so-called Danish Model[33], or by enabling Ukrainian defence firms to establish weapons production on their territories[34]. This provides Ukraine with the greatest possible degree of influence over the type of military aid it receives, along with support for the overall Ukrainian economy. In addition, it crucially enables the Ukrainian defence 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, meaning that the group is easily large enough to sustain ongoing military aid to Ukraine, even if Russia's defence budget is a larger share of GDP.

The accelerating integration of Ukraine's rapidly growing military production sector with those of the coalition of the willing nations also provides significant benefits in terms of rearming European nations. Despite the revealed willingness of some to spend substantially, others remain unlikely to match the aggregate defence spending level of the United States. Ukraine has significantly lower labour costs than in the EU[35], and an obvious unrivalled ability to immediately field test new weapons designs and other related military products. The war in Ukraine has already seen a dramatic

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[32] These include small and large calibre ammunition production in Latvia, Lithuania, Hungary and Bulgaria, armoured vehicle production in Germany and Ukraine, tank production in Hungary, gunpowder and explosives production in Romania, Hungary and Greece, and robotic mine clearing equipment in Croatia. See Slav Okov and Irina Vilcu, 'Rheinmetall Reshapes East Europe's Soviet-Era Defense Industry', *Bloomberg*, 28 October 2025, https://www.bloomberg.com/news/articles/2025-10-28/rheinmetall-reshapes-east-europe-s-soviet-era-defense-industry.

[33] See Ministry of Defence of Ukraine news of 5 June 2025, 'Ukraine to receive €1.3 billion under the 'Danish model' in 2025', https://mod.gov.ua/en/news/ukraine-to-receive-1-3-billion-under-the-danish-model-in-2025.

[34] Danish Ministry of Defence news of 29 June 2025, 'New Agreement Opens the Door for Ukrainian Defence Companies to Produce in Denmark', https://www.fmn.dk/en/news/2025/new-agreement-opens-the-door-for-ukrainian-defence-companies-to-produce-in-denmark/.

[35] See Kirkegaard (2025) for a detailed analysis of military production cost advantages in Ukraine.

acceleration of the military industrial R&D and product development cycle. Ukraine has now initiated a 'Test in Ukraine' programme[36] in which non-Ukrainian defence contractors can transfer new products to Ukraine and provide online training on their operation, after which Ukrainian frontline troops will deploy these products against Russian forces and provide detailed feedback to the foreign producers. The programme would also give Ukraine an insight into the technologies being developed by its allies. Many start-up and innovative defence producers in the broader West – and in Europe in particular – will likely be tempted to participate, further accelerating corporate military industrial ties between coalitions of the willing and Ukraine[37].

From a European strategic military point of view, the emergence of Ukraine as the likely largest post-conflict regional military power implacably opposed to Russia is a dramatic advantage. It offers Europe the medium- to long-term prospect of deterring Russia militarily, even without the explicit reliance on the United States. The total costs to the rest of Europe from higher rearming costs from even a partial Russian victory in Ukraine would be more than double the costs of fully financing a successful Ukrainian defence (Bjørtvedt *et al*, 2025). Ukraine is helping buy time for the rest of Europe's coalitions of the willing to rearm. It is thus 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 a NATO more focused on interoperability of military forces. Rising US fiscal challenges (Ajovalasit *et al*, 2025) are likely to see a long-term overall reduction in the scale of US global military commitments. A drawdown of forces from Europe is not likely to see them simply transferred elsewhere in a 'pivot to Asia', but disbanded for fiscal reasons.

The degree to which Europe will be compelled to replicate all the 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. Developments, including the NATO commitment to increase defence spending to 3.5 percent of GDP, plus 1.5 percent of GDP for related infrastructure and industrial investments, and a transatlantic trade truce, makes a reformed but still collaborative NATO military alliance more likely.

The proposed design of the EU Reparations Loan to Ukraine (European Commission, 2025f; see also section 2 and footnote 13) represents the arguably most potent policy connection to date between EU level funding and the promotion of Ukrainian and, in time, pan-European military industrial potential. The proposed Reparations Loan includes a €115 billion component explicitly dedicated to:

> "*assistance to support Ukraine's defence industrial capacities* [which] *shall aim at enabling Ukraine to carry out urgent and major public investments in support of the Ukrainian defence industry and its integration into the European defence industry in response to and following the current crisis situation. This assistance shall contribute, in*

[36] See https://testinukraine.brave1.tech/.
[37] Currently around 25 Western defence companies are localising production in Ukraine, including Rheinmetall, KDNS, Aerovironment, Thales, Roshel, DIEHL, Safran, Nammo, Terma, PGZ, Boeing, BAE Systems, FFG, Kongsberg, MBDA and Baykar.

> *particular, to the reconstruction, recovery and modernisation of the Ukrainian Defence Technological and Industrial Base, with a view to increasing its defence industrial readiness, taking into account its gradual future integration into the European Defence Technological and Industrial Base and through support for the timely availability of defence products and other products for defence purposes, through cooperation between the Union and Ukraine*." (European Commission 2025f, Art 12).

The Reparations Loan is in other words designed to fully fund Ukrainian military industrial production as soon as 2026, and would in time enable the integration of Ukraine's military industrial sector with that of the rest of EU and EEA/EFTA (and in time likely also including the UK). The Reparations Loan, moreover, includes the same 'European preferences' as the SAFE loans (Box 1), as eligible defence manufacturers "*shall be established and have their executive management structures in the Union, in an EEA EFTA State or in Ukraine. They shall not be subject to control by a third country which is not an EEA EFTA State or Ukraine or by another third-country entity which is not established in the Union, an EEA EFTA State or in Ukraine*" (European Commission 2025f, Art 13)[38].

Therefore, while the EU will not have any control over how member states spend their national defence budgets, the EU will – should the Reparations Loan be approved as proposed – become undoubtedly the largest funder of Ukraine's defence sector, and through this common funding will 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 onwards (eg taking the potential of the 'Danish Model' to the maximum), and would in time facilitate the greatest possible integration of Ukrainian and European military industrial production and R&D capacity. This is not the EU taking a prominent direct role in existing member states' rearmament, but a very potent if indirect way of shaping, via common funding, future EU and Ukrainian defence integration.

5 Concluding remarks: the EU's indirect role in shaping Europe's defence goes through Ukraine

The emergence of a militarily formidable Ukraine, European coalitions of the willing and common EU funding for Ukraine looks likely to produce what is currently the most important European public good: domestically generated physical security. While the EU looks unlikely to have much say in the military and rearmament decisions of its member states, it has acted to overcome its collective action problems with regards to money, and will soon likely become almost the only financial backer of Ukraine. The EU will also help to fund and coordinate items such as EU military infrastructure and defence R&D, and will likely directly fund the military industrial integration of Ukraine, the EU and EEA/EFTA countries through the Reparations Loan.

[38] As with the SAFE loans, up to 35 percent of defence contracts with contractors established outside the EU, EEA/EFTA or Ukraine can under certain conditions be eligible for support from Reparations Loan resources. See European Commission (2025f, Art 13).

Since Ukraine continues to fund roughly half of its war expenses from domestic sources[39], ensuring the continued functioning of the Ukrainian economy remains a priority. The EU provision of a Reparations Loan to Ukraine is intended to provide the Ukrainian government with the money to continue to defend itself in 2026 and 2027[40] and to fund the ongoing military industrial integration of Ukraine with the rest of Europe. This loan is intended to finance Ukrainian military procurement and production, and the EU's willingness to essentially close the gap in Ukraine's budget gives it a crucial indirect impact on Kyiv's military capabilities. This in turn would see the EU provide a key near-term element of the military defence of all of Europe through Ukraine's budget. This supportive role will continue over the longer term and will, via eventual EU membership for Ukraine, be instrumental in future economic growth and European integration. There cannot be an economically successful Ukraine without the EU.

It is, however, by now clear that the EU will not be the decision-making forum in which Europe's most crucial defence and military related decisions will be taken. And the EU will not provide the financing for the EU's own rearmament in any material sense, beyond its expanding engagement in Ukraine. The EU's direct capacity to provide economies of scale by consolidating member states' demand-side procurement decisions thus looks marginal at best. However, positive scale effects can emerge on the firm-level supply side, as European weapons producers locate production throughout the EU and in Ukraine, rather than just in their home countries.

It remains to be seen which EU countries will take the leadership roles in EU capability coalitions, but as the possible national efforts in these coalitions are likely to be highly correlated with national defence expenditures, there is a material probability that all capability coalition activities will *de facto* be carried out by the same subset of mostly Northern EU members (plus non-members) that dominate the provision of bilateral military aid to Ukraine. Such a skewing of European military relevance northwards will to a great degree be a predictable outcome of geographic and fiscal fundamentals. It will not, however, amount to the overcoming of collective action problems related to funding EU defence spending. Nor will it reflect any broader degree of pan-European political solidarity, despite the urgency and seriousness of the Ukraine war.

Broader rearmament and the provision in the coming years of Europe's independent military deterrent – beyond Ukraine – will therefore not lead to additional fiscal or institutional EU-level integration. Substantial EU funding of Ukraine's military industrial sector provided via a Reparations Loan is funded though immobilised Russian assets and is not envisaged to lead to the EU issuing new common debt. The EU as such will not take on additional 'state-like' characteristics. This represents a wasted opportunity for the EU and might in the future – given the simply more important function of providing physical security compared to other government tasks – once again set the threshold for additional EU

[39] See *Ukrinform*, 'War spending tops USD 120B annually, Zelensky says', 17 September 2025, https://www.ukrinform.net/rubric-ato/4037550-war-spending-tops-usd-120b-annually-zelensky-says.html.
[40] See European Council Conclusions on Ukraine of 23 October 2025, https://www.consilium.europa.eu/en/press/press-releases/2025/10/23/european-council-23-october-2025-ukraine/.

institutional integration at a prohibitively high level. If the EU is not important for keeping Europeans safe, it seems less certain that it will be entrusted with other fiscally expensive functions.

This is a direct function of different geographies and related threat perceptions, and different fiscal starting points in an EU in which fiscal sovereignty remains distributed. Spain's prime minister Pedro Sanchez said it eloquently when he noted in March 2025 how *"for any eastern European or Nordic or Baltic country, the threat demands a response in which deterrence relies primarily on defence investment …. But in Spain that is not the case. Our threat is not Russia bringing its troops across the Pyrenees"*[41]. These issues will not change and the EU's role in the direct defence of Europe, beyond financing Ukraine and playing a role in coordination of military industrial tasks and R&D, will likely remain peripheral. The likelihood of new European Airbus-like defence companies emerging from concerted common member-state action similarly looks slim. *Ad-hoc* organised firm-level integration with new Ukrainian defence industrial players looks like a far more promising path forward. The design of the Reparations Loan to explicitly facilitate this kind of military production capacity integration indirectly via common EU funding of Ukraine's military industrial development, giving the EU a say on that, represents visionary use of EU budget power by the European Commission, within the political constraints set by member states, which are unwilling to pool defence-related policy responsibilities.

The provision of an independent military deterrent against Russia by European coalitions of the willing and Ukraine may also boost the euro – as a safe haven and reserve storage of value – by freeing the euro area from militarily dependence on the US (Posen, 2025). Strategic military autonomy via Ukraine for Europe may make the euro a more credible store of value for global investors, independent of the dollar, to a far greater degree than any near- or medium-term initiative planned by the European Central Bank or the EU's Savings and Investment Union. The failure of the ECB to date to be helpful in promoting the Reparations Loan proposal is a surprisingly confused policy stance.

Sustaining Ukraine's ability to protect all of Europe in the largest war in Europe in 80 years has required the EU to tap into its established capacity to issue common debt and to think very creatively about how to access immobilised Russian government assets[42]. This has facilitated the continuing deepening of EU fiscal integration. The war in Ukraine has not, however, led common defence and military affairs to become a core EU task; the EU has not been given material additional institutional powers in these areas. The glass may hence be said to be half full in fiscal integration terms, but nearly empty in terms of EU institutional deepening. Arguably, this is reasonably good news for euro-area financial markets, but may signal that the EU's ability to pursue material additional institutional integration on a crisis-by-crisis basis has come to an end.

When a direct external military threat against a sizeable number of EU countries cannot compel all EU member states to pool additional sovereignty and deepen the EU institutionally, the great European

[41] Barney Jopson and Andrew Bounds, 'Spain's Pedro Sánchez calls for cyber and climate to count as defence spending', *Financial Times*, 13 March 2025, https://www.ft.com/content/7f18888b-fa02-444c-807d-da79d38bc18a.
[42] Recalling China's territorial designs on Taiwan and its much larger and perpetually-rising net foreign assets, the lessons learned by the EU as part of agreeing any Reparations Loan might prove useful in future crises.

integration experiment may have ground to a halt at a point where fiscal sovereignty remains distributed and much rulemaking remains with member states. The EU will expand when Ukraine and other properly prepared candidate countries join, which will invariably alter the functioning of the EU. But economic scale in which many European businesses would be able to grow will remain sub-optimal, inhibited by the lack of more complete political integration.

Europe will though – though Ukraine's heroism and financial and military support – gain *de-facto* military sovereignty and a credible long-term military deterrent against Russia. That is a very tangible step towards strategic autonomy for the larger EU, Ukraine and the rest of Europe.

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