



A New Era of Defense Expenditure

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March 2025

ReArm Europe Plan – up to EUR 800bn for a safe and resilient Europe

- ✓ Unleash the use of public funding in defense at the national level. Activate the national escape clause of the Stability and Growth Pact. EU countries could increase defense spending by 1.5% of GDP over a four-year period, the equivalent of EUR 650bn.
- ✓ A new instrument – loans worth EUR 150bn to member states for defense investments.
- ✓ EU budget: cohesion programs to be used for defense investments.
- ✓ Mobilize private capital by accelerating the Savings and Investment Union. European banks to play a key role in the rearmament of Europe.
- ✓ Mobilize private capital through the European Investment Bank.

Defense spending is becoming a priority for Romania

Defense spending increased to 2.25% of GDP in 2024 according to NATO data, from 1.74% of GDP in 2022. Defense spending is planned to gradually rise in the next years.

In February 2025, Interim President Bolojan announced that 25 local defense companies would be transferred from the Ministry of Economy towards the Ministry of Defense.

- Avioane Craiova SA
- IAR SA
- IOR SA
- Romaero SA
- Șantierul Naval Mangalia SA
- Uzina Mecanică Orăștie SA
- CN Romarm SA
- Tohan SA Zărnești
- Carfil SA Brașov
- Uzina Mecanică Plopeni SA
- Metrom SA Brașov
- Uzina Mecanică Cugir SA
- Uzina Mecanică Mija SA
- Uzina Mecanică Sadu SA
- Uzina Automecanică Moreni SA
- Arsenal Reșița SA
- Uzina Mecanică București SA
- Uzina de Produse Speciale Dragomirești SA
- Fabrica de Pulberi SA Făgăraș
- Pirochim Victoria SA
- Electromecanica Ploiești SA
- Fabrica de Arme Cugir SA
- Uzina de Produse Speciale Făgăraș SA
- Construcții Aeronautice SA
- Uzina Mecanică Drăgășani

Other European initiatives in defense spending

- ✓ The German parliament approved spending on defense in excess of 1% of GDP (EUR 45bn) to be released from borrowing restrictions written into Germany's constitution. This means that spending beyond 1% of GDP has no upper limit. A special, off-budget infrastructure fund will be empowered to borrow EUR 500bn spread over 12 years.
- ✓ The UK will increase spending on defense to 2.5% of GDP from April 2027, with an ambition to reach 3.0% in the next parliament. The increase in defense spending will be funded by reducing Overseas Development Assistance (ODA) from 0.5% to 0.3% of GNI and reinvesting it in defense.
- ✓ Switzerland aims to reach 1.0% of GDP defense spending by 2030, from 0.7% of GDP in 2024.

Two scenarios for trajectory of Romania's defense expenditure

Scenario 1: Increase in defense expenditure to 3.75% of GDP by 2028, from 2.25% of GDP in 2024

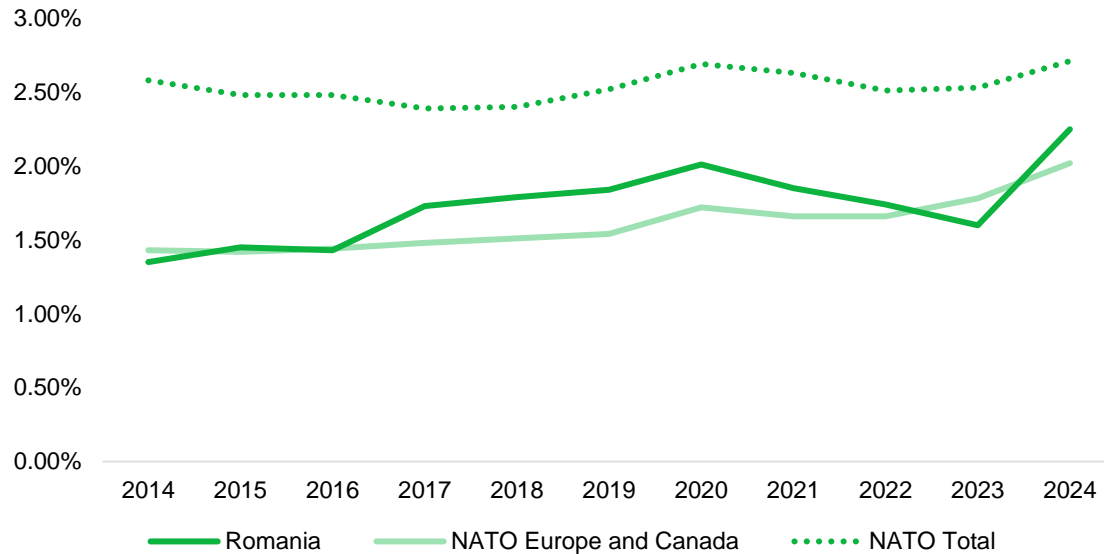
- ✓ Half of it financed by increase in public revenues / cut in other expenditure
- ✓ Romania increases defense expenditure without triggering the Excessive Deficit Procedure
- ✓ Budget deficit to reach 5.3% of GDP in 2028 vs. 5.0% of GDP in baseline scenario
- ✓ Market impact: neutral, contingent on implementation of fiscal reforms agreed with the EC and supportive market conditions

Scenario 2: Increase in defense expenditure to 5.0% of GDP by 2028, from 2.25% of GDP in 2024

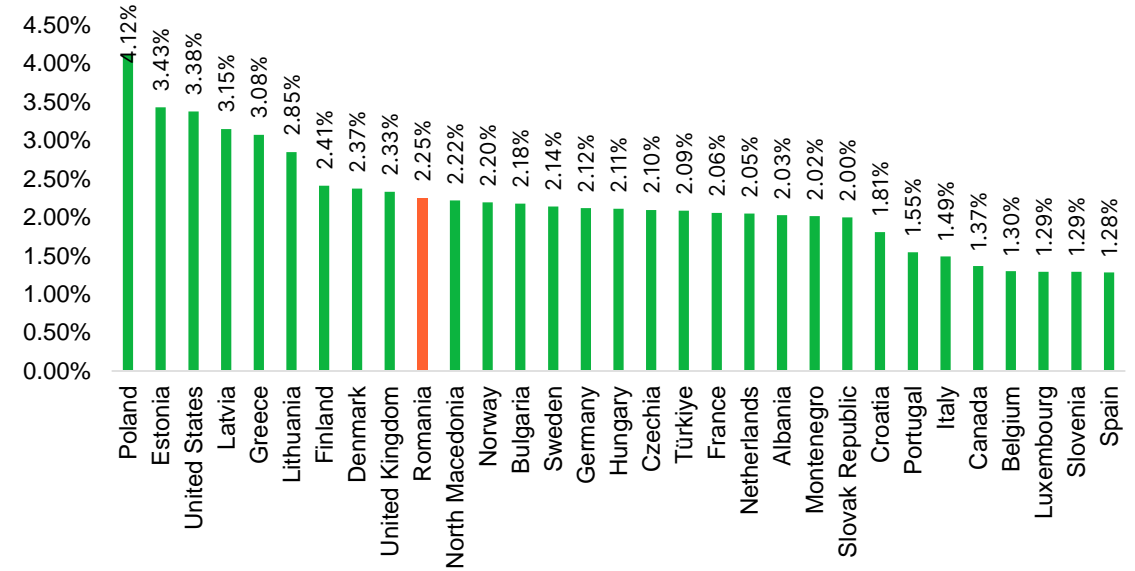
- ✓ Half of it financed by increase in public revenues / cut in other expenditure
- ✓ Romania increases defense expenditure without triggering the Excessive Deficit Procedure
- ✓ Slower fiscal consolidation path. Budget deficit to reach 5.5% of GDP in 2028 vs. 5.0% of GDP in baseline scenario
- ✓ Market impact: neutral, contingent on implementation of fiscal reforms agreed with the EC and supportive market conditions

Romania's average defense expenditure in the past ten years was similar to NATO Europe and Canada at ~1.70% of GDP; US was well above at ~3.50% of GDP

Defense expenditure in Romania vs. NATO, % of GDP



Defense expenditure in NATO countries, % of GDP, 2024

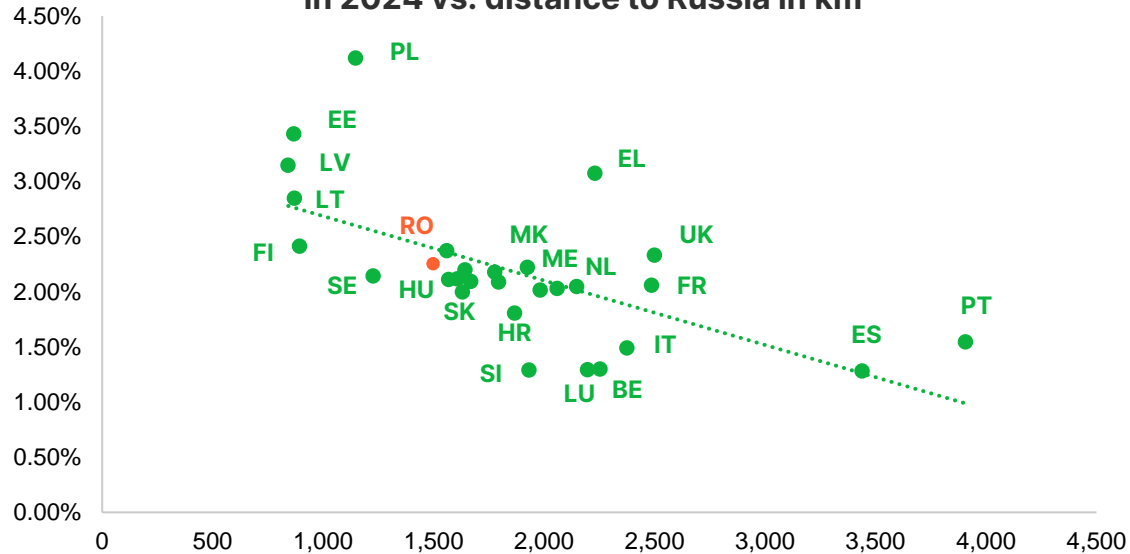


Romanian defense expenditure jumped to 2.25% of GDP in 2024 (RON 40.1bn), from 1.60% of GDP in 2023 (RON 25.6bn), according to NATO data.

Poland ranks first among NATO countries in terms of defense expenditure with 4.12% of GDP in 2024, following a staggering increase of 1.89pp of GDP in two years.

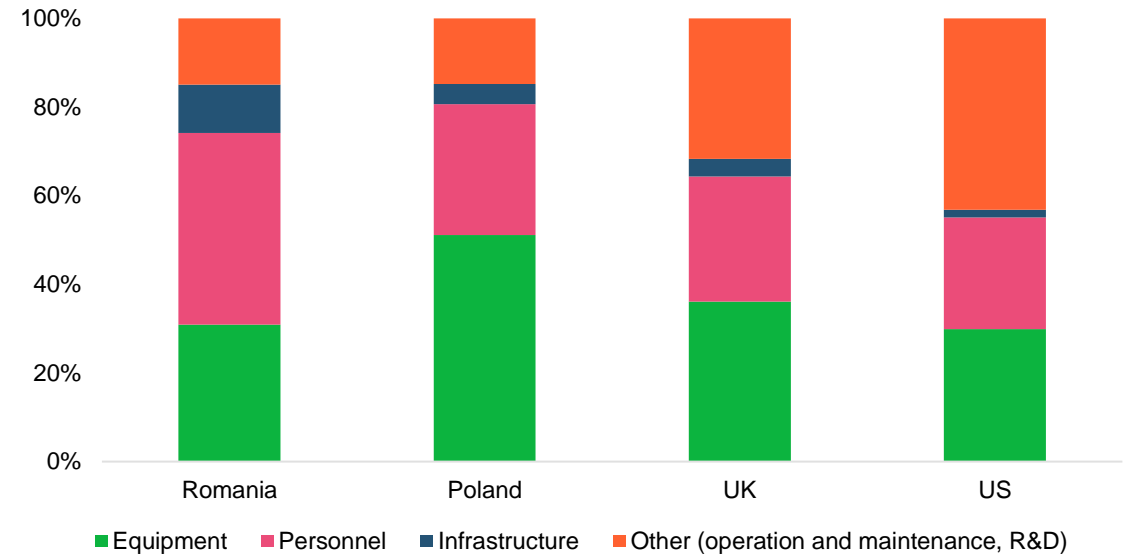
The closer a European country is to Russia, the more it spends on defense

Defense expenditure of European NATO countries in % of GDP in 2024 vs. distance to Russia in km



Poland, along with the Baltic countries, spends the most on defense, as they are closest to Russia. While the UK and Greece are among the highest defense spenders in relative terms in NATO, numerous European countries lag behind the NATO average.

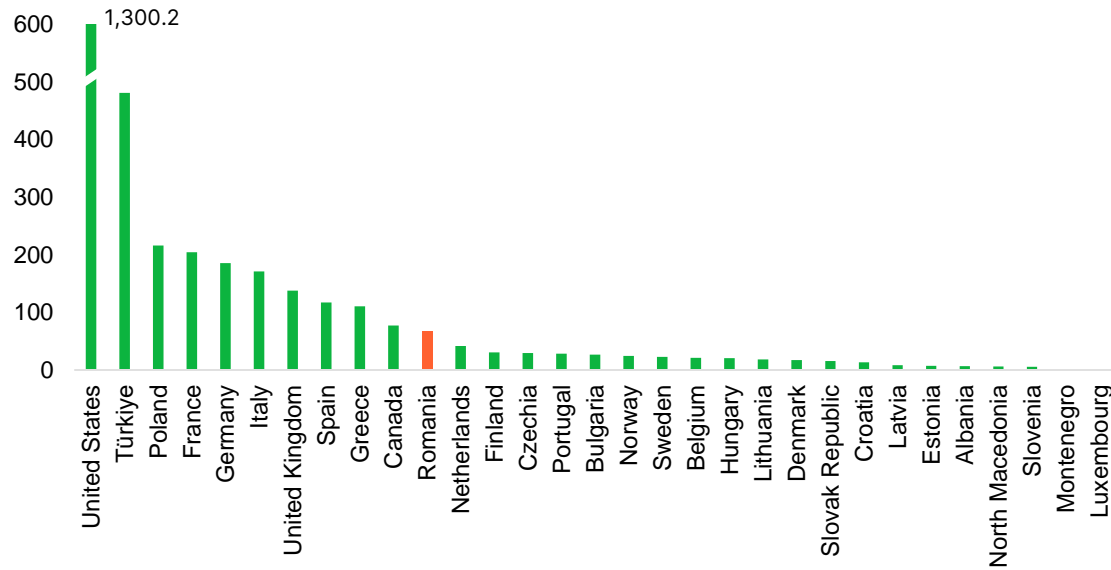
Distribution of defense expenditure by main category, % of total, 2024



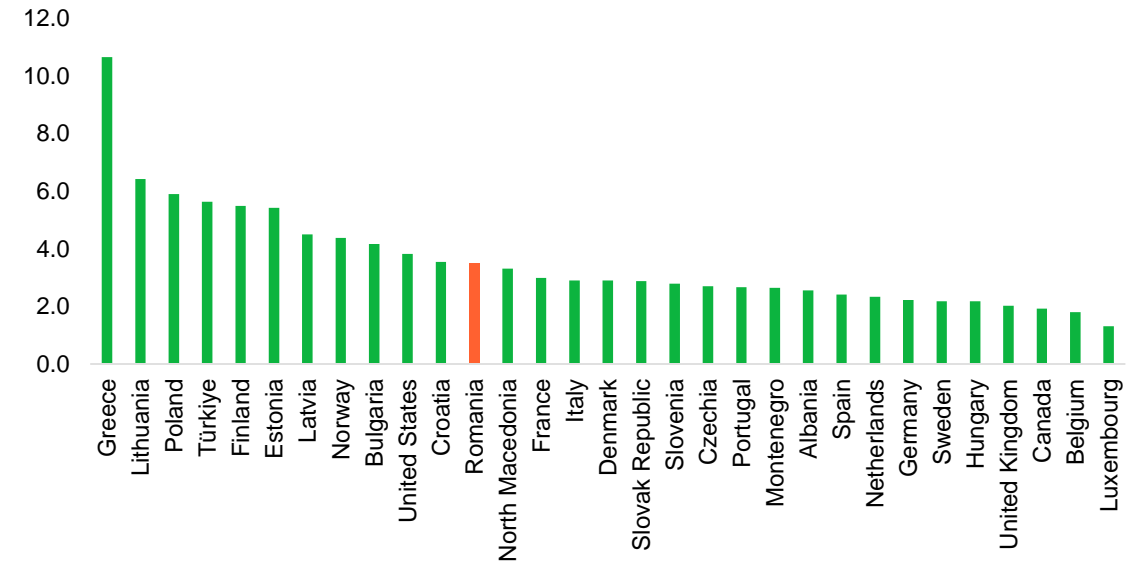
Romania is focused on developing military infrastructure, but its equipment spending lags behind other countries. Boosting Romania's military spending above 3% of GDP may initially prioritize equipment purchases (similar to Poland), later shifting towards operations, maintenance, and R&D (like the UK and US).

Modernizing the equipment of the Romanian army seems a higher priority than increasing the size of its forces

Military personnel (thousand persons)



Military personnel per 1,000 inhabitants, 2024



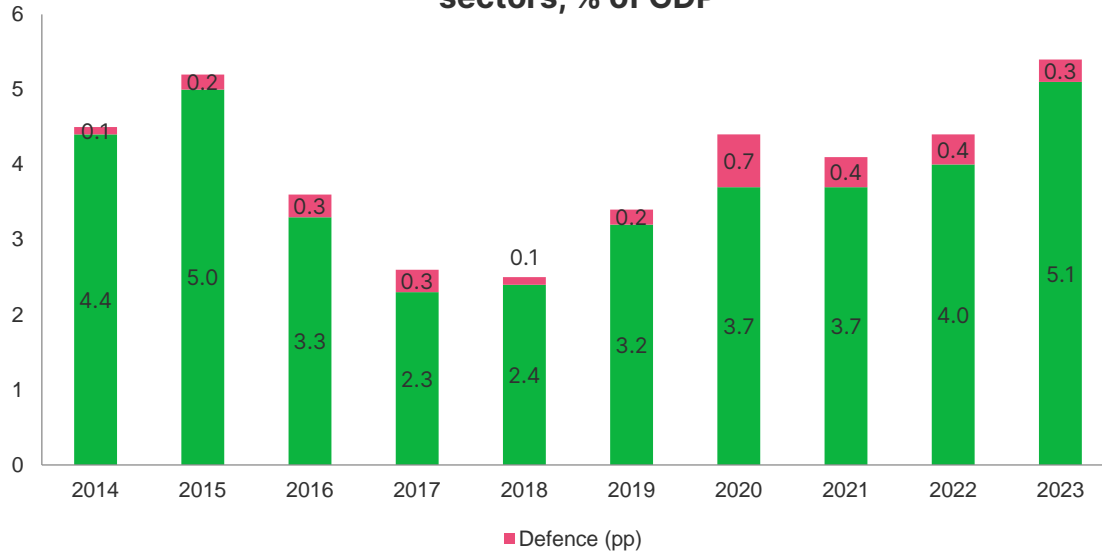
Romania has the eleventh largest army in NATO.

With 3.5 soldiers per 1,000 inhabitants, Romania's army size relative to its population is similar to the US and France.

Modernizing the equipment of the Romanian army seems a higher priority than increasing the size of its forces.

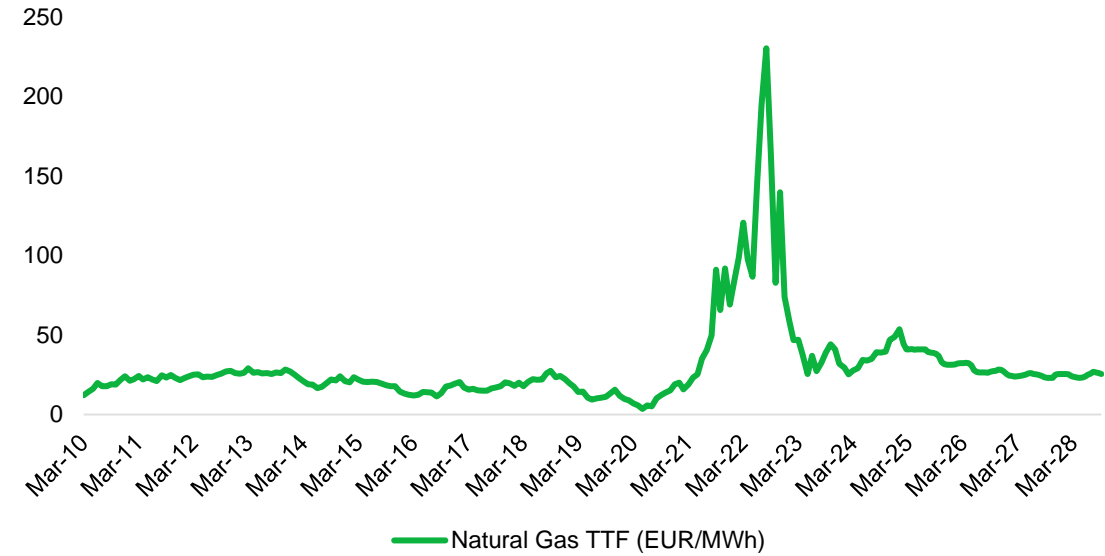
De-escalation of war in Ukraine could lead to lower energy prices

Gross fixed capital formation in Romania, defense vs. other sectors, % of GDP



Growth in gross fixed capital formation for defense in Romania as a percentage of GDP did not keep up with other sectors in recent years.

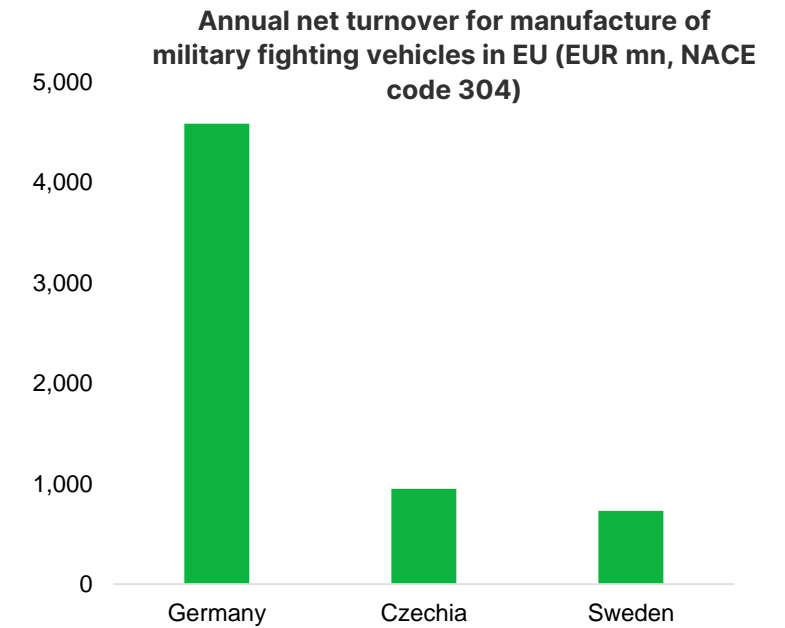
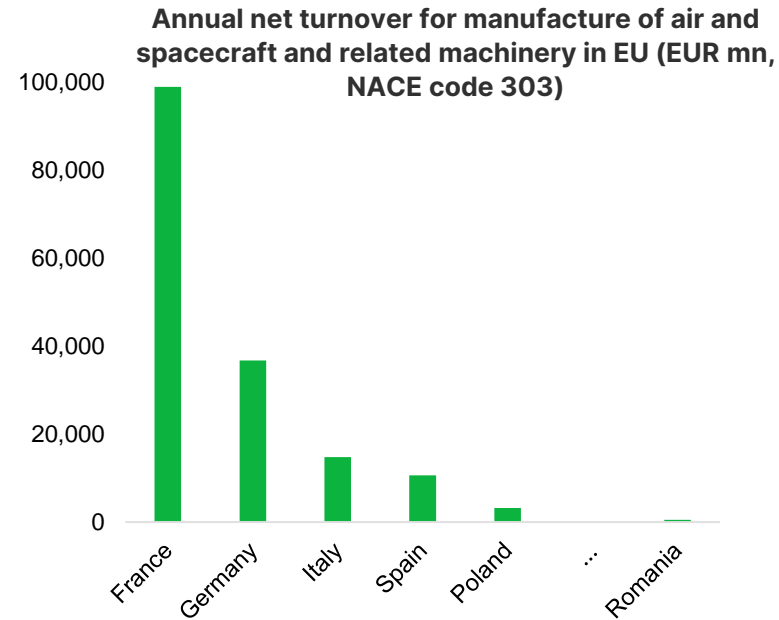
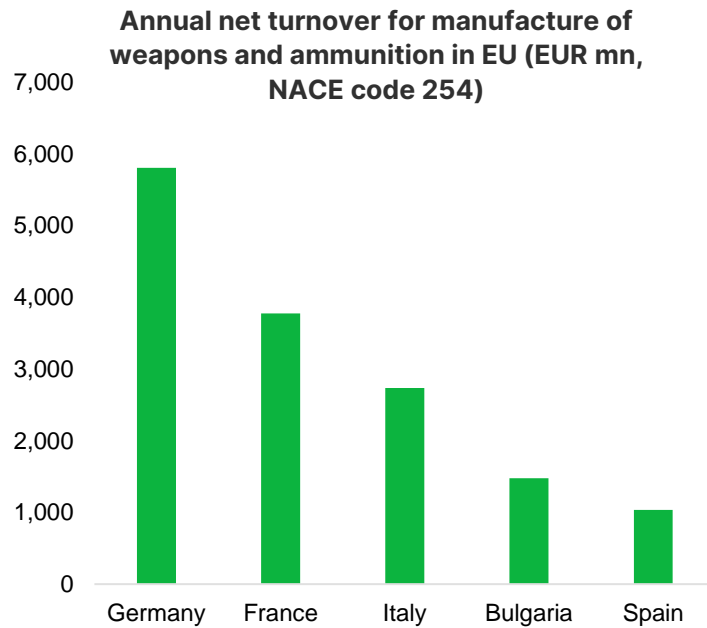
Natural gas TTF (EUR / MWh)



Natural gas prices are well above levels seen before the onset of the war in Ukraine. A potential agreement leading to easing of tensions between Russia and Ukraine could support growth through an increase in business and consumer confidence, a drop in energy prices, an increase in financial asset prices and investments in rebuilding Ukraine's damaged infrastructure.

Source: Bloomberg, Eurostat, BCR Research

Germany and France stand to benefit most from defense spending boost in Europe



Data on defense manufacturing companies is obscured by confidentiality requirements, with roughly half of EU countries having no data on the Eurostat website.

Romania ranks tenth place in the top of European manufacturers of air and spacecraft and related machinery (NACE code 303).

Germany ranks first in EU in manufacture of weapons and ammunition (NACE code 254) and in manufacture of military fighting vehicles (NACE code 304).

Local sectors expected to benefit most from an increase in external defense spending: manufacture of basic metals, manufacture of fabricated metal products, manufacture of other transport equipment, land transport

	Romanian sectors to benefit from an increase in demand from German manufacture of fabricated metal products (NACE code 25)	Romanian sectors to benefit from an increase in demand from German manufacture of other transport equipment (NACE code 30)	Romanian sectors to benefit from an increase in demand from French manufacture of other transport equipment (NACE code 30)
Manufacture of rubber and plastic products (NACE code 22)			
Manufacture of basic metals (NACE code 24)			
Manufacture of fabricated metal products (NACE code 25)			
Manufacture of computer, electronic and optical products (NACE code 26)			
Manufacture of electrical equipment (NACE code 27)			
Manufacture of machinery and equipment (NACE code 28)			
Manufacture of motor vehicles (NACE code 29)			
Manufacture of other transport equipment (NACE code 30)			
Sewerage, waste management, remediation activities (NACE codes 37-39)			
Wholesale trade, except of motor vehicles and motorcycles (NACE code 46)			
Land transport and transport via pipelines (NACE code 49)			
Computer programming, consultancy, and information service activities (NACE codes 62-63)			
Architectural and engineering activities; technical testing and analysis (NACE code 71)			

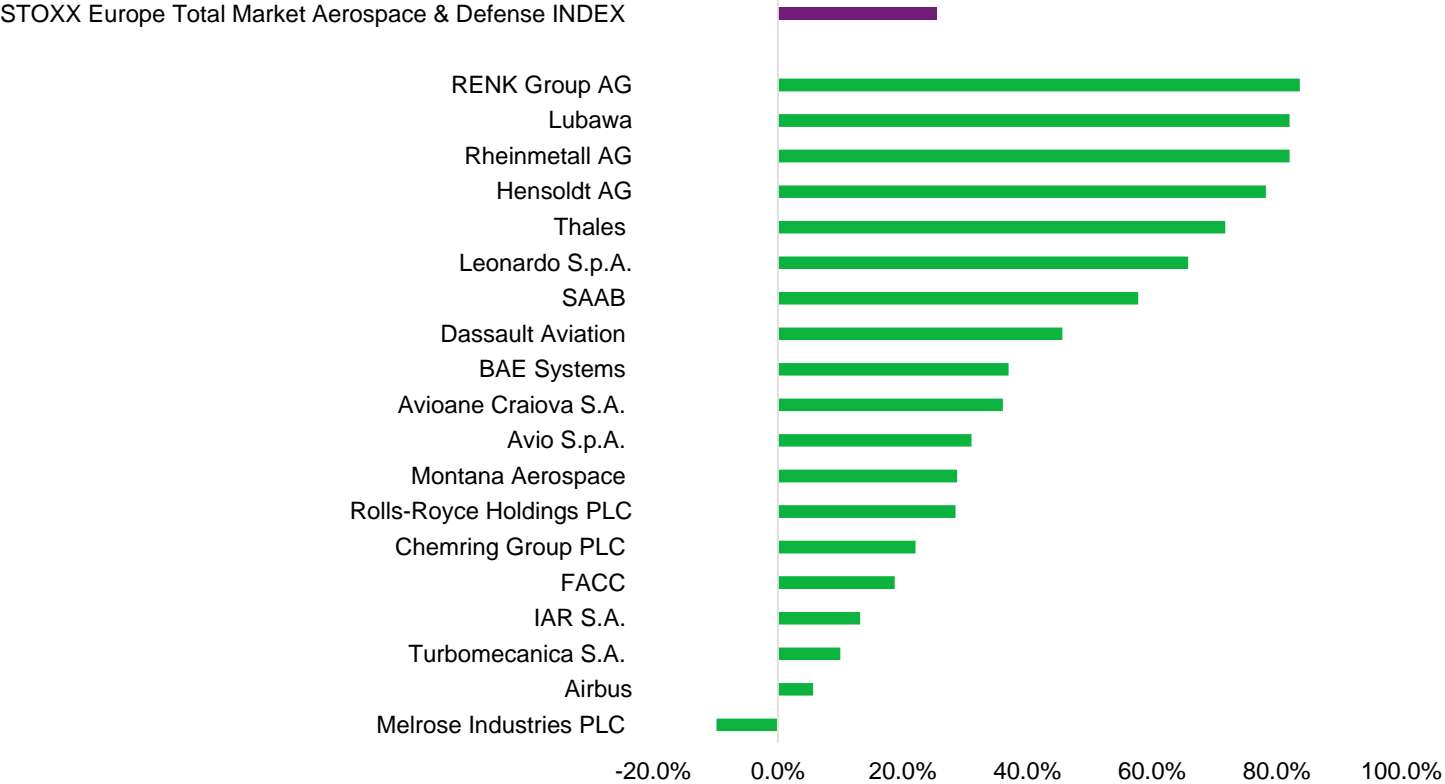
Source: Eurostat, BCR Research

Note: With no data available for manufacture of weapons and ammunition (NACE code 254), manufacture of air and spacecraft and related machinery (NACE code 303) and manufacture of military fighting vehicles (NACE code 304), we looked at inter-country trade dependencies for manufacture of fabricated metal products (NACE code 25) and manufacture of other transport equipment (NACE code 30)

European defense stocks climbed on spending boost expectations

Stock market performance of defense companies March 10, 2025, vs. December 30, 2024

(%)



European defense stocks rallied this year in anticipation of a boost in public military spending.

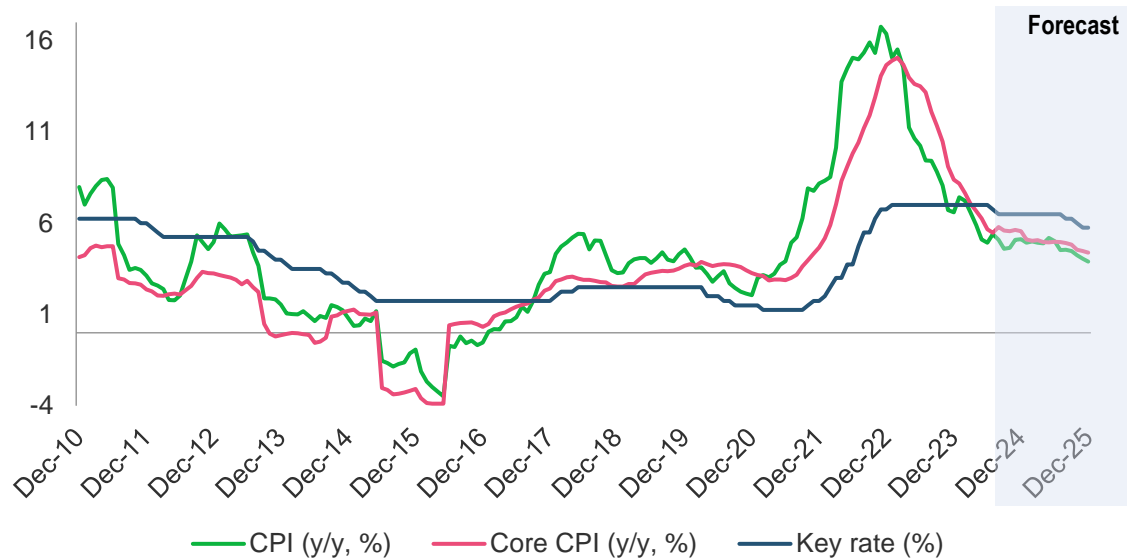
In February, Reuters reported that Rheinmetall, Europe's top ammunition maker, intends to repurpose two of its automotive plants in Germany to mostly make defense equipment.

Car industry supplier ZF Friedrichshafen, which is in a restructuring process that may result in German plant closures, has been in touch with defense companies about shifting workers, it said, citing "industrial synergies".

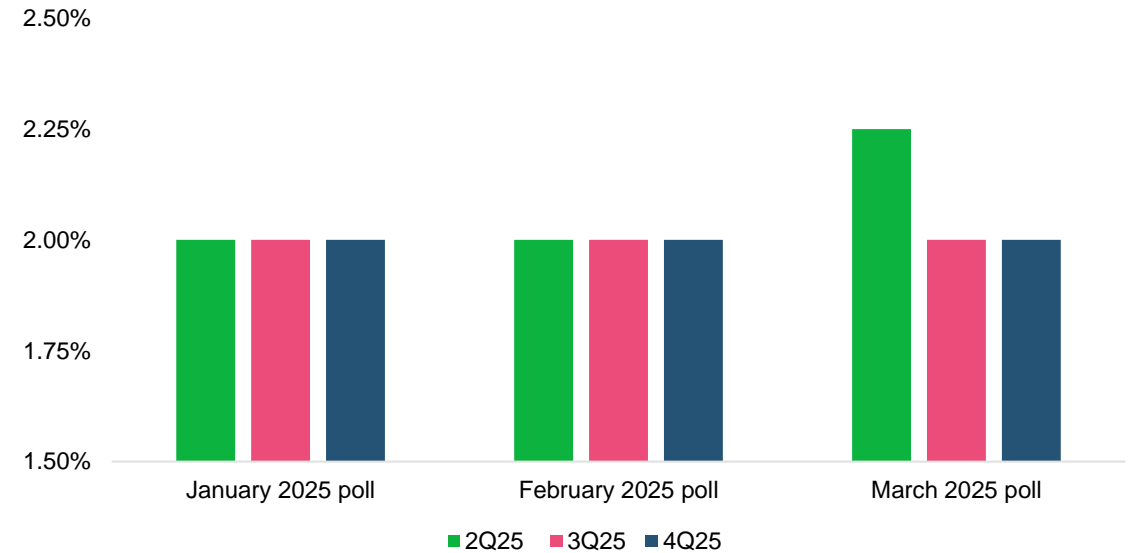
Source: Bloomberg, BCR Research

Rates outlook: German fiscal impulse + higher domestic spending on defense = less room for rate cuts by NBR

Romania CPI and key rate (%)



Reuters polls for ECB deposit rate



With Germany increasing infrastructure and defense spending, markets now expect fewer ECB rate cuts. German spending is projected to boost GDP growth and stabilize falling inflation.

Germany's 2Y bond yield, which is sensitive to the ECB's policy rates, jumped to 2.24% on March 5, from 2.01% on March 4.

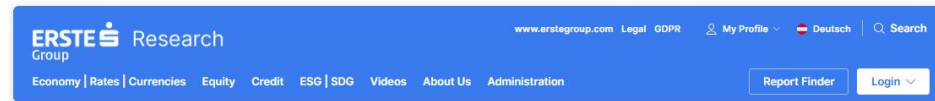
Under a no policy change scenario, we see the NBR key rate at 5.75% in December 2025, 4.50% in December 2026 and 4.00% in December 2027.

German fiscal impulse and higher domestic spending on defense add to past concerns about a sticky inflation rate and could make the NBR more prudent.

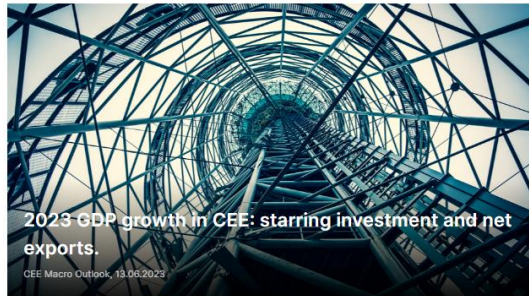
Source: NBR, NIS, Reuters, BCR Research

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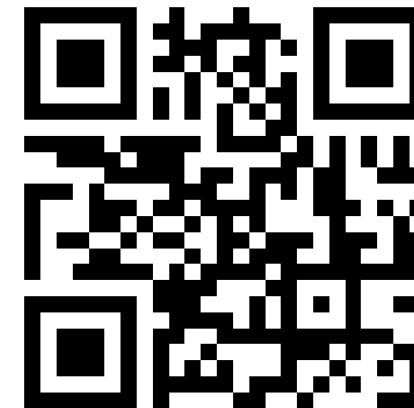
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