
The post-war European Defence Sector

– *Outlook towards 2035*

December 2025



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We specialize in strategy development and provide high-impact strategic advisory services to leadership teams navigating their most demanding and high-stakes issues. Our work spans across industries and includes close collaboration with private equity clients, where we support transactions, mergers and acquisitions (M&A), and post-deal value creation.

Our teams bring deep experience in unlocking growth and driving transformation in precisely these situations. With sharp industry insight, Strategy& delivers strategic solutions with the speed and precision required to help our clients gain competitive advantage—both as business leaders and as organizations.

As a global leader in strategy consulting, Strategy& is part of PwC Norway. We seamlessly leverage the full breadth of PwC's global and local multidisciplinary expertise to ensure our clients' strategic potential is both defined and realized.

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250+ consultants across the Nordics

75+ countries with active presence

Selected core capabilities

Corporate Strategy
Mergers & Acquisitions
Deal Value Realization

Main takeaways from our report



A Historical underinvestment in European defence since the Cold War

- When Cold War tensions reignited in 1979-1985, European countries spent ~3.5% of GDP on defence
- After the Cold War ended in 1991, defence spending fell sharply, as governments pursued the “peace dividend”, allowing force structures and readiness to contract
- Europe’s 25+ years below 2% of GDP proved inadequate when tested by the Russia-Ukraine war, reinforcing the need for higher, sustained defence spending targets going forward

B The war in Ukraine has triggered a structural inflection point reshaping European defence

- NATO has recently raised the defence spending target from 2% to 5% of GDP by 2035, with 3.5% allocated to core defence
- Defence support to Ukraine accounts for only ~4% of Europe’s total defence spend, with the majority of growth coming from core drivers such as geopolitical pressure and technological innovation
- As a result, Europe will more than double defence spending by 2035, irrespective of how and when the conflict in Ukraine is resolved

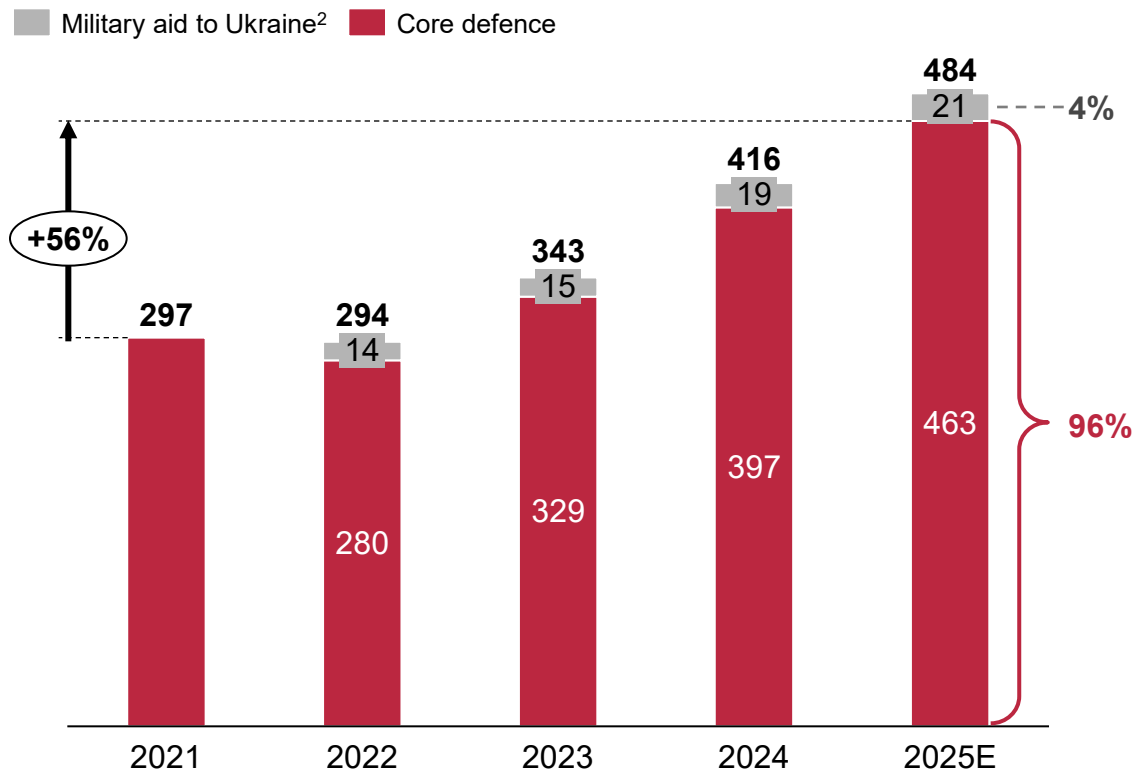
C Europe moves towards materially higher defence spending, regardless of Ukraine situation

- By 2035, European NATO defence spending will amount to 85-105% of the 3.5% target, i.e. 3.0-3.7% of GDP
- Target attainment hinges on each country’s political willingness and economic ability; most European NATO members are projected to reach target, with a few lagging and a few well above
- Our dedicated defence sector team sees several attractive investment opportunities for Private Equity and industry players

European NATO countries' domestic defence spend has risen 56% since 2021 – Only ~4% of total spend directly related to Ukraine war efforts

European NATO countries' defence spending

European NATO countries' defence spending¹, EURbn



Defence spending in selected countries, 2021 vs 2025, EURbn

Country	2021, EURbn	2025E, EURbn	Change, %
UK	62	78	+26%
Germany	53	82	+54%
France	48	57	+18%
Poland	13	38	+193%
Sweden	8	13	+68%
Norway	7	14	+95%
Denmark	5	12	+171%
Finland	4	7	+107%

Notes: 1) Spending in “constant prices and domestic currency”. Currencies converted at the ECB exchange rate on 15 November 2025 2) Military aid to Ukraine includes allocations from 24 European NATO countries. Parts of the aid fund a weapons-procurement program, including purchases of American weapons
Sources: NATO - Defence Expenditure of NATO Countries (2014-2025), IMF World Economic Outlook (WEO), Kiel Institute Ukraine Support Tracker – 25th release, European Central Bank – Eurosystem, Strategy& analysis

Three change imperatives for 2025-2035 European defence spending

● ----- 4% of total spend ----- ● ● ----- 96% of total spend ----- ●

1

Outlook for European defence support to Ukraine – 4 scenarios

- A Continued conflict
- B Stalemate
- C Facilitated peace
- D Deep peace

2

Core drivers related to geopolitical pressure and technological innovation

- A U.S. push for defence burden-sharing
- B Technology, autonomy and warfare transformation
- C Expanded Russian capacity and persistent threat
- D Replenishment of critically depleted inventories

3

Political willingness and economic ability to divert funds to meet NATO target

- 1 Political willingness
- 2 Economic ability

The Russia-Ukraine war has triggered a structural inflection point that will reshape European defence investments and expenditure for at least 10 years

Core drivers

Drivers of increased European defence spending

- U.S not willing to cover more than their fair share of Europe's security budget
- U.S. debt levels are rising, together with increased attention to South-East Asia where Europe is expected to contribute



A U.S. push for defence **burden-sharing**

- Exponential improvement in technology, AI, inter-connectivity and autonomy
- Lessons from war in Ukraine have revealed gaps in Europe's defence capabilities, and accelerated both the pace and importance of innovation



B **Technology, autonomy** and warfare **transformation**

- Russia has significantly expanded its capacity during the Ukraine war, with battle-proven personnel, solutions and industry
- Proven Russian willingness to invade, in addition to rising tensions globally



C Expanded **Russian** capacity and **persistent threat**

- Europe will need to restock the inventories of what has been given away
- The modern war has revealed that current inventory levels were too low, and that a stronger Europe will need higher stockpiles in the future



D Replenishment of **critically depleted inventories**

Strategy& estimates a continued strong growth towards 85%-105% of NATO 3.5% spending target attainment in 2035

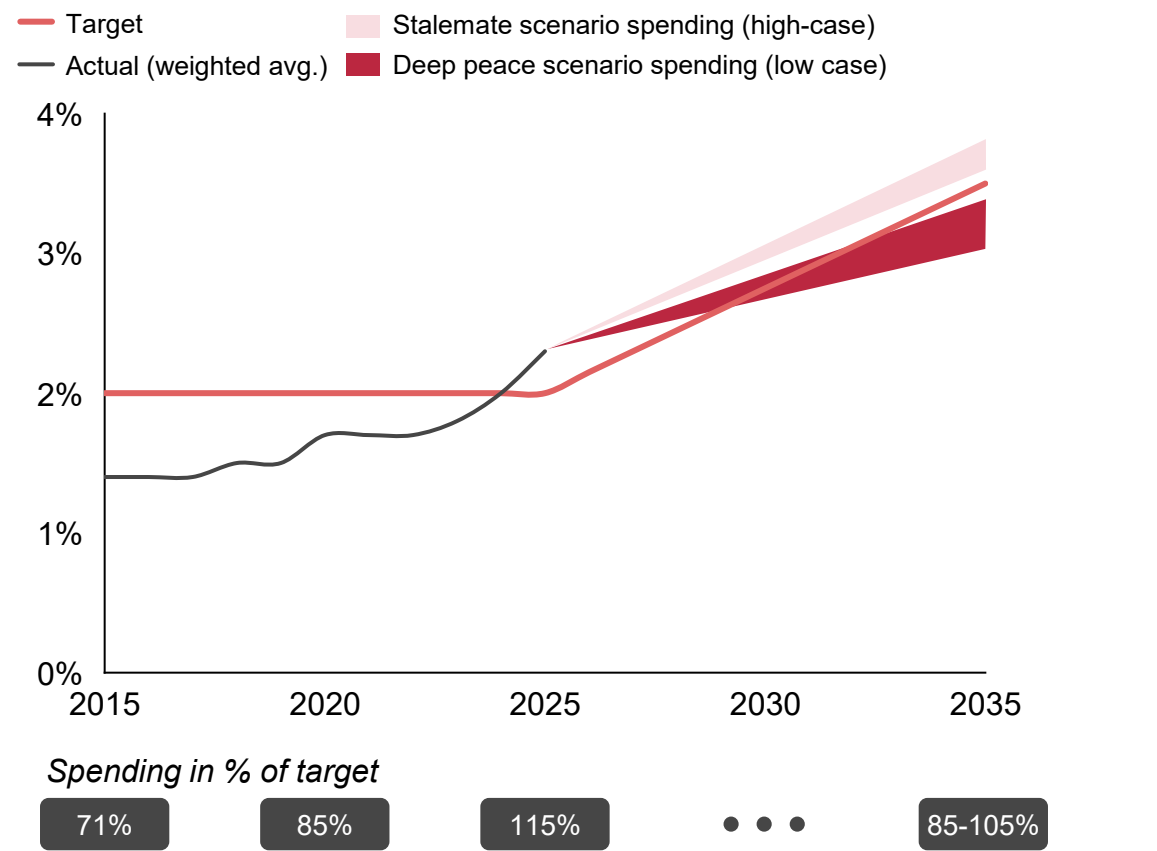
High level summary of main scenarios



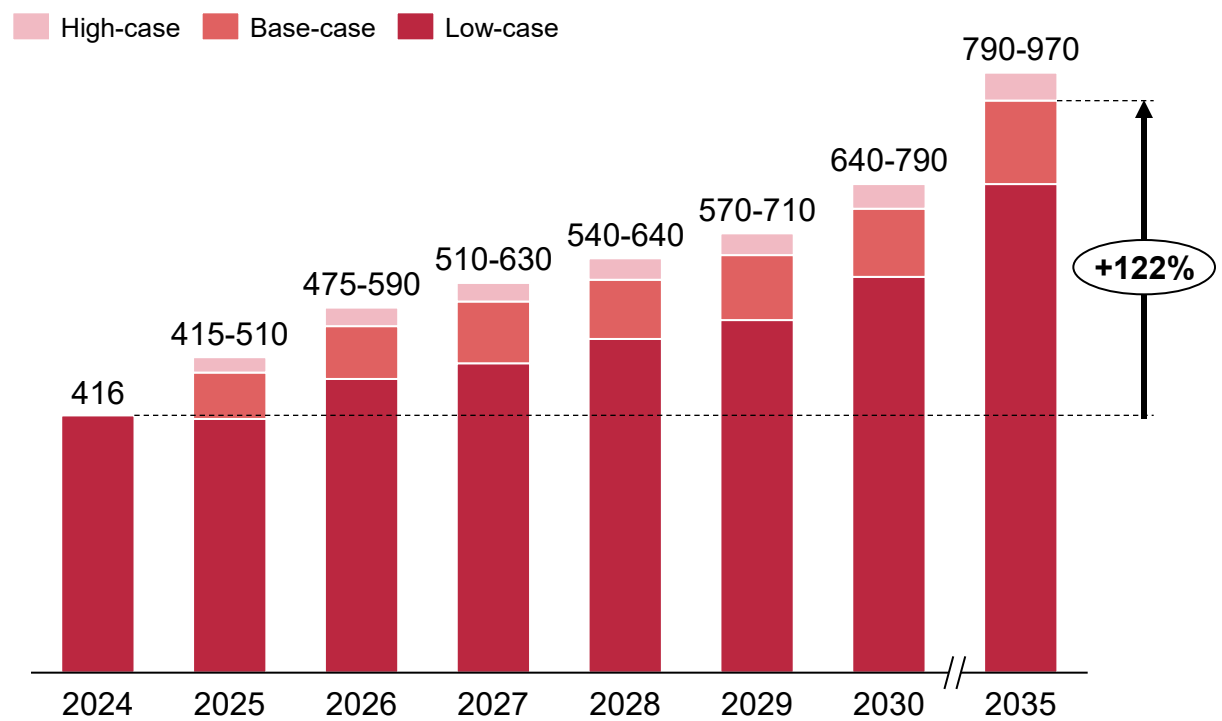
A stalemate could boost defence spending beyond target, while deep peace could reduce nations' willingness to reach target – but still drive growth


European NATO countries' defence spending

European NATO countries targeted vs actual spending, % of GDP



Implied European NATO countries targeted spending¹, EURbn





This represents an excerpt of our perspective on European defence spending, post the Ukraine war.

The full report provides more detail on historical spending levels, underlying drivers, and key opportunities we see going forward for investors and industrial players.

To access the full report, please contact us.

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