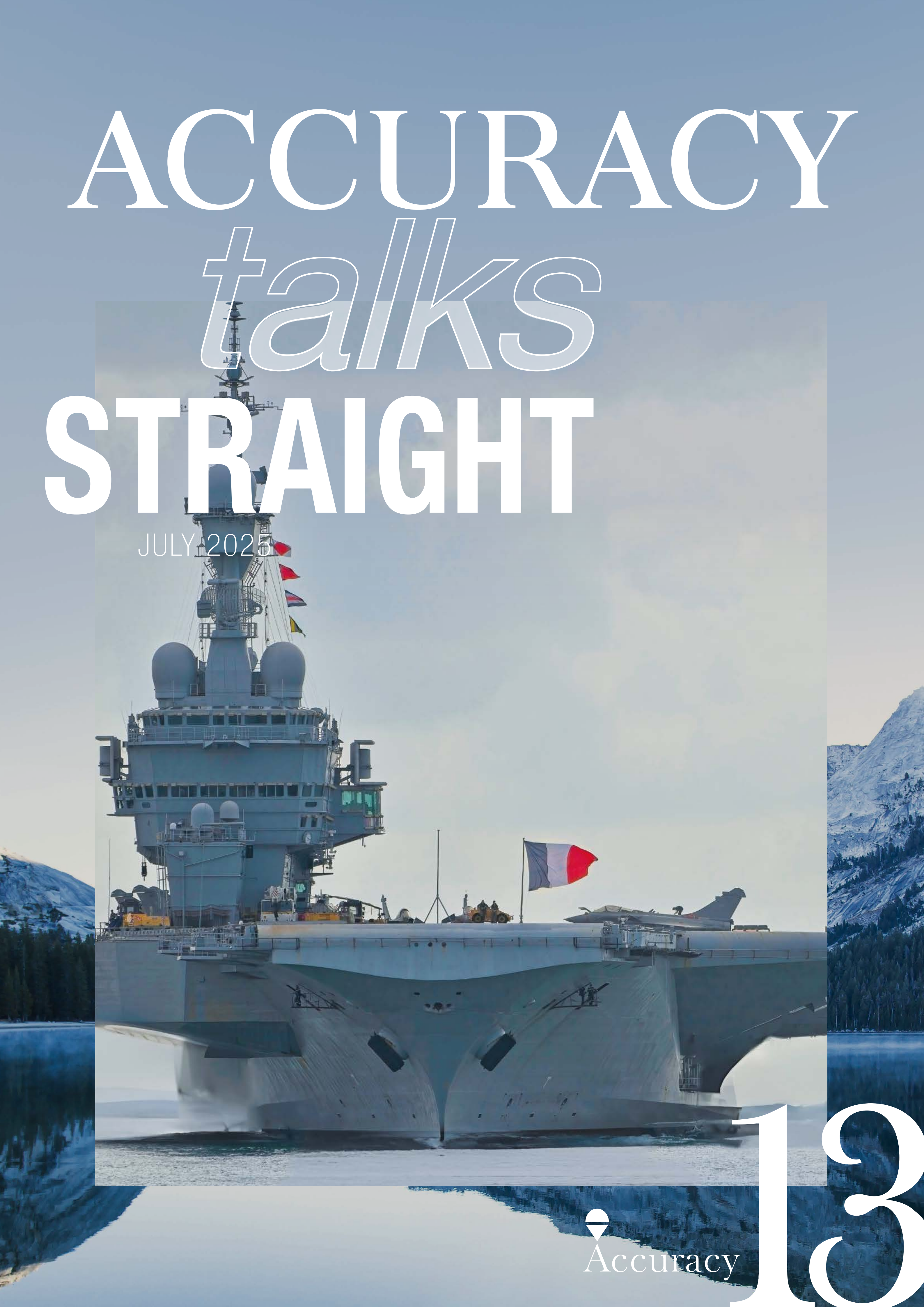
ACCURACY *talks* STRAIGHT

JULY 2025

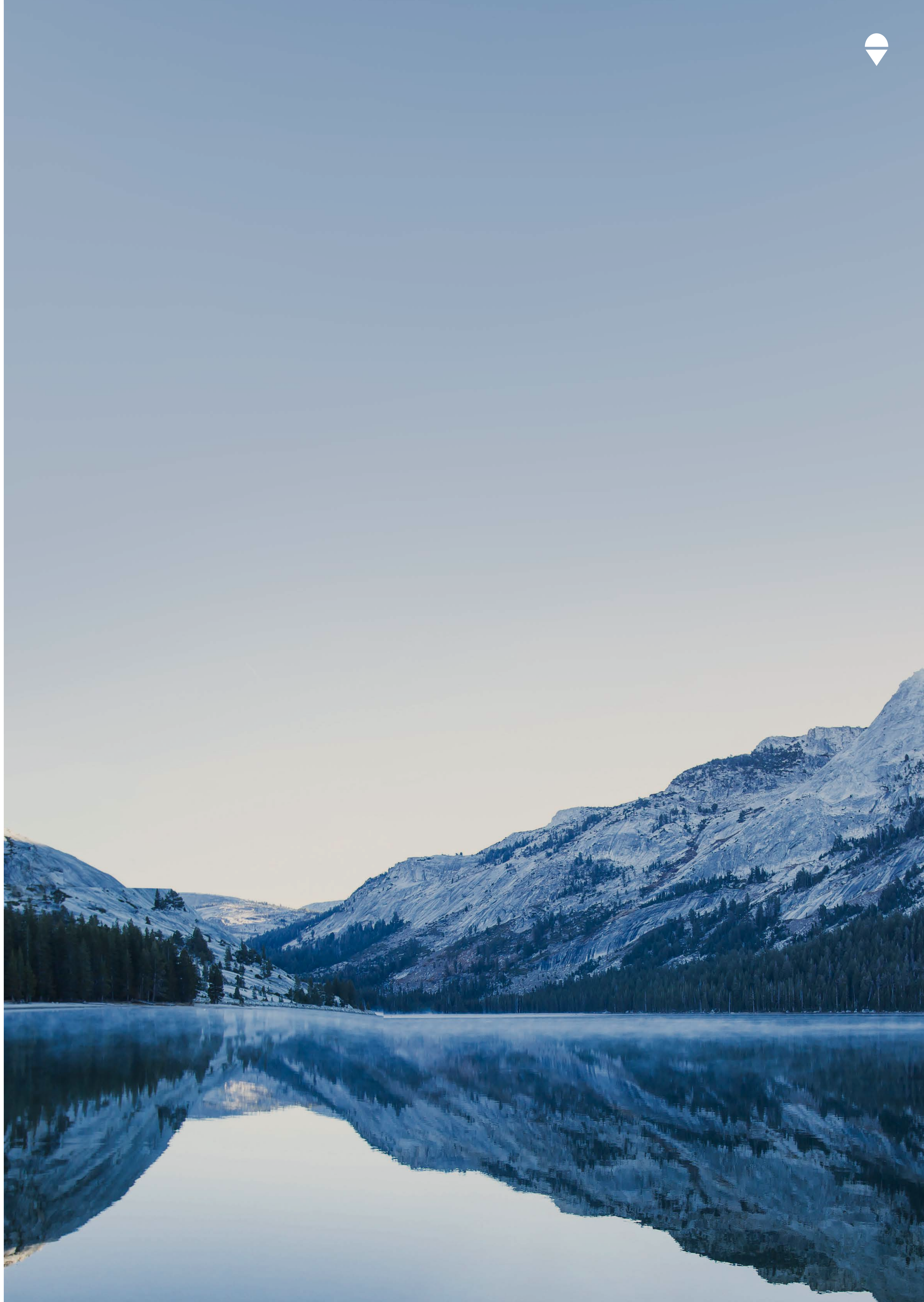


Accuracy

13

JULY 2025

SUMMARY



1 ONE PARTNER, ONE VIEW
EDITORIAL

Frédéric Duponchel
President, Accuracy

COMPANIES IN THE DEFENCE TECHNOLOGY INDUSTRIAL BASE CONFRONTING THE CHALLENGE OF EUROPEAN DEFENCE.

Faced with geopolitical fragmentation and the proliferation of high-intensity conflicts, Europe must switch from its logic of cooperation to a strategy of industrial resurgence. It is no longer just a question of pooling armed forces between member states but one of **rebuilding a proficient military production capacity from beginning to end, adapted to the needs of the battlefield and supported by innovative public and private financing.**

Today, **European strategic autonomy has been weakened** by a persistent dependence on critical components from outside of Europe, particularly in the five domains of modern warfare: **land, sea, air, space, and information and cyberspace.** Ambitious programmes have been launched to remedy this, such as **EDIRPA** (European Defence Industry Reinforcement through common Procurement Act) for weaponry, **FCAS** (Future Combat Air System) for the air force and **IRIS²** (Europe's satellite constellation for secure communications) for space. **But the timeframes are long and the cooperative efforts fragile.** The need to consolidate industrial sectors, support European innovation and develop strategic alliances is growing urgent.

Feedback from the conflicts in Ukraine and Gaza is clear: the armies do not lack technology so much as reserves and simple, robust, mass-produced equipment. **The era of 'all technology' is reaching its limits; the time has come for intelligent simplicity.**

One last point: public finances are tight. To cope with the sheer scale of the various needs (munitions, cybersecurity, space, etc.), **it is essential to mobilise private financing,** such as infrastructure funds, family offices, dual-use capital investment (civilian and military). This movement also **assumes the evolution of ESG** (environmental, social and governance) criteria to integrate the imperatives of strategic sovereignty.

Efforts have begun; they must now accelerate.

2 START-UP STORIES
ARKEOCÉAN

Romain Proglio
Partner, Accuracy

Founded in 2009 and based in Aspremont (PACA) and Vannes (Brittany), **Arkeocean stands out as a rising star of maritime deep-tech.** It designs and sells underwater robotic solutions: swarms of micro-AUVs (Autonomous Underwater Vehicles) that are intelligent, autonomous and low-cost, **able to conduct exploration, surveillance and marine protection missions.**

Technological innovation: the emergence of swarms

At the heart of Arkeocean's offer lies the micro-AUV swarm systems, designed to operate in complete autonomy up to several thousand metres under the sea. **These robots, coming in at less than one metre** long (like the "Olmek" or "Inca" models), use cutting-edge acoustic technologies derived from military developments and sophisticated software architecture to cover vast maritime areas.

> DIVE INTO INNOVATION: ARKEOCEAN, THE ARCHITECT OF NEW UNDERSEA HORIZONS

The mission cycle is organised remotely from a command centre that allocates the areas to cover, the depth and acoustic detection parameters, and the communication protocols. Once released, **the AUVs drift passively** in the current, saving their battery power, and only position themselves actively using small propellers, if necessary. **When they pick up on a noteworthy acoustic signal,** they emerge briefly to transmit the position and data.

Arkeocean also specialises in **AUV swarms** that rest on the ocean floor, thereby creating underwater surveillance barriers. This enables them to limit their battery use and continuously save data for months at a time.

This unique approach makes it possible to reach an endurance time of several days, or even weeks, with a high degree of discretion – ideal for strategic surveillance, **undersea infrastructure protection** and **information gathering** – all while remaining affordable and scalable.

GLOSSARY

AUV:
Autonomous Underwater Vehicle

Swarm:
coordinated group of robots acting on a coordinated mission.

DTIB:
Defence Technology Industrial Base, ecosystem of industrial defence players.

Passive acoustic:
detection technique with no active signal sent out.

Perseus label:
dual (civil/military) innovation support programme in France.

From LELANTOS to DESPOT: some pioneering projects

- **LELANTOS:** the first intelligent micro-AUV system, deployed in collaboration with the French navy. Sea drills took place in April 2023 during the Orion exercise (simulation of a saturation attack by swarming loitering munitions), then in December 2023 at the port of Toulon (surveillance and alert mission). **The demonstrator proved the feasibility of using an acoustic swarm** for data collection and alerting in the water column.

- **DESPOT:** financed as part of the France 2030 programme, this **system is capable of guiding and positioning swarms** of up to several thousand micro-AUVs for deepwater exploration. It is the result of a call for "deep-sea" projects in April 2024.

- **RECORD CONTRAT:** in November 2024, Arkeocean signed a contract to supply several thousand micro-AUVs for deep-sea missions.

- **EONIOS:** Arkeocean recently revealed the first resident system for the surveillance of protected marine areas. Called Eonios, it is the culmination of a Franco-Cypriot collaboration, developed in partnership with the CMMI (Cyprus Marine and Maritime Institute). Eonios, the very first 'resident' swarm of autonomous underwater vehicles dedicated to the protection, surveillance and restoration of underwater areas, was chosen following a rigorous selection process to represent Cyprus at the 2025 UN Ocean Conference, held in June in Nice, France.

The project was spotlighted during a diplomatic event organised by Cyprus as a strategic solution to preserve and restore protected marine areas.

EONIOS imagines a future where underwater technology becomes a natural component of marine ecosystems, using swarms of autonomous underwater vehicles operating fully independently, in harmony with nature-based artificial reefs and using renewable energy sources. This system constitutes a major step forward in the protection of the oceans at a global scale.

INDUSTRIALISATION AND SOVEREIGNTY

Commercial success has led Arkeocean to strengthen its production capacity, with a new industrial site under construction in Theix-Noyalo (Brittany), in order to establish its place in the French defence technology industrial base (DTIB).

The company is growing thanks in particular to funds and public contracts (France 2030, Perseus label, France Armée Innovation).

Arkeocen thus embodies the profound shift in underwater robotics towards to autonomous, affordable and sovereign multi-robot systems. The company is ideally positioned in this major technological revolution, **namely the switch from isolated underwater drones to intelligent swarms capable of complex and sustainable missions.**

With record contracts, strategic partnerships and a growing manufacturing base, **Arkeocean is establishing itself as a major player in tomorrow's maritime sector** – at the crossroads of defence, energy and ecology.

Taking on challenges like industrialisation, regulation and financing, the company is progressing with considerable advantages: **patented technology, State backing (France 2030, Perseus label) and growing cooperation with international players.** The future of underwater surveillance and exploration may well play out through swarms, and **Arkeocean is one of the most promising pioneers in the sector.**

ID CARD

LOGO

ARKEOCEAN

FOUNDATION YEAR

2009

HEADQUARTERS

Asprémont (PACA)

ACTIVITY

Design and development of autonomous underwater vehicle swarms

Arkeocean is 24 passionate colleagues convinced that micro-AUVs can change the way we understand ocean depths. Some of their notable accomplishments include the following:

- **In 2020,** during the COVID pandemic, they conducted the largest fully robotic seismic acquisition off the coast of Sète. With a swarm of 200 underwater micro-drones deployed, this still represents a world record today.
- **In 2022,** Arkeocean received the innovation prize at Euronaval (the world leading maritime defence exhibition), as well as at iNaval from the French Procurement Agency (DGA).
- **In 2023,** the French navy and DGA honoured Arkeocean with the prestigious Perseus label, bestowed upon only three French companies during the Orion naval exercise.

3 INDUSTRY INSIGHT

FUNDING SMART, NOT JUST MORE: A STRATEGY FOR EUROPE'S DEFENCE SOVEREIGNTY

Ignacio Lliso
Partner, Accuracy

Alberto Valle
Director, Accuracy

Since the onset of the war in Ukraine, EU member states have embarked on a mission for wide-scale rearmament. Defence spending rose by 19.2% in 2024, reaching €436.9 billion, and over €1 trillion in equipment investments is planned by 2030. These investments aim to build a genuine **industrial defence ecosystem** in Europe to restore the continent's strategic sovereignty.

But the challenge is not just a budgetary one; it is about implementation too. **How can European funding reach the players truly capable of translating strategic ambition into concrete capabilities?** Regardless of the scale of the announcements so far, the ecosystem remains fragmented, and SMEs struggle to obtain public funds – despite making up more than 80% of defence suppliers by number in Europe.

An industrial ambition held back by uneven funding distribution

To support **major cooperative programmes in military capabilities** – whether in combat systems, air defence or next-generation vehicles – the European Union has put in place a range of ambitious financial instruments, including:

- **SAFE** (Security and Action for Europe): €800 billion to support joint procurement of critical defence equipment.
- **EDF** (European Defence Fund): €8 billion for collaborative research and industrial development in defence.
- **EPF** (European Peace Facility): €12 billion, off budget, to support the military capabilities of EU partner countries.
- **EIF, EIC, ICO:** instruments providing guaranteed loans, quasi-equity or patient capital to finance deep-tech innovation, particularly dual-use technologies.

However, these instruments, inspired by foreign models (such as the US's DARPA and DIU or Israeli equivalents), have trouble reaching the broader industrial network. Nearly 75% of the allocated envelopes are not distributed transparently, and **most funds are absorbed or channelled to the overall industry via national programmes or major industrial players,** thereby delaying or even prohibiting SMEs from reaping the benefit.
The case of the **MGCS** reaffirms this dynamic. The Franco-German partnership created a formal joint venture in Cologne between KNDS Deutschland, KNDS France, Rheinmetall and Thales to develop a next-generation battle tank as part of a broader 'system of systems'.
Although SME involvement was expected, **the industrial leadership remains concentrated within the largest national champions.**

As a result, mid-tier firms – particularly those working on niche components like electronics, sensors or subsystems – struggle to gain access to EU-level funding or clear pathways into production due to a lack of structured support and integration mechanisms.

The issue is widespread, yet SMEs have much to offer: some 2,500 SMEs operate in the European defence sector, generating €158.8 billion in revenue (+16.9% since 2022). Active in fields such as sensors, embedded software, electronic warfare, drones or autonomous systems, these companies are highly specialised and responsive. Indeed, agile and innovative SMEs are able to quickly address operational needs, as demonstrated by Milrem Robotics, Helsing and the unicorn Tekever through their involvement in Ukraine.

In spite of this, many SMEs face significant hurdles that prevent them from scaling up:

- Financial constraints: burdened by post-COVID debt and undercapitalised, **these companies struggle to access credit** due to a lack of collateral.
- **Governance challenges:** family ownership, limited financial transparency and a weak project management culture make them less appealing to both institutional investors and prime contractors. **Compliance costs** linked to NATO standards, cybersecurity and export controls add further pressure, particularly for smaller firms.
- **Business model vulnerability:** many rely on just one or two major clients, leaving them exposed to strategic shifts. **This dependence** becomes even more problematic when large industrial players move to secure their supply chains through acquisitions or exclusive partnerships. Only SMEs with distinctive dual-use technologies tend to avoid being sidelined or absorbed.

In short, SMEs are the backbone of Europe's defence industry, yet **they remain largely overlooked by the current financing system.** Their strategic role is underappreciated. They operate in a fragmented financial landscape. They are burdened by misaligned industrial policies, complex funding mechanisms and divergent budget cycles. Without tailored financial tools, stronger support structures and easier access to capital, these key players risk falling by the wayside rather than being pulled up by the EU's broader ambitions for industrial sovereignty.

Adapting funding to the industrial reality of SMEs

Although numerous financial tools are available to SMEs, they do not seem to be fit for purpose. Private financing typically requires **equity dilution, external governance and exit timelines that are ill-suited** to the long cycles of the defence sector. Alternative instruments, such as mezzanine financing or capped-return convertible debt, could help mobilise capital without undermining the founders' autonomy. These could be deployed through public-private partnerships with deferred or shared return expectations.

Similarly, **blended funds co-financed by public institutions** (like the EIB, EIF or ICO) would allow early-stage risk to be shared while aligning return timelines with the sector's realities. These models have already proved effective in other strategic fields (e.g. such as climate tech, health or space) and could be adapted to defence.

Creating **joint ventures or thematic consortia** that bring together SMEs, large companies and major industrial groups could also accelerate the industrialisation of critical technologies. **These models enable risk-sharing, knowledge transfer and access to sovereign programmes** through the inclusion of partners in approved supplier networks. However, such co-developments require targeted support, as few SMEs currently have the capacity to lead cross-border projects, develop multi-year financing plans or respond to complex tenders.

It is worth noting that **dual-use technologies,** such as cybersecurity, AI and sensors, tend to receive funding more easily (via the European Innovation Council or deep-tech accelerators, for example). This strategy often requires a dual value proposition adapting to civilian standards as well.

When it comes to public subsidies and other schemes, they are often too slow or too limited to support critical phases like industrialisation and scaling up. In Spain, for example, the ICO (Instituto de Crédito Oficial) plays a key role in SME financing, but there is no dedicated defence vehicle to quickly channel these resources towards European industrial priorities in all segments of the ecosystem. Rather than creating more tools, the priority should be to **redirect existing financial capacity and commitments towards high-impact industrial projects,** favour financial clarity over size-based eligibility, reinforce support services (e.g. for proposal writing or contractor matchmaking) and accelerate processing times.

The challenge is not only to invest more, but to invest smart

European defence sovereignty will only become a reality once the **financing architecture in place fully includes each key player, from prime contractors to SMEs and deep-tech start-ups,** and drives them on to a coordinated trajectory for industrial scale-up, even when they are not directly involved in major programmes.

This requires aligning national and European interests, public funding tools, tailored private capital and industrial structuring through:

- better alignment of national and European interests, by **overcoming reluctance to share sensitive technologies across borders** – which currently leads to duplicated efforts and fragmented industrial initiatives instead of joint progress;
- **the creation of sector-specific defence funds,** both at national and EU level, with financing mechanisms adapted to SMEs (quasi-equity, patient capital, capped-yield debt);
- **the development of coherent financially backed industrial clusters,** where SMEs, which are often integrated from the design phase, are also provided with the required financial backing to pursue their R&D – not merely called in at later stages;
- **the strategic steering of investments by capability area,** aligning public funding channels, tier-one manufacturers and SME networks around shared objectives for scaling up.

4 THE CULTURAL CORNER
WAR AND ECOLOGY

Sophie Chassat
Partner, Accuracy

The war in Ukraine is the first where we are calculating its carbon footprint in real time. A team of experts, The Initiative on GHG Accounting of War, has published this year **an estimation of the emissions generated by the Russian invasion.** Their findings put the figure at almost 230 million tonnes of CO2 equivalent since 2022 – as much as the combined annual emissions of Austria, Hungary, the Czech Republic and Slovakia, or even 120 million cars.

This measure marks a turning point. Environmental damage in the context of war has long been seen through the prism of consequences on health, the harmful effects on populations of pollution resulting from toxic chemical attacks. **Ukraine, however, is rigorously documenting 'environmental crimes'** and has even launched a mobile application, EcoZagrova, to signal them. When the Kakhovka dam was destroyed, Zelensky denounced it as a **'brutal ecocide'**. This war may therefore accelerate **the legal recognition of ecocide as an international crime, in a similar vein to war crimes.**

But beyond the urgency, **it is the structural relationship between the environment and security that is changing.** Ecological concern is now integrated into military doctrine, for reasons of acceptability and responsibility, of course (protection of the environment on military sites, with 80% of them located in outstanding biodiversity areas[1] in France, for example) but above all for tactical reasons. **Doing more with fewer resources, gaining in energy autonomy** (solar tents, low-impact logistics), **anticipating extreme events:** here, ecology and operational efficiency converge in a context of limited planetary resources that are already highly strained.

It is this very convergence that the philosopher Pierre Charbonnier explores in his work *Towards War Ecology*[2]. **He proposes a thought-provoking hypothesis: 'The only thing more dangerous for the planet than war is peace.' Indeed, the peace that followed the Second World War was built on fossil fuels,** oil and coal as the foundation of a new stable world order. This **'carbon peace'**, to use a term coined by the historian Thomas Oatley, has produced growth fuelled by carbon energy, which is now incompatible with climate risk.

To resolve this impasse, Charbonnier advocates for 'real climate geopolitics': accepting that the transition can only be achieved through tensions, disruption, even rivalries rather than through consensus. Somewhat paradoxically, **the war in Ukraine has thus accelerated European decarbonisation by decoupling its energy links with Russia.** Similarly, climatic cooperation with China, far from a traditional historical ally, could prove more effective than 10 COPs[3], he suggests.

Transforming ecology into a lever of power rather than a universal moral discourse: now that is the shift that the century demands.

[1] *Zones Naturelles d'Intérêt Ecologique, Faunistique et Floristique* (ZNIEFF) – Natural area of ecological, faunal and floristic interest

[2] *Vers l'écologie de guerre. Une histoire environnementale de la paix*, published by La Découverte, 2024 [in French].

[3] The COP (Conference of the Parties) is an annual summit that brings together the State signatories of the United Nations Framework Convention on Climate Change (UNFCCC) to negotiate and collectively decide upon international actions to take in the face of climate change.

5 THE ACADEMIC INSIGHT

WHEN MANAGEMENT TAKES INSPIRATION FROM THE FRENCH AIR AND SPACE FORCE (AAE)

Franck Bancel
Professor,
ESCP Business School

Henri Philippe
Partner, Accuracy

Armies have developed specific management skills that are particularly suited to face today's challenges. We have long been aware that armies know how to manage crises and exceptional situations. However, we may not be aware that **they have developed management frameworks and references that can add a lot of value for businesses** in many areas. It is with this in mind that Franck Bancel[1], Henri Philippe[2], Thierry Picq[3] and Luc de Rancourt[4] have sought to **analyse the AAE's management model and show how it can be particularly inspiring for companies** in their book *Adapting, deciding and acting in an uncertain future: when management takes inspiration from the air and space force*[5], to be published this autumn by Dunod.

The book, whose foreword is written by the current Chief of Staff of the AAE and whose afterword is written by one of his predecessors, sets out interviews with **15 senior officers, unanimously recognised for their careers and leadership qualities, who present the specific organisational and operational methods of the force.**

Their contributions are commented on by business leaders from companies of various sizes and operating in different sectors. **These business leaders explain how they can adopt the AAE's practices** and identify points of convergence and divergence between the organisation and their own. At the end of each chapter, an important theme is explained and a summary can be found, highlighting certain useful questions for businesses.

The five major chapters cover forward planning, transformation, human resource management, emerging challenges and crisis management.

In many areas, the AAE is positioned as an organisation at the forefront of management issues.
For example:

▶ The AAE has developed **unique expertise** in managing aviation standards in a context where **rising geopolitical risk is increasing pressure on the air force.**

▶ **The training programme** developed by the AAE is at the heart of its human resources model. It plays a major role in creating a sense of community, ensuring cohesion among personnel and guaranteeing that they have the highest standards of professional skills.

▶ In contrast to many companies, there is no ambiguity when it comes to the AAE's ***raison d'être***. It clearly illustrates its identity, vision and commitments to meet the needs of society. What's more, this *raison d'être* – **understood, shared and upheld by all personnel** – is a cornerstone of the institution.

▶ Finally, **the AAE is capable of considering the long term** (30 years) and, at the same time, **can act urgently to manage the most pressing of crises.** This strategic skill is an obvious source of inspiration for companies in **'permacrisis'.**

To summarise, **this book aims to facilitate interaction and skill transfer between two worlds** that are largely unfamiliar with each other: the AAE and the corporate. Beyond that, it enables readers to better understand what the AAE is and to appreciate **its effectiveness and the professionalism** of its personnel, regardless of their rank.

[1] Franck Bancel is a professor at ESCP Business School.
[2] Henri Philippe is a partner at Accuracy, and an associate lecturer Paris 1-Panthéon Sorbonne University and at the Ecole Nationale des Ponts et Chaussées.
[3] Thierry Picq is a professor at emlyon business school.
[4] Luc de Rancourt is an air force general (2S)
[5] *« S'adapter, décider et agir en avenir incertain : quand le management s'inspire de l'Armée de l'air et de l'espace »* in French

6 ECONOMIC POINT OF VIEW

REARMAMENT EFFORTS: A MEETING OF HISTORY, FINANCING AND THE ECONOMY

Hervé Goulletquer
Senior Economic Adviser,
Accuracy

We can have no doubt the world is more uncertain, and it is likely more dangerous. There is a perceived need for greater protection, which in many countries is reflected in **the need to increase defence budgets. Take the case of NATO, where the current baseline reference for defence spending is 2% of gross domestic product** (GDP). The aim is to increase this figure to 3.5%, even 5% if we include all spending linked to external security (e.g. border protection, military mobility and cybersecurity) in addition to military spending in the strictest sense.

Clearly, there is room for manoeuvre between these two values. For simplicity's sake, let's focus on the lower one here, which refers solely to military spending. **The target is therefore 3.5% of GDP, implying an increase of 1.5 percentage points. How should we interpret these figures?** A 3.5% share of GDP is more or less the ratio NATO as a whole targeted at the beginning of the 1990s. Communism had collapsed, and the Cold War was confined to the history books. Though the world remained uncertain, it seemed less dangerous. As for the increase of **1.5 percentage points, that is precisely the average rearmament effort observed across the 113 episodes recorded between 1870 and 2020,** excluding two exceptional events in the 20th century: both world wars (Source: Kiel Policy Brief, February 2025). **It took five years on average to achieve it.**

That leaves the issue of how to finance it. We know that public accounts in the North Atlantic are not in great shape. **Two series of three figures illustrate this** (2024; in percentage of GDP; respectively the US, the UK and the Eurozone – source: OECD, June 2025): 7.4, 6.0 and 3.1 for budget deficits; 123, 101 and 89 for public debt. And we should bear in mind that within the Eurozone, there can be **significant disparities between member states.** For example, the fiscal balance stands at -2.7% of GDP in Germany and at -5.8% in France. Faced with an overriding imperative, **these restrictions will need to be circumvented, both in budgetary and financial terms.**

Let's start with the budgetary question. When it comes to defence, the issue is not viewed in quite the same way on either side of the Atlantic. Military expenditure amounts to 3.4% of GDP in the US versus 2.3% in the UK and 1.9% for the European Union. **The Old Continent clearly has some work to do.** A fundamental rethinking of previously accepted good governance rules will be required.

Given what is at stake (security and, by extension, the future of society), spending commitments must be distinguished: **civil versus military or, more broadly, managing the present versus preparing for the future**.

We must accept a dual budgetary approach, with obligatory taxes or earmarked funding mechanisms.

Our view of one or the other, and their associated risks, must differ accordingly. **But will we be able to develop the analytical tools** necessary to design, justify and manage this distinction? And the case of the EU begs the question of where revenues or financing should be raised: in Brussels or member state capitals?

Let's turn to the issue of financing where a threefold challenge emerges.

- **Financing military spending,** including **upstream investment** and the operations of necessary equipment producers

- **Balancing tax revenues and debt** in terms of public intervention, and equity versus debt financing to **drive the production processes** of the companies concerned

- **Bank intermediation** (credit) versus capital market funding, particularly through bonds but also equity, to meet **companies' capital needs.**

BEYOND THIS TAXONOMY, LET'S ZOOM IN ON TWO ASPECTS.

First, past experience shows that increased defence spending does not typically come at the expense of social spending or foreign policy initiatives. Indeed, it is generally achieved through a mix of higher debt and increased taxation – **with an important caveat on this second point:** the greater the effort required, the larger the role played by borrowing.

Second, **the necessary mobilisation of additional financial resources raises two further points.** Higher bank debt may require more lenient prudential regulations and potentially greater use of securitisation **to 'make room' on the banks' balance sheets.** Additionally, there may be value in directing savings towards military-related expenditure. For continental Europe, a surplus exists, as shown by EU's near-structural current account surplus (2.8% of GDP in 2024). **The challenge is to create investment funds attractive enough** for the necessary to become possible. **An initiative to create such vehicles would be welcome.**

Let's assume that all this is put in place. What macroeconomic effects should we expect?

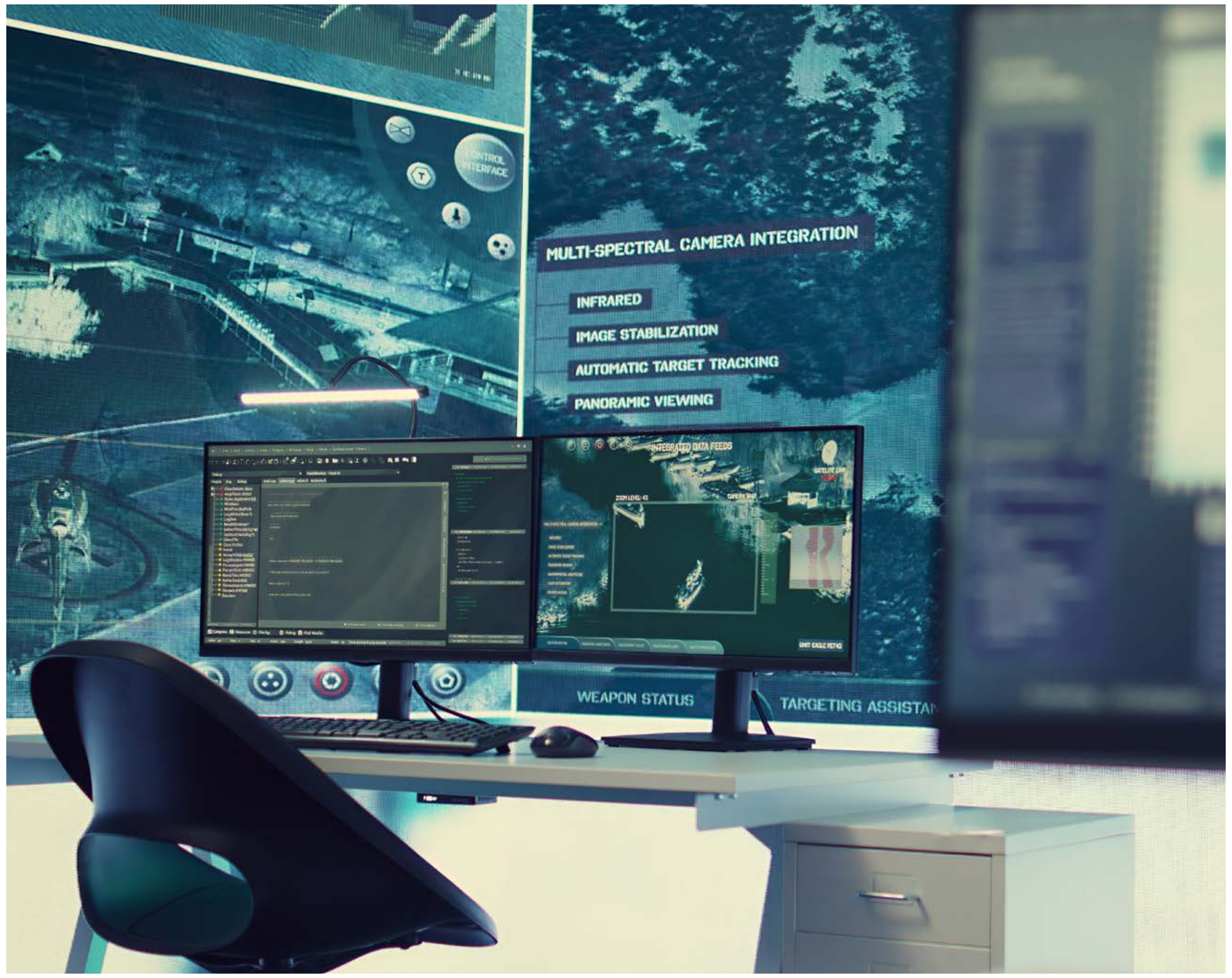
In terms of growth, **the multiplier effect of increased defence spending** (i.e. the measure of its impact on growth) **will depend on many factors.** Downstream, the other parameters, namely employment, prices, external trade balances and interest rates (an expansion of Kaldor's magic square), will be affected.

- Will this **increase in public demand** be to the detriment of private demand (crowding out effect)? This would require close attention to the labour market and price stability, as well as interest rate levels.

- What share of military procurement will be **sourced domestically** vs through imports? **And what will be the impact on military R&D and its spillover effect into the private sector** (ultimately boosting productivity)?

- **The choice of financing is not without its own impact:** debt versus taxation. But there are two drawbacks. First, resorting to greater debt must not trigger a Ricardian equivalence (where households and businesses anticipate future tax hikes). Second, **if taxation must rise, care should be taken not to target those economic agents with a higher propensity to spend.**

The range of possibilities is wide. Can we put forward some sort of quantification? In the case of the EU, the Commission conducted a simulation (The economic impact of higher defence spending, 19 May 2025).



The main assumptions made were as follows:

- **The increase in military spending** (1.5% of GDP) is phased in linearly up to 2028 (a rapid pace, in my opinion); it then remains above the new 3.5% of GDP benchmark for decades to come.

- **The entire effort** is initially financed through debt; then taxation gradually takes over; the civil spending/GDP ratio remains unchanged.

- **Imports make up 20% of the increased defence spending.**

- Only 10% of defence expenditure contributes to **productivity gains.**

Under these assumptions, the impact on key macroeconomic indicators would be as follows:

- Relative to the baseline scenario, GDP in 2028 would be 0.3 to 0.6 points higher (and 0.3 points higher in 2034); **this 'leap' is modest because of full Ricardian equivalence effects.**

- **Inflation would rise by just 0.2%** thanks to intervention from the ECB.

- **Public debt would rise by 2 points of GDP by 2028** and would continue the moderately upward trend until 2032 before declining as fiscal pressure rises.

- **Interest rates would be higher** due to increases in risk premiums.

The 'story' told by the European Commission signals only modest macroeconomic shifts. **Should we fully believe it?**


www.accuracy.com