

Implications of defence and security spending across sectors

EY-Parthenon analysis

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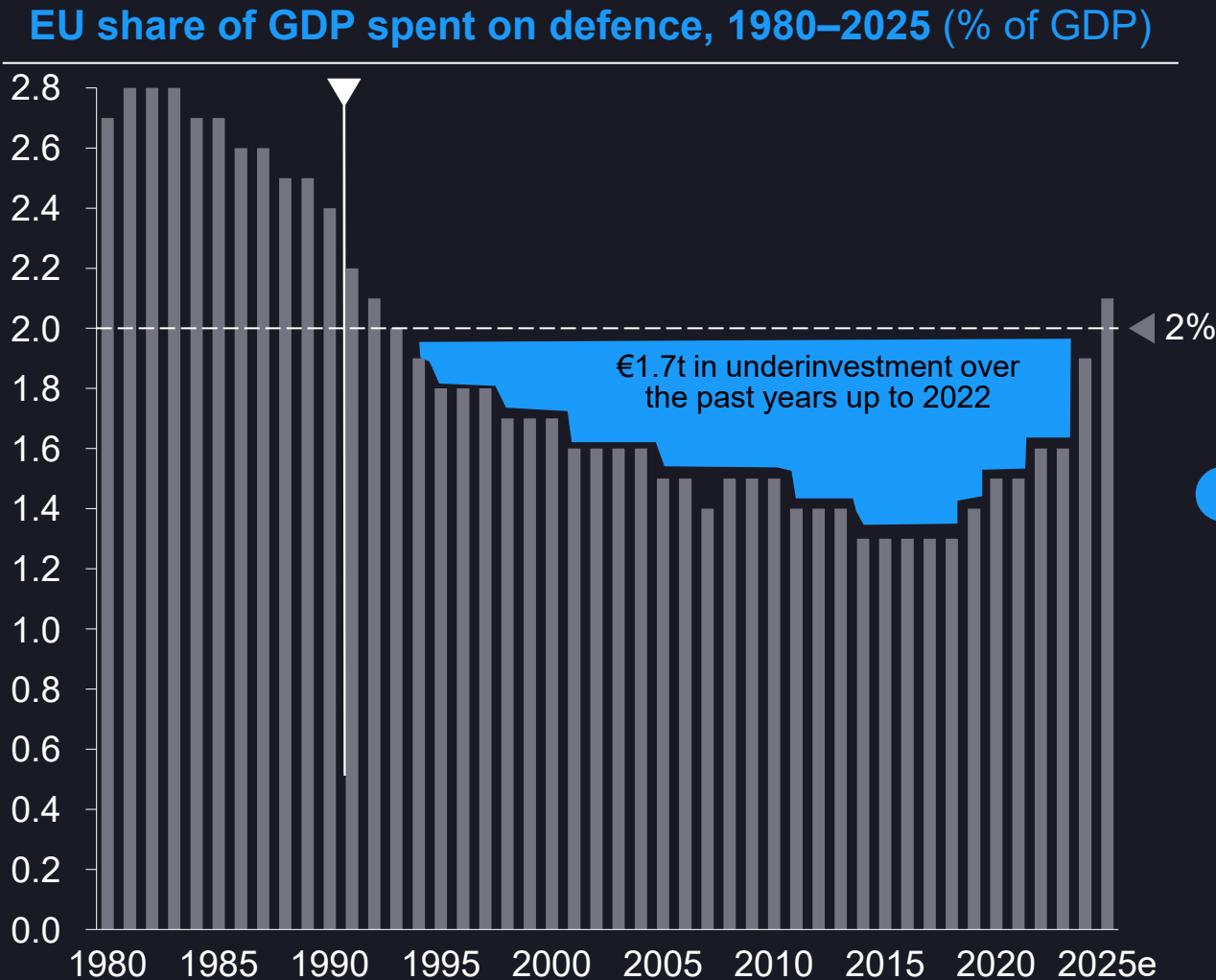
DD DI Danish Defence
and Security Industries

Executive summary

- 1 Europe faces a readiness gap after decades of underinvestment into defence and security.
- 2 Small stockpiles, outdated technology, a fragmented industry and procurement setup, insufficient supply chains, and vulnerability in critical infrastructure are among the resulting key challenges.
- 3 A multi-hundred-billion-euro investment drive is needed and foreseen — to rebuild capability, capacity, resilience and credible deterrence.
- 4 For European and Nordic business, this means a new era of sustainable demand to address the gaps and future needs — which can have material impact across industries, sectors and value chains.
- 5 Achieving this goal requires scaling industrial capacity, accelerating procurement, securing financing and strengthening infrastructure — while maintaining public and political support across borders.

As a result of decades of underinvestment, the state of the European defence and security sector is fragile and fragmented

Defence investment in the Europeandefence

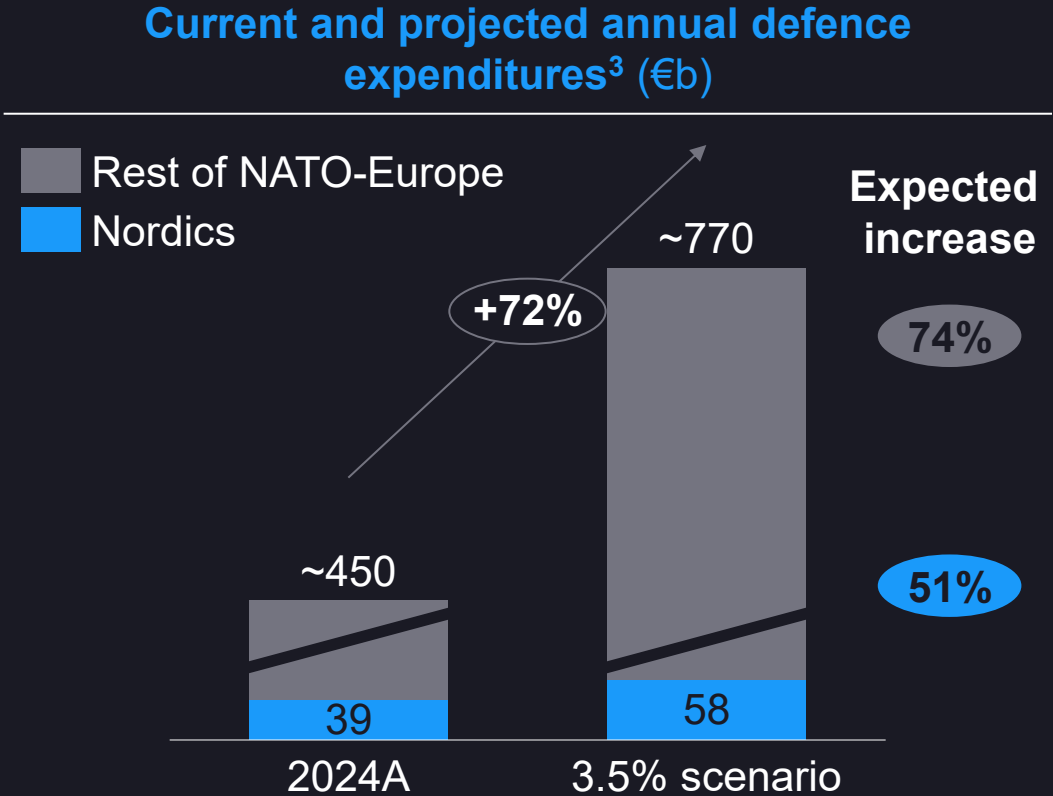
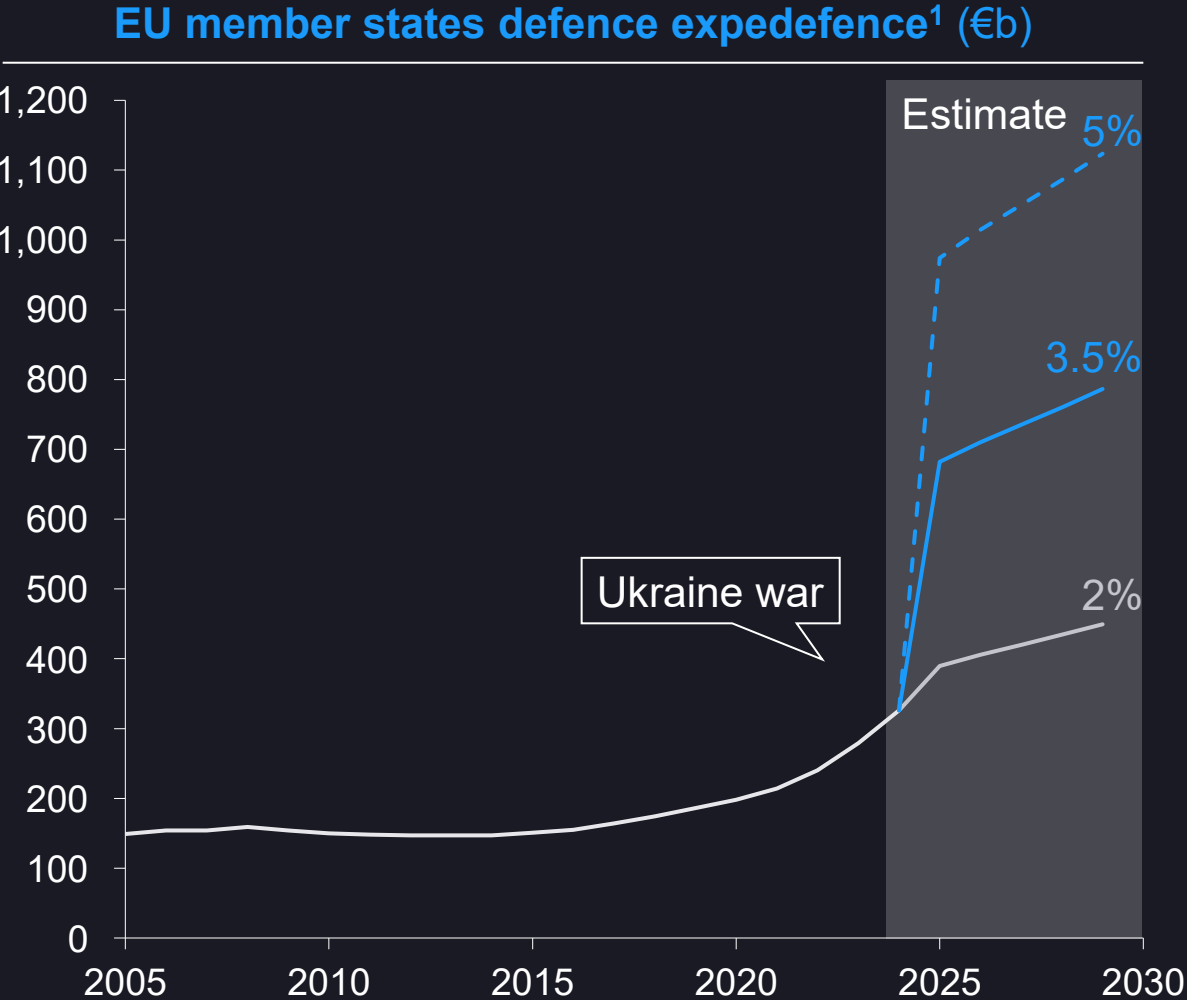


Effects of decades of underinvestment

- Hollowed-out inventories and low readiness
- Obsolete platforms and technology lag
- Fragmented industrial and procurement base
- Insufficient operational backbone and supply chains
- Critical infrastructure vulnerability

Looking ahead, NATO-European defence spending is set to increase to 5% of GDP — with 3.5% dedicated to core defence, leading to add. ~€320b p.a. toward 2035

Defence investment in the European Union



- Defence expenditures of all four Nordic countries represented about 2.3% of national GDP in 2024.
- In 2025, both Denmark and Norway are expected to exceed defence expenditures of 3% of GDP.

1. Represent total spending on armed forces, defence ministries, paramilitary forces and military space activities; 20% of total expenditures to be allocated to capital expenditures
2. Assumptions: 2024 US contribution is 68% of total NATO defence expenditures; reducing this to 34% by 2030 would cover ~€0.6t of the 2030 projected NATO defence expenditures of ~€1.8t, leaving ~€1.2t to be covered by other NATO member states
3. NATO-reported defence expenditures; national budgets may vary (significantly) due to difference in categorization of expenditures
Source: SIPRI; European Council; World Bank; EY-Parthenon analysis; EY-Parthenon calculations

The money invested is not only for tanks and missiles — it is about rebuilding Europe's industrial resilience and ecosystem, building on positions of strength.

Investments are expected to address critical gaps such as production capacity, readiness, strengthened critical and digital infrastructure, and modern defence systems ...

Critical gaps addressed through defence investments

Non-exhaustive

Rebuild production

- Expanding Europe's ability to produce and stockpile (particularly missiles and ammunition) — crucial in light of the war in Ukraine

Secure cyber, space and information superiority

- Securing networks, satellites and data against electronic warfare, through strengthening command, data and satellite resilience

Strengthen infrastructure resilience and readiness

- Hardening infrastructure, energy grids, logistics and (military) mobility networks in the Nordics

Modernize, digitize and expand military platforms

- Replacing of legacy air, land and maritime systems and integrating digital systems across domains

Establish layered air, missile and drone defence

- Protecting people and infrastructure from modern threats through multilayered aerial defence systems (air and missile defence, radars and sensors, drones, and counter-UAS capabilities)

Accelerate innovation for technological superiority and dual-use capabilities

- Harnessing emerging technologies — including quantum for defence — to advance military and civilian applications, securing Europe's technological independence and leadership

... that could unlock distinct industrial opportunities for Nordic companies within and beyond the core defence and security sector ...

Areas of opportunity within and beyond defence and security

Non-exhaustive – select sectors

Manufacturing

- Core and adjacent defence opportunities, including manufacturers of ammunition, missiles, air defence systems and satellites, as well as sub-suppliers to the defence industry (e.g., steel providers) and producers of dual-use products

Maintenance and services

- Opportunities for defence and civil MRO capabilities to tap into the heightened need for MRO services in the defence industry as fleets expand, e.g., industrial service firms and tech support providers

Technology, media and telecom

- Opportunities within cybersecurity, secure IT systems and communications networks for defence and critical infrastructure as governments are highly funding these areas

Energy and utilities

- Opportunities for energy and other utilities as Europe is investing in energy security as part of defence readiness including building redundant connections, securing fuel supplies and deploying backup power systems

Construction

- Opportunities for construction and engineering firms as vast spending is expected into physical infrastructure (e.g., expanding bases, ports and transport links)

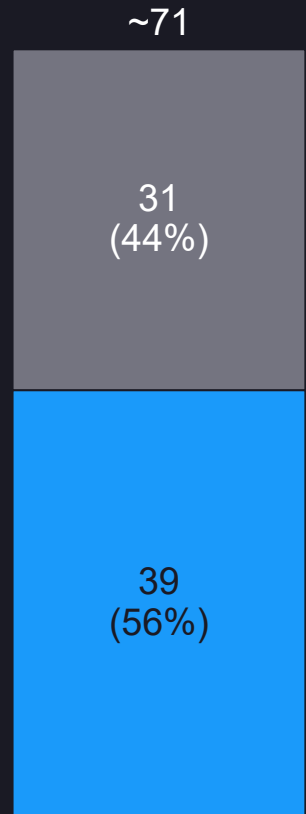
Logistics

- Opportunities for Nordic logistics firms to contract with defence agencies for transport and warehousing solutions, enabling increasing stockpiling and mobilization requirements

... which is projected to generate ~€71b in revenues across the Nordics, whereof close to half is generated outside of core defence companies

Nordic annual revenue by sector

Annual Nordics revenue by sector until 2035¹ (€b)



~€71b
generated in revenues
across Nordic sectors

~45%
of revenue generated
by companies outside
of core defence

■ Core defence ■ Adjacent and nondefence

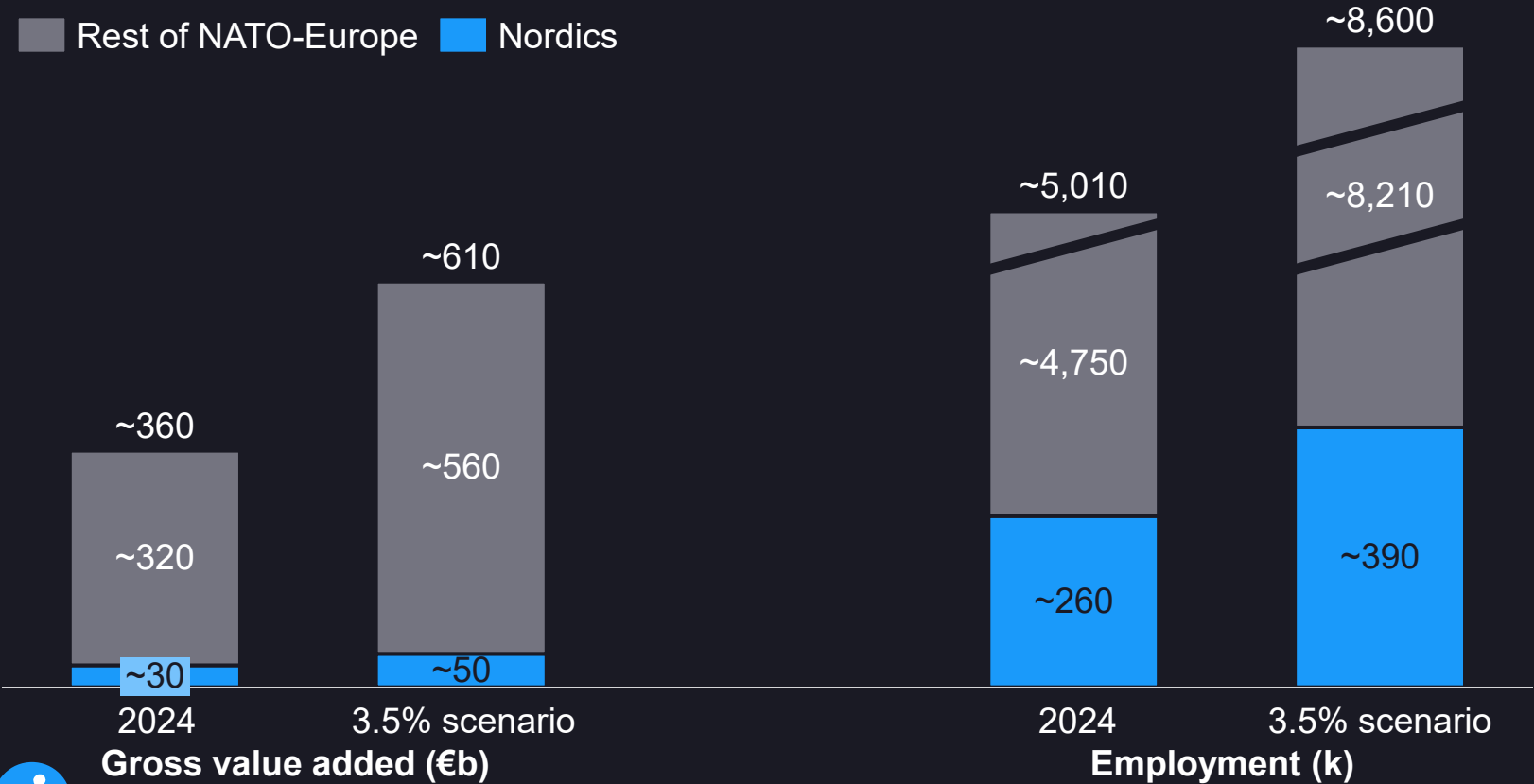
1. Excluding personnel revenues of ~€13b (primarily wages)

2. Includes sectors: aerospace and defence, public administration, metal products (incl. weapons and ammunition)

Source: EY-Parthenon analysis; EY-Parthenon calculation

Delivering on the ambition of a modernized defence and industrial renaissance will generate additional ~130,000 jobs and ~€20b in added value across the ecosystem

Nordic societal and economic effects



~130,000
Additional jobs secured in the Nordics tied to defence expenditures

~€20b
Additional gross value added generated in the Nordics from direct, indirect and induced effects

i Gross value added (GVA) represents the value of goods and services produced minus the cost of inputs and raw materials. It measures the economic contribution of the project — in this case the economic contribution of defence expenditures, from direct (end suppliers), indirect (along the supply chain), and induced effects (from additional consumer spending).

Key enablers for success include accessing more capital, building strategic foresight, accelerating procurement and scaling up industrial capacity

Key enablers for future success

Secure raw materials and scale up industrial capacity.

Strengthen digital and physical infrastructure.

Ensure supply chain strength and flexibility.

Secure financing and sustain political support.

Accelerate procurement and build cross-border integration.

Secure supply of labor and build and retain critical skills.

Methodology

Analyses	Future expenditure	Revenue generated from expenditures	Macroeconomic effects
Overall logic and approach	<ul style="list-style-type: none"> Future expenditures represent 3.5% of NATO-Europe GDP, following new NDPP goals. 	<ul style="list-style-type: none"> Expenditures on personnel, infrastructure, and operations and maintenance are expected to only have domestic effects. Equipment expenditures are based on expert assessment and follow historical tender data and actual price information. Revenues reflect procurement with final OEMs and the impact throughout the supply chain. 	<ul style="list-style-type: none"> Economic impacts are assessed by applying EY proprietary methodology, a global input-output model covering trade from supplying Tier 1 to Tier n industry.
Key assumptions and limitations	<ul style="list-style-type: none"> Annual effects will likely not be observed in 2025 as full expenditure level is expected by 2035. 	<ul style="list-style-type: none"> Expenditure shares (personnel, infrastructure, equipment, and operations and maintenance) based on 2024 split — may differ in future years. Based on historic tender data — rising incentives to source more European and growing production capabilities entail that procurement likely will not follow historical patterns. 	<ul style="list-style-type: none"> Analysis is based on historic data. It assumes production capacity can follow demand. The estimate is likely conservative as the Nordics are gaining more prominent position within defence.
Sources	NATO and NDPP	NATO and NDPP, tender database, GTAP ¹	Tender database, GTAP ¹

1. GTAP = Global Trade Analysis Project with cooperation partners from WTO, World bank, EU Commission, OECD

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