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online



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#ZEWlive

EU BUDGET TALKS – DEFENCE PRIORITIES FOR THE NEXT MFF

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#ZEWLIVE – EU BUDGET TALKS TO ADDRESS KEY QUESTIONS IN DESIGNING THE NEXT MFF

- 2028-34 MFF is facing new priorities:

Defence and competitiveness

COM 2025 preliminary proposal: See webinar from July 10th.

- Defence moves from niche to core:

€0.59bn precursors → €12bn current instruments → €131bn proposed.

- MFF is getting larger:

2014–20: 1% of GNI → 2021–27: 1,13% (+NGEU) → 2028–34: 1,26% or €2tn in nominal prices.

- Debt service tightens fiscal space:

Debt approaching €1tn; 2028-34 interest and repayment around €168bn (8%).

Next webinar: Eurobonds and EU Debt on June 10th.

- Traditional items face compression:

„National and regional partnership plans“ to replace cohesion items and CAP: Overall cut of about 14%.

New debt and/or new own revenues likely still needed: Webinar on carbon border adjustment mechanism.

BOTH EU AND NATIONAL DEFENCE SPENDING IS RISING SHARPLY

- **Commission proposal scales EU-level support sharply:**

Proposed 131 bn will make a non-trivial 6,5% share of the MFF.

Plus, Ukraine support of €123 bn from common debt, and SAFE loans of €150bn.

- **For very good reasons: Defence is a European public good!**

Large cross-border externalities and economies of scale, as compared to CAP and cohesion.

- **But, most defence spending remains national:**

€392 bn or 2,1% of GDP in 2025, up from 1,6% in 2019.

EU budget supports industry, mobility, and dual-use investment; not directly combat related activity.

- **EU spending should complement, rather than replace, national effort:**

What should be funded nationally?

What should be funded jointly?

- **Today's expert: Krastio Preslavsky**

Acting Head of Unit „Defence Industrial Programming Coordination" at the European Commission's Directorate-General for Defence Industry and Space (DG DEFIS).

DEFENCE SPENDING CAN SUPPORT GROWTH, BUT IT IS NO FREE LUNCH

- Short-run output effects can be positive:

A 2%→3,5% buildup may add 0,9–1,5% GDP.

- But, design matters, e.g.:

Sourcing: 80% of current procurement from non-EU suppliers.

Composition: R&D and procurement outperform payroll-heavy spending.

Financing: Debt beats tax financing, especially for temporary buildups.

Timing: Defence is not a counter-cyclical fiscal policy.

- No illusions of free-lunch:

Crowding out: Private demand may be displaced, especially if no slack.

Opportunity costs: Same funds may deliver higher returns elsewhere, especially in the long-run.

- How to design EU defence spending to add value vs Member States?

- Today's expert: Paolo Surico

Professor of Economics at London Business School and Research Fellow at CEPR.