

Banking on Europe Policy Brief

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The challenge of creating a European ‘Rearmament Bank’¹

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Key Points

- The need to find additional funds in the European Union to purchase military equipment has encouraged various proposals to create a new multilateral financial mechanism.
- The UK Treasury has explicitly drawn on the precedent of the European Bank for Reconstruction and Development (EBRD) as a model for the new mechanism.
- The EBRD precedent also offer lessons in coordination problems with existing public development banks and notably the European Investment Bank.
- The creation of a defence funding mechanism also carries the risk of further undermining parliamentary control of European-level borrowing.

Introduction

Worries about the disengagement of the Trump administration from European security over the past few weeks have created significant political momentum in the European Union and the United Kingdom (UK) to find alternative mechanisms to provide further funding for armaments. A number of European national governments — [notably Germany](#) (Nöstinger 2025) — have made strong commitments to increase military expenditure, while others — [notably Poland](#) (Czekaj & Postula 2025) — have called for national promotional bank institutions to lend more to the defence industrial sector and fund military infrastructure. At the same time, several European countries are struggling under high debt loads and look to supranational mechanisms to shift the burden. One of the most likely options at this stage is the creation of a [new multilateral financial mechanism](#) charged with funding the defence buildup (Wolff et al. 2025) — an option likely

to be soon endorsed in principle by EU member states. Various concrete proposals are circulating as to what such a mechanism might look like, including a [European Rearmament Bank \(from the UK Treasury\)](#) (Tamma et al. 2025), a [Defence, Security and Resilience Bank](#), (Harding 2025), or a [European ‘Weapons Stockpile’ Fund \(also from the UK Treasury\)](#) (Tamma 2025). It is generally expected that the future defence financing mechanism would be able to mobilise around €200bn over a prolonged period and could thereby contribute significantly to meeting Europe’s estimated defence investment needs of [€500bn over the coming decade](#) (Von der Leyen 2024).

This policy brief places these proposals within the wider context of pan-European financial mechanisms. We argue that the idea, for all its potential, warrants some caution and careful institutional design.

¹ A version of this policy brief will also be published as a PROSPER Jean Monnet Network Policy Brief at <https://prospernetwork.eu/policy-briefs/>

Drawing on the EBRD precedent

The proponents of creating a new European financial institution draw explicitly on the precedent of the creation of the European Bank for Reconstruction and Development (EBRD) following the fall of the Iron Curtain. But while the EBRD offers an attractive template with clear financial and political advantages, European policymakers should not ignore the wider governance issues that may arise from adding another institution to the European public financial landscape.

A quick glance at the EBRD's history suffices to illustrate its appeal as a blueprint for a defence-themed institution. The EBRD was created in 1990 with the mandate to finance the transition of central and eastern European countries to market economies and to support democratic development (Hodson et al. 2026, *forthcoming*). Within less than a year, the EBRD disbursed its first loans — a development of astonishing speed by the standards of multilateral institutions, and precisely to what proponents of a European defence financing mechanism aspire.

As with the EBRD, the mechanisms currently under discussion would remain under the control of national governments and outside the EU's institutional framework. In the EBRD's case, this approach ensured a larger participation — its initial shareholders were forty countries, including the United States and the Soviet Union, as well as the EU (represented by the European Commission) and the European Investment Bank (EIB). A similar intergovernmental structure for a defence institution would allow neutral and Russia-friendly EU member states to opt out, while enabling non-EU NATO members, not least the UK and Norway, to participate. Furthermore, the UK Treasury's proposals could also allow for the European Commission and the EIB to become shareholders, as has been the case for the EBRD. Yet this prospect appears more remote, since EU external agreements in the realm of defence are subject

to unanimity voting requirements and could easily be blocked.

The idea that a new defence financing mechanism would be set up as a temporary body — which can be found in several proposals — likewise draws on a precedent in the EBRD's statutes. The EBRD was subject to a sunset clause — it was to be wound up once the transition in central and eastern Europe had been accomplished. However, 35 years after its creation, and with its initial goals largely met, the Bank is still operating and expanding — in the number of its national shareholders, capital subscription, lending activities and lending countries. The inclusion of a sunset clause in current proposals is likely intended to make the creation of a new defence financing mechanism more politically palatable. However, it is hard to believe that a new defence financing mechanism would not become a permanent body if it operates successfully. The EBRD has shown that international public financial institutions can outlive their original purposes and thrive.

We can also consider the precedent of the complementarity of lending activities. In the 1990s, the EBRD focused upon lending in central and eastern Europe to higher-risk small and medium-sized enterprises (SMEs), while the EIB focused its lending activities upon large infrastructural projects. Lending activities in the military sector hold similar potential for synergies between institutions with different business models.

In early March, EU heads of government and state [agreed](#) to call upon the EIB's Board of Governors 'to urgently continue to adapt the EIB's practices for lending to the defence industry, notably by re-evaluating the list of excluded activities and by increasing the volume of available funding in the field of security and defence' (European Council 2025). Following suit, on 21 March, the EIB [announced](#) that it was shifting its lending activities to cover a range of military

infrastructures, equipment, services and technologies — *excluding* weapons and armaments (EIB 2025). The implication is that, to avoid unproductive overlaps, a new defence financing mechanism would ideally lend to borrowers and activities which the EIB was compelled by its mandate to spurn. A clear

lending focus on SMEs and lethal equipment, notably ammunition, seems advisable to maintain an institutional balance between different European lenders in the realm of defence.

The danger of fragmentation and coordination problems

Yet even in that case, the EBRD's experience offers cautionary lessons that proponents of new defence financing mechanisms in Europe should consider. Despite its rapid creation, and its novel business model, the EBRD struggled to overtake legacy institutions. Throughout the 1990s, the EIB lent far more to central and eastern Europe than did the EBRD. In the realm of defence, where procurement is particularly sensitive, it may prove particularly tricky to scale up lending. It is in this respect striking that a number of the proposals foresee new, joint procurement mechanisms alongside the new defence financing mechanism created — an idea [recently endorsed](#) by the new German government (Pineau 2025). Nevertheless, allocating tens of billions of defence contracts per year through a novel procurement scheme seems like a tall order. No matter the political will behind a new defence financing mechanism, building a project pipeline and finalising projects takes time.

Other concerns remain. The creation of a new multilateral public bank, especially one outside the EU institutional framework, would likely increase fragmentation and coordination problems among European public lenders. A purely intergovernmental body would lack an institutional counterpart to coordinate its operations with a broader political agenda. [Such coordination problems have long been apparent in EIB and EBRD lending](#), (Clifton & Howarth 2025; Clifton et al. 2025), and yet the proposal to create a new European development bank by the Wieser group in 2019 still [failed to gain political approval](#) (Hodson & Howarth 2024). Currently the lending activities of Europe's public financial

institutions are coordinated under the aegis of the EU, through initiatives such as InvestEU, Team Europe and the EU's Global Gateway. However, neither the Commission's political guidance, nor the EU budget guarantees available under these frameworks would be available to a standalone institution focused specifically on lending for armament production. Achieving coordination with the EU's Defence Industrial Strategy might therefore prove challenging.

Moreover, on 19 March, the European Commission also proposed the [Security Action for Europe \(SAFE\) proposal](#), which would allow it to raise upwards of €150bn for expenditure on armaments (European Commission 2025). We have strong doubts that all the EU member state governments will accept this extension of Commission borrowing and lending activities. Nonetheless, if the member states do approve this plan alongside a new defence financing mechanism, this might lead to further competition between European lenders. Both SAFE and the Rearmament Bank proposed by the UK Treasury aim to provide loans to national governments to finance defence expenditures, yet neither their lending rates, nor the objectives that they fund are subject to any coordination. As a result, these mechanisms might end up competing on lending terms, rather than exploiting synergies and economies of scale. The Commission's proposal also foresees joint procurement for projects funded through SAFE — creating yet another risk of unhelpful competition.

How to ensure parliamentary oversight?

The creation of another public European lender also carries the risk of further undermining parliamentary control, which is especially critical in a domain as sensitive as defence. In a recent article (Hodson et al. 2025; see also 2026, *forthcoming*), we identified significant accountability gaps for existing pan-European public borrowers, including both the EBRD and the EIB, which would likely be replicated with the creation of a new defence financing mechanism. The parliaments of shareholder states normally engage in little if any monitoring of their national directors, and it can be questioned whether NATO's Parliamentary Assembly could provide sufficient monitoring of a defence-themed lender. Likewise, bespoke audit arrangements would be needed to ensure financial oversight. For all the current urgency to expedite a European defence buildup, such important political questions should not be brushed aside.

New initiatives to invest in the defence capacities of European countries are sorely needed. Thus, we welcome the recent proposals to create a new European defence financing mechanism. For advocates of a new European mechanism, the institutional template of the EBRD carries undeniable short-run advantages in terms of political feasibility. However, in the longer run, the creation of a Rearmament Bank, a Weapons Stockpile Fund, or whatever name is assigned to the new defence financing mechanism, risks further undermining coherence and accountability in the European public financial landscape. This is not a reason to abandon the project. However, European leaders should ensure that they follow the norms of good governance and democratic accountability in their funding arrangements that they seek to defend within and beyond the EU.

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Further Information

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