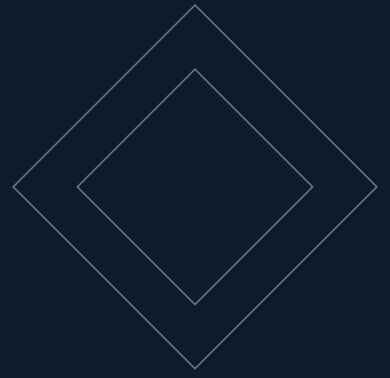




REBECCANOMICS · RESEARCH PAPER

Financing defence for growth and resilience: multipliers, multilateral banks, and the structure of collective security finance

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A STUDY BY

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Financing defence for growth and resilience: multipliers, multilateral banks, and the structure of collective security finance

Dr Rebecca Harding — June 2026

Defence spending alone has modest and short-lived effects on growth. Dr. Rebecca Harding on why the STRUCTURE of defence finance — pooled sovereign equity, MDB leverage, guarantees to SME supply chains — is what turns spending into sustained resilience.

Dr. Rebecca Harding — CEO, Centre for Economic Security

A briefing note on multipliers, multilateral banks, and the structure of collective security finance.

Executive Summary

Defence budgets are rising sharply across NATO and partner nations, with a collective commitment to spend around 5% of GDP on military operations, procurement, and security and resilience infrastructure. This note examines whether increased spending alone delivers economic growth, or whether the structure of that spending is more important. The evidence from the literature is clear: spending alone has modest and short-lived effects. Academic studies of defence multipliers find that an additional 1% of GDP in defence outlays typically raises output by only 0.4–0.8% in the short run, fading to near zero after five years. When funds are directed to wages or imported equipment, effects are even weaker. By contrast, when spending is structured through multilateral financial institutions, outcomes are stronger and more persistent. Multilateral development banks (MDBs) pool sovereign equity, leverage it many times over, and crowd in private finance. Their impact assessments show that investments in infrastructure and industry can lift GDP by 1–2% over a decade. Applied to defence, this structure means that relatively small sovereign contributions (≈ 0.3 –0.5% of GDP) can support effective financing envelopes of 8–10% of GDP by year five. The comparison of models illustrates the point:

SAFE national funds deliver fast finance but add to debt, producing the weakest and least durable multipliers.

Eurobonds (Bruegel model) reduce borrowing costs but do not reform procurement, so effects remain modest.

The European Rearmament Bank (ERB) enforces pooled procurement, raising short-run multipliers, but its impact fades as liquidity remains concentrated on prime-level corporates.

The Defence, Security and Resilience Bank (DSRB) combines sovereign pooling with supply-chain guarantees, mobilising private capital and supporting SMEs. It sustains growth effects into the medium and long term, lifting GDP by 1.5–2% in the central case and up to 3–4% under ambitious scenarios after a decade.

Conclusion: Defence spending is not a growth engine in itself. But when channelled through a multilateral bank that pools capital, conditions procurement, and supports supply chains, it becomes a modest but real contributor to long-term growth and resilience. The DSRB model in particular offers the broadest and most persistent economic benefits.

1. Introduction

Across NATO and its partners, defence spending is rising faster than at any time since the Cold War. Commitments to raise expenditure toward 5% of GDP — 3.5% on military operations and procurement, 1.5% on security and resilience infrastructure — are giving rise to a burgeoning literature on the growth effects of all this additional defence spending, with a focus not just on how much is spent but also on how it is spent.

The purpose of this note is to review selected contributions to that literature and test the central proposition that defence spending in itself has a limited effect on GDP and GVA. Traditional economic estimates suggest multipliers of 0.4–0.8 for advanced economies, meaning that each dollar of spending adds less than a dollar to GDP in the short run. In some cases, especially when funds go to wages or imported equipment, the impact may be close to zero. Rather, the note argues that the way defence spending is structured makes all the difference. When a proportion of increased spending is channelled through multilateral financial institutions (MFIs) with pooled sovereign credit and supply-chain guarantees, the effects are larger, more persistent, and more likely to deliver long-run productivity gains.

2. Methodology and literature summary

The approach rests on three strands of evidence. The first is the literature on defence spending multipliers. Classic U.S. studies (Barro and Redlick, 2011; Ramey and Zubairy, 2018; Hall, 2009) typically place short-run multipliers in the 0.4–0.8 range, with higher values in conditions of slack or when spending is tilted to capital investment rather than personnel. Becker and Dunne (2023) find that personnel and operating expenditures tend to depress growth, while procurement and R&D are more supportive; Olejnik (2023) estimates multipliers of 0.6 on impact, peaking at 1.5–1.6 in Central and Eastern Europe before fading; and SUERF (2025) highlights the importance of openness, showing multipliers from 0.6 to 2.4 depending on trade leakages. Methodological cautions are offered by Moura (2015) and Geli and Moura (2023). For the Baltic states, Dudzevičiūtė (2023) finds a strong dependence of defence funding on GDP per capita and debt levels.

The second strand is the evidence on multilateral development banks (MDBs) and development finance institutions (DFIs). These institutions pool sovereign capital, leverage it into much larger volumes, and mobilise private investment alongside. Massa (2011) shows that a 10% increase in multilateral DFI commitments is associated with a 0.9–1.3% increase in GDP, with especially strong results in infrastructure and industry. Haini (2020) finds that financial development and institutional quality are complementary. Sithole and Hlongwane (2023), Hofman and Srinivas (2024), Köstem and Metinta (2024) and Evans and Davies (2015) provide further insight. The 2023 Joint MDB Report confirms that MDBs collectively mobilise tens of billions annually in private finance, while the 2024 EBRD Impact Report documents spillovers into competitiveness, green transition, and resilience.

The third strand is the comparative analysis of financing models currently proposed for collective defence. The SAFE-style national funds are described in the Centre for Economic Security's Towards a Defence Spending Model (CES, 2025). The Bruegel/Eurobond proposals are summarised in Collective Defence Finance (2025). The European Rearmament Bank is set out in FAQ v17: Concept Paper (de Selliers, Carter, Lucas, 2025), while the DSRB is presented in the DSRB two-pager by Harding, Murray, Peach and Boyd (2025) and Murray's 2024 Atlantic Council document. Unlike SAFE and Eurobond approaches, which are essentially debt instruments, the ERB and DSRB treat contributions as equity assets, enabling them to be leveraged many times over while avoiding negative debt optics. The DSRB in particular extends guarantees into the deep tiers of the supply chain, a feature absent from the ERB design. By combining these three strands we present effects on GDP and GVA under three scenario types: conservative, central, and ambitious.

3. Comparative Analysis of Financing Models

The central proposition is that the way defence finance is organised matters at least as much as the volume of money committed. Four main models are on the table: national facilities such as SAFE, the Eurobond proposals, the European Rearmament Bank (ERB), and the Defence, Security and Resilience Bank (DSRB).

First, SAFE-style funds are essentially national arrangements. Although politically expedient and fast to establish, they sit squarely as sovereign debt and fragment the financing effort across nations. As a result, SAFE facilities tend to produce the lowest multipliers — short-run effects may be in the 0.3–0.7 range, but they fade quickly. Second, the Eurobond concept reduces borrowing costs and relieves immediate fiscal pressures, but by itself is a financing instrument, not a reforming one. In GDP terms, Eurobonds might produce 0.8–1.2 multipliers in the short run, but these advantages fade as projects are delivered under the old, nationally fragmented procurement model. Third, the ERB ties its lending to purchase orders and insists on procurement reform, but by focusing on prime contractors and first-tier suppliers, it is not configured to relieve the liquidity constraints facing smaller firms deeper in the chain. ERB-financed programmes can lift multipliers to around 1.0–1.5 in the short run, but persistence is weaker. The DSRB is the broadest and deepest model because it is configured as a Multilateral Development Bank: like the ERB it pools sovereign capital into an AAA-rated vehicle and lends against government procurement, but unlike the ERB it also provides guarantees to commercial banks so that liquidity flows into the second, third and fourth tiers of supply. As a result, GDP and GVA effects are not only higher in the short run (1.2–1.5) but more persistent — central estimates suggest an additional 2% GDP after a decade, rising to 3–4% under ambitious assumptions if procurement is geared toward dual-use R&D.

Table 1. Financing structures of SAFE, Bruegel, ERB, and DSRB

Model	Financing mix	National accounts treatment	Structural features	Challenges
SAFE	Sovereign borrowing (tax + debt)	Adds to national debt	Fast access to funds	Fragmented, limited crowd-in, fiscal penalties
Bruegel/Euro bond	Collective debt issuance	Shared liability; reduces spreads	Stabilises markets; macro instrument	Weak procurement conditionality; leakages remain
ERB	Paid-in capital leveraged with AAA bonds	Equity contributions; loans tied to orders	Enforces pooled procurement; lowers costs	Liquidity concentrated at Tier-1; SMEs underserved
DSRB	Equity + AAA leverage + supply-chain guarantees	Equity treated as asset; guarantees channel private capital	Addresses demand and supply; deep-tier liquidity	More complex to set up; requires broad political buy-in

4. Results

The evidence points to two conclusions: first, that the growth effects of defence spending alone are modest and short-lived; second, that when spending is structured through multilateral financing models the effects are larger, more persistent, and more fiscally sustainable. We present results through two lenses: standardised estimates based on a +1% of GDP spending shock (comparable with the academic literature), and scaled model estimates which apply those multipliers to the actual capitalisation and leverage paths proposed for the SAFE, Bruegel, ERB and DSRB models.

4.1 Defence multipliers on their own

The literature on defence multipliers shows wide variation but shares a common theme. Short-run GDP effects in advanced economies tend to fall between 0.4 and 0.8. In Europe, where much procurement is imported, the impact is often closer to the lower bound. Olejnik’s study of Central and Eastern Europe finds that multipliers rise briefly to 1.5 in years two to three before fading back toward zero. SUERF’s survey suggests that under the best conditions — fixed exchange rates, slack in the economy, domestic procurement — multipliers can approach 2, but these conditions are rare.

4.1.1 Standardised 1% of GDP Spending Shock

Table 2. GDP/GVA effects per +1% of GDP defence spending

Horizon	Conservative	Central	Ambitious
Short run (1–2 years)	+0.3–0.7% GDP	+1.0–1.4% GDP	+1.4–1.8% GDP
Medium run (3–5 years)	+0.4–0.9%	+1.5%	+2.0–2.8%
Long run (10 years)	≈0	+1–2%	+3–4%

Without structural reform, the conservative case produces only modest gains in the short term that fade within five years, because the economic system does not adjust — capacity is not built and the effect is to continue to pull in imports. The message is clear: “money in” does not automatically mean “growth out” over the long term. The way spending is financed and directed makes the difference between a temporary fiscal sugar-rush and a lasting investment in resilience.

4.1.2 Scaled Model Comparison (SAFE, Bruegel, ERB, DSRB)

Table 3. Financing structures — sovereign contribution and effective financing capacity

Model	Sovereign contribution	Leverage / mobilisation	Effective financing capacity (% GDP by year 5)	Treatment in accounts
SAFE	≈1% GDP annually	None	3–5% GDP	Current spending, adds to debt
Bruegel/Eurobond	N/A (joint debt issuance)	None	1–2% GDP per year	Shared debt liability
ERB	0.25–0.5% GDP over 3 yrs	20–25× leverage	5–7% GDP	Paid-in equity (asset); loans tied to orders
DSRB	0.3–0.5% GDP over 3 yrs	20–25× leverage + guarantees + crowd-in	8–10% GDP	Equity (asset) + private mobilisation

SAFE funds provide rapid finance but carry the weakest growth effects, because they sit as debt and do not change procurement.

Bruegel Eurobonds reduce borrowing costs but lack procurement reform or supply-chain guarantees, limiting their impact.

The ERB is stronger, enforcing pooled procurement and reducing duplication, but leaves SME liquidity issues unresolved.

The DSRB integrates both sovereign finance and supply-chain guarantees, giving the supply side a chance to adapt and sustaining growth impacts over the decade.

4.2 What This Means

The 1% GDP lens illustrates the inherent weakness of defence multiplier effects alone — they are often less than one. The scaled model lens shows how the ERB and especially the DSRB change the game, by converting relatively small sovereign contributions (0.3–0.5% of GDP) into large financing envelopes that raise GDP and GVA not just temporarily but persistently. Without a multilateral structure, increases in defence spending risk being fiscally costly and economically sub-optimal; a multilateral solution allows the supply side to adjust, reducing dependency on imports and enabling multipliers through the spillover effects of R&D and supply chain efficiencies.

5. Conclusion

This note has tested the idea that the structure of defence spending matters more for GDP and GVA than the volume of spending itself, and the evidence strongly supports that claim. Through a standardised 1% of GDP shock, the results are modest: multipliers of 0.4–0.8 in the short run, fading toward zero in the medium term. By contrast, sovereign contributions of just 0.3–0.5% of GDP to a multilateral bank can be leveraged into financing envelopes worth 5–10% of GDP. When those funds are channelled through conditional procurement and extended to the full depth of the supply chain, the effective multipliers are larger and more persistent. The DSRB in particular sustains GDP/GVA impacts of 1.5–2% in the central case and up to 3–4% under ambitious assumptions over a decade. The conclusion is not that defence spending is a growth strategy in itself, but that well-structured defence finance can turn a security necessity into a significant contributor to long-run economic performance.

Limitations

This is a briefing note to begin the process of understanding GDP multipliers of multilateral defence financing. Its limitations include that the ERB and DSRB results are based on assumptions about government financing allocations provided by the organisations themselves rather than external research.

Multiplier estimates are always imprecise and sensitive to assumptions about monetary policy, openness, and financing method.

Historical studies are based largely on U.S. or European data; applying them to today's defence build-up may require different modelling approaches.

Modelling the ERB and DSRB relies on projected capitalisation and leverage ratios that may shift with market conditions or political choices.

Growth effects depend on how procurement is actually implemented: without genuine reform and supply-chain inclusion, even the best-designed financial institution may underperform.

Further research should focus on micro-level supply chain analysis (better data on Tier 2–4 defence suppliers), comparative institutional modelling (counterfactual assessment of SAFE, Bruegel, ERB and DSRB using dynamic CGE or DSGE models), and long-run productivity impacts. Existing studies suggest that sustained increases in defence R&D can raise long-run productivity by around 0.25 percentage points per year, with potential cumulative GDP uplifts of 1–2% after a decade if procurement is geared toward high-technology and dual-use capabilities. These estimates should not be read as forecasts, but as indicative orders of magnitude.

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Appendix 1. Country and Regional Breakdown

The growth and GVA effects of defence spending depend heavily on national fiscal space, industrial structure, and supply-chain resilience. The table below compares two scenarios for each major NATO and partner economy: a central-case 1% GDP spending shock, and a central-case DSRB-structured investment ($\approx 0.3\text{--}0.5\%$ GDP capitalised and leveraged to $\approx 8\text{--}10\%$ GDP finance by year 5).

Table A1.1. Country impacts of central 1% spending shock vs. DSRB investment

Country / Region	Central 1% GDP shock (short/med/long)	DSRB investment effect (short/med/long)	Notes
Germany	+1.2% / +1.5% / +2.0%	+1.5% / +2.0% / +3–4%	Strong industrial base; fiscal rules suspended.
France	+1.0% / +1.5% / +2.0%	+1.5% / +2.0% / +3%	Primes strong; DSRB helps SMEs and innovation.
Italy	+0.8% / +1.0% / +1.5%	+1.2% / +1.5% / +2–3%	High debt; equity treatment of DSRB crucial.
UK	+1.0% / +1.5% / +2.0%	+1.5% / +2.0% / +3%	London finance hub; DSRB boosts SME liquidity.
US	+1.0% / +1.5% / +2.0%	+1.2% / +1.5% / +2%	Already scaled; MDB benefits allies more than itself.
Japan	+0.8% / +1.2% / +1.5%	+1.2% / +1.5% / +2–3%	High debt ratio; MDB avoids worsening optics.
Australia	+0.9% / +1.3% / +1.5%	+1.2% / +1.5% / +2–3%	Thin industrial base; DSRB crowds in domestic suppliers.
Canada	+0.9% / +1.3% / +1.5%	+1.2% / +1.5% / +2–3%	Supply-chain dependence on US; MDB spreads risk.
Nordics	+0.8% / +1.0% / +1.5%	+1.2% / +1.5% / +2–3%	Small open economies; MDB prevents import leakage.
EU (collective)	+1.0% / +1.5% / +2.0%	+1.5% / +2.0% / +3%	€800bn planned; MDB ensures coherence, avoids duplication.
NATO (overall)	+1.0% / +1.5% / +2.0%	+1.5% / +2.0% / +3–4%	Collective 5% GDP pledge; pooled finance raises persistence.

Interpretation

In the 1% spending shock scenario, effects are positive but modest, and fade unless procurement is innovation-heavy.

Under the DSRB scenario, the same sovereign contributions unlock larger financing envelopes, extend liquidity into SMEs, and sustain effects into the long run.

Countries with high debt burdens (e.g. Italy, Japan) gain most from the equity-asset treatment of contributions. Small open economies (Nordics) gain by reducing import leakage. Collectively, NATO achieves not only higher short-run GDP gains but also longer-term productivity spillovers when structured through the DSRB.

Appendix 2. Growth methodology in detail

The modelling approach combined empirical multiplier estimates from the literature with the financing structures of the proposed defence banks. Baseline multipliers were extracted from Barro & Redlick (2011), Ramey & Zubairy (2018), Becker & Dunne (2023), Olejnik (2023), SUERF (2025) and others: for a +1% of GDP defence spending shock, the short-run effect is taken as approx. 0.4–0.8% GDP, central case approx. 1.0–1.4% when procurement is domestic and capital-intensive; medium-run effects (3–5 years) rise to 1.3–1.9; long-run (10 years) effects include productivity spillovers estimated at approx. 0.25 percentage points per year. SAFE and Eurobond models were treated as spending or debt, so multipliers were applied directly to nominal spending increases. ERB and DSRB were treated as investments: sovereign contributions of 0.25–0.5% of GDP were scaled by leverage ratios (20–25×), giving effective lending envelopes of 5–10% of GDP, with persistence adjusted upwards to reflect MDB evidence of crowd-in. For each horizon, three cases were produced — conservative, central and ambitious — expressed as GDP level effects relative to baseline. The same multipliers were applied to each economy but adjusted qualitatively for fiscal position, openness and industrial depth.