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Executive Summary N° 02/26

The Impact of the Global Expansion of Defence Spending on Austrian Foreign Trade

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Abstract:
The study examines the effects of the global expansion of defence spending on Austrian foreign trade. Against the backdrop of rising EU and NATO budgets and geopolitical tensions, it focuses in particular on the opportunities and risks this presents for a small, open economy such as Austria.
The focus is on: 1. the importance of defence goods for imports and exports, 2. quantifying the direct, indirect, and induced effects of current and expanded defence spending by selected countries on Austria's foreign trade through 2035, 3. identifying market share potential along international value chains, and 4. developing economic policy options.

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Economy, Energy
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EXECUTIVE SUMMARY

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Key Message

Europe is rearming structurally, with a horizon of at least a decade. Austria is already benefiting today – above all as a **highly specialised supplier** in European value chains: around **84% of defence-related value added** in Austria is triggered by investment in other countries. The additional market potential is considerable, but can only be realised if **export regimes, security of supply and integration into EU programmes** are designed to be legally certain and reliable.

€ 2.2 bn
value added in Austria through global defence investment

84%
of this value added is attributable to investment by other countries

€ 47.5 bn
exports of potential defence goods in 2025 (+109% compared with 2015)

€ 6 to 8 bn
revenue potential of the sector by 2032 in the expansion scenario

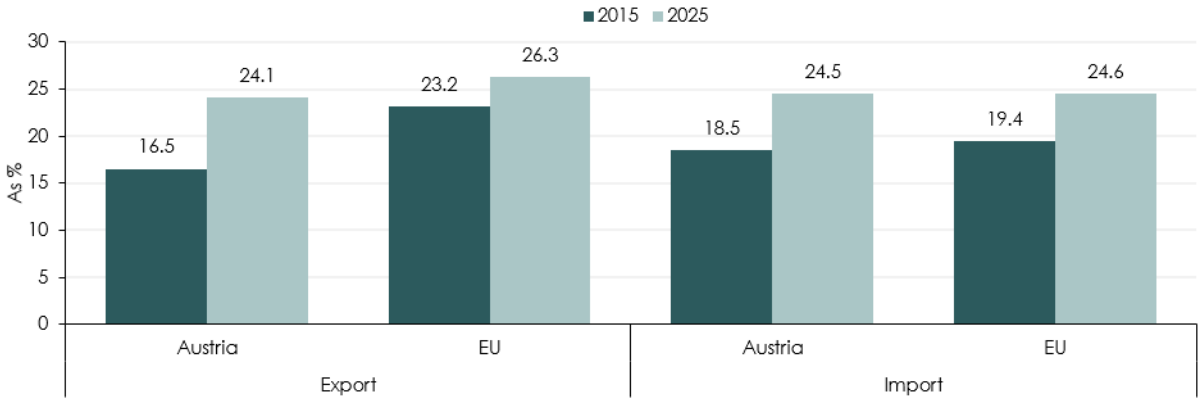
1 Context: a structural surge in demand in Europe

- **Global military expenditure** reached a record $ 2,887 bn (+7.1%) in 2025. **Europe** increased its spending by 24.5% to $ 864 bn – the highest growth rate since 1953.
- **EU defence investment** (procurement and R&D) more than quadrupled from € 24.4 bn (2014) to € 105.7 bn (2024); in 2024 alone, the increase was 47%. For 2025, the EDA estimates around € 130 bn.
- The framework up to 2035 has been set: the **NATO target of 5% of GDP** (of which 3.5% for core defence), **ReArm Europe/Readiness 2030** with up to € 800 bn in financing headroom, including the loan instrument **SAFE** worth € 150 bn, as well as the **Omnibus V** package adopted in October 2026 to reduce regulatory hurdles.

2 Austria's foreign trade: defence goods are gaining in importance

- The share of **potential defence goods** in Austria's merchandise exports rose from 16.5% (2015) to 24.1% (2025). The increase of 7.6 percentage points is **more than twice as high as the EU average**.
- In nominal terms, exports of these goods more than doubled to € 47.5 bn (+109%), while imports rose to € 49.9 bn (+92%). Total merchandise trade grew less strongly over the same period (exports +43.0%, imports +44.8%).
- **Growing import dependence:** Imports of potential defence goods from third countries – above all the USA – grew by 12.2% per year between 2019 and 2025, compared with only 1.9% for total extra-EU imports. For large military systems, Austria is structurally dependent on imports.

Share of potential defence goods in merchandise trade



Note: Classification of military goods according to the concordance table for Annex I of the EU Dual-Use Regulation and the Export List (as of 9 June 2023; https://www.bafa.de/DE/Aussenwirtschaft/Ausfuhrkontrolle/Gueterlisten/gueterlisten_node.html).
Source: Eurostat, WIFO calculations.

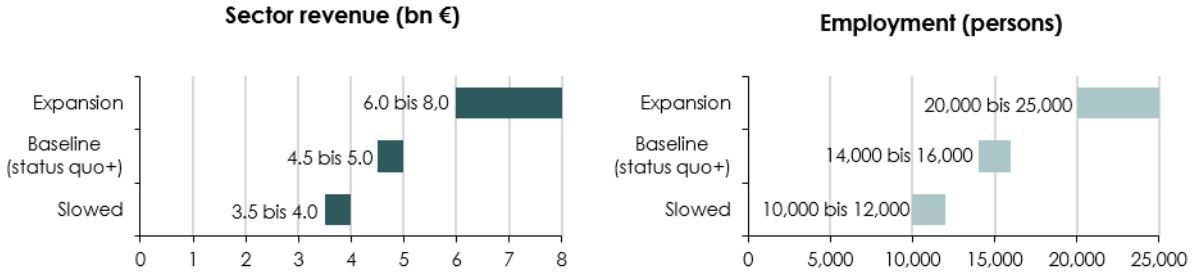
3 Value added: Austria gains as a supplier

- According to the ADAGIO input-output model, defence investment by 34 countries (2024) generates **€ 2.2 bn in value added** in Austria – twice the country's own investment of around € 1.1 bn. Only **€350 m** of this value added is attributable to domestic investment.
- More than **€ 1 bn** is generated in manufacturing through foreign demand – especially in the **manufacture of fabricated metal products, basic metals and machinery**.
- Austria's strength therefore lies in **intermediate products and components**, which are often relatively far removed from the military end product – and less in end systems.

4 Market potential up to 2032

- The domestic sector comprises around **200 companies with 12,000 employees and € 5.1 bn in revenue** – small, but strong in investment and research. In addition, there are numerous suppliers that are not formally classified as defence companies.
- In the early 2030s, European spending is likely to reach **€ 550 bn to € 650 bn per year**, of which at least € 110 bn to € 130 bn will go to procurement and R&D. Although the **domestic market** (Austrian Armed Forces build-up plan ÖBH 2032+) is growing to more than € 5 bn, there is a shortfall of € 12.6 bn up to 2031 to fulfil the plan. **The relevant potential lies in exports.**
- In the **expansion scenario**, an additional value-added contribution of **0.5% – 0.9% of GDP** would arise by 2032, raising employment to up to **25,000 jobs** – not a game changer, but a relevant stabilising channel for an industry in structural crisis.

Potential scenarios up to 2032



Note: These are indicative figures and should not be read as point forecasts.
Source: WIFO estimates.

The five most important areas of opportunity

Land Mobility & Propulsion	**Greatest short-term potential.** European rearmament meets existing capacities (GDELS-Steyr, RMMV Vienna, Achleitner) and a broad supplier base.
Drones, Counter-Drone & Autonomous Systems	**Fastest-growing spending block.** Favours agile mid-sized companies and lowers entry barriers for electronics and sensor SMEs.
C4ISR, Air Traffic Control & Cyber Defence	Strategically valuable in the context of European air defence (Sky Shield). Cyber defence is **the least sensitive area in terms of neutrality policy**.
Materials & Critical Inputs	Refractory metals, special steels and precision components are **bottleneck goods** – with pricing power.
Dual Use & Conversion	Spare capacity in the automotive supply industry can partly be transferred to defence technology – but this requires certification and a lead time of 12 to 24 months.

5 Constraints and risks

- **Neutrality and security of supply:** The greatest commercial risk. If international procurers doubt that Austrian components will remain deliverable even in an emergency, the market potential will remain untapped.
- **Supply-side bottlenecks:** The limiting factor is not demand but supply – skilled labour, intermediate inputs, certification and financing (especially for SMEs).
- **Fiscal limits of the domestic market:** A lack of reference orders from Austria's own armed forces makes it harder to export complex systems.
- **Cyclical and consolidation risks:** Defence cycles are political; European market consolidation threatens to marginalise small suppliers without links to consortia.

6 Recommendations for economic policy

1	**Defence industrial strategy: Combining neutrality and industrial participation with legal certainty** Reliable and accelerated export licensing (especially for EU/EEA partners), swift implementation of the EU Intra-Community Transfers Directive as amended by Omnibus V, and a **clear position on security of supply**. The Industrial Strategy 2035 is a first step; clarifications under neutrality law for exporters are still pending.
2	**Use the rearmament of the Austrian Armed Forces as a lever for references and localisation** Consistently link domestic procurement with **industrial cooperation** (following the example of Pandur Evolution with more than 70% domestic value added) and systematically involve SMEs – within the framework of Art. 346 TFEU.
3	**Use European integration as the biggest lever** Active participation in **EDF, EDIP and PESCO**; positioning the Styria, Upper Austria and Vienna clusters as certified supplier regions for European system manufacturers; participation in **SAFE-financed procurement** by other countries.
4	**Support the conversion from automotive to defence** **Support for certification** (e.g. NATO quality standards), fast-track security clearances and qualification programmes – this is where industrial location policy and security policy directly intertwine.
5	**Assess soberly – but do not ignore the opportunity** Defence spending is not a first-choice growth programme; civilian investment usually has higher multipliers. For Austria, however, the effect is **export-driven – others finance the demand**. Austria should not ignore one of the few structurally growing industrial markets of the next decade.