EXECUTIVE SUMMARY

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

Michael Böheim, Susanne Bärenthaler-Sieber, Elisabeth Christen, Gerhard Streicher
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Key message

Europe is rearming on a structural basis, with a horizon of at least a decade. Austria is already benefiting – above all as a **highly specialised supplier** in European value chains: around **84% of defence-related value added** in Austria is triggered by demand from other countries. The additional market potential is substantial, but it can only be realised if **the export regime, security of supply and integration into EU programmes** are made legally certain and reliable.

€2.2 bn
value added in Austria from global defence investment

84%
of this value added stems from investment by other countries

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

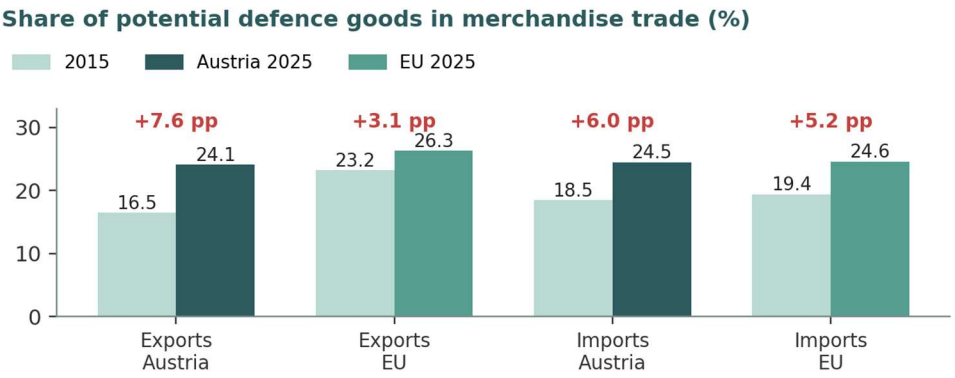
€6–8 bn
industry turnover potential by 2032 in the expansion scenario

1 Context: a structural surge in European demand

- **Global military expenditure** hit a record $2,887 bn in 2025 (+7.1%). **Europe** raised 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), with growth of 47% in 2024 alone. The EDA estimates around €130 bn for 2025.
- The framework up to 2035 is set: the **NATO target of 5% of GDP** (of which 3.5% core defence), **ReArm Europe/Readiness 2030** with up to €800 bn of fiscal headroom, the **SAFE** loan instrument (€150 bn, at least 65% European origin) and the **Omnibus V** package adopted in October 2026 to cut regulatory barriers.

2 Austrian foreign trade: defence goods are gaining weight

- The share of **potential defence goods** in Austria's merchandise exports rose from 16.5% (2015) to 24.1% (2025). This increase of 7.6 percentage points is **more than twice 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 by only around 45% over the same period.
- **Growing import dependence:** imports from third countries – above all the US – grew by 12.2% p.a. in 2019–2025, compared with just 1.9% for total extra-EU imports. For large military systems, Austria structurally relies on imports.

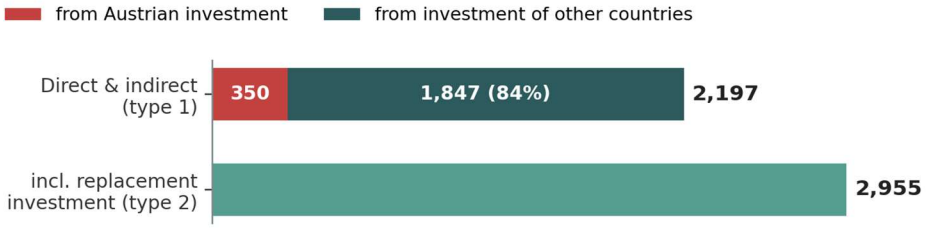


Note: broad definition (German BAFA export list incl. dual-use goods); values should therefore be read as an upper bound. Source: Eurostat, WIFO calculations.

3 Value added: Austria gains as a supplier

- According to the ADAGIO input-output model, the 2024 defence investment of 34 countries generates **€2.2 bn of value added** in Austria – twice Austria's own investment of around €1.1 bn.
- Only **€350 m** of this stems from domestic procurement. More than **€1 bn** arises in manufacturing from foreign demand – mainly in **fabricated metal products, basic metals and machinery**.
- Austria's strength thus lies in **intermediate goods and components**, often relatively far from the military end product – less so in complete systems.

Value added in Austria from defence investment, 2024 (€ million)

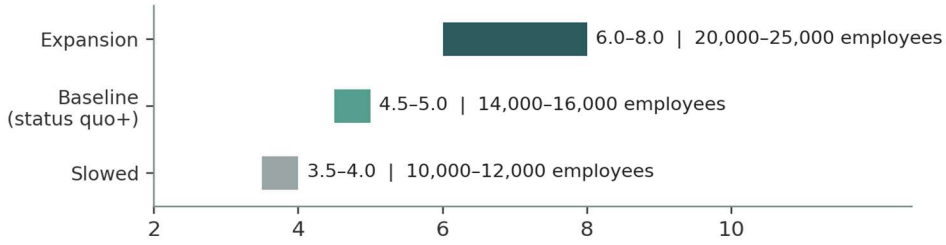


Source: WIFO calculations using ADAGIO (base year 2023).

4 Market potential up to 2032

- The domestic industry comprises around **200 companies with 12,000 employees and €5.1 bn in turnover** – small, but strong in investment and research. In addition, there are hundreds of suppliers not formally counted as defence companies.
- European spending is likely to reach **€550–650 bn per year** in the early 2030s, of which at least €110–130 bn for procurement and R&D. The **home market** (Austrian Armed Forces build-up plan ÖBH 2032+) is growing to over €5 bn, but €12.6 bn is missing until 2031 to fully implement the plan. **The relevant potential lies in exports.**
- In the **expansion scenario**, the additional turnover would correspond to a value-added contribution of **0.5–0.9% of GDP** and up to **25,000 jobs** – not a game changer, but a relevant stabilising channel for an industry in structural crisis.

Scenarios: industry turnover by 2032 (€ bn) and direct employment



Note: indicative orders of magnitude, not point forecasts. Source: WIFO estimates.

The five most important opportunity fields

Land mobility & powertrains	**Largest short-term potential:** Europe's army renewal meets existing capacities (GDELS-Steyr, RMMV Vienna, Achleitner) and a broad supplier base.
Drones & counter-drone	**Fastest-growing spending block;** favours agile SMEs and lowers entry barriers for electronics and sensor firms.
C4ISR, air traffic mgmt, cyber	Strategically valuable for European air defence integration (Sky Shield); cyber defence is the **least sensitive in terms of neutrality**.
Materials & critical inputs	Refractory metals, special steels and precision components are **bottleneck goods** – with pricing power.
Dual use & conversion	Spare capacity in automotive supply is partly transferable to defence – but requires certification and 12–24 months of lead time.

5 Constraints and risks

- **Neutrality and security of supply:** the most serious commercial risk. If procurers doubt whether Austrian components will remain available in a crisis, Austrian suppliers will be left out.
- **Supply-side bottlenecks:** the binding constraint is supply, not demand – skilled labour, inputs, certification and financing (especially for SMEs).
- **Fiscal limits of the home market:** a lack of reference orders from Austria's own armed forces hampers exports of complex systems.

- **Cyclical and consolidation risks:** defence cycles are political; European market consolidation threatens to marginalise small suppliers without links to consortia.

6 Policy recommendations

1	**Defence industrial strategy: reconcile neutrality and industrial participation with legal certainty** Reliable and faster export licensing (especially for EU/EEA partners), swift transposition of the EU transfers directive as amended by Omnibus V, and a **clear position on security of supply**. The Industrial Strategy 2035 is a first step; legal clarifications on neutrality for exporters are still pending.
2	**Use the Armed Forces' re-equipment as a reference and localisation lever** Consistently link domestic procurement with **industrial cooperation** (cf. Pandur Evolution with over 70% domestic value added) and systematically involve SMEs – within the scope of Art. 346 TFEU.
3	**Make European integration the main lever** Active participation in **EDF, EDIP and PESCO**; positioning the Styria, Upper Austria and Vienna clusters as certified supplier regions for European system integrators; participation in **SAFE-financed procurement** by other states.
4	**Support conversion from automotive to defence** **Certification support** (e.g. NATO quality standards), fast-track security clearances and training programmes – where location policy and security policy directly intersect.
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 coming decade.

Source: Böheim, M., Bärenthaler-Sieber, S., Christen, E., Streicher, G. (2026). Die Auswirkungen der globalen Ausweitung der Verteidigungsausgaben auf den österreichischen Außenhandel. WIFO, Vienna. All values nominal.