The Underdog Advantage

Central and Eastern Europe – A Growing Opportunity for Multinational Defence and Security Investments

KPMG in Central and Eastern Europe
April 2026

Contents

Executive Summary

Central and Eastern Europe (CEE) has moved from the periphery of European strategy to its operational centrer of gravity. A widening global "polycrisis", marked by renewed great-power competition, weakening alliance cohesion, supply-chain weaponisation, and the return of territorial revisionism, has made the region's geography decisive.

For decades, Europe relied on the U.S. security umbrella; today, the idea that Europe must increasingly stand on its own is no longer theoretical, it is a geopolitical imperative.

Structural defence investments are accelerating as three dynamics converge: the shift from Western dominance towards a more multipolar order, sustained commitment to Ukraine's defence, and energy-security vulnerabilities exposed by the war.

Russia's war against Ukraine is the pivotal driver: it is not only a campaign to destroy a sovereign state and redraw borders by force, but an effort to impose a new European security order.

At the same time, the transatlantic relationship is being stress-tested by shifting U.S. priorities and a growing expectation that Europe will assume greater responsibility for conventional deterrence.

The crisis in the Middle East, and the Iranian case in particular, further underline these pressures by exposing differences in strategic priorities across the Atlantic. These overlapping crises highlight that Europe must strengthen not only its economic security and resilience in critical sectors, but also - and especially now - its defence capabilities.

Doing so is essential not only to reduce Europe's dependence on U.S. military capabilities and crisis management, but also to reinforce the European pillar within NATO.

This combination of threats and uncertainty has accelerated a multi-year European rearmament cycle, with profound implications for defence industrial production, investment, and coordination.

Against this backdrop, CEE functions as NATO's new containment corridor from the Baltic to the Black Sea and as the logistical and industrial hinterland of Ukraine's resistance.

Countries such as Poland and Romania are translating threat perception into sustained capability-building through higher defence spending, infrastructure modernization, and industrial partnerships, while the Czech Republic, Slovakia, and Hungary contribute with specialized manufacturing bases and growing defence-industrial ecosystems.

The region's shared post-communist trajectory – the rapid transition to market economies, integration into EU supply chains, and accession to NATO and the EU, has created institutional and regulatory foundations that make it increasingly bankable for long-term defence and dual-use investment, even as domestic politics and reform capacity vary across capitals.

This report assesses how that strategic shift is reshaping CEE as a defence and security investment environment. It maps the region's competitive advantages – frontline proximity, scalable industrial capacity, and deep engineering and IT talent, alongside the constraints that still shape project execution: infrastructure bottlenecks, administrative and procurement frictions, niche skills shortages, and increasingly stringent export controls for dual-use technologies.

It also explains how Europe's evolving funding architecture such as traditional cohesion instruments alongside the expanding EU defence toolbox, interacts with national incentives and procurement demand to move projects from R&D into serial production. The report also outlines the ways in which KPMG can support the transformation of the security and defence sector in CEE. Realising this "underdog advantage" necessitates an integrated advisory approach that spans strategy, technology, risk management, industrial participation, and workforce development. Within KPMG, the Defence & Security practice leverages multidisciplinary expertise across the EMA network (Europe, the Middle East, and Africa) to assist governments, armed forces, and multinational defence organisations in translating strategic objectives into operational capabilities.

For analytical focus, the report covers five EU member states: Poland, Romania, the Czech Republic, Slovakia, and Hungary, alongside Ukraine, whose wartime mobilisation has made it central to European security and a rapidly evolving defence- industrial actor.

The core argument is that CEE's role is no longer primarily that of a cost-efficient manufacturing periphery; it is becoming a strategically indispensable platform for deterrence, industrial resilience, and allied sustainment, where security imperatives, public funding, and private capital increasingly converge.

Foreword

Central and Eastern Europe is no longer a secondary theatre in Europe's security architecture. It is the frontline—and increasingly, the backbone—of deterrence and defence. The war in Ukraine has ended any illusion that security can be outsourced or indefinitely deferred. Europe must assume greater responsibility, and CEE is where this responsibility is being translated into action.

The countries of this region understand the nature of the threat. For them, it is not theoretical. It is historical, geographical, and immediate. That is why we see sustained increases in defence spending, accelerated modernization, and a clear political commitment to strengthening NATO's eastern flank. From Poland to Romania, and across the region, governments are moving from declarations to execution.

But security today is not only about military posture—it is about industrial capacity. Ammunition, systems, logistics, technology. The ability to produce, sustain, and scale. Here, Central and Eastern Europe has a strategic advantage: industrial depth, engineering talent, and proximity to the operational theatre. This combination makes the region indispensable for Europe's long-term defence resilience.

Let us be clear: this is not just an opportunity—it is a necessity. The convergence of public funding, private investment, and strategic urgency creates a unique window. But it will not remain open indefinitely. Execution, coordination, and political will are critical.

At KPMG, we see our role as practical and direct: helping turn strategic intent into real capability—on the ground, in factories, in supply chains. Because in today's environment, security is not built in speeches. It is built in systems, partnerships, and results.

Tudor Grecu,

CEE Head of Defence,
Partner, Head of Advisory, KPMG in Romania

Introduction

The Current International Context

The world is restructuring as it is going through a series of polycrises. Alliances are weakening, unilateral actions are reshaping global trade, and border revisionism has returned to European geopolitics. Russia's war against Ukraine is not only an attempt to destroy a sovereign state and redraw borders by force, but also a bid to redefine Europe's security architecture.

Driven by post-Soviet grievance and resurgent nationalism, Moscow has embarked on a costly military campaign that strains its own economic and political stability while destabilising the continent.

Moreover, the transatlantic relationship is being put to a test of endurance. Europe's limited direct implication in negotiations to end the war in Ukraine is generating frustration, given that European states are currently providing substantial external military aid to Ukraine and will also bear most of the reconstruction costs.

The United States' strategic documents on national security and defence, issued by the Trump administration at the end of 2025, emphasise a diminishing strategic interest in Europe.[1]

U.S. security policy is marked by pragmatism, with European allies expected to assume responsibility for conventional defence, which entails major investments over the next decade. The decision taken at the 2025 NATO Summit in The Hague to increase defence budgets to 3.5% of GDP in direct spending and an additional 1.5% in complementary investments[2] will significantly enhance the defence capabilities of NATO's European member states, but it will also trigger industrial transformations.

Europe will produce more weapons and ammunition and will invest more heavily in such production capabilities. One of the major challenges will remain how to avoid duplicating the production of multiple categories of the same type of weaponry,[3] a phenomenon that wastes resources.

At the same time, American pressure for Europe's rearmament does not automatically mean that Europeans will continue to predominantly purchase American weapons, which raises concerns among major U.S. defence companies that could see their sales in Europe decline. The US administration has sensed this risk and is already exerting pressure to ensure that Europe's massive defense investments do not limit American arms businesses on the continent.[4]

In this difficult security context, marked by unpredictability and the volatility of international relations, the special role of Central and Eastern Europe must be emphasised.

The region is characterised by fears of Russia's aggressiveness and its desire to challenge NATO's expansion. On 17 December 2021, Russia publicly demanded the withdrawal of NATO military infrastructure from countries that joined the Alliance after 1997, claiming a right to co-decision over security in this space.

Russia's demands and its aggression against Ukraine led Finland and Sweden to request NATO membership; however, this demonstrated that the two countries considered the security guarantees of Article 5 of the North Atlantic Treaty stronger than those provided by Article 42.7 of the EU Treaty, even though in spirit they are similar.

The main problem for states in the region is not only Russia's militarism and imperialism, to which they are accustomed, this being practically part of Russian/Soviet state behaviour, but also the signals coming from Washington, indicating a U.S. disengagement from European security.

1 US Security Strategy, https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf; US National Defence Strategy, https://media.defense.gov/2026/Jan/23/2003864773/-1/-1/0/2026-NATIONAL-DEFENSE-STRATEGY.PDF
2 The Hague Summit Declaration, 25 June 2025, https://www.nato.int/en/about-us/official-texts-and-resources/official-texts/2025/06/25/the-hague-summit-declaration
3 Thomas Lapperre, The hidden cost of Europe's military patchwork, Futuropia.eu, 20 January 2026, https://futuropia.eu/the-hidden-cost-of-europes-military-patchwork/
4 Laura Kayali, Pentagon aggressively lobbies EU against Buy European weapons push, Politico, 19 February 2026, https://www.politico.eu/article/washington-lobbies-eu-against-buy-european-push-for-weapons-donald-trump/

Central and Eastern European states suffered in the 20th century when the great powers of the time decided to divide spheres of influence or arbitrarily redraw borders. Moments such as the Munich Agreement of 1938, the Ribbentrop- Molotov Pact of August 1939, the Second Vienna Diktat of August 1940, or the Yalta arrangements of February 1945 evoke painful memories for Czechs, Slovaks, Romanians, Poles, and the inhabitants of the Baltic states. Russia is now trying to exploit the new pragmatism agenda, to obtain transactional-style agreements, which would signify a strong return to sphere-of-influence politics.

This perspective creates visible anxiety in Central and Eastern Europe. Beyond diplomatic efforts aimed at clarifying the relationship with their American partner, vital for their defence, or at strengthening and unifying Europe's security approach, the states in the region will continue to make major efforts to enhance their defence capabilities.

This means that these countries will seek to accelerate their armament projects, pursue significant defence investments, and develop their own production capacities.

In parallel with developing capabilities to respond to conventional kinetic attacks, the states of the region will continue investing in ISR (Intelligence, Surveillance, and Reconnaissance) capabilities to detect drone intrusions or prevent false-flag operations. Even in the event of a peace agreement in Ukraine, Russia will continue hybrid attacks, especially cyber operations or disinformation campaigns, to weaken Western cohesion, which compels Central and Eastern European states to invest in cybersecurity and to enhance resilience against the full spectrum of hybrid threats.

Such efforts will be observed across nearly all NATO Eastern Flank countries, with particular emphasis in Poland and Romania, considering their demographic and economic weight as well as the financial impact of defence investment policies.

Ukraine plays a special role, not only because the continent's security and the strategic relevance of the European Union at the global level are at stake here, but also because it will remain, even after the war ends, a major market for weapons and ammunition. Ukraine will need to maintain a formidable armed force, estimated at between 600,000 and 800,000 personnel,[5] to deter any possible new Russian aggression.

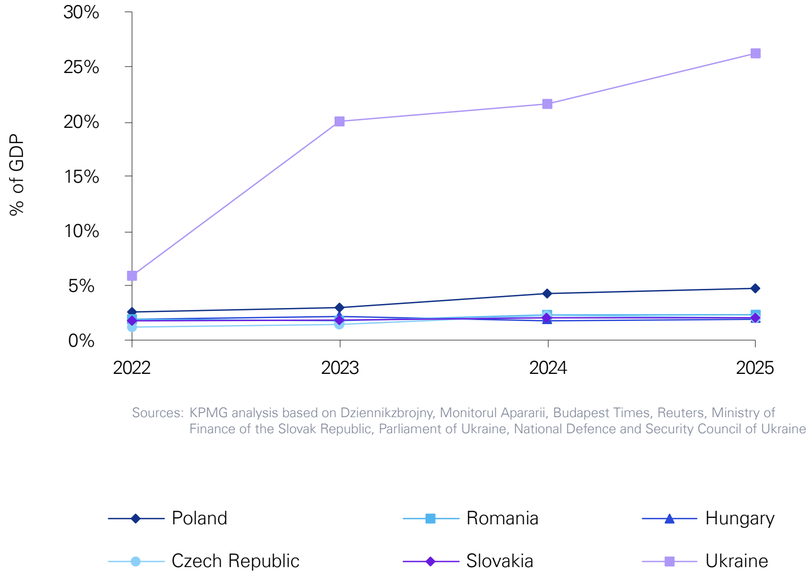
At the same time, Ukraine will serve Europe and beyond as a country with substantial military research, development, and production capabilities. Its own developments in unmanned systems and electronic warfare capabilities will make Ukraine a significant player in the global arms market. Ukraine will remain a critical environment for the development and validation of advanced defence capabilities.

Lessons learned from the war in Ukraine will also shape military strategic thinking, particularly in relation to asymmetric approaches to conflict. In enclosed seas such as the Black Sea, the Baltic Sea, or the Mediterranean, the Ukrainian model of coastal defense, using aerial and naval drones and missiles, will influence future procurement policies. At the same time, aerial and ground-based unmanned systems will become a mandatory part of European armies' arsenals, especially in Central and Eastern Europe.

National budgets and European funds will provide a long-term source for building production capabilities and equipping forces with such systems, contributing to the growing strategic, military, and economic relevance of Central and Eastern Europe.

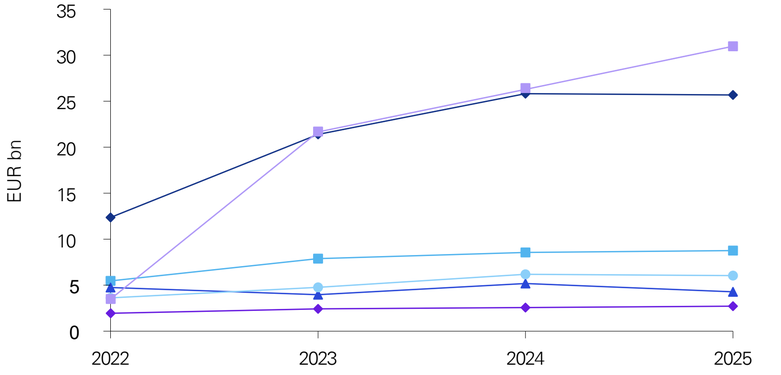
5 Yevhen Kizilov, Zelenskyy says army will shift from mobilised to contract-based after war, Ukrainska Pravda, 5 February 2026, https://www.pravda.com.ua/eng/news/2026/02/05/8019590/

Defence Budget (% of GDP)



Sources: KPMG analysis based on Dziennikzbrojny, Monitorul Apararii, Budapest Times, Reuters, Ministry of Finance of the Slovak Republic, Parliament of Ukraine, National Defence and Security Council of Ukraine

Defence Budget (EUR bn)



Sources: KPMG analysis based on IISS Military Balance reports, IRS, Budapest Times, Ministry of Defence Hungary, mti.hu

"Who" is CEE?

Central and Eastern Europe (CEE) is not merely a geographic designation; it is a geopolitical condition. The countries stretching from the Baltic Sea to the Black Sea – Poland, Romania, the Czech Republic, Slovakia, Hungary, and the Baltic states, share a defining historical experience: four decades of Soviet domination, centrally planned economies, and constrained sovereignty.

Their post-1989 trajectories were shaped by a common strategic objective: anchoring themselves irreversibly in the West through membership of NATO and the European Union.

At the core of the region's political psychology lies a shared perception of vulnerability vis-à-vis Russia. Historical memory, whether shaped by partitions, occupations, Soviet interventions, or imposed economic systems, continues to inform contemporary strategic choices. For Poland, Romania and the Baltic states, Russia represents a direct and enduring security concern.

Even in countries such as the Czech Republic and Slovakia, where geographic exposure differs, the 2014 annexation of Crimea and the 2022 full-scale invasion of Ukraine crystallised a renewed consensus around deterrence and alliance solidarity. Fear of Russia has therefore acted as a unifying force, accelerating defense spending, NATO integration, and infrastructure modernization along what has become NATO's new containment line between the Baltic and Black Seas.

Yet CEE is not united only by threat perception. The region also shares the transformative experience of transition, from centrally planned economies to market capitalism.

This systemic shift required privatisation, institutional reform, and painful social restructuring. Despite differences in speed and approach, all of these countries embraced EU accession as both an economic anchor and a political safeguard.

Integration into EU supply chains, convergence through cohesion funding, and alignment with NATO standards created a common structural framework. Even where political frictions exist within the EU, the strategic orientation towards Western institutions remains foundational.

Ukraine occupies a distinct yet increasingly central place within this regional framework. Unlike the Baltic states, Ukraine did not immediately pursue full Euro-Atlantic integration after the collapse of the Union of Soviet Socialist Republics (USSR). For years, it balanced between Russia and the West while maintaining deep industrial and historical ties to Moscow.

However, since 2014, and decisively since the 2022 full-scale Russian invasion, Ukraine has repositioned itself as a frontline state of European security. Its defence, resilience, and reform trajectory now directly affect the security architecture of the entire continent. Ukraine has evolved from a geopolitical buffer into a strategic pillar of Europe's eastern defence perimeter.

Despite historical frictions and domestic political variations, the countries of CEE share structural commonalities: post-communist institutional rebuilding, reliance on EU funding for modernisation, integration into NATO's collective defence system, and growing defence-industrial ambition. Their economies are increasingly interconnected through supply chains, energy corridors, and military mobility infrastructure.

The war in Ukraine has further tightened this alignment, reinforcing the perception that security and economic resilience are inseparable.

For the purposes of this report, we focus on Poland, Romania, the Czech Republic, Slovakia, Hungary, and Ukraine.

Together, they illustrate the defining characteristics of CEE: strategic exposure to Russia, shared transition legacies, and a growing role in Europe's defence and industrial transformation.

What binds them is not uniformity, but a common trajectory—towards stronger deterrence and a more assertive position within the European security order.

KPMG's perspective

From the KPMG perspective, KPMG's CEE network includes offices in 16 countries with its primary goal being to strengthen KPMG's collective strategy as well as the position of the CEE region within the global network: The Czech Republic, Poland, Slovakia, Hungary, Romania, Bulgaria, Moldova, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, North Macedonia, Kosovo, Albania, Montenegro and now Ukraine.

KPMG's Ukrainian office has now been integrated into the CEE region. Previously, it was grouped together with Russia and Belarus, but the KPMG network closed its offices in those two countries immediately after the Russian invasion of Ukraine.

The current report covers five selected EU member countries from CEE: Poland, Romania, Hungary, the Czech Republic and Slovakia, as well as one non-EU Country: Ukraine.

With extensive expertise across a broad range of service lines, KPMG brings an accurate multidisciplinary perspective. Our global experience, combined with a strong local presence, enables us to navigate the complexities of individual markets and deliver clear, actionable insights that drive our clients' success.

KPMG can help bridge knowledge gaps, deepen understanding of the competitive landscape, and support the development of effective market-entry strategies. We work with clients to anticipate and prepare for both the opportunities and the risks associated with entering a new market.

6 Developing a Market Entry Strategy for Central & Eastern Europe, KPMG, 2011, https://www.kpmg.com/cee

Historical and economic Context

Pre-1990

Centrally Planned Economies under the Soviet Sphere

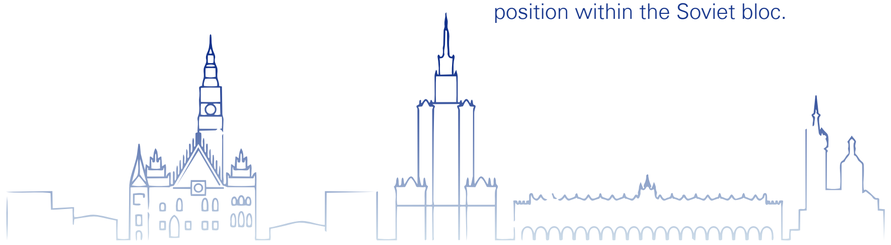
Before 1990, the countries of Central and Eastern Europe, stretching from the Baltic states in the north through Poland, Czechoslovakia (now Slovakia and the Czech Republic) and Hungary to Romania and Bulgaria on the Black Sea and including the eastern part of Germany, were tightly integrated into the Soviet sphere of influence and operated under centrally planned economies. Economic management remained tightly subordinated to political control, with communist parties dictating prices, wages, and resource allocation, producing systemic inefficiency and mounting economic decline.

The model prioritised heavy industry such as steel, coal, machinery and, in several cases, the development of domestic defence industries, reflecting both ideological commitments and strategic imperatives.

Agriculture was collectivised, with only limited private plots tolerated. During the Cold War, these economies were deeply integrated into the Soviet system: trade was largely confined to the socialist bloc, leaving little exposure to global markets or technological competition.

In the early postwar decades, the system succeeded in delivering rapid industrialisation and reconstruction. By the 1970s and 1980s, however, its structural weaknesses had become evident. In the absence of competition and profit incentives, productivity stagnated, consumer goods remained scarce, and living standards increasingly lagged behind those in Western Europe.

Some countries, such as Poland and Hungary, introduced limited reforms financed through Western borrowing, only to encounter debt crises; others, like Romania under Nicolae Ceaușescu, turned to autarky and severe austerity. At the same time, those states that had more political independence from the Soviet Union were able to integrate the development of domestic defence industries into their industrialisation strategies, expanding arms production as part of both centralised economic planning and their foreign policy strategy.



Poland's trajectory differed in important respects. After World War II, it came under Soviet influence and was reorganised as a centrally planned socialist state. Although not formally incorporated into the Soviet Union, Poland was economically and politically subordinated through the Warsaw Pact and the Council for Mutual Economic Assistance (Comecon), as well as through close political ties between Poland's ruling communist party and the Soviet leadership.

The regime proclaimed ambitions of eradicating poverty and achieving social equality, yet in practice the system produced economic stagnation, chronic shortages, and persistent inequalities, outcomes that stood in sharp contrast to its ideological promises.[7]

Mounting economic crisis and social unrest culminated in the declaration of martial law in December 1981, when General Wojciech Jaruzelski imposed an emergency regime to suppress the Solidarity movement, suspend civil liberties, and reassert party control, all of it underscoring Poland's constrained position within the Soviet bloc.

Romania has a longstanding tradition in military production. Before the 1989 Revolution, its nationalist-leaning communist leadership pursued a strategy of relative autonomy from Moscow by investing heavily in a domestic arms industry capable not only of supplying the national military but also of generating hard currency through exports. Although contemporary reports and propaganda often portrayed Communist Romania as one of the world's major arms exporters (claims that should be viewed with caution) the country nonetheless succeeded in building a substantial and competitive defence industrial base.

During the communist period, Romania established significant manufacturing capacities in areas such as armoured vehicles, small arms, ammunition, aircraft, and naval equipment. This effort created an extensive industrial infrastructure, a skilled workforce, and a research base that continued to shape the structure and potential of the defence sector long after the end of the communist regime.[8]

Hungary and Czechoslovakia's defence industry capabilities were fully integrated into the Warsaw Pact supply chains, and their production was largely aligned with Soviet military standards. In Hungary, the sector operated within the centrally planned economy and remained relatively modest in scale, focusing on specialised segments rather than complete weapons systems. Military communications and electronics formed the core of output, led by state-owned firms such as Videoton and BHG, which produced telecommunications, jamming, and reconnaissance equipment for both domestic use and export across the Eastern Bloc.

Czechoslovakia (today the Czech Republic and Slovakia) built one of the most advanced industrial bases in the Eastern Bloc, with strong positions in machinery, automotive and defence. Czechoslovak companies such as Škoda, Tatra and Aero Vodochody supplied armoured vehicles, artillery, trucks and aircraft across the Warsaw Pact, and Czechoslovak systems were widely exported to third countries.

Slovakia served as a major manufacturing pillar within the Pact's military-industrial complex. Defence production was a strategic component of the planned economy, encompassing armoured vehicles, artillery systems, heavy chassis, ammunition, and engineering equipment. Enterprises such as ZŤS Martin, ZŤS Dubnica nad Váhom, and Konštrukta Trenčín formed a vertically integrated ecosystem spanning research and development, metallurgy, precision engineering, and final assembly, supported by a highly skilled workforce and long-term state procurement planning.

7 Andrzej Zawistowski, "From a Centrally Planned Economy to…? The Early Years of Poland's Economic Transformation," Institute of National Remembrance Review, December, 2025, https://czasopisma.ipn.gov.pl/index.php/inrr/article/view/2738/2757

8 KPMG. Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025, https://assets.kpmg.com/content/dam/kpmg/ro/pdf/2025/romanian-defense-market.pdf

Post-1990

Transition to the Market Economy and Western Integration

The collapse of communist regimes between 1989 and 1991 marked a historic turning point for Central and Eastern Europe. Centrally planned economies that had structured political and economic life for decades were rapidly dismantled and replaced with market-oriented systems. The transition was uneven and often turbulent.

Price controls were lifted, exposing economies to market forces for the first time in decades. State-owned enterprises were privatised through voucher programs or direct sales, frequently to foreign investors. While these measures aimed to foster competition and efficiency, they also triggered deep social disruption. Inflation surged, unemployment – long concealed by full-employment policies – rose sharply, and living standards initially declined.

International institutions, including the IMF and World Bank, supported the reforms with financial assistance tied to structural adjustment. Foreign direct investment flowed into banking, telecommunications, and manufacturing.

By the late 1990s, most countries had stabilised and oriented themselves towards EU accession, which anchored reform and redirected trade westward. Yet the legacy of central planning endured, visible in industrial collapse, regional inequality, and strained social systems, even as societies were fundamentally transformed. The region entered the 21st century transformed, but still grappling with the long shadow of its past.

In Poland, the transition took the form of rapid "shock therapy" reforms designed to curb hyperinflation and attract foreign investment. Political change unfolded amid a deep crisis: by 1989, the country faced near-bankruptcy, soaring inflation, and chronic shortages.

The move to a market economy spurred rapid growth in private enterprise and gradual stabilisation by the mid-1990s. In 1994, Poland applied for EU membership, beginning a decade-long reform and accession process.[9]

During this time, the Polish military industry was marked by contraction and restructuring following the collapse of Warsaw Pact markets, with investment being modest and largely oriented toward survival.

In Romania, the shift to a market economy, combined with the restructuring of the Romanian Armed Forces, led to a sharp decline in defence production and exports throughout the 1990s. Many factories were closed or significantly downsized. At the same time, the introduction of NATO interoperability and quality standards exposed structural weaknesses in an industry struggling with outdated technology, limited investment, and managerial adjustment to competitive market conditions.

Although efforts to revive the sector began in the late 1990s, progress was uneven due to chronic underfunding, ageing production lines, and restricted access to advanced technologies. Consolidation became a central strategy. Today, the backbone of Romania's defence industrial base is the state-owned company ROMARM SA, which oversees 15 production facilities.

It remains the principal vehicle for restructuring and modernisation efforts aimed at restoring competitiveness and expanding Romania's role in regional defense manufacturing.[10]

In Hungary, the defence industry after 1989 shifted from a centrally planned, Soviet-oriented system to a market-based structure aligned with NATO standards. Many state-owned firms were privatised or restructured, often moving towards civilian or specialised high-tech production.

Foreign partnerships supported modernisation in electronics, communications, optics, and vehicle systems. Following NATO accession in 1999, the sector increasingly concentrated on niche, high-value capabilities rather than mass production of conventional weapons, though challenges in relation to skills, infrastructure, and competition remained.

9 Peter J. Boettke, Konstantin Zhukov, and Matthew Mitchell, The Road to Socialism and Back: An Economic History of Poland, 1939–2019, 2023, https://www.realitiesofsocialism.org/sites/default/files/2023-07/road-to-socialism-and-back-an-economic-history-of-poland-1939-2019.pdf
10 KPMG, Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025, https://assets.kpmg.com/content/dam/kpmg/ro/pdf/2025/romanian-defense-market.pdf

The Czech Republic, emerging from the breakup of Czechoslovakia in 1993, combined rapid macroeconomic stabilisation with deep industrial restructuring. Integration into German-centred supply chains turned the country into one of Europe's most manufacturing-intensive economies, with a strong export orientation.

While many legacy defence plants downsized or converted after the Cold War, core capabilities in small arms, ammunition, vehicles, aerospace and electronics survived and have since been consolidated under private holdings such as CSG, Colt CZ and OMNIPOL, positioning the Czech Republic as a specialised, high-value supplier within NATO and EU defence ecosystems.

In Slovakia, the post-1989 transition produced a sharper structural break. The collapse of the Warsaw Pact and the loss of export markets, coupled with reduced domestic procurement, led to rapid downsizing and partial core capacities in ammunition, artillery, heavy vehicles, and maintenance survived at reduced scale. EU and NATO accession in 2004 further reoriented the sector towards Western standards and procurement frameworks.

Ukraine, upon gaining independence in 1991, inherited roughly 30 percent of the Soviet military-industrial complex.[11] Over 3,594 enterprises (with about 3 million employees) in Ukraine produced military and dual-use products. Out of them nearly 700 enterprises engaged in defence production (including 205 industrial associations and 139 R&D organizations) that directly employed 1.45 million people.[12]

This Soviet-era base had impressive capabilities – Ukraine manufactured intercontinental ballistic missiles (e.g. SS-18 "Satan"), main battle tanks (T-64, T-80), military aircraft (An-124/225 cargo planes, carrier-based aircraft), naval vessels (even a nuclear-powered aircraft carrier that remained unfinished), as well as missiles (air-to-air, anti-tank) and other high-tech weaponry. Yet these assets had been deeply embedded in the integrated Soviet supply chain.

Critical components and final assembly functions were often located in Russia, leaving Ukraine with significant production capacity but structural dependencies that complicated the development of a fully autonomous defence industry.[13]

After 1991, Ukraine's inherited defence complex contracted rapidly. With the end of the Cold War and Kyiv's commitment to disarmament, defence orders collapsed and the number of military-related enterprises fell by more than half by 1993.[14] Ukraine halted most new procurement and undertook large-scale "forced demilitarisation", relinquishing intercontinental ballistic missiles, thousands of nuclear warheads, strategic bombers, and cruise missiles.

With minimal domestic demand and a sharply reduced defence budget, surviving firms turned to exports and dual-use production. By the 2000s, over 95 percent of defence output was exported, making Ukraine one of the world's significant arms suppliers, at times competing directly with Russia.[15]

Past 30 Years

Modernisation, FDI Inflows, and Defence Supply Chain Integration

By the early 2000s, Central and Eastern European economies had largely stabilised after the turbulent transition of the 1990s. The next phase of transformation was driven by European Union accession, which offered market access, investment, and structural funds to accelerate modernisation. EU membership functioned as both a political goal and an economic anchor.

Governments undertook extensive institutional reforms, aligning legislation with EU standards, strengthening property rights, and improving regulatory frameworks. These measures enhanced investor confidence and attracted significant foreign direct investment, particularly in manufacturing, banking, and retail. Western firms relocated production to countries such as Poland, Hungary, and the Czech Republic, drawn by skilled labour and competitive costs.

Between 2000 and 2008, most CEE economies grew rapidly, often outpacing Western Europe. EU structural funds financed infrastructure upgrades, while exports shifted decisively towards EU markets, embedding the region in European supply chains. Consumer markets expanded rapidly, fueled by rising incomes and credit availability, transforming lifestyles and urban landscapes.

However, integration also exposed structural weaknesses. Some traditional industries declined under competitive pressure, regional disparities widened, and labour migration intensified. The 2008 financial crisis slowed growth and highlighted dependence on foreign capital. By 2010, the region was firmly integrated into the European economy, combining significant modernisation gains with persistent structural challenges - inequality, demographic shifts, and reliance on external markets.

The region entered the new decade as a success story of post-communist transition, but one still navigating the complexities of globalisation and convergence.

11 Alexandra McLees and Eugene Rumer, "Saving Ukraine's Defense Industry," Carnegie Endowment for International Peace, July 30, 2014
12 Dmytro Mendeleiev, "ОПК, Which Ukraine Lost…" ["ОПК, який Україна втратила…"], ZN.UA, August 22, 2020, https://zn.ua/ukr/ukraina-1991-2020/opk-jakij-ukrajina-vtratila.html
13 Oleksandr V. Danylyuk and Jack Watling, Winning the Industrial War: Comparing Russia, Europe and Ukraine, 2022–24, RUSI Occasional Paper, April 2025, https://static.rusi.org/winning-the-industrial-war-comparing-russia-europe-ukraine-2022-24.pdf
14 Kateryna Kuzmuk and Lorenzo Scarazzato, "The Transformation of Ukraine's Arms Industry Amid War with Russia," Stockholm International Peace Research Institute, 21 February 2025, https://www.sipri.org/commentary/topical-backgrounder/2025/transformation-ukraines-arms-industry-amid-war-russia
15 Peter J. Boettke, Konstantin Zhukov, and Matthew Mitchell, The Road to Socialism and Back: An Economic History of Poland, 1939–2019, 2023.

Poland's accession to NATO in 1999 firmly anchored it within Western security structures, while EU membership in 2004 accelerated its economic transformation. Access to the single market, EU funds, and a stable regulatory framework supported sustained growth, making Poland the largest economy in Central Europe, with nominal GDP projected to reach USD 1 trillion in 2025, up from USD 255 billion in 2004.[16]

Strong integration of Poland with Western markets significantly boosted foreign direct investment, which totaled over USD 335 billion between 2004 and 2024—nearly half of all FDI directed to the 2004 EU entrants. Major recent projects include Ascend Elements' battery plant, Ronbay Technology's cathode plant and Microsoft's data centers. Poland has also emerged as a defence spending leader, targeting 4.8 percent of GDP in 2026, equivalent to approximately EUR 46.8 billion.[17]

Over the past three decades, **Romanian** authorities have worked to expand defence cooperation across Europe and beyond, seeking to enhance national competitiveness in EU defence programmes. Progress, however, has been gradual, and substantial gaps remain. Further consolidation and strategic coordination in the coming years will be necessary to better align national priorities with European initiatives and to strengthen Romania's role as a more integrated and capable contributor to the EU defense ecosystem.[18]

Hungary, while not a frontline state like Poland or Romania, has maintained steady but moderate increases in defence spending over the past decade. After joining NATO in 1999 and the EU in 2004, it consolidated its Euro-Atlantic position while prioritising economic convergence and fiscal stability over high military outlays. In recent years, however, Hungary has accelerated modernisation, with significant investments, particularly in cooperation with Rheinmetall, strengthening capabilities in armoured vehicles and ammunition production. Hungary hosts NATO's strategic airlift capability at Pápa Air Base and contributes to multinational battlegroups with partners such as France and Italy. Though its budgetary effort has been more gradual than that of frontline allies, Hungary is an important NATO member and an increasingly active participant in European defence supply chains.

Slovakia has experienced significant industrial modernisation, driven by strong foreign direct investment and integration into European manufacturing value chains. Although its defence sector is smaller than during the Cold War, it has become more specialised, interoperable, and export-oriented. The focus now lies on NATO-compatible land systems, ammunition and explosives, maintenance and overhaul services, and component production for armoured platforms. Drawing on its historical industrial base, competitive costs, EU market access, and NATO alignment, Slovakia has positioned itself as a credible manufacturing and support hub within Western defence supply chains, particularly in land systems and ammunition, with scope for further expansion amid rising European defence spending.

The Czech Republic turned EU accession in 2004 into a springboard for industrial modernisation, with manufacturing accounting for roughly 20% of GDP. Foreign investors leveraged the Czech Republic's skilled engineering workforce and high productivity to build export-oriented platforms in automotive, machinery and aerospace. Growing defence demand has revitalised legacy capabilities under private holdings, positioning the Czech Republic as a specialised NATO/EU defence supplier.

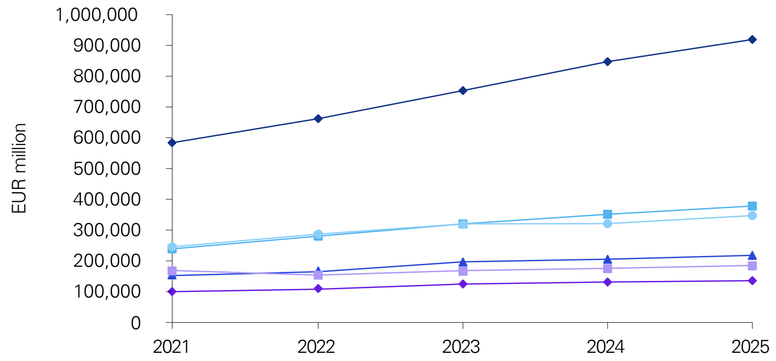
Ukraine Russia's full-scale invasion in 2022 triggered a rapid wartime mobilisation of Ukraine's defence industry. Arms and dual-use expenditure reached $30.8 billion in 2023 which is around twenty times the 2021 level, supporting both urgent imports and domestic expansion.[19]
This funding surge (much of it for urgent foreign arms purchases) also enabled domestic companies to restore and expand production capabilities. By 2024, roughly 500 defence firms were operating, employing nearly 300,000 workers, with a growing private sector complementing state conglomerates.[20] Production surged: overall military output tripled in 2023.[21]

Priority areas included ammunition and drones. Ukraine launched domestic production of 152 mm shells in 2022 and 155 mm NATO-standard rounds by 2024, significantly reducing costs. By late 2024, about half of frontline ammunition was domestically produced.[22] Missile and UAV programmes advanced rapidly. By 2026, Ukraine's goal is to produce 7 million drones, so as to reduce the numerical advantage of the Russian infantry.[23] The Neptune missile was adapted for land attack,[24] while a dynamic drone ecosystem, supported by initiatives like Brave1, fostered rapid innovation.[25]

Increased state funding for industrial expansion,[26] combined with Western partnerships involving firms such as Rheinmetall, BAE Systems, KNDS, AeroVironment strengthened capacity, technology transfer, and NATO-standard integration, laying the foundations for a more resilient defense-industrial base.

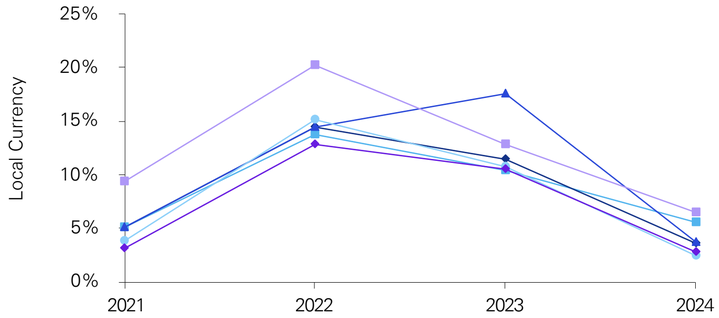
16 World Bank Group, Poland—Overview. https://www.worldbank.org/ext/en/country/poland
17 Polska Agencja Prasowa. Poland to raise defence spending to EUR 46.8 bln in 2026: Defence minister, https://www.pap.pl/en/news/poland-raise-defence-spending-eur-468-bln-2026-defence-minister
18 Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025
19 Kuzmuk, K., & Scarazzato, L, The transformation of Ukraine's arms industry amid war with Russia, Stockholm International Peace Research Institute, February 2025, https://www.sipri.org/commentary/topical-backgrounder/2025/ transformation-ukraines-arms-industry-amid-war-russia
20 Ministry of Strategic Industries of Ukraine, Performance results of the Ministry of Strategic Industries and Ukroboronprom for 2023, December 2023, https://mspu.gov.ua/en/news/performance-results-of-the-ministry-of-strategic- industries-and-ukroboronprom-for-2023
21 Ministry of Strategic Industries of Ukraine, Alexander Kamyshin leaves the post of minister of strategic industries of Ukraine: Results of his work, September 2024, https://mspu.gov.ua/en/news/alexander-kamyshin-leaves-the-post-of-minister-of-strategic-industries-of-ukraine-results-of-his-work
22 Ukrinform, Umerov: Every second ammunition on frontline is made in Ukraine, September 23, 2024, https://www.ukrinform.net/rubric-ato/3908731-umerov-every-second-ammunition-on-frontline-is-made-in-ukraine.html
23 Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026
24 Defense Express, Ukraine confirms works on new "Long Neptune" missile, December 2023, https://en.defence-ua.com/weapon_and_tech/ukraine_confirms_works_on_new_long_neptune_missile-8767.html
25 Ukrinform, ShaBlia turrets, Rys platforms, Liut combat robot: Brave1 head speaks of defense tech solutions, April 2025,https://www.ukrinform.net/rubric-economy/3985226-shablia-turrets-rys-platforms-liut-combat-robot-brave1-head-speaks-of-defense-tech-solutions.html
26 Slovo i Dilo, Досягнення українського ОПК під час повномасштабної війни [Achievements of Ukraine's defence industry during the full-scale war], December 18, 2023, https://www.slovoidilo.ua/2023/12/18/infografika/bezpeka/dosyahnennya-ukrayinskoho-opk-povnomasshtabnoyi-vijny

GDP current prices (EUR m)



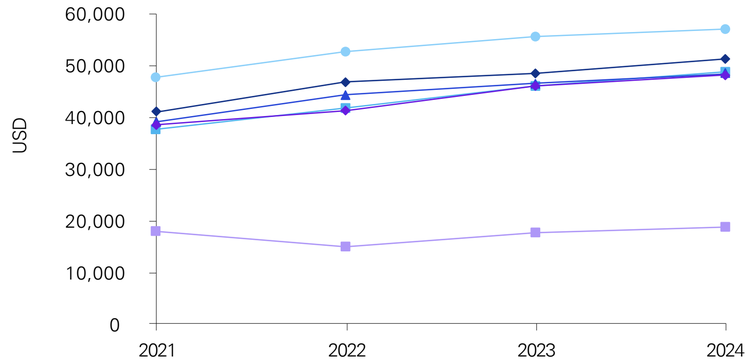
Sources: KPMG analysis based on Eurostat, Worldometers

Inflation (Local Currency)



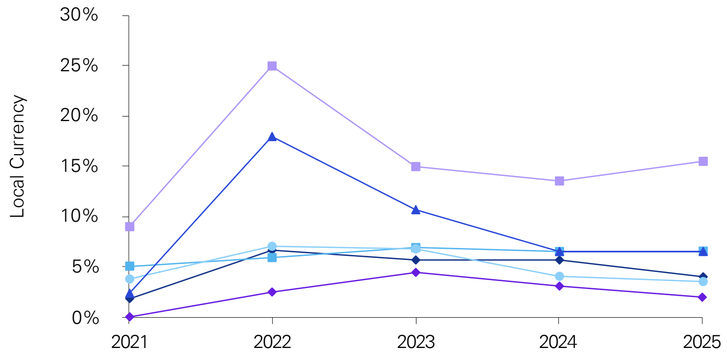
Sources: KPMG analysis based on Statistics Poland, INS, KSH, CSU, NBS, World Bank

GDP per capita PPP (USD)



Source: KPMG analysis based on World Bank

Key Interest Rate (Local Currency)



Sources: KPMG analysis based on Focus Economics, BNR, MNB, CNB, cbamonitor, ECB, National Bank of Ukraine

Why choose CEE?

01 Strategic Location

Central and Eastern Europe has become the core of NATO's new containment line, stretching from the Baltic Sea to the Black Sea. Its geography makes it indispensable for force projection, logistics, deterrence deployments, and rapid reinforcement along NATO's eastern flank. This location offers:

- Immediate operational reach: it enables rapid deployment and logistical support for NATO or Non-NATO Coalition missions in high-risk zones.
- Integrated defence infrastructure: it hosts key NATO bases, command centres, and supply corridors, ensuring interoperability and resilience.
- Secure access to maritime domains: its strategic positioning along the Baltic Sea and Black Sea strengthens naval operations and energy security.
- Political reliability: CEE countries are among NATO's most committed members, ensuring stable partnerships and forward presence.
- Modernized connectivity: EU-backed infrastructure upgrades enhance military mobility and supply chain efficiency.

Investing in CEE is a strategic imperative for safeguarding NATO's eastern flank, supporting Ukraine, and maintaining stability in Europe.

Central and Eastern Europe now constitute NATO's core containment corridor from the Baltic to the Black Sea. For defence investors and manufacturers, this geography offers immediate operational relevance: production located in Poland, Romania, Slovakia, Hungary, or the Baltic states sits directly on NATO's reinforced eastern flank, embedded in alliance command structures, logistics networks, and long-term capability planning. The region combines political reliability, EU-backed regulatory stability, and rapidly expanding defence budgets anchored in sustained rearmament.

For landlocked states such as **the Czech Republic, Slovakia, and Hungary**, strategic location is defined by logistics, sustainment, and industrial depth: secure territory through which forces, equipment, and ammunition flow—and where production, repair, and mobilisation can occur beyond the reach of immediate kinetic threat.

While maritime access shapes deterrence in the Baltic and Black Seas, countries like the Czech Republic play a different but equally decisive role: acting as central European hubs for military mobility, sustainment, and defenceindustrial scaling along NATO's north–south and west–east corridors. .

The Baltic Sea and Black Sea dimension further heightens strategic importance. This area forms a mutually reinforcing strategic continuum, requiring a "One Flank, One Front" vision from NATO. Russian missile and drone strikes launched from occupied territories near the Black Sea and Belarus have violated NATO airspace, including incidents affecting Romania and Poland, underscoring the spillover risk.

NATO planners increasingly view Black Sea and Baltic Sea stability as essential to deterrence. The Russian war in Ukraine has highlighted the need for NATO's strategic depth and protected critical maritime routes on its Eastern Flank.

Positioned on NATO's Black Sea flank and geographically closest among EU member states to the active fighting areas in southern Ukraine, Romania is strategically placed to support frontline logistics and sustainment. At the same time, its Danube access and Black Sea connectivity position it as a key node along the emerging Middle Corridor linking Europe to the Caucasus and Central Asia, reinforcing its role as both a defence-industrial hub and a strategic transit gateway.

Ukraine has simultaneously emerged as a rapidly scaling defence production hub, projected to meet up to 60 percent of its defence needs by 2026.[27]

Wartime innovation, particularly in drones and munitions, has accelerated domestic capacity. Yet production under constant attack requires strategic depth. Ukraine relies on neighbouring NATO members for secure component manufacturing, financing, insurance, and industrial continuity. Safe production environments within NATO territory complement Ukraine's battlefield-driven innovation and demand.

Crucially, CEE states have expanded dual-use infrastructure to reinforce military mobility along this containment line. Short land corridors from NATO territory into Ukraine enable high-volume overland transport of equipment and ammunition. Romania, in particular, has since 2022, upgraded Danube ports and transport links to facilitate Ukrainian grain exports, transforming the river into both an economic and strategic artery.[28] Road, rail, and Danube barge routes now underpin NATO logistics pipelines. EU funding instruments support cross-border infrastructure upgrades, including projects addressing rail-gauge differences between Ukraine and EU networks, enhancing interoperability and rapid force movement.[29]

For investors, this creates an integrated ecosystem: Ukraine provides operational urgency and innovation; Central and Eastern Europe provides protected industrial scale, NATO-backed logistics, and infrastructure financed and aligned for long-term strategic competition.

02_Industrial Base Potential_

Central and Eastern Europe provides a strong platform for defence industries through its adaptable industrial base. Expanding domestic production reduces reliance on external suppliers, strengthens local expertise, and enables rapid scaling, especially for ammunition. It also gives governments greater control over supply chains and workforce development, reinforcing long-term resilience.

The region combines legacy manufacturing strength with modern capabilities, making it an ideal platform for scaling dual-use production. The key advantages of its industrial base are:

- Existing dual-use manufacturing capabilities: CEE hosts a mature industrial ecosystem with companies experienced in producing both civilian and defence-grade components, ranging from automotive and aerospace to electronics and heavy machinery.
- Conversion candidates: Many facilities can be quickly repurposed for defence production, leveraging existing supply chains and skilled labour pools. This adaptability reduces lead times and accelerates operational readiness.
- Capacity for rapid scale-up: EU-backed infrastructure investments and strong engineering talent enable fast expansion of production lines, ensuring responsiveness to surge demands in times of crisis.
- Strategic impact: By tapping into CEE's industrial base, NATO and allied partners' gain resilient supply chains close to operational theatres, cost-effective production leveraging competitive labour and energy costs, and interoperability through alignment with EU requirements and NATO standards.

27 Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026
28 George Scutaru and Peter Watkins, Security Challenges in the Black Sea: NATO, the Wider Region and the Global Order. Pledging for a Free and Open Black Sea, New Strategy Center and LSE IDEAS, 30 September 2024, https://newstrategycenter.ro/wp-content/uploads/2024/09/2024_ResearchReport_BlackSea_NSC_LSE.pdf
29 Ministry for Development of Communities and Territories of Ukraine, "First €73.5 million allocated for the European-gauge railway to Lviv: Grant Agreement awarded", 6 November 2025, https://mindev.gov.ua/en/news/rozbudova-ievrokolii-do-lvova-vidbulos-vruchennia-hrantovoi-uhody-dlia-realizatsii-proiektu

CEE is not just a manufacturing hub - it is a strategic enabler for defense readiness, offering speed, flexibility, and scale in a region critical to European security.

Poland offers a strong dual-use industrial base with significant scale-up potential for defence production, particularly in IT, cybersecurity, advanced manufacturing, and unmanned systems. Firms such as Transition Technologies, Asseco Poland, Exatel, and Spyrosoft deliver secure software, command systems, AI solutions, and NATO-standard infrastructure, combining civilian expertise with defence experience. A growing ecosystem of UAV and engineering companies—including WB Electronics, MSP InnTech, Aerobits, and Advanced Protection Systems—further strengthens capabilities in drones, AI targeting, and counter-drone technologies. Industrial players within Polska Grupa Zbrojeniowa and private firms support production in munitions and armaments.

Poland is pursuing one of Europe's most ambitious military modernisation programmes, including K2 tanks, K9 howitzers, Abrams, FA-50, and F-35 aircraft, alongside systems such as HOMAR-K and KRAB. Naval expansion includes the Orka submarine programme and Miecznik frigates. These initiatives increasingly involve technology transfer and local production. Air and missile defence is expanding through Patriot, NAREW, and PILICA+, while precision strike capabilities are strengthened via HIMARS and HOMAR-K, including domestic rocket production.

At the same time, the government and PGZ are expanding defence manufacturing, particularly ammunition production. Investments in new facilities, supply chains, and maintenance capabilities support greater industrial capacity and reduced reliance on external suppliers, signalling a shift toward stronger defence industrial autonomy.

Romania's industrial base provides a strong platform for defence and security investment, combining legacy military manufacturing with expanding Western partnerships. Core capabilities in ammunition, armoured vehicles, artillery systems, aerospace components, and naval construction are largely coordinated through ROMARM and companies such as Uzina Automecanica Moreni (armoured vehicles), Aerostar Bacău (aerospace upgrades and missile integration), IAR Brașov (helicopter production and maintenance, repair, and overhaul), and Damen Shipyards Galați or Fincantieri Shipyards Brăila and Tulcea (naval construction).

These assets are increasingly complemented by cooperation with major Western defence firms including Rheinmetall, General Dynamics, Elbit Systems, Lockheed Martin, and MBDA, covering armoured systems, munitions, air defence, missile integration, and technology transfer. Such partnerships are aligning Romanian facilities with NATO standards and embedding them into European defence supply chains.

Beyond traditional defence producers, Romania benefits from a diversified industrial ecosystem with strong conversion potential. Its automotive, metallurgy, aerospace, shipbuilding, and electronics sectors provide scalable manufacturing capacity, while technology companies such as Bitdefender, Safetech Innovations or Simultec, contribute expertise in cybersecurity, simulation, secure communications, and systems integration.

Combined with EU market access, Black Sea strategic positioning, and rising defence spending commitments, Romania presents a cost-competitive and strategically located production and maintenance hub on NATO's southeastern flank.

Hungary has adopted a defence-industrial strategy centred on "strategic partnerships" with European manufacturers, combining military modernisation with the localisation of production. This approach is a core pillar of the Zrínyi Defence and Force Development Programme and aims to rebuild domestic industrial capacity alongside major weapons procurement from European suppliers.

Rheinmetall exemplifies this model in the Hungarian market. In 2023, the company opened a Lynx infantry fighting vehicle production facility in Zalaegerszeg and launched a joint venture to develop a large-scale ammunition and explosives complex in Várpalota. Both investments are directly linked to the Zrínyi programme, with the Hungarian Armed Forces as the primary customer. Together, these projects expand Hungary's domestic production base while strengthening long-term military capability and supply resilience.

The Czech Republic demonstrates how a mature manufacturing economy can rapidly repurpose and scale dual-use capabilities for defence production, drawing on strengths in engineering, precision manufacturing, and systems integration, offering a strong platform for defence and security investment and building on a deep military-industrial tradition and close integration with Western supply chains.

The country maintains capabilities in armoured vehicles, artillery, small arms, ammunition, radar systems, military trucks, and aerospace production.
Key companies include large holdings (CSG, Colt CZ, Omnipol, LPP, STV) and highly specialised tech firms (ERA, PBS, Meopta, etc.), many of which cooperate with major Western firms such as Rheinmetall, BAE Systems, and Lockheed Martin, aligning production with NATO standards.

Rather than relying solely on greenfield defence investments, Czech practice highlights the strategic value of converting existing industrial capacity into surge-ready defence output. Supported by a diversified industrial base in automotive, precision engineering, and electronics, the Czech Republic provides scalable manufacturing and R&D capacity. Its central European location, strong export orientation, and rising defence spending position it as a resilient production and modernisation hub within NATO's core European corridor.

Slovakia's industrial base provides an attractive platform for multinational defense investment, combining established dual-use manufacturing with capacity for rapid expansion. The country builds on a strong tradition in precision engineering and ammunition production. Recent EU-backed ammunition framework agreements—supported by facilities such as ZVS Holding (part of the Czechoslovak Group)—highlight its growing role in European defence production.[30]

Beyond traditional defence firms like VOP Nováky, ZVS Holding, Konštrukta Defense, groups of technology-based companies like Aliter Technologies, Virtual Reality Media or SEC Technologies have emerged.

Slovakia also hosts adaptable civilian manufacturers capable of integrating into military supply chains. Companies such as producer of automated systems and security solutions KOVAL SYSTEMS or GEVORKYAN which leverage advanced powder metallurgy and precision-component expertise developed for automotive and aerospace sectors to support defence applications.

This ability to convert existing industrial capacity, rather than build from scratch, lowers investment barriers and reinforces Slovakia's position as a cost-efficient hub within European defence value chains.

Ukraine's broader industrial ecosystem provides a substantial dual-use base with significant defence scale-up potential. Despite heavy wartime losses in metallurgy, key steel plants in central and western regions continue operating and can supply armour plate, chassis, and munitions components.

The country also holds strategic mineral resources, including titanium, essential for aerospace and missile production. Its legacy heavy-engineering sector, covering vehicles, turbines, and industrial machinery, offers conversion potential for military transport, armoured platforms, and propulsion systems. [31]

Aerospace capabilities linked to Antonov, Pivdenmash, and Motor Sich preserve critical expertise in aircraft components, engines, and rocket technologies, while inherited strengths in optics, sensors, and guidance electronics remain relevant for modern weapon systems.

Equally important is Ukraine's large and export-oriented IT sector, which underpins software-driven defense capabilities in drones, robotics, ISR (Intelligence, Surveillance, and Reconnaissance), cyber defence, and electronic warfare.[32] The chemical industry adds adjacent capacity for energetic materials and propulsion inputs. Since 2022, wartime demand has activated previously underutilised industrial capacity and workforce skills, supported by targeted state incentives such as the "Defence City" regime to accelerate private-sector participation.

Together, these assets position Ukraine as a scalable defense-production hub when backed by secure supply chains and sustained investment.

03 Workforce

Central and Eastern Europe offers a strategic workforce advantage for defence and high-tech investment, combining strong technical skills with competitive labour costs.

The region benefits from a long tradition in engineering, manufacturing, and IT, supported by universities that produce well-trained specialists in mechanical, aerospace, electrical engineering, and cybersecurity. This creates a scalable talent pool capable of supporting complex defence projects in line with NATO and EU standards.

30 MSM Group, "ZVS holding has concluded a framework agreement with the Ministry of Defence of the Slovak Republic," 5 December 2025, https://www.msm.sk/en/zvs-holding-has-concluded-a-framework-agreement-with-the-ministry-of-defence-of-the-slovak-republic/
31 International Finance Corporation, Sector Assessments for Green and Resilient Reconstruction in Ukraine, https://www.ifc.org/content/dam/ifc/doc/2023/sector-assessments-pso-green-resilient-reconstruction-ukraine-en.pdf
32 Digital State UA, "Ukraine's IT Shift: From Outsourcing to Innovation," 15 July 2025, https://digitalstate.gov.ua/news/it-outsourcing/ukraines-it-shift-from-outsourcing-to-innovation

Poland hosts the largest IT talent pool in CEE, with over 600,000 professionals and a strong academic pipeline producing thousands of ICT graduates each year. Its workforce is highly skilled in enterprise software, cloud technologies, cybersecurity, AI, and fintech, while labour costs for senior engineers remain 30–50% lower than in Western Europe or North America. With more than 2.8 million people employed in manufacturing,

Poland also represents one of the EU's largest industrial labour markets. Investors benefit from deep technical expertise, EU regulatory stability, and strong intellectual property protection, although rising wages and growing competition for specialised talent present emerging challenges.[33]

In **Romania**, the workforce represents a key asset for defence industrial expansion. The country maintains a solid base of engineers, technicians, and skilled industrial workers across the aerospace, automotive, metallurgy, and electronics sectors. The country produces over 20,000 STEM graduates annually, with strong concentrations in engineering, aerospace, electronics, and computer science.[34]

Labour costs remain below Western European levels while productivity has steadily improved. Key industrial and technology hubs such as Bucharest, Cluj-Napoca, Timișoara, and Brașov, host both domestic capabilities and multinational R&D centres, including Continental, Bosch, Siemens, Airbus, Honeywell, Oracle, Microsoft, and Amazon. These ecosystems support advanced automotive electronics, aerospace engineering, industrial software, and cloud infrastructure, all of which are transferable to defence applications such as UAV systems, secure communications, avionics, cyber defence, AI-enabled command-and-control, and sensor integration.

Positioned on NATO's southeastern flank and close to the Ukrainian theatre, Romania offers investors integrated manufacturing and R&D capacity within an EU- and NATO-aligned framework.

Hungary has a well-educated and technically skilled workforce, supported by a strong industrial tradition in automotive manufacturing, mechanical engineering, electrotechnics, and advanced manufacturing. Labour demand remains robust in engineering, IT, and high-value industrial production.

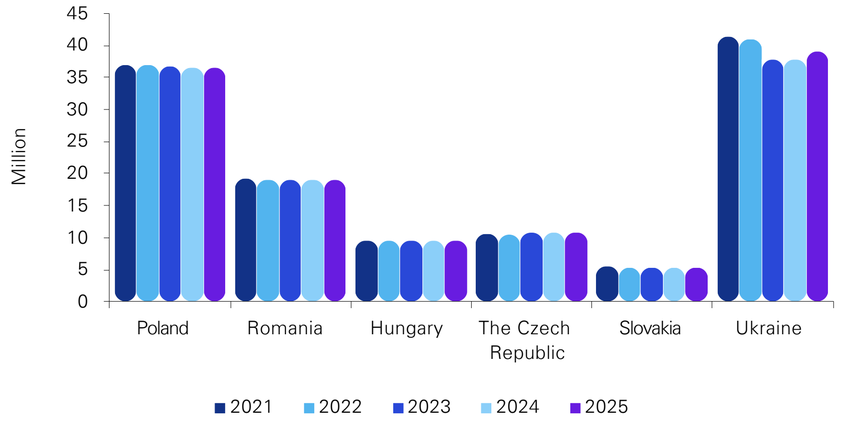
Employment indicators are historically strong: in 2024, the employment rate for those aged 20–64 reached 81.1% and the activity rate 78.6%, both above the EU average, putting Hungary within reach of its 2030 employment target of 85%. While the labour market remains stable, structural challenges and a slight uptick in unemployment require monitoring. Wage growth has been particularly strong in recent years, peaking at 17.2% in 2022 and remaining elevated through 2023 (14.4%) and 2024 (12.5%), though it is expected to moderate towards EU average levels. Overall, Hungary offers a competitive and technically capable labour base, albeit amid rising labor costs.[35]

The Czech Republic has a highly skilled workforce of about 5.3 million people, with one of the highest employment rates in the EU (around 80% for ages 20–64). Manufacturing accounts for roughly 20% of GDP, while the share of the industry as a whole is around 30%, reflecting strong capabilities in engineering, automotive, machinery, and electronics.

Universities produce thousands of STEM graduates annually, supporting expertise in mechanical and electrical engineering, IT, and aerospace. Competitive labour costs combined with high productivity make the Czech Republic well-suited for advanced manufacturing, systems integration, and defence-related R&D.

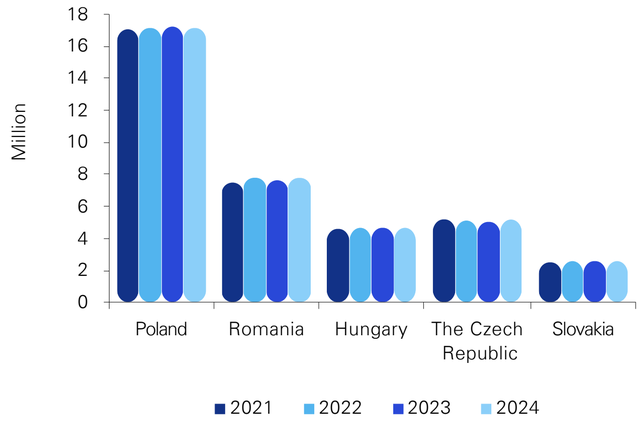
33 Poland's Tech Sector: ICT Exports Reach $16.85 Billion with 25% Annual Growth, Market Report, B2BPoland.com, November 2025, https://b2bpoland.com/insights/market-reports/poland-tech-sector-growth-2024
34 European Commission, Education and Training Monitor 2025: Romania country report, 2025, https://op.europa.eu/webpub/eac/education-and-training-monitor/en/country-reports/romania.html
35 European Commission, 2025 Country Report – Hungary, Commission Staff Working Document SWD, 2025, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025SC0217

Total Population (m)



Sources: KPMG analysis based on Eurostat, Worldometers

Total Employment (m)



Source: KPMG analysis based on Eurostat

Slovakia has a well-educated and technically capable workforce, with strong demand in engineering, IT, and advanced manufacturing. Its long-standing industrial tradition, particularly in automotive and mechanical engineering, supports complex, high-value production and skilled technical roles.

Average monthly wages remain competitive both within CEE and relative to Western Europe, which supports investment-intensive activities.[36] Although skill mismatches persist in certain high-tech and education segments, EU labour mobility and recruitment from non-EU countries help broaden the talent pool. Continued growth is expected in manufacturing, IT, and services such as automation and digital capabilities become increasingly central to the economy.

Ukraine's labour force remains substantial but has been significantly strained by war.[37] The 2022 invasion triggered large-scale displacement and mobilisation, tightening labour supply even as defence production expanded rapidly. By 2025, the defence sector employs over 400,000 workers,[38] up sharply from pre-war levels, though companies report shortages in skilled trades such as welding, machining, and electronics assembly. The war has shifted employment towards technical and engineering roles, with increased participation of women in traditionally male-dominated professions.

Despite these pressures, Ukraine retains a strong human capital base: tertiary education attainment exceeds 50 percent,[39] the country hosts nearly 300,000 IT professionals, and technical subjects remain popular among students.[40]

Wages remain highly competitive compared to EU neighbours, offering a significant cost advantage for manufacturing and R&D.[41]

With targeted reintegration of displaced workers and continued investment in vocational training, Ukraine's workforce remains a critical pillar for scalable defense-industrial development.

36 Trading Economics, "Wages in Manufacturing in Slovakia," https://tradingeconomics.com/slovakia/wages-in-manufacturing
37 Danish Trade Union Development Agency, Ukraine Labour Market Profile – 2025/2026, January 27 2025, https://www.ulandssekretariatet.dk/wp-content/uploads/2025/01/Ukraine-LMP-2025-final.pdf
38 Olena Sotnyk, "Ukraine's new defence industry strategy faces challenges," Ukrayinska Pravda, January 4, 2026, https://www.pravda.com.ua/eng/articles/2026/01/04/8014603/
39 OECD Economic Surveys: Ukraine 2025, May 2025, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/05/oecd-economic-surveys-ukraine-2025_0bb82ef9/940cee85-en.pdf
40 National Agency for Higher Education Quality Assurance, Report on Higher Education Quality in Ukraine in 2022, March 2024, https://en.naqa.gov.ua/wp-content/uploads/2024/03/REPORT-ON-HIGHER-EDUCATION-QUALITY-IN-UKRAINE-IN-2022.pdf.

04 Sustained Foreign Direct Investment

Central and Eastern Europe is likely to move from suppressed investment conditions in 2024 toward a gradual and broadening recovery by 2026, supported by an improving macroeconomic environment, renewed export demand, and structural growth sectors like EVs, renewables, and advanced manufacturing. Combined with a competitive workforce and growing appeal for Western European near-shoring, these investments are driving GDP growth that outpaces Western Europe. EU accession and ongoing economic convergence remain additional key engines of regional expansion.

According to UNCTAD in their latest 2026 report, Europe's strength is highlighted by the sharp rise in foreign direct investment, with FDI flows to the EU increasing by 56% compared to just 14% globally, underscoring the region's strong investment appeal, stability, and competitive advantages in attracting international capital.

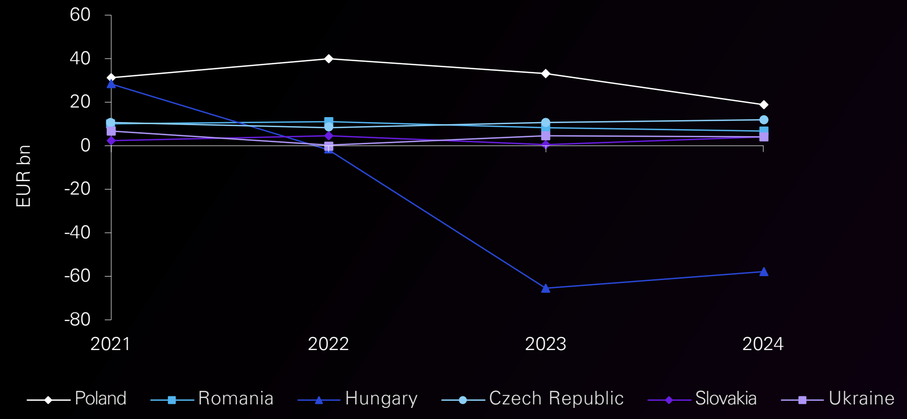
Poland remains one of CEE's top FDI destinations for high-value and advanced manufacturing. According to UNCTAD data, Poland has attracted among the largest FDI flows in Europe[42], with FDI stock directed heavily into manufacturing sectors such as automotive parts, chemicals, aerospace, IT services, and defence-related industries, supported by its large market, skilled workforce, and EU integration. German, Dutch, U.S., British and French firms are major investors, with manufacturing accounting for nearly 30% of FDI-directed activity, highlighting Poland's strength in industrial and technology-intensive projects.[43] This reflects the region's continued appeal despite broader global FDI volatility.

In Romania, even as overall inflows fluctuate,[44] industry remains central to the country's investment strategy, with foreign capital driving technology transfer and integration into European value chains. Major investors include German, Austrian, French, U.S., and Dutch firms, while ongoing reforms and public investment aim to further strengthen Romania's position in high-value manufacturing.

In 2024, FDI inflows totaled approximately EUR 5.6 billion,[45] reflecting a moderate decline from the previous year but maintaining a solid long-term upward trend in total FDI stock. Supported by EU market access, competitive labour costs, and growing high-value sectors, Romania continues to attract investment into advanced manufacturing and technology-intensive activities.

41 Euronews, "Average Salaries Across Europe: Which Countries Have the Highest Pay," May 6 2025, https://www.euronews.com/business/2025/05/06/average-salaries-across-europe-which-countries-have-the-highest-pay
42 Lloyds Bank Trade, Foreign direct investment (FDI) in Poland: FDI in Figures, updated February 2026, https://www.lloydsbanktrade.com/en/market-potential/poland/investment
43 Ibid.
44 Lloyds Bank International Trade Portal, Romania: Investment Opportunities and Market Potential, February 2026, https://www.lloydsbanktrade.com/en/market-potential/romania/investment
45 https://fic.ro/documents/foreign-direct-investment-in-romania-2025-edition

FDI Net Inflows (EUR bn)



Source: KPMG analysis based on World Bank

Hungary remains a key FDI destination in CEE, attracting investment in automotive, electronics, batteries, pharmaceuticals, and defence manufacturing. [46]

In 2024, FDI inflows reached about USD 14.2 billion, slightly below recent peak levels. Despite net outflows as a share of GDP, Hungary's strong FDI stock continues to support advanced and technology-intensive manufacturing.[46]

The Czech Republic remains a strong FDI destination in CEE, particularly in automotive, electronics, machinery, aerospace, and advanced engineering.

In 2024, inflows were estimated at USD 8–9 billion (around 3–4% of GDP),[47] reflecting steady investor confidence despite broader European volatility. The government actively supports highvalue strategic investments through targeted investment incentives and state aid, as illustrated by the Czech state's decision in 2025 to provide aid of €450 million (CZK 12 billion) for Onsemi's €1.64 billion semiconductor expansion aligned with the EU Chips Act and €64 million (CZK 1.6 billion) for Toyota's €680 million investment in battery electric vehicle production. These projects highlight the Czech Republic's focus on semiconductors, advanced electronics, and electromobility—sectors with growing relevance for defence supply chains and dualuse technologies.

Slovakia remains a specialised FDI destination in Central and Eastern Europe, particularly in automotive, electronics, and advanced industrial manufacturing.

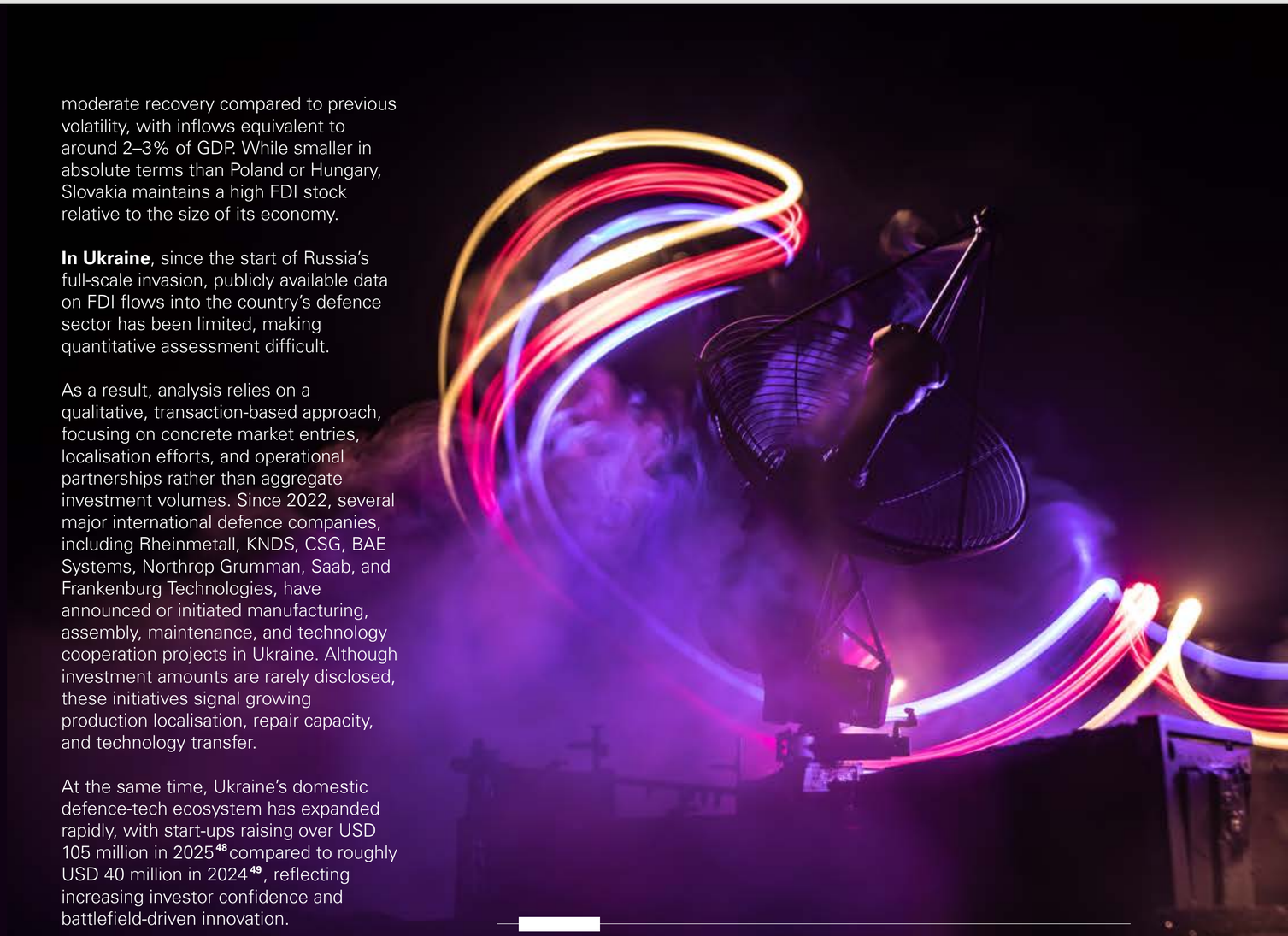
In 2024, FDI inflows were estimated at roughly USD 2–3 billion, reflecting moderate recovery compared to previous volatility, with inflows equivalent to around 2–3% of GDP. While smaller in absolute terms than Poland or Hungary, Slovakia maintains a high FDI stock relative to the size of its economy.

In Ukraine, since the start of Russia's full-scale invasion, publicly available data on FDI flows into the country's defence sector has been limited, making quantitative assessment difficult.

As a result, analysis relies on a qualitative, transaction-based approach, focusing on concrete market entries, localisation efforts, and operational partnerships rather than aggregate investment volumes. Since 2022, several major international defence companies, including Rheinmetall, KNDS, CSG, BAE Systems, Northrop Grumman, Saab, and Frankenburg Technologies, have announced or initiated manufacturing, assembly, maintenance, and technology cooperation projects in Ukraine. Although investment amounts are rarely disclosed, these initiatives signal growing production localisation, repair capacity, and technology transfer.

At the same time, Ukraine's domestic defence-tech ecosystem has expanded rapidly, with start-ups raising over USD 105 million in 2025[48] compared to roughly USD 40 million in 2024[49], reflecting increasing investor confidence and battlefield-driven innovation.

Together, these developments indicate a structural shift: Ukraine is emerging as an increasingly integrated and strategically important node within Europe's defence-industrial landscape.



46 FocusEconomics, Hungary – Foreign Direct Investment, https://www.focus-economics.com/country-indicator/hungary/foreign-direct-investment-eur
47 UNCTAD, World Investment Report 2025, https://unctad.org/publication/world-investment-report-2025
48 ArmyInform, 105 mln $ залучили українські оборонні стартапи у 2025 році, December 2025, https://armyinform.com.ua/2025/12/05/105-mln-zaluchyly-ukrayinski-oboronni-startapy-u-2025-roczi/
49 Юлія Сабадишина, "Brave1 удвічі збільшить фінансування оборонних розробок у 2025 році. Які 10 технологій пріоритетні," DOU, January 16, 2025, https://dou.ua/lenta/news/about-brave1-in-2025/

02. Central and Eastern EUROPE

Common Opportunities and Challenges

Opportunities

CEE presents significant opportunities for multinational defence and security investment, underpinned by substantial EU funding flows, expanding national defence budgets, large-scale modernisation programmes, growing dual-use infrastructure, and deepening integration into NATO and European defence supply chains.

01 Strategic demand

Global defence spending has accelerated sharply in response to rising geopolitical tensions, with Europe entering a sustained rearmament cycle. Central and Eastern Europe, particularly countries on NATO's eastern flank, has been at the forefront of this shift since Russia's annexation of Crimea in 2014, with real defence spending in several states increasing by 100–200%. The war in Ukraine has further intensified this trajectory, driving urgent stockpile replenishment, force modernisation, and expansion of the European Defence Industrial Base.

For the countries now forming NATO's new containment line from the Baltic to the Black Sea, the fear of Russian revisionism is not new. It was a central driver behind their strategic decision in the 1990s to join NATO and the EU.

Russia's renewed aggression on their borders has reinforced long-standing security instincts, pushing these states not only to prioritise defence domestically but also to advocate for a broader European shift toward greater military preparedness and industrial capacity.

It is therefore not surprising that Romania and Poland have emerged as leaders in this transformation. Both have significantly increased defence spending while investing in critical infrastructure, logistics corridors, and domestic industrial capacity.

By combining higher budgets with infrastructure modernisation and industrial expansion, they are positioning themselves as anchors of NATO's eastern defence posture and as key contributors to Europe's long-term defence growth.

The key drivers of demand are:

- Support for Ukraine: Massive transfers of equipment and munitions to Ukraine have left national inventories strained, creating an urgent need for replenishment.
- Geopolitical shifts: Heightened security concerns across the region are accelerating defence spending and fostering a renewed emphasis on self-reliance.
- NATO and EU commitments: Member States are under pressure to meet NATO defence capability targets as well as higher defence spending targets and improve interoperability, driving procurement at scale.

Among the specific areas of demand are:

- Military equipment and munitions: immediate requirements for artillery, ammunition, armoured vehicles, and air defence systems.
- C4I and Cyber: investments in Command, Control, Communications, Computers, and Intelligence systems, alongside advanced Cyber defence.
- Infrastructure: expansion of military logistics networks, production facilities, and transport corridors to support rapid deployment and sustainment.
- Innovation: Growing appetite for "New Defence" solutions, particularly from agile, software-driven startups offering disruptive technologies.

Many of the primary beneficiaries of rising defence spending in CEE are not publicly listed companies but state-owned or privately held groups, limiting direct equity market exposure.

Nevertheless, the sector's growing scale is evident: the Czech defence group Czechoslovak Group (CSG) IPO in 2026 achieved an initial market capitalisation of about €25 billion.

Even where direct investment access remains limited, the broader fiscal impulse from sustained defence spending is expected to support regional growth. The European Commission estimates that a 1.5% increase in EU defence spending could lift EU GDP by approximately 0.5% by 2028, highlighting the multiplier effects of rearmament. Czech defence planning experience underscores a broader regional dynamic: rising budgets create unprecedented investment headroom, but the decisive factor is institutional capacity to translate funding into deliverable capability.

Across the region, this dynamic is increasingly visible. Poland has raised defence spending above 4% of GDP and coupled major procurement programmes with domestic production and infrastructure upgrades. Romania has increased defence spending to around 2.5% of GDP, expanded cooperation with Western defence firms, and invested in Black Sea and Danube-linked infrastructure to support logistics and industrial capacity. Hungary's Zrínyi modernisation program has tied procurement to localised production partnerships, notably with Rheinmetall. Slovakia has expanded ammunition output under EU-backed initiatives, while the Czech Republic has strengthened its defence-industrial base through firms such as Colt CZ, Excalibur Army, and Aero Vodochody. Together, these efforts demonstrate how higher defence budgets are translating into industrial expansion, supply-chain integration, and broader economic stimulus across CEE.

Ukraine's defence and security spending remains on a sustained upward trajectory, reflecting structural wartime demand. Under the approved 2026 State Budget, allocations for "security and defence" total $65.12 billion, equivalent to 27.2% of GDP. Within this envelope, spending on weapons and military equipment amounts to $16.47 billion, underscoring the exceptional scale of ongoing procurement and force sustainment.[50]

To supplement budgetary constraints, Kyiv is mobilising international financing to expand domestic production through the "ZBROYARI: Manufacturing Freedom" initiative, targeting up to $10 billion in partner-backed contracts. Early agreements with Denmark, Canada, and the Netherlands, together with contributions from Lithuania, the United Kingdom, Sweden, Norway, Iceland, and the United States have already secured more than $1.5 billion for localised production.[51]

50 https://www.kmu.gov.ua/en/news/biudzhet-2026-100-dokhodiv-na-oboronu-krainy
51 KPMG. Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025, https://assets.kpmg.com/content/dam/kpmg/ro/pdf/2025/romanian-defense-market.pdf

Meanwhile, Ukraine's private miltech market has expanded rapidly, tripling since 2023, driven by battlefield-driven innovation in drones, electronic warfare, and dual-use technologies.

At the same time, Ukraine's long-term defence trajectory will increasingly depend on how the NATO containment-line states, i.e. Poland, Romania, Hungary, Slovakia, and the Czech Republic, develop their own industrial capacity. These countries provide strategic depth, secure production environments, financing channels, and EU- and NATO-aligned certification frameworks that Ukraine alone cannot fully guarantee under wartime conditions. As they expand ammunition plants, armoured vehicle production, air-defence components, and dual-use infrastructure, they effectively form the outer industrial ring supporting Ukraine's frontline innovation.[52]

The scale, standardisation, and integration of these NATO-border economies into European defence supply chains will therefore shape not only regional deterrence but also Ukraine's ability to sustain and institutionalise its defense-industrial base beyond the immediate war phase.

02 EU Defence Funding and Incentives Landscape

Central and Eastern Europe benefits from a multi-layered funding ecosystem that combines traditional EU cohesion instruments with a rapidly expanding set of defence-specific tools. Cohesion Policy funds, the Recovery and Resilience Facility (RRF), and the Modernisation Fund continue to finance transport networks, energy systems, digital infrastructure, and industrial upgrading.

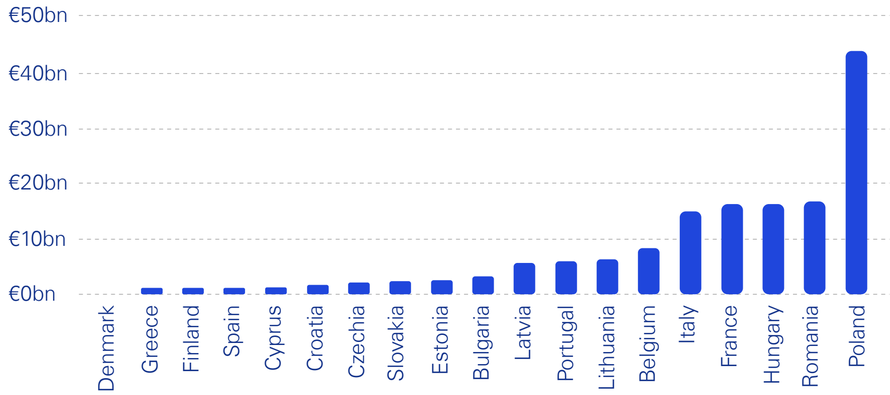
These instruments have been essential in narrowing development gaps and building the dual-use foundations – roads, rail, ports, grids, and digital backbones – now critical for military mobility and supply-chain resilience. At the same time, innovation-focused programmes such as the European Innovation Council (EIC) and the Innovation Fund support high-risk technology ventures, including dual-use deep-tech projects relevant to defence.

In parallel, the EU has built a dedicated defence-industrial toolbox. The European Defence Fund (EDF) finances collaborative R&D and capability development, while ASAP (Act in Support of Ammunition Production), EDIRPA, and the European Defence Industry Programme (EDIP) incentivise joint procurement and industrial ramp-up. The Security Action for Europe (SAFE) instrument adds a financing layer of up to €150 billion in EU-backed loans to enable large-scale common procurement and scaling of production.

Together, these mechanisms are designed to move projects from research and prototyping to serial production and coordinated acquisition, reinforcing the European Defence Technological and Industrial Base and reducing fragmentation across Member States.

Within the rough framework for country allocations, Poland, Romania and Hungary are set to be the top three beneficiaries: EUR 43.7 bn for Poland, EUR 16.7 bn for Romania, EUR 16.2 bn for Hungary, EUR 2.3 bn for Slovakia and EUR 2.06 bn for the Czech Republic. [53]

Estimated SAFE funding by country:



Source: European Commission, ING

National frameworks remain decisive in shaping how projects materialise on the ground. Poland combines Europe's fastest growing defence budget with strong R&D tax incentives, the Polish Investment Zone, and a dedicated Security and Defence Fund under its revised National Recovery Plan.

Romania pairs rising defence expenditure with offset-driven industrial cooperation and its National Defence Industry Strategy 2024–2030, targeting modernisation in ammunition, land systems, cyber, and autonomous platforms.[54]

Hungary relies on a mature investment-incentive model built around VIP cash grants and development tax allowances, positioning itself to benefit significantly from SAFE allocations while linking procurement to localised manufacturing.

52 NATO, "NATO's Role in Defence Industry Production," NATO – What We Do, 26 June 2025, https://www.nato.int/en/what-we-do/deterrence-and-defence/natos-role-in-defence-industry-production
53 European Commission, SAFE | Security Action for Europe, May 2025, https://defence-industry-space.ec.europa.eu/eu-defence-industry/safe-security-action-europe_en
54 German Marshall Fund, "How Can Romania Revitalize Its Defense Industry?" July 18, 2025, https://www.gmfus.org/news/how-can-romania-revitalize-its-defense-industry

Across these countries, procurement demand, tax relief, regional aid, and EU co-financing interact to create layered funding structures tailored to different industrial profiles and fiscal capacities.

The Czech Republic supports defence manufacturing and dual-use innovation through the PRODEF (national co-funding mechanism linked to EDF participation) programme co-funding selected EDF projects and via general applied R&D schemes and investment incentives, while more targeted defence-specific instruments are still emerging. Slovakia integrates EU participation, including planned SAFE utilisation, with Ministry of Defence grants and a stable R&D super-deduction regime, reinforcing ammunition and land-systems production.

While each CEE country differs in institutional design, aid intensity, and priority capabilities, the broader trajectory is shared: Europe's renewed emphasis on defence and security has transformed funding frameworks into strategic levers for industrial expansion. The combination of NATO spending commitments, EU-backed scaling instruments, and national modernisation agendas reduces uncertainty and improves project bankability.

For defence investors and manufacturers, this environment offers not only financial incentives but also structural demand growth, deeper supply-chain integration, and long-term policy alignment along NATO's eastern containment line.

Challenges

01 Infrastructure gaps in certain areas

Poland's defence modernisation highlights selected areas requiring further development of domestic industrial capabilities, shaped in part by the historical level of development and the structure of multi-year procurement programmes. While a significant share of current spending is tied to long-term contracts, this reduces short-term flexibility in capital allocation while simultaneously providing a stable foundation for continued investment in key areas such as ammunition production, heavy vehicle assembly and technology-transfer infrastructure.

At the same time, the development of selected capabilities – including 155mm artillery shell production as well as advanced missile and guided rocket systems – is being progressively strengthened through targeted investments and international cooperation. This approach supports both the timely delivery of operational requirements and the gradual build-up of domestic capabilities, while leveraging partnerships with established global suppliers in high-end systems.[55]

Romania faces a different challenge: infrastructure and logistics. As a frontline NATO state on the Black Sea, its transport corridors are strategically vital but still require upgrades to meet full military-mobility standards.[56]

Decades of underinvestment have left gaps in road, rail, energy, and production infrastructure, creating a mismatch between rising defence ambitions and the capacity of the industrial backbone to absorb and scale new projects. **Hungary and Slovakia** confront more structural infrastructure pressures linked to industrial expansion. Hungary's growth in automotive, battery, and defence manufacturing is increasing strain on energy supply, rail freight, and logistics networks, requiring targeted upgrades to sustain energy-intensive production.

Slovakia's highly export-oriented economy, driven by a concentration of industrial sectors such as automotive and electronics manufacturing, has been notably impacted by the economic slowdown in Europe, particularly in Germany. Furthermore, the country continues to experience significant regional disparities; stronger connectivity in the west contrasts with weaker infrastructure in the central and eastern regions, potentially limiting broader geographic industrial dispersion.[57]

While **the Czech Republic** benefits from relatively developed transport and industrial infrastructure, bottlenecks remain in rail capacity, energy grids, and permitting timelines for large projects.

Czech experience highlights that defence readiness depends not only on platforms, but on civilian-military infrastructure – transport, energy resilience, and logistics corridors – many of which were not designed for sustained allied operations. Delays in motorway and high-speed rail expansion, combined with rising construction costs and declining productivity in real estate and construction sectors, may affect timelines and site selection for new manufacturing and R&D facilities.[58]

Ukraine's constraints are fundamentally shaped by war. Direct infrastructure damage, estimated at $176 billion as at the end of 2024, has heavily affected energy and transport networks, particularly in frontline regions. Energy reliability and logistics resilience are critical bottlenecks, requiring backup generation, hardened grids, and corridor-based production planning.[59]

While safer western regions offer scaling potential, facilities closer to combat zones face continuity risks and higher operating costs, reinforcing the importance of cross-border industrial integration with neighboring NATO states. Attacks on energy infrastructure, which were very intense in the winter of 2025/2026, have led to power outages for industrial consumers and the population, which has an impact on price increases and productivity.[60]

02 Bureaucratic and regulatory hurdles in some jurisdictions

Poland's defence procurement system continues to evolve alongside record levels of spending, reflecting the scale and complexity of its ongoing modernisation efforts. Frequent legal updates, a multi-layered regulatory framework, and the involvement of multiple institutions can affect predictability and extend decision-making timelines. At the same time, these developments reflect efforts to adapt the system to a rapidly changing security environment and increasing investment needs.[61]

Alignment with NATO standards is progressing, although differences in procedures and documentation requirements may still require additional coordination in certain cases. This can result in more extensive administrative processes, particularly in projects involving industrial scaling and technology transfer, where multiple stakeholders and compliance frameworks are involved.

Overall, the procurement framework is gradually adapting to support higher levels of defence investment, with ongoing efforts to improve transparency, coordination, and efficiency. While foreign defence investors may encounter detailed documentation requirements and evolving procedural guidance—especially in projects involving offsets or cross-border industrial cooperation—these reflect the broader process of aligning national systems with international standards and scaling up defence capabilities.

Romania's public procurement framework has also seen repeated legislative revisions, often driven by EU compliance procedures.

Although the 2023–2027 strategy aims to improve transparency and efficiency, implementation remains uneven. Foreign defence investors continue to face extensive documentation, shifting procedural guidance, and administrative bottlenecks, particularly in projects involving offsets or cross-border industrial cooperation.

Hungary's institutional framework shapes its appeal for defence investment. While the country offers structured investment incentives, greater legal certainty, regulatory simplification, and reduced administrative burdens would strengthen competitiveness.

Ongoing reforms under the 2024–2030 competitiveness strategy and the Recovery and Resilience Plan aim to improve governance and regulatory quality, but implementation delays and slower public-sector digitalisation may temper investor confidence.[62]

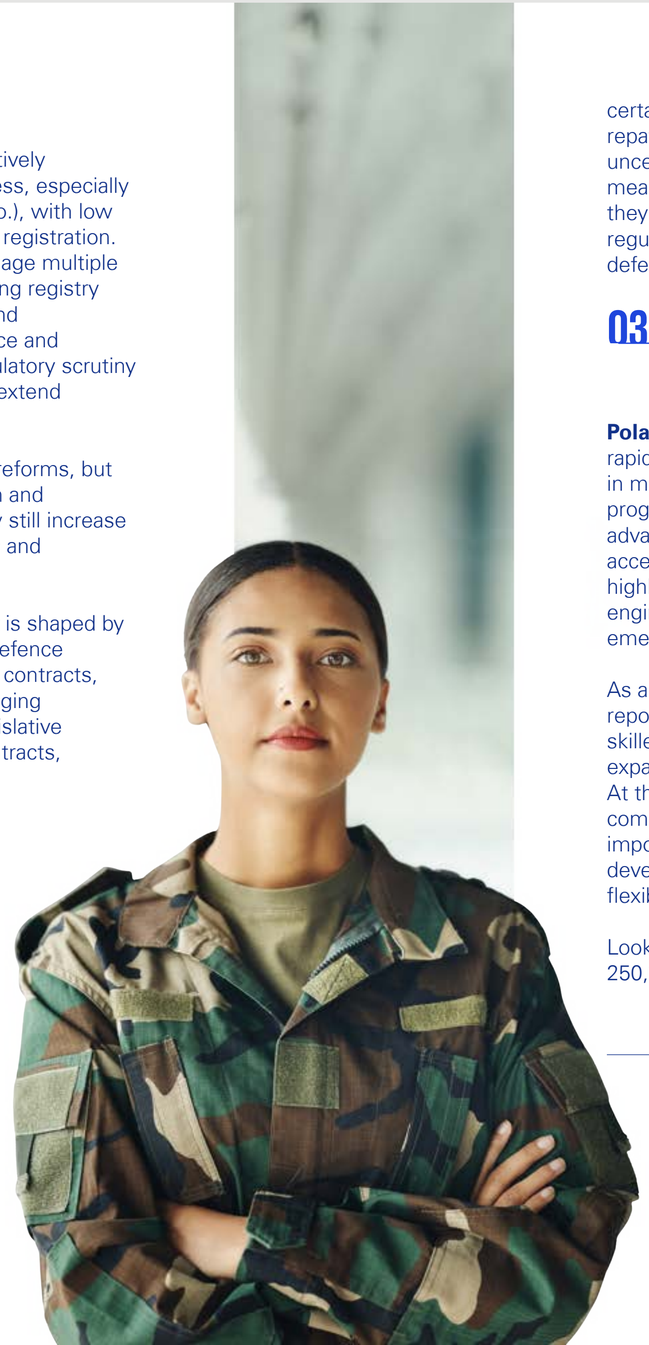
55 Natalia Ojewska, "Poland's Defense Industry Can't Make Enough Weapons," Bloomberg, April 25, 2025, https://www.bloomberg.com/news/newsletters/2025-04-25/poland-s-defense-industry-can-t-make-enough-weapons
56 EUA Live, Romania bolsters defence, energy security and transport corridors, 2 May 2025, https://eualive.net/romania-bolsters-defence-energy-security-and-transport-corridors/
57 OECD Economic Surveys: Slovak Republic, March 2024 https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/03/oecd-economic-surveys-slovak-republic-2024_01a5b210/397ca086-en.pdf
58 Czech Statistical Office, https://csu.gov.cz/docs/107508/f5e5463c-af52-9e97-a14f-a928918276d3/aipc041625analyza.pdf?version=1.0.
59 UN Office of the High Commissioner for Human Rights, Attacks on Ukraine's Energy Infrastructure: Harm to the Civilian Population, 2024 https://ukraine.ohchr.org/sites/default/files/2024-12/ENG_Attacks_on_Ukraine%E2%80%99s_Energy_Infrastructure_Harm_to_the_Civilian.pdf
60 Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026
61 Paulina Zamelek and Arkadiusz Kalinowski, "Challenges of the Military Equipment Acquisition System in Poland," Security, Logistics and Management, 2025, https://slw.wat.edu.pl/pdf-211044-129306?filename=Challenges-of-the-militar.pdf
62 European Commission, 2025 Country Report – Hungary, Commission Staff Working Document, eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025SC0217

The Czech Republic offers a relatively streamlined company setup process, especially for limited liability companies (s.r.o.), with low capital requirements and efficient registration. However, investors must still manage multiple administrative procedures, including registry filings, tax and VAT registration, and sector-specific licensing. In defence and dual-use sectors, heightened regulatory scrutiny and permitting requirements can extend timelines.

Slovakia has pursued regulatory reforms, but inconsistencies in implementation and cross-ministerial coordination may still increase compliance complexity for foreign and cross-border investors.[63]

Ukraine's regulatory environment is shaped by wartime conditions. Historically, defence procurement relied on single-year contracts, limiting predictability and discouraging long-term investment. Recent legislative changes now allow multi-year contracts, improving planning visibility for manufacturers.

However, market entry for weapons and military equipment remains tightly regulated, requiring codification, certification, and compliance with national and NATO standards, which can delay deployment. In addition, currency controls introduced under martial law restrict



certain capital movements, including the repatriation of investments, adding financial uncertainty for foreign investors. While these measures reflect wartime stability priorities, they underscore the need for continued regulatory refinement to support scalable defence-industrial growth.

03 Skilled labour shortages in niche technologies

Poland's defence sector is scaling up rapidly, supported by increased investment in modernisation, major procurement programmes and the development of advanced and dual-use technologies. This acceleration is naturally driving demand for highly specialised talent, particularly in engineering, advanced manufacturing and emerging technology domains.

As a result, a growing share of companies report challenges in accessing sufficiently skilled professionals, reflecting the pace of expansion rather than structural weakness. At the same time, demographic trends and competition from other sectors reinforce the importance of continued investment in skills development, training systems and more flexible certification frameworks.[64]

Looking ahead, the sector may require up to 250,000 additional workers by 2035, highlighting both the scale of ongoing transformation and Poland's ambition to strengthen its industrial and technological base. Automation and robotization of production processes, currently planned by defense companies, could alleviate this demand.[65]

Romania's skills gap is rooted in the sharp contraction of its defence sector during the 1990s, when facility closures and workforce outflows eroded technical capacity. Today, the Defence Technology and Industrial Base struggles with ageing personnel, limited availability of engineers and machinists, and shortages in advanced manufacturing, electronics, propulsion, and systems integration. Decades of underinvestment in R&D and modern equipment have reduced exposure to contemporary technologies, complicating efforts to attract younger specialists needed for scaling drones, precision munitions, and C4ISR systems.[66]

Hungary, the Czech Republic, and Slovakia face similar pressures. As the overall employment levels are relatively strong, specialized fields and skills essential for defence-industrial expansion, such as engineering, advanced manufacturing, cybersecurity, and software development, face shortages.[67]

Regional imbalances and competition from multinational firms further tighten labour markets, particularly in high-value industrial hubs. For defence manufacturers, securing specialised talent remains one of the main constraints on scaling production capacity.[68]

Ukraine's defence sector confronts acute shortages in niche technical roles, especially in electronics, hardware design, and UAV systems.

While the country retains a strong STEM education base and rising enrolment in military-technology fields, wartime disruption has strained the talent pipeline. Industry–academia partnerships and accelerated training programmes are helping to address immediate gaps, but workforce development remains a strategic priority.[69]

Another major challenge is maintaining a balance between the human capital needed for the labour market and the need for mobilisation on the front.

Ukraine promotes a symmetrical approach, through which it tries to compensate for the lack of a sufficient number of soldiers on the front with innovation, creativity and an asymmetrical approach to military strategy, placing great emphasis on unmanned systems.[70]

63 Slovakia, Ministry of Investments, Regional Development and Informatization, Draft Partnership Agreement of the Slovak Republic for the Years 2021–2027 (December 2021), https://www.eurofondy.gov.sk/wp-content/uploads/2021/12/211210_SK_Partnership-Agreement-1.pdf
64 Robert Czulda, "Poland's military modernisation – still many challenges ahead", March 6, 2023, https://pulaski.pl/en/pulaski-policy-paper-polands-military-modernisation-still-many-challenges-ahead-robert-czulda-2/
65 Warsaw Business Journal, "Defense sector needs workforce," 26 June 2025, https://wbj.pl/defense-sector-needs-workforce/post/146378
66 Federico Favia, "Romania's Defence Industry at a Crossroads: Modernising Capabilities and Mitigating Dependencies through SAFE Funding," Finabel—The European Land Force Commanders Organisation, 13 October 2025, https://finabel.org/wp-content/uploads/2025/10/INFOFLASH-FEDERICO-FAVIA-Romania-Defence_Final-version-1.pdf
67 European Commission, 2025 Country Report – Hungary https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025SC0217
68 OECD, Slovak Republic 2024: Country Note from Job Creation and Local Economic Development 2024, https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/job-creation-and-local-economic-development-2024-country-notes_65d489c5/slovak-republic_6396cd96/e69fac3d-en.pdf
69 dev.ua, ""We Discovered a Data Leak from a Top Oracle Manager." CEO Alerts Bar—About How Hackers Bypass 2FA and Antiviruses and Why 80% of Attacks Start with Info Stealers," March 3, 2026, https://dev.ua/en/news/it-expert-1765458961
70 Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026

Looking ahead, however, the outlook is not purely constrained. Across Poland, Romania, Hungary, the Czech Republic, and Slovakia, rising defence budgets, expanding infrastructure investment, and deeper integration into EU and NATO supply chains are likely to increase the sector's attractiveness.

Strong university traditions in engineering, IT, and applied sciences provide a solid talent foundation. As defence becomes a high-growth, technology-intensive industry, it may incentivise specialisation in military-related fields and even trigger a "brain return" of skilled professionals from Western Europe.

Over time, this structural shift could help transform current shortages into a more sustainable and strategically aligned workforce pipeline for the region's expanding defence-industrial base. The defence industry is facing significant shortage of skilled labour, particularly in niche and high-technology roles such as engineers, technicians and specialists in advanced manufacturing and integrated systems.

04 Export restrictions on dual-use goods

Poland applies a strict export-control regime for dual-use goods, fully aligned with EU Dual-Use Regulation 2021/821. Exporters must obtain authorisation for listed items under Appendix I of the EU Dual-Use Regulation or confirm eligibility under applicable general licenses, with the Ministry of Development and Technology acting as the competent authority.

In recent years, Poland has further strengthened enforcement, including enhanced sanction-compliance oversight, to reduce the risk of circumvention of EU restrictive measures.

At the same time, discussions are ongoing at both national and EU levels on improving the efficiency of export-control procedures, including potential streamlining of licensing processes for trusted entities and low-risk transactions, while maintaining full compliance with security and non-proliferation requirements.

As a result, exporters face detailed classification requirements and increased scrutiny, particularly in sensitive technology sectors.[71]

Romania operates a multi-layered export-control framework aligned with EU rules and reinforced by national legislation governing military and dual-use exports. Licensing authority is divided between Department for Export Controls (ANCEX) (for military goods) and National Commission for Nuclear Activities Control (CNCAN) (for nuclear-related items).[72] Romania adheres to international regimes such as the Wassenaar Arrangement, ensuring consistency with global standards. For companies, this creates a rigorous compliance environment: exporters must carefully classify products, monitor updates to EU control lists, and secure licenses for controlled components, software, and technologies. This is particularly relevant for fast-growing segments such as drones, electronics, and advanced munitions that often integrate dual-use subsystems.

Hungary, as an EU Member State, implements EU Dual-Use Regulation 2021/821 within its national legal framework. Exporters must comply with harmonised EU authorisation procedures and licensing requirements for listed items.[73]

Recent amendments have extended authorisation timelines and strengthened oversight mechanisms, increasing administrative complexity and compliance costs for firms dealing in sensitive technologies. Companies must therefore invest in robust internal compliance systems to manage evolving control lists and regulatory updates.

The Czech Republic and Slovakia similarly apply the EU Dual-Use Regulation through national implementing laws. The Czech Republic has additional legislation regarding the export of dual use goods. In the Czech Republic, Act No. 594/2004 Coll. governs dual-use exports, requiring company registration with the Ministry of Industry and Trade and subsequent licensing (individual, global, or general). The regime covers advanced sectors including AI, robotics, semiconductors, aerospace, cybersecurity, and defence technologies. Slovakia's Act No. 39/2011 Coll., combined with EU rules, establishes comparable licensing and administrative requirements.[74] In both countries, exporters must carefully navigate classification, documentation, and authorisation processes, which can create procedural burdens for defence and high-tech manufacturers.

Ukraine maintains a structured export-control system for military and dual-use goods administered by the State Export Control Service. Permits, one-time, general, or open, are required, and only registered entities may conduct such transfers. Certification of an internal export-control system is mandatory for broader authorisations. Since 2022, however, martial law has resulted in de facto restrictions on exports of military and dual-use goods, primarily through limited issuance of permits.

In late 2025, the government signaled a shift toward a controlled export model, allowing exports of surplus products to designated partner countries. While these measures reflect wartime priorities, they add regulatory complexity for defence firms operating in or with Ukraine.

71 Squire Patton Boggs, "Poland Strengthens Export Controls to Enforce EU Sanctions and Prevent Circumvention," February 2025, https://www.squirepattonboggs.com/insights/publications/poland-strengthens-export-controls-to-enforce-eu-sanctions-and-prevent-circumvention/
72 RFI, "On NATO's Eastern Flank, Romania Finds Itself at the Crux of European Security," November 27, 2025, https://www.rfi.fr/en/international/20251127-on-nato-s-eastern-flank-romania-finds-itself-at-the-crux-of-european-security
73 European Union, Regulation (EU) 2021/821 of the European Parliament and of the Council of 20 May 2021 setting up a Union regime for the control of exports, brokering, technical assistance, transit and transfer of dual-use items (recast), Official Journal of the European Union, June 11, 2021, https://eur-lex.europa.eu/eli/reg/2021/821/oj/eng
74 Slovakia, Ministry of Economy, "Legislatíva: Dual use – tovar a technológie dvojakého použitia," March 3,2026, https://www.economy.gov.sk/obchod/obchodne-opatrenia-dovoznevyvozne-obmedzenia/dual-use-tovar-a-technologie-dvojakeho-pouzitia/legislativa

05 Other challenges and opportunities such as responsible procurement or climate change

As mentioned before, the current geopolitical landscape in CEE is defined by a polycrisis that incorporates as well, besides the convergence of immediate security threats, energy volatility, climate risks and access to raw materials. In this high-stakes environment, responsible procurement must evolve beyond a simple compliance exercise; it should be viewed as a strategic tool for building "hard" resilience.

By integrating ESG-aligned standards into the defence acquisition process, CEE nations can ensure that rapid military expansion does not create new vulnerabilities, such as over-reliance on fragile global supply chains or carbon-intensive energy systems that are susceptible to disruption.

Defence is fundamentally one of the world's most carbon-intensive sectors; a significant increase in expenditure typically correlates with a surge in total emissions that can undermine national and EU-wide climate targets. The "E" in ESG is often compromised by the immediate operational requirement for heavy, fossil-fuel-reliant machinery which currently lacks viable net-zero alternatives at scale.

Furthermore, the intensified use of training grounds and the expansion of permanent infrastructure can lead to biodiversity loss and soil degradation, particularly in the ecologically sensitive border regions of the CEE.

Beyond carbon emissions, the "grey" environmental cost of increased procurement includes the massive ecological footprint of the global arms supply chain. The extraction of rare earth minerals and the high-energy manufacturing processes required for advanced munitions and electronics contribute to significant pollution and resource depletion.

There is also the long-term risk of toxic legacy pollution; increased domestic production and the stockpiling of ordnance heighten the danger of chemical contamination from heavy metals and explosives. Without stringent environmental safeguards, the pursuit of immediate regional security may inadvertently degrade the very natural resources and climate stability that underpin long-term human security in the region.

However, a primary opportunity for the region lies in the transition toward operational energy independence. Historically, military installations have been tethered to civilian power grids, which remain primary targets for hybrid warfare and cyber-attacks. By procuring decentralised microgrids and renewable energy storage for forward operating bases and barracks, defence leaders from the CEE region can turn potential points of failure into "energy islands."

This shift not only aligns with European decarbonisation targets but provides a distinct tactical advantage: reducing the "tether of fuel" and ensuring that critical command-and-control infrastructure remains functional even during a total grid collapse.

From a Governance and Social perspective, the surge in CEE defence spending offers a chance to foster circularity and sovereign capability. Responsible procurement frameworks can mandate "Dual-Use Infrastructure," ensuring that massive investments in military mobility, such as reinforced bridges and railways are "climate-proofed" against the increasing frequency of extreme floods in the region. Furthermore, by requiring contractors to prioritise transparent supply chains, CEE states can mitigate the risks of corruption and resource scarcity.

At the same time while the strategic benefits of rearmament are clear, the rapid scaling of defence expenditure in the CEE region may pose significant social risks.

From a Social perspective, there is the danger of "crowding out" where the massive diversion of national budgets toward military procurement reduces the available capital for essential civilian services such as healthcare, education, and green infrastructure. If not managed through inclusive "Social Value" frameworks, this shift can lead to public dissatisfaction and a breakdown in the very social cohesion that defence is meant to protect.

From a Governance standpoint, the speed of procurement required by the current security climate can inadvertently weaken oversight. The pressure to "buy off-the-shelf" from foreign contractors to meet immediate threats often bypasses rigorous local auditing and transparency protocols. This creates a fertile environment for "emergency-driven" corruption or the loss of long-term sovereign industrial capacity. Without strict adherence to ESG governance standards, the region risks trading immediate security for long-term institutional erosion.

Crucially, adopting an ESG-aligned procurement strategy significantly lowers the barrier for private capital investment. As European financial institutions increasingly apply "Sustainable Finance" criteria, defence firms in the CEE region that can demonstrate high ESG performance, such as carbon-efficient manufacturing and ethical sourcing, will enjoy a lower cost of capital and better access to capital markets and financing options.

How KPMG supports defence and security transformation in CEE

The "underdog advantage" of CEE lies in its ability to leapfrog legacy inefficiencies, integrate modern digital infrastructure from inception, and design defence ecosystems that are interoperable, scalable, and investment-ready. Realising this advantage requires integrated advisory capabilities across strategy, technology, risk, industrial participation, and talent.

At KPMG, our Defence & Security practice brings together multidisciplinary expertise across the EMA network (Europe, the Middle East and Africa) to help governments, armed forces, and multinational defence companies convert strategic ambition into operational capability.

01 Strategic Defence Transformation From Policy to Execution

Defence strategies across CEE increasingly reflect NATO commitments, capability modernisation roadmaps, and industrial participation targets. However, the gap between policy and delivery remains significant.

KPMG supports ministries of defence and national security agencies in:

- Translating national defence strategies into executable transformation roadmaps
- Establishing governance models for major acquisition programmes
- Designing portfolio prioritisation frameworks
- Implementing performance management and oversight structures
- Aligning industrial policy with capability development

Across our EMA network, we have supported defence authorities in restructuring procurement governance, redesigning programme management offices (PMOs), and implementing enterprise-wide transformation offices that improve cost discipline and delivery certainty.

Why this matters for CEE:

Many CEE countries are simultaneously scaling budgets and overhauling procurement systems. Early establishment of robust governance and performance frameworks allows them to avoid legacy inefficiencies seen in more mature defence markets.

02 Defence Industrial Base and Supply Chain Resilience

The war in Ukraine has underscored the fragility of global defence supply chains. For CEE, this presents both risk and opportunity: while dependence on external suppliers remains a vulnerability, regionalisation and reshoring strategies can create new industrial ecosystems.

KPMG supports clients in:

- Defence industrial base mapping and stress-testing
- Supply chain risk diagnostics and resilience modelling
- Industrial participation and offset strategy design
- Cluster development and local supplier enablement
- M&As and joint venture structuring for market entry

Case Insight: Asset Visibility and Lifecycle Control (Netherlands – Camcode Collaboration)

Within our EMA network, KPMG Advisory N.V. partnered with Camcode Global Ltd to enhance asset identification and lifecycle traceability solutions for defence environments.

The collaboration focused on:

- Durable UID (Unique Identifier)/asset tagging systems
- Digital asset tracking integration
- Improved logistics transparency
- Reduced lifecycle cost leakage

For CEE defence forces modernising equipment fleets, asset traceability and lifecycle management are foundational to readiness. Establishing digital asset governance from the outset allows newer fleets to leapfrog legacy inefficiencies common in older systems.

The underdog advantage:
CEE nations can design digitally enabled logistics ecosystems from inception rather than retrofitting them later.

03 Digital, Cyber and Data Transformation

Modern defence readiness is inseparable from digital capability. Command, logistics, intelligence, maintenance, and financial oversight increasingly rely on secure, interoperable systems.

KPMG's defence digital services include:

- Enterprise architecture design
- Secure system integration
- Cybersecurity maturity assessments
- Operational technology (OT) risk management
- Data governance and analytics enablement
- AI-driven readiness forecasting

We support defence organisations in designing secure digital backbones that integrate acquisition, logistics, and operational systems — ensuring transparency, interoperability, and resilience.

04 Defence Academy and Workforce Transformation

Capability is ultimately delivered by people. As defence organisations expand and modernise, talent shortages, new skill requirements, and generational transition risks become critical constraints.

Through structured capability-building programmes — including the Defence Academy model reflected across our EMA engagements — KPMG supports:

- Workforce strategy development
- Competency gap analysis
- Training pathway design
- Leadership capability development
- Change management and cultural transformation

Countries expanding rapidly can build institutional capability concurrently with procurement, embedding knowledge transfer requirements directly into industrial agreements.

05 Investment, Transactions and Cross-Border Structuring

CEE's strategic geography and rising budgets have attracted multinational defence primes, private equity, and technology providers. However, defence investment remains heavily regulated and politically sensitive.

KPMG supports multinational investors and governments through:

- Market entry strategy
- Foreign direct investment (FDI) analysis
- Regulatory and export control advisory
- Joint venture structuring
- Post-merger integration
- Valuation and financial modelling
- ESG and defence sustainability frameworks

By leveraging our cross-border EMA footprint, we provide coordinated advisory that reflects both local regulatory nuance and global investor expectations.

06 Risk, Compliance and Assurance in a High-Scrutiny Environment

Defence expenditure attracts heightened public, parliamentary, and international scrutiny. Transparency, compliance, and auditability are not optional — they are strategic enablers.

KPMG provides:

- Programme assurance and independent review
- Anti-corruption and integrity frameworks
- Procurement compliance audits
- Financial oversight models
- ESG reporting integration for defence organisations

In emerging defence ecosystems, early implementation of robust assurance frameworks increases investor confidence and strengthens sovereign credibility.

07 Integrated Delivery Through the EMA Network

The distinguishing strength of KPMG's Defence & Security practice lies in its integration across jurisdictions. Through coordinated EMA collaboration:

- Local teams provide regulatory and institutional context
- Regional hubs deliver sector expertise
- Global specialists contribute digital, cyber, and transaction depth

This integrated approach is particularly valuable for CEE, where defence transformation is often multinational by design — involving NATO interoperability, cross-border supply chains, and foreign investors.

KPMG's role is to serve as:

- Strategic translator — converting policy ambition into executable programmes
- Industrial architect — shaping resilient ecosystems
- Digital enabler — embedding secure and scalable technology
- Capability builder — strengthening institutional maturity
- Trusted advisor — safeguarding compliance, transparency, and investor confidence

For multinational defence and security investors, this creates a compelling proposition: partner with CEE nations not as peripheral markets, but as platforms for next-generation defence capability.

Featured credentials:

Defence capability assessment & development initiatives

KPMG Germany, tasked by the European Defence Agency (EDA), conducted open-source studies on lessons from Russia's war of aggression against Ukraine. Findings informed the EU Capability Development Plan (CDP) review in 2023.

Latest and ongoing system-level studies from 2025 onwards support single collaborative capability development initiatives focused, for instance, on loitering munitions and unmanned ground vehicles.

In addition, KPMG's services enable dual-use tech scaling, public-private collaboration, and hyperscaler alliances to ensure compliance, resilience, and rapid deployment across domains.

Strategic procurement transformation

KPMG Norway has been supporting Norway's defence sector through advisory services on procurement, cloud transformation and infrastructure - covering materiel management, digital modernization, and real estate development since 2018.

KPMG firms generally undertake advisory work on strategic procurement, joint programs, EU-aligned policies and capability acquisitions as well as implementing KPIs to monitor procurement performance.

Conclusions and key takeaways

Central and Eastern Europe's defining story is one of strategic exposure turned into strategic leverage. For much of the twentieth century, the region was treated as a "marchland" – a zone where great-power competition played out through spheres of influence, coerced alignment, and imposed economic models. After 1989, the region's states sought to escape that condition by anchoring themselves in the Euro-Atlantic architecture.

Today, the war in Ukraine has not only validated the strategic logic of that choice; it has accelerated a deeper transformation. Central and Eastern Europe is no longer Europe's periphery. It is increasingly the operational core of NATO's eastern posture and a critical platform for Europe's defence-industrial renewal.

Despite significant divergence in political orientations, institutional trajectories, and approaches to both the European Union and Russia, the unifying geopolitical thread running across Poland, Romania, the Czech Republic, Slovakia, Hungary, and the Baltic states is Russia, not simply as a neighbouring power, but as a historical and strategic reference point. For Poland and the Baltics, the memory of partitions, occupations, and Soviet domination is not abstract history; it shapes contemporary security doctrine.

Romania's strategic culture is influenced by Black Sea exposure and the legacy of coercion from the East. The Czech Republic and Slovakia, while less geographically exposed, have their own historical markers – 1938, 1948, 1968 – that reinforce the reality that sovereignty can be compromised when external powers bargain over "security arrangements." These experiences do not produce uniform policies, but they generate a shared political psychology: a preference for hard security guarantees, institutional binding to the West, and skepticism toward any "sphere-of-influence" logic.

This commonality is not limited to threat perception. Central and Eastern Europe also remains united by transition. The shift from central planning to market capitalism required privatisation, institution building, and social restructuring at a speed rarely seen in modern Europe. Even where "shock therapy" differed from gradualism, the overall arc was similar: liberalisation, foreign investment, and EU integration as both an economic anchor and a governance template. This is a crucial point geopolitically. The post-1989 order in the region was not merely pro-Western in sentiment; it was engineered through structural convergence, adopting EU legal frameworks, building independent regulatory institutions, aligning standards, and integrating into supply chains. That convergence created a platform for cooperation among states that might otherwise have remained divided by historical grievances.

Those grievances do exist. The region's politics is not frictionless: minority issues, border memories, competing national narratives, and different degrees of "strategic patience" towards Russia have shaped intra-regional tensions for decades.

Yet the post-Cold War settlement created a pragmatic basis for cooperation: shared exposure to Russia, shared dependence on NATO deterrence, shared reliance on EU funds and single-market access, and shared interest in preventing instability spilling over from the Balkans, the Black Sea, and the Middle East. In practice, this has produced a layered regionalism – sometimes informal, sometimes institutional – where cooperation is driven less by visions of unity and more by operational necessity.

Ukraine's position in this ecosystem is distinct but increasingly central. Unlike the Baltics, Ukraine did not pursue a rapid, unambiguous Euro-Atlantic integration trajectory after the USSR collapsed. For much of the 1990s and 2000s, it balanced between Russia and the West, constrained by internal politics, economic interdependence with Russia, and the inherited complexities of a Soviet-era industrial and security inheritance.

Nonetheless, Ukraine remained geopolitically pivotal: its geography, industrial base, agricultural role, and transit position made it a strategic hinge between Europe and Eurasia. Since 2014, and decisively since Russia's full-scale invasion in 2022, Ukraine has moved from being a buffer to being a frontline state whose survival and alignment now shape Europe's security architecture. The war has repositioned Ukraine as a core determinant of deterrence on NATO's eastern frontier, regardless of its formal alliance status. This is where Central and Eastern Europe's new role becomes clearest. The region has become NATO's containment corridor from the Baltic to the Black Sea.

It is the space through which reinforcement flows, where forward deployments sit, and where logistics and military mobility must function at speed. That geography is not optional; it is structural. It forces the region into the centre of alliance planning, making it indispensable for deterrence, sustainment, and crisis response.

For defence and security industries, this transforms the investment logic: production located in Poland, Romania, the Czech Republic, Slovakia, or Hungary is not merely "near" the front; it is embedded in the very corridor through which Europe's collective defence must operate.

The Black Sea dimension reinforces this shift. The war has exposed the Black Sea as a contested theatre where Russia can project power through missile strikes, drones, naval pressure, and hybrid disruption.

Incidents involving Russian munitions and drones spilling into or near NATO airspace have highlighted the proximity risk for Romania and, indirectly, the broader eastern flank. For NATO planners, Black Sea stability is no longer a regional issue; it is part of European deterrence. This elevates Romania's strategic value - together with Bulgaria - as a logistics and sustainment hub and makes investments in ports, Danube-connected corridors, and air defence-adjacent infrastructure more than national projects; they become alliance-enabling assets.

Ukraine's own defence-industrial evolution adds another layer of strategic logic. The war has forced Ukraine to scale domestic production rapidly, especially in drones, munitions, and repair and sustainment.

Battlefield feedback cycles have accelerated innovation in ways that peacetime procurement systems struggle to replicate. Yet Ukraine's production environment is exposed: strikes, insurance constraints, supply chain disruption, and continuity risks remain permanent features while the conflict persists. This is why neighbouring NATO states matter so much.

They provide strategic depth – safe production environments, access to EU finance, insurance and certification ecosystems, and protected logistics corridors.

The result is an emerging division of labour: Ukraine as a driver of urgent demand and operational innovation, and the NATO-border economies as the secure industrial ring where scaling, standardisation, and integration into European supply chains can occur.

This ecosystem logic is already visible in dual-use infrastructure and military mobility. The war has turned "connectivity" into a defence capability. Roads, railways, ports, and river corridors are no longer only economic infrastructure; they are sustainment arteries. Romania's use of the Danube to facilitate Ukrainian grain exports is a leading example of how economic adaptation becomes strategic infrastructure. Danube ports and associated road-rail links have gained new relevance as alternative corridors under wartime constraints.

Meanwhile, the rail-gauge mismatch between Ukraine and EU networks is a practical reminder that mobility is not just a political commitment – it is an engineering problem that requires investment, planning, and cross-border coordination. EU funding instruments increasingly support this kind of dual-use upgrading, reinforcing the region's role as the physical backbone of Europe's eastern security posture.

For investors and defence manufacturers, these dynamics translate into structural demand. Defence budgets in the region have been rising for more than a decade, especially since 2014, and accelerated sharply after 2022. This is not only about purchasing equipment; it is about replenishing stockpiles, sustaining long-term readiness, and reducing dependency in critical supply chains, particularly in ammunition, land systems, air defence components, C4ISR, and cyber. The demand is reinforced by alliance obligations and by the realization that Europe's defence posture must be credible at scale, not just symbolically present.

The region's industrial base makes this demand actionable. Central and Eastern Europe has long combined manufacturing depth with competitive costs and strong technical education. Its economies became integrated into European supply chains as "production platforms" for automotive, machinery, electronics, and increasingly advanced manufacturing. That industrial DNA is convertible. Defence production often relies on the same competencies: precision machining, metallurgy, electronics assembly, software engineering, secure communications, and systems integration.

The opportunity is therefore not merely to build new defence factories from scratch, but to adapt and expand existing capacity, turning dual-use manufacturing into surge-ready defence output.

At the national level, each country offers a distinct industrial profile. Poland combines scale—both in market size and industrial labour, with a rapidly expanding defence modernisation agenda. It has strong potential in software, cybersecurity, unmanned systems, and large-scale manufacturing.

Romania's advantage lies in geography and a mix of legacy defence production with growing Western partnerships, reinforced by Black Sea and Danube access.

The Czech Republic brings deep defence-industrial tradition, strong engineering capabilities, and a central position in European manufacturing networks.

Slovakia's niche strength, especially in ammunition and land-systems support, benefits from historic industrial depth and cost competitiveness.

Hungary's model is partnership-driven, linking procurement to localised manufacturing through strategic joint ventures. These are not identical pathways, but together they form a complementary industrial arc.

Yet the region's transformation is not frictionless. Infrastructure gaps remain a limiting factor, especially where energy resilience, rail freight, and military mobility require rapid upgrading. The scale of defence procurement programmes in Poland is contributing to the adaptation of domestic industrial capacity, particularly in high-end munitions and complex missile systems, where ongoing investments and international cooperation are supporting the gradual strengthening of local capabilities.

Romania's challenge is often the mismatch between strategic demand and a logistics and industrial backbone still modernising after decades of underinvestment. Hungary's rapid industrial expansion increases pressure on energy and transport networks.

The Czech Republic's constraints are less about basic infrastructure and more about bottlenecks in rail capacity, permitting, and energy grids that affect the speed of project execution. Slovakia's regional disparities can limit how broadly industrial investment can be distributed.

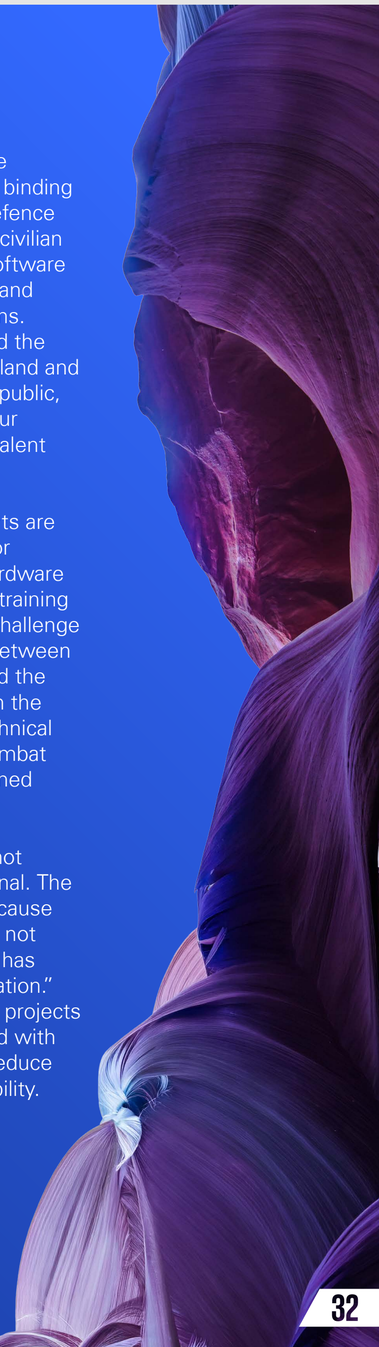
Bureaucratic and regulatory complexity is another constraint. Procurement systems that change frequently, fragmented institutional responsibilities, and heavy documentation requirements can slow industrial scaling and deter smaller innovators from entering defence markets.

Even where legal frameworks are aligned with EU standards, the practical implementation capacity varies. For multinational defence firms, this means that market entry and partnership formation often depend as much on administrative navigation as on industrial logic.

Skills shortages, especially in niche technologies, may prove the most binding constraint in the medium term. Defence expansion competes directly with civilian high-tech sectors for engineers, software specialists, electronics designers, and advanced manufacturing technicians. Demographic pressures compound the challenge. This is visible across Poland and Romania, but also in the Czech Republic, Slovakia, and Hungary, where labour markets are tight and specialised talent commands premium wages.

Ukraine's wartime labour constraints are distinct but parallel: the demand for electronics, UAV systems, and hardware design has surged faster than the training pipeline can replenish it. A major challenge remains maintaining the balance between the workforce for the economy and the need to ensure enough soldiers on the front line, including those with technical skills, to operate the numerous combat systems used by the Ukrainian armed forces.

And yet, the long-term outlook is not primarily constrained; it is conditional. The region's trajectory is favourable because the strategic drivers are structural, not cyclical. Europe's defence posture has shifted from "posture" to "preparation." EU instruments designed to move projects from R&D to production, combined with national modernisation agendas, reduce uncertainty and strengthen bankability.



As defence becomes more technology-intensive and better capitalised, it is likely to become more attractive for skilled workers. This creates the possibility of "brain return" dynamics: engineers and IT professionals who migrated to Western Europe may be drawn back by higher wages, more dynamic industrial ecosystems, and the prestige and stability of strategic-sector work.

Universities and vocational systems may respond by expanding defence-relevant specialisation – cyber, secure communications, autonomy, electronics, and advanced materials – creating a more sustainable pipeline.

This matters not only for the region's economies but also for Ukraine's long-term security. Ukraine's defence-industrial sustainability will increasingly depend on the capacity and standardisation of its NATO-border partners.

If Poland, Romania, the Czech Republic, Slovakia, and Hungary succeed in building interoperable, NATO-aligned production at scale – ammunition, components, maintenance and overhaul, secure electronics supply chains – they will effectively provide the industrial depth that allows Ukraine to institutionalise its innovations beyond wartime improvisation.

If these states fail to coordinate standards, or if infrastructure and administrative constraints slow scaling, Europe will struggle to integrate Ukraine as an industrial partner and to sustain deterrence at the necessary level.

The countries of Central and Eastern Europe will be essential to the success of a Coalition of the Willing aimed at deterring renewed Russian aggression after the conclusion of a peace agreement in Ukraine. Geography alone makes this clear: without Poland and Romania, it would be extremely difficult to operationalise, from a logistical perspective, any large-scale effort by states willing to deploy troops to Ukraine in the post-conflict period. The NATO logistics hubs in Rzeszów-Jasionka (Poland) and Câmpia Turzii (Romania) illustrate the critical role played by the two countries in sustaining support for Ukraine.

In its effort to reduce assistance to Ukraine, Russia will continue to conduct hybrid operations, including in Central and Eastern European countries, in order to influence public opinion and political decision-making. Acts of sabotage and cyberattacks against critical infrastructure will remain part of Russia's playbook.

Even if a ceasefire or peace agreement were reached tomorrow, this would not mean that Russia would abandon its hybrid efforts to destabilise the West. A militaristic (militarised and politically aggressive) Russia will continue to pose a threat to European stability, ensuring that defense budgets across Europe remain on an upward trajectory.

The Black Sea will occupy a particularly important place in this evolving security landscape. In the coming years, the region will continue to face the dangers posed by floating mines and by Russian efforts to restrict freedom of navigation – through the declaration of blocked maritime zones under the pretext of naval exercises, as well as through GPS jamming and spoofing targeting commercial shipping.

The new EU strategy for the Black Sea, released by the European Commission at the end of June 2025, proposes the establishment of a Maritime Security Hub in the region, with Romania offering to host it in the port of Constanța. This initiative will not only deepen cooperation between the two EU member states bordering the Black Sea but will also strengthen collaboration with other EU countries that have strategic interests in the region. Germany is expected to begin importing gas from the Black Sea in 2027 (when Romania's Neptune Deep offshore exploration comes online), while France and Italy currently lead NATO battlegroups in Romania and Bulgaria.

At the same time, the maritime security hub could accelerate cooperation with Ukraine. The success of Ukraine's reconstruction will be impossible without a free and open Black Sea and without guaranteed freedom of navigation. Achieving this will require significant investments – particularly through European funding – in surveillance and reconnaissance capabilities across the region. Ultimately, Central and Eastern Europe is moving from "frontier" to "core" in Europe's strategic landscape. The region's commonalities – fear of Russia, shared transition legacies, and deliberate Western alignment – are now producing tangible outcomes: higher defence spending, dual-use infrastructure investment, and expanding defence-industrial capacity.

These are not abstract policy trends. They are the foundation of Europe's emerging security economy. The question for the next decade is not whether Central and Eastern Europe will matter – it already does. The decisive question is how quickly it can translate strategic necessity into interoperable capabilities, industrial throughput, and durable cross-border defence production networks, thereby shaping both Europe's deterrence posture and Ukraine's capacity to endure as a central pillar of continental security.

Your KPMG in CEE Contacts for Defence:

Poland

Alina Wołoszyn
Partner,
Head of Advisory
at KPMG in Poland,
Head of Deal Advisory in CEE
awoloszyn@kpmg.pl

Iwona Sprycha
Partner,
KPMG in Poland
isprycha@kpmg.pl

Adam Popłonkowski
Partner,
KPMG in Poland
apoplonkowski@kpmg.pl

Kiejstut Žagun
Partner, Tax,
Innovation, Grants & Incentives,
KPMG in Poland
kzagun@kpmg.pl

Anna Szczodra
Partner,
KPMG Law in Poland
aszczodra@kpmg.pl

Romania

Tudor Grecu
CEE Head of Defence,
Partner, Head of Advisory,
KPMG in Romania
tgrecu@kpmg.com

Daniel Pană
Tax Partner,
KPMG in Romania
dpana@kpmg.com

Andreea Niculae
Partner,
Advisory Technology,
KPMG in Romania
andreeaniculae@kpmg.com

Air Flotilla General (r.)
Adrian Duță
Senior Advisor,
Defense & Security,
KPMG in Romania
adrianduta@kpmg.com

Andrei Buşe
Associate Director,
Deal Advisory,
Defense & Security,
KPMG in Romania
abuse@kpmg.com

Florentin Timoianu
Of Counsel,
Defense & Security,
KPMG Legal -
Toncescu și Asociații
ftimoianu@kpmg.com

CEE Head of Defence

Tudor Grecu
CEE Head of Defence,
Partner, Head of Advisory,
KPMG in Romania
tgrecu@kpmg.com

The Czech Republic

David Slánský
Partner,
KPMG in the Czech Republic
dslansky@kpmg.cz

Radek Chaloupka
Senior Manager,
KPMG in the Czech Republic
rchaloupka@kpmg.cz

Petr Brychta
Expert/Associate Director,
KPMG in the Czech Republic
pbrychta@kpmg.cz

Markéta Pekarová Adamová
Expert,
KPMG in the Czech Republic
mpekarova-ext@kpmg.cz

Lucie Vernerová
Senior Consultant,
KPMG in the Czech Republic
lvernerova@kpmg.cz

Kristina Boudová
Consultant,
KPMG in the Czech Republic
kristinaboudova@kpmg.cz

Hungary

Balázs Horváth
Partner,
KPMG in Hungary
balazs2.horvath@kpmg.hu

Artúr Böröcz
Director,
KPMG in Hungary
artur.borocz@kpmg.hu

Slovakia

Rudolf Sedmina
Partner,
KPMG in Slovakia
rsedmina@kpmg.sk

Peter Rado
Director, M&A,
KPMG in Slovakia
prado@kpmg.sk

Jozef Geci
Director,
KPMG in Slovakia
jgeci@kpmg.sk

Jozef Bedlek
Assistant Manager, M&A,
KPMG in Slovakia
jbedlek@kpmg.sk

Ukraine

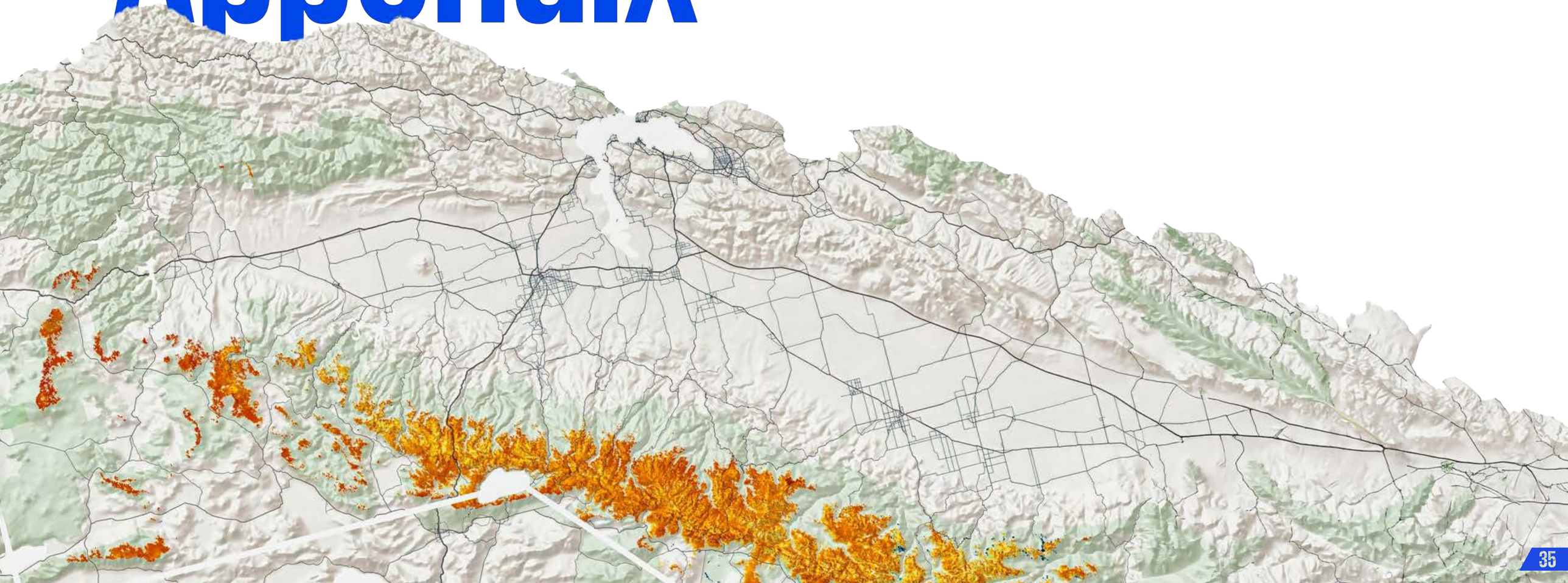
Oleg Neplyakh
Partner,
Head of Advisory,
KPMG in Ukraine
oneplyakh@kpmg.com

Sergii Popov
Partner,
Head of Tax and Legal,
KPMG in Ukraine
spopov@kpmg.ua

Yuriy Katser
Partner, Head of
KPMG Law Ukraine
ykatser@kpmg.ua

Bogdan Shyshkovskyi
Director,
KPMG Law Ukraine
bshyshkovskyi@kpmg.ua

Appendix



01 CEE Defence Funding and Incentives Landscape

Country	Cohesion Funds (2021-27)			RRF Grants (2021-26)			RRF Loans (2021-26)			Total EU Funds		
	Expected (e)	Expected % of GDP	Disbursed (e)	Expected (e)	Expected % of GDP	Disbursed (e)	Expected (e)	Expected % of GDP	Disbursed (e)	Expected (e)	Expected % of GDP	Disbursed (e)
Czech Republic	€21.1bn	6.6%	€5.0bn	€8.4bn	2.6%	€5.7bn	€0.8bn	0.3%	€0.2 bn	€30.3bn	9.4%	€10.9bn
Hungary	€21.7bn	10.5%	€3.1bn	€6.5bn	3.2%	€0.1bn	€3.9bn	1.9%	€0.8bn	€32.2bn	15.6%	€4.0bn
Poland	€75.5bn	8.9%	€10.5bn	€25.3bn	3.0%	€7.3bn	€34.5bn	4.1%	€13.5bn	€135.3bn	15.9%	€31.3bn
Romania	€31.0bn	8.8%	€5.7bn	€13.5bn	3.8%	€6.4bn	€7.8bn	2.2%	€4.3bn	€52.4bn	14.8%	€16.4 bn
Bulgaria	€10.9bn	10.4%	€1.4bn	€6.2 bn	5.9%	€1.8bn	€0.0bn	0.0%	€0.0bn	€17.1bn	16.3%	€3.2bn
Croatia	€8.7bn	10.1%	€0.8bn	€5.8bn	6.7%	€4.1bn	€4.4bn	5.2%	€1.20n	€18.9bn	22.0%	€6.1bn
Slovakia	€12.6bn	9.7%	€1.7 bn	€6.4bn	4.9%	€4.0bn	€0.0bn	0.0%	€0.0bn	€19.0bn	14.6%	€5.6bn

Source: EC, Eurostat, Macrobond, ING

In defence and dual-use areas, public support can be grouped into EU-level grants and financing awarded mainly by the European Commission and its implementing agencies, and national or regional support granted by ministries, national agencies and regional authorities.

Support typically takes the form of tax incentives such as R&D reliefs and allowances, direct grants and investment aid linked to CAPEX, jobs and eligible project costs. Depending on the instrument's objectives and eligibility rules, projects may be implemented individually within one country or through cross-border consortia to deliver interoperable capabilities and strengthen the European defence industrial base.

This report therefore first outlines the main EU instruments and their typical use cases and then summarises the key national and regional levers available in each CEE country, including priority areas, practical eligibility conditions and evidence requirements.

EU-level funding and financing instruments currently available for defence projects (EDF, EDIP, SAFE)

At EU level, the current architecture for defence projects combines competitive grant funding for collaborative R&D with instruments that support defence-industrial readiness and common procurement. In practice, projects may progress from early-stage collaborative research, prototyping and validation under the European Defence Fund (EDF) towards downstream instruments such as the European Defence Industry Programme (EDIP), which supports common procurement actions, industrial reinforcement and other measures strengthening Europe's defence readiness.

In parallel, Security Action for Europe (SAFE) provides loan financing to Member States for urgent and large-scale defence procurement. Earlier emergency instruments, notably EDIRPA and ASAP, helped shape this policy architecture by incentivising common procurement and supporting ammunition and missile production capacity, but today they are better described as predecessor measures rather than the main current funding sources.

Grant instruments (collaborative R&D and industrial capacity)

European Defence Fund (EDF):

the EU's flagship programme financing collaborative defence research and capability development projects. The applicable TRL range depends on the call and topic, with research actions typically at lower TRLs and development actions progressing toward prototyping, testing and validation (often up to roughly TRL 8.00). The EDF budget for 2021–2027 is €7.95bn, and the maximum EU contribution under the EDF 2026 work programme is €1.01bn (split between capability development and defence research budget lines).

In 2026, EDF is implemented through 10 calls covering 31 topics, combining thematic capability priorities with non-thematic innovation lines, including research calls, development calls, SME-focused non-thematic calls and disruptive-technology actions.

Typical 2026 funding opportunities span, among others, air and missile defence (including counter-hypersonic and interception-related themes), ground combat (e.g., future platform systems and precision fires), air combat (e.g., autonomous refueling and selfprotection), digital transformation (e.g., AI-enabled situational awareness and cloud-enabled multi-domain operations), underwater warfare and critical seabed infrastructure protection, CBRN/defence medical support, space-enabled defence applications, and simulation and training frameworks supported by AI.

European Defence Industry Programme (EDIP)

a 2025–2027 programme with a €1.50bn financial package, designed to strengthen the European Defence Technological and Industrial Base by improving industrial preparedness and responsiveness and reinforcing cooperation on common procurement and industrial scale-up. The EDIP also includes a dedicated Ukraine Support Instrument (€300.00m) to support Ukraine's defence industry and integration with the wider European ecosystem.

EUDIS (EU Defence Innovation Scheme):

an EDF-enabled innovation access layer aimed at lowering entry barriers for SMEs, start-ups and scale-ups through instruments such as matchmaking and acceleration, facilitating participation in EDF opportunities and strengthening defence and dual-use innovation pipelines

Financing instruments (common procurement and scaling)

SAFE (Security Action for Europe):

an EU financial instrument providing up to €150.00bn in loans, financed by EU borrowing, to help Member States increase expenditure on common defence procurement and related industrial scaling. SAFE loans are taken by Member States, while the underlying common procurement and eligibility conditions are designed to reinforce interoperability and prioritise European supply chains.

Dual-use enabling infrastructure

Connecting Europe Facility (CEF) – Military Mobility:

finances dual-use transport infrastructure upgrades supporting both civilian and military mobility. Under the 2021–2027 envelope, €1.69bn was earmarked and frontloaded for 95 selected projects across 21 Member States.

National Financing Programmes

Across the covered CEE countries, national defence and dual-use support is typically delivered through a combination of procurement-driven funding and policy instruments. In practice, national financing programmes include Ministry of Defence contracting and dedicated grant mechanisms for defence R&D and modernisation (where available), horizontal innovation programmes that also accept dual-use applicants, and broader fiscal and investment incentives applied through tax authorities and regional aid frameworks. Support is commonly structured as R&D tax incentives (reliefs, allowances, deductions), direct grants (often call- or budgetdependent), and investment aid tied to CAPEX, job creation and mandatory maintenance periods.

Access and bankability are driven by a small set of recurring constraints: security requirements for sensitive projects, localisation and eligible-supply-chain considerations, state-aid cumulation ceilings, formal documentation standards (especially for R&D qualification and cost traceability), and "apply-before-start" rules for investment support.

Poland is the largest defence market among the covered CEE jurisdictions and has maintained a rapid modernisation trajectory, coupled with an explicit policy emphasis on strengthening territorial defence, armoured forces, air and missile defence, and resilience (including cyber).

From a funding perspective, Poland combines sizeable procurement demand with a mature set of tax incentives for R&D and industrial modernisation, and a location-based investment support framework (Polish Investment Zone).

Priority capability area

- Air and missile defence (incl. layered AMD systems), as well as sensor and C4ISR integration.
- Unmanned systems and counter-UAS; autonomy/autonomation and AI-enabled decision support.
- Cybersecurity and secure communications; situational awareness and informationdomain resilience.

National instruments relevant to defence and dual-use

- R&D tax relief (standard: 200% deduction for qualifying payroll costs and 100% for other qualifying R&D cost categories; broader 200% regime available for certified R&D centres).
- Prototype relief: an additional 30% deduction for costs of trial production and market introduction of a new product, capped at 10% of income.
- Robotics relief: an additional 50% deduction of eligible robotisation costs; time-limited for tax years 2022–2026.
- Polish Investment Zone: regional state aid mechanism supporting new investments (tax exemptions) – with defence-related activity eligibility expanded following the July 2025 amendment removing prior exclusions for weapons/ammunition/explosives.
- The revised Polish National Recovery Plan established a Security and Defence Fund to finance civil protection investments, dual-use infrastructure (e.g., transport links supporting resilience /mobility), cybersecurity, and enterprise modernisation, including support for R&D/innovation where aligned with the fund's objectives.

Practical considerations

- For classified or security-sensitive projects: anticipate industrial security requirements (facility and personnel clearances), segregated ICT environments, and controlled supply chains.
- Dedicated government programs (e.g., Ministry of Defence schemes, internal/national funds) - There is no legal requirement for a permanent local presence. A foreign contractor may apply for a contract directly or through its Polish branch. In practice, companies often form consortia or partner with Polish entities (which helps with access to infrastructure and meeting security requirements).
- Regional investment aid - an entrepreneur applying for support must declare the number of new jobs related to the investment. There is a requirement to maintain these new positions for at least 5 years (for large companies) or 3 years (for small and medium-sized enterprises).
- Similarly, the entire investment project must be maintained for a minimum of 5 years (3 years for SMEs) after its completion. During this period, the beneficiary cannot transfer the fixed assets covered by the investment outside the designated facility.

Romania's defenceindustrial base blends legacy Sovietera production lines – notably ammunition, armoured vehicles, artillery and explosives – with ongoing efforts to modernise, consolidate and align to NATO standards. Persistent structural challenges include fragmentation of stateowned enterprises, outdated manufacturing infrastructure, and limited R&D investment.[75]

Recent strategic frameworks – particularly the National Defence Industry Strategy 2024–2030 (SNIA) – prioritise transition towards advanced manufacturing, technology transfer, NATOstandard platforms, cyber capabilities and autonomous systems, while seeking to reduce import dependency and revitalise domestic production.[76]

On the operational side, Romania continues large-scale procurement of Western systems (F-35, Patriot, Piranha V, C5ISR etc.) while incrementally upgrading domestic industrial capacity to participate in production, assembly and maintenance chains.[77]

Romania combines procurement-driven defence spending, administered primarily through the Ministry of National Defence (MoND), with national industrial policy instruments and access to EU defence and innovation funding. Key funding channels include:

- State budget allocations: Romania maintains defence expenditures at 2.5% of GDP, with 2025 allocations reaching RON 42.75 billion (approx. 2.23% of GDP) for procurement, modernisation and capability development.[78]
- Offset / industrial cooperation mechanisms: Mandatory for large contracts above €10m, often embedded in major procurements (Patriot, Piranha V, F-16 maintenance, etc.) and supporting domestic production lines and technology transfer.
- National stateaid schemes, as set out in SNIA, support capacity expansion, modernisation and diversification across ammunition, armoured vehicles, aeronautics, shipbuilding, cyber solutions and autonomous systems.

Priority capability areas

- Modernisation of surveillance, defence and C5ISR systems (satellite communications, integrated tactical C2, brigade/division C2, network security systems).
- Replacement of Soviet-era equipment with NATO-standard land, air and naval platforms (armoured vehicles, howitzers, MLRS, fighter aircraft upgrades, patrol vessels).
- Cybersecurity, strategic communications and digital defence infrastructure (aligned with SNIA and the National Defence Strategy 2025–2030).
- Autonomous systems, drones, loitering munitions and smart munitions— explicitly prioritised under SNIA's technology and R&D axes.
- Ammunition, explosives and powders, where Romania seeks to rebuild and scale production capacity due to high NATO-wide demand.

75 INFOFLASH FEDERICO FAVIA - Romania Defence_Final version
76 How Can Romania Revitalize Its Defense Industry? | German Marshall Fund of the United States
77 Romania - Defense Industry
78 K-Romanias_Defence_Sector_Outlook_Brochure_A4_26112025.pdf

National instruments relevant to defence and dual-use

- State budget and stateaid schemes for industrial modernisation, capacity expansion and diversification – covering both defence and eligible dualuse items.
- Procurement-driven industrial cooperation, managed by the MoND and often linked to technology transfer, local assembly or maintenance hubs (e.g., the F16 maintenance centre, Piranha V production lines, Patriot component manufacturing).
- Romanian Development Bank (Eximbank/Banca de Export-Import) financing instruments (loans, guarantees) may apply for industrial investment, although not defencespecific; access depends on classification of assets as dualuse or industrial infrastructure.

Practical considerations

- Security-sensitive projects typically require security clearance, especially for cyber, C5ISR, ammunition and explosives, and classified procurement activities.
- Local presence or partnerships are strongly preferred – often mandatory for participation in large acquisition programs and for meeting industrial cooperation obligations under offsets/ technological and industrial cooperation.
- Regulatory complexity reflects the multiactor governance model (MoND for procurement, Ministry of the Economy for stateowned defence companies, National Agency for Public Procurement for oversight); early validation of eligibility conditions is essential for any industrial or R&D linked support mechanism.

The Czech Republic combines a developed industrial base (including defence manufacturing) with an increasingly active policy to support applied R&D and production-scale investments. From a funding perspective, the Czech Republic offers EDF-linked national co-funding (PRODEF), domestic applied R&D grants, an R&D tax allowance, and regionally differentiated investment incentives, supporting dual-use projects from development through production-scale investment.

Priority capability areas

Arms and ammunition; armoured vehicles; unmanned systems, pyrotechnics.

National instruments relevant to defence and dual-use

- PRODEF (national co-funding mechanism linked to EDF participation), administered by TAČR with Ministry of Defence involvement; typically supports EDF development actions by covering a share of national co-funding.
- Application – DEEP TECH (OP TAK, Ministry of Industry and Trade / Business and Innovation Agency): supports industrial research and experimental development in deep-tech areas; calls are periodic/annual (e.g., Call IV open into early 2026, as per public information).
- R&D tax incentive: effective benefit aligns with the CIT rate (21%) applied to an additional deduction of qualifying R&D costs; from 1 January 2026, the additional deduction increases to 150% up to CZK 50m (group level) and 100% above the cap (as per Ministry of Finance guidance).
- For investment incentives, the level of support varies by region (15–40% of eligible costs) and the minimum investment is approximately EUR 3.3 million; a maximum is not set. Then the form of support is a 10-year tax relief; in specific regions grants for new jobs and training are available. In other cases, ranges are set individually.

Practical considerations

- Project location in the Czech Republic is a core condition for many regional incentives (with Prague typically excluded for some schemes).
- Investment incentives: regional aid typically structured as a 10-year corporate income tax relief; aid intensity varies by region (indicative 15–40% for large enterprises; higher for SMEs) and is conditional on local execution and maintenance periods.
- Investment incentives: the minimum investment is approximately EUR 3.3 million; a maximum is not set.
- There are no exclusions or limitations applicable to defence-related work.

Slovakia's defence funding landscape combines EU participation (including planned SAFE utilisation) with national grant mechanisms under the Ministry of Defence and a stable R&D super-deduction regime.

From a funding perspective, Slovakia combines EU participation – including planned SAFE loan utilisation for common procurement – with Ministry of Defence grant mechanisms for defence-designated projects and a stable R&D super-deduction regime, enabling both capability modernisation and dual-use R&D with tax-efficient delivery.

Priority capability areas

A wide range of prioritised technologies and systems across land, air, and cyber domains, including armoured vehicles, combat systems and artillery, air defense systems, air platforms, unmanned systems, cyber and electronic warfare, as well as logistics and support technologies.

National instruments relevant to defence and dual-use

- Ministry of Defence grants under §2e of Act No. 435/2010 Coll. (R&D and modernisation), including defence-designated projects (availability depends on annual budgeting and calls).
- Regional investment aid: location-based aid typically in the 40–60% intensity range (subject to state aid rules and location).
- SAFE participation: Slovakia plans to participate and has indicated c. €2.3bn earmarking for SAFE-related purposes (as per the country sheet input).
- R&D super-deduction: an additional 100% deduction of qualifying R&D expenditure at project level, subject to statutory conditions and documentation requirements.

Practical considerations

- Defence-designated MOD grants may entail security and localisation requirements depending on project sensitivity.
- The programme supports TRL 6, with co-financing rates ranging from 25% to 100%.
- Security clearances are not mandatory, but certification to conduct R&D is required, while consortia are optional and depend on the specific call conditions.
- The typical allocation size per call or programme is around €9 million for a 3-year scheme. Typical grants range from €5,000 to €1,000,000, with project durations of up to 36 months.

Hungary offers a mature investment incentive framework combining cash subsidies and tax allowances within a regional state aid structure, complemented by R&D-related tax mechanisms. This positioning makes Hungary particularly relevant for manufacturing and scale-up investments linked to defence supply chains. From a funding perspective, Hungary is primarily investment-incentive driven, leveraging cash grants and tax allowance structures within regional state-aid ceilings, supplemented by R&D-related tax mechanisms.

Based on the allocation of the SAFE financing instrument, up to €16.2 billion could support Hungary's defence procurements and investments, making it the third-largest allocation after Poland and Romania.[79]

National instruments relevant to defence and dual-use

- Maximum regional aid intensity can reach 60% depending on project location; aid is calculated as the present value of eligible costs multiplied by the applicable intensity ratio.
- Two main types of regional state aid: VIP cash grant and Development tax allowance.
- The VIP cash grant is a non-refundable, post-financed cash grant qualifying as regional aid based on an individual decision of the Hungarian Government.
- Development tax allowance can be used in the tax year following the year of the capitalisation, or – at the taxpayer's discretion - in the year of the capitalisation and in the 12 subsequent tax years, but not later than the 16th tax year from the submission of the above notification form to the Ministry of Finance.
- Large investment caps apply above €55m eligible costs, with progressive reductions (100% up to €55m; 50% for €55–110m; 34% above €110m of the applicable intensity).
- Applications must be submitted before commencement of the investment (pre-start condition); only new assets typically qualify.
- Development tax allowance (corporate tax relief) and/or cash grants can be combined within state aid ceilings, subject to project qualification and notification rules.
- R&D tax mechanisms may include tax base reductions and/or cost deductions linked to qualifying R&D activities (subject to documentation and local rules).

79 Magyarország SAFE hitelkerete 16,2 milliárd euró

Practical considerations

- Early planning of incentives is recommended due to strict "prior to start" application requirements.
- It should be ensured that state aid aggregation and cumulation are modelled across all public sources to avoid exceeding ceilings.
- The different categories of regional subsidies (including both tax allowances and cash grants) must be jointly considered and may not exceed the maximum intensity applicable for the specific region (This means in practice that if the applicable intensity ratio is 50 % and the company has received, for instance, a 10% VIP cash grant for its investment project to be carried out, the remaining 40% out of the 50% intensity may be used in a form of a development tax allowance).
- Only new investments may qualify as eligible costs for regional investment incentive purposes.
- R&D cash grant: Enterprises should undertake to increase the R&D headcount by 10 employees. The ratio of employees with higher education must be at least 50% and the employee must work in the R&D field for at least 50% of his/her work time.
- The monitoring period for this subsidy type is min. 2 years.

Ukraine's defence-support framework relies less on traditional regional state aid and more on defence-specific grants, targeted manufacturing support and a dedicated legal framework for defence companies.

This makes Ukraine particularly relevant for defence-tech development, rapid prototyping, battlefield validation and manufacturing localisation in wartime conditions.

Ukraine combines domestic instruments such as Brave1, the "Made for Victory" grant track and Defence City with selected EU-linked opportunities. While Ukraine does not currently access SAFE loans directly and is not yet an EDF-associated country, Ukrainian entities may nevertheless participate in selected EU defence mechanisms where the applicable eligibility conditions allow.

Priority capability areas:

- Unmanned systems, robotics and interceptor drones
- Electronic warfare, reconnaissance, navigation resilience and counter-UAS solutions
- AI-enabled defence technologies and innovation priorities identified through Brave1

National instruments relevant to defence and dual-use

- Brave1 – Ukraine's state defence-tech cluster and grant platform
- "Made for Victory" – grant support for manufacturers of weapons and military equipment components
- Defence City – a dedicated legal framework offering tax and other support measures for eligible defence companies

Practical considerations:

- SAFE-related projects should be structured through Member State-led common procurement
- Domestic schemes require sanctions, ownership and solvency screening
- In EDF-related cooperation, eligibility depends on the specific instrument, topic and call design - financial support to third parties (FSTP)

Cross-country comparison matrix (CEE):

Jurisdiction	Military specialization of the country	Dedicated government programmes (e.g., Ministry of Defence schemes, internal /national funds	Regional investment aid / Special Economic Zones	Cash grants (R&D + dual use)	Cash grants (defence projects)	R&D and Tax Incentives for dualuse and Defence Activities	Loans / guarantees	Other opportunities / additional mechanisms
Poland	✓	✓	✓	✓	✓	✓	✓	✓
Czech Republic	✓	✓	✓	✓	✗	✓	✓	✓
Hungary	✓	✓	✓	✓	✓	✓	✓	✓
Romania	✓	✓	✗	✓	✓	✓	✓	✓
Slovakia	✓	✓	✓	✓	✓	✓	✓	✗
Ukraine	✓	✓	✗	✓	✗	✓	✓	✗

A2.

Central and Eastern Europe Factsheet

Poland Factsheet (2021–2025)

Macro Overview

Macro	2021	2022	2023	2024	2025
Total population (m)	37.1	36.9	36.8	36.6	36.5
Population abroad	1.5m in 2024 or 4.1% of 2024 population				
Largest metro area	Warsaw 1,861,599 - 5.2% of population				
Country size	312,680 km²				
GDP current prices (EUR m)	583,001.4	661,712.3	751,931.7	848,490.9	918,463.6
GDP PPS index	79	78	77	78	n/a
GDP per capita PPP (USD)	41,059.6	46,777.6	48,473.1	51,262.5	n/a
Net annual earnings	18,249.4	19,317.2	20,057.5	21,765.7	n/a
Credit ratings (S&P / Moody's)	A- (Stable) / A2 (Negative)				
Inflation	5.1%	14.4%	11.4%	3.6%	n/a
Key interest rate	1.8%	6.8%	5.8%	5.8%	4.0%
Average annual FX PLN/EUR	4.6	4.7	4.5	4.3	4.2
Public deficit	-1.7%	-3.4%	-5.2%	-6.5%	n/a
Defence budget	2.2%	2.5%	3.0%	4.2%	4.7%

Foreign Direct Investment (FDI)

FDI	2021	2022	2023	2024	2025
FDI inflows (EUR bn)	31.5	39.7	33.1	18.7	n/a
FDI % of GDP	5.4%	6.0%	4.4%	2.2%	n/a

- Major defence investments: Apache (€9bn), K2 Black Panther (€5,6bn), F-35 (€4.6bn), M1 Abrams (€4.5bn), others
- Recent trends: defence spending at ~4.8% of GDP in 2026; acceleration of domestic ammunition and missile production capacity; growing emphasis on long-term framework agreements and strategic partnerships
- Expectations: defence budget towards ~5% GDP by 2035, rising domestic production

EU Funds

- Non-reimbursable EU funding since 2004: €245bn+
- RRF allocation: up to €59.8bn (≥€20.8bn received)
- Cohesion funds disbursement by mid-2025: 46.6% contracted; ~7% disbursed
- Future facilities: €43.7bn SAFE; EU MFF cycles; Modernisation Fund

Geography and Infrastructure

- TEN-T corridors: Baltic–Adriatic, North Sea–Baltic, Amber Corridor, RFC-A, RFC-8
- Major ports: Gdańsk (77m t), Gdynia (27m t), Szczecin-Świnoujście (32m t)
- Airports: Warsaw Chopin (21m pax), Kraków (11m), Gdańsk (7m), Wrocław (4.5m), Poznań (3.6m)
- NATO routes: A1, A6/S3, A2, E20 rail, S19 Via Carpatia, A4, Warsaw–Białystok–Suwałki corridor
- Planned megaprojects: Port Polska hub (2032), Rail Baltica (€10–24bn), Via Carpatia S19 (€6.5bn)
- Energy infrastructure: coal plants (Bełchatów, Kozienice, Turów, Opole), LNG Świnoujście, offshore wind, envisaged nuclear power generation capacity, Baltic Pipe

Trade and Export Controls

- Main export markets: 73-74% EU; top partners Germany, Czech Republic, France, UK, The Netherlands
- Trade balance: ~USD 11bn annual surplus
- Export control: strict EU-aligned, overseen by the Ministry of Development and Technology
- National restrictions: Poland maintains licensing and control requirements for trade in strategic goods, including military items and dual-use goods, technologies and services, with additional controls for certain nuclear-related items and sanctioned goods.

Taxation

Taxation	2021 -2025
Corporate income tax (%)	**19%**
VAT (%)	**23%**
Reduced VAT (%)	**5% and 8%**
Capital gains tax (%)	**19%**
Dividend tax (%)	**19%**
Personal income tax (%)	**12% and 32%**
Progressive Tax System	**Yes**

Governance

- Government: Parliamentary republic
- Official language: Polish
- Currency: PLN
- NATO: since 1999
- EU: since 2004
- OECD: since 1996

Defence Industry

Main players: Polska Grupa Zbrojeniowa (state-owned); expanding private sector

Defence Industry	2020	2021	2022	2023	2024
Total revenue of defense companies (PLN bn)	~15	~15	~17	~24	31.2

Source: PKO Bank Polski, "Wydatki militarne", September 3, 2025, https://centrumanaliz.pkobp.pl/makroekonomia/makro-focus-wydatki-militarne-bezpieczenstwo-i-rozwoj

Romania Factsheet (2021–2025)

Macro Overview

Macro	2021	2022	2023	2024	2025
Total population (m)	19.2	19.0	19.1	19.1	19.0
Population abroad	3.1m (EU) to 5.7m (global)				
Largest metro area	Bucharest (2,313,519) – 12.2% of national population				
Country size	238,400 km²				
GDP current prices (EUR m)	240,986.6	280,777.4	321,577.9	353,633.1	378,865.2
GDP PPS index	72	72	75	77	n/a
GDP per capita PPP (USD)	37,534.2	41,979.3	45,981.6	49,076.5	n/a
Net annual earnings	13,740.8	14,451.2	15,600.1	17,421.1	n/a
Credit ratings (S&P / Moody's)	S&P BBB- (Negative) / Moody's Baa3 (Negative)				
Inflation	5.1%	13.8%	10.4%	5.6%	n/a
Key interest rate	5.1%	6.0%	7.0%	6.5%	6.5%
Average annual FX RON/EUR	5.1	4.9	5.0	5.0	5.0
Public deficit	-7.2%	-6.5%	-6.7%	-9.3%	n/a
Defence budget	1.8%	1.7%	1.6%	2.3%	2.3%

Foreign Direct Investment (FDI)

FDI	2021	2022	2023	2024	2025
FDI inflows (EUR bn)	9.9	11.0	8.0	6.7	n/a
FDI % of GDP	4.1%	3.9%	2.5%	1.9%	n/a

- Major defence investments: €8bn MBT programme, €2.5bn IFV programme
- Recent trends: SAFE allocation €16.7bn; localisation requirements increasing
- Expectations: defence spending rising toward ~5% GDP by 2035

EU Funds

- Non-reimbursable funds since 2007: €100bn+
- RRF allocation: €7.84bn (≥€5bn received)
- Absorption (2021–2027): 16–18% cohesion; 37.6% RRF by Oct 2025
- Future: €16.7bn SAFE; next MFF 2028–2034; Modernisation Fund

Geography and Infrastructure

- TEN-T corridors: Rhine–Danube; Orient/East-Med; Baltic–Black Sea (Via Carpathia); Danube waterway; Black Sea maritime corridor
- Major ports: Constanța (100m tonnes/yr), Midia, Mangalia; Danube ports (Galați, Brăila, Tulcea, Sulina)
- Airports: Henri Coandă (20m pax, 150k tonnes cargo), Cluj, Timișoara, Iași, Constanța, Sibiu, Craiova
- NATO routes: Constanța–Danube–Central Europe corridor; Via Carpathia; Corridor IV rail/road; Southern Corridor to Bulgaria/Greece
- Planned investments: 887 km highways under construction; 477 km in tendering; rail modernisation + HSR (RRF)
- Energy: Neptun Deep offshore gas; Cernavodă Units 3–4 expansion

Trade and Export Controls

- Main export markets: ~75% EU (Germany, Italy, Hungary, France, Poland)
- Trade balance: ~USD 100bn exports vs ~USD 130bn imports (≈USD 30bn deficit)
- Export control: in development
- National restrictions: in development

Taxation

Taxation	2021	2022	2023	2024	2025
Corporate income tax (%)			**16%**		
VAT (%)			**19.0%**		**21%** (from 1 August 2025)
Reduced VAT (%)			**5% and 9%**		**11%** (from 1 August 2025)
Capital gains tax (%)			**10%**		
Dividend tax (%)	**5%**	**5%**	**8%**	**8%**	**10%**
Personal income tax (%)			**10%**		
Progressive Tax System			**No**		

Governance

- System: Semi-presidential republic
- Language: Romanian
- Currency: RON
- NATO: since 2004
- EU: since 2007
- OECD: accession candidate (expected around 2026)

Defence Industry

Main players: ROMARM (state-owned, 15 subsidiaries); expanding private sector

Defence Industry	2021	2022	2023	2024	2025
Defence industry revenues (RON m)	972.55	1,930.56	1,898.14	n/a	n/a

Hungary Factsheet (2021–2025)

Macro Overview

Macro	2021	2022	2023	2024	2025
Total population (m)	9.7	9.6	9.6	9.6	9.5
Population abroad	4.21%	3.89%	3.83%	4.40%	n/a
Largest metro area	Budapest 1,685,209 (2025) - 17.7% of population				
Country size	93,025 km²				
GDP current prices (EUR m)	154,971.7	168,528.9	197,127.0	206,092.3	218,833.9
GDP PPS index	75	76	76	76	n/a
GDP per capita PPP (USD)	38,887.0	43,880.0	45,202.0	47,598.0	n/a
Net annual earnings	14,375.0	15,012.5	15,944.4	17,312.9	n/a
Credit ratings (S&P / Moody's)	BBB- (Negative) / Baa2 (Negative)				
Inflation	5.1%	14.5%	17.6%	3.7%	4.4%
Key interest rate	2.4%	18.0%	10.8%	6.5%	6.5%
Average annual FX HUF/EUR	358.5	391.3	382.0	395.2	397.9
Public deficit	-7.1%	-6.2%	-6.7%	-4.9%	n/a
Defence budget	1.3%	1.9%	2.0%	2.0%	2.0%

Foreign Direct Investment (FDI)

FDI	2021	2022	2023	2024	2025
FDI inflows (EUR bn)	28.4	-1.9	-65.4	-57.5	n/a
FDI % of GDP	18.3%	-1.1%	-33.2%	-27.9%	n/a

- Defence investments: Lynx IFV plant, Leopard 2A7HU, NASAMS, ELM-2084 radars, Airbus H145M/H225M, Embraer KC-390, Várpalota RDX plant, Colt CZ Hungary, Gidrán vehicles
- Recent trends: FDI 2.6% of GDP in 2024, reduced by Budapest Airport repurchase; electronics-sector inflows strong
- Expectations: Hungary remains an attractive FDI hub; government–investor cooperation strong

EU Funds

EU Funds	2021	2022	2023	2024	2025
Nominal non-reimbursable funding (EUR billion)	4.6	4.5	6.42	3.8	n/a
Nominal reimbursable funds (EUR billion)	0	0	0.9	0	n/a

- Absorption: 2014–20 cycle 99.1%; 2021–27 cycle ~10–25% by 2026
- Expected facilities: €17.4bn plan submitted Dec 2025; €2.6bn advance expected Spring 2026

Geography and Infrastructure

- TEN-T corridors: Rhine–Danube; Orient/East-Med (road/rail)
- Ports: Budapest Csepel, Győr-Gönyű, Baja
- Airports: Budapest Ferenc Liszt International Airport
- NATO logistics: M1–M5–M7 transit axes, upgraded rail, Pápa & Kecskemét air bases, Danube as strategic corridor
- Planned investments: Paks II (€12–15bn), EV/battery zones (€8–10bn), transport modernisation (€6–8bn), energy diversification (€2–3bn), renewables (€1.5–2bn)
- Energy infrastructure: nuclear-based grid, gas interconnectors, renewables expansion as per NECP 2024 update

Taxation

Taxation	2021	2022	2023	2024	2025
Corporate income tax (%)			**9%**		
VAT (%)			**27%**		
Reduced VAT (%)			**5% and 18%**		
Capital gains tax (%)			**15%**		
Dividend tax (%)			**15%**		
Personal income tax (%)			**15%**		
Progressive Tax System			**No (flat PIT)**		

Trade and Regulations

Trade	2021	2022	2023	2024	2025
Trade balance (EUR bn)	1.6	-9.1	8.2	8.7	8.2

Export control: aligned with EU Dual-Use Regulation 2021/821

Governance

- Government: Parliamentary republic
- Language: Hungarian
- Currency: HUF
- NATO: since 1999
- EU: since 2004
- OECD: since 1996

Defence Industry

- Major players: Rheinmetall Hungary, 4iG Space & Defence Technologies, N7 Defence Zrt.
- Note: No official defence industry revenue data available

Czech Republic Factsheet (2021–2025)

Macro Overview

Macro	2021	2022	2023	2024	2025
Total population (m)	10.5	10.8	10.9	10.9	10.9
Population abroad	2–2.5m of Czech origin; ~290k with Czech citizenship or 2.7% of 2023 population				
Largest metro area	Prague Metropolitan Area 2,285,471 - 21.0% of population				
Country size	78,871 km²				
GDP current prices (EUR m)	246,012.3	286,976.8	319,099.1	320,741.7	346,583.4
GDP PPS index	92	90	91	91	n/a
GDP per capita PPP (USD)	47,796.0	52,947.0	55,761.4	57,285.4	n/a
Net annual earnings	16,141.6	16,650.2	17,629.2	18,559.5	n/a
Credit ratings (S&P / Moody's)	AA- (Stable) / Aa3 (Stable)				
Inflation	3.8%	15.1%	10.7%	2.4%	n/a
Key interest rate	3.8%	7.0%	6.8%	4.0%	3.5%
Average annual FX CZK/EUR	25.6	24.6	24.0	25.1	24.7
Public deficit	-5.0%	-3.1%	-3.7%	-2.0%	n/a
Defence budget	1.4%	1.3%	1.4%	2.1%	2.0%

Defence Acquisition Programmes

- Leopard 2A8 tanks (77 units)
- CV90 IFVs (246 units)
- F-35 acquisition (2024)
- Heavy mechanised brigade development
- Modernisation of air defence incl. SPYDER system

Foreign Direct Investment (FDI)

FDI	2021	2022	2023	2024	2025
FDI inflows (EUR bn)	10.8	8.6	10.8	12.2	n/a
FDI % of GDP	4.4%	3.0%	3.4%	3.8%	n/a

- Onsemi EUR 2bn SiC chip plant expansion
- Cínovec lithium mining (ČEZ/Geomet)
- CTi Europe high-tech cables facility
- Defence investments: Rheinmetall–CSG JV, BAE Systems localisation (CV90), Lockheed Martin industrial cooperation (F-35), KNDS–Tatra Leopard 2A8 production

EU Funds

- Total EU allocations (2021–27): €42.6bn
- Cohesion policy: €21.1bn
- Reimbursable instruments: €25.5bn
- Absorption rate (2023): 99%
- RRF: €7bn; EAFRD €2.1bn; Modernisation Fund €10.5bn; REACT-EU €1bn

Geography and Infrastructure

- TEN-T corridors: Orient/East-Med; Baltic-Adriatic; Rhine-Danube
- Motorways: D1, D5, D8, D11, D3
- Airports: Prague (16.3m pax, 235k tonnes cargo), Ostrava (500k pax), Brno (~749k pax), Pardubice (cargo + military)
- Main river ports: Lovosice, Děčín-Loubí, Mělník
- NATO routes: D5-D1-D47 east-west; Ostrava-Mošnov logistics base
- Planned megaprojects: Dukovany NJZ (€18.6bn), HSR Prague–Dresden (€20bn), HSR Moravia(€7bn), D35 motorway

Energy Infrastructure

- TAL-PLUS pipeline expansion (2025)
- Stork II PL-CZ gas interconnector (post-2026)
- Net4Gas domestic pipeline network, 3.5 bcm storage
- ČEPS transmission reinforcement for new nuclear power station

Trade and Export Controls

Main export markets: EU (79.3%), Germany (32.2%), Poland (7.4%), Slovakia (7.4%), France (4.6%)

Trade	2021	2022	2023	2024	2025
Trade balance (CZK bn)	-9,2	-204,8	122,5	220,5	207,7 (estimate as of Nov 2025)

- Export control regime aligned with EU dual-use rules; strict licensing (MPO, Police, NBÚ)
- FDI screening expanded to critical infrastructure sectors

Taxation

Taxation	2021	2022	2023	2024	2025
Corporate income tax (%)		**19%**		**21%**	
VAT (%)			**21%**		
Reduced VAT (%)		**15% and 10%**		**12% (effective 1/1/2024)**	
Capital gains tax (%)			**No separate tax. Capital gains constitute part of the aggregate individual income tax**		
Dividend tax (%)			**15%**		
Personal income tax (%)			**15% and 23% (high-income threshold adjustments)**		
Progressive Tax System			**Yes**		

Governance

- Government: Parliamentary republic
- Language: Czech
- Currency: CZK
- NATO: since 1999
- EU: since 2004
- OECD: since 1995

Defence Industry

Main players: CSG, Colt CZ Group, Omnipol, STV Group, VOP CZ, LOM Praha

Defence Industry	2021	2022	2023	2024	2025
Defence industry revenues (EUR bn)	approx. 2	n/a	estimates approx. 3		

Slovakia Factsheet (2021–2025)

Macro Overview

Macro	2021	2022	2023	2024	2025
Total population (m)	5.5	5.4	5.4	5.4	5.4
Population abroad	1.5m (official number) / 1.7m (official estimate) or approximately 28-31% of population				
Largest metro area	Bratislava city 475,503 - approximately 8% of population				
Country size	49,035 km²				
GDP current prices (EUR m)	101,891.6	109,959.8	123,538.7	130,207.5	136,754.3
GDP PPS index	74	71	74	75	n/a
GDP per capita PPP (USD)	38,346.1	41,562.1	45,973.9	48,132.4	n/a
Net annual earnings	12,415.5	13,184.9	14,257.2	15,350.2	n/a
Credit ratings (S&P / Moody's)	A+ (Negative) / A3 (Stable)				
Inflation	3.2%	12.8%	10,5%	2,8%	n/a
Key interest rate	0.0%	2.5%	4.5%	3.2%	2.0%
Average annual FX EUR/EUR	1.0	1.0	1.0	1.0	1.0
Public deficit	-5.1%	-1.6%	-5.3%	-5.5%	n/a
Defence budget	1.7%	1.8%	1.8%	2.0%	2.0%

Foreign Direct Investment

FDI	2021	2022	2023	2024	2025
FDI inflows (EUR bn)	2.3	4.6	0.5	4.7	n/a
FDI % of GDP	2.3%	4.2%	0.4%	3.6%	n/a

- Major defence investments: ammo lines Dubnica & VOP Nováky; Tatra vehicle expansion
- Trends: EU SAFE funding pushing localisation and joint procurement
- Expectations: steady growth in defence investment next decade

EU Funds

- Net EU payments since 2004: €24b
- RRF 2021–2027: €6.4bn (62% absorbed by late 2025)
- Cohesion 2021–2027: €12.8bn (7.8% absorbed)
- SAFE loans: €2.3bn

Geography and Infrastructure

- Strategic corridors: Baltic-Adriatic, Orient/East-Med, Rhine-Danube
- Major ports: Bratislava (1.47m tonnes combined with Komárno)
- Airports: Bratislava (1.95m pax), Košice (700k), Poprad (119k)
- NATO routes: Danube, Baltic-Adriatic, Rhine-Danube, Slovakia–Ukraine rail
- Planned investments: D3 Motorway, TEN-T rail, Prešov Military Hospital (€500m+), Vajnory Hospital (€1.2bn)
- Energy: 5 nuclear reactors (60% electricity), Mochovce 4 (2025), new 1.2GW Bohunice reactor(~2040, €15bn)

Trade and Barriers

- Main export markets: Germany, Czech Republic, Poland, Hungary, France
- Exports ~USD 117bn, Imports ~USD 115bn
- Export controls: EU Dual-Use Reg 2021/821; Slovak Acts 39/2011 & 392/2011

Taxation

Taxation	2021	2022	2023	2024	2025
Corporate income tax (%)	**10% ≤ 100K; 21% 100K-5M; 24% > 5M**				
VAT (%)	**23%**				
Reduced VAT (%)	**19% and 5%**				
Capital gains tax (%)	**No separate tax. Capital gains constitute part of the aggregate individual income tax**				
Dividend tax (%)	**7%**	**7%**	**7%**	**10%**	**7%**
Personal income tax (%)	**19% up to €43,983.3; 25% over €43,983.32; 30% over €60,349.21; 35% over €75,010.32**				
Progressive Tax System	**Yes**				

Transition and Governance

- System: Parliamentary democratic republic
- Language: Slovak
- Currency: EUR
- NATO: since 2004
- EU: since 2004
- OECD: since 2000

Defence Industry

- State-owned: DMD Group, KONŠTRUKTA-Defence, ZTS-ŠPECIÁL, LOTN
- Private: MSM Group (CSG), ZVS Holding, EVPÚ, Way Industries, Grand Power, Aliter, VRM,
- SEC Tech, Tatra Defence Slovakia

Defence Industry	2021	2022	2023	2024	2025
Arms & ammo exports (EUR m)	104.4	383.5	535.7	1135.8	1908,2

Ukraine Factsheet (2021 – 2025)

Macro Overview

Macro	2021	2022	2023	2024	2025
Total population (m)	44.7	41.0	37.7	37.9	39.0
Population abroad	In the context of war (2022) - 6.7-8 million left the country				
Largest metro area	Kyiv - population: 2,614,581 (mid-2025) - 6,3%				
Country size	603,550 km²				
GDP current prices (EUR m)	168,960.3	154,006.3	167,632.0	176,270.4	185,805.7
GDP PPS index	n/a				
GDP per capita PPP (USD)	17,846.4	14,770.1	17,665.3	18,550.5	n/a
Net annual earnings	n/a				
Credit ratings (S&P / Moody's)	CCC+ (Stable) / Ca (Stable)				
Inflation	9.4%	20.2%	12.8%	6.5%	n/a
Key interest rate	9.0%	25.0%	15.0%	13.5%	15.5%
Average annual FX UAH/EUR	32.3	34.0	39.5	43.5	47.1
Public deficit	-4.0%	-15.6%	-19.3%	-17.2%	n/a
Defence budget	3.4%	5.9%	20.0%	21.6%	26.3%

- workforce 20.3m in 2021;
- macro stability via USD 52bn intl support;
- FX reserves USD 57.3bn;
- GDP growth 1.9% (2025)

Governance

- System: Semi-presidential republic
- Language: Ukrainian
- Currency: Ukrainian hryvnia
- NATO integration deepening; strong anti-corruption institutions (NABU, SAPO, HACC)
- EU candidate status since 2023
- Procurement transparency via ProZorro

Defence Industry

- 500+ manufacturers (2024)
- 400k+ workers (2025)
- Major production increases (ammunition, missiles, UAVs
- Partnerships with Rheinmetall, KNDS, BAE, Saab
- ZBROYARI >$1.5bn
- Incentives incl. capex compensation and grants

Foreign Direct Investment

FDI	2021	2022	2023	2024	2025
FDI inflows, net inflows - BoP (USD bn)	8.0	0.2	4.6	4.0	n/a
FDI inflows, net inflows - BoP (EUR bn - year end FX rate)	6.8	0.2	4.2	3.7	n/a
FDI % of GDP	4.0%	0.1%	2.5%	2.1%	n/a

- Post-2022 qualitative FDI data;
- Defence investments by Rheinmetall, KNDS, CSG, BAE, Northrop, Saab, Frankenburg; - defence-tech startups raised USD 105m (2025) vs USD 40m (2024)

EU Funds

€3.3bn EPF (2024–2025) for artillery, air defence, drones; donor programmes like ZBROYARI mobilising billions; supports industrial scaling and CEE defence ecosystem

Geography and Infrastructure

- Transport corridors: Baltic-Black-Aegean; North Sea-Baltic; Rhine-Danube; Baltic-Adriatic;TRACECA.
- NATO routes: Via Carpathia; Corridor IV. Ports: capacities listed.
- Seaports: Bilhorod-Dnistrovskyi Seaport; Izmail Seaport; Mykolaiv Seaport; Odesa Seaport;
- Olvia Specialized Seaport; Pivdennyi (Yuzhny) Seaport; Reni Seaport; Ust-Dunaisk Seaport;
- Chornomorsk Seaport - River ports: 27 (the banks of the Dnipro, the Southern Bug, and the Danube)
- Airports: Boryspil International Airport (Kyiv); Ihor Sikorsky Kyiv International Airport (Zhuliany) (Kyiv); Lviv Danylo Halytskyi International Airport (Lviv); Dnipro International Airport (Dnipro); Odesa International Airport (Odesa); Kharkiv International Airport (Kharkiv)
- Airspace closed for civilian aircraft flights as at January 2026.
- Planned Infrastructure Investments: reconstruction of M-30: 300bn UAH (2030); M-15: 133bn UAH (2032); M-07: 120bn UAH (2028)
- Energy Infrastructure: Mix (Nov 2025): NPPs 57–62%, TPP 18%, CHP 15%, RES 8–10%, HPP 5–6% (9–11GW). Projects: Khmelnytsky NPP Units 5–6 (591bn UAH, 2036), Units 3–4 (134bn UAH, 2027), 1200MW solar (54bn UAH, 2028), DTEK wind expansion to 500MW (2026)
- Planned Projects: Nuclear - Khmelnytsky NPP Expansion; Solar Power - Chernobyl Exclusion Zone; Wind Power - Tyligulska Wind Farm (DTEK)

Trade and Export Controls

Trade	2021	2022	2023	2024	2025
Trade balance (USD m)	-4.1	-10.8	-27.4	n/a	n/a

- DCFTA integration; single market access;
- Temporary EU agricultural restrictions in 2023–2024;
- SPS alignment efforts ongoing

Taxation

Taxation	2021	2022	2023	2024	2025
Corporate income tax (%)	**18%**				
VAT (%)	**20% with defence exemptions**				
Reduced VAT (%)	**7%, 14%, 0%**				
Capital gains tax (%)	**18%**				
Dividend tax (%)	**5% (Ukrainian CIT-paying companies) / 9% (non-residents or non-CIT payers)**				
Personal income tax (%)	**18% or 5% under Diia.City**				
Progressive Tax System	**No**				

References

1. US Security Strategy, https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf; US National Defence Strategy, https://media.defense.gov/2026/Jan/23/2003864773/-1/-1/0/2026-NATIONAL-DEFENSE-STRATEGY.PDF
2. The Hague Summit Declaration, 25 June 2025, https://www.nato.int/en/about-us/official-texts-and-resources/official-texts/2025/06/25/the-hague-summit-declaration
3. Thomas Lapperre, The hidden cost of Europe's military patchwork, Futuropia.eu, 20 January 2026, https://futuropia.eu/the-hidden-cost-of-europes-military-patchwork/
4. Laura Kayali, Pentagon aggressively lobbies EU against Buy European weapons push, Politico, 19 February 2026, https://www.politico.eu/article/washington-lobbies-eu-against-buy-european-push-for-weapons-donald-trump/
5. Yevhen Kizilov, Zelenskyy says army will shift from mobilised to contract-based after war, Ukrainska Pravda, 5 February 2026, https://www.pravda.com.ua/eng/news/2026/02/05/8019590/
6. Developing a Market Entry Strategy for Central & Eastern Europe, KPMG, 2011, https://www.kpmg.com/cee
7. Andrzej Zawistowski, "From a Centrally Planned Economy to…? The Early Years of Poland's Economic Transformation," Institute of National Remembrance Review, December, 2025, https://czasopisma.ipn.gov.pl/index.php/inrr/article/view/2738/2757
8. KPMG. Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025, https://assets.kpmg.com/content/dam/kpmg/ro/pdf/2025/romanian-defense-market.pdf
9. Peter J. Boettke, Konstantin Zhukov, and Matthew Mitchell, The Road to Socialism and Back: An Economic History of Poland, 1939–2019, 2023, https://www.realitiesofsocialism.org/sites/default/files/2023-07/road-to-socialism-and-back-an-economic-history-of-poland-1939-2019.pdf
10. KPMG, Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025, https://assets.kpmg.com/content/dam/kpmg/ro/pdf/2025/romanian-defense-market.pdf
11. Alexandra McLees and Eugene Rumer, "Saving Ukraine's Defense Industry," Carnegie Endowment for International Peace, July 30, 2014
12. Dmytro Mendeleiev, "OPK, Which Ukraine Lost…" ["ОПК, який Україна втратила…"], ZN.UA, August 22, 2020, https://zn.ua/ukr/ukraina-1991-2020/opk-jakij-ukrajina-vtratila.html
13. Oleksandr V. Danylyuk and Jack Watling, Winning the Industrial War: Comparing Russia, Europe and Ukraine, 2022–24, RUSI Occasional Paper, April 2025, https://static.rusi.org/winning-the-industrial-war-comparing-russia-europe-ukraine-2022-24.pdf
14. Kateryna Kuzmuk and Lorenzo Scarazzato, "The Transformation of Ukraine's Arms Industry Amid War with Russia," Stockholm International Peace Research Institute, 21 February 2025, https://www.sipri.org/commentary/topical-backgrounder/2025/transformation-ukraines-arms-industry-amid-war-russia
15. Peter J. Boettke, Konstantin Zhukov, and Matthew Mitchell, The Road to Socialism and Back: An Economic History of Poland, 1939–2019, 2023.
16. World Bank Group, Poland—Overview. https://www.worldbank.org/ext/en/country/poland
17. Polska Agencja Prasowa. Poland to raise defence spending to EUR 46.8 bln in 2026: Defence minister, https://www.pap.pl/en/news/poland-raise-defence-spending-eur-468-bln-2026-defence-minister
18. Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025
19. Kuzmuk, K., & Scarazzato, L, The transformation of Ukraine's arms industry amid war with Russia, Stockholm International Peace Research Institute, February 2025, https://www.sipri.org/commentary/topical-backgrounder/2025/transformation-ukraines-arms-industry-amid-war-russia
20. Ministry of Strategic Industries of Ukraine, Performance results of the Ministry of Strategic Industries and Ukroboronprom for 2023, December 2023, https://mspu.gov.ua/en/news/performance-results-of-the-ministry-of-strategic-industries-and-ukroboronprom-for-2023
21. Ministry of Strategic Industries of Ukraine, Alexander Kamyshin leaves the post of minister of strategic industries of Ukraine: Results of his work, September 2024, https://mspu.gov.ua/en/news/alexander-kamyshin-leaves-the-post-of-minister-of-strategic-industries-of-ukraine-results-of-his-work
22. Ukrinform, Umerov: Every second ammunition on frontline is made in Ukraine, September 23, 2024, https://www.ukrinform.net/rubric-ato/3908731-umerov-every-second-ammunition-on-frontline-is-made-in-ukraine.html
23. Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026
24. Defense Express, Ukraine confirms works on new "Long Neptune" missile, December 2023, https://en.defence-ua.com/weapon_and_tech/ukraine_confirms_works_on_new_long_neptune_missile-8767.html
25. Ukrinform, ShaBlia turrets, Rys platforms, Liut combat robot: Brave1 head speaks of defense tech solutions, April 2025, https://www.ukrinform.net/rubric-economy/3985226-shablia-turrets-rys-platforms-liut-combat-robot-brave1-head-speaks-of-defense-tech-solutions.html

26. Slovo i Dilo, Досягнення українського ОПК під час повномасштабної війни [Achievements of Ukraine's defence industry during the full-scale war], December 18, 2023, https://www.slovoidilo.ua/2023/12/18/infografika/bezpeka/dosyahnennya-ukrayinskoho-opk-povnomasshtabnoyi-vijny
27. Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026
28. George Scutaru and Peter Watkins, Security Challenges in the Black Sea: NATO, the Wider Region and the Global Order. Pledging for a Free and Open Black Sea, New Strategy Center and LSE IDEAS, 30 September 2024, https://newstrategycenter.ro/wp-content/uploads/2024/09/2024_ResearchReport_BlackSea_NSC_LSE.pdf
29. Ministry for Development of Communities and Territories of Ukraine, "First €73.5 million allocated for the European-gauge railway to Lviv: Grant Agreement awarded", 6 November 2025, https://mindev.gov.ua/en/news/rozbudova-ievrokolii-do-lvova-vidbulos-vruchennia-hrantovoi-uhody-dlia-realizatsii-proiektu
30. MSM Group, "ZVS holding has concluded a framework agreement with the Ministry of Defence of the Slovak Republic," 5 December 2025, https://www.msm.sk/en/zvs-holding-has-concluded-a-framework-agreement-with-the-ministry-of-defence-of-the-slovak-republic/
31. International Finance Corporation, Sector Assessments for Green and Resilient Reconstruction in Ukraine, https://www.ifc.org/content/dam/ifc/doc/2023/sector-assessments-pso-green-resilient-reconstruction-ukraine-en.pdf
32. Digital State UA, "Ukraine's IT Shift: From Outsourcing to Innovation," 15 July 2025, https://digitalstate.gov.ua/news/it-outsourcing/ukraines-it-shift-from-outsourcing-to-innovation
33. Poland's Tech Sector: ICT Exports Reach $16.85 Billion with 25% Annual Growth, Market Report, B2BPoland.com, November 2025, https://b2bpoland.com/insights/market-reports/poland-tech-sector-growth-2024/
34. European Commission, Education and Training Monitor 2025: Romania country report, 2025, https://op.europa.eu/webpub/eac/education-and-training-monitor/en/country-reports/romania.html
35. European Commission, 2025 Country Report – Hungary, Commission Staff Working Document SWD, 2025, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025SC0217
36. Trading Economics, "Wages in Manufacturing in Slovakia," https://tradingeconomics.com/slovakia/wages-in-manufacturing
37. Danish Trade Union Development Agency, Ukraine Labour Market Profile – 2025/2026, January 27 2025, https://www.ulandssekretariatet.dk/wp-content/uploads/2025/01/Ukraine-LMP-2025-final.pdf
38. Olena Sotnyk, "Ukraine's new defence industry strategy faces challenges," Ukrayinska Pravda, January 4, 2026, https://www.pravda.com.ua/eng/articles/2026/01/04/8014603/
39. OECD Economic Surveys: Ukraine 2025, May 2025, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/05/oecd-economic-surveys-ukraine-2025_0bb82ef9/940cee85-en.pdf
40. National Agency for Higher Education Quality Assurance, Report on Higher Education Quality in Ukraine in 2022, March 2024, https://en.naqa.gov.ua/wp-content/uploads/2024/03/REPORT-ON-HIGHER-EDUCATION-QUALITY-IN-UKRAINE-IN-2022.pdf.
41. Euronews, "Average Salaries Across Europe: Which Countries Have the Highest Pay," May 6 2025, https://www.euronews.com/business/2025/05/06/average-salaries-across-europe-which-countries-have-the-highest-pay
42. Lloyds Bank Trade, Foreign direct investment (FDI) in Poland: FDI in Figures, updated February 2026, https://www.lloydsbanktrade.com/en/market-potential/romania/investment
43. Ibid.
44. Lloyds Bank International Trade Portal, Romania: Investment Opportunities and Market Potential, February 2026, https://www.lloydsbanktrade.com/en/market-potential/romania/investment
45. https://fic.ro/documents/foreign-direct-investment-in-romania-2025-edition
46. FocusEconomics, Hungary – Foreign Direct Investment, https://www.focus-economics.com/country-indicator/hungary/foreign-direct-investment-eur
47. UNCTAD, World Investment Report 2025, https://unctad.org/publication/world-investment-report-2025
48. ArmyInform, 105 mln $ залучили українські оборонні стартапи у 2025 році, December 2025, https://armyinform.com.ua/2025/12/05/105-mln-zaluchyly-ukrayinski-oboronni-startapy-u-2025-roczi/
49. Юлія Сабадишина, "Brave1 удвічі збільшить фінансування оборонних розробок у 2025 році. Які 10 технологій пріоритетні," DOU, January 16, 2025, https://dou.ua/lenta/news/about-brave1-in-2025/
50. https://www.kmu.gov.ua/en/news/biudzhet-2026-100-dokhodiv-na-oboronu-krainy
51. KPMG. Thought Leadership, Romanian Defense Market – Opportunities and Challenges, 2025, https://assets.kpmg.com/content/dam/kpmg/ro/pdf/2025/romanian-defense-market.pdf
52. NATO, "NATO's Role in Defence Industry Production," NATO – What We Do, 26 June 2025, https://www.nato.int/en/what-we-do/deterrence-and-defence/natos-role-in-defence-industry-production
53. European Commission, SAFE | Security Action for Europe, May 2025, https://defence-industry-space.ec.europa.eu/eu-defence-industry/safe-security-action-europe_en
54. German Marshall Fund, "How Can Romania Revitalize Its Defense Industry?" July 18, 2025, https://www.gmfus.org/news/how-can-romania-revitalize-its-defense-industry
55. Natalia Ojewska, "Poland's Defense Industry Can't Make Enough Weapons," Bloomberg, April 25, 2025, https://www.bloomberg.com/news/newsletters/2025-04-25/poland-s-defense-industry-can-t-make-enough-weapons
56. EUA Live, Romania bolsters defence, energy security and transport corridors, 2 May 2025, https://eualive.net/romania-bolsters-defence-energy-security-and-transport-corridors/

57. OECD Economic Surveys: Slovak Republic, March 2024
https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/03/oecd-economic-surveys-slovak-republic-2024_01a5b210/397ca086-en.pdf
58. Czech Statistical Office,
https://csu.gov.cz/docs/107508/f5e5463c-af52-9e97-a14f-a928918276d3/aipc041625analyza.pdf?version=1.0.
59. UN Office of the High Commissioner for Human Rights, Attacks on Ukraine's Energy Infrastructure: Harm to the Civilian Population, 2024
https://ukraine.ohchr.org/sites/default/files/2024-12/ENG_Attacks_on_Ukraine%E2%80%99s_Energy_Infrastructure_Harm_to_the_Civilian.pdf
60. Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026
61. Paulina Zamelek and Arkadiusz Kalinowski, "Challenges of the Military Equipment Acquisition System in Poland," Security, Logistics and Management, 2025,
https://slw.wat.edu.pl/pdf-211044-129306?filename=Challenges-of-the-militar.pdf
62. European Commission, 2025 Country Report – Hungary, Commission Staff Working Document,
eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025SC0217
63. Slovakia, Ministry of Investments, Regional Development and Informatization, Draft Partnership Agreement of the Slovak Republic for the Years 2021–2027 (December 2021),
https://www.eurofondy.gov.sk/wp-content/uploads/2021/12/211210_SK_Partnership-Agreement-1.pdf
64. Robert Czulda, "Poland's military modernisation – still many challenges ahead", March 6, 2023,
https://pulaski.pl/en/pulaski-policy-paper-polands-military-modernisation-still-many-challenges-ahead-robert-czulda-2/
65. Warsaw Business Journal, "Defense sector needs workforce," 26 June 2025,
https://wbj.pl/defense-sector-needs-workforce/post/146378
66. Federico Favia, "Romania's Defence Industry at a Crossroads: Modernising Capabilities and Mitigating Dependencies through SAFE Funding," Finabel—The European Land Force Commanders Organisation, 13 October 2025,
https://finabel.org/wp-content/uploads/2025/10/INFOFLASH-FEDERICO-FAVIA-Romania-Defence_Final-version-1.pdf
67. European Commission, 2025 Country Report – Hungary
https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025SC0217
68. OECD, Slovak Republic 2024: Country Note from Job Creation and Local Economic Development 2024,
https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/job-creation-and-local-economic-development-2024-country-notes_65d489c5/slovak-republic_6396cd96/e69fac3d-en.pdf
69. dev.ua, ""We Discovered a Data Leak from a Top Oracle Manager." CEO Alerts Bar—About How Hackers Bypass 2FA and Antiviruses and Why 80% of Attacks Start with Info Stealers," March 3, 2026,
https://dev.ua/en/news/it-expert-1765458961
70. Discussions during a visit of New Strategy Center with experts in Kyiv, February 21-26, 2026
71. Squire Patton Boggs, "Poland Strengthens Export Controls to Enforce EU Sanctions and Prevent Circumvention," February 2025,
https://www.squirepattonboggs.com/insights/publications/poland-strengthens-export-controls-to-enforce-eu-sanctions-and-prevent-circumvention/
72. RFI, "On NATO's Eastern Flank, Romania Finds Itself at the Crux of European Security," November 27, 2025,
https://www.rfi.fr/en/international/20251127-on-nato-s-eastern-flank-romania-finds-itself-at-the-crux-of-european-security
73. European Union, Regulation (EU) 2021/821 of the European Parliament and of the Council of 20 May 2021 setting up a Union regime for the control of exports, brokering, technical assistance, transit and transfer of dual-use items (recast), Official Journal of the European Union, June 11, 2021,
https://eur-lex.europa.eu/eli/reg/2021/821/oj/eng
74. Slovakia, Ministry of Economy, "Legislatíva: Dual use – tovar a technológie dvojakého použitia," March 3,2026,
https://www.economy.gov.sk/obchod/obchodne-opatrenia-dovoznevyvozne-obmedzenia/dual-use-tovar-a-technologie-dvojakeho-pouzitia/legislativa
75. INFOFLASH FEDERICO FAVIA - Romania Defence_Final version
76. How Can Romania Revitalize Its Defense Industry? | German Marshall Fund of the United States
77. Romania - Defense Industry
78. K-Romanias_Defence_Sector_Outlook_Brochure_A4_26112025.pdf
79. Magyarország SAFE hitelkerete 16,2 milliárd euró

Acknowledgements

This study was conducted by KPMG and the New Strategy Center. We would like to express our gratitude for their valuable contributions to Mr. Adrian Duță, Senior Advisor at KPMG, Dr. Antonia Colibășanu, Senior Associate Expert at the New Strategy Center, and Mr. George Scutaru, CEO of the New Strategy Center.

Special thanks to:

David Slánský
Radek Chaloupka
Petr Brychta
Markéta Pekarová Adamová
Lucie Vernerová
Kristina Boudová
Balázs Horváth
Artúr Böröcz
Alina Wołoszyn
Iwona Sprycha
Adam Popłonkowski
Kiejstut Żagun
Anna Szczodra
Tudor Grecu
Daniel Pană
Andreea Niculae
Adrian Duță
Andrei Bușe
Florentin Timoianu
Kuraudo Kinno
Oleg Neplyakh
Sergii Popov
Yuriy Katser
Bogdan Shyshkovskyi
Barbora Halatova
Tomas Kroupa
Oksana Olekhova
Nataliia Krynytska
Branislav Kajanek
Gábor Zachár
Matej Lampret
Jernej Markovc
Tomislav Borosak
Juliana Mateeva
Kalin Hadjidimov
Zdravko Moskov

Contacts

Tudor Grecu
CEE Head of Defence,
Partner, Head of Advisory,
KPMG in Romania
E: tgrecu@kpmg.com

The Czech Republic

David Slánský
E: dslansky@kpmg.cz

Poland

Alina Wołoszyn
E: awoloszyn@kpmg.pl

Slovakia

Rudolf Sedmina
E: rsedmina@kpmg.sk

Hungary

Balázs Horváth
E: balazs2.horvath@kpmg.hu

Romania

Tudor Grecu
E: tgrecu@kpmg.com

Ukraine

Oleg Neplyakh
E: oneplyakh@kpmg.com

Designed and coordinated by
KPMG in Romania

Șoseaua București-Ploiești, nr. 89A,
Sector 1, București, 013685
T: +40 (372) 377 800
F: +40 (372) 377 700
E: kpmgro@kpmg.ro

www.kpmg.ro

kpmg.com/socialmedia