

USING THE REARM EUROPE PROGRAM TO FINANCE EUROPEAN STATES. – CASE STUDY: THE USE OF THE SAFE INSTRUMENT IN ROMANIA –

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The current European Union driven proposal of redistributing European capital to defense spending creates a unique opportunity for EU member states. While the major focus becomes how to manage national defense industries around the European continent, more funds for defense also means a readjustment for defense planning and national defense programs. In other words, the desire to rearm Europe becomes the biggest trigger for defense resources management since the Wales Summit in 2014 that enabled countries that were NATO members to enhance their defense spending percentage of the GDP to 2%. What do these increased allocations also mean in terms of NATO defense planning?

The aim of this paper is to observe through an empirical analysis the effects of using reimbursement loans that the European Union is willing to offer in order to finance defense policies in European member states. In this case particularly, the analysis will focus on consequences and effects for the Romanian state.

Keywords: defense industry; defense resources management; defense allocation; defense expenditures; defense planning;

INTRODUCTION

The invasion of Ukraine by the Russian Federation in February 2022 changed the dynamics of defense management for the states on the Eastern Flank. The focus of defense investment does no longer priorities only direct acquisitions, but also indirect investments, in transport infrastructure, in the modernization of the response capacity of institutions with a role in crisis situations, as well as in the long-term restart and reorganization of the defense industry.

The current motivation for attracting investments in defense and security areas at the European level stems from a concern of the European Union regarding a potential scenario, in which in the event of attacks launched by the Russian Federation in the European space, EU states would not immediately or in a time-effective manner benefit from aid from the United States of America, the largest NATO contributor. Over time, the amounts allocated by the US for Euro-Atlantic defense have overwhelmingly exceeded the budgetary contribution of the other member states. Thus, in 2024, the United States contributed 968 billion to the NATO budget, more than two-thirds of the budget of all other states. Germany contributed 98 billion, Great Britain 82 billion, France 64 billion, Poland 35 billion and Italy 34 billion (Mc Gerty, 2025). The large role of the United States can also be observed in the area of capabilities involved in the NATO planning process.

The European Union has begun to consider defense a priority, ever since 2016, when the first Common Security and Defense Policy of the European Union (CSDP) was developed, also following the invasion of the Russian Federation, two years earlier, in 2014, in Crimea. The war in Ukraine demonstrated the need for modern, innovative military equipment, for a developed logistics chain and for a defense industry that can supply any defense mission in the European space (Fiott, 2020). In this context, after multiple analyses, a significant gap was found between what the member states should be able to offer in terms of defense resources and what actually existed in reality at national defense levels for most EU states.

Following these observations, the need for a rearmament plan for the European Union was founded, a plan that has taken the form of ReArm Europe. Following the Munich Conference in February 2025, the European Commission analyzed the opportunity to increase the defense autonomy of the member states through increased investments in the defense industry (Wolff, 2025).

In regards to the chosen methodology for this paper, a Case Study concerning a quantitative empirical analysis will be used in order to better understand the effects of using European funds in order to fund defense related projects and programs.

THE SAFE INSTRUMENT, PART OF THE REARM EUROPE PROGRAMME

Through ReArm Europe, a military acquisition and development project that should end in 2030, the aim has become to narrow the gap between the needs of a modern and robust defense at European level and what physically exists in 2025 within the European armed forces. At the time of the decision to initiate the respective investment project, various criticisms have emerged regarding the possibility of a lack of finality in terms of the direct result and measurable objectives.

The ReArm Europe rearmament plan, through its various instruments, will bring 800 billion euros in terms of expenditures to the EU Member States. Of these funds, 150 billion (in Euro currency) will be provided through a loan through the financial instrument called SAFE (Security Action for Europe). This new financing project attracts both supporters and critics. Since 2016, when defense policy became a constant for the European Union, ReArm Europe and SAFE have come to represent by far the largest initiative to finance the defense at European level, through concrete projects with a clear destination, namely military acquisitions using the European defense industry.

On the other hand, there are experts who support the need for an international bank, which, similarly to the European Bank for Reconstruction and Development, could support long-term financing of defense investments, thus offsetting short- and medium-term loan instruments of the SAFE type. Such a proposal is represented by a possible *Rearmament Bank* (European Parliament-Briefing, 2025). Another financing option that could work is through grants, mechanisms that already operate at the European Union level for other investment programs and that do not have to be reimbursed, as it will happen in the case of the SAFE instrument.

A second concern is related to the opportunity cost of such investments. The European Union had set other priorities in previous budgets, especially in the area of green economic development, the fight against environmental and climate issues, etc. Thus, part of the European political spectrum wanted these defense investments not to affect the cohesion funds that were already allocated to other prioritized expenditures. The majority decision, however, has been to pursue the financing of the defense spectrum, with the investments to be returned

to the European economy by strictly using all European funds for acquisitions from the European defense industry. This factor, added to the growing aggressiveness of the Russian Federation on the border of the European Union, as well as a desire for European autonomy in defense issues, led to the approval of the entire ReArm Europe program. Even if the European Union wants to increase its autonomy, collaboration with NATO will continue. Recently, new defense capabilities have been proposed within the alliance, namely European Sentry, for better protection of the Eastern Flank, a capability that can also be fulfilled by the contribution of European states with equipment purchased through the SAFE financial instruments.

It should also be noted that unlike NATO funds, where various budgets can be allocated for direct operational missions, as described in the NATO Defense Plan Process (NDPP), the European Union will not allow direct finance of any type of mission or operation or developments of capabilities through the SAFE mechanism. The funds will be used strictly for weapons and equipment acquisition as well as the development of the defense industry, with the main aim of allocating financial resources on two levels:

- Restocking of ammunition, projectiles, missiles, artillery systems,
- Modern defense systems including aerial and underwater drones, artificial intelligence and other devices that contribute to electronic warfare.

In addition to these investments in equipment that may have direct objectives in the field of defense, there is also a third dimension of investment, an indirect one, linked to the broader objective of military mobility in the European space, where the need to develop new road, rail, maritime transport routes is an urgent one, especially in Eastern Europe.

Unlike other funds allocated for defense, implemented over time by the European Defense Agency, such as PESCO, the great advantages of the SAFE program relate to the guarantee of the European Union community funds, as well as a low interest rate, equal for all states that will allocate budgets by using the respective financial instrument. Another advantage is represented by the long time frame regarding the reimbursement, if the funds will be allocated in the next 5 years, the grace period is up to 10 years, the payment of the obtained loans thus starting in 2035.

Another aspect to be taken into account is that there are European Union states that are not NATO members and that can therefore contribute from a different perspective both to European collective defense and to their own national defense policies by using these newly founded instruments. One such example is Cyprus, an EU and non-NATO member state that has requested funds through the SAFE program to increase its own defense capacity.

In order to speed up the process of European rearmament, each member state has already submitted a request for funding, the individual allocation has been established and quantified according to the following *table 1*:

*Table 1: How the SAFE program has been allocated between member states
(The Council of the EU, 2025)*

Member State	Sum of money allocated to EU member states
Poland	43.734.100.805
Romania	16.680.055.394
Hungary	16.216.720.524
France	16.216.720.524
Italy	14.900.000.000
Belgium	8.340.027.698
Lithuania	6.375.487.840
Portugal	5.841.179.332
Latvia	5.680.431.322
Bulgaria	3.261.700.000
Eastland	2.660.932.171
Slovakia	2.316.674.361
Czech republic	2.060.000.000
Croatia	1.700.000.000
Cyprus	1.181.503.924
Finland	1.000.000.000
Spain	1.000.000.000
Greece	787.669.283
Denmark	46.796.822

Table 1 presents those states that have already requested funds through the SAFE program. States such as Germany are missing, because they did not want to access such funds for the time being, for defense purposes.

The next step is to synchronize the allocated expenditures, the budgetary destination and the internal planning documents of each member state, following which, at the end of this process, at the beginning of 2026, the European Union Council can approve the implementation plan of the entire allocation of funds.

USE OF THE SAFE INSTRUMENT IN ROMANIA

In the case of Romania, as it can be seen from *Figure 1*, the position of the state in relation to the correlation between the geographical proximity to the Russian Federation and the level of defense investment is of major importance.

Romania is rather in an area with states such as Denmark, Norway, Sweden, which are geographically further away from the Russian Federation. The same is the case with other states on the Eastern Flank such as Bulgaria and Hungary. Of the states within a 1,000 km radius of Moscow, Poland has the highest level of defense investment, with a percentage of GDP allocated to defense of over 4%.

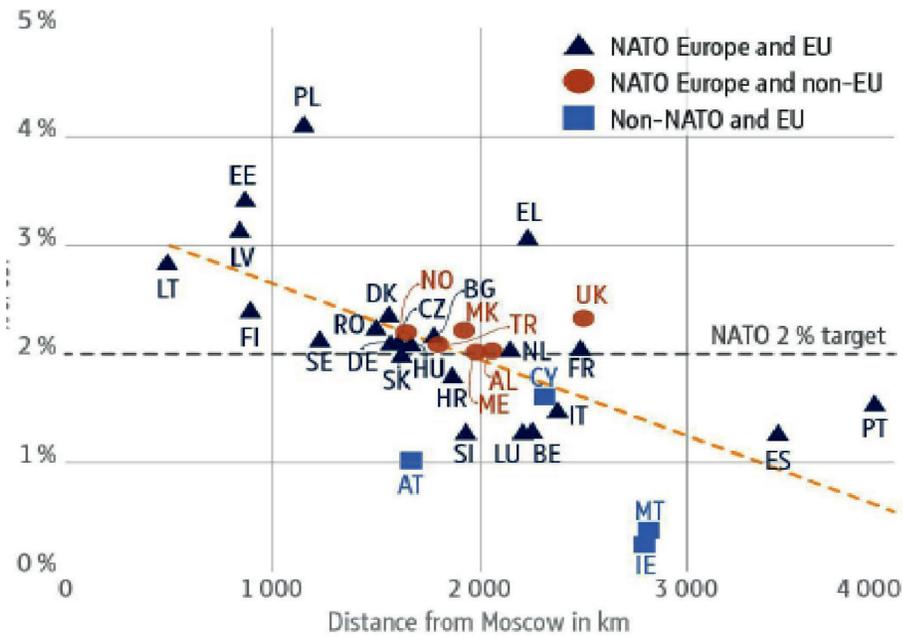


Figure 1: Defense expenditures as part of the GDP and distance from the Russian Federation for different states (European Parliament, 2025)

A constant problem in the case of defense investments remains the ratio between foreign acquisitions and national production. Since 2016, Romania's capacity to attract defense investments has increased, along with the percentage allocated for spending in that area, to 2% of GDP. However, most of the acquisitions have meant the imports of weapons. In current public contracts, an important part remains the Offset part (Macsim, 2024), namely the partial production of imported equipment in the country where the equipment will be used. However, in percentage terms, the Romanian arms industry has not grown in terms of turnover in an exponential way in the last 8 years (Mănescu, 2024).

A key component, which should become a priority through the new SAFE program, references to the possibility of correlating the growing investments with the development of the defense industry in Romania. This is currently happening through foreign capital, through foreign direct investments, either of the Greenfield type or acquisitions from major companies from the EU or NATO that buy out the local market. There is an enormous potential in the national defense industry of Romania, one that has existing since the communist period, and which has begun to modernize in the last decade through recalibrations, refurbishments and development of new production units. All of these aspects as well as the more recent development of the internal factor of production through FDI can be seen in *Figure 2*.



Figure 2: Defense production factories in Romania (Euromaidan Press, 2025)

For Romania, the stake was a fair allocation, which could support all European directives regarding the revitalization of the defense industry, the increase of military mobility, but also the fulfillment of the acquisition plan in accordance with its own national objectives, as they are described in the internal military planning documents. Romania has understood the major role it has in the current context, in terms of its geographic location, close to the open war front in Ukraine. Even if the funds allocated to Romania could have been even higher, somewhere around 20-25 billion EURO, the total allocation for Romania, Hungary and Poland represents half of the total amount allocated by the EU through the SAFE instrument.

The technical negotiations for what this allocation will mean should take into account several priorities. The Romanian state has an aging defense industry, whose status has been under debate for almost a decade, between remaining on the free market, at the Ministry of Economy or returning to the Ministry of Defense, where it could be subject to economic protection measures and integrated into the broader process of defense resources management.

There will be three allocation directions for the funds coming from the SAFE program. First, the process of military acquisitions will be largely increased. As seen in *Figure 2*, the priority should be an integrated acquisition process, in which the share of own production increases, possibly by developing regional hubs for domestic production and distribution/exports. This direction does not only have the economic purpose of developing certain sectors of the Romanian state on a regional and national level, but also has a strategic component, every state being in need to be able to produce military equipment on its own, in case it finds itself in a situation of armed conflict. One must not forget the difference between economy under peace terms and in war time.

The second component is the integration of a joint European effort, for many of the military capabilities that the Romanian army has planned, includes equipment produced in the European space. This approach will also involve using the local industry, be it with national capital or through foreign direct investments.

The third component can be considered the most important priority for the Romanian state, namely the indirect investments in civil infrastructure, necessary to ensure that key aspect of military mobility. The Romanian state has not managed to ensure the full development of the A7 and A8 motorways, initially financed through other European mechanisms, such as the PNRR. Now the missing sectors are going to be financed through the SAFE program, because both motorways have a strategic role, not just an economic one. The Constanța harbor is in the same strategic plan, with a vital role for the military mobility process. The development of the harbor has seen a lot of delays during the last decade. The inclusion of this objective in the SAFE financing plan thus becomes a chance for developing a strategic hub near the Black Sea. By the time this article is published, it is estimated that almost a third of the entire amount allocated to the Romanian state through the SAFE program will be distributed to the infrastructure part of the development plan (Voiculescu, 2025).

In regards to the actual financing mechanism of the SAFE program, the funds will be adopted and spent by the end of 2030, and will subsequently be reimbursed by the member states starting with 2035, in a gradual given time frame, until 2065.

All states, regardless of the amount of money received, will have to respect this schedule, including Romania.

The amount of 16 billion is a large one, but if we observe *Figure 1*, it does not represent an expenditure justified by the geographical proximity/investment level ratio. Romania has the same funds as France, located much further from the front, and Hungary, which although geographically closer to the Russian Federation is a smaller state than Romania in terms of total area and, unlike Romania, does not have an area of potential direct impact in relation to the current front, namely the Black Sea. Moreover, it can be observed that in the logic of the needs in Table 1, Poland has been allocated an amount from the SAFE program of 40 billion euros, almost triple the amount allocated to Romania. Therefore, the problem of an allocation deficiency on the South-Eastern Flank, as defined by NATO, and the North-Eastern Flank can be raised. Another problem relates to the essence of the allocation of defense funds from the SAFE program. This program represents a loan agreement, which will be repaid in 2035, at an advantageous interest rate of 3%. However, the Romanian authorities announce that they will freeze the allocation of GDP to 2.3% for defense, having the alternative of SAFE funds for large arms purchases. However, the allocations from GDP do not represent loans that must be repaid, but at the same time the Romanian state is under budgetary pressure, due to a large deficit and rising loan interest rates. In these conditions, a question arises regarding long-term projections, regarding

The expenditures are represented by long-term loans, with low interest rates, set up at maximum 3%, with a return period of ten years. If for the Romanian state, the alternative of increasing defense spending may seem complicated due to the increased deficit, another directive of the European Commission should be mentioned, which establishes that for those states that manage to reduce the deficit below a certain threshold, defense spending will subsequently be recorded separately, no longer being taken into account in the deficit calculations, thus decreasing the interest rates at which the respective state will be able to lend further funds (Council of the European Union, 2025).

CONCLUSIONS

If at European level there are several questions regarding possible negative scenarios due to the allocation of this instrument at the level of the entire continent, there are also a series of risks that must be taken into account at domestic level.

A first aspect is related to the coordination between defense planning and the actual procurement process, taking into account possible specific requirements,

production delays, synchronization with other national ministries, with the European Union bureaucracy and so on.

The Romanian state has encountered difficulties in the past in absorbing European funds, most recently in the case of the PNRR program, therefore, a source of concern may come from the lack of an effective absorption capacity of the funds allocated through the SAFE program, considering the amount of almost 17 billion that should be accessed by 2030. The administrative capacity of the Romanian state must be improved in order to not repeat past failures and in order not to fail to achieve an absorption as close as possible to 100%. The increase in the number of projects in cooperation with other member states and with industries from these states will demand a whole series of negotiations and compromises. In the past, in offset contracts, the Romanian state did not always obtain the best advantages, there have been examples with penalties and the cancelation of some contracts, examples that should be analyzed and avoided in future collaborations. It is also expected that due to the increase in demand for military equipment, due to the complicated geo-political situation, there will be delays and extended deadlines for receiving some of that specific military equipment. Under these conditions, multiple reception deadlines will be extended beyond the initial date. It will therefore be a test for the Romanian state to support an effort in the hybrid war that will be triggered by disinformation by foreign state actors. Such actions will challenge the acquisition process developed in the defense and security area. In this logic, with the increase in the number of investments, *the guns and butter effect* will also appear in the national public space, namely the analysis of that opportunity cost according to which, once important expenditures are allocated for defense, they cannot be allocated for other public needs.

A final major risk that should be taken into consideration is in another area of impact, namely the strategic and political one. There will be multiple factors to consider when such issues appear like: technology transfer, foreign suppliers, components that might not be from the European Union or even what the safe states to establish economic relations in the defense area will be. Romania's agenda and plan regarding the relationship with the United States of America and its defense industry will also remain an important factor to handle.

At external level, regarding other geopolitical factors, an increase in Romania's defense capacity, especially in terms of capabilities around the Black Sea might attract the attention of the Russian Federation, therefore the level of deterrence will have to be credible and effective, in the face of any potential threats of escalation.

However, these risks must not cancel the multiple advantages offered by the European rearmament project, started through the SAFE instrument. The massive funding, even if it could have been even greater, represents a unique opportunity for the Romanian state to reduce deficiencies in the field of defense, to modernize the armed forces, infrastructure, and mobility capacity and implicitly to develop a defense industry, which has not been a priority in the last 30 years. Romania's defense posture has the chance to evolve in accordance with the military objectives planned in the next 5 years. A possible relaxation of the budgetary pressure by reallocating defense spending through European funds will also mean reducing any risk that those planned objectives will not be obtained on time in alignment with all the military planned documents.

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