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Enhancing Swedish security through deterrence and prosperity

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Preface

European NATO members are collectively committing to a level of investment in defense not seen in over 50 years. As part of this, Sweden has committed to invest substantial national resources in strengthening deterrence and protecting its people; done well this can also enhance economic growth and national prosperity.

This report was prepared for the Sweden Security & Competitiveness Summit 2026, a gathering of Sweden's top decision-makers in business, the armed forces, and the public sector, to discuss the key challenges and actions required for the nation's continued defense ramp-up and industrial success. Building on the perspectives McKinsey & Company introduced in 2025,[1] this report focuses on how Sweden is stepping up to meet the security imperative and could turn this into an opportunity to build industrial capacity and encourage innovation.

This report is a McKinsey initiative, developed without external commission. It draws on internal research, review of third-party papers, macroeconomic data, company performance insights, expert collaboration, and interviews with a large number of Swedish stakeholders to understand key concerns and ambitions shaping the defense industry outlook.

Capturing potential benefits will require decisive action, clear prioritization, and coordinated execution among all defense stakeholders, including leaders in the public, industrial, and investment sectors. This report aims to present data and fact-based analysis that could support stakeholders in their decision-making as they plan today's defense ramp-up, to help ensure it provides tomorrow's economic advantages alongside stronger security.

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We would like to express our sincere gratitude to all who contributed to this work by sharing their perspectives and expertise, including the reference group of more than 30 interviewees from the Swedish Ministry of Defense, industry, and academia for their thoughtful contributions and engagement throughout the process.

All of this report's contributors believe Sweden benefits from independent, fact-based perspectives to help guide the national discourse. They offer a nonpartisan, data-driven view on the country's long-term economic trajectory and focus.

As authors, we are responsible for the analyses and suggested priority actions for future growth outlined in this report. They reflect only our own research, calculations, and conclusions. They should not be interpreted as representing the views or positions of any individual member of the reference group.

In addition to the reference group, we have collected input from a broad set of public and proprietary databases.

Finally, we would like to express our gratitude for the valuable help we have received from McKinsey colleagues. The core project team comprised Jonas Lundgren, Julia Lundholm, Markus Björk, Markus Ransved Nilsson, Alfred Janz, and Filippa Söderlind. We further thank our other colleagues who contributed their time and insights.

Executive summary

Few countries are as well positioned as Sweden to address the need for deterrence with an opportunity for prosperity. A heritage of a strong and capable defense industry combined with a low national debt and recent NATO membership provide excellent circumstances to succeed. Translating the rising demand from the European rearmament into growing defense sectors could increase Swedish revenues from hardware military systems and civil defense products fivefold to 330.0 billion Swedish kronor ($35.8 billion) by 2035. However, the Swedish defense industry needs to strive for platform leadership with at least 15 percent market share in selected sectors given the new NATO context, or risk marginalization as demand is consolidating and competition is increasing.

To capture the opportunity for deterrence and prosperity, Sweden must overcome a set of challenges. The outcome will depend on Sweden's ability to align on priorities, mobilize across stakeholders, and execute with speed.

The scale of European rearmament and Sweden's important role

Europe is facing a period of heightened geopolitical instability, marked by ongoing conflicts and a shifting global order. In response, European NATO members are undertaking a significant rearmament, committing up to 12 trillion Swedish kronor—3.5 percent of GDP—in annual defense investments by 2035 to strengthen European defense capabilities and increase strategic independence.

Against this backdrop, Sweden has an important role in strengthening deterrence in Northern Europe due to a number of reasons. First, Sweden is a major contributor to Nordic-Baltic military forces, which combined constitute a larger army and air force than any other single European country. Second, Sweden also hosts a comprehensive defense industry across air, land, maritime, space, weapons systems, and electronic warfare. Third, Sweden holds a strategically important geographic location between the Baltic Sea and the High North, with critical logistical supply routes. Finally, Sweden has a strong fiscal starting position to support sustained defense investment over time, with a fiscal deficit and debt levels averaging 0.8 percent and 33.0 percent of GDP, respectively, in the period 2022 to 2025. Collectively, these factors underscore Sweden's contribution to the European defense.

A dual mission of deterrence and prosperity for the people of Sweden

Sweden has committed to scale its military capabilities as part of the European rearmament. Few countries have the potential and prerequisites to also translate these deterrence investments into broader national prosperity. Deterrence does not depend on military strength alone; it also depends on a prosperous industrial base and economic system that can support it over time. This means Sweden faces a dual mission: building deterrence while also capturing prosperity for the people of Sweden.

The significant economic impact of achieving the dual mission

Sweden has competitive military and civil defense products across approximately 60 to 70 percent of the European market. However, scale is limited, and only three product segments hold more than 15 percent market share in the military market. A similar pattern appears in civil markets, where only three sectors exceed a 20 percent market share.

At the same time, the challenge of maintaining sovereignty and self-sufficiency is growing significantly. Over the next 20 years, NATO and affordability aspects will likely drive the European defense industry toward consolidation. Maintaining market share across many categories will become increasingly difficult, and the question will be whether Sweden is able to move its relevant positions into platform leadership or risk being marginalized into slow decline.

The opportunity is, however, equally significant. Our assessment of hardware military systems and civil defense product markets suggests that revenues could increase fivefold from about 65 billion Swedish kronor today to 330 billion Swedish kronor by 2035. The first challenge and opportunity will be to grow from 65 Swedish kronor to 175 billion, almost three times revenues, to supply the growing demand. However, Sweden will also likely need to create platform leadership to address the emerging challenge of self-sufficiency and sovereignty. This could drive further growth from SEK 175 to 330 billion by scaling new military and civil defense platforms where Swedish companies could become leading European providers with market shares above 15 to 20 percent. Additionally, if this export-driven growth is achieved, taxes generated from the Swedish defense industry could also help finance the deficit of approximately 75 billion Swedish kronor, driven by Sweden's 5 percent of GDP spend commitment, putting Sweden in a stronger position to sustain deterrence over time.

But to capture the opportunity of deterrence and prosperity, Sweden must overcome a set of challenges:

— **Declining and lower R&D spend.** Defense R&D has halved from 0.30 percent of GDP in the 1980s—when the foundation of the current defense industry products was laid—to 0.17 percent today. Further, only 2 percent of total Swedish R&D is directed to defense, versus 5 percent in the EU-27 and 16 percent in the United States.

— **Trailing on defense unicorns.** Sweden has no defense decacorns. This stands in stark contrast to the country's leadership in entrepreneurship, being home to one-third of all European decacorns.

— **Underleveraging export measures.** Sweden lacks a dedicated defense export body and relies on case-by-case approvals. It trails countries such as France, Germany, the United Kingdom, and the United States on most dimensions of export support.

— **Supply chains under strain.** Backlogs at leading defense primes now equal three to five times annual revenues, signaling that supply capacity cannot keep pace with demand.

Four potential priorities for decision-makers

Achieving the dual mission of deterrence and prosperity requires coordinated action across government, armed forces, industry, and investors to translate rising demand into real capability, industrial scale, and sustained competitiveness. Focusing on four priorities could unlock the full potential of both deterrence and prosperity.

1. Link industrial strategy to capability plans. Ensure that integrated national defense plans connect policy, funding, force structure, total defense resilience, and industrial capacity. Clearly identify which capabilities Sweden needs for itself and to meet commitments to allies and partners. Sweden's industrial strategy should include quantified and time-phased demand signals, enabling industry and capital providers to underwrite investments.

2. Raise the industrial ambition and focus. Industry and government should set explicit targets for Sweden to become a leading European security provider with 15 to 20 percent market share ambition in selected segments. Align R&D, supply chain capacity, and investments to this ambition.

3. Compete on innovation, unit cost, and speed. Restore Sweden's tradition of building fast and cheap: Compress procurement cycles, shorten development timelines, reduce unit costs, and scale production. Create clear pathways for new defense companies to scale and reach the battlefield.

4. Facilitate exports as a national priority. Adopt and scale the full set of export measures to integrate Sweden into Europe and broader markets. Include export strategy in Sweden's foreign and industrial policy, and use offsets and other arrangements to access advanced foreign technology and strengthen exportability.

The challenge is significant, but the opportunity is equally large. Sweden is well placed to move quickly on all four priorities. No country in Europe combines the same mix of industrial heritage, fiscal capacity, geographic importance, and NATO membership. The window to both address the need for deterrence and capture the opportunity of prosperity is open.

1 The scale of European rearmament and Sweden’s important role

Amid mounting geopolitical volatility and ongoing conflicts, Europe's security situation has grown more uncertain than it has been in decades. The war in Ukraine and shifts in US foreign policy are reshaping the global security order. In response, European NATO members have committed to substantial rearmament and accompanying defense industrial base growth supported by transformative investments in the continent's security and industrial landscape.

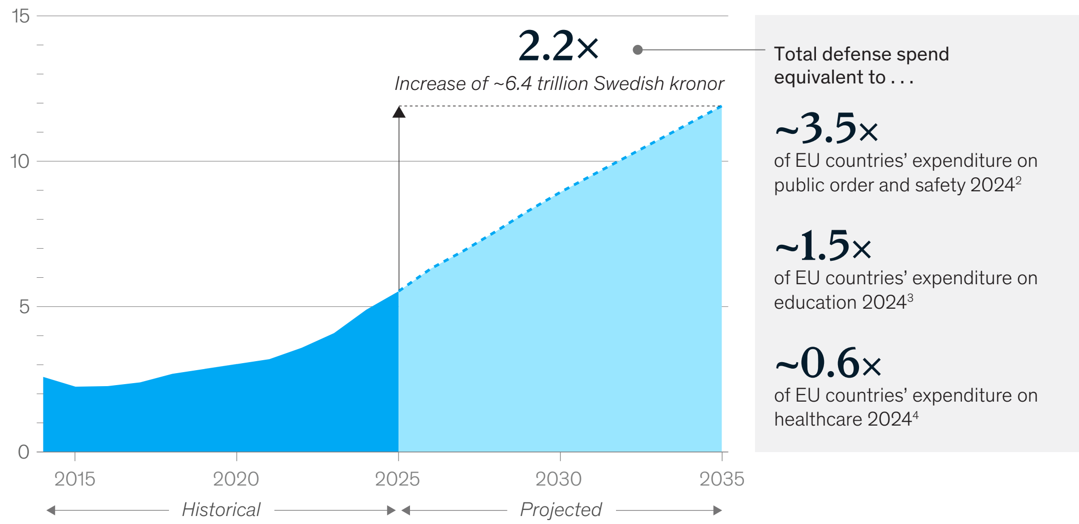
The scale of European rearmament

European NATO members, including Sweden, have announced a commitment to increase their defense and security-related spending to 5.0 percent of each nation's GDP by 2035, of which 3.5 percent will be allocated to military defense. In absolute terms, the military spending alone will total approximately 12 trillion Swedish kronor by 2035 and represent an increase of around 6.4 trillion Swedish kronor[2] from the total spend in 2025. Put into perspective, this spend is equivalent to roughly 1.5 times the EU members' government expenditure on education in 2024[3] (Exhibit 1). Delivering the new military capabilities with equipment, munitions, personnel, and operational deployment at scale by 2035 will also require sizable industrial buildouts and represent a considerable challenge to existing defense ecosystems within Europe.

Exhibit 1

The substantial scale of the European rearmament is projected to be roughly 12 trillion Swedish kronor by 2035.

European NATO spend, 2014–35,[1] trillion Swedish kronor



[1]According to NATO's definition, equipment expenditure includes major equipment expenditure (eg, aircraft; artillery; combat and transport vehicles; missiles, weapons, and small arms; ships and harbor craft; engineering equipment; and electronics) and R&D.
[2]Includes police services, fire protection services, law courts, prisons, and R&D related to public order and safety.
[3]Eurostat overall expenditure on education (ie, direct payments to institutions).
[4]Overall healthcare expenditures in the EU.
Source: European Commission; Eurostat; NATO; World Economic Forum; McKinsey analysis

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In addition to increased defense investments, the European Union has identified a need for increased strategic independence through the development of European capabilities. As President of the European Commission Ursula von der Leyen remarked, "Europe must become more independent—

there is no other choice . . . An independent Europe is a strong Europe. And a strong Europe makes for a stronger transatlantic alliance."[4] The European Commission has identified key capability gaps across the European Union and prioritized upgrades by 2030 in areas such as air and missile defense, cybersecurity, semiconductor production, critical technologies—for example, sovereign data centers and cloud infrastructure[5]—and access to refined rare earth materials.[6]

'Europe must become more independent—there is no other choice . . . An independent Europe is a strong Europe. And a strong Europe makes for a stronger transatlantic alliance.'

– Ursula von der Leyen, President of the European Commission

Why Sweden is important to European deterrence

After more than 200 years of neutrality, Sweden became the newest member of NATO in 2024, marking a historic shift in its national security posture. With the NATO accession, Sweden brings four unique contributions to help the alliance strengthen deterrence in Northern Europe (Exhibit 2).

1. A major contributor to defense spending and military force
Sweden is a central part of several well-functioning cultural, geographic, and linguistic alliances across Scandinavia, the Nordics, and the Nordic-Baltic—combining standing forces, additional reserves, and a high level of public commitment to security. The Nordic-Baltic alliance is an important contributor to European defense, with a combined military force of more than 470,000 troops,[7] making it larger than any single European country's military force.

Within this region, Sweden is positioned to become the single largest contributor to defense investments by 2030, when the country's spending is projected to represent 30 percent of the region's total defense spending.[8] The Swedish Armed Forces also bring important mass to the region—the country's air force accounts for approximately 40 percent of the total Nordic-Baltic fighter fleet, and its army and navy are the second largest[9]—despite coming from a decade of downsizing.

2. A comprehensive, multidomain defense industrial base
Sweden has the strongest and broadest defense industrial base in the Nordic-Baltic region, with a comprehensive, multidomain defense industry. The country's military industrial ecosystem offers broad defense capabilities in all domains: air, land, maritime, space, weapons systems, and electronic warfare. Sweden is one of only a few countries in Europe with such a comprehensive multidomain industrial base—a position that is even more exceptional if Sweden's relatively small size of economy is considered. As such, Sweden is well positioned to support national capability development as well as the broader European defense production capacity.

3. A strategically critical geographic location
Sweden's geographic location provides access to both the Baltic Sea and the High North, two areas of growing strategic importance, a primary example of which is Gotland located in the Baltic Sea. The country also serves as a critical trade and logistical hub, enabling the rapid movement of NATO forces

Exhibit 2

Sweden is crucial to European defense given its fiscal, military, and industrial starting point.

European spending and fiscal strength[1]

High spender and fiscally steady

High spender and fiscally strained

Low spender and fiscally steady

Low spender and fiscally strained

Sweden holds a strategically important location between the Baltic Sea and the High North, with critical logistical supply routes.

Together, the Nordic Air Force is the largest in Europe, accounting for ~20% of Europe's total fleet.

Sweden is the only country in the Nordics and the Baltics with a multidomain prime and capabilities.

Note: The boundaries, names, and designations used on this map do not imply official endorsement or acceptance by McKinsey & Company.
[1]Fiscally steady if its debt-to-GDP ratio 2024 is below the median (57%) and if its 2022–24 average annual deficit rate is lower than the median (2.5% of GDP); a country is defined as a high spender if its 2025 spend is above the median (2.14% of GDP); spend as of 2025 is projected numbers according to NATO, and debt and deficit rate is as of 2024. Exception: Germany, due to proximity to deficit and debt limits.
Source: Eurostat; Military Balance+; NATO; Stockholm International Peace Research Institute (SIPRI)

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to Finland and the Baltic states via key rail, road, and sea supply routes that all run through Swedish territory.[10]

4. A strong fiscal starting position

The Nordic-Baltic countries stand out as fiscally steady contributors with a strong fiscal position to maintain defense investment commitments over time, given their comparatively low debt and deficit levels.[11] Sweden exemplifies this fiscal position; between 2022 and 2025, the Swedish government's debt averaged 33.0 percent of GDP, with a fiscal deficit of approximately 0.8 percent of GDP. As such, Sweden's economy provides a strong foundation to sustain an accelerated defense buildup.

2 A dual mission of deterrence and prosperity for the people of Sweden

Sweden has committed to scale its military capabilities as part of the European rearmament. Few countries have the potential and prerequisites to also translate these deterrence investments into broader national prosperity. Deterrence does not depend on military strength alone; it also depends on a prosperous industrial base and economic system that can support it over time. This means Sweden faces a dual mission: building deterrence while also capturing prosperity for the people of Sweden.

Delivering on this requires two sets of pillars. *Military readiness, civil resilience,* and *sustained financing* are needed to build deterrence. At the same time, *industrial growth, investments in innovation*, and *business renewal* are needed to build the capacity to sustain it. If Sweden acts on both sets of pillars, it can turn increased defense spending into both stronger security and long-term prosperity. If not, the risk is a system that delivers neither.

Achieving Swedish deterrence

Military readiness: Ensuring Sweden's defense is fully equipped and ready
Sweden's rearmament has a strong starting point, where Sweden is actively contributing to European NATO operations through, for example, Baltic Air Policing,[12] Forward Land Forces (FLF) in Latvia,[13] and Baltic Sentry[14] while also providing extensive support to Ukraine. Moreover, Sweden brings strategic strengths to NATO. For example, Sweden's Cold War–era dispersed basing system (Bas 90) enables Gripen operations from road strips with turnaround times as short as ten minutes—a capability NATO allies, including the US Air Force through its Agile Combat Employment doctrine, are actively seeking to replicate.[15] There are, however, signs of ramp-up strain in the Swedish Armed Forces that could make it difficult to fully translate increased spending into real additional operational capability and full military readiness:

— **Material delivery lags behind demand.** The backlog at the Swedish Defense Materiel Administration (FMV) has increased 3.7 times since Russia's invasion of Ukraine in 2022. Meanwhile, the gap between ordered and delivered equipment has increased to 47 percent in 2025, compared with 17 percent in 2017 to 2021.[16]

— **Personnel expansion at risk.** Based on the current trajectory of personnel expansion, the Swedish military is at risk of falling short on its 2035 target to reach 130,000 personnel.[17] Training capacity of conscripts also seems to be challenged. The current conscript-to-officer ratio of 0.9 is well below Sweden's historical ratio of around 3.0 in 1980 to 1990[18] and Finland's ratio that has been consistently around 3.0.[19]

— **Training levels are potentially insufficient.** Training levels reportedly fall short of NATO benchmarks. For example, Swedish fighter pilots are estimated to log below 100 hours per year, well below the NATO stipulation of 180 hours per pilot.[20] Since flight hours per pilot is a widely recognized metric for pilot proficiency,[21] the potentially low number of flight hours could put Swedish combat effectiveness at risk.

The European Commission, together with its member states, has identified nine critical defense capability gaps[22] that need to be addressed to achieve full defense readiness by 2030. This aligns largely with the International Institute for Strategic Studies (2025), which highlighted similar gaps, including air and missile defense, C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance), and AI.[23] Assessing the Swedish defense across areas relevant for Sweden among the EU's capability gaps highlights strengths like maritime situational awareness and gaps such as unmanned[24] air defense.[25]

Based on publicly available information at the time of writing, Sweden's outlook for 2030 has also been assessed. Although Swedish defense capabilities are expected to improve across most areas, there are examples of where Sweden still could have capability gaps by 2030:

- **Air and missile defense:** Sweden currently has limited air defense coverage (mainly RBS 70). Although additional systems such as ISLM-T SLM are being procured,[26] total coverage is still expected to be limited by 2030, especially the ballistic missile defense, which is constrained to four Patriot systems.[27]
- **Strategic enablers—sovereign satcom:** Limited in scale, there are only pilot projects under the GNA-3 program but signals of increased capacity through, for example, a 1 billion Swedish kronor agreement with Ovzon.[28]
- **Artillery systems—long-range artillery:** Sweden currently lacks this capability.[29] Potential procurement of 12 HIMARS units is likely to be ongoing.[30] Depending on delivery times,[31] these systems could be operational in the early 2030s.
- **Cyber:** There is high exposure to cyberattacks, with significant gaps relative to Sweden's high level of digital maturity,[32] but gradually improving capabilities, including through collaborations with companies such as Cparta.
- **Ammunition:** Stockpiles are currently limited, described as "critical levels" by the government in 2023, partly due to Ukraine support.[33] While production is increasing, it remains at low levels compared with potential wartime needs.[34]
- **Drones and counter-drones—counter-UAS:** Sweden has some anti-drone capabilities in its current air defense, such as the RBS 70, and has recently placed a 9 billion Swedish kronor order for counter-UAS systems, such as Gute II and Tridon Mk II.[35] However, this will likely not be sufficient based on lessons learned from Ukraine.[36]

Civil resilience: Preparing the Swedish society for a multiyear conflict

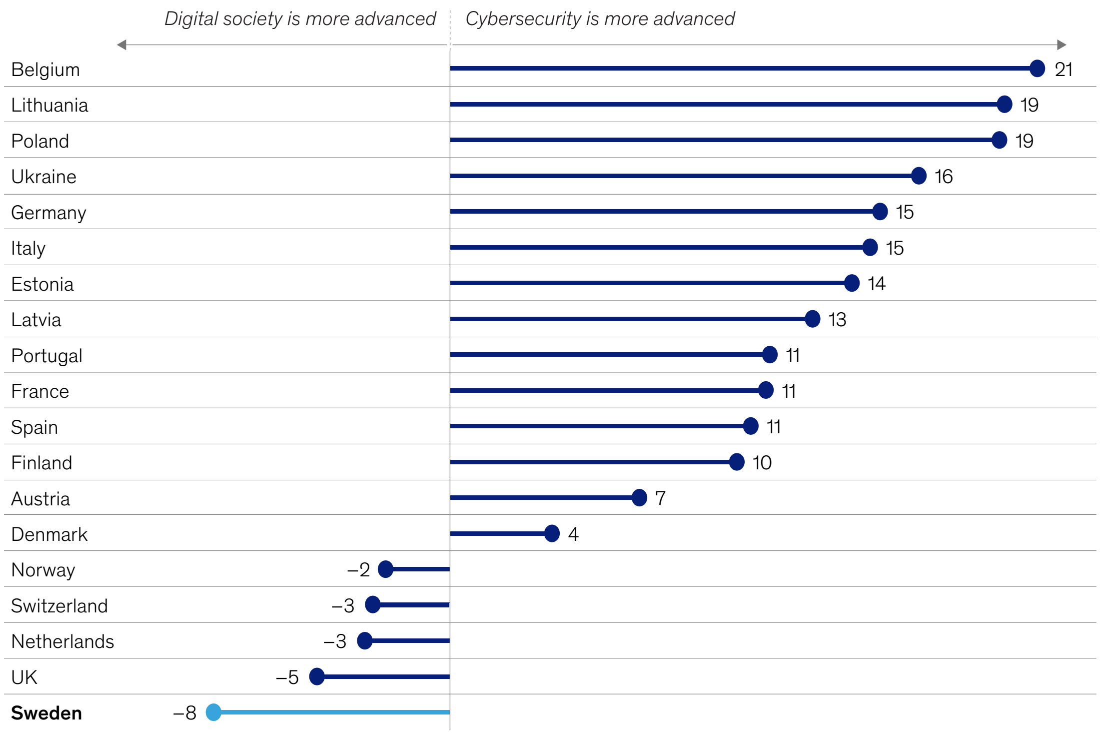
Historically, Sweden's total defense model was among the most advanced in the world. Some elements of this foundation remain, such as a nationwide network of 64,000 shelters capable of accommodating around 70 percent of the population[37]—an impressive coverage compared with other European countries' shelter systems, which are either nonexistent or capable of accommodating only up to 2 percent of the population.[38] Nonetheless, many other critical components of Sweden's total defense have been significantly reduced or dismantled and must be rebuilt. Strategic reserves of essential goods such as food, fuel, and medical supplies need to be reestablished to sufficient levels that can sustain the population for extended time periods. New public–private partnerships also need to be reinstated to ensure that critical wartime operations and production are available to support the military, economy, and society during conflicts.[39] Although progress is ongoing—from zero formal structures in 2015 to an institutional framework with sectoral forums, a national council for total defense, and 24 agencies establishing cooperation agreements—Sweden remains far from the scale of engagement seen in the 1990s, when approximately 11,000 companies were formally contracted to supply goods and services during a crisis or war.

In addition to restoring past structures, Sweden must build a total defense system capable of addressing new threats. For example, Sweden has the highest exposure to cyberattacks in Europe due to its high digitalization relative to cyber-resilience infrastructure[40] (Exhibit 3). The country is also vulnerable to psychological warfare, such as information influence campaigns and subversion operations, as exemplified by the LVU campaign.[41] Sweden's high exposure to global supply chains—where about half of Swedish critical supply chains are dependent on global suppliers[42]—also increases the need to secure access to critical inputs to ensure Swedish industry can maintain operations even if global supply chains are disrupted.

Exhibit 3

Sweden’s digital infrastructure is at risk of cyberattacks due to underdeveloped cybersecurity.

Gap between cybersecurity and digital development level, 2026, National Cyber Security Index (NCSI)



Note: Nonexhaustive. NCSI measures a country’s cybersecurity (ranging from 0 to 100, with 0 indicating no cybersecurity, and 100 full cybersecurity) against the country’s digital development level (DDL), calculated according to the E-Government Development Index and Networked Readiness Index (ranging from 0 to 100). The DDL is the average percentage the country received from the maximum value of both indexes. The gap shows the delta between cybersecurity index and the DDL.
Source: NCSI

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Sustained financing: Maintaining healthy state finances to support rearmament over time
Sweden enters the rearmament phase from a position of fiscal strength. Public debt is low, averaging 33 percent of GDP in 2022 to 2025, which is roughly two to three times lower than debt levels in countries such as France, Germany, and the United Kingdom in the same period.[43] In addition, Sweden maintains a relatively low government deficit of 0.8 percent of GDP, which is three to seven times lower than government deficits in France, Germany, and the United Kingdom.[44] This fiscal flexibility, combined with a cross-political-party shared view of the security threat, enabled Sweden to, for example, quickly receive broad political approval of temporary debt financing of 300 billion Swedish kronor to support the initial phase of military buildup until 2030.[45]

Nevertheless, a prolonged debt-financed defense expansion could weaken Sweden’s financials, especially in relation to the existing national debt anchor stating that Sweden should not exceed 35 percent of GDP in consolidated gross debt in the medium term.[46] Sustained military spending at structurally higher levels, such as 5 percent of GDP, could lead to fiscal trade-offs. A prolonged defense expansion not offset by additional revenue from increased defense and dual-use industry exports could lead to a gap in financing of approximately 75 billion Swedish kronor unless otherwise compensated. As a result, Sweden's ability to sustain its military capability while maintaining other welfare commitments and societal acceptance would be constrained.

Achieving Swedish prosperity

As stated previously, in addition to ensuring deterrence capabilities as a main priority, a dual mission could simultaneously enhance national prosperity. Managed strategically, Sweden's defense investment can serve as a springboard to regional security, as well as higher industrial competitiveness and more exports; accelerated innovation; and new companies, capabilities, and technologies through a next-generation ecosystem.

Industrial competitiveness: Supplying NATO and partner countries with leading Swedish defense products

Sweden has a history of creating globally competitive companies with high-share exports, resulting in exports accounting for approximately half of Sweden's GDP.[47] The country also has several basic industries such as pulp and paper, mining, steel, metal, and other nonmetallic mineral products for which around 90 percent of the output is exported.[48] Meanwhile, the defense sector remains comparatively less globalized. Only around 20 percent of Swedish defense companies[49] are active exporters, as most have Swedish primes and the Swedish Armed Forces as primary customers.

Sweden's relatively low defense export is not due to a lack of competitive products. On the contrary, Sweden has a portfolio of advanced military systems that are well aligned with key capability gaps in Europe, and has products in approximately 60 percent of the total market.[50] Examples of Swedish military platforms with market share above 15 percent include attack submarines, armor systems, and support vehicles. But Sweden also has competitive products with smaller market share in, for example, advanced combat aircraft, such as the Gripen; short-range air defense systems, such as RBS 70; long-range precision artillery systems, such as Archer; and tracked combat vehicles, such as the CV90.

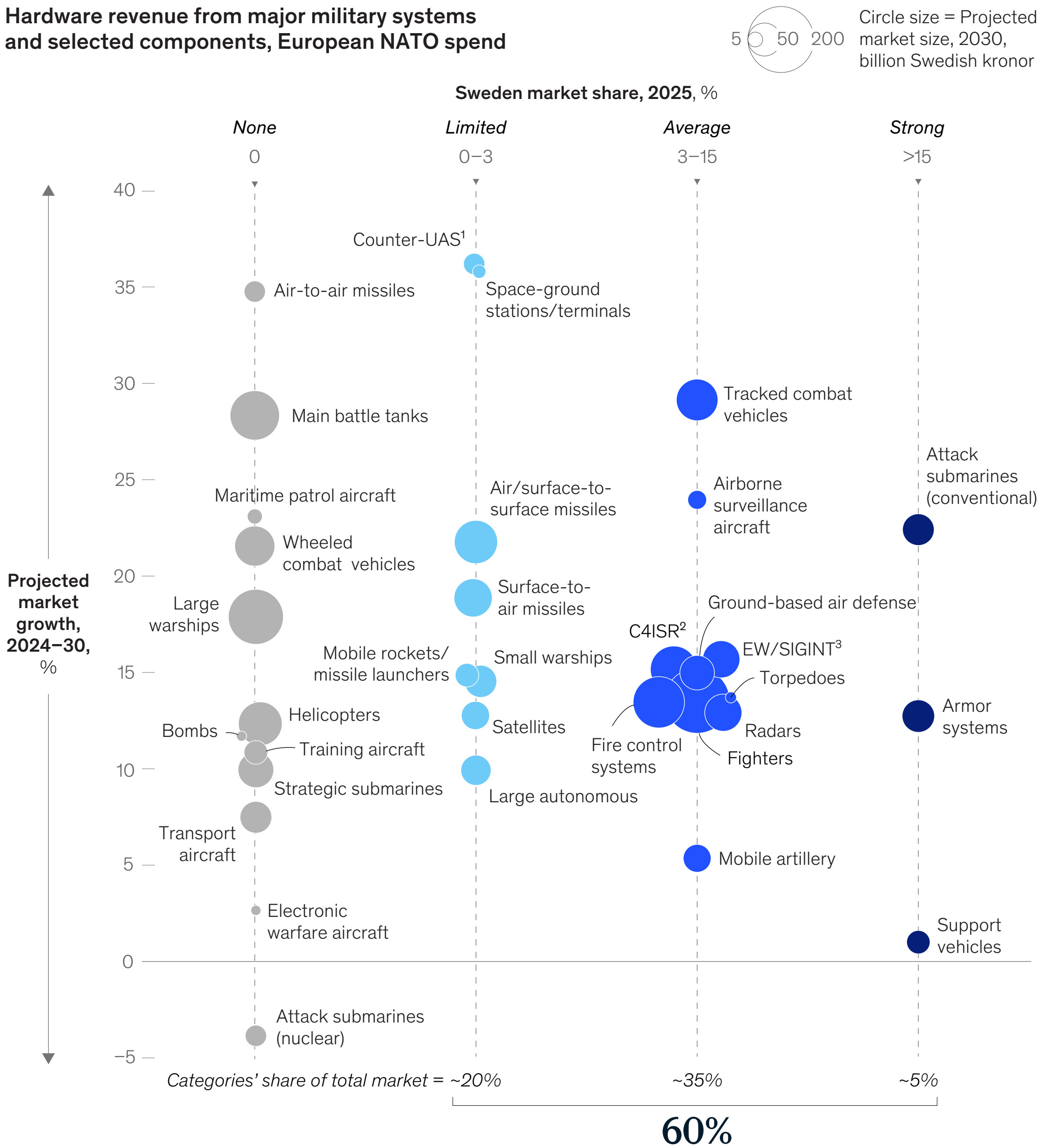
Yet Swedish companies capture only 2 to 3 percent of total spending on major military systems in European NATO member countries. While this is broadly in line with Sweden's economic footprint of around 2.6 percent of regional GDP, it is likely less than the potential Sweden could capture, given the breadth and technological capabilities of its defense industry and the recent accession into NATO (Exhibit 4). The number of large platforms with more than 15 percent is also limited to three. Furthermore, expanding the customer base beyond FMV and scaling through exports is critical for many companies to reduce unit cost.

Sweden's defense industry has strong products in more than half of the market but only three large platforms with more than 15 percent market share.

Exhibit 4

Sweden's defense industry has strong products in 60 percent of the market, but its top positions are in only three platforms that represent just 5 percent.

Hardware revenue from major military systems and selected components, European NATO spend



[1]Counter-unmanned aerial systems.
[2]Command, control, communications, computers, intelligence, surveillance, and reconnaissance.
[3]Electronic warfare/signals intelligence.
Source: Tamarack Defense; McKinsey analysis

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One aspect that could be a potential limitation on Swedish military exports is the current export policy framework that could put Swedish companies at a disadvantage in the European market. Sweden applies a case-by-case export assessment policy without predefined country lists, which increases flexibility but reduces speed of deals and predictability for long-term industrial planning.[51] Sweden also lacks a dedicated state function to actively support and coordinate defense exports since 2015, when FXM (Sweden's former defense export agency) was dismantled and its responsibilities were transferred to FMV. Finally, Swedish component suppliers could have a competitive disadvantage, given that the Swedish export policy stipulates that the Swedish government must approve all sales of foreign platforms to third-party countries and that include Swedish components.[52] Sweden's NATO accession could, however, provide an opportunity to reconsider the policy framework, as growing alignment with trusted partners and allied programmers could, over time, enable more streamlined processes within the allied framework.[53]

In addition to a strong military defense industry, Sweden also has leading civil defense companies with significant dual-use potential. For example, Swedish companies could take a central role as European countries build out critical infrastructure to strengthen resilience, contributing as suppliers in, for example, wireless communication infrastructure or electricity transmission and distribution. Additionally, Sweden has in-demand capabilities and scaling potential of businesses where commercialization of dual-use products remains limited today. Sweden could, for instance, scale commercial production in satellite communications, rare earth elements, and UAV (unmanned aerial vehicle) detection systems, where demand for civil defense is expected to increase significantly soon. Although the civil defense industry has products in approximately 70 percent of the market, around 40 percent lie in areas where offerings are strong or emerging, but market share remains low at zero to 3 percent—highlighting significant upside potential (Exhibit 5). Similar to the military defense industry, the number of large platforms is limited to three sectors where Sweden market share is larger than 20 percent.

Moreover, new entrants are outperforming incumbents on cost, speed, and supply chain scaling. Examples include SpaceX, with a 20 to 25 percent annual cost reduction[54] and 60 percent lead-time reduction compared to incumbents.[55] Other defense-relevant entrants include next-generation defense tech companies such as Anduril, Helsing, and Stark. Many of these companies share an operating model built on ambitious targets and relentless iteration, extreme ownership and transparency, and vertical integration with active supply chain management, as exemplified by SpaceX. Swedish military defense and civil defense companies will face growing competition from these players—and will need to adapt operating models accordingly.

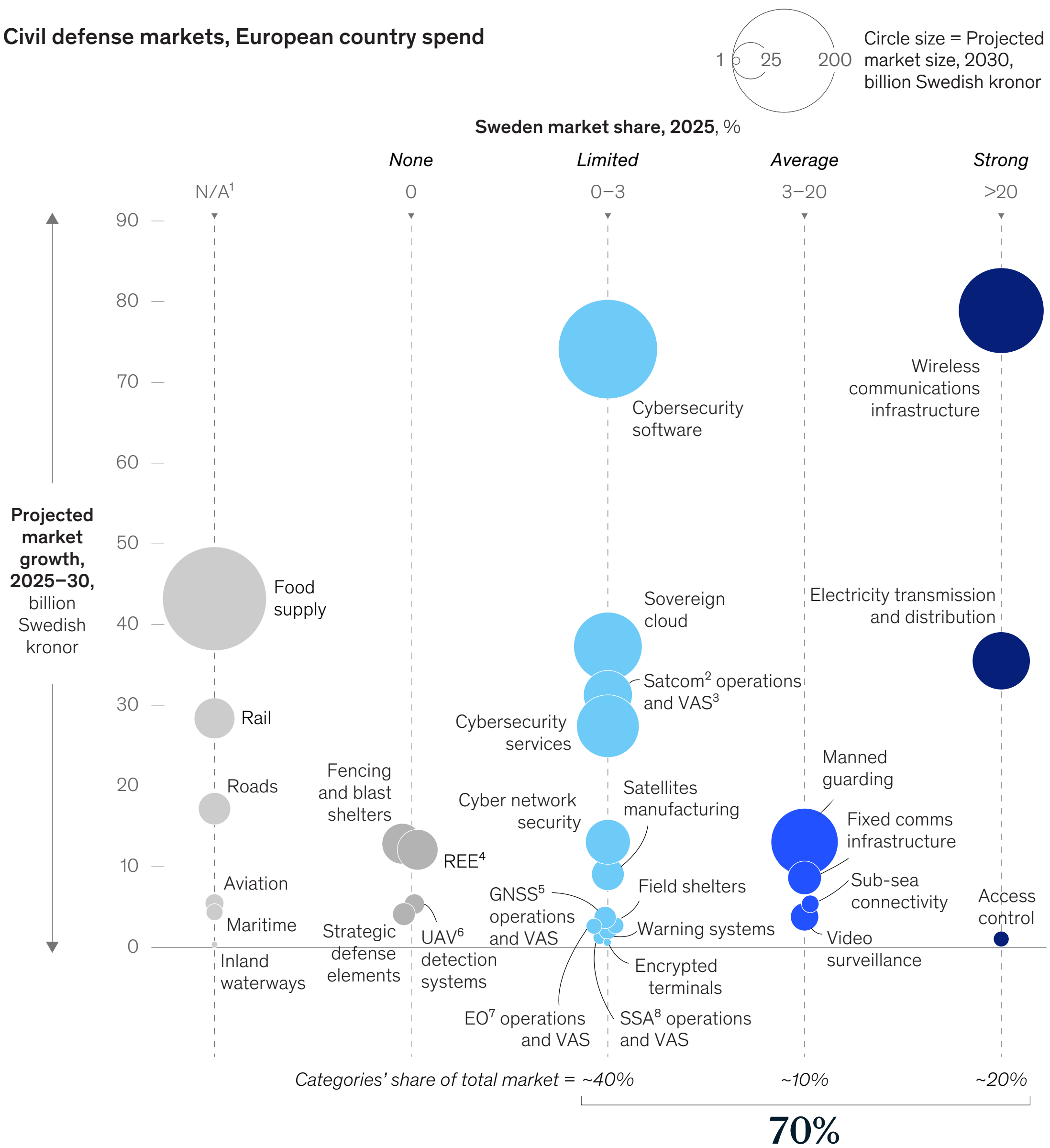
Innovation investments: Investing in R&D for future defense capabilities

Sweden has a long history of leadership in R&D and remains one of the most R&D-intensive economies in Europe. In 2024, Sweden's R&D spending totaled around 4 percent of GDP—approximately twice the EU average at 2 percent.[56] However, the share directed toward defense-specific R&D is comparatively low, with only about 2 percent allocated to that sector. This is significantly below peers such as the EU-27, where the share allocated to defense is around 5 percent, and far below the approximately 16 percent observed in the United States (Exhibit 6).[57] Despite the rapid growth of the defense sector, R&D investments have not been proportionally directed toward it. This reflects a broader pattern highlighted in previous McKinsey research, which shows that Swedish R&D is underrepresented in high-growth industries globally.[58]

Exhibit 5

Sweden's civil defense industry has products in 70 percent of the market, including three large platforms that represent 20 percent of the market.

Civil defense markets, European country spend

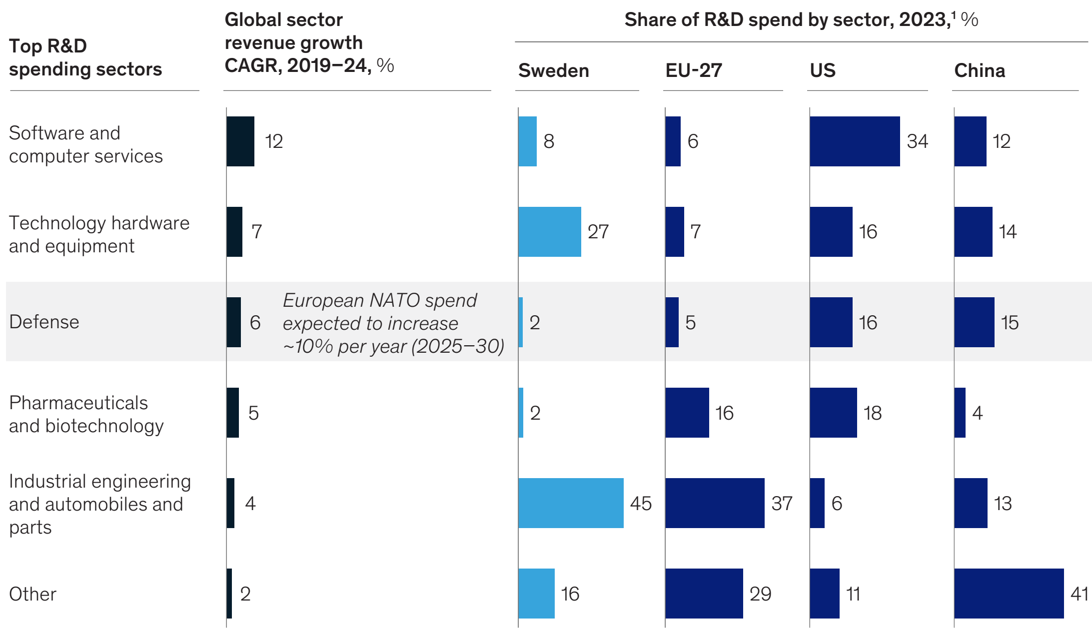


[1]Local demand with limited exports. [2]Satellite communications [3]Value-added services. [4]Rare earth elements. [5]Global navigation satellite system. [6]Unmanned aerial vehicle. [7]Earth observation. [8]Space situational awareness.
Source: Barclays; Deutsche Bank; European Commission; OECD; press search; World Economic Forum; McKinsey analysis; McKinsey proprietary databases (eg, MineSpans, Cyber Practice)

Exhibit 6

Sweden's defense R&D spending is disproportionately low in an international context.

R&D spending analysis



Note: Figures may not sum to 100%, because of rounding.
[1]Defense includes both governmental and industrial spend and excludes corporate R&D spend funded by the customer (ie, reported as cost of goods sold). All other sectors include only large corporates' R&D spend.
Source: EU Industrial Innovation Scoreboard; OECD; McKinsey analysis

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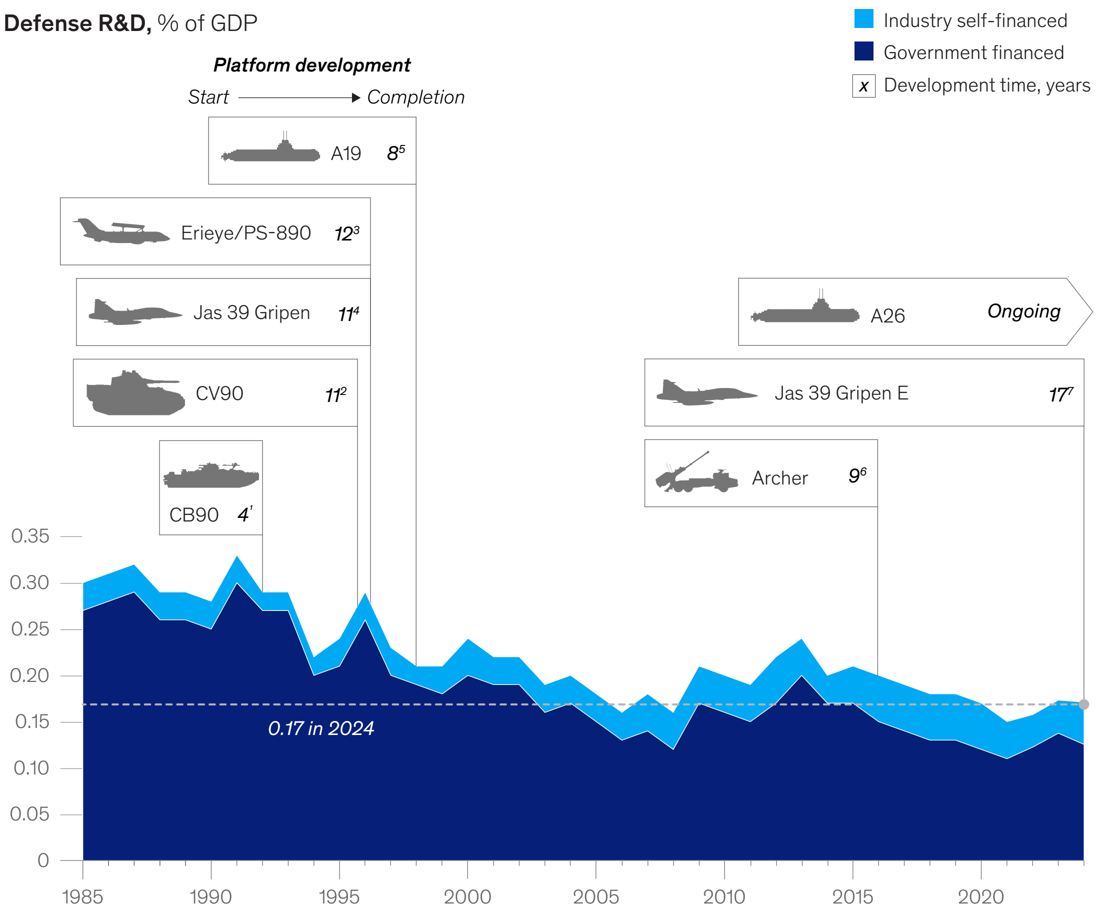
Sweden has a strong track record of developing competitive and exportable defense platforms, including Gripen, CV90, CB90, and Erieye. However, many of these successes were developed back in the 1980s and 1990s, when Sweden's defense-related R&D spending reached approximately 0.3 percent of GDP. Since then, this share has nearly halved to around 0.17 percent of GDP in 2025 (Exhibit 7).

Sweden allocates 50 percent less to defense R&D compared to NATO average and historical levels.

Exhibit 7

Defense-related R&D spending in Sweden has declined since the 1980s and 1990s, when key export platforms were developed.



[1]From concept to commission. [2]From project start to first delivery to the Swedish Armed Forces (SAF). [3]From development start to first delivery to the Swedish Defence Materiel Administration (Försvarets materielverk, FMV). [4]From project start to first delivery to SAF. [5]From contract to handover to SAF. [6]From formal start of Archer project to first delivery to FMV. [7]From first demonstrator plane to first delivery to FMV.
Source: FMV; OECD; press search; Swedish Defence Materiel Administration; McKinsey analysis

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Meanwhile, both development timelines and unit procurement costs for next-generation platforms have increased. For example, development time for fighter jets has increased by two to three times when going from fourth-generation to 4.5- or fifth-generation fighters,[59] based on the time from milestone B[60] to first production delivery. The unit cost of manned fighter aircraft in the United States has also increased more than tenfold between the 1980s and the 2020s,[61] indicating that the resources and investments are much higher currently than before.

Against this backdrop, Sweden's ability to develop the next generation of defense platforms cannot be taken for granted and could be dependent on a renewed commitment to sustained R&D investments.

Business renewal: Building a strong next-generation ecosystem

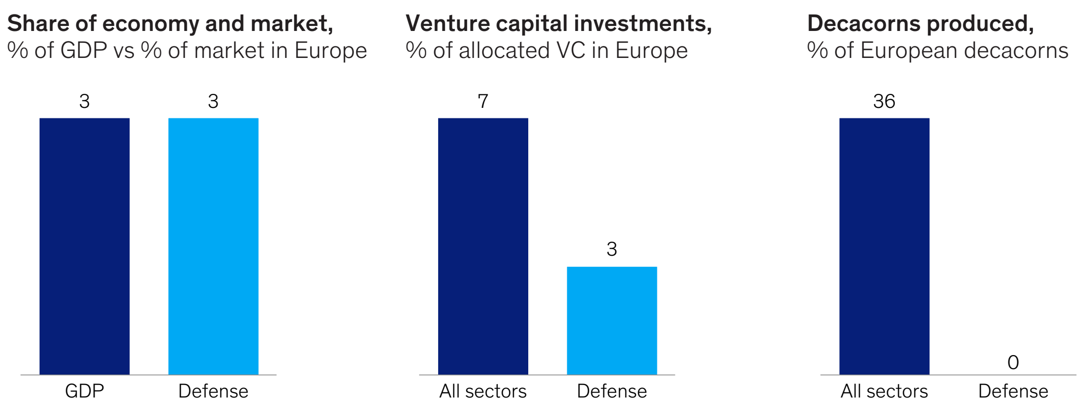
Sweden is a leader in next-generation business development, ranking eighth globally in unicorn creation and accounting for 36 percent of Europe's decacorns. However, Sweden has not created any decacorns in the defense sector yet. Furthermore, Sweden has only created one defense unicorn so far, currently behind Finland with two defense unicorns and the United Kingdom with ten.

Sweden has zero defense decacorns, despite being home to one-third of all European decacorns.

A similar paradox is reflected in venture capital (VC) funding. Sweden represents only 3 percent of all defense-related VC investments between 2020 and 2025, while Sweden's share of total VC investments is around 7 percent (Exhibit 8).

Exhibit 8

Sweden is a global leader in producing scale-ups but lags behind in scaling new defense companies.



Source: Dealroom.co; Eurostat

McKinsey & Company

At the same time, Swedish defense start-ups face structural scaling barriers. First, there is limited transparency on defense needs and procurement pathways, with no single entry point to engage with the armed forces; Business Finland, as a counterexample, offers Finnish start-ups a dedicated entry layer, including programs coordinating innovation, defense actors, and industry from an earlier stage. Second, validation and commercialization processes are slow, where the expected timeline from demo to customer testing and permit approval for Swedish start-ups is approximately three to five years, compared with the one to three years, on average, in Finland and the United States. Third, state-backed funding mechanisms are limited in Sweden, particularly in early stages where private capital alone is often insufficient but where, for example, the US Department of War[62] has the Defense Innovation Unit with the sole purpose of providing funding and a path to turn emerging technologies into military solutions.

As a contrast, US-based Anduril's journey toward unicorn status in just two years exemplifies the potential of a more supportive ecosystem. Key unlocks in the company's journey included a core product offering anchored in customer demand, compressed time between prototyping and operational feedback enabled by legal procurement bypassing the Other Transaction Authority (OTA), and large, credible commercial contracts won with US defense authorities, providing market signaling to private investors.

3 The significant economic impact of achieving the dual mission

Delivering on the dual mission could generate a significant impact for the people of Sweden. The defense industry could experience significant growth, contribution to public finances could mitigate the unfinanced gap from increased defense spend, and defense R&D has a high potential to develop disruptive innovations with spillover effects that benefit society as a whole. However, the Swedish defense industry needs to strive for platform leadership with at least 15 percent market share, given the new NATO context, or risk marginalization as demand is consolidating and competition is increasing.

Industrial growth

With its unique combination of military capabilities, a multidomain defense industry, and strong civil defense sectors, Sweden is well positioned to capture a higher share of the rapidly expanding European defense market. At the same time, the challenge of maintaining sovereignty and self-sufficiency is growing significantly. Over the next 20 years, NATO and affordability aspects will likely drive the European defense industry toward consolidation. Maintaining market share across many categories will become increasingly difficult, and the question will be whether Sweden will be able to move its relevant positions into platform leadership or risk being marginalized into slow decline.

The opportunity is, however, equally large. Managed effectively, capturing this development could enable a step change in Swedish industrial sector scale, potentially increasing revenues from hardware military systems and civil defense products fivefold from 65 billion Swedish kronor and reaching 330 billion Swedish kronor by 2035.

Swedish revenues from military systems and civil defense products could expand fivefold by 2035.

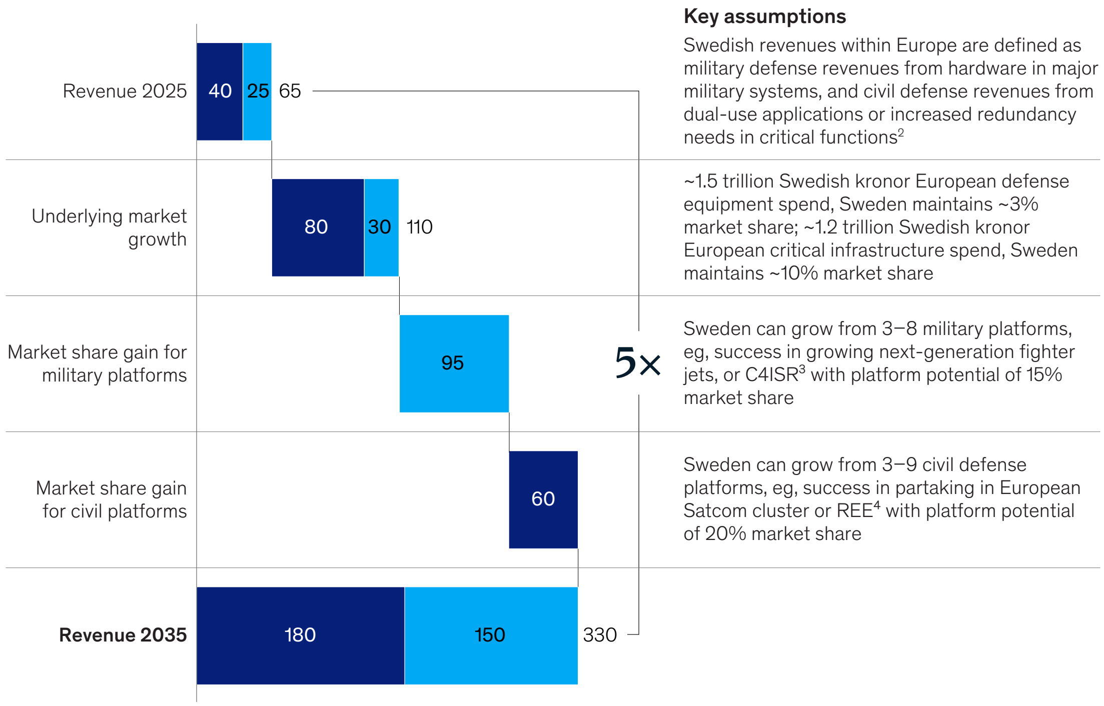
The first challenge and opportunity will be to grow from 65 billion to 175 billion Swedish kronor, almost three times revenues, to supply the growing demand. However, Sweden will also likely need to create platform leadership to address the emerging challenge of self-sufficiency and sovereignty. This could drive further growth from 175 billion to 330 billion Swedish kronor by scaling new military and civil defense platforms where Swedish companies could become leading European providers with market shares above 15 to 20 percent. The growth can be broken down into two areas: military defense and civil defense (Exhibit 9).

Exhibit 9

Swedish defense revenues for major military systems, dual-use applications, and redundancy needs could increase fivefold by 2035.

Estimated revenue from hardware military systems and civil defense products,[1] 2025–35, billion Swedish kronor

Civil
Military



[1]This is a scenario that focuses on the potential revenue increases, assuming Swedish companies grow in line with the market and are able to increase market shares aligned with key assumptions listed on the page. This is not a bottom-up built projection.
[2]This report defines (nonexhaustive definition) the military and civil markets as follows: military revenues within Europe from hardware in major military systems, ie, excluding components, consumables, and services; civil defense revenues from dual-use applications or increased redundancy needs in critical functions, ie, referencing Exhibit 4 (excluding component) and Exhibit 5.
[3]Command, control, communications, computers, intelligence, surveillance, and reconnaissance.
[4]Rare earth elements.
Source: Barclays; Deutsche Bank; European Commission; International Monetary Fund; OECD, Tamarack Defense; World Economic Fund; McKinsey analysis; McKinsey proprietary databases (eg, MineSpans, Cyber Practice)

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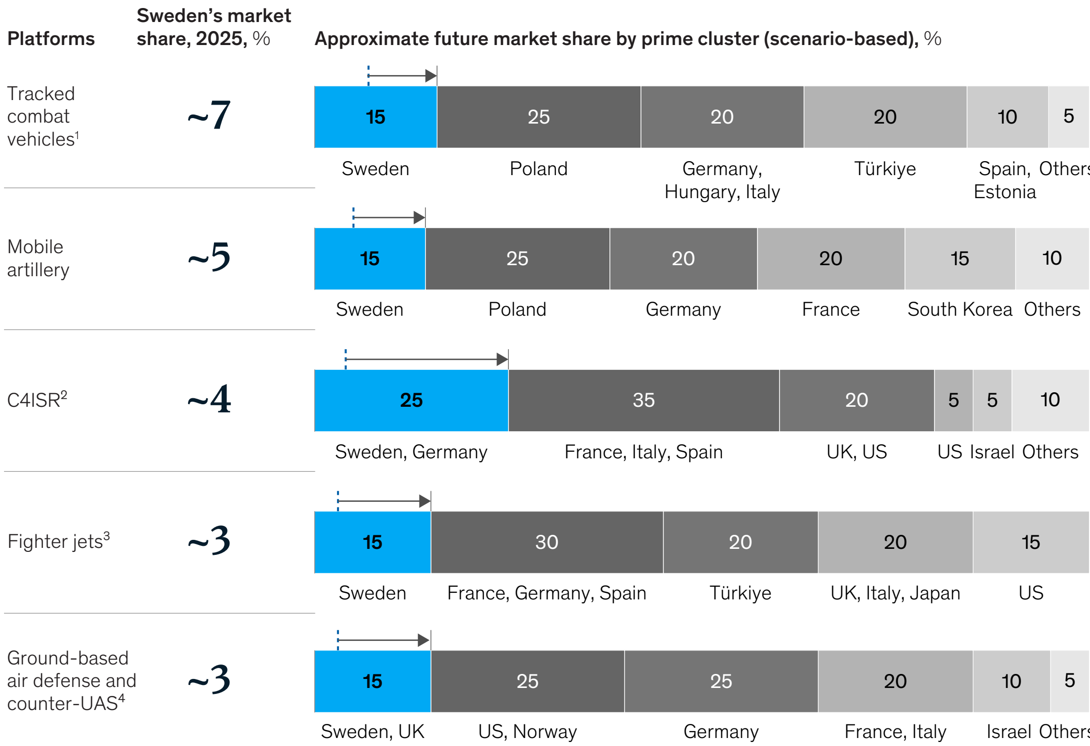
Military defense. Swedish revenues from major military system hardware[63] could grow sixfold, from 25 billion Swedish kronor in 2025 to 150 billion Swedish kronor by 2035. Swedish companies could capture around 30 billion Swedish kronor by 2035 by seizing accelerated market momentum and maintaining around 3 percent market share as European NATO countries increase spend to reach their 3.5 percent of GDP target. In addition, Swedish companies could gain up to 95 billion Swedish kronor in revenue by the scaling of new military platforms where Swedish companies could become leading security providers, with market shares above 15 percent, moving from three to eight large platforms—for example, next-generation platforms in key domains such as tracked combat vehicles, mobile artillery, C4ISR,[64] fighter jets, and ground-based air defense and counter-UAS (Exhibit 10).

Exhibit 10

Sweden could capture around 15 percent market share if it becomes a next-generation European platform provider.

Increased market share opportunities for Sweden, by platform cluster

Sweden's market share, 2025



Note: Figures may not sum to 100%, because of rounding.
[1]Future scenario for tracked combat vehicles is referring to infantry support capabilities, which includes both tracked combat vehicles and unmanned ground vehicles.
[2]Command, control, communications, computers, intelligence, surveillance, and reconnaissance.
[3]Future scenario for tracked fighter jets is referring to combat air which includes both fighter and collaborative combat aircraft.
[4]Unmanned aerial system.
Source: Tamarack Defense; McKinsey analysis

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Out of the total growth for military defense revenues, expanding exports to non-European partner countries with similar rearmament trends represent roughly 40 billion Swedish kronor, 10 billion of which is driven by underlying market growth, while 30 billion Swedish kronor stems from scaling new military platforms.

Civil defense. Civil defense companies, including companies that are building out resilience of critical infrastructure and scaling dual-use products, could increase revenues fourfold, from 40 billion Swedish kronor in 2025 to 180 billion Swedish kronor in 2035. Capturing market momentum of critical infrastructure investments is expected to be the main growth driver, potentially contributing 80 billion Swedish kronor in revenue growth by 2035. On top of that, market share gain could contribute 60 billion Swedish kronor in revenue growth, mainly from scaling companies in emerging sectors where Swedish companies could help build European platforms, providing critical components or supplying sovereign needs such as satcom or UAV detection systems—from three today to nine in 2035 (Exhibit 11).

Exhibit 11

Swedish civil companies have about a 45 billion Swedish kronor opportunity to scale in segments with low current market share by 2035.

Swedish opportunities in sectors with low market share and commercialization in 2025

		Market share potential, 2035, %	**Revenue potential, 2035,** billion Swedish kronor
Build European platforms	Satcom operations and VAS[1]	8–12	~9
	UAV[2] detection system	50–70	~9
	REE[3]	10–20	~2
	Strategic defense elements	10–20	~5
	SSA[4] operations and VAS	8–12	<1
	Satellite launch pad capacity	N/A	
Scale critical component suppliers	Satellites manufacturing	8–12	~3
	EO[5] operations and VAS	8–12	<1
	GNSS[6] operations and VAS	8–12	~1
	Encrypted communications terminals	8–12	~1
Supply sovereign needs	Cybersecurity software	2–4	~1
	Sovereign cloud	2–4	~7
	Cybersecurity services	2–4	~3
	Cyber network security	2–4	~4

[1]Value-added services. [2]Unmanned aerial vehicle. [3]Rare earth elements. [4]Space situational awareness. [5]Earth observation. [6]Global navigation satellite system.
Source: Barclays; Deutsche Bank; European Commission; OECD; press search; World Economic Forum; McKinsey analysis; McKinsey proprietary databases (eg, MineSpans, Cyber Practice)

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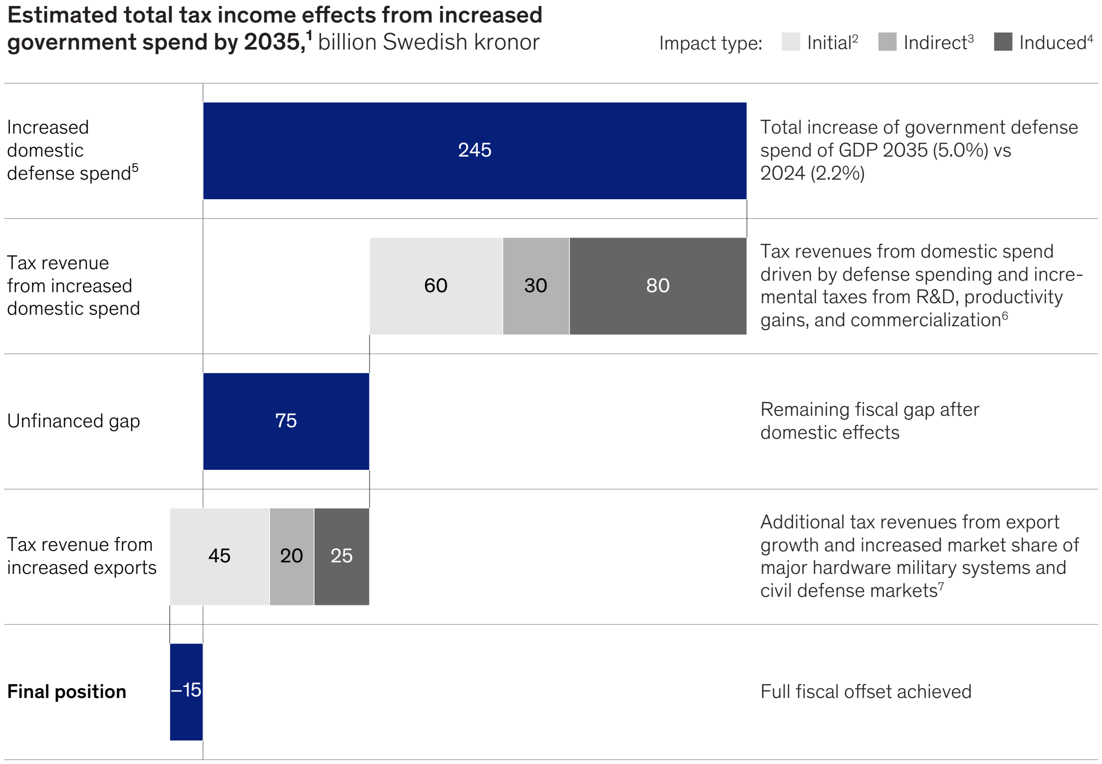
Public finance contribution

As governments increase defense investments for rearmament, economies will be stimulated through industrial and public-sector activity, such as new jobs created and goods sold. As a result, new GDP and taxable income will be generated. The positive spillover effect in the Swedish economy will largely depend on the degree of domestic production and supply chains. The combination of a strong, national multidomain defense industry and component suppliers puts Sweden in a unique position to benefit from the increased industrial activity.

If Sweden engages in the actions outlined above related to increase of its shares in Europe's military and civil defense markets, the resulting industrial growth could boost taxable economic output significantly and mitigate or even eliminate the need for debt-financed defense spend in Sweden (Exhibit 12).

Exhibit 12

Increased exports and spillover impacts can cover the unfinanced gap from government defense spend by 2035.



[1]Scenario is based on Sweden being able to increase defense industry revenues fivefold by 2035. [2]Initial effects from value of production or spend, eg industry primes. [3]Indirect effects from all levels of suppliers, eg, components and raw materials. [4]Induced effects from general spending by employees across industries, productivity gains, etc. [5]GDP calculated based on the ratio of Swedish government defense budget to spend with an assumed annual growth rate of 1.7%, based on the National Institute of Economic Research 2030–35. [6]Sweden's effective tax rate on gross value added (GVA) arising from government spending is estimated at approximately 45–50% of domestic GDP. This reflects a labor tax wedge of about 50–60% on wages (including employer contributions and income taxes), a 15–20% effective rate on operating surplus (adjusted for deductions), and taxes on production of roughly 10% of GVA, based on national accounts structure. [7]While exports are zero-rated for value-added tax, they still generate tax revenues through wages, profits, and production activity. Applying a 50–60% labor tax wedge and a 15–20% effective tax rate on operating surplus implies an overall effective tax rate of about 38–42% on export-related GDP.
Source: Government of Sweden; International Monetary Fund; OECD; Statistics Sweden; McKinsey analysis

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Increased government defense spending—from 2024 balanced budget levels to 5 percent of GDP by 2035—would naturally stimulate the economy and generate additional GDP. As this additional GDP is taxable, it could yield around 170 billion Swedish kronor in tax revenues, split across direct effects on affected stakeholders, indirect effects in the domestic supply chain, and induced effects such as increased household consumption. In this scenario analysis, this could still leave an unfinanced gap in state finances of approximately 75 billion Swedish kronor in 2035, reflecting the difference between defense spending and the tax revenues it generates.

However, if in parallel the Swedish defense industry grows fivefold to reach 330 billion Swedish kronor in 2035, it could generate up to approximately 90 billion Swedish kronor in additional tax revenues through increased GDP, and the total effects would therefore amount to 260 billion Swedish kronor. In this scenario, total tax revenues could exceed defense spending by 2035, resulting in a net positive fiscal position of around 15 billion Swedish kronor. Even if export contributions do not fully close the gap, they will still reduce it—significantly easing the economic strain on the country while strengthening deterrence. In this way, increased investments in defense can both enhance national security and stimulate economic growth, creating new opportunities for people in Sweden while protecting them.

A potential 260 billion Swedish kronor tax contribution from industrial growth and public-sector activity could offset Sweden's increased defense spend.

Disruptive innovation

In addition to the opportunities outlined above, increased investment in military defense–related R&D can generate significant long-term returns via spillover effects that enable new civilian industries and applications. On average, the GDP return on defense R&D spend is five times that of the GDP return on civilian R&D spend.[65] And military defense projects have enabled some of the most transformative technologies of our time, including the internet, GPS, satellite communications, and jet engines. Over time, such innovations have enabled a wide range of beneficial applications, not only within the military but also across civilian sectors such as connectivity, logistics, travel, and trade. In fact, Bluetooth is a Swedish civil technology based, in part, on military research on wireless communications.[66]

Interesting to note is that government-funded investments in R&D can generate "crowding-in" effects, whereby public R&D spending stimulates additional private investment, evidenced in a literature review by Pontus Braunerhjelm and co-authors.[67] For example, a 10 percent increase in government-funded R&D is associated with a 5 to 6 percent rise in privately financed R&D.[68] This underscores the opportunity at hand when investing in these areas and the importance of collaboration between stakeholders in society.

4 Four potential priorities for decision-makers

Achieving the dual mission of deterrence and prosperity is not a given. It will require coordinated action across government, armed forces, industry, and investors to translate rising demand into real capability, industrial scale, and sustained competitiveness. No single actor can address the challenges alone. Instead, progress depends on a shared agenda and clear prioritization to unlock a more efficient operating model while also clearly allocating ownership of tasks where a designated stakeholder takes the lead. The following four priorities outline where collective focus is needed to strengthen deterrence while unlocking the full potential for industrial growth and prosperity.

1. Link industrial strategy to capability plans

Ensure that integrated national defense plans connect policy, funding, force structure, total defense resilience, and industrial capacity. Be clear which capabilities Sweden should contribute to NATO and translate these into an industrial strategy that defines which technological and industrial segments to leverage in its offset strategies, as well as how to build industrial capacity and production speed. This plan should be translated into quantified time-phased demand signals that industrial partners can respond to, and capital providers can underwrite.

2. Raise the industrial ambition and focus

Realizing the prosperity impact of defense spending requires increased defense exports as part of Sweden's contribution to strengthening NATO deterrence. Sweden has a strong foundation to build on, including its total defense heritage, industrial base, technical capabilities, fiscal strength, and NATO membership. Industry and government could therefore raise their ambition by setting an explicit target to become a leading European provider with 15 to 20 percent market share ambition in selected segments. By raising the ambition and doubling down on industry growth, the major military systems industry could increase the number of large platforms from three to eight, resulting in a sixfold increase in revenues, reaching approximately 150 billion Swedish kronor in 2035. In addition, Sweden could increase civil defense revenues fourfold to 180 billion Swedish kronor by increasing the number of large platforms from three to nine. Examples of where Sweden has a strong incoming competitive position include:

— Advanced systems such as next-generation platform fighters and submarines

— Supporting systems such as C4ISR, satcom, radar, and EW/SIGINT (electronic warfare; signals intelligence).

— Tactical consumables such as munitions and critical minerals

Moreover, this ambition requires prioritizing high-potential segments where Sweden can lead, rather than maintaining a broad, domestically oriented portfolio. In line with the industrial ambition, government and industry should jointly prioritize segments where Sweden can be globally competitive and align R&D, the development of new systems and technologies, industrial supply chain capacity, and investments to this ambition. For example, this implies that R&D investment allocations from government, industry, and private capital should increase significantly toward historical levels of 0.3 percent of GDP seen in the 1980s, when many successful platforms were developed.

3. Compete on innovation, unit cost, and speed

Accelerate the speed of operating models, and remove bottlenecks across processes within both the Swedish Ministry of Defense and industry by bringing back the Swedish art of building "fast and cheap." This would allow Sweden to maintain the pace needed to build deterrence and address international competition with lower costs, shorter development lead times, and scaled supply chains. Examples include:

— **Swedish Ministry of Defense:** Synchronize long-term operational needs with acquisition decisions, implement multispeed procurement across start-ups, optimize off-the-shelf and dual-use versus platform and capability development, simplify tender processes, clarify demand signals, and improve processes to support new entrants.

— **Industry:** Reduce order-to-delivery time, shorten development lead times, initiate cost ramp-down, implement active supply chain debottlenecking, establish risk sharing with suppliers on larger investments, increase share of self-funded R&D, and challenge and create transparency on cost and volume implications of customer specifications.

To succeed, Sweden should also focus on enabling a new generation of defense companies by increasing access to venture capital, introducing new state funding mechanisms, and creating attractive conditions for international players—building on Sweden's track record of innovation and unicorn creation. In addition, Sweden should explore novel approaches to collaborate with companies in the field, develop new state funding mechanisms, and attract international companies to Sweden.

4. Facilitate exports as a national priority

Adopt and scale the full set of export measures to integrate Sweden into Europe and broader markets. Include export strategy in Sweden's foreign and industrial policy, as well as using offset arrangements to access advanced foreign technology and strengthen exportability. Learn from other countries how to mobilize government, the business community, and the broader society; how to build broad country-to-country industrial partnerships; and what prerequisites are needed to be successful, such as supportive government and regulations.

The challenge is significant, but Sweden is well placed to move quickly on all four priorities. No country in Europe combines the same mix of industrial heritage, fiscal capacity, geographic importance, and NATO membership. The window to both address the need for deterrence and capture the opportunity for prosperity is open.

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62 This article uses "Department of War" following President Donald J. Trump's Executive Order 14347, dated September 5, 2025, which authorizes the Department of Defense to be referred to as the Department of War in official correspondences, public communications, ceremonial contexts, and nonstatutory documents issued by the department.

63 Excluding components, munition, software, small arms, equipment, and other smaller categories.

64 In partnership with Germany (in this scenario), of which Sweden's share is 11 percent.

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