

DEFENCE BOND FRAMEWORK

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THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Luxembourg State Treasury

DEFENCE BOND FRAMEWORK

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1. Introduction

This defence bond framework, which was formally approved by the Government Council on 6 October 2025, outlines the key principles, eligibility criteria and governance mechanisms underpinning the issuance of defence bonds, to ensure a transparent and credible financial environment for investing in Luxembourg.

1.1. *The Grand Duchy of Luxembourg's defence policies and ambitions*

In its 2023 Coalition Agreement¹, the Government of the Grand Duchy of Luxembourg set its priority areas for the country, notably in the defence sector, in response to a tense geopolitical environment and the Russian invasion of Ukraine.

The Government is committed to work to strengthen the resilience of the European internal market in strategic sectors such as health, information technology, defence and energy.

The Government is committed to increase its investments in the defence area and will, as part of the increased investment, adopt a concerted approach to strengthen the country's resilience in the face of crises. It will seek to create synergies with other sectors by prioritizing projects that have a positive societal and economic impacts in Luxembourg. Particular attention will be paid to ensuring that the projects are effectively recognized by NATO as part of the defence effort, based on their relevance to the capability objectives assigned by NATO.

Luxembourg Defence Guidelines

In May 2023, the Grand Duchy of Luxembourg published the “Luxembourg Defence Guidelines 2035”², a revision of the 2017 edition³, based on the EU's and NATO ambitions and capability priorities.

These guidelines set goals to be achieved at the organisational and operational level as well as in terms of capability, defence effort, prevention of security risks related to environmental changes, deepening multinationalisation, increasing the percentage of women, and supporting research and industry.

These guidelines oriented Luxembourg's Directorate of Defence and Armed Forces with a view to progressively increasing the defence effort to 1% of GDP, by 2028 at the earliest, and to maintain it at this level while ensuring that a realistic level of ambition is maintained as a continuation of current efforts and taking into account available or potential human and material resources.

Ahead of the NATO Summit held in Washington D.C. from 9 to 11 July 2024, on the 75th anniversary of the Alliance, the Government of Luxembourg announced its commitment to increase defence spending to 2% of GNI by 2030⁴.

In May 2025, the Government of Luxembourg announced its commitment to achieving 2% of GNI in defence spending as of 2025⁵, through additional investments in the defence and national industry that generate both economic and societal returns, contributing to the strengthening of Luxembourg's defence industrial and technological base.

At the NATO Summit in The Hague, in June 2025, NATO allies committed to investing 5% of GDP annually in core defence requirements and defence- and security-related spending by 2035⁶.

¹ <https://gouvernement.lu/fr/publications/accord-coalition/accord-de-coalition-2023-2028.html>

In recent years, the Government of Luxembourg has pursued a clear and robust strategy aimed at increasing its defence capabilities in alignment with NATO's guidelines.

This commitment will continue, with efforts focused on reaching the new target of allocating 5% of GNI to defence spending by 2035.

1.2. Rationale for defence bonds issuance

To achieve these ambitions, substantial investments need to be mobilized and a functioning, expanding capital market plays a central role in this context.

The Grand Duchy of Luxembourg is the world's second largest investment fund centre, after the United States, with over 5,900 billion EUR in assets under management⁷. As such, the Grand Duchy of Luxembourg plays a key role in finance that goes well beyond its geographical size.

Under the "ReArm Europe Plan", the European Commission aims at mobilizing 800 billion EUR for additional defence investment expenditures. This will be achieved through national budgets of European member states.

To finance the national defence trajectory efforts to which the Grand Duchy of Luxembourg has committed, as well as the increased efforts requested by the European Commission, the Government of Luxembourg has decided to issue (a) national defence bond(s).

The country will thus be the first European country to issue such a Bond in post-World War II times demonstrating Luxembourg's innovative and strategic initiatives in the capital market, as it has previously been the case with, for example:

- The launch of the first sovereign Sukuk in the euro area in October 2014⁸.
- The launch of the first sovereign Sustainability Bond in the euro area in 2020⁹.
- The launch one of the first Digital Treasury Certificate in 2025¹⁰.

By issuing defence bond(s), the Grand Duchy of Luxembourg aims to reinforce its commitment to safety and defence in Europe. National defence bonds could become key financing instruments to support a country's efforts and ambitions while providing national and international investors with the opportunity to diversify their investments.

Consequently, the Grand Duchy of Luxembourg aims to lead by example to support the development of the defence capital market with the issuance of safe, AAA-rated sovereign defence bonds.

The proceeds raised from such bond issuances will enable the Grand Duchy of Luxembourg to fund government investments in the defence area, boosting Luxembourg's defence efforts, while having a direct positive contribution to Luxembourg's commitments towards NATO as well as towards the European Union's overall increase in defence efforts.

The Grand Duchy of Luxembourg will thus be an innovator, becoming the first European country in the 21st Century to set defence bond(s) and will pave the way for further developments in the domestic and international defence bond markets.

² <https://gouvernement.lu/dam-assets/documents/actualites/2023/05-mai/11-guidelines-defence/luxembourg-defence-guidelines-2035-en.pdf>

³ <https://defense.gouvernement.lu/dam-assets/la-defense/luxembourg-defence-guidelines-for-2025-and-beyond.pdf>

⁴ https://defense.gouvernement.lu/fr/actualites/gouvernement2024+fr+actualites+toutes_actualites+communiqués+2024+06-juin+12-backes-evolution-defense.html

⁵ https://gouvernement.lu/lb/actualites/agenda.gouvernement2024+fr+actualites+toutes_actualites+communiqués+2025+05-mai+16-backes-plan-defense.html

⁶ https://www.nato.int/cps/en/natohq/topics_49198.htm

⁷ <https://www.csaf.lu/en/2025/08/net-assets-of-ucis/>

⁸ https://mfin.gouvernement.lu/fr/actualites/gouvernement2024+fr+actualites+toutes_actualites+communiqués+2014+09-septembre+30-sukuk.html

⁹ <https://tresorerie.public.lu/en/finance-durable.html>

¹⁰ https://mfin.gouvernement.lu/fr/actualites/gouvernement2024+fr+actualites+toutes_actualites+communiqués+2025+06-juin+17-roth-certificats-tresorie-digitaux.html

2. Defence bond framework

As there is no precedent in setting up a defence bond in recent times, the issuance of a national defence bond does not currently need to comply with any specific international standards, whether at the EU or ICMA level.

The Grand Duchy of Luxembourg has prepared this defence bond framework (the “Framework”) based on the following key pillars: Use of proceeds, Process for project evaluation and selection, Management of proceeds, Reporting and Review.

2.1. Use of proceeds

Under this Framework, the Grand Duchy of Luxembourg may issue defence bond(s) where an amount equal to the net proceeds will be exclusively used to finance or refinance eligible investments falling within the Eligible defence categories.

2.1.1. Eligible defence categories

CATEGORIES	DESCRIPTION
Aviation	<ul style="list-style-type: none">Enhance air transport services and capabilities, surveillance and control, notably through the development and deployment of drones
Communication material	<ul style="list-style-type: none">Provide hardware and technologies to ensure secure and reliable communication across military forces
Infrastructure	<ul style="list-style-type: none">Modernise and develop relevant national and international infrastructures
R&D and industrial development	<ul style="list-style-type: none">Facilitate access to the various defence and/or dual-use markets as well as promote innovative technologies that are essential to the European defence technological landscapeInvest directly or indirectly in entities that finance, develop and produce defence and/or dual-use technologies and products
Space	<ul style="list-style-type: none">Develop space capabilities, particularly in satellite communications, earth observation and space situational awareness
Self-protection & equipment	<ul style="list-style-type: none">Provide materials, systems and technologies to detect, avoid, and counter threatsProvide tools, gear, and systems to conduct operations, maintain safety, and ensure mission success
Vehicles	<ul style="list-style-type: none">Provide ground equipment for military missions and reinforce strategic medical evacuation capabilities
Weapons and ammunitions	<ul style="list-style-type: none">Provide ground equipment for military missionsBuild up ammunition stocksDevelop integrated air and missile defence capabilities

2.1.2. Exclusion criteria

Eligible expenditures exclude:

- Expenditures from budgets dated more than two calendar years prior to the year of issuance of the bond,
- Expenditures already financed through a dedicated funding source, to avoid any “double counting”¹¹
- Expenditures falling within the sectorial exclusions such as:
 - Unconventional and controversial weapons (i.e. anti-personnel landmines, cluster munitions, chemical, biological and nuclear weapons)
 - Production or trade in any product or activity deemed illegal under international conventions and agreements, or subject to international bans.
 - Provision of weapons or equipment to any country outside the EU, NATO or Ukraine.

2.2. Process for evaluation and selection

The process for evaluation and selection will ensure that the proceeds from the Grand Duchy of Luxembourg’s defence bond(s) are allocated to finance or refinance eligible investments that meet the criteria and objectives set out above in Section 2.1. Use of proceeds.

The State Treasury, supported by the Ministry of Foreign and European Affairs, Defence, Development Cooperation and Foreign Trade – Directorate of Defence and the Inspectorate of Finance, coordinates this process and prepares an initial list of potential eligible expenditures by identifying relevant investment expenditures in the national budget. The initial list is subsequently evaluated by the Defence Bond Committee (see Section 2.2.1), which verifies that the expenditures meet the criteria and objectives set out above in Section 2.1 Use of proceeds and approves the selected investment expenditures to be included in the defence bond(s).

2.2.1. Governance and process for the evaluation and selection of the eligible expenditures

To oversee the implementation of the Framework, a dedicated Defence Bond Committee has been established, under the coordination of the Luxembourg State Treasury (the “Defence Bond Committee”).

The members of the Defence Bond Committee are:

- The State Treasury (chair),
- The Ministry of State,
- The Ministry of Finance,
- The Ministry of Foreign and European Affairs, Defence, Development Cooperation and Foreign Trade – Directorate of Defence,
- The Inspectorate of Finance.

The Defence Bond Committee meets at least once a year and on a case-by-case basis as deemed necessary.

The responsibilities of the Defence Bond Committee are:

- The verification that the expenditures meet the criteria and objectives set out above in Section 2.1 Use of proceeds,
- The selection of eligible expenditures to be included in the defence bond(s),
- The approval of the eligible expenditures to be included in the defence bond(s),
- The review of the allocation of the proceeds of the issued defence bond(s),
- The validation of the Allocation Report(s),
- The maintenance and update of the Framework if necessary.

2.2.2. Defence regulatory framework

The programmes and projects financed by the eligible expenditures under the Grand Duchy of Luxembourg's defence bond(s) are strictly regulated by official government policies and procedures.

2.3. Management of proceeds

In accordance with the evaluation and selection process described above, an amount at least equivalent to the defence bond(s)' net proceeds will be allocated to eligible investment expenditures and monitored by the State Treasury.

Pending full allocation, the net proceeds of the defence bond issuances will be managed by the State Treasury in accordance with the Grand Duchy of Luxembourg's regulatory framework and treasury management policies.

The Grand Duchy of Luxembourg intends to allocate the proceeds of the defence bond(s) at the earliest opportunity and in any case, commits on a best-effort basis to reach full allocation within two years of the defence bond(s) issuance.

In the event where some expenditures would be withdrawn from the portfolio of eligible investment¹², the Grand Duchy of Luxembourg will reallocate on a best effort basis the proceeds to other eligible expenditures which are compliant with the Eligibility Criteria, as soon as reasonably practicable.

In the unlikely case of insufficient Eligible defence projects, unallocated proceeds will be managed by State Treasury in compliance with its liquidity management procedures and policies, ensuring that funds are invested in liquid, short-term and secure instruments, until Eligible defence projects are added to the bond allocation.

For the avoidance of doubt, such unallocated proceeds will not be invested in activities outlined in Section 2.1.2.

2.4. Reporting

For all issuances under this Framework, the Grand Duchy of Luxembourg intends to produce an allocation report (the "Allocation Report") at least annually until full allocation of the defence bond(s) proceeds.

¹¹ Consequently, only expenditures net of EU grants, loans, or other revenues earmarked for specific purposes are eligible.

¹² In case of budgetary adjustments, delayed disbursements, or in the event where identified expenditure would cease to fulfil the Eligibility Criteria.

The Allocation Report, produced by the State Treasury in collaboration with the other members of the Defence Bond Committee, aims to provide transparent information on the allocation of proceeds towards eligible expenditures, including:

- An overview of the allocated proceeds,
- A breakdown of allocated proceeds by eligible categories,
- The amount of unallocated proceeds at the end of the reporting period (if any).

2.5. Review

The Grand Duchy of Luxembourg aims to adhere to the highest standards of accountability. The Court of Auditors of the Grand Duchy of Luxembourg provides an annual report on the execution of the State budget, allowing to demonstrate that an amount equal to the net proceeds of the bond(s) have been allocated in accordance with the Allocation Report.

Given the confidentiality of military data, neither a Second Party Opinion nor a Third-Party Review will be commissioned by the Defence Bond Committee.

