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Germany's defence expenditure – a growing problem in NATO

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On 20th March Germany's government adopted the draft federal budget for 2020 and the financial plan to 2023. According to the draft, Germany's defence spending is set to increase to 45.1 billion euros in 2020 and account for 1.37% of the country's GDP. However, the mid-term financial plan allows for a slight decrease in the defence expenditure by 2023. The defence budget will then be maintained at approximately 44.2 billion euros, which represents 1.25% of Germany's GDP. The financial plan to 2023 of the German Finance Ministry is incompatible with the report Germany presented to NATO at the beginning of this year, when it committed to spending 1.5% of its GDP on defence in 2024. The diverging plans regarding Germany's defence budget reveal a growing conflict in the grand coalition as coalition partners start to redefine their programs and to sharpen their party profiles.

The implementation of the financial plan to 2023 will lead to a shortfall of approximately 22 billion euros in the defence budget. This will negatively impact the implementation of the planned armament programmes and the planned increase in the number of Bundeswehr troops. The government's draft for the 2020 federal budget may be slightly corrected to benefit the Ministry of Defence during the debate in the Bundestag, as it was the case in the past. Similar changes may also be introduced to mid-term financial plans. Nevertheless, due to the changes in the domestic political landscape, the chances that the German defence budget will grow significantly seem increasingly slim under the present grand coalition.

Berlin's insufficient defence spending will have negative consequences for Germany's credibility within NATO and the EU, for NATO itself and for US-European co-operation in the security policy. Germany's reluctance to fulfil financial commitments within NATO may cause the Trump administration to become increasingly disillusioned with NATO. It may also lead the US to become increasingly willing to strengthen bilateral ties with those individual NATO allies which invest in defence and are willing to expand security co-operation with the US.

The grand coalition towards an increase in defence expenditure

The diverging defence spending plans in the German government's draft budget and in the documents submitted to NATO reveal growing tensions in the ruling coalition between the CDU/CSU and the SPD. The coalition parties start to redefine their programs and sharpen their party profiles as a result of voter fatigue with the lack of clear differences between the main parties. This has been reflected in the results of the elections to the Bundestag; the support for the CDU/CSU fell from 41.5% in 2013 to 32.9% in 2017, while the support for the SPD declined from 25.7% to 20.5%. This trend has been corroborated by public opinion surveys conducted in March 2019 which indicate that 29% of respondents support the CDU/CSU, 17% support the SPD, 19% support the Green Party, 13 % support the AfD and 8% support the FDP (according to ARD-DeutschlandTREND). Both the SPD and the CDU have begun discussing their political agendas; one of the debated issues being an increase in defence spending. The Christian Democrats have openly emphasised that it is necessary to provide adequate equipment for the Bundeswehr and to fulfil commitments which Germany subscribed to in NATO, in the EU and in its bilateral relations. Thus CDU/CSU are in favour of allocating 2% of GDP to defence spending in the long term, even though in real terms they support an increase up to 1.5% of GDP in 2024. In the discussions on the draft federal budget German defence minister, Ursula von der Leyen (CDU), proposed a gradual increase in defence spending – from 47.2 billion euros in 2020 to 55 billion euros in 2023. That would mean a realistic perspective for the Germany's defence budget to account for 1.5% of the country's GDP in 2024. Chancellor Angela Merkel has avoided commenting on the issue; but the new leader of the CDU, Annegret Kramp-Karrenbauer, has announced that the party would seek to step up defence spending beyond the government's current plans while debating the draft for the 2020 federal budget in the Bundestag and the financial plans in the coming years.

This may however be increasingly difficult due to the Social Democrats which overtly challenge the rationale of further delivering on NATO commitments of both 2% of GDP and even 1.5% of GDP). The new SPD program, that the party is currently working on, will focus on social issues and will have an anti-American and pacifist overtone. Paradoxically, it will also call for establishing a European Army and strengthening EU's security and defence policy. The SPD finance minister has been halting plans to expand the defence budget to 1.5% of Germany's GDP in 2023 pointing to a slower economic growth and mounting social challenges in the coming years. At the same time it is worth noting that in 2018 Germany reported a budget surplus, for the fifth consecutive time, with a record amount of 58 billion euros. The Federal Finance Ministry forecasts a rise in Germany's GDP by 1% in 2019, 1.6% in 2020, and by approximately 1% in 2021-2023. Nevertheless, the German foreign minister, Heiko Maas (SPD), has backed up an increase in the defence budget to 1.5% of GDP in 2024.

The room for manoeuvre to ensure a further increase in defence expenditure will diminish under the present government with the increasingly divergent political agendas of the coalition partners. It remains an open question whether the grand coalition will survive until the parliamentary elections in Germany in 2021 and which parties will form a new government. Should the SPD form a cabinet with smaller coalition partners, the future defence budget may stagnate. Should a coalition dominated by the CDU/CSU be established, the defence spending may record a moderate increase. Apart from the SPD, the Greens and the Left are also opposed to stepping up military expenditure.

Germany's defence spending and the Bundeswehr's needs

Regardless of the political commitments in NATO, the German Ministry of Defence will need approximately 200 billion euros between 2020 and 2023 (four years period), according to

German researchers from the Bundeswehr University in Munich. According to the plans of the Federal Ministry of Finance from March this year, it will receive approximately 178 billion euros, which means a gap of 22 billion euros. This shortfall may be slightly smaller, though, due to possible (but not significant) further increases in defence spending. Nevertheless it will have a negative impact on the modernisation of the Bundeswehr and on the planned increase in the number of troops. After years of implemented austerity measures that introduced the so called dynamic availability management (de facto incomplete equipment) to the armed forces, the Bundeswehr requires a huge injection of funding.

The largest armament programmes include the acquisition of: four MKS 180 multi-role combat ships, possibly with two more vessels, two submarines (in co-operation with Norway that buys four vessels), heavy-lift transport helicopters, six C-130 Hercules transport aircraft (in co-operation with France that buys eight planes) and the TLVS medium-range air defence system among others. Germany has been also involved in the big research and development programmes for a MALE-class Eurodrone (in co-operation with France, Italy and Spain), for a new-generation main ground combat system (battle tank) and a future air combat system (5th generation fighter) together with France. The replacement of the nuclear-capable Tornado aircraft to fill the nuclear sharing role in the Luftwaffe has also been on the agenda.

The effective modernisation of the Bundeswehr does not depend exclusively on increased defence spending. The German Ministry of Defence also has issues with excessive bureaucracy, mismanagement of armament programmes and inefficiency in using budget funding. German analysts indicate that, irrespective of increased defence expenditure, the German defence ministry should, above all, better deal with management of the large-scale armament programmes.

The implications for NATO

The fact that the German finance minister is challenging the defence spending plans presented by the Ministry of Defence in NATO will undoubtedly be criticised at the meeting of Foreign Ministers marking the 70th anniversary of the founding of the alliance to be held in April this year in Washington, and at the NATO summit scheduled for December in the UK. Berlin's insufficient defence spending will negatively impact both Germany's credibility at NATO and in the EU, NATO itself, and affect US-European security policy co-operation. The Trump administration is expecting its NATO allies to step up their military potential in order to adapt to the changing global balance of power, to support the US deterrence policy in Europe and to increase their engagement in crisis management in the European neighbourhood.Germany's stance on these issues is being closely monitored by the Trump administration since Germany is both the largest economy in the EU and has a trade surplus with the US, and yet its military is the weakest of the largest European allies.

Due to the lack of consensus in the grand coalition with regard to increasing defence expenditure, proposals have appeared in recent months – both in public debate in Germany and the US – to settle the dispute. The US media reported proposals to increase Berlin's financial contribution to maintaining US military bases in Germany. On the other hand, German politicians and analysts have suggested focusing more on military capabilities and engagement in civilian and military operations by the individual allies instead of concentrating on the level of 2% of GDP. It has also been suggested that Germany should invest more in transport infrastructure in Germany and on NATO's Eastern flank in order to ease movement of military personnel and equipment and that these investments should be reported as military spending. It does not however seem viable that Berlin will accept the US proposals and that Washington will be in favour of the German suggestions. Germany's aversion to spending more on defence may therefore lead to the Trump administration's growing disappointment with NATO and increased willingness to strengthen bilateral relations with those NATO member countries which invest in defence and are willing to extend co-operation with the US.

APPENDIX

Germany's defence expenditure since 2014 according to NATO data*

* Source: NATO, Defence Expenditure of NATO Countries (2011–2018)

The budget of Germany Defence Ministry in financial plans of the Federal Ministry of Finance in billion euros**

	2017	2018	2019	2020	2021	2022	2023
Plan z 2017	37,00	38,45	39,64	40,91	42,29		
Plan z 2018		38,49	41,54	41,74	42,70	42,68	
Plan z 2019			43,22	45,10	44,26	44,28	44,15

** Data based on financial plans the Federal Ministry of Finance presents in the first quarter of each year.