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Policy-Brief

The Wales Pledge Revisited:

*A Preliminary Analysis of 2015
Budget Decisions in NATO
Member States*

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The Wales Pledge Revisited: A Preliminary Analysis of 2015 Budget Decisions in NATO Member States

The September 2014 NATO Wales Summit Declaration contained specific commitments with regard to defence expenditure. To quote directly from the Declaration:

'Allies currently meeting the NATO guideline to spend a minimum of 2% of their Gross Domestic Product (GDP) on defence will aim to continue to do so..... Allies whose current proportion of GDP spent on defence is below this level will:

- *Halt any decline in defence expenditure;*
- *Aim to increase defence expenditure in real terms as GDP grows;*
- *Aim to move towards the 2% guideline within a decade with a view to meeting their NATO Capability Targets and filling NATO's capability shortfalls.'*¹

On 5th February 2015 NATO Defence Ministers met in Brussels and reviewed the implementation of the Summit's decisions. They said nothing publicly about how decisions on defence spending in NATO member states were shaping up in relation to the Wales commitment. In this short policy brief, we analyse and assess the post-Wales defence expenditure performance of 14 members of the alliance where 2015 expenditure decisions have already been formally announced or where the level of expenditure has become clear through some other release of information into the public domain. Our analysis excludes the United States, which is already carrying the largest share of the burden in terms of NATO country defence spending, but otherwise includes a sufficiently diverse group of large and small members of the Alliance to allow some observations to be made as to how the overall performance of the rest of NATO is developing.

Preliminary reports from fourteen countries examined for fiscal year 2015 suggest that only one (Estonia) will spend 2% of GDP on defence. Six out of the fourteen states examined, namely Latvia, Lithuania, Norway, Poland, the Netherlands and Romania will increase their military expenditure this year but not meet the 2% target. In Poland's case, a further commitment has been made to increase defence spending to 2% of GDP in 2016 from a figure just below that in 2015. Six countries will cut defence expenditure in 2015. These include the UK, Germany, Canada, Italy, Hungary and Bulgaria. France is on course for a flat defence budget in 2015 compared to 2014.

¹ Wales Summit Declaration, Issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Wales, *NATO Official Website*, 5 September 2014, http://www.nato.int/cps/en/natohq/official_texts_112964.htm, Accessed 20 February 2015

No Breakthroughs among the Big Three

In the UK, on current projections and drawing on decisions already in the public domain, despite warnings from military officials, analysts,² and calls from policy makers,³ to increase defence expenditure, the defence budget looks set to be cut further below the 2014 level of £36.4 billion⁴ (approximately US\$55 billion) to around £35.5 billion in 2015/16 (approximately US\$54 billion).⁵ With growth in the economy and recent changes to the national accounting method to include narcotics, prostitution and charitable activities factored in, this will reduce the percentage of GDP spent on defence in 2015/16 to 1.88% from 2.07% in 2014.⁶ There is talk of adding in some additional human resource costs to inflate the budget and of a strategic reserve for operations of £500m for 2015/16 but unless a substantial part of the full operations reserve is spent, it is unlikely that even these steps will allow the UK to match its 2014/15 level of defence expenditure. Given the ring-fencing of expenditure in other major departments like health and international development,⁷ it is also unlikely that any political decisions will be taken this year or indeed in subsequent years to change this basic trajectory. This means that in 2015/16 the UK is on course to spend its lowest percentage of GDP on defence in any of the last 25 years.⁸

² UK's armed forces face new spending crunch, *The Guardian*, 10 November 2014, <http://www.theguardian.com/uk-news/defence-and-security-blog/2014/nov/10/british-army-defence-budget>, Accessed 25 January 2015

³ National Security, Letters to the Editor, *The Times*, 3 February 2015, <http://www.thetimes.co.uk/tto/opinion/letters/article4343308.ece>, Accessed 3 February 2015

⁴ UK's armed forces face new spending crunch, *The Guardian*, 10 November 2014, <http://www.theguardian.com/uk-news/defence-and-security-blog/2014/nov/10/british-army-defence-budget>, Accessed 25 January 2015

⁵ HM Treasury, Public Expenditure Statistical Analysis 2014, Cm 8092 (London: The Stationery Office, 2014), Table 1.11, <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2014>, (This is based on the assumption of zero additional spending on operations.)

⁶ The grim truth about our defence budget, *The Telegraph*, 6 February 2015, <http://www.telegraph.co.uk/news/uknews/defence/11394108/The-grim-truth-about-our-defence-budget.html>, Accessed 20 February 2015; See also: The Financial Context for the 2015 SDSR, The End of UK Exceptionalism? by Malcolm Chalmers, RUSI Briefing Paper, https://www.rusi.org/downloads/assets/201409_BP_Financial_Context_of_the_2015_SDSR.pdf, Accessed 20 February 2015

⁷ David Cameron's foreign aid pledge to cost extra £1bn, *The Financial Times*, 4 December 2014, <http://www.ft.com/cms/s/0/d217e3e4-7bc8-11e4-b6ab-00144feabdc0.html#axzz3SDXQdMqB>, Accessed 20 February 2015

⁸ Military expenditure (% of GDP), Information on the United Kingdom from 1988 to 2013, The World Bank Data, <http://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS>, Accessed 20 February 2015

Recent debate in the House of Commons has highlighted further possible capability implications that could flow from the long-term trajectory of UK defence spending.⁹ On current planning assumptions, there appear to be insufficient funds allocated to the government's defence procurement budget to cover all planned conventional and nuclear related equipment purchases. If budgets are not increased, and it is far more likely that they will be cut further rather than increased as the UK seeks to eliminate its fiscal deficit over the next few years, one would have to assume that the UK will not follow through on some important equipment purchases at all, or will significantly scale back on the number of some aircraft and naval platforms currently slated for purchase. This is especially true if the full Trident submarine replacement programme goes ahead. The result will be further reduced UK conventional capability in the years ahead.

With regards to **Germany**, even though German GDP is growing, neither the overall federal budget, nor the defence budget is increasing. In fact, German defence expenditure is declining, both in terms of spending and in terms of percentage of GDP. The proposed defence budget for 2015 is US\$41.72 billion,¹⁰ US\$3 billion less than for 2014. In 2015 the Bundeswehr will operate on a budget of 1.09% of German GDP, a decline from 1.3% of GDP spent on defence in 2013 and the 1.14% spent in 2014.¹¹ What is more, leaked parliamentary reports from 2014 on the state of Germany's defence equipment and infrastructure raise concerns particularly in relation to the lack of investment and modernisation.¹² This brings into question the extent to which Germany will be able to contribute to NATO's overall defence needs. Technical problems and lack of qualified personnel could also seriously diminish Germany's ability to fulfil all of its NATO commitments, something acknowledged even by the Defence Minister.¹³ German lawmakers have expressed intent to increase military expenditure from fiscal year 2016.¹⁴ However, without formal commitment, and problems in the Eurozone's economic situation persisting, there could yet be political obstacles to investing more in defence.

⁹ Defence Capability (Conventional Weapons), House of Commons Oral Answers to Questions, 12 January 2015, http://www.publications.parliament.uk/pa/cm201415/cmhansrd/cm150112/debtext/150112-0001.htm#150112-0001.htm_snew39, Accessed 19 January 2015

¹⁰ Germany's defence budget to drop further in 2015, *IHS Jane's 360*, 11 September 2014 <http://www.janes.com/article/43034/germany-s-defence-budget-to-drop-further-in-2015>, Accessed 25 January 2015

¹¹ Update: Germany cuts defence budget by EUR800 million, *IHS Jane's 360*, 3 July 2014, <http://www.janes.com/article/40391/update-germany-cuts-defence-budget-by-eur800-million>, Accessed 23 January 2015

¹² German military faces a major challenge from disrepair, *The Guardian*, 7 October 2014, <http://www.theguardian.com/world/2014/oct/07/germany-military-hardware-disrepair-exposure>, Accessed 25 January 2015

¹³ Germany's von der Leyen admits major Bundeswehr shortfalls, *Deutsche Welle*, 27 September 2014, <http://www.dw.de/germanys-von-der-leyen-admits-major-bundeswehr-shortfalls/a-17959798>, Accessed 25 January 2015

¹⁴ German Lawmakers Seek to Raise Defense Spending From 2016, *BloombergBusiness*, 23 October 2014, <http://www.bloomberg.com/news/articles/2014-10-23/german-lawmakers-seek-to-raise-defense-spending-from-2016>, Accessed 25 January 2015

Similar problems characterise defence spending in **France**. In line with the 2014-2018 White Paper, last October it was announced that the French administration would be operating with a 'flat' defence budget, which for 2015 is US\$41.2 billion.¹⁵ The funding constitutes approximately 1.5% of France's GDP, the same level of expenditure as in 2014, but represents a 0.4% drop from 2013,¹⁶ which itself was a year of cuts that saw the equipment modernisation budget reduced by almost one billion dollars more than had previously been planned. The heads of the army, the navy, the air force and the chief of the defence staff argued in May 2014¹⁷ that further cuts would severely compromise France's capacity to engage in operations abroad. As a consequence the decision on whether to pursue further planned reductions was put on hold. Since then, in response to France's increased security needs in light of the recent terrorist attacks in Paris the government has saved 7,500 Ministry of Defence jobs¹⁸ from planned cuts of 34,000 (in the period from 2015 to 2019), but it remains to be seen whether the outpouring of *Je Suis Charlie* sentiment will now translate into a willingness to spend more on defence in future. France's overall fiscal position suggests it is unlikely.

Countries Moving in the Right Direction

Outside of the big three, some are making better progress, albeit from a lower expenditure base.

Even before the Summit in Wales, governments in **the Baltic states** made pledges to increase their defence spending. In absolute terms, the budgets of these countries are small and with the exception of Estonia, fail to hit the 2% benchmark. However, when compared to those of most NATO Allies, 2015 fiscal year decisions bear witness to their determination to send a political message, as well as increase capabilities. **Estonia**, which was already contributing 2% of its GDP to defence, has now further increased the budget to approximately 2.05%.¹⁹ **Latvia** has committed to a gradual increase and has already committed

¹⁵ France announces flat 2015 defence budget, *IHS Jane's 360*, 2 October 2014, <http://www.janes.com/article/44033/france-announces-flat-2015-defence-budget>, Accessed 25 January 2015

¹⁶ Shrinking Europe Military Spending Stirs Concern, *The New York Times*, 22 April 2013, <http://www.nytimes.com/2013/04/23/world/europe/europes-shrinking-military-spending-under-scrutiny.html?pagewanted=all>, Accessed 19 February 2015

¹⁷ French military heads threaten to resign over 'grave' defence cuts, *The Telegraph*, 23 May 2014, <http://www.telegraph.co.uk/news/worldnews/europe/france/10852165/French-military-heads-threaten-to-resign-over-grave-defence-cuts.html>, Accessed 25 January 2015

¹⁸ France Reduces Planned Military Job Cuts By 7K, *Defense News*, 21 January 2015, <http://www.defensenews.com/story/defense/policy-budget/budget/2015/01/21/france-reduces-planned-military-job-cuts/22102753/>, Accessed 25 January 2015

¹⁹ Estonian government approves of 2015 draft state budget, *The Baltic Course*, 23 September 2015, <http://www.baltic-course.com/eng/finances/?doc=96724>, Accessed 25 January 2015

an extra 0.1% of its GDP and will spend €253.8 million (1% of GDP) in 2015. According to the latest legislation and budget planning assumptions, Latvia's defence budget is to grow by about 0.2% of GDP every year until it reaches the NATO recommended benchmark in 2020.²⁰ **Lithuania** has demonstrated the most impressive expansion with regards to defence investment programmes, infrastructure and overall capacity building, though from a very low base. In 2014, military expenditure constituted only 0.78% of the country's GDP. Following a substantial financial injection, defence funding in 2015 will grow by a third to €424.5million or 1.11% of GDP.²¹

Norway and Romania have also placed more emphasis on security and their 2015 defence budgets clearly illustrate this. **Norway's** budget has not yet been approved; however, the proposed 3.5% net increase should add US\$223 million to the US\$6.8 billion budget²² reaching a level of 1.6% of GDP this year.²³ This comes as Norway's Chief of Defense emphasised the importance of greater self-reliance in the midst of declining budgets elsewhere.²⁴

Romania has also stepped up expenditure to 1.7% of GDP²⁵ (from the 2014 level of 1.4%)²⁶ and predicts it will reach the 2% benchmark by 2017. Prioritising security has been a key consideration for Romania in the context of developments in neighbouring Moldova. The Romanian government went so far as to negotiate with the EU and the IMF a facility to extend its planned fiscal deficit by 0.3% of GDP in 2015 to cover the increase in defence spending.²⁷

²⁰ Latvia's defence spending in 2015 will reach 1 percent of GDP, *Sargs.lv*, 18 December 2014, http://www.sargs.lv/Zinas/Military_News/2014/12/18-01.aspx#lastcomment, Accessed 25 January 2015

²¹ Lithuania's defence budget to grow by third in 2015, <http://en.delfi.lt/lithuania/defence/lithuanias-defence-budget-to-grow-by-third-in-2015.d?id=66012546#ixzz3SBYAfSAO>, DELFI, 2 October 2014, <http://en.delfi.lt/lithuania/defence/lithuanias-defence-budget-to-grow-by-third-in-2015.d?id=66012546>, Accessed 25 January 2015

²² Norwegian Budget Gets Mixed Reviews, *Defense News*, 18 October 2014, <http://archive.defensenews.com/article/20141018/DEFREG01/310180028/Norwegian-Budget-Hike-Gets-Mixed-Reviews>, Accessed 25 January 2015

²³ Vil øke forsvarsbudsjettet – men når ikke NATO-krav, *Klassekampen*, 8 October 2014, <http://www.klassekampen.no/article/20141008/NTBO/205912140>, Accessed 25 January 2015

²⁴ Norwegian Budget Hike Gets Mixed Reviews, *Defence News*, 18 October 2014, <http://archive.defensenews.com/article/20141018/DEFREG01/310180028/Norwegian-Budget-Hike-Gets-Mixed-Reviews>, Accessed 25 January 2015

²⁵ Romanians worried about Ukraine, *Romania-Insider*, 16 January 2015, <http://www.romania-insider.com/two-in-three-romanians-are-worried-about-the-conflict-in-ukraine/142211/>, Accessed 20 February 2015

²⁶ Romania parliament approves 2015 budget with IMF deficit target, *Reuters*, 21 December 2014, <http://uk.reuters.com/article/2014/12/21/uk-romania-budget-idUKKBNOJZ0CH20141221>, Accessed 25 January 2015

²⁷ Romania to seek EU-IMF permission to boost defence budget, *EU Business*, 1 December 2014, <http://www.eubusiness.com/news-eu/ukraine-russia-imf.yzi>, Accessed 20 February 2015

One apparent exception to the trend of decreasing defence budgets in the Western half of Europe is **the Netherlands**. Following the crisis in relations with Russia, and the death of 193 Dutch nationals on board flight MH17, the Dutch government announced a working defence budget of €8 billion for fiscal year 2015,²⁸ compared with a €7.6 billion budget for 2014.²⁹ From 2015 onwards the Dutch government also pledged an annual structural increase (a 'real terms' increase after inflation) in defence spending by €100 million, which is a significant break from their long-term budgetary trajectory. In fact, it is the first time for over a decade that Europe's fifth largest economy will spend more rather than less on defence.

Poland for its part has almost reached the 2% benchmark, and reports from the Prime Minister's office suggest it will do so by 2016.³⁰ The planned 2015 budget for the military is around US\$8.85 billion - a figure that does not include the repayment instalment for the F-16 fighters Poland received between 2005 and 2009 from the United States. If included, the budget comes to US\$10.4 billion (or 1.95% of GDP),³¹ which is approximately what Poland spent on defence in 2014. The budget for 2015 represents an increase in expenditure in relative terms (from the 1.9% level in 2014) and it also places specific focus on spending dedicated to personnel training and the expansion of the military reserve forces.³² Key investment projects, including in medium-range air defence systems, multi-role helicopters, and submarines remain part of the core investment portfolio.

Four Countries Join the UK and Germany in Cutting Defence Expenditure in 2015

Beyond these countries, there are a group of others where defence expenditure levels appear to be contracting.

²⁸ X Defensie, Rijksbegroting 2015, (Budget Memorandum 2015 of the Kingdom of the Netherlands), Rijks-overheid official website, <http://www.rijksbegroting.nl/2015/overzicht/begrotingsstaat,X-Defensie.html>, Accessed 5 February 2015

²⁹ Expenditure in 2014, Budget 2014 – Government of the Netherlands official website, <http://www.government.nl/issues/budget/revenue-and-expenditure-in-2014/expenditure-in-2014>, Accessed 5 February 2015

³⁰ New Polish PM Unveils Plans To Hike Defense Spending, *Defense News*, 1 October 2014, <http://archive.defensenews.com/article/20141001/DEFREG01/310010045/New-Polish-PM-Unveils-Plans-Hike-Defense-Spending>, Accessed 25 January 2015

³¹ Ukraine crisis forces European defence spending rethink, *Reuters*, 27 August 2014, <http://www.reuters.com/article/2014/08/27/nato-summit-spending-idUSL5N0QW56T20140827>, Accessed 25 January 2015

³² Polish National Defence Commission Accepted the FY2015 Budget Plan, *Defence24*, 24 October 2014, http://www.defence24.com/analysis_polish-national-defence-commission-accepted-the-fy2015-budget-plan, Accessed 25 January 2015

As one of the main opponents of setting a hard target for NATO defence expenditure in Wales last year, **Canada** continues on its current course of downsizing its military and reducing its defence budget. In 2014, the Harper administration allocated CA\$18.2 billion to defence (or 1% of the country's GDP).³³ No official information has been published yet on the figures for 2015 (the federal budget is due to be announced in April 2015). However, a briefing note prepared for the deputy Defence Minister last September projected that the budget could be cut by CA\$2.7 billion as a part of the government-wide programme of reducing the federal deficit.³⁴ If that happens, it would put Canada behind countries such as Spain, Slovakia, Hungary, Luxembourg, Lithuania, and Latvia when comparing the percentage of GDP spent on the armed forces.

Preliminary figures released in December show that **Italy's** defence budget of €13.58 billion for 2015³⁵ will also contain further cuts amounting to almost one billion euros as compared with the 2014 budget of €14.41 billion.³⁶ This would reflect a considerable further drop in the GDP share spent on defence, from a previous level of 1.2%. Even though attempts have been made to provide extra funding – €100 million specifically dedicated to procurement,³⁷ military officers and analysts have argued that some already initiated investment and procurement programmes may not be completed. An ongoing decrease in military expenditure could create a situation whereby a significant number of Italy's procurement projects would have to be suspended halfway through their completion.³⁸

Finally, despite being strongly affected by the deteriorating relationship between the West and Russia, **Hungarian** and **Bulgarian** budgetary priorities apparently do not include defence. The Orban government in Budapest has on several occasions expressed commit-

³³ Canada agrees to defence spending 'compromise', *The Globe and Mail*, 2 September 2014, <http://www.theglobeandmail.com/news/politics/canada-agrees-to-defence-spending-compromise/article20317791/>, Accessed 25 January 2015

³⁴ Canada talks tough on Ukraine, but cuts \$2.7B from defence in 2015, *Maclean's Magazine*, 1 September 2014, <http://www.macleans.ca/politics/ottawa/canada-talks-tough-on-ukraine-but-cuts-2-7b-from-defence-in-2015/>, Accessed 25 January 2015

³⁵ New Ships, Vehicles for Italy Amid Cuts, *Defense News*, 13 January 2015, <http://www.defensenews.com/story/defense/policy-budget/budget/2015/01/13/italy-budget-freccia-satellite-cosmo-skymed/21460287/>, Accessed 25 January 2015

³⁶ Italy's Defense Budget Less Than Forecast, *Defense News*, 24 December 2014, <http://www.defensenews.com/story/defense/international/europe/2014/12/24/italy-defense-budget/20857965/>, Accessed 25 January 2015

³⁷ New Ships, Vehicles for Italy Amid Cuts, *Defense News*, 13 January 2015, <http://www.defensenews.com/story/defense/policy-budget/budget/2015/01/13/italy-budget-freccia-satellite-cosmo-skymed/21460287/>, Accessed 25 January 2015

³⁸ Italy Defense Ministry Faces Another Budget Cut, *Forecast International*, 14 January 2015, <http://www.forecastinternational.com/news/index.cfm?l3=30109&recno=229753>, Accessed 25 January 2015

ment to increase its military expenditure, and in 2012 presented a programme for an annual defence spending increase of 0.1% of GDP.³⁹ Similarly, over the course of the last year, the Bulgarian authorities (including the interim Minister for Defence, Velizar Shalamanov) announced they are working to increase defence spending.⁴⁰ Contrary to their pledges, however, both Hungary and Bulgaria will be allocating less on defence in 2015 than they did last year. Hungary has budgeted approximately US\$0.79 billion (or 0.75% of GDP) for defence in 2015,⁴¹ as compared to US\$1.03 billion in 2014,⁴² which represents a 0.04% drop in GDP share. Bulgaria's US\$604 million budget for 2014 (approximately 1.3% GDP) is shrinking to US\$565 million for 2015 (or only 1.16% of GDP).⁴³ The cuts to expenditure in both member states will be implemented by reducing the number of military personnel.

Implications of this Analysis

In a previous ELN Policy Brief - '[NATO at a Crossroads – Again: Recommendations for the Newport Summit](#)' - published in August 2014,⁴⁴ a steady decline of defence spending levels from 2008 to 2013 was highlighted as the reality for most NATO states. All but 4 states (Greece, Estonia, the United Kingdom, and the United States) spent less than 2% of GDP on defence in those years. Against that backdrop, given the political complexities, difficult economic conditions, and social and economic opportunity costs of increasing military expenditure in some countries, no immediate turnaround was perhaps to have been expected in 2015.

Nevertheless, coming so soon after the Wales Declaration, the figures presented in this document do not reflect NATO's rhetoric about events in Ukraine being a 'game-changer' for European security. There is evidence that the political discourse on threat perception at least in some member states has changed and has prompted some governments to acknowledge the importance of investing in defence. But several countries are clearly continuing with business as usual, apparently without taking into account the Wales Summit

³⁹ Hungary's three-fold position for NATO Summit, CEPI, 5 September 2014, <http://www.cepolicy.org/publications/hungarys-three-fold-position-nato-summit>, Accessed 25 January 2015

⁴⁰ Bulgarian defence minister: spending to rise in wake of Russian invasion of Ukraine, *The Financial Times*, beyondbrics, <http://blogs.ft.com/beyond-brics/2014/09/17/bulgarian-defence-minister-spending-to-rise-in-wake-of-russian-invasion-of-ukraine/>, Accessed 25 January 2015

⁴¹ Socialists see holes in 2015 defence budget, *Politics.hu*, 1 December 2014, <http://www.politics.hu/20141201/socialists-see-holes-in-2015-defence-budget/>, Accessed 20 February 2015

⁴² Canada foots bill for Hungary's NATO pilot training scheme, *The Budapest Beacon*, 4 September 2014, <http://budapestbeacon.com/public-policy/canada-foots-bill-for-hungarys-nato-pilot-training-scheme/>, Accessed 20 February 2015

⁴³ <http://www.bta.bg/en/c/DF/id/980642>, Accessed 25 January 2015

⁴⁴ NATO at a Crossroads – Again: Recommendations for the Newport Summit, The European Leadership Network, 29 August 2014, http://www.europeanleadershipnetwork.org/nato-at-a-crossroads--again-recommendations-for-the-newport-summit_1806.html, Accessed 19 February 2015

decisions, or – in some cases - doing the exact opposite of what the Alliance as a whole pledged to do in September 2014.

The main conclusions from this brief analysis can therefore be summarised as follows:

1. Pressure from NATO allies has had little effect on the big European defence spenders. A multiplicity of factors affects the decision-making process in the biggest spenders on defence in NATO outside the United States, namely the UK, Germany and France. Whatever the pressures and complexities, however, the freeze of, or decrease in, the defence budgets of these countries is resulting in dangerous underfunding for infrastructure and equipment projects and is damaging what is left of the European pillar of NATO. Recently the UK had to seek NATO's help in patrolling its own waters;⁴⁵ Germany acknowledged several cases of equipment malfunction in 2014.⁴⁶ If such expenditure trends continue this will affect critical personnel and equipment capacity and seriously undermine basic defence capability.

2. 'Common' threat perceptions turn out not to be so common. Even if all allies formally subscribe to the same overall statements of threat perceptions, budget allocations are a good indication as to which states really share a belief in an increased threat level. The tensions between the West and Russia over Ukraine have led the Baltic states, Poland, Norway and Romania to reconsider their security context and invest more in their militaries. Proximity to the perceived threat is not always the deciding factor, however. The Netherlands, in a more geopolitically sheltered part of Europe, has increased its defence spending markedly. The effects of the crisis in Ukraine could have prompted the Bulgarian and Hungarian authorities to boost defence spending but they have not. Similarly, the deteriorating security situation in North Africa and Libya in particular might have impacted Italy's defence budget considerations, but appears not to have done so. Behind the united rhetoric generated in Wales, real threat perceptions differ significantly among allies.

3. Burden-sharing is becoming a necessity, not a choice. Even the positive changes in some countries mentioned above do not significantly change the picture of declining European defence budgets overall. It would take a significant turnaround of the position in the UK, France and Germany to do that. Latest estimates show that the US contribution represents over 75% of all NATO defence expenditure. There is little evidence from this preliminary assessment of 2015 defence budget decisions in the rest of NATO that

⁴⁵ Britain forced to ask Nato to track 'Russian submarine' in Scottish waters, *The Telegraph*, 9 December 2014, <http://www.telegraph.co.uk/news/uknews/defence/11283926/Britain-forced-to-ask-Nato-to-track-Russian-submarine-in-Scottish-waters.html>, Accessed 5 February 2015

⁴⁶ German soldiers 'stranded' in Afghanistan as more planes breakdown, *The Telegraph*, 1 October 2014, <http://www.telegraph.co.uk/news/worldnews/europe/germany/11132656/German-soldiers-stranded-in-Afghanistan-as-more-planes-breakdown.html>, Accessed 5 February 2015

this situation is about to change. Better management of the allocated resources and their optimal use are therefore critical for addressing shortfalls in a number of areas vital for the success of any major NATO operation. It is clear that none of the NATO countries examined in this paper have the funding or the domestic support to fully modernise their militaries and comprehensively develop their individual defence capacity. Since the very nature of membership in a defence alliance is to share the rights and responsibilities for delivering security, more defence cooperation among allies is the only realistic way forward.

The opinions articulated above represent the views of the author(s), and do not necessarily reflect the position of the European Leadership Network or any of its members. The ELN's aim is to encourage debates that will help develop Europe's capacity to address the pressing foreign, defence, and security challenges of our time.

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Appendix 1: Military Expenditure

	Budget 2014			Budget 2015 (approved or planned)		
NATO Member State	Actual Expenditure (US Dollars)	Actual Expenditure (Euros)	% of GDP	Projected Expenditure (US Dollars)	Projected Expenditure (Euros)	% of GDP
UK	\$55 billion	€49.3 billion	2.07	\$54 billion	€48 billion	1.88
Germany	\$44.3 billion	€32.4 billion	1.14	\$41.72 billion	€32.2 billion	1.09
France	\$40.90 billion	€31.3 billion	1.5	\$41.2 billion	€31.4 billion	1.5
Italy	\$17.3 billion	€14.4 billion	1.2	\$16.3 billion	€13.5 billion	
Canada	\$14.3 billion	€12.6 billion	1	\$12.2 billion	€10.9 billion	
Poland	\$10.4 billion	€9.1 billion	1.9	\$10.4 billion*	€9.2 billion	1.95
Netherlands	\$8.7 billion	€7.6 billion	1	\$9 billion	€8 billion	
Norway	\$5.8 billion	€5 billion	1.58	\$6.8 billion	€5.9 billion	1.6
Romania	\$2 billion	€1.8 billion	1.4	Not yet announced	Not yet announced	1.7
Hungary	\$1.03 billion	€947 million	0.79	\$0.79 billion	€715 million	0.75
Bulgaria	\$604 million	€530 million	1.3	\$565 million	€495 million	1.16
Estonia	\$430 million	€384 million	2	\$461 million	€412 million	2.05
Lithuania	\$359 million	€321 million	0.78	\$474 million	€424 million	1.11
Latvia	\$252 million	€225 million	0.9	\$283 million	€253 million	1
*the figure includes the F-16 repayment instalment						
Other:						
US	\$582.4 billion	€511.2 billion	3.6	\$585 billion	€513 billion	3.4
Euro to dollar exchange rate 1.12 as of 25 January 2015						

The table and the budget figures in the text have been compiled by the European Leadership Network, using information from open sources, as referenced in the text. Final budget numbers may change depending on (a) budgetary readjustments in the course of the fiscal year and (b) the exchange rates between the US dollar and national currencies as well as the US dollar and the euro.

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