



DISTRIBUTION OF MILITARY EXPENDITURES: REGIONAL EVOLUTION TRENDS OF DEFENSE BUDGETS

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Abstract: *The effects of the recent economic crisis have been felt in several fields, including also the military sector. In most European countries, the defense budget has been used to reduce deficits, through the dramatic spending cuts. Thus, despite the efforts to make the armies more efficient, many European states have postponed or even canceled important programs of endowment and modernization. This was happening at a time when the economic crisis, generating poverty and social insecurity, would pave the way for other crises and new types of threats. In this context, the trends in the distribution of defense budgets can help us to observe the priorities of the security policies and to understand the direction of the defense strategies.*

Keywords: *economic crisis; defense expenditures; military endowment.*

The 2007 financial crisis has affected the defense budgets, even for the most important military and economic powers in the world, and it had a serious impact on changing the medium- and long-term defense policies. According to some statistics published by SIPRI¹ and the World Bank, the defense spending grew between 2005 and 2011 in all regions of the world (US, Saudi Arabia, China, etc.), excepting Europe. At a global level, most governments have considered that spending for the national security should be a priority. In Europe, the effects of the economic crisis have been felt quite profoundly in the defense sector. Here, the military investments have been cut in order to reduce the public deficit. The strategic position on defense spending at the European level was clearly different from that in the US or other areas. In order to decrease the excessive debts, the European countries have reduced their defense funds, being forced to revise the conditions for the already approved acquisitions programs, to delay the execution of new programs, but also to cancel some of those and to stimulate the mutual production between several countries. In 2008-

2009, at the moment of maximum intensity of the economic crisis, the NATO allies, such as the United States, Great Britain, Germany, Turkey or France maintained a high level of the defense spending. Greece has spent a lot for military equipment, 3% of GDP between 2008 and 2009, but it currently faces major debt issues, with the expenditure falling considerably. Indeed, the military purchases have been reduced as a result of the economic crisis, but most countries still have a high level of spending, similar or higher than ten years ago.

In the post-crisis period, 2012-2015, while European states spent less on defense, in Arab States and Russia, the military spending has reached a higher level. The exception in Europe is Poland, which allocated 2.2% for defense in 2015, compared to 1.9% in 2014. Romania is making efforts to maintain the level of trust among the military alliances and to keep its commitments, by increasing the military expenditures to 1.4% of GDP in 2014 and 2015, and achieving the goal of 2% in 2017. These increases, especially in Central and Eastern Europe, have been influenced by the Ukraine crisis in 2014. Budgetary changes have been positive in Europe between 2015 and 2016. Investment in equipment has begun to grow, but the cooperation between states remained one of the basic defense tools for developing and upgrading the military equipment.

The distribution of the defense budget represents another important indicator for assessing

¹ Stockholm International Peace Research Institute, site accessed la 13.02.2017, <https://www.sipri.org>

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the trends in regards with defense policies. In order to align the armies to the NATO standards and to adapt their mechanisms of response to the current types of threats, the states should focus on investment in military equipment and technology but also on research and development. In order to better understand the direction of the defense strategies in the East and Central Europe states and to anticipate their weaknesses, we made a brief comparative analysis between Romania, Bulgaria, Hungary and Poland. This comparison and the analysis of the capabilities' development programs are relevant because the economic and geopolitical conditions of the four states are similar, all of them being NATO members and in Russia's area of interest. We tried to observe, in the context of the Ukraine crisis in 2014, the tendencies of these four states to evolve in terms of defense capabilities and the efforts they made in order to maintain their role of serious partners within NATO.

Prior to the beginning of the economic crisis in 2008, Bulgaria allocated 2.3% of GDP for defense in 2007, while Romania allocated 1.4% of GDP, Poland - 1.8% and Hungary - 1.2% of GDP². Between 2008 and 2011, the defense budgets have been cut, with the exception of Poland, whose budget has remained at the same level. In the post-crisis period, 2012-2016, the defense budgets have been maintained at a constant level with slight

fallen to 1.3% in 2015 and 1.4% in 2016. The percentage of Romania's GDP allocated to defense has increased from 1.2 % in 2012 to 1.4% in 2014 and 1.5% in 2015 and 2016 and 2%. 2017.

The investments in defense equipment are a relevant unit of measure allowing us to analyze the efforts that states are making in order to cope with the current threats and to fulfill their military commitments within alliances. Also, the spending on research and development in the military field demonstrates the interest and the ability of the state to evolve and develop itself effectively from a military point of view.

In 2001 **Romania** allocated 1.95% of GDP for defense, being closer to the target of 2% of GDP than most of other NATO member states at that time. This fact allowed us at that moment to have positive and very ambitious perspectives for our country. Joining NATO in 2004, Romania's defense budget has steadily increased but this trend suddenly stopped in 2008. The significant budget cuts have affected the procurement plans and the existing programs. Due to second-hand acquisition programs, a big part of Romania's equipment will not be useful on long term, or it will require some very high costs for maintenance. At the same time, as it can be seen in the table below, the R&D spending comprised in the 'Other' category remains at a very low level, compared to other regional actors such as Poland.

Table 1. The evolution of the defense budgets, as a percentage of GDP, in Bulgaria, Romania, Hungary and Poland, 2009-2016³

	2009	2010	2011	2012	2013	2014	2015	2016
Romania	1,3%	1,2%	1,3%	1,2%	1,3%	1,4%	1,5%	1,5%
Bulgaria	1,8%	1,7%	1,3%	1,4%	1,5%	1,3%	1,3%	1,4%
Hungary	1,1%	1,0%	1,1%	1,0%	1,0%	0,9%	0,9%	1,0%
Poland	1,7%	1,8%	1,7%	1,7%	1,7%	1,9%	2,2%	2,0%

trends of growing.

Poland has honored its NATO commitment to allocate 2% of GDP to military spending, reaching this objective since 2014. On the opposite side, Hungary did not exceed 1% of GDP for defense spending. Bulgaria's defense budget has been constant, but from 1.5% of GDP in 2013 it has

The biggest part of the defense budget is allocated to the military personnel. The transition from the compulsory military service to professional armed forces has definitely affected the budget allocation, a large part of the funds being allocated to pensions and to support an additional reserve force. Starting 2013, the personnel costs have started to decrease, from 84% in 2012 to 64% in 2016. At the same time, the expenditures on

² World Bank, <http://www.worldbank.org/>

³ NATO, www.nato.int



Table 2. Distribution of defense expenditures (in %) by category in Romania

Category	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personnel	69,1	79,8	79,1	79,1	84,0	79,0	71,2	66,4	64,3
Equipment	16,7	8,7	8,8	7,6	4,1	10,7	15,8	14,6	20,4
Infrastructure	1,1	1,4	1,8	1,5	1,2	1,2	1,1	1,5	2,8
Other	13,1	10,1	10,3	11,8	10,7	9,1	12,0	17,5	12,5

equipment have increased considerably, from 4% in 2012 to 20% in 2016. The lowest amounts are directed to the infrastructure, but even in this sector there was an increase of almost 50% in 2016. The research and development category is not treated separately in NATO analyzes, the expenditures in this area being comprised in the „Other” category, along with maintenance costs. In this sector, the spending represents an average of 11% of the total funds and there is no noticeable increase in these values. The main tendency we can observe in the case of Romania is the major discrepancy between the personnel costs and the equipment expenditures. Although our country is making visible efforts to distribute more funds for equipment acquisition, the difference between the two categories of

in equipment are not considerable. From 2011 to 2015, an average of 3.7 percent from total defense budget was allocated to the equipment. Since 2016, this amount has started to grow, reaching 12.55%. However, the percentage allocated to the research and maintenance category did not fall below 20%, remaining fairly constant over the last nine years.

At the end of 2008, **Hungary** was unable to pay its debts and borrowed European funds, but the government has imposed however severe austerity measures in order to reduce the budget deficit (from 9% of GDP in 2006, it has reached 3.3% in 2008, falling below 3% in 2013)⁴. The drastic budget cuts have affected the army by reducing the defense funds and putting on hold the procurement programs. By comparing Hungary's annual defense

Table 3. Distribution of defense expenditures (in %) by category in Bulgaria

Category	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personnel	44,9	59,2	64,3	67,4	64,7	65,4	72,8	71,8	64,3
Equipment	21,4	14,2	15,4	6,3	3,7	4,5	1,0	3,2	12,6
Infrastructure	4,3	6,1	2,4	1,5	0,8	0,5	0,6	1,7	0,6
Other	29,3	20,5	17,9	24,8	30,8	29,6	25,5	23,2	22,6

expenditures is more than double.

Like most Eastern European countries, **Bulgaria** has also encountered difficulties in

budgets with those of similar regional actors, we noticed that our neighbors have experienced real difficulties in fulfilling NATO obligations, and

Table 4. Distribution of defense expenditures (in %) by category in Hungary

Category	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personnel	48,1	50,4	56,4	50,6	47,7	49,0	49,8	54,4	50,2
Equipment	14,8	12,7	12,1	12,3	5,8	11,1	7,8	10,9	13,0
Infrastructure	2,6	3,9	2,1	1,3	2,1	2,3	1,1	0,9	2,3
Other	34,6	33,0	29,5	35,8	44,4	37,6	41,4	33,9	34,5

meeting the endowment objectives in the context of the economic crisis. As it could be seen in the budget allocations chart, the spending for equipment has only begun to significantly increase in 2016.

On average, about 70% of Bulgaria's total defense budget is directed to personnel costs. In the recent years, less than 1% has been allocated to the infrastructure. Unlike Romania, the investments

Hungary is one of the countries that have severely reduced the budgets, failing in exceeding 1% of GDP for defense over the last four years. With regards to the distribution of defense spending, we can observe the same tendency as in Romania and Bulgaria, with the personnel category that absorbs

⁴ Central Intelligence Agency Country Fatbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/hu.html>



the biggest part of the funds. Unlike the other two states, the budget allocated to other expenditures (research and maintenance) is higher than the one allocated to the equipment.

The level of investment in defense is very low, and the maintenance costs are definitely a priority. The Prime Minister Viktor Orbán told the press at the end of 2015 that taking into consideration the crisis in Ukraine and the migration, the government's goal is to be able to reach the 2% of GDP for defense in 2026⁵. In 2016, the defense budget increased by 20%.

Poland is considered to have one of the most robust economic powers in Eastern Europe, with considerable performance in terms of GDP and economic growth. Regarding the defense budget, Poland also faced some financial cuts, but the percentage of GDP allocated did not fall below 1.7%, reaching 1.9% in 2014 and 2.2% in 2015. Poland adhered to NATO in 1999 and its strong emphasis on the territorial defense represents a prominent indicator of its engagement within the alliance. Regarding its defense doctrine, Poland is trying to maintain a strong territorial position in order to counter Russia's regional influence but it also seeks to keep its assertive role in NATO missions outside the country, in particular by increasing its capabilities of interoperability.

sector, followed by Romania. Hungary is making the lowest effort to strengthen its position as a guarantor of security in the area. Poland's situation can be explained by a better economic situation, but also by the necessity of strengthening the eastern flank of NATO under Russia's threat. Romania, although adhering to NATO later than Poland and Hungary and its economic situation experiencing not such significant improvements, has made great efforts to move closer to the 2% target and to continue to be a credible partner within the Alliance in the new geopolitical context. All these four states have been affected by the economic crisis and their budgets, including those for defense, have been diminished. Taking into consideration this background and the Ukraine crisis in 2014, the security and defense strategies have been reviewed and the regional actors have been forced to make efforts to maintain their NATO's commitments. One of these efforts was the objective of improving their capabilities in order to ensure an optimal interoperability.

Although we can observe a certain variance, the four analyzed states are trying to reform and make their armies more effective, cutting significantly the personnel. However, the personnel costs remain extremely high. The case of Poland is a notable exception, this country making one of the highest investments in equipment. However, even Hungary

Table 5. Distribution of defense expenditures (in %) by category in Poland

Category	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personnel	63,2	61,1	56,8	57,8	57,3	57,7	51,4	43,4	46,8
Equipment	13,9	15,9	18,1	16,1	15,2	13,9	18,8	31,1	25,8
Infrastructure	4,7	5,0	4,0	4,8	4,8	5,6	5,5	5,1	5,2
Other	18,2	18,1	21,1	21,3	22,7	22,8	24,2	20,4	22,2

As we can see in the table below, the distribution of defense expenditures is another distinct feature of Poland. A consistent part of the funds are directed to personnel in this case too. But, unlike the other three states, the percentage of personnel spending is less than 50% of the total spending. We can see a balance between the funds for equipment and the ones for maintenance and research.

According to the analyzed data, Poland allocates the biggest amount of found to the defense

doesn't allocate many funds to the military sector, the discrepancy between personnel and equipment is not so extensive.

In Romania and Bulgaria, the situation is different, the personnel costs being very high. This fact is due to the profound process of reforming the armed forces. Regarding the equipment, a lot of funds are allocated to maintenance operations, the research and development sector being not so well developed. Although Romania is situated on the second position in terms of funds allocated to defense expenditures, our country records the greatest difference between personnel and

⁵ *Budapest Business Journal*, articol accesat 29.03.2017, http://bbj.hu/politics/orban-hungary-to-increase-defense-budget-to-protect-region_107512



equipment costs, with an average of 75% of the budget directed to personnel and 25% to the equipment. Taking into consideration the analyzed countries, Poland has the highest rates of investment in equipment procurement and R & D. This indicates also an ambition in terms of developing new capabilities, but also the existence of an internal defense industrial base. So far, in Eastern Europe, very few industries have been able to compete against the already existing defense producers in the markets. Again, Poland has made the most visible progress by privatizing several state-owned companies. In Romania and Bulgaria, this process stagnates because of the state-owned companies, but also due to high production costs and uncompetitive equipment. Given the fact that Romania has focused its efforts over the past years on second-hand equipment purchases, the maintenance and repairs costs will continue to represent a high percentage of the total defense budget. The ineffective policies of endowment will negatively impact the modernization process and the investment in new technology and capabilities.

The development strategies for the national defense industries need to take into account the new probable threats (hybrid, asymmetric, cybernetics). During the last NATO Summits from 2008 to 2016, the main topics on the governments' agenda were: cyber security, energy security, the tensions between Russia and NATO, Middle East conflicts, anti-missile defense system, ISIS, the Ukraine crisis, the crisis of migrants, or the presence of allied military troops in the countries of Eastern Europe. In order to achieve the optimal level of interoperability, the NATO member states, which are already experiencing transformation and modernization processes, must take into consideration these new priorities and areas of interest. In this context, the military expenditures are not the only relevant indicator and it would be wrong to assume that

smaller budgets hinder future developments in the defense sector. We consider that the ability of states to find current and modern mechanisms of response and to develop niche capabilities is very important nowadays. For example, Romania tried to expand its intelligence capabilities by developing several special units for intelligence gathering and information analysis. Central and Eastern European state still need an effective military development and they have to identify the capabilities to be adapted to NATO and EU requirements; the states also need to review their procurement plans and to identify potential strategic partnerships (related to the defense industry). The effective cuts of personnel and maintenance costs, as well as a re-prioritization of the investment areas are other two current necessities that we have concluded from our analysis.

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