

Germany's Defense Budget 2024: The Planned Increase Is Not Yet Enough

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Germany's ruling coalition presented its draft of the 2024 federal budget at the beginning of July. This was preceded by months of wrangling to find a compromise between complying with its federal "debt brake" rule on the one hand and accommodating the diverse funding wishes of individual ministries on the other. Although Germany's defense budget was increased, that increase is still too low.

First, the good news on Germany's draft federal budget for 2024: its defense budget should be increased. Boris Pistorius, Germany's Minister of Defense, would then have EUR 51.8 billion available to him – EUR 1.7 billion more than last year. Together with both the Special Fund of EUR 100 billion that was part of the *Zeitenwende* announced by Chancellor Olaf Scholz to overhaul Germany's foreign and security policy and shares from other ministries, this means, among other things, that the federal government intends to uphold its promise to NATO to spend two percent of GDP on defense in 2024. Indeed, the financial cushion to do so is roughly there and could probably suffice for 2025 and 2026 as well.

The final communiqué of the NATO summit that took place in Vilnius on July 11 and 12 set the two-percent target as the lower spending limit for members of the alliance – it is no longer just an aspirational goal for those that are particularly thrifty. While it must be noted that a criterion related to input says little about the military capabilities that should result, the symbolic power of this target remains undiminished and has been further enhanced by the summit decision. Therefore, Germany's reliability as a partner for its allies will continue to be measured by whether it achieves this goal.

Overall, however, Germany's defense spending for 2024 and its medium-term financial planning up to 2027 are not sufficient. More investment is needed to actually provide the military capabilities promised to NATO in the coming years. And even though the Special Fund adopted as part of Germany's *Zeitenwende* initially looked as if it had remedied the situation, it has not solved the problem of sustainable financing.

GAPING HOLE IN DEFENSE SPENDING

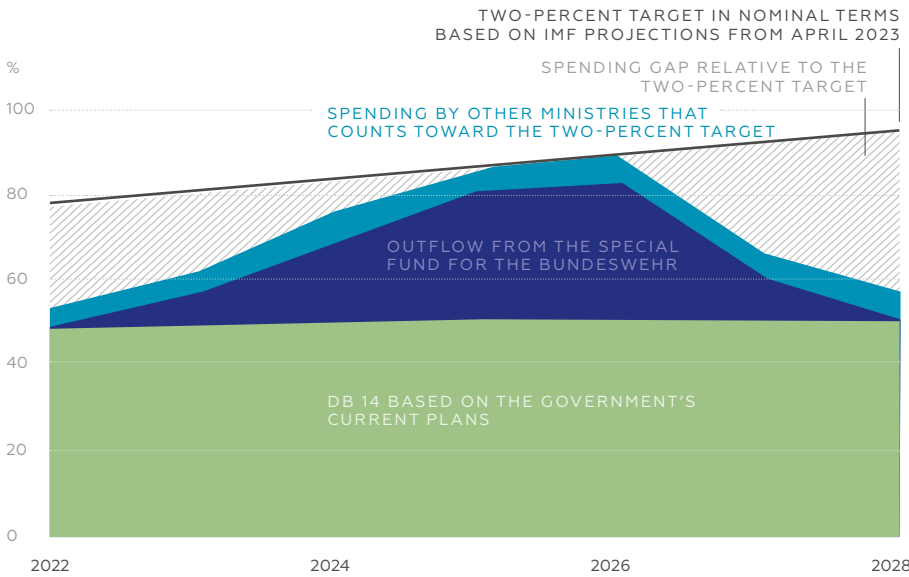
The remaining gap in German defense spending for 2024 can be understood as follows. The announced individual contributions from the defense budget (EUR 51.8 billion), the Special Fund (EUR 19.2 billion), and shares from other budgets (about EUR 7 billion) correspond to a total of about EUR 78 billion. NATO's two-percent target will, however, require about EUR 85 billion in defense spending in 2024. The gap will get even worse in the future. According to current planning, Germany's total defense spending will drop massively after 2026 once the Special Fund has been used up and its regular defense budget remains constant.

This puts the German government in a quandary in several respects. To show results quickly, it is currently spending

what can be spent, a move that is to the advantage of short-term operational readiness but that comes at the expense of the long-term modernization of the Bundeswehr. While the defense budget has grown, albeit only slightly, the picture looks even worse for civilian capabilities for building societal resilience. Funds for disaster management – represented, for example, by the German Federal Agency for Technical Relief (*Bundesanstalt Technisches Hilfswerk* (THW)), which is fundamental to the goal of "integrated security" as set out in Germany's recently announced National Security Strategy – remain constant at best, meaning they effectively lose purchasing power.

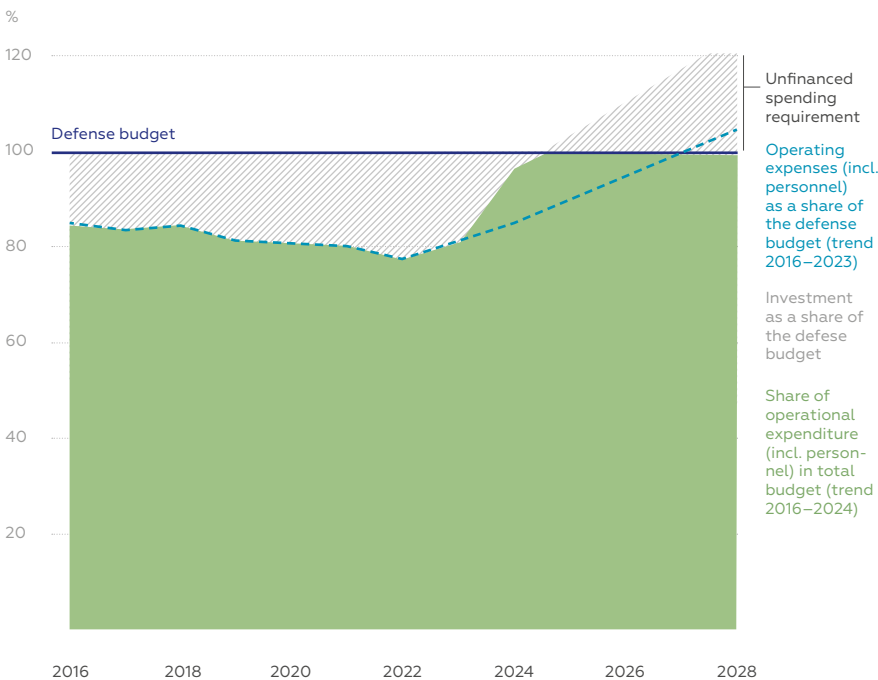
A closer look at the planned expenditures in the regular defense budget (Section 14 of Germany's federal budget (DB 14)) and the Special Fund for the Bundeswehr in 2024 reflects this slight shift in priorities. On the one hand, they allot for less capability retention through the modernization of equipment, as primarily envisaged by the Special Fund in 2022. On the other, they result in a greater increase in operational readiness through higher expenditures for material maintenance (e.g., consumables and spare parts) – in the defense budget itself and, for example, through the procurement of ammunition with money from the Special Fund. With the increase in the budget item for empowering partners

Fig. 1 – German Defense Spending Based on the German Government's Current Plans



Sources: IMF World Economic Outlook April 2023 for GDP data (past and projections), the 2022 to 2026 federal fiscal plan for projections for departmental budget 14 (DB 14), the federal budget for DB 14 (past), NATO defense expenditure data as the basis for the estimate of non-DB 14 NATO spending, own calculations of annual spending from the special fund and gaps

Fig. 2 – The Bundeswehr's Personnel Costs and Operating Expenses as a Share of the Defense Budget



Source: Federal budget, own trend calculation based on developments from 2016 to 2028

(Section 60), especially Ukraine, spending is also shifting in this direction.

This development has positive and negative aspects simultaneously. On the positive side, the Bundeswehr's operational readiness can develop more strongly, and problems such as insufficient ammunition stocks can be addressed. Increasing readiness, for example, also improves the public image of the Bundeswehr, which can have a positive effect on recruitment. Another politically positive signal is that the smaller procurements are likely to lead more quickly to contracts and the outflow of funds, allowing the German government to represent its achievement of NATO's two-percent target more credibly to the outside world. On the negative side, however, this means that projects will now end up in the Special Fund that do not really belong there. The difference is not pedantic. These shorter-term projects are now eating up money that was actually intended for extremely costly and medium- or long-term projects. In the past, these could not be financed from the normal budget.

THREE ADDITIONAL RISKS IN THE CURRENT DRAFT

First, the renewed freeze of the defense budget at EUR 52 billion for the coming years does not alleviate the threat that the operating costs of the Bundeswehr will further eat into the normal armaments budget. This problem could become more acute even sooner because the share of these operating costs has already been raised significantly for 2024. As a result, armaments may no longer be able to be financed from the normal defense budget as early as 2025. Armaments spending would then come entirely from the Special Fund. This fund will, however, end in 2027, and there is still no prospect of a catch-all measure for the defense investments that will still be needed. Unless the government

wants to appear before the German Bundestag in 2027 with an absurd funding gap of EUR 30 billion, sustainable financing for long-term armaments efforts is needed.

Second, the prioritization of short-term operational readiness poses a major risk for armaments in the coming years. Today, many projects are being started with down payments but without their further financing being secured or even envisaged. Given the volumes of armaments that will be needed in the future, it would be important to openly discuss solutions now when parliamentary commitments are not yet needed. The options are obvious: either the regular defense budget is increased or a Special Fund II is adopted as of 2026. At present, the impression is that the down payments being made to kick-off many new projects are intended to put pressure on the Bundestag to also take on their completion – as a kind of constraint, so to speak, because of the investments that would now have already been made. If higher spending is not achieved, the Bundeswehr would run the risk of not being able to implement projects as planned and of ending up even more dysfunctional in a few years than it is today. In addition, costs are already exploding, for example those related to new signal intelligence ships, and new developments bring the risk of potential follow-up costs, as with the CH-47 transport helicopter. Such procurements threaten to crowd out other necessary projects with their cost increases. These risks should be communicated transparently in the future. In the case of the transport helicopter, Germany is also breaking with the logic of buying an “off-the-shelf” product that is available on the market. Instead, it is going back to a solution specific to the Bundeswehr that will be outfitted with special equipment according to its needs.

Third, the draft budget does not live up to the claim of “integrated security” formulated in Germany’s National Security Strategy. The non-military components of security and resilience, such as the THW or the Federal Office of Civil Protection and Disaster Assistance, are only provided with severely limited resources. Yet both the natural disasters of recent years and Russia’s war of aggression against Ukraine demonstrate the added societal and security value of resilient civilian infrastructure. If the government cuts the operating funds of organizations like the THW, which are largely run by volunteers, it should not be surprised if they become less capable or simply lose interest in their work and are no longer available when emergencies arise.

Conclusion: At present, the planned budget increase is too low to cover all the German government’s plans in the areas of security and defense – plans that it has already communicated to its partners. Germany cannot avoid creating more sustainability through a permanent increase in spending on defense and societal resilience.

This can mean either increasing the regular defense budget (or the budget of the Federal Ministry of the Interior and Community with a view to resilience) – at the expense of other budget items – or a new Special Fund. The investment gaps in many security areas show that Germany, in light of the grave challenges it is facing, should consider implementing a special levy for security over the next decade. In those ten years, that levy should apply to security in all areas of life – not only as it concerns the military, but also for climate protection or cybersecurity, for example.

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DGAP receives funding from the German Federal Foreign Office based on a resolution of the German Bundestag.

Publisher
Deutsche Gesellschaft für
Auswärtige Politik e.V.

ISSN 749-5542

Translation Helga Beck

Layout Studio Friedrichter



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