

International Military Markets

Europe



TABLE OF CONTENTS

The Military Market for Europe	3
Overview	4
Top Five Defense Spending Nations (Current Environment)	7
United Kingdom	8
Germany	10
France	12
Italy	14
Poland	16
About Forecast International	18

THE MILITARY MARKET FOR EUROPE



For nearly 30 years following the collapse of the Soviet Union, the European defense environment remained shaped by the post-Cold War "peace dividend." After the dissolution of the USSR, Europe's national armies were shorn of manpower and high-end kinetic capabilities and transformed from heavy-armored and conscripted static forces into more mobile, professionalized militaries.

With the Soviet Union and its Warsaw Pact satellites no longer poised to roll armored tank divisions through Western Europe, the strategic dynamic across the continent abruptly changed, and the lack of an imminent conventional military threat meant governments placed a lesser focus on defense matters. Out went the large, heavily armored standing conscript armies prepping for territorial defense, and in came smaller, more specialized militaries tailored for out-of-theater security operations and peacekeeping missions.



OVERVIEW

Years of force downsizing and redefining war strategies and armed forces development following the collapse of the Soviet Union resulted in a Europe ill-prepared for any future operation involving high-intensity conflict – particularly of a sustained manner with a near-peer foe.

But with the launch of Russia's invasion of Ukraine on February 24, 2022, European governments have awoken from their long slumber and accepted that the decades-long defense recess must come to an end. The outbreak of a high-intensity conflict on their doorstep means European officials can no longer avoid hard power realities and the need for a robust military response capability.



Overnight, governments ranging from the Netherlands to Romania have vowed to reverse military shortfalls and rebuild depleted inventories.

After seeking to avoid remilitarization and a more robust defense-security foreign policy, Germany is attempting to conduct an about-face that goes against its post-Second World War pacifist cultural outlook. This reversal will involve a EUR100 billion "Special Fund," or Sondervermögen, that will be used to procure major weapons systems – including the F-35 Lightning II stealth combat aircraft and more P-8 Poseidon maritime patrol aircraft, encrypted radios, new naval frigates (picking up the option on two additional F-126s) and corvettes (five more K-130s), and a short-range air-defense system – and restock depleted bullet, rocket, and munitions depots.

Meanwhile, Finland and Sweden opted to reverse long standing opposition to military alignments and applied for NATO membership, signing their respective accession protocols on July 5, 2022. With this step, the NATO Alliance now covers the Scandinavian peninsula and sweeps down across Europe through Anatolia.

With the Ukraine conflict no closer to resolution and both sides appearing to settle in for a protracted war, the outlook for European defense is one of intensified investment, greater cooperation, and the desire for a broadly reinvigorated defense industry with improved resiliency. Also of crucial importance for Europe moving forward will be access to energy supplies, be they fossil fuels, renewables, and even – in the short term – coal. The sanctions imposed on Russia by Europe have, in turn, elicited a response from Moscow involving reduced energy shipments – a sharp blow to the broader European economy which greatly relies on Russian hydrocarbons.



OVERVIEW (continued)

As Russia threatens its NATO neighbors while waging its war of attrition in Ukraine and China surges forward on the global stage, European military planners and government officials continue to re-examine their preparedness and capabilities. Atop the list of requirements is the replenishment of munitions stockpiles and the need to backfill equipment donated to Ukraine's military with newer, more NATO-standard hardware.

Investment in key Fourth Industrial Revolution technologies (such as robotics and artificial intelligence) and research and development into nascent Fifth Industrial Revolution domains (such as big data and deep-level human and machine cooperation) are also underway.



A noteworthy spending trend across Europe in past decades is the correlation between economic health and defense investment. Traditionally a period of halting economic growth and recession generally results in armies being placed on a budgetary diet when not stripped down as a cost-saving measure. Sovereign debt and deficit issues merely add to the pressures placed on respective national defense budgets, often to multiyear effect.

One such example is the economic downturn that gripped the European continent between 2009 and 2013. During this five-year period, governments chose to prune defense budgets and reduce force capacity and military stocks, while eliminating some capabilities altogether. What emerged in most European nations by 2014 were hollowed-out armies incapable of sustaining high-intensity operations of significant size or duration.

Today the specter of another cost-saving period is appearing on the horizon. The outbreak of the COVID-19 pandemic and its impact worldwide strained both public health and the global economy.

Ensuing efforts across Europe to navigate the pandemic through funding public health and economic-sustenance initiatives placed a strain on government budgets and resulted in inflationary rises. This has resulted in rising debt obligations and widening deficits that will ultimately require post-pandemic deficit-reduction initiatives. Whether European governments will elect to restrain or trim defense budgets in order to bring their fiscal houses into order therefore remains an open question.



OVERVIEW (continued)

The larger factor will be whether a negotiated cessation to hostilities occurs in Ukraine in the near-term, which might result in Europe backsliding on its newfound commitments to increased defense spending and bolstering its militaries.

Europe currently lacks military capacity and sufficient reserve capability to allow its respective (or combined) armies to surge in a particular theater of conflict, at home or abroad. Its combat forces are small in footprint and have limited deployment capability, and even less sustainability within a conflict zone. The aim moving forward is to reverse some of this in order to create a more durable, firepower-laden military capability that will be supplemented with cutting-edge technology and a stronger logistical tail.

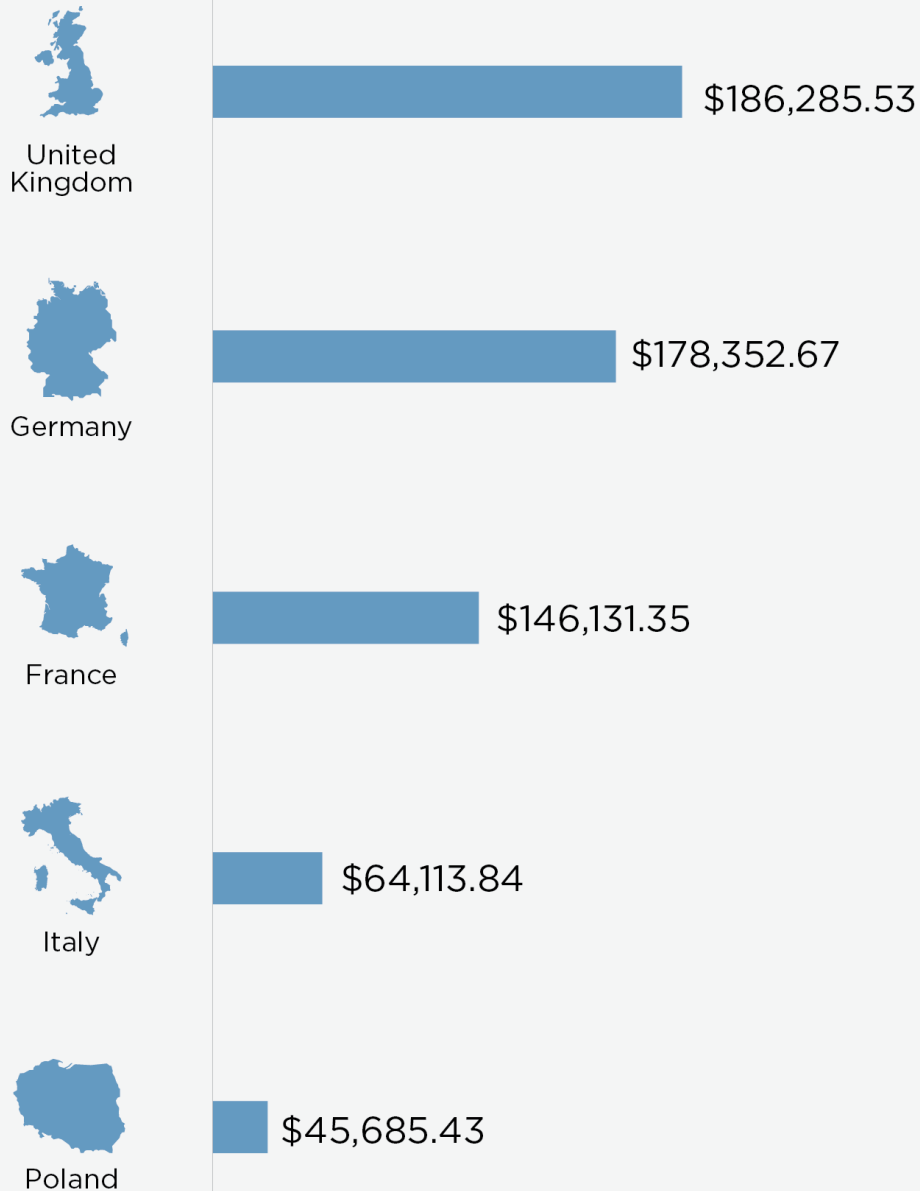
Overall, Europe's share of worldwide defense investment on a regional basis has continued to shrink, though this should begin to reverse itself starting in 2023 as accelerated defense budget increases across the continent take shape.





CURRENT ENVIRONMENT

Top Five Defense Spending Nations Europe



* Figures are in USD millions

2023 Forecast International ©



1: UNITED KINGDOM

Top Five Regional Defense Spending Nations

Number 1: United Kingdom



	2021	2022	2023	Total/Average
Defense Budget	\$63,273.73	\$61,441.77	\$61,570.04	\$186,285.53
Year-on-Year % Change	16.40%	-2.90%	0.21%	4.24%*
GDP	\$3,187,144.43	\$3,232,797.59	\$3,438,576.19	\$9,858,518.21
Defense Budget as % of GDP	1.99%	1.90%	1.79%	1.89%
Defense Budget % of Region	20.59%	19.72%	18.32%	19.51%

* Reflects compound annual growth rate (CAGR) between 2020 and 2023

2023 Forecast International ©

In November 2020, British Prime Minister Boris Johnson announced a four-year funding deal amounting to an extra GBP16.5 billion (\$22.8 billion). Johnson's additional financial pledge – a sharp break from the expected financial squeeze facing the MoD as the U.K. struggles with the economic and fiscal fallout stemming from the COVID-19 pandemic – amounts to the largest such spending boost for the British armed forces since the end of the Cold War.

Coupled with the amount pledged in the Conservative Party manifesto commitment (0.5 percent above inflation for each fiscal year in government through at least 2024, if not further), the additional GBP16.5 billion amounted to an overall cash increase of GBP24.1 billion over four years, compared to the GBP41.3 billion (\$57 billion) earmarked under the 2020-2021 defense budget.

The announced top-up in funding ring-fenced for defense served as a precursor to the government's latest defense review document – the Defence Command Paper titled "Defence in a Competitive Age" – released to the public on March 22, 2021.

The paper touts a renewed emphasis on building and sustaining a vibrant local defense industrial base, providing the Royal Navy with new ships and missiles and the Royal Air Force with new fighters and sensors, making the Army more deployable and better protected,

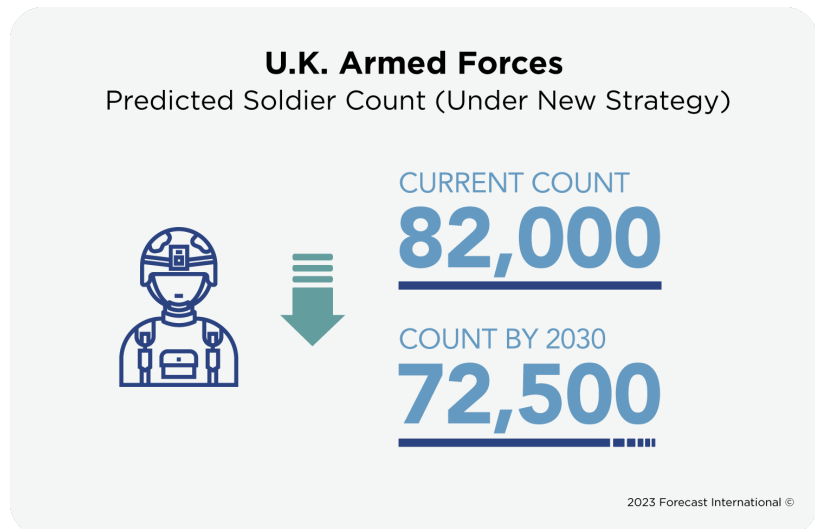


1: UNITED KINGDOM (continued)

Top Five Regional Defense Spending Nations

and integrating the entire armed forces across all domains. Under the new strategy, the U.K. armed forces will shrink (the British Army will be downsized from its current 82,000-strong footprint to just 72,500 soldiers by 2030), but also purportedly add newer capabilities.

But now with the launch of Russia's invasion of Ukraine leading to questions regarding the Defence Command Paper's assumptions and the resignation of Prime Minister Boris Johnson in early July 2022, there will likely be some reassessments as to whether current spending levels are adequate (Johnson spoke of raising defense expenditure to 2.5 percent of GDP prior to resigning) and troop reductions wise.





2: GERMANY

Top Five Regional Defense Spending Nations

Number 2: Germany



	2021	2022	2023	Total/Average
Defense Budget	\$56,069.30	\$58,934.43	\$63,348.95	\$178,352.67
Year-on-Year % Change	11.89%	5.11%	7.49%	8.13%*
GDP	\$4,265,973.72	\$4,472,288.06	\$4,728,759.95	\$13,467,021.73
Defense Budget as % of GDP	1.31%	1.32%	1.34%	1.32%
Defense Budget % of Region	18.25%	18.91%	18.55%	18.68%

* Reflects compound annual growth rate (CAGR) between 2020 and 2023

2023 Forecast International ©

Years of neglect and underfunding reduced the German military (Bundeswehr) into a hollowed out force by 2014. Under pressure from NATO allies, Germany began accelerating year-on-year defense investment in 2017, but remains well behind its pledge to move its defense budget up to the Alliance minimum standard of 2 percent of GDP by 2024, as per the NATO Wales Summit Declaration of 2014.

This picture appeared stuck in place heading into 2022, as the Russian buildup on Ukraine's border elicited nonchalant responses in Berlin from the new left-leaning coalition government of Chancellor Olaf Scholz. While alarm bells began to sound in some European capitals, Berlin remained unmoved and preferred to continue its traditional Ostpolitik approach to Russia rather than condemn Moscow's actions. Third-party weapons transfers to Ukraine remained blocked by Germany, despite outcries from NATO-European partners to its east.

But on February 24, 2022, the Russian invasion of Ukraine began, thereby forcing German politicians to confront hard truths.

Hours after the invasion was launched, the chief of the German Army stated publicly that the forces under his command were in no condition to provide aid to the NATO Alliance following years of under-investment, noting that the Bundeswehr had been left "more or less bare."



2: GERMANY (continued)

Top Five Regional Defense Spending Nations

With Germany jarred awake from its 30-year slumber by events in Ukraine, Chancellor Olaf Scholz announced in a special session of the Bundestag held days later on February 27 that a massive shift in defense policy approach will now be undertaken. After years of neglect, low serviceability rates for key equipment and lack of adequate resourcing, the strengthening of the German Bundeswehr will now become a government priority, thus marking a turning point in Germany's modern history.

In his speech, Scholz vowed to bring the German defense budget up to, and above, the NATO minimum requirement of annual expenditures equal to 2 percent of national GDP (follow-through on this pledge will be worth watching).

The Bundeswehr revitalization effort will be underpinned by a proposed EUR100 billion (\$113 billion) special defense fund that will finance major procurements of advanced platforms such as the joint European Future Combat Air System (FCAS), the F-35 Lightning II stealth combat aircraft to fill a niche that will emerge with the retirement of the German Air Force's fleet of Tornado fighter-bombers, more P-8 Poseidon maritime patrol aircraft, encrypted radios, new naval frigates (picking up the option on two additional F-126s) and corvettes (five more K-130s), arming its Heron TP drones, and a short-range air-defense system.

The aim is to provide Germany with the military credibility to not only deter potential threats, but to underwrite a foreign policy long vested in soft power without the commensurate hard power.





3: FRANCE

Top Five Regional Defense Spending Nations

Number 3: France



	2021	2022	2023	Total/Average
Defense Budget	\$46,833.93	\$47,892.27	\$51,405.15	\$146,131.35
Year-on-Year % Change	13.40%	2.26%	7.33%	7.57%*
GDP	\$2,941,788.53	\$3,044,884.07	\$3,164,204.92	\$9,150,877.52
Defense Budget as % of GDP	1.59%	1.57%	1.62%	1.60%
Defense Budget % of Region	15.24%	15.37%	15.30%	15.30%

* Reflects compound annual growth rate (CAGR) between 2020 and 2023

2023 Forecast International ©

France is one of the largest military spenders in Europe, with its budgetary figures somewhat obscured by the fact that the government earmarks a separate figure for internal defense (general policing, border control, homeland security) that falls under the Ministry of Interior budget.

Nonetheless, with internal security stripped from Forecast International's topline total, France still features one of the largest defense budgets in Europe.

President Emmanuel Macron has pledged to bring France's topline defense budget back up to the 2 percent-of-GDP NATO minimum requirement and has outlined a series of growing annual future allocations under the first Military Planning Law (LPM) his government unveiled on February 8, 2018. This plan outlined EUR295 billion in spending across a seven-year period between 2019 and 2025, with EUR198 billion of this featured in the first five years (2019-2023). While France has stuck by its annual EUR1.7 billion increase for 2021 (these annual increases began in 2019 and are to continue into 2022) and upped spending on equipment – a record EUR22.3 billion was earmarked for modernizing equipment and military infrastructure in 2021 – to support the national defense and aerospace sectors during a trying economic period, what comes after 2022-2023 bears watching.



3: FRANCE (continued)

Top Five Regional Defense Spending Nations

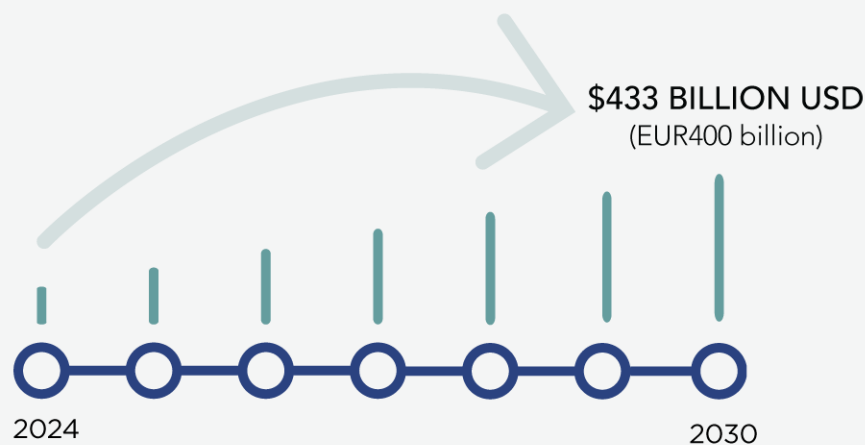
Macron unveiled plans to spend EUR400 billion (\$433 billion) over the 2024-2030 period under a new LPM in January 2023. The aim is two-pronged: to transform the French military by the end of the decade and to put France on a “war economy” footing. If approved and fully enacted, the latest LPM would see a 35 percent increase over the previous LPM.

One thing to be noted is that military equipment funding as outlined in LPMs often falls short of the laws’ original assumptions. At present, however, France has every reason to meet the spending objectives outlined in the latest LPM, given the major modernization effort currently underway and the renewed emphasis on firepower capability following the Russian invasion of Ukraine.

This effort involves more investments in cyber warfare, intelligence-gathering equipment, general research and development, forthcoming joint aerospace programs, space capabilities, unmanned capabilities, and a main battle tank development project with Germany.

Proposed Defense Spending

France 2024-2030



*Based on Emmanuel Macron's Military Planning Law (LPM) - unveiled January 2023

2023 Forecast International ©



4: ITALY

Top Five Regional Defense Spending Nations

Number 4: Italy



	2021	2022	2023	Total/Average
Defense Budget	\$20,071.68	\$21,255.27	\$22,786.89	\$64,113.84
Year-on-Year % Change	20.04%	5.90%	7.21%	10.87%*
GDP	\$2,121,189.96	\$2,162,659.25	\$2,247,316.16	\$6,531,165.37
Defense Budget as % of GDP	0.95%	0.98%	1.01%	0.98%
Defense Budget % of Region	6.53%	6.82%	6.78%	6.71%

* Reflects compound annual growth rate (CAGR) between 2020 and 2023

2023 Forecast International ©

Italy is one of the largest topline spenders on defense in Europe and one of the largest contributors of personnel to external missions within both NATO and the European Union.

Although Italy is a large nominal investor in defense relative to Europe, its budgetary figures are often obscured by wedding internal security funding for the Carabinieri (a military police force falling under the command of the Ministry of Interior) onto the larger defense budget. At the same time, because major military investment projects fall under the Ministry for Economic Development, funding for capitalization projects – generally around EUR2.7 billion per annum – is also left out of the defense topline figure.

Despite Italy's topline budgetary earmarks, its annual military investment on a per-GDP basis has remained at or below 1 percent for decades. The long stagnation of the Italian economy coupled with a gross national debt above 130 percent of GDP places even greater fiscal pressure on the government to adequately provide funding for the country's defense and security. A volatile political environment – encapsulated in the fact that since adopting its Constitution in 1948, the country has averaged almost one new government per year – remains an impediment to much-needed fiscal, economic, and regulatory reforms.

4: ITALY (continued)

Top Five Regional Defense Spending Nations

Nonetheless, Italy strongly bolstered its defense budgets for both fiscal year 2020 and 2021, despite confronting a sharp economic recession and yawning budget deficit pressures. Following the launch of Russia's invasion of Ukraine in February 2022, Prime Minister Mario Draghi vowed to bring Italy's defense budget up to 2 percent of GDP by 2028. However, Draghi resigned from office on July 21, 2022, and merely serves as a caretaker until a successor is elected.





5: POLAND

Top Five Regional Defense Spending Nations

Number 5: Poland



	2021	2022	2023	Total/Average
Defense Budget	\$15,044.02	\$14,076.25	\$16,565.16	\$45,685.43
Year-on-Year % Change	11.04%	-6.43%	17.68%	6.93%*
GDP	\$655,475.92	\$667,533.98	\$804,093.3	\$2,127,103.20
Defense Budget as % of GDP	2.30%	2.11%	2.06%	2.15%
Defense Budget % of Region	4.90%	4.52%	4.93%	1.4.78%

* Reflects compound annual growth rate (CAGR) between 2020 and 2023

2023 Forecast International ©

Poland is fast becoming one of the major defense players in Europe and is poised to have one of the largest, strongest standing armies of the NATO-Europe members in the coming years. Since 2015, by law Poland must spend at least 2 percent of annual GDP on defense. This firm defense commitment enables Warsaw to fund its ambitious plans for the wholesale modernization of military weaponry across its armed forces.

The latest modernization plan – called Technical Modernization Plan 2021-2035 – was signed into law by Mariusz Blaszczak on October 10, 2019. This plan involves investment of up to PLN524 billion (\$133 billion), with over PLN24 billion being spent through 2025.

Core projects under the latest modernization plan include replacing the Polish Land Forces' fleet of Soviet-legacy, 1970s-vintage Mi-24 "Hind" assault platforms with new-build attack helicopters (Kruk project), and procuring new submarines (Orka), six Murena (Moray) light fast attack craft, Miecznik coastal defense vessels, new combat vehicles (Borsuk), anti-tank missile launchers (Hust), 32 F-35 new-generation combat aircraft (Harpia), stealthy unmanned aerial vehicles (UAVs) referred to as "loyal wingmen" to assist the F-35s (Harpi Szpon, or Harpy's Claws), and many others.



5: POLAND (continued)

Top Five Regional Defense Spending Nations

The projects outlined within the plan illustrate the wide-ranging requirements and goals of Poland's military modernization effort. Every domain of the prospective battlespace – air, land, sea, and cyberspace – is slated for investment through 2026 under the updated Technical Modernization Plan. Improved combat support firepower, a layered modern air defense network, and a stronger naval component are all of critical focus.

With Russian troops poised to invade Ukraine, the Polish government adopted the Act on Homeland Defense on February 23, 2022. The Act on Homeland Defense as initially spelled out anticipates meeting the target of 2.5 percent of GDP level of defense funding by 2026.

Following the onset of Russian attacks into Ukraine just days later, Defense Minister Blaszczak told Parliament during a reading of the Act on Homeland Defense bill that the defense budget should be increased to 3 percent of GDP in 2023, thus asking for the defense uptick to be accelerated at a breakneck pace. Prime Minister Mateusz Morawiecki opted for a bolder approach, announcing in January 2023 that the defense budget would rise up to 4 percent of GDP during the fiscal year.



ABOUT FORECAST INTERNATIONAL

For 50 Years, Forecast International has been the Premier Provider of Market Intelligence to the Worldwide Aerospace, Defense, Military Electronics, and Power Systems Industries.

Our complete International Military Markets library features individual products on the six major geopolitical regions of the world that together cover over 120 countries. Each product provides a broad overview of the military markets of the countries covered, as well as an expanded picture of the region and how its consolidated expenditures factor into the larger global defense environment. The International Military Markets product line continues to be enhanced and upgraded, moving in lockstep with industry needs.

Each product includes the following:

- Analysis of historical defense spending trends and five-year forecasts by country, and consolidated regional totals.
- A detailed overview of ongoing major defense procurement programs by nation, plus examinations of future equipment priorities.
- Charts, tables and graphs detailing each country's economic, budgetary, defense trade, and security spending data.
- An in-depth look at each country's military force structures and equipment in all domains (air, sea, and land systems; missiles; and electronics).
- EMarket Alert Newsletters.
- A Query Service providing access to respective Analysts.
- Historical report archives for added perspective and useful comparative analysis.



75 Glen Road, Ste 302,
Sandy Hook, CT 06482 USA



Telephone: + 1.203.426.0800
Fax: 203.426.0223



www.forecastinternational.com