



# Chart in focus

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## The 2% challenge

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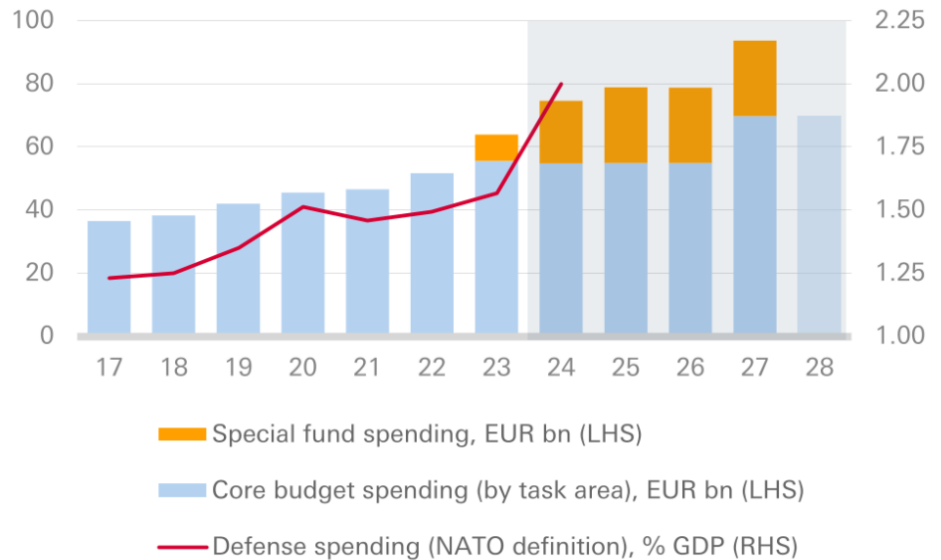
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Although Germany is set to reach the 2% mark for defence spending in the next four years, thanks to the armed forces special fund set up in 2022, the funding looks more uncertain in the medium term.

Germany is set to meet the NATO defense spending goal in 2024 - but the country still faces a large medium-term financing effort



See further data explanations in the footnote.

Sources: WEFA, NATO, Federal Ministry of Finance, Federal Ministry of Defense, Federal Statistical Office, Deutsche Bank Research

Following former US President Trump's comments on NATO over the weekend, NATO Secretary General Stoltenberg yesterday stressed that defence spending by the European Allies and Canada had recently shown an "unprecedented rise". Eighteen NATO Allies were expected to reach total defence spending of at least 2% of GDP in 2024. Aggregate defence spending by the European Allies was expected to reach 2% for the first time. Although NATO did not comment on individual countries, press reports indicated that Germany would be among the Allies meeting the 2% threshold in 2024. Yet, although Germany is set to reach the 2% mark in the next four years, thanks to the armed forces special fund set up in 2022, the funding looks more uncertain in the medium term.





## The 2% challenge

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Here is why: Germany will reach the 2% target this year by spending EUR 52 bn from the core budget and EUR 20 bn from the special armed forces fund (plus a few billion from other budget sections that NATO considers relevant spending). In the government's current medium-term financial plan, however, defence spending in the core budget will be held at around this year's level until 2027 (see the chart; details in the report). This means that the ramp-up in total defence spending required to stay above the 2% target in the years 2025-27 would need to come from the special fund, likely depleting it by the end of 2027. From 2028 onwards, therefore, even a planned core defence budget of EUR 70 bn would fall short of the 2% target.

This gap risk is widely acknowledged in Berlin. Defence Minister Pistorius (SPD) already noted in early February that the government needed to prepare for permanently higher defence funding needs. Finance Minister Christian Lindner (FDP) also stressed this week that a "significant financing effort" would be necessary from 2028 onwards. Both ministers implied that the funding would need to come from the core budget. In any case, the situation seems more likely to be resolved in the medium term versus the short term, and the key question is whether the next government will keep defence spending above 2% of GDP within the constraints of the debt brake, or whether there will be a cross-party consensus to lift the borrowing scope of the special fund in the constitution.

### Footnote:

Core budget spending (by task area): Target values for 2024-27 refer to the August 2023 financial plan. Special fund spending: The target value for 2024 amounts to EUR 19.8 bn and the numbers for the years 2025-27 are indicative DB estimates based on the assumption of an equal annual use of the remaining credit entitlements (not reflecting interest payments). Defence spending (NATO definition): Including the spending by the Ministry of Defense (at the levels of the core budget and the special funds) as well as further NATO-relevant spending in other budget sections.)

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