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**EVOLUTION OF DEFENSE BUDGET ALLOCATIONS IN  
THE PAST 20 YEARS. COMPARISON BETWEEN NATO  
COUNTRIES AND THE RUSSIAN FEDERATION.**

**Dumitrache Vlad, Associate Professor, PhD.**  
**Constantinescu Maria, Associate Professor, PhD.**  
**Popa Brîndușsa, University Lecturer, PhD.**

DRESMARA / Braşov/ Romania

**Abstract:**

Ever since the NATO Summit in Wales in 2014, specialized literature has focused on the desire of several member states to increase their defense budget to 2% or more. This has been a debated topic and while several countries inside the European Continent like Germany, Belgium or the Netherlands have failed to increase their portion of the GDP allocated to defense, other countries in the Eastern flank have managed to reach the target, including Romania, Poland and the Baltic States. Future increase of the budget is nowadays into discussion in order to meet the ever-increasing risk and threats that have emerged on the European Continent ever since the full-scale invasion of Ukraine by the Russian Federation. While experts debate whether this approach is a correct one, few have analyzed the increase in the defense budget of the Russian Federation over the years. While NATO countries find it difficult to reboot their defense industry, for the Russian Federation this is a much easier process. Put into the context of diminished defense budget, this could be an explanation of the current gap in this regard. Analyzing in comparison, therefore, the way in which the defense budget has evolved in number in NATO and in the Russian Federation could provide a better view on what strategy NATO countries should follow in regard to their defense spending in order to meet the current needs and goals both from a strategic point of view but also from a practical one, that best suits the redevelopment of essential defense assets including the European defense industry.

*Key words: defense budget, GDP, defense allocation, defense expenditures, defense procurement, defense industry*

**Introduction**

Over the past decade, ever since the Crimean invasion from the Russian Federation took place in 2014, there has been an increase in defense expenditures worldwide. For NATO Countries this has meant a commitment following the NATO Summit in Wales to increase the defense budget to at least 2% of National GDP. While that has meant an immediate response from some countries, especially those on the Eastern Flank, for other member states increasing the budget to such a degree just wasn't a priority.

The Russian Federation Invasion in Ukraine on the 24 of February, 2022 however, changed the paradigm and most NATO states jumped to an increased budget, most of them around the 2% margin. The increased allocation of the GSP has been a subject of controversy as some experts consider the budget increase insufficient and are pooling for a even higher

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ceiling. Recently elected president Trump has requested that all NATO members increase their defense expenditures to at least 4% of the budget. Others argue that the problem for a modern defense doesn't necessary sit in the budget but rather in the management of defense resources allocated to defense.

## **The NATO Defense Budget Challenge**

In terms of NATO countries, the discussion has been orientated ever since the first Trump administration on whether the European member states are doing enough in increasing its defense expenditures compared to the United States.

In **Figure 1** we have a better view on how defense expenditures have evolved throughout NATO and some observations can be made.

	Million US dollars										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e
<b>Current prices and exchange rates</b>											
Albania	178	132	131	145	176	197	197	224	231	397	516
Belgium	5,200	4,204	4,258	4,441	4,845	4,761	5,324	6,245	6,904	7,622	8,519
Bulgaria	747	633	671	724	962	2,159	1,121	1,276	1,440	1,992	2,325
Canada	18,172	18,689	17,708	23,700	22,399	22,572	23,330	25,502	25,898	27,991	30,495
Croatia	1,064	883	837	926	966	1,001	983	1,361	1,285	1,441	1,624
Czechia*	1,975	1,921	1,866	2,259	2,750	2,982	3,199	3,915	3,895	4,538	6,834
Denmark	4,057	3,364	3,593	3,780	4,559	4,487	4,886	5,274	5,473	8,140	9,940
Estonia*	514	463	497	541	615	637	719	749	820	1,238	1,437
Finland	3,991	3,401	3,418	3,536	3,825	3,900	4,156	4,145	4,726	6,266	7,308
France	52,022	43,496	44,209	46,133	50,507	49,493	52,519	56,457	52,238	59,379	64,271
Germany	46,176	39,833	41,606	45,470	49,772	52,549	58,652	62,054	61,405	73,138	97,686
Greece	5,234	4,520	4,637	4,752	5,388	5,019	5,492	8,006	8,488	6,731	7,684
Hungary	1,210	1,132	1,289	1,708	1,615	2,190	2,767	2,410	3,270	4,360	4,889
Italy	24,487	19,576	22,382	23,902	25,641	23,559	30,084	33,140	31,512	33,857	34,462
Latvia*	294	282	403	485	710	692	743	824	857	1,254	1,421
Lithuania*	428	471	636	817	1,057	1,094	1,176	1,308	1,738	2,165	2,300
Luxembourg	253	250	236	326	356	381	426	403	461	642	785
Montenegro	69	62	62	65	75	74	83	91	86	114	162
Netherlands	10,349	8,673	9,112	9,663	11,172	12,067	12,838	13,916	13,899	16,764	21,460
North Macedonia	124	105	104	101	120	146	154	204	221	267	353
Norway	7,722	6,142	6,431	6,850	7,544	7,536	7,228	8,438	8,694	8,799	10,606
Poland*	10,107	10,588	9,397	9,940	11,857	11,824	13,363	15,099	15,338	26,476	34,975
Portugal	3,007	2,645	2,616	2,738	3,249	3,299	3,273	3,899	3,578	4,241	4,627
Romania*	2,691	2,581	2,645	3,643	4,359	4,608	5,056	5,299	5,197	5,605	8,644
Slovak Republic	999	987	1,004	1,056	1,298	1,802	2,049	2,066	2,090	2,445	2,841
Slovenia	487	401	449	477	547	572	568	763	777	914	949
Spain	12,634	11,096	9,975	11,889	13,200	12,630	12,828	14,849	16,451	18,875	21,269
Sweden	6,205	5,103	5,017	5,229	5,396	5,560	5,984	9,071	8,562	9,848	13,428
Turkiye	13,577	11,953	12,644	12,971	14,168	14,089	13,396	13,137	12,292	16,614	22,776
United Kingdom	65,692	59,505	56,362	55,719	60,380	59,399	63,500	71,927	70,846	76,939	82,107
United States	653,942	641,253	656,059	642,933	672,255	750,886	770,650	824,094	834,977	875,603	967,707
<b>NATO Europe and Canada</b>	<b>289,276</b>	<b>254,422</b>	<b>255,595</b>	<b>275,102</b>	<b>300,167</b>	<b>301,674</b>	<b>325,953</b>	<b>358,836</b>	<b>355,382</b>	<b>419,205</b>	<b>506,692</b>
<b>NATO Total</b>	<b>943,218</b>	<b>895,675</b>	<b>911,654</b>	<b>918,035</b>	<b>972,422</b>	<b>1,052,560</b>	<b>1,096,603</b>	<b>1,182,930</b>	<b>1,190,359</b>	<b>1,294,808</b>	<b>1,474,399</b>

**Fig 1 NATO countries defense allocation 2014-2024 [6]**

The US remains the highest contributor to NATO with a medium budget of around 800 billion dollars allocated to defense in the past decade. On the other hand, we can highlight that the rest of the organization including NATO Europe and Canada have almost doubled their participation to the defense budget, from 290 billion dollars in 2014 to around 506 billion dollars in 2024. This is more than the overall increase of the overall NATO allocation to defense which is around 33% in the last decade.

There are two main areas of concern when it comes to the management and evolution of the Defense budget in NATO, both on the European and American continent.

First of all, most of the members lack basic ammunition and other defense assets as their defense expenditures have mostly been spent to major acquisition of high-tech equipment suitable for NATO's joint capabilities that were defined in previous NATO strategic concepts on dealing with emerging risks and threats more orientated towards cyber warfare and hybrid warfare but not the conventional warfare that the Russian Federation is executing in Ukraine.

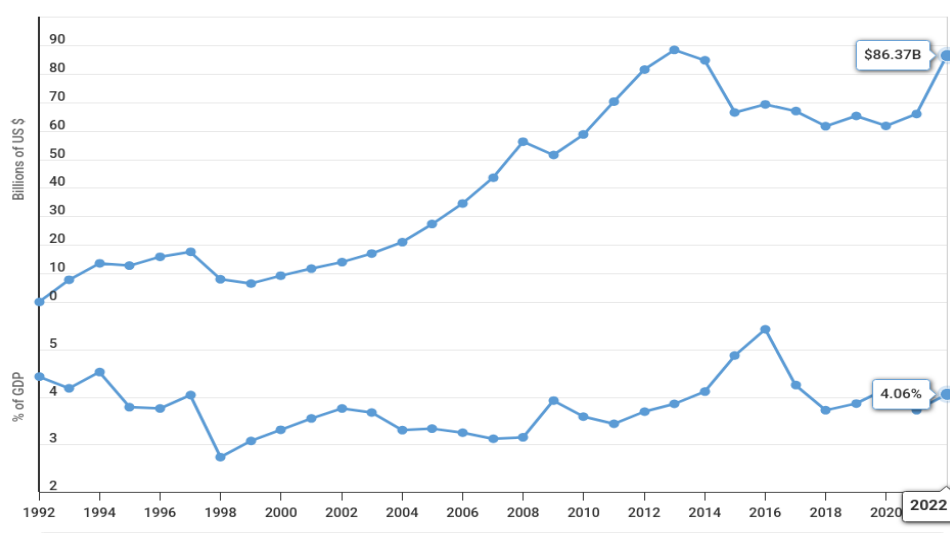
The second challenge is driven by the concept of Guns and Butter effect. For most western countries investing in defense while neglecting other areas of public expenditures is not an option. Most of the European Union countries that are members of NATO have followed for the past 50 years a soft power model where economic growth has been the main pillar and priority in government policies rather than the hard power approach of developing a strong and modern military. For this reason, there is gap in report to both the US and Russia who have maintained their high developed military capabilities even

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following the end of the Cold War. Even with increased defense budgets, it will take a mid-term time frame for most of the NATO member states excluding the US, in catching up and developing defense assets that could answer to today's current risks and threats that might mean even a direct conflict with the Russian Federation.

### **Evolution of the Russian Defense Budget**

When it comes to the Russian Federation the evolution of the Defense Budget has been realized in accordance to Russia's ambition following the ascension to power of president Vladimir Putin. The budget has been marginally increasing following Russia's ambitions in key three moments: the invasion of Georgia in 2008 and the annexation of Abkhazia and South Ossetia, the Crimean Invasion and annexation in 2014 and the full-scale invasion of Ukraine in 2024. This evolution is visible in the Graph that we have presented in **Figure 2**.



**Fig 2. Evolution of the Russian Defense Budget [4]**

While the NATO member states operate their defense policies and expenditures based on an economy of piece, since 2022 Russia's economy has shifted to a war driven economy. Because of this the defense budget has become the main priority for defense allocations. In such, in 2024, a third of the entire budget of roughly 86 billion dollars has been allocated to defense related activities. While Russia has never declared a full war on Ukraine and the official terms used are still those of "special military operation" or "hybrid war" it is ultimately clear that the entire economy is driven by defense strategic objectives. Western countries have tried to limit the potential for Russian allocations to war by trying to impact the biggest sources of funding to Russia's national GDP, respectively the incomes from the energy field, Russia being a major producer in oil and gas, and therefore a big exporter of these resources. The effort from the West in terms of economic sanctions has decreased the incomes from oil and gas exports from 1.2 billion dollars to just around 600 million dollars in 2024. [1] Other savings from the Russian GDP that have went to defense in 2024 and will continue to do so in 2025 mean a reshape of the social welfare state in Russia. Social policies will be affected in this new budget design, while inflation continues to also go up and the Russian currency, ruble continues the devaluate at record numbers. Private companies are also going to be submitted to a higher taxation system that

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will be applied starting with 2025. The Central Bank of Russia with the aim of stopping an inflation that has topped 9% in 2024, is trying to increase the income tax that is currently 21%. This has scared company owners, regardless of their sympathies to the Putin regime [3]. Specialists have warned the government that the Central Bank intervention might even affect the defense industrial complex which will also be affected by the increased taxes. [5]

With the budget designed for such a war-time economic approach, specialists [2] consider that the Russian economy will collapse in a similar fashion to the way it collapsed at the end of the 80's bringing an end to the Cold War. A reason is that commitment to major allocations for investments in defense. In 2024, around 30% of the budget, approximately 100 billion dollars were in the form of apportionments for major acquisitions in defense. Separately another 10% of the budget was spent for actions correlated with the activity of the Ministry of Interior Affairs. While a total of 40% of the budget is already a big element of pressure on any national budget, if it is allocated to defense, the Russian Federation wishes to increase that percentage in 2025 with the hope that this will bring decisive military victories on the Ukrainian front. Besides the direct costs of investing in the war with visible effects in the defense industry which has increased production by a rate of 30% there are other indirect costs in Russia's defense budget. [7]

The ministry of labor is spending a large part of its budget with veterans and families and those who have passed fighting in the war. Other expenditures are going to subsidized funds that are being used to rebuild the so-called provinces that Russia has illegally occupied from Ukraine. A budget of around 500 trillion rubles was allocated to this category of funds in 2024.

The Russian Federation is optimistic that the overall budget will increase because of regulatory price increases in oil and gas at international level. However, expert opinions differ on this topic. Several factors might impact the price at which oil is transitioned on the international market. The end of Assad regime in Syria might enable the development of a new gas pipeline from the Middle East through Turkey and eventually to Europe that could further decrease European dependency on Russian oil and gas. Another event worth mentioning is the fact that on December the 12<sup>th</sup> of 2024, OMV has abruptly ended its contract of oil distribution with Gazprom. The impact of this decision will also trigger long term effects of the fluctuation of energy prices.

### **Conclusions**

While the current total defense budget of the EU is more than 4 times the defense budget of the Russian Federation, the evolution of this budget for the past 10 years has been a closer one that it has looked on paper. The Russian Federation had an advantage and it increased its defense expenditures starting earlier, from the beginning of the Putin administration in the early 2000's. This has allowed the Russian Federation to take an advantage in developing more capabilities and shifting its industry complex to a much more efficient one (Russian Federation defense industry running on *war speed*, not *peace speed*).

As we know from the reality of scarce resources and defense management rarely do cost and benefits happen together. For this reason, the increased Russian defense budget, has given the Russian Federation an edge over NATO in terms of military outputs, one that will take some time to reduce.

Furthermore, there is a visible difference in how different NATO countries have approached the consensus to increase defense expenditures. While for countries like

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Poland, Romania, the Baltic States there has been a general desire to go beyond the 2% all the way up to 4% and more because of the proximity of the war in Ukraine to their own borders, other countries have delayed any investments in defense up until 2022. The pressure from the USA that all member states contribute more to NATO is a correct one from a conceptual point of view, but in technical terms, due to increase in defense allocation being realized just marginally as national budgets can only work in that way, the American presence in Europe remains crucial in front of an expanding Russian army, whose ambitions in positioning itself as a regional power from a military standpoint remains as a priority regardless of any economic fluctuations that might affect its overall capacity to finance the conventional wars it has set up to develop.

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