

# The interpretation of the government investment in defence within EU rules

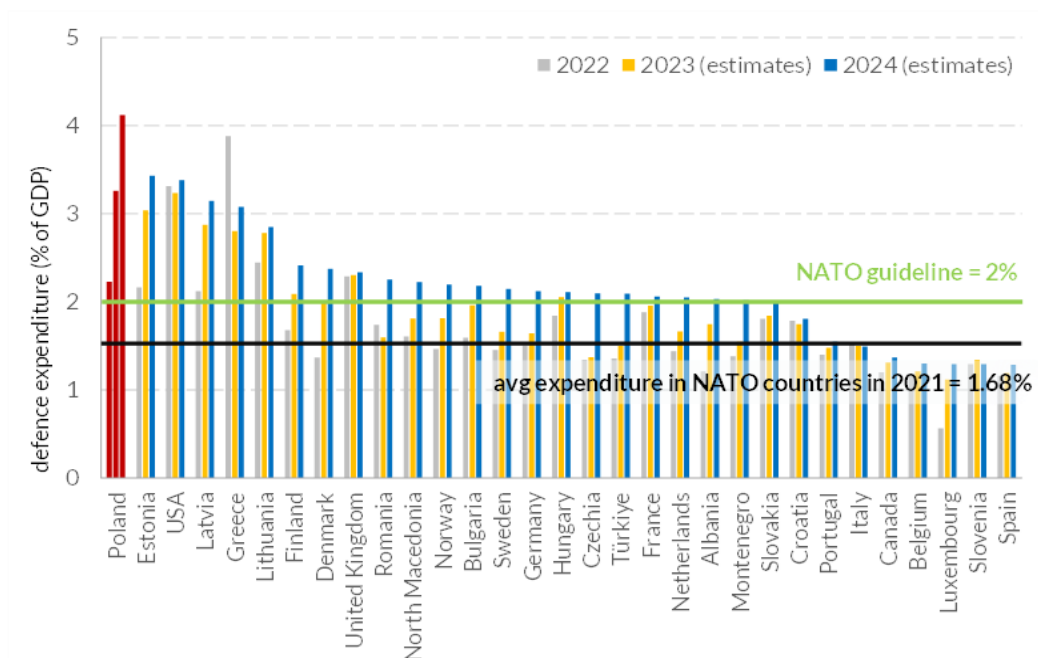
## Non-paper by Poland

### Build-up of defence capabilities is taking place

Build-up of defence capabilities is one of the four common priorities of the Union identified in the Regulation on Medium-Term Plans (cf. *Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97*). Increase of defence investments has been taking place in almost all Member States and especially in countries of the so-called NATO's Eastern Flank and in Nordic countries which are the closest to the war zone.

The significant increase in defence spending is shown in the chart below, compiled on the basis of the NATO data. It is worth noting that in 2021 the average defence spending of NATO countries was only 1.68% of GDP, and in 2024 it is expected to reach 2.2% of GDP. In the last three years, the highest increases in defence spending were observed in the NATO's Eastern Flank (Poland, Estonia, Latvia, Lithuania, Finland and Romania) and Denmark as well as Sweden. The level of spending in these countries as well as in Greece, in relation to GDP, equalled or exceeded the level of spending in the USA or the United Kingdom.

### Defence expenditures in NATO countries in 2022-24



Source: North Atlantic Treaty Organization - Press release: Defence Expenditure of NATO Countries (2014-2024).

## **Necessity to agree the interpretation of the government investment in defence**

According to recital 13 in the EDP Regulation (cf. *Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure*):

*“the increase of government investment in defence (...) could be assessed against Union averages, medium-term trends or other relevant benchmarks, considering also the statistical rules concerning the time of recording of military equipment expenditure”.*

As this is a new definition, there is no agreed interpretation of it yet. Its generality requires an interpretation which should support the efforts to rebuild the defence potential of the Union. In that regard, it seems only natural that one should use data from the period before the second Russian invasion of Ukraine in 2022 as a reference point (it would be probably best to refer to the average of several years, e.g. four years before the Russian invasion (2018-21)). The “other relevant benchmarks” reference allows for such interpretation.

When assessing the budgetary situation of Member States last year the Commission focused on year to year increases of military equipment deliveries (2023 vs. 2022). It seems a narrow interpretation of the provision cited above. War in Ukraine has been a security gamechanger for the EU, which has forced the Member States to significant increases of defence spending.

Moreover, and contrary to the current practice, government investment in defence should be understood as more than the supply of military equipment. The definition of government investment in defence should include a range of expenditure due to the heterogeneity of challenges to security faced by individual Member States. Therefore, it would be advisable to consider the following categories as falling under government investment in defence:

- infrastructure expenditure – including dual-use expenditure;
- an increase in personnel expenditure necessary to maintain the increased defence potential – including defence training of the population;
- capital government investment in production potential related to military equipment, ammunition or other means used by security services.

## **New rules could encourage financing investment towards increasing Europe’s security**

It is necessary to clarify what government investment in defence is. Is it expenditure on capital support for arms and ammunition factories in order to rebuild defence capabilities? Is it expenditure on investments in infrastructure used by the military or on infrastructure used for civilian and military purposes, such as the construction of shelters in residential buildings (new or already existing)? Is it civil defence spending? The source of the statistical data to be used in the excessive deficit procedure should also be defined.

The availability of data is another issue. The COFOG database (General government expenditure by function), which is a source for defence expenditure in line with ESA2010, presents data with a two-year delay. When opening the EDP in 2024, the Commission relied on data provided by countries, while COFOG currently provides data only until 2022.

In the fast changing security reality, such outdated and narrow series of data do not provide a sufficient basis for the EDP. Therefore it is necessary to develop a common methodology.

### **Possible way forwards**

The EFC will soon be preparing the new Code of Conduct with a common interpretation of the new EGF. This is a good opportunity to address most of the issues mentioned above, like the definition (scope) of defence investment.

In view of the security challenges, the interpretation of the increase in defence investment should be broad. It should include not only the purchase of military equipment, but also capital support for arms and ammunition factories in order to build defence capabilities, investment in infrastructure used by the army or for infrastructure used for civilian and military purposes, such as the construction of shelters in residential buildings or civil defence spending.

This investment should be compared to the period before the Russian aggression against Ukraine in 2022. Taking into account that the control account will play a crucial role in monitoring the implementation of the net expenditure path, the increase in defence investment should be a part of the economic reading of this account.

Ideally, the development of a common methodology that will ensure a faster access to the latest data on defence investment should be agreed with the Eurostat.