



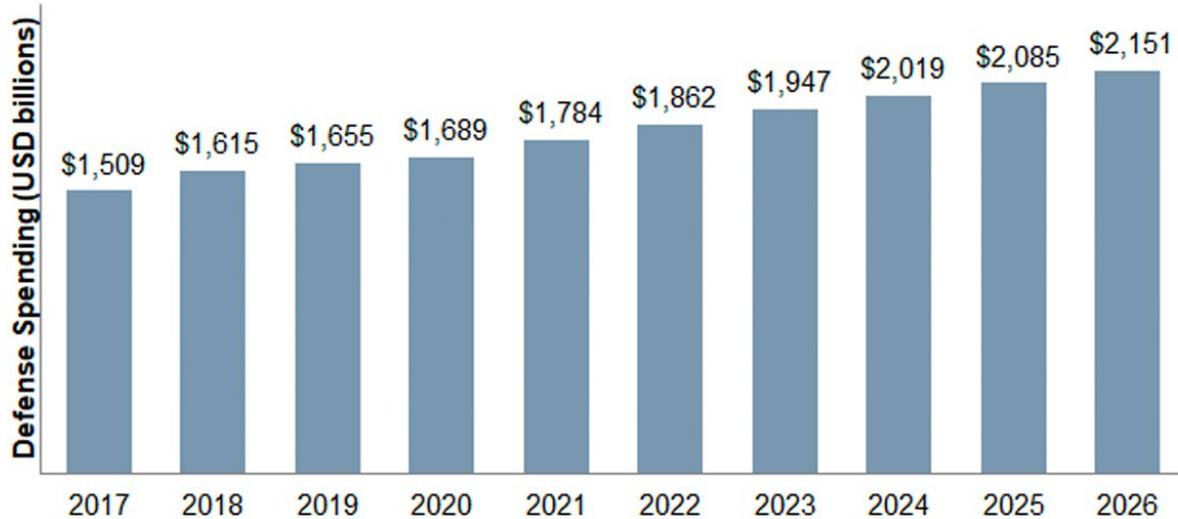
2022



**Global Defense Spending
Annual Snapshot**

Global Defense Spending

Total Global Defense Spending



Global defense spending continues to steadily rise, bolstered by a 5.6 percent nominal spike in 2021. The rise in greater defense investment coincided with the slow, unwieldy transition from the onset of the COVID-19 pandemic and widespread mitigation efforts to the loosening of quarantine requirements and resumption of economic production.

As global growth picked up in 2021 following the harsh recessionary wave of 2020, governments nonetheless continued to follow loose monetary practices, resulting in continued upticks in national defense expenditures in regions worldwide.

Perhaps most surprising is that global defense growth for 2021 outpaced the nominal increases experienced in 2019 and 2020 (2.5 percent and 2.1 percent, respectively) by nearly double for both of these years combined.

Part of the slower year-on-year growth during the 2018-2020 period resulted from a rare downward

cycle in military budgeting in Saudi Arabia, one of the world's largest security spenders.

Other declines in USD-based expenditures reflected depreciation in local currencies versus the U.S. dollar, as in the cases of Australia, Brazil and Russia.

Despite the variation in market exchange rates, however, actual defense investment for all three countries grew nominally in local currency value each year, and the resultant purchasing power parity (PPP) ensured troop capacity and personnel welfare were not unduly impacted.

The outbreak of the COVID-19 pandemic in early 2020 appeared to augur negative impacts on national defense expenditures, but unlike normal economic recessionary waves, this time many governments opted to remain on course with already-approved budgets. Exceptions were found in several Southeast Asian nations and elsewhere, resulting in instances in which lawmakers opted

for in-year reductions in order to shift monies to pandemic relief efforts.

Nonetheless, the increase in defense funding during 2020 highlighted a resiliency in the global market as major defense nations continued pushing for increased influence in their respective neighborhoods and the United States continues to act as the de facto policeman of the global commons.

Defense funding will continue growing in 2022, partly due to ongoing major procurement projects and modernization efforts already in place and, across Europe, largely in response to Russia's invasion of Ukraine.

The bulk of global military investment remains in three regions: North America, Asia and Europe. The sheer size of the U.S. defense budget assures the continuing dominance of the North America region (40 percent in 2021), while Asia-Pacific and Europe also represent significant market shares in the global pie at 26 and 17 percent, respectively. Altogether, these three regions account for 83 percent of total worldwide spending.

While China will remain the primary focus of the U.S. defense strategy moving forward, Russia's invasion of Ukraine is already having an impact on the U.S. budget outlook. In addition to spending on aid for Ukraine, a greater number of lawmakers are now calling for boosting the regular defense budget in 2023 and beyond. For the time being, these heightened national security issues are outweighing any national debt concerns, meaning defense dollars are expected to continue flowing.

The harder questions for first- and second-tier defense nations will emerge in the years beyond 2022, as growing debt and deficit loads begin to impact government spending plans.

While our nominal spending forecasts trend upward, there may be a slight slowdown in annual growth by 2024 and 2025 as countries grapple with the after-effects of the pandemic on their economies and start to bring their finances back into order.

The conflict in Ukraine remains a variable that may continue to impact defense spending growth beyond the near term as European nations bolster atrophying capabilities with Russia in mind. Should the Ukrainian conflict be brought to an end in the next year or two, however, the revisiting of defense by NATO-Europe member states may lose momentum as political concerns shift elsewhere.

Forecast International nonetheless envisions an upward five-year defense spending environment, with a compound annual growth average of 3.8 percent through 2027.

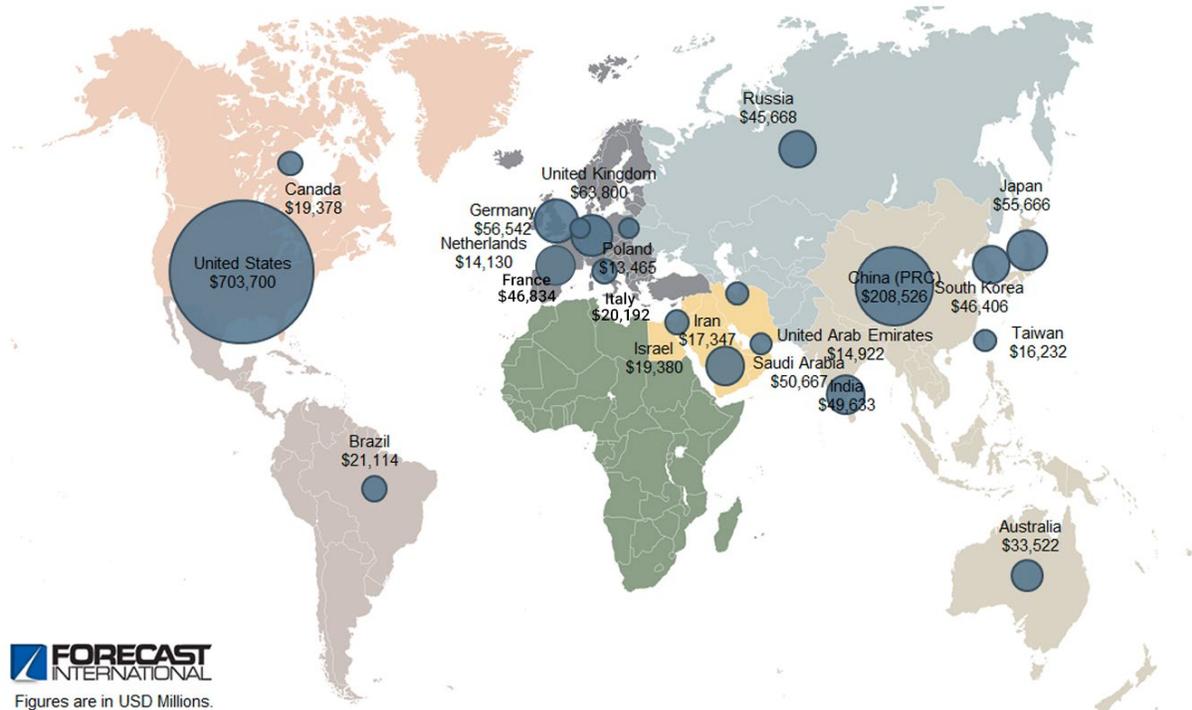
Top Twenty Defense Spending Nations

With much of the world returning to economic growth by the end of 2020, the majority of the top 20 global defense spenders increased their defense budgets in 2021. A total of 15 countries increased defense outlays in dollar terms, and the average level of growth among these countries was about 17 percent. This figure is driven heavily by major spikes in the USD value of defense budgets for Australia, Iran, Italy, the Netherlands, Taiwan, and the United Kingdom. The remaining five countries in the top 20 saw the dollar value of their defense budgets slide 3.3 percent on average.

A slight reduction in U.S. defense spending in 2021 can be attributed to emergency hurricane relief funding provided the previous year, which slightly inflated the country's 2020 defense spending total. The 2021 U.S. defense budget would have been flat in nominal terms without that emergency spending.

The 2021 fiscal year was also the final year in which U.S. budget planners and lawmakers were hamstrung by the Budget Control Act, which placed limits on federal spending over the course of a decade. Congress has already taken advantage of the expiration of those limits, adding some \$30 billion above the president's request for the 2022 fiscal year.

Defense Spending in Top 20 Countries, 2021



The countries included in our top 20 list remain unchanged from the previous year with the exception of Singapore, which dropped out of the top 20 and was replaced by Iran. Although Singapore’s defense budget grew by a very strong 12.1 percent year-on-year in 2021, Iran’s increased by a massive 63.5 percent nominally (inflation ate most of this uptick, thereby resulting in real-term growth of 7 percent).

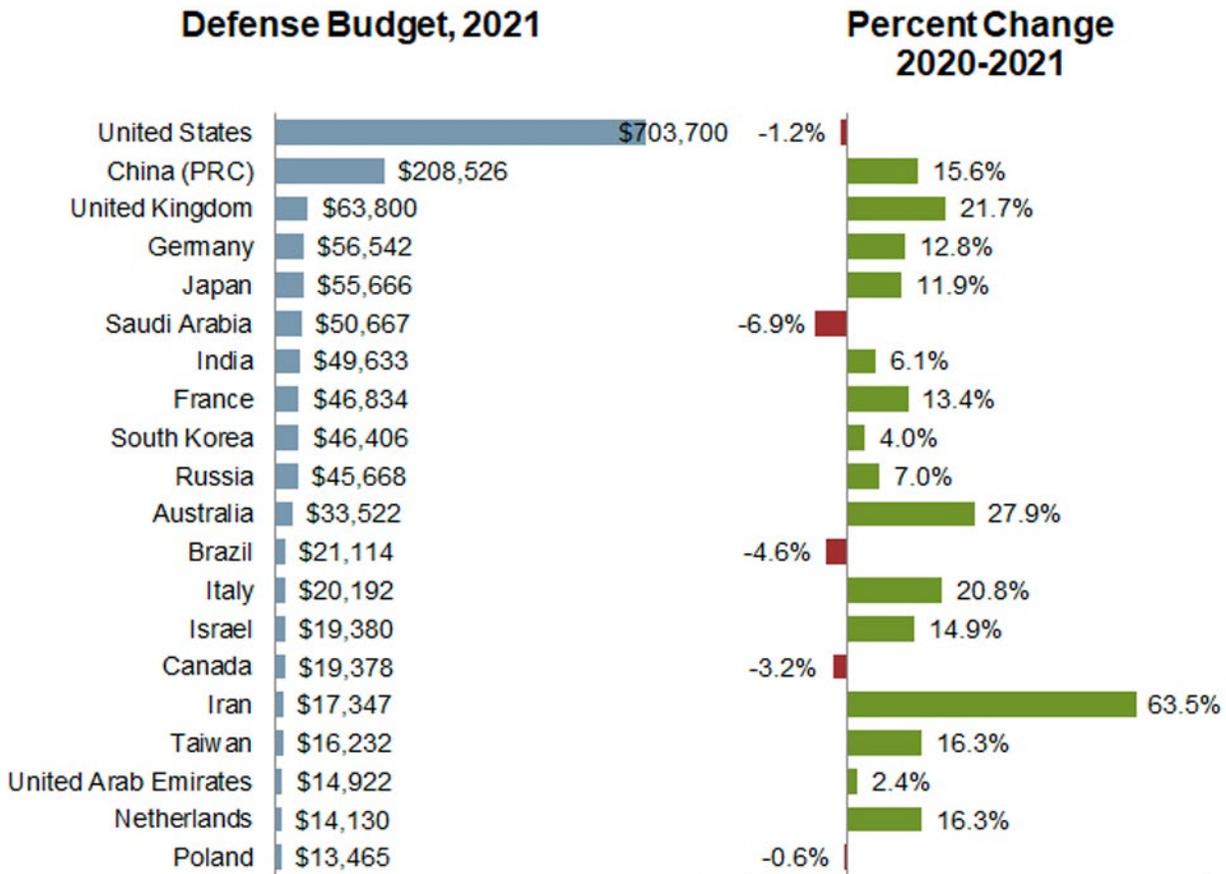
The top 20 account for 85 percent of global defense spending, which is virtually unchanged from the previous year, when the collective value of the top 20’s defense spending amounted to around 85.2 percent of the world’s defense outlays. These dynamics underscore the degree of concentration in a few key markets.

The U.S., China, the U.K., Germany and Japan are the world’s largest defense spenders. The U.K. became the third largest defense spender in 2021 (up from fourth in 2020), while Saudi Arabia – continuing to trim its military budget under King Salman’s governance – slid from third to sixth.

Though a laggard in defense spending by NATO Alliance standards (a minimum of 2 percent of annual GDP must be allocated toward defense), Germany has steadily beefed up its military investment since 2015 despite the still-poor state of the Bundeswehr. The invasion of Ukraine by Russia has forced a rethink in Berlin regarding German defense and security policy and its multi-decade-long embrace of Ostpolitik, with Russia and the post-Cold War peace dividend resulting in less and less investment in defense.

Going forward, Chancellor Olaf Scholz has pledged to bring the national defense budget up to the 2 percent of GDP standard and create a EUR100 billion (\$111 billion) special defense fund to cover major equipment projects.

By region, the Asia-Pacific and European regions have the largest number of states in the top 20. There are six Asian or Pacific states and six European ones, not including Russia, which we include with the Eurasia region. The Middle East has four, while North America has two and South America has one.



Figures are in USD millions.

Africa does not have a country in the top 20 defense spenders, and as a region accounts for only 2 percent of total global topline expenditure. Stagnation in the value of Algeria's defense budget has caused it to be eclipsed by other countries, with the year-on-year USD value of its military figure shrinking by 4.7 percent in 2021.

After Iran, the two highest rates of expansion among the top 20 countries were achieved by Australia and the United Kingdom.

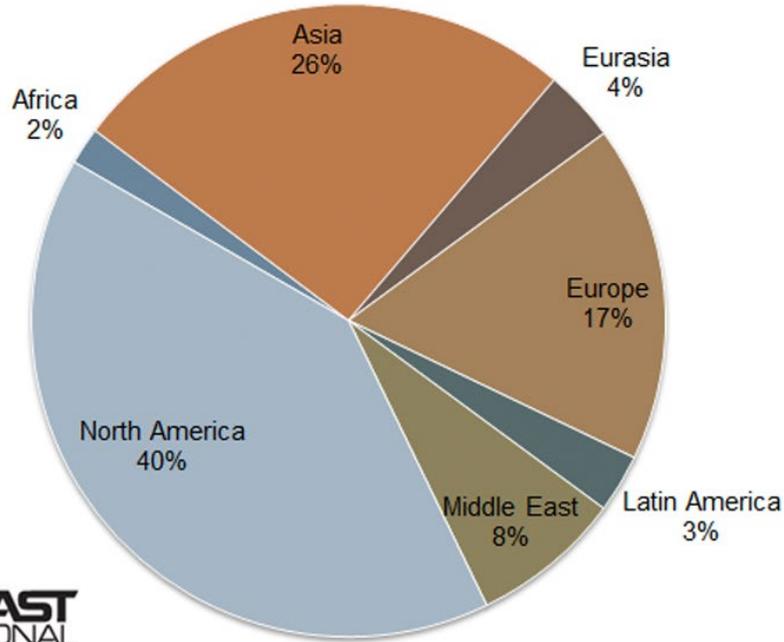
Both are undertaking military modernization initiatives, with Australia's government outlining

its latest plans in the 2020 Defence Strategic Update and accompanying 2020 Force Structure Plan, under which Canberra is committed to a total funding envelope of AUD575 billion (\$445 billion) through 2029-2030.

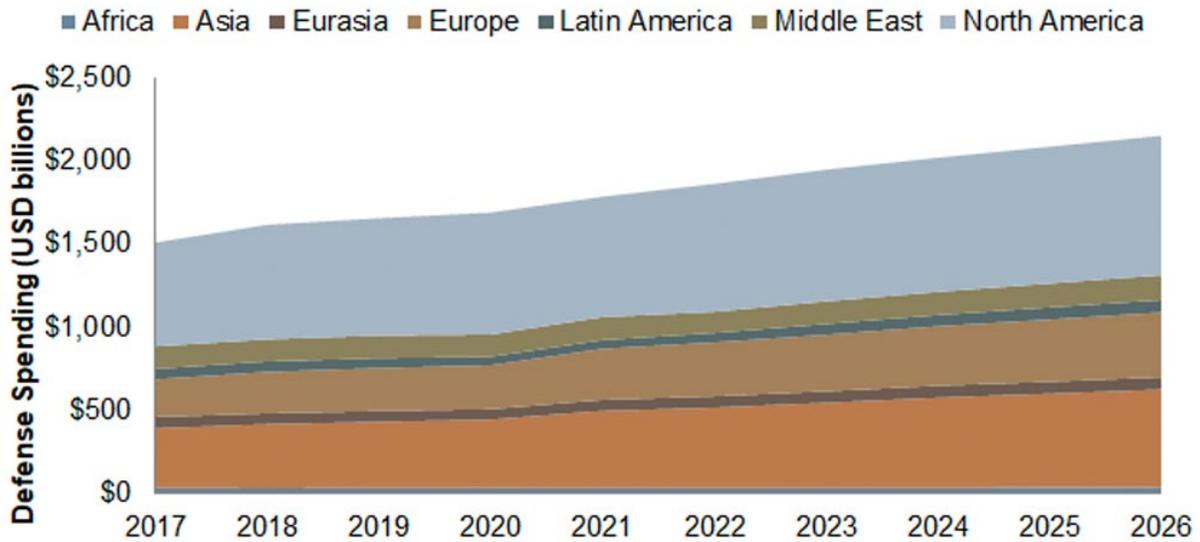
In the United Kingdom, Prime Minister Boris Johnson announced on November 19, 2020, an overall increase in defense spending worth GBP24.1 billion (\$31.7 billion) across a four-year period to the 2024-2025 fiscal year.

Regional Breakout

Defense Spending by Region in 2021



Defense Spending Trends by Region



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