



## The Shock of Russia's Invasion of Ukraine: A Shift in Germany's Security Policy? Creation of a 100 billion euro Bundeswehr special fund and the prospects and issues for achievement of national defense expenditure of 2% of GDP

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In response to Russia's invasion of Ukraine, Germany has established a special fund separate from the national defense expenditure. This article will discuss the overview of the fund and the prospects and issues for achievement of national defense expenditure of 2% of GDP, the NATO commitment.

### Introduction

On February 24, 2022, Russia invaded Ukraine. Three days later on February 27, in a special meeting of the Bundestag, German Chancellor Olaf Scholz gave an important address in which he stated the five issues that Germany faced and changed the previous security policy of Germany. He stated that one of those issues was security to protect freedom and peace, in particular the modernization and strengthening of the Bundeswehr which protects the German people.<sup>1</sup> As the pillar for this, he appropriated a total amount of approximately 100 billion euros for a special fund (*Sondervermögen*) for 2022 and allocated it to the procurement costs for equipment for the Bundeswehr, and as a result presented the prospect that national defense-related expenditure would continuously exceed 2% with respect to gross domestic product (GDP) every year.

In this paper, the author will discuss the overview of the Bundeswehr special fund on the scale of a total amount of 100 billion euros, including what fields it will be actually spent in after the Scholz address, and the prospects and issues going forward for achievement of the target of national defense expenditure of 2% of GDP.

### The Problem of National Defense Expenditure of 2% of GDP in NATO and the Changes in Germany's National Defense Expenditure

Since the end of the Cold War, the number of NATO member countries has increased, but on the other hand the national defense expenditure of each member country has been cut, and in that context the NATO summit in Wales in 2014 presented a guideline of each of the member countries raising their spending on national defense for NATO to 2% of their GDP within the next decade in order to maintain the capacity of NATO.<sup>2</sup> Four years later on July 11, 2018, US President Donald Trump expressed dissatisfaction in the

<sup>1</sup> Bundesregierung, "Regierungserklärung von Bundeskanzler Olaf Scholz am 27. Februar 2022," 27. Februar 2022.

<sup>2</sup> NATO, "Wales Summit Declaration," September 5, 2014.

NATO summit in Brussels that despite this commitment a mere five countries had achieved the 2% goal.<sup>3</sup> Moreover, in bilateral talks before the summit, he singled out Germany and criticized Chancellor Angela Merkel, saying that Germany was only spending a little bit over 1% of its economic output on national defense.<sup>4</sup> In this context, Secretary General of NATO Jens Stoltenberg once again called on all of the NATO member countries to raise their national defense expenditure to at least 2% of GDP as soon as possible.<sup>5</sup>

NATO defines national defense expenditure as the costs related to Land, Maritime and Air forces and Other Forces. For example, coast guards and national gendarmerie, etc. are included in this definition.<sup>6</sup> Given this, even if the coast guard is under the jurisdiction of a ministry other than the Ministry of Defense, expenditure on it is recorded as national defense expenditure.<sup>7</sup> Furthermore, pension payments to retired military and civilian employees of military departments are included in national defense expenditure.<sup>8</sup> Moreover, research and development-related expenditure is regarded as national defense expenditure even for those projects that do not successfully lead to production of equipment.

Germany's national defense budget itself has been increasing every year since 2017. Its national defense expenditure, which was 37 billion euros (5.2 trillion yen) in 2017, increased to 38.5 billion euros (5.4 trillion yen) the following year, 2018, 43.2 billion euros (6 trillion yen) in 2019, 45.6 billion euros (6.3 trillion yen) in 2020, and 50.3 billion euros (7 trillion yen) in 2022. Compared to 2017, it increased by 13.3 billion euros (approximately 1.8 trillion yen) in 2022, an increase of as much as 36%.<sup>9</sup>

Nonetheless, taking into account the fact that the GDP of Germany is 3.4 trillion euros<sup>10</sup> (2020), the national defense expenditure of Germany remained no more than 1% to 1.5% of GDP.

Given this situation, after Russia's invasion of Ukraine, aiming to achieve modernization of the equipment of the Bundeswehr, Chancellor Scholz decided to create the special fund equivalent to two times the fiscal year national defense expenditure.

### Condition for Creation of the Special Fund: Amendment of the Basic Law

The purpose of creation of the special fund is to secure the budget for equipment procurement for the Bundeswehr, but in the case of Germany the procedure for doing this is not simple.

In 1955 the Bundeswehr was created in a form embedded in NATO, but at that time Article 87a, Paragraph 1 of the Basic Law, which is equivalent to the Constitution of Japan, stipulated that "The Federation shall establish Armed Forces for purposes of defence. Their numerical strength and general organisational structure must be shown in the budget" (*Haushaltsplan*). In other words, this is a provision saying that only the budget for the fiscal year can be used for procurement of the equipment of the

<sup>3</sup> BBC, "Trump urges Nato members to double military funding target," July 11, 2018.

<sup>4</sup> Ibid.

<sup>5</sup> NATO, "NATO Secretary General announces increased defence spending by Allies," November 29, 2019.

<sup>6</sup> NATO Public Diplomacy Division, *Defence Expenditure of NATO Countries (2014-2022)*, Press Release, COMMUNIQUE PR/CP(2022)105, June 27, 2022.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> BMVg, "Kabinett einigt sich auf mehr Geld und Sondervermögen für die Bundeswehr," 16. März 2022.

<sup>10</sup> International Monetary Fund, *World Economic Outlook Database*, October 2022.

Bundeswehr. The problem arose that if Germany procured the equipment of the Bundeswehr using a special fund for the first time after World War II on this occasion, that would infringe the Basic Law.

Moreover, at the time of the economic and financial crisis in 2009, Germany amended the Basic Law, making it obligatory in principle for the federal government and even the state governments to balance their fiscal expenditure and revenues. This principle of the so-called debt brake (*Schuldenbremse*) is an obligation for the government, and was added to the Basic Law, Article 109, Paragraph 3 and Article 115, Paragraph 2. The special fund would be created, but it was clear that in a situation in which the sources of revenue for the fund were unclear, the special fund would not function if the principle of the debt brake was applied. Therefore, Federal Minister of Finance Christian Lindner stated that this special fund would be outside the scope of the debt brake.<sup>11</sup> Moreover, procedures to clearly state the exemption from the debt brake in the Basic Law, etc. became necessary.

In order to comprehensively solve these problems, a new paragraph was added to the Basic Law, Article 87a with the gist that “a special fund for a total amount of up to 100 billion euros will be established in order to enhance the capacity of the Bundeswehr, and the Basic Law, Article 109, Paragraph 3 and Article 115, Paragraph 2 shall not apply to the fund.” This is the so-called amendment of the Basic Law.<sup>12</sup> Subsequently, on June 3, 2022, the creation of the special fund was resolved in the Bundestag with 593 votes in favor, 80 votes against, and seven abstentions.<sup>13</sup>

### Equipment Procurement by the Ministry of Defence and Bundeswehr Pertaining to the Special Fund

In response to Scholz’s address on February 27, 2022, two days later on March 1, Chief of Defence of the Bundeswehr Eberhard Zorn issued a Ministry of Defence daily order to all of the officials and staff of the Ministry of Defence and the Bundeswehr, including the reserve soldiers and the civilian personnel. It was revealed in the order that Chancellor Scholz announced the appropriation of a total of approximately 100 billion euros (14 trillion yen) for a special fund (*Sondervermögen*) in 2022 and that he expected that national defense expenditure with respect to gross domestic product (GDP) would continue to exceed 2% every year.<sup>14</sup> He stated that as a result of this, Germany is proceeding in the direction of being able to meet the expectations from NATO and the EU but that it was necessary to overcome the harmful effects of bureaucratism, aim for modernization, and take response measures.<sup>15</sup>

On June 3, the day on which the special fund was resolved in the Bundestag, a Ministry of Defence daily order co-signed by the Minister of Defence Christine Lambrecht and Chief of Defence of the Bundeswehr Zorn was issued.<sup>16</sup> This order stated the framework for the special fund management plan; in other words, the equipment which should be procured. The first point the order raised was that the F-35 would be the

<sup>11</sup> Christian Lindner, “Sondervermögen Bundeswehr: Investitionen in unsere Freiheit,” Bundeshaushalt, 16. März 2022.

<sup>12</sup> Germany had already amended the Basic Law 64 times between the founding of the Federal Republic of Germany and November 2019.

<sup>13</sup> Deutscher Bundestag, “Bundestag beschließt das Sondervermögen für die Bundeswehr,” dokumente, 3. Juni 2022.

<sup>14</sup> BMVg, “Tagesbefehl des Generalinspektors der Bundeswehr,” 1. März 2022.

<sup>15</sup> Ebenda.

<sup>16</sup> BMVg, “Tagesbefehl zum Sondervermögen der Bundeswehr,” 3. Juni 2022.

successor to the existing Tornado.<sup>17</sup> In other words, it stated that with Russia's invasion of Ukraine occurring before its eyes, Germany would continue to aim for modernization and involvement in nuclear deterrence and response within NATO's collective defense.<sup>18</sup> Next, it said that Germany would aim for further modernization of the electronic combat functions of the upgraded Eurofighter Typhoon Electronic Combat/Reconnaissance (ECR), and in addition that it would enhance personal equipment such as combat rainwear, bulletproof vests, helmets, backpacks, etc. by 2025, six years ahead of the previous plan.<sup>19</sup> Furthermore, a provision to supply offensive unmanned aerial vehicles (UAVs) in order to protect the officers and men of the Bundeswehr was incorporated in the order, and the plan for and timing of the commencement of education and training in the second half of the next fiscal year<sup>20</sup> were presented. Moreover, the order announced that in addition to equipping the Bundeswehr with the Eurodrone capable of surveillance for more than 24 hours from 13,500 meters high in the sky, the Chinook CH-47 would be supplied as a transport helicopter for rescuing wounded people in the Bundeswehr.<sup>21</sup>

Furthermore, on the same day, Minister Lambrecht announced a detailed procurement plan.<sup>22</sup> In addition to the personal equipment, Germany would procure NATO-level helmet wireless functions and night-vision equipment for 1.9 billion euros.<sup>23</sup> The largest allocation was 33.4 billion euros for military equipment pertaining to the air domain; specifically, F-35s, CH-47s, Eurofighter ECRs, Israeli Heron TP drones, light support helicopters, surface-to-air weapons, early warning systems for outer space, and reconnaissance and alert systems.<sup>24</sup> Europe's future combat aircraft development project (Future Combat Air System (FCAS)) is planned for 2023 onward.<sup>25</sup>

Next there was command capacity and digitalization for 20.7 billion euros. The specific details about the equipment have not been revealed, but the plan stated that modern communications devices are capable of secret communications among the Bundeswehr, and Germany would develop systems enabling communications with the militaries of its allies and would procure such systems including satellite communications when dispatching overseas.<sup>26</sup> Moreover, in the land domain, the plan allocated 16.6 billion euros to procure Puma armored infantry fighting vehicles (*Schützenpanzer Puma*), Marder armored infantry fighting vehicles (*Schützenpanzer Marder*), successors of the Fuchs armored personnel carrier (*TPz Fuchs*), and the Main Ground Combat System (MGCS) for the new tanks.<sup>27</sup> Finally, in the maritime domain, 8.8

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<sup>17</sup> Ebenda.

<sup>18</sup> Ebenda.

<sup>19</sup> Ebenda.

<sup>20</sup> Ebenda.

<sup>21</sup> Ebenda.

<sup>22</sup> BMVg, "Ministerin: Wir sorgen für eine voll einsatzbereite Bundeswehr," 3. Juni 2022. Furthermore, the budget amounts in each domain, land, maritime, and air, etc., were announced in June on the government's website as well. The budget allocation in the domain of the air accounts for the largest share with 33.4 billion euros, and the content includes development and procurement of the successor of the upgraded Eurofighter ECR and procurement of the F-35, the successor to the Tornado. In the domain of the land 16.6 billion euros, in the maritime domain 8.8 billion euros, and as expenditure related to command and control systems and digitalization 20.8 billion euros were appropriated ("Bundesregierung aktuell," 3. Juni 2022.).

<sup>23</sup> BMVg, "Ministerin," 3. Juni 2022.

<sup>24</sup> Ebenda.

<sup>25</sup> Ebenda.

<sup>26</sup> Ebenda.

<sup>27</sup> Ebenda.

billion euros was allocated to the procurement of K130 corvettes, F126 frigates, and U212CD-class submarines, the Sonix acoustic sonar system, submarine-launched anti-aircraft rockets, and multi-purpose combat ships.<sup>28</sup> The plan also allocated 420 million euros to the research and development of AI.<sup>29</sup>

On November 11, the German Bundestag's Budget Committee voted on the FY2023 budget, and the results were fiscal year national defense expenditure of 50.1 billion euros and 8.4 billion euros of the special fund to be spent in FY2023.<sup>30</sup> Furthermore, Germany plans to increase the fiscal year national defense budget by 12 billion euros from 2023 to 2026.<sup>31</sup> It was clearly stated that the A400 large transport aircraft and K424 corvettes would be procured using the fiscal year national defense expenditure and the F-35s, CH-47s, Pumas, personal equipment, and F126 frigates would be procured using the special fund.<sup>32</sup>

On December 25, Minister of Defence Lambrecht and Chief of Defence of the Bundeswehr Zorn issued a co-signed Ministry of Defence daily order concerning the special fund, for which management would commence in the following year of 2023. Regarding their perception of the situation of the German Ministry of Defence and the Bundeswehr, they said that "due to Russia's invasion of Ukraine, we are once again reminded that the collective defense of NATO is an important mission"<sup>33</sup> and stated that "Germany has a duty to enhance its rapid response readiness from 2025 onwards."<sup>34</sup>

Furthermore, the Bundestag Budget Committee approved priority procurement in the following eight areas on the scale of a total value of 13 billion euros (1.8 trillion yen) in the next fiscal year (the current FY2023).<sup>35</sup> Firstly, there is the procurement of the new G95A1 rifles made by Heckler & Koch, which Germany plans to equip its military units with from 2026.<sup>36</sup> Secondly, there is the wireless command and control system in the equipment plan called Digitalization of Land-Based Operations, for which procurement will be commenced from 2023.<sup>37</sup> Thirdly, there is the procurement of the command and communications system in relation to the equipment plan called Infantry of the Future. Germany will procure a weapons system and Puma armored infantry fighting vehicles for the army's armored infantry units, so unification of the systems and enhancement of their capacity to continue fighting is expected. Furthermore, Germany, together with the United Kingdom and Norway, will procure new snowmobiles (*Überschneefahrzeuge*) for its mountain units.<sup>38</sup> Fourthly, Germany will procure 35 F-35 multi-purpose combat aircraft, its star equipment, and the ammunition for the aircraft, between 2026 and 2029. This is a precondition for Germany's greater involvement in NATO's nuclear umbrella.<sup>39</sup> Fifthly, in 2023 Germany will become the major country leading NATO's Very High Readiness Joint Task Force (VJTF), so it will develop its readiness and its military logistics infrastructure for combat.<sup>40</sup> Sixthly, there is the procurement

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<sup>28</sup> Ebenda.

<sup>29</sup> Ebenda.

<sup>30</sup> BMVg, "Haushaltsausschuss beschließt Verteidigungsetat und Plan zum Sondervermögen 2023," 11. November 2022.

<sup>31</sup> Ebenda.

<sup>32</sup> Ebenda.

<sup>33</sup> BMVg, "Tagesbefehl: Sondervermögen Bundeswehr markiert historischen Aufbruch," 15. Dezember 2022.

<sup>34</sup> Ebenda.

<sup>35</sup> Ebenda.

<sup>36</sup> Ebenda.

<sup>37</sup> Ebenda.

<sup>38</sup> Ebenda.

<sup>39</sup> Ebenda.

<sup>40</sup> Ebenda.

of offensive unmanned aerial vehicles and Chinook (CH-47) transport helicopters.<sup>41</sup> Seventhly, Germany will work on digitalization in all of the military services.<sup>42</sup> It is deemed that 20 billion euros (2.8 trillion yen), equivalent to one-fifth of the special fund, will be necessary for this in the future.<sup>43</sup> Eighthly, there is the enhancement of personal equipment. Germany will procure helmets, backpacks, combat uniforms, bulletproof vests, etc. by 2025 in order to satisfy the level demanded by NATO.<sup>44</sup>

Moreover, the equipment procurement budget in the fiscal year national defense expenditure will be 16 billion euros, twice as much as before.<sup>45</sup>

The December 25 Ministry of Defence daily order, with a sense of regret about past mistakes, stated that “over the previous few decades, structural budget shortfalls and omissions continued in the Bundeswehr, but the time has come to put a stop to this”<sup>46</sup> and the determination to achieve the transformation of “using a special fund on the scale of a total amount of 100 billion euros to evolve the Bundeswehr from so-called federal defense forces (the direct translation of “Bundeswehr”) to true armed forces (*Armee*)”<sup>47</sup> can be deduced.

In this way, the German Ministry of Defence announced in June 2022 the overall picture of the equipment to be procured with the special fund and revealed in November and December the equipment to be procured with the special fund and the equipment to be procured with fiscal year national defense expenditure in FY2023.

#### Matters to Note regarding Equipment Procurement in the First Fiscal Year of the Special Fund

The equipment which Germany will procure first in 2023, which is the first fiscal year of the special fund, is as already stated above, but the matters that should be especially noted based on these procurement trends are as follows.

Firstly, there is the point that Germany is placing the priority on equipment procurement pertaining to deterrence and response to Russia in order to fulfil its traditional duty of the collective defense of NATO, taking into account Russia’s invasion of Ukraine. The special fund was originally established due to the sense of crisis that Germany was unable to fulfill its responsibilities as a NATO member country in accordance with its status. For that reason, the modernization of equipment, strengthening of readiness, and strengthening of survivability in order for Germany to fulfill its defense responsibilities as a NATO member country have an important meaning. In particular, procuring the F-35s as the successor of the Tornado shows a willingness to participate in the duty of the collective defense of NATO, in particular nuclear deterrence and response, and has the important meaning that Germany will continue to maintain and strengthen the nuclear sharing arrangements.

Secondly, there is the modernization and enhancement of army equipment. Since the end of the Cold

<sup>41</sup> Ebenda.

<sup>42</sup> Ebenda.

<sup>43</sup> Ebenda.

<sup>44</sup> Ebenda.

<sup>45</sup> Ebenda.

<sup>46</sup> Ebenda.

<sup>47</sup> Ebenda.

War, the Bundeswehr has repeatedly reorganized into overseas deployment-type armed forces. In particular the army has had its personnel and budget taken away for other military services and other functions, such as the Bundeswehr Medical Service (*Sanitätsdienst*), the Joint Support and Enabling Service (*Streitkräftebasis (SKB)*), the Cyber and Information Domain Service (*Cyber-und Informationsraum (CIR)*), etc., so the army itself not only shrank quantitatively but also qualitatively as its equipment fell into obsolescence. The greatest strain was on the basic personal equipment of the officers and men in the army units. Therefore, with Russia's invasion of Ukraine occurring before Germany's eyes, it will equip NATO's rapid response units with Chinooks and Pumas, procure and enhance personal equipment beginning with G95 rifles, and introduce the command and control system and digitalization equipment organically connecting these weapons systems with the command structure. Furthermore, from the perspective of deterrence and response in traditional NATO collective defense, the point that Germany is equipping its mountain units with the snowmobiles, etc. which missed out on modernization and equipment updates after the end of the Cold War also deserves attention.

Thirdly, there is the point that slightly lower priority is being given to equipment procurement for the navy. Looking at the special fund from a macro perspective, there is 16.6 billion euros in the land domain and 8.8 billion euros in the maritime domain, but no navy equipment was included in the first fiscal year of the special fund, and only funding for the procurement of the F126 frigates was appropriated in the fiscal year national defense expenditure. It seems that going forward the question of whether or not the K130 corvettes, U212CD submarines, Sonix acoustic sonar system, submarine-launched anti-aircraft rockets, etc. will be procured using the special fund and fiscal year national defense expenditure for fiscal 2024 will deserve attention.

### Conclusion: Prospects and Issues for Achievement of the Target of National Defense Expenditure of 2% of GDP

On December 5, 2022 a US magazine specializing in politics and diplomacy published an article contributed by Chancellor Scholz entitled "The Global *Zeitenwende*."<sup>48</sup> Chancellor Scholz, believing that "Russia's war of aggression against Ukraine has triggered the *Zeitenwende* [an epochal tectonic shift]," stated that "a stronger Europe is essential"<sup>49</sup> to stop Russia's revanchist imperialism. Moreover, as Chancellor of Germany, he asserted that "the crucial role for Germany at this moment is to step up as one of the main providers of security in Europe"<sup>50</sup> and specifically set out the goals of "investing in our military, strengthening the European defense industry, beefing up our military presence on NATO's eastern flank, and training and equipping Ukraine's armed forces."<sup>51</sup> Next, Chancellor Scholz mentioned the special fund, saying that "one of the first decisions that my government made [...] was to designate a special fund of

<sup>48</sup> Olaf Scholz, "Die globale *Zeitenwende*: Wie ein neuer Kalter Krieg in einer multipolaren Ära vermieden werden kann," 5. Dezember 2022. Refer to the following for the English version. Olaf Scholz, "The Global *Zeitenwende*: How to Avoid a New Cold War in a Multipolar Era," *Foreign Affairs*, January/February 2023.

<sup>49</sup> Ebenda.

<sup>50</sup> Ebenda.

<sup>51</sup> Ebenda.

approximately 100 billion euros to better equip our armed forces, the Bundeswehr.”<sup>52</sup> Then he concluded his remarks by saying that “this decision marks the starkest change in German security policy since the establishment of the Bundeswehr in 1955”<sup>53</sup> and that due to the introduction of the special fund, “Germany will invest two percent of our gross domestic product in our defense.”<sup>54</sup>

On the other hand, the special fund has the potential to greatly deviate from its initial purpose. Chancellor Scholz has stated that due to the creation of the special fund 2% of GDP would be achieved every year, but taking into consideration the facts that even in FY2023 the fiscal year national defense expenditure and the FY2023 special fund combined only came to 58.5 billion euros while the GDP of Germany is 3.8 trillion euros<sup>55</sup> (2022), no more than 1.54% has been achieved and the 2.0% target has not been reached. It is still unknown whether 2% of GDP can be secured reliably every year by adding the amount approved under the special fund to the fiscal year national defense expenditure.

In addition, the scale of 100 billion euros appears large, but some hold the view that if seen in terms of the past rate of growth of national defense expenditure, establishing a special fund of this amount has the effect of restraining the rapid increase in fiscal year national defense expenditure, and presents an upper limit in order to prevent the growth of national defense expenditure every year.<sup>56</sup>

It also remains unclear how the sources of revenue for the special fund of 100 billion euros will be secured in the first place. In that sense as well, going forward it will be necessary to continue monitoring how Germany manages the special fund and the fiscal year national defense expenditure.

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<sup>52</sup> Ebenda.

<sup>53</sup> Ebenda.

<sup>54</sup> Ebenda.

<sup>55</sup> IMF, *World Economic Outlook Database*, October 2022.

<sup>56</sup> This author directly heard this on May 18, 2022 from a general in the Bundeswehr at the NATO Defense College Conference of Commandants held at the Bundeswehr Command and Staff College in Hamburg.