

IHS Aerospace, Defence & Security

# IHS Jane's Defence Budgets: End of Year Report 2013

Focus on: Poland, Saudi Arabia and Japan

In 2013, IHS measured defence spending in eight global regions at both national and regional level, tracking past expenditure and forecasting future spend for over 98% of global defence budgets.

In this report Senior Analysts at IHS Jane's Defence Budgets examine three defence budgets that were of particular note during 2013 and which promise to be of international significance over the coming years.



## Introduction

### Global Budgets

In 2013, global defence expenditure as measured by 77 countries counted by IHS Jane's Defence Budgets was USD1,530 billion, which is USD117 billion (7.1 per cent) less than the 2009 total of USD1,64 billion. Another 1.8 per cent decline is expected by the end of 2015, before IHS projects global defence spending to start to increase annually.

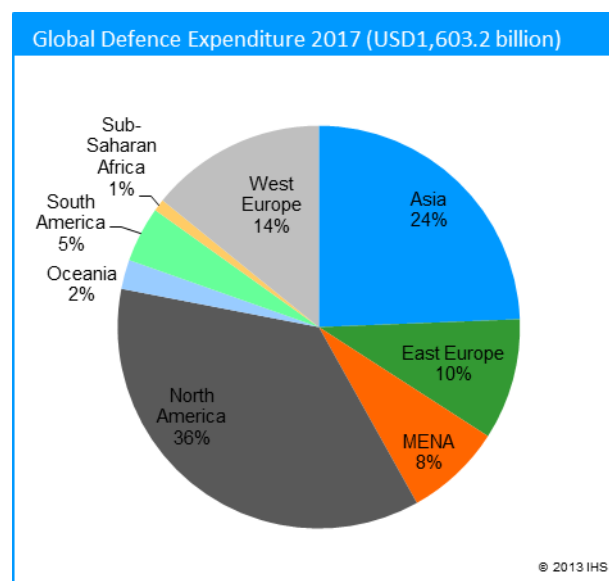
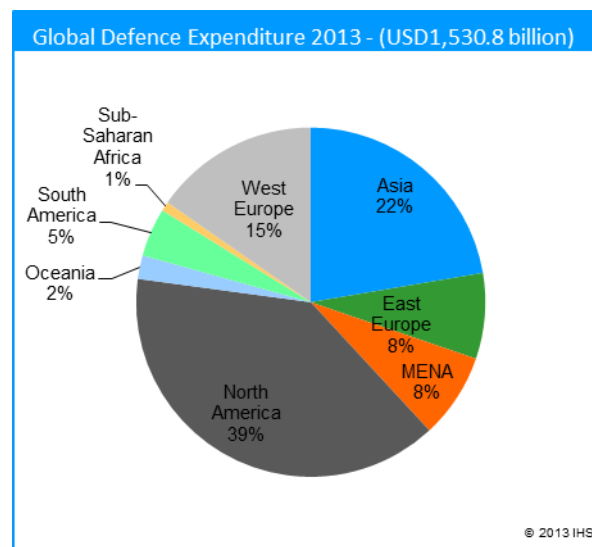
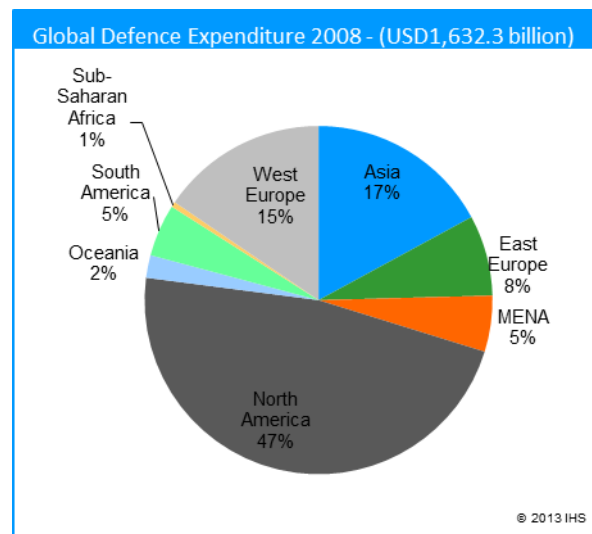
The decline resulted primarily from large decreases in defence budgets in the US and Western Europe, while growth rates of 3.4 per cent in Asia, 10.5 per cent in Middle East and North Africa and 18 per cent in Sub-Saharan Africa lessened the overall impact of the decrease. IHS projects that global defence spending will reach 2009 levels by 2019, and USD1,804 billion by 2024.

In 2013, IHS measured global defence spending in eight global regions. The largest was North America at 39 per cent (USD597.4 billion) driven by the US defence budget of USD577.5 billion.

The second largest was Asia at 22.3 per cent (USD341.6 billion), driven by China at USD131.7 billion, with the combined defence budgets of Japan, India and South Korea adding a significant contribution. Western Europe was the third largest region at 15.3 per cent (USD234.5 billion) with the UK, France, Germany and Italy leading that region.

East Europe and Middle East/North Africa (MENA) were fourth and fifth regionally, with East Europe at 7.93 per cent (USD121.4 billion), driven by the Russian Federation and Turkey, and

MENA at 7.87 per cent (USD120.5 billion), led by Saudi Arabia and Israel.



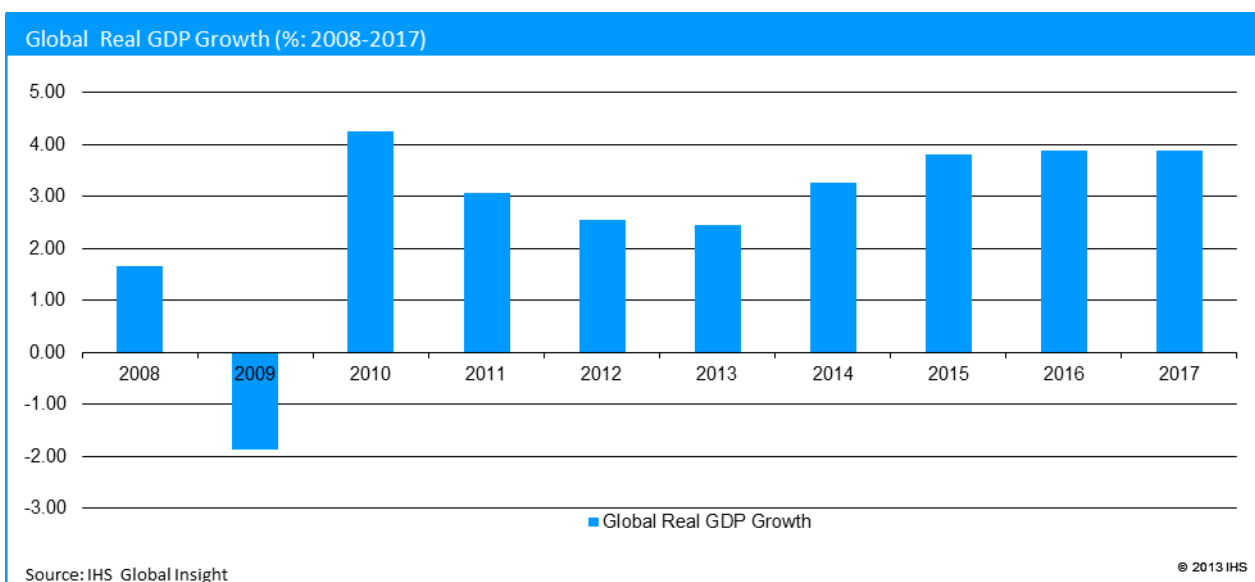




The last three regions are well below USD100 billion, with South America at USD68.7 billion (4.5 per cent) with Brazil having the largest South American defence budget, Oceania at USD33.5 billion (2.2 per cent) – primarily Australia – and Sub-Saharan Africa at USD13.3 billion (0.9 per cent) of the global total. IHS projects this same ranking by region through to 2024, although Asia will close the gap with North America substantially by that time.

Many emerging economies will experience moderate, export-led growth in 2014, although overall the global growth rebound is likely to be quite modest, at 3.3 per cent. Quarterly annualized global growth in the second and third quarters of 2013 is estimated by IHS to have been 3.5 per cent and 3.3 per cent, respectively. This is higher than prior quarters and suggests that global growth has already reached the pace forecast by IHS for 2014.

### Global Economy



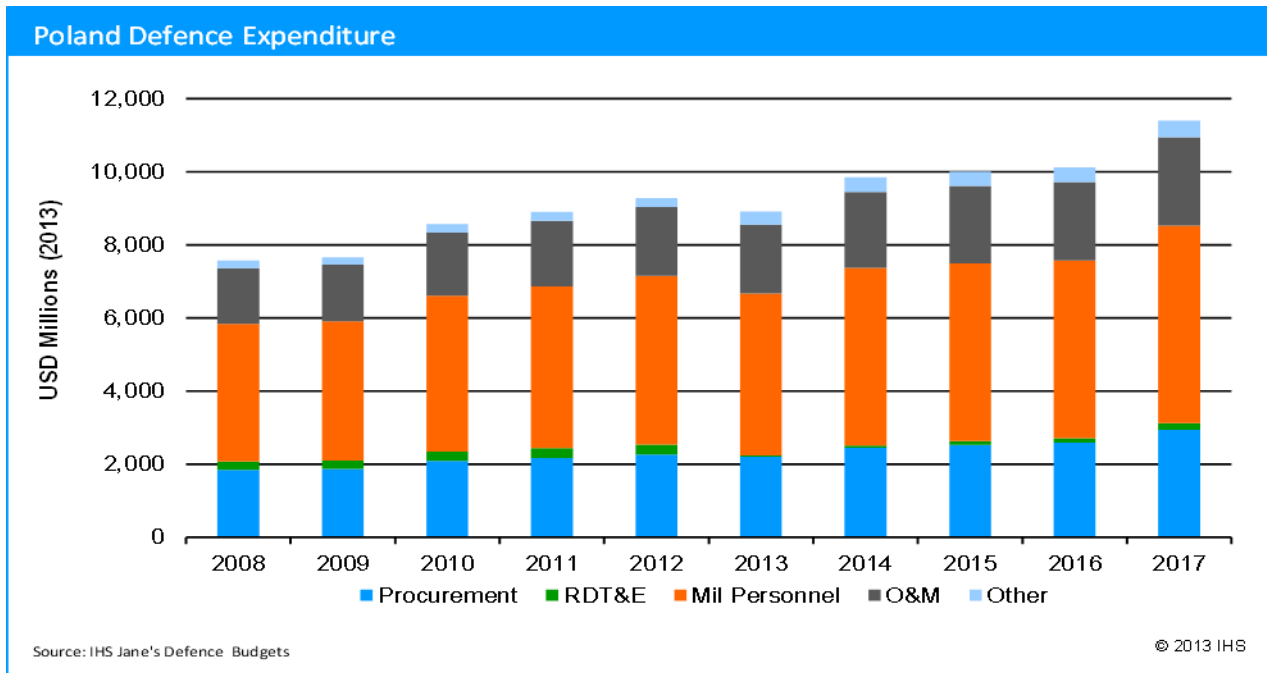
After having slowed from 4.2 per cent in 2010 to 3.0 per cent in 2011 and around 2.5 per cent in 2012 (with the Eurozone and Japan returning to recession), the global economic growth rate held steady at 2.5 per cent in 2013.

World growth will accelerate gradually in 2014, and is likely to emerge from an extended “soft patch” of the last two years due to an easing in private sector de-leveraging and public-sector austerity. This will be especially true for the developed economies.

### Poland

Except for a 4 per cent downturn in FY13 due to a sluggish economy, Poland’s defence budget has continued to increase year over year since 2007. Poland over time has transformed itself from a Soviet-era industrial base in the 1990s to a growing and more capable defence industry of today.

Its 2013-2022 Armed Forces Modernization Plan of December 2012 defined a 10-year investment commitment to its armed forces to

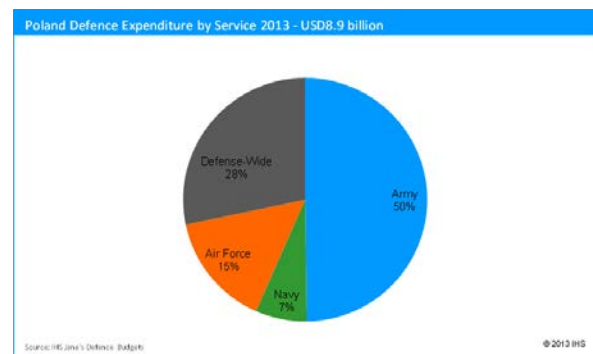


provide new indigenous, or Western, equipment to its troops. In 2013, Military Personnel accounted for 49.7 per cent or USD4.43 billion of the defence budget. O&M absorbed 21.2 per cent and Other absorbed 4 per cent of the budget, leaving about 25 per cent for investment. Procurement was USD2.20 billion in 2013 or 24.7 per cent of the budget but procurement is projected to gain share of the budget by 2018 when it will be 26.2 per cent, with a future target of 27 per cent. RDT&E was less than 0.5 per cent in 2013, but by 2018 it is projected to be about 1.9 per cent and over USD200 million.

Poland's Army garners almost 50 per cent of defence funds. The national industrial base produces tracked armoured fighting vehicles, main battle tanks, wheeled armoured vehicles, tactical trucks, self-propelled howitzers and rocket launchers. Poland has ordered more ex-German Leopard 2 tanks and is planning to upgrade its existing inventory. There are also plans

to procure Krab Light Strike Vehicles and Light Multi-Purpose Vehicles in order to retire legacy fleets of vehicles.

Poland's Navy will retire much of its fleet of 86 ships in order to afford newly built ships, although the Navy receives only 7 per cent of the defence budget. A USD3.1 billion long-term naval modernization plan is in place with three stages ending in 2030. It will upgrade its ex-US FFG 7 frigate by 2016, and has announced new orders for three Kormoran II minehunter ships and a patrol vessel. Poland received its first Coastal Defence Missile Battalion Naval Strike Missiles in 2013 with more to be received by 2015.



Its Air Force receives 15 per cent of the defence budget. Poland had previously acquired 48 US Lockheed Martin F-16 Fighting Falcon aircraft and has developed a credible degree of aerospace capabilities and manufacturing industrial base. Poland also operates MiG-29 Fulcrum A fighters, C-130E Hercules transports, and has the largest worldwide fleet of C-295 transport aircraft at 16 aircraft. Poland has launched a tender for a new Advanced Jet Trainer which should be awarded in 2014.

Plans are underway for a Polish missile defence shield costing over USD3 billion with very short-range, short-range, and medium-range elements of the system. Target initial capability is set for 2017 with eight batteries completed by 2022.

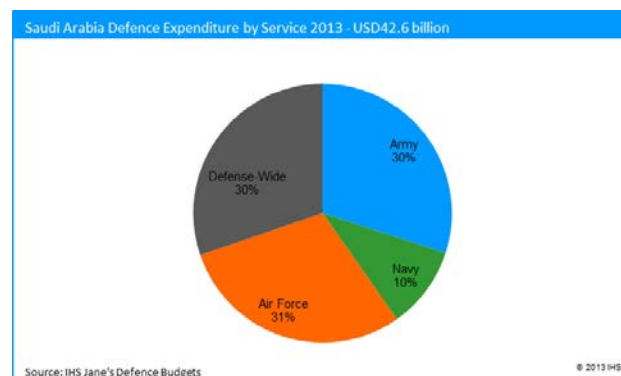
## Saudi Arabia

Saudi Arabia increased its defence and security budget by 18.6 per cent in 2013, the largest rise in spending since 2007, according to figures released by the Saudi Arabian Monetary Agency in September 2013.

Total expenditure on the sector has now reached a total of SAR251.3 billion (USD67 billion) and has more than tripled in nominal terms over the past decade. While the increase for 2013 is more significant than in recent years, spending on defence and security has increased by an average of 13.7 per cent annually over the last 10 years. Growth in the budget had slowed to between 7-9 per cent between 2008 and 2011 but has now expanded at over 15 per cent for the last two years.

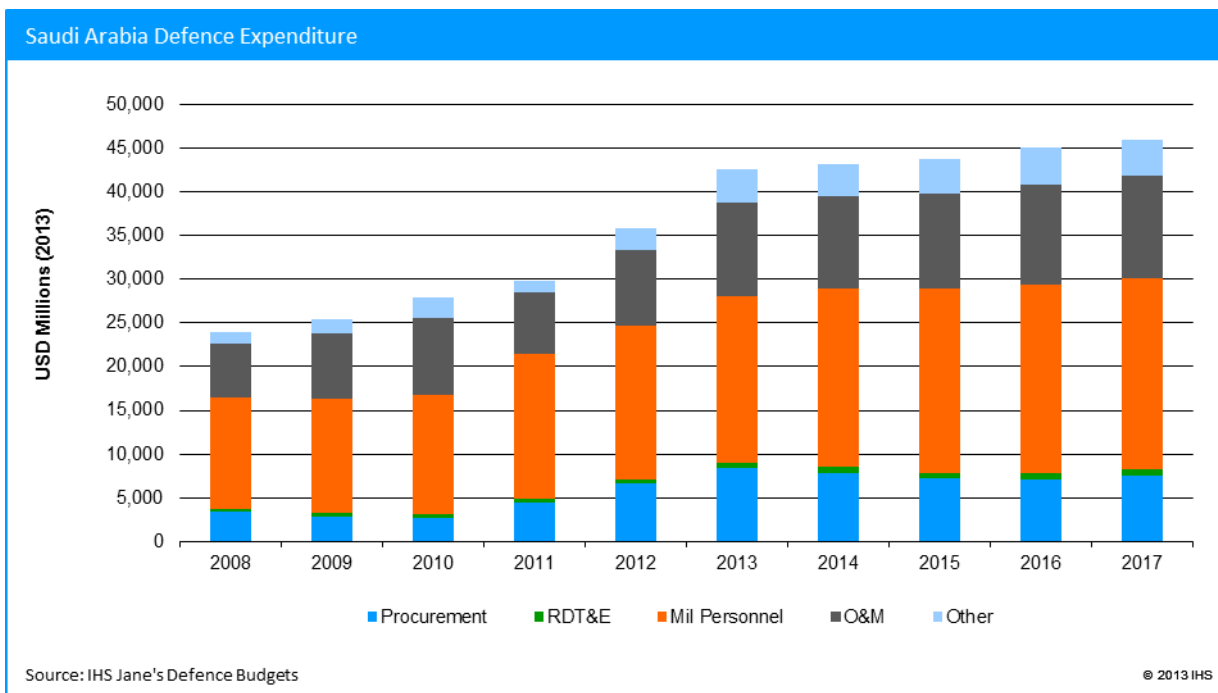
Despite the large increase, related spending now comprises 30.7 per cent of the Saudi Arabian government's budget - the lowest level since 1983 - and comes as part of an 18.8 per cent increase in overall state expenditure. The defence and security budget reached a high of 41.6 per cent of state spending in 1999 and has been in gradual decline as a proportion of government expenditure since then.

Based on an assessment of the various elements of the security apparatus in Saudi Arabia, IHS Jane's Defence Budgets estimates that around 63 per cent of the Defence and Security budget is allocated to the defence ministry. This equates to a budget of around USD42.6 billion allocated specifically to defence in 2013.



While no further details on the composition of the defence and security budget have been released, the increase is likely to in part relate to funding for a number of large procurement programmes that have been initiated since 2010, including a deal for 84 new-build and 70 retrofit F-15SA aircraft that was finalised in December 2011 and valued at up to USD29.4 billion.

The recent spike in procurement activity follows a slowdown in acquisitions



between 2009 and 2011 which depressed spending levels. As a result spending could contract in the short term as procurement spending falls back to sustainable levels. Currently IHS Jane's Defence Budgets expects Saudi spending growth to fall from the levels of 20 per cent seen over the last two years to between 4-6 per cent from 2014-2019.

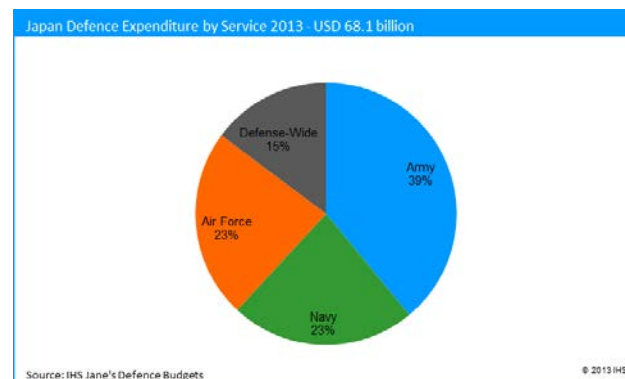
## Japan

Japan's total 2013 defence budget of USD68.1 billion (including pensions) was the third largest in the world, having been surpassed by China (in official terms) in 2008. The country faces a budgetary dilemma as pressing economic concerns vie with the increased levels of spending from neighbouring countries such as China, Russia and North Korea.

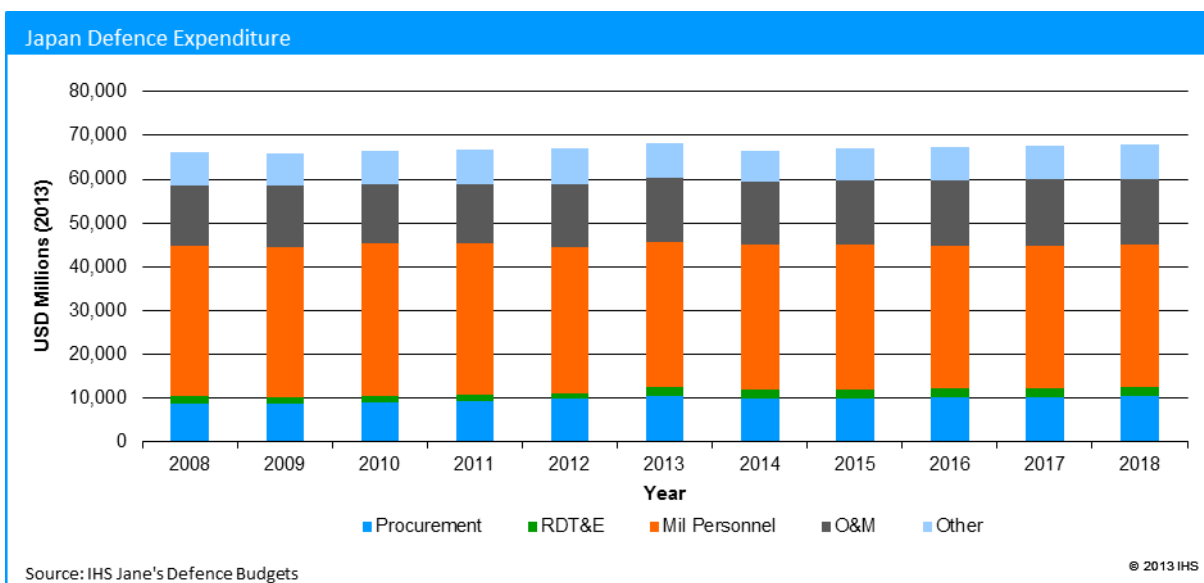
Whereas previous governments have sought to restrict defence spending and focus resources on bringing down

government debt and improving economic performance, the new Abe administration increased defence spending in 2013 (albeit by just 0.4 per cent in nominal terms).

The Ministry of Defence's FY14 budget request again encompassed a growing budget with growth of 1.4 per cent outlined. While the request has yet to become law, the modest level of growth is in keeping with the government's apparent eagerness to make defence and security issues a priority and looks likely to be granted.



The growth in the budget seen for FY13 and the FY14 request was further



bolstered in December 2013 by the announcement that Japan's new Mid-Term Defence Programme (MTDP) will see annual increases of around 1.3 per cent in nominal terms over the next five years.

In terms of the core budget (excluding pensions costs), total expenditure between FY14-18 is currently expected to reach JPY24.7 trillion (USD310.3 billion).

While the core defence budget is expected to continue to see increases over the short to medium term, total defence spending is expected to remain largely static from 2014-2019 as a result of lower pension's allocations.

Beyond this mid-term projection it seems unlikely that defence budget growth will accelerate significantly unless tensions with neighbours – China in particular – escalate over the next few years.

Over the longer term, IHS Jane's Defence Budgets expects that Japan will settle into a pattern of steady yet modest expansion of the core defence budget in response to developing

regional geopolitical shifts, although a continuation in the decline of pension obligations will see the total budget decrease in real terms.



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