CHAPTER 4—MILITARY SPENDING IN IMF FISCAL POLICY ADVICE

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The views expressed in this Chapter are those of the author and do not necessarily represent those of the IEO, the IMF, or IMF policy. The Chapter in this Background Paper reports analyses related to the work of the IEO and is published to elicit comments and to further debate.

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EXECUTIVE SUMMARY

This chapter examines the coverage of military spending by the IMF from 2008 to 2023 and highlights the need for the Fund to integrate military expenditure into its fiscal policy recommendations more systematically. Following the collapse of the Soviet Union in 1991, global military spending as a share of GDP nearly halved from its peak during the 1970–90 period, yielding a substantial peace dividend for all country groups. However, since 2014, especially after Russia's annexation of Crimea, military expenditures have increased significantly in many nations, especially in advanced economies, driven largely by geopolitical tensions.

Assessing the macroeconomic and spillover effects of military spending at the country level is challenging. Nonetheless, the rise in military expenditure raises concerns about the potential crowding out of critical investments in health, education, and infrastructure, as well as the risk of increased fiscal deficits and external debt, particularly in fragile and conflict-affected states. Despite the clear macroeconomic relevance, military spending received relatively limited attention in the Fund's flagship and country staff reports between 2008 and 2023.

When addressed, the Fund's treatment of military spending was consistent with its mandate and Executive Board decisions and guidance. Staff reports primarily focused on the fiscal and macroeconomic implications, such as balance of payments impacts or risks to domestic stability, without opining on national security priorities or the appropriate level of military expenditures—issues firmly within the sovereign domain of member governments. In its multilateral surveillance, the coverage was confined mainly to global or regional macroeconomic effects of military spending.

The Fund's coverage of military spending was uneven across countries. It is unclear why staff addressed military spending explicitly in some countries with above-average military expenditures in their budgets, alongside elevated fiscal deficits and debt-to-GDP ratios, while neglecting to do so in others. Such variation could be attributed to country-specific factors, including financing constraints and debt sustainability concerns. Moreover, a policy shift in March 2023—permitting Fund financial support for countries facing "exceptionally high uncertainty" due to external shocks—further complicates comparisons between recent scenarios, like that of Ukraine, with those prior to 2023.

To strengthen its fiscal policy advice, the Fund could adopt consistent terminology regarding military spending; address military expenditures in flagship publications in light of evolving geopolitical dynamics and the decision by several countries to raise military spending; ensure evenhanded treatment of countries facing similar macroeconomic conditions and levels of military spending; integrate off-budget military spending into debt sustainability assessments; and promote transparency in budgets, including military allocations.

I. INTRODUCTION

1. **Military spending has increased in several regions, reflecting changing geopolitical dynamics and escalating conflicts.** In AEs, the increase was particularly marked following Russia's invasion of Crimea in 2014. After the collapse of the Soviet Union in 1991, global military spending as a percentage of GDP nearly halved from its peak during the 1970–90 period, generating a significant peace dividend for all country groups

2. **The renewed rise in military expenditures has implications for the composition of government budgets and the economic growth prospects of countries, as it may crowd out more productive investments in growth-enhancing sectors.** While defense and the maintenance of law and order are essential for the smooth functioning of any economy, and military spending is often necessary to counter external threats, relatively high military budgets could raise important concerns. These concerns extend to the macroeconomic implications of policy choices exercised by individual countries, potentially necessitating attention within the framework of IMF surveillance of member policies and program support. The macro-criticality of military spending is thus highly context specific.

3. **The analysis of military spending primarily relies on data from the Stockholm International Peace Research Institute (SIPRI).**[1] Military spending encompasses expenditure on personnel (including pensions), weapons, operations and maintenance, research and development (R&D), military aid, and construction. Government Finance Statistics (GFS) also compiles data on military spending, although only for a limited number of countries. Additionally, GFS tracks expenditures related to law enforcement, including spending on police, prisons, and courts. When combined with military spending, this broader category can reflect a country's total spending on security. However, the Fund's mandate is on military spending as discussed in Section III. Thus, the focus of this chapter is on military spending narrowly defined.

4. **This chapter assesses three key issues during the evaluation of the period 2008–23: (i) the consistency of the Fund's engagement in military spending with its mandate and Executive Board decisions; (ii) the relevance of the Fund's advice on military spending in terms of its added value; and (iii) the evenhandedness of the advice, i.e., whether the Fund's treatment of military spending consistent across member countries given country-specific circumstances.** It is structured as follows: Section II examines recent trends in global military expenditures and the main macroeconomic implications and spillover effects of military

[1] Several IMF flagship reports have used SIPRI data for cross-country analysis. See, for example, World Economic Outlook, October 1999; African Regional Economic Outlook, October 2021; and Middle Eastern Regional Economic Outlook, October 2018. SIPRI's Military Expenditure Database, which is updated annually, contains consistent time series on the military spending of countries for the period 1949–2023 and is based on official data provided by national governments. As noted in Section III, the authorities' submission of military spending data to IMF staff is voluntary. However, SIPRI regularly publishes such data with a one-year lag, which staff can use if the authorities do not provide the relevant information. Staff may bring deficiencies in military spending data to the attention of the Executive Board.

spending. Section III discusses the rationale for Fund involvement in military spending issues and the Fund's multilateral and bilateral policy advice on military spending between 2008 and 2023. Finally, Section IV concludes and suggests ways forward.

II. Military Spending and Its Macroeconomic Implications

5. **Assessing the macroeconomic implications and spillovers of military spending in a given country is inherently complex.** For instance, in fragile and conflict-affected states (FCS), increased military expenditures may yield short-term benefits by enhancing security and stabilizing socio-economic conditions. However, over time, such spending can begin to crowd out more productive spending. Understanding the effects of military spending—whether domestic or cross-border—are positive, negative, or neutral depends on a range of factors. Identifying the tipping point at which the benefits wane requires access to reliable data and careful, context-specific analysis. This section addresses recent trends in military spending, its macroeconomic implications on growth and the fiscal accounts, and the tradeoffs it introduces.

Recent Trends in Military Spending

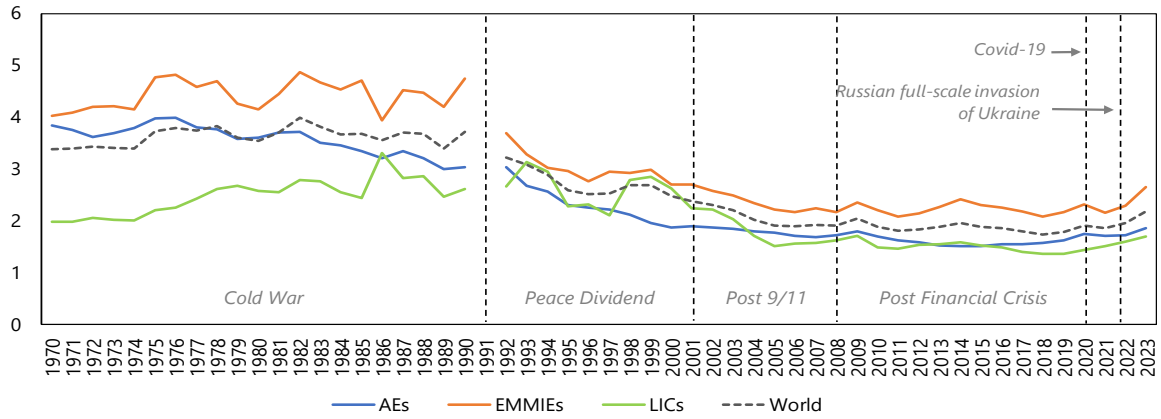
6. **Globally, military spending as a percentage of GDP halved between 1990 and 2008 compared to the Cold War period from 1970 to 1990.** The decline of military spending as a percentage of GDP and general government expenditure is consistent across all country groups: AEs, EMMIEs, and LICs (Figures 1A and 1B). All groups benefited from the peace dividend that followed the end of the Cold War. However, military expenditures have increased in recent years across all regions, particularly following Russia's war in Ukraine from 2022 onwards and the rising tensions in Asia and the Middle East. Military spending is shaped by both external and internal factors. External pressures include responses to international and/or regional conflicts and the influence of geopolitical tensions with neighboring countries. Internal pressures arise from domestic challenges such as political instability, violence, civil war, or terrorism. Collier (2006) also highlights factors like budgetary inertia during peacetime—that is, the tendency of military budgets to persist over time with little change, even when circumstances no longer justify the spending—and the role of vested interests.

7. **Similar trends are seen in terms of the share of military spending in total budget outlays.** Across all country groups, the share of budgets allocated to the military has steadily declined since the 1980s but remains highest in FCS[2] at around 10 percent (Annex I). Currently, EMMIEs allocate an average of 8 percent of their budgets to the military, while AEs spend around 5 percent. Countries covered by the Fund's Middle East and Central Asia Department (MCD) allocate the largest share of both their GDP and total budget to military spending, while those covered by the Western Hemisphere Department (WHD) spend the least. The MCD region has consistently invested more in its military compared to other regions.

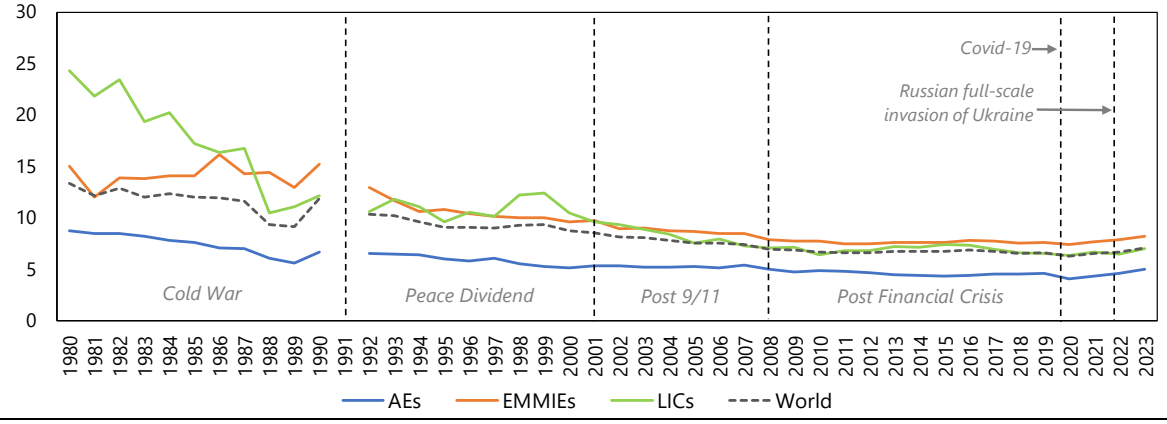
[2] In FY2024, 39 IMF member countries were considered FCS. Annex II lists the FCS for which staff discussed military spending in Article IV reports and/or program documents.

Figure 1. Military Expenditure

A. Military Expenditure as a Share of GDP, 1970–2023
(Average within country group, percentage of GDP)



B. Military Expenditure as a Share of Government Expenditure, 1980–23
(Average within country group, percentage of general government expenditure)



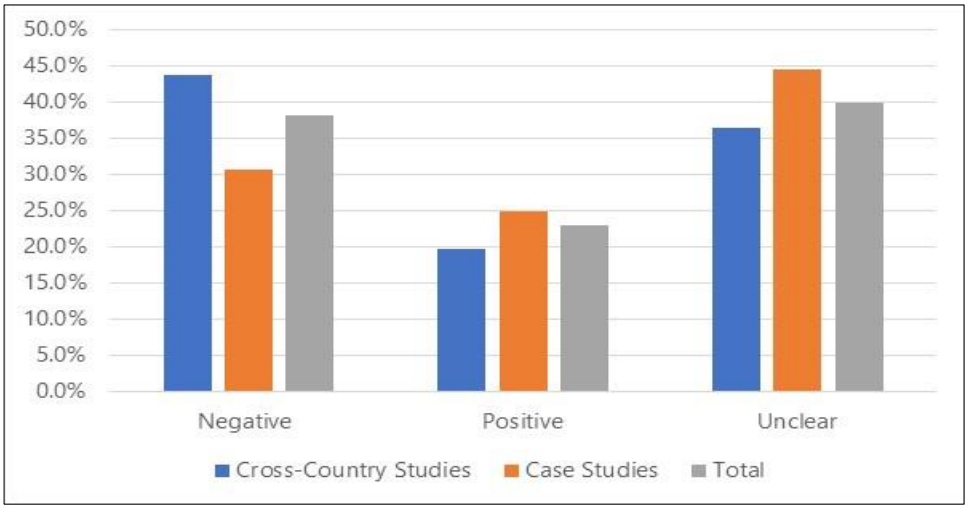
Source: IEO staff calculations based on SIPRI data.
Notes: AEs = Advanced Economies; EMMIEs = Emerging Markets and Middle-Income Economies; LICs = Low-Income Countries. Military expenditure calculated as the unweighted country average within each country group. Data for 1991 are not available due to the breakup of the former Soviet Union. The number of countries in the sample varies over time.

Impact on Growth

8. **The long-term effects of military spending on economic growth have been the subject of extensive debate.** Some scholars argue that military expenditure can stimulate growth by boosting demand and generating technological innovations, while others maintain it hampers growth by diverting resources from more productive sectors. Empirical findings are mixed. A literature review by Dunne and Tian (2013) concluded that most studies report a negligible or negative relationship between military spending and economic growth (Figure 2). Similarly, a meta-analysis by Alptekin and Levine (2012) finds a negligible effect in EMMIEs and LICs, but a positive effect in AEs. In a similar vein, d'Agostino and others (2017) examined the long-term relationship between military spending and economic growth across 83 countries from 1970 to 2014. Their findings indicate that a 1 percentage point increase in military spending

is associated, on average, with an 8.5 percent reduction in per capita GDP over a 20-year period. Ilzetzki (2025) finds that the short-term growth impact of military spending in the European Union depends on how the additional spending is financed—if funded through tax increases rather than public borrowing, the impact on GDP growth is likely to be smaller, or even negative. These findings hold regardless of whether the economy is in recession or experiencing a boom.

Figure 2. Longer-Term Impact of Military Spending on Economic Growth
(Percentage of studies)



Source: Dunne and Tian (2013).
Note: Based on a literature review of 96 cross-country studies and 72 case studies conducted since Benoit (1973) and 2013.

9. **Under certain conditions, military spending can foster growth and improve social welfare**. In FCS, increased military expenditures may yield short-term benefits by enhancing security and stabilizing socio-economic conditions. A notable example is Colombia, where the rise of the drug trade in the 1980s triggered escalating armed conflict and insecurity, with estimated economic costs at between 2 percent to 4.2 percent of GDP annually in the 1980s and 1990s (Giugale and others, 2002). Following the 2002 presidential election, the government launched a major military offensive against armed groups to curb insecurity, protect lives and property, and reestablish the state's monopoly on the use of force. As a result, military spending surged from an average of 2.3 percent of GDP per year (1975–2001) to 3.3 percent (2002–23) (SIPRI, 2025), contributing to a significant reduction in conflict and insecurity. In such cases, although large defense budgets are costly, they can yield important benefits by restoring law and order and lowering future risks of violence. However, over time, such spending can begin to crowd out more productive spending.

10. **The composition of military spending plays a critical role in influencing the growth impact of military spending**. Becker and Dunne (2023) show that the negative impact on economic growth of higher military spending is mainly attributable to personnel expenditures. In contrast, the adverse effects from operating and maintenance costs are minimal, and spending

on equipment and infrastructure has little measurable impact on growth. Military spending can also produce positive spillover effects through innovation. For example, Israel's Iron Dome missile defense system—developed through military R&D—has effectively protected civilian infrastructure and economic activity since its deployment in 2011 (Richemond-Barak and Feinberg, 2016). Many transformative technologies, including jet engines, computers, radar, nuclear power, semiconductors, GPS, and the internet, originated from military R&D. In the United States and several other Organisation for Economic Co-operation and Development (OECD) nations, defense-related R&D expenditures have historically surpassed other forms of public innovation funding. Using OECD data, Moretti and others (2019) found that increases in government-funded military R&D were linked to substantial growth in private sector R&D within the same firms or industries both within the country and across borders. Ilzetzki (2025) estimates long-run productivity gains of 0.25 percent associated with a temporary increase of 1 percent of GDP in military expenditure in North Atlantic Treaty Organization (NATO) and European Union countries, primarily through learning-by-doing and R&D.

11. **Structural factors can exacerbate the negative impact of military spending on growth, particularly in LICs**. Corruption can play a significant role in disproportionately allocating larger share of resources to the military, diverting funds from essential public services (Gupta and others, 2001). Weak institutions can further exacerbate inefficiencies and rent-seeking in military operations, raising the overall cost of military spending. LICs are also more vulnerable to terrorism than EMMIEs and AEs, where traditional civil wars have increasingly given way to non-state conflicts, such as terrorist attacks on civilians (Clements and others, 2020).

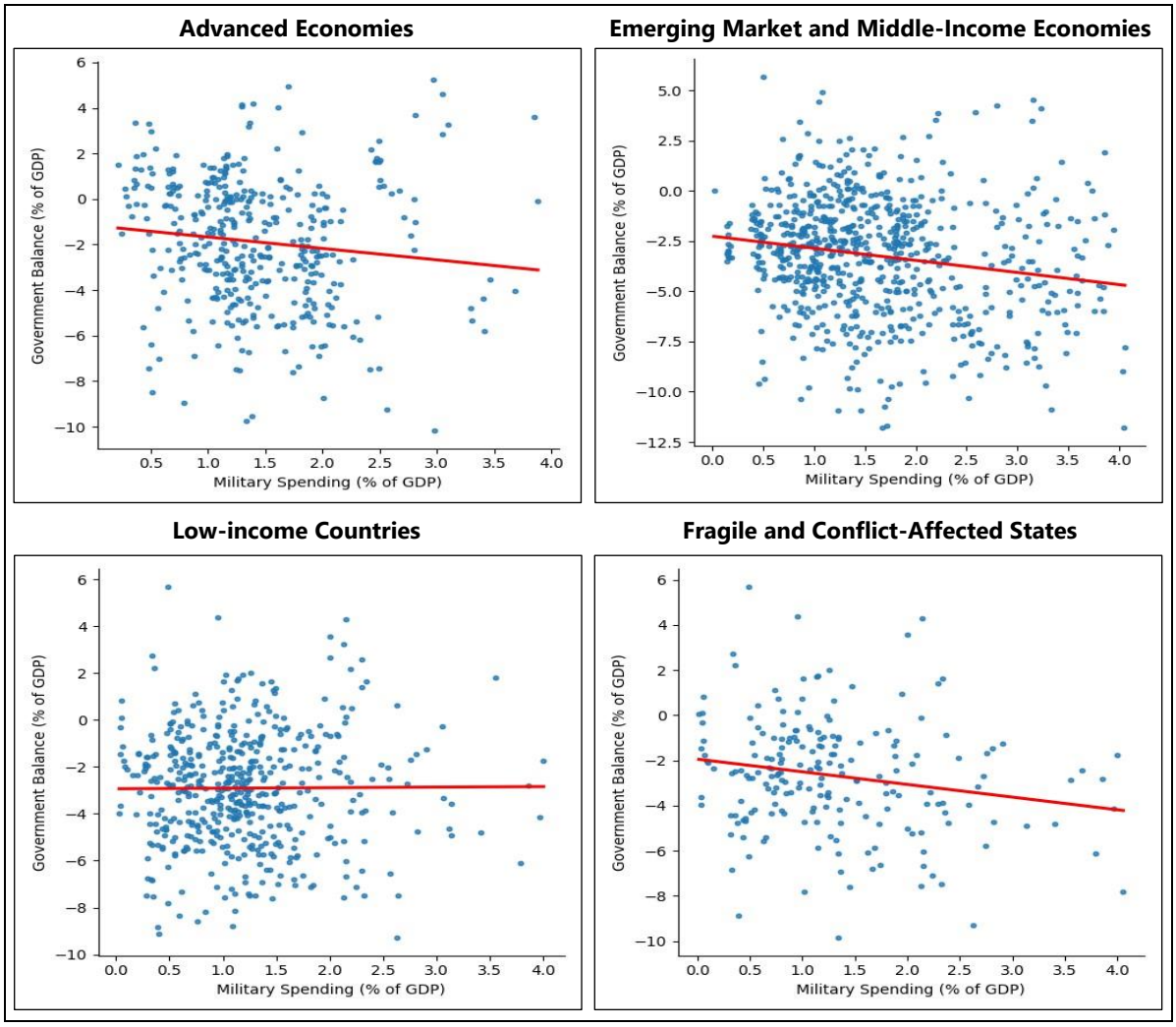
Fiscal Impact

12. **Higher military spending tends to be associated with higher fiscal deficits, but with a high degree of dispersion** (Figure 3). A similar relationship is found between military spending and debt, particularly in AEs and FCS (Annex III). This suggests that higher military expenditures reduce fiscal space, a crucial issue for FCS, which generally have the lowest revenue-to-GDP ratios (Baer and others, 2021). Developing countries are typically importers of arms due to the absence of a domestic arms industry. As a result, arms imports can have a significant impact on their balance of payments and national budgets, particularly in years when these imports occur. This often leads to greater volatility in defense budgets, which can, in turn, affect other areas of government spending and budget financing.

13. **High levels of military spending have also contributed to rising external debt, particularly in FCS in Sub-Saharan Africa** (Dunne and others, 2019). Although debt relief programs, including the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative , significantly reduced the region’s debt by 2008, it has since increased partly due to renewed external borrowing, including for military spending. Conflict-induced fiscal pressures play a central role: declining fiscal balances and slower economic growth during conflict episodes drive up public debt. In Sub-Saharan Africa, intense conflict is associated with an average rise in the public-debt-to-GDP ratio of 16 percentage points within the first two years, with this increase

reaching nearly 20 percentage points by the fifth year. This has led to higher debt servicing costs, limiting the funds available for health, education, and infrastructure development (IMF, 2019a). As many of these conflicts persist and defense budgets continue to grow, ending violence could generate a substantial "peace dividend," enabling a reallocation of resources toward economic development and achieving the Sustainable Development Goals (Gupta and others, 2004).

Figure 3. Military Spending and Fiscal Balances, 2008–23



Source: IEO staff calculations based on SIPRI and WEO data.
Note: Every dot represents a single country in a single year.

14. **A high share of military spending in total government expenditure constrains fiscal space, often crowding-out other fiscal policy objectives, especially in middle and low-income countries.** Without enhanced domestic revenue mobilization and expenditure savings—such as through base broadening and improved tax administration and enhanced expenditure efficiency—higher military spending often comes at the expense of health, education, and infrastructure investment. In Sub-Saharan Africa, about a third of the countries have recently experienced a resurgence of conflict. IMF (2019a) shows that escalating conflict intensity—from no conflict to the

top quartile—is typically associated with a 12 percent decline in revenues (around 2 percent of GDP), a 9 percent rise in budgetary military spending (about 0.6 percent of GDP), and a decrease in capital expenditures of 9 percent. This reallocation reflects a shift from growth-enhancing investments to military spending. As a result, heightened conflict intensity is linked to a widening of the fiscal deficit by approximately 1.7 percent of GDP. This crowding out of productive spending is supported by evidence linking higher military expenditures with rising income inequality and weaker long-term growth prospects (Ali, 2007 and 2011; Gupta and others, 2004).

15. **Such crowding-out effects do not apply uniformly to AEs, which typically have not encountered the same financing constraints.** Some studies, such as Lin and others (2015) and Zhang and others (2017), even suggest a positive correlation between military and social spending in OECD and G-7 economies. However, the crowding out of social spending due to rising military expenditures is also likely to affect higher-income countries, many of which have increased their defense budgets in response to Russia's war in Ukraine. NATO countries—including Finland and Sweden, which recently joined the alliance—have committed to meeting or exceeding the 2 percent of GDP target for military spending by 2024 (from 1.43 percent of GDP in 2014), and to increase it to 5 percent by 2035 (Tian and others, 2024). Such increase will stress fiscal space available for other critical public investments, especially in contexts where the scope for additional taxation is limited and age-related spending is rising.

16. **Moreover, high military spending by neighboring countries can have adverse spillover effects, often perceived as security threats that prompt nations to increase their own defense budgets.** Research highlights the role of neighborhood effects and arms races in shaping military expenditures. Nearby conflicts, including civil wars, can impact the defense budgets of neighboring nations, regardless of the conflict state's own spending or whether the neighbor is directly involved (Collier, 2006; Phillips, 2014). Additionally, membership in military alliances, such as NATO, can exert pressure on countries to adjust their military expenditures. These alliances entail specific defense commitments while also offering collective security benefits (Clements and others, 2021).

III. IMF Advice on Military Spending

17. **The IMF's advice on military spending has largely been guided by the Executive Board Summing Up of the October 2, 1991, discussion** (IMF, 1991). The summing up was included in the list of Selected Decisions and Selected Documents of the Fund.[3] It clarifies that staff may engage with country authorities on military spending and its impact on a country's fiscal and external positions, as well as trade-offs, such as the macroeconomic effects of reduced military spending. Military expenditure may also be analyzed from a regional or global

[3] In that discussion, most Executive Directors indicated that military spending could have "*an important bearing on a member's fiscal policy and external position,*" emphasizing that "*national security, and judgments regarding the appropriate level of military expenditures... were a sovereign prerogative of national governments and were not in the domain of the work of the Fund*" (IMF, 1991).

perspective in the Fund's multilateral surveillance products. The 1991 Board decision further outlines the Fund's limitations in this area due to the sensitive nature of military spending: (i) the submission of data on military spending by country authorities is voluntary;[4] (ii) such data cannot serve as a basis for program conditionality; and (iii) the Fund must refrain from making judgements on the appropriate level of military spending.

18. **Further guidance was provided during the Executive Board discussion of the World Economic Outlook (WEO) in April 1994**. In that discussion, a background paper introduced the notion of unproductive public expenditures, defined as "*the difference between the actual public spending on the program and the reduced spending that would yield the same social benefit with maximum cost-effectiveness.*"[5] Applying this concept to military spending, it noted the spillover effects resulting from such expenditures, noting that "*military expenditure that is excessive—in the sense that the marginal improvement in national security associated with this expenditure is less than its economic cost—imposes burdens on both the spending country and other countries that believe their own security may be jeopardized by such expenditure*"[6] (IMF, 1994). Through the 1990s, Fund management emphasized the importance of improving the quality of government expenditures by reducing outlays for unproductive purposes, such as excessive military outlays not justified by national security needs.[7]

19. **The 1991 Board decision on military spending remains in effect and aligns with subsequent Board decisions on surveillance taken in 2007 and 2012.** Under these decisions, staff is required to discuss with country authorities, during annual surveillance, issues that are macro-critical, meaning those that can significantly influence present or prospective balance of payments or domestic stability (IMF, 2007; 2012). While the Fund's role in national security and military spending is limited, relatively high military spending can potentially have a significant impact on a country's fiscal situation and balance of payments. An important challenge for staff, however, is that there is no specific guidance—such as in the form of a guidance note—on how and when to cover military spending issues in practice. Staff is tasked with exercising discretion in prioritizing certain topics for more detailed analysis, adopting a risk-based approach, and drawing upon the expertise of other institutions where appropriate.[8]

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[4] Since the 1991 Board decision, annual data on military spending has been readily available from SIPRI, in line with standard fiscal reporting practices.

[5] The subsequent work on public expenditure efficiency at the Fund and elsewhere is consistent with the concept of unproductive spending. Studies have shown that countries expend 20–35 percent more resources in both education and health sectors to achieve similar goals as in more efficient countries (Gupta and Verhoeven, 2001; Herrera and Pang, 2005). Furthermore, developing countries lose over one-third of their public investment due to inefficient spending practices (IMF, 2015; Barhoumi and others, 2018).

[6] See also IMF (1995).

[7] See Camdessus (1991; 1998a; and 1998b).

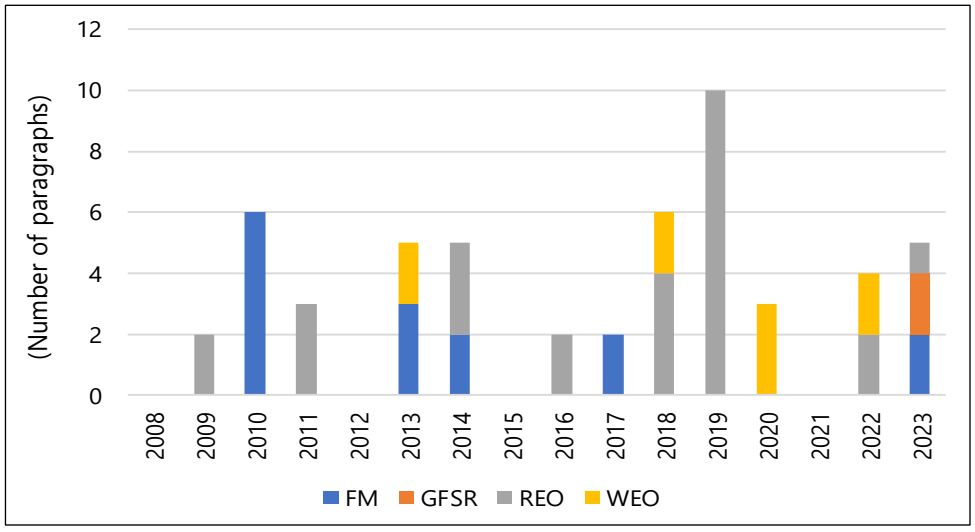
[8] See IEO (2025) for a discussion on what fiscal policy advice could cover and how.

20. **IMF staff have frequently used the terms "military spending," "security spending," and "defense spending" interchangeably in Article IV reports and program documents.** The term "government spending on security" is generally more acceptable to country authorities, as it emphasizes the role of security in enabling the economy to function effectively. In fact, around one-third of staff reports use the term "security spending."

Multilateral Advice

21. **Until recently, military spending received relatively limited coverage in IMF flagship reports, such as the WEO, the Fiscal Monitor, and the Global Financial Stability Report** (Figure 4).[9] This may be because global military spending as a percentage of GDP remained relatively stable throughout the review period, up until recently. The interest in military spending increased as a result of Russia's war in Ukraine and several flagship reports discussed military spending in 2022, 2023, 2024, and 2025. For example, both the April 2025 WEO and Fiscal Monitor highlight the fiscal challenges related to higher defense spending, particularly for countries with limited fiscal space. This aligns with the findings from bilateral surveillance discussed below. There have been occasional discussions in several Fiscal Monitors about the fiscal implications of changes in military expenditures—alongside other significant spending categories—in large AEs.

Figure 4. Coverage of Military Spending in IMF Flagship Reports, 2008–23



Source: IEO staff calculations based on FDET data.
Note: The figure displays the number of paragraphs that contain any of the following keywords: military spending, defense spending, security spending.

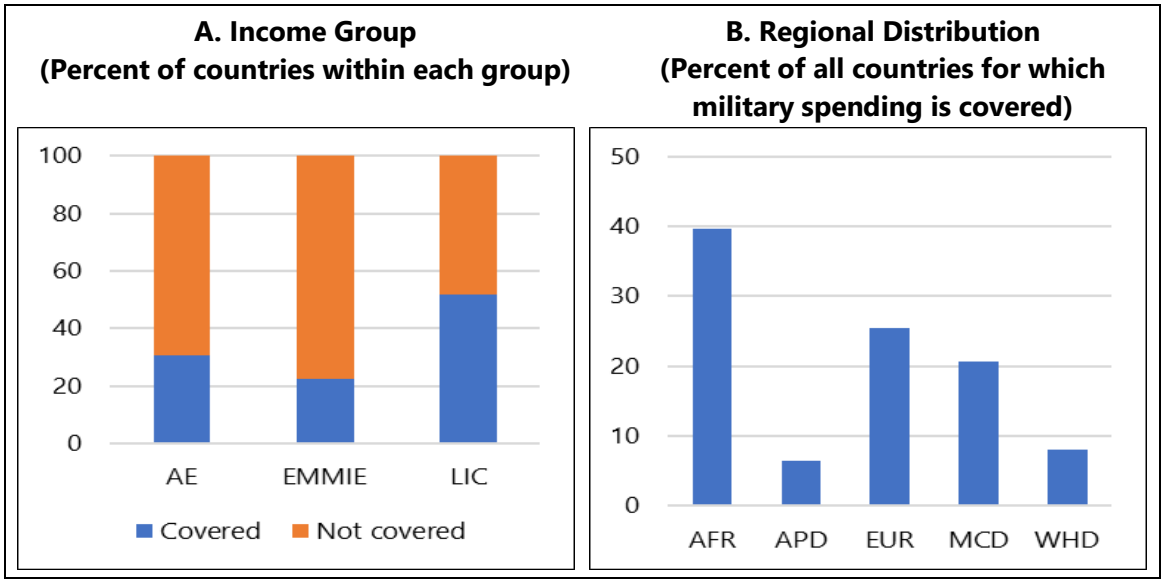
[9] This contrasts with the substantive discussions found in WEO reports from 1990 and 1993. In May 1990, there was a section on the impact of lower defense expenditures, followed by an annex in 1993 on the economic benefits of reducing military spending. These discussions reflected the breakup of the Soviet Union in 1990 and the resulting peace dividend. The then Managing Director, Michel Camdessus, was particularly interested in the topic.

22. **Military spending analysis has been relatively more prevalent in the Regional Economic Outlooks (REOs), particularly in the Sub-Saharan Africa outlook.** For instance, the April 2019 REO (IMF, 2019a) for Sub-Saharan Africa included a dedicated chapter to the economic impact, including their fiscal implications, of conflicts. In this region, a third of the countries have experienced conflict in recent years, particularly in the Sahel, which has impacted both their growth potential and the management of fiscal policy. However, the REO for MCD—the region with the highest military spending relative to its GDP—did not include any discussion of military expenditures or their macroeconomic implications during 2008–23.

Bilateral Advice

23. **During the period under review, staff discussed military spending in Article IV reports and/or program documents for 63 countries, around one-third of the membership** (Annex II). The coverage of AEs was proportionate to their share in the Fund's membership (Figure 5a). In contrast, LICs were covered more frequently relative to their share of membership, reflecting the inclusion of several FCS within the LICs. While FCS represented approximately 20 percent of the Fund's membership, they accounted for around 30 percent of countries where military spending was discussed in staff reports between 2008 and 2023. This outcome is not surprising, as FCS tend to allocate a larger share of their budget to the military, and there is a correlation between conflict and military spending. This underscores the macro-criticality of military spending in such contexts, unlike in countries where military spending is modest and less relevant to overall fiscal outcomes. Military spending was discussed across all five IMF area departments, with nearly 40 percent of the countries covered being in the African Department (AFR) (Figure 5.b). Notably, the discussion of military spending in country reports has grown in recent years.

Figure 5. Military Spending Coverage in Article IV Reports and Program Documents, 2008–23



Source: IEO staff calculations based on Article IV reports and program documents.

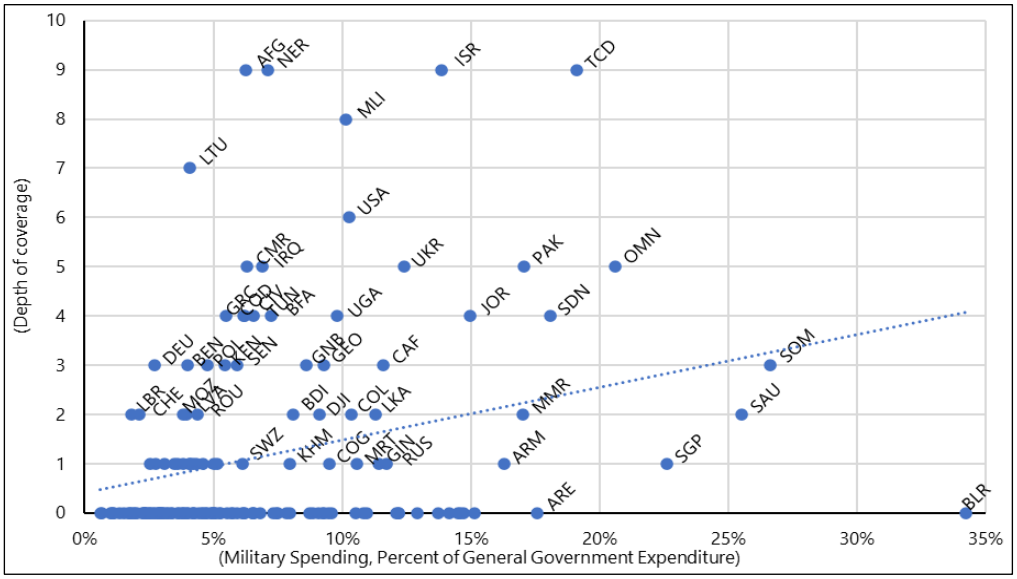
24. **The coverage of military spending across the membership appears uneven**. For instance, the coverage of military spending in staff reports of countries with an above-average share of military spending in their budgets during 2008–23—combined with relatively high fiscal deficits and debt-to-GDP ratios—was inconsistent across the Fund's membership. Within this group, military spending was covered in countries such as Afghanistan, Chad, Niger, Iraq, Israel, Lithuania, Mali, Oman, and the United States. In contrast, in was not covered in countries such as Angola, Azerbaijan, Bahrain, Belarus, Iran, Lebanon, Morocco, Syria, South Sudan, and Yemen. This may reflect the reluctance of some national authorities and/or mission teams to address a topic considered sensitive, as well as the need to address other macro-critical issues like social spending and income inequality. Even when military spending as a share of the budget was below average, countries with a similar fiscal outlook received uneven treatment in Article IV reports. This discrepancy was particularly evident among European Union members. For instance, in Finland and Germany military spending was covered in Article IV reports, while in France, Portugal, Spain, and the United Kingdom, it was not.

25. **The depth of coverage was also uneven across countries with most cases—more than 70 percent—providing only limited references or a factual description of military spending trends.** Slightly less than 30 percent of the cases (24 countries) included discussions of macroeconomic trade-offs associated with military spending on one or more occasions. Trade-offs were discussed more frequently in AEs and EMMIEs than in LICs, with non-FCS LICs addressing them more than in FCS LICs, despite FCS typically facing tighter fiscal constraints and allocating a larger share of their budget to the military. For instance, in countries like Germany and Israel, Fund staff discussed macroeconomic trade-offs associated with military spending in their surveillance reports, but such discussions were absent in reports on Myanmar and Russia. Using a scalar rating system of 1, 2, and 3 for limited references (signaling), factual descriptions, and macroeconomic trade-off analysis in Fund documents, respectively, and consolidating these into a single score, Figure 6 illustrates the unevenness of analysis on military spending.

26. **The IMF has raised concerns about the use of off-budget mechanisms to finance military spending.** Transparency issues arise when military spending is financed through off-budget mechanisms and excluded from the scope of Article IV consultations. For instance, in Germany, the Fund noted the extensive use of extrabudgetary funds, including for defense, which could undermine the credibility of the fiscal framework over time and advised to provide a consolidated report on fiscal risks, encompassing all contingent liabilities to enhance fiscal transparency and improve risk management (IMF, 2023b). In Israel, the Fund recommended that grants from the United States and related defense spending be reported in the budget (IMF, 2022). In Russia, the share of spending classified as secret for national security purposes

increased between 2013 and 2018. The Fund's Fiscal Transparency Evaluation (FTE)[10] indicated that the secret allocations were directed toward border protection, armaments, and national security. The most recent Article IV report for Russia (2020) recommended that the authorities refrain from engaging in quasi-fiscal activities through sovereign wealth funds.

Figure 6. Depth of Military Expenditure Coverage in Article IV Reports and Program Documents, 2008–23



Source: IEO staff calculations based on Article IV reports and program documents.
Note: The depth analysis is based on three considerations: references to military spending in staff papers, factual description of military expenditures, and the discussion of macroeconomic trade-offs between military spending and other key variables.

27. **The advice on military spending in an IMF-supported program depended on the specific circumstances of each country, including whether the country was facing an ongoing conflict**. For instance, in Ukraine, Fund-supported programs recognized the need to accommodate high military spending within macroeconomic targets. In 2014, this was highlighted as a challenge to meet program targets, given significant impacts on capital flows and international reserves. By 2015, the focus shifted to improving the budget composition by reducing inefficient spending to achieve savings—a strategy further pursued in 2018. Following Russia's war in Ukraine from 2022 onwards, the program acknowledged that Ukraine would need to finance its fiscal deficit largely through external support, as measures like cutting subsidies and

[10] The Fund conducts FTEs to assess whether a country's fiscal management of revenues and expenditures is transparent and meets the standards set in the code of fiscal transparency. To date, FTEs have been conducted in 37 countries that requested them, with several countries requesting updates, but only a handful of them have addressed military or security-related spending. The FTE for Russia noted that in 2013, 14 percent of total expenditure was classified as secret, rising to 17 percent in 2018 (IMF, 2019b). The Turkish FTE reported an extrabudgetary fund, the Defense Industry Support Fund, amounting to 0.19 percent of GDP, which was allocated to support the military (IMF, 2017). In Jordan, the wage bill is approximately 50 percent of total current expenditures, whereas fiscal reports only identify around 20 percent in current spending, as military spending is excluded (IMF, 2021).

reducing tax exemptions would not suffice to create room for increased military spending (see also Box 1). In contrast, the approach in Georgia and Greece was to curtail high military spending to strengthen macroeconomic balances. During Greece's 2010 and 2012 programs, fiscal consolidation efforts included reducing the wage bill and rationalizing defense spending to align with the OECD levels, while also aiming to achieve efficiency gains in government operations at both central and local levels. Similarly, Georgia's 2008 Fund-supported program aimed at lowering import-intensive military spending to align with levels seen in comparable countries.

Box 1. Military Spending in Ukraine Since 2022

In February 2022, Russia launched a full-scale invasion of Ukraine, prompting Ukraine to rapidly increase its military expenditures and seek urgent financial assistance, including from the Fund. The Fund reacted quickly, providing substantial financial support. However, this required changes to its traditional lending framework, as Ukraine could not fulfil some of the standard requirements for Fund financing.

Given the challenges of conducting a debt sustainability assessment without a medium-term economic forecast, the Fund initially extended emergency support through the Rapid Financing Instrument (RFI). On March 9, 2022, the Board approved a disbursement of USD 1.4 billion, followed by an additional USD 1.3 billion on October 7, 2022, under the RFI's food shock window. On December 19, 2022, the Board endorsed a four-month Program Monitoring with Board involvement (PMB) designed to maintain macroeconomic stability and catalyze donor support amidst considerable risks. Following Ukraine's success with the PMB, the Fund revised its lending framework in March 2023 to allow financing for countries experiencing "exceptionally high uncertainty" due to external shocks beyond their control, without lowering the upper credit tranche (UCT) quality of Fund-supported programs.[1] This policy shift enabled the approval of a 48-month Extended Fund Facility (EFF) for Ukraine on March 31, amounting to approximately USD 15.6 billion. The EFF formed part of a comprehensive USD 115 billion international support package aimed at ensuring economic stability, restoring debt sustainability, and fostering reforms for post-war recovery. This policy shift not only enabled continued support for Ukraine but also set a precedent for future lending to other Fund members facing similar circumstances, with Ukraine as a pilot for the new framework.

Since the onset of the war, Fund staff reports have underscored the difficult tradeoffs facing Ukraine regarding military spending. The conflict has driven a sharp increase in the fiscal deficit, fueled by elevated defense expenditures, financed through external support and monetary measures. This, in turn, has resulted in soaring public debt and a loss of market access. The war necessitated prioritizing defense and social protection, resulting in multiple supplementary budgets and a marked reduction in non-priority spending. While the budget for 2023 was supported by strong external financing commitments, the increased defense spending contributed to missed targets for overall budget balance and social spending.

———————

Sources: Betliy (2023); IMF (2023a); various press releases/staff reports for Ukraine (2022–23).

[1] Two reforms to the Fund's financing assurances policy enabled the Fund to do so: (i) allowing upfront commitment to debt relief with a contingent second-stage element; and (ii) extending the use of a capacity-to-repay assurance from official bilateral creditors/donors from emergency financing to a UCT context (IMF, 2023a).

28. **Within program countries, some authorities have raised concerns about perceptions of lack of evenhandedness.** Notably, authorities in FCS countries under a Fund program expressed concern that Fund policy advice did not adequately prioritize restoring and maintaining security. They emphasized that security is paramount to ensure stability and fostering economic development and must take precedence over other priorities, whereas staff focused mostly on debt sustainability and fiscal adjustments. In this respect, they pointed to a more accommodating

treatment of military spending in the case of Ukraine.[11] Staff argued that they considered security concerns and the need for military spending. They also noted that their advice was tailored to country-specific circumstances, including funding constraints and risk of debt distress. In the absence of adequate external support, sustaining high levels of military spending often required cuts in other current expenditures, including wages and subsidies (see also Box 2).

29. **More generally, recent increases in military spending, including in AEs, further underscore the need for a pragmatic and context-sensitive approach to security-related spending.** Following Russia's war in Ukraine, extra-budgetary military spending has expanded, including in AEs, leading to various financing strategies such as Poland's use of debt bonds, Denmark's reduction of national holidays, the UK's budgetary adjustments reducing Overseas Development Assistance (ODA) to finance the increase in defense spending,[12] or Germany's 2022 EUR 100 billion special fund in 2022 to modernize and acquire new weapon systems (Cameron, 2024).[13] The increase in military spending is also being accommodated through reforms or added flexibility in implementing fiscal rules (Pench, 2025; Tuma, 2025). For instance, the recent White Paper on European Defense and the ReArm Europe Plan/Readiness 2030, recommends activating the national escape clause of the Stability and Growth Pact (SGP), allowing member states to increase defense expenditures without invoking the excessive deficit procedure (EDP) (European Commission, 2025). Germany has also reformed its "Debt Brake" fiscal rule to increase military spending and stimulate economic growth through infrastructure investments.[14]

[11] The revision of the lending framework to allow financing for countries experiencing "exceptionally high uncertainty" due to external shocks beyond their control (see also Box 1 and 2) is applicable to all IMF members; however, this policy change occurred in 2023 and therefore cannot be factored into comparisons with previous years.

[12] On February 25, 2025, the United Kingdom government announced plans to raise defense spending by 0.2 percentage points, increasing it to 2.5 percent of GDP starting in April 2027, with a goal of reaching 3 percent in the following parliamentary term, and financing this increase by reducing ODA from 0.5 percent to 0.3 percent of GNI (Prime Minister's Office, 2025).

[13] Other examples include the use of revenues from copper exports in Chile to fund part of its military budget (based on a 1958 law)—in 2019, military financing was set to transition to being funded through the national budget by 2029 ending the reliance on off-budget allocations while maintaining spending on arms procurement as classified (Lopes da Silva and Tian, 2019). Between 2010 and 2019, Egypt acquired a significant number of new arms despite official data indicating a decline in military spending compared to the previous decade, suggesting off-budget resources (Kuimova, 2020).

[14] The reform allows military expenditures exceeding 1 percent of GDP to bypass borrowing limits and establishes a EUR 500 billion infrastructure fund. This reform was deemed essential because the European Commission's proposal to activate the national escape clause, which would permit the exclusion of up to 1.5 percent of GDP in military spending from the fiscal rules, would not have permitted Germany to finance its broader infrastructure agenda (Marsh and Williams, 2025; Pench, 2025).

Box 2. Advice on Military Spending in Fragile and Conflict-Affected States with an IMF Program

The Fund paid particular attention to FCS in its discussions on military spending. Addressing military spending in FCS contexts can be especially challenging due to data gaps, weak expenditure classification systems, and heightened political sensitivity surrounding such expenditures. Among FCS, the Sahel region has seen a significant rise in conflict since 2000, with a marked escalation after 2010. All six Sahel countries, except Nigeria, had substantial program engagement with the Fund. Military spending was addressed in staff reports for all of them; however, discussions were notably less frequent for **Nigeria**, which was only subject to surveillance.

In **Burkina Faso**, staff noted in 2016 that economic growth was depressed by the diversion of productive public investment to security-related expenditures. By 2018, the authorities committed to maintaining a fiscal deficit of 3 percent of GDP, bolstered by windfall revenues. However, the Fund cautioned against relying on one-off revenues for permanent expenditures and emphasized the necessity of broadening the tax base, improving tax administration, and enhancing expenditure efficiency to create sustainable fiscal space for military and other essential spending.

In **Cameroon**, by 2017, fiscal consolidation efforts fell short, as urgent security expenditures and infrastructure spending pushed the budget deficit to 5 percent of GDP, exceeding the target of 3.1 percent. In 2021, although program implementation was deemed satisfactory, concerns remained about controlling security-related expenditures and reliance on exceptional spending procedures. The authorities took steps to improve monitoring and reduce unnecessary expenditure, reflecting the ongoing difficulty of balancing military spending with fiscal discipline amid challenging economic conditions.

In **Chad**, staff emphasized the need for fiscal sustainability amid rising non-oil primary fiscal deficits. In 2008, the Fund recommended a medium-term fiscal adjustment path to align permanent expenditures with non-oil revenues, urging the government to increase non-oil revenue collection and strengthen public financial management. Security spending surged from 2.25 percent of GDP in 2005 to nearly 14.5 percent in 2008, significantly widening fiscal deficits. This expenditure was often unpredictable and exempt from budget scrutiny. By 2014, while the authorities committed to expenditure cuts, security spending was excluded from fiscal constraints due to regional instability. The deteriorating security situation further necessitated increased military spending in subsequent years, illustrating the ongoing tension between maintaining fiscal discipline and addressing urgent security needs.

In **Mali**, staff discussed the ongoing challenge of achieving fiscal consolidation while addressing urgent security needs. In 2013, the authorities committed to adhering to the WAEMU's fiscal deficit target of 3 percent of GDP by 2019 and prepared a medium-term military spending plan, with intentions to improve tax collection and reduce non-priority spending if necessary. In 2018, Mali managed to maintain a fiscal deficit of approximately 2.9 percent of GDP, even as military expenditures rose significantly. However, in 2023, the impact of ECOWAS sanctions caused a 17 percent revenue drop, prompting prioritization of essential expenditures, including military, suggesting that any deterioration in the security situation could further restrict funding for development projects.

In **Niger**, the focus in 2008 was on promoting economic growth while maintaining fiscal discipline, with a modest increase in security expenditures anticipated to be contained in the future. By 2012, the growing security threats prompted greater concern about the balance between fiscal sustainability and defense needs. The Fund called for enhanced revenue mobilization, tighter spending control, and stronger public financial management to reduce fiscal deficits. In 2017, declining revenues coupled with increased security spending posed significant fiscal risks, though key debt indicators remained within thresholds. Overall, the Fund emphasized the necessity of careful management of military expenditures to ensure broader economic stability and fiscal health.

Sources: De Lannoy and Lane (2025); IEO (2018); IMF (2019a); Staff Reports for Burkina Faso, Cameroon, Chad, Mali, Niger, and Nigeria (2008–23); interviews with Executive Board members and staff.

IV. Assessment and Suggestions for Next Steps

30. This section categorizes lessons learned regarding military spending in the Fund's fiscal policy advice according to three evaluation criteria: consistency, relevance, and evenhandedness.

Consistency

31. **This chapter finds that the IMF's treatment of military spending in fiscal policy advice aligns with its mandate and Executive Board decisions.** The Fund's approach to military spending is shaped by its 1991 Executive Board Summing Up, which emphasized its fiscal and balance of payments implications for member countries. This guidance is also consistent with later Board decisions on surveillance, particularly those made in 2007 and 2012. The policy advice related to military spending in Article IV reports and/or program documents concentrated on its fiscal implications and influence on balance of payments or domestic stability, without making assumptions about national security concerns or the appropriate level of military expenditures, which remain the sovereign prerogative of national governments. In its multilateral surveillance, coverage of military spending in the Fund's flagship reports was limited to its macroeconomic effects, either from a global or a regional perspective.

Relevance

32. **Military spending becomes macro-critical when it significantly affects fiscal policy and balance of payments.** After a global decline in the post-Cold War era, recent conflicts and geopolitical shifts—most notably Russia's war in Ukraine—have led to a resurgence in military spending. Elevated military expenditures can exacerbate fiscal deficits, increase public debt, and crowd out critical investments in healthcare, education, and infrastructure. This erosion of fiscal space threatens economic growth, and the achievement of the Sustainable Development Goals, potentially destabilizing balance of payments and domestic stability.

33. **Despite its macroeconomic importance, military spending received relatively limited attention in IMF flagship reports, Article IV reports, and program documents between 2008 and 2023.** While attention to military spending started picking up towards the end of the evaluation period, before 2022, only the sub-Saharan Africa REO provided an in-depth discussion on military spending, particularly in the context of rising conflicts in the Sahel region. Article IV reports and program documents for 63 countries, or around one-third of the membership, mentioned military spending, and of those, slightly less than 30 percent discussed the macroeconomic trade-offs. In AEs, rising military spending in the later part of the evaluation period did not appear to have influenced the Fund's bilateral policy advice, which remained broadly unchanged. Most references were either brief mentions or factual descriptions of spending trends, offering limited value in terms of fiscal guidance.

Evenhandedness

34. **It is unclear why IMF staff explicitly discussed military spending in some countries with above-average military spending in the budget, combined with high fiscal deficits and debt-to-GDP ratios, but not in others with similar or even more constrained fiscal conditions.** In some instances, countries with below-average military spending received more attention than those with higher levels, leading to inconsistencies in treatment across staff reports. Over time, successive surveillance decisions, reviews, and guidance notes have widened the scope of the Fund's policy advice—both in terms of range of issues and the time horizon considered. As a result, country teams have considerable discretion to prioritize issues they deem most important. Also, some authorities are hesitant to discuss military spending explicitly and prefer to frame discussion in broader terms, such as overall fiscal balances or fiscal pressures.

35. **When military spending was addressed, the IMF's treatment varied significantly across countries, largely reflecting country-specific circumstances, including financing constraints and debt sustainability concerns**. Additionally, a policy change implemented in March 2023, which permits Fund lending to countries facing "exceptionally high uncertainty" due to external shocks beyond their control, complicates comparisons between Ukraine and earlier cases. While this policy shift is expected to benefit other Fund members in similar situations, it falls outside the scope of this evaluation since it occurred at the end of the evaluation period.

Possible Ways Forward

36. **To enhance the consistency, relevance, and evenhandedness of its coverage of military spending in fiscal policy advice, the IMF could consider the following suggestions aligned with the 1991 Board decision:**

- **Unifying terminology.** The Fund should consider consistently using the term "military spending" in its documents, in line with the 1991 Board decision on military spending. When using other terms, such as "security spending," staff should consider clarifying whether it includes spending other than military spending (like for example, outlays on regular police operations).

- **Scaling up analysis of military spending in flagship publications.** In the current context of rising global expenditures in military spending, key Fund reports, such as the WEO, the FM, and REOs could discuss their macroeconomic implications, similar to how the WEO once examined the "peace dividend" after the breakup of the Soviet Union in the 1990s.

- **Enhance the consistency of military spending advice across countries.** While discussions on military spending must be context-specific, and staff should retain discretion in determining when selected macroeconomic topics are deemed macro-critical, there is scope for a more even treatment of military expenditures across the membership, especially for countries with comparable fiscal conditions and military expenditure patterns. The ongoing 2026 CSR presents an opportunity to revisit the issue of military spending in the context of surveillance.

- **Incorporate off-budget military spending into debt sustainability analysis.** Military expenditure outside the official budget could be explicitly incorporated into debt sustainability frameworks, particularly when such spending is substantial and/or when arms imports constitute a significant share of total spending. This would improve understanding of underlying drivers of debt accumulation and help identify cases where defense spending contributes to rising debt levels, potentially threatening long-term fiscal sustainability and posing risks to balance of payments stability.

ANNEX I. MILITARY EXPENDITURE

Table AI.1. Military Expenditure: Summary Statistics, 1970–2023

	As Percent of GDP						As Percent of General Government Expenditure					
	1970–1990	1992–2000	2001–2009	2010–2019	2020–2021	2022–2023	1980–1990	1992–2000	2001–2009	2010–2019	2020–2021	2022–2023
World												
Mean	3.63	2.74	2.06	1.84	1.88	2.07	11.48	9.33	7.65	6.69	6.43	6.89
St. Dev.	(3.79)	(3.04)	(1.74)	(1.51)	(1.36)	(2.80)	(9.11)	(7.65)	(6.22)	(5.71)	(5.16)	(6.80)
AEs												
Mean	3.56	2.33	1.79	1.58	1.73	1.79	7.27	5.85	5.19	4.57	4.21	4.80
St. Dev.	(3.79)	(1.86)	(1.14)	(1.00)	(0.94)	(0.93)	(5.87)	(5.96)	(5.35)	(4.77)	(3.10)	(3.61)
EMMIEs												
Mean	4.44	3.02	2.36	2.21	2.24	2.48	14.44	10.52	8.62	7.62	7.53	8.07
St. Dev.	(4.40)	(2.74)	(1.65)	(1.81)	(1.69)	(3.91)	(8.72)	(6.99)	(6.22)	(5.95)	(6.09)	(8.77)
LICs												
Mean	2.50	2.64	1.80	1.48	1.47	1.65	16.09	10.99	8.12	6.93	6.52	6.75
St. Dev.	(2.16)	(4.05)	(2.17)	(1.12)	(0.86)	(1.21)	(10.93)	(9.07)	(6.35)	(5.59)	(4.39)	(4.70)
FCS												
Mean	3.99	3.60	2.62	2.07	1.80	3.22	21.77	13.94	10.14	8.82	8.10	9.74
St. Dev.	(3.84)	(4.90)	(2.78)	(1.77)	(1.08)	(6.23)	(13.84)	(10.66)	(7.78)	(6.88)	(5.01)	(10.00)
AFR												
Mean	2.61	2.73	1.80	1.55	1.55	1.63	15.26	9.25	7.43	6.49	6.13	6.29
St. Dev.	(2.28)	(4.44)	(2.20)	(1.17)	(0.87)	(1.15)	(10.68)	(8.26)	(5.80)	(4.30)	(3.38)	(3.77)
APD												
Mean	2.91	2.54	1.80	1.68	1.74	1.62	11.10	10.58	8.31	7.46	6.59	6.83
St. Dev.	(1.73)	(1.55)	(1.01)	(0.81)	(0.87)	(0.86)	(7.44)	(6.44)	(5.91)	(5.36)	(3.92)	(4.94)
EUR												
Mean	3.56	2.31	1.78	1.51	1.70	2.48	6.44	4.75	4.95	4.32	4.58	6.42
St. Dev.	(3.98)	(1.78)	(1.05)	(0.96)	(0.97)	(4.71)	(3.67)	(3.44)	(4.87)	(5.23)	(5.69)	(10.07)
MCD												
Mean	7.47	4.55	3.61	3.65	3.53	3.57	21.03	16.57	13.33	12.32	12.13	11.94
St. Dev.	(5.94)	(3.51)	(2.02)	(2.35)	(2.15)	(2.03)	(9.35)	(8.39)	(6.82)	(6.89)	(5.76)	(6.15)
WHD												
Mean	2.62	1.62	1.43	1.35	1.35	1.19	13.31	6.65	5.39	4.63	4.24	4.12
St. Dev.	(1.76)	(0.92)	(0.98)	(0.91)	(0.85)	(0.78)	(10.19)	(3.77)	(3.35)	(2.62)	(2.12)	(2.12)

Source: IEO staff calculations based on the SIPRI and WEO data.
Note: AE = Advanced Economies, AFR = African Department; APD = Asia and Pacific Department; EMMIEs = Emerging Markets and Middle-Income Economies; EUR = European Department; LICs = Low-Income Countries; MCD = Middle East and Central Asia Department; WHD = Western Hemisphere Department.
Data for 1991 are not available due to the breakup of the former Soviet Union. The number of countries in the sample varies over time.

ANNEX II. COVERAGE OF MILITARY SPENDING

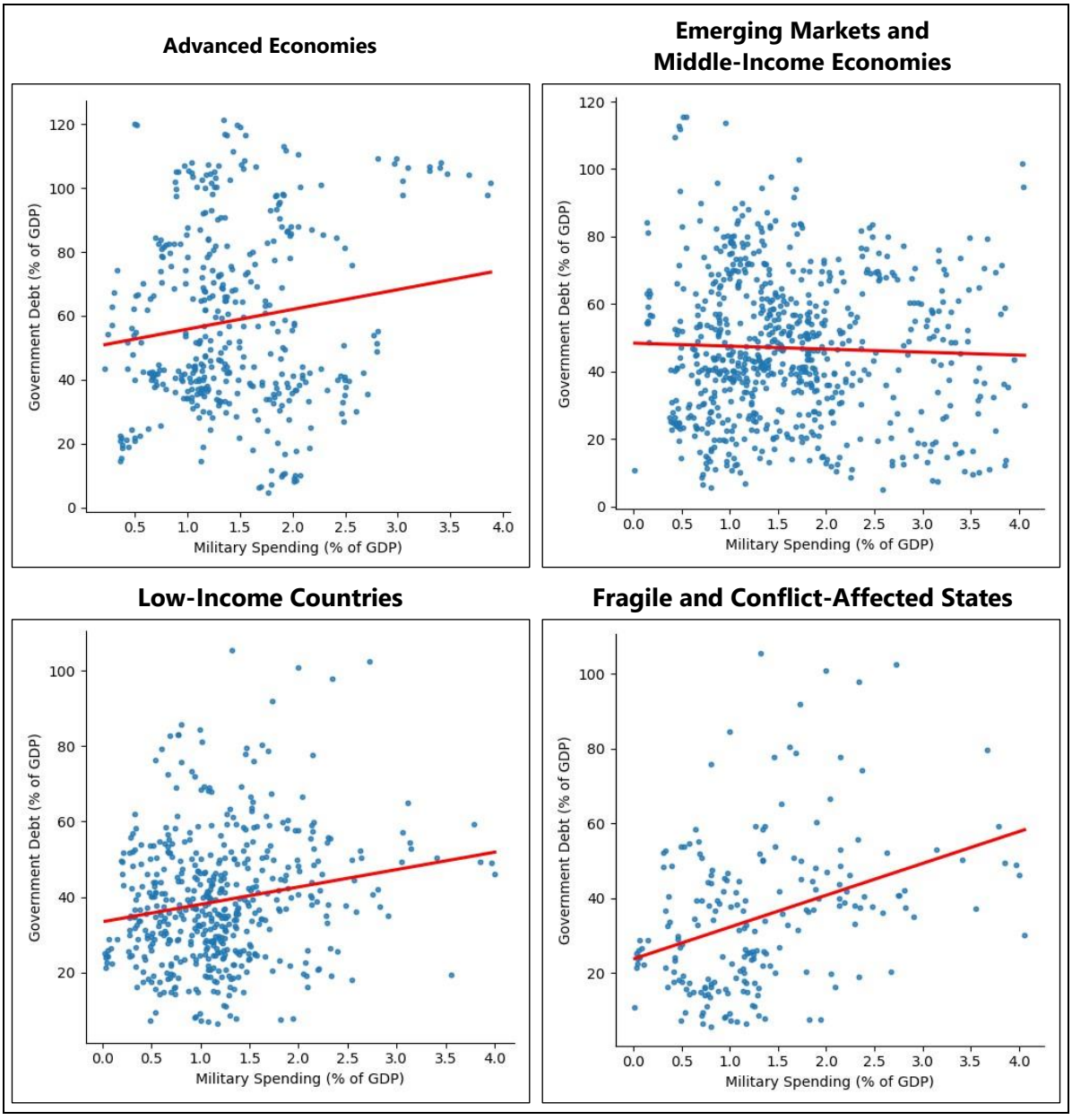
Table AII.1. Countries for Which the Fund Covered Military Spending in Article IV Reports and/or Program Documents, 2008–23

Advanced Economies	Emerging Market and Middle-Income Economies	Low-Income Economies
APD	**AFR**	**AFR**
Singapore	Eswatini	Benin
	Seychelles	Burkina Faso (FCS)
EUR		Burundi (FCS)
Denmark	**APD**	Cameroon (FCS)
Estonia	Sri Lanka	Central African Republic (FCS)
Finland		Chad (FCS)
Germany	**EUR**	Congo, Dem. Rep. of the (FCS)
Greece	Bulgaria	Congo, Rep. of (FCS)
Israel	Poland	Côte d'Ivoire
Latvia	Romania	Eritrea (FCS)
Lithuania	Russia	Ethiopia
Norway	Turkey	Gambia, The
Switzerland	Ukraine (FCS)	Guinea
		Guinea-Bissau (FCS)
WHD	**MCD**	Kenya
United States	Armenia	Liberia
	Georgia	Malawi
	Iraq (FCS)	Mali (FCS)
	Jordan	Mozambique (FCS)
	Oman	Niger (FCS)
	Pakistan	Nigeria (FCS)
	Saudi Arabia	Senegal
	Tunisia	Uganda
		APD
		Cambodia
		Myanmar (FCS)
		MCD
		Afghanistan (FCS)
		Djibouti
		Mauritania
		Somalia (FCS)
		Sudan (FCS)

Source: Text analysis based on Article IV reports and program documents. For FCS designation: https://www.imf.org/-/media/Files/Publications/PP/2023/English/PPEA2023010-S002.ashx.

ANNEX III. MILITARY SPENDING AND GENERAL GOVERNMENT GROSS DEBT

Figure AIII.1. Military Spending and General Government Gross Debt, 2008–23
(Percent of GDP)



Source: IEO staff calculations based on SIPRI and WEO data.
Note: Every dot represents a single country in a single year.

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