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NATO Spending Overview:

A Structural Change to the Defense Industry

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NATO

The media has propagated the misconception that the U.S. pays the majority of NATO's budget. However, this is not true. For clarification, NATO's total annual operating budget is only about $3.6 billion, and the U.S. contributes roughly 15.8% of that, or about $570 million per year. This budget covers NATO's headquarters, administration, and joint programs, not the military spending of its member countries. Claims that the U.S. pays hundreds of billions of dollars to NATO are incorrect because they dramatically exaggerate NATO's budget and confuse it with national defense spending. Overall, NATO defense spending remains heavily skewed toward the U.S., which contributes roughly two-thirds of the total. (Table 1).

The confusion arises from conflating NATO's common-funded budgets (for headquarters, command structure, joint operations, infrastructure) with the much larger U.S. national defense budget. NATO's common budget represents just 0.2% of total Allied defense spending.

The U.S. contributes ~15.9% (through 2025; 14.9% from 2026), equating to roughly $750–770 million annually—less than 0.1% of total U.S. defense spending.

U.S. defense spending was $935 billion in 2024, rising to $980 billion in 2025, funding global U.S. military personnel, operations, bases, equipment, and R&D worldwide—not direct cash transfers to NATO.

U.S. forces and assets provide indirect NATO support via collective defense (Article 5), deterrence, and interoperability, but this is not a payment to NATO's budget.

Direct U.S. contribution to NATO's actual common budget remains minimal (~0.07–0.08% of U.S. defense total), emphasizing the distinction between national defense outlays and Alliance shared costs. This supports economic stability by avoiding disproportionate direct fiscal burden on U.S. taxpayers while enhancing collective security and growth through allied capability improvements.

NATO maintains a key defense spending target for its member countries, designed to strengthen the Alliance's collective military capabilities and deterrence posture. This guideline, formally established as a political commitment at the 2014 Wales Summit, urges each ally to allocate at least 2% of its gross domestic product (GDP) to defense expenditures annually. The target traces its roots even earlier, to informal discussions among NATO defense ministers in 2006, but gained renewed urgency in 2014 following Russia's illegal annexation of Crimea and escalating instability in regions like the Middle East.

Importantly, this 2% benchmark is not a direct financial contribution to NATO's common budget (which funds the organization's headquarters, staff, and joint operations through a separate cost-sharing formula). Instead, it represents a national-level political pledge to invest sufficiently in each member's own armed forces, equipment, training, and readiness. The goal promotes fair burden-sharing among allies, reducing over-reliance on any single member—particularly the United States, which has historically shouldered a disproportionate share of NATO's overall military capabilities.

Progress toward the 2% target has accelerated dramatically in recent years, driven by Russia's full-scale invasion of Ukraine in 2022 and broader geopolitical tensions. In 2014, only three allies met or exceeded the guideline. By 2024, that number had risen significantly, and in 2025—for the first time since the target was set—all 32 NATO members are expected to meet or surpass the 2% threshold. Total NATO defense spending (including the U.S.) reached around $1.6 trillion in 2025, up notably from prior years.

Despite this widespread achievement, discussions within the Alliance continue to focus on those allies who only marginally meet the target or who face domestic pressures to sustain high levels of investment. Countries like Poland, Lithuania, Latvia, and Estonia have gone further, allocating well above 2%—often 3–4% or more—due to their proximity to Russia and heightened threat perceptions. Meanwhile, at the 2025 NATO Summit in The Hague, allies took an even more ambitious step by committing to a new long-term pledge: investing 5% of GDP annually in core defense and defense-related spending by 2035. This elevated goal underscores NATO's evolving response to persistent security challenges and aims to ensure the Alliance remains militarily credible and adaptable in an uncertain world.

Overall, the original 2% target has evolved from an aspirational guideline into a broadly met standard, while ongoing allied dialogue emphasizes not just meeting minimums but continuing to enhance capabilities, interoperability, and equitable contributions to collective defense.

Table 1 **NATO Defense Spending**

	2020	2021	2022	2023	2024E	2025E	*5 Yr CAGR*	*%GDP*
Current prices and exchange rates								
United States	770,650	824,094	834,977	858,000	935,000	980,000	*4.9%*	*3.2*
Germany	58,652	62,054	61,405	73,138	93,747	109,000	*13.2%*	*2.4*
United Kingdom	63,500	71,927	70,846	76,052	84,169	90,508	*7.3%*	*2.4*
France	52,519	56,457	52,238	59,433	64,469	66,531	*4.8%*	*2.1*
Italy	30,084	33,140	31,512	33,856	35,384	48,800	*10.2%*	*2.0*
Poland	13,363	15,099	15,338	26,475	34,454	44,314	*27.1%*	*4.5*
Canada	23,330	25,502	25,898	28,435	32,334	43,886	*13.5%*	*2.0*
Spain	12,828	14,849	16,451	18,875	24,555	35,670	*22.7%*	*2.0*
Türkiye	13,396	13,137	12,292	16,766	28,274	32,573	*19.4%*	*2.3*
Netherlands	12,838	13,916	13,899	16,764	21,858	28,107	*17.0%*	*2.5*
Norway	7,228	8,438	8,694	8,799	10,792	16,490	*17.9%*	*3.4*
Sweden	5,984	9,071	8,562	9,849	13,967	15,207	*20.5%*	*2.5*
Denmark	4,886	5,274	5,473	8,143	9,631	14,303	*24.0%*	*3.2*
Belgium	5,324	6,245	6,904	7,622	8,548	13,739	*20.9%*	*2.0*
Romania	5,056	5,299	5,197	5,607	8,312	9,308	*13.0%*	*2.3*
Finland	4,156	4,145	4,726	6,266	7,228	8,587	*15.6%*	*2.8*
Greece	5,492	8,006	8,488	6,731	7,075	7,673	*6.9%*	*2.9*
Czechia	3,199	3,915	3,895	4,538	7,176	7,223	*17.7%*	*2.0*
Portugal	3,273	3,899	3,578	3,854	4,849	6,391	*14.3%*	*2.0*
Hungary	2,767	2,410	3,270	4,360	4,736	4,807	*11.7%*	*2.1*
Lithuania	1,176	1,308	1,738	2,165	2,626	3,607	*25.1%*	*4.0*
Slovak Republic	2,049	2,066	2,090	2,445	2,800	3,094	*8.6%*	*2.0*
Bulgaria	1,121	1,276	1,440	1,992	2,193	2,389	*16.3%*	*2.1*
Croatia	983	1,361	1,285	1,410	1,731	2,006	*15.3%*	*2.0*
Latvia	743	824	857	1,254	1,440	1,653	*17.4%*	*3.7*
Slovenia	568	763	777	911	980	1,513	*21.6%*	*2.0*
Estonia	719	749	820	1,238	1,424	1,504	*15.9%*	*3.4*
Luxembourg	426	403	461	642	783	1,350	*26.0%*	*2.0*
Albania	197	224	231	409	463	570	*23.7%*	*2.0*
North Macedonia	154	204	221	265	315	358	*18.4%*	*2.0*
Montenegro	83	91	86	114	138	174	*16.0%*	*2.0*
NATO Europe and Canada	**336,093**	**372,052**	**368,670**	**428,409**	**516,451**	**621,335**	*13.1%*	*2.3*
NATO Total	**1,106,743**	**1,196,146**	**1,203,647**	**1,286,409**	**1,451,451**	**1,601,335**	*7.7%*	*2.8*

Source: SIPRI

NATO Spending Implications

European NATO members' defense expenditure in the ten years before the invasion of Ukraine stood at around 1.5% on average as a share of GDP. At the time, NATO members were expected to allocate at least 2% of their GDP to defense. That compares to circa 3.5% in the U.S., and 2.5% for NATO total, including the U.S. and Canada. NATO Europe, after the invasion of Ukraine in 2022, substantially increased defense expenditure to about 2.0% as a share of GDP. For context, if NATO members all raised spending to 3% of GDP, it would represent an incremental $300bn per year in new defense spending. In June of 2025, the NATO summit took place in The Hague, Netherlands. At the event, NATO members committed to a new set of spending and capability targets.

NATO members made the commitment to invest 3.5% as a share of GDP by 2035 to resource core defense requirements and to meet the NATO capability targets. In addition, they account for up to 1.5% as a share of GDP for investments that are less specific, e.g. investments to protect critical infrastructure and strengthen the defense industrial base. Overall, we estimate the European NATO members' core defense expenditure in 2024 to be around $500bn. The three largest contributors are Germany with roughly $95bn or around 20% of the total, followed by the U.K. with $85bn and France with $65bn. That compares with around $950bn spent by the U.S.

Table 2 — **NATO Europe Equipment Expenditure Outlook 2020-2030**

(in $ billions)

Equipment expenditure	2020	2024	2025	2026	2027	2028	2029	2030	2024-30 CAGR
Core expenditure	**$ 313**	**485**	**530**	**605**	**680**	**760**	**845**	**905**	11%
Expenditure % GDP	*1.7%*	*2.0%*	*2.1%*	*2.3%*	*2.5%*	*2.7%*	*2.9%*	*3.0%*	
Expenditure increase yoy			45	75	75	80	85	60	
x Equipment % increase			*50%*	*50%*	*40%*	*40%*	*40%*	*40%*	
= Equipment expenditure increase yoy			25	40	30	30	35	25	
Total equipment expenditure	**$ 70**	**155**	**180**	**220**	**250**	**280**	**315**	**340**	14%
% Growth			*16%*	*22%*	*14%*	*12%*	*13%*	*8%*	
% Core expenditure	*22%*	*32%*	*34%*	*36%*	*37%*	*37%*	*37%*	*38%*	

Sources: NATO, Government Data and Gabelli Funds Estimates

Core expenditure can be divided into two main segments: equipment, which historically contributed around 20% to NATO Europe total spend, and others. Others mainly includes personnel and expenses for operations and maintenance. After the invasion of Ukraine, equipment expenditure has grown disproportionately strongly, to about 30% of the total. This growth is best explained by a more rapid availability of equipment versus, e.g., the hiring and training of personnel. The three largest equipment contributors are the U.K. with around $30bn, Germany with $28bn, and France with $18bn. Overall, we estimate the total addressable European defense equipment market in 2024 to be around $155bn.

That $155bn compares to around $290bn in equipment expenditure in the U.S., which has around 30% of total U.S. defense expenditure over the past decade. While this 30% is likely a good guideline for a NATO Europe equipment share normalization long-term, we continue to expect a higher equipment share short- and medium-term in light of its more rapid availability. Based on conversations with industry participants, we continue to model a 40-50% share of the incremental annual defense spend to be allocated to equipment. As a result, we estimate NATO Europe equipment expenditure to grow at around 15% CAGR to $340bn by 2030.
This translates into multi-year increases in procurement of aircraft, missiles, air defense systems, armored vehicles, munitions, and ISR capabilities, as well as sustained demand for maintenance, repair, and overhaul services. For contractors, this means larger addressable markets, longer program backlogs, improved pricing power, and higher utilization of production capacity, which together support stronger revenue visibility and margin expansion. In effect, NATO spending targets act as a policy-driven demand floor for the industry, anchoring growth for prime contractors and tier-one and tier-two suppliers alike over the next decade.

Booming Defense IPO Market

Recent IPOs such as Firefly Aerospace (FLY), Karman Holdings (KRMN), Voyager Technologies (VOYG), Loar Holdings (LOAR), StandardAero (SARO), and AIRO Group (AIRO) highlight how defense and aerospace have become increasingly attractive sectors for investors, driven by powerful growth tailwinds including rising global defense budgets, geopolitical instability, modernization of military fleets, and sustained demand for aerospace aftermarket services.

This observation equally holds true for the European market. The IPO of Czechoslovak Group (CSG) in January 2026 valued the business at €25bn ($29bn) at the offer price, marking a landmark initial public offering by a defense firm. This transaction follows the spin-off of TK Marine Systems (TKMS), the former Marine Systems segment of German industrial conglomerate ThyssenKrupp (TKA), in October 2025. Looking ahead to the remainder of 2026, a key transaction is the pending IPO of the Franco-German defence group KNDS (formed by the merger of Krauss-Maffei Wegmann and Nexter).

These dynamics have improved the visibility and durability of revenue streams across defense manufacturing, MRO, space systems, and advanced aviation technologies, making the sector appealing for both growth and defensive capital. As a result, more companies are choosing to access the public markets, expanding the opportunity set for investors seeking exposure to long-cycle defense spending, resilient government-backed demand, and structurally higher levels of military and aerospace investment than in prior decades.

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