

IMPACT OF SUPPLY-SIDE INFLATION ON MILITARY EXPENDITURES ACROSS WORLD REGIONS DURING 2019–2023

Vendula Hynková

ABSTRACT

This paper examines the phenomenon of supply-driven inflation within military expenditures across various global regions from 2019 to 2023. As nations face escalating geopolitical tensions and security challenges, understanding the inflationary pressures on defence budgets becomes increasingly vital. This study identifies key factors contributing to inflation in military spending, including increased costs of raw materials and technological advancements in defence systems. Utilizing comprehensive data from the Stockholm International Peace Research Institute (SIPRI), the research employs a statistical method and time series analysis to assess variations in military expenditure inflation rates across world regions such as the Americas, Europe, Africa, Asia and Oceania, and the Middle East, and to predict future trends in military expenditures. Through this analysis, regional disparities will be uncovered in inflationary trends while the impact of currency fluctuations and policy decisions on defence budgets will be highlighted.

Keywords: military expenditures, military spending, supply-side inflation, defence price deflator, global regions, defence budget

JEL Classification: E31, E62, H56, F52

INTRODUCTION

Most papers in the field of defence economics have traditionally focused on the influence of rising military expenditures on gross domestic product (GDP) growth and their impact on price levels. Researchers have explored how increased defence spending can stimulate economic activity, contributing to overall economic growth, while simultaneously affecting the inflation rate and stability of prices within the broader economy. By assessing the relationship between military investment and macroeconomic indicators, these studies provide valuable

insights into how nations navigate the complexities of fund allocation amidst competing economic priorities. However, as the global landscape evolves and nations respond to shifting security dynamics, it is critical to shift our attention to the opposite phenomenon. Specifically, the current discourse must examine how supply-driven inflation affects military expenditures, highlighting the need to analyze the pressures that rising costs exert on defence budgets and the implications for national security planning.

In recent years, the dynamics of military expenditures have attracted increased attention from scholars and policymakers, particularly in the field of defence economics. Understanding the inflationary pressures that impact defence budgets is crucial, especially as nations navigate a landscape of escalating geopolitical tensions, emerging security threats and evolving technological advancements. The phenomenon of inflation, which can exert significant influence on military spending, requires careful examination to formulate effective defence strategies and allocate resources efficiently. By analysing trends in military expenditure from 2020 to 2024, researchers can gain insights into how rising prices and inflation have affected defence budgets, ultimately shaping national security priorities.

Distinguishing between military expenditures expressed in current and constant prices is vital for accurately assessing real growth in defence spending. Current prices reflect the monetary value of military spending at the time of measurement, incorporating all inflationary effects and fluctuations in purchasing power. In contrast, constant prices, which adjust for inflation, provide a clearer picture of the actual changes in defence spending over time, enabling a more precise evaluation of how military budgets have evolved in response to external economic pressures. This distinction is particularly important as countries strive to maintain and enhance their military capabilities in an increasingly competitive global environment, where the real value of investments may be obscured by inflationary trends.

Furthermore, the 2019–23 period has been marked by significant economic challenges, including the Covid-19 pandemic, which has introduced unprecedented levels of uncertainty into national budgets. As governments grapple with the economic ramifications of the pandemic, including supply chain disruptions and increased costs of raw materials, the implications for military expenditures are

profound. Analysing how these factors influence both current and constant price military spending will allow researchers to identify patterns and make informed predictions about future defence budgets. This understanding is essential for defence planners and policymakers, as it equips them with the knowledge required to navigate the complexities of military financing while ensuring that national defence objectives are met in a sustainable and economically viable manner.

The aim of this paper is to examine the impact of inflation on the development of military expenditures in global regions during 2019–23, to differentiate their development in constant and current prices, to focus on the development of military expenditures in constant prices for the purpose of constructing predictions, and to calculate their implicit military expenditure price deflator.

1 LITERATURE REVIEW

Scientific papers extensively examine mainly the impact of military expenditures on various macroeconomic variables, including inflation. Additionally, inflation itself reciprocally affects the level of military expenditures, creating a complex interplay between these two factors that researchers continue to explore to understand their broader economic implications. The relationship between military spending and economic growth is influenced by external and internal variables, such as geopolitical tensions, inflation, exchange rate fluctuations and technological advancements. Moreover, differing economic structures and development levels among countries complicate the generalization of findings across various contexts. According to Emmanouilidis and Karpētis (2021) the macroeconomic impact of defence expenditures remains an open question for researchers and policymakers. These authors highlighted that the empirical findings associated with the specific economy are not fully consistent with the theoretical conclusions of the specified model.

The approaches to examining the relationship between military expenditures and inflation can be divided into Keynesian and neoclassical perspectives. The Keynesian approach typically emphasizes the stimulative effects of military spending on overall demand and inflation, while the neoclassical perspective focuses on the potential crowding-out effects of military expenditures on more productive investments, suggesting that increased defence spending may hinder eco-

conomic growth. Wang (2022) states that current empirical findings support the neoclassical position rather than the Keynesian one in today's policymaking.

In an inflationary environment, attention is increasingly focused on the impact of inflation on military expenditures and the calculations of defence inflation. Researchers and policymakers analyze how rising prices can influence the funding and allocation of resources within the defence sector. Changing price levels change purchase power of future military expenditures and modify their relation to other sorts of government spending as well as other macroeconomic indicators, as pointed out by Holcner and Neubauer (2015). Keating and Arena (2016) highlight that US Department of Defense procurement and maintenance costs have risen faster than overall inflation due to demands for more complex systems, indicating that defence inflation is a symptom of these complexities rather than just a cause of increased defence spending.

It has been found by Gül and Torusdağ (2020) that increased inflation reduces the purchasing power for defence expenditures, which forces countries to raise nominal expenditures to maintain the real level of defence spending. Inflation is an important factor that increases the costs of defence expenditures. The research findings in China made by Yingying, Chi and Tao (2020) indicate that inflation lowers the defence spending growth rate in short- to medium-term periods, particularly in times of peace. The authors claim that inflation has negative leading effects on defence spending growth rates, especially in the short- to medium-term, while there is no evidence that defence spending itself is inflationary. The findings suggest that inflation reduces defence spending growth at shorter time scales, and a moderate increase in defence spending is unlikely to harm price stability in China, highlighting the time-sensitive nature of this correlation.

Some countries, such as Sweden, work with a defence price index, which automatically adjusts the defence budget based on price changes. This approach allows decision-makers to focus on incremental decisions and their economic consequences. It requires a high level of precision from the defence price index in targeting defence inflation. Key points include the definition and measurement of productivity in defence and the escalation of defence equipment costs. According to Wang (2016) critical points are defining and measuring productivity in defence and price and/or cost escalation of defence equipment. Another complication

is that defence, and not only defence equipment, is a special good where the most important capability is the relative capability compared mainly with potential opponents in military conflicts and not the absolute capability.

It is important to examine the development of individual cost prices in defence. The findings of a study by Hove and Lillekvelland (2019) indicate that while structural (fixed) costs do not increase beyond general inflation, activity-based (variable) costs per unit of activity rise significantly. This suggests that although overall overhead expenses in defence remain stable relative to inflation the costs associated with operational activities are escalating. Consequently, there is a need for better management of variable costs to ensure efficiency and sustainability within defence budgets.

2 DATA AND METHODOLOGY

Data for examining the military expenditures in global regions will be sourced from SIPRI (SIPRI Military Expenditure Database and SIPRI Yearbooks).

Within SIPRI, the 'military expenditures' include all current and capital expenditures associated with national defence. This encompasses funding for armed forces, including conventional troops and peacekeeping units, as well as expenditures for defence ministries, governmental agencies involved in defence projects, and paramilitary forces. SIPRI's data considers military space activities due to their growing importance in defence strategies. A comprehensive view of military spending includes personnel costs (salaries, pensions and social services for military and civilian staff), operational and maintenance expenses, procurement of military equipment, research and development, and infrastructure maintenance. Additionally, military aid from donor countries is included, highlighting international military support and collaboration. This thorough definition by SIPRI aims to provide a clearer picture of global military spending and support detailed comparisons across nations (SIPRI, 2025a).

Within the military expenditure database, the SIPRI uses also estimated figures and data marked as highly uncertain to provide some insights on military expenditures. Some countries are not included into database (e.g., Yemen, Syria, North Korea, Laos, Turkmenistan or Uzbekistan).

The deflator for converting current to constant prices in SIPRI data is the con-

sumer price index (CPI), chosen to accurately reflect resource use on an opportunity-cost basis. The CPI measures price changes for a market basket of consumer goods, making it relevant for assessing household purchasing power and living costs. Average market exchange rates (MER) for the relevant year convert local currency figures into US dollars, with different MERs applying to constant and current dollar figures based on the base year (updated to 2023). The base year choice significantly affects cross-country comparisons, as different national currencies vary against the dollar in different ways (SIPRI, 2025a).

For the calculation of the implicit military expenditure price deflator for global regions in this paper, data on military expenditures in current and constant prices were used, with the base year chosen as 2023 by SIPRI. The SIPRI data for the year 2024 were not available at the time this paper was written.

3 RESULTS

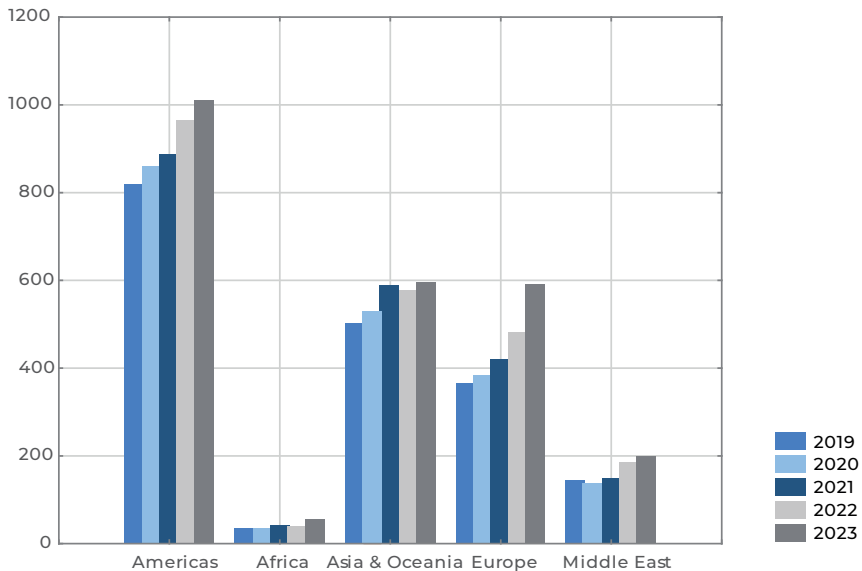
During the examined period from 2019 to 2023, supply-side inflation significantly affected global military expenditures. This trend started during the Covid-19 pandemic, as health and safety measures disrupted supply chains, leading to increased costs for military goods and services. From 2021 onwards, the situation was further exacerbated by the energy crisis. Rising energy prices and the cost of energy resources contributed to escalating expenses in defence sectors worldwide. As a result, many countries faced higher operational and procurement costs, reshaping budget priorities to maintain military readiness and capability amidst these economic challenges.

In addition to supply-side inflation, geopolitical tensions and the rise in military conflicts significantly contributed to the increase in military expenditures. During this period, various regions experienced heightened instability, prompting nations to bolster their defence budgets as a precautionary measure. Emerging conflicts and rising international tensions necessitated increased spending on military capabilities, including personnel, equipment and technology. This geopolitical landscape made countries prioritize military preparedness, resulting in substantial investments to ensure national security and respond effectively to potential threats. The combination of these factors led to a marked increase in global defence spending during the period in question.

In Fig. 1 the development of military expenditures across all five main global regions from 2019 to 2023 is depicted. The largest increase is observed in the Europe region. The development of military expenditures in global regions is introduced at constant 2023 prices and exchange rates, and now year-on-year changes in military spending in world regions during 2019–23 will be expressed in constant prices from the previous year to account for the change in the price level.

Fig. 1: »Development of military expenditures in world regions (at constant 2023 prices and exchange rates, in billions USD)

Military Expenditures in world regions (2019–2023)



Source: SIPRI Military Expenditure Database (2025b), author's processing

In 2019, military expenditures increased, in real terms based on constant 2018 USD, by 5.0% in Europe, 4.8% in Asia and Oceania, 4.7% in the Americas, and 1.5% in Africa (without an estimated figure for the Middle East). The growth in total military expenditures in 2019 was largely influenced by expenditures in the United States and China (SIPRI, 2025c). According to the World Bank Group (2025), the annual average world inflation rate in 2019 was 2.2% and in the

year 2019, demand-pull inflation was indeed more prominent globally, as many economies experienced increased spending and a rise in demand for goods and services.

In the pandemic year 2020, military expenditures increased, in real terms based on constant 2019 USD, by 5.1% in Africa, 4.0% in Europe, 3.9% in the Americas, and 2.5% in Asia and Oceania (without an estimated figure for the Middle East). The impact of the Covid-19 pandemic on military expenditures included reductions or redirection of expenditures in certain countries, as well as increases in expenditures as part of economic stimulus and the utilization of military forces in the fight against the pandemic (SIPRI, 2025c). In 2020, the emergence of supply-side inflation became evident in military expenditures as pandemic-related disruptions affected production and supply chains for defence equipment. Rising costs of materials and labour, combined with increased demand for military capabilities, contributed to inflationary pressures in the defence sector. According to the World Bank Group (2025), the annual average world inflation rate in 2020 was 1.9%.

In 2021, as countries struggled with the pandemic, military expenditures increased, in real terms based on constant 2020 USD, by 1.2% in Africa, decreased by 1.2% in the Americas, grew by 3.5% in Asia and Oceania, rose by 3.0% in Europe, and fell by 3.3% in the Middle East (SIPRI, 2025c). During this year, many countries experienced increased spending on defence as they sought to maintain military readiness amidst the challenges posed by rising material costs and disruptions in global supply chains, leading to heightened inflationary pressures that further complicated budget allocations and strategic planning in the defence sector. According to the World Bank Group (2025), the annual average world inflation rate in 2020 increased to 3.5%.

The year 2022 was marked by the outbreak of the war in Ukraine, alongside a strong manifestation of supply-side inflation; in Europe, military expenditures increased, in real terms based on constant 2021 USD, by 13%, in the Americas they rose by 0.3%, in Africa they decreased by 5.3%, in Asia and Oceania they increased by 2.7%, and in the Middle East they rose by an estimated 3.2% (SIPRI, 2025c). According to the World Bank Group (2025), the annual average world inflation rate reached its second highest level since 2000 (after 8.9% in 2008) at

7.9%. In 2022, supply-side inflation significantly impacted military expenditures across various regions, as countries faced rising costs of materials and labour in the defence sector. This inflation was particularly pronounced in Europe. As nations prioritized military readiness and capability enhancement, the upward trend in supply-side inflation raised concerns about the sustainability of defence budgets in the long term.

The increase in total military expenditures in 2023 was the largest rise since 2009. In 2023, a new war broke out in Israel, triggered by escalating tensions between the Israeli military and terrorist groups, leading to intense clashes and significant regional unrest. Military expenditures increased, in real terms based on constant 2022 USD, across all five geographical regions for the first time since 2009. The increase in global military spending in 2023 can primarily be attributed to the ongoing war in Ukraine and escalating geopolitical tensions in Asia, Oceania and the Middle East, and the five biggest spenders in 2023 were the USA, China, Russia, India and Saudi Arabia, which together accounted for 61% of world military spending. (SIPRI, 2025d). Spending by countries in Africa rose by 22%, in the Americas by 2.2%, in Asia and Oceania by 4.4%, in Europe by 16% and is estimated to have increased in the Middle East by 9% (SIPRI, 2025c). According to the World Bank Group (2025), the annual average world inflation rate slowed down to 5.7%. In 2023, supply-side inflation persisted in military expenditures across global regions, driven by ongoing material shortages, rising labour costs and the need for modernization amidst heightened geopolitical tensions.

According to the latest statistics for 2024, global defence expenditures responded to growing security challenges. For the second year in a row starting in 2023, military expenditures increased in all five world regions, reflecting heightened geopolitical tensions across the globe. The 9.4 % increase in 2024 was the steepest year-on-year rise since at least 1988 (SIPRI, 2025e). This growth rate also picked up speed, with a real-term increase of 7.4%, surpassing the 6.5% rise seen in 2023 and the 3.5% increase from 2022 (IISS, 2025). In 2024, the main contributor to the global increase was Europe. Europe's military spending, including Russia, surged by 17% in real terms of the year 2023, due to the war in Ukraine (SIPRI, 2025f). A significant increase in military expenditures can be expected for next

years as nations continue to respond mainly to heightened security challenges and geopolitical tensions.

For examination of the increase in military expenditures, a larger geographical breakdown is suitable. Table 1 presents the development of military expenditures in world subregions. The subregions with the largest increases in military expenditures are highlighted in bold, and the prediction for the Middle East is uncertain.

Tab. 1: »Military expenditures in world subregions (at constant 2023 prices and exchange rates, in billions USD)

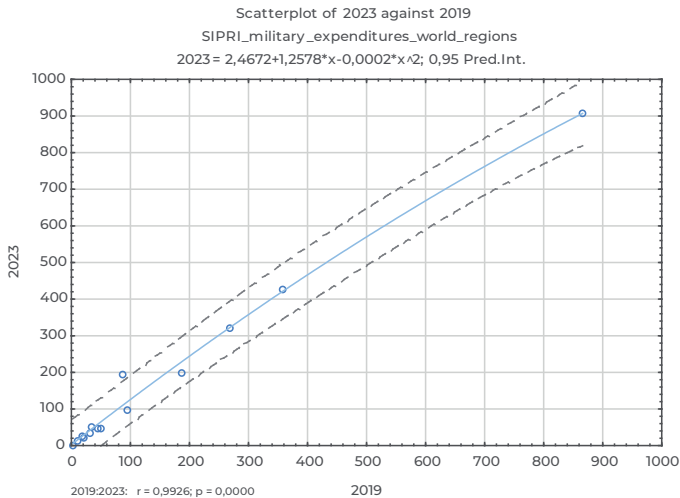
World Subregion/Year	2019	2020	2021	2022	2023
North Africa	18.2	19.3	19.0	18.4	25.4
Sub-Saharan Africa	21.0	21.3	22.5	21.1	23.0
Central America and the Caribbean	10.0	12.2	11.9	12.7	12.7
North America	866.0	906.5	896.9	886.3	907.3
South America	50.1	49.6	48.5	46.8	46.6
Oceania	31.9	33.4	35.2	35.4	35.1
South Asia	94.3	94.6	94.6	96.5	98.6
East Asia	358.5	373.2	384.2	400.6	425.4
Southeast Asia	43.9	46.5	47.6	48.8	48.0
Central Asia	2.3	2.0	2.1	1.7	1.6
Central Europe	34.5	36.7	37.7	39.3	52.9
Eastern Europe	86.9	89.9	91.2	148.9	194.7
Western Europe	267.9	283.0	290.7	300.9	321.6
Middle East	187.7	180.9	181.5	184.1	200.6

Source: SIPRI, *Military Expenditure database (2025b)*; author's processing

Fig. 2 demonstrates a relationship between military expenditures in main world regions in 2019 and 2023. The analysis reveals a Pearson correlation coefficient of 0.9926 and p-value of 0.000, indicating an almost perfect positive correlation between military expenditures at the beginning and at the end of the examined period. This strong correlation suggests that as military spending increased in 2019, it continued to rise significantly by 2023, highlighting a robust relationship

between military expenditures over this period. The concave nature of the growth trend further emphasizes that the rate of increase in military spending has significantly risen, suggesting complex dynamics in defence expenditure patterns among different regions.

Fig. 2: »Trend development of military expenditures in 5 world regions and the prediction Source: SIPRI Military Expenditure Database (2025b), at constant 2023 prices and exchange rates in billions USD; author's processing



Source: author's processing

If SIPRI uses 2023 constant prices and the levels of military expenditures in current prices and constant 2023 prices can be retrieved, the implicit military expenditure deflator for global regions can be calculated, see Table 2. The year 2023 is the base year, so the deflator is equal to one. In the Americas world region, the price level was higher in 2022 than in 2023. Aside from the Middle East, where the data is uncertain, the highest increase in the price level of military expenditures occurred in the Africa region since 2019. According to the International Monetary Fund (2025), the annual average inflation rate in Africa was the highest in comparison with other world regions during 2019–23 (9.4% in 2019, 11.1% in 2020, 12.3% in 2021, 14.2% in 2022 and 18.2% in 2023 (IMF, 2025)). Table 2 shows a significant increase in the price level throughout the examined period, while the numbers for the Middle East region indicate an uncertain estimate.

Tab. 2: »Implicit military expenditure deflator (base year 2023)

World Region/Year	2019	2020	2021	2022	2023
Americas	0.8825	0.8840	0.9224	1.0161	1.0000
Africa	0.8386	0.8398	0.9572	0.9970	1.0000
Asia & Oceania	0.9444	0.9603	1.0396	0.9857	1.0000
Europe	0.9333	0.9349	0.9984	0.9815	1.0000
Middle East	0.7574	0.7423	0.8203	1.0001	1.0000

Source: SIPRI Military Expenditures Database (2025b); SIPRI Yearbooks (2025c); author's calculation

4 DISCUSSION

The growth of military expenditures across global regions from 2019 to 2023 can be attributed to a variety of interrelated factors, each playing a crucial role in the complexity and scale of defence spending. Understanding the context of this increase is essential, as it reveals each country's strategic priorities and economic conditions while responding to both internal and external pressures. The main circumstances under which military expenditures are likely to rise include:

A) GEOPOLITICAL TENSIONS AND CONFLICTS

Rising geopolitical tensions or active conflicts across world regions prompt nations to increase their defence budgets to enhance national security and prepare for potential military engagements. In response to perceived threats or regional instabilities, countries may allocate additional resources to strengthen their military capabilities.

B) IMPACT OF THE COVID-19 PANDEMIC

The pandemic necessitated the use of military forces for domestic responses, healthcare support and resource allocation, further driving military spending in various nations. This involvement of military forces likely created additional costs, as the deployment of troops and resources for non-combat roles often requires significant funding for logistics, supplies and operational support.

C) POLITICAL DECISIONS AND SECURITY STRATEGIES

Governments often adjust defence budgets as part of broader national security strategies. Political leadership may prioritize defence spending to align with strategic goals, international commitments, or to appease domestic constituencies concerned with national security. Additionally, transnational budgets, such as those of NATO or the EU, play a crucial role in shaping national defence expenditures, as member countries may contribute to collective security efforts and benefit from joint initiatives and funding.

D) EQUIPMENT RENEWAL AND MODERNIZATION

As military technologies advance, there is a continuous need for countries to modernize and replace outdated equipment. This urgency for technological upgrades and the acquisition of cutting-edge weaponry and systems can demand significant financial resources, driving up defence spending.

E) FLUCTUATIONS IN CURRENCY EXCHANGE RATES

Fluctuations in currency exchange rates can significantly impact the calculation of military expenditures reported by SIPRI. As military equipment and operations often involve international procurement and transactions, changes in exchange rates can alter the effective cost of purchasing foreign military assets. Inflationary pressures, which may arise due to the weakening of the domestic currency, may further increase operational costs, requiring higher budgets to maintain the current levels of military readiness and capability. Consequently, accurate financial assessments must account for these currency variations to reflect the true expenditure in domestic terms, impacting overall defence budgets and fiscal planning.

F) INFLUENCE OF DEFENCE INDUSTRY LOBBIES, MARKET CONDITIONS AND THE SPECIFIC NATURE OF DEFENCE PROJECTS ON COST OVERRUNS

In many countries, the defence industry exerts considerable influence on budgetary decisions. Lobbying by defence contractors, combined with market conditions such as limited competition in arms production, often within situation of oligopolies, can lead to inflated costs and increased defence spending. This

oligopolistic environment can restrict options for governments and contribute to higher prices for military equipment and services, ultimately impacting overall defence budgets and expenditures.

Cost overruns in military procurement often occur due to the unique and complex nature of defence projects. These projects typically involve cutting-edge technology, highly specialized systems and strict operational requirements, which can lead to increased development and manufacturing costs. Additionally, defence procurement processes are often characterized by lengthy timelines, extensive project management challenges, and frequent changes in specifications or strategic priorities. The complexity of coordinating multiple contractors and integrating various systems further raises the likelihood of delays and unexpected expenses. Security concerns and the need to handle classified information add additional layers of difficulty, making precise cost estimation even more challenging. As a result, these specific factors contribute to consistent overestimations of initial budgets and drive-up overall project costs, leading to significant price overruns.

G) INVESTMENT IN RESEARCH AND DEVELOPMENT FOR COMPETITIVE ADVANTAGE AND EXPORT OPPORTUNITIES

To maintain technological superiority and competitive advantage on the global stage, nations invest heavily in military research and development. These investments not only ensure that military forces have access to the latest innovations and technologies but also create opportunities for exporting advanced military equipment and technologies, requiring substantial funding.

H) SUPPLY-SIDE INFLATION (ENERGY CRISIS)

A rise in the costs of raw materials, labour and other inputs due to supply-side inflation can significantly inflate military expenditures. Supply chain disruptions and increased production costs contribute to higher overall defence spending as countries strive to maintain and enhance their military infrastructure.

All the factors mentioned have manifested in the growth of military expenditures across global regions during the 2019–23. Geopolitical tensions, modernization needs, changes in currency exchange rates, political decisions, the

influence of defence industry lobbies and supply-side inflation have played significant roles in driving the increase in military expenditures. These dynamics highlight the complex interplay of various influences shaping military budgets in response to changing security environments and operational demands. In the coming years, we can anticipate further increases in military expenditures across the world regions as nations continue to respond to evolving security threats and geopolitical tensions. Ongoing modernization efforts, coupled with rising operational costs and the need for enhanced military readiness, are likely to drive defence budgets upward.

The challenge of capturing supply-side inflation in the growth of military expenditures lies in accurately measuring and indexing the costs associated with defence procurement. As defence budgets expand, it is crucial to account for fluctuations in the prices of raw materials, labour and production inputs that contribute to overall military spending. It is necessary to distinguish between defence inflation and cost escalation, which reflects the increasing real unit costs between successive generations of new equipment (Hartley and Solomon, 2016). Utilizing defence price indices can help in assessing these changes, allowing governments and analysts to gauge the true impact of supply-side inflation on defence budgets. However, the effectiveness of these indices depends on their ability to reflect real-time market conditions, including changes in material costs and the complexities of procurement practices within the defence industry. An accurate representation of supply-side inflation is essential for strategic planning and ensuring that military expenditures align with broader fiscal objectives.

Calculating a defence price index is essential for capturing the impact of inflation on military expenditures, with the Swedish model serving as a notable example. Sweden utilizes a defence price index, a composite index of various civilian, non-defence indices, designed to automatically adjust the defence budget based on price changes. However, achieving a high level of accuracy in targeting defence inflation with this index presents challenges, particularly in defining and measuring productivity in defence and the escalation of prices and costs associated with military equipment (Nordlund, 2015). Hartley (2015) emphasizes that the key facts from the UK remain, namely, that defence inflation exceeds the GDP deflator, and despite various reforms, cost escalation continues.

Inflation in defence spending can be assessed indirectly using an implicit deflator, like how the GDP deflator is calculated. Using this method, the implicit military expenditure deflator was also calculated in this paper, which provided only a rough insight into the growth of military expenditures across global regions due to the rising average price levels. This method allows for a general understanding of how military expenditures are affected by overall economic conditions and price changes. However, it is important to note that utilizing an implicit deflator may not provide the same level of accuracy as a direct calculation using a national defence price index.

While the implicit deflator offers a broad perspective on inflationary trends in defence, it lacks the specificity needed to capture the unique factors affecting military costs. A defence price index, on the other hand, is specifically designed to account for the distinct elements within the defence sector, including fluctuations in the prices of military equipment, labour costs, and supply chain dynamics. By focusing on these relevant variables, a defence price index can provide a more precise measurement of inflation in defence expenditures.

Although the implicit deflator can serve as a useful tool for preliminary analysis, it is essential for policymakers and analysts to utilize the defence price index for a more accurate assessment of defence inflation. This ensures that the complexities of military spending are adequately considered, allowing for better budgeting and strategic planning in the defence sector.

CONCLUSION

The SIPRI data from 2019 to 2023 illustrate a pronounced upward trajectory in military expenditures across global regions. This increase is predominantly driven by escalating geopolitical tensions and the impact of supply-side inflation. As countries respond to evolving security challenges, military spending has risen steadily despite variability in global economic conditions. This trend highlights the priority placed on enhancing defence capabilities to ensure national security. Military expenditures not only cater to immediate necessities but also reflect long-term considerations related to inflationary pressures and strategic resource allocation in an increasingly unpredictable geopolitical landscape. Significant increases in defence spending were particularly noted in the Americas

and Europe. These regions have been motivated by growing security concerns and have thus made substantial investments in modernizing their military forces, aiming to address emerging threats and improve military readiness. This drive for modernization and improved capabilities indicates a strategic shift towards preparedness in the face of new security dynamics.

Capturing the nuances of supply-side inflation in military budgets requires a thorough understanding of economic variables and precise assessment methods. The use of a defence price index provides a comprehensive framework for evaluating changes in defence costs, which is critical for making informed decisions regarding budget allocations. As nations navigate the complexities of the current global security environment, employing accurate tools such as the defence price index will be vital. These tools will not only aid in managing existing military expenditures but also assist in planning future investments that align with strategic national objectives and fortify overall defence capabilities.

Accurately measuring and analyzing the effects of inflation is essential in ensuring that military spending remains sustainable and responsive to developing threats. Looking forward, it is anticipated that military expenditures will continue to rise in various regions. This ongoing increase is attributed to persistent geopolitical tensions and the necessity to bolster defence capabilities in response to both ongoing and emerging threats. Nations are expected to prioritize military modernization and strategic initiatives, maintaining resilience and preparedness in a rapidly evolving security landscape. The sustained commitment to enhancing military capacities indicates a predicted continuous growth in defence budgets, synchronizing with strategic objectives and adapting to the changing geopolitical context.

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Ing. Vendula Hynková, Ph.D.

AMBIS, vysoká škola, a.s.,

Katedra ekonomie, ekonomiky a veřejné správy

Email: vendula.hynkova@ambis.cz