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The Ministry of Defense Budget for 2019: Major Issues

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The Budget Ratification Process

The state budget for 2019, which includes the defense budget, is for one year, in contrast to the series of two-year budgets over the last decade. On January 12, 2018 the state budget was approved by the government, and on March 15, 2018, it received final approval in the Knesset. Earlier this month, the defense budget underwent a detailed and meticulous review in the joint committee of the Knesset Foreign Affairs and Defense Committee and the Finance Committee, to provide Knesset approval for the defense budget, before final ratification of the state budget in the plenary session. Apart from the committee members, the final meeting of the joint committee was attended by the Defense Minister, the IDF chief of staff, the Defense Ministry CEO, and the Finance Ministry CEO. This approval process occurred very early relative to previous budgets, apparently in the desire to maintain budgetary stability and avoid the buildup of political pressures typical of the end of the budget year. In view of the considerable gap in times between the time for preparing the defense budget (2017) and its realization in 2019, it might be necessary to update budget details according to developments.

Defense Budget Figures

According to the draft budget that was approved, the Defense Ministry's gross budget for 2019 stands at NIS 72.9 billion, of which NIS 55.3 billion is the net budget (expenditures based on economy sources) and NIS 17.6 billion – "revenue-dependent expenditure" (expenditures financed mainly by US aid, and partly by Defense Ministry sources, e.g., sales of old equipment and real estate). This constitutes an increase over previous years: in 2018 the gross defense budget was NIS 70.5 billion (NIS 54.0 billion net) and in 2017 – NIS 70.7 billion gross (NIS 52.2 billion net). These defense budget figures for the year 2017-2019 are after cuts in the defense budgets as part of an all-round budget cut in government ministries. In the 2019 fiscal year, the "spending authorization" for multi-year spending, is NIS 36.7 billion, in contrast to NIS 34.4 billion in 2018 and NIS 35.9 billion in 2017.

The net defense budget for 2019 represents 11.5 percent of the net state budget (NIS 479.6 billion, net), and 15.4 percent of the net state budget following payment of debts and interest. The gross Defense Ministry budget represents 14 percent of the gross state

budget. The Defense Ministry's share of the state budget has remained more or less constant (the net defense budget for 2018 it was 11.7 percent of the net state budget, and in 2017 – 11.6 percent). The ratio between the Defense Ministry's budget and the estimated GDP for 2019 is approximately 4.1 percent relative to the net budget and approximately 5.4 percent relative to the gross budget, close to the Defense Ministry budget's figures for the year 2017-2018. Over the past decade, this constitutes a significant drop (in 2008 the ratio between the net defense budget and the GDP stood at 6.6 percent).

Relative to other government ministries, the net defense budget is second to that of the Ministry of Education, with a budget of approximately NIS 61 billion net (ongoing expenses and development), which does not include government support for institutes of higher learning in the amount of approximately NIS 11.5 billion.

The unclassified part of the Defense Ministry budget for 2019 details various expenses amounting to NIS 15.3 billion, as follows: approximately NIS 7.9 billion for pensions for veterans; approximately NIS 3.6 billion for the Rehabilitation Department; approximately NIS 1.5 billion for the Department of Families and Commemoration; and NIS 2.3 billion for other needs. In accordance with the budgetary agreement between the Finance Ministry and the Defense Ministry in November 2015, the rehabilitation and the families departments budgets were to be separate from the defense budget as a whole; this has yet to be realized in this budget.

United States Aid

2019 will be the first year of the aid package for the years 2019-2028, agreed on with President Obama's administration, for \$38 billion over the decade. The US aid for 2019 included in the Defense Ministry budget is \$3.3 billion, of which \$2.48 billion is for procurement in the US and \$815 million for conversion into NIS for procurement in Israeli industries. In addition, the US will participate in financing a joint project for anti-missile defense in the amount of approximately \$500 million (within the framework of the multi-year plan) and in other areas amounting to \$130 million. This comes to approximately NIS 14.7 billion (based on the budget exchange rate of NIS 3.63 to the dollar), which comprise 19.6 percent of the gross defense budget. On the other hand, under the new aid terms, Israel will not be able to procure distillates (jet fuel) with the US aid, which will necessitate considerable NIS spending, and the portion of the aid that Israel can convert into NIS for procurement in local industries will gradually decrease – particularly in the second half of the ten-year period - reaching zero in 2028. In 2019, it will not change and will stand at \$815 million. This will necessitate long range planning with respect to the local industries.

Wartime Budgets

As in the past, significant security events, such as wars or long operations, are not budgeted in the basic defense budget. For Operation Protective Edge (2014), for example, the Defense Ministry was allocated an additional budget of NIS 7 billion. Hence, should a significant security event break out, it will be necessary to increase the defense budget. In this context, the IDF Intelligence assessment warning of an increase in the risk of security deterioration is of note.

Controversy regarding the Ministry of Defense Budget

This year too, the defense budget was formulated without much wrangling between the Finance and Defense Ministries, although differences of opinion remain. The draft budget booklet includes a joint commitment, whereby “the Finance Ministry and the Defense Ministry view it important to provide a response to the budgetary requisites anchored in government resolutions and in inter-ministry decisions, to enable the Defense Ministry to abide by the multi-year plan.” It is to be hoped that this organizational culture continues in the future, in contrast to the former consistent phenomenon of wrangling that typified the Defense Ministry budget formulation process until November 2015, when the multi-year budgetary agreement was signed (for defense budgets for the years 2015-2020) between the Finance and Defense Ministries.

At the same time, differences of opinion remain. The Finance Ministry contends that the budget approved for 2019 falls within the framework of the Defense Ministry’s multi-year plan. However, Defense Minister Avigdor Liberman asserted in the Knesset joint committee meeting that the Finance Ministry cut NIS 6.2 billion from budgets of the multi-year Gideon Plan, as part of the comprehensive government budget cuts. He added that the Defense Ministry financed a NIS 2.1 billion project assigned it by the cabinet, which included building the barrier in the Gaza Strip, which was not included in the Gideon Plan. He claimed in the joint committee that the Defense Ministry is not requesting an increase to its budget due to the change in the strategic situation, but is merely requesting restoring the Gideon Plan budget to its original figure, so that it may be possible to complete the multi-year plan. Finance Ministry officials replied that the Defense Ministry cannot be immune to the comprehensive cuts in the state budget and must take on additional tasks while adjusting the Gideon Plan; these are principal issues that must be decided in the cabinet. In the past, Liberman raised the need for increasing the defense budget in the coming three years by NIS 4.8 billion due to the strategic changes in Syria. With the consent of the Finance Minister, the subject is now under the review of a special committee chaired by the head of the National Security Council, Meir Ben Shabbat, which is to present its recommendations for the final decision by the political-defense cabinet after Passover.

Changes in the Realm of Budgetary review

The 2019 draft budget booklet reported that on November 13, 2017, an agreement was signed to increase transparency and control of the payment of salaries and pensions in the IDF. It was written that “the agreement is an important building block in the system of transparency and control between the IDF and the Finance Ministry and its success will be judged by its practical implementation.”

Additional Defense Expenses

Apart from the Ministry defense budget, as from 2017, the Finance Ministry has published in the state budget documents an article entitled “miscellaneous defense expenses.” In the draft budget for 2019 this item stands at NIS 10.2 billion net (2.1 percent of the net state budget) – a significant increase since the 2017 budget. Presumably this item includes at least the budgets of the attached units in the Prime Minister’s Office that deal with national security, such as the Mossad and the Israeli Security Agency. This assessment is based on amendment number 51 to the State Budget Foundations Law of 2016, which defines the budgets of these attached units as an integral part of the state defense budget, along with the Defense Ministry budget. If so, this figure completes the picture regarding the budget of the security forces in Israel.