



ANOTHER BUDGET FOR A COUNTRY AT WAR: MILITARY EXPENDITURE IN RUSSIA'S FEDERAL BUDGET FOR 2024 AND BEYOND

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I. Introduction

On 24 February 2022 the Russian Federation launched an attack against Ukraine in what it termed at the time a 'special military operation', envisioned as a rapid invasion to change the regime in Ukraine to one acceptable to the Russian government. By the time work began in April 2023 on drafting a three-year federal budget for the years 2024 to 2026, the 'operation' had lasted for well over a year. By the time the new budget comes into force in less than a month's time, the 'operation' will have turned into a war of nearly two years' duration.

Since the war began, Russia has changed to a significant extent in many ways: not only the economy, but also society, politics and culture. At the same time, Russian President Vladimir Putin and the government strive to carry on running the country in a manner designed to convey a sense of normality to the country's population and the wider world.¹ State programmes and national projects started before the war are rolled forward and new ones initiated, not connected with the ongoing conflict. The newly occupied territories in Ukraine are treated as normal parts of the Russian Federation and have become recipients of budget funding on a significant scale. This contradictory wartime reality of Russia is reflected in the new federal budget. But one aspect of that reality may greatly complicate analysis of the budget: the fact that details of the structure of budget spending have become subject to an ever more strict classification. Indeed, the implementation of the 2023 budget, like that for 2022, has become almost impossible to follow, making comparisons with past and future patterns of spending difficult.

This SIPRI Insights paper analyses the drafting of Russia's new three-year budget and the economic forecast on which it is based (in section II), as well as the general features of the budget in terms of the structures of revenue and spending (sections III and IV). The paper then (in section V) makes a detailed study of military expenditure in terms of the budget chapter 'national defence' and of total military spending according to the SIPRI definition.

¹ This has become even more pronounced during 2023 but has been the case almost from the start of the war, as noted in Cooper, J., 'Russia's military expenditure during its war against Ukraine', SIPRI Insights on Peace and Security no. 2023/07, June 2023, p. 1.

SUMMARY

● Russia's war against Ukraine has been waged for over 650 days and has had a significant impact on the country's economy and society.

In April 2023 work started on a new three-year federal budget, which was signed into law at the end of November. It is based on a relatively optimistic economic forecast and is striking for the sharp increase in military spending planned for 2024. Spending under the budget chapter 'national defence' is expected to account for 29 per cent of total budget expenditure. This means that total military expenditure will increase to 7.1 per cent of GDP in 2024. Military spending is not the same as spending on the war: there are additional costs, some shown in the new budget.

The budget indicates that the Russian government is firmly committed to pursuing the war to a successful conclusion, accepting that this will put pressure on social and economic spending.



This includes addressing the issue of possible budget spending to reduce the accumulated debt of the defence industry. Military spending as such is not the same as spending on the war, which also involves other chapters of the budget, but detailed investigation is difficult given the secrecy that surrounds the issue and the fact that it draws to some extent on regional and other sub-federal budgets. The paper concludes (in section VI) with an assessment of the realism of the budget with respect to its implementation.

The paper is based on the detailed draft budget of 30 September as well as the final budget as signed into law by President Putin on 27 November. However, full details will be known only once the *Budget for Citizens* report is published, probably at the end of the year as has been the practice of the Ministry of Finance in recent years. From the outset it must be emphasized that for any Russian three-year budget it is only the first year, in this case 2024, that has real significance. The spending allocations for the second and third years are highly provisional and cannot be considered a reliable guide to the government's medium- or long-term thinking.

II. The process of drafting the 2024 federal budget

The first high-level meeting to discuss the 2024 budget was convened by President Putin on 11 April 2023, with the economic team present: the prime minister, Mikhail Mishustin, his first deputy, Andrei Belousov, the minister of economic development, Maksim Reshetnikov, the finance minister, Anton Siluanov, another deputy prime minister, Marat Khusnullin, the central bank director, Elvira Nabiullina, and Putin's economic adviser, Maksim Oreshkin.² On the agenda was a new economic forecast for the years 2023–26 prepared by the Ministry of Economic Development (Minekon). This forecast was significantly more optimistic than that on which the 2023 budget had been based in the previous year, as Putin noted. This suggested that the new budget would provide for more generous total funding than hitherto expected and perhaps an amended budget for 2023 later in the year. Gross domestic product (GDP) was expected to increase by 1.2 per cent in 2023 and 2.0 per cent in 2024, then by 2.6 per cent and 2.8 per cent during the years 2025 and 2026.³ Annual average consumer price inflation was to fall from 5.2 per cent in 2023 and 4.9 per cent in 2024 to 4.0 per cent in both 2025 and 2026. Exports were set to fall from US\$588 billion in 2022 to \$466 billion in 2023, but then recover steadily, reaching \$505 billion in 2026. Imports were forecast to gradually increase, giving a fairly constant trade balance of about \$150 billion and a current account balance of \$87 billion in 2023, declining to \$64 billion in 2026.

Three days later there was a joint meeting of the boards of the Ministry of Finance and Minekon at which Mishustin declared that the market character of the economy had to be retained and strengthened, and that the

² President of Russia, 'Совещание по экономическим вопросам' [Meeting on economic issues], 11 Apr. 2023.

³ Russian Ministry of Economic Development, 'Сценарные условия функционирования экономики Российской Федерации и основные параметры прогноза социально-экономического развития Российской Федерации на 2024 год и на плановый период 2025 и 2026 годов' [Scenario conditions of functioning of the economy of the Russian Federation and the main parameters of the forecast of socio-economic development of the Russian Federation for 2024 and for the planning period 2025 and 2026], 30 June 2023, accessed 9 Sep. 2023.



government had to focus more on the medium- and long-term perspectives.⁴ Siluanov said that the medium-term plan was to normalize budget policy and work towards a balanced budget by 2025. During the next three months it became increasingly clear that some of Minekon's assumptions were over-optimistic but others perhaps too gloomy. Discussion must have continued until Minekon produced a new forecast in September, although no meetings were reported.

In early August, the date on which the draft budget had to be handed over to the State Duma (the lower house of the Russian Parliament) was amended from 15 September to 1 October.⁵ On 8 September a government meeting on the draft was convened by Mishustin, with several deputy prime ministers present along with Siluanov, Nabiullina and the head of the Federal Tax Service, Daniil Egorov, but not Reshetnikov of Minekon. As usual at such meetings, Putin's economic adviser, Oreshkin, also participated. The published report on the meeting only gave Mishustin's opening, which focused on budget performance in 2023 with an expectation that the budget deficit would turn out to be about 2 per cent of forecast GDP and on positive development of the economy.⁶ But he stressed that there were still risks, with imbalances in the world economy that needed to be monitored closely. Overall, a pragmatic approach was needed, with avoidance of over-optimistic forecasts. The meeting went on to discuss the basic indicators of the draft budget, which had to be completed quite rapidly in order for the president to be informed of its basic features and for a session of the government to be able to examine the document before it was sent to the Duma.

On 21 July the Bank of Russia, the central bank, had increased the basic interest rate from 7.5 per cent (as fixed in September 2022) to 8.5 per cent. However, the rouble came under mounting pressure and on 14 August the exchange rate reached 100 roubles to the US dollar. On the next day the bank raised its key rate by 3.5 percentage points, to 12 per cent, explaining the change by the need to counter inflationary pressures.⁷ There was speculation that Putin had intervened as the 100-rouble threshold was approached.⁸

On 11 September, two days before details of the new Minekon forecast were made public, the central bank reported that the trade balance for January to August 2023 was \$72.6 billion and the current account balance only \$25.6 billion.⁹ This suggested that the outcome at the end of the year could well be much less positive than indicated by the April forecast, but Minekon retained its earlier forecast. In addition, on 13 September the exchange rate was 96 roubles to the dollar and two days later the bank increased the basic

⁴ Russian Government, 'Расширенная коллегия Министерства финансов и Министерства экономического развития' [Expanded collegium of the Ministry of Finance and the Ministry of Economic Development], 14 Apr. 2023.

⁵ TASS, 'Проект бюджета на 2024–2026 годы внесут в Госдуму до 1 октября' [Draft budget for 2024–2026 to be submitted to the State Duma by 1 October], 4 Aug. 2023.

⁶ Russian Government, 'Совещание о проекте федерального бюджета на 2024 год и плановый период 2025 и 2026 годов' [Meeting on the draft federal budget for 2024 and the planning period 2025 and 2026], 8 Sep. 2023.

⁷ Bank of Russia, 'Bank of Russia increases key rate by 350 b.p. to 12.00% p.a.', Press release, 15 Aug. 2023.

⁸ Petrov, N., 'What "manual control" looks like during a crisis', Russia Post, 29 Aug. 2023.

⁹ Interfax, 'Профицит текущего счета платежного баланса РФ в январе–августе упал в 7,2 раза' [Russia's current account surplus fell 7.2-fold in January–August], 11 Sep. 2023.

Table 1. The basic forecast of the Russian Ministry of Economic Development for 2023–26 as of mid September 2023, with actual data for 2022

	2022 actual	2023 estimate	2024 forecast	2025 forecast	2026 forecast
GDP, including newly annexed territories (b. roubles) ^a	153 435	166 015	179 956	190 637	202 304
GDP, excluding newly annexed territories (b. roubles) ^a	153 435	163 982	177 557	187 854	199 131
Rate of change in GDP (%)	-2.1	2.8	2.3	2.3	2.2
GDP deflator	115.8	103.9	105.9	103.5	103.7
Export price of oil ^b (\$ per barrel)	79.6	63.4	71.3	70.1	70.0
Inflation (CPI), Dec.–Dec. (%)	11.9	7.5	4.5	4.0	4.0
Inflation (CPI), annual average (%)	13.8	5.8	7.2	4.2	4.0
Industrial production (%)	0.6	3.6	2.6	2.2	2.3
Agricultural production (%)	10.2	-3.4	2.3	1.5	1.3
Capital investment (%)	4.6	6.0	2.3	3.0	3.0
Retail trade turnover, change (%)	-6.5	5.8	3.6	3.4	3.5
Real disposable income of population (%)	-1.0	4.3	2.7	2.6	2.3
Number employed in economy (m.)	72.0	73.3	73.3	73.8	74.0
Unemployment (%)	3.9	3.1	3.1	3.1	3.1
Productivity of labour (%)	-2.4	1.7	1.6	1.6	1.9
Exchange rate, roubles/\$	67.5	85.2	90.1	91.1	92.3
Exports of goods (\$ b.)	590.8	459.1	471.0	481.1	496.7
Exports of oil and gas (\$ b.)	344.1	233.2	242.8	243.9	246.3
Import of goods (\$ b.)	276.7	313.8	319.7	326.8	335.5
Trade balance (\$ b.)	314.1	145.3	151.3	154.3	161.2
Current account balance (\$ b.)	236.1	74.4	80.7	77.8	80.8

CPI = consumer price index; GDP = gross domestic product.

^a The Russian Federation purported to annex territories in the Donetsk, Luhansk, Kherson and Zaporizhzhia oblasts of Ukraine on 30 Sep. 2022. The annexed territory of Crimea is included in both series. The draft budget law is based on the expanded GDP series that includes the occupied territories.

^b No specific oil price benchmark is defined.

Source: Russian Ministry of Economic Development, 'Прогноз социально-экономического развития Российской Федерации на 2024 год и на плановый период 2025 и 2026 годов' [Forecast of the socio-economic development of the Russian Federation for 2024 and the planning period 2025 and 2026], Sep. 2023, accessed 24 Sep. 2023.

interest rate from 12 per cent to 13 per cent.¹⁰ Nabiullina explained that the rate of inflation had continued to accelerate and there were still pressures on the rouble; the forecast for 2023 had been revised, with the rate of inflation increased to 6–7 per cent. Details of the new forecast began to emerge and it was soon published in full (see table 1).

In the text of the forecast, Minekon sets out its priorities and lists the risks that had been identified. It sought to advance towards the goals set by President Putin, including growth of the economy, strengthened economic relations with 'friendly' states, the promotion of 'technological sovereignty'

¹⁰ Bank of Russia, 'Заявление Председателя Банка России Эльвиры Набиуллиной по итогам заседания Совета директоров Банка России 15 сентября 2023 года' [Statement by Elvira Nabiullina, chairman of the Bank of Russia, following the meeting of the Board of Directors of the Bank of Russia on 15 September 2023], 15 Sep. 2023.



Table 2. Forecast rate of output growth of some branches of the machine building industry, 2023–26 and actual output in 2022

	2022	2023	2024	2025	2026
Computers, electronic and optical goods ^a	9.3	34.1	6.9	5.1	4.8
Electrical equipment ^b	1.1	25.8	7.1	5.9	5.3
Auto-transport means ^c	-44.2	16.5	6.7	8.6	10.2
Other transport means and equipment ^d	-2.0	26.3	8.3	5.9	6.4
All machine building	7.5	8.2	6.1	5.5	3.9
Deflator for machine building	117.1	107.7	106.1	105.6	104.1

Note: The table does not include the sub-branch ‘Finished metal goods besides machines and equipment’, which includes artillery systems, multiple launch rocket systems (MLRS), infantry weapons and munitions.

^a This branch includes radio, radar, guidance and optical systems, and other electronic systems and components for weapons.

^b This branch includes electric motors, systems and components for weapons.

^c This branch includes military trucks.

^d This branch includes aircraft, ships, missiles, space systems, uncrewed aerial vehicles (UAVs), tanks and armoured vehicles.

Source: Russian Ministry of Economic Development, ‘Прогноз социально-экономического развития Российской Федерации на 2024 год и на плановый период 2025 и 2026 годов’ [Forecast of the socio-economic development of the Russian Federation for 2024 and the planning period 2025 and 2026], Sep. 2023, accessed 24 Sep. 2023, p. 35 and table 9.

and the maintenance of a balanced budget.¹¹ But there is no mention of the ‘special military operation’ and only a passing reference to sanctions. Three risks are identified.¹² The first is external: the slowing of the world economy, reducing demand for Russia’s traditional export goods. The main domestic risk is seen as a shortage of labour, making increasing labour productivity and ensuring labour market flexibility key priorities. Third, any further toughening of monetary and credit policy or its untimely return to softening could have a negative impact on investment activity. A conservative variant of the forecast took account of these risks. While Minekon acknowledges that the demographic situation is unfavourable, no population forecast is provided. A curious feature of the forecast is the use of an undefined ‘export price of oil’. However, Reshetnikov, the economic development minister, at a meeting of the government to discuss the draft budget, gave the price in terms of the Brent oil price benchmark: \$83.5 per barrel in 2023, \$85 in 2024, \$80.2 in 2025 and \$76.2 in 2026.¹³

An interesting table shows the forecast growth of output of certain branches of the machine building industry. As it happens, the branches shown cover the main ones concerned with military-related production (see table 2). It can be seen that the forecast sharp increases in the output of military-related goods occur only in 2023, moderate in 2024 and return to more normal levels in 2025 and 2026. The first branch shown includes radar, guidance and optical systems for weapons and the second includes electric motors and other systems for them. The auto-transport branch is dominated by the production of passenger cars, but the forecast growth for 2023 is probably in

¹¹ Russian Ministry of Economic Development, ‘Прогноз социально-экономического развития Российской Федерации на 2024 год и на плановый период 2025 и 2026 годов’ [Forecast of the socio-economic development of the Russian Federation for 2024 and the planning period 2025 and 2026], Sep. 2023.

¹² Russian Ministry of Economic Development (note 11), p. 11.

¹³ Balasyan, L., ‘Нефтегазовые доходы бюджета в 2024 году должны вдвое превысить нефтегазовые’ [Non-oil and -gas budget revenues in 2024 should be twice as high as oil and gas revenues], *Kommersant*, 22 Sep. 2023.



Table 3. The principal indicators of the draft Russian federal budget for 2024–26

Figures are millions of roubles.

	2023 ^a	2024	2025	2026
Revenue	28 674 100	35 065 284	33 552 353	34 050 983
As share of GDP (%)	17	19	18	17
Expenditure	30 265 784	36 660 675	34 382 810	35 587 392
As share of GDP (%)	18	20	18	18
Open spending	23 300 807	25 650 861	25 782 908	28 018 583
Classified spending	6 964 977	11 009 814	8 599 902	7 568 809
Classified share (%)	23	30	25	21
Spending, state programmes	25 444 294	24 289 417	23 168 901	25 051 893
Including classified	6 091 967	3 849 632	3 319 683	3 968 618
Classified share (%)	24	16	14	16
Spending, non-programme	4 821 490	12 371 258	10 354 339	8 756 129
Including classified	873 010	7 160 183	5 280 219	3 600 191
Classified share (%)	18	58	51	41
Conditionally approved expenditure	..	–	859 570	1 779 370
Balance	–1 591 684	–1 595 391	–830 457	–1 536 409
As share of GDP (%)	1.0	0.9	0.4	0.8
GDP ^b	166 015 000	179 956 000	190 637 000	202 304 000

GDP = gross domestic product.

Note: The explanatory note (p. 25) forecasts 2023 total expenditure of 31 674 800 million roubles and a deficit of –3 000 700 million roubles (1.8 per cent of GDP).

^a Figures for 2023 are from the budget listing of 1 September 2023.

^b The Ministry of Finance based the budget on the enlarged GDP forecast as shown in table 1.

Source: Russian State Duma, Draft Federal Law no. 448554-8 ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023, pp. 1–3, and explanatory note, pp. 21, 25, 131, 132, 414.

part accounted for by an increased output of trucks for the armed forces. This suggests that the forecast is founded on an assessment of a sharp increase in procurement for the war in 2023 that is then maintained at this increased level and more into 2024 and perhaps beyond. That may, however, be for post-war re-equipment of the armed forces. The defence industry is clearly expected to remain active.

Not surprisingly, there has been some questioning of the realism of the forecast. Are the rates of growth too ambitious? Can the rate of inflation be reduced as rapidly as forecast given the evident inflationary pressures, including an extremely tight labour market? Is the exchange rate realistic given the obstinate tendency in autumn 2023 for it to hover close to 100 roubles to the dollar?

In its assessment, the Russian Accounts Chamber—the government audit agency—noted that the draft budget has been based on a more optimistic forecast than that drawn up by the central bank, which set GDP growth in 2024 at only 0.5–1.5 per cent. The acting head of the chamber, Galina Izotova, told the Duma that the oil price projection also seemed too optimistic and



expressed surprise that Minekon had not used the usual Urals price.¹⁴ A number of commentators questioned the exchange rate forecast. One observed caustically that the forecast appeared to have been prepared just as the government needed to permit an apparent large growth of spending made possible by a depreciated rouble and a relatively high rate of inflation: the main task of the budget ‘is to give Vladimir Putin the impression that all is going well. “Everything is fine, Vladimir Vladimirovich, there is money for the war, and enough for social services and elections.”’¹⁵

On 18 September Putin convened a meeting to discuss the draft budget. In his brief introduction, Putin said that the economic situation was better than expected earlier in the year, but inflation was now the basic problem, the main factor being the weakening of the rouble. Timely decisions were needed but he expressed confidence that the government would act professionally and, ‘most importantly, in a coherent manner’. The restoration of the economy had been completed, according to Putin. Much work had been done by the government to achieve it, ‘simply colossal by its volume and complexity’.¹⁶

III. The principal features of the draft budget

On 28 September the Ministry of Finance published its ‘Basic directions of budget, tax and tariff policy for 2024 and the planning period 2025 and 2026’.¹⁷ This 162-page document sets out the basic thinking behind the draft budget and presents its principal features. The draft budget itself was submitted to the State Duma for approval on 29 September (see table 3). For the first time it was transferred entirely in a non-paper form, on 14 disks.¹⁸ Accompanying the draft budget was the usual explanatory note and the new economic forecast. It was quickly put on to the Duma’s legislation website and numbered as Draft Federal Law no. 448554-8.¹⁹ Its first reading was scheduled for 26 October, after the relevant committees had examined it in detail.²⁰

Although the final budget law is available, the draft budget with its accompanying documents provides much more detail of the structure of spending. Apart from noting total expenditure for each year, the final law

¹⁴ Stepanov, G., ‘Проект российского бюджета вызвал у Счетной палаты недоумение’ [Russia’s draft budget perplexes the Accounts Chamber], *Moskovskij Komsomolets*, 17 Oct. 2023; and Visloguzov, V., ‘Счетная палата присмотрелась к бюджету’ [The Accounts Chamber took a closer look at the budget], *Kommersant*, 17 Oct. 2023.

¹⁵ Grozovskii, B., ‘Военный бюджет хорошего настроения’ [The military budget of good cheer], *Istories*, 2 Oct. 2023 (author translation).

¹⁶ President of Russia, ‘Совещание по проекту федерального бюджета на 2024–2026 годы’ [Meeting on the draft federal budget for 2024–2026], 18 Sep. 2024 (author translation).

¹⁷ Russian Ministry of Finance, ‘Основные направления бюджетной, налоговой и таможенно-тарифной политики на 2024 год и на плановый период 2025 и 2026 годов’ [Basic directions of budget, tax, customs and tariff policy for 2024 and the planning period 2025 and 2026], 28 Sep. 2023.

¹⁸ Shushkina, A., ‘В Госдуму поступил проект бюджета страны на 2024–2026 годы’ [The State Duma has received the national draft budget for 2024–2026], *Parlamentskaya gazeta*, 29 Sep. 2023.

¹⁹ Russian State Duma, Draft Federal Law no. 448554-8 ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023. The Duma website is not normally accessible but some limited access proved possible.

²⁰ Finmarket, ‘Госдума рассмотрит проект бюджета на 2024–2026 годы в первом чтении 26 октября’ [The State Duma will consider the draft budget for 2024–2026 in the first reading on 26 October], 29 Sep. 2023.

Table 4. Spending by budget chapter in the draft Russian federal budget for 2024–26

Budget chapter	2023 as of 1 Sep. ^a		2024 draft budget		2025 draft budget		2026 draft budget	
	b. roubles	Share (%)	b. roubles	Share (%)	b. roubles	Share (%)	b. roubles	Share (%)
1 General state issues	2 324	7.7	2 071	5.7	2 287	6.3	2 411	6.4
2 National defence	6 407	21	10 775	29	8 534	25	7 409	21
3 National security, law and order	3 226	11	3 389	9.2	3 275	9.5	3 406	9.6
4 National economy	4 126	14	3 890	11	3 248	9.5	3 666	10
5 Housing	857	2.8	881	2.2	507	1.3	381	1.0
6 Environment	347	1.2	478	1.3	470	1.4	522	1.5
7 Education	1 464	4.8	1 547	4.2	1 312	3.8	1 412	4.0
8 Culture	209	0.7	224	0.6	177	0.5	227	0.7
9 Healthcare	1 570	5.2	1 620	4.4	1 634	4.7	1 615	4.5
10 Social policy	6 493	21	7 732	21	7 693	22	7 855	22
11 Physical fitness, sport	71	0.2	68	0.2	54	0.2	53	0.1
12 Mass media	122	0.4	121	0.3	94	0.3	100	0.3
13 Debt servicing	1 519	5.0	2 291	6.3	2 804	8.1	3 316	9.3
14 Inter-budget transfers	1 531	5.1	1 474	4.5	1 433	4.8	1 434	4.6
Conditionally approved spending	–	–	–	–	860	2.5	1 779	5.0
Total expenditure	30 266	100	36 661	100	34 383	100	35 587	100

^a These figures are from the budget listing of 1 September 2023.

Source: Russian State Duma, Draft Federal Law no. 448554-8 ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023, explanatory note, pp. 443–44.

on the budget is devoted to open budget spending only. It provides no information at all on total spending, open plus classified spending, or spending by budget chapter and subchapter. Hence, this following analysis is restricted to the draft budget.

According to the explanatory note, total budget expenditure in 2023 is forecast to be 31 674 800 million roubles.²¹ This indicates that the budget listing (i.e. the upper limit on spending) is expected to increase by 1 409 016 million roubles in the final four months of the year, amounting to an additional 4.7 per cent. However, as of 28 November, the budget listing had reached 32 582 billion roubles, suggesting that the final total will be even larger, perhaps 33 000 billion roubles or more.²²

The budget for 2024 is ambitious, with a 22 per cent nominal increase in revenue and a 21 per cent nominal increase in spending. But this is a one-off development as both revenue and spending are forecast to fall in the following two years. The budget deficit is forecast to decline steadily, remaining at less than 1 per cent of GDP.

²¹ Russian State Duma, Draft Federal Law no. 448554-8 (note 19), explanatory note, p. 25.

²² Russian Ministry of Finance, ‘Федеральный бюджет по данным budget.gov.ru по состоянию на 28 ноября 2023: Расходы’ [Federal budget according to data of budget.gov.ru as of 28 November 2023: Expenditure], accessed 7 Dec. 2023.



A striking, and puzzling, feature of the draft budget is the substantial increase in ‘non-programmed’ spending in 2024 compared with 2023, almost all classified. Most budget expenditure (84 per cent in the first nine months of 2023) now takes the form of spending under a set of state programmes (discussed below). The remainder, known as ‘non-programmed’ spending, falls under 14 headings. By far the largest is ‘development of the pension system’; others include ‘the president and his administration’, ‘the chair of the government, his deputies and apparatus’, ‘the Duma and the Federation Council’, down to ‘the Federal Courier Service’.²³ The final non-programmed spending heading is ‘the realization of functions of other federal organs of state power’, which is also large and appears to be a kind of contingency fund used in the course of the year to fund subsidies, to give financial support to loss-making activities, and to fund new initiatives not foreseen in the budget, among other things. Some of this spending is classified.

The most significant detail of the draft budget is the substantial increase in spending on ‘national defence’ planned for 2024, when its share of total spending is to rise to 29 per cent, compared with 21 per cent in 2023 up to September (see table 4). It is then planned to fall by more than 2200 billion roubles in 2025 and by a further 1100 billion roubles in 2026. At first sight this could suggest that the government expects the war to be over by the end of 2024 or early 2025, or perhaps wishes to give that impression to the Russian public and the wider world. However, the second and third years of three-year budgets are highly provisional and usually have limited value for revealing intentions beyond the first year.

It should be noted that spending on ‘national defence’ in 2023 is nothing like as large as the 9.7 trillion roubles claimed by a Reuters article that caused a stir when it appeared in August.²⁴ The article, which was apparently based on a government document obtained by the news agency, was widely cited, often without any qualification. It appears, however, that the authors simply added spending on ‘national defence’ to that on ‘national security, law and order’ and called the total ‘defence spending’.²⁵

Speaking on the draft budget at the Federation Council (the upper house of the Russian Parliament) on 3 October, Siluanov declared that the first priority of the budget was ‘strengthening the country’s defence capability and supporting participants in the special military operation. The resources planned for next year make it fully possible to meet the objectives of the special military operation.’²⁶ However, when presenting the budget to State Duma committee members just two weeks later, he underlined that it was, above all,

²³ On the origins of the programme system of funding see Cooper, J., *Russian Military Expenditure: Data, Analysis and Issues*, Swedish Defence Research Agency (FOI) Report no. FOI-R-3688-SE (FOI: Stockholm, Sep. 2013), pp. 45–47.

²⁴ Reuters, ‘Exclusive: Russia doubles 2023 defense spending plan as war costs soar’, 4 Aug. 2023. For a more accurate figure see Cooper (note 1).

²⁵ This is also the view of Janis Kluge of the German Institute for International and Security Affairs (SWP). Kluge, J. (@jakluge), ‘Back in August, Reuters reported that #Russia plans to increase defense spending to 9.7 trillion RUB in 2023. According to the recently published budget data, the sum of national defense and security (incl. police) spending was 9.6 trillion, so that was probably the confusion.’, X, 1 Oct. 2023.

²⁶ RIA Novosti, ‘Силуанов назвал обороноспособность России приоритетом бюджета’ [Siluanov calls Russia’s defence capability a budget priority], 3 Oct. 2023 (author translation).

**Table 5.** Total expenditure of the Russian budget system, 2023 and draft budget for 2024–26

Figures are billions of roubles.

	2023 ^a	2024 draft	2025 draft	2026 draft
National defence	6 466	10 840	8 602	7 482
National security, law and order	3 485	3 666	3 572	3 725
National economy	8 812	8 879	8 393	8 943
Education	5 965	6 408	6 481	6 908
Health	6 001	6 740	6 918	7 229
Social policy	18 352	19 716	20 637	21 674
Other, including provisionally approved	10 295	11 374	12 724	14 607
Total	59 376	67 623	67 327	70 568

^a Figures for 2023 are from the budget listing of 1 September 2023.

Source: Russian Accounts Chamber, *Заключение Счетной палаты Российской Федерации на проект федерального закона «О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов» (основные положения)* [Opinion of the Accounts Chamber of the Russian Federation on the draft federal law ‘On the federal budget for 2024 and for the planning period 2025 and 2026’ (main provisions)] (Accounts Chamber: Moscow, 2023), p. 9.

‘socially orientated’, ‘not military’.²⁷ Most social spending does indeed show an increase in nominal terms in 2024 compared with the first nine months of 2023, but in some cases may decline when the final total for 2023 is known.

Given the need to respond to sanctions and prepare for a larger volume of investment, it is surprising that spending on the chapter ‘national economy’ is set to decline in 2024 and even more so in 2025. The planned spending also reveals the impact of the higher basic interest rate, with debt servicing forming a rapidly increasing share of total spending; it is set to reach over 9 per cent of the total by 2026, compared with 5 per cent in 2023.

The federal budget is only one component of the whole Russian budgetary system, and most socially orientated spending is funded from regional and other sub-federal budgets. In its assessment of the draft budget, the Accounts Chamber helpfully provides a table showing the structure of spending of the consolidated (i.e. federal plus sub-federal) budget plus state extra-budgetary funds (see table 5). It can be seen that the total for ‘national defence’ is larger to a modest extent than in the federal budget. This is because some expenses of the system for the mobilization and initial training of service people is charged to regional budgets. The volumes concerned are 56 billion roubles in the first nine months of 2023, 65 billion roubles in the draft budget for 2024, 68 billion roubles in 2025 and 73 billion roubles in 2026.

From the perspective of the entire budget system, Siluanov’s claim that it is socially orientated has validity. Taking the year 2024, the share of defence and national security is 21 per cent of the total across the budget system, and that of social policy, health and education is 49 per cent. The equivalent data is not available for 2021 and 2022, but in 2020 defence and national security accounted for 13 per cent of actual spending and social policy, education and

²⁷ Filonenko, V., ‘Силуанов: Бюджет на 2024-2026 годы—не военный, а социальный’ [Siluanov: The budget for 2024-2026 is not military, but social], *Parlamentskaya gazeta*, 16 Oct. 2023 (author translation).

**Table 6.** Revenues of the Russian federal budget, 2023 and draft budget for 2024–26

Figures are billions of roubles.

	2023 ^a	2024	Change, 2023–24	2025	2026
Total revenues	28 674	35 065	+6 391	33 552	34 051
As share of GDP (%)	17.2	19.5	+2.2	17.6	16.8
<i>Oil and gas revenues</i>	8 864	11 504	+2 640	11 760	11 415
As share of GDP (%)	5.3	6.4	+1.1	6.2	5.6
Including basic oil and gas revenues	8 000	9 683	+1 683	9 924	9 570
<i>Non-oil–gas revenues</i>	19 810	23 561	+3 751	21 792	22 636
As share of GDP (%)	11.9	13.1	+1.2	11.4	11.2
Taxes and duties	13 641	14 782	+1 141	15 615	16 458
Related to domestic production	7 873	8 640	+767	9 262	9 862
Related to imports	5 768	6 142	+374	6 353	6 596
Taxes on profit/income	1 988	2 210	+222	2 295	2 359
Other	4 181	6 569	+2 388	3 882	3 819

^a Figures for 2023 are from the budget listing of 1 September 2023.

Source: Russian State Duma, Draft Federal Law no. 448554-8 ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023, explanatory note, pp. 48–49.

health 57 per cent, indicating the extent to which the war has had a negative impact on total social spending.²⁸

IV. Revenues in the draft budget: Are they realistic?

Before considering military expenditure in more detail it is necessary to consider whether the ambitious budget is realistic from the point of view of implementation.

Significant nominal increases are forecast for both oil and gas revenues and revenues from other sources in 2024 compared with 2023 (see table 6). The main sources of additional revenue in 2024 include a reduction of the established discount in relation to the price of Brent oil, from \$20 a barrel in 2023 to \$15 in 2024 (giving 861 billion roubles); new duties on a range of exported goods (453 billion roubles); additional turnover tax arising from increased GDP (767 billion roubles); and various one-off non-tax incomes (850 billion roubles). The remaining additional revenues of about 3500 billion roubles are expected to arise from already agreed changes in legislation and from increased economic activity.²⁹ This is clearly an optimistic forecast of revenues in 2024 and must be vulnerable to unpredictable development such as a tightening of sanctions on oil exports; reduced exports because of a deterioration of international economic conditions; or less favourable domestic economic development than forecast. With a significant increase in budget expenditure, this could give rise to a much larger budget deficit

²⁸ Russian Treasury, ‘Консолидированный бюджет Российской Федерации и бюджетов государственных внебюджетных фондов 2020’ [Consolidated budget of the Russian Federation and budgets of state extra-budgetary funds 2020], 1 Jan. 2021.

²⁹ Russian State Duma, Draft Federal Law no. 448554-8 (note 19), explanatory note, pp. 50–54.

**Table 7.** Forecast value of Russia's National Welfare Fund, 2023–26

Figures are billions of roubles.

	2023 estimate	2024 forecast	2025 forecast	2026 forecast
Value at beginning of year	10 435	12 178	11 191	13 003
As share of GDP (%)	6.3	6.8	5.9	6.4
Supplements of NWF	1 089	334	1 821	1 836
Use of NWF	-3 462	-1 302	-2	-
Impact of exchange rate changes	4 116	-19	-7	33.6
Value at end of year	12 178	11 191	13 003	14 872
As share of GDP (%)	7.3	6.2	6.8	7.4
Means held by Bank of Russia ^a	5 851	4 905	6 756	8 656

GDP = gross domestic product; NWF = National Welfare Fund.

^a The most liquid part of the NWF is the means held by the Bank of Russia.

Note: On 1 November 2023 the NWF was 13 541 billion roubles (\$145.22 billion), 9.0 per cent of forecast GDP. Russian Ministry of Finance, 'Объем Фонда национального благосостояния' [Value of the National Welfare Fund], 20 Nov. 2023.

Source: Russian State Duma, Draft Federal Law no. 448554-8 'О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов' [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023, explanatory note, p. 28.

than envisaged. While this would have to be funded, it may well be possible without serious economic difficulties.

One source of funding for the deficit is the National Welfare Fund (NWF), Russia's sovereign wealth fund. According to the explanatory note to the draft budget, in 2023 the deficit will be partly funded by 3462 billion roubles from the NWF, in 2024 by 1302 billion roubles, falling to only 1.7 million roubles in 2025 and zero in 2026. The rest of the deficit will be funded by state borrowing.³⁰ The NWF is certainly large enough to cover larger deficits than forecast: as a share of GDP, the NWF is forecast to be almost the same at the end of 2026 as it will be at the end of 2023 (see table 7).

According to Siluanov there are no plans to change the rates of basic taxes over the three years of the budget.³¹ However, there are still many ways of increasing revenues, often by stealth or short-term measures. In principle, the government should be able to fund the ambitious spending planned for 2024 and the planned deficit is, by international standards, modest. However, many questions remain, not least if the war continues into 2025 or even beyond and there is a protracted fall in the rate of investment (see also below).

In mid October a measure was adopted to check the steady depreciation of the rouble. It obliges companies, not identified, of many sectors to repatriate at least 80 per cent of their export earnings and sell 90 per cent of these sums on the domestic market.³² This measure is supposedly to be in force only for a six-month period, but it could easily be extended.

³⁰ Russian State Duma, Draft Federal Law no. 448554-8 (note 19), explanatory note, p. 28.

³¹ Kostereva, M., 'Силуанов: Минфин не планирует менять налоговые ставки в эту трехлетку' [Siluanov: Finance Ministry does not plan to change tax rates in this three-year period], *Kommersant*, 16 Oct. 2023.

³² Ктыучкова, Е., 'Выручке назначили процент' [Revenue has been assigned a percentage], *Kommersant*, 13 Oct. 2023; and Prokopenko, A., 'Курс на выборы. Зачем в России вернули обязательную продажу валюты' [Heading for elections: Why Russia has brought back the compulsory sale of currency], Carnegie Endowment for International Peace, 16 Oct. 2023.



Table 8. Spending in the budget chapter ‘national defence’ in the draft Russian federal budget for 2024–26 plus some other military- and security-related spending of other chapters

Figures are millions of roubles.

	2023 ^a	2024	2025	2026
Armed Forces	5 363 076	3 293 656	3 020 556	3 502 048
Mobilization and training	17 510	18 870	18 672	19 148
Mobilization of economy	2 737	2 713	2 713	2 745
Peacekeeping	4 131	–	–	–
Nuclear weapons	49 266	62 746	56 932	62 094
Military-technical cooperation	16 576	17 857	18 050	18 475
Applied R&D	406 046	396 233	324 966	345 510
Other questions of national defence	547 351	6 983 367	5 092 255	3 458 944
Total ‘national defence’	6 406 703	10 775 442	8 534 144	7 408 964
National Guard troops	411 661	351 703	353 722	367 103
Border troops	180 492	201 350	205 179	219 061
Security services	507 589	548 412	509 890	522 401
State material reserves	230 162	132 553	97 639	98 345
Civil defence	59 374	58 982	51 974	53 815
Including GUSP	..	35 594	30 923	31 343

GUSP = Glavnoe Upravlenie Spetsial’nykh Programm (Main Directorate of Special Programmes); R&D = research and development.

^a Figures for 2023 are from the budget listing of 1 September 2023.

Source: Russian State Duma, Draft Federal Law no. 448554-8 ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023, explanatory note, appendix 15.

V. Military spending in the draft and final budget

Details of planned spending on the military in the draft federal budget can be found in appendix 12 (on open spending by government agency) and appendix 15 (on open spending by budget classification) of the budget itself and in the explanatory note, in particular appendix 15 (which sets out total spending by budget chapter and subchapter) and appendix 13 (on open spending on state programmes). In addition, it has been possible to access the Accounts Chamber’s assessment of the draft budget, but not its detailed appendices.

Alongside the ‘national defence’ chapter, some military- and security-related spending appears in other chapters (see table 8).

Trends in the national defence budget

In some respects the data for national defence is puzzling, not least the fact that in 2024–26 such a large proportion of the total is under the subchapter ‘other questions of national defence’: 65 per cent in 2024, 60 per cent in 2025 and 47 per cent in 2026. This has never been the case in earlier draft or approved budgets: the largest share has always been the first subchapter, ‘Armed Forces of the Russian Federation’, which covers payment of personnel, most operations and maintenance, and arms procurement. One possibility is that the decision to allocate such large sums to defence was taken late in the process of preparing the budget, not giving time for the government and the Ministry of Defence (MOD) to decide on its allocation.

Table 9. Spending on ‘national defence’ in the law on the Russian federal budget for 2023 compared with the budget listing of 1 September 2023

Figures are millions of roubles.

	2023 budget law	2023 listing, 1 Sep. 2023	Difference
Armed Forces	2 542 297	5 363 076	+2 820 770
Including open spending	1 126 844
Mobilization and training	17 976	17 510	-466
Mobilization of economy	2 712	2 737	+25
Peacekeeping	-	4 141	+4 141
Nuclear weapons (classified)	49 266	49 266	-
Military-technical cooperation	14 839	16 576	+1 737
Including open spending	7 005
Applied R&D	409 217	406 046	-3 171
Including open spending	24 156
Other questions of national defence	1 945 299	547 351	-1 397 948
Including open spending	178 984
Total	4 981 606	6 406 703	+1 425 097
Open spending	1 354 965		
Classified spending	3 626 641		

R&D = research and development.

Note: Open spending as of 1 September 2023 is not available.*Sources:* Budget law: Cooper, J., ‘Russia’s military expenditure during its war against Ukraine’, SIPRI Insights on Peace and Security no. 2023/07, June 2023, p. 10. Budget listing: table 8.

To understand this shift in budget lines in 2024, it is worth exploring 2023 by comparing the data on spending up to September with the budget law for the year, as adopted in December 2022 (see table 9).³³ Given the increased scale of the armed forces and procurement of a large volume of arms and munitions, enhanced spending on the armed forces would have been expected. But the scale of the increase is surprisingly large. In contrast, the sizeable reduction in spending on ‘other questions’ is also surprising but suggests the possibility that, going into 2024, this subchapter is being treated as a reserve for reallocation during the year depending on developments in the war.

It cannot be ruled out that another factor may be involved, namely that an opportunity has been taken to help the defence industry to pay off some of the large debt it has accumulated. There is little doubt that many defence industry companies are now experiencing financial difficulties. Since the start of the war, costs have been rising inexorably. Many inputs have become more expensive, especially those obtained from abroad, often with resort to parallel imports and much more costly supply chains. At the same time, many enterprises have been facing difficulties in finding workers and often have no choice but to increase rates of pay. With transition to multi-shift work and work over holiday periods, extra pay has to be offered to compensate for work at unsocial times. But, while costs have been rising, the customer—the MOD—still maintains its traditional opposition to increasing the price

³³ Cooper (note 1), p. 10.



of weapons, munitions and other materiel above the level specified in contracts.³⁴ This inevitably leads to losses that companies have to cover, often by resort to bank borrowing at high rates of interest. In earlier years (e.g. 2016 and 2017), substantial budget allocations were made to the defence industry to pay off accumulated debts. The possibility that part of the large increase in funding for ‘national defence’ is for debt relief has been noted by informed commentators. In particular, Pavel Luzin and Aleksandra Prokopenko stress the seriousness of the debt problem, which had reached 3 trillion roubles by the end of 2020 and threatened to engulf large state companies such as Rostec.³⁵ Already in 2022 Roscosmos had a loss of 50 billion roubles and the United Shipbuilding Corporation lost 20 billion roubles.³⁶ Possible additional evidence for debt repayment is a claim by Sergei Aleksashenko, a former deputy finance minister, that funding of the state defence order has been increased from approximately 1.5 trillion roubles in 2022 to about 3 trillion in 2023, with more than 5.5 trillion planned for 2024.³⁷ The first two figures are indeed entirely plausible, but the third would appear to be too large unless it includes an element of debt repayment. If some of the funding in 2023 is indeed for debt relief, then not all the large planned increase in funding for 2024 may be directed to increasing military capability to fight the war.

However, there may be another means of paying off defence industry debt without resort to the ‘national defence’ budget. Indeed, in January 2020 Putin signed a classified edict authorizing debt restructuring and the use of budget funding to reduce the defence industry’s debt burden by about 450 billion roubles. This appears to have been realized through the principal bank serving the industry, Promsvyaz’bank, probably by a budget transfer to enhance its capital.³⁸ There is no evidence that this was done from the defence budget, as was the practice in earlier years. It is quite possible that it was done by drawing on classified non-programmed funding, probably allocated to ‘the realization of the functions of other federal organs of state power’. This is a non-transparent but large component of the annual federal budget. According to the explanatory note to the 2023 draft budget, its uses include allocations to various reserve funds to assist federal bodies in realizing their functions, subsidies, contributions to the capital of companies (often used as a means of strengthening their finances) and other measures of support.³⁹ In effect, it is a contingency fund that is steadily run down in the course of a year.

³⁴ These developments are very similar to those that occurred after 2014 when many defence companies were sanctioned after the annexation of Crimea, leading to numerous enterprises making losses and debt rapidly building up, reaching 2 trillion roubles by the end of 2019. Lugacheva, L. I. and Solomennikova, E. A., ‘Финансово-хозяйственные дисбалансы компаний оборонно-промышленного комплекса и функциональная поддержка государства’ [Financial and economic imbalances of military-industrial complex companies and functional support of the state], *Ekonomika, Predprinimatel'stvo i Pravo*, vol. 10, no. 12 (Dec. 2020), pp. 3253–55.

³⁵ Luzin, P. and Prokopenko, A., ‘Пушки важнее всего. Что проект бюджета—2024 говорит о приоритетах Кремля’ [Guns are more important than anything else—What the draft budget 2024 says about the Kremlin’s priorities], Carnegie Endowment for International Peace, 29 Sep. 2023.

³⁶ Luzin and Prokopenko (note 35).

³⁷ Rybakova, T., ‘В России—устойчивость и Госплан, в мире—борьба США и Китая с кризисом’ [In Russia—sustainability and Gosplan; in the world—the USA and China struggle with crisis], Republic, 1 Dec. 2023.

³⁸ *Vedomosti*, ‘Костин рассказал о закрытом указе президента по долгам оборонных предприятий’ [Kostin has spoken of a classified presidential edict on the debts of defence enterprises], 23 Jan. 2020.

³⁹ Russian Federation Council, ‘Пояснительная записка к проекту федерального закона “О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов”’ [Explanatory note to the

**Table 10. Non-programmed Russian federal budget expenditure in 2023 and 2024**

Figures are millions of roubles.

	2023 draft budget	2023 budget listing, 1 Sep. 2023	2024 draft budget
Total non-programmed expenditure	8 411 241	4 821 490	12 371 258
Open spending	4 086 335	3 948 480	5 211 075
Classified spending	4 324 906	873 010	7 160 183

Sources: 2023 draft budget: Russian Federation Council, ‘Пояснительная записка к проекту федерального закона “О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов”’ [Explanatory note to the draft federal law ‘On the federal budget for 2023 and the planning period 2024 and 2025’], accessed 18 Oct. 2023. 2023 budget listing and 2024 draft budget: Russian State Duma, Draft Federal Law no. 448554-8 ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023, explanatory note, p. 414.

Almost 80 per cent of the large allocation for classified non-programmed expenditure in the 2023 draft budget had been spent by the beginning of September (see table 10). However, no information on its use is available. The allocation in 2024 is much larger—more than 7 trillion roubles in classified spending. There would thus appear to be significant scope for paying off defence industry debt.

Approval of the budget

The budget had its first reading in the State Duma on 26 October and was approved with 80 of the 450 deputies (from the Communist and A Just Russia parties) voting against. In the discussion the war was hardly mentioned, perhaps because Siluanov opened with a firm declaration: ‘The first and crucial task, unquestionably our priority, is strengthening the defence capability of the country and supporting the participants in the special military operation. Next year the resources of the state have been concentrated on the achievement of the basic goal—our victory.’⁴⁰ Gennady Zyuganov, leader of the Communist Party, argued that it was not sufficiently a ‘budget for victory’, hence his party’s vote against.

The second reading, on 15 November, voted on amendments. The government itself submitted no fewer than 769 amendments redistributing spending to a total of 6.7 trillion roubles.⁴¹ There were several amendments to ‘national defence’, but they appear to have been mainly transfers from the classified part of spending to open. These amendments totalled 725 billion roubles in 2024, including 370 billion roubles relating to pay and 305 billion roubles relating to procurement. In addition, pensions and social support for military personnel were also increased, plus support for the newly annexed regions.⁴² The third reading was held on 17 November, when it was approved with little discussion by 325 votes to 81, and five days later the Federation

draft federal law ‘On the federal budget for 2023 and the planning period 2024 and 2025’], pp. 456–66.

⁴⁰ Siluanov, A. G., Russian minister of finance, Address to the State Duma, Transcript, 26 Oct. 2023 (author translation).

⁴¹ Russian Ministry of Finance, ‘Поправки к проекту федерального бюджета на 2024–2026 гг. внесены в Государственную Думу’ [Amendments to the draft federal budget for 2023–26 submitted to the State Duma], 7 Nov. 2023.

⁴² RBK, ‘Власти перераспределят более ₪1 трлн из закрытой части бюджета в открытую’ [The authorities will redistribute more than ₪1 trillion from the closed part of the budget to the open], 15 Nov. 2023.



Council gave unanimous backing, enabling President Putin to sign it into law on 27 November, when the 4937-page document was quickly published.⁴³ However, the total for ‘national defence’ will not be known until the Ministry of Finance publishes its *Budget for Citizens* at the end of the year.

Total military expenditure in 2024–26 in the budget law

So far the analysis has been restricted to the draft budget but, when considering military spending, the final budget law offers a more reliable account of intentions. The available data makes it possible to calculate total military expenditure planned for 2024–26 (see table 11).⁴⁴ It can be seen that, compared with the draft budget, spending on the ‘Armed Forces’ has been increased and also to a very significant extent for 2024 on ‘military-industrial cooperation’. This sub-chapter relates to spending on armaments under intergovernmental agreements and the increase could reflect the import of drones from Iran and munitions from North Korea.

While total military expenditure can be calculated for 2024 to 2026, evidence is still lacking for 2023 and the figure for 2022 is approximate in the absence of a firm final total for spending on ‘national defence’. However, according to Luzin and Prokopenko, in 2022 ‘national defence’ reached 5500 billion roubles, not 5100 billion roubles as this author earlier estimated.⁴⁵ From this and the law on the implementation of the 2022 budget it can be calculated that total military spending was approximately 7150 billion roubles in 2022.⁴⁶ A likely final total of military spending in 2023 can only be estimated on the basis of the figure for the first nine months, 6407 billion roubles. The evidence suggests, as noted above, that total budget spending in the year may reach 33 000 billion roubles. As of 1 September ‘national defence’ was 21 per cent of total budget spending (see table 4), but this share may increase as the year ends, perhaps to 23 per cent, giving a total of 7600 billion roubles.⁴⁷ Over recent years spending under the ‘national defence’ chapter has formed

⁴³ RIA Novosti, ‘Госдума приняла закон о федеральном бюджете’ [The State Duma approved law on the federal budget], 17 Nov. 2023; *Kommersant*, ‘Совфед единогласно одобрил федеральный бюджет на 2024–2026 годы’ [The Federation Council unanimously approved the federal budget for 2024–2026], 22 Nov. 2023; and Russian Federal Law no. 540-ФЗ ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], signed into law 27 Nov. 2023.

⁴⁴ The total military expenditure data presented here differs slightly from the usual SIPRI definition. The SIPRI definition does not include one category of expenditure that is included here (i.e. general international spending, fees, etc.) and the SIPRI Military Expenditure Database uses a different source for GDP (the International Monetary Fund’s International Financial Statistics). On the SIPRI definition of military expenditure see SIPRI Military Expenditure Database, ‘Sources and methods’, [n.d.]. SIPRI’s military expenditure data for Russia relies on the methodology and sources provided by the present author.

⁴⁵ Luzin and Prokopenko (note 35). Before the war started, Prokopenko worked as adviser to the first deputy chair of the Bank of Russia (at that time Ksenia Yudaeva) and will have had access to official data. For the earlier estimate see Cooper (note 1), p. 5.

⁴⁶ Russian Federal Law no. 329-ФЗ ‘Об исполнении федерального бюджета за 2022 год’ [On the execution of the federal budget for 2022], 24 July 2023. Note that the final spending in 2022 on the National Guard and the Federal Security Service Border Troops is not known so the budget listing as of 1 Aug. 2022 has been used. See Cooper, J., ‘Implementation of the Russian federal budget during January–July 2022 and spending on the military’, SIPRI Background Paper, Oct. 2022, p. 8.

⁴⁷ On the implementation of the 2023 budget to the end of November see Kluge, J., ‘How Russia saved the 2023 budget’, Riddle, 7 Dec. 2023. Kluge estimates that spending on ‘national defence’ in 2023 will be between 7.3–7.9 trillion roubles.

Table 11. Military expenditure in the Russian federal budget for 2024–26

Figures are millions of roubles.

Chapter/subchapter	2024	2025	2026
<i>02 'National defence'</i>			
01 Armed Forces of the Russian Federation	3 293 656	3 020 556	3 502 048
Ministry of Defence	1 926 940	1 670 349	1 712 380
Classified residual	1 366 716	1 350 207	1 789 668
03 Mobilization and extra-forces training	19 235	19 037	19 513
04 Mobilization preparation of economy [†]	2 713	2 713	2 745
05 Collective security and peacekeeping	2 968	–	–
06 Nuclear weapons complex [†]	62 746	56 932	62 094
07 International obligations, military-technical cooperation	149 293	32 336	32 745
Open spending	138 759	22 008	22 290
Classified residual	10 334	10 328	10 464
08 Applied R&D in field of national defence	3 96 233	324 966	345 510
Open spending	25 284	26 710	27 713
Classified residual	370 949	298 256	317 797
09 Other questions of national defence	6 980 034	5 091 890	3 458 579
Open spending	259 039	296 130	204 400
Classified residual	6 589 559	4 781 474	3 254 179
Total 'national defence' in federal budget	10 775 442	8 534 144	7 408 964
Open spending	2 372 425	2 034 234	1 986 297
As share of total (%)	22	24	27
Classified spending	8 403 017	6 499 910	5 422 667
As share of total (%)	79	76	74
Arms recycling	2 410	2 428	2 428
Total 'national defence' less arms recycling and mobilization preparation of the economy ^a	10 770 319	8 529 003	7 403 791
<i>Other military expenditure</i>			
Other MOD expenditure:			
Fees, international organizations	12	12	12
Housing	96 968	96 773	98 378
Environment	3 190	3 346	3 556
Education	100 807	102 857	107 732
Health	137 423	124 896	127 359
Culture and cinematography	9 224	9 450	13 368
Physical culture and sport	4 581	4 640	4 738
Mass media	4 007	2 463	2 509
Pensions of service people ^b	501 331	546 450	568 310
Social support	557 559	362 367	371 145
Paramilitary forces			
Troops of the National Guard (Rosgvardiya)	358 845	352 123	366 691
Open spending	339 266	334 777	347 503
Including state defence order (GOZ)	19 579	17 346	19 188
Border service of Federal Security Service	210 350	205 179	219 061



Chapter/subchapter	2024	2025	2026
Support, closed MOD towns, Rosatom	8 952	8 952	8 952
Support for Baikonur Space Centre	1 716	1 198	1 198
Total other military expenditure	1 994 965	1 820 706	1 893 009
Total military expenditure	12 765 284	10 349 709	9 296 800
Total budget expenditure	36 660 675	34 382 810	35 587 392
'National defence' as share of total expenditure (%)	29	25	21
Total military expenditure as share of total expenditure (%)	35	30	26
Gross domestic product	179 956 000	190 637 000	203 304 000
'National defence' as share of GDP (%)	6.0	4.5	3.6
Total military expenditure as share of GDP (%)	7.1	5.4	4.6

† = classified spending; GDP = gross domestic product; GOZ = Gosudarstvennyi oboronnyi zakaz (State Defence Order); MOD = Ministry of Defence; R&D = research and development.

^a Arms recycling and mobilization preparation of the economy are subtracted from the total as these items of spending are not included in the standard SIPRI or North Atlantic Treaty Organization (NATO) definitions of military expenditure.

^b In draft budgets, military pensions are not shown for the second and third years, so are estimated here on the basis of known planned increases of 10.5 per cent from 1 October 2023 and 4.5 per cent from 1 October 2024.

Sources: Open spending and total budget spending: Russian Federal Law no. 540-ФЗ 'О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов' [On the federal budget for 2024 and the planning period 2025 and 2026], signed into law 27 Nov. 2023. 'National defence' and FSB border troops as draft budget: 'Проект Федерального закона N 448554-8 "О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов"' (ред., внесенная в ГД ФС РФ, текст по состоянию на 29.09.2023) [Draft Federal Law no. 448554-8 'On the federal budget for 2024 and for planning period 2025 and 2026' (rev. introduced into the State Duma of the Federal Assembly of the Russian Federation, text as of 29 Sep. 2023)], Konsultant Plyus, 12 Oct. 2023, <<https://www.consultant.ru/cons/cgi/online.cgi?req=doc;base=PRJ;n=239332>>, accessed 13 Oct. 2023. National guard: open spending plus GOZ of draft budget. The author is grateful to Dr Janis Kluge of German Institute for International and Security Affairs (SWP), Berlin, for drawing attention to the extent of the increased spending on 'military-technical cooperation'.

a gradually increasing share of total military spending and it seems that this process is intensifying during the war (see table 11): in 2024 total military spending will be about 18 per cent larger than 'national defence', increasing to 21 per cent in 2025 and 25 per cent in 2026. In 2022 it appears to have been about 30 per cent, and 36 per cent in 2021. Taking a figure of 22–23 per cent for 2023 gives a total military expenditure of 9300 billion roubles, equivalent to 5.6 per cent of GDP.

As it happens, military spending declined in real terms in 2021, since no war was expected, but in 2022 it grew by 27 per cent followed by a slightly smaller likely increase in 2023 and a 29 per cent increase forecast for 2024, to be followed by declines in 2025 and 2026 (see table 12). However, intentions for the second and third years of a three-year budget are always highly provisional and do not provide a reliable guide to future policies.

Defence- and security-related state programmes

As mentioned above, for about a decade much of Russia's budget spending has been allocated in the form of state programmes. The 2024–26 draft budget has funding for 51 state programmes, 9 of which are treated as a distinct category: programmes devoted to defence, security and international relations (see box 1).

The first programme clearly consists of direct military funding of the MOD plus some other MOD funding. When details of the scope of the programme

Table 12. Changes in total Russian military expenditure in real terms, 2015–26

Year	GDP		GDP deflator	Military expenditure		
	Total (m. roubles)	Real-terms change (%)		Total (m. roubles)	Real-terms change (%)	As share of GDP (%)
2026 ^a	202 304 000	+2.2	103.8 ^b	9 296 800	-13	4.6
2025 ^a	190 637 000	+2.3	103.6 ^b	10 349 709	-22	5.4
2024 ^a	179 956 000	+2.3	106.0 ^b	12 765 284	+29	7.1
2023	166 015 000	+2.8	105.3 ^b	9 300 000 ^c	+24	5.6
2022	153 435 000	-2.1	115.8	7 150 000 ^c	+27	4.7
2021	135 295 000	+5.6	119.0	4 859 035	-5.8	3.6
2020	107 658 100	-2.7	100.9	4 335 251	+2.1	4.0
2019	109 608 300	+2.2	103.3	4 209 409	+4.1	3.8
2018	103 861 700	+2.8	110.0	3 911 323	-4.0	3.8
2017	91 843 154	+1.8	105.3	37 04 422 ^d	-8.2	4.0
2016	85 616 100	+0.2	102.8	3 830548 ^d	-7.5	4.5
2015	83 087 400	-2.0	107.2	4 026 284	+17	4.8

GDP = gross domestic product.

^a Figures for 2024–26 are from table 11, with GDP and military spending in current prices.

^b The Minekon figures for the GDP deflator shown in table 1 are not consistent and have been recalculated here taking the nominal GDP and the rate of change as accurate.

^c Figures for total military expenditure in 2022 and 2023 are estimated.

^d Figures for total military expenditure in 2016 and 2017 exclude payments to clear past debts (792 billion roubles in 2016 and 187 billion roubles in 2017).

Sources: Calculated on the basis of data of the above tables and text, plus the author's analysis of earlier years. GDP: the latest Rosstat data. Debt clearance in 2016 and 2017: International Institute for Strategic Studies (IISS), *The Military Balance 2019* (Routledge: Abingdon, 2019), p. 176.

were first published in 2013 it included MOD housing, education, health, culture, sport and pensions.⁴⁸ It probably also includes Rosatom's nuclear weapon programme as the open spending shown in 2013 included some Rosatom activity. However, all funding of the defence industry is covered separately in the sixth listed programme, on development of the defence-industrial complex.

While figures for open funding of these programmes are available (see table 13), detailed classified figures are not. However, some of these military-related programmes certainly account for a large proportion, if not almost all, of the classified funding in state programmes.

After the publication of the budget law the Ministry of Finance revealed details of the budget classification on which it is based.⁴⁹ Significantly, under the state programme for the defence industry there is provision for a range of subsidies to defence industry companies, including ones for debt restructuring and warding off bankruptcy. There are also allocations to the capital of some companies, including Almaz-Antey and a number of the main missile and space companies, under Roscosmos. This supports the suggestion

⁴⁸ Cooper (note 23), pp. 56–57.

⁴⁹ Russian Ministry of Finance Order no. 185н 'О внесении изменений в приказ Министерства финансов Российской Федерации от 1 июня 2023 г. № 80н «Об утверждении кодов (перечней кодов) бюджетной классификации Российской Федерации на 2024 год (на 2024 год и на плановый период 2025 и 2026 годов)»' [On amendments to Russian Ministry of Finance Order no 80n of 1 June 2023 'On approval of codes (lists of codes) of the budget classification of the Russian Federation for 2024 (for 2024 and for the planning period 2025 and 2026)'], 20 Nov. 2023.



Box 1. The nine Russian state programmes devoted to defence, security and international affairs as of 1 September 2023

1. Securing the defence capability of the country 2019–31 (Ministry of Defence)
2. Securing state security 2012–30 (Federal Security Service)
3. Securing the protection of the person, society and state 2021–30 (National Guard)
4. Securing chemical and biological security of the Russian Federation 2021–30 (Ministry of Health)
5. Management of state material reserves 2020–30 (Federal Agency for State Reserves)
6. Development of the defence-industrial complex 2016–27 (Ministry of Industry and Trade)
7. Foreign political activity 2013–30 (Ministry of Foreign Affairs)
8. Supporting international development 2022–30 (Ministry of Foreign Affairs)
9. Support and promotion of the Russian language abroad 2022–30 (Ministry of Foreign Affairs)

Source: ‘Перечень государственных программ Российской Федерации’ [List of state programmes of the Russian Federation], approved by Russian Government Order no. 1950-r, 11 Nov. 2010., as amended by Order no. 695-r, 24 Mar. 2023.

Table 13. Open spending under Russia’s nine defence, security and foreign policy state programmes, 2023–26

Figures are millions of roubles.

State programme	2023 ^a	2024	2025	2026
1. Defence	2 986 225	2 993 049	2 584 174	2 569 045
2. State security	2 700	2 782	2 882	2 927
3. Defence of the person, society and state	392 411	363 500	359 895	373 217
4. Chemical and biological security	4 709	4 146	3 872	3 461
5. State material reserves	16 770	19 188	17 473	18 179
6. Defence industry	11 235	10 169	8 669	8 669
7. Foreign political activity	130 565	154 804	155 502	157 467
8. Support for international development	267	319	285	72
9. Russian language abroad	500	502	509	508
Total open spending	3 545 383	3 548 459	3 133 261	3 133 545

^a Figures for 2023 are from the budget listing of 1 September 2023.

Source: Russian Federal Law no. 540-ФЗ ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], signed into law 27 Nov. 2023.

discussed above that the new budget includes measures for debt relief for the defence industry.

Other war-related spending

As underlined in this author’s publication of June 2023, Russia’s military expenditure is not the same as spending on the war.⁵⁰ Part of the military budget has no direct relation to the war, not least the spending on nuclear strategic systems and much of the navy. Equally, defence spending does not cover other costs of the war, such as the costs of absorbing occupied territories of Ukraine into the Russian Federation, the repair and development of transport links to these regions, and the rebuilding of structures in Russia’s border regions and beyond damaged by Ukrainian missiles and uncrewed aerial vehicles. These expenses are borne by other budget chapters and, to some extent, by regional and other sub-federal budgets.

⁵⁰ Cooper (note 1), pp. 14–16.

Unfortunately, few details are available on spending of these types, except for programmes in the federal budget specifically developed to meet costs associated with the occupied territories. The draft budget now contains two state programmes for this purpose, one new for the support of the infrastructure and economic development of newly annexed regions, and the other old for the socio-economic development of Crimea and the city of Sevastopol. Under the new state programme, 193 billion roubles have been allocated for 2024, rising to 213 billion roubles in 2026.⁵¹ Thus, the parts of Ukraine occupied by Russian armed forces are now treated as component parts of the Russian Federation just like other regions of the country.

However, this is not the only budget funding going to the occupied territories. Because Moscow City Duma decided to exercise patronage over Donetsk city and Luhansk city, the draft budget for Moscow City allocates 95 billion roubles to the restoration and development of the infrastructure of the two cities over 2024–26 (35 billion roubles in 2024 and 30 billion roubles each in 2025 and 2026). In addition, speaking at the end of September 2023, Irek Faizullin, minister of construction, said that regions that are exercising patronage over the territories newly annexed in the war invested a total of 115.6 billion roubles in them in 2023.⁵²

There may also be funding of new fortifications and additional outlays on the work of the defence industry that are not covered by the federal ‘national defence’ budget, but no details are available.⁵³

VI. Conclusions

Russia’s federal budget for 2024–26 marks a striking break with Russia’s post-Communist development to date by its significant increase in military expenditure. This is made necessary, in the view of the Russian government, by the imperative of bringing the ‘special military operation’ to a successful conclusion, even if this takes a long time. The ways in which this increased spending will be spent are far from clear and, given the strict secrecy now veiling the economic dimension of the war, clarification may not come for a long time. It may only be with the budget process in 2024 that more details will become available on actual military spending in 2023. As for spending plans for 2025 and 2026, the draft budget cannot be considered a reliable guide to Russian government thinking as the forecasts for later years are highly provisional and the eventual annual budgets could be very different.

Commentaries on the budget and its implementation have varied widely in tone and assessment. Many are critical, as can be seen in such article titles as ‘The costs of Russia’s war are about to hit home’ and ‘The government has seen the spectre of a budget catastrophe’.⁵⁴ Criticisms tend to focus on the

⁵¹ Russian State Duma, Draft Federal Law no. 448554-8 ‘О федеральном бюджете на 2024 год и на плановый период 2025 и 2026 годов’ [On the federal budget for 2024 and the planning period 2025 and 2026], 30 Sep. 2023, explanatory note, p. 412.

⁵² Tkachev, I., ‘Москва выделит 95 млрд на восстановление Донецка и Луганска’ [Moscow to allocate 95bn to rebuild Donetsk and Luhansk], RBK, 17 Oct. 2023.

⁵³ This funding is noted in Cooper (note 1), pp. 15–16.

⁵⁴ *The Economist*, ‘The costs of Russia’s war are about to hit home’, 28 Sep. 2023; Dzhultaev, K., ‘Правительство увидело призрак бюджетной катастрофы’ [The government has seen the spectre of a budget catastrophe], Octagon, 2 Oct. 2023; and Milov, V., ‘Bleeding Russia dry: How Putin’s inflated war budget will lead to economic ruin’, *The Insider*, 3 Oct. 2023.



planned scale of budget spending in 2024, the fact that increased military spending could well reduce spending on social needs, and the difficulty of raising adequate revenues to fund increased spending on the war. There are indeed many uncertainties, as acknowledged here, but there is a widespread tendency to overstate the potential problems. As Yuri Danilov argues, the Russian economy is relatively robust and, ‘In the short term, there are practically no risks of a “collapse”’, but economic difficulties could mount in the medium and long terms.⁵⁵

It is not clear at this stage how the significantly increased allocation of funding to defence will be used as there are clearly limits to the extent to which the armed forces can be rapidly increased in size and procurement stepped up sharply. But there are sizeable potential reserves in the large ‘other questions’ subchapter of the ‘national defence’ budget that could be drawn on in the event of unexpected developments. Also, as Luzin and Prokopenko argue, there could be serious problems in winding down greatly increased military spending if the war were to end as this ‘will inevitably lead to a significant structural shock that will take considerable time to overcome’.⁵⁶ This leads them to the conclusion that ‘the Kremlin is forcing the economy into the snare of perpetual war’.

Although there has been widely expressed surprise at the extent to which the military spending budget has increased, it cannot be considered unexpected. With a presidential election scheduled for 2024, the country’s leadership is clearly anxious to ensure that there will be some positive news about the course of the war, with a prospect that it can be concluded successfully in the foreseeable future—even if the nature of ‘success’ is not at all clear. However, in these circumstances and with a lack of transparency, the government may well have decided to use the opportunity to reduce the debt burden of the defence industry in order to facilitate a future restoration of the country’s military capability. Overall, the budget, while ambitious, is not unrealistic in terms of implementation. Yes, problems can indeed be expected in implementing the budget, but they are unlikely to be of a critical nature.

Meanwhile, the war grinds on with no end in sight and with appalling loss of life and destruction. A hard winter now lies ahead not only for Ukraine, but also for the Russian forces and society more broadly.⁵⁷ The budget is not just the usual annual end-of-year financial document; it is a political statement of intent by Russia’s leadership, a signal not just to the people of Russia but to the wider world that there is a firm commitment to bringing the war to a successful conclusion.

⁵⁵ Danilov, Yu., ‘What explains the Russian economy’s robustness?’, *Russia Post*, 29 Sep. 2023.

⁵⁶ Luzin and Prokopenko (note 35). English translation from Luzin, P. and Prokopenko, A., ‘Russia’s 2024 budget shows it’s planning for a long war in Ukraine’, *Carnegie Endowment for International Peace*, 11 Oct. 2023.

⁵⁷ Watling, J., ‘Ukraine must prepare for a hard winter’, *Royal United Services Institute (RUSI)*, 19 Oct. 2023.

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ANOTHER BUDGET FOR A COUNTRY AT WAR: MILITARY EXPENDITURE IN RUSSIA'S FEDERAL BUDGET FOR 2024 AND BEYOND

JULIAN COOPER

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