



RUSSIA'S MILITARY EXPENDITURE DURING ITS WAR AGAINST UKRAINE

JULIAN COOPER

I. Introduction

This SIPRI Insights paper is devoted to an analysis of military expenditure by the Russian Federation during its war against Ukraine, and the sources of funding for that spending. The analysis here shows that the war has been fought in a way that makes the resource commitment to it sustainable, notwithstanding the tough sanctions imposed on Russia's economy. Meanwhile, in so far as it is possible, Russian President Vladimir Putin and the government maintain a business-as-usual approach, attempting to implement policy goals that predate the war. These include the set of 'national goals' for Russia to 2030 that Putin presented in July 2020 aimed at improving health, welfare and living standards.¹ Their importance is often restated, while the pursuit of 'technological sovereignty'—aimed at reducing Russia's dependence on the technologies of 'unfriendly powers'—is also now a central plank of Russian economic policy, frequently proclaimed by President Putin.²

From its outset, the expanded invasion that began on 24 February 2022 has been called a 'special military operation' (*spetsial'naya voennaya operatsiya*, SVO) by the Russian government. It has arguably been using this term to avoid the term 'war' in its communication with the Russian public. Yet it also reflects how the Russian government initially conceived the invasion: it was likely prepared as an operation involving not only the armed forces but also extensive engagement of the security services. From close analysis of the available evidence, including official documents captured by Ukrainian forces, it has been established that this plan was formulated first and foremost by Russia's security services and a core group within the Presidential Administration, supported by senior officials in the Ministry of Defence (MOD).³ Initial planning was undertaken by the Federal Security Service (Federal'naya sluzhba bezopasnosti, FSB) in July 2021.⁴ The use of 'special' is a standard feature of Russia's military terminology, indicating that non-MOD forces are involved—usually those of the security agencies, in particular the FSB, the Ministry of Internal Affairs and the Federal Protection Service. A good example is provided by the frequently used abbreviation 'vsvt', from

SUMMARY

● Russia's total military expenditure has increased since its full-scale invasion of Ukraine in February 2022, but not dramatically. Despite difficulty in accessing information on budget spending, total budgeted military spending in 2023 can be estimated at 6648 billion roubles. This represents 4.4 per cent of forecast Russian gross domestic product. While military spending in early 2023 seemed to accelerate beyond the budgeted amount, the rate of spending can be shown to be similar to that in early 2022 and does not suggest any unusual surge.

The Russian government is attempting to restrain spending on the war to minimize the domestic impact and enable the pursuit of policy goals set before the invasion. The Russian economy can afford this level of spending notwithstanding severe sanctions, while leaving open the possibility of increased war-related funding if the government considers it necessary in the future.

¹ 'Putin sets national goals of development for Russia through 2030', Interfax, 21 July 2020.

² See e.g. 'Путин призвал укреплять технологический суверенитет' [Putin calls for stronger technological sovereignty], RIA Novosti, 15 Dec. 2022.

³ Zabrodskiy, M. et al., *Preliminary Lessons in Conventional Warfighting from Russia's Invasion of Ukraine, February–July 2022* (Royal United Services Institute: London, 30 Nov. 2022), p. 7.

⁴ Zabrodskiy et al. (note 3), p. 7.



‘*vooruzhenie, voennaya i spetsial’naya tekhnika*’ (armaments, military hardware and special equipment), where ‘special’ refers to equipment employed by the security services and other agencies for ensuring national security.

Besides the categories of forces and equipment involved, the notion of ‘special military operation’ can also be understood in terms of the level of intensity of war fighting that Russia expected to encounter. Having faced stiff Ukrainian resistance, Russia’s expectation of a quick victory evaporated but it was not willing to abandon the term and admit publicly that its invasion was in fact a fully fledged war of aggression. However, in assessing funding of the war, this dimension is important. Russia has been engaged in the conflict in a financially limited manner, as if seeking to minimize its economic cost and the impact on domestic society. It appears to be fought, not with the resources of a full-scale war, but indeed as a more limited military operation. For that reason, the war is at times referred to in this paper as the ‘SVO’. This does not mean endorsement of this perspective but is intended to reflect a factor influencing decisions on resource allocation, which this paper focuses on.

The vital background for understanding the funding dimension of the war is the growth of military spending during 2022 and some developments in non-military chapters of the budget that were probably related to the war. These issues were explored in an earlier paper.⁵ This paper updates the previous publication with an analysis of budget spending in 2022 (in section II), the budget law for 2023–25 (section III), actual budget spending in the early months of 2023 (section IV) and prospects for future spending (section V).

Analysis of Russia’s military spending has become increasingly difficult as the government has limited the access to information on budget spending. In the spring of 2022, the Ministry of Finance (MOF) stopped publishing details of budget spending broken down by chapters of the budget and by ministries and other government departments, revealing only the total monthly budget revenue and expenditure. The Federal Treasury also ceased its detailed reporting of budget spending, although with a brief relaxation that was later reversed.⁶ The main details of the draft federal budget for 2023–25 were made available, but access to the legislation section of the website of the lower house of parliament, the State Duma, was closed, ending access to all the documents that usually accompany the legislative process. Reports of the three readings of the budget in the State Duma were published, but there was hardly any mention of defence or the ‘SVO’. While the MOF issued its usual *Budget for Citizens* with details of the budget law, this gives no detail of budget spending by subchapters. In addition, access to the government’s ‘Electronic Budget’ website, which details actual budget spending, has been severely restricted, and on 21 June it stopped reporting open spending by budget chapter.⁷

⁵ Cooper, J., ‘Implementation of the Russian federal budget during January–June 2022 and spending on the military’, SIPRI Background Paper, Oct. 2022.

⁶ As discussed in Cooper (note 5), p. 4.

⁷ Kasyanchuk, D., ‘Минфин скрыл оперативные данные о расходах бюджета’ [The Ministry of Finance hid operational data on budget expenditures], 22 June 2023.



II. The budget for 2022: Expectations and implementation

The law on the federal budget for 2022–24, signed by President Putin on 6 December 2021, envisaged spending of 3502 billion roubles on the budget chapter ‘national defence’ in 2022 (equivalent to 15 per cent of the total budget spending of 23 694 billion roubles). Including all elements that are covered by the SIPRI definition of military spending gives a total of 4975 billion roubles in 2022. The budget was based on a forecast that gross domestic product (GDP) would be 133.3 trillion roubles and the rate of inflation would be 4.0 per cent (December to December), so total military expenditure was to be 3.7 per cent of GDP.⁸ The budget did not suggest any expectation of conflict: total planned military spending was then only 2.4 per cent more in nominal terms than the total for 2021, and the GDP share was expected to be almost identical (although, after a later revision of GDP, the 2021 military share fell to 3.6 per cent).⁹

In the first two months of 2022, budget implementation followed its regular pattern, but the budget listing—the upper limits on spending—for the year began to increase; the MOF was taking advantage of flexibility that permits some increases in planned spending without having to submit an amended budget for approval by the State Duma. By the end of February ‘national defence’ had been increased to 3646 billion roubles (15 per cent of revised total spending); by the end of March, in the last detailed report published, it had increased to 3667 billion roubles, of which 1054 billion roubles had been spent.¹⁰ By 1 August the budget listing had increased to 4544 billion roubles (17 per cent of revised total spending); of this, 2894 billion roubles had been spent—equivalent to 83 per cent of the total in the original budget law.¹¹ Documents released in October 2022 reported ‘national defence’ spending of 4679 billion roubles.¹² This amounted then to 17 per cent of total government spending of 27 614 billion roubles.

While allocations to ‘national defence’ were steadily increasing, this did not apply to spending on the budget chapter ‘national security and public order’. In 2021 just over two thirds of spending under this chapter went to the security services, the National Guard (Rosgvardiya), the FSB Border Service and the Ministry of Internal Affairs—all agencies involved to some

⁸ Russian Federal Law no. 390-ФЗ ‘О федеральном бюджете на 2022 год и на плановый период 2023 и 2024 годов’ [On the federal budget for 2022 and the planning period 2023 and 2024], 6 Dec. 2021.

⁹ Note that the GDP figures and GDP share in this paper differ slightly from those in the latest version of the SIPRI Military Expenditure Database (Apr. 2023). While the database—which encompasses data for c. 150 countries—uses a single GDP data set from the International Monetary Fund (IMF), this paper relies on GDP figures from Russian government forecasts. Similarly, the use of IMF versus national sources for government spending means that figures for shares of government spending may also differ.

¹⁰ Russian Ministry of Finance, ‘Предварительная оценка исполнения федерального бюджета за январь–февраль 2022 года’ [Preliminary estimate of federal budget execution for January–February 2022], 17 Mar. 2022; and Russian Ministry of Finance, ‘Предварительная оценка исполнения федерального бюджета за январь–март 2022 года’ [Preliminary estimate of federal budget execution for January–March 2022], 12 Apr. 2022.

¹¹ Cooper (note 5), p. 5.

¹² Russian Accounts Chamber, *Заключение Счетной палаты Российской Федерации на проект федерального закона «О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов» (основные положения)* [Opinion of the Accounts Chamber of the Russian Federation on the draft federal law ‘On the federal budget for 2023 and for the planning period 2024 and 2025’ (main provisions)] (Accounts Chamber: Moscow, 2022), p. 20.



extent in the war in Ukraine. In the budget law for 2022 total spending on the chapter was set at 2826 billion roubles, but in the months following the invasion the budget listing declined to a modest extent. Thus, in the budget listing of 1 September the total for ‘national security and public order’ was down to 2788 billion roubles.¹³

As the war evolved it soon became clear that it was not going to be the short operation that was evidently envisaged when the decision to announce the invasion was made. During the second half of 2022 the government adopted measures to reinforce the armed forces and boost military production. A partial mobilization was introduced on 21 September and declared complete by the end of October. Over 300 000 young men were mobilized to serve in the armed forces, while many left the country to avoid mobilization, adding strains to an already tight labour market.¹⁴ Clearly, this measure had implications for the budget as the newly mobilized had to be paid and supplied with uniforms and equipment, but the scale of additional spending remains in doubt.

In October 2022 President Putin put some regions on a war footing and created a new institution to ensure that the weapons, uniforms, equipment and other materiel needed by the armed forces were manufactured and delivered as soon as possible.¹⁵ The prime minister, Mikhail Mishustin, now chairs a government coordination council to meet the needs of the armed forces and monitor the fulfilment of contracts to supply the forces of the MOD, the National Guard, the FSB and other agencies. Members of the council include the ministers of key government departments involved in producing arms, munitions and equipment, as well as the MOD and other customers. Since this measure was adopted, an increasing number of arms companies—especially those producing equipment for the ground forces, munitions (including artillery shells and missiles for aircraft), air defence systems and naval vessels—have switched to working on a two- or three-shift basis with the recruitment of additional personnel.¹⁶ This recruitment has at times been difficult because of a mounting shortage of engineering specialists and skilled manual workers with experience in the engineering industry.¹⁷

These measures led to increased military spending, but the extent of this increase was concealed from public view by strict limits on access to data. However, in January 2023 provisional budget revenue and expenditure for 2022 were disclosed that showed significant increases compared with the original budget law, partly because the rate of inflation, at 12 per cent, was much higher than predicted. Total revenue was 27 825 billion roubles and expenditure was 31 131 billion roubles, giving a deficit of 3306 billion

¹³ Russian Accounts Chamber (note 12), p. 20.

¹⁴ ‘Where have Russians been fleeing to since mobilisation began?’, Reuters, 6 Oct. 2022.

¹⁵ Presidential Decree no. 763 ‘О Координационном совете при Правительстве Российской Федерации по обеспечению потребностей Вооружённых Сил Российской Федерации, других войск, воинских формирований и органов’ [On the Coordination Council under the Government of the Russian Federation to meet the needs of the Armed Forces of the Russian Federation, other troops, military formations and bodies], 21 Oct. 2022.

¹⁶ Russian Government, ‘Заседание Координационного совета по обеспечению потребностей Вооружённых Сил Российской Федерации, других войск, воинских формирований и органов’ [Meeting of the Coordination Council for ensuring the needs of the Armed Forces of the Russian Federation, other troops, military formations and bodies], 24 Oct. 2022.

¹⁷ Mosolkina, D. and Dubrovina, E., ‘Правительство предложило бесплатное обучение для работы в ОПК’ [Government proposes free training for jobs in the defence industry], *Vedomosti*, 16 Mar. 2023.



roubles.¹⁸ When a preliminary GDP estimate (of 151.5 trillion roubles) was later issued, it confirmed that the deficit (equivalent to 2.2 per cent of GDP) was modest by international standards.¹⁹ The significant increase in total spending compared with the forecast of 1 September raised the question of how much of the extra spending was accounted for by defence. This can now be provisionally answered: spending on the chapter 'national defence' totalled approximately 5110 billion roubles, equivalent to 16 per cent of total budget expenditure and to 3.4 per cent of GDP.²⁰ This total can be calculated from data presented by Ilya Sokolov, budget specialist of the Gaidar Institute for Economic Policy, Moscow, who revealed that spending in 2022 on 'national defence' was 38 per cent higher in real terms (i.e. accounting for inflation) than the actual total for 2021.²¹

III. The federal budget for 2023–25

Work on drafting the three-year federal budget for 2023–25 to a large extent followed the usual schedule. The MOF adopted a business-as-usual approach notwithstanding the war and the impact on the economy of increasingly severe sanctions imposed by the United States, the European Union (EU), the United Kingdom, Australia, Canada, Japan and other 'unfriendly countries', as they became known in Russia's official discourse. To provide the economic forecast essential for drafting a new budget, the Ministry of Economic Development (Minekon) issued a first, pessimistic forecast in May 2022 and an updated, more optimistic version in mid August.²² The forecast underwent further amendment in September before being accepted by the government (see table 1). It was an optimistic forecast given the circumstances: a modest decline in 2023 followed by a recovery in industrial output, investment and GDP, with disposable income growing after a sharp fall in 2022.

The draft budget was sent to the State Duma on 30 September for approval. With the support of the government and President Putin, the MOF decided to maintain its well-established policy of ensuring budget stability. It thus set the basic parameters of the draft budget so that deficits over the three years would be kept on a manageable scale, notwithstanding the difficult

¹⁸ 'Минфин отметил скачок бюджетных расходов в декабре 2022 года' [Finance Ministry sees budget spending jump in December 2022], Interfax, 18 Jan. 2023.

¹⁹ Russian Federal State Statistics Service (Rosstat), 'О производстве и использовании валового внутреннего продукта (ВВП) в 2022 году' [On the generation and use of gross domestic product (GDP) in 2022], 20 Feb. 2023. This gives a decline in GDP of 2.1% compared with 2021.

²⁰ Note that the final figure for 2022 spending on the chapter 'national defence' in this paper differs slightly from that used for the latest version of the SIPRI Military Expenditure Database (Apr. 2023) because the figure is based on information that became available after the end of the annual data collection cycle for the database.

²¹ Sokolov, I. A., 'Федеральный бюджет: Итоги 2022 года и перспективы 2023 года' [Federal budget: 2022 results and 2023 perspectives], *Мониторинг Экономической Ситуации в России* [Monitoring the economic situation in Russia], no. 2 (167) (Mar. 2023).

²² Russian Ministry of Economic Development, 'Об основных параметрах сценарных условий социально-экономического развития Российской Федерации на 2023 год и на плановый период 2024 и 2025 годов' [On the basic parameters of the scenario conditions for socio-economic development of the Russian Federation in 2023 and for the planning period 2024 and 2025], Letter no. 17813-ПК/Д03и, 17 May 2022; Butrin, D., 'Съедем своё' [Eat our own], *Kommersant*, 17 Aug. 2022; Grigorieva, I. and Eliseeva, Yu, 'Повышенные ожидания: Минэк существенно улучшил макропрогноз на 2022 год' [Expectations raised: Minekon significantly improves macro forecast for 2022], *Izvestia*, 17 Aug. 2022; and Vinogradova, E., 'Минэкономразвития улучшило ожидания по ВВП и доходам россиян' [Ministry of Economic Development improves Russian GDP and income forecasts], *RBK*, 17 Aug. 2022.

**Table 1.** Forecast on which the Russian draft budget for 2023–25 was based

	2021	2022	2023	2024	2025
GDP (b. roubles)	131 015	146 065	149 949	159 714	170 598
Rate of change in GDP (%)	4.7	-2.9	-0.8	2.6	2.6
Inflation (CPI), end year (%)	8.4	12	5.5	4.0	4.0
Inflation (CPI), annual average (%)	6.7	14	6.0	4.7	4.0
Industrial production (%)	6.4	-1.8	-1.3	2.2	2.3
Capital investment (%)	7.7	-2.0	-1.0	3.9	3.7
Real disposable income of population (%)	7.8	-6.1	2.7	3.7	3.1
Unemployment (%)	4.8	4.2	4.4	4.3	4.1
Price of oil, Urals (\$ per barrel)	69.1	80.0	70.1	67.5	65.0
Exchange rate roubles/\$ (annual average)	73.6	68.1	68.3	70.9	72.2

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

Source: Russian Ministry of Economic Development (Minekon), *Прогноз социально-экономического развития Российской Федерации На 2023 год и на плановый период 2024 и 2025 годов* [Forecast socio-economic development of the Russian Federation for 2023 and for the planning period of 2024 and 2025] (Minekon: Moscow, 2022), pp. 84–89.

economic conditions: the deficit in 2023 of 2925 billion roubles was expected to be 2.0 per cent of GDP, falling to 1264 billion roubles in 2025, or 0.7 per cent of GDP.²³ Planned expenditure by chapters of the budget almost certainly reflected expectations of the evolution of the ‘SVO’ and prospects for the economy when the budget was being drafted (see table 2).

While defence spending was set to increase in 2023 by 6 per cent in nominal terms, it was expected to decline in 2024 and 2025. In contrast, there was to be a substantial increase in spending on national security and public order in 2023 compared with the then expected funding in 2022. This suggests that there was a strong expectation that the first military phase of the ‘SVO’ would be coming to an end in 2023, with a transition to operations to improve control over the territories invaded in 2022. Surprisingly, given the tough sanctions, spending on the economy was to fall, but there was to be a significant increase in spending on social policy (i.e. pensions and welfare benefits). Reflecting higher interest rates, debt-servicing costs were set to increase.

At the second reading of the budget, on 22 November 2022, many amendments were adopted, although their detailed effect was unclear at the time. The State Duma held the final, third reading two days later and, after rapid approval by the Russian upper house of parliament, the Federation Council, the budget was signed into law by President Putin on 5 December and published the same day.²⁴ As usual, only details of open spending were presented,

²³ Russian Draft Federal Law no. 201614-8 ‘О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов’ [On the federal budget for 2023 and for the planning period 2024 and 2025], 28 Sep. 2022, pp. 1–3, accessed 1 Oct. 2022. GDP shares are calculated from data in the source. Note that this source is no longer available but the basic features on the draft budget are shown in Russian Accounts Chamber, *Заключение Счетной палаты Российской Федерации на проект федерального закона «О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов»* [Opinion of the Accounts Chamber of the Russian Federation on the draft federal law ‘On the Federal Budget for 2023 and for the planning period 2024 and 2025’] (Accounts Chamber: Moscow, 14 Oct. 2022).

²⁴ Russian Federal Law no. 466-ФЗ ‘О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов’ [On the federal budget for 2023 and the planning period 2024 and 2025], 5 Dec. 2022.



Table 2. The Russian draft budget for 2023–25, expenditure by chapter, selected chapters

Figures are billions of roubles.

Chapter	2022 ^a	2023	2024	2025
01 General state issues	2 629	1 994	1 993	1 835
02 National defence	4 679	4 982	4 649	4 208
03 National security and public order	2 788	4 417	4 332	4 344
04 National economy	4 318	3 519	3 560	3 597
10 Social policy	6 453	7 343	7 299	7 153
13 Debt servicing	1 403	1 519	1 625	1 878
Total	27 614	29 056	28 697	27 782
Uncommitted spending	–	–	736	1 462
Total expenditure	27 614	29 056	29 433	29 244

^a Figures for 2022 are from the budget listing of 1 Sep. 2022.

Sources: Russian Ministry of Finance, ‘Расходы федерального бюджета по разделам и подразделам классификации расходов бюджетов на 2023 год и на плановый период 2024 и 2025 годов’ [Federal budget expenditure by chapter and subchapter of budget expenditure classification for 2023 and for the planning period 2024 and 2025], 28 Sep. 2022, appendix 11, accessed 1 Oct. 2022. Data also available in Russian Accounts Chamber, *Заключение Счетной палаты Российской Федерации на проект федерального закона «О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов»* [Opinion of the Accounts Chamber of the Russian Federation on the draft federal law ‘On the Federal Budget for 2023 and for the planning period 2024 and 2025’] (Accounts Chamber: Moscow, 14 Oct. 2022).

with no details of total spending, of open plus classified spending, or of the breakdown by chapter and subchapter. This meant that it was not possible to establish total funding for the military in 2023. However, on 31 October the MOF issued its *Budget for Citizens*, which outlines the main features of the new budget, including total spending by budget chapter.²⁵ The 64-page document focuses on socio-economic issues and contains nothing to make the reader aware that the country was engaged in a war—although the introduction acknowledges the difficult economic circumstances created by sanctions.

With the publication of this document, it became apparent that there were indeed significant amendments at the second reading. While budgeted spending on national defence in 2023 was almost the same as the original draft, at 4973 billion roubles (a reduction of 9 billion roubles), the allocation to national security and public order had been reduced significantly. It was down from 4417 billion roubles to 3564 billion roubles (a reduction of 853 billion roubles), followed by spending of just over 3000 billion roubles in both 2024 and 2025, perhaps reflecting a reassessment of the likely development of the war. With the money saved, spending on social policy was increased by 331 billion roubles, on the economy by almost 300 billion roubles and on inter-budget transfers (between federal and regional budgets) by 122 billion roubles, perhaps relating to the newly annexed territories in Ukraine. With respect to military spending, some MOD funding lines underwent modest changes. Both housing and health increased by almost 5 billion roubles and

²⁵ Russian Ministry of Finance (MOF), *Бюджет для граждан к федеральному закону о федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов* [Budget for citizens for the Federal Law on the Federal Budget for 2023 and for the planning period 2024 and 2025] (MOF: Moscow, 31 Oct. 2022).



spending on mass media increased from 2361 million roubles in the draft budget to 3995 million roubles in the budget law.²⁶

IV. The military budget for 2023

Military spending in the 2023 budget

Based on the available data on the 2023 budget, it is possible to derive a plausible estimate of total military expenditure in 2023 of 6648 billion roubles (see table 3).²⁷ About three quarters of this total is the official ‘national defence’ budget, with the rest being made up of military-related spending in other chapters of the budget. Total military spending in the 2023 budget represents 23 per cent of the total government budget and 4.4 per cent of forecast GDP. This compares with 21 per cent of total budget spending and 4.4 per cent of GDP in 2022, and 20 per cent of the total and 3.6 per cent of GDP in 2021. However, the 2022 total is an estimate based on incomplete information and is likely to be amended at a later date.

It must be emphasized that total military expenditure is not the same as the cost of the war. Some military spending is unrelated to the war, while some items of spending from budget chapters other than ‘national defence’—especially funding under the chapter ‘national security and public order’—must be war related. The latter includes funding of the security agencies, costs associated with the territories acquired by force, and the construction of fortifications, not necessarily all covered by the MOD’s budget. There is no way of determining the scale of this additional funding.

Moreover, there is the issue of the funding of military activities associated with the war from sources other than the federal budget. These include costs associated with the mobilization and initial training of new recruits to the armed forces. Such costs are covered in part by regional budgets, although the amount of funding is usually modest: in 2022 the total was 58 billion roubles, although this was no less than 12.5 times higher than in 2021.²⁸ Several regions funded the provision of uniforms and equipment plus support for the families of mobilized personnel. Businesses and non-governmental organizations have made voluntary donations to fund the purchase of items needed by troops but not supplied through official channels in adequate quantities (e.g. uncrewed aerial vehicles).²⁹ Some regions, perhaps up to 20, have created their own volunteer forces to participate in the fighting in Ukraine supported by local funding, often provided by local businesses.³⁰ A leading example is the Urals Battalion of Sverdlovsk oblast, which the

²⁶ Russian Ministry of Finance (note 25); Russian Federal Law no. 466-ФЗ (note 24); and table 2 in this paper.

²⁷ This equates to approximately US\$86.4 billion based on average exchange rates for the period 1 Jan.–16 June 2023.

²⁸ Russian Accounts Chamber, *Оперативный доклад об исполнении консолидированных бюджетов субъектов Российской Федерации январь–декабрь 2022 года* [Operational report on the execution of the consolidated budgets of the subjects of the Russian Federation January–December 2022] (Accounts Chamber: Moscow, 2023), p. 29.

²⁹ See e.g. Edmonds, J. A. and Bendett, S., *Russia’s Use of Uncrewed Systems in Ukraine* (Centre for Naval Analyses: Arlington, VA, May 2023), pp. 20–23.

³⁰ On non-state military and paramilitary forces in Russia see Laruelle, M. and Arnold, R., ‘Russia’s paramilitarization and its consequences’, PONARS Eurasia Policy Memo no. 839, George Washington University, Elliott School of International Affairs, Apr. 2023.



available evidence suggests is partly funded by a wealthy local businessman with a leading role in the copper industry and a strong commitment to the Orthodox faith.³¹ This also appears to be true of another prominent Orthodox businessman, Konstantin Malofeev, who is known to have been active in the annexation of Crimea in 2014.³² Similarly, there is a distinct lack of clarity about the funding of the Wagner Group 'private' military company and some other smaller non-state military groups. It is likely that they are at least partially funded from federal budget sources, although not necessarily from the 'national defence' chapter. Some of the proliferating private military battalions have a clear source of funding. These include, in particular, those of state companies such as Gazprom, with its 'Potok', 'Fakel' and other units, some of which are recruited from among the company's security guards.³³

The overall scale of non-budgetary funding of military activities relating to the war will probably never be known, but it is likely to be relatively modest in comparison to the budget funding of the MOD. Nevertheless, its existence means that assessments of total military expenditure in 2022 and 2023, and perhaps beyond, derived from normal budget sources will be underestimates.

Implementation of the 2023 federal budget

A problem soon emerged with the implementation of the budget in the early months of 2023: the appearance of an unexpectedly large deficit.

Total revenue for January–April was 7782 billion roubles, of which 29 per cent was oil and gas income, down from 48 per cent for the same period of 2022. Expenditure was 11 206 billion roubles, giving a deficit of 3424 billion roubles.³⁴ With a planned deficit for the year of 2925 billion roubles, it is not surprising that some alarm was voiced by Russian economic commentators.³⁵ A few were able to access the Russian Electronic Budget website and found that a large share of expenditure was classified, with hints that this meant that funding of the war had been sharply increased.³⁶

A detailed analysis of the available data, with comparisons of spending during the first four months of earlier years, permits a more nuanced assessment of developments in early 2023. Most commentators appear to be unaware that in recent years it has been normal for military spending to increase to a significant extent in January–March because this is the time when payments are made for contracts under the State Defence Order (Gosudarstvennyi oboronnyi zakaz, GOZ) for the previous year that were not

³¹ 'Russian copper billionaire bankrolling military unit fighting in Ukraine', *Moscow Times*, 4 Apr. 2023.

³² Arutunyan, A., *Hybrid Warriors: Proxies, Freelancers and Moscow's Struggle for Ukraine* (Hurst: London, 2022), pp. 81–101.

³³ Ivanova, P., Miller, C. and Seddon, M., "'Stream" and "Torch": The Gazprom-backed militias fighting in Ukraine', *Financial Times*, 2 June 2023.

³⁴ Russian Ministry of Finance, 'Предварительная оценка исполнения федерального бюджета за январь–февраль 2023 года' [Preliminary estimate of federal budget execution for January–February 2023], 6 Mar. 2023.

³⁵ See e.g. Petrova, E. and Seibil, N., 'Бюджет тревоги нашей: Что ждет российские финансы в 2023 году' [Our anxiety budget: What's in store for Russia's finances in 2023], *Novye Izvestia*, 28 Mar. 2023.

³⁶ 'War and secretive spending is eating away at Russia's budget', Bloomberg, 28 Mar. 2023; and Mironenko, P., 'Объем секретных расходов бюджета за год удвоился' [Secret budget spending doubled in a year], *The Bell*, 29 Mar. 2023. For an informed presentation of the Electronic Budget data see Kluge, J., 'Reading Russia's war budget', *Riddle*, 18 Apr. 2023.



Table 3. Russian military spending in the budget for 2023

Budget figures are in millions of roubles.

Chapter/subchapter	Budget
<i>02 'National defence'</i>	
01 Armed Forces of the Russian Federation	2 542 297
Ministry of Defence (MOD)	1 126 844
Classified residual	1 415 453
03 Mobilization and extra-forces training	17 976
04 Mobilization preparation of the economy	2 712
05 Collective security and peacekeeping	–
06 Nuclear weapons complex	49 266
07 International obligations, military–technical cooperation	14 839
08 Applied research and development (R&D) in the field of national defence	409 217
Open spending	24 156
Classified residual	385 061
09 Other questions of national defence	1 945 299
Open spending	178 984
Classified residual	1 766 315
Total 'national defence'	4 981 606^a
Amendments made at second reading	–9 006 ^a
Arms recycling	2 410
Total 'national defence' less arms recycling/mobilization preparation of the economy^b	4 967 478
Other military expenditure	
Other MOD expenditure:	
Housing	93 910
Environment	2 899
Education	88 263
Health	106 326
Culture and cinematography	6 407
Physical culture and sport	4 453
Mass media	3 995
Pensions of service people	453 949
Social support	429 670
Paramilitary forces ^c	
Troops of the National Guard (Rosgvardiya)	314 401
Border Service of the Federal Security Service	166 302
Support, closed MOD towns, Rosatom	8 952
Support for Baikonur Space Centre	1 198
Total other military expenditure	1 680 725
Total military expenditure	6 648 203
Total budget expenditure	29 055 564
Open	22 688 991
Classified	6 366 573
Classified as share of total (%)	22



Chapter/subchapter	Budget
'National defence' as share of total expenditure (%)	17
Total military expenditure as share of total expenditure (%)	23
Gross domestic product (GDP) ^d	149 949 000
'National defence' as share of GDP (%)	3.3
Total military expenditure as share of GDP (%)	4.4

^a The known 'national defence' total in the budget law is 4 972 600 million roubles. It is not known which subchapters were reduced by a total of 9006 million roubles.

^b 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.

^c In the absence of firm data for 'national defence', the budgets for the National Guard and the Border Service of the Federal Security Service are assumed to be the same as in the draft budget.

^d This is the Ministry of Economic Development's estimate of GDP on which the budget was based.

Sources: Russian Federal Law no. 466-ФЗ 'О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов' [On the federal budget for 2023 and the planning period 2024 and 2025], 5 Dec. 2022; and Russian Draft Federal Law no. 201614-8 'О федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов' [On the federal budget for 2023 and for the planning period 2024 and 2025], 28 Sep. 2022, appendices 12, 15, accessed 1 Oct. 2022 but no longer available.

completed as they should have been by the end of the year. In these cases, payments are made after the contracted weapons and systems are handed over to the military customer. Thus, spending in the first four months of 2021 on the budget chapter 'national defence' accounted for over 39 per cent of scheduled annual spending according to the budget law, compared with 33 per cent for total budget spending, and in 2022 the share rose to 48 per cent compared with 38 per cent for total spending.³⁷ A similar bunching of spending almost certainly occurred in the early months of 2023. In addition, spending under the GOZ and other state orders has increased due to a change of policy made in late 2022 according to which advanced payments under contracts have been increased to 30–50 per cent of their value and, for the supposedly annexed territories, up to 90 per cent.³⁸

Budget implementation during the early months of 2023 can be estimated based on data for 2023 from the official Electronic Budget and implementation during approximately the same period in 2022 (see table 4). Classified 'national defence' spending between 1 January and 11 May 2023 totalled 2041 billion roubles, equal to 59 per cent of total classified spending for the year according to the budget law. This is entirely credible if payments were made during the first quarter of 2023 for late deliveries due in 2022 and if prepayments were made under some GOZ contracts for 2023. Overall, budget spending on defence in the early part of 2023 was similar to that in 2022 and does not suggest any unusual surge in military spending.

An additional factor affected the budget in 2023: falling revenues from oil and gas exports as sanctions intensified. From 3 December 2022, sanctioning countries introduced a ceiling price of \$60 per barrel on Russian oil. In

³⁷ Russian Ministry of Finance, 'Предварительная оценка исполнения федерального бюджета за январь–апрель 2021 года' [Preliminary estimate of federal budget execution for January–April 2021], 14 May 2021; and Russian Ministry of Finance, 'Предварительная оценка исполнения федерального бюджета за январь–апрель 2022 года' [Preliminary estimate of federal budget execution for January–April 2022], 2022.

³⁸ Science and Technology Centre for Business Crisis Support (NTTs APB), 'Правила казначейского сопровождения Госзаказа и Гособоронзаказа в 2023 году' [Rules for treasury support for State Orders and the State Defence Order in 2023], [n.d.].

Table 4. Implementation of the Russian federal budget during the first four months of the year, 2022 and 2023

Budget chapter	Share of total expenditure in Jan.–Apr. (%), 2022	2023			1 Jan.–11 May 2023		
		Budget law (b. roubles)	Open spending (b. roubles)	Classified share (%)	Open spending (b. roubles)	Open spending as share of annual total (%)	All spending, Jan.–11 May ^a (b. roubles)
01 General state issues	32.5	2 009	1 847	8.1	502	27.2	546
02 National defence	48.0	4 973	1 486	70.1	777	52.3	2 818
03 National security and public order	24.6	3 564	1 855	48.0	589	31.8	1 133
04 National economy	26.7	3 802	3 403	10.5	1 072	31.5	1 198
05 Housing	56.8	591	589	–	214	36.3	215
06 Environment	34.6	352	342	–	130	38.0	134
07 Education	41.9	1 393	1 378	1.1	660	47.9	667
08 Culture	41.0	197	196	–	87	44.4	87
09 Healthcare	48.4	1 524	1 452	4.7	633	43.6	664
10 Social policy	43.9	7 674	7 331	4.5	2 771	37.8	2 901
11 Physical fitness, sport	28.4	71	68	–	28	41.2	29
12 Mass media	25.0	120	118	–	34	28.8	34
13 Debt servicing	34.6	1 519	1 519	–	501	33.0	501
14 Inter-budget transfers	36.4	1 252	1 092	12.8	676	61.7	772
Total expenditure	38.0	29 056^b	22 676	22.0	8 674	38.3	11 699
Total classified spending		6 380					3 025

^a These figures assume that the rate of total spending (open and classified) for each chapter as a share of the budget law total is the same as the rate of open spending alone, apart from ‘national defence’, with its known prepayments, for which the total shown is the residual.

^b This is the total given in the source, the budget law. The chapter totals above sum to 29 041 billion roubles, suggesting that the total for one chapter may be 15 billion roubles larger than given in the source.

Sources: January–April 2022: Share of annual total calculated from Russian Ministry of Finance, ‘Предварительная оценка исполнения федерального бюджета за январь–апрель 2022 года’ [Preliminary estimate of federal budget execution for January–April 2022], 2022; and Russian Federal Law no. 390-ФЗ ‘О федеральном бюджете на 2022 год и на плановый период 2023 и 2024 годов’ [On the federal budget for 2022 and the planning period 2023 and 2024], 6 Dec. 2021. January–11 May 2023: Open spending by budget chapter and total spending data from the Electronic Budget, <<https://budget.gov.ru>>; and budget law data by chapter totals from Russian Ministry of Finance (MOF), *Бюджет для граждан к федеральному закону о федеральном бюджете на 2023 год и на плановый период 2024 и 2025 годов* [Budget for citizens for the Federal Law on the Federal Budget for 2023 and for the planning period 2024 and 2025] (MOF: Moscow, 31 Oct. 2022). The author is grateful to Janis Kluge of the German Institute for International and Security Affairs (SWP) for making available the Electronic Budget data.

response Russia diverted oil sales to ‘friendly’ countries such as China and India and introduced new forms of payment that reduced the role of the US dollar. As a result, the Urals oil price—which has traditionally been used for the ‘budget rule’ that determines the volume of extra oil and gas earnings going to boost budget revenues—has fallen sharply and the MOF has been obliged to find an alternative formula for calculating oil earnings for budget purposes. The 2023 budget was based on an expectation that the Urals price would be \$70.1 per barrel (see table 1), whereas it averaged only \$48.92 in the first three months of 2023 (compared with \$88.95 in the same period in



2022).³⁹ This has had a serious impact on budget revenues. A new procedure was introduced from 1 April according to which taxes on oil would be based on the Brent crude oil benchmark price less a certain sum: \$34 per barrel to the end of April, \$31 during May, \$28 in June and \$25 from 1 July.⁴⁰ In addition, at the start of April 2023 the members of the Organization of the Petroleum Exporting Countries (OPEC) and the extended OPEC+ cartel—including Russia, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates—decided to reduce oil production in 2023, with the likely outcome being that benchmark prices will be higher.⁴¹ Thus, the new procedure and the higher expected prices should ensure that Russian federal budget revenues from oil exports will remain at a reasonably comfortable level for the rest of the year. Perhaps more serious for the budget will be the decline in revenue from gas exports. Having to a large extent lost the European market for gas, Russia is seeking to compensate by exporting more gas by pipeline or as liquefied natural gas to China and other non-sanctioning countries; however, this is not easy because of the rigidities of the pipeline system.⁴²

Another factor influencing budget revenues is the exchange rate of the rouble. The 2023 budget was based on a forecast annual average exchange rate of 68.3 roubles to the US dollar (see table 1). However, in the early months of the year the currency depreciated to the extent that on 6 April 2023 it reached 80 roubles to the dollar for the first time since April 2022, and on 14 June it reached 85 roubles.⁴³ A depreciating rouble usually boosts budget revenues, but sanctions have complicated the situation. An increasing proportion of Russia's foreign trade, especially in hydrocarbons, is being transacted in other currencies, not all of which are fully convertible—in particular the Chinese yuan and, even more so, the Indian rupee. The government is committed to a policy of reducing dependence on the currencies of 'unfriendly' countries, in particular the US dollar and the euro. However, as critics point out, 'dedollarization' will not be easy or without cost.⁴⁴ A number of special factors account for the depreciation of the rouble, but it is likely that the exchange rate will stabilize at about 75 roubles to the dollar, which will, to some extent, increase budget revenues but also, possibly, the rate of inflation.

Awareness of the pressures on budget revenue may account for the fact that the MOF was more cautious in increasing the budget listing in the early months of 2023 than in early 2022. By the end of April 2022 total spending in the listing had increased by 958 billion roubles from the total in the budget law (a 4.0 per cent increase). The equivalent increase more than a year later

³⁹ Russian Ministry of Finance, 'О средней цене на нефть марки Urals' [On the average Urals oil price], 3 Apr. 2023.

⁴⁰ Russian Ministry of Finance, 'Минфин России подготовил изменение текущего порядка определения котировок российской нефти, используемых для расчета налогов' [The Russian Ministry of Finance has prepared changes to the current procedure for determining Russian oil quotations used to calculate taxes], 12 Feb. 2023.

⁴¹ El Dahan, M. and Rasheed, A., 'OPEC+ announces surprise oil output cuts', Reuters, 3 Apr. 2023.

⁴² Jordan, C. and Husbans, S., 'Europe's not buying: The impact of lost gas markets for Gazprom and Russia', Royal United Services Institute (RUSI), 5 May 2023.

⁴³ 'Доллар на "Московской бирже" поднялся выше 80 руб.' [The dollar rose above 80 roubles on the Moscow Exchange.], Finmarket, 6 Apr. 2023; and 'Курс доллара поднимался выше 85 руб. впервые с апреля 2022 года' [Dollar rises above 85 roubles for first time since April 2022], *Kommersant*, 14 June 2023.

⁴⁴ See e.g. Inozemtsev, V., 'Russia's dedollarization delusion', Riddle, 19 May 2023.



was 836 billion roubles (2.9 per cent) by 11 May 2023.⁴⁵ This may change in the months ahead, and any significant increase in the budget listing could signal that the government has become more relaxed about revenue prospects.

Over the course of the year the budget situation should gradually become more normal, and the scale of the deficit will not necessarily increase provided that budget revenues can be maintained at an adequate level. The MOF has been borrowing to boost revenues and has the option, if necessary, to draw on the National Welfare Fund. On 1 May 2023 this was valued at 12 476 trillion roubles (US\$155 billion), equivalent to 8.3 per cent of the GDP forecast for the year.⁴⁶ In short, there is little prospect that Russia will face a budgetary crisis in 2023, and the conduct of the war is unlikely to be affected by an inability to fund it.

Other spending related to the war

Russia's spending on the military is only part of its total spending on the war. While information on other expenditure is sparse, it is likely to increase over time. Some detail is becoming available on spending on the territories that Russia purported to annex in September 2022—the Donetsk People's Republic (Donetskaya Narodnaya Respublika, DNR), the Luhansk People's Republic (Luganskaya Narodnaya Respublika, LNR) and the occupied parts of Kherson and Zaporizhzhia oblasts. The Republic of Crimea and Sevastopol have been claimed as part of the Federation since 2014.

Russia is committed to investing in rebuilding what it refers to as the 'new territories' and creating new government structures there. There are also additional social costs and pensions to be paid. However, information on planned budget spending is limited and sometimes contradictory.

Thus, in mid May 2023 it was reported that Russia planned to spend 1.88 trillion roubles over the three years 2024–26 on state organs for the four newly annexed regions (DNR, LNR, Kherson and Zaporizhzhia): 590 billion roubles in 2024, rising to 667 billion roubles in 2026. The news agency RBK claimed that this provision was in the new budget plans of the MOF, a budget draft that was to be completed by 1 June.⁴⁷ However, RBK noted that the full scale of funding to cover all the needs (civil and military) of the new regions would not be revealed, as some of the spending was sure to be classified. This story was quickly refuted by the MOF press service: rather than the reported 570 billion roubles to be spent over three years on federal organs in the four regions, spending of only 22.4 billion roubles was planned; and spending on 'other' federal organs of power was to be 70.5 billion roubles, not 940 billion roubles as claimed by RBK, with the distribution of the funding to be determined by decisions of the president and government.⁴⁸

⁴⁵ Russian Ministry of Finance (note 25); and Electronic Budget, <<https://budget.gov.ru>>.

⁴⁶ Russian Ministry of Finance, 'Объем Фонда национального благосостояния' [Size of the National Wealth Fund], 15 May 2023.

⁴⁷ Vinogradova, E. and Tkachev, I., 'Власти запланировали дополнительные расходы на госорганы в новых регионах' [Authorities have planned additional spending on state bodies in the new regions], RBK, 16 May 2023.

⁴⁸ 'Минфин опроверг информацию о размере финансирования госорганов в новых регионах России' [Ministry of Finance denies information on the amount of funding for state bodies in Russia's new regions], TASS, 16 May 2023.



It is likely that budget support for the four annexed territories in 2023 will be channelled to the regions through a step-by-step process of amending the federal budget for the year, in particular its many appendices, to add them to the list of regions set to receive subsidies to support a wide range of activities. An example was a government measure of 2 June 2023 allocating an additional 48 million roubles to support water supply measures.⁴⁹

Some further details are emerging from analysis of data of the Electronic Budget. In the first four months of 2023 spending on inter-budget transfers was unusually large (see table 4) and it is likely that allocations to this chapter of the budget will have to increase during the rest of the year, perhaps to a significant extent. From the start of 2023 to 27 May, the four 'new' regions received direct transfers from the federal budget of almost 185 billion roubles, the largest recipient being the DNR with 80.5 billion roubles (87 per cent of its total budget revenue) and the smallest being Kherson, with 16.9 billion roubles (no less than 95 per cent of its total revenue during the period). While 22 Russian regions received federal budget transfers that accounted for at least 50 per cent of regional budget revenue, the 4 occupied regions received one third of all federal budget transfers to such regions.⁵⁰ If the spending of the first five months is sustained, then the four 'new territories' could receive up to 500 billion roubles, equivalent to 1.7 per cent of total planned budget expenditure for 2023.

Analysis of trends in the budgets of Russian regions in 2022 and the early months of 2023 reveals negative trends caused by departing foreign companies, reduced profits, problems in collecting taxes and the need to fund extra spending items.⁵¹ In addition, the budgets of Russian regions are supporting the building of infrastructure in the 'new' regions, following a proposal of the Presidential Administration that they should 'sponsor' projects there.⁵² There is an increasing expectation that, later in the year, some regions will require further support from the federal budget. Under these circumstances, funding projects in the occupied regions presents an additional complication.

Some regions also face costs directly linked to the war. An example of war-related funding at the regional level was a decision by the local government of Bryansk oblast to spend 500 million roubles on building fortifications on the region's border with Ukraine. Building of fortifications reportedly started in the autumn of 2022 and similar construction is reported to have been undertaken in other border regions, including Belgorod (at a cost of 10 billion roubles to the local budget) and Kursk.⁵³ The total sum must be quite large, perhaps beyond the possibilities of local budgets and thus necessitating federal budget intervention. Many lines of defence have also been built in

⁴⁹ Russian Government Decree no. 1449-p of 2 June 2023 (in Russian).

⁵⁰ Ageeva, O., 'Новые российские регионы оказались дотационными почти на 90%' [Russia's new regions are almost 90% subsidised], *Forbes.ru*, 6 June 2023.

⁵¹ Petrova, E. and Seibil, N., 'Бюджеты регионов: Лучшее в прошлом, тревога в будущем' [Regional budgets: The best of the past, the worry of the future], *Novye Izvestia*, 25 Apr. 2023.

⁵² Ageeva (note 50).

⁵³ Kislov, A., 'В Брянской области выделили 500 млн руб. на строительство оборонительных сооружений' [Bryansk oblast has been allocated 500 million roubles for the construction of defensive structures], *Kommersant*, 24 Apr. 2023; and Sokolov, K. and Chernyshova, E., 'В России возвели тысячи оборонительных сооружений' [Thousands of defensive structures have been erected in Russia], *RBK*, 19 May 2023.

Table 5. The basic forecast of the Ministry of Economic Development, 2023–25, with data for 2022

Because of the major uncertainties, the forecast for 2026 is excluded.

	2022 actual	2023 forecast	2024 forecast	2025 forecast
GDP (b. roubles)	153 435	157 777	167 774	178 449
Rate of change in GDP (%)	-2.1	1.2	2.0	2.6
GDP deflator	115.8	101.7	104.3	103.6
Inflation (CPI), annual average (%)	13.6	5.2	4.9	4.0
Industrial production (%)	-0.6	0.2	2.5	2.9
Capital investment (%)	4.6	0.5	3.2	3.7
Retail trade turnover, change (%)	-6.7	5.3	3.5	3.5
Real disposable income of population (%)	-1.0	3.4	2.6	2.6
Export of goods (\$ b.)	588.3	465.9	484.0	496.2
Including oil and gas exports	343.7	232.1	232.5	232.2
Import of goods (\$ b.)	280.4	313.8	332.8	347.4
Trade balance (\$ b.)	307.9	152.1	151.2	148.7

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

Sources: 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’ [Scenarios for the economy of the Russian Federation and key parameters of the forecast of socio-economic development of the Russian Federation for 2024 and the planning period 2025 and 2026], 14 Apr. 2023, pp. 10–15. Inaccessible from the original source, but accessible from the website of Volgograd oblast, accessed 14 May 2023.

the conflict zone, to a large extent by the engineering troops of the MOD, and these presumably are funded from the ministry’s budget under ‘national defence’.

Another example of war-related additional funding is the decision to provide free training for those wishing to work in the arms industry. The industry is currently experiencing a serious shortage of workers as its companies strive to meet increased orders, and many companies are working on a multi-shift basis. A government decree of 15 March 2023 provided budget funding of 700 million roubles to train more than 12 000 personnel.⁵⁴ It is likely that there are more war-related costs under other budget chapters, including social policy, healthcare, education, mass media and inter-budget transfers.

V. Looking to the future: The 2024 federal budget and beyond

Preparations for drafting the federal budget for 2024 and planning for the years 2025 and 2026 started in early April 2023, when President Putin chaired a meeting on the economy and the forthcoming budget with the participation of the government’s economic team. Opening the meeting, Putin noted that the performance of the economy had turned out to be better than forecast when the budget for 2023 was being drafted and this optimism was reflected in the forecast for 2024–26 prepared by Minekon.⁵⁵ This forecast

⁵⁴ Mosolkina, D. and Dubrovina, E., ‘Правительство предложило бесплатное обучение для работы в ОПК’ [Government proposes free training for jobs in the arms industry], *Vedomosti*, 16 Mar. 2023.

⁵⁵ President of Russia, ‘Совещание по экономическим вопросам’ [Meeting on economic issues], 11 Apr. 2023.



was discussed at the meeting, although no details were then made available. The optimism was reinforced by the fact that, on the same day, the International Monetary Fund (IMF) presented a more upbeat forecast for Russia, with GDP growth of 0.7 per cent in 2023 and 1.3 per cent in 2024, following a decline of 2.1 per cent in 2022.⁵⁶

A few details of Minekon's forecast were made available in the media soon after the meeting, but the document on its website was not accessible. However, possibly erroneously, the forecast was later posted on the website of a regional administration, and the main details of the basic scenario are presented at some length here since much of it has not been published (see table 5).

In presenting the data, Minekon noted that the data would be revised to take account of Zaporizhzhia and Kherson oblasts as official statistical information became available. However, it provided an estimate of the addition to GDP that they would bring: 2033 billion roubles in 2023 (1.3 per cent of total GDP), rising to 3173 billion roubles in 2026 (1.6 per cent of the total).

Minekon's forecast is likely to be revised before it becomes the basis for the budget for 2024. By May it was already clear that some of the assumptions were overly optimistic. In its latest report on monetary-credit policy, the Bank of Russia forecasts a trade balance for 2023 of only \$117 billion and a current account balance of \$47 billion, leading to lower than expected budget revenues.⁵⁷ It also noted inflationary risks arising from a shortage of labour, wage increases, an exchange rate under possible pressure and a larger than planned growth of the budget deficit.

VI. Conclusions

Since 24 February 2022, as in 2014, Russia has been engaged in military action against Ukraine in what would normally be termed a war, but which the Russian government is still officially designating a 'special military operation'. Sanctions and trade restrictions imposed by Western countries have had a significant impact on the economy, although the Russian authorities and Russian businesses have tried to mitigate their effect. While the arms industry has been mobilized to increase the production of weapons and other military hardware, it cannot be said that Russia has entered a 'war economy'. The government has been concerned with limiting the impact of the war on the rest of the economy and on the day-to-day lives of most Russian citizens. President Putin has continued to emphasize the importance of meeting his national goals and implementing projects intended to improve living standards and welfare. More recently he has also focused on the vital need to enhance the 'technological sovereignty' of the country in the face of sanctions expected to last for a long time. Military expenditure has increased, but not to a dramatic extent: from 3.6 per cent of GDP in 2021 to 4.4 per cent in 2022, with a similar share planned for 2023. The costs of the war clearly extend beyond the military dimension, with a larger overall burden on the economy and the budget; nevertheless, the government appears to be concerned with minimizing their impact on the public and on living standards.

⁵⁶ International Monetary Fund (IMF), 'Real GDP growth', World Economic Outlook, Apr. 2023.

⁵⁷ Bank of Russia, *Май 2023 доклад о денежно-кредитной политике* [May 2023 report on monetary-credit policy] (Bank of Russia: Moscow, 11 May 2023), p. 5.



The Russia–Ukraine War is a brutal conflict, by far the largest and most costly in terms of human lives and suffering on European soil since World War II. For Ukraine, it is without question a full-scale war for the country’s very existence as an independent state. But Russia has been engaged in the conflict in a more limited manner, as if seeking to minimize its economic cost and the impact on domestic society and on the president’s goals for the country. It is being fought in reality not with the resources of a full-scale war but indeed as a more limited military operation. The use of the term ‘SVO’ can thus be understood from the point of view of Russia’s financial resourcing: it is an operation being fought in monetary terms at a cost that the Russian economy can afford, notwithstanding severe sanctions. Indeed, the possibility that sanctions could bring the war to an end is remote. Like most wars, it will be concluded on the battlefield, followed by negotiations. But the cost of the war will be felt for many years to come in economic, social, political, geopolitical and, above all, human terms.



Abbreviations

DNR	Donetskaya Narodnaya Respublika (Donetsk People's Republic)
FSB	Federal'naya sluzhba bezopasnosti (Federal Security Service)
GDP	Gross domestic product
GOZ	Gosudarstvennyi oboronnyi zakaz (State Defence Order)
LNR	Luganskaya Narodnaya Respublika (Luhansk People's Republic)
Minekon	Ministry of Economic Development
MOD	Ministry of Defence
MOF	Ministry of Finance
OPEC	Organization of the Petroleum Exporting Countries
SVO	<i>Spetsial'naya voennaya operatsiya</i> (special military operation)

SIPRI is an independent international institute dedicated to research into conflict, armaments, arms control and disarmament. Established in 1966, SIPRI provides data, analysis and recommendations, based on open sources, to policymakers, researchers, media and the interested public.

GOVERNING BOARD

Stefan Löfven, Chair (Sweden)

Dr Mohamed Ibn Chambas
(Ghana)

Ambassador Chan Heng Chee
(Singapore)

Jean-Marie Guéhenno (France)

Dr Radha Kumar (India)

Dr Patricia Lewis (Ireland/
United Kingdom)

Dr Jessica Tuchman Mathews
(United States)

Dr Feodor Voitlovsky (Russia)

DIRECTOR

Dan Smith (United Kingdom)

SIPRI INSIGHTS ON PEACE AND SECURITY NO. 2023/07

RUSSIA'S MILITARY EXPENDITURE DURING ITS WAR AGAINST UKRAINE

JULIAN COOPER

CONTENTS

I. Introduction	1
II. The budget for 2022: Expectations and implementation	3
III. The federal budget for 2023–25	5
IV. The military budget for 2023	8
Military spending in the 2023 budget	8
Implementation of the 2023 federal budget	9
Other spending related to the war	14
V. Looking to the future: The 2024 federal budget and beyond	16
VI. Conclusions	17
Abbreviations	19
Table 1. Forecast on which the Russian draft budget for 2023–25 was based	6
Table 2. The Russian draft budget for 2023–25, expenditure by chapter, selected chapters	7
Table 3. Russian military spending in the budget for 2023	10
Table 4. Implementation of the Russian federal budget during the first four months of the year, 2022 and 2023	12
Table 5. The basic forecast of the Ministry of Economic Development, 2023–25, with data for 2022	16

ABOUT THE AUTHOR

Julian Cooper (United Kingdom) is emeritus professor in the Centre for Russian, European and Eurasian Studies (CREES) of the University of Birmingham School of Politics and International Studies. He is also an Associate Senior Fellow with SIPRI's Military Expenditure and Arms Production Programme.



**STOCKHOLM INTERNATIONAL
PEACE RESEARCH INSTITUTE**

Signalistgatan 9

SE-169 72 Solna, Sweden

Telephone: +46 8 655 97 00

Email: sipri@sipri.org

Internet: www.sipri.org

© SIPRI 2023