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Russia further increases military expenditure at the expense of other financing needs

International economy, Russian economy | 04 October 2024 | Heli Simola

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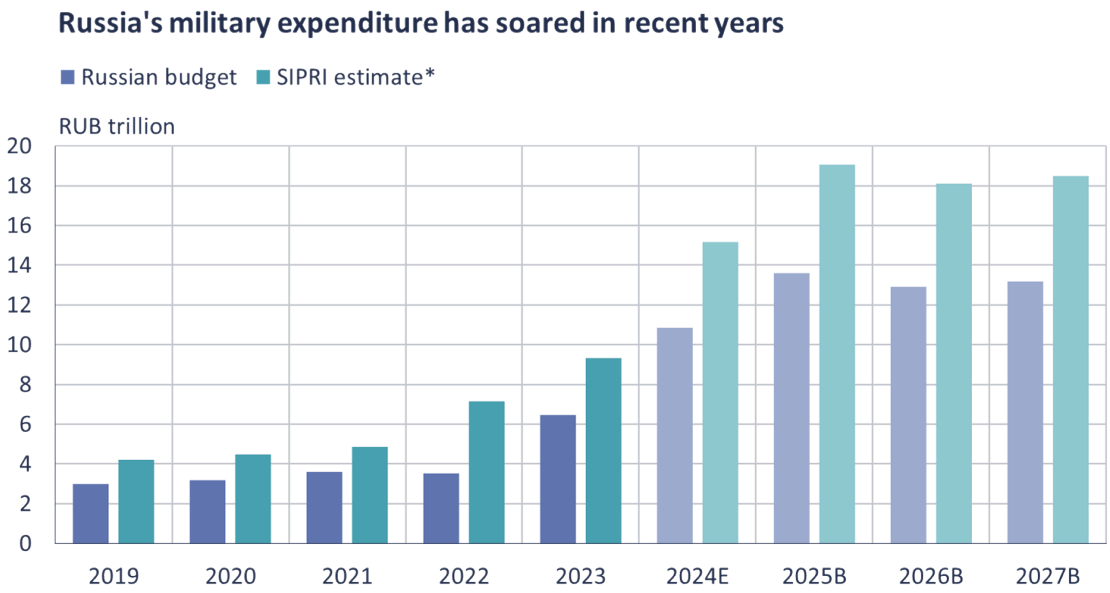
The above headline aptly summarizes the preliminary 2025–2027 budget framework submitted to the Duma in late September.

The above headline aptly summarizes the preliminary 2025–2027 budget framework submitted to the Duma in late September. Given that the budget's out years are still subject to high uncertainty, next year's numbers are the most telling. They make clear that Russia's government has to come to terms with incessantly rising war costs.

Previous budget plans had counted on a leveling-off of government spending in 2025, but the newest plan sees total government spending (consolidated budget) rising another 10 % next year. The lion's share of growth comes from higher expenditure in the "defense" category, which is set to grow by nearly 20 % from the 2024 budget. The budget framework also implies nominal increases of just 2–5 % for other major spending categories – moderate adjustments that do not even compensate for inflation.

Next year marks the fourth year in a row of hefty increases in Russia's military spending. Russia ceased publishing statistics on realized military expenditures after 2021, but approximate information can be obtained from budget plan spending categories. The bulk of military expenditure is covered in the defense category, but war-related spending is also found in other categories. SIPRI provides estimates of Russia's total military spending for 2022–2023 and we can calculate similar estimates based on the budget plans for 2024–2025.[1] As seen from Figure 1, our calculations suggest Russia's direct budget spending for the war over the four-year period (2022–2025) amounts to at least RUB 50 trillion (USD 280 billion).

Chart 1.



* SIPRI estimate for 2019-2023, BOFIT calculations applying SIPRI methodology for 2024-2027.
Sources: Russian Ministry of Finance, SIPRI, BOFIT.

4.10.2024

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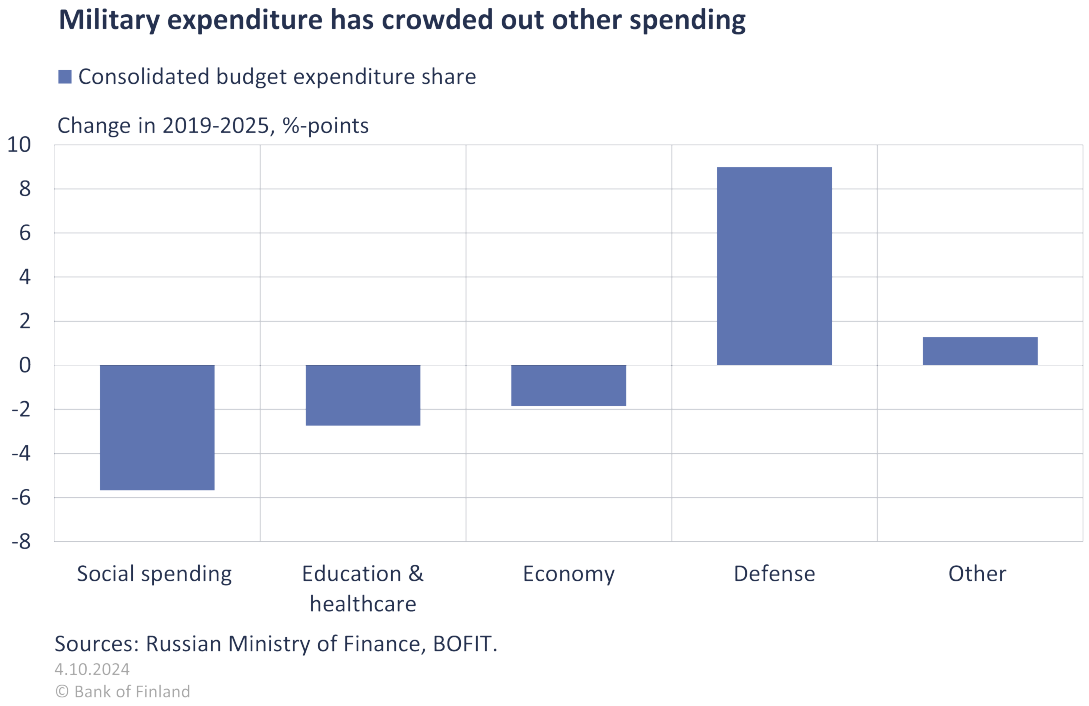
For comparison, government spending on education in the same four-year period was less than half of military spending. Massive increases in military spending gobble up resources that could be used elsewhere. There has been a notable shift in the structure of government expenditure, with the share of military expenditure increasing sharply in 2019–2025 (Figure 2), while the shares of most other major spending categories decline. This includes spending on social policy.

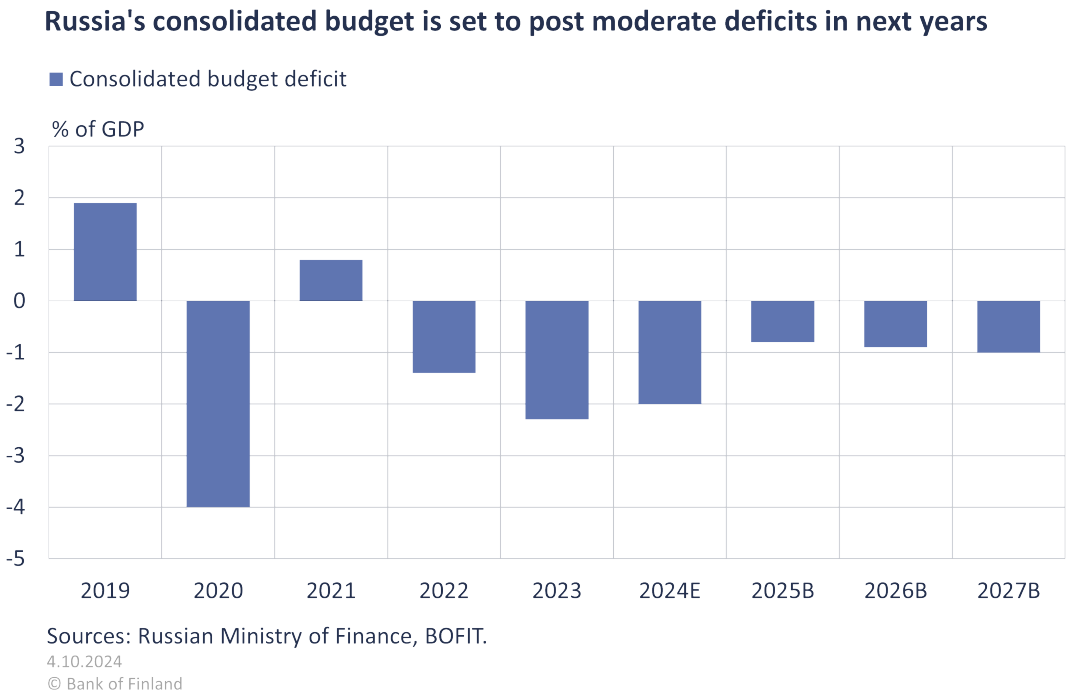
Chart 2.



To finance higher military spending, the budget framework shifts the burden of financing more to the private sector, particularly corporations. The budget plan anticipates a 14 % increase in government revenue in 2025. Most of these new revenues would come from businesses other than those involved with the oil & gas sector, and mostly in the form of increased income and sales taxes. Many of these tax increases should enter into force at the start of next year, including a hike in the corporate profit tax, extension of VAT coverage to small companies and a higher income tax rate for Russia's wealthiest households.

Despite higher revenues, the consolidated budget is expected to remain on deficit in coming years. The expected deficit for this year is RUB 4 trillion (2 % of GDP), or double previous budget forecasts (but still about the same level as in 2023). In the next years, the deficit should decline to an annual average of RUB 2 trillion (1 % of GDP). Russia should still not have major problems in financing such deficits. The deficits are expected to be covered with debt, bringing the government debt ratio to 18 % of GDP by end-2027. As backup, the National Wealth Fund still contains liquid assets of roughly RUB 5 trillion that can be readily tapped.

Chart 3.



Sources: Russian Ministry of Finance, BOFIT.
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Higher spending comes with higher risk. Oil & gas revenues, which are expected to account for 5 % of GDP in 2025, still constitute an important budget revenue stream. The budget framework is based on an assumption that the export price of Russian oil averages USD 70/bbl in 2025 and 2026. If the price sharply declines, Russia will find it much more difficult to finance higher budget spending. Higher spending also adds to already-high inflation pressures. As such, the current budget framework assumptions of 2.5 % GDP growth and 4.5 % inflation in 2025 appear quite optimistic.

Russia's preliminary budget framework clearly shows that war is the government's top priority. Military spending continues to increase, even at the expense of other financing needs, extracting more revenues from the private sector and fueling inflationary pressures. The government's financial situation is becoming tighter, but Russia can still afford to follow this path, sustaining its war of attrition in Ukraine. Therefore, it is crucial in the months ahead that Western governments make sure that Ukraine can continue to defend itself.

Keywords

budget, military expenditure, Russia