

The Economic Trap in Russia's Military Budget

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A billboard promoting contracted army service, reading "5 200 000 rubles for the first year of the contract" (about \$57,000) in Moscow. **Alexander Nemenov / AFP**

The Kremlin's recently announced budget parameters for 2025 dash any hopes that Russian spending on the war with Ukraine had already peaked. Contrary to expectations – and even previous forecasts by the Russian authorities – military spending is now planned to increase by 22.6% compared to this year and by as much as 54.5% compared to the original draft budget for 2025, which was drawn up at the end of 2023.

In short, President Vladimir Putin is not going to give up his ambitions in Ukraine and is ready to further increase spending on war, without which, as he believes, his regime cannot survive.

Earlier budget plans for 2024–2026 envisaged a gradual reduction in military spending. This led many to conclude that Putin intended to end the war as early as 2024. Kyiv and its Western allies had hoped to prevent the Kremlin from significantly expanding its gains by imposing

exorbitant spending. But these calculations have not materialized due to external and internal challenges. Delays in Ukraine's mobilization and the delivery of Western aid have resulted in setbacks on the frontlines, while the Russian leadership has managed to mobilize additional resources to increase defense spending in 2025.

Russia's budget revenues in 2025 should grow to 40 trillion rubles (\$418.114 billion) compared to 35 trillion (\$366.027 billion) in 2024, while expenditures should rise from 37.2 trillion (\$388.992 billion) to 41.5 trillion (\$434.009 billion).

The government expects to keep the budget deficit below 1% of GDP for all three years. This year, too, it had such a plan. Initially, the deficit was [planned](#) at 0.9% of GDP, but by summer the plan had [grown](#) to 1.1%, and now, according to Bloomberg, it may reach 1.7%. However, this is still very small for a country at war.

Russia's spending on defense and national security is impressive. It is expected to exceed the 8% of GDP mark and account for 40% of all federal spending – the highest level since the collapse of the USSR. Against this background, the planned subsequent decline in 2026–2027 – to 5.6% and 5.1% of GDP respectively – is not very encouraging.

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Of course, if we proceed from the logic of budget policy, military spending seems an obvious candidate for reduction. But in Putin's Russia, war is the engine of the economy. Funding for other sectors – such as education, health care and even social policy, is growing minimally or even being cut, despite the Kremlin's claims that social spending is a priority.

Russia is entering a period of strategic restructuring of its armed forces, which, according to Dara Massicot, could last up to eight years. The military needs to replenish personnel and weapons stocks. Furthermore, civilian enterprises and facilities need air defense and electronic warfare systems to defend against drones.

In the previous two years, the Kremlin coped through ordering a partial mobilization, building up capacity at existing defense plants, repairing existing equipment and attracting volunteers with high payments. However, with the exception of drone production, these efforts have reached the limit of their effectiveness by early 2024.

As long as the Kremlin receives stable revenues from commodity exports, has a competent economic team, and increases repression at home, Russia may well continue to finance the waging of war or the large-scale rebuilding of military capabilities – at least for the foreseeable future.

However, Russia's resources are not unlimited. The constant injection of money into the army and security forces exacerbates existing imbalances in the economy. Simply put, the Russian leadership prefers to build up military power instead of taking care of the country's long-term economic stability. The Kremlin's logic looks like this: when the problems start, then we will solve them.

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There are consistent supporters in government circles of the idea of demand management through the budget, where military expenditures will be the main driver of economic growth. But in order for the military-industrial complex to pull the rest of the economy along with it, its products must be in constant, or even better, growing demand.

The ongoing war with Ukraine is one factor in this demand. Restoration of military potential is another. But domestic demand for products of the military-industrial complex is finite, while the export prospects for such products are dim given expanding sanctions. Consequently, the economy will face another shock and structural adjustment once domestic demand is exhausted.

The shortage of workers will undermine all efforts to increase military production, and sanctions have already markedly limited Russia's ability to modernize its military-industrial complex by depriving it of access to key components, complicating supply chains and impeding financial transactions. Putin faces an [impossible trilemma](#) where the problems of maintaining macroeconomic balance, fulfilling social obligations, and keeping military spending at current levels can only be solved separately.

The negative consequences are already evident. As military spending increases, the authorities have to cut other budget items. And the longer the war goes on, the more such cuts will be made. The budget for the education, health care, science, and utilities sectors will suffer the most, as they will receive neither funds nor labor.

Nevertheless, for now, the Russian economy still has enough resources to adapt and stay that way for years to come. For the West, this means that it should stop hoping that Russia's economic warfare capabilities will soon run out. Russia itself will face rampant inflation and a high central bank key rate, which will remain in double digits for a long time to come and will likely be raised again in the coming weeks.

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