

# The Russian State Budget at War

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## Summary

Vladimir Putin is preparing for a long war. Although the Russian authorities have made painful adjustments to avoid economic collapse, economic growth is now generated by war and war-related expenditures. The main characteristics of Russia's war economy are the following – state-led demand, inflation and certain shortages, and increasing government debt.

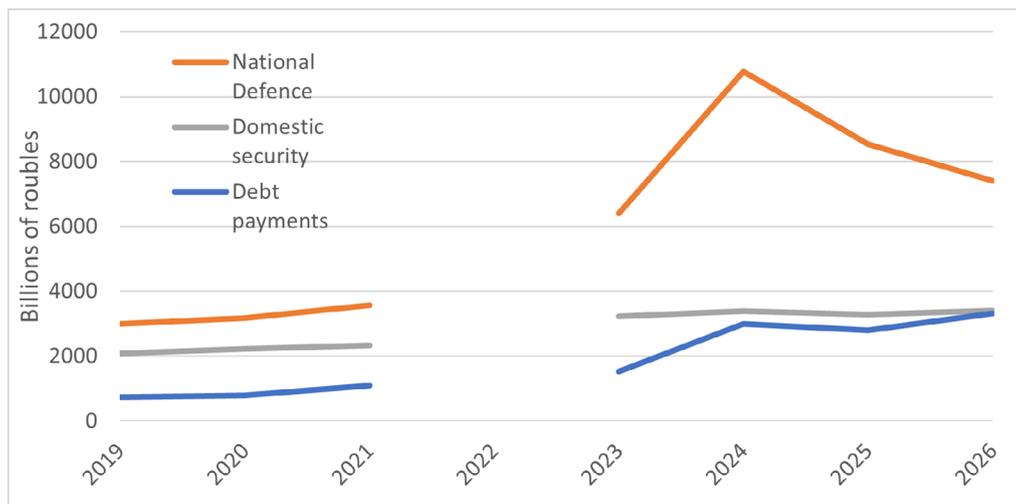
Total security related spending will reach about 40–45 % of all state expenditures in 2024. In addition, Russia faces an increasing cost for debt servicing, from 4 % of all expenditures in 2019 to 8 % in 2024. This debt factor is a key vulnerability and potential target for sanctions.

## The Data

Data on government expenditures from the Russian Ministry of Finance remain incomplete. For example, information on state expenditures in 2022 is omitted in official reports. However, long-term budget plans, and data for previous years, are available.

The following expenditure areas are the most important: national defense and internal security. See Figure 1. National defense spending is growing at a very fast speed. It has seen an increase from 2,997 billion rubles in 2019 to 10,775 billion rubles in 2024. An increase of 359 %. By 2026, it is projected that spending on national defense will have declined somewhat, to 7,409 billion rubles. Internal security will see an increase from 2,083 to 3,225 billion rubles in the same period. An increase of 163 %. By 2026, it is assumed that spending on domestic security will have increased to 3,406 billion rubles.

**Figure 1. Russian state budget expenditures, 2019-26.**



### **Government Debt Servicing on a Sharp Increase**

Russian government debt is increasing sharply due to war financing and declining revenues. There are two issues: total debt as such, and costs of debt servicing. From the point of view of fiscal policy, the latter issue is the most important. With unsustainable debt levels, the costs of servicing that debt will crowd out other expenditure areas.

In 2019, the Russian cost of debt servicing (payment on interest only) was 730 billion rubles. In 2026, the estimated cost will have increased to 3,316 billion rubles. An increase of 454 %. The sharp increase in debt and debt servicing costs suggest that sanctions and boycotts of Russian fossil exports are having a clear effect. Further sanctions, e.g. targeting Russian debt servicing capacity, would put additional pressure on the Russian economy.

### **Security Related Spending as a Share of Total Expenditures**

Russian authorities assume that 2024 will be the peak year of defense related spending. There are, however, no guarantees that this will be the case. Current budget plans have already been modified sharply in comparison to previous long-term estimates.

As seen in Figure 2, national defense represented about 16 % of all state budget expenditures in 2019. In 2024, the figure will be about 29 %. Internal security represented about 11 % of all state budget expenditures in 2019. In 2024, the figure will be about 9 %.

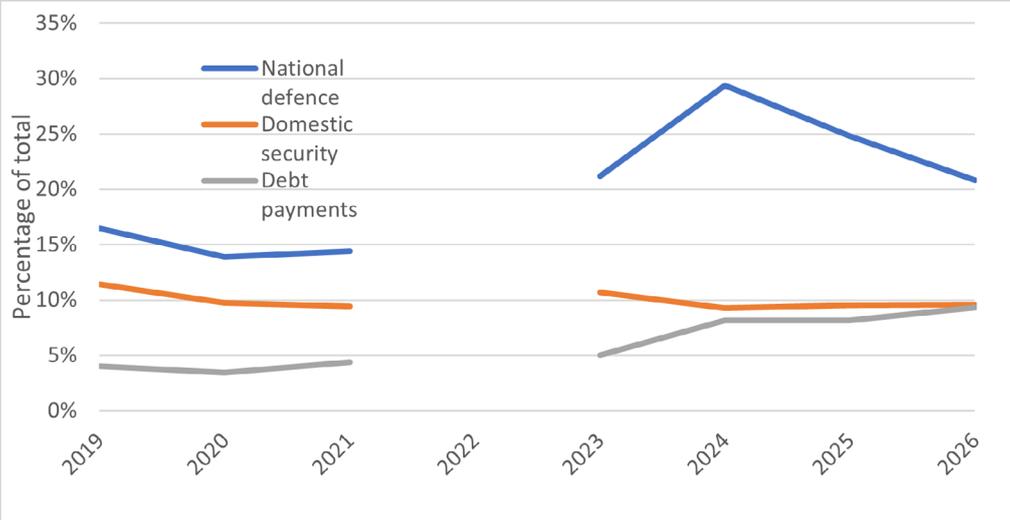
If one adds an approximate of 5 percentage units for secret budget items and other security related expenditures not captured here, total security related spending is somewhere between 40–45 % in 2024.

Lastly, debt servicing represented about 4 % of all expenditures in 2019. In 2024, this figure is 8 %. By 2026, it is estimated to have increased to 9 % of all expenditures. In other words, the Kremlin will be spending an equal amount of rubles on domestic security as on debt servicing.

Putin spent his first 20 years in the Kremlin pursuing a conservative fiscal policy. And debt levels in absolute levels, as well as a share of GDP, remain relatively low (perhaps 20 %

of GDP). However, the issue here is the relative share of state expenditures devoted to debt servicing. Although sustainable for the medium-term, it is difficult to see how Russia can manage a continuously increasing debt burden without sharp adjustments to other expenditure areas. This aspect is an often-neglected Achilles heel of Putin's system of power.

**Figure 2. Defense, domestic security, and debt as share of total expenditures**





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