Russian government cuts expenditures as it struggles to finance mobilization

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The Russian government is facing a budgetary crunch as it struggles to shoulder the cost of the war in Ukraine. Its just-released financial plan for 2023 will reduce federal spending to 17 percent of GDP compared to 20 percent this year. It projects that number will decline to 15 percent by 2025. While nominally expenditures will remain the same, the corrosive impact of an inflation rate that is running at over 13 percent and of the economic sanctions imposed by NATO are constraining Moscow's purse.

National defense, national security, and law enforcement will collectively make up the largest share of the 2023 budget, coming in at 9.127 trillion rubles ($147 billion), an increase over this year. However, spending specifically devoted to the armed forces is slated to be axed by nearly 30 percent. News of the cut provoked stunned commentary from lawmakers and others close to the military.

Duma Deputy Mikhail Delyagin stated, "Reading the budget of the Russian Federation for 2023, I feel in a parallel dimension," and went on to imply that there was disarray within the Kremlin, which had prepared a budget "in new conditions that are little familiar and poorly understood." "The financial wing of the government does not know what is happening in the country," stated parliamentary representative Oksana Dmitrieva. "They believe that oil and gas revenues should be stored up, and this is their only idea, and no more have appeared."

The apparent inability of the government to substantially increase allotments for national defense reflects on the one hand the crisis facing the country's economy and on the other, the military and political miscalculations of the Kremlin, which appears to have thought that it would be able to force a settlement with NATO over Ukraine much earlier in the conflict. In an indication of the Putin government's lack of preparation for the present state of affairs, no money is specifically set aside in the 2023 budget to finance the provisioning and payment of the 300,000 reservists just called up.

The "partial mobilization" that began in later September already appears to be in a state of semi-disorder. Responsibility for equipping troops—222,000 have already been draft and 16,000 of them sent to the front—has largely fallen on regional governments, which are scrambling to find everything from uniforms to first-aid packs for soldiers. There are shortages of military supplies and prices are rising.

Families are given list of things their sons are permitted to bring with them that bear little resemblance to what anyone is likely to have sitting around their attic. Newspaper *Nezavisimaya Gazeta* reported, "The 'Explain.rf' website, which was created to inform the population about the partial mobilization, has a list of items that conscripts can take with them. Among them: personal hygiene items, thermal underwear, a chemical heating pad, a flashlight, a balaclava, tactical gloves, a camping seat, batteries. Separately, it is noted that as personal belongings, you can also take with you a quadrocopter, binoculars, an optical sight and a night vision device."

Payments to draftees and their relatives beyond the federal government's base rate have also been made the responsibility of regional authorities, whose budgets are actually slated to be reduced next year. As a result, compensation for draftees varies from one place to the next. In Vladimir, those mobilized will receive 40,000 rubles a month (about $638). In Moscow, an extraordinarily expensive city, they get 50,000 rubles. In Novosibirsk, those in the lowest ranks will get one-time payments of 200,242 rubles, a number that rises to just over 490,000 for lieutenants. In Saint Petersburg, draftees are paid 100,000 rubles, 200,000 less than volunteers.

Furthermore, no money has yet changed hands. Some regions have said payments will be sent out by the end of October, others not till November. In the meantime, inflation continues to erode household incomes. The price of tomatoes rose 7 percent last week alone, according to state statistical agency Rosstat.

Aware that the sums promised are inadequate and anxieties are rising among ordinary people over the departure of their sons and husbands and the loss of their wages, officials are scrambling to make other services available to conscripts' families. These include things such as free daycare, free school meals, vouchers for camps and retreats, discounts on housing, utilities, and transportation, and special services for the disabled and elderly left behind.

In an expression of the general poverty that exists in Russia, in Sakhalin, the ruling party United Russia promised to give draftees' relatives frozen fish. Elsewhere, according to the website Yarnovosti.ru, people will get a sheep; in Buryatiya—free firewood, although only for the needy; and in the Tuva Republic, each family will be given "one ram" and "50 kilograms of flour, two bags of potatoes and cabbage, and farmers will receive an additional ton of oats."

Speaking to Yarnovosti.ru, Ilya Grashchenkov, the head of the Center for Regional Policy Development, noted, "Governors are interested not so much in the mobilized as in the families left behind, who may give voice to social discontent…In one place they placate them with money, in another they give sheep, and still elsewhere they will subdue them with force, if necessary. But people are not happy with what is happening. The myth of a strong army could be seriously damaged if the clashes with reality continue in the same vein."

In an expression of the ruling elite's nervousness over the impact that the war in Ukraine is having on the Russian economy and political moods in the country, one area of the federal budget will see a relatively substantial increase next year. Expenditures on some social programs, namely pensions, welfare benefits, and other efforts aimed at helping families and children are slated to rise by about 1.58 trillion rubles.

This amount is to be offset by significant cuts to the ministries of culture and sports, special direct and indirect forms of financial support for cities, and some national development projects long on the books but unrealized for over a decade. In addition, businesses' tax and payroll obligations will be increased, a fact that provoked Alexander Shokhin, head of the Russian Union of Industrialists and Entrepreneurs (RSPP), to complain to the press about the content, opaqueness, and short-sightedness of a federal budget that does not even take into account the possibility of future large-scale economic shocks, such as major price increases.

In short, the Kremlin is attempting to put the Russian population on a "guns and butter" budget, straining every nerve in order to do so. It will ultimately fail to do so. The allocation of large amounts of money to internal policing is part of the ruling elite's preparations to crush social discontent when it can no longer finance the war.

While its treasury has been buoyed by profits generated from gas and oil sales, Russia has had to sell its products at a "geopolitical discount" for months. Countries still willing to buy the resources are unwilling to pay global-market prices. The price of Russian oil has been falling for three months, with the Ministry of Finance recently reporting that the country can now fetch just $68.25 per barrel. The government, however, had not expected prices to dip so low until the end of the year. According to financial daily *Kommersant*, "The situation with non-oil and gas, i.e., with other budget revenues looks worse: minus 4.3% for the first nine months and minus 4.1% for September alone."

There are other indicators of a faltering economy. With a federal moratorium on bankruptcies having just been ended, Russia is witnessing a sharp spike in the number of companies going officially broke. According to the Russian Association of Jurists, restaurants, fitness centers, movie theaters, wholesale traders, and companies whose earnings are tied to the rental of real estate are among the hardest hit. Moscow and the surrounding region, Krasnodar, St. Petersburg and Bashkortostan have the highest concentration of newly bankrupt firms.

Between just October 2 and 11, 307 corporate bankruptcy cases were registered in Russia for a total of 5.3 billion rubles. One of the primary creditors against which companies are seeking relief is Russia's Federal Tax Service. Thus, if it does not wish to see its tax base hammered by a wave of bankruptcies, the government has to figure out some way to bailout the very corporations that cannot pay to the federal government itself what they owe.

The rapid withdrawal of 300,000 men from the workforce is also destabilizing the economy. Many of their jobs cannot be rapidly filled, absent an appropriately trained workforce. The transportation and logistical sectors are especially vulnerable. The head of Gruzovtrans, an organization which speaks on behalf of trucking companies, said that there are some smaller operations which have seen more than half of their workers drafted, threatening the industry's ability to move goods around the country. According to the business press Delovoy Peterburg, between 50 and 80 percent of aviation employees are draft eligible. Business associations representing the airline and rail industries have issued special appeals to the government to exempt their essential employees from the call-up.