

# Russia's war-time budget

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Under conditions of the US and NATO's ongoing escalation of the war in Ukraine, Moscow is placing the country's economy on a war footing, with a massive increase in military spending slated for 2024-2026. On Thursday, the Russian Duma gave initial approval to the Kremlin's proposed federal budget, which will raise defense expenditures to 10.7 trillion rubles (about \$113 billion) next year. This is a record 6 percent of gross domestic product, the largest military-spending to GDP ratio since the dissolution of the USSR.

These outlays, while still minuscule in comparison to the trillion plus dollars that the US spends annually on defense, are a 70 percent increase over 2023. When the additional 3.4 trillion rubles (\$36 billion) dedicated in 2024 to "national security" is added to the bill, nearly 40 percent of Russia's federal budget will soon go to war-making and intensifying the state's repressive powers.

Compared to 2021, Moscow will have now tripled its disbursements in these areas. For the first time ever, Russia's expenditures on defense and security will dwarf those directed towards "social policy." The government is planning to devote nearly double to the military-industrial complex and its related institutions than it does to financing pensions, public sector wages, and other social programs, which will now account for just over 21 percent of all federal expenditures, the lowest level since 2011. Even these numbers are an underestimate, as many defense and security expenses are either classified information, included under other categories, or handled at the level of regional budgets.

The budget comes after 19 months of war in Ukraine. Speaking for the parasitic oligarchy that emerged out of the restoration of capitalism in the Soviet Union, the Putin regime had invaded Ukraine after years and decades of imperialist provocations, based on the bankrupt conception that it could quickly force the imperialist powers to the negotiating table and discuss terms for a "peaceful existence". This strategy has catastrophically backfired. Whatever their own military setbacks, the imperialist powers have continued to escalate and expand the war in Ukraine. Now, in the Middle East, where the US is backing Israel's genocide of the Palestinians in Gaza, a new front is opened up through an escalation of conflict with Syria and Iran, both allied with Russia.

Under these conditions, the Russian oligarchy is feverishly trying to beef up its defenses in order to deal with the intensifying war and the efforts by the imperialist powers to break up Russia, a central part of their larger scramble to redivide the world.

US President Biden, who has already funneled \$75 billion in assistance to Kiev since February 2022 according to the Kiel Institute, is now demanding tens of billions more to finance Ukraine's killing machine, as well as wage war in the Middle

East, where new fronts along which Russia must wage combat will emerge. Washington is pursuing a policy of, as characterized by the RAND Institute in 2019, "overextending and unbalancing Russia" through "cost-imposing options" that are intended to stress "Russia's economy and armed forces."

Clearly concerned that the economic strains of financing the war will aggravate social discontent in a country with extremely high levels of social inequality, the Kremlin is attempting to present the new budget as a policy of equally "guns and butter." Speaking at a meeting of a Duma committee last week, Finance Minister Anton Siluanov insisted that the country's 2024-2026 financial plan was not a "military budget," but rather devoted to "social issues."

Over the course of the last year the Putin government has been making small increases to pensions by indexing them to inflation, providing some subsidies to families with young children, granting minor bonuses to certain public sector workers, and so forth. This is allegedly to continue in the forthcoming years. Allocations for social spending are slated to rise in 2024 by one trillion rubles (\$10.5 billion) to a total of 7.7 trillion (\$82 billion).

However, behind this nominal increase is a major attack on the working class.

First, as noted in an article published in the Russian *Nezavisimaya Gazeta* on October 17, the government's plan actually rests upon a "tightening of both fiscal and monetary policy." Inflation and the current low value of the ruble—the latter of which is essential to the government's revenue calculations and foreign trade balance—will cancel out any positive impact that increases in social spending might have for ordinary people. "The indexation of public sector wages and pensions in real terms will be zero" and "public investment will be reduced in real terms," observe researchers at the Institute of National Economic Forecasting (INEF) in a recently released study of the new budget.

In addition, expenditures on education, healthcare, and utilities are slated to substantially decline over 2024-2026 as a percentage of the overall budget, as well as in real terms. Starting next year, the Russian government will allocate just 4.4 percent of its account to healthcare, down from 5.2 percent currently. That number will fall further by the time 2026 is reached, with the state intending to shave off another 5 billion rubles by the end of its fiscal cycle.

With annual inflation currently at 5.4 percent, the value of the 1.62 trillion rubles (\$16.9 billion) that Moscow will spend next year on healthcare will be a significant drop in real terms—by one estimate, 9 percent. Previous promises to expand treatment for vascular conditions, update oncology centers, invest in medical research, and modernize primary care are expected to be scrapped.

Already, Russia's healthcare system is in crisis. In January,

Health Minister Mikhail Murashko revealed that the country is short tens of thousands of doctors, nurses, and medical personnel. The overriding problem is extremely poor pay, an issue that has only worsened as officials have cut special compensation granted when the covid-19 pandemic was officially recognized.

In June in the small southern Siberian town of Abakan, healthcare workers at an ambulance station protested because while they had received a small pay increase, they ended up making less than before because they were stripped of various bonuses. Overall, they saw their incomes drop by between 5,000 and 15,000 rubles.

According to the website Medvestnik, based on the new budget, in 2024 a nurse working in primary care will be eligible for a federally-financed “social payment” of 6,500 rubles, about \$68. Paltry as it is, this is still 40 percent more than the special allotment for junior medical staff in emergency departments, which will be 4,500 rubles.

The educational system in Russia will likewise receive less than nothing in the forthcoming three years, with federal budget expenditures dropping from 1.54 trillion rubles in 2024 to 1.41 trillion in 2026.

The country’s utilities systems will fare even worse. From today’s high of 857 billion rubles, spending in this area will drop to just 381 billion rubles in 2026—a fall of more than 50 percent. The impact on Russia’s already failing water, heating, and sewage infrastructure will be huge. In October of last year, 200,000 residents of Volgograd—the city, formerly Stalingrad, where the Red Army inflicted a major defeat on the Nazis in 1942—experienced the collapse of a sewer line.

The federal government is also planning to make significant cuts to transfers and subsidies for Russia’s 87 regions, which will undermine local expenditures on all manner of things and cause officials to turn to borrowing. Currently, one Soviet republic, Udmurt, has debts that are 100 percent of the value of its income. Another 9 regions are running at 70 percent.

Concerned about the implications of this austerity plan, parliamentary deputies from the Stalinist Communist Party (KPRF) and Just Russia voted against the budget on Thursday. They are not opposed to the vast expansion in military financing, but rather alarmed by the political consequences of the looming cuts in social expenditures.

In his remarks to the Duma, KPRF head Gennady Zyuganov combined denunciations of the 2024-2026 for failing to be a “victory budget” that adequately increases defense spending and centralizes state power with criticisms of the corrosive impact that gutting social funding on social and political stability.

There are also concerns that Russia’s forthcoming budget rests on shaky ground. A week ago, Russia’s Accounts Chamber criticized the government’s plan. According to the Russian business daily *Kommersant*, the state’s auditor pointed to the fact that the “macro forecasts of the Ministry of Finance and the Central Bank,” which have to guide the budget, are in conflict with one another. It also “reproached the Ministry of Finance for the lack of explanation for the adjustment of the budget rule” that shapes the government’s financial calculations, “identified the risks of failure to achieve the new cut-off price of oil at \$60 per

barrel,” which is what the Kremlin is basing its revenue assumptions on, and raised concerns over the fact that there is “an increase in the share of defense spending and debt service with a decrease in the share of state investment and transfers to regions.”

Lawmakers’ budget calculations assume that the ruble will continue trade at a low value relative to the dollar, such that exports, primarily sales of oil valued in dollars, will generate large ruble revenues. Currently, for instance, the ruble is trading at about 90 to dollar, such that if a barrel of oil sells at \$60 (the base price assumed by lawmakers for 2024-2026) it will yield 5,400 rubles. If, however, the ruble strengthens in value—e.g. it trades at 75 rubles to the dollar—the Russian treasury’s ruble income will fall precipitously. And should the price of a barrel of oil drop below \$60, the country’s coffers will also be in trouble.

Finance Minister Siluanov acknowledged a week and a half ago the vulnerability of Russia’s budget to currency swings. ‘A change in the exchange rate by one ruble will lead to an increase or a decrease in budget revenues (of) around 100 billion rubles,’ he observed.

Despite the immense impact of the sanctions by the US and its NATO allies, the Russian economy could so far rely on revenues from oil exports to China and other countries. After a fall in GDP in 2022, the economy is once again showing signs of growth.

Another primary pillar of the economic and industrial growth has been military spending, with industrial output in key sectors being geared towards war-related production. This, in turn, rests on increasing defense outlays and the government’s ability to sustain them going forward. At the same time, Russian corporations are under pressure because the country is experiencing a labor shortfall caused, at least partly, by the fact that tens of thousands of workers have been drafted into the military.

The budget, with its politically explosive combination of vast increases in military spending, social austerity, and precarious financial calculations, underscores the dead end of the response by the Russian oligarchy to the onslaught of imperialism. It also makes clear that the battle of the Russian working class against imperialism can only be won on the basis of combat with its own capitalist class, and the unification with their Ukrainian class brothers and sisters in a fight for socialism.



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