



IMPLEMENTATION OF THE RUSSIAN FEDERAL BUDGET DURING JANUARY–JULY 2022 AND SPENDING ON THE MILITARY

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I. Introduction

Since 24 February 2022 the Russian Federation has been engaged in what it officially terms a ‘special military operation’ and is in reality an armed invasion of its neighbour, Ukraine. There has been considerable analysis of the military dimension of the war and of the impact on Russia of the severe economic and financial sanctions imposed after the invasion began. But little consideration has been given to how the war is being resourced from an economic point of view. This arises in part because, from April 2022, the Russian Ministry of Finance (MOF) ceased the open publication of details of budget spending.

In April it was noted in Russia that spending on defence was more than 20 billion roubles (\$300 million) per day, although of course not all on the war.¹ In the subsequent absence of hard data, specialists and journalists in Europe and the United States, and occasionally also in Russia, have made various estimates of spending on the war. However, these have been of a ‘back of an envelope’ character. Almost all these estimates have one feature in common: they give an extremely high daily rate of spending in US dollar terms. They have varied from \$500 million per day to \$900 million, with speculation that it could reach \$20–25 billion per day.² The size of these estimates is not surprising as most factor in the cost of replacing lost weapons as if this has been an issue of current expenditure since 24 February and they value the weapons at US or European prices. Such estimates have led to claims that Russia simply cannot afford to fight the war.³ But there have also

¹ ‘Russian defense spending surges to \$300m per day amid Ukraine war’, *Moscow Times*, 18 May 2022. See also Nekrasov, D., ‘В поиска миллиарда долларов: Аналитик посчитал расходы бюджета на военную операцию’ [In search of a billion dollars: An analyst has calculated the budgetary costs of the special operation], *Novye izvestia*, 26 May 2022. In 2022 the exchange rate of the rouble has undergone significant changes. The rate was about 75 roubles to the dollar at the start of the year, fell to 120 in March and fluctuated around 60–55 in July–Sep. For this reason it is not considered very meaningful to convert military spending into \$US.

² Maltsev, A., ‘What’s the cost of war for Russia, and what could be done with this money?’, Geneva Solutions, 4 May 2022; Staten, A., ‘Russian spending estimated \$900 million a day on Ukraine war’, *Newsweek*, 5 June 2022; and Civitta, ‘Civitta, Easybusiness and CER experts in Ukraine release study on war costs for Russia and ways to support Ukraine’, 1 Mar. 2022.

³ Ramsay, A., ‘Russia can’t afford its war on Ukraine. Here’s why’, *Open Democracy*, 24 May 2022.

SUMMARY

● The Russian government has provided little information on military expenditure during the war with Ukraine that started in late February 2022. The Ministry of Finance stopped publishing detailed data on the implementation of the budget in April. However, for a brief period in August and September, the Federal Treasury did issue its usual reports on budget spending during the first half of the year and then to 1 August. They are very revealing—and, at first sight, surprising—on actual spending and permit some analysis of the Russian government’s commitment of resources to what it has termed a ‘special military operation’. Unfortunately, the Federal Treasury removed the reports from its website in mid September and, with the decision on 21 September to adopt a partial mobilization, it is unlikely that publication of detailed reports on budget spending will be resumed for some time.

**Table 1.** Total monthly Russian federal budget revenue and expenditure, January–August 2022

Figures are in millions of roubles.

	Revenue	Expenditure	Surplus/Deficit
January	2 089 153	1 964 161	124 992
February	2 116 563	1 828 939	287 624
March	2 963 789	2 225 310	738 479
April	2 864 722	2 974 618	-109 896
May	2 009 107	1 554 923	454 184
June	1 973 491	2 094 996	-121 505
January–June^a	14 016 825	12 642 947	1 373 878
July	1 760 905	2 652 863	-891 958
August	1 829 070	2 173 630	-344 560
January–August	17 606 800	17 469 440	137 360

^a Totals for January–June are those of the Russian Ministry of Finance and differences from monthly figures must be because some earlier provisional reports were amended.

Sources: January–June: Ministry of Finance monthly reports on budget implementation, (figures for May and June were available from the Ministry of Finance Press Centre website, <<https://special.minfin.gov.ru/ru/press-center/>>, but these web pages are no longer accessible); July: Finmarket, ‘Профицит бюджета РФ в январе–июле составил 481,9 млрд руб’ [Russia’s budget surplus in January–July amounted to 481.9 billion roubles], 10 Aug. 2022; and August: Finmarket, ‘Профицит бюджета РФ в январе–августе составил 137,44 млрд руб’ [Russia’s budget surplus in January–August amounted to 137.44 billion roubles], 12 Sep. 2022.

been occasional acknowledgements that it may in fact be, in the words of one author, a ‘low-cost’ conflict, with operational costs under \$500 million per day, since Russian weapons are cheaper than US ones and the daily cost of keeping a Russian soldier in operation is also much lower.⁴

The budgetary situation of Russia is not now as opaque as generally thought, and data can be found on overall military spending even if not on the exact costs of the war. At first sight the results are surprising. Some readers not familiar with Russia’s budgetary processes may suspect that the war is being funded by secret extra-budgetary means, but in the past this has never been Soviet or Russian practice. Before considering military spending since the start of the war in detail (in section III), this paper looks briefly at the implementation of the federal budget as a whole since the beginning of 2022 (in section II). It then discusses (in section IV) the state of the Russian economy in the wake of sanctions and concludes (in section V) by considering whether Russia can economically sustain the war.

II. The Russian federal budget in 2022

In April the Russian Ministry of Finance stopped publication of details of actual spending by chapter and subchapter of the federal budget and since then has only revealed total revenue and expenditure. It has been generally assumed that this decision was taken to conceal increased military spending in a time of war. However, the Federal Treasury, while less open than before the invasion of Ukraine, did not cease all publication related to budget expenditure. The MOF data is useful for establishing the overall parameters of the federal budget: the latest provisional data for January–August appeared on 12 September 2022 (see table 1).

The budget revenues were significantly higher in March and April than in the first two months of 2022, permitting higher levels of spending, including

⁴ Salmon, A., ‘Russia’s low-cost war can endure Western sanctions’, *Asia Times*, 2 Mar. 2022.

**Table 2.** Basic sources of Russian budget revenue, January–August 2022

Figures are in millions of roubles.

	Federal Tax Service	Federal Customs Service	Other federal organs	Total revenues
January	1 457 238	549 616	82 298	2 089 152
February	1 245 928	730 255	140 380	2 116 563
March	2 153 970	704 165	105 654	2 963 789
April	2 106 388	582 652	175 683	2 864 722
May	1 384 503	533 483	91 122	2 009 108
June	1 478 599	388 327	106 565	1 973 491
January–June	9 826 625	3 488 498	701 702	14 016 825
July	1 198 695	384 502	177 698	1 760 895 ^a
August	1 218 280	393 000	217 900	1 829 180 ^a
January–August	12 243 600	4 266 000	1 097 300	17 606 900^a

^a These figures differ slightly from the total shown table 1 as the source gives less detailed data on source of income than for total income.

Sources: January–June: Ministry of Finance monthly reports on budget implementation, (figures for May and June were available from the Ministry of Finance Press Centre website, <<https://special.minfin.gov.ru/ru/press-center/>>, but these web pages are no longer accessible); July: Finmarket, ‘Профицит бюджета РФ в январе–июле составил 481,9 млрд руб’ [Russia’s budget surplus in January–July amounted to 481.9 billion roubles], 10 Aug. 2022; and August: Finmarket, ‘Профицит бюджета РФ в январе–августе составил 137,44 млрд руб’ [Russia’s budget surplus in January–August amounted to 137.44 billion roubles], 12 Sep. 2022.

outlays on the military. However, following substantial budget surpluses in the first three months, a deficit appeared in April and again, on a larger scale, in June, when revenues also declined. This negative trend intensified in July, while it moderated in August. If this trend continues, it could put considerable strain on the budget.

The MOF monthly reports also show the basic sources of budget revenue (see table 2). The Federal Tax Service accounted for 70 per cent of revenues during the first half of the year, the Customs Service 25 per cent and other federal agencies 5 per cent. However, the government must have been concerned by the significant fall in revenues gathered by the Federal Tax Service after April. Tax receipts, especially profits tax, declined to a large extent because the business sector came under increasing pressure from sanctions and reduced activity.

Much tax revenue clearly depends on the monthly scale of oil- and gas-related income and the extent to which it boosts budget revenues (see table 3). After reaching a significant peak in April, monthly oil and gas income declined and in June fell below the January level. In addition, other income is also declining. If these trends continue, maintaining budget revenues may present an increasingly difficult challenge. This may reinforce pressure for a lower exchange rate against the US dollar. In early January the rate was about 75 roubles to the dollar. After falling to 120 by 10 March, it strengthened to 51 in late June but had fallen to about 60 by early September.⁵ These increasingly negative general trends provide the context in which to examine the latest data on military spending.

⁵ RBC, ‘Курс доллара ЦБ’ [Central Bank dollar exchange rate].

Table 3. Russian federal budget income from extraction and export of oil and gas, January–August 2022

Figures are in millions of roubles.

	Income from oil and gas	Other income	Total revenue	Income from oil and gas as share of total (%)
January	795	1 294	2 089	38.1
February	972	1 145	2 117	45.9
March	1 208	1 756	2 964	40.8
April	1 798	1 067	2 865	62.8
May	886	1 123	2 009	44.1
June	718	1 255	1 973	36.4
January–June	6 376	7 641	14 017	45.5
July	770	991	1 761	43.7
August	672	1 157	1 829	36.7
January–August	7 818	9 789	17 607	44.4

Sources: Income from oil and gas, January–June: Tikhonov, S., ‘Доходы бюджета от продажи нефти и газа растут, но вместе с расходами на поддержку отрасли’ [Budget revenues from oil and gas are rising, but so are support costs for the industry], Rossiyskaya gazeta, 14 July 2022; July: Finmarket, ‘Профицит бюджета РФ в январе–июле составил 481,9 млрд руб’ [Russia’s budget surplus in January–July amounted to 481.9 billion roubles], 10 Aug. 2022; and August: Finmarket, ‘Профицит бюджета РФ в январе–августе составил 137,44 млрд руб’ [Russia’s budget surplus in January–August amounted to 137.44 billion roubles], 12 Sep. 2022. Sources for total revenues: see table 2.

III. Military spending in Russia in the first half of 2022⁶

Following the example of the Ministry of Finance, the Federal Treasury also started to limit publication of data on the implementation of budgets. As well as the federal budget, the limit applied to the consolidated budget, which includes state extra-budget funds, and to the budgets of the Russian Federation’s republics and regions. However, on 1 September the Treasury published details of spending under the consolidated budget as of 1 July 2022, including total expenditure by chapter and subchapter of the federal budget—with the inclusion of details of spending under the chapter ‘national defence’—the first such data since April. The report revealed total spending in the first six months of 2022 and the amended budget listing as of 1 July 2022 (see box 1). A similar report appeared later in September, giving details of budget spending to the end of July.⁷ The information revealed is extremely interesting and not what might have been expected. Unfortunately, reflecting the situation in Russia today, on 16 September these new reports disappeared from the Federal Treasury’s website. As a central component of the government’s routine monitoring, they will probably reappear—although, with the decision on 21 September to adopt a partial mobilization, it is likely that this will not be for some time.

Before examining military spending it is useful to look at the general structure of budget spending during the first seven months of the year (see table 4). Putting to one side for now the reasons for the increase in the budget listing

⁶ SIPRI’s military expenditure data relies on the methodology and sources provided by Julian Cooper. However, the SIPRI figures differ slightly insofar as they do not include one category of expenditure (i.e. general international spending, fees, etc.) and SIPRI uses a different source for gross domestic product (the International Monetary Fund’s International Financial Statistics). See Wezeman, S. T., ‘Russia’s military spending: Frequently asked questions’, SIPRI, 27 Apr. 2020.

⁷ Russian Federal Treasury, ‘Консолидированный отчет об исполнении федерального бюджета и бюджетов государственных внебюджетных фондов на 1 августа 2022 г., 2. Расходы бюджета’ [Consolidated report on execution of the federal budget and budgets of state extrabudgetary funds as of 1 August 2022, 2. Budget expenditure], Sep. 2022, accessed 10 Sep. 2022.



Table 4. Russian federal budget spending by chapter, budget law, budget listing as of 1 August 2022 and implementation in January–July 2022

Figures are in millions of roubles.

Budget chapter	(a) Budget law	(b) Budget listing, 1 Aug. 2022		(c) Implementation, January–July 2022		
	m. roubles	m. roubles	As share of (a) (%)	m. roubles	As share of (a) (%)	As share of (b) (%)
01 General state issues	1 869 100	2 982 018	160	1 022 327	55	34
02 National defence	3 502 081	4 543 826	127	2 894 473	81	64
03 National security and public order	2 826 000	2 769 995	98	1 285 275	45	46
04 National economy	3 348 200	4 250 395	127	1 913 342	57	45
05 Housing	460 900	584 922	127	435 376	94	74
06 Environment	482 400	356 052	74	204 640	42	57
07 Education	1 264 900	1 316 871	104	813 952	64	62
08 Culture	178 400	203 261	114	120 517	68	59
09 Health	1 272 100	1 488 878	117	923 250	73	62
10 Social policy	5 843 200	6 208 848	106	4 074 746	70	66
11 Sport	81 100	89 474	110	44 925	55	50
12 Mass media	115 600	119 529	103	60 475	52	51
13 Debt servicing	1 403 357	1 403 357	100	793 548	57	57
14 Inter-budget transfers	1 047 000	1 061 979	101	630 071	60	59
Total expenditure	23 694 338	27 379 405	116	15 216 917	64	56

Sources: Budget law: Russian Federal Law no. 390-ФЗ ‘О федеральном бюджете на 2022 год и на плановый период 2023 и 2024 годов’ [On the federal budget for 2022 and the planning period 2023 and 2024], 6 Dec. 2021; and Budget listing and actual spending: Russian Federal Treasury, ‘Консолидированный отчет об исполнении федерального бюджета и бюджетов государственных внебюджетных фондов на 1 августа 2022 г., 2. Расходы бюджета’ [Consolidated report on execution of the federal budget and budgets of state extrabudgetary funds as of 1 August 2022, 2. Budget expenditure], Sep. 2022, accessed 10 Sep. 2022.

since the beginning of the year, examination of the data reveals that the overall 16 per cent increase between the budget law and the budget listing as of 1 August is unevenly distributed between budget chapters. It is not surprising that allocations to national defence and the economy have both increased by 27 per cent, but it is less clear at first sight why potential spending on general state issues has been increased by 60 per cent. For other chapters, increases are more modest and there are reductions for two allocations, significant for the environment and modest in the case of national security and public order. However, in the latter case, it is not national security-related spending that has been reduced, but allocations to the final subchapter, ‘other issues’, which has been cut by 174 billion roubles, or 50 per cent.

The rate of actual spending during the first half of the year as a share of the original budget law was strongest for housing, defence and health. The latter is almost certainly explained by the continuing Covid-19 crisis. In the case of the national economy chapter, the budget listing has been increased but the rate of spending remains in line with the original budget—some funding may be being held in reserve to counter possible negative consequences of sanctions later in the year.

One budget line presented in the Treasury report is puzzling at first sight: Reserve funds (subchapter 01 11) was allocated 301 900 million roubles by the budget law, had a budget listing of 1 051 515 million roubles as of 1 August, and implementation was 0 roubles. There are two such funds, the government reserve fund and the presidential reserve fund, which are both usually simply sums of money reserved to fund unexpected costs such as responding to natural disasters. The government reserve fund (291 857 million roubles in 2022) is much larger than the presidential reserve fund (10 000 million

**Box 1. Budget listings**

In Russian government budgeting, the budget listing (Бюджетная роспись, *Byudzhetnaya rospis*) sets the upper limit of potential spending under a chapter or subchapter of the budget based on the law on the budget. As well as taking account of organizational changes since the approval of the law, the budget listing includes additional allocations made within the legally approved regulations for the budget year for changes that do not necessitate an official amendment of the budget as a whole.

roubles).⁸ As usual, there is no data on the implementation of this budget subchapter as funding is dispensed through other budget chapters and subchapters.

The government reserve fund requires more consideration as it is playing a larger role than usual in 2022. Some information on this, although with limited detail, is provided in the Accounts Chamber's report on budget implementation in January–June. The report shows that the budget listing of 1 July was 2 312 463 million roubles larger than total expenditure shown in the 2022 budget law, an increase of 9.8 per cent. Part of the increase, 685 700 million roubles, consisted of unspent allocations of the 2021 federal budget, carried over into 2022; the rest, 1 625 300 million roubles, was money deposited in the government reserve fund, including 1 614 567 million roubles of additional income from oil and gas.⁹ The large increase in July in the reserve fund must also have derived from additional income of this type.

Thus, it is likely that a large part of the increased military funding shown in the budget listing of 1 August 2022 compared with the budget law was funding channelled to the Ministry of Defence (MOD) and other government agencies via the government reserve fund. This direct and flexible means of distributing additional finance has clearly been useful for the government at a time of war and tough sanctions. It is probably also a means of removing spending from the federal budget and transferring it in a non-transparent manner to regional budgets; indeed, there is some evidence that this has been happening.

A leak of information in July revealed a significant use of the reserve fund as a source of funding for monetary compensation to the families of those killed or wounded in action in the war in Ukraine.¹⁰ An article in *Novaya gazeta Evropa* claimed that new codes appeared in the budget classification system from 10 March, two weeks after the start of the invasion: 3024F for compensation of families of victims who served with MOD forces; 3025F for those serving with forces of the Ministry of Internal Affairs; an unidentified code for National Guard personnel; and 3145F for compensation relating to civilians killed in Ukraine. In all cases, payment is to be made from the government reserve fund. Total payments allocated in the first half of the year amount to 113 billion roubles, of which 89 billion roubles had already been paid out, with the total estimated to relate to

An information leak revealed the reserve fund was used for monetary compensation to the families of those killed or wounded in action in Ukraine

⁸ Russian Federal Law no. 390-ФЗ 'О федеральном бюджете на 2022 год и на плановый период 2023 и 2024 годов' [On the federal budget for 2022 and the planning period 2023 and 2024], 6 Dec. 2021, appendix 14.

⁹ Russian Accounts Chamber, *Оперативный доклад об исполнении федерального бюджета январь–июнь 2022 года* [Operational report on federal budget execution January–June 2022] (Accounts Chamber: Moscow, 31 Aug. 2022), pp. 39–42.

¹⁰ Asanova, A., 'Оплатите мои «Искандеры»: Как Россия тратит на войну сверхдоходы, полученные от торговли нефтью и газом' [Pay for my 'Iskanders': How Russia spends the super profits from the oil and gas trade on war], *Novaya gazeta Evropa*, 11 July 2022.



15 000–17 000 troops killed or wounded.¹¹ However, the payment process can be slow, with long bureaucratic delays, so the remaining compensation payments are likely to extend over a lengthy period.

These social support payments from the reserve fund, apparently paid out at the regional level, may relate to another puzzle of the budget. The large increase in actual spending during the first seven months of 2022 under the budget subchapter ‘Armed forces of the Russian Federation’ (see table 5) clearly relates to operational and maintenance costs associated with the war. The large classified residual includes spending not only on new weapons and other military hardware but also on repair and maintenance and the costs associated with bringing older equipment out of storage and getting it ready for combat. Spending on most other subchapters has been held in check, including that on the procurement of nuclear weapons. The budget listing on ‘other questions in the field of national defence’ increased, but spending has been limited, perhaps indicating that a reserve fund is being kept, to be drawn on if serious difficulties arise. Other military spending has also been kept in check apart from allocations to the troops of the National Guard, which are actively involved in the war, with a large increase in its state defence order for equipment.

The puzzling feature is the reduced budget listings for pensions and social support of service people. This raises the possibility that, with the need to fund pensions and social support for families of war casualties, a decision was taken to transfer at least part of this funding to another line of the budget. As noted above, the government reserve fund is being drawn on at a regional level to fund social support for the families of the dead and seriously wounded. The removal of part of the funding of military pensions and social support from the federal budget serves to conceal the scale of funding allocated to this purpose.

In September another leak of information—in this case, data found on the restricted access ‘Electronic budget’ website—provided some details of new war-related military spending from regional budgets. As of 8 September allocations totalling 4.8 billion roubles for compensation for the families of victims of the war and those seriously wounded were found in 33 regional budgets.¹² These allocations appeared to be regional initiatives supplementing the measures discussed above funded from the government reserve fund. Quite a few regions have been establishing volunteer military battalions. Spending on them has been found in 13 regional budgets, with a total of 368.3 million roubles, about one-third of which was spent on pay. It appears that many regions lack resources for these new military groupings and are expecting federal budget support to be forthcoming.¹³ Overall, this new information suggests that, while financial support for the war at a strictly regional level is encouraged by the central government, it is in reality modest.

The increase in actual spending during January to July 2022 under ‘Armed forces of the Russian Federation’ relates to costs associated with the war

¹¹ Asanova (note 10).

¹² Marokhovskaya, A., ‘«Либо регионы не выплатят деньги и это вранье, либо эти деньги просто не попадут в руки к добровольцам»’ [‘Either the regions won’t pay the money and it’s a lie, or the money just won’t get into the hands of the volunteers’], iStories, 12 Sep. 2022.

¹³ Marokhovskaya (note 12).

Table 5. Russian military expenditure in the 2022 federal budget, the amended budget listing as of 1 August 2022 and actual spending during January–July 2022

	(a) Budget law	(b) Budget listing, 1 Aug. 2022		(c) Implementation, January–July 2022	
	m. roubles	m. roubles	As share of (a) (%)	m. roubles	As share of (b) (%)
<i>'National defence'</i>					
Armed forces of the Russian Federation	2 592 900	3 483 067	134	2 422 492	70
Ministry of Defence	1 067 337	1 167 375	109	669 171	57
Classified residual	1 525 563	2 315 692	152	1 753 321	76
Mobilization and extra-forces training	16 963	17 106	101	6 704	39
Mobilization preparation of economy	2 921	3 013	103	1 422	47
Nuclear weapons complex	49 766	49 766	100	29 458	59
International obligations in military–technical cooperation	14 831	15 924	107	6 376	40
Collective security and peacekeeping	–	4 454	..	1 834	41
Applied R&D in field of national defence	407 900	487 298	119	233 027	48
Open spending	23 296	24 567	105	13 025	53
Classified residual	384 604	462 731	120	220 002	48
Other questions in the field of national defence	416 800	483 198	116	193 160	40
Open spending	120 839	66 466	55	49 386	74
Classified residual	295 961	416 732	141	143 774	35
Total 'national defence'	3 502 081	4 543 826	130	2 894 473	64
Arms recycling	2 478	2 319		574	
Total 'national defence' less arms recycling and mobilization preparation of the economy^a	3 496 682	4 538 494		2 892 477	
<i>Other military expenditure</i>					
Other Ministry of Defence expenditure:					
Housing	88 511	96 688	109	74 754	77
Environment	2 745	2 745	100	1 817	66
Education	84 914	90 884	107	49 928	55
Health	95 461	99 178	104	59 427	60
Culture and cinematography	4 829	5 765	119	4 114	71
Physical culture and sport	3 645	3 699	101	2 639	71
Mass media	2 350	2 350	100	1 735	74
Pensions of service people	370 391	245 558	66	179 248	73
Social support	330 449	276 084	84	124 833	45
General international spending, fees, etc.	27	27	100	20	74
Paramilitary forces:					
Troops of National Guard (Rosgvard)	283 682	347 219	122	191 270	55
Open spending	266 678	304 064	114	171 184	56
Including state defence order (GOZ)	17 004	43 155	254	20 086	47
FSB Border Service	163 400	175 552	107	88 194	50
Support, closed towns of MOD, Rosatom	8 952	8 952	100	5 222	58
Support for Baikonur space centre	1 198	1 198	100	844	70
Total other military expenditure	1 440 554	1 355 899	94	784 045	58
Total military expenditure	4 937 236	5 894 393	119	3 676 522	62
Total budget expenditure	23 694 227	27 379 405	116	15 216 917	56
Open	19 953 457	22 458 919	113	12 301 542	55
Classified	3 740 770	4 920 486	132	2 915 375	59
Classified as share of total (%)	15.8	18.0		19.2	
Classified 'national defence'	2 214 028	3 256 578	147	2 151 035	66
Classified 'national defence' as share of total classified (%)	59.2	68.1		74.0	
'National defence' as share of total expenditure (%)	14.78	16.60		19.02	
Total military expenditure as share of total expenditure (%)	20.84	21.53		24.20	
Gross domestic product	133 280 000	133 280 000		81 000 000	
'National defence' as share of GDP (%)	2.63	3.41		3.57	
Total military expenditure as share of GDP (%)	3.70	4.42		4.54	

FSB = Federal Security Service; GDP = gross domestic product; MOD = Ministry of Defence.



Sources: Budget law, totals, chapters and subchapters: Russian Federal Law no. 390-ФЗ ‘О федеральном бюджете на 2022 год и на плановый период 2023 и 2024 годов’ [On the federal budget for 2022 and the planning period 2023 and 2024], 6 Dec. 2021; Budget law, open spending: Russian Federal Treasury, ‘Федеральный бюджет, Месячный, Август’ [Federal budget, monthly, August], accessed 10 Sep. 2022.

Budget listing and actual spending by chapter and subchapter, January–July: Russian Federal Treasury, ‘Консолидированный отчет об исполнении федерального бюджета и бюджетов государственных внебюджетных фондов на 1 августа 2022 г., 2. Расходы бюджета’ [Consolidated report on execution of the federal budget and budgets of state extrabudgetary funds as of 1 August 2022, 2. Budget expenditure], Sep. 2022, accessed 9 Sep. 2022; Details of open spending by government agencies, January–July: Russian Federal Treasury, ‘Федеральный бюджет, Месячный, Август’ [Federal budget, monthly, August], accessed 10 Sep. 2022.

GDP estimate: Provisional GDP of 69 293 billion roubles for the first half year of 2022 from Rosstat. July GDP estimated on the basis of the average monthly GDP in the second quarter (34 664 billion roubles) plus 2%, rounded. This gives 81 000 billion roubles for the first seven months of 2022.

It is also interesting to examine other budget spending changes that could well be related at least in part to the war and to countering the impact of sanctions on the economy (see table 6). The increase for ‘financial, tax and customs organs’ and the substantial increase in the potential allocation to ‘general economic issues’ almost certainly relate to the challenge posed by sanctions, with funding being kept in reserve in case conditions deteriorate further. Some of the increase for ‘transport’ may also relate to sanctions (e.g. those affecting air transport and logistics), but some increased spending may also be war related. The large additional allocation to ‘state material reserves’ probably reflects an effort to build up reserves to provide some cover against sanctions in relation to some types of goods. The ‘security services’ subchapter includes funding for the Federal Security Service (Federal’naya sluzhba bezopasnosti, FSB), the Foreign Intelligence Service (Sluzhba vneshney razvedki, SVR) and the Federal Protective Service (Federalnaya sluzhba okhrany, FSO, which guards the president and other top leaders). The increase reported seems rather modest given the known activity of the FSB in the Ukraine war and the Russian-occupied territories.

One puzzle is the significant increase in the allocation for, and spending under, the subchapter ‘international relations and cooperation’. Given that the current military action is officially a ‘special military operation’, not a war, and involves the two Russia-backed ‘people’s republics’—the Donetsk People’s Republic (Donetskaya Narodnaya Respublika, DNR) and the Luhansk People’s Republic (Luganskaya Narodnaya Respublika, LNR)—it cannot be ruled out that some of the funding for the war is being channelled through this subchapter, rather than ‘national defence’. This may include some funding related to the security services and the FSB border guards and the delivery of weapons to the troops of the DNR and the LNR.

Data on monthly spending under the budget subchapter ‘national defence’ is incomplete but nevertheless extremely interesting (see table 7). In the first three months of the war, spending on ‘national defence’—basically the MOD forces—increased sharply and almost doubled as a share of total budget spending. Monthly totals for May and June have not been revealed and this was a time when the volume of spending on ‘national defence’ clearly fell to a significant extent after the rapid growth in April. Growth resumed in July and data were once again made available, suggesting the possibility that the decision to limit information on spending was not to conceal the extent of its increase but the fact that it had been reduced.

In the war’s first three months, spending on ‘national defence’—basically the MOD forces—almost doubled as a share of total budget spending

Table 6. Spending increases in the 2022 Russian federal budget that could be related to the war or sanctions

Budget subchapter	(a) Budget law	(b) Budget listing, 1 Aug. 2022		(c) Implementation, January–July 2022	
	m. roubles	m. roubles	As share of (a) (%)	m. roubles	As share of (b) (%)
01 06 Financial, tax and customs organs	299 000	380 810	127	174 943	46
01 08 International relations and cooperation	243 400	553 626	227	323 055	58
01 09 State material reserves	94 800	172 382	182	78 110	45
03 02 Organs of internal affairs	777 400	807 341	104	399 803	50
03 06 Security services	421 200	465 303	110	207 915	45
03 09 Civil defence	45 200	51 555	114	28 862	56
03 10 Emergencies and GUSP	178 000	195 226	110	95 964	49
04 01 General economic issues	33 500	175 318	523	35 720	20
04 08 Transport	331 200	471 880	142	231 107	49
Total	2 423 700	3 273 441	135	1 575 479	48
Share of total budget expenditure (%)	10.2	12.0		10.4	

GUSP = Main Directorate for Special Programmes (secure locations for top leaders, bunkers).

Sources: Budget law: Russian Federal Law no. 390-ФЗ ‘О федеральном бюджете на 2022 год и на плановый период 2023 и 2024 годов’ [On the federal budget for 2022 and the planning period 2023 and 2024], 6 Dec. 2021; Budget listing and actual spending as in table 5.

IV. The state of the Russian economy

In the uncertain circumstances of Russia since February 2022, it has been extremely difficult for the government to forecast economic developments in the current year, let alone 2023 and beyond. Indeed, the finance minister, Anton Siluanov, has acknowledged that drafting a budget for 2023–25 represents an unprecedented challenge, the most complex task of his career.¹⁴ The Ministry of Economic Development (MED) has been trying to elaborate forecasts under pressure from the Ministry of Finance, which is anxious to make progress in drafting a new budget. In the initial period of the war, when the USA, the European Union and other allied countries were rapidly stepping up sanctions and many businesses were deciding to withdraw from Russia, Russia’s economic prospects began to look extremely unfavourable. The MED issued scenarios in mid-May. The basic scenario foresaw a decline in gross domestic product (GDP) of 7.8 per cent in 2022, with a rate of inflation (annual average) of almost 16.5 per cent, a fall in investment of almost 20 per cent and a 6.8 per cent decline in the real disposable monetary incomes of the population.¹⁵ This must have been of concern to the government and there was probably an even more concerning worst-case scenario, details of which have not been made available. Perhaps prospects were grim enough to persuade the government to keep budget spending in check, possibly even military spending, to avoid a catastrophic fall in the economy if sanctions were sharpened even more.

By August, some economic journalists and government officials were beginning to speak in more optimistic terms about economic prospects. To some extent this was reflected in a revised MED scenario to 2025 prepared

¹⁴ RIA Novosti, ‘Силуанов назвал работу над новым бюджетом самой сложной в своей карьере’ [Siluanov calls working on the new budget the toughest job of his career], 11 Sep. 2022.

¹⁵ Russian Ministry of Economic Development, Letter no. 17813-РК/ПК/Д03и ‘Об основных параметрах сценарных условий социально-экономического развития Российской Федерации на 2023 год и на плановый период 2024 и 2025 годов’ [On the basic parameters of the scenario conditions for socioeconomic development of the Russian Federation in 2023 and for the planning period 2024 and 2025], 17 May 2022.

**Table 7.** Actual budget spending by Russia on ‘national defence’, January–July 2022

	‘National defence’ (m. roubles)	Total budget expenditure (m. roubles)	‘National defence’ as share of total expenditure (%)
January	233 680	1 964 161	11.9
February	369 559	1 828 939	20.2
March	450 711	2 225 310	20.3
April	627 050	2 974 618	21.1
May	} 547 854	1 554 923	} 15.0
June		2 094 996	
January–June	2 228 854	12 642 947	17.6
July	665 619	2 652 863	25.1
January–July	2 894 473	15 295 810	18.9

Sources: ‘National defence’, January–April: Ministry of Finance monthly reports, not all now available; and January–June, July: Federal Treasury reports on implementation of consolidated budget (January–June accessed 20 Aug., no longer available, January–July accessed 9 Sep.).

Total budget expenditure, January–June: Ministry of Finance monthly reports on budget implementation (figures for May and June were available from the Ministry of Finance Press Centre website, but these web pages are no longer accessible); and July: Finmarket, ‘Профицит бюджета РФ в январе–июле составил 481,9 млрд руб’ [Russia’s budget surplus in January–July amounted to 481.9 billion roubles], 10 Aug. 2022.

to aid the MOF in drafting the budget for 2023–25. GDP was then forecast to decline by 4.2 per cent in 2023 and 2.7 per cent in 2024 but to grow by 3.7 per cent in 2025. The rate of inflation in 2022 (measured December to December) was to be 13.4 per cent and real disposable incomes would now fall by only 2.8 per cent.¹⁶

On 30 August 2022 the prime minister, Mikhail Mishustin, chaired a ‘consolidated strategic session on key economic policies under external sanctions pressure’ with most of the government present along with top officials of the presidential administration and the Federal Assembly.¹⁷ One of the speakers was the minister of economic development, Mikhail Reshetnikov, who presented a report setting out scenarios for the development of the economy to 2030 prepared in consultation with other government departments. This report was not published and, initially, few details were revealed beyond the fact that the ‘target’ scenario presupposed ‘an accelerated adaptation to the new conditions’, making possible an end to the fall in output of the economy in 2024, with growth thereafter.¹⁸ Later, on 5 September, some details of the two other scenarios included in the report were leaked to the press. According to Bloomberg, the ‘target’ scenario involved active measures to adapt the economy to the new conditions, but there was also a ‘stress’ scenario in which continuing sanctions led to no recovery by 2030, when output would be 3.6 per cent lower than in 2021, and an ‘inertial’ scenario of passive adaptation to new conditions, which could

¹⁶ Grigor’eva, I. and Eliseeva, Yu., ‘Повышенные ожидания: Минэк существенно улучшил макропрогноз на 2022 год—Но при этом ухудшил его на 2023-й’ [Higher expectations: The MED has significantly improved its macro forecast for 2022—But it worsened it for 2023], *Izvestia*, 17 Aug. 2022; and Butrin, D., ‘Съедем свое’ [Let’s eat our], *Kommersant*, 17 Aug. 2022.

¹⁷ Russian Government, ‘Сводная стратегическая сессия по основным направлениям экономической политики в условиях внешнего санкционного давления’ [Consolidated strategic session on key economic policies under external sanctions pressure], 30 Aug. 2022.

¹⁸ Praim, ‘МЭР разработало сценарии развития экономики России до 2030 года’ [The MED has developed scenarios for Russia’s economy until 2030], 30 Aug. 2022, (author translation).



bring modest revival from 2028.¹⁹ This indicated that the government had not ruled out the possibility of very negative economic developments.²⁰

The leak prompted Reshetnikov to provide more details of the target scenario, now considered the ‘basic’ scenario and the one on which the 2023–25 budget will be based. This envisages a fall in output in 2022 of only 2.9 per cent, followed by a 0.9 per cent fall in 2023 and 2.6 per cent growth in 2024, then average growth of 3 per cent. This would give 2030 output of 17 per cent more than in the base year of 2021. Investment will increase by 30 per cent over the same period and real monetary incomes by 20 per cent.²¹ By late August and early September leading members of the government increasingly spoke in upbeat terms about the performance of the economy, its ability to withstand sanctions and prospects for an early resumption of growth. On 7 September 2022 at the Eastern Economic Forum in Vladivostok, President Vladimir Putin declared that,

By late August and early September leading members of the government increasingly spoke in upbeat terms about the performance of the economy

we think—both the Government and the Presidential Executive Office, and also our experts—that we have seen the peak of the most complicated situation, and that it is normalising, which is evident from the macroeconomic indicators. I mentioned some of them. First, inflation is dropping. . . . We have record low unemployment at 3.9 percent. . . . Our state finances have stabilised [and] this year’s budget will be drafted with a surplus. . . . There will be a drop [in GDP], but it will be insignificant, about 2 or slightly over 2 percent.²²

This optimism is likely too focused on the macroeconomic situation, and takes inadequate account of some of the serious problems that have been generated at the micro level and that threaten to intensify in late 2022 and beyond. Some scepticism is backed by the Russian Central Bank’s latest survey of 26 leading Russian economists, which came up with average predicted GDP changes of –4.2 per cent in 2022, –1.8 per cent in 2023, +1.7 per cent in 2024 and +1.6 per cent in 2025.²³

Russian policy, consistently supported by President Putin, endeavours to always maintain macroeconomic stability, especially when international conditions are unstable and threatening. This is a central plank of security thinking, at the core of policy for economic security.²⁴ Since the onset of the war, Russia’s administrative apparatus must also have been keenly aware that Putin remains firmly committed to the pursuit of his ambitious national goals, notwithstanding the impact on the economy of the severe sanctions following his decision to launch the assault on Ukraine.

¹⁹ Bloomberg, ‘Russia privately warns of deep and prolonged economic damage’, 5 Sep. 2022.

²⁰ Solov’eva, O., ‘Россияне готовятся к затяжному экономическому кризису’ [Russians are preparing for a prolonged economic crisis], *Nezavisimaya gazeta*, 6 Sep. 2022. Olga Solov’eva notes that experts she consulted were inclined to think that the scenarios were more than background working documents but serious inputs into government decision-making.

²¹ Solov’eva (note 20).

²² President of Russia, ‘Eastern Economic Forum plenary session’, 7 Sep. 2022.

²³ Bank of Russia, ‘Макроэкономический опрос Банка России—Результаты опроса: Сентябрь 2022 года’ [Bank of Russia macroeconomic survey—Survey results: September 2022], 8 Sep. 2022.

²⁴ Cooper, J., ‘The Russian budgetary process and defence: Finding the “golden mean”’, *Post-Communist Economies*, vol. 29, no. 4 (Dec. 2017), p. 479.



V. Conclusions: New light on the conduct of the war

In discussion of the conduct of the war, much attention has been devoted to developments in the initial period. There was speculation that President Putin and those close to him responsible for the decision to invade Ukraine were seriously misinformed as to the likely reception the Russian troops were to receive and the ferocity of the armed resistance they were to encounter. There also appears to have been a serious underestimation of international reaction to the launch of the military aggression. The serious problems encountered by the invading forces indicated inadequate preparation for an extended conflict, with acute problems of logistics and poorly prepared equipment. The evidence presented here suggests that the resourcing of the war steadily increased from late February to the end of April 2022 as Russian forces withdrew from near Kyiv and other northern regions and focused more on the Donbas and the south in order to secure an overland route to Crimea and control of parts of adjacent regions. By this time, prospects for the Russian economy were beginning to look grim and concern was mounting that the budget could face increasing difficulties as the year progressed. In the second half of April a new phase of the offensive was declared, to establish complete control over the Donbas, although some military activity continued in the south.²⁵

The evidence available as of September 2022 on the budget suggests that, with this new phase, there was some reigning in of spending on the war for about two months, April and May. At that time, in the military dimension Russia made only modest progress and a stalemate developed. Perhaps this arose partly because the Russian government was under-resourcing the conflict—attempting to maintain economic stability and pursue priority socioeconomic goals while maintaining a demanding and costly military operation. But, as Ukrainian forces began to obtain new weaponry from Western partners and Russia began to face more effective armed resistance, funding once again increased—a decision perhaps influenced by a mounting perception that economic performance was not deteriorating as catastrophically as earlier expected. However, by August and early September 2022 Ukraine was able to step up its military action with newly acquired more advanced weapons.

A key question now is whether Russia will be able to increase its resource commitment to the war to meet this challenge. Are its reserves of equipment and personnel adequate to mount an effective and timely response to Ukraine’s increasingly threatening military activities?

The supply of new weapons may not be quite such an acute problem as some observers and journalists are inclined to argue.²⁶ While combat was intensifying in Ukraine, Russian troops, together with those of a number of foreign partners, including China, were engaged in the Vostok-2022 exercise in Russia’s Far East and deployed some modern weaponry, including Iskander-M missile systems, Ka-52 combat helicopters and the

The evidence suggests that, there was some reigning in of spending on the war for April and May

²⁵ Clark, M. et al., ‘Russian offensive campaign assessment’, Institute for the Study of War and American Enterprise Institute (AEI) Critical Threats Project, 18 Apr. 2022.

²⁶ E.g. Kaushal, S., ‘Can Russia continue to fight a long war?’, Royal United Services Institute (RUSI), 23 Aug. 2022.



latest T-90M Proryv tanks.²⁷ According to one Russian military specialist, the exercise included a new strategy with potential application in Ukraine.²⁸ There have been claims that Western sanctions have been having a serious impact on Russia's ability to produce new weapons, but these claims have been overstated.²⁹ Much of the defence industry is now working on a two or three shift basis and batches of new advanced hardware are being delivered to the armed forces, including T-90M tanks and the latest combat aircraft, in particular the Su-35S.³⁰

The situation is now such that Russia could, if it chose, increase its resource commitment to the war

The analysis presented here raises many questions, and at the time of writing the available information on the funding of the war is still not sufficiently detailed to establish a fully reliable picture. The economic and budgetary situation is now such that Russia could, if it chose, increase its resource commitment to the war. However, it is not at all clear that such a decision would ensure a rapid enhancement of Russia's military capability to fight a well-armed and highly committed adversary.

On the day before the Russian government met to sign off the draft federal budget for 2023–25, President Putin announced a partial mobilization. The government approved the draft budget and the accompanying documents in principle on 22 September, but Prime Minister Mishustin said in an opening meeting that full account would be taken of the mobilization. The draft budget was submitted to the State Duma on 30 September and detailed analysis will be necessary to determine whether last minute amendments were in fact made.³¹

²⁷ Ferris, E. and Nouwens, V., 'Russia's Vostok 2022 military drill: Not size or tanks, but context', Royal United Services Institute (RUSI), 15 Sep. 2022; and Bodrov, V., 'Арсенал "Востока-2022": Какая техника и вооружения применялись в крупномасштабных учениях' [The arsenal of Vostok-2022: What equipment and weapons were used in the large-scale exercise], TASS, 9 Sep. 2022.

²⁸ Mukhin, V., 'На учениях "Восток-22" отработали новую стратегию спецоперации' [Vostok-22 exercise rehearses new strategy for special operations], *Nezavisimaya gazeta*, 6 Sep. 2022. For a much more sceptical view of the value of the exercise see Skomorokhov, R., 'Учения «Восток-2022»: Ее Величество Красивая Картинка' [Vostok-2022 exercise: Her majesty the beautiful picture], *Voyennoye obozrenie*, 10 Sep. 2022.

²⁹ E.g. Sheftalovich, Z. and Cerulus, L., 'The chips are down: Putin scrambles for high-tech parts as his arsenal goes up in smoke', 5 Sep. 2022.

³⁰ Val'chenko, S., 'Военную промышленность РФ перевели на круглосуточный режим работы' [Russian military industry switches to round-the-clock operation], 12 June 2022; TASS, 'Минобороны России передали партию танков Т-90М "Прорыв" и ремонтно-эвакуационных машин' [The Russian Ministry of Defence receives a batch of T-90M 'Proryv' tanks and recovery vehicles], 9 Sep. 2022; and BMPD, 'ВКС России получили три новых истребителя Су-35С' [Russian Air Force receives three new Su-35S fighters], Centre for Analysis of Strategies and Technologies (CAST), 11 Sep. 2022.

³¹ Russian Government, 'Заседание Правительства' [Meeting of the government], 22 Sep. 2022.



Abbreviations

DNR	Donetskaya Narodnaya Respublika (Donetsk People's Republic)
LNR	Luganskaya Narodnaya Respublika (Luhansk People's Republic)
FSB	Federal'naya sluzhba bezopasnosti (Federal Security Service)
MED	Ministry of Economic Development
MOD	Ministry of Defence
MOF	Ministry of Finance

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SIPRI BACKGROUND PAPER

IMPLEMENTATION OF THE RUSSIAN FEDERAL BUDGET DURING JANUARY–JULY 2022 AND SPENDING ON THE MILITARY

JULIAN COOPER

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