

War in Ukraine

Russia scrambles to cover ballooning cost of Ukraine war

One-off budget revenues to go up in 2024 as Moscow's defence spending has tripled



Russia's record budget for next year will take defence spending to 6% of gross domestic product © Alexander Nemenov/AFP/Getty Images

Max Seddon and **Anastasia Stognei** in Riga 9 HOURS AGO

Vladimir Putin's cabinet is turning to increasingly irregular revenue-raising measures to fund a rapid rise in defence spending, which has tripled since Russia's full-scale invasion of Ukraine.

The Russian government has said it aims to spend a staggering Rbs10.8tn (\$108bn) on defence next year, three times the amount allocated in 2021, the last year before the invasion, and 70 per cent more than was planned for this year.

To cobble together that sum, the cabinet is relying to a greater extent on irregular revenues stemming from one-off taxes and levies, including "voluntary donations" western businesses have to pay when leaving [Russia](#).

The defence budget "will allow us to completely support the tasks of the special military operation", finance minister Anton Siluanov said on Tuesday, using the Kremlin's euphemism for the [war in Ukraine](#). The military spending increase, he said, was "essential to achieve our main goal: making sure we win".

Russia's record Rbs36.6tn budget for next year will take defence spending to 6 per cent of gross domestic product, exceeding social welfare for the first time, and require the Kremlin to tap considerably more sources of revenue than previously.

“[Putin](#) has two priorities: war and power,” said Konstantin Sonin, an economist and professor at the University of Chicago. “That’s why the budget process now works in such a way that policymakers first make sure the junta gets what it needs for the war and then address the rest of the budget . . . And to do all that, they constantly look for new sources to scrape money together.”

As part of the funding plans for 2024, irregular budget revenues will leap to Rbs2.52tn, the highest level ever. By contrast, this year, such revenues amounted to just Rbs745bn.

The bulk of next year’s one-off revenues are Rbs800bn worth of social contributions that Russian companies were supposed to pay in 2022, but were postponed until 2024.

Another Rbs2bn is expected to come from new export duties tied to exchange rates, the western companies’ “voluntary donations” when leaving Russia, tax increases and subsidy cuts for energy producers, and a rise in utility tariffs.

Those measures come after Russia raised Rbs300bn this year from a windfall tax on “excessive profits” made by commodities companies, particularly the metals sector, more tax increases in the energy sector, and Rbs114bn from western companies. That “voluntary donation” will increase next year from 10 per cent to 15 per cent of the value of the sale of their Russian business.

Another source of revenue will come from excise taxes for alcohol and tobacco, which will triple in 2024. Some of the new income will bypass the budget entirely, meaning that overall irregular state revenues could be even higher.

Still, analysts are sceptical that the Kremlin will secure all the extra revenue it says it needs.

“There is a possibility that Russia will not receive about Rbs1tn of the expected revenues because the budget is based on an overly optimistic economic forecast,” said Sofya Donets, a former central bank official and chief economist at Renaissance Capital.

In that case, the Russian government was likely to slap more one-off levies as it has done in the past, she added.

Spending cuts in areas other than defence were a “last resort”, Donets said, adding that Moscow could also tap excess revenues from energy sales, which currently have

to be saved rather than spent.

Russia's war spending goes beyond what is earmarked for defence in the budget breakdown.

Half of the national security and law enforcement budget was also war-related, as it included payments to Russian security forces as well as a modernisation programme for the defence industry, said Pavel Luzin, a non-resident senior fellow at the Center for European Policy Analysis.

Adding to Russia's financing challenges are the billions of roubles needed to "rebuild" and annex the territories in south-eastern Ukraine which it has occupied since the beginning of the war.

The search for new funds has raised alarm bells among Russia's oligarchs, who are already feeling the squeeze from western sanctions and government attempts to shore up the rouble.

"Our priorities are having a sovereign economy and improving our citizens' welfare but only within central Moscow and on TV," oligarch Oleg Deripaska wrote last week. He said a new floating export tax would wipe out most of the profits of companies in Siberia. "They must want to drive everyone completely nuts by the new year."

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