



Russia Seeks Victory in Growing Military Spending

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An increase in Russia's defence spending is expected to bolster its military advantage over Ukraine in the short term, resulting in expanded territorial gains and a better negotiating position. In the long term, such expenditure will be difficult to sustain due to the strain on the economy. Therefore, it may be in Russia's interest to temporarily freeze the conflict in order to gain time to acquire the capabilities to fully subjugate Ukraine in the long term and make its threats of escalation against NATO credible.

In 2025, Russia plans to spend 6.3% of GDP, or RUB 13.5 trillion (\$145 billion), on the military, according to the Federal Budget Law for 2025-2027. In addition, RUB 3.5 billion (\$37 billion) will be spent on internal security. Total spending in these two categories will amount to RUB 17 trillion (about \$183 billion), or about 41% of the public budget. This record amount is expected not only to meet the needs of waging war in Ukraine but also to enable the expansion of the Russian armed forces to 1.5 million troops. In the years to come, the spending is expected to be slightly lower and remain at RUB 12.8-13 trillion (\$137-139 billion) per year. Due to the rising cost of producing military equipment, the higher spending will not translate directly into strengthening Russian capabilities. A significant portion will be spent on benefits for veterans and families of the fallen, which is expected to mitigate the negative social effects of the invasion of Ukraine.

Budget and Arms Production Growth. Russia plans to spend \$65 billion on military technology development between 2025 and 2027. One of the priorities will be to increase production capacity in the defence industry, for which \$2.5 billion has been set aside. The war against Ukraine is generating high losses in military equipment (nearly 200 tanks and more than 650 armoured vehicles were lost in September and October this year alone). According to the Ukrainian Centre for Defence Strategies, the Russian armaments industry is only able to replenish about 30% of these losses by producing new units. It compensates for the other 70% by modernising and repairing older-generation (USSR-made) equipment that is still in storage. According to British intelligence, these stocks will run out in the fall of

2025 if the current rate of losses is maintained. At the same time, Ukrainian military intelligence (HUR) estimates that in 2025, Russia will be able to produce 30% more artillery shells per year (about 3 million units) than all EU countries combined. Significant funds are also to be directed to drone production (\$1.2 billion), development of new nuclear technologies (\$504 million), radio-electronics and micro-electronics (\$1.8 billion).

The increase in arms production will put a serious strain on the Russian labour market due to the manpower shortage associated with the massive recruitment of men for military service and loss through emigration. In the past year, one-time allowances for signing a military contract increased an average of five times and, depending on the region, range from \$8,000 to \$30,000. This has contributed to an increase in the number of signed military contracts (according to Minister of Defence Andrei Belousov, 427,000 soldiers were contracted in 2024), but it has a negative impact on the labour market. Employers competing with the army and the defence industry have to artificially raise salaries to match military wages, which inflates average industry salaries several times over. This raises the overall cost of production and reduces its profitability. Excessive military spending will also exacerbate Russia's budget deficit, which was expected to be only 1.9% of GDP in 2023 (according to official Russian data). The rising rate of dead and wounded will compound demographic problems and manpower shortages. Massive recruitment for military service leading to an artificial increase in salaries will also fuel inflation, which, according to official and most likely understated data, ranged between 7.4% and 9.2% in 2024. At the same time, greater purchasing

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power will raise the cost of arms, which will lower productivity.

Building up Military Reserves. Under so-called [crypto-mobilisation](#), Russia is getting 25-30,000 new recruits per month, which until this fall allowed it to replenish personnel losses incurred in the fighting in Ukraine. Between 2025 and 2027, \$151 billion a year will be spent on building up the mobilisation reserve. These measures are intended not only to enable the replenishment of personnel losses at the front but also [to develop the armed forces to 1.5 million soldiers, in line with the reform announced in 2023](#). According to Ukrainian sources, Russia's total losses since the beginning of the invasion have amounted to more than 750,000 killed and wounded (25-30,000 per month, or about 1,000 per day). Assuming a ratio of killed in action to wounded of 1:3, it can be estimated that the actual number of dead is about 180,000. Independent analyses have confirmed the personnel figures of more than 82,000 killed. The casualty and wounded ratio increased in the autumn due to the intensified Russian offensive (to an average of 1,500 per day).

The high losses are also (to some extent) due to the fact that individual decisions to serve in the military are influenced precisely by economic motivations. In addition to pay, volunteers can count on, for example, deferred loan repayments (at an interest rate of 20%). Moreover, an award of \$85,000 in the event of a soldier's death, is for some families sometimes a way out of a difficult economic situation. This situation translates into low morale and poor combat value of volunteers, as most of them die during the first 2-4 weeks after being sent to the front.

In budgetary terms, Russia's high personnel losses also make an important part of the spending to mitigate the social consequences of the high rate of dead and wounded. According to the plan, \$430 million a year is to go to the Defenders of the Fatherland Fund, which pays benefits to veterans and families of the fallen. In doing so, different categories of wounded have been introduced (from \$1,000-10,000 depending on the injury), which is one way of looking for savings.

Consequences for NATO. Russia's increased military spending and plans to create a 1.5-million-strong force will require the Alliance to maintain or increase the scale of its assistance to Ukraine and to assign larger forces to [regional defence plans](#). Although 23 of NATO's 32 countries currently spend more than 2% of GDP on defence (declared as a goal a decade ago), keeping it at the same level is insufficient in the face of a full-scale war on the Alliance's borders, the militaristic policies of Russia and Belarus, and the concurrent risk of an Indo-Pacific conflict that would force the commitment of U.S. forces in that direction. The slow pace of spending increases does not translate into an increase in

the production capacity of the defence industry in Europe and the U.S. As a result, the Western world is unable [to provide Ukraine with sufficient resources](#) to fight against a Russia backed by [China](#), [North Korea](#), and [Iran](#). This weakens the credibility of NATO's deterrence and defence capabilities. Insufficient investment in Europe's arms industry is prolonging the time needed to achieve capabilities that guarantee a strategic advantage over the capabilities Russia will have in the next two to three years (assuming a halt to fighting in Ukraine and continued economic support from China).

Conclusions and Outlook. Rising military expenditures next year are expected to enable Russia to gain military superiority over Ukraine, allowing it to carry out its minimalist invasion plans, that is, the complete occupation of the now partially occupied regions of Ukraine. Maintaining them in the long term (5-10 years), however, will be a serious challenge for the [Russian economy](#). Therefore, Russia's current goal seems to be to develop the best possible negotiating position in talks with Ukraine and the West, and then temporarily freeze the conflict. In this way, Russia will gain the time necessary to achieve a military advantage that will allow it to fully subjugate Ukraine in the next phase of the war, perhaps under the credible threat of a broader escalation against NATO.

Maintaining high military spending, however, will make it more difficult for Russia to implement socially important programmes, such as pension increases and changes in health care. The deteriorating socioeconomic situation may lead to a weakening of support for the regime, but a stabilising factor will be the tightened measures of control and repression, as evidenced by the increase in spending on internal security. Therefore, a change in Russia's militaristic policy, which is justified (including in the context of the war in Ukraine) by the need to defend against the NATO threat, is not expected. Russian propaganda will blame [Western sanctions](#) for the economic situation, which will strengthen anti-Western sentiment. Despite the worsening conditions, Russia will continue its hostilities in Ukraine and prepare a credible military capability against the threat of confrontation with NATO. Therefore, it is necessary to increase the scope of sanctions against Russia and [seek to tighten them by expanding the sanctions regime](#) to include [countries used to circumvent them and supporting Russia](#).

To ensure the credibility of the deterrence policy, NATO countries should strive to allocate a minimum of 3% of GDP to defence and increase their own [production capacity in the arms sector \(especially in Europe\)](#). The West's priority should be to [maintain military aid to Ukraine](#) to raise the cost of a Russian invasion. At the same time, NATO countries should increase their own defence capabilities, including logistical facilities, in case of a conflict with Russia.