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Here's How Russia Plans to Pay for the Ukraine War in 2027

By Moscow Times Reporter

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A board promoting military service in Russian army stands in Moscow. **REUTERS / Ramil Sitdikov**

Russia plans to raise defense spending to a post-Soviet high next year while cutting civilian programs and increasing taxes, signaling that the Kremlin is bracing for a prolonged war in Ukraine despite saying it is ready for peace talks.

The draft 2027 budget unveiled Thursday allocates 17.1 trillion rubles ($205.2 billion) to defense, 26% more than was earmarked for that year in the previous budget and 375% above the pre-war level of 2021.

Defense would account for roughly a third of federal spending next year, setting a post-Soviet record in nominal ruble terms.

Analysts say that Russia still has the resources to keep fighting, but that households, businesses and public services will bear more of the cost.

Economist Boris Grozovsky said Russia's wartime economy still has a "considerable" financial cushion.

"But the message is clear: everyone will pay for the war, as much as they can. Wherever a little more money appears, the government will come for it, while handing out as little as possible itself," he wrote in an analysis published by the exiled outlet IStories.

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The published defense allocation does not capture the full cost of the war. Russia has released only planned military spending rather than actual outlays since 2022, while classified budget items make the overall bill difficult to establish.

Soaring war costs have put increasing pressure on state finances. The federal budget deficit reached 5.65 trillion rubles ($67.8 billion), or 2.6% of gross domestic product, in 2025.

The government projects a shortfall of 7.3 trillion rubles ($87.6 billion), or 3.2% of GDP, for 2026 before it narrows to 5.4 trillion rubles ($64.8 billion), or 2.2%, in 2027.

In a forecast published before the draft budget was unveiled, economists at Russia's largest lender Sberbank put next year's deficit at 2.7% of GDP, questioning whether the government could deliver the spending restraint and higher non-oil and gas revenues needed to meet its earlier target.

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This deficit is high by recent Russian standards, but it is still manageable and remains lower than in many European countries, such as France (5.4% of GDP) and Britain (4.3% of GDP).

The projected deficit does not in itself point to an imminent fiscal crisis, but containing it while increasing military spending is becoming more difficult.

The government plans to borrow 6.1 trillion rubles ($73.2 billion) next year, up from 5 trillion rubles ($60 billion) in 2026, to help finance the deficit.

Yet debt servicing is projected to reach 4.6 trillion rubles ($55.2 billion) in 2027, or 9.4% of total federal spending. Those costs remain high because the Central Bank has kept interest rates elevated to contain stubborn inflation that has been fueled by heavy government spending.

To help close the gap, Moscow is also cutting civilian spending and planning another round of tax increases for a third consecutive year.

The draft reduces allocations for healthcare by 5.5%, education by 5.4% and social programs by 6% compared with the amounts previously budgeted for 2027.

Some of Russia's national projects, government programs targeting priorities like healthcare and infrastructure, will also face cuts going forward.

Funding for the Long and Active Life project, which supports health initiatives, would fall by about 20%, from 181.1 billion rubles ($2.17 billion) in 2026 to 145.9 billion rubles ($1.75 billion) next year.

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The allocation for the federal cancer program would drop from 44.9 billion rubles ($538.8 million) to 3.9 billion rubles ($46.8 million).

The proposed tax measures are expected to raise an additional 1.5 trillion rubles ($18 billion).

They include a 22% value-added tax on purchases from foreign online retailers and a customs fee of 100 rubles, or about $1.20, on each parcel worth less than 200 euros.

Tax rates on income from sources including deposit interest, dividends and property sales would rise from a range of 13% to 15% to a range of 13% to 22%. The Finance Ministry has also proposed a one-time windfall tax on mining and metals companies.

The changes to taxes on passive income are expected to raise the most revenue, up to 700 billion rubles ($8.4 billion), followed by levies on online purchases, which would bring in another 500 billion rubles ($6 billion).

Analyst Alexandra Prokopenko said the budget showed defense spending growing faster than overall expenditure, squeezing the funds available for other purposes.

In an analysis for Carnegie Politika, she warned that the government may soon be approaching the limits of how much additional revenue it can raise through taxes to fund the war.

That could increase pressure on the Central Bank to support the wartime economy by cutting interest rates to reduce borrowing costs for the government and businesses, as well as increase debt restructuring for struggling companies, she said.

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