

6.7. Military Economy and Military Reform in Russia

The accession of the Republic of Crimea to the Russian Federation in March 2014 was not favored by the global community and resulted in Western economic sanctions against Russia, getting even tougher throughout the entire year. The sanctions were focused chiefly on Russia's defense sector, having a strong adverse impact on the fulfillment of the state armaments program and the military-industrial complex (MIC) development program planned by the Russian leadership. The key tit-for-tat measures included the development of import substitution plans in the military-industrial complex and the placement of the Military Industrial Commission under the supervision of President Vladimir Putin in September. The international sanctions in 2014 had no effect whatsoever on the performance of the plans of professionalization and combat training of Russia's Armed Forces.

6.7.1. Updated Military Doctrine of the Russian Federation

A new edition of the Military Doctrine (MD) of the Russian Federation (RF)¹ was published on 26 December last year on the Kremlin's official website following a decision made by the Security Council (SC) of the Russian Federation. The updated edition was developed by the SC Interdepartmental Working Group² and considered and approved on 19 December at a meeting of the Security Council chaired by the President of the Russian Federation. Although it was noted in the SC information memorandum concerning this event that "...the essential provisions of the current Military Doctrine remained unchanged in the new edition"³, the amendments to this document are especially noteworthy.

First of all, such a paramount task of the military and economic support to the defense sector as "optimization of defense spending, efficient planning and distribution of financial and material resources" was removed from the text of the Military Doctrine. The reference in the new edition to the necessity for "concentration of [Russia's] financial and material and technical resources, the enhancement of their efficient utilization" seems to be quite an irrelevant replacement and an attempt to avoid mentioning, even in written, the existence of budgetary constraints faced by the military establishment.

The list of external military threats in the new edition was extended to 14 from 11 threats, including the inappropriate use of information and communication technologies, threatening "regimes" in bordering countries and subversive operations of foreign intelligent services. Overall, this is not particularly surprising, because the assessment of trends in the international situation has been changed from a fairly neutral to a negative, characterized by "increasing global competition, tensions in various interstate and interregional areas, competition for values and development models, unstable processes of economic and political development at the global and regional levels amid the overall aggravation of foreign affairs".

The list of internal military threats was extended to 4 from 3 threats. A new threat was added: "informational activity influencing the population, especially young citizens, aimed at

¹ The Military Doctrine of the Russian Federation. URL: <http://news.kremlin.ru/media/events/files/41d527556bec8deb3530.pdf> (date of access: 26.12.2014).

² RF Security Council: Russia to update its military doctrine by the end of 2014// RIA Novosti. 2014. 2 September.

³ About the results of the meeting of the Security Council of the Russian Federation concerning "Emendations to the Military Doctrine of the Russian Federation". 20 December 2014. URL: <http://www.scrf.gov.ru/news/838.html> (date of access: 21.01.2015).

undermining the historical, spiritual and patriotic traditions concerning the defense of the fatherland”. Fortunately, the *military threats* for Russia remained almost the same both qualitatively and structurally. The foregoing new military threats appeared to have nothing to do with the key tasks of the Armed Forces, troops and “agencies” of other type in time of peace and war.

Such a significant measure as “no armaments race” has been removed from the section concerning the military policy.

6.7.2. Recruitment and enlistment policy and social policy

The year of 2014 saw further implementation of the principal provisions of the military reform launched by Dmitry Medvedev in 2008 following the military conflict with the Republic of Georgia and continued by Vladimir Putin in May 2012.¹

By the end of the year, the total accountable number of servicemen in the Ministry of Defense reached 905,000 persons (according to the reported manning of 90.5%), making it 78,000 (9.4%) more than the previous year number when the manning level of 82.7% was reached.² At the same time, the number of contracted privates and junior-grade sergeants reached a historical maximum of 295,000 persons, making it 70,000 (33.3%) more for this category than that late in 2013. Hence Russia’s Defense Ministry managed to compensate for the last year failure concerning the manning of servicemen of this category, reaching a qualitatively high level of recruitment and enlistment: education level: 64% of the recruited contracted servicemen have a higher or secondary vocational education; age level: 91% of the contracted servicemen are 30 years old or younger.³ This was achieved not least because of the adoption of an amendment to the applicable law, allowing, since as early as the fall of 2014, conscripts to choose between one year of military conscription service or two years of contractual military service.⁴

The number of conscripts in the Ministry of Defense by the end of 2014 was running at 273,000 persons, making the figure for the first time less (by 22,000) than that of contracted servicemen,⁵ compared to the plan of 308,100 conscripts for the spring and fall call-ups (to all defense and law enforcement troops, including Internal troops under the Ministry of Internal Affairs and military rescue units under the EMERCOM (The Ministry of the Russian Federation for Affairs for Civil Defense, Emergencies and Elimination of Consequences of Natural Disasters)).⁶ Effective since 1 September 2014, all Russian higher-education students will not be only deferred from the conscription, but they will have an opportunity to simultaneously serve in the army and study, irrespective of whether or not their higher

¹ The Presidential Decree of 07.05.2012, No. 604 “Concerning the further enhancement of the military service in the Russian Federation”.

² The report on the extended meeting of the Defense Ministry Collegium on the 2014 performance results, M., 19 December 2014. URL: <http://mil.ru/files/files/koll2014/otchet-2014.doc> (date of access: 22.12.2014); The progress report on the performance of the Defense Ministry plan of the implementation of the orders of the President of the Russian Federation dated 7 May 2012, No. 597, 601, 603, 604, 605 for 2013”. M., 22 January 2014. URL: <http://mil.ru/files/files/result2013/otchet2013.pdf> (date of access: 22.01.2014).

³ Ibid.

⁴ The Federal Law of 23.06.2014, No. 159-FZ “Concerning the amendments to certain legal acts of the Russian Federation”.

⁵ The number of contracted servicemen in Russia’s Armed Forces reached a historical maximum this year. URL: http://function.mil.ru/news_page/country/more.htm?id=12004213@egNews (date of access: 22.12.2014).

⁶ Voronov A. Conscripts are prompted to sign contracts // Kommersant. 2014. 1 October (No. 177).

education institutions have a military arts division, and as graduates they will undertake a 3-month military training and then be transferred to the reserve.¹ As early as in October, the deference from the conscription (to be in effect from 1 January 2017) covers college and technical school students,² thereby confirming once again the Russian leadership's endeavor towards further humanization of the compulsory military service institution.

The number of servicemen being under command of their superior officers and in the waiting list for a permanent housing unit declined by the end of 2014 by more than a third to 16,000 persons from more than 25,000 earlier this year.³ Consequently, the Ministry of Defense is getting close to successful resolution of the issue faced by the servicemen of this category who keep receiving their cash allowances while awaiting, and sometimes dragging out, the fulfillment of their entitlement to housing.

In 2014, 15,140 first-year students were matriculated to higher military schools (HMS), making the number 456 less than that seen in the previous year, but doubling the previously established optimal number⁴. At the same time, earlier in 2014, the Ministry of Defense had about 2,000 officers who kept serving in the capacity of sergeant.⁵ During 2014, the existing HMS network was complemented with one military academy and three higher military schools, while the network of pre-higher general education institutions with three cadet schools and a Suvorov school and two cadet corps.⁶

No data was published in 2014 on the number of offices and warrant officers serving in the Ministry of Defense. In 2014, unlike the previous years, the Ministry of Defense published no official statistics on the number of retired servicemen as of 1 January 2014, which must be published in accordance with the plan of federal statistical efforts.⁷

According to Deputy Defense Minister Tatiana Shevtsova, the average cash allowance of servicemen in the Russian Army in 2014 was running at Rb 62,100, twice the average salary in Russia.⁸

In 2014, the Ministry of Defense had 20,000 servicemen with permanent housing units, making it almost equal to the previous year figure (20,500). Fourteen thousand apartments were provided from various sources while the rest were purchased using state housing certificates and housing subsidies effective since August. The Ministry of Defense provided more than 2,300 certificates in 2014. At the year end, the Ministry of Defense had 33,000 servicemen in the waiting list, which allows the Ministry to fully resolve the housing issue for this category by the end of 2016.⁹

¹ *Voronov A.* Conscripts are prompted to sign contracts // *Kommersant*. 2014. 1 October (No. 177).

² Federal Law of 14.10.2014, No. 302-FZ "Concerning the amendments to Article 24 of the Federal Law "Concerning Military Duty and Military Service".

³ *Gavrilov Y.* Take an apartment or get fired // *Rossiyskaya Gazeta*. 2015. 24 March; Shoigu: More than 25,000 officers of the Ministry of Defense are serving in no capacity // *RIA Novosti*. 2014. 14 January.

⁴ According to the report in December. The Defense Minister stated in September about 13,000 matriculated students.

⁵ Two thousand officers keep serving in the capacity of sergeant in the Russian Armed Forces // *Rosbalt*. 6 December 2013.

⁶ See "The report on the Collegium extended meeting ...".

⁷ Executive order of 10.08.2011, No. 1063 "Concerning the approval of the list of information on the performance of the Ministry of Defense of the Russian Federation published in the information and telecommunication network, Internet".

⁸ The Defense Ministry promises not to lower the salaries of servicemen // *RIA Novosti*. 2015. 27 March.

⁹ The report on the Collegium extended meeting ...; *Mukhin V.* The number of servicemen in the waiting list for housing units has reduced but the problems are still there // *Nezavisimaya Gazeta*. 2015. 6 February.

In 2014, the Ministry of Defense provided 17,300 servicemen with employer-owned housing units (18,851 servicemen, according alternative data), accounting for 78% of the last year result.¹ With such a progress rate, the Ministry of Defense can hardly resolve the issue of the provision of employer-owned housing units even by the end of 2017, as was envisaged earlier in 2014, because there are 88,000 persons in the waiting list.²

In 2014, the provision of social payments and guarantees to the families of servicemen killed or injured while participating in military exercises and training³ was substantially upgraded. The amount of one-time benefits for killed or wounded servicemen were increased as recently as earlier in the year. “Today, when a soldier is killed in the discharge of his/her duties, his/her family may be entitled to two basic benefits: Rb 2m of insurance, Rb 3m of one-time allowance. This makes a total of Rb 5m”,⁴ said Mr. Krivenko, the Head of the Working Group of the Council for Human Rights and Protection of Servicemen’s Rights. In addition, the human rights advocate pointed to a qualitative change in approaching the provision of survivor benefits, because there is no more difference in the rank and position of a serviceman/woman: “The basic payments are the same for a private or a general. Although there are differences in the provision of pension benefits and allowances, the retreat from the former tradition is essential, when the life of a private differed in value from that of an officer or general”. Over the past two years, wounded or disabled servicemen have been entitled to an insurance of Rb 1,6m for those with 1-grade disability, up from Rb 1,5m, and Rb 1,105,000 for those with 2-grade disability, up from Rb 1m. Although these amounts don’t cover the accrued inflation, this is indicative anyway of the fact that the subject matter hasn’t been neglected.

According to the data provided by the Chief Military Investigation Department, , military investigation bodies received in 2014 more than 28,000 offence reports, increasing the figure by 1,000 compared to that in the previous year. The number of pending criminal cases was more than 16,000 (up 9%). Every fifth offence registered by military investigators in 2014 was related to corruption.⁵ Although the Chief Military Prosecutor's Office and the Ministry of Defense the criminal statistics in the Armed Forces traditionally publish no statistics, the data available in mass from the Federal State Statistics Service (Rosstat) show a 62% increase (to 629 from 388) of AWOLs in H1 2014 compared to the same period last year, and the number of persons held accountable for simulation for draft evasion purpose increased 3.3 times (to 115 from 33).⁶ The moral degradation can partially be explained by the fact that conscripts are prompted to sign contracts⁷ and the prospects of being engaged in military exercises near the Ukrainian border.

In 2014, the population’s attitude to the military service improved substantially, as evidenced by the results of an opinion poll published in November by the Public Opinion

¹ The report on the Collegium extended meeting ...; *Mukhin V.* The number of servicemen in the waiting list for housing units has reduced but the problems are still there // *Nezavisimaya Gazeta*. 2015. 6 February.

² The progress report on the performance of the Defense Ministry plan of the implementation of the orders of the President of the Russian Federation dated 7 May 2012, No. 597, 601, 603, 604, 605 za 2013”. M., 22 January 2014. URL: <http://mil.ru/files/files/result2013/10-planMO2013.html> (date of access: 22.01.2014); *Voennyi Sovet* // *Echo of Moscow* radio station. 21 March 2015.

³ The Federal Law of 22.10.2014, No. 310-FZ “Concerning the amendments to Article 3 of the Federal Law “Concerning the military pay and the provision of specific payments to servicemen””.

⁴ *Solopov M.* The amounts of survivor benefits have been approved // *Gazeta RBC*. 2014. 26 November.

⁵ *Kozhukhin M.* Corruption lowers in the Armed Forces // *Krasnaya Zvezda*. 2015. 6 March (No. 38).

⁶ *Tumanov* Escaped warriors // *Kommersant*. 2015. 17 February (No. 27).

⁷ *Borodyansky* Disentangled themselves from the commanders // *Novaya Gazeta*. 2015. 18 February.

Foundation.¹ One third of the respondents said in the fall of 2014 that the state of the Armed Forces was very good or good, 37% said it was satisfactory, and only 9% said it was bad, whereas in the previous year, only 9% said it was good, while the majority of respondents (42%) said it was satisfactory, and 32% said it was bad or very bad. In the fall of 2013, half of the respondents were sure that the state in the Armed Forces was getting better (compared to 30% in 2013). The number of those who noticed any worsening in the AF state reduced drastically (to 7% now from 35% in 2013). Only 19% were convinced that nothing was changed in the Russian Armed Forces.

6.7.3. The military-technical policy

The implementation of the military-technical policy represented by the State Armaments Program (SAP) for 2011–2020, the Basic Principles of the Military-Technical Policy in the Russian Federation until 2020 and Further Perspectives and the Federal Target Program “MIC development in 2011–2020”² and confirmed by President Vladimir Putin in May 2012³ was continued in 2014.

A joint meeting was held on 29 January 2014, attended by the collegiums of the Ministry of Defense, the Ministry of Industry and Trade and the General Prosecutor’s Office with participation of the top managers of the Military Industrial Commission (MIC) under the Russian government с повесткой дня “Concerning the rule of law in the military-industrial complex.”⁴

In May and November, like in the previous year, President Vladimir Putin held two 3-day sessions of meetings on various aspects of the SAP and FTP implementation. Additionally, a meeting on import substitution in the military-industrial complex (MIC) was held on 28 July at Novo-Ogaryovo, and a meeting on the drafting of a new SAP for 2016–2025 was held on 10 September in the Kremlin, immediately prior to which President Putin took charge of the military-industrial complex.⁵ The Federal Agency for Procurement of Weaponry, Military and Special Equipment, and Materiel (Rosobononpostavka) and the Federal Service for Defense Contracts (Rosoboronzakaz)⁶ were abolished the day before, on 8 September. The functions of these agencies were reassigned back to the Ministry of Defense and other contracting government bodies. According to mass media, the reassignment was initiated by Defense Minister Sergey Shoigu on the ground of being inefficient due to the duplication of functions.⁷

The scope of a new system of control on spending of resources while awarding and executing the state defense contract with the participation of the Federal Financial Monitoring

¹ *Goryashko S.* The Russian Army is noticeably getting better // *Kommersant*. 2014. 13 November (No. 205).

² Approved on 31 December 2010, 26 January 2011 and 5 March 2012, respectively. None of them was published.

³ The Presidential Decree of 07.05.2012, No. 603 “Concerning the implementation of plans (programs) of construction and development of the Armed Forces in the Russian Federation, other troops, military units and agencies and modernization of the military-industrial complex”.

⁴ *Tikhonov A.* MIC control contours // *Krasnaya Zvezda*. 29 January 2014.

⁵ The Presidential Decree of 10.09.2014, No. 627 “Concerning the Military Industrial Commission of the Russian Federation”.

⁶ The Presidential Decree of 08.09.2014, No. 613 “Concerning certain matters of government administration of the state defense contract, military, special-purpose equipment and material resources”.

⁷ *Safonov I., Butrin D.* RosDefense launches the offensive // *Kommersant*. 2014. 3 June (No. 94); Spare some for a war // *Vedomosti*. 9 September 2014 (No. 166).

Service (Rosfinmonitoring) was determined only three months later¹, after President Vladimir Putin confirmed in his Presidential Address to the Federal Assembly the facts of uncontrolled growth in prices of defense-oriented products (DOPs): "...The prices of some items have increased 2, 3, 4 times, and in some cases the price has raised 11 times since the commencement of works."²

At the same time, Russia's Defense Minister Sergey Shoigu reported, during a conference call³ as early as 1 December that the principal goals of the state defense contract in 2014 had been achieved, the spending increased 25% compared to the previous year, to Rb 1,7 trillion (the amount was revised down to Rb 1,650,000,000,000⁴, i.e. 2.3% of GDP), while the number of weapons and military equipment (WME) supplied to the Armed Forces increased 65%. Such a disparity between the spending and the results is indeed attributed to the repayment of debts – "snags" – accumulated by the MIC under the previous state defense contracts ("catch-up schedules" to eliminate the snags under the 2014 state defense contract are set for six months).⁵ Later, on 19 December, Deputy Defense Minister Y. Borisov reported that the state defense contract will be implemented 95%, which is "much better than that in 2013."⁶

A total of 38 intercontinental ballistic missiles, including 22 ocean-spanning missiles for strategic missiles underwater cruisers, were manufactured and supplied to the Armed Forces in 2014. Three Bulava SLBMs (Submarine Launched Ballistic Missile) were successfully launched from various missile underwater cruisers (Vladimir Monomakh on 10 September, Yury Dolgoruky on 29 October, Alexandr Nevsky on 28). They addressed almost all issues of reinforcing the naval component of Russia's strategic nuclear forces. Additionally, the Armed Forces were equipped with more than 4,500 new WME, including "142 aircrafts, 135 helicopters, 4 submarines, 15 surface combatants and boats, 19 surface-to-air missile systems, 590 tanks and armored infantry vehicles"⁷. As a result, the modern technology intensiveness increased compared to 2013, "19.1% in the strategic weapons system, 7.8% in the Strategic Rocket Forces, 17.9% in the Aerospace Defense Forces, 4% in the Air Force, 4.4% in the Navy, more than 8% in the Army and the Airborne Forces"⁸.

At the same time, the Ministry of Defense anticipated a failure in supplies of combatant vessels and auxiliary ships, armored infantry vehicles, truck-mounted antitank weapons system and ряда weapons of destruction, as well as repair and upgrade issues on a series of items specified in the state defense contract⁹. To date, the scheduled dates of commissioning frigates under projects 11356 and 22350 have been failed due to the cessation of supplies of gas-turbine engines by Ukrainian Zorya-Mashproekt (Ukraine), and corvettes under projects

¹ The list of instructions on the implementation of the Presidential Address to the Federal Assembly. M., 5 December 2014.

² The Presidential Address to the Federal Assembly. M., 4 December 2014.

³ The principal objectives of implementation of the State Defense Contract 2014 have been achieved. URL: http://function.mil.ru/news_page/country/more.htm?id=12002239@egNews (date of access: 02.12.2014).

⁴ Deputy Defense Minister: The dynamic army equipment trend goes global // Rusnovosti. 24 January 2015.

⁵ Ibid.

⁶ The measures scheduled under the State Defense Contract will be implemented 95% at year-end. URL: http://function.mil.ru/news_page/country/more.htm?id=12004204@egNews (date of access: 22.12.2014).

⁷ A meeting on the acceptance of military products. M., 19 December 2014. URL: <http://www.kremlin.ru/news/47256> (date of access: 22.12.2014).

⁸ Ibid.

⁹ The security system weaknesses // Nezavisimoye voennoye obozreniye. 2014. 26 December.

20380 and 20385 due to the cessation of supplies of diesel engines by MTU (Germany).¹ The import substitution plan approved by President Putin in August allows imported units to be substituted in 2017 at the earliest.

The 2014 performance results of the Russian defense sector are harder to assess than those in the previous year, when Prime Minister Dmitry Medvedev submitted the Russian government 2013 performance report to the State Duma on 22 April and reported a 13.5% increase in the MIC output and a record \$15,74bn worth exports of defense-oriented products (DOPs).²

There is no knowing why the Ministry of Industry and Trade has stopped since April 2014 publishing of its statistics, including MIC data. Therefore, the actual growth in the MIC output in 2014 remains unknown. Based on the information leaked into mass media,³ the target growth in MIC output in 2014 was set 20%, much higher than the target value in 2013 (15–17%).⁴ At the same time, Deputy Defense Minister Yury Borisov in October requested that the electronic industry growth rates should be 25–30%, not 10–14%⁵, which is understandable, because the accumulated shortfall of actual output growth versus the target value in 2011–2013 puts in jeopardy the plan of 1.8-fold growth in output in 2015 versus 2011⁶ behind the current SAP.

Russia's exports of defense-oriented products (DOPs) in 2014 were running at more than \$15,5bn compared to the annual target volume of \$13bn (accounting for 3.1% of total exports),⁷ making it 1.5% short of the record volume reached in 2013, with an export contraction by 5.1% as a whole. Additionally, the share of DOPs in the structure of exports is bigger than that of lumber and paper and paperboard products, whereas smaller than that of non-ferrous metals and products thereof and food products and agricultural raw materials. Noteworthy is the success of Russian exporters, about \$2,5bn worth of overrun exports of DOPs (or the previous overrun was set off on actual basis) in the last two weeks of 2014, chiefly through supplies of machinery available at Russia's Defense Ministry, more than \$1,3bn worth.

The dynamics of actual output growth in the MIC and exports of DOPs in relative terms in the period between 2002 and 2014 is shown in *Table 32*.

In 2014, the Ministry of Industry and Trade published a list of organizations included into the consolidated register of organizations operating in the military-industrial complex (MIC). The number of organizations included into the latest version of the register⁸ was extended with nine organizations during the year, making a total of 1339 (or 45% of license holders).¹

¹ OSK to sue German MTU for breaching the engine imports contract of 24 million Euro // TASS, 23 March 2015.

² Russia's government performance report in 2013: Shorthand report. M., 22.04.2014. URL: <http://government.ru/news/11875> (date of access: 22.04.2014).

³ Arsenal program, Bochkarev O. // Echo of Moscow radio station. 29 December 2014.

⁴ See: A working meeting with Deputy Prime Minister Dmitry Rogozin. Novo-Ogaryovo, 21 March 2013. URL: <http://www.kremlin.ru/news/17719> (date of access: 21.03.2013); Arsenal program with Dmitry Rogozin // Echo of Moscow radio station. 16 December 2013.

⁵ RF Ministry of Defense: the electronic industry is to grow at 25–30% // RIA Novosti. 2 October 2014.

⁶ Rogozin: Russia's MIC output to increase four times by 2030 // RIA Novosti. 2 October 2012.

⁷ The Federal Service for Military-Technical Cooperation: the Ministry of Defense exports of weapons reached an extraordinary record level in 2014 // RIA Novosti. 2015. 27 March; Concerning the state of foreign trade in 2014 M.: Rosstat, 26 February 2015.

⁸ The Executive Order of the Ministry of Industry and Trade of the Russian Federation of 20 November 2014, No. 2338 "Concerning the approval of the list of organizations included into the consolidated register of

Table 32

**Growth in industrial output volumes in the MIC
and exports of DOPs in 2002–2014, % year-on-year**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
MIC overall output	16.5	16.3	3.3	3.8	12.2	15.4	5.1	4.3	14.2	5.8	6.4	13.5	n/a
Exports of DOPs	28.0	12.5	7.0	6.0	5.5	16.9	10.6	5.7	17.4	27.3	14.8	3.8	-1.5

Source: The Ministry of Industry and Trade; The Federal Service for Military-Technical Cooperation; The Center for Analysis of Strategies and Technologies; the calculations made by the Gaidar Institute.

Most substantial variations in the size of the register for the past two years have been triggered by mergers of the existing organizations (similar to the affiliation of the Sukhoi Design Bureau, Chkalov Novosibirsk Aviation Production Association and Gagarin Komsomolsk-on-Amur Aviation Production Association with the Sukhoi Aviation Holding Company), changes in the nature of business and the cessation of military manufacturing (for example, the Kazan Engine-Building Production Association and Kovrov Mechanical Plant JSC), with the entrance into and removal from the register in the fall of 2013 of 18 light industry enterprises contracted by the Ministry of Defense. And closed joint-stock companies such as R&D Enterprise Planeta-Argall (Velikiy Novgorod) and Research and Production Company "Tehnojaks" (Moscow), were included back into the register after a 1-year break.

Additionally, the drastic qualitative changes in the register are associated with the ongoing going public of federal state unitary enterprises whose number was reduced by 26 in the period under review, whereas the number of open joint-stock companies increased 11, and mergers, but not excluding branches from the register (for example, six enterprises affiliated with the Shvabe Holding remained in the register).

According to the data provided by the Ministry of Industry and Trade,² the currently registered organizations include about 250 private businesses (18.7%).

Almost half (591 or 44.1%) of them are situated in the Central Federal District, where the city of Moscow (306 or 22.9%) and the Moscow Region (112 or 8.4%) are ranked 1st. The Volga Federal District (238 or 17.8%) and the Northwestern Federal District (223 or 16.7%) are ranked 2nd and 3rd, respectively, in which the Nizhny-Novgorod Region (55 or 4.1%) and St. Petersburg (167 or 12.5%) are dominating. The Sverdlovsk Region (42 or 3.1%) and the Novosibirsk Region (35 or 2.6%) are traditionally distinguished among the other federal districts.

The highest growth in the number of MIC organizations since October 2013 has been seen in the Central Federal District, an increase of nine organizations, basically in the city of Moscow, the Moscow Region and the Oryol Region, whereas the slowest growth was seen in the Belgorod, Bryansk, Voronezh and Ryazan Regions. The situation in the Crimea and the city of Sevastopol remained unchanged – the register, like in last year June, still has the 1020 Ship Repairing Yard and the Black Sea Fleet Construction Department owned by the Ministry of Defense, all of them are situated in the city of Sevastopol. Other MIC organizations in the Crimea and Sevastopol keep obtaining Russian licenses, though facing problems from time to time.

Territorial concentration of organizations operating in the MIC is shown in *Fig. 17*.

organizations operating in the military-industrial complex". URL: http://minpromtorg.gov.ru/common/upload/files/docs/Prikaz_N_2338_ot20.11.2014.PDF (date of access: 21.11.2014).

¹ As of the end of May 2014, Rosoboronzakaz issued 2967 licenses entitling to perform the State Defense Contract.

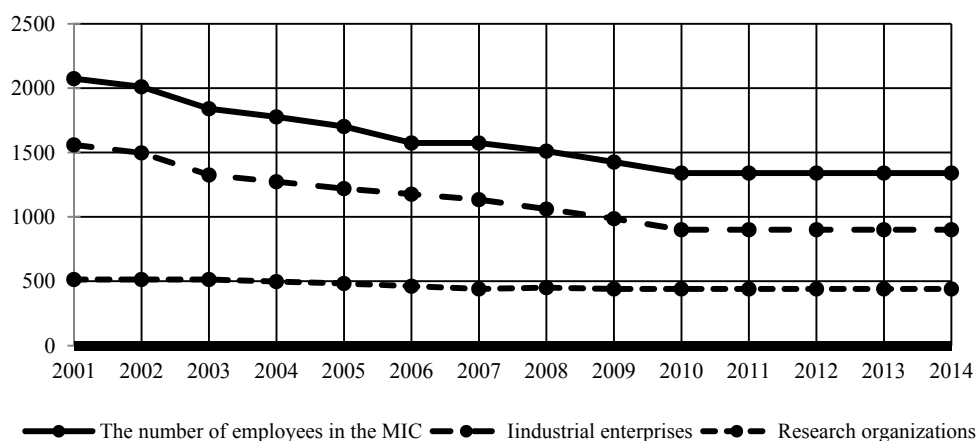
² A meeting on stuffing support of the modernization of the military-industrial complex. Korolyov, 10 March 2015. URL: <http://government.ru/news/17140/> (date of access: 11.03.2015).



Source: The Ministry of Industry and Trade; the calculations made by the Gaidar Institute.

Fig. 17. Russia's MIC territorial concentration (November 2014)

The dynamics of the number of persons employed in the MIC in 2001–2014 according to the data of the Ministry of Industry and Trade are shown in Fig. 18, and the average salary in the MIC in 2010–2014 according to the Rosstat's data published in mass media are presented in Table 33. The Rosstat's data on 2014 cover only the first half of the year. If Prime Minister Dmitry Medvedev was correct saying that “in the military-industrial complex it [the salary] averaged near Rb 35,000 in the past year”¹, then the salary in nominal terms at least stopped growing, while that in real terms dropped at least 7%.



Source: The Ministry of Industry and Trade; the Federal Manual.

Fig. 18. The number of employees in defense industries in 2001–2014, thousands of persons

¹ A meeting on stuffing support of the modernization of the military-industrial complex. Korolyov, 10 March 2015. URL: <http://government.ru/news/17140/> (date of access: 11.03.2015).

Table 33

Average salary in the MIC in 2010–2014

	2010	2011	2012	2013	2014 (H1)
Nominal salary, rubles	22,818	26,655	30,850	35,353	37,688
Nominal salary growth, %	–	16.8%	15.7%	14.6%	6.6%
Real salary (in 2010 prices), rubles	22,818	24,589	27,078	29,055	28,733
Real salary growth, %	–	7.8	10.1	7.3	–1.1
Average annual CPI, %	–	108.4	105.1	106.8	107.8

Source: Nezavisimaya Gazeta. 2014. 11 November; The Economic Development Ministry; the calculations made by the Gaidar Institute.

6.7.4. Military and financial policy

The execution of the 2014 federal budget differed from the schedules of the past few years in a substantial annual adjustment in June. Furthermore, the expenditure in the ‘National Defense’ item line were reduced in June by Rb 17,5bn for a second consecutive year. Under the 2014 federal budget law, the expenditure for this item line were initially set at Rb 2,488,000,000¹, or Rb 13bn less than the last year expenditure planned by the government².

As a result of the change, the fiscal year-end federal budget appropriations for the item line ‘National Defense’ contracted by 0.7% to Rb 2,470,600,000 (3.5% of GDP) compared to the amount specified in the initial version of the budget, while total budget appropriations remained unchanged till the end of the year. Budget appropriations for this item line increased 10.8% in real terms (17.0% in nominal terms) compared to 2013.

Since all of the foregoing military expenditure are not available in the published budget acts, they were determined on the basis of the reports made by the Federal Treasury and the reports of both committees of the Russian Federation Federal Assembly and the of the Fiscal policy guidelines in 2015–2017³. Confidentiality of the 2014 federal budget spending kept increasing and overran the last year maximum by 2.5 p.p. (see *Table 34*), while confidential budget allocations were running at Rb 2,291,334,000,000.00 of which 68% were appropriated to the MIC chiefly as state defense contracts and 26% to secret services. Small confidential expenditure appeared unexpectedly for the item line ‘Environmental safety’ and sub-items of the item lines ‘Nationwide issues’ and ‘National security and law enforcement’. This expenditure was not seen in the previous periods.

Table 34

The share of confidential appropriations in the federal budgets of 2005–2014, %

Code and line item (sub-item) containing confidential appropriations	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Federal budget spending, total	11.3	11.8	10.3	11.9	10.0	10.5	11.7	11.7	13.9	16.4
0100 NATIONWIDE ISSUES	3.7	6.3	5.5	8.7	5.1	4.8	9.8	11.4	9.5	9.2
0108 International relations and international cooperation	–	<0.1	<0.1	3.7	–	–	–	–	–	<0.1
0109 State material reserves	82.9	89.2	92.2	90.2	85.0	85.1	86.6	86.8	87.2	87.7
0110 Basic research	2.1	1.2	1.1	1.0	0.8	0.3	1.0	2.7	0.7	0.7
0114 Other nationwide issues	0.1	0.7	0.3	4.4	1.6	1.1	1.3	1.3	2.3	3.1

¹ The Federal Law of 02.12.2013, No. 349-FZ “Concerning the federal budget for 2014 and the planning period of 2015 and 2016”.

² Draft Bill No. 143344-6 “Concerning the federal budget for 2013 and the planning period of 2014 and 2015”. M., 30.09.2012.

³ The fiscal policy guidelines in 2015 and the planning period of 2016 and 2017. URL: http://minfin.ru/common/upload/library/2014/07/main/ONBP_2015-2017_1.pdf (date of access: 10.07.2014).

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Code and line item (sub-item) containing confidential appropriations	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
0200 NATIONAL DEFENSE	42.1	42.8	45.3	46.1	48.1	46.4	46.9	47.6	52.6	58.8
0201 Armed Forces of the Russian Federation	33.1	35.6	37.1	39.0	40.2	39.0	40.9	41.2	48.3	54.3
0204 Mobilization training of the economy	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0205 Preparation for and participation in collective security and peace-keeping	100.0	100.0	100.0	–	–	–	–	–	–	–
0206 Nuclear weapons complex	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0207 Fulfillment of international commitments concerning military-technical cooperation	45.2	46.9	50.7	100.0	100.0	100.0	100.0	100.0	80.1	79.8
0208 National defense applied research	98.4	93.9	93.7	93.2	92.9	91.3	92.2	94.5	94.1	94.2
0209 Other national defense issues	2.5	8.8	24.4	29.2	34.6	42.0	36.8	44.9	41.9	53.8
0300 NATIONAL SECURITY AND LAW ENFORCEMENT	28.5	31.6	31.1	31.8	30.8	32.1	32.5	23.3	27.4	29.0
0302 Internal affairs agencies	4.8	6.3	5.2	5.0	3.7	4.3	3.9	3.4	3.8	4.3
0303 Internal troops	11.8	10.3	9.8	10.3	8.2	8.3	7.9	4.6	4.5	5.4
0304 Justice agencies	–	–	–	–	–	–	–	–	–	<0.1
0306 Security agencies	97.8	95.5	97.3	99.1	99.6	97.1	99.6	99.6	99.7	99.8
0307 Border service agencies	100.0	99.0	97.6	100.0	99.5	98.6	99.1	99.1	99.6	99.9
0309 Protection of the population and territories against natural and man-made emergencies	59.0	62.4	50.7	51.4	51.0	51.3	47.0	42.6	40.7	38.6
0313 National defense and law enforcement applied research	74.0	66.4	64.4	75.5	79.4	92.1	86.0	85.9	91.4	82.4
0314 Other issues concerning national security and law enforcement	8.3	50.7	40.0	56.3	68.4	67.9	78.3	13.6	12.3	85.3
0400 NATIONAL ECONOMY	0.1	<0.1	0.4	0.6	0.6	1.6	1.8	2.4	4.9	5.2
0410 Communications and informatics	–	–	–	–	–	–	–	–	1.6	2.0
0411 National economy applied research	–	–	5.2	5.8	4.5	5.6	11.9	14.2	18.2	23.0
0412 Other national economy related issues	0.1	0.1	<0.1	0.3	0.7	4.5	1.9	2.3	8.5	10.0
0500 HOUSING AND UTILITY SECTOR	–	3.4	0.9	7.0	10.1	19.3	14.2	6.6	11.0	11.1
0501 Housing sector	–	4.2	5.7	16.0	12.9	20.8	20.7	8.5	21.3	24.1
0700 EDUCATION	2.8	2.7	2.4	2.6	3.1	3.6	4.0	3.2	4.3	4.7
0701 Pre-school education	2.0	2.2	2.4	2.5	2.5	3.9	3.9	4.4	4.5	2.6
0702 General education	1.5	1.9	2.1	2.0	2.8	3.5	0.4	0.2	0.5	1.5
0704 Secondary vocational education	1.1	1.0	1.0	0.9	1.0	–	–	–	–	<0.1
0705 Professional training, retraining, and advanced training	16.9	15.8	17.2	1.8	2.5	9.4	17.4	8.6	6.2	2.9
0706 Higher education and postgraduate vocational education	3.2	2.9	2.5	3.1	3.6	4.1	5.2	4.1	5.2	5.3
0709 Other education related issues	0.3	0.3	0.3	0.3	0.5	0.6	0.3	0.4	0.4	0.9
0800 CULTURE, CINEMATOGRAPHY, MASS MEDIA	0.2	0.2	0.2	0.2	0.2	0.2	–	–	–	–
0800 CULTURE, CINEMATOGRAPHY	–	–	–	–	–	–	0.1	0.1	0.1	0.1
0801 Culture	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
0804 Periodic press and publishing companies	13.5	7.5	2.6	2.6	3.2	3.6	–	–	–	–
0806 Other issues concerning culture, cinematography, and mass media	<0.1	0.2	–	–	–	–	–	–	–	–
0900 HEALTHCARE, PHYSICAL CULTURE, AND SPORTS	4.3	4.0	2.6	4.1	3.5	3.0	–	–	–	–
0900 HEALTHCARE	–	–	–	–	–	–	2.7	2.4	2.7	2.9
0901 Inpatient medical assistance	5.6	4.7	2.9	3.2	2.8	2.4	2.3	2.0	1.8	1.7
0902 Outpatient assistance	n/a ¹	n/a	n/a	13.9	4.3	3.8	2.9	3.1	4.2	4.4
0905 Sanatorium and therapeutic assistance	n/a	n/a	n/a	14.1	15.9	10.7	11.2	10.8	12.2	14.0
0907 Sanitary and epidemiological	n/a	n/a	n/a	2.1	0.6	0.6	0.7	1.4	0.8	0.8

¹ Not applicable due to changes in the budget classification structure.

Code and line item (sub-item) containing confidential appropriations	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
safety										
0908 Physical culture and sports	0.3	0.3	0.2	0.4	0.3	0.6	–	–	–	–
0910 Other issues concerning healthcare, physical culture and sports	–	–	–	1.7	1.1	1.0	–	–	–	–
0910 Other healthcare related issues	–	–	–	–	–	–	0.4	0.4	0.3	0.6
1000 SOCIAL POLICY	–	–	–	<0.1	<0.1	–	–	0.1	0.1	<0.1
1003 Social security	–	–	–	<0.1	<0.1	–	–	0.3	0.3	0.1
1004 Family and children protection	–	–	–	–	–	–	–	–	–	<0.1
1100 PHYSICAL CULTURE AND SPORTS	–	–	–	–	–	–	0.3	0.3	0.4	0.3
1101 Physical culture	–	–	–	–	–	–	62.0	41.5	9.1	9.8
1200 MASS MEDIA	–	–	–	–	–	–	0.3	0.3	0.4	0.4
1202 Periodic press and publishing companies	–	–	–	–	–	–	3.4	3.5	4.6	5.5
1400 INTER-BUDGET TRANSFERS BETWEEN THE CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION AND GENERAL MUNICIPALITIES	–	–	0.2	–	–	–	–	–	–	–
1401 Equalization transfers to the constituent entities of the Russian Federation and municipalities	–	–	0.5	–	–	–	–	–	–	–

Source: The Federal Budgets of 2005–2013. The data on 2005–2010 is presented in accordance with respective items and sub-items of the budget classification effective since 2011. Italicized is the data of the previous budget classification.

The absolute and relative values of basic components of the direct military allocations in the 2014 federal budget and their changes compared to 2013 in real terms are shown in Table 35. The data of the Federal Law of December 2, 2013, No. 349-FZ was used for 2014, because the final version of the Federal Law on the 2014 Budget¹ contains no data on the federal budget expenditure by item and sub-item of the budget expenditure classification. The recalculation into the 2013 prices was performed using the Rosstat's initial estimate² of the 2014 GDP deflator index (106.6%).

Table 35

**Federal budget direct military expenditure for the item line
'National Defense' in 2014**

Budget item line and sub-items	2014, millions of rubles / the same in 2013 prices	Changes in 2014 compared to 2013, millions of rubles / growth, %	The share of allocations, % / changes compared to 2013, p.p.	
			2014 federal budget	in GDP
1	2	3	4	5
NATIONAL DEFENSE	2,488,134	227,119	16.63	3.51
	2,333,581	10.78	0.90	0.32
Armed Forces of the Russian Federation	1,897,917	151,914	12.69	2.67
	1,780,026	9.33	0.52	0.21
Mobilization pre-conscription and reserve military training	6,664	–542	0.04	0.01
	6,250	–7.98	–0.01	–

¹ The Federal Laws of 28.06.2014 No. 201-FZ “On Amendments to the Federal Law On the Federal Budget for 2014 and the Planning Period of 2015 and 2016” and of 26.12.2014 No. 448-FZ “On Amendments to Article 23 of the Federal Law On the Federal Budget for 2014 and the Planning Period of 2015 and 2016”.

² Gross domestic product (GDP) production and usage in (GDP) in 2014. M.: Rosstat, 2 February 2015.

Cont'd

1	2	3	4	5
Mobilization training of the economy	<u>5,427</u> 5,089	<u>-572</u> -10.11	<u>0.04</u> -0.01	<u>0.01</u> -
Nuclear weapons complex	<u>36,429</u> 34,166	<u>4,877</u> 16.65	<u>0.24</u> 0.02	<u>0.05</u> 0.01
Fulfillment of international commitments concerning military-technical cooperation	<u>5,761</u> 5,403	<u>-401</u> -6.92	<u>0.04</u> -	<u>0.01</u> -
National defense applied research	<u>242,772</u> 227,692	<u>32,557</u> 16.68	<u>1.62</u> 0.17	<u>0.34</u> 0.05
Other issues concerning the national defense	<u>293,165</u> 274,955	<u>39,286</u> 16.67	<u>1.96</u> 0.20	<u>0.41</u> 0.06

Data source: The calculations made by the Gaidar Institute.

Military allocations for other federal budget items are shown in Table 36. Like in the previous year, secret services' confidential expenditure on education, healthcare, utility, etc., as well as expenditure on civil defense and EMERCOM units are hereafter not included into the military expenditure for other budget items due to changes in the UN military expenditure reporting standards¹ effective since 2012.

Table 36

**Direct and indirect military allocations for other line items
of the federal budget in 2014**

Budget line item or type of budget allocations	2014, millions of rubles / the same in 2013 prices	Changes in 2014 against 2013, millions of rubles / growth, %	The share of allocations, % / changes against 2013, p.p.	
			in the 2014 federal budget	in GDP
1	2	3	4	5
National security and law enforcement				
Internal troops	<u>127 161</u> 119 262	<u>-9 767</u> -7,57	<u>0.85</u> -0,11	<u>0.18</u> -0,02
Border service agencies	<u>141 208</u> 132 437	<u>-9 949</u> -6,99	<u>0.94</u> -0,12	<u>0.20</u> -0,02
National economy				
Organization of alternative civil service	<u>5</u> 5	<u>-1</u> -17,67	<u><0,01</u> -	<u><0,01</u> -
Presidential program of destruction of chemical weapons stockpiles in the Russian Federation	<u>424</u> 397	<u>391</u> 6521,99	<u><0,01</u> -	<u><0,01</u> -
Subsidies to transport organizations for purchasing motor vehicles to replenish the military convoy rolling stock	<u>53</u> 49	<u>-6</u> -10,47	<u><0,01</u> -	<u><0,01</u> -
Subsidies to maintain the Russia-NATO Coordination Center	<u>50</u> 47	<u>-4</u> -7,80	<u><0,01</u> -	<u><0,01</u> -
Construction of special-purpose and military facilities	<u>12 025</u> 11 278	<u>-3 028</u> -21,16	<u>0.08</u> -0,03	<u>0.02</u> -
Industrial Utilization of weapons and military equipment (2011–2015)	<u>79</u> 74	<u>-13</u> -15,29	<u><0,01</u> -	<u><0,01</u> -
Contributions to the charter capital and subsidies to organizations pertaining to the military-industrial complex	<u>33 838</u> 31 736	<u>-16 549</u> -34,27	<u>0.23</u> -0,13	<u>0.05</u> -0,03
Maintenance of special-purpose facilities	<u>124</u> 116	<u>=</u> -	<u><0,01</u> -	<u><0,01</u> -

¹ The government expert group's report on the overview of functioning and further development of the United Nations system for the standardized reporting on military expenditure. A/66/89. UN, 14 June 2011.

Cont'd

1	2	3	4	5
Scholarships to young personnel employed by organizations pertaining to the military-industrial complex	240 223	-17 -7,27	<0,01 -	<0,01 -
<i>Confidential expenditure</i>	86 124 80 867	32 479 67,12	0,64 0,27	0,13 0,05
Housing and utility				
<i>Provision of servicemen with temporal living accommodation owned by the employer and permanent living accommodation owned by the employee</i>	8 550 8 019	-30 363 -79,11	0,06 -0,23	0,01 -0,05
Education				
<i>Ministry of Defense expenditures</i>	60 106 56 372	-2 139 -3,66	0,40 -0,04	0,08 -
Culture and Cinematography				
<i>Ministry of Defense expenditures</i>	1 872 1 755	-381 -17,85	0,01 -	<0,01 -
Healthcare				
<i>Ministry of Defense expenditures</i>	49 913 46 813	-1 150 -2,40	0,33 -0,02	0,07 -
<i>Provision of medicines to ZATO FMBA</i>	150 141	= -	<0,01 -	<0,01 -
Social policy				
<i>Pension provision of the Ministry of Defense</i>	289 456 271 476	16 567 6,50	1,93 0,03	0,41 0,02
<i>Pension provision to the Border Troops and Internal Troops under the Ministry of Internal Affairs</i>	32 926 30 881	1 870 14,22	0,22 -	0,05 -
Material support to the specialists employed by the nuclear weapons complex of the Russian Federation	6 611 6 130	20 0,33	0,04 -	0,01 -
Extra monthly material support to the disabled as a result of war injuries	504 467	-150 -24,31	<0,01 -	<0,01 -
Assistance in repairing individual residential houses owned by the servicemen's families who lost the bread-winner	380 356	140 64,59	<0,01 -	<0,01 -
Provision of servicemen's survivor benefits	1 833 1 699	-10 -0,59	0,01 -	<0,01 -
Benefits and compensatory payments to servicemen and equated persons, as well as the retired of them	8 776 8 138	882 12,16	0,06 -	0,01 -
One-time pregnancy allowance to spouses of conscripts, as well as monthly child's benefit to conscripts	2 634 2 444	-59 -2,34	0,02 -	<0,01 -
Physical culture and sports				
<i>The Ministry of Defense expenditures</i>	2 027 1 901	77 4,20	0,01 -	<0,01 -
Inter-Budget Transfers Between the Constituent Entities of the Russian Federation and General Municipalities				
Subsidies to the budget of Closed Administrative-Territorial Units (ZATOs)	11 566 10 847	-718 -6,21	0,08 -0,01	0,02 -
Migration of the population from ZATOs	501 470	-57 -10,90	<0,01 -	<0,01 -
OTHER BUDGET ITEMS TOTAL	912 545 855 861	-28 317 -3,31	6,10 -0,50	1,29 -0,05

Source: the calculations made by the Gaidar Institute.

Finally, in 2014, total military allocations (see *Table 37*) in Russia's federal budget, as calculated compliant to the UN standards for military expenditure, increased 0.3% of GDP compared to the past year, reaching 4.8% of GDP.

Table 37

Total military and related federal budget appropriations in 2014

Allocations title	Sum of allocations, millions of rubles	The share of allocations, % / changes against 2013, p.p.	
		2013 federal budget	in GDP
Total military (national defense) allocations related to the current and previous military operations	3,400,679	22.73 0.39	4.79 0.27
Total allocations for the line items 'National Defense' and 'National security and law enforcement'	4,541,721	30.36 -0.60	6.40 0.14

Source: the calculations made by the Gaidar Institute.

The execution of the 2014 federal budget¹ with regard to military expenditure didn't differ from that in 2013, and most of the expenditure (Rb 974bn (39.3%)) for the item line 'National Defense' fell on Q1 (26.5% in Q4). In the consolidated quarterly breakdown of the federal budget, the maximum spending limit overran the allocations under the budget law for the same item line by Rb 20,667,000,000 in June, decreasing in December to Rb 10,473,000,000. Overall, for the first time since 2008 the expenditure for the item line 0200 'National Defense' in 2014 overran by Rb 8,474,000,000 (0.34%) the allocations specified in the latest version of the budget law.

At the same time, a total of Rb 12,58,000,000 (0.6%) was saved for the item line 0201 'Armed Forces of the Russian Federation' against the allocations specified in the initial version of the budget law, while savings of labor costs on the personnel employed by the Ministry of Defense were running at Rb 24,292,000 (3.8%). In 2014, the Ministry of Defense servicemen cost in real terms (including the average annual CPI) contracted by 2.1% despite a 75,000 increase (33.3%) in the number of contracted sergeants and soldiers and sergeants by the end of the year². Although the monetary allowance of conscripted soldiers remained at a level of Rb 2,000³, contracted privates earned an average of Rb 28,000, sergeants more than Rb 39,000⁴. A total of Rb 400,656,000,000 (0.56% of GDP) was spend on the Ministry of Defense servicemen cost in 2014.

The civil personnel labor cost at the Ministry of Defense were running at Rb 211,293,000,000 (0.30% of GDP), down 8.1% year-on-year in real terms (inclusive of the average annual CPI).

The Ministry of Defense spending on combustibles and lubricants (CL) in 2014 increased 3.6% in real terms compared to those in 2013, running at Rb 65,476,000,000. At the same time, the CL purchase volume (1,78 million tons) remained at years long average level, whereas the noticeably increased frequency of surprise combat readiness inspections and military exercises was based on above-limit carryover stocks.

The federal budget expenditure on subsistence support at the Ministry of Defense in 2014 contracted 13.8% year-over-year in real terms, to Rb 50,300,000,000.00 whereas that of clothing provision increased 56.3% to Rb 34,391,000,000.00 due to the migration to a new

¹ The budget execution report as of 1 January 2015 URL: <http://www.roskazna.ru/federalnogo-byudzheta-rf/fb/doc/01.01.2015.rar> (date of access: 13.02.2015).

² The report on the extended meeting on the performance results of the Defense Ministry Collegium 2014 M., 19 December 2014. p. 4. URL: <http://mil.ru/files/files/koll2014/otchet-2014.doc> (date of access: 20.12.2014).

³ The Presidential Decree of 10 March 2014, No. 136 "Concerning the extension of the term of experiment on cash allowance unification for the conscripted soldiers in the Armed Forces of the Russian Federation".

⁴ RIA Novosti. 2014. 24 January. URL: http://ria.ru/defense_safety/20140124/991193336.html (date of access: 25.01.2014).

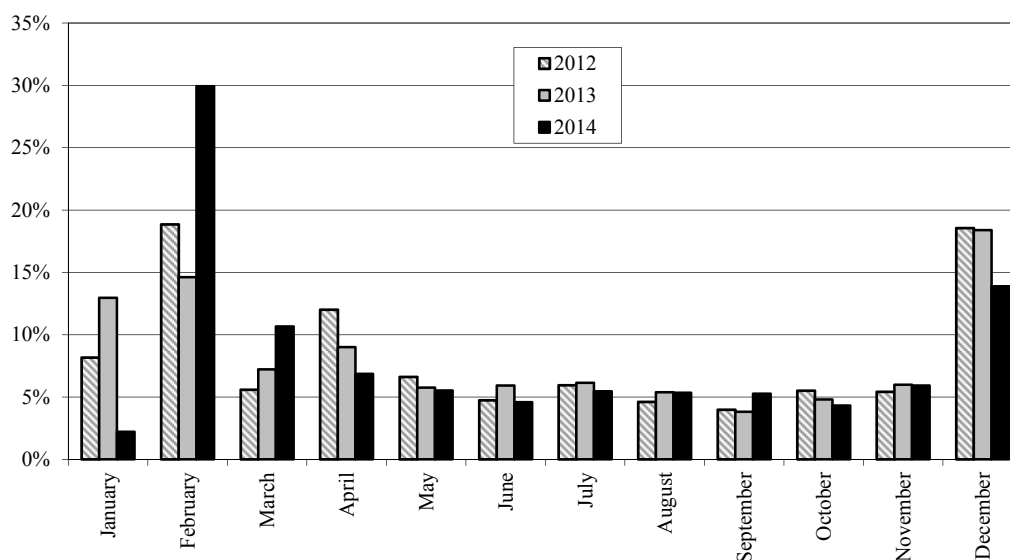
type of uniform. Regrettably, there is no way to compare the actual budget spending on these two line items with the allocations specified in the budget law, because they are not specified in the published law, which, however, is also the case with the allocations on CL and military personnel costs.

The Ministry of Defense capital investment in real estate units in 2014 decreased 16.3% year-over-year to Rb 165, 220,000,000 (0.23% of GDP) for the item line ‘National Defense’ and 27.0% to Rb 32,79,000,000 (0.05% of GDP) for the item line ‘Housing and utility’. The actual expenditure on the latter overran by Rb 23,529,000,000 the expenditure planned in the initial version of the federal law, mostly due to a decision of the Ministry of Defense to support OJSC Oboronstroy through buying Rb 20bn of its SPO of shares. The federal budget expenditure on the saving and mortgage system of housing provision for the Ministry of Defense servicemen increased 25% year-over-year in real terms and reached Rb 78,437,000,000 (0.11% of GDP).

Pension provision costs on the servicemen of Russia’s Defense Ministry in 2014 were running at Rb 287,452,000 (0.40% of GDP), up 1.5% year-on-year in real terms.

The sub-item 0208 ‘National defense applied research’ within the line item 0200 ‘National Defense’ took the lead in 2014 in spending growth rates, making it 41.2% year-over-year to Rb 244,636,000,000 (0.34% of GDP), except that the actual execution overran by Rb 1,865,000 (0.8%) the allocations specified in the initial version of the budget law. This abnormally high growth relates to the “least transparent, most corruptogenic part of the state defense contract”¹ and reveals serious issues concerning the economic feasibility of the latter.

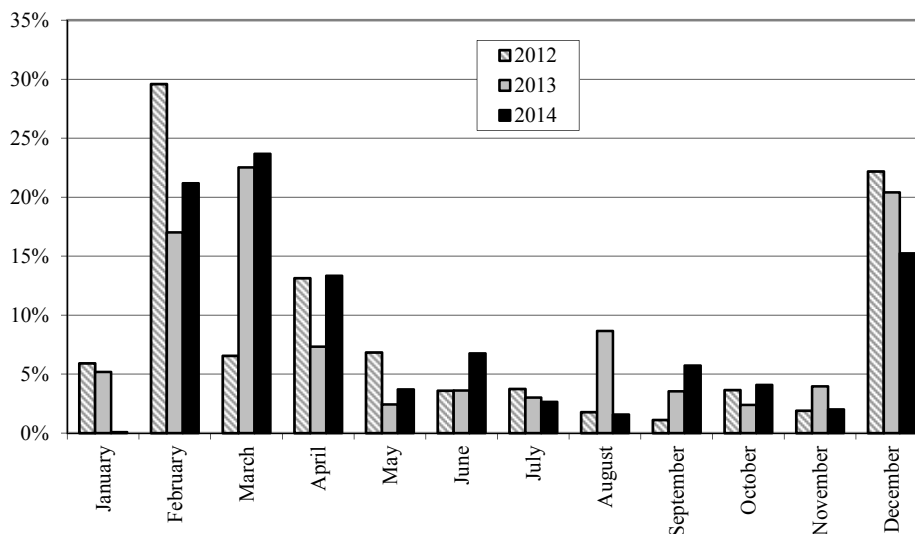
The dynamics of monthly expenditure on the largest sub-items of the line item 0200 ‘National Defense’ of the federal budget in 2012–2014 are shown in *Fig. 19–21*.



Source: the calculations made by the Gaidar Institute based on the data from the Federal Treasury of Russia.

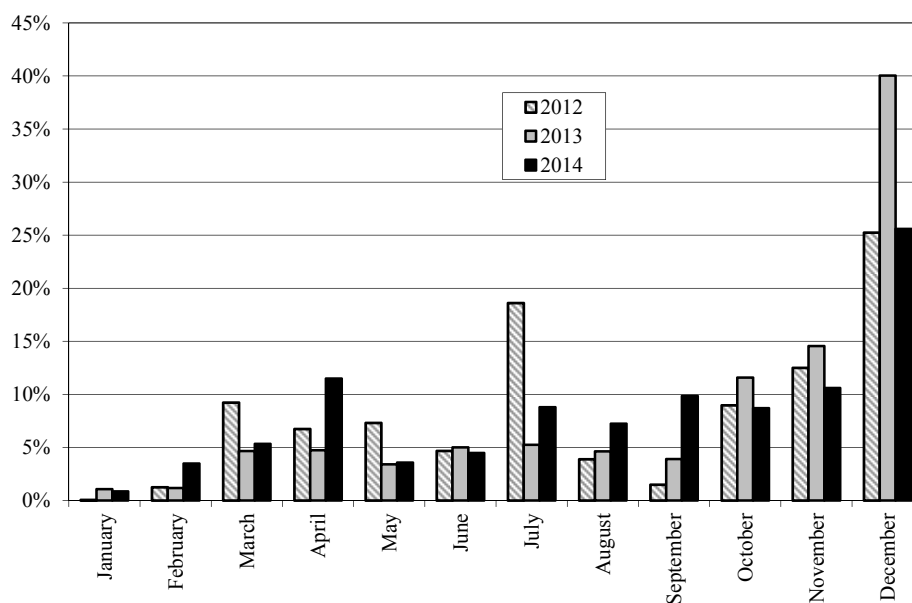
Fig. 19. Federal budget expenditure for the item line ‘Armed Forces of the Russian Federation’ in 2012–2014

¹ *Metov A.K.* An analysis of systemic violations in the pricing of R&D under the state defense contract. M.: Krasnaya Zvezda, 2014. p. 8.



Source: the calculations made by the Gaidar Institute based on the data from the Federal Treasury of Russia.

Fig. 20. Federal budget expenditure for the item line ‘National defense applied research’ in 2012–2014



Source: the calculations made by the Gaidar Institute based on the data from the Federal Treasury of Russia.

Fig. 21. Federal budget expenditure for the item line ‘Other issues concerning the national defense’ in 2012–2014

Table 38 shows military expenditure of constituent entities of the Russian Federation, being indicative of the same long years’ trends. The expenditure were less than or equal to 0.01% of GDP, adding about one third of these to the federal budget mobilization spending.

Table 38

**Military expenditure of the consolidated budget
of the constituent entities of the Russian Federation in 2006-2014,
millions of rubles***

Expenditure classification subitem	2006	2007	2008	2009	2010	2011	2012	2013	2014
Armed Forces of the Russian Federation	<u>3,5</u> 0,1	<u>0,5</u> 0,3	<u>0,3</u> 0,3	–	–	–	–	–	–
Modernization of the Armed Forces of the Russian Federation and military units	–	–	<u>1,0</u> 0,5	–	–	–	–	–	–
Mobilization and pre-conscription and reserve military training	<u>899,3</u> 808,6	<u>1,351,9</u> 1,245,6	<u>1,797,9</u> 1,702,2	<u>2,116,0</u> 2,021,6	<u>2,003,7</u> 1,958,4	<u>2,250,0</u> 2,187,3	<u>2,366,7</u> 2,316,4	<u>2,506,5</u> 2,444,7	<u>2,582,0</u> 2,518,9
Mobilization preparation of the economy	<u>708,3</u> 692,8	<u>861,2</u> 840,9	<u>1,137,2</u> 1,063,9	<u>1,045,4</u> 989,7	<u>1,298,4</u> 1,247,8	<u>1,351,2</u> 1,266,3	<u>1,781,0</u> 1,689,1	<u>2,343,1</u> 1,935,1	<u>1,673,5</u> 1,580,9
Other national defense issues	<u>32,8</u> 32,1	<u>5,5</u> 5,7	<u>0,7</u> 0,5	<u>4,4</u> 4,4	<u><0,1</u> <0,1	<u>2,7</u> 2,7	<u>3,2</u> 3,0	<u>3,2</u> 2,9	<u>3,3</u> 3,0
Internal troops	<u>3,5</u> 1,4	<u>1,0</u> 1,0	<u>0,3</u> 0,3	–	–	–	–	–	–
TOTAL	<u>1,647,4</u> 1,535,0	<u>2,220,1</u> 2,093,5	<u>2,937,4</u> 2,767,7	<u>3,165,8</u> 3,015,7	<u>3,302,1</u> 3,206,2	<u>3,603,9</u> 3,456,3	<u>4,150,9</u> 4,008,5	<u>4,852,8</u> 4,382,7	<u>4,258,8</u> 4,102,8

* The numerator means ‘allocated’, the denominator means ‘actually spent’.

Source: The Federal Treasury of Russia; the calculations made by the Gaidar Institute.

The early cessation, due to international sanctions, of granting state guarantees in 2014 to MIC organizations to ensure the execution of the state defense contract, whose results in terms of lending banks are presented in *Table 39*, should have (an optimistic estimate) raised more resources in consideration of the state debt for the given purpose from 0.28% of GDP in 2011 to 0.72% of GDP in 2014.

Table 39

**The distribution of state guarantees to ensure the execution
of the state defense contract in 2011–2014 by lending bank,
millions of rubles**

Bank	2011	2012	2013	2014	2011–2014	A share, %
Sberbank of Russia, Moscow	46,946,5	92,947,9	152,888,5	249,189,4	541,972,3	44.4
VTB Bank, St. Petersburg	101,522,1	87,907,5	167,410,2	183,859,4	540,699,2	44.3
Gazprombank, Moscow	8,672,8	7,642,4	20,574,6	21,635,0	58,524,8	4.8
Vnesheconombank, Moscow	719,4	786,5	21,394,8	41,356,3	64,257,0	5.3
JSB Russia, St. Petersburg	–	–	–	6,568,0	6,568,0	0.5
Promsvyazbank, Moscow	–	–	–	6,867,7	6,867,7	0.6
NOVICOMBANK, Moscow	–	–	–	1,718,8	1,718,8	0.1
Allocated by the government, total	157,860,8	189,284,3	362,268,1	511,194,6	1,220,607,8	100.0
Permitted under the budget law	168,950,0	199,837,4	399,450,0	496,949,1	1,265,186,5	–
Not used	11,089,2	10,553,1	37,181,9	–14,245,5	44,578,8	–

Source: federal budget laws, Russia’s government executive orders, the calculations made by the Gaidar Institute.

Table 40 presents Russia’s military expenditures incurred in the period between 1999 and 2013, net of the military expenditures of the consolidated budget of the constituent entities of the Russian Federation shown in (*Table 38*) and the provided state guarantees (*Table 39*). Unlike the practice of the previous years, the expenditure in real terms were calculated using a GDP deflator instead of the expenditure deflator on final consumption of collective services of public administration.

Table 40

The key items of military expenditure in the Russian Federation in 2000-2014

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. In nominal terms (current prices), billions of rubles															
Execution of federal budget expenditures under the National Defense budget line item in accordance with the current budget classification ^a	191.7	247.7	295.4	355.7	430.0	581.1	681.8	831.9	1040.8	1188.2	1276.5	1516.0	1812.3	2103.6	2479.1
Federal budget allocations under the National Defense budget line item: in accordance with the current budget classification	209.4	214.7	284.2	354.9	427.4	578.4	686.1	839.1	1031.6	1192.9	1278.0	1537.4	1846.3	2111.7	2470.6
moved to other line items of budget classification ^b	–	–	–	–	–	44.3	77.7	91.3	126.5	202.4	270.8	324.4	223.1	149.2	122.5
in a comparable budget classification	209.4	214.7	284.2	354.9	427.4	622.6	763.9	930.4	1158.1	1395.3	1548.8	1861.9	2069.4	2260.9	2593.1
Military expenditures according to the data from U.N. ^c	201.2	291.5	322.7	442.5	494.3	659.0	815.9	942.0	1118.0	1166.1	1162.5	1423.3	1689.3	1660.1	–
Total defense appropriations related to current and past military operations ^d	292.2	301.0	424.8	549.7	578.8	780.8	952.2	1219.1	1433.8	1736.6	1893.6	2209.9	2651.3	2990.6	3400.7
2. In real terms (in 2014 prices)^e, billions of rubles															
Execution of federal budget expenditures under the National Defense budget line item in accordance with the current budget classification	1058.7	1174.1	1212.3	1283.0	1289.5	1460.7	1488.0	1595.4	1692.2	1894.0	1782.0	1825.7	2032.7	2242.9	2479.1
Federal budget allocations under the National Defense budget line item: in accordance with the current budget classification	1156.5	1017.6	1166.2	1280.2	1281.7	1453.7	1497.5	1609.2	1677.1	1901.4	1784.1	1861.6	2070.7	2251.6	2470.6
moved to other line items of budget classification	–	–	–	–	–	111.3	169.6	175.1	205.7	322.6	378.0	390.7	250.3	159.1	122.5
in a comparable budget classification	1156.5	1017.6	1166.2	1280.2	1281.7	1565.0	1667.2	1784.3	1882.8	2224.1	2162.0	2242.0	2341.0	2410.6	2593.1
Military expenditures according to the data from U.N.	1111.2	1381.6	1324.5	1596.1	1482.2	1656.4	1780.8	1806.6	1817.6	1858.8	1622.8	1622.8	1894.7	1770.1	–
Total defense appropriations related to current and past military operations	1613.4	1426.5	1743.3	1735.7	1962.6	2078.3	2337.9	2331.0	2768.2	2643.4	2643.4	2661.4	2973.6	3188.7	3400.7
3. In real terms (in 2000 prices), billions of rubles															
Execution of federal budget expenditures under the National Defense budget line item in accordance with the current budget classification	191.7	212.6	219.6	232.4	233.5	264.5	269.5	288.9	306.5	343.0	322.7	330.6	368.1	153.3	449.0
Federal budget allocations under the National Defense budget line item: in accordance with the current budget classification	209.4	184.3	211.2	231.8	232.1	263.3	271.2	291.4	303.7	344.4	323.1	335.3	375.0	153.9	477.4
moved to other line items of budget classification	–	–	–	–	–	20.1	30.7	31.7	37.2	58.4	68.5	70.8	45.3	10.9	22.2
in a comparable budget classification	209.4	184.3	211.2	231.8	232.1	283.4	301.9	323.2	341.0	402.8	391.6	406.1	420.3	436.6	469.6
Military expenditures according to the data from U.N.	201.2	250.2	239.9	289.1	268.4	300.0	322.5	327.2	329.2	336.6	293.9	310.4	343.1	320.6	–
Total defense appropriations related to current and past military operations	292.2	258.4	315.7	359.1	314.3	355.4	376.4	423.4	422.2	501.3	478.7	482.0	538.5	577.5	615.9

Cont'd

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
4. Military encumbrance on the economy, as a percentage of GDP															
Execution of federal budget expenditures under the National Defense budget line item in accordance with the current budget classification	2.62	2.77	2.73	2.69	2.53	2.69	2.53	2.50	2.52	3.06	2.76	2.71	2.92	3.18	3.49
Federal budget allocations under the National Defense budget line item: in accordance with the current budget classification	2.87	2.40	2.63	2.69	2.51	2.68	2.55	2.52	2.50	3.07	2.76	2.75	2.97	3.19	3.48
moved to other line items of budget classification	–	–	–	–	–	0.20	0.29	0.27	0.31	0.52	0.58	0.58	0.36	0.23	0.17
in a comparable budget classification	2.87	2.40	2.63	2.69	2.51	2.88	2.84	2.80	2.81	3.60	3.34	3.33	3.33	3.42	3.65
Military expenditures according to the data from U.N.	2.75	3.26	2.98	3.35	2.90	3.05	3.03	2.83	2.71	3.00	2.51	2.54	2.72	2.51	–
Total defense appropriations related to current and past military operations	4.00	3.36	3.93	4.16	3.40	3.61	3.54	3.67	3.47	4.48	4.09	3.95	4.27	4.52	4.79
5. By purchasing power parity (current prices), billions of U.S. dollars															
Execution of federal budget expenditures under the National Defense budget line item in accordance with the current budget classification	26.8	30.2	31.9	34.2	36.2	45.6	54.1	59.5	72.6	84.7	80.6	87.4	98.0	108.9	120.8
Federal budget allocations under the National Defense budget line item: in accordance with the current budget classification	29.3	26.2	30.7	34.1	35.9	45.4	54.4	60.0	71.9	85.0	80.7	88.6	99.9	109.4	120.3
moved to other line items of budget classification	–	–	–	–	–	3.5	6.2	6.5	8.8	14.4	17.7	18.7	12.1	7.7	6.0
in a comparable budget classification	29.3	26.2	30.7	34.1	35.9	48.9	60.6	66.6	80.8	99.4	97.8	107.3	111.9	117.1	126.3
Military expenditures according to the data from U.N.	28.1	35.6	34.8	42.5	41.6	51.7	64.7	67.4	78.0	83.1	73.4	82.0	91.4	86.0	–
Total defense appropriations related to current and past military operations	40.9	36.7	45.8	52.8	48.7	61.3	75.5	87.2	100.0	123.8	119.6	127.4	143.4	154.9	165.6
For reference															
The gross domestic product deflator, % year-over-year y	137.6	116.5	115.5	113.8	120.3	119.3	115.2	113.8	118.0	102.0	114.2	115.9	107.4	105.2	106.6
Purchasing power parity ^f , RUB/US\$	7,15	8,19	9,27	10,41	11,89	12,74	12,63	13,98	14,34	14,03	15,83	17,35	18,49	19,31	20,53

^a For 2014 – the Federal Treasury's preliminary data on the federal budget execution.

^b Defense Ministry total expenditures and secret outlays in item lines 05–09 and 11 of the federal budgets of 2005–2011, for 2012–2014 – additionally in item line 12.

^c For 2014 – will be presented by the Russian Government in U.N. in 2015, also including maintenance costs on internal troops and border troops.

^d Inclusive of the retirement benefits of the retired servicemen.

^e Deflated by using the GDP deflator.

^f For 2014 – the assessment made by the Gaidar Institute.

Sources: The Federal budget laws of 2000–2014 and the execution of the federal budgets of 2000–2013; Russia's national accounts in 1997–2013: Statistical book./Rosstat. M., 2005–2014; Objective information on military issues including military expenditure transparency. The U.N. General Secretary's reports in 2001–2014; Rosstat; the Federal Treasury of Russia.