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The review provides a detailed analysis of main trends in Russia's economy in 2013. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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# Vasily Zatsëpin

## Russia's Military and financial policy in 2013

The 2013 federal budget implementation didn't differ much from the schedule of the two previous years, except that two major adjustments were made in June and December. Furthermore, in June, the mid-year expenditures under the item of National Defense were reduced by Rb 6bn 540m for the first time since the recession in September 2009. Under the Federal Law on the Federal Budget, expenditures under the same item were initially established Rb 2 trillion 106bn<sup>1</sup>, or Rb 223bn less than what the Russian Government planned in the preceding year<sup>2</sup>. A decision was made at the end of the year to increase by Rb 11bn 783m the corresponding federal budget expenditures.<sup>3</sup>

As a result of the foregoing mixed changes by the end of the fiscal year federal budget expenditures under the item of National Defense increased as little as 0.25% to Rb 2 trillion 111bn 705m (3.17% of GDP), while total budget expenditures remained unchanged. Expenditures under the same budget item increased 7.4% in real terms (14.4% in nominal terms) against 2012.

Since all of the foregoing military expenditures are not available in the published budget acts, they were determined on the basis of the reports made by the Federal Treasury reports and core committees of the Russian Federation Federal Assembly. Confidentiality of federal budget expenditures was visibly enhanced in 2013 vs. the previous years, 2 p.p. above the 2006 historical high (see *Table 29*), while confidential budget allocations amounted to Rb 1 trillion 865bn 442m, of which 63% were allocated mainly as GDO to the MIC and 26% to secret-service agencies. The secrecy system of federal budget allocations has seen no quality changes whatsoever, while the state keeps thoughtlessly adhering to the Soviet way of doing it.

*Table 29*

### The share of confidential expenditures in the federal budgets of 2005 thru 2013, %

Code and item (sub-item) containing confidential expenditures	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	2	3	4	5	6	7	8	9	10
Federal budget expenditures, overall	11.3	11.8	10.3	11.9	10.0	10.5	11.7	11.7	13.9
0100 NATIONAL-LEVEL ISSUES	3.7	6.3	5.5	8.7	5.1	4.8	9.8	11.4	9.5
0108 International relations and international cooperation	–	<0.1	< 0.1	3.7	–	–	–	–	–
0109 State material reserves	82.9	89.2	92.2	90.2	85.0	85.1	86.6	86.8	87.2
0110 Basic research	2.1	1.2	1.1	1.0	0.8	0.3	1.0	2.7	0.7
0114 Other national-level issues	0.1	0.7	0.3	4.4	1.6	1.1	1.3	1.3	2.3
0200 NATIONAL DEFENSE	42.1	42.8	45.3	46.1	48.1	46.4	46.9	47.6	51.0
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
0204 Mobilization preparation of the economy	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> The Federal Law of 03.12.2012, No 216-FZ On the Federal Budget for 2012 and the Planning Period of 2013 and 2014.

<sup>2</sup> The draft law No. 607158-5 On the Federal Budget for 2012 and the Planning Period of 2013 and 2014. M., 30.09.2011.

<sup>3</sup> The Federal Council Committee for Defense and Security's conclusion on the Federal Law On the Amendments to the Federal Law On the Federal Budget for 2013 and the Planning Period of 2014 and 2015. No. 3.3-04/1892 dated 26.11.2013.

0205 Preparation for and participation in collective security and peace-making efforts	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
0207 Fulfilling international commitments concerning military-technical cooperation	45.2	46.9	50.7	100.0	100.0	100.0	100.0	100.0	80.1
0208 Applied research studies in the area of national defense	98.4	93.9	93.7	93.2	92.9	91.3	92.2	94.5	94.1
0209 Other national defense issues	2.5	8.8	24.4	29.2	34.6	42.0	36.8	44.9	41.9
0300 NATIONAL SECURITY AND LAW ENFORCEMENT ACTION	28.5	31.6	31.1	31.8	30.8	32.1	32.5	23.3	27.4
0302 Internal affairs agencies	4.8	6.3	5.2	5.0	3.7	4.3	3.9	3.4	3.8
0303 Internal troops	11.8	10.3	9.8	10.3	8.2	8.3	7.9	4.6	4.5
0306 Security agencies	97.8	95.5	97.3	99.1	99.6	97.1	99.6	99.6	99.7
0307 Russia's border service agencies	100.0	99.0	97.6	100.0	99.5	98.6	99.1	99.1	99.6
0309 Protection of the population and territories from natural and man-made emergencies	59.0	62.4	50.7	51.4	51.0	51.3	47.0	42.6	40.7
0313 Applied research studies in the area of national defense and law enforcement action	74.0	66.4	64.4	75.5	79.4	92.1	86.0	85.9	91.4
0314 Other issues concerning national security and law enforcement action	8.3	50.7	40.0	56.3	68.4	67.9	78.3	13.6	12.3
0400 NATIONAL ECONOMY	0.1	<0.1	0.4	0.6	0.6	1.6	1.8	2.4	4.9
0411 Communications and informatics	-	-	-	-	-	-	-	-	1.6
0411 Applied research studies in the area of national economy	-	-	5.2	5.8	4.5	5.6	11.9	14.2	18.2
0412 Other issues concerning national economy	0.1	0.1	<0.1	0.3	0.7	4.5	1.9	2.3	8.5
0500 HOUSING AND PUBLIC UTILITIES	-	3.4	0.9	7.0	10.1	19.3	14.2	6.6	11.0
0501 Residential sector	-	4.2	5.7	16.0	12.9	20.8	20.7	8.5	21.3
0700 EDUCATION	2.8	2.7	2.4	2.6	3.1	3.6	4.0	3.2	4.3
0701 Pre-school education	2.0	2.2	2.4	2.5	2.5	3.9	3.9	4.4	4.5
0702 General education	1.5	1.9	2.1	2.0	2.8	3.5	0.4	0.2	0.5
0704 Secondary vocational education	1.1	1.0	1.0	0.9	1.0	-	-	-	-
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
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
0709 Other education related issues	0.3	0.3	0.3	0.3	0.5	0.6	0.3	0.4	0.4
0800 CULTURE, CINEMATOGRAPHY, MASS MEDIA	0.2	0.2	0.2	0.2	0.2	0.2	-	-	-
0800 CULTURE AND CINEMATOGRAPHY	-	-	-	-	-	-	0.1	0.1	0.1

Cont'd

1	2	3	4	5	6	7	8	9	10
0801 Culture	0.1	0.1	0.2	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
0901 Inpatient medical assistance	5.6	4.7	2.9	3.2	2.8	2.4	2.3	2.0	1.8
0902 Outpatient medical assistance	n/a <sup>1</sup>	n/a	n/a	13.9	4.3	3.8	2.9	3.1	4.2
0905 Sanatorium and related medical assistance	n/a	n/a	n/a	14.1	15.9	10.7	11.2	10.8	12.2
0907 Sanitary and epidemiological safety	n/a	n/a	n/a	2.1	0.6	0.6	0.7	1.4	0.8
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 issues concerning healthcare	-	-	-	-	-	-	0.4	0.4	0.3
1000 SOCIAL POLICY	-	-	-	<0.1	<0.1	-	-	0.1	0.1
1003 Social security	-	-	-	<0.1	<0.1	-	-	0.3	0.3
1100 PHYSICAL CULTURE AND SPORTS	-	-	-	-	-	-	0.3	0.3	0.4
1101 Physical culture	-	-	-	-	-	-	62.0	41.5	9.1
1200 MASS MEDIA	-	-	-	-	-	-	0.3	0.3	0.4
1202 Periodic press and publishing companies	-	-	-	-	-	-	3.4	3.5	4.6

<sup>1</sup> Non-applicable due to changes to the budget classification.

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, as well as estimates which are subject to change.

Table 30 shows absolute and relative values of the basic components of Russia's direct military allocations in the federal budget and changes to these values against 2012. The data of the Federal Law of December 3, 2012, No. 216-FZ was used for 2013, because the final version of the Federal Law on the 2013 Budget<sup>1</sup> contains no data on the federal budget expenditures by item and sub-item of the budget expenditure classification. Recalculation into 2012 prices was made using Rosstat's first estimation<sup>2</sup> of the GDP deflator index for 2013 (106.5%).

Military allocations in other federal budget items are shown in Table 31. Here, unlike the practice of the previous years, special agencies' confidential expenditures on education, healthcare, housing and public utilities, etc, as well as civil defense expenditures and maintenance costs on the EMERCOM (the Ministry of the Russian Federation of Civil Defense, Emergencies and Elimination of Consequences of Natural Disasters) forces are no longer classified as military expenditures in other budget items (the latter – due to changes to the UN standards for reporting military expenditures<sup>3</sup> effective since 2012 and classifying the military personnel pension provision as military expenditure).

Table 30

### Direct military allocations in the federal budget, “National Defense” item

Budget item and sub-items	2013, millions of rubles / the same in 2012 prices	Changes in 2013 against 2012, millions of rubles / growth, %	The share of allocations, % / changes against 2012, p.p.	
			2013 federal budget	in GDP
1	2	3	4	5
NATIONAL DEFENSE	<u>2,106,462</u> 1,977,899	<u>131,648</u> 7.13	<u>15.73</u> 1.49	<u>3.16</u> 0.17
Armed Forces of the Russian Federation	<u>1,628,112</u> 1,528,743 661	<u>171,140</u> 12.61	<u>12.16</u> 1.68	<u>2.44</u> 0.24
Mobilization pre-prescription and reserve military training	<u>6,792</u> 6,378	<u>-938</u> -12.82	<u>0.05</u> -0.01	<u>0.01</u> -
Mobilization preparation of the economy	<u>5,662</u> 5,316	<u>421</u> 8.61	<u>0.04</u> -	<u>0.01</u> -
Nuclear weapons complex	<u>29,289</u> 27,501	<u>26</u> 0.10	<u>0.22</u> 0.01	<u>0.04</u> -
Fulfilling international commitments in the area of military-technical cooperation	<u>5,804</u> 5,450	<u>814</u> 17.55	<u>0.04</u> 0.01	<u>0.01</u> -
Applied research studies in the area of national defense	<u>195,134</u> 183,225	<u>16,391</u> 9.82	<u>1.46</u> 1.17	<u>0.29</u> 0.02

<sup>1</sup> The Federal Law of 02.12.2013, No. 348-FZ On the Federal Budget for 2013 and the Planning Period of 2014 and 2015.

<sup>2</sup> Gross domestic product (GDP) production and usage in 2013. M.: Rosstat, January 31, 2013. ]

<sup>3</sup> Government experts' report on the overview of functioning and further development of the United Nations system for the standardized reporting of military expenditures. A/66/89. UN, June 14, 2011.

Other national defense issues	<u>235,668</u> 221,285	<u>-55,789</u> -20.14	<u>1.76</u> -0.38	<u>0.35</u> -0.09
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Source: Gaidar Institute's estimates.

Table 31

### Direct and indirect military allocations, other federal budget items

Budget item or type of allocations	2013, millions of rubles / the same in 2012 prices	Changes in 2013 against 2012, millions of rubles / growth, %	The share of allocations, % / changes against 2012, p.p.	
			2013 federal budget	in GDP
1	2	3	4	5
<b>National security and law enforcement action</b>				
Internal troops	<u>129,029</u> 121,154	<u>-2,744</u> -2.21	0.96 0.01	0.19 -0.01
Russia's border service agencies	<u>142,386</u> 133,696	<u>47,732</u> 55.53	1.06 0.40	0.21 0.07
<b>National economy</b>				
Alternative civil service	6 5	-1 -10.46	<0.01 -	<0.01 -
<i>Destruction of chemical weapons stockpiles in the Russian Federation Presidential Program</i>	6 6	-711 -99.21	<0.01 -0.01	<0.01 -
Subsidies to transport organizations for purchasing motor vehicles to replenish the military convoy rolling stock	<u>55</u> 52	<u>-3</u> -6.10	<0.01 -	<0.01 -
Subsidies to maintain the Russia-NATO Coordination Center	<u>51</u> 47	<u>-2</u> -3.01	<0.01 -	<0.01 -
Construction of special-purpose and military facilities	<u>14,306</u> 13,433	<u>1,666</u> 14.16	0.11 0.02	0.02 -
<i>Industrial Utilization of weapons and military equipment (2011–2015) Federal Target Program</i>	87 82	-18 -18.36	<0.01 -	<0.01 -
<i>Contributions to charter capital and subsidies to organization pertaining to the military-industrial complex</i>	<u>48,285</u> 45,338	<u>-7,066</u> -13.48	0.36 -0.04	0.07 -0.01
Scholarships to young personnel employed by organizations pertaining to the military-industrial complex	<u>240</u> 225	<u>-15</u> -6.10	<0.01 -	<0.01 -
<i>Confidential expenditures</i>	<u>86,124</u> 80,867	<u>32,479</u> 67.12	0.64 0.27	0.13 0.05

Cont'd

1	2	3	4	5
<b>Housing and public utilities</b>				
<i>Destruction of chemical weapons stockpiles in the Russian Federation Presidential Program</i>	<u>362</u> 340	<u>131</u> 62.82	<0.01 -	<0.01 -
<i>Provision of military personnel with temporal living accommodation owned by the employer and permanent living accommodation owned by the employee</i>	<u>38,382</u> 36,039	<u>-93,615</u> -72.20	0.29 -0.71	0.06 -0.15
<b>Education</b>				
<i>Ministry of Defense expenditures</i>	<u>58,511</u> 54,949	<u>7,260</u> 15.23	0.44 0.07	0.09 0.01
<b>Culture and cinematography</b>				
<i>Ministry of Defense expenditures</i>	<u>2,137</u> 2,006	<u>115</u> 6.08	0.02 -	<0.01 -
<b>Healthcare</b>				
<i>Ministry of Defense expenditures</i>	<u>47,963</u> 45,963	<u>2,924</u> 6.94	0.36 0.03	0.07 -
<b>Social Policy</b>				
<i>Pension provision at the Ministry of Defense</i>	<u>254,910</u> 239,352	<u>-12,731</u> -5.05	1.90 -0.04	0.38 -0.03

<i>Pension provision to the Border Troops and Internal Troops under the Ministry of Internal Affairs</i>	<u>29,012</u> 27,241	<u>3,390</u> 14.22	<u>0.22</u> 0.03	<u>0.04</u> -
Tangible support to specialists employed by the nuclear weapons complex of the Russian Federation	<u>6,110</u> 5,738	<u>-6</u> -0.11	<u>0.05</u> -	<u>0.01</u> -
Extra monthly tangible support to persons disabled as a result of war injuries	<u>617</u> 579	<u>138</u> 31.34	<u>&lt;0.01</u> -	<u>&lt;0.01</u> -
Assistance in repairing individual residential houses owned by the families of the military personnel who lost the bread-winner	<u>216</u> 203	<u>-403</u> -66.50	<u>&lt;0.01</u> -	<u>&lt;0.01</u> -
Provision of servicemen' survivor benefits	<u>1,709</u> 1,605	<u>88</u> 5.81	<u>0.01</u> -	<u>&lt;0.01</u> -
Benefits and compensatory payments to military personnel and equated persons, as well as the retired of them	<u>7,256</u> 6,813	<u>-2,016</u> -22.84	<u>0.05</u> -0.01	<u>0.01</u> -
One-time pregnancy allowance to spouses of enlisted servicemen, as well as monthly child's benefit to enlisted servicemen	<u>2,503</u> 2,350	<u>82</u> 3.62	<u>0.02</u> -	<u>&lt;0.01</u> -
<b>Physical culture and sports</b>				
<i>Ministry of Defense expenditures</i>	<u>1,824</u> 1,713	<u>1,615</u> 1653.93	<u>&lt;0.01</u> -	<u>&lt;0.01</u> -
<b>Inter-budget transfers between the constituent entities of the Russian Federation and general municipalities</b>				
Subsidies to the budget of Closed Administrative-Territorial Units (ZATOs)	<u>11,566</u> 10,860	<u>1,984</u> 22.35	<u>0.09</u> -0.02	<u>0.02</u> -
Migration from ZATOs	<u>527</u> 495	<u>-32</u> -6.10	<u>&lt;0.01</u> -	<u>&lt;0.01</u> -
<b>OTHER BUDGET ITEMS</b>	<u>884,178</u>	<u>-25,823</u>	<u>6.60</u>	<u>1.33</u>
<b>TOTAL</b>	<u>830,214</u>	<u>-3.11</u>	<u>-</u>	<u>-0.06</u>

Source: Gaidar Institute's estimates.

As a result, in 2013, total military (national defense) allocations (*Table 32*) of the Russian federal budget, as calculated compliant to the UN standards for military expenditures, were estimated at 4.5% of GDP, demonstrating equal values for Russia and the United States, as well as such countries as Azerbaijan and Myanmar (economy's encumbrance in Europe and China ranged within 1% to 2%, except for Great Britain (from 2.5%) and France (from 2.3%).

Table 32

### Total military and military-related allocations of federal budget in 2013

Allocations title	Sum of allocations, millions of rubles	The share of allocations, % / changes against 2012, p.p.	
		2013 federal budget	in GDP
Total military (national defense) allocations related to the current and previous military activity	2,990,640	<u>22.34</u> 1.48	<u>4.48</u> 0.11
Total allocations under the budget items of National Defense and National security and law enforcement action	4,144,794	<u>30.96</u> 2.68	<u>6.22</u> 0.29

Source: Gaidar Institute's estimates.

Overall, in 2013, resources under the item of 0200 National Defense were spent, saving Rb 8bn 124m (0.4%) over the allocations provided for by the latest version of the Federal Law on the Federal Budget.

Federal budget savings under the item of 0201 Armed Forces of the Russian Federation totaled Rb 25bn 725m (6.7%) through Ministry of Defense's costs on subsistence support alone against the allocations provided for by the initial version of the Federal Law on the Federal Budget. In 2013, the Ministry of Defense saw just a 0.84% increase (in real terms) in



subsistence support costs after the Russian Government made no indexation of the military compensation, despite a 20% increase in the number of enlisted personnel by the end of the year, from 186,000 to 225,000 persons. The Ministry of Defense spent a total of Rb 360bn 420m (0.54% of GDP) on the subsistence support in 2013.

The Ministry of Defense spent Rb 211bn 598m on civil personnel wages, an increase of 5.41% year over year in real terms despite a 5% headcount reduction in civil personnel compliant to the Russian Federation Security Council's decision of July 5, 2013. On the enhancement of the national military establishment of the Russian Federation until 2020<sup>1</sup>.

Ministry of Defense spent 4% less (in real terms) on petroleum, oil and lubricants (POL) in 2013, amounting to Rb 59 bn 266 m, saving Rb 4 bn 609 m (or 7.2%) over the amount allocated in the initial version of the Federal Law on the Federal Budget. It may therefore be assumed that a visible increase in 2013 in the frequency of spot operability tests and field training exercises was compensated by savings through an increased use of simulators for military personnel training.

Federal budget expenditures on the Ministry of Defense's subsistence and tangible support in 2013 increased 19.3% year on year in real terms (to Rb 54bn 693m and Rb 20bn 636 m respectively). Actual budget expenditures under these two items exceeded Rb 24bn 141 m, or 45.5%, the expenditures provided for by the initial version of the Federal Law on the Federal Budget.

Ministry of Defense's construction costs on civil facilities in 2013 increased 86% year over year to Rb 14bn 488 m under the item of National Defense and dropped 67% to Rb 41bn 210m under the item of Housing and public utilities. Construction costs of special and military facilities increased substantially 35.5% year over year and 57.2% of the costs provided for by the initial version of the Federal Law on the Federal Budget. Furthermore, military infrastructure costs increased to Rb 113bn 29m by the end of the year in response to the redistribution of Rb 75bn which the Ministry of Defense originally allocated to POL. Federal budget expenditures Concerning the Savings and Mortgage System of Housing Provision for Servicemen of the Ministry of Defense increased 25% year over year to Rb 58bn 834 m.

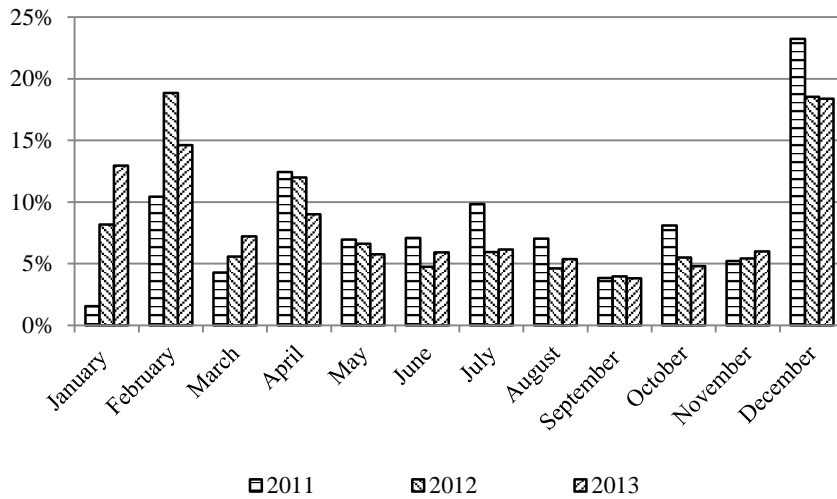
The item of 0200 National Defense keeps calling attention by rapidly growing expenditures under the sub-item 0209 Other national defense issues (Rb 259bn 602 m), where actually spent budget expenditures outstripped by Rb 23bn 934m (10%) the allocations provided for by the initial version of the Federal Law on the Federal Budget.

Pension provision costs on the Ministry of Defense military personnel in 2013 amounted to Rb 262bn 612 m, seeing a contraction of 2.4% year over year despite indexation, which is indicative of decrease in the number of retired military personnel.

The dynamics of actual monthly expenditures under the federal budget's major sub-items of the item 0200 National Defense in 2011 thru 2013 is shown in *Fig. 19–21*.

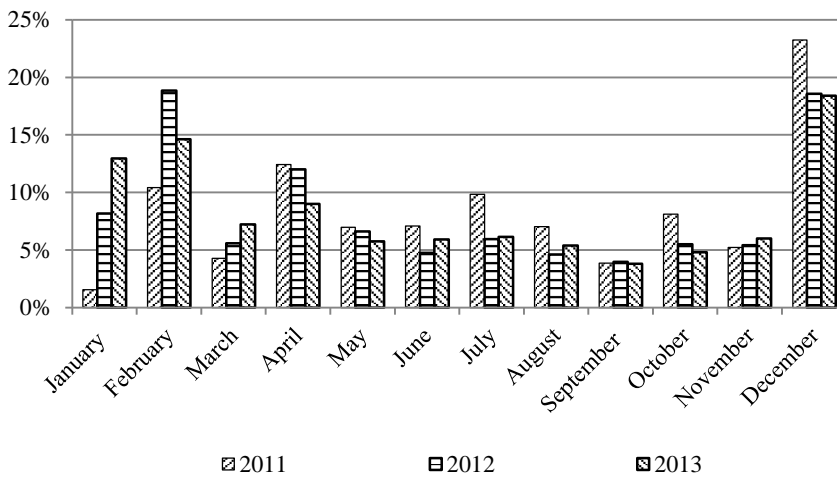
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<sup>1</sup> Approved by the President of the Russian Federation on 22.07.2013.



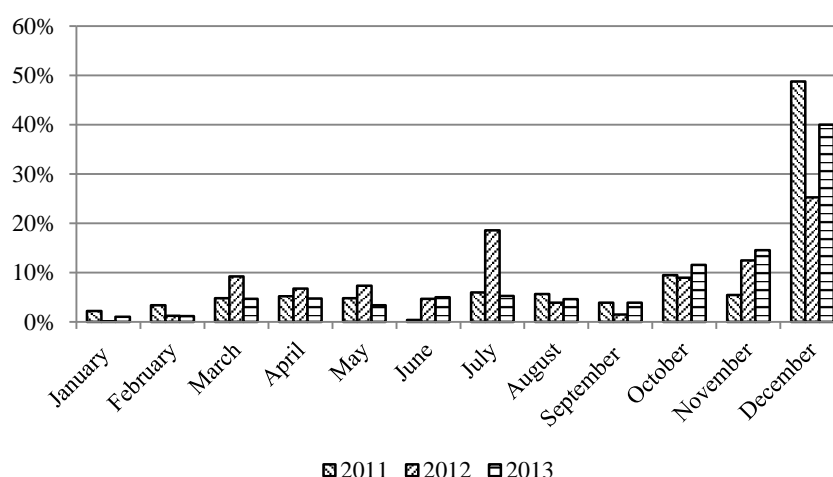
Source: Gaidar Institute's estimates based on the data supplied by the Federal Treasury of Russia.

Fig. 19. Implementing federal budget expenditures under the sub-item Armed Forces of the Russian Federation in 2011 thru 2013



Source: Gaidar Institute's estimates based on the data supplied by the Federal Treasury of Russia.

Fig. 20. Implementing federal budget expenditures under the sub-item Applied research studies in the area of national defense in 2011 thru 2013



Source: Gaidar Institute's estimates based on the data supplied by the Federal Treasury of Russia.

Fig. 21. Implementing federal budget expenditures under the sub-item *Other national defense issues* in 2011 thru 2013

Table 33 presents military expenditures of the government of the constituent entities of the Russian Federation, being indicative of pertaining years-long trends. These expenditures account for 0.01% of GDP or less, whereby being considered as rather ritual expenses, and partial financing of these expenditures with federal transfers<sup>1</sup> may result in double count, what should be given a special attention during the evaluation thereof.

Table 33

**Military expenditures in the consolidated budget of the constituent entities of the Russian Federation in 2005 thru 2013, millions of rubles\***

Expenditure classification sub-item	2005	2006	2007	2008	2009	2010	2011	2012	2013
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 pre-prescription and reserve military training	<u>65.6</u> 65,6	<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
Mobilization preparation of the economy	<u>485.4</u> 468,6	<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
Other national defense issues	<u>109.6</u> 97,5	<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>&lt;0.1</u> <0.1	<u>2.7</u> 2.7	<u>3.2</u> 3.0	<u>3.2</u> 2.9
Internal troops	<u>9.9</u> 9,9	<u>3.5</u> 1.4	<u>1.0</u> 1.0	<u>0.3</u> 0.3	–	–	–	–	–
Russia's border service agencies	<u>0.1</u> 0,1	–	–	–	–	–	–	–	–
TOTAL	<u>670.6</u> 641,7	<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

\* The numerator means allocated, the denominator means actually spent.

Source: Federal Treasury of Russia; Gaidar Institute's estimates.

<sup>1</sup> Financy Rossii. 2012: Statistical book. M.: Rosstat, 2012. P. 27.

Table 34 presents Russia's military expenditures incurred in the period of 1999 thru 2013, net of the military expenditures of the consolidated budget of the constituent entities of the Russian Federation shown in Table 33. The data presented in the Table allows one to assume that period-specific double-digit nominal growth rates of the military expenditures in real terms came to nought to a large extent because of outstripping growth in prices of the Russian MIC's products (for example, in 2012 the added value deflator stood at 122.9% in the shipbuilding industry and 127.7% in the aerial vehicles sector)<sup>1</sup>.

Table 34

**Key indicators of military (national defense) expenditures  
in the Russian Federation in 1999 thru 2013**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
<b>1. In nominal terms (in current prices), billions of rubles</b>															
Federal budget implementation under the item of "National Defense" according to the current budget classification <sup>a</sup>	115.6	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
Federal budget allocations under the item of "National Defense": according to the current budget classification	93.7	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
moved to other items of budget classification <sup>b</sup>	–	–	–	–	–	–	44.3	77.7	91.3	126.5	202.4	270.8	324.4	223.1	149.2
in a comparable budget classification	93.7	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
military (national defense) expenditures, based on the UN data <sup>c</sup>	–	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	–
Total defense appropriations related to current and past military activities <sup>d</sup>	137.5	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
<b>2. In real terms (in 2013 prices)<sup>e</sup>, billions of rubles</b>															
Federal budget implementation under the item of "National Defense" according to the current budget classification	1586.6	1695.6	1645.0	1669.0	1648.6	1700.5	1863.9	1772.2	1856.0	1892.6	1962.3	1944.8	2042.1	2051.6	2103.6
Federal budget allocations under the item of "National Defense": according to the current budget classification	1286.1	1852.3	1426.5	1605.5	1645.0	1690.2	1855.0	1783.5	1872.1	1875.7	1970.0	1947.1	2071.1	2090.0	2111.7
moved to other items of budget classification	–	–	–	–	–	–	142.0	202.0	203.7	230.0	334.3	412.5	437.0	252.6	149.2
in a comparable budget classification	1286.1	1852.3	1426.5	1605.5	1645.0	1690.2	1997.0	1985.5	2075.8	2105.7	2304.3	2359.6	2508.1	2342.6	2260.9
military (national defense) expenditures, based on the UN data	–	1779.8	1936.6	1823.4	2050.9	1954.7	2113.6	2120.8	2101.8	2032.9	1925.8	1771.1	1917.4	1912.3	–
Total defense appropriations related to current and past military activities	1882.9	2584.1	1999.7	2400.0	2547.8	2288.9	2504.4	2475.1	2719.9	2607.1	2868.1	2885.0	2976.9	3001.2	2990.6
<b>3. In real terms (in 1999 prices), billions of rubles</b>															
Federal budget implementation under the item of "National Defense" according to the current budget classification	115.6	123.5	119.9	121.6	120.1	123.9	135.8	129.1	135.2	137.9	143.0	141.7	148.8	149.5	153.3
Federal budget allocations under the item of "National Defense": according to the current budget classification	93.7	135.0	103.9	117.0	119.8	123.1	135.2	129.9	136.4	136.7	143.5	141.9	150.9	152.3	153.9
moved to other items of budget classification	–	–	–	–	–	–	10.3	14.7	14.8	16.8	24.4	30.1	31.8	18.4	10.9
in a comparable budget classification	93.7	135.0	103.9	117.0	119.8	123.1	145.5	144.7	151.2	153.4	167.9	171.9	182.7	170.7	164.7
military (national defense) expenditures, based on the UN data	–	129.7	141.1	132.8	149.4	142.4	154.0	154.5	153.1	148.1	140.3	129.0	139.7	139.3	–
Total defense appropriations related to current and past military activities	137.2	188.3	145.7	174.9	185.6	166.8	182.5	180.3	198.2	189.9	209.0	210.2	216.9	218.7	217.9

<sup>1</sup> Russia's national accounts in 2005–2012: Statistical book./ Rosstat. M., 2013, p.220.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
<b>4. Military encumbrance on the economy, as percentage of GDP</b>															
Federal budget implementation under the item of "National Defense" according to the current budget classification	2.40	2.62	2.77	2.73	2.69	2.53	2.69	2.53	2.50	2.52	3.06	2.76	2.72	2.93	3.15
Federal budget allocations under the item of National Defense: according to the current budget classification	1.94	2.87	2.40	2.63	2.69	2.51	2.68	2.55	2.52	2.50	3.07	2.76	2.76	2.99	3.17
moved to other items of budget classification	–	–	–	–	–	–	0.20	0.29	0.27	0.31	0.52	0.58	0.58	0.36	0.22
in a comparable budget classification	1.94	2.87	2.40	2.63	2.69	2.51	2.88	2.84	2.80	2.81	3.60	3.34	3.35	3.35	3.39
military (national defense) expenditures, based on the UN data	–	2.75	3.26	2.98	3.35	2.90	3.05	3.03	2.83	2.71	3.00	2.51	2.56	2.73	–
Total defense appropriations related to current and past military activities	2.84	4.00	3.36	3.93	4.16	3.40	3.61	3.54	3.67	3.47	4.48	4.09	3.97	4.29	4.48
<b>5. By purchasing power parity (in current prices), billions of US dollars</b>															
Federal budget implementation under the item of "National Defense" according to the current budget classification	21.9	26.8	30.2	31.9	34.2	36.2	45.6	54.0	59.5	72.6	83.6	81.5	87.0	97.9	110.5
Federal budget allocations under the item of National Defense: according to the current budget classification	17.7	29.3	26.2	30.7	34.1	35.9	45.4	54.3	60.1	71.9	83.9	81.6	88.3	99.7	111.0
moved to other items of budget classification	–	–	–	–	–	–	3.5	6.2	6.5	8.8	14.2	17.3	18.6	12.0	7.8
in a comparable budget classification	17.7	29.3	26.2	30.7	34.1	35.9	48.9	60.5	66.6	80.8	98.1	98.9	106.9	111.7	118.8
military (national defense) expenditures, based on the UN data	–	28.1	35.6	34.8	42.5	41.6	51.7	64.6	67.4	78.0	82.0	74.2	81.7	91.2	–
Total defense appropriations related to current and past military activities	25.9	40.9	36.7	45.8	52.8	48.7	61.3	75.4	87.3	100.0	122.1	120.9	126.9	143.2	157.2
<b>For reference</b>															
Gross domestic product deflator, as percentage of the previous year	172.5	137.6	116.5	115.5	113.8	120.3	119.3	115.2	113.8	118.0	102.0	114.2	115.5	107.4	106.5
deflator of expenditures on final consumption of collective public administration services <sup>e</sup> , as percentage of the previous year	140.1	155.2	133.1	117.6	121.9	117.2	123.3	123.4	116.5	122.7	110.1	108.4	113.1	119.0	113.2
Purchasing power parity <sup>f</sup> , Rb/\$	5.29	7.15	8.19	9.27	10.41	11.89	12.74	12.63	13.97	14.34	14.22	15.66	17.42	18.52	19.03

<sup>a</sup> For 2013 – the Federal Treasury's preliminary data on the federal budget implementation.

<sup>b</sup> Total the Ministry of Defense's expenditures and secret outlays on items 05–09 and 11 of the federal budgets in 2005–2011, for 2012–2013 – additionally on item 12.

<sup>c</sup> For 2013 – will be presented by the Russian Government in UN in 2014, also including maintenance costs on internal troops and border troops.

<sup>d</sup> Including pensions of the retired military personnel.

<sup>e</sup> Deflated by using the deflator of expenditures on final consumption of collective public administration services.

<sup>f, g</sup> For 2013 – Gaidar Institute's estimates.

*Source:* Federal laws on the federal budgets for 2000–2013 and implementation of the federal budget in 2000–2012; Russia's national accounts in 1997–2012: Statistical book./ Rosstat. M., 2005–2013; Objective information on military issues including military (national defense) expenditures transparency. The UN General Secretary's reports in 2001–2013; Rosstat; the Federal Treasury of Russia.

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Military and economic situation in the Russian Federation has stabilized considerably after the notorious events that took place at the end of 2012 and ended up with Serdyukov and his inner circle resigning from their high-rank posts. On December 10, 2013, the Supreme Commander-in-Chief of the Russian Armed Forces and newly appointed top executives of the Ministry of Defense summed up in the ordinary course the results of 2013 and acknowledged that a few positive results were achieved in modernizing the Russian Armed Forces and

strengthening the national defense capability. Success in the development of the MIC and equipment of the Armed Forces with advanced combat weapons was acknowledged early in 2014.

However, there are many issues that still remain to be addressed not only at the level of Russia's national military establishment, but also at the top strategic level, requiring to ensure both successful economic development and national security at a time. It stands to reason that the Russian President began to hold regular enlarged government meetings to address, inter alia, the issues arising between the traditional government and subordinate security and law enforcement agencies.

Practical mastering of brand new WME coming into operation has become most important for the Russian Armed Forces. Therefore, the military-recruitment policy should be focused on personnel professionally trained to employ advanced technologies to fulfil their missions based on a computer-aided control and management system. Professional requirements should be applied to the personnel at all levels, i.e. from the private level to the highest level of the military command structure which should be based on a system of incentives towards a rational, long-term and efficient military service, encouraging career advancement and ensuring a high social status in the society.

Comparative analysis of the military component of the Russian federal budget with the budget of the world leading economies shows that further growth in expenditures, which previously never was reasonably substantiated, on the MIC development and technical equipment of the Russian Armed Forces has totally lost its credibility amid the current recession. Otherwise, overall level of Russia's military expenditures and, most importantly, the share of expenditures on the equipment of the Armed Forces in prejudice of costs on their maintenance and combat training may list Russia as sponsor of arms race, thereby damaging its peacemaker image.

It would be reasonable to refine the Russian budget classifier by approximating the same to the UN standard, because the UN standard and most countries' practice show that military expenditures are better to be divided into components which, on the one hand, describe the development of the Armed Forces, and, on the other hand, their current maintenance.