

Institute for the Economy in Transition

RUSSIAN ECONOMY IN 2009

TRENDS AND OUTLOOKS

(ISSUE 31)

Volume 1

**Moscow
2010**

UDC 33(470+571)(066)"2009"
BBC 65.9(2Рос)я54

Agency CIP RSL

Institute for the Economy in Transition

Editorial Board:

*S. Sinelnikov-Murylev (editor-in-chief),
A. Radygin,
N. Glavatskaya,
K. Rogov*

- R95 Russian economy in 2009 (issue 31): Trends and outlooks / Inst. for the Economy in Transition; [S. Sinelnikov-Murylev and others]. In 2 Volumes. Volume 1. – M.: IET, 2010. – 340 p.: il. – ISBN 978-5-93255-288-9.

The review provides a detailed analysis of main trends in Russia's economy in 2009. The paper contains five big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit and financial spheres; 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.

The publication of the present paper was sponsored with the grant from the United States Agency for International Development (USAID)

UDC 33(470+571)(066)"2009"
BBC 65.9(2Рос)я54

ISBN 978-5-93255-288-9

□ **Institute for the Economy in Transition, 2010**

Vasily Zatsopin, Elena Trofimova, Vitaly Tsymbal

Military Economy and Military Reform in Russia in 2009

The year of 2009 saw an unprecedented acceleration of the genuine military reform. This can be ascribed first to the fact that in the wake of the war with Georgia in August 2008 the tandem of the Russian leaders (the RF President, who also is the Commander-in-Chief, and the Prime- Minister) has *de facto* granted Mr. Anatoly Serdyukov, the RF Defense Minister, *carte blanche* not only on continuation, but acceleration of the modernization of the Defense Ministry and the Armed Forces; second, this can be explained by the Minister's personal qualities and his commitment to pursue a real reform of the Armed Forces. But the time for the reform implementation has been missed.

5.8.1. New Challenges for the RF Ministry of Defense and the Armed Forces

The annual Report on the RF Ministry of Defense's performance in 2008 and main avenues of its operations for the forthcoming period did not come from press in a due time. But , referencing to a secret document approved by the RF President on September 15, 2008, in his account on results of 2008 Mr. Anatoly Serdyukov enumerated tasks specified therein¹. It was only on March 17, 2009, when addressing the extended Collegiums of the RF Ministry of Defense², Mr. Dmitry Medvedev depicted the 2008 results as "fair, basically" and enunciated, as he put it, "a series of priority tasks". Unfortunately, the President's formulation of the tasks is not consistent with the Minister's, which is bad from all the perspectives - the military administrative culture and the normal civil management's. We are recapping on the tasks below, with citations attributed to their authors marked by the first letter of their names given in brackets (M for Mr. Medvedev and S - for Mr. Serdyukov):

1. "transition of all the units to the permanent combat readiness category" (S); "raising the combat readiness of the armed forces", including "transition of all the combat units to the permanent combat readiness category" (M). Let us note that the adjective "combat" was not further specified in any way – perhaps it was introduced to denominate a major component of the Armed Forces of RF which does not encompass another one, that is "the mobilization component in the form of arms and equipment storage and repair facilities, as well as mobile repair means" (S);
2. "Boosting the efficiency of the Armed Forces command system" (S); "optimization of the structure and quantity of the army" (M);
3. "Giving the Armed Forces modern warfare and military equipment" (S); "equipping the army with cutting-edge warfare" (M);

¹ Serdyukov A. 5 osnovnykh strategicheskikh zadach//Rossiyskoye voennoye obozreniye. 2009. №3. pp. 10-13

² Medvedev D. na puti k perspektivnomu obliku Vooruzhennykh Sil// Rossiyskoye voennoye obozreniye. 2009. №3. pp. 8-9

4. "Improvement of the cadre training system, military education and military science" (S); "a further improvement of the structure of the military education" (M);
5. "Provision of the military with a decent monetary allowance, permanent and departmental housing" (S); "solving the military's social problems" (M);
6. "Social adaptation of retiring officers.... Their retraining and current employment" (M) - notably, this task was specified by the President only.

Let us complement the above with the following statements by the President and the Minister of Defense, "A qualitative implementation of all these complex and large-scale tasks will depend upon a well-orchestrated, everyday, meticulous work, commitment and initiative of the highest rank of the Army and the Navy" (S); "at this juncture, there is the need in a high competence of commanders of all levels, synchronization of our joint effects and, of course, there is an extreme need in the public support of transformations conducted in the army" (M).

As to a more detailed concept of the "new face" of the Armed Forces and the Defense Ministry, a considerable fraction of the characteristics of the former and transformations in the latter constitutes a repetition of the past, non- or under-implemented ideas and programs whose rationale can be traced back to 1992, when the military-political leadership of RF had been making decisions on building the Armed Forces. At the time, the Supreme Soviet of RF developed, adopted and published main provisions of Russia's military policy¹. Even from the today's perspective, it can be asserted that was a fairly progressive conceptual document that laid out the government's control and managerial functions in the military area:

- legislative approval of the government program of the military building and conversion of the defense sector;
- approval of the structure and the number of the Armed Forces together with the budget;
- control by the legislature over the cadre policy in the Armed Forces and the RF Defense Ministry.

The assertion contained in the Supreme Soviet's declaration that a "decisive transition in Russia's foreign policy to international cooperation and partnership creates a real basis for a substantial cutting of unbearable military expenditures as a necessary premise of a successful implementation of economic programs and elimination of tension in the society" remains vital. In late May 1992, the General Staff Academy held a conference on military building plans².

Merging the legislature and military experts' proposals, let us enumerate core elements of the then outlined "new face":

- Cuts in the number of the Armed Forces. In 1992, the troops outnumbered 2.5m, with the cap set in compliance with the act "On defense", that is, 1% of the population. Later, the President cited 1m as a benchmark of the future number of the military, but the cap was lifted by a respective act.
- The primary need to solve the military personnel's (both retiring and on service) all social problems, with a special attention paid to those coming home from the deployed overseas Army Group.

¹ Vedomosti Syezda narodnykh deputatov RSFSR i Verkhovnogo Soveta RSFSR. M., 1992. see also: Izvestia. 1992. April 2.

² Voennaya mysl. Special edition. 1992.July

- Transition of all the regular armed forces from conscription to draft. The provision was stipulated in the resolution by the RF government signed by Pres. Eltsin on November 30, 1992. The document formally retains its force.
- Sufficiency of the strategic nuclear forces whose “structure should be regulated on the basis of agreements with account of the need to keep the means that to the greatest degree meet the requirements of the nuclear security and minimum costs” as a factor precluding world wars.
- The factor of deterrence from “waging large-scale conflicts and local wars against Russia” should become “forces in possession of high-precision arms and means of their delivery”, while the factor of neutralization of local military conflicts should become “conventional forces in the composition of a few Army and Navy blocks”.

Except for some nuances, these elements match the recently declared concept of the “new face” of the Armed Forces of RF. Equally important is that back in 1992, most of the population and the military were supportive of the declared reform fundamentals. That is why the general list of characteristics of Russia’s military policy that still are topical should be complemented with another two ones, which were declared and explicitly demonstrated then-namely:

- The official openness of the military policy and making the procedures and conditions of military service, the troops’ freedoms and rights subject to the parliament and the society’s control.
- Openness of the military building plans, as well as a detailed military budget and actual costs in a volume sufficient for the societal control; more specifically, in a full volume, as far as all the socio-economic aspects are concerned; in a volume equivalent to the UN standards on military expenditures - by other aspects, items and kinds of expenditures.

Back in 1992, a considerable fraction of the aforementioned characteristics and parameters meant the rise of a *de facto* new system of provision of the country’s defense, a new defense ministry, a new armed forces, which have been just partly attained nowadays.

So, the new stage of the military transformation in many ways rests upon the earlier developed and theoretically justified findings of research teams and military experts.

As well, the current transformation is proved by the best overseas practices.

Lastly, the new stage of the reform underway in the Armed Forces and the Defense Ministry is backed by positive results demonstrated by structures within Russia’s military organization that were keen to ensure them. It is worth mentioning, first and foremost, the RF Border Service that has succeeded in accomplishing its mission by having professionals engaged in using new technologies, rather than by merely beefing up.

Below, we highlight findings of the analysis of the reform process in the Armed Forces of RF.

5.8.2. Increasing the Combat Readiness of the Armed Forces.

Organizational developments on giving military units a “facelift” mostly concerned the Army. They had been completed as scheduled, that is, by July 1, 2009, some 50 units that did not change their dispositions transited to a new structure, followed by other (30 more units) by December 1.

Considerable changes have also occurred in the Air Force, with other ranches of the Armed Forces experiencing a substantially lesser transformation.

In each of 6 military districts there were formed structural elements of the operative-strategic command capable to run operations of all the forces, except the strategic ones, including the so-called “other” forces located in the territory of the district.

As well, Russia’s Armed Forces contributed, with a paratroop division and a paratroop brigade, to the creation of the Collective Rapid Response Forces, which will be acting in the interests of the member nations of the Collective Security Treaty Organization.

There were planned and implemented a string of military exercises, both individual and collective ones, as well as a number of huge war games that take part in the territory of China, Kazakhstan, as well as the operative-strategic exercise “West-2009” in the territory of Belarus, to name a few.

Thus, the task of creation of military units of *permanent readiness* is being tackled; however, the problem of sustaining their *permanent combat readiness* has remained unsolved, as the Armed Forces are still and will, through 2020, manned with conscripts at 65%. Having served in the army for 1 year, they demobilize to be replaced by rookies, and the cohesiveness between the units vanishes.

By late November, information was published of a comprehensive examination of the military units, including those already transited to the “new face” over the past training year, which, as usual, came to an end on October 30. Following the “normal” pattern, the information was first published by the mass media¹ and only after that - in the official sources².

Table 1

Assessment of Combat Readiness of the Army and the Navy by Late 2009

Score	Number of units	Comments
Excellent	4 operative units	All 4 – the Navy vessels (above-water crafts - AWC) and nuclear submarines (NS) equaled to brigade or division
Good	26 divisions of different branches (Air Force, Navy, SRF, paratroops)	A. 50% of units; 46% of the totality of regiments and bases remaining in the Armed Forces 55% of the 1 st -class AWCs and NS; 33% of the “new-face” brigades
Fair	23 divisions 105 of the “new-face” brigades 97 separate regiments	47% their total number 60% brigades of the “new-face” > 50%
Poor	4 brigades	From the Siberian military district and the North-Caucasian military district

So, it was slightly over 50% out of nearly 260 units and operative units equaled to them across all the Armed Forces, which can be provisionally called **combat ready** that displayed just a satisfactory combat readiness. Besides, as by the end of 2009 nearly the half of the conscripts had demobilized from the Armed Forces, to be replaced by rookies, after the New Year many military units would fail to earn satisfactory scores. While their permanent readiness may be close to 100%, the combat readiness would remain pretty low, and such an undulating process in Russia’s operative units will be noted until 2020.

From the military and economic perspective, an important fact is that, according to Mr. Serdyukov’s article, the financing of the exercises was planned and executed “at the expense of funds allocated for the current maintenance of the Army and the Navy, as well as at the ex-

¹ Sargin A., Telmanov D. *Armiya trochnikov*//Gazeta. 2009. November 10

² Theses of the address of the Head of the Chief Command of Military Training of the Armed Forces of RF before representatives of the Russian mass media. See: <http://www.mil.ru/847/852/1154/15977/37805/69116/69115/index.shtml>

pense of proceeds from sales of military assets”. Regretfully, no amount of such funds was specified, but the approach to the organizational problems should be lauded, nonetheless.

But establishment of the Collective Rapid Response Forces in such a fashion that their equipping with “modern warfare and military hardware, specially designed uniforms and equipment” was funded chiefly by Russia raises questions of appropriateness of such costs, as the forces are designated for ensuring Russia as well as all the CSTO member nations’ military security.

While forming permanent readiness units, the military have also been tackling the most complex problem of organization of logistics support for the “new-face” army¹. First, functions in the logistics support system were split, with the military fraction of the Interdepartmental (Unified) Logistics Support System (IULSS) retaining the duty of projecting and planning of the Defense Ministry’s needs in certain kinds of works, products and services, while all the logistics business management functions were assigned to JSC Oboronservis. The company is formed by 9 sub-holdings that combined comprise a total of 56 federal public unitary enterprises and 19 earlier established JSCs. In the frame of the IULSS, every military unit (both in the Army and in other branches and military agencies) have now become subject to logistics support delivered by the nearest interdepartmental logistics support office.

As well, a very complex organizational work is underway, as far as provision of the logistics support to new military bases created overseas and military units with dispositions in the Far North and remote garrisons in Siberia and the Far East is concerned. This is a consequence of the revision of Russia’s vitally important interests and changes in the geopolitical situation.

It is worth noting that the military leadership have focused on developing means and ways of conducting the so-called “information wars”. That our info-, or cyber-, space has become a battlefield of invisible wars and Russia’s Armed Forces fell behind the leading military nations in developing the respective forces and means and are in need for creation of a system of means of info-engagement – to counter an enemy in an “info-war” - was long discussed by the domestic expert community². They believe these tasks are critical in the times of war as they are in the times of peace. While the information on the matter is brief and fragmentary, the Defense Ministry and the Armed Forces are now preparing to tackle the problem from the organizational perspective.

5.8.3. Optimizing the Structure and the Strength of the Armed Forces, and Increasing the Efficiency of Command and Control

In 2009, the structure of Russia’s Armed Forces has seen some improvement, with the transition from the four-link (military district-army-division-regiment) command and control system to the three-link one (military district, which in the peacetime exercises the operational strategic command and control functions, - army, with its operative command and control functions, - brigade aimed at boosting the troops’ mobility and flexibility.

The transformation has not stirred much public attention, while chiefly affecting interests of the high echelons of the army.

¹ Nasha konechnaya tsel- obespecheniye voennosluzhaschego (interview nachalnika Tyla VS RF)//Rossiyskoye voennoye obozreniye. 2009. №3. p. 21-23

² Nikolaev Yu., Pchelyanov V. Tsybal. V. Systema vooruzheniya VS RF – kakoy ey byt?//Vooruzheniye, politika, konversiya. 1997. №2, p. 27-32

The public at large were far keener to explore other transformations, including those of the military education and science, and the military-medical service. It is a military staffing policy blueprint, which concerns the voluntary manning of the rank and file, that causes a particular alarm. The influx of young conscripts has recently fallen more than twice, thus making it impossible to ensure a 1mln-strong army, to say nothing of other branches, already in the nearest future. The number of the 18-year-olds will equal the number of university enrollees.

Hence the need in conscribing the bulk of university graduates, which will have an adverse effect on the economy, with the fall in the Armed Forces' combat readiness as a major negative consequence. At this point, it is worth citing the Concept Mr. V. Putin signed on June 15, 2008, "...In the nearest future it is planned to supply the Armed Forces of RF with the new generation military hardware, which, with its greater efficiency as its distinctive quality, will at the same time be far more sophisticated than the ones currently in use; therefore, qualification (professional training) of the troops using the hardware should be enhanced, which will require additional time costs for their training; the transition to the 1-year-long conscription means that after being trained in rank-and-file centers and having acquired practical skills necessary for using the new-generation military hardware, the personnel will be demobilized due to expiration of the term of conscription as per the law, i.e. the training of the personnel will be carried out permanently, and no fully trained rank-and-file specialists will be in place". So, reads the document, "at this juncture the transition to draft is the only realistic solution". But on August 18, 2008, amid the commotion in the immediate wake of the 5-day war, there was approved another FTP that retains the mixed manning of the permanent-readiness units.

The number of university graduates conscribed into the army is on the rise. Specifically, in the spring 2008 as many as 28,600 of them were enlisted, while in the spring 2009 the number climbed up to 37,900. Today, they have been conscribed for the term of 1 year, but are often forced to sign a contract for a longer term of service.

The state of the conscripts' health poses another problem. With reference to the head of the State Army Mobilization Department¹, in the spring of 2009 as many as 33% of the prospective conscripts was discharged from the military service, while "out of those conscribed over 30% have various kinds of health restrictions".

5.8.4. Equipping the Armed Forces with Arms and Military Hardware

Unfortunately, while pursuing the whole complex of transformations, the core question of coordination between the military-technical policy and the military-manning one has remained unanswered. What should the priority be given to – either mastering a serial production of the cutting-edge weaponry and giving it to the troops, or recruiting and training the troops of all the echelons of the military hierarchy keen to excel in their job in the first place and then fearlessly provide them with the newest military hardware?

Without a bold answer to this question the President's vow "to equip the army with fundamentally new high-tech arms" does not appear convincing, as the troops have to be capable to master them.

After the war with Georgia in August 2008 the need in change the past views has become obvious. Hence the imperative to form the public defense order (PDO) for 2009-2011 not on-

¹ O predvaritelnykh itogakh vesennego prizyva 2009 g.// Rossiyskoye voennoye obozreniye. 2009. №7. p 10-12

ly on the basis of the State Arms Program (SAP) for 2007-2015, but with “account of measures aimed at reequipping the conventional forces”¹, too, i.e. to adjust the PDO.

The government increased spending on arms purchases, albeit without a respective quantitative rise in supplies of a new, cutting-edge warfare, with public orders once again focusing on resource-intensive samples that provide just solitary military combatants.

The Army was supplied with rocket complexes “Iskander” and traditional antiair rocket “Buk-M2” and “Tor-M1” ones, anti-tank complexes “Kornet”, “Khrizantema”, self-propelled assault guns “Khosta”, “Msta-S”, tanks T-90A, making an aggregate of 3,000 units. The problem of equipping the troops with positioning, communication, reconnaissance means has remained unsolved.

Hence a logical question as to whether the deficiencies of the recently approved SAP are to remain untouched, as are the drawbacks of the methodology that underpinned it. This question is even more persisting in the light of the 5-day-long war with Georgia which showed that the PDO needs to be adjusted.

In parallel with that, there is the need to modify the DIC management system. Pres. Medvedev has recently enunciated that “massive investment has been made in the modernization and development of the DIC...But, in my view, the return has not been high by far. Regrettably, one continues to pursue the “band-aid” policy. And objectives of an advanced technological rearmament of the sector have not been attained, to put it bluntly. All this tells on the quality of the hardware supplied to our Armed Forces and for export”². Concerns that a wrong management of the DIC that implies retaining monopolists and a loose control over their own technological development would yield dire consequences have justified themselves. Pres. Medvedev noted that a new FTP is needed to eradicate the defect, hence new secret budget expenditures on provision of support to beforehand picked DIC corporations. This may turn into a new waste of funds, as it is yet more critical a task to develop “acts, standards and procedures, owing to which it will always be the best developers and producers of military hardware that will find themselves among corporations fulfilling the defense order in the frame of a tight but fair competition”. Regrettably, these words sounded just as a wishful thinking.

5.8.5. Improving the Military Education and Research System

As far as the transition plans are concerned, the progress in the military education was only the understood in the frame of the traditional concept of manning, i.e. the officers’ training. Despite the presence of the national military education’s past success stories and its recognition internationally (Russian military universities still train specialists from 50 more countries), the situation required fundamental changes. With the annual enrollment of 8,000 people necessary for the modified Armed Forces, keeping 64 military universities is an intolerable luxury. The same is true for the military research organizations. Having survived since the Soviet time, they required substantial funding with nearly zero yields. Every tenth officer of the Armed Forces was engaged in the university and MRO system and, what’s worse, secrecy

¹ *Popovkin V. Novym Vooruzhennym Silam – novoye oruzhiye//Rossiyskoye voennoye obozreniye. 2009. №3. p. 19*

² Minutes of the meeting on development of the defense-industrial complex. Reutov, October 26, 2009. <http://www.kremlin.ru/transcripts/5825>.

hampered cooperation between the institutions advocating polar stances with regard to the problem of current/prospective weaponry.

Hence, ensuring integration between military universities and research institutions is a critical challenge, which might be yet more fruitful from the perspective of the general trends of innovational development.

But another problem raises serious concerns, that is, zero growth in the number of military schools for fresh conscripts in the Army and in the Navy, which means that what then President V. Putin vowed in one of his presidential addresses, that is, upon transition to the 1-year-long conscription young soldiers would be trained for the first half-year and dispatched to regular units for the other one, will remain unfulfilled. Hence the peril that fresh conscripts would be immediately dispatched to the permanent-readiness units and, if need be, further deployed in a zone of military conflict. Hence the question as to whether the pre-conscript training can serve as an adequate substitute for a military training camp.

5.8.6. Solving the Military's Social Problems

The most critical for the military reform avenue was labeled "Improvement of the social well-being of the military". Contrast to the other avenues, the respective measures were publicized in a fairly detailed document "The Strategy of the social development of the Armed Forces of the Russian Federation for the period through 2020". The document was approved at the Collegiums of the Defense Ministry, i.e. on the departmental level, rather than the federal one, on March 23, 2008. According to Mr. N. Makarov, Head of the General Staff, the Ministry will not need to raise any additional funds to implement the Program.

The Strategy encompasses all the social aspects of the military, civil employees with the Armed Forces, retirees, and their family members' lives. The authors of the document believe that solving the core challenge, that is, "meeting the social needs", necessitates completion of seven tasks, of which, as evidenced by the media, the primary ones are pay rises and the housing problem.

In late 2008, the domestic mass media aired vows by the Defense Ministry's leadership to considerably raise monetary allowances for the military. In reality, however, such pay rises were not made available to everyone. In compliance with the Defense Minister's order of August 2, 2008, № 400 "On awarding officers of the Armed Forces of the Russian Federation with money", as many as 34,000 best officers receive monthly bonuses effective as of January 1, 2009 and through December 31, 2009. The bonuses vary from Rb. 35,000 to 150,000, depending on the branch of the Armed Forces, rank and actual position of the grantee. It is planned to increase the number of grantees in 2010. To this effect a special bonus pool worth a total of Rb. 100bn was formed in the 2010 federal budget, with a view that the bonuses are payable in 2010-11.

Even if an officer's merits in 2008 were acknowledged with the "Minister's" bonus in 2009, it does not shield him from the peril of being dismissed due to the organizational-manning measures (to put it boldly, staff cuts) which are underway in the Armed Forces in 2009 due to the military reform. Bonuses for the rank-and-file military are not provided for, though, which is why the military service on these positions has not become more popular on the labor market.

During the whole 2009 the domestic media have been voicing justified doubts regarding the way the "Minister's bonuses" were awarded. In the fall of the year the information appeared that the criticisms had been heard of – following the military's opinions, the order

should be amended- namely, since 2010 the bonuses will become payable not to an individual, but to a whole unit, which had demonstrated the best performance in 2009.

The “Strategy” provides for three stages of fulfillment of the tasks. The first stage is 2008-2012. The task with regard to service pays set for this stage reads as follows: “increase of the military’s monetary allowance to the level of 90 per cent compared with the average salaries and wages of employees in the national economy”. It is further envisaged that by 2020 (the deadline for the Strategy’s effect) the monetary allowance would account for 1.25 of the average wages nationwide, which should boost up the military service’s attractiveness on the labor market. As stipulated in the “Report on implementation of the Strategy of social development of the Armed Forces in 2008”, to fulfill the task the Defense Ministry has designed and approved a “strategic plan of improvement of the monetary allowance through 2020” and drafted a bill on the military’s monetary allowance reform. But the launch of the monetary allowance calculation system has been temporized.

The new system shall concern all the military on service and the military pensioners alike. The concept of the bill in question was to be submitted to the RF Government until October 1, 2009, but it still is not there.

Addressing to the State Duma in April 2009 with an account on the RF Government’s performance in 2008, Prime-Minister V. Putin vowed that “by 2012 all the military in the Armed Forces shall have been transited to the new monetary allowance system” and that under new arrangements the platoon commander’s salary should be in a region of Rb. 50,000. Addressing the Federal Assembly on November 12, 2009, Pres. D. Medvedev echoed these words by maintaining that, “By 2012 we should also pass a special act on the military’s monetary allowance”. On November 15, the President issued the following executive order on implementation of the presidential Address to the Federal Assembly: “to submit to the State Duma a bill on the military’s monetary allowance¹”. Mr. Anatoly Serdyukov, the RF Defense Minister, argued at the Collegiums of the Ministry that a considerable increase of the monetary allowance will be made only since 2013, “when the new officer and sergeant corps has been formed”.

Since August 2009 salaries by the military position and those by the military rank were raised by 8.5% for all the military. As the structure of the monetary allowance has remained unchanged, accordingly, the proportion of the monetary allowance in the salaries has not changed, either. That is to say it has remained at the level of below 40% (with the plans to attain the 40% benchmark only by 2012)². As a consequence, the positive effect of the said pay rise is in decline, while the major drawback is still there, that is, the monetary allowance of the rank-and-file personnel remains low and uncompetitive on the labor market.

Meanwhile, the problem of the new structure of monetary allowance constitutes a core issue for the formation of the draft-based army. Given that the respective decision has been postponed, the draft-based army in Russia will have emerged no earlier than by 2020 and, hopefully, the Strategy of the social development will have be completed by then, too.

The situation with housing for the military leaves much to be desired. While addressing the Federal Assembly, Pres. Medvedev noted, “The set objective- that is, to secure <the military> with constant housing in 2010 and with the departmental one in 2012 shall be completed to the letter“. The Defense Ministry’s calculations proved the need in 90,000 apartments, and the

¹ <http://www.president.kremlin.ru/news/6001>

² <http://www.mil.ru/849/11876/37870/index.shtml>

decision was made to provide them in halves in 2009 and 2010. But in reality, according to Mr. V. Filippov, head of the Defense Ministry Construction and Billeting Service, as of November 2009, as many as some 25,000 apartments had been received and handed over to the military. Thus, the 2009 plans in this regard have failed, but the problem does not lie just in this fact. It goes without saying, 90,000 apartments will not be able to eliminate the shortage of permanent residential housing, as every year quite a number of the military retire and their need in accommodation should be satisfied.

5.8.7. Social Integration of the Retired Military

Regretfully, the problem of the military's social integration is regarded as a temporary one, which should be solved en route the transition towards the "new face". This is evidenced by the name of the Defense Ministry's own departmental program – "Fulfillment of social guarantees for the military dismissed from the military service in the period between 2009 and 2011", which was approved by the Minister's order of February 14, 2009.

The matter of the fact is, social integration of the former military should be included in the list of regularly exercised measures, for the transition of the RF citizens from the civil sphere into the military one and vice versa constitutes a normal process, which will continue further on and will be occurring repetitiously. Therefore, the social integration problem should have its own legal and economic-financial rationale and solution.

Currently the following forces have been deployed to cope with the problem: 57 military universities ready to provide a full-scale certified vocational training to officers by 144 civil professions; a handful of civil educational institutions that practice distance tuition; and charity organizations. In contrast to retraining programs of the 1990s, the role of international aid in this respect has become insignificant.

As to job opportunities *per se*, the problem has been passed over to the regional level. Plus, some of retired officers have got a chance to maintain their engagement with their department in a new capacity of a civil servant – there have appeared jobs in the Defense Ministry that can be filled both by officers and civil servants.

5.8.8. Improving the Planning, Programming, Execution and Performance Control System

Even the 5-day war with Georgia resulted in adjustment of the State Armament Program for 2007-2015 in the part of conventional forces. Failures to launch "Bulava" require the same with regard to the strategic forces, and this list can be extended further on. The reality dissuades one from appreciating the viability of the effective development procedures of government arms programs, with their five-year cycle, or the respective methodology. That said, the work on the new state arms program for 2011-2020, which had been ruled by the military commission under the RF Government back in December 20, 2007, started using the same old methodology. Meanwhile for the Armed Forces it is planned to attain the following levels of "the balance between maintenance costs and equipping one": 50:50 - by 2011 and 30:70 – by the end of 2015¹. This is the backlog to the Soviet time. The civilized nations' experience testifies in favor of rationality of absolutely different proportions - more specifically, the European Defense Agency recommends the EU member nations not to curtail the proportion of the

¹ Popovkin V. Novym Vooruzhennym Silam – novoye oruzhiye//Rossiyskoye voennoye obozreniye. 2009. №3. p. 20

equipping costs in their military budgets below 20%¹, but not to hold them at the level 50 or a formidable 70%.

In parallel with that, there is an array of issues that formally fall beyond the mandate of the RF Defense Ministry and the Armed Forces – one will have to transform the military-technical policy control system, the system of orders and, on top of that, the system of the financial and economic control over these processes and preclude corruption from rising in the military economy, which by far has been notorious for that. Plus, the sphere of military service is equally notorious for numerous abuses and violations of the military's rights.

Those who propone reallocation of budget funds to give a boost to development of weaponry, military and special hardware label the army maintenance costs “a money waste”, as if the funds were not spent on retaining our troops' combat readiness. But a sizeable proportion of the funds allocated for R&D and arms supplies is spent on labor compensations to the DIC employees, i.e. “wasted away” by their households. Yet a greater fraction of the funds in question is spent on the bureaucrats' labor compensations and, most appallingly, on kickbacks, quasi-bonuses and other illicit kinds of “money waste”. That is the black hole consuming a sizeable proportion of funds tagged as “development costs”. While the public spending on the military aircraft and weaponry has been on the rise over recent years, in reality, the Air Force received only 3 new aircraft. The tendency was reversed only in 2009, but many experts ascribe this fact not so much to the growing attention to the army's needs, but to Algeria's refusal to buy originally agreed upon MIGs-29.

The discussion on proportions of “money waste” and “development” forms a smokescreen for the bureaucracy reluctant to offer the military (let us note, mostly scions of the needy families) a decent compensation for the hard and dangerous soldier labor, as such costs do not yield any kickback. It is far simpler to bite a piece from a huge public order, even more so as the respective procedures are typically closed ones. The closeness of the DIC from the rest of the economy likewise fuels corruption.

The methodology of the works needs to be revised, too. It is imperative to transit to a national analogue of a well-justified US system of budgeting as a core public administration vehicle. In so doing, it is equally necessary a task to identify causes that have utterly delayed the current reform and, accordingly made it hardly implementable.

5.8.9. The Military-Budget Policy and the Problem of Openness

In the conditions of the current financial and economic crisis the flexibility of the nation's annual financial plan hit an unprecedented level – while in 2008, in the first year of the crisis, the federal budget was modified just four times upon its approval, in 2009 there were seven such modifications, ie once in every six weeks. Between the RF President's signing into act the first version² of the federal budget and the moment of approval of the eighth one³ allocations by section 02 “The National Defense” shrank for the first time over many years – from Rb. 1,336trln to 1,193trln, or by 10.7%, against an overall 9.1% increase in the federal budget expenditures over the same period. Compared with the 2008, the increase in allocations on the

¹ *Korobov I.* Voенно-promыshlennaya integratsia straan Evropeyskogo soyuza//Zarubezhnoye voyennoye obozreniye. 2010.№ 1, p. 27

² On the 2009 federal budget and the planned period 2010 and 2011: federal act №204-FZ; passed by the State Duma on October 31, 2008

³ On introducing amendments to federal act “On the 2009 federal budget and the planned period 2010 and 2011”: federal act №309-FZ; passed by the State Duma on November 20, 2009

said section ultimately accounted for 12.6% in real terms¹ concomitant with a 0.56 p. p. increase in its proportion in GDP.

The level of secrecy of the 2009 federal budget expenditures slid insignificantly (*Table 2*) resulting from Rb. 96, 344bln in direct cuts in secret appropriations made in the course of the budget modification in April 2009 and increase in budget expenditures due to the government's anti-crisis measures. However, all that has had no effect on transparency of the budget *per se*. Secret allocations have survived to date in such expenditure sub-items as 0701 "Preschool education", 0801 "Culture" and 0908 "Physical culture", their presence therein impossible to explain in rational terms. The proportion of secret expenditures has been on the rise across Section 05 "The housing and public utilities" (up by 62%) and "The national economy" (+92%), with just "Environmental policy" continuing to be the one and only Section in the federal budget immune to the secrecy fever.

Table 2

**Proportion of Secret Appropriations in the Federal Budget Expenditures
in 2003–2009, in %**

Code and name of the Section (sub-section) that comprises secret expenditures	2003	2004	2005	2006	2007	2008.	2009
The federal budget expenditures, total	9.73	9.83	11.33	11.80	10.33	11.92	10.01
0100 GENERAL PUBLIC ADMINISTRATION ISSUES	n/a ²	n/a	3.67	6.28	5.52	8.66	5.05
0108 International relations and international cooperation	31.88	18.04	–	0.01	< 0.01	3.66	–
0109 The state material reserve	97.73	93.33	82.86	89.23	92.18	90.17	85.01
0110 Fundamental research	–	–	2.13	1.22	1.12	0.97	0.78
0114 Other general public administration issues	n/a	n/a	0.05	0.72	0.28	4.42	1.56
0200 NATIONAL DEFENSE	37.22	38.40	42.06	42.77	45.33	46.14	48.09
0201 The Armed Forces of RF	35.39	36.11	33.07	35.59	37.11	39.04	40.21
0204 Mobilization preparation of the economy	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0205 Preparation for and participation in provision of the collective security and peacekeeping activities	–	–	100.0	100.0	100.0	–	–
0206 Nuclear arms complex	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0207 Implementation of international obligations in the sphere of military-technical cooperation	100.0	41.05	45.22	46.90	50.65	100.0	100.0
0208 Applied research in the area of national defense	n/a	n/a	98.37	93.94	93.69	93.20	92.85
0209 Other issues in the national defense area	n/a	n/a	2.49	8.79	24.38	29.21	34.64
0300 NATIONAL SECURITY AND LAW ENFORCEMENT	23.33	20.79	28.52	31.64	31.07	31.84	30.82
0302 Interior Ministry bodies	3.40	3.01	4.76	6.31	5.16	4.97	3.70
0303 Interior Ministry troops	13.21	11.10	11.76	10.31	9.80	10.25	8.19
0306 Security bodies	100.00	98.91	97.80	95.49	97.31	99.05	99.61
0307 Border Guard bodies	19.73	22.88	100.00	98.97	97.62	100.00	99.47
0309 Population and territory protection from emergency situations of natural and technogenetics situation, civil defense	43.69	41.74	59.02	62.39	50.65	51.39	51.00
0313 Applied research in the area of national security and law enforcement activity	n/a	n/a	73.95	66.41	64.43	75.49	79.35
0314 Other matters in the area of national security and law enforcement activity	n/a	n/a	8.26	50.71	39.95	56.32	68.37
0400 NATIONAL ECONOMY	n/a	n/a	0.05	0.02	0.44	0.64	0.55
0411 Applied economic research	n/a	n/a	–	–	5.23	5.84	4.49
0412 Other matters in the national economy area	n/a	n/a	0.12	0.06	< 0.01	0.31	0.72
0500 HOUSING AND UTILITIES SECTOR	n/a	n/a	–	3.42	0.85	6.96	10.09
0501 Housing	n/a	n/a	–	4.22	5.69	15.97	12.91
0700 EDUCATION	–	–	2.76	2.69	2.39	2.55	3.06
0701 Preschool education	–	–	2.03	2.17	2.44	2.48	2.45
0702 General education	–	–	1.51	1.91	2.14	2.00	2.75
0704 Secondary vocational training	–	–	1.06	1.03	1.02	0.86	0.99
0705 Professional training and retraining	–	–	16.85	15.78	17.22	1.80	2.54
0706 University and post-graduate professional education	–	–	3.15	2.93	2.53	3.08	3.64

¹ With the use of the GDP deflator index (Rosstat's initial estimate for 2009 is 102.7%). Given the crisis conditions, earlier being conservative, this estimate has grown into an optimistic one, as the average annual values of indices of both consumer prices and industrial producer prices have remained in double digits.

² Non-applicable due to the modifications in the structure of the budget classification.

RUSSIAN ECONOMY IN 2009

trends and outlooks

0709 Other matters in the sphere of education	–	–	0.30	0.33	0.28	0.29	0.48
0800 CULTURE, MOTION PICTURE INDUSTRY, MASS MEDIA	–	–	0.17	0.17	0.21	0.17	0.18
0801 Culture	–	–	0.14	0.10	0.16	0.10	0.14
0804 Periodical media and publishing	–	–	13.46	7.45	2.57	2.62	3.14
0806 Other matters in the sphere of culture, motion picture industry and mass media	–	–	0.02	0.15	–	–	–
0900 HEALTH CARE, PHYSICAL CULTURE AND SPORTS	–	–	4.30	3.99	2.57	4.14	3.54
0901 Stationary medical assistance	–	–	5.61	4.66	2.94	3.24	2.77
0902 Outpatient medical assistance	n/a	n/a	n/a	n/a	n/a	13.94	4.34
0905 Rehabilitation	n/a	n/a	n/a	n/a	n/a	14.07	15.88
0907 Sanatorium-epidemiological well-being	n/a	n/a	n/a	n/a	n/a	2.09	0.63
0908 Physical culture and sports	–	–	0.28	0.26	0.24	0.42	0.32
0910 Other matters in the sphere of health care, physical culture and sports	–	–	–	–	–	1.74	1.07
1000 SOCIAL POLICY	–	–	–	–	–	0.01	0.01
1003 Social security of the population	–	–	–	–	–	0.02	0.02
1100 INTERBUDGETARY TRANSFERS	–	–	–	–	0.16	–	–
1101 Subsidies to budgets of the RF Subjects and municipal entities	–	–	–	–	0.50	–	–

Source: the IET calculations by the 2003-2009 federal budget data (the 2003-2007 data have been adjusted to the respective sections and subsections of the budget classification that took effect as of January 2008)

So what constituted the genuine cause behind making programs, such as, for instance, the FTP “Development of the defense-industrial complex over the period 2007-2010 and through 2015” classified information? The program in question was adopted back in 2006 and has been middling well ever since with no sufficient, albeit secret financing. According to Mr. V. Khristenko¹, the RF Minister of Trade and Industry, in all likelihood the state secret merely shields from bureaucrats and heads of the DIC enterprises from criticism and control.

Absolute and relative values of main components of direct military appropriations in the federal budget and their change relative to 2008 according to the final version of the 2009 federal budget are given in *Table 3* (recalculation into the 2008 prices was made with the use of the Rosstat’s initial estimate of the 2009 GDP deflator index²).

Table 3

Direct Military Appropriations in the Federal Budget on Section 02 “National Defense”

Section and subsections	2009, as Rb mln / the same in the 2008 prices	Change 2009/2008 as Rb. mln./ increase as %	Allocated proportion, as % / change vs. 2008, as p.p.	
			In the 2009 federal budget	In GDP
1	2	3	4	5
NATIONAL DEFENSE	1 192 867	129 948	12.12	3.06
	1 161 506	12.60	-2.57	0.56
The Armed Forces of the Russian Federation	887 916	115 639	9.02	2.28
	864 573	15.44	-1.65	0.46
Mobilization and out-base training	3 623	-1 517	0.04	0.01
	3 528	-30.07	-0.04	–
Mobilization preparation of the economy	3 381	-208	0.03	0.01
	3 292	-5.95	-0.02	–
Preparation for and contribution to provision of collective security and peace-keeping operations	264	-303	<0.01	<0.01
	257	-54.11	-0.01	–
Nuclear weapons complex	19 081	1 495	0.19	0.05
	18 579	8.75	-0.05	–
Implementation of international obligations in the military-technical cooperation	4 455	427	0.05	0.01
	4 338	10.92	-0.01	–

¹ Minutes of the meeting on development of the defense-industrial complex. Reutov, October 26, 2009. <http://www.kremlin.ru/transcripts/5825>.

² Osnovnye ekonomicheskiye i sotsialnye pokazateli Rossii v 2009 ujdu: M.: Rosstat, February 9, 2009. http://www.gks.ru/rufree_doc/2009/b09_01/1-o.htm

tion area				
Applied research in the national defense area	<u>162 896</u>	<u>25 271</u>	<u>1.65</u>	<u>0.42</u>
Other issues in the national defense area	<u>158 614</u>	<u>18.95</u>	<u>-0.24</u>	<u>0.09</u>
	<u>111 251</u>	<u>-10 857</u>	<u>1.13</u>	<u>0.29</u>
	<u>108 326</u>	<u>-9.11</u>	<u>-0.57</u>	<u>-</u>

Source: the IET calculations.

As a year ago, subsection 0202 “Modernization of the Armed Forces of the Russian Federation and Military Formations” appears missing in the open part of the federal budget and, judging by the match between the amount of allocations by subsections and the aggregate amount of allocations on Section 02¹, it is still missing in the secret appendices, either.

Military allocations by other sections of the federal budget are presented in *Table 4*.

Table 4
Direct and Indirect Military Expenditures across Other Sections of the Federal Budget

The name of the section or the nature of appropriations	2009, as Rb. mln / the same in the 2008 prices	Change 2009 to 2008, as Rb mln. / increase, as %	Proportion of the appropriation, as % / change relative to 2008, p.p.	
			in the 2009 federal budget	in GDP
In Section 03 «National security and law enforcement activity»				
Law enforcement forces	<u>57 652</u>	<u>1 893</u>	<u>0.59</u>	<u>0.15</u>
	56 136	3.49	-0.19	0.02
Security agencies	<u>179 755</u>	<u>28 816</u>	<u>1.83</u>	<u>0.46</u>
	175 029	19.71	-0.261	0.11
The border guard structures	<u>80 134</u>	<u>10 164</u>	<u>0.81</u>	<u>0.21</u>
	78 027	14.98	-0.15	0.04
<i>The RF MES forces and civil defense</i>	<u>41 152</u>	<u>3 289</u>	<u>0.42</u>	<u>0.11</u>
	40 070	8.94	-0.11	0.02
In Section «National economy»				
<i>The presidential program “Liquidation of the chemical weapons inventory in RF”</i>	<u>1 081</u>	<u>-1 551</u>	<u>0.01</u>	<u><0.01</u>
	1 053	-59.57	-0.03	-
Subsidies to transportation organizations that exercise procurements of motor vehicles for completion of the mobile component of motor columns.	<u>80</u>	<u>-16</u>	<u><0.01</u>	<u><0.01</u>
	78	-17.15	-	-
Subsidies to the functioning of the Russia-NATO coordination center	<u>21</u>	<u>-3</u>	<u><0.01</u>	<u><0.01</u>
	20	-13.10	-	-
Construction of special and military objects	<u>4 317</u>	<u>-2 075</u>	<u>0.04</u>	<u>0.01</u>
	4 204	-33.04	-0.05	-
<i>FTP «Industrial utilization of weaponry and military hardware (2005–2010)»</i>	<u>45</u>	<u>-45</u>	<u><0.01</u>	<u><0.01</u>
	44	-50.78	-	-
<i>Subsidies to “Rostekhnologii” public corporation</i>	<u>4 408</u>	<u>2 792</u>	<u>0.04</u>	<u>0.01</u>
	4 292	186.11	-0.03	-
<i>Contribution to authorized capital of, and subsidies to organizations of the defense-industrial complex</i>	<u>37 014</u>	<u>27 810</u>	<u>0.38</u>	<u>0.09</u>
	36 041	337.87	0.26	0.07
Classified expenditures	<u>10 655</u>	<u>4 967</u>	<u>0.11</u>	<u>0.03</u>
	10 375	91.85	0.03	0.01
In Section 05 «Housing and Utilities Sector»				
<i>FTP «Industrial utilization of weaponry and military hardware (2005–2010)»</i>	<u>2 165</u>	<u>316</u>	<u>0.02</u>	<u>0.01</u>
	2 108	17.62	-	-
<i>Provision of the military with the departmental and permanent housing</i>	<u>84 627</u>	<u>47 494</u>	<u>0.86</u>	<u>0.22</u>
	82 402	136.06	0.36	0.13
Classified expenditures	<u>14 346</u>	<u>5 358</u>	<u>0.15</u>	<u>0.04</u>
	13 968	62.22	0.02	0.02

¹ See the Federal Treasury data on execution of the consolidated budget

RUSSIAN ECONOMY IN 2009
trends and outlooks

The name of the section or <i>the nature of appropriations</i>	2009, as Rb. mln / the same in the 2008 prices	Change 2009 to 2008, as Rb mln. / increase, as %	Proportion of the appropriation, as % / change relative to 2008, p.p.	
			in the 2009 federal budget	in GDP
In Section 07 «Education»				
The RF Defense Ministry's expenditures	<u>42 315</u>	<u>6 111</u>	<u>0.43</u>	<u>0.11</u>
	41 203	17.42	-0.07	0.02
Classified expenditures	<u>12 263</u>	<u>3 318</u>	<u>0.12</u>	<u>0.03</u>
	11 940	38.47	-	0.01
In Section 08 «Culture, motion picture industry, mass media»				
The RF Defense Ministry's expenditures	<u>3 533</u>	<u>726</u>	<u>0.04</u>	<u>0.01</u>
	3 440	26.74	-	-
Classified expenditures	<u>201</u>	<u>37</u>	<u><0.01</u>	<u><0.01</u>
	196	23.11	-	-
In Section 09 «Health Care, Physical Culture and Sports»				
The RF Defense Ministry's expenditures	<u>31 063</u>	<u>5 061</u>	<u>0.32</u>	<u>0.08</u>
	30 247	20.09	-0.04	0.02
Classified expenditures	<u>11 890</u>	<u>2 164</u>	<u>0.12</u>	<u>0.03</u>
	11 578	22.99	-0.01	0.01
In Section 10 «Social Policy»				
<i>The RF Defense Ministry's pension plans</i>	<u>115 638</u>	<u>16 549</u>	<u>1.17</u>	<u>0.30</u>
	112 598	17.23	-0.19	0.06
<i>The FSB pension plans</i>	<u>17 554</u>	<u>1 458</u>	<u>0.18</u>	<u>0.04</u>
	17 092	9.33	-0.04	0.01
<i>Procurement of housing for the retired and designated for retirement military</i>	<u>10 598</u>	<u>-1 737</u>	<u>0.11</u>	<u>0.03</u>
	10 320	-14.41	-0.06	-
Complementary monthly material allow- ance to the disabled due to the military injuries	<u>373</u>	<u>57</u>	<u><0.01</u>	<u><0.01</u>
	363	18.79	-	-
Provision for conduct of refurbishment of individual housing owned by the families of military that have lost the breadwinner	<u>317</u>	<u>18</u>	<u><0.01</u>	<u><0.01</u>
	308	6.36	-	-
Compensations to family members of the deceased military	<u>1 481</u>	<u>-11</u>	<u>0.02</u>	<u><0.01</u>
	1 442	-0.78	-0.01	-
Relief and compensations to the military, individuals equaled to them, and those dismissed from their ranks	<u>12 353</u>	<u>3 941</u>	<u>0.13</u>	<u>0.03</u>
	12 028	48.72	0.01	0.01
Classified expenditures	<u>17</u>	<u>2</u>	<u><0.00</u>	<u><0.00</u>
	17	10.03	-	-
In Section 11 «Interbudgetary transfers»				
Subsidies to CATEs' budgets	<u>10 442</u>	<u>390</u>	<u>0.11</u>	<u>0.03</u>
	10 168	3.99	-0.03	-
Support of measures on ensuring the CATEs' budget equilibrium	<u>1 095</u>	<u>-68</u>	<u>0.01</u>	<u><0.01</u>
	1 066	-6.03	-0.01	-
Development of, and support to the CATEs' social and engineering infra- structure	<u>5 412</u>	<u>-546</u>	<u>0.05</u>	<u>0.01</u>
	5 270	-9.39	-0.03	-
Running the primary military and con- scription records in territories with no military commissariats in place	<u>2 066</u>	<u>387</u>	<u>0.02</u>	<u>0.01</u>
	2 012	23.82	-	-
One-time allowance to a conscript's pregnant wife and the monthly allowance for a conscript's child	<u>1 077</u>	<u>=</u>	<u>0.01</u>	<u><0.01</u>
	1 049	-	0.01	-
Residents relocation from CATE	<u>1 318</u>	<u>49</u>	<u>0.01</u>	<u><0.01</u>
	1 283	3.99	-	-
Material security for specialists of the nuclear-arms complex of RF	<u>3 303</u>	<u>1 010</u>	<u>0.01</u>	<u><0.01</u>
	3 216	45.78	-	-
Complementary monthly material security for disabled due to the military injury	<u>655</u>	<u>-32</u>	<u>0.01</u>	<u><0.01</u>
	638	-4.82	-	-

Source: the IET calculations.

The 2009 RF Defense Ministry's allocations on housing construction by Section 02 ("National defense") dwindled by 77% in real terms vs. the prior year's figures; however, that was

overwhelmingly compensated for by a 136% increase in allocations to the military in the frame of Section 05 (“Housing and utilities”). Despite the moves, the objective set a few years ago, that is, provision of the military with housing by 2010 (i.e. by the end of 2009) was not attained. The federal budget appropriations on the housing certificates have remained practically unchanged since 2008 (see *Table 4*), while the military mortgage certificates posted a triple-plus growth (up to Rb. 3. 217bln), which should be ascribed to the low-base effect, as due to reasons nobody bothered to explain the 2008 appropriations were curtailed more than twice, down to Rb. 4,063bln.

While the annual appropriations on the Defense Ministry military personnel rose by 35% (24.4% in real terms¹), in August 2009 the military’s monetary allowance and pensions were increased just by 8.5%. That is to say, with account of the consumer price rise from the moment of the prior pay rise, the military’s incomes in real terms had dropped by some 8% by the end of the year. The aforementioned bonuses granted to some 10% of the officer corps cannot fully explain the noted surplus by the item “Military personnel” estimated at a level of not less than Rb. 20 to 30bln. It might well happen that one of the reasons behind creation such a pool has been its spending on readjustment pays in the course of the planned considerable cuts in the number of officers and warrant officers.

In 2009, allocations on military training were axed at 29% in real terms vs. the prior year, as in April the Defense Ministry opted for sequestration chiefly at the expense of the current expenditures. Allocations for the material and logistical supplies were curtailed by 15%, with the major cuts falling on fuel and lubricants (29% down); allocations for food supplies remained unchanged, while those on material support were cut once again, for another 9%, which further aggravated the situation with shortages of uniform, bed sheets and laundry services in the Armed Forces. It should be assumed that while the effect of noted fall in procurements of fuel and lubricants was mitigated by the price fall for oil products on the domestic market, it anyway has not contributed to a notable progress in terms of military readiness in the Air Force and the Navy compared with 2008, nonetheless.

The Defense Ministry’s pension allocations were increased by 20% compared with the year 2008, thus, they sufficed to ensure a nominal 8.5% pensions rise since August 2009 and the respective payments in favor of the military dismissed in the process of the started reduction of the Armed Forces.

Calculated according to the UN military expenditure standards, the 2009 federal budget direct military appropriations (*Table 5*) accounted for 4.7% of GDP, while inclusive of allocations associated with the past military activities (military pensions, destruction of chemical weapons, etc.), they stood at 5.1% of GDP.

Table 5

Aggregate Indicators of the Federal Budget Military Expenditures and Other Associated Expenditures

Expenditure	Amount of appropriations, as Rb. mln	Proportion of appropriations, as % / its change vs 2008 r., as p.p.	
		In the 2009 federal budget	In GDP
Overall direct military appropriations	1 828 385	<u>18.57</u>	<u>4.69</u>
		-2.83	1.04
Aggregate direct and indirect military appropriations related	1 995 388	<u>20.27</u>	<u>5.11</u>

¹ With the 2009 average annual CPI (11.7%) factored in.

RUSSIAN ECONOMY IN 2009

trends and outlooks

to the current and past military activity		-3.16	1.13
Aggregate appropriations across sections "National defense" and "National security and law enforcement activity"	2 215 322	<u>22.50</u>	<u>5.68</u>
		-4.00	1.17

Source: the IET calculations.

As far as the issue of aggregate military expenditures is concerned, the execution of the 2009 federal budget displays no striking difference vis-à-vis the 2008 figures. Specifically, the Federal Treasury reports a Rb. 7,875bln-worth excess of the expenditure limit by the aggregate budget estimate of the federal budget over the respective appropriations by Section 02 "National defense" already since January of the year. The gap has been widening since and hit its peak value of Rb. 19,471bln. in July, but subsequently slid to 10,845bln in the fall 2009. To benchmark the executive power's discretionary powers, it should be noted that sections 9, 11 and 13 of Art. 25 of the 2009 federal budget act have capped increase in military appropriations at the expense of extra budget revenues in the frame of the specified budget estimate with Rb. 13,549bln; plus, by 2008 results this particular expenditure section posted a Rb. 9, 283bln overspending of budgetary funds.

The data on the monthly execution of the military expenditures and other associated expenditures of the 2009 federal budget are presented in *Table 6* and *Figs 1-3*. The year 2009 saw some progress in execution of military expenditures – specifically, the period for effecting upfront payments, the 1st quarter, appeared far clearly squared, the December overhang reduced, but that formed a backdrop for the problem of the practical absence of federal budget expenditure in January.

Table 6

Monthly Execution of the Federal Budget Military Expenditures and Other Associated Expenditures in 2009, as Rb. Bn.

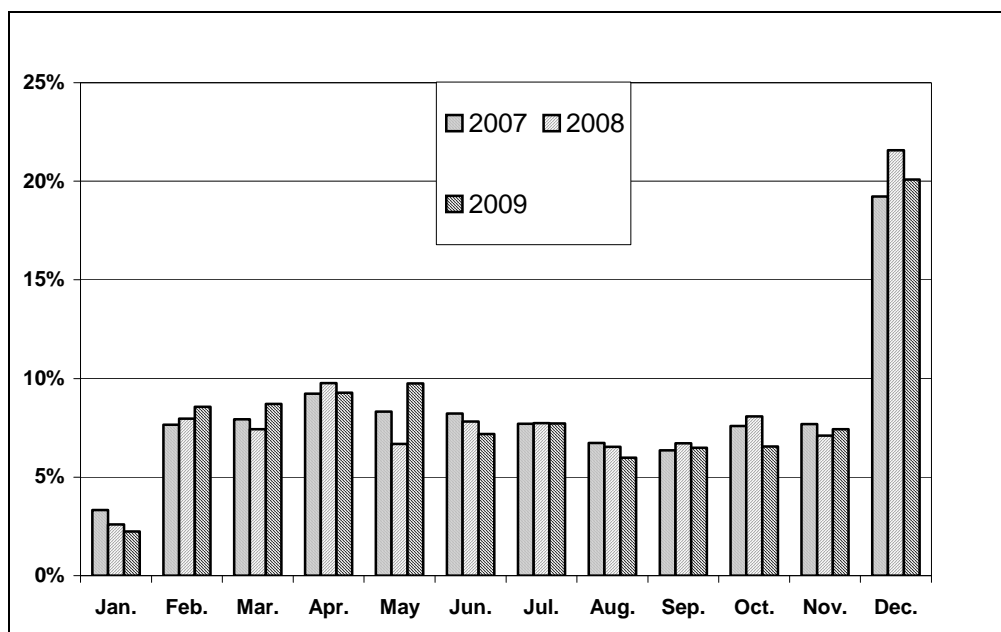
Expenditures	As per the FB 2009 ¹	FB-2009, as amended ²	January	February	March	April	May	June	July	August	September	October	November	December	Saved (overspent)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
NATIONAL DEFENSE	1 336.4	1 192.9	22.5	96.4	96.6	116.6	107.4	81.9	85.2	72.1	72.4	75.0	78.6	89.8	4.7
Armed forces of RF	962.6	887.9	20.0	76.8	78.0	83.1	87.4	64.4	69.2	53.6	58.2	58.8	66.5	179.9	(1.8)
Mobilization and out-of-army training	6.7	3.6	0.0	0.0	0.0	0.2	0.3	0.5	0.1	0.1	0.3	0.3	0.4	1.2	0.1
Mobilization preparation of the economy	3.5	3.4	0.0	0.1	0.2	0.2	0.3	0.8	0.6	0.6	0.5	0.3	0.3	0.6	(1.2)
Preparation for and participation in provision of the collective security and peacekeeping activities	0.1	0.3	-	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.2	(0.2)
Nuclear arms complex	22.4	19.1	0.8	2.0	1.3	0.3	2.5	1.3	0.1	0.1	0.3	0.0	0.2	0.5	-
Implementation of international obligations in the sphere of military-technical cooperation	2.9	4.5	0.8	0.5	0.1	0.0	0.0	0.6	0.4	0.2	0.2	0.0	1.0	0.9	0.4
Applied research in the area	174.2	162.9	0.6	16.0	12.7	19.5	7.8	8.2	7.1	9.3	5.2	8.4	13.1	53.0	(0.3)

¹ On the 2009 federal budget and the planned period 2010 and 2011: federal act №204-FZ; passed by the State Duma on October 31, 2008

² On introducing amendments to federal act "On the 2009 federal budget and the planned period 2010 and 2011": federal act №309-FZ; passed by the State Duma on November 20, 2009

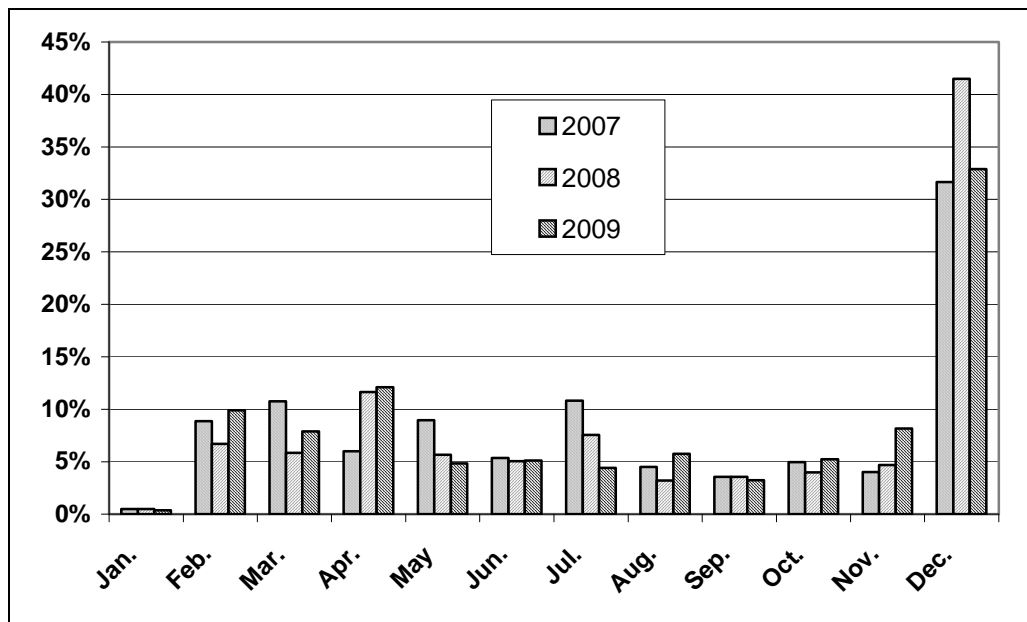
of national defense															
Other issues in the national defense area	164.0	111.3	0.2	1.1	4.2	13.2	9.1	6.0	7.6	8.2	7.6	7.1	8.3	31.4	7.6
NATIONAL SECURITY AND LAW ENFORCEMENT	1 093.2	1 022.5	27.9	80.8	81.9	73.9	69.7	84.6	77.8	64.2	92.0	79.1	94.3	153.8	18.0
Interior Ministry bodies	65.0	57.7	1.3	2.7	6.7	4.3	4.2	4.8	4.3	4.5	4.5	4.5	5.2	10.7	(0.3)
Interior Ministry troops	185.1	179.8	5.1	14.0	13.9	13.3	11.8	13.4	14.0	12.2	13.1	14.4	15.1	30.4	0.5
Security bodies	92.4	80.1	1.7	5.7	5.9	5.4	6.2	5.7	7.7	5.6	5.6	6.1	7.6	13.0	1.3
Border Guard bodies	56.8	54.5	1.6	3.6	7.3	3.5	3.0	4.5	3.8	4.9	7.4	3.8	4.4	11.1	(4.2)
Population and territory protection from emergency situations of natural and technogenetics situations, civil defense	10.4	9.4	0.2	0.7	0.5	0.4	0.5	0.6	0.5	0.6	0.7	0.5	0.9	1.7	1.4
Applied research in the area of national security and law enforcement activity	7.6	9.4	0.2	0.3	0.4	0.3	0.2	0.9	0.2	0.3	0.3	1.5	0.5	1.3	2.6

Source: the IET calculations basing on the data of the Federal Treasury.



Source: the IET calculations basing on the data of the Federal Treasury.

Fig. 1. Execution of the Federal Budget Expenditures by Sub-Section 0201 «The Armed Forces of the Russian Federation» in 2007–2009



Source: the IET calculations basing on the data of the Federal Treasury.

Fig. 2. Execution of the Federal Budget Expenditures by Sub-Section 0207 “Applied research in the area of national defense” in 2007–2009

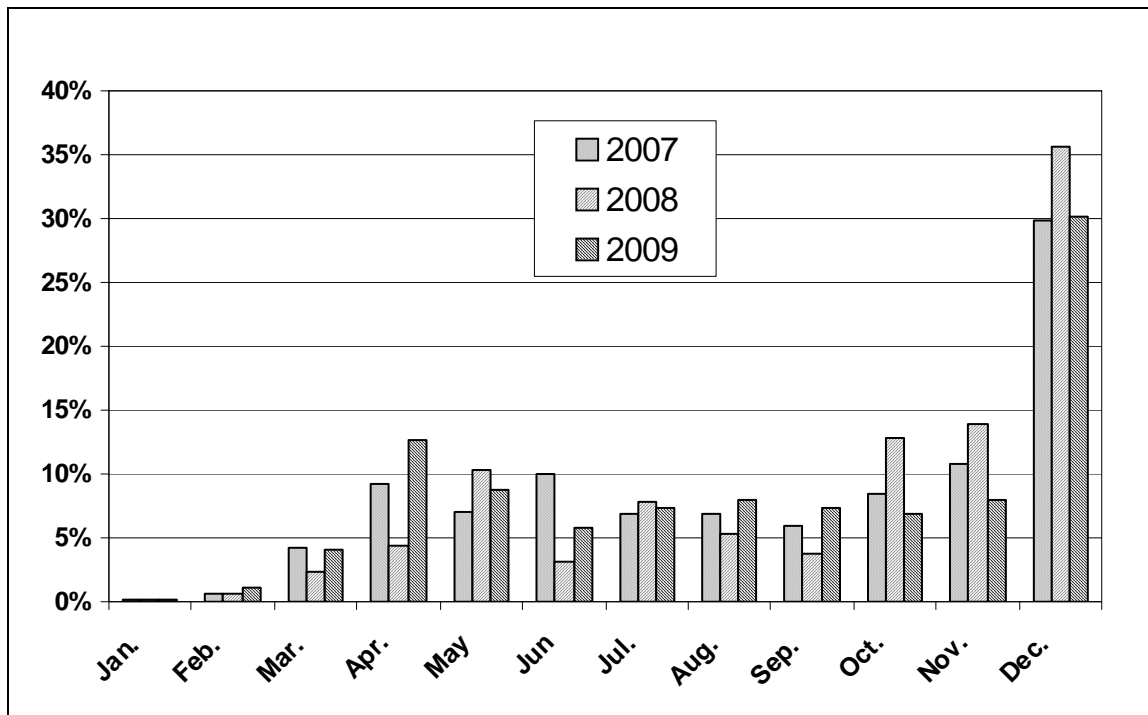


Fig. 3. Execution of the Federal Budget Expenditures by Section 0208 “Other Matters in the Area of National Defense” in 2007–2009

Table 7 evidences that long-standing trends continue to persist in the Federation Subjects’ military expenditures – the ones on mobilization and out-of-army training generally do not

exceed the amount of transfers from the federal budget on exercising the primary military registration.

Table 7

**Military Expenditures of the Consolidated Budgets of the Federation Subjects
in 2003–2009, as Rb. mln***

Name of the sub-section of the expenditure classification	2003	2004	2005	2006	2007	2008	2009
	=	=	=	<u>3.5</u>	<u>0.5</u>	<u>0.3</u>	=
The Armed Forces of the Russian Federation	–	–	–	0.1	0.3	0.3	–
Modernization of the Armed Forces of the Russian Federation and military establishments	=	=	=	=	=	<u>1.0</u>	=
	–	–	–	–	–	0.5	–
Mobilization and out-of-army training	<u>13.1</u>	=	<u>65.6</u>	<u>899.3</u>	<u>1 351.9</u>	<u>1 797.9</u>	<u>2 116.0</u>
	13.2	–	65.6	808.6	1 245.6	1 702.2	2 021.6
Mobilization preparation of the economy**	<u>449.7</u>	<u>532.4</u>	<u>485.4</u>	<u>708.3</u>	<u>861.2</u>	<u>1 137.2</u>	<u>1 045.4</u>
	405.6	500.6	468.6	692.8	840.9	1 063.9	989.7
Other matters in the national defense area	=	=	<u>109.6</u>	<u>32.8</u>	<u>5.5</u>	<u>0.7</u>	<u>4.4</u>
	–	–	97.5	32.1	5.7	0.5	4.4
Ministry of Interior forces	<u>14.6</u>	<u>12.4</u>	<u>9.9</u>	<u>3.5</u>	<u>1.0</u>	<u>0.3</u>	=
	12.7	12.2	9.9	1.4	1.0	0.3	–
Security agencies	<u>3.7</u>	<u>6.7</u>	<u>0.3</u>	<u>16.5</u>	<u>0.1</u>	<u>0.0</u>	<u>60.0</u>
	2.1	6.5	0.3	16.5	0.1	0.0	60.0
Border Guard bodies	=	=	<u>0.1</u>	=	=	=	=
	–	–	0.1	–	–	–	–
Population and territory protection from emergency situations of natural and technogenetics situations, civil defense	<u>6 511.0</u>	<u>7 968.2</u>	<u>11 184.6</u>	<u>15 636.4</u>	<u>19 118.4</u>	<u>23 895.8</u>	<u>23 865.0</u>
	6 244.1	7 281.3	10 958.9	14 367.0	18 292.6	21 456.7	21 712.6

*numerator – as allocated, common denominator – as earmarked.

** had not been included in the section “National defense” until 2005

Source: the Federal Treasury

Table 8 presents results of the 11-year-long statistical monitoring of Russia’s military expenditures over the period of 1999–2009. To avoid double count, the data do not comprise the ones presented in Table 7.

Table 8

**Main Indicators of Military Expenditures of the Russian Federation
in 1999–2009**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. In nominal terms (in current prices), as Rb.bn											
Execution of the federal budget expenditures by Section “National Defense” in the current budget classification ^a	115.6	191.7	247.7	295.4	355.7	430.0	581.1	681.8	831.9	1 040.8	1 188.2
The federal budget appropriations by Section “National Defense”:											
in the current budget classification placed into other sections of the budget classification ^b	–	–	–	–	–	–	44.3	77.7	91.3	126.5	202.4
In a comparable budget classification	93.7	209.4	214.7	284.2	354.9	427.4	622.6	763.9	930.4	1 158.1	1 395.3
Military expenditures, the UN data ^c	–	202.6	294.4	325.9	447.0	499.0	665.0	822.1	850.2	1 127.2	–
Overall direct military appropriations ^d	128.9	270.4	283.4	357.7	464.2	552.7	770.3	1 003.9	1 214.4	1 502.8	1 828.4
Direct and indirect military appropriations associated with the current and past military activity, combined ^e	144.0	304.6	329.6	460.1	602.3	638.8	855.1	1 090.4	1 375.6	1 645.4	1 995.4
2. In real terms (in the 2009 prices)^f, as Rb. bn											
Execution of the federal budget expenditures by Section “National	1 159.2	1 251.8	1 203.3	1 130.8	1 142.3	1 153.6	1 252.3	1 182.0	1 190.9	1 249.0	1 188.2

RUSSIAN ECONOMY IN 2009

trends and outlooks

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Defense" in the current budget classification											
The federal budget appropriations by Section "National Defense":	939.7	1 367.4	1 042.9	1 087.8	1 139.8	1 146.6	1 246.3	1 189.6	1 201.3	1 237.9	1 192.9
in the current budget classification placed into other sections of the budget classification	–	–	–	–	–	–	95.4	134.7	130.7	151.8	202.4
In a comparable budget classification	939.7	1 367.4	1 042.9	1 087.8	1 139.8	1 146.6	1 341.7	1 324.3	1 332.0	1 389.7	1 395.3
Military expenditures, the UN data	–	1 323.1	1 430.3	1 247.6	1 435.6	1 338.7	1 433.0	1 425.2	1 217.2	1 352.6	–
Overall direct military appropriations	1 292.7	1 765.6	1 376.7	1 369.1	1 490.8	1 482.7	1 659.9	1 740.5	1 738.5	1 803.4	1 828.4
Direct and indirect military appropriations associated with the current and past military activity, combined	1 444.2	1 939.0	1 601.0	1 761.5	1 934.2	1 713.9	1 842.8	1 890.4	1 969.2	1 974.4	1 995.4
3. In real terms (in the 1999 prices)^f, as Rb. bn											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification	115.6	124.8	120.0	112.8	113.9	115.0	124.9	117.9	118.8	124.5	118.5
The federal budget appropriations by Section "National Defense":	93.7	136.4	104.0	108.5	113.7	114.3	124.3	118.6	119.8	123.4	118.9
in the current budget classification placed into other sections of the budget classification	–	–	–	–	–	–	9.5	13.4	13.0	15.1	20.2
In a comparable budget classification	93.7	136.4	104.0	108.5	113.7	114.3	133.8	132.1	132.8	138.6	139.1
Military expenditures, the UN data	–	131.9	142.6	124.4	143.1	133.5	142.9	142.1	121.4	134.9	–
Overall direct military appropriations	128.9	176.1	137.3	136.5	148.7	147.9	165.5	173.6	173.4	179.8	182.3
Direct and indirect military appropriations associated with the current and past military activity, combined	144.0	198.3	159.6	175.6	192.9	170.9	183.8	188.5	196.4	196.9	199.0
4. Military burden on the economy, in % of GDP											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification	2.40	2.62	2.77	2.73	2.69	2.52	2.69	2.53	2.51	2.52	3.05
The federal budget appropriations by Section "National Defense":	1.94	2.87	2.40	2.62	2.68	2.51	2.67	2.55	2.53	2.50	3.06
in the current budget classification placed into other sections of the budget classification	–	–	–	–	–	–	0.20	0.29	0.28	0.31	0.52
In a comparable budget classification	1.94	2.87	2.40	2.62	2.68	2.51	2.88	2.84	2.81	2.81	3.58
Military expenditures, the UN data	–	2.77	3.29	3.01	3.38	2.93	3.07	3.06	2.57	2.73	–
Overall direct military appropriations	2.67	3.70	3.17	3.30	3.51	3.24	3.56	3.73	3.67	3.64	4.69
Direct and indirect military appropriations associated with the current and past military activity, combined	2.99	4.17	3.69	4.25	4.55	3.75	3.95	4.05	4.16	3.99	5.11
5. By purchasing power parity (in current prices), in USD bn											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification	21.9	26.8	30.2	31.9	34.2	36.2	45.6	48.2	54.2	62.8	66.8
The federal budget appropriations by Section "National Defense":	17.7	29.3	26.2	30.7	34.1	35.9	45.4	48.5	54.6	62.3	67.1
in the current budget classification placed into other sections of the budget classification	–	–	–	–	–	–	3.5	5.5	5.9	7.6	11.4
In a comparable budget classification	17.7	29.3	26.2	30.7	34.1	35.9	48.9	54.0	60.6	69.9	78.4
Military expenditures, the UN data	–	28.3	35.9	35.2	42.9	42.0	52.2	58.1	55.4	68.0	–
Overall direct military appropriations	24.4	37.8	34.6	38.6	44.6	46.5	60.5	71.0	79.1	90.7	102.8
Direct and indirect military appropriations associated with the current and past military activity, combined	27.2	42.6	40.2	49.6	57.9	53.7	67.1	77.1	89.6	99.3	112.2
	For reference:										

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP deflator, as % to the prior year	172.5	137.6	116.5	115.5	114.0	120.1	119.2	115.8	113.5	118.0	102.7
Public administration final consumption expenditure deflator ^e , as % to the prior year	138.5	153.6	134.4	126.9	119.2	119.7	124.5	124.3	121.1	119.3	120.0
Purchasing power parity ^h , as Rb/USD	5.29	7.15	8.19	9.27	10.41	11.89	12.74	14.14	15.36	16.57	17.79

^a For 2009 – the Federal Treasury preliminary data on execution of the federal budget.

^b The Defense Ministry's expenditures and secret expenditures by sections 04–09 and 11 of the federal budget in 2005–2009

^c The RF Government did not submit the 1999 data to the UN; the 2009 data will be submitted in 2010, inclusive of expenditures on the Ministry of Interior forces, the Board Guard and civil defense, among others

^d Including on the Ministry of Interior forces, the Board Guard, civil defense, and other elements of the military organization

^e Inclusive of pensions due to the military.

^f Deflated by means of the public administration final consumption expenditure deflator.

^g On 2009 - as estimated by the IET.

^h For the period of 2006–2009 – the linear trade of past years' values (as estimated by the IET).

Sources: the 1999–2009 federal acts on federal budget and its execution; *Natsionalnye scheta Rossii v 1997–2007 godakh: Stat. sb./ Rosstat. M., 2005–2009; Obyektivnayay informatsiya po voennym voprosam, vkluychaya transparentnost voennykh raskhodov. Doklady Generalnogo Sekretarya OON 2001–2009; Rosstat; the Federal Treasury.*