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Director: Yegor Gaidar

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The review provides a detailed analysis of main trends in Russia's economy in 2008. 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.

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Vasily Zatsëpin, Vitaly Tsymbal

The Military Economy and a New Stage of the Russian Military Reform

The 2008 military and economic processes in RF have found themselves affected by changes in the nation's military and political leadership – the new Supreme Commander-in-Chief, new faces on key positions in the Ministry of Defense and the General Staff of the Armed Forces of the Russian Federation. A new stage of the military reform that started in 2007 was pursued more vehemently, which can partly be attributed to the events in the Southern Ossetia and Abkhazia. The military conflict between Russia and Georgia showed that the Russian armed forces had not been quite ready even for such a “five-day” war. Hence not only the intensification of the military reform, but its revision in many aspects.

Russia's military economy has also begun being affected by the global financial crisis.

5.8.1. Doctrinal Documents and their Impact on the Military Economy

The traditional fundamental documents of a long-term effect – namely, the 2000 Concept for National Security and the equally outdated Military Doctrine of RF mostly have fallen short of matching the changed environment. Their revision was clearly procrastinated. All experts sensed that; however, different generals have different vision of prospects for reforming the Russian army.

Delays with designing the military-strategic conceptual documents can be partly explained by the fact that it had been envisaged to develop in 2008 a uniform long-term government strategy and strategies proceeding from that (subordinated conceptual documents) by individual aspects of the government policy. *Table 22* presents an attempt to regulate individual provisions stipulated in the conceptual documents, starting with an analysis of the Concept-2020 as a backbone one¹⁸⁹.

A new military doctrine should appear, of course, upon approval of the National Security Strategy; however, one should start with revising the *mission* of the nation's Military Establishment and its components, such as the Ministry of Defense and the legislative concept of “defense” in particular.

The fact is that back in 1996, the Act “On defense” failed to include a reference to the *population* as a principal object of defense exercised by the Armed Forces of RF. As a reminder, the concept of “defense” was revised after a series of exceptional events, including the use of the armed forces in the territory of RF to solve political and domestic problems in Moscow in October 1993 and, later - starting from December 1994 – in Chechnya. The exceptional use of the armed forces originally designated for protecting the nation from an armed aggression from outside was explained by a special appropriateness. But was the exalting of this peculiarity to the rank of a permanently effective law, thus conflicting with the RF Constitution and a more general Act “On security” a legitimate move? The current Act “On defense” has been de-facto reduced to the military security of the state only, which has affect-

¹⁸⁹ The Concept for the long-term development of RF for the period through 2020.

ed the whole complex of works on modernization of the army¹⁹⁰. An assessment of the Russian armed forces' performance, its equipment, orientation of the combat service and operational training in the peacetime depends on the formulation of the mission, objectives and tasks of the armed forces' activities.

Table 22

Outputs of the Analysis of Conceptual Documents

№	Conceptual documents and their major provisions	Comments
1	The Concept for the long-term development of RF for the period through 2020.	The section of target guidelines references to the importance of ensuring the society and citizens' security, which "should create conditions for releasing the population's innovational potential and a dynamic development of business". As a separate issue the Concept enunciates the need for attaining a high level of fighting efficiency of the Armed Forces of RF, which should match "the level of the advanced in military terms nations", particularly on the basis of the economic and social development of the nation's military organization. Notably, there are no purely military challenges in the list of concrete ones, proceeding from which the military build-up should be planned. This means that the traditional approach to the planning that suggests orientation to an envisaged type of a war or even a probable enemy is unqualified.
2	Strategy of the national security of RF – through 2020	Has not been complete in 2008. Judging updates on the content of the draft, it should specify objectives and indicators that characterize all challenges and aspects in the security area, starting from the economic one and including military security indicators, among others.
3	Strategy of building-up and development of the Armed Forces of RF- through 2020	Approved in early 2008 as a classified document.
4	Strategy of the social development of the Armed Forces of RF- through 2020 ¹⁹¹ .	Approved by the decision of the Collegium of the Ministry of Defense of 28.03.2008. In compliance with Order №241 of 28.04.2008 by the RF Minister of Defense, a Commission on the strategy implementation was established.
5	Main guidelines of activities of the RF Government - through 2012	The document contains a sub-section entitled "Ensuring the citizenry's private safety". It characterizes avenues of the Interior Ministry and the RF Ministry of Civil Defence and Emergency Response's (aka EMERCOM) operations, and a section entitled "Provision of the national security" which characterizes activities by the Ministry of Interior, FSA and other law enforcement agencies with respect to various aspects of the national security, including "security in the economic sphere." Regretfully, even this particular document carries controversial provisions. For example, it declares promotion of "attractiveness of the military and law enforcement activities on the labor market", but, at the same time, cites such allegedly "stimulating" bonuses to the contract soldiers' monetary allowance that fail to bring it closer to the average salaries and wages nationwide. The document also lacks any reference to the priority of boosting up the dual-use knowledge, technologies and innovations.

As a reminder, from the perspective of the effective national law on defense, the "first Chechen campaign" resulted in the RF Ministry of Defense's success in accomplishing its mission, which is "securing the country's territorial integrity". Meanwhile, the fact that the then accomplished mission led to battle deaths of the Russian troops and- to a far greater extent – casualties among ordinary citizenry, as well as colossal damages to the population was interpreted only as costs inevitable under pursuance of the mission. That is why the Russian army used the warfare designed to counter an external aggressor, and there was no stress was laid upon using special, nonlethal, or precision weapons. Nowadays, an evaluation of arms programs and reports on their implementation suggests that no special attention has been paid

¹⁹⁰ Tsymbal V.I. Osobennosti modernizatsii voennoy organizatsii Rossii, obuslovlennyye voennoy reformoy//Vooruzheniye. Politka. Konversiya. 2005.№4, pp. 30-35.

¹⁹¹ Strategiya sotsialnogo razvitiya Vooruzhennykh Sil Rossiyskoy Federatsii na period do 2020 goda//Krasnaya zvezda. 2008. 18.04 (№67).

to these means. With the effective formulation of the concept of defense, even the mission of the aerospace defense also appears a secondary one. In this context, declarations of the need for reinforcing protection from airstrikes of military, industrial and governmental objects, rather than the population, do not look accidental¹⁹².

The focus on a genuinely voluntary manning of the regular components and increase of the status and legal protection of the army men, and provision of the safety of the military service in the peacetime have fallen short of being on a duly level.

The above rationales for amending the Act “On defense” have been in part already published¹⁹³, but they had been prepared prior to the August 2008 events, which proved the *actuality* of our proposals.

5.8.2. The August 2008 Events and Their Effects on the Military Reform

In many countries worldwide, analysts have studied with gusto the August 2008 military actions, which were carried out in all the spheres, including the informational one. As for experts in the military economics area, it is not less important a task for them to analyze the military-economic aspects of the said events, either. First, the war once again has proved informativity of a series of military-economic indices serving as indicators of an aggressor’s military preparations. The rise in the level of military expenditures (in absolute terms and as a share in GDP), participation in combat missions outside a country coupled with an intense rotation of the combat staff – these and other indicators signaled of a high probability of Georgia’s invasion of the former soviet autonomous establishments’ territory.

While motivations behind Georgia’s military preparations and actions are of a sheer political nature and as such they transcend the framework of a military-economic analysis, we are keen to examine conclusions that lie within the noted framework.

First and foremost, the conflict has proved correctness of the course towards *professional training of troops and their equipment with precision warfare* pursued by most contemporary states.

There also arise several conclusions related to the warfare means the sides applied.

It appears extremely inhuman that the aggressor used jet-propelled volley-fire systems of the Russian and foreign origin, heavy ordnance and panzer forces, as well as aerial bombs. But, regretfully, to force the aggressor to peace, the Russian side likewise deployed mostly the same warfare. The Russian forces’ dominance was obvious; however, the comprehensive support still raises questions. The Georgian troops were equipped with GRS receiver-indicators, combat identification systems, and far more sophisticated communication means, while the Russians used primitive ones.

The warfare, too, exposed numerous problems, and not only from the perspective of their reliability. To ensure its retaliatory strike, Russia should have used precision antimateriel weapons to cover the enemy’s AA systems and core ground military objects (targets). Russia supplies such warfare to other countries – suffice it to remember it has helped India to launch their production and supplies to the national armed forces. But the Russian army had had no such weaponry on hand by the start of the August conflict.

¹⁹² Gavrilov Yu. V koltse zenitok//Rossiyskaya gazeta. 2008. April 30 (№94)

¹⁹³ Tsymbal V. neobkhodimost sovershenstvovaniya kontseptsiy i systemy upravleniya voennoy bezopasnostyu Rossii//Economico-politicheskaya situatsiya v Rossii. 2008. May. pp. 65-70.

Hence, once again there arose problems associated with development of Russia's military-industrial complex, which is fenced off the public control and fair competition. It appears disconnected from new domestic production which could contribute with its potential and ideas to the military R&D sphere.

5.8.3. Changes in the Military Manpower Policy, the System of Manning and Social and Economic Provision of the Military

The previous federal target program (FTP) of the army's transition to the voluntary contract-based principle of manning failed in late-2007. The promised "final fulfillment" of the FTP by early-2008 failed, too. Furthermore, the analysis of the events of August 2008 in Southern Ossetia suggests that, having spent some Rb. 100bn on the FTP, we have failed to achieve its major objective, that is, the manning of the units of constant combat readiness (CCRU) with contract soldiers, even in the North Caucasus – contrary to the earlier heard from high offices assurances that conscript personnel would not take part in combat, in reality, just days after joining in the army and absolutely untrained, they did commit together with the contract soldiers.

While evaluating the newly adopted 2008 FTP, one would like to know if it takes into account of the mistakes of the previous stage, as far as the reform of the manning system is concerned. Let us compare these two programs.

1. The title. The previous program was entitled "Transition to the manning with the military doing their service under contract of a number of units and formations for 2004-2007". The title of the new program is far more prolix and bombastic – "Improvement of the system of staffing positions of sergeants and privates with the military transferred to the military service under contract and implementation of the manning of positions of sergeants (sergeant majors) of the Armed Forces of RF, other service arms, military formations and agencies, as well as seamen of the shipboard personnel of the RF Navy with the military doing their service under contract (2009-2015)".

2. Justification for the need for improvement of the manning system in the approved by V. Putin Concept of the FTP¹⁹⁴ contained a fairly accurate ascertainment that, "if maintained, the system of the mixed manning shall inevitably result in: decrease in the number of the military doing their service under contract; a further decrease of attractiveness of the military service in the Armed Forces of the Russian Federation; loss of specialists capable of securing a qualitative maintenance of the military hardware and accomplishing assigned tasks; an inefficient work on training the junior command personnel".

However, the recently adopted FTP has set such parameters that would preserve the mixed manning system of the regular forces, at least, through 2016. The above fragment has been crossed out of the finally adopted FTP, which is most likely to testify to the presence in the echelons of power of a mighty "lobbying" on behalf of corruptionists.

3. Discrepancies in formulation of objectives. The previous FTP stipulated as objectives both "ensuring transition to manning with the military doing their military service under contract of military positions due to be substituted by privates and sergeants in formations and military units of constant combat readiness of the Armed Forces of RF, military units of the border-security forces and the Interior Ministry troops transferred to the new way of man-

¹⁹⁴ Resolution by the RF Government of 15.07.2008, №1016-r.

ning” and “improvement of combat readiness of the noted formations and military units”. The new FTP contains no reference to combat readiness – the objective now is “manning by 2016 by contract of positions of sergeants (sergeant majors) of the Armed Forces of the Russian Federation, other service arms, military formations and agencies, as well as seamen of the shipboard personnel of the RF Navy”.

4. Chronology. The new FTP was formally approved in the aftermath of the military clash in the Southern Ossetia and Abkhazia. However, an in-depth analysis reveals that it has failed to take it into consideration. It was later that the Russian leadership realized that the Russian Armed Forces’ combat efficiency is very low. The RF President demanded to transfer “all the military units” “to the constant combat readiness” category. But no one has made any reference to the FTP, while it is evident that its objective is against the dictates of the time and situation.

5. Main tasks of the new FTP and direction of the planned measures: 1) improvement of conditions of housing for contract troops of rank and file, including those transferred to contracts under the already completed FTP of 2004-2007, and 2) ensuring attractiveness of the contract enlisted service and creation of conditions for the manning. Once it comes to the stimulation by means of monetary allowance, the FTP appears very laconic - for the seamen of the shipboard personnel of the RF Navy the “stimulating allowance” was kept at the present, long depreciated level – Rb. 3,300 a month, while that for sergeants and sergeant majors it is even lower and accounts for 100% of the rates of pay according to the military position, which currently are Rb. 2,304 and 2,496 a month.

There is no reference to the task of increasing the combat efficiency, which corresponds to the general “logic” of the FTP, as an army manned by even very well trained sergeants and untrained privates (who would form the bulk of it) cannot boast a high level of combat efficiency.

6. The planned expenditures on implementation of the new FTP made up a total of Rb. 243,437.64bn in the prices of the current years. The Program reads that the sum in full shall be spent on capital construction.

7. The comparison of socio-economic efficacy of these programs raises numerous questions. The previous FTP envisaged the following outputs: 1) lowering the public dissatisfaction with the then existing system of manning the Armed Forces, other service arms, military formations and agencies with conscripts and deploying those for military service in flash points; 2) establishing prerequisites for reducing the length of the military conscription to one year since 2008. But even after that FTP was complete, conscripts are still deployed to “flash points” and take part in military action, with consequent war and nonwar casualties.

The new FTP contains expressed in trait words hard-to-check intentions: 1) increase of the prestige of the military service and promotion of the Armed Forces of RF, other service arms, military formations and agencies’ positive image; 2) improvement of the moral and psychological climate by promoting the junior commanders’ status and credibility. Meanwhile, the FTP has failed to provide for assessment criteria of fulfillment of these objectives. For example, what about a twist of the moral and psychological climate in a situation when a sergeant who is a secondary school graduate with the inadequate monetary allowance is in charge of a university graduate? To make things even worse, let us assume the latter is a young father “distracted” for a year of military service from the average salary (which in RF is twice as high vs. the sergeant’s monetary allowance), while his wife is entitled to a monthly

compensation of Rb.6,000. What will the relationship between these two military be like? And how will they get along in their joint service?

8. The organizational and managerial aspect raises a certain concern, too. Judging the wording of the newly adopted FTP, it has left the systemic defects of the previous one fully untouched (let us note the deficiencies in question had underpinned its failure in 2007). The extra-departmental control is missing, and so is the public one. For example, the appropriations under the auspices of the previous FTP, particularly those on capital construction, have been already spent, but contract troops still have nowhere to live, and the situation needs to be remedied in the frame of the new FTP. At the new stage, there are no guarantees of an efficient control over the budgetary spending, unless the public control is in place.

The above evaluation suggests the following conclusions:

1. The newly adopted FTP will ultimately fail to ensure progress in the system of manning. The Program centers on tackling a much-needed objective of fixing the life of contract troops and their families, albeit it essentially is a sub-mission. It is only in this sense it can be of a certain avail, and it should have been entitled in this manner. If, however, an FTP is supposed to deal solely with capital construction, while it is tagged as “improvement of the manning system”, the title becomes a smokescreen, behind which there is some generals’ unwillingness to abandon drawbacks of the current system of manning and the present nature of the military service, as someone benefits from them.
2. The new FTP has to be urgently revised, along with a mandatory attraction of independent experts and representatives of public organizations. Paradoxically, in this situation, public organizations should enter into alliance with V. Putin and D. Medvedev and make them aware of the situation with the new FTP. This would enable the Russian leadership to ensure an efficient and swift resolution of the problem of manning the army. As a reminder, it was V. Putin who approved the concept that contained an absolutely accurate assessment of the need for transferring the armed forces of RF on the contractual basis; likewise, it was D. Medvedev who demanded to ensure the permanent combat readiness of all combat military formations. But this is impossible to do without a forced transition to the voluntary, contract-based method of manning coupled with the securing of a great attractiveness of the military service.

The above IET’s assessments and recommendations were published in analytical materials, submitted to the Ombudsman of RF and made available to the general public. It is hard to measure efficiency of such steps, but in conclusion it is worth noting that in early-January 2009, an excerpt of a decree on the size of the national armed forces was published. Shortly thereon the society was informed¹⁹⁵ of some new four-year FTP, which should allegedly result in “as many as 85,000 junior commander positions becoming professional by 2013”. The number of professional sergeants should grow up to 250,000. Their training would take three years, and this mission will be assigned to a number of institutions of the higher military education and the former schools for warrant officers. There have been many repetitious statements like this, but the FTP has remained unchanged.

¹⁹⁵ Gavrilov Yu. Million shtykov k 2016 godu//Rossiyskaya gazeta. 2009. January 14 (№2).

5.8.4. Modification of the Military-Technical Policy and Plans of Equipage of the Armed Forces of RF

Between June and September 2008 the RF government proved the constancy and continuity of the national military-technical policy on the whole as well as means of ensuring these policy characteristics.

At the government meeting of June 30, 2008, on discussion of the 2009-2011 draft federal budget, the Chairman of the RF Government V. Putin announced that the proportion of expenditures on development of the Armed Forces of RF in the overall budgetary expenditures would start growing since 2009 to ultimately reach 70%¹⁹⁶ by 2015, i.e. confirmed the course the Security Council of RF had embarked upon during his term in office. But the current Russian leadership's military-technical policy objective should become securing the necessary level of the country's defense capacity, rather than pumping money into the military-industrial complex. Unfortunately, even Russian economists do not always understand this¹⁹⁷.

The PM is undoubtedly well aware of the national military-technical policy bottlenecks. In three weeks prior to the noted statement Mr. Putin participated in a meeting on problems of planning the state defense order in the 2009-11 draft federal budget. He put the following tasks before participants in the meeting: transition to commercial supplies of new military hardware, concentration of resources on completion of promising projects, so be it one fixes the situation with project completion timelines and with prices¹⁹⁸. Prime-minister emphasized both the danger of inflation and his hopes for Rosoboronpostavka's¹⁹⁹ pro-active stance with respect to stabilization of prices for military merchandise.

In this context it is interesting to examine an interview given by Mr. S. Ivanov, the Chairman of the Military-Industrial Commission and Deputy Chairman of the RF Government, and in this capacity a key player of the Russian military-technical policy²⁰⁰.

But after the August 2008 events, it became clear that the arms program was bad and in need of a drastic modification.

Mr. S. Ivanov identified the following challenges facing implementation of the military-technical policy: anarchy in pricing, a customers' poor justification for technical specifications, and breaking the compulsory 2-month deadline for placing the defense order (by late-April 2008, the contracts that had been concluded to date were worth a total of 65% of the respective volume of budgetary appropriations). Plus, Mr. Ivanov noted that the number of corporations that refused to take part in tenders on placement of the state defense order was on the rise. Echoing the PM's words, Mr. Ivanov believes that the main cause behind such a situation is the manufacturers' overpricing, despite Resolution of the government №549 of August 2007 "On approving Procedures of development and implementation of the state arms programs".

¹⁹⁶ As quoted on <http://www.government.ru/content/rfgovernment/rfgovernmentchairman/chronicle/archive/2008/06/30/1884577.htm>. In the accompanying video, V. Putin references to 50%.

¹⁹⁷ For example the PM spoke to defense expenditures, which is very correct, as today they are spent, mostly guzzled away. But defense expenditures should be allocated for development. This suggests utterly different methods and approaches in this sphere, which is very subtle and delicate". Quoted by: Gontmakher E. Zatyazhka inlflyatsiye//Rossiyskaya gazeta. 2008. July 7 (№143p)

¹⁹⁸ Text of the speech see at: <http://www.government.ru/content/rfgovernment/rfgovernmentchairman/chronicle/archive/2008/06/10/7048457.htm>.

¹⁹⁹ The Federal Agency on Supplies of Arms, Military, Special Hardware and Material Inventories.

²⁰⁰ Zakaz na oboronu//Rossiyskaya gazeta. 2008. July 9 (№146)

The negative tendency to an increasing inefficiency of the budgetary spending on defense is unlikely to be reversed by a mere boosting up of the volume and proportion of expenditures on development against the background of the Soviet legacy - namely, inefficient institutions of the arms program and the state defense order. The Chairman of the Military-Industrial Commission can lament infinitively about unscrupulous producers' pricing, but until, for instance, Resolution #549 remains unpublished in open media, it will be up to the contract parties' freedom of will, rather than his to set rules of the game (and, accordingly, prices for military merchandize) on the domestic market.

Without making urgent political decisions aimed at reducing substantially the proportion of the classified budgetary expenditures, excluding them from the sections of the budget that have nothing to do with defense and security, declassifying legal documents, including those pertinent to the state arms program, and making them available to the general public, as well as information by all the contracts concluded both within the frame of the state defense order and beyond it, Russia's Military Establishment should remain poorly equipped even in 2020.

5.8.5. Peculiarities of the Military-Budgetary Policy and the Problem of Openness

The time gap between approval by the second and the third presidents of RF of the initial²⁰¹ and the last (fifth)²⁰² drafts of the 2008 federal budget is about 15 months. In the interim, appropriations by Section 02 "The national defense" rose from Rb. 958,346m up to 1,031.558m, with the overall rise in the federal budget spending accounting for 6.87%. The 2008 increment by this particular section in real terms²⁰³, accounts for some 3.5% compared with the respective figures of 2007. Meanwhile, the proportion of these expenditures in GDP dwindled by 0.05%- down to 2.48%. Hence, no substantial changes in the planned volumes of financing.

Unfortunately, the form of presentation of the federal budget itself has changed fairly substantially – to the extent when the officially published texts of the respective federal acts have made it impossible to try even simplest assessments of volumes of similar to the above appropriations across sections and subsections of the expenditure classification.

The fact is that in the immediate aftermath of the introduction of regular amendments to the Budgetary Code that took effect since January 2008²⁰⁴ the annexes to the federal budget lacked tables displaying allocation of the federal budget expenditures across sections and subsections of the functional classification of expenditures. More than this, the mere concept of the functional classification became missing, too. Because of this *innovation* by the RF Ministry of Finance, the act on the federal budget now gives no possibility to know a full volume of budgetary appropriations not only on defense and security, but amazingly, on all other state

²⁰¹ On 2008 Federal Budget and on the planned period of 2009-2010: Federal law № 198-FZ, adopted by the Duma on July 6, 2007.

²⁰² On introducing changes in the Federal law "On 2008 Federal budget and on the planned period of 2009-2010": Federal law № 193-FZ, adopted by the Duma on October 23, 2008.

²⁰³ By using GDP deflator index.

²⁰⁴ On introducing changes in the Budget Code of the Russian Federation in the way of regulating the budgetary process and bringing in line with the budgetary legislation of the Russian Federation of separate legal acts of the Russian Federation: Federal law № 63-FZ, adopted by the Duma on April 13, 2007.

functions. That is why the below analysis employs both the federal budget acts and the Federal Treasury's data on execution of the consolidated budget of RF²⁰⁵.

Thus, despite an insignificant rise in the level of secrecy of the 2008 federal budget expenditures (*Table 23*), the transparency rate of the budget as a document plunged to a decade-low level. So it appears absolutely logical that the 2008 budget carries Rb. 15,200m in classified appropriations within the subsection "The social provision of the population", thus leaving just a sole open section of the document, that is, "Protection of environment", free from the secrecy fever.

Table 23

The Proportion of Classified Appropriations in the 2003-2008 Federal Budget expenditures, as %

Code and name of the section (subsection) that contains classified appropriations	2003	2004	2005	2006	2007	2008
The federal budget expenditures on the whole	9.73	9.83	11.33	11.80	10.33	11.92
0100 General state issues	n/ap ²⁰⁶	n/ap	3.67	6.28	5.52	8.66
0108 International relations and international cooperation	31.88	18.04	–	0.01	< 0.01	3.66
0110 State material reserve	97.73	93.33	82.86	89.23	92.18	90.17
0111 Fundamental research	–	–	2.13	1.22	1.12	0.97
0115 Other general issues	n/ap	n/ap	0.05	0.72	0.28	4.42
0200 NATIONAL DEFENSE	37.22	38.40	42.06	42.77	45.33	46.14
0201 Armed Forces of the Russian Federation	35.39	36.11	33.07	35.59	37.11	39.04
0204 Mobilization preparation of the economy	100.0	100.0	100.0	100.0	100.0	100.0
0205 Preparation of, and contribution to provision of collective security and peacekeeping operations	–	–	100.0	100.0	100.0	–
0206 Nuclear and arms complex	100.0	100.0	100.0	100.0	100.0	100.0
0207 Implementation of international obligations in the sphere of military and technical cooperation	100.0	41.05	45.22	46.90	50.65	100.0
0208 Applied research in the national defense area	n/ap	n/ap	98.37	93.94	93.69	93.20
0209 Other issues in the national defense area	n/ap	n/ap	2.49	8.79	24.38	29.21
0300 NATIONAL SECURITY AND LAW ENFORCEMENT ACTIVITIES	23.33	20.79	28.52	31.64	31.07	31.84
0302 The RF Ministry of Interior's bodies	3.40	3.01	4.76	6.31	5.16	4.97
0303 The RF Ministry of Interior's military forces	13.21	11.10	11.76	10.31	9.80	10.25
0306 Security bodies	100.00	98.91	97.80	95.49	97.31	99.05
0307 Border-guard forces	19.73	22.88	100.00	98.97	97.62	100.00
0309 Protection of the population from emergency situations of natural and technogenic nature, civil defense	43.69	41.74	59.02	62.39	50.65	51.39
0312 Applied research in the area of national security and law enforcement activity	n/ap	n/ap	73.95	66.41	64.43	75.49
0314 Other issues in the area of national security and law enforcement activity	n/ap	n/ap	8.26	50.71	39.95	56.32
0400 NATIONAL ECONOMY	n/ap	n/ap	0.05	0.02	0.44	0.64
0411 Applied research in the national economy area	n/ap	n/ap	–	–	5.23	5.84
0412 Other issues in the national economy area	n/ap	n/ap	0.12	0.06	< 0.01	0.31
0500 HOUSING AND UTILITIES	n/ap	n/ap	–	3.42	0.85	6.96
0501 The housing sector	n/ap	n/ap	–	4.22	5.69	15.97
0700 EDUCATION	–	–	2.76	2.69	2.39	2.55
0701 Preschool education	–	–	2.03	2.17	2.44	2.48
0702 General education	–	–	1.51	1.91	2.14	2.00
0704 Secondary vocational training	–	–	1.06	1.03	1.02	0.86
0705 Professional training and retraining	–	–	16.85	15.78	17.22	1.80
0706 The higher professional and postgraduate education	–	–	3.15	2.93	2.53	3.08
0709 Other issues in the area of education	–	–	0.30	0.33	0.28	0.29
0800 CULTURE. CINEMATOGRAPHY AND MASS MEDIA	–	–	0.17	0.17	0.21	0.17
0801 Culture	–	–	0.14	0.10	0.16	0.10
0804 Periodical printed media and publishing	–	–	13.46	7.45	2.57	2.62
0806 Other issues in the area of culture, cinematography and mass media	–	–	0.02	0.15	–	–
0900 HEALTH CARE, PHYSICAL CULTURE AND SPORTS	–	–	4.30	3.99	2.57	4.14
0901 Stationary medical aid	–	–	5.61	4.66	2.94	3.24

²⁰⁵ Report as of January 1, 2009. See: http://www.roskazna.ru/store/reports_file404.xls.

²⁰⁶ Non-applicable due to the change in the structure of the budget classification.

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0902 Outpatient medical aid	n/ap	n/ap	n/ap	n/ap	n/ap	13.94
0905 Sanatorium and rehabilitation aid	n/ap	n/ap	n/ap	n/ap	n/ap	14.07
0907 sanatorium-epidemiological welfare	n/ap	n/ap	n/ap	n/ap	n/ap	2.09
0908 Physical culture and sports	–	–	0.28	0.26	0.24	0.42
0910 Other issues in the area of health care, physical culture and sports	–	–	–	–	–	1.74
1000 SOCIAL POLICY	–	–	–	–	–	0.01
1003 Social provision of the population	–	–	–	–	–	0.02
1100 INTERBUDGETARY TRANSFERS	–	–	–	–	0.16	–
1101 Financial aid to budgets of other levels	–	–	–	–	0.50	–

Source: The IET computations basing on the 2003-2008 federal budget data (the data on 2003-2007 were adjusted to the respective sections and subsections of the budget classification that became effective as of January 2008). The 2008 data are based on the data of Federal Act № 193-FZ of November 8, 2008 and the report on execution of the consolidated budget of RF as of January 1, 2009, by the Federal Treasury.

While the dynamic of the proportions of classified appropriations proves the preservation of the long-lasting protecting tendencies, it would be fair to mark some positive developments.

Thus, the draftsmen of the federal budget have finally appreciated an obvious fact that appropriations by Section 0205 “Preparation of, and contribution to provision of collective security and peacekeeping operations” may not be classified ones per se. In addition, the proportion of classified appropriations in Subsection 0705 “Professional training and retraining” of Section 07 “Education” tumbled from 17.2% in 2007 to 1.8% in 2008.

The core tendency has remained in force, nonetheless. For example, all the newly introduced in 2008 subsections of Section 09 proved to be classified ones, while the top secret one – Subsection 0905 “Sanatorium and rehabilitation aid”, which accounts for 14.1%, apparently forms a key element of the national defense and security system. Similarly, expenditures on the physical culture and sports in Subsection 0908 proved to be twice as secret vs. 2007. But it is appropriations by Subsection 0501 “The Housing and utilities” that with a rise at over 10 p.p. topped the list of expenditures with the greatest increment in the secret proportion of appropriations. The reason behind that is unknown, of course.

Absolute and relative values of main components of direct military appropriations in the federal budget and their change vs. 2007 according to the final version of the 2008 federal budget are given in *Table 24* (the recalculation to the 2007 prices was made using the first assessment by Rosstat of the 2008 deflator index of GDP²⁰⁷).

Table 24

Direct Military Appropriations out of the Federal Budget by Section 02 “The National Defense”

Names of sections and subsections	2008, as Rb.m / in the 2007 price equivalent	Change in 2008 vs. 2007, as Rb.m/increment, as %	Proportion of appropriations, as %/ change vs. 2007, as p.p.	
			In the 2008 federal budget	In GDP
1	2	3	4	5
NATIONAL DEFENSE	1 031 558	29 212	14.69	2.48
	868 315	3.48	1.84	–0.05
Armed Forces of RF	748 934	24 253	10.67	1.80
	630 416	4.00	1.38	–0.03
Mobilization and paramilitary training	5 045	90	0.07	0.01
	4 246	2.16	0.01	–
Mobilization preparation of the economy	3 500	–1 789	0.05	0.01
	2 946	–37.79	–0.02	–
Preparation of, and contribution to pro-	559	354	0.01	<0.01

²⁰⁷ O proizvodstve i ispolzovanii valovogo vnutrennego produkta (VVP) za 2008 gjd. M.: Rosstata, February 3, 2009. See: http://www.gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d02/13vvp30.htm

vision of collective security and peace-keeping operations	471	302.43	0.01	–
Nuclear and arms complex	<u>17 084</u>	<u>2 282</u>	<u>0.24</u>	<u>0.04</u>
	14 380	18.86	0.06	–
Implementation of international obligations in the sphere of military and technical cooperation	<u>3 911</u>	<u>–3 372</u>	<u>0.06</u>	<u>0.01</u>
	3 292	–50.60	–0.05	–0.01
Applied research in the area of national security and law enforcement activity	<u>133 343</u>	<u>–10 518</u>	<u>1.90</u>	<u>0.32</u>
	112 241	–8.57	0.02	–0.05
Other issues in the national defense area	<u>119 182</u>	<u>17 914</u>	<u>1.70</u>	<u>0.29</u>
	100 322	21.74	0.44	0.04

Source: the IET calculations.

The introduced by the Budget Code since 2008 Subsection 0202 “Modernization of the Armed Forces of the Russian Federation and Military Formations” appeared missing in the open part of the federal budget. Considering the match between the amount of appropriations across its subsections with that by Section 02 as a whole²⁰⁸, it was omitted in the classified annexes, too.

Military appropriations out of the other sections of Russia’s federal budget are given in Table 25.

Table 25

Direct and Indirect Military Appropriations by The Other Sections of the Federal Budget

Name of the subsection or the nature of appropriations	2008, as Rb.m / in the 2007 price equivalent	Change in 2008 vs. 2007, as Rb.m/increment, as %	Proportion of appropriations, as %/ change vs. 2007, as p.p.	
			In the 2008 federal budget	In GDP
In Section 03 “National security and law enforcement activities”				
The RF Ministry of Interior’s armed forces	<u>54 951</u>	<u>–139</u>	<u>0.78</u>	<u>0.13</u>
	46 255	–0.30	0.07	–0.01
Security bodies	<u>146 363</u>	<u>7 246</u>	<u>2.08</u>	<u>0.35</u>
	122 201	6.25	0.31	–
Border-guard bodies	<u>68 444</u>	<u>686</u>	<u>0.97</u>	<u>0.16</u>
	57 613	1.20	0.10	–0.01
EMERCOM armed forces and civil defense	<u>36 781</u>	<u>5 311</u>	<u>0.52</u>	<u>0.09</u>
	30 960	20.71	0.13	0.01
In Section 04 “The national economy”				
Presidential program “CW destruction”	<u>2 604</u>	<u>–725</u>	<u>0.04</u>	<u>0.01</u>
	2 192	–24.86	–0.01	–
Subsidies to transportation organizations that procure automotive equipment for completing the road transport vehicles for motorcades	<u>94</u>	<u>–</u>	<u><0.01</u>	<u><0.01</u>
	79	–	–	–
Subsidies on the functioning of the Russia-NATO coordination center	<u>23</u>	<u>–</u>	<u><0.01</u>	<u><0.01</u>
	20	–	–	–
Construction of special and military objects	<u>6 279</u>	<u>–5 125</u>	<u>0.09</u>	<u>0.02</u>
	5 285	–49.23	–0.07	–0.02
FTP “Industrial utilization of arms and military hardware (2005-2010)”	<u>89</u>	<u>–17</u>	<u><0.01</u>	<u><0.01</u>
	75	–18.19	–	–
Classified expenditures	<u>5 408</u>	<u>1 364</u>	<u>0.08</u>	<u>0.01</u>
	4 552	42.81	0.03	–
Section 05 “Housing and utilities”				
Presidential program “CW destruction”	<u>1 792</u>	<u>–1 652</u>	<u>0.03</u>	<u>0.00</u>
	1 509	–52.26	–0.02	–0.01
Provision of the military with housing perks and permanent housing	<u>33 808</u>	<u>14 335</u>	<u>0.49</u>	<u>0.09</u>
	29 787	92.77	0.25	0.04
Classified expenditures	<u>8 611</u>	<u>4 737</u>	<u>0.12</u>	<u>0.02</u>

²⁰⁸ See the Federal Treasury data on execution of the consolidated budget

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Name of the subsection or the nature of appropriations	2008, as Rb.m / in the 2007 price equivalent	Change in 2008 vs. 2007, as Rb.m/increment, as %	Proportion of appropriations, as %/ change vs. 2007, as p.p.	
			In the 2008 federal budget	In GDP
	7 248	188.62	0.08	0.01
In Section 07 "Education"				
The RF Ministry of Defense's expenditures	35 091	1 568	0.50	0.08
	29 538	5.60	0.07	-
Classified expenditures	8 623	397	0.12	0.02
	7 258	5.78	0.02	-
In Section 08 "Culture, cinematography, mass media"				
The RF Ministry of Defense's expenditures	2 714	-144	0.04	0.01
	2 285	-5.93	-	-
Classified expenditures	159	-14	<0.01	<0.01
	134	-9.68	-	-
In Section 09 "Health care, physical culture and sports"				
The RF Ministry of Defense's expenditures	25 186	-233	0.36	0.06
	21 200	-1.09	0.03	-
Classified expenditures	9 414	812	0.13	0.02
	7 924	11.41	0.03	-
In Section 10 "Social policy"				
<i>Pension provision of the RF Ministry of Defense</i>	96 048	-49 118	1.37	0.23
	80 849	-37.79	-0.62	-0.16
<i>Pension provision of the FSA</i>	15 634	-495	0.22	0.04
	13 160	-3.62	0.01	-
<i>Procurement of housing for the retired and dismissed military</i>	12 057	-19 232	0.17	0.03
	10 149	-65.46	-0.28	-0.06
Additional monthly material allowances to disabled due to military trauma	305	-386	<0.01	<0.01
	257	-60.01	-0.01	-
Provision of refurbishment of individual housing belonging to family members of the military that have lost a family provider	290	49	<0.01	<0.01
	244	25.25	-	-
Compensations to families of the died military	1 453	125	0.02	<0.01
	1 223	11.37	-	-
Subsidies and compensations to the military, individuals equaled to them and to the dismissed from the military	8 088	-1 200	0.12	0.02
	6 808	-14.98	-0.01	-
Classified expenditures	15	=	0.00	0.00
	13	-	-	-
In Section 11 "Interbudgetary transfers"				
Subsidies to the closed administrative-territorial entities	9 778	-908	0.14	0.02
	8 230	-9.93	-	-
Support of measures on provision of balanced budgets of administrative-territorial entities	1 134	-105	0.02	<0.01
	955	-9.93	-	-
Development and support of the social and engineering infrastructure of administrative-territorial entities	5 816	-575	0.08	0.01
	4 896	-10.51	-	-
Implementation of the primary military records in the territories wherein are no military commissariats	1 625	178	0.02	<0.01
	1 368	15.00	-	-
Lump-sum benefit to the pregnant wife of the conscript and the monthly benefit for the child of the conscript	1 090	=	0.02	<0.01
	918	-	0.02	-
Relocation of residents out of administrative-territorial entities	1 234	-115	0.02	<0.01
	1 039	-9.93	-	-
Material provision of specialists of the nuclear arms complex of RF	2 255	53	0.03	0.01
Presidential Decree of August 1, 2005, №887 "On measures on improvement of the situation of the disabled due to a military trauma"	1 898	2.89	-	-
	670	=	0.01	<0.01
	564	-	0.01	-

Source: IET calculations.

When compared with 2007, appropriations to the RF Ministry of Defense on housing construction under Section 02 “The national defense” rose at 35% in real terms; in addition, appropriations to the military under Section 05 “Housing and utilities” were increased at 93%. But, at the same time, the budgetary spending on the housing certificates shrank at 65% and that on the mortgage system for the military dropped by 61%. Notably, the volume of the latter was cut from Rb. 8,270bn in the initial draft of the 2008 federal budget to 4,063bn in the final one.

In 2008, the military’s pay was raised twice at 9%, while appropriations on the RF Ministry of Defense’s military personnel rose at 19% in real terms. But the objective President Putin had set back in 2005 – to increase the military’s incomes 1.5 times in real terms by late-2008 – was not attained. With the account of the CPI (113.3% in 2008) the military’s incomes grew just by 25% over the past three years.

It was planned to allocate Rb. 28,554bn (+39%) on combat training, with the lion’s share of the sum (26,961bn), as usual, falling on fuel and lubricants. By the RF Minister of Defense’s decision of December 2007 other components of the combat training expenditures were quadrupled- from Rb. 244m up to 1,055 bn. But the picture changes, should one consider the fact that right before that the Head financial-economic division of the Ministry had accomplished a reverse move of cutting these very expenditures 4-fold²⁰⁹.

Appropriations on the material and technical supplies accounted for Rb. 113,214bn, thus being at 1% down vs. 2007. It is already clear that despite the draftsmen of the three-year federal budget were confident that this would be an amount sufficient to ensure an annual procurement of not less than 3.2m. t. of fuel and lubricants, the respective 2008 procurements by the RF Ministry of Defense did not exceed 2.8m.t., while the respective appropriations made up Rb. 57,204bn (a 52% nominal growth). At this juncture the growth in the average flying time of the Russian Airforce pilots from 42 up to 55 hours over the year, as asserted by the head of the Head Division of combat training and troop service of the RF Airforce²¹⁰, cannot be attributed just to the price downfall for oil products by the end of the year.

Whilst the RF Ministry of Defense declared 2008 the year of the Food Service, appropriations on the food supplies (Rb. 24,404 bn.) proved to be at 12% down in real terms vs. 2007. The Russian authorities displayed a similar attitude to the material support, where the respective cuts in real terms accounted at 23% - that is to say, they still are at pains to adhere to a negative rate of material supplies of 60-70%.

The 2008 appropriations on the pension provision of the RF Ministry of defense slid at 3-7% in real terms vis-à-vis 2007²¹¹ (depending on the deflation method - using either CPI, or the deflator index of GDP). This can also be regarded as an effect from the reduction in the number of military pensioners under the auspices of the Ministry – the most recent statistical data available date back to January 1, 2006.

Direct military appropriations (*Table 26*) in the 2008 federal budget computed in accordance with the UN military expenditures standard accounted for 3.6% of GDP, while with

²⁰⁹ Raschepkin K. Teper nastupaem po vsem napravleniyam...//Krasnaya zvezda. 2008. February 5 (№18).

²¹⁰ Krasnaya zvezda. 2008. 11 February (№23).

²¹¹ Without regard to the amount earmarked to the RF Ministry of Finance in 2007 to pay off the accumulated between 1995-1998 debt to the military pensioners.

account of appropriations associated with the earlier military activities (military pensions²¹², CW destruction, etc.) they amounted to 3.9% of GDP.

Table 26

Aggregate Indicators of the Military Appropriations and Other Associated with Them Appropriations from the Federal Budget

Name	Amount, as Rb.m.	Proportion of appropriations, as %/ change vs. 2007, as p.p.	
		In the 2008 federal budget	In GDP
Overall direct military appropriations	1 494 049	<u>21,28</u> 3,07	<u>3,60</u> 0,01
Aggregate direct and indirect military appropriations pertaining to the current and former military activities	1 636 584	<u>23,31</u> 2,16	<u>3,94</u> -0,23
Aggregate appropriations by sections "The national defense" and "national security and law enforcement activities"	1 860 980	<u>26,50</u> 3,32	<u>4,48</u> -0,09

Source: The IET calculations.

The execution of the 2008 federal budget in the part of military expenditures has basically remained unchanged vis-à-vis 2007. More specifically, the Federal Treasury reports show a Rb. 5,034bn.-worth excess of the limit of expenditure by the aggregate budget financing targets of the federal budget over the respective appropriations already from March. The said excess hit its peak in November 2008 (Rb. 18,406bn.) and fell by the end of the year to 12,643bn.

While the RF Ministry of Finance publishes the budget financing targets²¹³, their data does not allow identification of sources of growth in the military expenditure. These are most likely the remnants of the 2007 federal budget appropriations on the Federal Treasury's accounts (over Rb. 7bn by Section "The national defense") and additional revenues the RF Ministry of Defense has cashed in from sales of real estate, arms utilization and CW destruction.

The data on the monthly execution of the 2008 federal budget military expenditures and other pertaining to them expenditures are given in *Table 27* and *Fig. 40–42*. The trend to shifting the spending to the last month of the year has become increasingly obvious in 2008, particularly because of the RF Ministry of Finance's auctions on placement of free federal budget funds. The negative effect such a manner of financing has on the combat efficiency, the military's everyday life and operations, and the whole military economy is evident.

²¹² Until 1998 the Ministry of Defense's pension expenditures had been included in the composition of the Section "The national defense".

²¹³ See, for example: http://www1.minfin.ru/ru/budget/federal_budget/budj_osp/

Table 27

**The Monthly Execution of the Military and Other Pertaining Expenditures
of the 2008 Federal Budget, as Rb.bn.**

Наименование расходов	As provided for by the 2008 FB ²¹⁴	The 2008 FB, modified ²¹⁵	January	February	March	April	May	June	July	August	September	October	November	December	Saved (over- spent)
NATIONAL DEFENSE	958.3	1 031.6	22.5	71.6	77.1	97.4	71.5	72.1	80.5	60.7	60.7	82.2	78.6	261.2	(9.3)
The Armed Forces of RF	701.8	748.9	20.0	61.7	57.5	75.5	51.7	60.5	59.8	50.5	51.9	62.5	55.0	166.9	(22.7)
Mobilization and paramilitary training	5.2	5.0	0.0	0.6	0.2	0.2	0.2	1.3	0.2	0.1	0.2	0.2	0.3	1.0	0.5
Mobilization preparation of the economy	3.5	3.5	0.0	0.5	0.7	1.0	1.3	0.1	0.2	0.1	0.1	0.2	0.1	0.3	(1.2)
Preparation of, and contribution to provision of collective security and peacekeeping operations	0.1	0.6	–	–	–	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2
Nuclear and arms complex	17.1	17.1	0.8	–	8.9	1.6	–	–	2.3	0.1	–	0.2	1.6	2.4	–
Implementation of international obligations in the sphere of military and technical cooperation	3.1	3.9	0.8	0.1	–	–	–	0.6	0.1	0.1	0.1	–	0.6	0.6	1.2
Applied research in the area of national defense	127.8	133.3	0.6	8.2	7.2	14.2	6.9	6.2	9.2	3.9	4.4	4.9	5.7	50.6	3.7
Other issues in the national defense area	99.7	119.2	0.2	0.6	2.6	4.9	11.3	3.4	8.7	5.9	4.1	14.2	15.2	39.2	9.1
NATIONAL SECURITY AND LAW ENFORCEMENT OPERATIONS	772.2	829.4	27.9	53.8	62.1	66.9	61.6	68.8	66.0	60.3	65.9	71.1	75.9	137.0	(6.1)
The RF Ministry of Interior's armed forces	51.6	55.0	1.3	2.5	3.8	4.0	4.4	4.8	4.5	4.1	4.7	4.4	5.1	10.4	0.2
Security bodies	137.4	146.4	5.1	9.4	11.0	11.2	10.4	11.9	12.3	10.3	10.2	12.8	13.3	26.2	(1.3)
Border-guard bodies	65.1	68.4	1.7	4.2	4.2	4.8	4.9	5.1	5.7	5.0	4.6	6.3	5.0	11.9	3.5
Protection of the population from emergency situations of natural and technogenic nature, civil defense	45.0	47.8	1.6	2.2	5.2	5.0	3.3	3.1	3.5	3.1	3.6	3.8	3.9	10.2	(2.1)

²¹⁴ On the federal budget for 2008 and the planned period of 2009 and 2010: Federal Act № 198-FZ: passed by the State Duma on July 6, 2007.

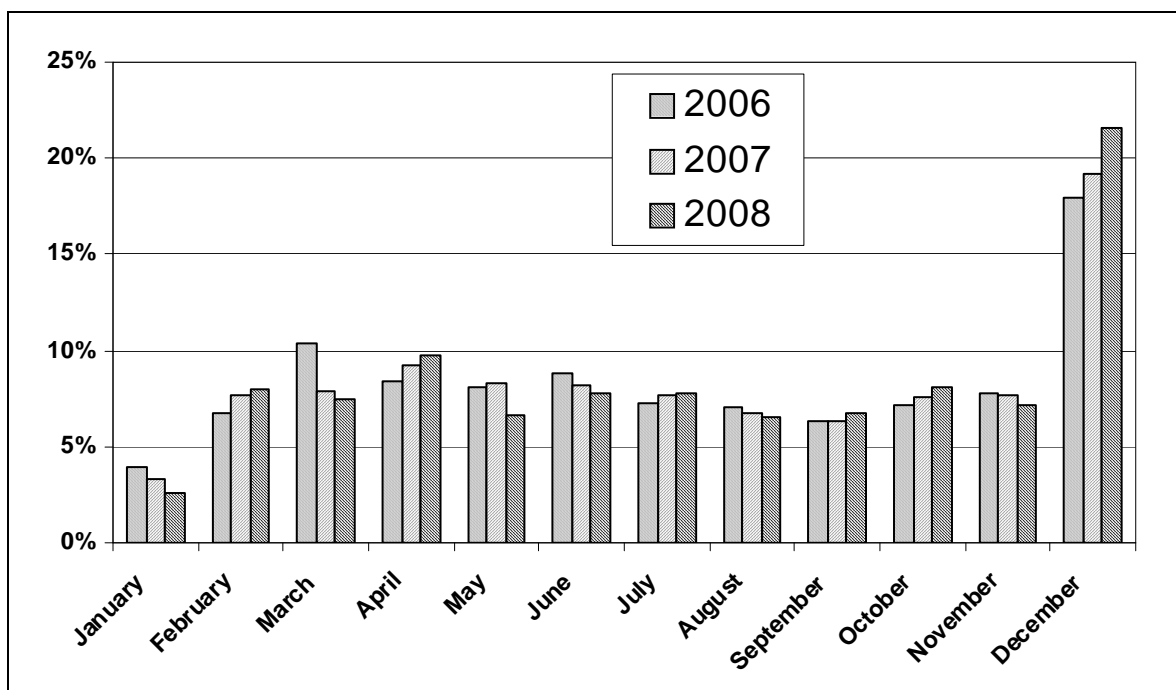
²¹⁵ On introducing amendments to the Federal Act «On the federal budget for 2008 and the planned period of 2009 and 2010 Federal Act № 193-FZ: passed by the State Duma on October 23, 2008.

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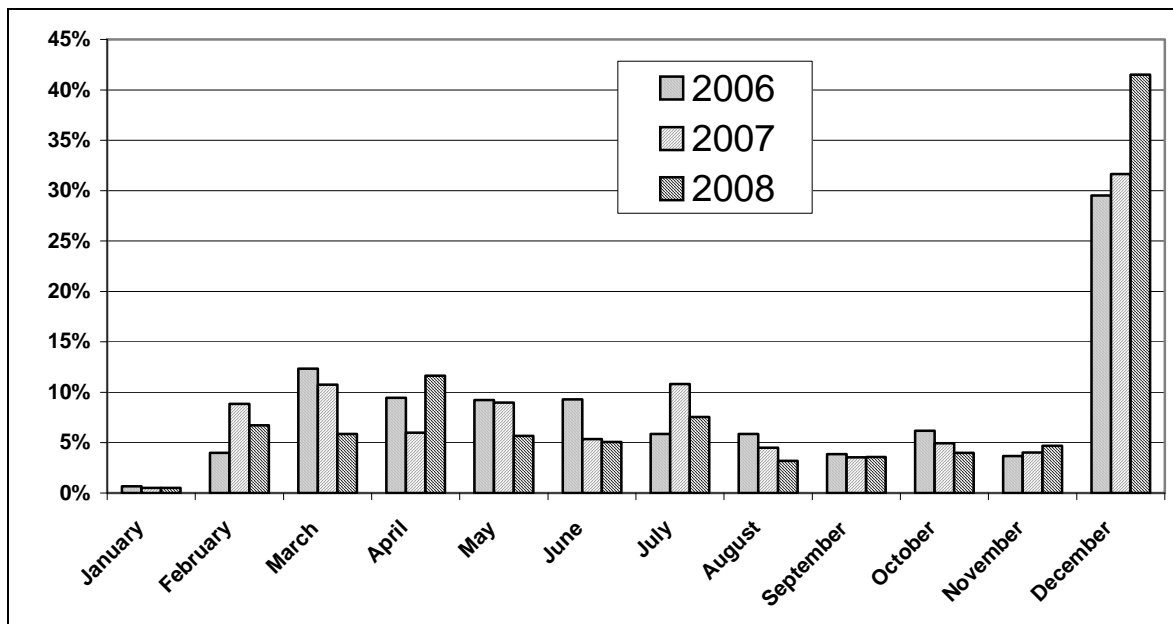
Наименование расходов	As provided for by the 2007 ²¹⁴	The 2008 FB, modified ²¹⁵	January	February	March	April	May	June	July	August	September	October	November	December	Saved (over-spent)
Applied research in the area of national security and law enforcement activity	6.7	6.7	0.2	0.4	0.4	0.5	0.4	0.5	0.6	0.4	0.5	0.6	0.6	1.6	(0.2)
Other issues in the area of national security and law enforcement activity	4.8	5.9	0.2	0.2	0.2	0.8	0.4	0.3	0.3	0.2	0.3	0.2	1.1	0.5	1.0

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



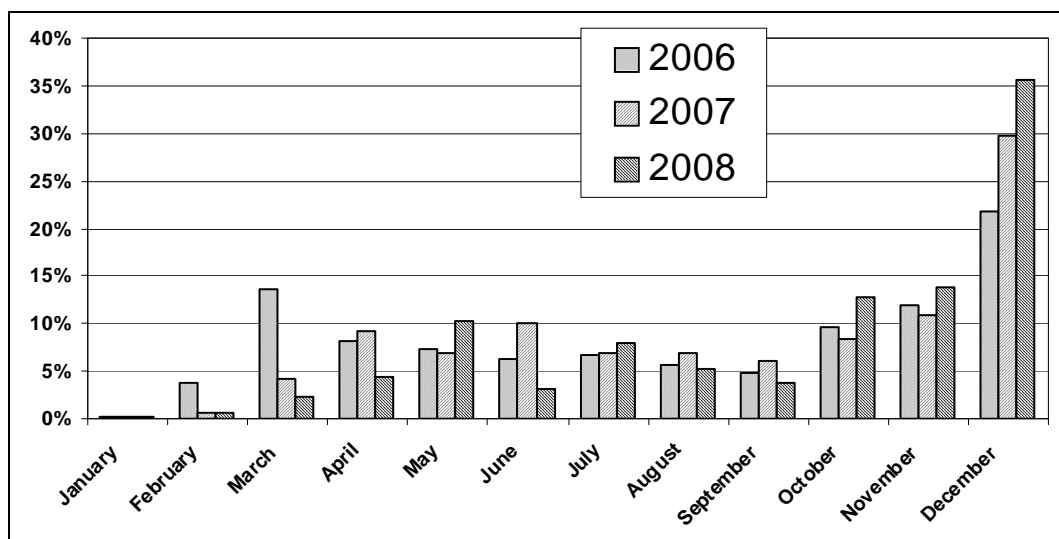
Source: the IET calculations basing on the Federal Treasury data.

Fig. 40. Execution of the Federal Budget Expenditures by Subsection 0201 «The Armed Forces of the Russian Federation» in 2006–2008



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

Fig. 41. Execution of the Federal Budget Expenditures by Subsection 0207 “Applied Research in the Area of National Defense” in 2006–2008



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

Fig. 42. Execution of the Federal Budget Expenditures by Subsection 0208 “Other Issues in the Area of National Defense” in 2006–2008

Evaluation of the Federal Treasury’s reports on execution of the consolidated budget of RF showed that the earlier nearly non-existent and, consequently, not taken into consideration, military expenditures of governments of Subjects of RF have grown into fairly comparable with the central government’s ones, as far as a number of subsections of the Classifica-

tion are concerned. Since 2005 they also have appeared in the Section “The national defense” (see Table 28), albeit not in excess of 0.3% of the federal government’s aggregate military expenditures.

Table 28

**Military Expenditure of Consolidated Budgets of the Subjects of RF
in 2003–2008, as Rb.m.***

Name of the subsection of the Classification of expenditures	2003	2004	2005	2006	2007	2008
The Armed Forces of the Russian Federation	=	=	=	3.5	0.5	0.3
	=	=	=	0.1	0.3	0.3
Modernization of the Armed Forces of the Russian Federation and military formations	=	=	=	=	=	1.0
	=	=	=	=	=	0.5
Mobilization and paramilitary training	13.1	=	65.6	899.3	1 351.9	1 797.9
	13.2	=	65.6	808.6	1 245.6	1 702.2
Mobilization preparation of the economy**	449.7	532.4	485.4	708.3	861.2	1 137.2
	405.6	500.6	468.6	692.8	840.9	1 063.9
Other issues in the area of national defense	=	=	109.6	32.8	5.5	0.7
	=	=	97.5	32.1	5.7	0.5
The RF Ministry of Interior’s armed forces	14.6	12.4	9.9	3.5	1.0	0.3
	12.7	12.2	9.9	1.4	1.0	0.3
Security bodies	3.7	6.7	0.3	16.5	0.1	0.0
	2.1	6.5	0.3	16.5	0.1	0.0
Border-guard bodies	=	=	0.1	=	=	=
	=	=	0.1	=	=	=
Protection of the population from emergency situations of natural and technogenic nature, civil defense	6 511.0	7 968.2	11 184.6	15 636.4	19 118.4	23 895.8
	6 244.1	7 281.3	10 958.9	14 367.0	18 292.6	21 456.7

*Numerator – allocated, common denominator – actual earmarking.

** Until 1995 this Subsection was not included in the Section “The national defense”

Source: the Federal Treasury

Presented in Table 29 results of a 10-year (1998-2008) statistical monitoring of Russia’s military expenditures (to avoid double count) do not include the data of Table 28, as there is no clarity as yet with respect to sources of financing the RF Subjects’ military expenditures (in relation to the proportion of transfers out of the federal budget) provided therein. In addition, while evaluating the dynamic of Russia’s aggregate military expenditure over the period in question, it should be taken into account that initially underlying the system of their calculation was an approach that rested on a formal connection between the Military Establishment’s spending and military missions and operational objectives. Hence, it is not always possible to draw a direct comparison of such statistics with the NATO members’ military expenditures, as since 2004 most of them have attributed to military agencies only those ones which, with their training and arms, are capable of a direct participation in a combat action and, accordingly, do not attribute expenditures on security agencies analogous to Russia’s FSA to the military ones.

Table 29

Main Indicators of Military Expenditures of the Russian Federation in 1999–2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. In nominal terms (in current prices) as Rb. bn.										
Execution of the FB expenditures by the Section “The national defense” under 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
Appropriations from FB by the Section “The national defense” under the current budget classification	93.7	209.4	214.7	284.2	354.9	427.4	578.4	686.1	839.1	1 031.6
placed into other section of the	=	=	=	=	=	=	44.3	77.7	91.3	121.0

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
budget classification ^b										
in the comparable budget classification	93.7	209.4	214.7	284.2	354.9	427.4	622.6	763.9	930.4	1 152.5
Military expenditures, the UN data ^c	–	202.6	294.4	325.9	447.0	499.0	665.0	822.1	850.2	–
Overall direct military expenditures ^d	128.9	270.4	283.4	357.7	464.2	552.7	770.3	1 003.9	1 214.4	1 494.0
Aggregate direct and indirect military expenditures pertinent to the current and past military activities ^e	144.0	304.6	329.6	460.1	602.3	638.8	855.1	1 090.4	1 375.6	1 636.6
2. In real terms (in the 2008 prices)^e, as Rb. bn										
Execution of the FB expenditures by the Section “The national defense” under the current budget classification	1 012.2	1 093.0	1 050.6	987.3	997.4	1 007.3	1 093.5	1 032.1	1 039.9	1 040.8
Appropriations from FB by the Section “The national defense” under the current budget classification	820.5	1 194.0	910.6	949.8	995.2	1 001.2	1 088.2	1 038.7	1 048.9	1 031.6
placed into other section of the budget classification	–	–	–	–	–	–	83.3	117.7	114.1	121.0
in the comparable budget classification	820.5	1 194.0	910.6	949.8	995.2	1 001.2	1 171.5	1 156.3	1 163.0	1 152.5
Military expenditures, the UN data	–	1 155.2	1 248.8	1 089.4	1 253.4	1 168.9	1 251.2	1 244.4	1 062.8	–
Overall direct military expenditures	1 128.7	1 1541.7	1 202.1	1 195.4	1 301.7	1 294.6	1 449.4	1 519.7	1 518.0	1 494.0
Aggregate direct and indirect military expenditures pertinent to the current and past military activities	1 261.0	1 736.7	1 397.9	1 538.0	1 688.8	1 496.5	1 609.0	1 650.6	1 719.4	1 636.6
3. In real terms (in the 1999 prices (as Rb. Bn.))										
Execution of the FB expenditures by the Section “The national defense” under the current budget classification	115.6	124.8	120.0	112.8	113.9	115.0	124.9	117.9	118.8	118.9
Appropriations from FB by the Section “The national defense” under the current budget classification	93.7	136.4	104.0	108.5	113.7	114.3	124.3	118.6	119.8	117.8
placed into other section of the budget classification	–	–	–	–	–	–	9.5	13.4	13.0	13.8
in the comparable budget classification	93.7	136.4	104.0	108.5	113.7	114.3	133.8	132.1	132.8	131.6
Military expenditures, the UN data	–	131.9	142.6	124.4	143.1	133.5	142.9	142.1	121.4	–
Overall direct military expenditures	128.9	176.1	137.3	136.5	148.7	147.9	165.5	173.6	173.4	171.0
Aggregate direct and indirect military expenditures pertinent to the current and past military activities	144.0	198.3	159.6	175.6	192.9	170.9	183.8	188.5	196.4	187.2
4. The military burden of the economy, as % of GDP										
Execution of the FB expenditures by the Section “The national defense” under the current budget classification	2.40	2.62	2.77	2.73	2.69	2.52	2.69	2.53	2.51	2.51
Appropriations from FB by the Section “The national defense” under the current budget classification	1.94	2.87	2.40	2.62	2.68	2.51	2.67	2.55	2.53	2.48
placed into other section of the budget classification	–	–	–	–	–	–	0.20	0.29	0.28	0.29
in the comparable budget classification	1.94	2.87	2.40	2.62	2.68	2.51	2.88	2.84	2.81	2.77
Military expenditures, the UN data	–	2.77	3.29	3.01	3.38	2.93	3.07	3.06	2.57	–
Overall direct military expenditures	2.67	3.70	3.17	3.30	3.51	3.24	3.56	3.73	3.67	3.60
Aggregate direct and indirect military expenditures pertinent to the current and past military activities	2.99	4.17	3.69	4.25	4.55	3.75	3.95	4.05	4.15	3.94
5. By purchasing power parity (in current prices), as USD bn..										
Execution of the FB expenditures by the Section “The national defense” under the current budget classification	21.9	26.8	30.2	31.9	34.2	36.2	45.6	48.2	54.2	62.8
Appropriations from FB by the Section “The national defense” under the current budget classification	17.7	29.3	26.2	30.7	34.1	35.9	45.4	48.5	54.6	62.3
placed into other section of the	–	–	–	–	–	–	3.5	5.5	5.9	7.3

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	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
budget classification										
in the comparable budget classification	17.7	29.3	26.2	30.7	34.1	35.9	48.9	54.0	60.6	69.6
Military expenditures, the UN data	–	28.3	35.9	35.2	42.9	42.0	52.2	58.1	55.4	–
Overall direct military expenditures	24.4	37.8	34.6	38.6	44.6	46.5	60.5	71.0	79.1	90.2
Aggregate direct and indirect military expenditures pertinent to the current and past military activities	27.2	42.6	40.2	49.6	57.9	53.7	67.1	77.1	89.6	98.8
			For reference							
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	118.8
Expenditure deflator on final consumption by public administration ^f as % to the prior year	138.5	153.6	134.4	126.9	119.2	119.7	124.5	124.3	121.1	125.0
The purchasing power parity ^h , Rb./USD.	5.29	7.15	8.19	9.27	10.41	11.89	12.74	14.14	15.36	16.57

^a For 2008 – preliminary data of the Federal Treasury on execution of the federal and consolidated budgets

^b Expenditures of the RF Ministry of Defense and classified expenditures by sections 04–09 and 11 of the 2005–2008 federal budgets.

^c The 1999 data was not submitted by the RF government to the UN, the 2008 ones shall be submitted in 2009; they include expenditures on supplies of the RF Minister of Interior's armed forces, the border-guard forces, and the civil defense in particular.

^d Inclusive of supplies of the RF Minister of Interior's armed forces, the border-guard forces, the civil defense forces, and other elements of the Military Establishment.

^e Plus pensions to the military. Deflated with the use of the expenditure deflator on final consumption by public administration

^g For 2008- the IET estimates.

^h For 2006–2008 – the linear trend of values of the previous years (the IET estimates).

Sources: The 1999-2008 federal budget acts and acts on execution of the 1999–2007 federal budgets.; Natsionalnye scheta Rossii v 1997–2007 godakh: Sta.sb./Rosstat. M., 2005–2008; Obyektivnaya informatsiya po voennym voporsam, vklyuchaya transparentnost voyennykh rashodov. Doklady Generalnogo Sekretarya OON 2001–2008 gg.; Rosstat; The Federal Treasury.

5.8.6. Development of Russia's Military Establishment: Trends and Outlooks

Because of a number of factors, of which the most critical one became military action in the Southern Ossetia and Abkhazia in August 2008, the government has taken on the implementation of the design of the long-needed military reform. But what raises concern is not a reactionaries' counter stand or the removal of the Federation Council from the decision-making process. Rather, it is the absence of support to the reformers' efforts on the part of the bulk of the military and the society, as the reform blueprint was coined privately, the decisions were made without discussion and justification. That is why its mistakes become visible only at the stage of the reform implementation - hence the *déjà-vu* effect of the situation around the notorious "monetization of benefits".

The equally pernicious factor of a possible failure of the reform may become corruption, which, as a nationwide challenge, is not foreign to the Military Establishment. The situation aggravated in 2008, which can be partly explained by the forthcoming mass dismissal of officers and warrant officers from the so-called plum jobs.

The time calls for legislative action. The priority should become a proposal to amend the wording of Art. 34 "On military conscription and military service" to eliminate the possibility to compel conscripts to sign a contract after the half year of service. The military in the barrack, beyond the normal framework of civil rights – such a situation is pregnant with a great number of offences. The respective proposals on amending the law were drafted in co-

operation with Russian human rights organizations and submitted to the Ombudsman of RF to promote them through official channels.

The year of 2009 should become the first one of implementation of the new FTP on improvement of the system of manning of the national Military Establishment. But, as the analysis of the Program showed, it was approved in such a form that not just exacerbates its drawbacks, but ultimately blocks the intention to transfer all the regular troops to the category of military units of permanent combat alert. In a hope for a sound reaction of the veteran officers who will be in charge of such troops, one can pray of a prompt adjustment of the FTP, as it appears beneficial just for criminal structures that capitalize on defects of the manning system and the citizenry's fear of the military service.

Otherwise the country would face a social outbreak as soon as in 2009 or any time soon. The desperate contract soldiers and conscripts, including those who will be under pressure to sign military contracts will be joined by dismissed officers. Yet more negative may become sentiments of the officers who will be retained in the army, albeit being deprived of the currently declared attractive conditions of service, including a high pay and guaranteed housing. The authorities proposed, with no public discussion whatsoever, a procedure of "picking" a *corps d'elite* among the officer corpse to be awarded with a stunningly lavish compensation. This move seems very dubious and may result in a growing frustration and cachexy of the officer corpse. Considering the President and PM's statements, the nation's leadership cares more of developing the warfare, rather than the cadres' problem. While the need in new arms is no doubt matters, without solving the problem as to in whose hands they will go, their manufacturing and supplies to the army may not ensure a desired enhancement of the combat efficiency.

Hence, other earlier discussed proposals remain in force. These are:

1. The society must be aware of the assessment of outputs of the recently completed FTP, as well as parameters of the new one. The latter program concerns not only the Military Establishment and the government, as the problem of the manning of the Military Establishment affects interests of the overwhelming majority of the RF citizenry and impacts all the sectors of the economy. There is the need in promulgation of legislation that would unambiguously read that conscription is effective only in the peacetime, solely for the sake of obtaining a military specialty which shall be needed for a further career in the standing army or for completing the reserve force.
2. Let us note that the government implements proposals we put forward in the last year's analysis of the military economy – namely, it increases allowances to officers of the standing army and cuts their number – chiefly in the formations that do not fall under the permanent alert category. But while raising their pay, one should do the same, as far as sergeants and even privates (seamen) are concerned, otherwise the Military Establishment would not advance on the labor market, nor contract soldiers would qualify for the military service. The hope that the current economic crisis would increase the number of the unemployed and help cut the average salaries and wages nationwide, which in turn would ensure a great influx of young and healthy individuals into the army, seems very shaky. Should there be any progress in this regard, its effect will be a temporary one.
3. As the military action in the Northern Ossetia and Abkhazia has exposed numerous drawbacks in equipage of our armed forces and triggered a consequent adjustment of the State Arms Program and the State Defense Order, an urgent problem became an extra departmental control over this sphere of the military economy.

4. As far as budgetary problems are concerned, the year of 2008 saw no progress in this respect. Rather, the negative tendencies intensified in this particular sphere.

It is important to bring the budget classification of RF in line with the mission, goals and objectives of the national Military Establishment; equally critical appears the need in building a clear inter-relation between indicators that characterize these activities and funds spent on their exercise.

In 2008, the secrecy around the military expenditure did not dilute, but intensified. This means that the propensity for corruption in the national budgetary system will continue exerting its negative influence both on the military economy and the national economy as a whole.

5. The world financial and economic crisis, too, has contributed to the overall aggravation of the situation. It is still an unanswered question as to whether its impact on Russia's military economy may be positive and result in a greater financial discipline, a genuine optimization of management, halting of corruption and thievery, growth in the military's welfare, and, ultimately, solidification of the country's defense capacity. It may well happen that things will turn to the worse and engender a sequestration of the budget, back-out with regard to all the promises given to the military, and a lower combat efficiency. Under such circumstances the public control over the Military Establishment and the military economy forms an efficient means of getting out of the crisis with minimum sacrifices of the country's defense capacity.