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- R95 **Russian Economy in 2015. Trends and Outlooks. (Issue 37) /**  
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The review provides a detailed analysis of main trends in Russia's economy in 2015. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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## Military economics and military reform in Russia in 2015

Unlike previous years, the findings of analysis of Russia's military economics and policy in 2015 fail to match what is perceived as absolute peacetime. The IISS, a world-leading authority on global security,<sup>1</sup> argues that Russia is conducting a so-called hybrid warfare. The published views of western experts on hybrid warfare reflect the events occurred in Ukraine over the last two years.

The spring of 2015 saw changes in accusations against Russia following Russia's air strikes and cruise missiles strikes on the positions of ISIS terrorists in Syria. The fact that Russia is conducting special-purpose military operations is indisputable. Russia took the terrorist attack that brought down the Russian plane in Egypt, killing all 224 Russian passengers on board, as military assault against Russia's nationals, thus forcing Russia to introduce retaliatory military counteractions against not only the ISIS in Syria but also against organizers and sponsors of terrorism. Later there were acts of terrorism in France, that prompted the French government to join the war against the ISIS, acting in conjunction with Russia and with a few other countries. Being unhappy with these developments, the Turkish government prepared the shoot down of a Russian military jet along the Syrian border. Russia responded with economic countersanctions, warning more sanctions could follow. Therefore, it appears logical that a new version of the Russian Federation National Security Strategy (Executive Order of the President No. 683 dated December 31, 2015) was approved on the very last day of 2015.

### 6.5.1. Economic and political preconditions for new type of warfare (V. Tsymbal)<sup>2</sup>

The born of a new era of warfare has in recent decades been in the focus of military-political and military-science experts. The new warfare differ basically from the old warfare in the military application of latest scientific and technical achievements basically in the field of informatics, telecommunications, cybernetics, as well as social psychology, etc. Traditional methods of waging and carrying on wars are passing. Following the first brand new war of 1991 (against Iraq), military specialists began to talk about their understanding the novelty of such wars. The focus was first of all placed on the "non-contact" nature of military operations<sup>3</sup> conducted over great distances. Later it turned out that there is much more novelty in new-type wars, especially regarding the waging, conduct and the outcome of such wars.

Specialists distinguish the information aspect which they call information warfare (IW) as the principal characteristic of modern warfare, whereas information security is viewed as a countermeasure. The second specific feature is deliberate chaotization of social relations, the involvement of paramilitary forces, private military corporations in the warfare, and turning a well-ordered peace-time situation into a so-called "controlled chaos".

Russia's Information Security Doctrine has been in effect since 2000, the provisions thereof were recognized in the Russian Federation National Security Strategy in 2010 and enhanced in

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<sup>1</sup> Military Balance 2015. London: The International Institute for Strategic Studies, 2015. P. 17.

<sup>2</sup> Author of this section: Tsymbal V. – RANEPa.

<sup>3</sup> Slipchenko V., Garaev M. The future of war. M.: OGI (Polit.ru), 2005.

the updated version thereof. Information security is considered a pressing issue in other countries, too. A new “Cyber” section has recently been added to the Military Balance’s traditional sections that describe the state of armed forces and branches, combat power (missiles, air jets, tanks, etc.). The section contains data on national military capabilities in the cyberspace and, broadly speaking, in the information domain.

When the new-type warfare became a widespread practice, Russia’s Foreign Ministry submitted in 2011 to the UN a draft Convention on International Information Security<sup>1</sup>. It was suggested to limit new (information) weapons and the application thereof similarly to what was done with the application and the spread of nuclear, chemical, biological and other types of weapons of mass destruction (WMD). However, Russia’s initiative was not supported, and on July 24, 2013 Russia’s President approved the Basic Principles for State Policy of the Russian Federation in the field of International Information Security until 2020”.<sup>2</sup> (Note that in 2015 the US military-political leadership agreed to discuss internationally the issues of confrontation in the cyberspace). The above-mentioned official documents of the Russian Federation contain a definition of IW, which is quite useful, although it has not yet been universally accepted. The IW is referred to as “confrontation between two or more states in the information domain with the aim of causing harm to information systems, processes and resources and to other critical units; undermining political, economic and social systems; producing a massive psychological effect on the population in order to destabilize society and the state; and forcing a state to take decisions in the interests of the opposing side”. This is forceful *persuasion* of a state by any other state (states) in the interests of the latter that prompts one to consider such confrontation a *war*.

The above-mentioned objective of undermining the economic system is of special interest. Belligerent states had the same objective during past wars, too. However, sanctions have become an efficient tool in modern warfare in the context of globalized economy. Furthermore, Western IW military analysts and practitioners *include sanctions in the list of new warfare means*, as evidenced by a special section of another handbook<sup>3</sup> on the theory and practice of dealing with defense issues.

With such a broad definition of IW, it is difficult to separate the conventional military component from the others, all the more so, because new-type wars tend to begin exclusively in the information domain. Paramilitary forces and troops, less often regular armed forces, enter gradually the confrontation, which is followed by conventional, although limited, warfare with great losses of military personnel and civil population. In this case, it is common to say *information war gives way to hybrid war*. Hybrid warfare (HW) can be a part of a hybrid war. An illustration of new-type warfare is Iraq, Yugoslavia, Livia, etc.

What is most woeful in IW and then HW is floods of misinformation by opposing sides, and lies disguised as truth using unprecedented psychological techniques of massive effect on population, and sophisticated, cutting-edge devices designed to process and deliver information to the population. Of special interest is that new-type wars are normally not declared as such,

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<sup>1</sup> Convention on International Information Security. The concept prepared by the UNSC and Russia’s Ministry of Foreign Affairs. 2011. URL: [www.mid.ru/bdcomp/ns-osndoc.nsf/e2f289bea62097f9c325787a](http://www.mid.ru/bdcomp/ns-osndoc.nsf/e2f289bea62097f9c325787a) (accessed date: December 11, 2015).

<sup>2</sup> Basic Principles for State Policy of the Russian Federation in the field of International Information Security until 2020. Executive Order No. 1753 dated July 24, 2013

<sup>3</sup> Kaempfer W.H., Lowenberg A.D. The Political Economy of Economic Sanctions // Handbook of Defense Economics. Ch. 27. Vol. 2. Defense in a Globalized World. 2007.

and most of the work is done by others rather than by the aggressor itself. Any IW is conducted within purportedly peaceful relations with purportedly non-military sanctions.

Considering the above-mentioned opinion of foreign experts, as well as the Russian experts' definition of IW, the following argument can be presented.

In the modern new-type warfare Russia is confronting the states that imposed economic and political sanctions against Russia, as well as Russia is fighting with organizers of acts of terrorism. Hence it is these states that are opposing Russia in the ongoing IW. And the new version of the Russian Federation National Security Strategy for the first time named the United States and NATO and the ISIS as a threat to Russia. Russia imposed similar countersanctions against the states that joined sanctions against Russia, whereas Russia is using means of armed fight against those who use arms.

Indeed, the term “war” appears to be extremely violent, therefore, while using this term one should name all the opposing sides and point to the fact that in this war (IW and HW) Russia is fighting for its political and social-economic interests. In this war Russia is countering an adverse effect of political, financial, economic and other sanctions that are used as special means in the confrontation.

#### 6.5.2. Information-related aspect of defense control (V. Tsymbal)<sup>1</sup>

Absolute domination of information technologies and means of information as mainstay of new-generation warfare prompted the development of means of information. Short-term experience in the new-type warfare shows that the mankind surprisingly easily reacted to the way IW-aggressors used information to “brainwash” their victims. Quasi-independent mass media unexpectedly pooled their efforts in “attacking” not only target-countries but also the global community as a whole. And similar quasi-independent IT companies arranged data exchange networks in the cyberspace beyond the government control, thus operating against lawful authorities. One may recall the information “tsunami” that covered the world when IW was waged against Yugoslavia, Iraq, Libya, etc.

The same holds true for Russia. The Russians were exposed to the same effect more than once: in 2008, when a strike on Russia's peacekeeping forces was followed by Georgia's military operation in South Ossetia; in 2014, following the coup in Ukraine and the referendum in Crimea; in the fall of 2015, when Russia joined the fight against the ISIS in Syria. One can only guess what kind of methods and means were used to pool efforts of numerous mass media to meet the demand of initiators of each new IW.

Note that economic aspects of military and security agencies' operations aimed at not only intelligence and counterintelligence but also at propaganda were always confidential. At the same time, the necessity and utility of financial investment in the field of informatics and cybernetics became apparent when the National Defense Control Center of the Russian Federation (NDCC) was established by the end of 2014 and upgraded in 2015. The establishment of the NDCC has proved its value.

First, the cross-sectoral exchange of military-economic data has been streamlined substantially in Russia. “Federal executive authorities and organizations send daily more than thousand information arrays to the National Defense Control Center. The data exchange has tripled over the recent period”, said Head of NDCC general Mizintsev at a meeting with members of the Defense Ministry Public Council.<sup>2</sup> The NDCC sends to mass media official information on

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<sup>1</sup> Author of this section: Tsymbal V. – RANEPa.

<sup>2</sup> URL: <http://www.mk.ru/politics/2015/10/20/obshchestvennyy-sovet-pomogaet-shoygu-navesti-poryadok.html>

Russia's defense activities. Second, efficiently coordinated control from the NDCC by combined efforts of military and top non-military (local) government authorities, as well as troops (forces) of various armed forces' services and branches, including representatives of other states, was tested during military drills.

Third, the system of military logistics and of supply, jointly with the EMERCOM, of vital goods to the Donetsk and Lugansk People's Republics ran flawlessly. This was performed in cooperation with OSCE representatives. A more sophisticated system was put into operation in the fall of 2015, designed to deliver and deploy in Syria military personnel, equipment and means of armed fight with the so-called ISIS. At the same time, the issues of ensuring cooperation with the Syrian military command authorities and coordination of Russia's forces with the forces of other states involved in fighting against terrorists were tackled successfully.

Forth, what is most important and unusual for military command authorities is that the NDCC helps to implement the idea of end-to-end supervision of all stages of financing, production and delivery of military products while the State Defense Order (SDO) is implemented pursuant to the new Federal Law on the SDO. Quarterly holding of the single day of acceptance of military products was put into practice. In particular, summarizing the outcomes of Q3 2015, Russia's Defense Minister Sergey Shoigu noted "we have learned how to commission facilities and how to supply equipment on a rhythmic basis throughout the entire year, thus avoiding the year-end rush that affected seriously the quality of supplied products and hence their acceptance and distribution in the armed forces".<sup>1</sup>

Since new-type wars, as noted above, are attended with floods of misinformation, the NDCC and the administration of public mass media are seeking to ensure that information is credible. For example, the information on air strikes on ISIS positions in Syria is communicated to all the mass media, specifying the source of such information and not citing unspecified "evidence" from unidentified "witnesses". Summarizing the analysis of information-related aspects of IW, note that from the military-theoretical point of view the world community is witnessing a fight between the initiators of a new global IW and Russia. To win the fight, it is critical not to simplify Russia's actions, and to avoid the news-release technique that withholds the real military capacity of the ISIS and of other opponents of Russia.

#### 6.5.3. Military-technical procurement of armed forces (V. Tsymbal)<sup>2</sup>

There are two main lines of military-technical procurement of Russia's Armed Forces that have been identified.

On the one hand, the mounting threat that the United States and NATO might have the so-called Prompt Global Strike and the Pan-European ABM System has prompted Russia to keep up its nuclear deterrent capabilities which have had to be given priority. Not incidentally, President Putin at the Defense Ministry Board held on the eve of 2015 stressed upon the need to complete a plan of Russian Federation defense and development of strategic nuclear forces (SNF) as "a factor of maintaining the global equilibrium", excluding the "possibility of major aggression against the Russian Federation".<sup>3</sup> The defense plan was approved as instructed by the President, and Russia's SNF were equipped with more than 50 intercontinental ballistic missiles. In addition, Russia embarked on modernization of its missile carrying bombers fleet including TU-160 and TU-95MS, and put on combat duty the project 955A Borei-class nuclear-

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<sup>1</sup> URL: [http://function.mil.ru/news\\_page/country/more.htm?id=12060449@egNews](http://function.mil.ru/news_page/country/more.htm?id=12060449@egNews).

<sup>2</sup> Author of this section: Tsymbal V. – RANEPa.

<sup>3</sup> *Safronov I.* Armed Forces aimed to targets // Kommersant. December 20, 2014.

powered submarines Vladimir Monomakh and Alexander Nevsky. In addition to this, a new branch of Russia's Armed Forces – Airspace Forces (VKS) – was established in 2015, embracing the air force, airspace and air defense forces. VKS's combat effectiveness was crucial not only in tactical military operations against the ISIS, but also in showing combat capability of the military deterrent forces. On the other hand, the military drill experience and, most importantly, the specifics of military operations against terrorists in Syria prompted the development of operative-tactical means of combat, especially extra supply of tactical precision-guided weapons to destroy ISIS combat control centers and arsenals of weapons. A positive thing regarding this aspect of armament is that the NDCC demonstrated and mass media retranslated the successful employment of guided aircraft missiles, especially X-29 and 500 and 1500 kg caliber guided air bombs. In terms of IW, the facts of employing Russia's precision-guided weapons as well as the facts of rational unification of means of combat, cost-efficiency of their modular design were perhaps more important than the damage they delivered to the ISIS. It appeared that the data on the employment of these weapons were reasonably declassified. The demonstration of the employment of VKS to enhance fire and radio-electronic support of the Syrian ground forces is also useful but less efficient.

It is very important that Russia's actions in Syria proved high efficiency of electronic warfare weapons (EWW) as a key factor of confrontation typical of IW and HW. Adding to the efficient employment of air-based EWW in “forcing” US combat ships to leave some waters of the Black Sea in 2014, which was reported by Russia's mass media,<sup>1</sup> was the well-timed demonstration of the efficiency of Russia's modern warplane IL-20 ELINT (Electronic Intelligence platform) and EWW in Syria.

It appears that such “victories” in the IW are more illustrative than, e.g., the provision of summarized data for Russia and the global community. For example, the fact that “more than 3,000 state contracts have been concluded this year, whereby the armed forces have received more than 17,000 pieces of standard armament, military and special-purpose equipment”, as a result of which “the armed forces armament with cutting-edge weapons and military equipment under the 2015 SDO has already reached the parameters planned only for the current year”. General data of the armed forces rearmament amid IW are important but they are poorly digested even by military economists.<sup>2</sup>

In addition, Russia's mass media information on increasing stockpiles of precision-guided weapons in Russia's Armed Forces is effective in terms of IW. An information published by Kommersant-Vlast with reference to a source in the Military Industrial Complex<sup>3</sup> noted explicitly that Tactical Missiles Corporation, a Russian joint stock company, switched to a three-shift work schedule due to an increase in demand for arms delivery for the military operation in Syria.

It is difficult to say how the IW and HW events reflect the parameters of the new State Armaments Program, but the critique of heavy military spending at the expense of socio-economic spending appears to be reasonable not only because a military effect thereof is not obvious. The point is that there has been found no evidence of fulfilling the promise to turn military spending into a driver for the development of the national economy as a whole and the non-military sector thereof.

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<sup>1</sup> *Bozhyeva O.* The 6th generation war: how we jam hostile radars, satellites and computers. *Moskovskiy Komсомоlets*. January 8, 2015.

<sup>2</sup> *Vzglyad* dated October 28, 2015 URL: <http://vz.ru/news/2015/10/26/774510.html>

<sup>3</sup> URL: [http://ria.ru/defense\\_safety/20151026/1308245566.html#ixzz3pf4jP87v](http://ria.ru/defense_safety/20151026/1308245566.html#ixzz3pf4jP87v)



#### 6.5.4. Recruitment policy (V. Tsymbal)<sup>1</sup>

In our previous reviews we wrote about the issues of the recruitment policy, facing Russia's armed forces; in particular, complete abandonment of peacetime conscription. While the idea of voluntary military service is still pressing, the context was changed after the onset of IW and HW. It appears that the complete abandonment of conscription has to be postponed.

It is extremely important that the nature and terms of one-year conscription have been improved dramatically. Moreover, non-military higher school students have an opportunity to obtain military skills at senior divisions while keeping up the quality of civil education.

The enlistment rate of new contracted military personnel in the armed forces is satisfactory (54,000 persons in 2015), and "the total number of contracted military personnel has recently increased 327,000 persons", noted the Head of NDCC at the above-mentioned meeting.

The Russian government have achieved notable results in providing military personnel with all types of allowances. Even in 2015, despite difficulties due to sanctions, the government managed to compensate in part servicemen and retired military personnel for the fall of living standards. In 2015, the issue of housing provision in Russia's armed forces and other military and security forces was nearly tackled. The system of housing provision management was re-organized with success, which previously comprised about 3,500 full-time managers and above 6,000 members of various commissions, and the central Department for Housing Provision was established with local branches located in each military district, as well as its cells were established in Kazakhstan and Tajikistan. The new system is comprised of about 700 managers, and Alushta software designed in 2011 is employed for real-time unified recordkeeping of all the military personnel in need of housing, and of all the housing stock. It took these bodies five years to tackle housing issues facing about 300,000 families. The number of persons in need of housing dropped from 82,000 to 34,000, with new military personnel being enlisted every year (up to 50,000 families). Furthermore, all the options of housing provision suitable for military personnel still remain in force. At the same time, outlooks were updated: Russia will have a single procedure for housing provision via the savings and mortgage system beyond 2024. Previously, all the military personnel who signed their first military service contract after January 1, 2008, including graduates from military higher schools, were covered on a mandatory basis by the savings and mortgage system.

As noted at a meeting of the NDCC management with the Defense Ministry Board, military service is acquiring more prestige and popularity, as evidenced by the fact that "over the past three years the armed forces have seen the situation with higher military schools change from shortage of applicants to an enrollment competition of 3 to 10 applicants per place this year". Furthermore, not only was military training of students resumed, but it was also focused on new needs. In particular, a well-equipped cadet ITC school for gifted children was opened under the auspices of the Budenny Military Academy of Communications in St. Petersburg.

The disciplinary practice will be enhanced by the establishment of military police in Russia. The legal framework is based on Federal Law "On amendments to certain legal acts of the Russian Federation regarding the military policy in the Armed Forces of the Russian Federation" No. 7-FZ dated February 3, 2014. The Federal Law stipulates the rights and tasks of the military police. A Military Police Charter governing the military police's key duties, functions and powers was approved by the Executive Order of the President, which was signed in late March 2015.

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<sup>1</sup> Author of this section: Tsymbal V. – RANEPА.

#### 6.5.5. Reform to implement the state defense order (V. Tsymbal)<sup>1</sup>

The standoff qualified as specific (information) warfare at the international level, which has entered the stage of hybrid warfare, has resulted in the growing need for (high-accuracy, technologically sophisticated and expensive) warfare means. Naturally, efficient spending of state budget funds has become most pressing issue in this context.

In his 2015 annual state-of-the-nation address to the Federal Assembly, Russia's President noted that "misuse of state budget funds allocated for the purpose of implementing the State Defense Order is posing a direct threat to the national security of the state"; therefore, the President instructed to develop a system of strict monitoring of the proper use of SDO funds. A interdepartmental system of this kind was established in Russia. "A new interdepartmental control system comprises a set of interrelated elements such as the single unique state order number across the entire chain of SDO settlements, and the opening by all the contractors of special bank accounts with authorized banks which have become full-fledged parties to the monitoring of proper use of state budget funds", noted Deputy Minister of Defense Tatiana Shevtsova.<sup>2</sup> Hopefully, this will "color" the cash flow allocated for implementing the SDO, separating it (the cash flow) from the rest of the monies held by an enterprise, as well as this will ensure that cash flows are transparent across the entire chain of contractors. Pursuant to the SDO law, the Ministry of Defense has established a single information system of SDO settlements for analyzing the data for SDO settlements. As a reminder, the SDO implementation monitoring has become one of the NDCC's key functions. A list of operations prohibited for specific accounts has become the key tool of preventing misuse of SDO funds. Authorized banks will conduct the compliance monitoring. All in all, this package of measures is assumed to tame corruption within the SDO framework.

#### 6.5.6. Military-financial policy (V. Zatsepin)<sup>3</sup>

In 2015, unlike the previous year, the federal budget was executed using more than a single intra-year adjustment, and the federal budget law was updated three times in the period between April and November.<sup>4</sup> Originally, the 2015 federal budget law allocated Rb 3 trillion 274bn of under the National Defense budget function,<sup>5</sup> an increase of Rb 247bn over the amount planned by the government a year earlier<sup>6</sup>. In April and July, allocations under the same budget function were cut to Rb3 trillion 108bn, but in November they were up to Rb 3 trillion 163.8bn (3.9% of GDP). In real terms, the allocations under the same budget function increased 19% (28% in nominal terms) over 2014.

All the foregoing military expenditure are not included into the published laws and are recognized under explanatory notes to the draft budget laws and to the federal budget laws. The transparency of the 2015 federal budget expenditure continued to worsen, exceeding the highest

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<sup>1</sup> Author of this section: Tsymbal V. – RANEPА.

<sup>2</sup> URL: [http://function.mil.ru/news\\_page/country/more.htm?id=12044981@egNews](http://function.mil.ru/news_page/country/more.htm?id=12044981@egNews).

<sup>3</sup> Author of this section: Zatsepin V. – RANEPА.

<sup>4</sup> Federal Law "On the Federal Budget for 2015 and the Planning Period of 2016 and 2017" No. 384-FZ dated December 1, 2014, which was amended by Federal Laws No. 93-FZ dated April 20, 2015, No. 211-FZ dated July 13, 2015 and No. 329-FZ dated November 28, 2015.

<sup>5</sup> "Budget of individuals" to the Federal Law "On the Federal Budget for 2015 and the Planning Period of 2016 and 2017". Moscow. December 2014, p. 8.

<sup>6</sup> The Council of the Federation Committee on Defense and Security's report on Federal Law "On the Federal Budget for 2014 and the Planning Period of 2015 and 2016" No. 3.3-04/1891 dated November 26, 2013.

level of 2014 by 4.2 percentage points while confidential expenditure stood at Rb 2 trillion 980bn (3.7% of GDP, 19.1% of the federal budget expenditure as a whole).

Table 18 presents absolute and relative values of the key components of direct military expenditure in the 2015 federal budget, including the change in real terms over 2014, which are based on Federal Treasury's reports. Conversion into the 2014 prices was performed using Russtat's second estimation<sup>1</sup> of the 2015 GDP deflator index (107.7%).

Table 18

**Federal budget direct military expenditure under 'National Defense'  
budget function in 2015**

Function and subfunctions	2015, rubles in millions/ same in 2014 prices	Changes in 2015 over 2014, rubles in millions/ growth, %	Share of allocations, % / changes from 2014, percentage points	
			of 2015 federal budget	of GDP
NATIONAL DEFENSE	<u>3.181.367</u> 2.953.915	<u>474.841</u> 19.15	<u>20.38</u> 3.66	<u>3.94</u> 0.75
Armed Forces of the Russian Federation	<u>2.432.905</u> 2.258.964	<u>373.105</u> 19.78	<u>15.58</u> 2.87	<u>3.01</u> 0.59
Mobilization and paramilitary training	<u>6.296</u> 5.845	<u>-616</u> -9.53	<u>0.04</u> -	<u>0.01</u> -
Mobilization preparation of economy	<u>4.020</u> 3.733	<u>-218</u> -5.53	<u>0.03</u> -	<u>&lt;0.01</u> -
Nuclear-weapons complex	<u>44.385</u> 41.212	<u>4.495</u> 12.24	<u>0.28</u> 0.04	<u>0.05</u> 0.01
International obligations in military- technical cooperation	<u>10.325</u> 9.587	<u>3.123</u> 48.30	<u>0.07</u> 0.02	<u>0.01</u> -
Applied research in the field of national defense	<u>318.521</u> 295.749	<u>51.112</u> 20.89	<u>2.04</u> 0.39	<u>0.39</u> 0.08
Other matters pertaining to national de- fense	<u>364.914</u> 338.825	<u>43.840</u> 14.86	<u>2.34</u> 0.35	<u>0.45</u> 0.07

Source: own calculations.

Military expenditure under other federal budget sections are presented in Table 19. Expenditure for civil defense and for the EMERCOM troops are not included into the military expenditure under other budget functions due to changes in the UN military expenditure reporting standards that have been in effect since 2012.<sup>2</sup>

Table 19

**Direct and indirect military expenditure under other federal budget  
functions in 2015**

Subfunction, target function or type of expenditure	2015, rubles in millions/ same in 2014 prices	Changes in 2015 from 2014, rubles in millions/ growth, %	Share of expenditure, % / changes from 2014, percentage points	
			of 2015 federal budget	of GDP
1	2	3	4	5
<b>Nationwide matters</b>				
Defense Ministry Expenditures	<u>8</u> 7	<u>1</u> 17.62	<u>&lt;0.01</u> -	<u>&lt;0.01</u> -
<b>National Security and Law Enforcement</b>				
Interior Troops	<u>120.525</u> 112.909	<u>-16.733</u> -13.01	<u>0.77</u> -0.10	<u>0.15</u> -0.02
Border Troops	<u>136.709</u> 127.935	<u>-15.681</u> -11.00	<u>0.88</u> -0.09	<u>0.17</u> -0.01

Cont'd

<sup>1</sup> Concerning the production and usage of the 2015 gross domestic product (GDP). M.: Rosstat. April 1, 2016.

<sup>2</sup> The government expert group's report on the overview of functioning and further development of the United Nations system for the standardized reporting on military expenditure. A/66/89. UN, June 14, 2011.

1	2	3	4	5
<b>National Economy</b>				
Organization of alternative civil service	<u>2</u> 1	<u>&lt;1</u> 8.49	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
Presidential program “Destruction of chemical weapons stockpiles in the Russian Federation”	<u>464</u> 431	<u>7</u> 1.73	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
Subsidies to transport organizations purchasing motor vehicles to increase the military convoy rolling stock	<u>38</u> 35	<u>–17</u> –33.14	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
Subsidies to the Russia-NATO Coordination Center	<u>35</u> 32	<u>–6</u> –15.01	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
Federal Target Program “Industrial Utilization of weapons and military equipment (2011–2015) and until 2020”	<u>66</u> 61	<u>–17</u> –22.05	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
<i>Contributions to charter capital of and subsidies to organizations pertaining to the military-industrial complex</i>	<u>56.760</u> 52.702	<u>13.369</u> 33.99	<u>0.36</u> 0.10	<u>0.07</u> 0.02
Scholarships to young personnel employed by organizations pertaining to the military-industrial complex	<u>237</u> 210	<u>–29</u> –12.21	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
<i>Confidential expenditure</i>	<u>128.034</u> 118.880	<u>9.020</u> 8.17	<u>0.82</u> 0.08	<u>0.16</u> 0.02
<b>Housing and Utilities</b>				
<i>Defense Ministry Expenditures</i>	<u>22.479</u> 20.872	<u>–11.207</u> –34.94	<u>0.14</u> –0.07	<u>0.03</u> –0.01
Presidential Program “Destruction of chemical weapons stockpiles in the Russian Federation”	<u>60</u> 55	<u>55</u> –	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
<b>Education</b>				
<i>Defense Ministry Expenditures</i>	<u>66.704</u> 61.935	<u>1.371</u> 2.26	<u>0.43</u> 0.02	<u>0.08</u> 0.01
<b>Culture and Cinematography</b>				
<i>Defense Ministry Expenditures</i>	<u>3.009</u> 2.794	<u>50</u> 1.82	<u>0.02</u> –	<u>&lt;0.01</u> –
<b>Healthcare</b>				
<i>Defense Ministry Expenditures</i>	<u>56.407</u> 52.374	<u>–3.874</u> –6.89	<u>0.36</u> –0.02	<u>0.07</u> –
<i>Provision of medicines to ZATO FMBA</i>	<u>86</u> 80	<u>–71</u> –46.89	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
<b>Social Policy</b>				
<i>Defense Ministry Expenditures</i>	<u>442.831</u> 392.198	<u>61.892</u> 18.74	<u>2.84</u> 0.61	<u>0.55</u> 0.13
<i>Expenditure for Interior Troops of the Ministry of Internal Affairs and for Border Troops</i>	<u>38.241</u> 33.868	<u>–1.497</u> –4.23	<u>0.24</u> 0.01	<u>0.05</u> –
Material support to specialists employed by the nuclear weapons complex of the Russian Federation	<u>7.172</u> 6.352	<u>–126</u> –1.94	<u>0.05</u> –	<u>0.01</u> –
Repairing individual residential houses owned by military personnel’ families who lost their bread-winner	<u>200</u> 186	<u>–39</u> –17.39	<u>&lt;0.01</u> –	<u>&lt;0.01</u> –
Military personnel survivor benefits	<u>1.908</u> 1.690	<u>6</u> 0.35	<u>0.01</u> –	<u>&lt;0.01</u> –
One-time pregnancy allowance to spouses of conscripts, as well as monthly child’s benefit to conscripts	<u>1.006</u> 891	<u>–158</u> –15.04	<u>0.01</u> –	<u>&lt;0.01</u> –
<b>Physical Culture and Sports</b>				
<i>Defense Ministry Expenditures</i>	<u>4.202</u> 3.902	<u>1.822</u> 87.64	<u>0.03</u> 0.01	<u>0.01</u> –
<b>Mass Media</b>				
<i>Defense Ministry Expenditures</i>	<u>2.280</u> 2.117	<u>51</u> 2.46	<u>0.01</u> –	<u>&lt;0.01</u> –

Cont’d

1	2	3	4	5
<b>General Purpose Inter-Budget Transfers to Budgets of the Budget System of the Russian Federation</b>				
Subsidies to budgets of Closed Administrative-Territorial Units (ZATOs)	9.988 9.273	-2.292 -19.82	0.06 -0.01	0.01 -
Relocation of persons from ZATOs	314 292	-209 -41.77	<0.01 -	<0.01 -
OTHER BUDGET FUNCTIONS	1.099.764	43.918	7.04	1.36
TOTAL	1.021.136	4.30	0.46	0.11

Source: own calculations.

As a result, the 2015 total military allocations (see *Table 20*) in Russia's federal budget, that are calculated according to the UN standards for military expenditure, increased 0.9 percentage points GDP over the past year, to 5.3% of GDP.

*Table 20*

**Total military and military related federal budget expenditure in 2015**

Expenditures	Amount, rubles in millions	Share of expenditure, % / changes from 2014, percentage points	
		of 2015 federal budget	of GDP
Total military expenditure related to current and previous military operations	4.281.130	27.42 4.12	5.30 0.86
Total expenditure for 'National Defense' and 'National security and law enforcement' budget functions	5.146.977	32.97 2.19	6.37 0.51

Source: own calculations.

In 2015, the peak of expenditure under the 'National Defense' budget function – Rb 1453bn (45.7% of the total allocations under this budget function stipulated in the budget law, an increase of 6.4 percentage points over the amount a year earlier) – was reported again in Q1 (27.4% in Q4). According to the federal budget quarterly breakdown, the highest amount of expenditure (Rb 24bn) over the limit of allocations stipulated under the budget law for this budget function was seen in December. As a result, the expenditure under the 'National Defense' budget function in 2015 were executed with an excess of Rb 17bn 567m over the allocations stipulated in the budget law's latest version. Furthermore, the Ministry of Defense's overdue accounts receivable increased Rb 242bn in 2015.<sup>1</sup>

In 2015, the Ministry of Defense's military personnel costs stood at Rb 429bn 836m (0.53% of GDP), a decline in real terms by 5% on an annualized basis. Military compensation for the conscripted military personnel continued to be Rb 2,000,<sup>2</sup> the average level of military compensation for other military personnel increased Rb 100 over 2014 to Rb 62,200.<sup>3</sup>

Labor costs of the civil personnel of the Ministry of Defense stood at Rb 203bn 722m (0.25% of GDP), a decline in real terms of 14.6% on an annualized basis.

In 2015, the Ministry of Defense's costs on combustibles and lubricants (CL) contracted in real terms by 2.5% year-over-year to Rb 68bn 759m while costs on subsistence support dropped in real terms by 0.8% year-over-year to Rb 53bn 728m. The Ministry of Defense's costs on individual military clothing dropped notably by 27.3% to Rb 26bn 938m, which can be explained by completed change-over to a new military uniform.

<sup>1</sup> Single acceptance day for military products. URL: <http://www.kremlin.ru/events/president/news/51496> (accessed date: March 11, 2016).

<sup>2</sup> Executive Order of the President "Concerning the extension of the term of experiment on cash allowance unification for the conscripted military personnel in the Armed Forces of the Russian Federation" No. 136 dated March 10, 2014.

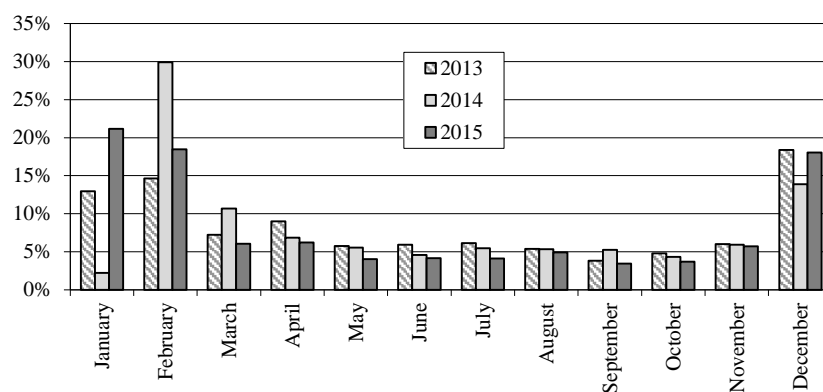
<sup>3</sup> *Falichev O.* Financial Mobilization . Voenno-promyshlenny kurier. February 3, 2016 (No. 3–4).

The Ministry of Defense's capital investment in real estate in 2015 increased 27.3% to Rb 226bn 578m (0.28% of GDP) under the 'National Defense' budget function, an increase of Rb 20bn 407bn, or 9.9% over the amount stipulated in the budget law. The expenditure under the 'Housing and Utilities' budget subfunction contracted by 34.9% to Rb 22bn 479m (0.03% of GDP). The federal budget expenditure for the saving and mortgage system of housing provision for the Ministry of Defense's military personnel contracted in real terms by 3.5% year-over-year to Rb 81bn 547m (0.1% of GDP).

In 2015, the Ministry of Defense spent Rb 305bn 286m (0.38% of GDP) on military personnel retirement pensions, a decrease in real terms by 5.9% on an annualized basis.

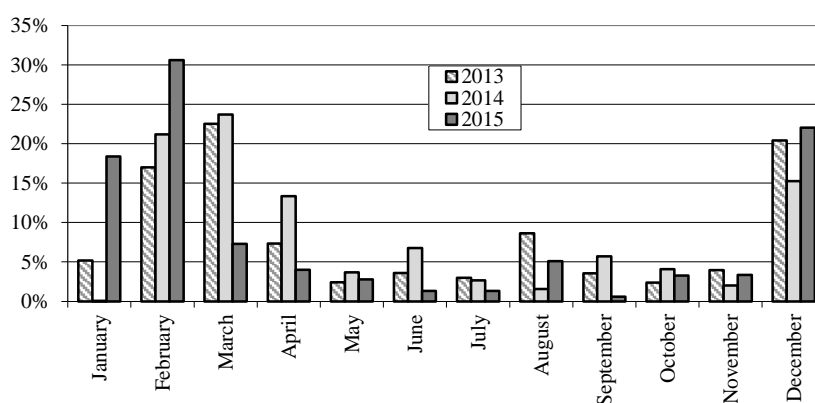
In 2015, the expenditure under 0208 'Applied Research in the Field of National Defense' subfunction were again ranked first in terms of growth rates in 0200 'National Defense' budget function, an increase in nominal terms of 30% year-over-year to Rb 318bn 521m (0.39% of GDP).

The dynamics of expenditure monthly execution under the major subfunctions of 0200 "National Defense" budget function of the federal budget in 2013–2015 is shown in *Fig. 14–16*.



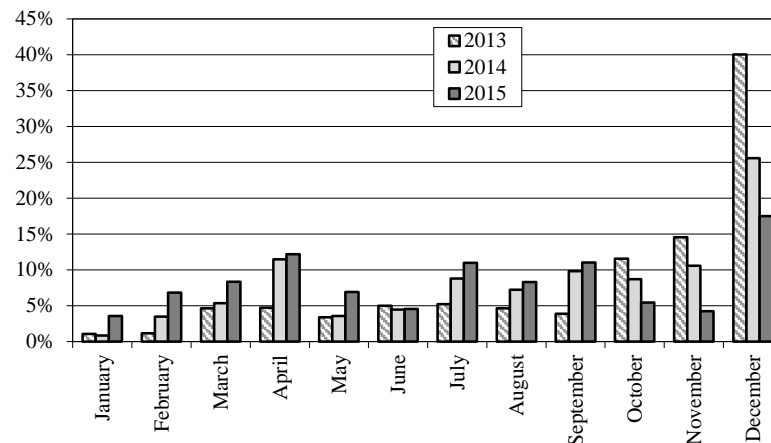
*Fig. 14.* Federal budget expenditure execution under 'Armed Forces of the Russian Federation' budget function in 2013–2015

*Source:* own calculations based on the data released by Russia's Federal Treasury.



*Fig. 15.* Federal budget expenditure execution under 'Applied Research in the Field of National Defense' in 2013–2015

*Source:* own calculations based on the data released by Russia's Federal Treasury.



*Fig. 16.* Federal budget expenditure execution under ‘Other Matters Pertaining to National Defense’ budget function in 2013–2015

*Source:* own calculations based on the data released by Russia’s Federal Treasury.

B *Table 21* shows military expenditure of the subjects of the Russian Federation. The expenditure did not exceed 0.01% of GDP, adding about one third to the federal budget mobilization expenditure.

*Table 21*

**Military expenditure of consolidated budgets of subjects of the Russian Federation in 2007–2015, rubles in millions**

Expenditure classification subfunction	2007	2008	2009	2010	2011	2012	2013	2014	2015
Armed Forces of the Russian Federation	0,3	0,3	–	–	–	–	–	–	–
Modernization of Armed Forces of the Russian Federation and military units	–	0,5	–	–	–	–	–	–	–
Mobilization and para-military training	1 245,6	1 702,2	2 021,6	1 958,4	2 187,3	2 316,4	2 444,7	2 518,9	2 494,7
Mobilization preparation of economy	840,9	1 063,9	989,7	1 247,8	1 266,3	1 689,1	1 935,1	1 580,9	1 332,6
Other matters pertaining to national defense	5,7	0,5	4,4	<0,1	2,7	3,0	2,9	3,0	16,9
Interior Troops	1,0	0,3	–	–	–	–	–	–	–
Total	2 093,5	2 767,7	3 015,7	3 206,2	3 456,3	4 008,5	4 382,7	4 102,8	3 884,1
Net military expenditure*	2 093,5	2 767,7	3 015,7	3 206,2	1 216,4	1 671,5	1 921,3	1 592,2	1 326,0

\* The difference between executed consolidated budget expenditures and federal budget expenditures.

*Sources:* Russia’s Federal Treasury; Gaidar Institute’s own calculations.

After cessation in 2014 due to international sanctions, granting of state guarantees to MIC organizations to ensure SDO execution was resumed on a very limited basis in 2015: the federal budget provided for granting guarantees worth Rb 26bn, 53% of which remained unallocated.

*Table 22* presents Russia’s military expenditure in the period between 2005 and 2015, which include total net military expenditure of the consolidated budgets of subjects of the Russian Federation (*Table 21*).

Table 22

**Key functions of military expenditure in the Russian Federation in 2005–2015**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	2	3	4	5	6	7	8	9	10	11	12
<b>1. In nominal terms (current prices), rubles in billions</b>											
Federal budget allocations under the National Defense budget function: in accordance with the current budget classification	578,4	686,1	839,1	1 031,6	1 192,9	1 278,0	1 537,4	1 846,3	2 111,7	2 470,6	3 163,8
Execution of federal budget expenditures under the National Defense budget function in accordance with the current budget classification <sup>a</sup>	581,1	681,8	831,9	1 040,8	1 188,2	1 276,5	1 516,0	1 812,3	2 103,6	2 479,1	3 181,4
Military expenditures according to the data submitted to U.N. <sup>b</sup>	659,0	815,9	942,0	1 118,0	1 166,1	1 162,5	1 423,3	1 689,3	1 660,1	1 962,1	–
Total military appropriations related to current and past military activities <sup>c</sup>	778,6	947,8	1 133,5	1 448,8	1 748,7	1 880,3	2 143,9	2 654,2	2 993,5	3 457,9	4 282,5
<b>2. In real terms (2015 prices) <sup>d</sup>, rubles in billions</b>											
Federal budget allocations under the National Defense budget function: in accordance with the current budget classification	1 582,3	1 629,9	1 751,5	1 825,4	2 069,6	1 941,8	2 015,3	2 234,4	2 437,9	2 660,8	3 163,8
Execution of federal budget expenditures under the National Defense budget function in accordance with the current budget classification	1 589,9	1 619,6	1 736,5	1 841,8	2 061,4	1 939,5	1 987,1	2 193,3	2 428,5	2 670,0	3 181,4
Military expenditures according to the data submitted to U.N.	1 802,8	1 938,2	1 966,4	1 978,3	2 023,1	1 766,3	1 865,7	2 044,4	1 916,6	2 113,2	–
Total military appropriations related to current and past military activities	2 130,1	2 251,6	2 366,0	2 563,6	3 033,8	2 847,0	2 810,3	3 212,2	3 455,9	3 724,1	4 282,5
<b>3. In real terms (2000 prices) <sup>e</sup>, rubles in billions</b>											
Federal budget allocations under the National Defense budget function: in accordance with the current budget classification	578,4	595,8	640,2	667,2	756,5	709,8	736,6	816,7	891,1	972,6	1 156,4
Execution of federal budget expenditures under the National Defense budget function in accordance with the current budget classification	581,1	592,0	634,7	673,2	753,5	708,9	726,3	801,7	887,7	975,9	1 162,8
Military expenditures according to the data submitted to U.N.	659,0	708,5	718,7	723,1	739,5	645,6	681,9	747,3	700,5	772,4	–
Total military appropriations related to current and past military activities	778,6	823,0	864,8	937,0	1 108,9	1 044,3	1 027,2	1 174,1	1 263,2	1 361,2	1 565,3



Cont'd

1	2	3	4	5	6	7	8	9	10	11	12
<b>4. Military encumbrance on economy<sup>f</sup>, % of GDP</b>											
Federal budget allocations under the National Defense budget function: in accordance with the current budget classification	2,68	2,55	2,52	2, 50	3,07	2,76	2,58	2,76	2,97	3,17	3,92
Execution of federal budget expenditures under the National Defense budget function in accordance with the current budget classification	2,69	2,53	2,50	2,52	3,06	2,76	2,54	2,71	2,96	3,18	3,94
Military expenditures according to the data submitted to U.N.	3,05	3,03	2,83	2,71	3,00	2,51	2,38	2,52	2,34	2,52	–
Total military appropriations related to current and past military activities	3,60	3,52	3,41	3,51	4,51	4,06	3,59	3,97	4,21	4,44	5,30
<b>5. By purchasing power parity (current prices), dollars in billions</b>											
Federal budget allocations under the National Defense budget function: in accordance with the current budget classification	45,4	54,4	60,0	71,9	85,0	80,7	88,6	102,3	114,3	129,6	128,3
Execution of federal budget expenditures under the National Defense budget function in accordance with the current budget classification	45,6	54,1	59,5	72,6	84,7	80,6	87,4	100,5	113,9	130,0	129,0
Military expenditures according to the data submitted to U.N.	51,7	64,7	67,4	78,0	83,1	73,4	82,0	93,6	89,9	102,9	–
Total military appropriations related to current and past military activities	61,1	75,2	81,1	101,0	124,6	118,8	123,6	147,1	162,1	181,3	173,7
<b>6. By yearly average exchange rate (current prices), dollars in billions</b>											
Federal budget allocations under the National Defense budget function: in accordance with the current budget classification	20,5	25,2	32,8	41,5	37,6	42,1	52,3	59,9	66,3	64,4	51,9
Execution of federal budget expenditures under the National Defense budget function in accordance with the current budget classification	20,5	25,1	32,5	41,9	37,4	42,0	51,6	58,8	66,1	64,6	52,2
Military expenditures according to the data submitted to U.N.	23,3	30,0	36,8	45,0	36,7	38,3	48,4	54,8	52,1	55,1	–
Total military appropriations related to current and past military activities	27,5	34,9	44,3	58,3	55,1	61,9	73,0	86,1	94,0	90,1	70,3

*Cont'd*

1	2	3	4	5	6	7	8	9	10	11	12
For reference											
GDP deflator, % year-over-year	119,3	115,2	113,8	118,0	102,0	114,2	115,9	108,3	104,8	107,2	107,7
Purchasing power parity <sup>g</sup> , RUB/USD	12,74	12,61	13,98	14,34	14,03	15,83	17,35	18,04	18,47	19,07	24,66
US dollar exchange rate (yearly average) <sup>h</sup> , RUB/USD	28,28	27,19	25,88	24,85	31,74	30,37	29,38	30,84	31,84	38,38	60,96

<sup>a</sup> – For 2015 – the data from the Federal Treasury's monthly report on federal budget execution as of January 1, 2016

<sup>b</sup> – Russia's government will submit the data for 2015 to the U.N. in 2016, including expenditures for MIA's interior troops and for border troops.

<sup>c</sup> – Including retirement pensions of military personnel and costs on the destruction of chemical weapons stockpile and utilization of military equipment.

<sup>d, e</sup> – Deflated using the GDP deflator.

<sup>f</sup> – In italics – with regards to GDP values not including the most recent updates in the Rosstat methodology.

<sup>g, h</sup> – For 2015 – own calculations.

*Sources:* The federal laws on the federal budgets of 2005–2015 and on the execution of the federal budgets of 2005–2014; Budgets for individuals; Objective information on military issues including military spending transparency. The U.N. General Secretary's reports in dated 2006–2015; Russia's Central Bank; Russia's Federal Treasury.