

GAIDAR INSTITUTE FOR ECONOMIC POLICY

RUSSIAN ECONOMY IN 2016
TRENDS AND OUTLOOKS
(ISSUE 38)

Gaidar Institute Publishers
Moscow / 2017

UDC 338.1(470+571)"2016"

BBC 65.9(2Poc)

R95 Russian Economy in 2016. Trends and Outlooks. (Issue 38) / [V. Mau at al; ed. S. Sinelnikov-Murylev (editor-in-chief), A. Radygin]; Moscow: Gaidar Institute Publishers 2017. – 480 pp. – ISBN 978-5-93255-502-6

The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; 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.

UDC 338.1(470+571)"2016"
BBC 65.9(2Poc)

ISBN 978-5-93255-502-6

© Gaidar Institute, 2017

Vasily Zatsëpin, Vitaly Tsymbal

6.8. Defense economy and military reform in Russia in 2016¹

In 2016, the main provisions of the military reform started in 2008 and approved by the Executive Order of President Vladimir Putin² of May 2012 were successfully realized as a whole.

6.8.1. Military recruitment and social policy

In July 2016, the total strength of the armed forces of the Russian Federation increased by 542 civilian personnel to 1,885,371 persons, while the manpower remained the same: 1 million military servicemen³, a decrease of 134,800 servicemen compared to 2008.⁴

It is to be noted that the indicators of the accountable strength both of the military personnel and civilian personnel remain much below those of the manning table. So, by the end of 2016 the accountable strength of the armed forces amounted to 930,000 persons, which was 10,000 servicemen (as judged by declared year-on-year growth in manning from 92% to 93%)⁵ and 100,300 servicemen more than a year ago and three years ago, respectively.

In 2016, the accountable strength of contract servicemen from rank and file to junior command personnel reached the historical maximum of 384,000 servicemen, an increase of 32,000 servicemen (9.1%) compared to a previous year. Sergei Shoigu, Defense Minister of the Russian Federation emphasized the fact that “for the first time in the Russian history noncommissioned officer corps had entirely become professional” (it means that all the sergeants and sergeant-majors do their military service voluntarily on a contract basis).⁶

So, in 2016 the Ministry of Defense of the Russian Federation managed to make professional the entire noncommissioned officer corps of the armed forces, which it planned to do as early as 2014, but failed to achieve the projected strength of 400,000 contract military servicemen⁷ in 2016 due to high fluctuation of rank and file and junior command personnel: there were about 45,000 retired servicemen per 77,000 newly recruited ones.⁸ To achieve the target strength of that category of military servicemen (425,000 servicemen) in 2017, the Ministry of Defense of the Russian Federation has to employ at least 41,000 servicemen which goal is quite feasible taking into account the experience of the past few years and the practice of amending the effective legislation. As early as autumn 2014, relevant amendments made it possible for

¹ Authors of chapters: V. Zatsëpin – RANÉPA (chapters 6.8.1 – 6.8.3); V. Tsymbal – RANÉPA (chapters 6.8.1, 6.8.2).

² Executive Order No.604 of May 7, 2012 of the President of the Russian Federation on Upgrading of Military Service in the Russian Federation.

³ Executive Order No.329 of July 8, 2016 of the President of the Russian Federation on the Strength of the Armed Forces of the Russian Federation.

⁴ Executive Order No.1 of January 1, 2008 of the President of the Russian Federation on Actions Strength of the Armed Forces of the Russian Federation.

⁵ Report by Sergei Shoigu, Defense Minister and Army General to the expanded meeting of the Collegium of the Ministry of Defense of the Russian Federation (December 22, 2016) URL: http://function.mil.ru/files/morf/2016-12-22_MoD_board_extended_session_RUS.pdf (accessed date: December 30, 2016).

⁶ Ibid.

⁷ Manning of the armed forces with military personnel. The 2013–2020 Policy Plan of the Ministry of Defense of the Russian Federation, 2013. URL: http://mil.ru/mod_activity_plan/constr/lvl/plan.htm (accessed date: December 30, 2016).

⁸ M. Yeliseeva. With a Focus on Future // The Krasnaya Zvezda. February 6, 2017 (No. 12). p. 2.

conscripts with higher education to choose between one year of compulsory military service and two years of contract military service,¹ while from 2017 all the conscripts are allowed to sign up a contract for the term of maximum one year for participation in combat missions, including those beyond the territory of the Russian Federation without being on a three-month trial period.² To make the manning of the armed forces with contract servicemen simpler, later in 2016 the government submitted a draft law to the State Duma to make persons with secondary vocational education equal to those with higher education, that is, such persons would have the right to sign the first contract without doing compulsory military service.³

In 2016, 307,000 persons⁴ were drafted into the military service, a year-on-year increase of 9,900 persons, but it was 1,100 persons less than in 2014.⁵ The Ministry of Defense assigned 275,000 persons out of that number for service in the armed forces⁶, while the remaining 32,000 persons were distributed among the National Guard, the Federal Security Service, the Federal Security Guard Service, the EMERCOM and other.

The number of servicemen under command of their commanding officers decreased from 49,000 servicemen three years ago to 2,000 servicemen in 2016.⁷ So, the Ministry of Defense is close to solution of the problem of this category of servicemen who are actually discharged from the armed forces, but keep receiving money allowances and wait for permanent housing to be granted them.

In 2016, about 1,000 officers of the Ministry of Defense served as sergeants and were to be reassigned to the position of an officer until the end of the year.⁸ According to the information of the mass media, in 2016 the overall number of officers doing military service amounted to 225,000 persons⁹. The official data on the number of officers and warrant officers of the Ministry of Defense in 2016 is unavailable, except for that on high-ranking officers, in which category out of 730 permanent appointments only 38 was vacant.¹⁰ It was reported about problems related to manning of the aircraft personnel of the Russian Aerospace Forces and commandship of platoons of ground forces, as well as a nearly twofold reduction of the number of officers discharged from the armed forces ahead of time.¹¹ In 2016, over 11,000

¹ Federal Law No.159-FZ of June 23, 2014 on Amendment of Individual Statutory Acts of the Russian Federation.

² Federal Law No. 512-FZ of December 28, 2016 on Amendment of the Federal Law on The Military Duty and Military Service.

³ Federal draft law No.63563-7 on Amendment of Article 32.1 of the Federal Law on The Military Duty and Military Service was submitted to the State Duma on December 24, 2016.

⁴ Executive Order No.139 of March 31, 2016 of the President of the Russian Federation and Executive Order No.503 of September 29, 2016 of the President of the Russian Federation.

⁵ Defense of Russia. The Results of Development and Prospects. Moscow: The Center for Political Information, 2016. p. 9.

⁶ See. The above report by the Defense Minister of the Russian Federation.

⁷ See. The above report by the Defense Minister of the Russian Federation.

⁸ *D. Litovkin*. No More Sergeant-Officers in the Armed Forces // The Izvestia daily. December 29, 2016.

⁹ Ibid.

¹⁰ Manning of positions of high-ranking officers of the Russian armed forces amounts to 95%. URL: http://function.mil.ru/news_page/country/more.htm?id=12110651@egNews (accessed date: February 3, 2017).

¹¹ See. Yeliseeva.

officers were engaged in the military service, of which number over 7,000 officers were on reserve.¹

Unlike the previous year, in 2016 the Defense Ministry did not release the official statistical data on the number of military pensioners as of January 1, 2016; such data are subject to mandatory publication in compliance with the federal statistical work plan.² According to the data of 2015,³ the number of military pensioners of the Ministry of Defense amounted to 1,156,352 persons, of which 992,334 persons (85.8%), 35,903 persons (3.1%) and 128,115 persons (11.1%) received long-service pension, disability pension and survivors pension, respectively. In the past decade⁴, from January 1, 2006 the number of pensioners of the Ministry of Defense did not change much (an increase of 1.2% or 13,752 persons).

According to the updated information, in 2016, the average money allowance to military servicemen of the Ministry of Defense remained at the previous year level of RUB 61,800 (168% of the average accrued wages and salaries in the Russian Federation), while the average amount of long-service pensions of servicemen of the Ministry of Defense grew in nominal terms by 4% to RUB 22,700.⁵ The money allowance of military servicemen doing compulsory military service still remains at the level of RUB 2,000 within the frameworks of money allowance unification experiment started in January 2012.⁶

In 2016, permanent housing was granted out of different sources to over 20,400 servicemen of the Ministry of Defense, though at the end of the year 29,800 military servicemen were on the housing waiting list of the Ministry of Defense. In 2016, 29,200 servicemen of the Ministry of Defense received service housing, while 59,000 servicemen, a compensation for renting accommodation.⁷ With such rates, the housing problem can hardly be solved by the end of 2017 as was expected early in 2014.⁸

In 2016, the Ministry of Defense received 120,000 applications (1/3 of them from military servicemen), a year-on-year decrease of 12%. It is to be noted that the number of applications greatly decreased on the following issues: payment of money allowances to military servicemen (a decrease of 33%), provision of social guarantees, compensations and privileges (31%),

¹ A. Ramm. In 2018 The Armed Forces will See New Professional Lieutenants // The Izvestia daily. February 15, 2017.

² Executive Order No.1063 of August 10, 2011 of the President of the Russian Federation on Approval of the List of Information on Activities of the Ministry of Defense of the Russian Federation Placed on the Internet.

³ The number of pensioners, including disabled persons registered with and receiving pensions from the Ministry of Defense of the Russian Federation. URL: <http://stat.mil.ru/files/morf/opendata/7704252261-MORF-3.3.csv> (Accessed date: January 24, 2017).

⁴ On Pensions and Other Things... // The Krasnaya Zvezda daily. November 29, 2006.

⁵ O. Falichev Resource Maneuver // Military and Industrial Courier. 2016. December 21, 2016 (No. 49).

⁶ Executive Order No.333 of July 13, 2016 of the President of the Russian Federation on Extension of the Time-Limits of the Experiment on Unification of Money Allowances of Servicemen on the Compulsory Military Service.

⁷ I. Zotov. A Year of House-Warming // the Krasnaya Zvezda daily. February 15, 2017. (No. 16).

⁸ Report on the Progress in Fulfillment of the Plan of Activities of the Ministry of Defense of the Russian Federation on Implementation of Executive Orders Nos. 597, 601, 603, 604 and 605 of May 7, 2012 of the President of the Russian Federation in 2013. Voenny Sovet // Ekho Moskvoy Radio Station. October 21, 2016.

retirement insurance (9%) and maintenance and operation of the housing fund of the Ministry of Defense, including the sanitary and engineering condition of service housing (4%).¹

6.8.2. Military-technical policy

In 2016, there was further implementation of the military-technical policy outlined in the State Armaments Program (SAP) for 2011–2020 and the Main Guidelines of the Military-Technical Policy of the Russian Federation till 2020 and in the Long-Term Period approved by President Vladimir Putin in May 2012.²

As a year before, in May and November President Vladimir Putin held two three-day sessions of meetings on various aspects of implementation of SAP and the Federal Special Purpose Program (FSPP). Also, a meeting on utilization of the facilities of the military-industrial complex (MIC) in production of high-tech civil-purpose products³ was held in the city of Tula on September 8, while another one took place on the next day in Novo-Ogarevo, where the main parameters of the state armaments program in 2018–2025 were discussed.⁴

In 2016, the armed forces received 41 intercontinental ballistic missiles, over 3,000 new upgraded samples of weapons and military equipment, including 139 modern aircraft, 2 submarines, 24 surface ships, crafts and supply vessels, 4 regiment sets of S-400 surface-to-air missile systems and 25 Pantsir-C anti-aircraft missile and gun system combat vehicles. Within a year the armed forces received 260 unmanned drones, so their overall number amounted to 2,000. As a result, the extent of equipment of the armed forces with modern samples of weapons and military equipment was the following: strategic nuclear forces (60%), aerospace forces (66%), the Navy (47%), Ground Forces (42%) and airborne forces (47%), while as regards troops of permanent combat readiness it increased to 58.3% from 47.2% in 2015.⁵

According to the preliminary data, in 2015 growth in the MIC's output amounted to 10.1% with a 9.8% increase in labor efficiency and a 16.1% share of civil-purpose products.⁶ It is to be noted that in 2016 the added value volume index on the economic activity "Shipbuilding, Aircraft and Spacecraft-Building, Manufacturing of Other Transport Vehicles and Other Materials not Included in Other Groups" and the economic activity "Manufacturing of Electronic Components and Radio, TV and Communications Equipment" amounted to 101.4%

¹ Out of 120,000 applications received by the Ministry of Defense of the Russian Federation in 2016, only one-third of applications was filed by military servicemen. URL: http://function.mil.ru/news_page/country/more.htm?id=12116994@egNews (accessed date: April 04, 2017).

² Executive Order No.603 of May 7, 2012 on Implementation of Plans (Programs) of Building and Development of the Armed Forces of the Russian Federation, Other Troops, Military Formations and Forces and Upgrading of the Military and Industrial Complex.

³ The meeting dedicated to the issues of utilization of MIC facilities in production of high-tech civil-purpose products. Tula, September 8, 2016. URL: <http://www.kremlin.ru/events/president/news/52852> (accessed date: September 08, 2016).

⁴ The meeting on the main parameters of the State Armaments Program in 2018–2025. Novo-Ogorevo. September 9, 2016. URL: <http://www.kremlin.ru/events/president/news/52866> (accessed date 09.09.2016).

⁵ See. The specified report by the Minister of Defense.

⁶ The Presidential Address to the Federal Assembly. Verbatim. Moscow. December 1, 2016.

and 91.3%, respectively. Exports of military-purpose products increased by 3.5% in nominal terms compared to 2015 and exceeded \$15bn.¹

Unlike the practice of the previous years, in 2016 the official data on the volume of the state defense order (SDO) were not actually published. T. Shevtsova, Deputy Defense Minister who released the information in December (RUB 1.5 trillion) denied it three and a half months later (RUB 3 trillion according to calculations).² So, for the purpose of comparing growth in the SDO with that in MIC output and equipment of the armed forces with modern samples of weapons and military equipment (*Table 19*) the amount of budget expenditures by expenditure types 211, 214, 216, 217 of subdivisions of the functional classification of the expenditures of federal budgets “The Armed Forces of the Russian Federation” and “Applied Research in the Field of National Defense” with amounts of state guarantees issued to MIC entities for fulfillment of the SDO was used as an estimate of the SDO volume of the RF Ministry of Defense and it approximated rather fairly the existing omissions. In 2017, the expected SDO reduction in nominal terms can be explained by the specifics of the 2016 base which was distorted by additional expenditures of about RUB 800bn allocated by the government to repay a portion of the debt of MIC entities to commercial banks; the debt arose due to a simultaneous utilization of budget and credit funds for financing the SDO starting from 2011. With the above factor taken into account, it can be expected that the target of the existing state armaments program – 70% of modern samples of weapons and military equipment in the armed forces – will be achieved in the troops of permanent combat readiness by the end of 2017.

Table 19

**The State Defense Order, growth in the MIC’s output and equipment
of the armed forces with modern weapons and military equipment in 2010–2017**

	2010	2011	2012	2013	2014	2015	2016	2017
SDO in current prices (estimate), billion RUB	509.1	742.3	889.9	1294.7	1716.4	1901.4	2687.8	2462.2
SDO growth, % change on previous year	–	45.8	19.9	45.5	32.6	10.8	41.4	-8.4
MIC output growth, % year-on-year change	17.4	5.8	6.4	13.5	15.5	12.9	10.1	–
Equipment with modern samples, %	12	n.a.	n.a.	19	26–48	47.2	58.3	–
Equipment growth, p.p.	n.a.	n.a.	n.a.	n.a.	7	21.2	11.1	–

Source: The Ministry of Industry and Trade of the Russian Federation; Federal Laws on Budget Administration; the Accounts Chamber; the Ministry of Defense; own calculations.

From September 2015, the Ministry of Industry and Trade of the Russian Federation stopped publishing the list of entities included in the overall register of entities of the military-industrial

¹ Meeting of the Commission on Military and Technical Cooperation with Foreign States. Verbatim. Moscow. March 22, 2017.

² *Yu. Gavrilov*. Budget in Defense // The Rossiiskaya Gazeta, daily. December 19, 2016 (No. 287); Reduction of the Budget of the Ministry of Defense of the Russian Federation Has Not Affected the State Armaments Program and Social Obligations. URL: http://function.mil.ru/news_page/country/more.htm?id=12116553@egNews (accessed date: April 03, 2017).

complex (MIC).¹ The total number of entities included in the register² increased by 14 entities from July 2015 till the beginning of 2016 to amount to 1367 entities. By that time, licenses to activities related to the state defense order were issued to 4,122 entities (a year-on-year growth of 39%).³

¹ Resolution No.944 of September 7, 2015 of the Government of the Russian Federation on Amendment of Resolution No.96 of February 20, 2004 of the Government of the Russian Federation and Recognition as Null and Void Resolution No.843 of August 21, 2012 of the Government of the Russian Federation.

²The Report on Challenges and Goals of the Ministry of Industry and Trade of the Russian Federation in 2016 and the main results of activities in 2015. July 26, 2016. p. 165. URL: http://minpromtorg.gov.ru/common/upload/files/docs/Doklad_MPT_072016.pdf (accessed date: 29.09.2016).

³ Ibid. p. 162.