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- 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.

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6.8.3. Military and financial policy

In administrating the 2016 federal budget, a single adjustment was made in November.¹ Under the Law on the 2016 Federal Budget, allocations on the “National Defense” section of the budget expenditures were initially set at RUB 3,149 trillion,² or RUB 32bn (1%) less than actual expenditures a year before.³ In November, allocations on the National Defense grew to RUB 3,895 trillion (an increase of RUB 746bn or 23.5%)⁴ due to the government’s decision to repay ahead of schedule a portion of commercial loans taken against state guarantees for financing the state defense order in 2011–2016. Compared to 2015, allocations on the National Defense grew by 22.4% in nominal terms.

As the above indicators of military allocations were not available in the published laws, they were determined on the basis of the explanatory note to the draft law on the budget and the Accounts Chamber’s February Report. From February 2016, the Federal Treasury stopped publishing monthly reports on the overall federal budget expenditures; such reports were published starting from 1997. In 2016, the information on federal budget expenditures became more and more sensitive and exceeded by 2.6 p.p. the last-year maximum (*Table 20*), so classified expenditures amounted to RUB 3,569 trillion (4.1% of GDP). It is to be noted that in the Russian public finance statistics not only the data on expenditures which constitute a state secret both in accordance with the law and executive orders of the President of the Russian Federation, but also those marked as “for internal use only” are attributed quite officially to the classified information.⁵

Table 20

The share of classified federal budget expenditures in 2007–2016, %

Code and name of section (subsection) with classified expenditures	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	2	3	4	5	6	7	8	9	10	11
Overall federal budget expenditures	11.2	11.1	10.1	10.5	11.7	11.6	13.8	14.9	19.1	21.7
0100 FEDERAL ISSUES	7.5	7.4	5.6	5.9	10.4	11.4	10.1	10.1	15.2	13.3
0108 International relations and international cooperation	< 0.1	< 0.1	–	–	–	–	<0.1	1.4	24.8	25.0
0109 State material reserve	92.1	89.7	84.6	83.9	85.6	86.5	86.1	86.7	87.2	84.1
0110 Fundamental studies	1.1	0.9	0.7	0.2	0.5	0.8	0.7	0.8	0.8	0.8
0112 Applied research in federal issues	–	–	–	–	–	0.3	0.3	0.8	0.7	<0.1
0114 Other federal issues	0.6	1.1	1.9	1.9	1.7	1.6	3.6	5.1	5.1	5.1
0200 NATIONAL DEFENSE	45.5	45.9	47.7	46.5	45.4	47.5	50.4	56.0	65.4	70.5
0201 Armed Forces of the Russian Federation	37.2	38.9	39.2	37.8	39.3	40.7	46.7	52.0	65.3	69.0
0204 Mobilization preparation of economy	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

¹ Federal Law No.359-FZ of December 14, 2015 on the 2016 Federal Budget; Federal Law No. 397-FZ of November 22, 2016 on Amendment of the Federal Law on the 2016 Federal Budget.

² Annex No.3 to the Explanatory Note on the Federal Draft Law on Amendment of the Federal Law on the 2016 Federal Budget.

³ Federal Law No.377-FZ of October 31, 2016 on Administration of the 2015 Federal Budget.

⁴ The Operation Report on Progress in Administration of the Federal Budget in January-December 2016. Moscow. The Accounts Chamber of the Russian Federation, February 9, 2017.

⁵ Order No.221 of November 30, 2016 of the Ministry of Finance of the Russian Federation on Approval of the Procedure for Formation of the Public Finance Statistics Data.

Section 6
Institutional Changes

0205 Preparation and participation in collective security and peacekeeping activities	100.0	-	-	-	-	-	-	-	-	-
0206 Nuclear weapons complex	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0207 Implementation of international commitments in field of military and technical cooperation	53.2	100.0	100.0	100.0	100.0	61.6	80.6	76.7	80.8	77.7
0208 Applied research in national defense	93.5	93.0	92.9	91.7	92.4	92.9	94.3	92.1	91.7	96.3
0209 Other national defense issues	24.5	29.9	37.1	48.0	35.0	48.6	34.6	46.9	38.8	41.8
0300 NATIONAL SECURITY AND LAW ENFORCEMENT	31.1	31.3	31.0	31.5	31.6	24.0	26.6	27.1	28.4	29.1
0302 Internal Affairs Agencies	5.2	5.0	3.7	4.2	3.9	3.3	3.8	3.9	4.9	5.7
0303 Internal troops	10.5	10.3	8.2	8.2	7.4	4.6	4.4	5.3	6.9	7.7
0306 Security agencies	97.5	98.9	99.6	99.6	99.6	99.7	99.8	99.8	99.8	99.8
0307 Border Guard Service	97.8	100.0	99.5	98.6	99.2	99.1	99.6	99.9	100.0	100.0
0309 Protection of population and territory from emergency situations of environmental and technical nature, civil defense	50.6	50.3	50.0	48.6	44.5	41.6	38.5	39.1	39.7	45.7
0313 Applied research in national security and law enforcement	64.7	75.1	75.0	91.4	86.6	86.6	82.5	82.7	91.2	90.5
0314 Other issues of national security and law enforcement	40.5	49.3	60.6	49.9	12.4	12.1	11.8	44.8	60.7	59.7
0400 NATIONAL ECONOMY	0.4	1.1	0.8	1.4	1.9	2.5	4.7	3.6	5.5	7.0
0408 Transport	-	-	-	-	-	-	0.1	-	0.2	-
0410 Communications and information service	-	-	-	-	-	<0.1	1.8	2.0	0.5	<0.1
0411 Applied research in national economy	5.2	6.0	4.5	5.4	11.9	15.3	18.3	23.8	26.7	14.2
0412 Other issues of national economy	<0.1	1.3	0.9	2.9	2.2	2.5	9.4	2.9	8.0	17.2
0500 HOUSING AND PUBLIC UTILITIES	0.8	6.7	9.5	15.0	13.8	6.7	9.1	9.7	4.3	5.9

Cont'd

1	2	3	4	5	6	7	8	9	10	11
0501 Housing services	5.6	14.5	11.4	19.1	20.2	8.6	16.8	25.0	12.0	22.3
0700 EDUCATION	2.4	2.8	2.9	3.2	4.0	3.3	3.8	4.1	3.3	3.1
0701 Pre-school education	2.6	2.8	3.6	3.5	3.7	3.2	0.7	0.8	1.2	7.2
0702 Basic education	1.7	2.0	2.9	2.7	0.7	0.3	0.5	1.1	1.0	0.6
0704 Secondary vocational training	1.0	0.9	0.2	-	-	-	-	-	-	-
0705 Vocational training, retraining and skills upgrading	18.2	1.6	2.6	11.8	18.1	11.3	4.5	2.8	2.9	3.4
0706 Higher and post-graduate vocational education	2.5	3.3	3.4	3.6	5.0	4.1	4.9	5.1	3.9	3.6
0709 Other educational issues	0.2	0.4	0.6	0.5	0.3	0.4	0.5	0.9	1.2	0.9
0800 CULTURE, CINEMA AND MASS MEDIA	0.3	0.2	0.2	0.2	-	-	-	-	-	-
0800 CULTURE AND CINEMA	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1
0801 Culture	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
0804 Periodicals and publishing	2.4	2.7	3.1	3.3	-	-	-	-	-	-
0806 Other issues of culture, cinema and mass media	-	-	-	-	-	-	-	-	-	-
0900 HEALTHCARE, PHYSICAL CULTURE AND SPORTS	3.7	3.4	2.9	2.8	-	-	-	-	-	-
0900 HEALTHCARE	-	-	-	-	2.4	2.1	2.8	2.6	2.6	2.9
0901 Healthcare	4.3	-	-	-	-	-	-	-	-	-
0901 In-patient medical service	-	2.9	1.9	1.8	2.1	1.5	2.3	1.6	1.7	1.9
0902 Out-patient medical service	-	3.7	3.6	4.6	2.3	2.3	3.3	3.0	2.6	3.3
0905 Sanatorium resort care and recreation	-	14.5	14.7	11.0	10.0	10.6	12.3	14.6	15.3	16.1
0907 Sanatorium care and epidemiological security	-	0.7	0.2	0.5	0.6	0.7	0.7	0.6	0.7	0.7
0908 Physical culture and sports	0.3	0.5	0.6	0.8	-	-	-	-	-	-
0910 Other issues of healthcare, physical culture and sports	-	1.7	1.2	0.9	-	-	-	-	-	-
0910 Other healthcare issues	-	-	-	-	0.4	0.3	0.4	0.6	0.4	0.7

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1000 SOCIAL POLICY	–	<0.1	<0.1	–	–	0.1	0.1	<0.1	0.1	0.2
1001 Pension insurance	–	–	–	–	–	–	–	–	0.1	0.1
1003 Social security	–	<0.1	<0.1	–	–	0.3	0.4	0.1	0.2	0.3
1004 Protection of family and childhood	–	–	–	–	–	–	<0.1	<0.1	<0.1	<0.1
1100 PHYSICAL CULTURE AND SPORTS	–	–	–	–	0.2	0.3	0.3	0.3	0.2	0.5
1101 Physical culture	–	–	–	–	62.0	4.9	6.9	7.6	3.8	3.6
1200 MASS MEDIA	–	–	–	–	0.2	0.2	0.4	0.4	0.3	2.2
1202 Periodicals and publishing	–	–	–	–	2.9	3.1	5.0	5.4	4.5	5.1
1204 Other issues related to mass media	–	–	–	–	–	–	–	–	–	12.9
1400 GENERAL PURPOSE INTER-BUDGET TRANSFERS TO BUDGETS OF SUBJECTS OF THE RUSSIAN FEDERATION AND MUNICIPAL ENTITIES	0.2	–	–	–	–	–	–	–	–	–
1401 Subsidies on adjustment of fiscal capacities of subjects of the Russian Federation and municipal entities	0.5	–	–	–	–	–	–	–	–	–

Source: Laws on federal budget administration and the Accounts Chamber's operation reports. The 2006–2010 data were supplied to the corresponding sections of the budget classification which became effective from 2011. The italics is used to show the data of the previous budget classification.

The absolute and relative values of the main components of direct military expenditures of the Russian Federation in the 2016 federal budget and changes thereof in real terms over 2015 determined on the basis of the operation report of the Accounts Chamber of the Russian Federation are shown in *Table 21*. Prices of the year 2015 were recalculated by the Rosstat with utilization of another estimate¹ of the 2016 GDP deflator-index (103.6%), except for social expenditures to which average annual consumer price index (107.1%) was applied.² It is to be noted that the expenditures of the National Defense section were administered with a saving of RUB 119bn compared to the indicator of the November version of the Federal Budget Law mainly due to the fact that the reserves of RUB 99bn of the Ministry of Finance in the expenditure subsection “Other Issues of National Defense” were not utilized. Nearly a half of those savings in the above subsection (RUB 236bn) was redistributed to increase expenditures of subsections related to financing of the state defense order: expenditures of the subsection “Armed Forces of the Russian Federation” and the subsection: “Applied Research in National Defense” exceeded by RUB 51bn and RUB 66bn, respectively, those set by the law.

Table 21

Direct military expenditures of the federal budget on the National Defense” section in 2016

Name of section and subsections	2016, million RUB / in prices of 2015	Change in 2016 compared to 2015, million RUB/ growth, %	Share of allocations, % / change compared to 2015, p.p.	Expenditures, % of GDP / change compared to 2015, p.p. of GDP
1	2	3	4	5
NATIONAL DEFENSE	3 776 216 3 644 632	463 254 14.56	22.99 2.62	4.39 0.57
Armed forces of Russian Federation	2 936 475 2 834 152	401 248 16.49	17.88 2.30	3.41 0.49
Mobilization and pre-conscription and reserve military training	6 867 6 627	332 5.27	0.04 –	0.01 –
Mobilization preparation of economy	3 586 3 461	–559 –13.91	0.02 –	<0.01 –

¹ On Production and Utilization of the Gross Domestic Product (GDP) in 2016. Moscow, Rosstat, March 31, 2017.

² Important Economic Indicators of the Russian Federation and Some Foreign States. Moscow, Rosstat, February 21, 2017.

Nuclear weapons complex	<u>45 623</u> 44 033	<u>-352</u> -0.79	<u>0.28</u> -0.01	<u>0.05</u> -
Implementation of international commitments in the field of military and technical cooperation	<u>9 890</u> 9 545	<u>-780</u> -7.55	<u>0.06</u> -0.01	<u>0.01</u> -
Applied research in national defense	<u>471 276</u> 454 854	<u>136 333</u> 42.80	<u>2.87</u> 0.83	<u>0.55</u> 0.17
Other issues of national defense	<u>302 499</u> 291 859	<u>-72 956</u> -19.99	<u>1.84</u> -0.49	<u>0.35</u> -0.09

Source: The Accounts Chamber of the Russian Federation, own calculations.

The military expenditures of other sections of the federal budget are shown in *Table 22*. In 2016, the pattern of those expenditures underwent a number of changes: the National Guard troops replaced the internal troops; expenditures related to organization of the alternative non-military service disappeared completely; mechanized military columns were deprived of funding after the budget was adjusted in November and stipends to young workers of the military-defense complex were transferred into the “National Defense” section. The highest increase in absolute terms was observed in the “National Defense” section (capital development within the frameworks of the state defense order and classified expenditures) and the “Social Policy” section (benefits to family member of perished military servicemen and persons disabled as a result of war injuries).

Table 22

Direct and indirect expenditures in other sections of the federal budget in 2016

Name of subsection, special-purpose item or nature of expenditures	2016, million RUB / same in prices of 2015	Change in 2016 compared to 2015, million RUB / increase, %	Share of expenditures, % / change compared to 2015, p.p.	Expenditures, % of GDP / change compared to 2015, p.p. of GDP
1	2	3	4	5
In “Federal Issues” section				
<i>Expenditures of Ministry of Defense</i>	<u>22</u> 21	<u>14</u> 177.89	<u><0.01</u> -	<u><0.01</u> -
In “National Security and Law Enforcement” section				
National Guard troops	<u>116 420</u> 112 363	<u>-8 162</u> -6.77	<u>0.71</u> -0.06	<u>0.14</u> -0.01
Border Guard Service	<u>130 050</u> 125 519	<u>-11 190</u> -8.19	<u>0.79</u> -0.08	<u>0.15</u> -0.01
In “National Economy” section				
“Elimination of Stocks of Chemical Weapons in Russian Federation” Presidential Program	<u>515</u> 497	<u>33</u> 7.12	<u><0.01</u> -	<u><0.01</u> -
Subsidies on Russia-NATO Coordination Center	<u>20</u> 19	<u>-15.5</u> -44.50	<u><0.01</u> -	<u><0.01</u> -
“Industrial Utilization of Weapons and Military Equipment in 2011–2015 and in Period till 2020” Federal Target Program	<u>49</u> 48	<u>-19</u> -28.00	<u><0.01</u> -	<u><0.01</u> -
<i>Capital building within SDO frameworks</i>	<u>29 593</u> 28 562	<u>21 300</u> 293.31	<u>0.18</u> 0.13	<u>0.03</u> 0.03
<i>Contributions to charter capitals of MIC entities and subsidies to them</i>	<u>35 089</u> 33 866	<u>-22 893</u> -40.33	<u>0.21</u> -0.15	<u>0.04</u> -0.03
<i>Classified expenditures</i>	<u>160 674</u> 155 075	<u>27 041</u> 21.12	<u>0.98</u> 0.16	<u>0.19</u> 0.03
In “Housing and Public Utilities” section				
<i>Expenditures of Ministry of Defense</i>	<u>1 338</u> 1 291	<u>-21 188</u> -94.25	<u>0.01</u> -0.14	<u><0.01</u> -0.03

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“Elimination of Stocks of Chemical Weapons in Russian Federation” Presidential Program	<u>433</u> 418	<u>358</u> 600.12	<u><0.01</u> –	<u><0.01</u> –
In “Protection of Environment” section				
Expenditures of Ministry of Defense	<u>573</u> 553	<u>342</u> 162.43	<u><0.01</u> –	<u><0.01</u> –
In “Education” section				
Expenditures of Ministry of Defense	<u>75 692</u> 73 055	<u>6 351</u> 9.52	<u>0.46</u> 0.03	<u>0.09</u> 0.01
In “Culture and Cinema” section				
Expenditures of Ministry of Defense	<u>3 059</u> 2 952	<u>–57</u> –1.89	<u>0.02</u> –	<u><0.01</u> –
In “Healthcare” section				
Expenditures of Ministry of Defense	<u>56 310</u> 54 348	<u>–2 059</u> –3.65	<u>0.34</u> –0.02	<u>0.07</u> –
Provision of medicines to Closed Administrative-Territorial Entities (CATE) and Federal Medical and Biological Agency(FMBA)	<u>100</u> 97	<u>11</u> 12.58	<u><0.01</u> –	<u><0.01</u> –
In “Social Policy” section				
Expenditures of Ministry of Defense	<u>466 421</u> 435 501	<u>–7 331</u> –1.66	<u>2.84</u> –	<u>0.54</u> 0.01
Expenditures of National Guard and Border Guard Service	<u>42 405</u> 39 594	<u>1 353</u> 3.54	<u>0.26</u> 0.01	<u>0.05</u> –
Material support of experts of nuclear weapons complex of RF	<u>7 330</u> 6 844	<u>–329</u> –4.58	<u>0.04</u> –	<u>0.01</u> –
Benefits to family members of perished military servicemen and disabled persons as a result of military injury	<u>12 949</u> 12 091	<u>10 134</u> 517.82	<u>0.08</u> 0.07	<u>0.02</u> 0.01

Cont'd

1	2	3	4	5
Lump sum benefits to pregnant wives of servicemen doing compulsory military service and monthly child benefits to servicemen doing compulsory military service	<u>952</u> 889	<u>–117</u> –11.67	<u>0.01</u> –	<u><0.01</u> –
In “Physical Culture and Sports” section				
Expenditures of Ministry of Defense	<u>5 351</u> 5 164	<u>962</u> 22.90	<u>0.03</u> 0.01	<u>0.01</u> –
In “Mass Media” Section				
Expenditures of Ministry of Defense	<u>2 318</u> 2 237	<u>–43</u> –1.89	<u>0.01</u> –	<u><0.01</u> –
In “Inter-Budget Transfers of General Nature to Budgets of Budget System of Russian Federation” section				
Subsidies to CATE budgets	<u>9 952</u> 9 605	<u>–382</u> –3.83	<u>0.06</u> –	<u>0.01</u> –
Resettlement of citizens from CATE	<u>446</u> 430	<u>116</u> 36.97	<u><0.01</u> –	<u><0.01</u> –
TOTAL ON OTHER SECTIONS	<u>1 158 061</u> 1 117 708	<u>10 423</u> 0.93	<u>7.05</u> –0.04	<u>1.35</u> 0.02

Source: The Federal Treasury; the Accounts Chamber; own calculations.

As a result, in 2016 total military expenditures of the Russian federal budget (Table 23) calculated in accordance with the UN standards for military expenditures increased by 0.6 p.p. of GDP year-on-year to 5.7% of GDP.

Table 23

Consolidated figures of military and related federal budget expenditures in 2016

Name of expenditures	Amount of expenditures, million RUB	Share of expenditures, % / change compared to 2015, p.p.	Expenditures % of GDP / change compared to 2015, p.p. of GDP
Total military expenditures related to present and past military activity	4 934 277	30.04 2.58	5.73 0.58
Total expenditures on sections "National Defense" and "National Security and Law Enforcement"	5 674 476	34.54 1.59	6.59 0.41

Source: own calculations.

As a result of a switchover to advance funding on a quarterly basis of the SDO of the Ministry of Defense in 2016, the peak of expenditures of RUB 1,789bn (47.4%) on the "National Defense" section took place in Q4 (25.0% in Q1). The maximum overspending on the overall federal budget quarterly breakdown compared to allocations set in accordance with the Law on Budget in respect of this section amounted to RUB 39bn in June.

In 2016, military personnel costs of the Ministry of Defense amounted to RUB 473,536bn (0.55% of GDP), that is, a 2.7% increase in real terms compared to RUB 429,836bn a year before. Expenditures on wages and salaries of the civilian personnel of the Ministry of Defense fell by RUB 4,733bn to RUB 198,989bn (0.23% of GDP).

In 2016, the Ministry of Defense spent on pensions RUB 327.64bn (0.38% of GDP), which corresponds to the level of the previous year in real terms.

The main indicators of federal budget expenditures on manning and equipping of the armed forces in 2011-2016 are shown in *Table 24*. Expenditures on pensions of the Ministry of Defense are considered here together with expenditures on military and civilian personnel as a result of expenditures on manning of the armed forces in the previous period.

Table 24

Federal budget expenditures on manning and equipping of the armed forces in 2011–2016

Type of expenditures	2011	2012	2013	2014	2015	2016
In nominal terms, billion RUB						
Payments to military servicemen	262.0	352.7	379.4	400.7	429.8	473.5
Payments to civilian personnel	n.a.	189.2	213.2	211.3	203.7	199.0
Pensions of Ministry of Defense	136.4	252.6	262.6	287.4	305.3	327.1
% of GDP						
On payments to military servicemen	0.44	0.53	0.53	0.51	0.53	0.55
On payments to civilian personnel	n.a.	0.28	0.30	0.27	0.25	0.23
On pensions of Ministry of Defense	0.23	0.38	0.37	0.37	0.38	0.38
Share of expenditures on "National Defense" section, %						
On payments to military servicemen	17.3	19.5	18.0	16.2	13.5	12.5
On payments to civilian personnel	n.a.	10.4	10.1	8.5	6.4	5.3
Pensions of Ministry of Defense	9.0	13.9	12.5	11.6	9.6	8.7
Year-on-year growth in nominal terms, %						
On payments to military servicemen	–	34.6	7.6	5.6	7.3	7.5
On payments to civilian personnel	–	n.a.	12.7	–0.9	–3.6	–2.3
Pensions of Ministry of Defense	–	85.3	3.9	9.5	6.2	7.1

Source: The Federal Treasury; draft law No. 2428-7; the Accounts Chamber; own calculations.

The data in *Table 24* permit us to conclude that after increasing money allowances and military pensions of the Ministry of Defense in 2012 the government managed to retain federal budget expenditures on manning and equipping of the armed forces on the acceptable level by reducing costs on payments to the civilian personnel and freezing an increase in military personnel's money allowances which real purchasing power would fall by one-third by the end

of 2017 compared to 2012; such a situation undoubtedly makes worse the material standing of the entire personnel of the armed forces and leads to social tensions, Higher expenditures on military personnel are related at present mainly to growth in the number of soldiers and sergeants doing contract military service, but after 2017 this factor ceases to have effect as the target size of that category of servicemen has been achieved.

In 2016, expenditures of the Ministry of Defense on fuel and lubricants amounted to RUB 81,573bn, an increase of RUB 12,813bn compared to the previous year (18.6% and 14.5% in nominal terms and real terms, respectively), of which over RUB 5bn was spent on supply of jet fuel to Russian Aerospace Forces in Syria. Expenditures on subsistence support rose by RUB 12,404bn (18.8% in real terms) to RUB 66,132bn, while those on material support increased less dramatically by RUB 2,339bn (4.9% in real terms) to RUB 29,277bn. Generally, in 2016 the expenditures of the Ministry of Defense on provision of material needs of the armed forces amounted to RUB 176,982bn (0.21% of GDP), while those on other purchases of goods and services, to RUB 162,705bn (0.19% of GDP).

In 2016, the total capital investments of the Ministry of Defense fell by 30% to RUB 158,690bn (0.18% of GDP); it is to be noted that that a portion thereof which was spent at the expense of the “Housing and Public Utilities” section decreased by 94% to RUB 1,338bn. Federal budget expenditures on the savings and mortgage system of provision of military servicemen of the Ministry of Defense with housing remained virtually at the previous year level, that is, RUB 84.62bn (–0.5% in real terms).

Generally, in 2016 the public portion of expenditures of the Ministry of Defense increased in by 2% in nominal terms to RUB 1,703,353 trillion (1.98% of GDP).

Expenditures of subsection 0208 “Applied Research in National Defense” retained the first place as regards growth rates in section 0200 “National Defense” having increased by 42.8% in real terms to RUB 471,276bn (0.55% of GDP) and thereby became virtually equal to military personnel costs of the Ministry of Defense.

Dynamics of administration on a quarterly basis of expenditures on the largest subsections of section 0200 “National Defense” of the federal budget in 2014–2016 are shown in Fig. 29–31.

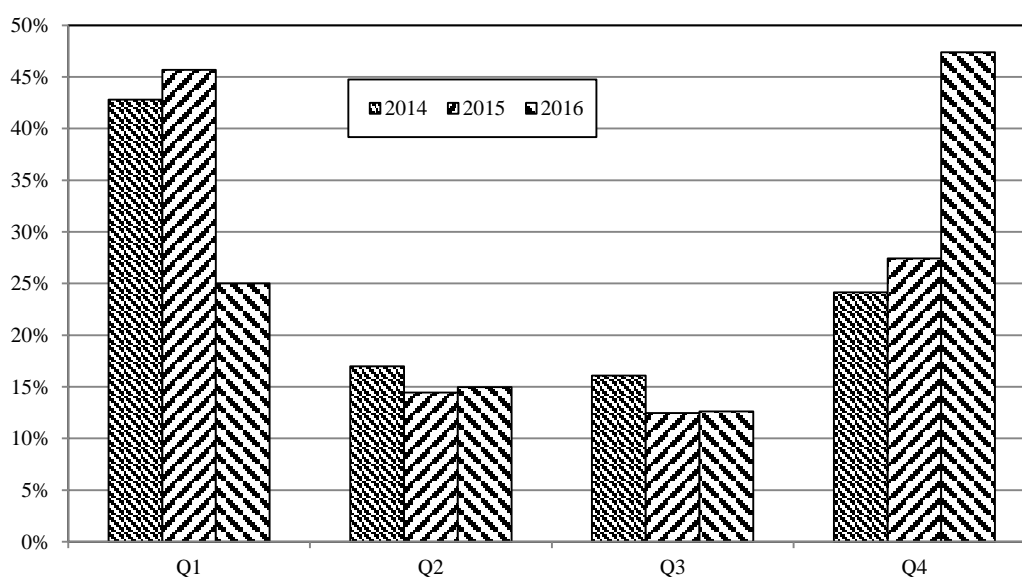


Fig. 29. Administration of expenditures of the federal budget on the subsection “Armed Forces of the Russian Federation” in 2014–2016

Source: The Accounts Chamber, own calculations

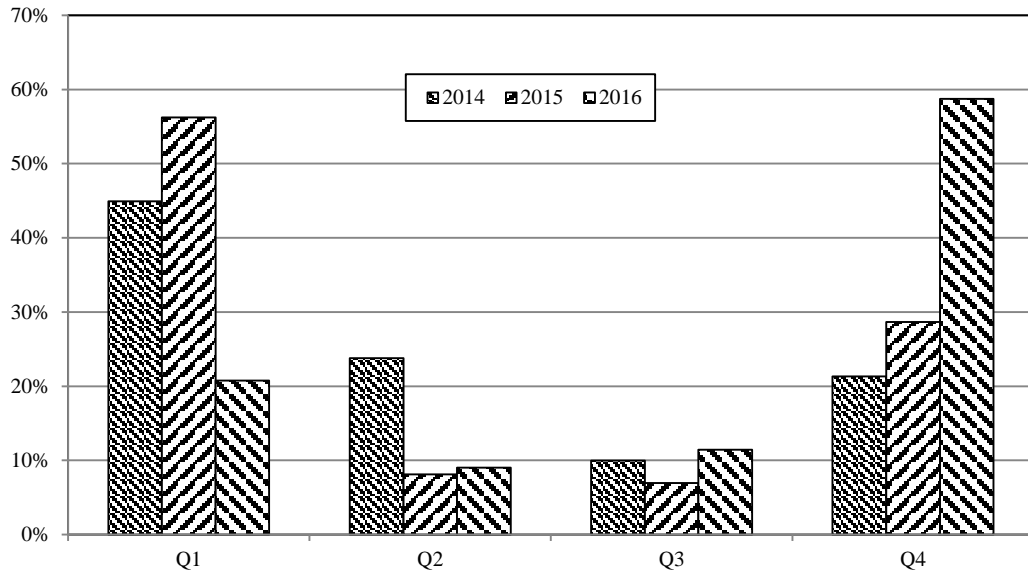


Fig. 30. Administration of expenditures of the federal budget on the subsection “Applied Research in National Defense” in 2014–2016

Source: The Accounts Chamber, own calculations.

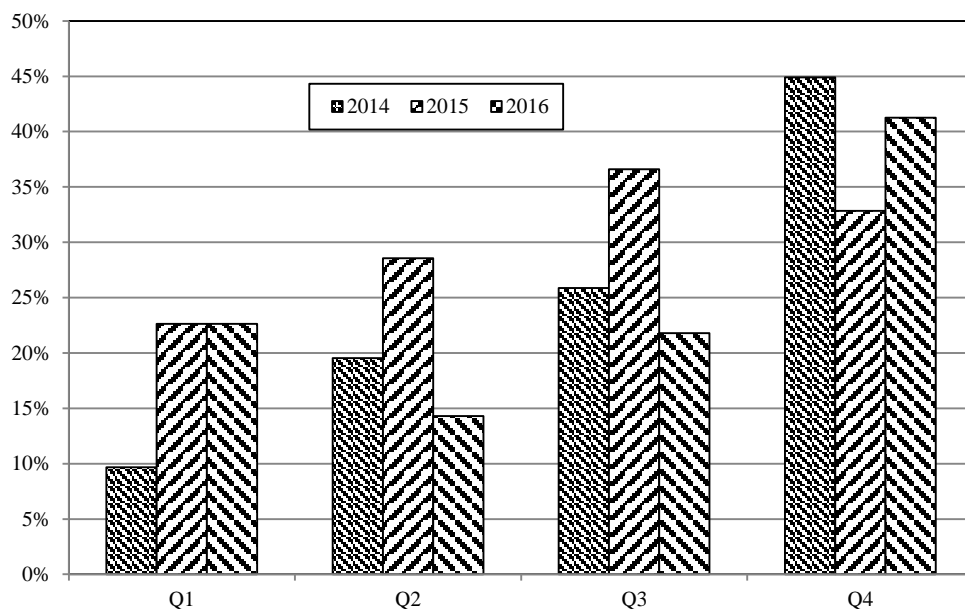


Fig. 31. Administration of expenditures of the federal budget on the subsection “Other National Defense Issues” in 2014–2016

Source: The Accounts Chamber, own calculations.

Military expenditures of governments of subjects of the Russian Federation are shown in *Table 25*. The value of those expenditures amounts to 0.005% of GDP or less than 50% of mobilization expenses of the federal budget.

Table 25

**Military expenditures of consolidated budgets of subjects
of the Russian Federation in 2008–2016, million RUB**

Subsection of expenditure classification	2008	2009	2010	2011	2012	2013	2014	2015	2016
Armed Forces of Russian Federation	0,3	–	–	–	–	–	–	–	–
Modernization of armed forces of Russian Federation and military formations	0,5	–	–	–	–	–	–	–	–
Mobilization and pre-conscription and reserve military training	1 702,2	2 021,6	1 958,4	2 187,3	2 316,4	2 444,7	2 518,9	2 494,7	2 521,4
Mobilization preparation of economy	1 063,9	989,7	1 247,8	1 266,3	1 689,1	1 935,1	1 580,9	1 332,6	2 192,6
Other national defense issues	0,5	4,4	<0,1	2,7	3,0	2,9	3,0	16,9	6,0
Internal troops	0,3	–	–	–	–	–	–	–	–
TOTAL	2 767,7	3 015,7	3 206,2	3 456,3	4 008,5	4 382,7	4 102,8	3 884,1	4 720,0
Net military expenditures *	2 767,7	3 015,7	3 206,2	1 216,4	1 671,5	1 921,3	1 592,2	1 326,0	2 216,3

* The difference between the executed expenditures of the consolidated budget and the federal budget.

Source: The Federal Treasury; own calculations.

In 2016, issuing of state guarantees to MIC entities renewed in full volume after it was reduced a year before to fulfill the SDO which outputs in terms of lending banks are shown in *Table 26*. Certainly, the loans received on fulfilment of the SDO should be added to Russian military expenditures of corresponding years with the amount spent in the budget on repayment thereof and being virtually an inter-bank transfer deducted from the 2016 expenditures. Unfortunately, such netting is infeasible at present because the data of the State Duma's Committee on Budgets and Taxes on proposed allocations for those purposes (RUB 795bn)¹ differ considerably from those of the Accounts Chamber on actual expenditures (RUB 973bn)², so this situation needs to be elaborated on further.

Table 26

**Distribution of state guarantees for fulfillment of the SDO in 2011–2016
by lending banks, billion RUB**

Bank	2011	2012	2013	2014	2015	2016	2011–2016	Share, %
Sberbank of Russia, Moscow	46.9	92.9	152.9	249.2	10.7	127.2	679.9	46.9
Bank VTB, St. Petersburg	101.5	87.9	167.4	183.9	–	70.0	610.7	42.1
Gasprombank, Moscow	8.7	7.6	20.6	21.6	1.4	3.4	63.3	4.4
Vneshekonombank, Moscow	0.7	0.8	21.4	41.4	2.8	–	67.1	4.6

¹ Verbatim records of the State Duma's meeting on November 2, 2016. URL: <http://transcript.duma.gov.ru/node/4534/> (accessed date: December 02, 2016).

² Executive summary on progress in administration of the federal budget in January–December 2016. Moscow Accounts Chamber of the Russian Federation, February 9, 2017. p 237.

AB Russia, St. Petersburg	–	–	–	6.6	2.9	7.6	17.1	1.2
Promsvyazbank, Moscow	–	–	–	6.9	1.4	–	8.3	0.6
NOVIKOMBANK, Moscow	–	–	–	1.7	0.5	0.5	2.8	0.2
Allocated by government, total	157.9	189.3	362.3	511.2	19.6	208.8	1 449.0	100.0
Permitted by Law on Budget	169.0	199.8	399.5	496.9	26.0	209.0	1 500.2	–
Non utilized	11.1	10.6	37.2	–14.2	6.4	0.2	51.2	–

Source: laws on the federal budget, government's instructions; own calculations.

The Russian military expenditures in 2006–2016 with net military expenditures of consolidated budgets of subjects of the Russian Federation (*Table 27*) accounted for in the aggregate ones are shown in *Table 25*.

Таблица 27

The main indices of military expenditures of the Russian Federation in 2006–2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	2	3	4	5	6	7	8	9	10	11	12
1. In nominal terms (in current prices), billion RUB											
Federal budget allocations on "National Defense" section: in current budget classification	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	3 895.4
Administration of federal budget expenditures on "National Defense" section in current budget classification ^a	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	3 776.2
Military expenditures of Russian Federation in accordance with data submitted to UN ^b	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	2 903.3	–
Total military expenditures related to present and past military activities ^c	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	4 290.0	4 936.5

Cont'd

1	2	3	4	5	6	7	8	9	10	11	12
2. In real terms (in prices of 2016)^d, billion RUB											
Federal budget allocations on "National Defense" section: in current budget classification	1 694.8	1 821.1	1 898.0	2 151.9	2 019.0	2 095.4	2 323.5	2 536.5	2 768.4	3 278.0	3 895.4
Administration of federal budget expenditures on "National Defense" section in current budget classification	1 684.0	1 805.5	1 915.0	2 143.4	2 016.7	2 066.1	2 280.8	2 526.8	2 777.9	3 296.2	3 776.2
Military expenditures of Russian Federation in accordance with data submitted to UN	2 015.3	2 044.6	2 057.0	2 103.6	1 836.6	1 939.9	2 125.9	1 994.1	2 198.7	3 008.2	–
Total military expenditures related to present and past military activities	2 341.1	2 460.1	2 665.6	3 154.5	2 970.6	2 922.0	3 340.3	3 595.7	3 874.8	4 444.9	4 936.5
3. In real terms (in prices of 2006)^e, billion RUB											
Federal budget allocations on "National Defense" section: in current budget classification	686.1	737.3	768.4	871.4	817.4	848.4	940.7	1 027.0	1 120.8	1 327.2	1 577.1
Administration of federal budget expenditures on "National Defense" section in current budget classification	681.8	731.0	775.3	867.8	816.5	836.5	923.4	1 023.0	1 124.7	1 334.5	1 528.9
Military expenditures of Russian Federation in accordance with data submitted to UN	815.9	827.8	832.8	851.7	743.6	785.4	860.7	807.3	890.2	1 217.9	–
Total military expenditures related to present and past military activities	947.8	996.0	1 079.2	1 277.1	1 202.7	1 183.0	1 352.4	1 455.8	1 568.8	1 799.6	1 998.6
4. Military burden of economy^f, % of GDP											

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Federal budget allocations on "National Defense" section: in current budget classification	2.55	2.52	2.50	3.07	2.76	2.58	2.76	2.97	3.12	3.80	4.53
Administration of federal budget expenditures on "National Defense" section in current budget classification	2.53	2.50	2.52	3.06	2.76	2.54	2.71	2.96	3.13	3.82	4.39
Military expenditures of Russian Federation in accordance with data submitted to UN	3.03	2.83	2.71	3.00	2.51	2.38	2.52	2.34	2.48	3.49	–
Total military expenditures related to present and past military activities	3.52	3.41	3.51	4.51	4.06	3.59	3.97	4.22	4.37	5.15	5.74
5. Based on purchasing power parity (in current prices), billion USD											
Federal budget allocations on "National Defense" section: in current budget classification	54.4	60.0	71.9	85.0	80.7	88.6	102.3	114.6	116.1	96.0	108.4
Administration of federal budget expenditures on "National Defense" section in current budget classification	54.1	59.5	72.6	84.7	80.6	87.4	100.5	114.1	116.5	96.5	105.0
Military expenditures of Russian Federation in accordance with data submitted to UN	64.7	67.4	78.0	83.1	73.4	82.0	93.6	90.1	92.2	88.1	–
Total military expenditures related to present and past military activities	75.2	81.1	101.0	124.6	118.8	123.6	147.1	162.4	162.5	130.1	137.3
6. Based on average annual exchange rate (in current prices), billion USD											
Federal budget allocations on "National Defense" section: in current budget classification	25.2	32.8	41.5	37.6	42.1	52.3	59.9	66.3	64.4	51.6	58.0
Administration of federal budget expenditures on "National Defense" section in current budget classification	25.1	32.5	41.9	37.4	42.0	51.6	58.8	66.1	64.6	51.9	56.2

Cont'd

1	2	3	4	5	6	7	8	9	10	11	12
Military expenditures of Russian Federation in accordance with data submitted to UN	30.0	36.8	45.0	36.7	38.3	48.4	54.8	52.1	51.1	47.4	–
Total military expenditures related to present and past military activities	34.9	44.3	58.3	55.1	61.9	73.0	86.1	94.0	90.1	70.0	73.5
For reference only											
Deflator of gross domestic product, % year on year	115.2	113.8	118.0	102.0	114.2	115.9	108.3	104.8	107.2	108.2	103.6
Purchasing-power parity ^g , RUB/USD	12.61	13.98	14.34	14.03	15.83	17.35	18.04	18.43	21.28	32.97	35.95
USD/RUB exchange rate (annual average) ^h	27.19	25.88	24.85	31.74	30.37	29.38	30.84	31.84	38.38	61.29	67.19

^a – In respect of 2016, the data of the Operation Report of the Accounts Chamber on Administration of the Federal Budget in January-December 2016 were used.

^b – In respect of 2016, the data, including that on expenditures on the internal troops of the Ministry of Internal Affairs and the border guard troops will be submitted by the Government of the Russian Federation to the UN in 2017.

^c – including pensions of military servicemen and expenditures on elimination of stocks of chemical weapons and recycling of weapons and military equipment.

^{d, e} – Deflated by GDP deflator.

^f – Italics is used in respect of GDP values which do not take into account the latest changes in the Rosstat's methods.

^g – In respect of 2015 and 2016 – own calculations.

Source: Federal Laws on Federal Budgets in 2006–2016 and Administration of Federal Budgets in 2006–2015; objective information on military issues, including transparency of military expenditures. The UN Secretary-General's Reports in 2006–2015; the Accounts Chamber; the Rosstat; the Federal Treasury.