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RUSSIAN ECONOMY IN 2017
TRENDS AND OUTLOOKS

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R95 **RUSSIAN ECONOMY IN 2017. TRENDS AND OUTLOOKS** / [Alexander Abramov etc.; Doctor of sciences (economics) Sergey Sinelnikov-Murylev (editor-in-chief), Doctor of sciences (economics) Alexander Radygin]; Gaidar Institute for Economic Policy. – Moscow: Gaidar Institute Publishers, 2018. – 544 p. – ISBN 978-5-93255-530-9.

The review "Russian economy in 2017. Trends and outlooks" has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

6.6. Military economy and military reform in Russia[1]

6.1.1. Military recruitment and social security policy

The number of Russian Armed Forces (RFAF) authorized strength at year-end 2017 increased 17,387 to 1,903,758 on the back of disbandment of the Federal Special Construction Agency (Spetsstroy); therefore, the RFAF's total authorized strength rose to 1,013,628 from 1 million.[2] That was the first time when data on RFAF's authorized war strength (1,700,000) were published by mass media, posting a substantial decrease from 5 million reported prior to the military reform of 2008-2012.[3]

The Russian Defense Ministry did not publish 2017 year-end service personnel statistics like it did in previous years; therefore, the total accountable strength presumably decreased to 240,000 from previous year's 270,000 as a result of a 35,000 (13 percent) decline in the number of conscript personnel.[4] Overall, the 2017 total number of conscript personnel inflow stood at 276,000, or 31,000 (10 percent) less than in 2016.[5]

The accountable strength of contracted privates and sergeants remained unchanged (384,000) during the year, suggesting that the Defense Ministry opted not to increase the number to 425,000, as was planned for 2017,[6] on the ground that 384,000 was an optimal strength at the time.

Military pay in Russia were not indexed for inflation in 2017, remaining at the level of 2016 (an average of Rb 63.6 thousand)[7] as military pensions were raised, since February 01, 2017, by 4 percent to an average of Rb 23.5 thousand.

In 2017, 10,000 (half of the previous year's 20.4 thousand) of Defense Ministry service personnel were provided with permanent housing. The Defense Ministry's housing wait list

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[1] This section is written by Vasily Zatsepin, RANEPA (Sub-sections 6.6.1–6.6.3); Vitaly Tsymbal, RANEPA (Sub-sections 6.6.1–6.6.2).

[2] Executive order No. 127 dated March 28, 2017 'Concerning Amendments to Executive order of the President of the Russian Federation' No. 329 of July 08, 2016 'Concerning Authorized Strength of the Armed Forces of the Russian Federation'; Executive order No. 555 of November 17, 2017 'Concerning the Establishment of Authorized Strength of the Armed Forces of the Russian Federation'.

[3] Mobilization scales // Vedomosti. February 13, 2017 (No. 26). P. 3. URL: https://www.vedomosti.ru/politics/articles/2017/02/13/677314-mobilizatsiyu-gubernatori (accessed date: February 13, 2017).

[4] An expanded meeting of the Russian Defense Ministry Board. Balashikha, December 22, 2017. URL: http://www.kremlin.ru/events/president/news/56472 (accessed date: December 25, 2017).

[5] Russian President's executive orders No. 135 dated March 30, 2017 and No. 445 dated September 27, 2017.

[6] Sub-paragraph 'd', Paragraph 1 of Russian President's executive order No. 604 dated May 07, 2012.

[7] *Semenov D.* A military economy strategy // Krasnaya Zvezda.. October 30, 2017 (No. 121). P. 1.

comprised 32.1 thousand persons at year-end, adding 2.3 thousand to the previous year's number, thus suggesting that the service housing problem will not be solved until 2021.[1]

In 2017, more than 31,000 of Defense Ministry service personnel received service housing (29.2 thousand a year earlier). The number of service personnel entitled to housing allowances almost doubled in 2017, increasing to 107.7 thousand from 59,000.[2] The momentum of key housing indicators suggests that the Defense Ministry will not be able to solve the service housing problem by the end of 2018, as was anticipated early in 2014.[3]

In 2017, according to data from the Chief Military Investigation Department, military investigation authorities received 32.6 thousand offence reports. The number of offences in the Armed Forces dropped 2 percent as the number of corruption-related offences under jurisdiction of military investigation decreased by 14 percent.[4]

Russian public attitudes towards the RFAF saw further improvement in 2017, as evidenced by data from a November public opinion survey of the Russian Public Opinion Research Center.[5] In fall 2017, 62 percent of respondents said the RFAF were in excellent/good condition, another 24 percent said they were in normal condition, whereas 5 percent said they were in bad condition. Two years ago, 49 percent of respondents said the RFAF's condition was good, 40 percent said it was well, whereas 8 percent said it was bad or very bad. In fall 2017, 86 percent of respondents said Russia's defense capability was getting stronger, whereas only 2 percent said it was weakening, and 9 percent claimed it remained unchanged. Forty two percent of respondents said Russia's defense capability was strengthening due to weapons modernization. However, there was a substantial increase in the number service personnel's wives viewing the military service as a hazardous job.[6]

6.6.2. Military-technical policy

While Russia's military-technical policy continued in 2017 as part of the National Armaments Program (NAP) for 2011–2020 and the Basics of Military-Technical Policy of the Russian Federation for the Period up to 2025 and Beyond, as confirmed by Russian President Vladimir Putin in May 2012[7], stakeholders' efforts were focused on drafting a new national armaments program for 2018–2027.

President Vladimir Putin held two regular days-long sessions in May and in November to discuss various aspects regarding the NAP and the development of the Military-Industrial Complex (MIC). Furthermore, the Military-Industrial Commission held two sessions in January and in September 2017 to discuss the fulfillment of the government defense contract (GDC),

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[1] See *Semenov D.* An "army" of new tenants.

[2] Ibid

[3] A progress report regarding the Defense Ministry's action plan for the implementation in 2013 of the Russian President's executive orders No. 597, 601, 603, 604, 605 dated May 07, 2012. M., January 22, 2014. URL: http://mil.ru/files/files/result2013/10-planMO2013.html (accessed date: November 22, 2017).

[4] *Gavrilov Yu.* Corruption with a negative sign // Rossiyskaya Gazeta. February 06, 2018. (No. 27).

[5] Russian Army: Public opinion. // VTSIOM. Press release. November 08, 2017 (No. 3509).

[6] The ghost of the Fatherland defender // Ogonyok. February 19, 2018 (No. 6).

[7] Executive order No. 603 dated May 07, 2012 On the Fulfillment of Construction Plans (Programs) and Improvement of the Russian Armed Forces, Other Troops, Military Units and Agencies and Modernization of the Defense Industry.

the development of RFAF's armaments system and strengthening of MIC companies and organizations.[1]

Overall, according to data from the Russian Defense Ministry, the 2017 GDC was fulfilled.[2] Therefore, three regiments (four regiments a year earlier) of the Strategic Missile Forces (SMF) were re-equipped with YARS systems (a Russian MIRV-equipped, thermonuclear armed intercontinental ballistic missile) as the Aviation Strategic Nuclear Forces received three modernized aircrafts (four aircrafts in 2016). The Ground Forces received 2,055 new and modernized weapons (2,930 in 2016). The Aerospace Forces (ASF) received 191 up-to-date aircrafts and helicopters (139 in 2016). The Navy (Navy) received 23 ships, boats and vessels (26 a year earlier). In addition, 59 unmanned aircraft systems comprising 199 unmanned aerial vehicles were manufactured and delivered to the Army last year (105 systems with 260 unmanned aerial vehicles in 2016).

Therefore, the Strategic Nuclear Forces saw an increase in up-to-date arms of 19 percentage points to 79 percent over 2016 (+5 percentage points a year earlier), the ASF − 6 percentage points to 73 percent (+12 percentage points in 2016), the Navy − 6 percentage points to 53 percent (+8 percentage points a year earlier), and the Russian Ground Forces – 3 percentage points to 45 percent (+7 percentage points in 2016).[3]

In 2017, according to the Russian Defense Minister, the Army and Navy were 59.5 percent equipped with up-to-date arms, an increase of 1.2 percentage points over 2016, or less than *one third* of the growth (3.7 percentage points) promised earlier in the year,[4] which seems unexplainable given that the GDC 2017 was fulfilled in general. Such an abnormally slow growth in the NAP key indicator in 2017 is in sharp contrast to the above figures of growth in equipment with arms across all services and branches of the Armed Forces. 2016 saw an increase of 11.1 percentage points in up-to-date arms.

We analyzed the Defense Ministry's efficiency in spending of NAP appropriations in 2011–2017 (*Fig. 20*) using Federal Treasury's data on federal budget expenditure on the Defense Ministry GDC, Russian Accounts Chamber's data on commercial loans backed by government guarantees for the same purpose, as well as Defense Ministry's data on growth in up-to-date arms and equipment (UTDAE)[5] and on Ministry's repayment of commercial loans.[6] The analysis revealed that the NAP key indicator originally planned for 2017 – "more than a 62 percent level of up-to-date arms" – reflects an expenditure of less than Rb 400 billion per percentage point of growth over the previous year. Although the figure is massively more than that in 2014–2016, it represents a spending efficiency similar to that in 2012 and 2013. The spending level reached Rb 1220.1 billion in 2017.

[1] A session of the Military-Industrial Commission. Moscow, January 26, 2017. URL: http://www. kremlin.ru/ events/president/news/53782 (accessed date: January 26, 2017); ibid. Moscow, September 19, 2017. URL: http://www.kremlin.ru/events/president/news/55653 (accessed date: September 19, 2017).

[2] An expanded meeting of the Russian Defense Ministry Board. M., December 22, 2017. URL: http://www.kremlin.ru/news/56472 (accessed date: December 22, 2017).

[3] An expanded meeting of the Russian Defense Ministry Board. M., December 22, 2017. URL: http://www.kremlin.ru/news/56472 (accessed date: December 22, 2017).

[4] Sergei Shoigu: "This year the Ministry of Defense is set to … reach a new level of more than 62 percent of equipment with up-to-date armaments in the constant combat readiness forces". State Duma's shorthand report dated February 22, 2017 URL: http://transcript.duma.gov.ru/node/4606/ (accessed date: March 07, 2017).

[5] Avdeev Yu. Research-based focus // Krasnaya Zvezda. November 01, 2017 (No. 122). P. 6.

[6] The Russian Defense Ministry saved 130 billion rubles in 2016–2017 through early loans repayment. URL: https://function.mil.ru/news_page/country/more.htm?id=12155560@egNews (accessed date: January 15, 2018).
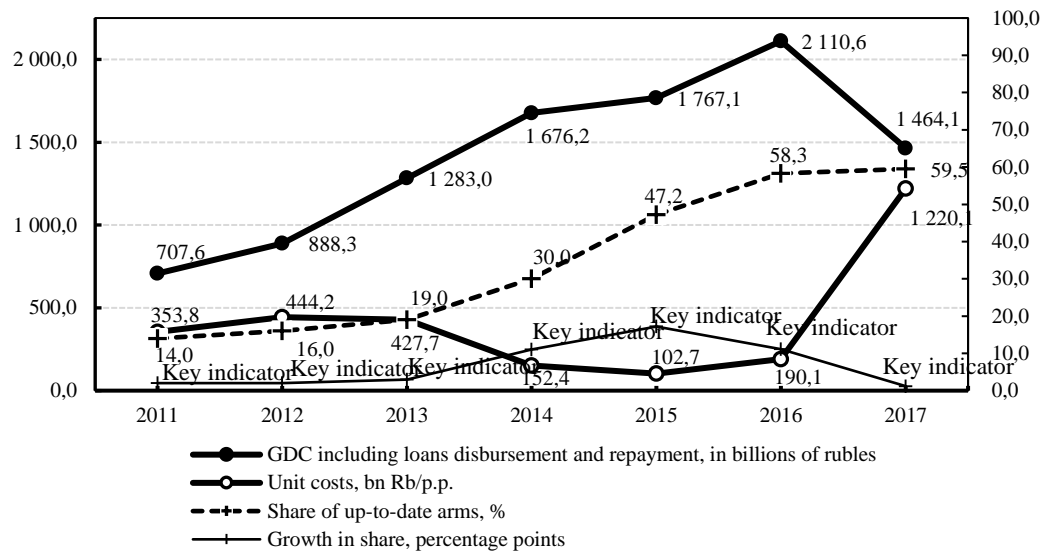
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2 000,0
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2 110,6
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20,0
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102,7
Key indicator Key indicator Key indicator
190,1
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152,4
10,0
Key indicator Key indicator Key indicator
0,0

2011   2012   2013   2014   2015   2016   2017

- ●— GDC including loans disbursement and repayment, in billions of rubles
- ○— Unit costs, bn Rb/p.p.
- - + - Share of up-to-date arms, %
- +— Growth in share, percentage points

Fig. 20. Defense Ministry's efficiency in spending of NAP appropriations in 2011–2017

Sources: The Federal Treasury of Russia; The Accounts Chamber of the Russian Federation; The Russian Defense Ministry; own calculations.

In other words, if Defense Ministry's and MIC's spending efficiency in 2017 had remained at the 2014–2016 level, the equipment with up-to-date arms would have ranged between 66.0 to 72.6 percent, and even if spending efficiency had fallen to values seen in 2011–2013, the level of equipment with up-to-date arms would have been within a range of 61.6–62.4 percent. The declared NAP fulfillment indicator of 59.5 percent means that the MIC spent inefficiently about Rb 1 trillion of 2017 federal budget allocations for the Defense Ministry GDC to fulfill the NAP.

6.6.3. Military financial policy

The Federal budget 2017 was adjusted twice, in July and in November.[1] Appropriations within the 'National Defense' section were initially set at Rb 2 trillion 836 billion by the Federal Budget Act 2017,[2] posting a decline of Rb 940 billion (or 24.9 percent) from earlier year's actual amount spent.[3] In July, appropriations rose Rb 39 billion (1.4 percent) to Rb 2 trillion 875 billion with a more substantial increase of Rb 175 billion (6.1 percent) to Rb 3 trillion 50 billion (3.3 percent of GDP) late in the year. Both the latest and previous year's increase were driven by the need to repay commercial loans backed by government guarantees to finance GDC in 2013–2014.

All the above indicators for military appropriations can be found in federal budget bills, not in published legal acts. Confidential federal budget revenues in 2017 were rolled back to the

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[1] Federal Act No. 415-FZ of December 19, 2016 'Concerning the Federal Budget for 2017 and the Planning Period Until 2018 and 2019'; Federal Act No. 157-FZ of July 01, 2017 'Concerning Amendments to Federal Act 'Concerning the Federal Budget for 2017 and the Planning Period Until 2018 and 2019'; Federal Act No. 326-FZ of November 14, 2017 'Concerning Amendments to Federal Act 'Concerning the Federal Budget for 2017 and the Planning Period Until 2018 and 2019'.

[2] Attachment 2 to the Accounts Chamber's report regarding a federal bill 'Concerning Amendments to Federal Act 'Concerning the Federal Budget for 2017 and the Planning Period Until 2018 and 2019', approved by Accounts Chamber Panel's minutes No. 35K(1180) dated June 05, 2017.

[3] Federal Act No. 287-FZ of October 16, 2017 'Concerning the Federal Budget Execution for 2016'.

2015 level (see *Table 26*) as confidential expenditure stood at Rb 2 trillion 833 billion (3.1 percent of GDP).

<div align="right">*Table 26*</div>

Confidential federal budget expenditure in 2008–2017, %

Code and section (subsection) containing confidential expenditure	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	2	3	4	5	6	7	8	9	10	11
Total federal budget expenditure	11.1	10.1	10.5	11.7	11.6	13.8	14.9	19.1	21.7	17.3
0100 NATIONAL MATTERS	7.4	5.6	5.9	10.4	11.4	10.1	10.1	15.1	12.5	14.6
0107 Administration and conduct of elections and referendums	–	–	–	–	–	–	–	–	–	1.5
0108 Foreign affairs and international cooperation	< 0.1	–	–	–	–	<0.1	1.4	24.1	23.1	26.5
0109 National material reserves	89.7	84.6	83.9	85.6	86.5	86.1	86.7	87.2	84.1	86.6
0110 Basic research	0.9	0.7	0.2	0.5	0.8	0.7	0.8	0.8	0.8	0.6
0112 Applied scientific research regarding national matters	–	–	–	–	0.3	0.3	0.8	0.7	–	–
0114 Other national matters	1.1	1.9	1.9	1.7	1.6	3.6	5.1	5.3	3.4	4.4
0200 NATIONAL DEFENSE	45.9	47.7	46.5	45.4	47.5	50.4	56.0	65.4	70.5	63.9
0201 Russian Federation Armed Forces	38.9	39.2	37.8	39.3	40.7	46.7	52.0	65.3	69.0	60.5
0204 Mobilization preparation of the economy	100	100	100	100	100	100	100	100	100	100

<div align="right">*Cont'd*</div>

1	2	3	4	5	6	7	8	9	10	11
0206 Nuclear weapons complex	100	100	100	100	100	100	100	100	100	100
0207 Fulfillment of international obligations under military-technology cooperation projects	100	100	100	100	61.6	80.6	76.7	80.8	77.6	76.9
0208 Applied science research in national defense	93.0	92.9	91.7	92.4	92.9	94.3	92.1	91.7	96.3	95.7
0209 Other matters regarding national defense	29.9	37.1	48.0	35.0	48.6	34.6	46.9	38.8	41.8	55.6
0300 NATIONAL SECURITY AND LAW ENFORCEMENT	31.3	31.0	31.5	31.6	24.0	26.6	27.1	28.4	29.1	29.4
0302 Internal affairs agencies	5.0	3.7	4.2	3.9	3.3	3.8	3.9	4.9	5.8	5.8
0303 Internal Troops	*10.3*	*8.2*	*8.2*	*7.4*	*4.6*	*4.4*	*5.3*	*6.9*	*–*	*–*
0303 Federal National Guard Troops	–	–	–	–	–	–	–	–	7.7	7.0
0304 Agencies of justice	–	–	–	–	–	–	–	–	3.2	3.4
0306 Security service agencies	98.9	99.6	99.6	99.6	99.7	99.8	99.8	99.8	99.8	99.8
0307 Border guard agencies	100	99.5	98.6	99.2	99.1	99.6	99.9	100	100	100
0309 Protection of population and territories from natural and man-made emergencies, civil defense	50.3	50.0	48.6	44.5	41.6	38.5	39.1	39.7	45.7	49.1
0313 Applied scientific research in national security and law enforcement	75.1	75.0	91.4	86.6	86.6	82.5	82.7	91.2	90.5	92.4
0314 Other matters regarding national security and law enforcement	49.3	60.6	49.9	12.4	12.1	11.8	44.8	60.7	59.3	58.2
0400 NATIONAL ECONOMY	1.1	0.8	1.4	1.9	2.5	4.7	3.6	5.5	7.0	9.5
0403 Exploration and use of outer space	–	–	–	–	–	–	–	–	–	56.3
0408 Transport	–	–	–	–	–	0.1	–	0.2	–	–
0410 Communications and information technologies	–	–	–	–	<0.1	1.8	2.0	0.5	–	–
0411 Applied scientific research in national economy	6.0	4.5	5.4	11.9	15.3	18.3	23.8	26.7	14.2	17.6
0412 Other matters regarding national economy	1.3	0.9	2.9	2.2	2.5	9.4	2.9	8.0	17.3	18.2
0500 HOUSING AND UTILITIES	6.7	9.5	15.0	13.8	6.7	9.1	9.7	4.3	7.8	1.4
0501 Housing development	14.5	11.4	19.1	20.2	8.6	16.8	25.0	12.0	22.3	7.7
0700 EDUCATION	2.8	2.9	3.2	4.0	3.3	3.8	4.1	3.3	3.1	3.1
0701 Pre-primary and primary education	2.8	3.6	3.5	3.7	3.2	0.7	0.8	1.2	7.2	6.8
0702 General secondary education	2.0	2.9	2.7	0.7	0.3	0.5	1.1	1.0	0.6	0.8
0704 Secondary vocational education	0.9	0.2	–	–	–	–	–	–	–	–

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1	2	3	4	5	6	7	8	9	10	11
0705 Vocational training, retraining and advanced training	1.6	2.6	11.8	18.1	11.3	4.5	2.8	2.9	3.4	2.5
0706 Higher and postgraduate vocational education	3.3	3.4	3.6	5.0	4.1	4.9	5.1	3.9	3.6	3.7
0709 Other matters regarding education	0.4	0.6	0.5	0.3	0.4	0.5	0.9	1.2	0.9	–
0800 CULTURE, CINEMATOGRAPHY, MASS MEDIA	*0.2*	*0.2*	*0.2*	–	–	–	–	–	–	–
0800 CULTURE, CINEMATOGRAPHY	–	–	–	0.1	0.1	0.1	0.1	0.1	0.2	0.2
0801 Culture	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
0804 Print media and publishing	*2.7*	*3.1*	*3.3*	–	–	–	–	–	–	–
0900 HEALTHCARE, PHYSICAL CULTURE AND SPORTS	*3.4*	*2.9*	*2.8*	–	–	–	–	–	–	–
0900 HEALTHCARE	–	–	–	2.4	2.1	2.8	2.6	2.6	2.9	3.4
0901 Inpatient medical care	2.9	1.9	1.8	2.1	1.5	2.3	1.6	1.7	1.9	3.3
0902 Outpatient medical care	3.7	3.6	4.6	2.3	2.3	3.3	3.0	2.6	3.3	2.7
0905 Health resort and wellness services	14.5	14.7	11.0	10.0	10.6	12.3	14.6	15.3	16.1	17.1
0907 Sanitary and epidemiological welfare	0.7	0.2	0.5	0.6	0.7	0.7	0.6	0.7	0.7	0.7
0908 Physical culture and sports	*0.5*	*0.6*	*0.8*	–	–	–	–	–	–	–
0910 Other matters regarding healthcare, physical culture and sports	*1.7*	*1.2*	*0.9*	–	–	–	–	–	–	–
0909 Other matters regarding healthcare	–	–	–	0.4	0.3	0.4	0.6	0.4	0.5	0.7
1000 SOCIAL SECURITY POLICY	<0.1	<0.1	–	–	0.1	0.1	<0.1	0.1	0.1	0.1
1001 Retirement benefits	–	–	–	–	–	–	–	0.1	0.1	0.1

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1	2	3	4	5	6	7	8	9	10	11
1003 Social protection	<0.1	<0.1	–	–	0.3	0.4	0.1	0.2	0.3	0.4
1004 Family and child welfare	–	–	–	–	–	<0.1	<0.1	<0.1	<0.1	–
1100 PHYSICAL CULTURE AND SPORTS	–	–	–	0.2	0.3	0.3	0.3	0.2	0.3	0.2
1101 Physical culture	–	–	–	62.0	4.9	6.9	7.6	3.8	3.6	5.2
1200 MASS MEDIA	–	–	–	0.2	0.2	0.4	0.4	0.3	2.2	0.3
1202 Print media and publishing	–	–	–	2.9	3.1	5.0	5.4	4.5	5.1	5.4
1204 Other matters regarding mass media	–	–	–	–	–	–	–	–	12.9	–

Sources: Federal Budget Execution Acts for 2008–2016, 2017 – Federal Treasury's monthly progress reports on consolidated and federal budgets for December 2017. Data for 2008–2010 are presented with regard to respective sections and subsections of the budget expenditure classification in force since 2011. Data from the old budget classification are written in italics.

Table 27 presents absolute and relative values of the key components of direct military spending in the 2017 federal budget and their change in nominal terms over 2016,[1] based on Federal Treasury monthly reports on the execution of consolidated and federal budgets for December 2017.

Table 27

Direct military spending under 'National Defense' section, 2017

Section and subsections	Total expenditure, in millions of rubles	% change over 2016, rubles in millions (growth, %)	Expenditure (% change over 2016, p.p.)	
			Federal budget 2017	as a percentage of GDP
NATIONAL DEFENSE	2.852.230	–923,075 (–24.45)	17.37 (–5,63)	3.10 (–1.29)
Russian Federation Armed Forces	2.219.075	–716,560 (–24.41)	13.51 (–4,37)	2.41 (–1.00)
Mobilization and out-of-forces preparation	6.636	–231 (–3.36)	0.04 (–)	0.01 (–)
Mobilization preparation of the economy	3.351	–236 (–6.57)	0.02 (–)	<0.01 (–)
Nuclear weapons complex	44.437	–1.185 (–2.60)	0.27 (–0.01)	0.05 (–)

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[1] Pursuant to Federal Act No. 287-FZ dated October 16, 2017 'Concerning the Federal Budget Execution for 2016'.

Fulfillment of international obligations under military-technology cooperation projects	8.823	−1.041 (−10.56)	0.05 (−0.01)	0.01 (−)
Applied science research in national defense	270.499	−200.777 (−42.60)	1.65 (−1.22)	0.29 (−0.25)
Other matters regarding national defense	299.453	−3.045 (−1.01)	1.82 (−0.02)	0.33 (−0.03)

Sources: The Federal Treasury of Russia; own calculations.

Overall, expenditure within the 'National Defense' section in 2017 were Rb 198 billion less than what was planned in the November version of federal budget act, mainly because the Defense Ministry transferred Rb 140 billion of UTDAE purchase and repair allocations and Rb 65 billion of R&D allocations for the GDC as part of the NAP back to the federal budget. The money transfer decision was made by the Defense Ministry and supported by the Russian President in order to prevent further increase in Ministry's payables for advanced payments that were made two weeks after the date of signing the latest amendment to the federal budget 2017, because by December 1st the GDC was faced with a threat of non-execution worth Rb 250–300 billion.[1] *Fig. 21* shows the developments regarding Defense Ministry's payables for advanced payments that unfolded shortly before the decision was made.
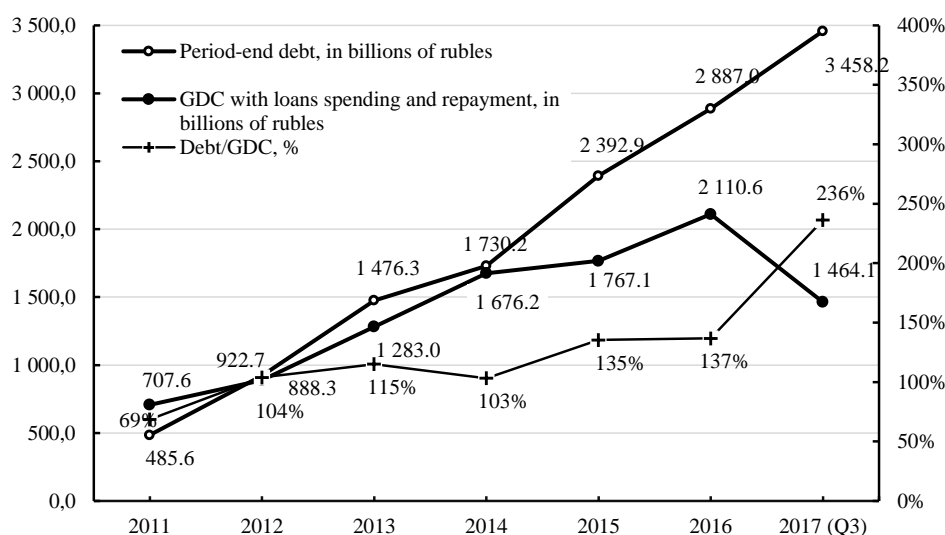

Fig. 21. Defense Ministry's payables for advance payments, 2011–2017

Sources: The Federal Treasury of Russia; The Accounts Chamber of the Russian Federation; own calculations.

The foregoing money transfers possibly helped the Defense Ministry to "manage to overcome adverse trends related to advanced payments in the industry and full payment of non-executed contracts".[2]

Military spending under other federal budget sections are presented in *Table 28*. The spending structure saw no serious changes compared with the previous year. Federal National Guard Service expenditure emerged in another four sections of the budget expenditure classification, and the target expenditure item 'Mobilizational preparation of government agencies' made explicit those federal budget expenditure in various expenditure classification sections which used to be mostly within the '*Reimbursement Subsidies* for Maintenance Costs

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[1] *Falichev O.* The Ruble to fight terrorists // Voenno-Promyshlenny Kurier. January 10, 2018. (No. 1).
[2] See An expanded meeting of the Russian Defense Ministry Board.

of Special-Purpose Facilities' section. Biggest absolute gains were seen in expenditure on the Defense Ministry, the Federal National Guard Service, confidential expenditure within the 'National Economy' section and expenditure on military survivor benefits and war disablement benefits within the 'Social Security Policy' section.

Direct and indirect military spending under other sections of federal budget, 2017

Subsection, target item or *type of expenditure*	Total expenditure, r ubles in millions	% change over 2016, rubles in millions (growth, %)	Expenditure (% change over 2016, p.p.)	
			Federal budget 2017	as a percentage of GDP
1	2	3	4	5
'National Matters'				
Defense Ministry expenditure	9	−13 (−59.50)	<0.01 (−)	<0.01 (−)
Mobilizational preparation of government agencies	103	103 (−)	<0.01 (−)	<0.01 (−)
'National Security' and 'Law Enforcement'				
Federal National Guard Service	222.588	106.169 (91.19)	1.36 (0.65)	0.24 (0.11)
Border guard agencies	140.386	10 406 (8.01)	0.85 (0,06)	0.15 (−)
Mobilizational preparation of government agencies	23	23 (−)	<0.01 (−)	<0.01 (−)

7	2	3	4	5
'National Economy'				
Mobilizational preparation of government agencies	124	124 (−)	<0.01 (−)	<0.01 (−)
"Destruction of chemical weapons stockpiles in the Russian Federation" Presidential program	348	−167(−32.35)	<0.01 (−)	<0.01 (−)
Subsidies to the Russia-NATO Coordination Center	19	−1 (−6.00)	<0.01 (−)	<0.01 (−)
"Industrial Recycling of Weapons and Military Equipment (2011–2015) and Until 2020" Federal Special Program	13	−36 (−73.58)	<0.01 (−)	<0.01 (−)
Capital construction within GDC	6.971	−291 (−4.01)	0.04 (−)	0.01 (−)
Contributions to charter capitals and grants to MIC organizations	4.268	−30.821 (−87.84)	0.03 (−0.19)	<0.01 (−0.04)
Confidential expenditure	234.119	73.603 (45.85)	1.43 (0.45)	0.25 (0.07)
'Housing and Utilities'				
Defense Ministry expenditure	45.923	44.591 (3332.40)	0.28 (0.27)	0.05 (0.05)
Federal National Guard Service expenditure	2.283	2 283 (−)	0.01 (0.01)	<0.01 (−)
"Destruction of chemical weapons stockpiles in the Russian Federation" Presidential program	2	−431 (−99.52)	<0.01 (−)	<0.01 (−)
'Education'				
Defense Ministry expenditure	73.777	−1.915 (−2.53)	0.45 (−0.01)	0.09 (−)
Federal National Guard Service expenditure	4.782	4.782 (−)	0.03 (0.03)	0.01 (0.01)
Mobilizational preparation of government agencies	1	1 (−)	<0.01 (−)	<0.01 (−)
'Culture and Cinematography'				
Defense Ministry expenditure	3.761	702 (22.96)	0.02 (−)	<0.01 (−)
Federal National Guard Service expenditure	275	275 (−)	<0.01 (−)	<0.01 (−)
Mobilizational preparation of government agencies	4	4 (−)	<0.01 (−)	<0.01 (−)
'Healthcare'				
Defense Ministry expenditure	58.697	2.387 (4.24)	0.36 (0.01)	0.06 (−)
Federal National Guard Service expenditure	4.375	4.375 (−)	0.03 (0.03)	<0.01 (−)
Medicines provision to ZATO FMBA	7	7 (−)	<0.01 (−)	<0.01 (−)
'Social Security Policy'				
Defense Ministry expenditure	487.794	21.373 (4.58)	2.97 (0.13)	0.53 (−0.01)

Expenditure on Federal National Guard Service and Border Guard Agencies	71.805	29.516 (69.63)	0.44 (0.18)	0.08(0.03)
Material support to specialists of the Russian Federation nuclear weapon complex	7.327	–3 (–0.04)	0.04 (–)	0.01 (–)
Military survivor benefits and war disablement benefits	14.333	1.384 (10.69)	0.09 (0.01)	0.02 (–)
Lump sum pregnancy benefit to the pregnant spouse of a conscript, as well as monthly child benefit per child of a conscript	926	–26 (–2.75)	0.01 (–)	<0.01 (–)
Mobilizational preparation of government agencies	6	6 (–)	<0.01 (–)	<0.01 (–)
'Physical Culture and Sports'				
Defense Ministry expenditure	3.717	–1.634 (–30.53)	0.02 (–0.01)	<0.01 (–)
'Mass Media'				
Defense Ministry expenditure				
Mobilizational preparation of government agencies	4	4 (–)	<0.01 (–)	<0.01 (–)
'General *Intergovernmental Transfers* Within the Budget System of the Russian Federation'				
Subsidies to ZATO budgets	9.449	–503 (–5.05)	0.06 (–)	0.01 (–)
Relocation of persons from ZATOs	447	1 (0.31)	<0.01 (–)	<0.01 (–)
TOTAL UNDER OTHER SECTIONS	1,402,584	267.098 (20.09)	8.54 (1.62)	1.52 (0.20)

Sources: The Federal Treasury of Russia; own calculations.

All in all, in 2017 total federal budget defense appropriations (see *Table 29*), calculated by the UN Standardized Reporting Instrument for Military Expenditures, dropped 1.1 percentage points year-over-year to 4.6 percent of GDP.

Table 29

Total military and related federal budget spending in 2017

Expenditure	Total expenditure, rubles in millions	% change over 2016, rubles in millions (growth, %)	Expenditure (% change over 2016, p.p.)	
			Federal budget 2017	as a percentage of GDP
Total military spending related to recent and past military activities	4,254,857	-655.976 (-16.22)	25.91 (-4.00)	4.62 (-1.08)
Total expenditure under 'National Defense' and 'National Security and Law Enforcement' sections	4,770,299	-903.711 (-19.99)	29.05 (-5.51)	5.18 (-1.41)

Sources: The Federal Treasury of Russia; own calculations.

In 2017, the peak of expenditure Rb 1.007 billion (35.3 percent of allocations under the federal budget act) within the 'National Defense' section fell on the fourth quarter (27.6 percent in the first quarter) despite the transition to GDC quarterly pre-financing and a marked expenditure cut at year end. According to the consolidated federal budget quarterly revenue/expenditure sheet, the spending limit for 'National Defense' allocations set forth by the federal budget act was exceeded most (Rb 27 billion) in March.

In 2017, Defense Ministry's service personnel costs amounted to Rb 489 billion 930 million (0.53 percent of GDP), a 3.5 percent increase over 2016 (Rb 473 billion 536 million a year earlier). Defense Ministry's civil personnel payroll stood at Rb 198 billion 400 million (0.22 percent of GDP), Rb 589 million less than previous year's amount. In 2017, Defense Ministry service personnel retirement benefits amounted to Rb 339 billion 330 million (0.37 percent of GDP), adding 3.8 percent to previous year's value.

In 2017, Defense Ministry's costs on combustibles and lubricants (C&L) and subsistence support dropped 15 and 2.6 percent year-over-year, respectively. Defense Ministry's expenditure on clothing supply also contracted 6.9 percent to Rb 27 billion 256 million.

In 2017, Defense Ministry's budget investments in capital construction projects contracted 23.2 percent year-over-year to Rb 121 billion 911 million (0.13 percent of GDP). However, Defense Ministry's expenditure within the 'Housing and Utilities' section (*Table 28*) increased

more than 30-fold to Rb 45 billion 923 million (0.05 percent of GDP) on the back of discontinued outsourcing and recovered departmental utilities system since April 2017.

Table 30 presents our assessment of credit financing contribution in Russia's military spending in 2011–2017 based on Russian Accounts Chamber's data on actual execution of government guarantees for GDC crediting, as well as commercial loans repayment data from the Accounts Chamber and the Defense Ministry. Conservative estimate of a single annual rate of 10,3 percent was used as a first approximation to calculate a bank premium. The total credit scheme contribution for each year is defined as the difference between exercised guarantees and the credit/loan principal.

Table 30

Credit financing contribution to Russian military spending, 2011–2017

	2011	2012	2013	2014	2015	2016	2017	2011–2017
1	2	3	4	5	6	7	8	9
Exercised guarantees, in billions of rubles	123.2	187.7	350.5	470.9	8.5	200.8	–	1,341.6
Repaid loans, in billions of rubles, of which:	–	–	–	–	182.3	792.0	186.8	1,161.1
principal repayment, in billions of rubles	–	–	–	–	123.2	568.5	137.4	829.0

Cont'd

1	2	3	4	5	6	7	8	9
bank premium, in billions of rubles	–	–	–	–	59.1	223.5	49.4	332.1
Total credit scheme contribution, in billions of rubles	123.3	187.7	350.5	470.9	–114.7	–367.6	–137.4	–
Total credit scheme contribution, as a percent of GDP	0.20	0.28	0.48	0.59	–0.14	–0.43	–0.15	–

Sources: The Federal Treasury of Russia; The Russian Defense Ministry; own calculations.

Table 31 presents Russia's military spending in the period of 2007–2017, including 1 billion Rb 932 million within total consolidated expenditure as part of the 'National Defense' section of consolidated budgets of subjects of the Russian Federation in 2017 and credit financing contribution in 2011–2017, as shown in *Table 30*.

Table 31

Russia's key military spending indicators, 2007–2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	2	3	4	5	6	7	8	9	10	11	12
1. In nominal terms (at current prices), in billions of rubles											
Federal budget appropriations under 'National Defense' section: within the existing budget classification system	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	3 049.8
Federal budget expenditure outturns under 'National Defense' section within the existing budget classification system[a]	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	3 775.3	2 852.3
Russian Federation's military spending, according to data submitted to the UN[b]	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	2 055.7	–
Total military spending related to recent and past military activities[c]	1 133.5	1 448.8	1 748.7	1 880.3	2 267.1	2 841.9	3 344.0	3 928.8	4 197.6	4 545.4	4 119.4
2. In real terms (at 2017 prices),[d] in billions of rubles											
Federal budget appropriations under 'National Defense' section: within the existing budget classification system	1 947.1	2 029.2	2 300.7	2 158.7	2 240.3	2 466.2	2 676.0	2 912.4	3 448.5	4 098.0	3 049.8
Federal budget expenditure outturns under 'National Defense' section within the existing budget classification system	1 930.3	2 047.5	2 291.6	2 156.1	2 209.0	2 420.9	2 665.7	2 922.4	3 467.6	3 971.7	2 852.3
Russian Federation's military spending, according to data submitted to the UN	2 185.9	2 199.2	2 249.0	1 963.5	2 074.0	2 256.5	2 103.8	2 313.0	3 164.6	2 162.6	–
Total military spending related to recent and past military activities	2 630.2	2 849.9	3 372.6	3 176.0	3 303.5	3 796.2	4 237.7	4 631.3	4 575.3	4 545.4	4 119.4
3. In real terms (at 2007 prices),[e] in billions of rubles											

1	2	3	4	5	6	7	8	9	10	11	12
Federal budget appropriations under 'National Defense' section: within the existing budget classification system	839.1	874.5	991.5	930.3	965.5	1 062.8	1 153.3	1 255.1	1 486.1	1 766.0	1 314.3
Federal budget expenditure outturns under 'National Defense' section within the existing budget classification system	831.9	882.4	987.6	929.2	952.0	1 043.3	1 148.8	1 259.4	1 494.4	1 711.6	1 229.2
Russian Federation's military spending, according to data submitted to the UN	942.0	947.8	969.2	846.2	893.8	972.5	906.6	996.8	1 363.8	932.0	–
Total military spending related to recent and past military activities	1 133.5	1 228.2	1 453.4	1 368.7	1 423.7	1 636.0	1 826.2	1 995.9	1 971.8	2 060.7	1 775.3

4. Economy's military burden,[f] as a percent of GDP

1	2	3	4	5	6	7	8	9	10	11	12
Federal budget appropriations under 'National Defense' section: within the existing budget classification system	*2.52*	*2. 50*	*3.07*	*2.76*	2.55	2.71	2.89	3.12	3.80	4.53	3.31
Federal budget expenditure outturns under 'National Defense' section within the existing budget classification system	*2.50*	*2.52*	*3.06*	*2.76*	2.51	2.66	2.88	3.13	3.82	4.39	3.10
Russian Federation's military spending, according to data submitted to the UN	*2.83*	*2.71*	*3.00*	*2.51*	2.36	2.48	2.27	2.48	3.49	2.39	–
Total military spending related to recent and past military activities	*3.41*	*3.51*	*4.51*	*4.06*	3.76	4.17	4.57	4.96	5.04	5.28	4.48

Cont'd

1	2	3	4	5	6	7	8	9	10	11	12
5. At purchasing power parity (at current prices), in billions of US$											
Federal budget appropriations under 'National Defense' section: within the existing budget classification system	60.0	71.9	85.0	80.7	88.6	102.3	114.3	116.1	131.9	153.8	116.5
Federal budget expenditure outturns under 'National Defense' section within the existing budget classification system	59.5	72.6	84.7	80.6	87.4	100.5	114.1	116.5	132.7	149.0	109.0
Russian Federation's military spending, according to data submitted to the UN	67.4	78.0	83.1	73.4	82.0	93.6	90.1	92.2	121.1	81.2	–
Total defense appropriations related to recent and past military activities	81.1	101.0	124.6	118.8	130.7	157.5	181.4	184.6	175.0	179.4	157.4
6. At average annual exchange rate (at current prices), in billions of US$											
Federal budget appropriations under 'National Defense' section: within the existing budget classification system	32.8	41.5	37.6	42.1	52.3	59.4	66.3	64.3	51.9	58.1	52.3
Federal budget expenditure outturns under 'National Defense' section within the existing budget classification system	32.5	41.9	37.5	42.0	51.6	58.3	66.1	64.5	52.2	56.3	48.9
Russian Federation's military spending, according to data submitted to the UN	36.8	45.0	36.8	38.3	48.4	54.3	52.1	55.1	47.6	30.7	–
Total military spending related to recent and past military activities	44.3	58.3	55.1	61.9	77.1	91.4	105.0	102.3	68.9	67.8	70.6
For reference											
Gross domestic product deflator, % change year-over-year	113.8	118.0	102.0	114.2	115.9	109.1	105.4	107.5	108.2	103.6	105.2
Purchasing power parity, [g] Rb/US$	13.98	14.34	14.03	15.83	17.35	18.04	18.43	21.28	23.98	23.33	26.17
U.S. dollar exchange rate (average annual), Rb/US$	25.58	24.86	31.72	30.37	29.39	31.09	31.85	38.42	60.96	67.03	58.35

[a] For 2017: data from the Federal Treasury's monthly consolidated budget execution report for December 2017.

[b] For 2017: to be submitted by the Russian Government to the UN in 2018, including expenditure on the Federal National Guard Service and the Border Guard Troops.

[c] Including military retirement pensions and costs on chemical weapons stockpile destruction and military equipment recycling.

[d, e] Deflated by GDP deflator.

[f] In italics, relative to GDP values, excluding latest changes in Rosstat's methodology.

[g] For 2017: own calculations.

Sources: Federal Budget Acts 2007–2017 and Federal Budget Execution Acts 2007–2016; United Nations Report on Military Expenditures; Russian Central Bank; Rosstat; Russian Federal Treasury.