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The RF Government finalized the main parameters of Russia's budget for 2016 – in the coming year, Russia's defense spending will remain at a very high level, while social expenditures will be notably cut (pensions will be raised at less than the rate of inflation, while the wages of budget sphere employees will not be indexed to inflation. It is planned that the deficit of the Russian state budget will be covered from the Reserve Fund, causing its shrinkage by two thirds. Thus the issue of balancing Russia's federal budget in the medium term perspective has become extraordinarily acute. In October, the situation in Syria remained almost unchanged: the areas controlled by the main contenders (the Syrian government, the Kurds, the terrorist organizations, and the moderate opposition) remained practically the same as they had been prior to the start of Russian airstrikes on targets in Syria. As regards the diplomatic front, no breakthrough was achieved by any of the parties involved in the Syrian conflict.

The main media hit of October was the development of the military situation in Syria, where Russia's government had launched a military campaign against the Islamic State terrorist organization, which is seen in the West as a move designed to prop the regime of Bashar al-Assad. No breakthrough was achieved on the diplomatic front: during the month-long negotiations aimed at resolving the Syrian crisis, the moderate Syrian opposition and its foreign sympathizers (from the USA and Europe to Turkey and the Persian Gulf monarchies) continued to demand that Bashar al-Assad should quit power, although they grudgingly conceded that he might stay in power for a 'transitional period' during which a transition to a new coalition government should take place. For their part, Russia, Iran and the Syrian authorities insisted that Assad should continue as President of Syria, and put forth a 'compromise proposal' that Syria should hold early elections in which Assad should have the right to participate. At the same time, all the parties involved in the diplomatic process (for example, at the multilateral negotiations that took place in Vienna at the end of October) confirmed that Syria should remain as an undivided state. Although it was agreed that a list of terrorist organizations should be composed (so far, only 'Islamic State' and Jabhat al-Nusra have been designated by the UN as terrorist organizations), everybody understood that a final agreement of what organizations should be included in that list was not around the corner. The issue of ceasefire was not even put on the agenda, although it would have been logical if the peace process between Assad and individual groups of his opponents had begun by a ceasefire declaration.

October saw a continuation of the (relative) lull in the fighting in eastern Ukraine. However, the issue of local elections to be held in eastern Ukraine in accordance with the Minsk Agreements remained hanging in the balance – although these elections were postponed until 2016, the electoral procedure for their conduct was not agreed upon and continued to be the bone of contention. This issue is very important for Russia, because the EU States have repeatedly stated that the decisive step toward lifting economic sanctions on Russia should be the full implementation of the Minsk Agreements, including the conduct of local elections and the transfer of frontier control functions in the east of Ukraine to Ukrainian border guards. In October, having received an advance payment for natural gas supplies and having resolved its price disagreements with Kiev, *Gazprom* resumed natural gas deliveries to Ukraine. However the issue of Ukraine's repayment of her $ 3bn debt to Russia remains unresolved (the Ukrainian authorities insist that this loan issued to Ukraine from Russia's National Wealth Fund should be considered to be private debt and therefore be restructured). Most likely, this dispute will have to be resolved by an international arbitration tribunal. In a separate development, Kiev initiated cancellation of direct flights between Ukraine and Russia (although most of the passengers flying from Ukraine to Russia were Ukrainian citizens).

On 23 October, the RF Government introduced into the State Duma a draft law on Russia's state budget for 2016. The draft budget is pegged to an oil price of $ 50 per barrel, while the inflation target and the target for GDP growth are set at 6.3% and 1.2%, respectively. The budget's top priorities are apparent from the very structure of its expenditure side: the share of social expenditures is 27%; the share of national defense spending is 19%; the share of law enforcement and state security expenditures is almost 13%; while the share of expenditures on the national economy is almost 16%. The revenue target is set at Rb 13.7bn;

the expenditure target is set at Rb 16bn; and the budget deficit target is set at Rb 2.3bn (or 3% of GDP). The deficit will be mainly covered from the Reserve Fund, which means that most of it will be spent in the process. RF Minister of Finance Anton Siluanov warned members of Russia's upper house of parliament (the Federation Council) that the situation with regard to the Reserve Fund was rapidly becoming critical: 'our reserves volume [in 2015] will decrease by approximately 2.6 trillion rubles – more than half. This means that 2016 is the last year when we are able to spend our reserves that way. After that we will not have such resources'. To tackle the budget deficit, the government resorted to a number of unpopular austerity measures. Thus it took the painful decision that the freezing of the funded part of pensions should be extended for another year, although as recently as spring 2015 it had promised that the freezing thereof would not be extended to 2016. Pensions will be indexed for inflation by only 4%, while the pensions of working pensioners will not be indexed at all. Thus, as a matter of fact, pensions will decrease. The wages and salaries of budget sphere employees, public servants, and military personnel will not be indexed for inflation. The same is true of the benefit program known as 'mother's capital'. However, it is planned that the indexation of pensions will be increased if the economic situation significantly improves. Two reserve funds of up to Rb 500bn will be formed in order to prop the budget. These funds will be composed of the afore-said funded part of pensions, the unused remnants of the funds that had to be allocated to recipients of budget funding in 2015, and the funds saved by the budget due to the 10% cut in grants to be issued to state-owned companies. Bearing in mind that, in 2016, Russia will have a general election, it is likely that the RF Government will, after all, increase the indexation of pensions for inflation – unless the macroeconomic situation radically worsens. Although the RF Government had previously declared that there would be no increase in taxation during the current crisis, the RF Ministry of Finance came up with the proposal that the tax burden imposed on Russia's oil and gas industry should be increased. When analyzing the draft budget for 2016, Head of the Civil Initiatives Committee Aleksey Kudrin remarked that in the absence of institutional reforms 'the government has no alternative but to raise taxes'.

As *United Russia* holds a majority of seats in the State Duma, the draft law on Russia's state budget for 2016 will certainly be passed into law. However, judging from the experience of the past few years, *United Russia* may put forth some cosmetic amendments designed to increase social spending, that will be immediately agreed upon by the RF Government. On the whole, the budgetary process of 2015 has indicated the following: in the first half of 2015, the Russian authorities were trying to avoid unpopular decisions in the hope that prices for energy carriers would considerably increase (in spring 2016, energy carriers' prices were on an upward trend). Later on, however, oil prices stabilized around $ 50 per barrel, and it became clear that there would be no magic solution to Russia's fiscal problems. For now, the RF authorities are not ready to reduce the gigantic size of Russian defense and national security spending, which exceed Russia's social expenditures and account for almost one-third of her state budget. Russia's authorities justify huge military spending by the existence of external threats and the necessity to achieve military parity with NATO (or with the West as a whole). However, it is clear that such a parity can never be achieved by Russia for purely economic reasons: Russia's economy accounts for just 2–3% of global GDP, while her state budget as a whole is smaller than the military budget of the USA. Moreover, the Russian authorities are stubbornly postponing the long-overdue increase in the state pension age. In October, the necessity of rising the state pension age (to 63 years) was once again emphasized by RF Minister of Economic Development Aleksey Ulyukaev. Some time earlier that year, President Vladimir Putin had said that the proposal to increase the state pension age should be given due consideration. Nevertheless, it has never been put on the government's agenda. However, it should be said that the RF Government's decision that the wages of budget sphere employees should not be indexed for inflation will immediately create problems for numerous people, while any rise in the pension age will be felt by a majority of RF citizens only in the more or less distant future.

As regards Russia's draft state budget, it should also be said that it envisages the continuation of transfers to state-owned enterprises. As a matter of fact, under the conservative scenario of oil price ыгмуьуте, the current level of Russia's expenditure cannot be maintained even in the medium-term perspective.