

**Military Expenditure in the 2005 and 2006 Federal Budgets
of the Russian Federation**

A Research Note

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The federal budget of the Russian Federation for 2005 became law on 23rd December 2004. It differed in many respects from federal budgets of recent years in so far as it was based on a new budget classification. It also took account of the major reorganisation of the Russian government undertaken since Mikhail Fradkov became prime minister. These changes had a direct impact on the handling of military expenditure in the federal budget and made it difficult to compare spending in 2005 with earlier years. The 2005 budget was subsequently amended by a law of July 2005, but this change did not have much impact on defence spending. In late September the government discussed further amendments to the 2005 budget, including a 24.15 billion rouble increase in spending on 'national defence'.¹ Prior to this, in August 2005, the draft federal budget for 2006 had been prepared by the Ministry of Finance (hereafter, Minfin) and after approval by the government was passed to parliament, the Federal Assembly, for approval. The budget was eventually signed into law by President Putin on 26 December. This note considers the new treatment of military expenditure and attempts to establish the changes in spending in real terms compared with 2004 and earlier years.

Since the late Soviet period, the treatment of defence in the state/federal budget has undergone several changes. Prior to 1989 the budget chapter 'National Defence' referred only to spending on current operations and maintenance of the Ministry of Defence (MOD). All spending on arms procurement, research and development (R&D), nuclear weapons, health and educational provision and other categories was concealed in other chapters of the budget making it impossible to establish total military expenditure with any degree of accuracy. This changed in 1989, when the chapter 'National Defence' was enlarged to include procurement, R&D, construction, pensions of servicemen, and nuclear weapons production and research undertaken by the nuclear industry ministry. It was claimed at the time that this change brought Soviet budget treatment of defence into line with standard international practice, but many questions were still left unanswered.

From 1992 the new Russian government maintained the budget classification for 'National Defence' without basic change until 1996 when the military pensions line was transferred to the budget chapter 'Social Policy', where it has remained ever since. However, very little detail was provided even to members of parliament, let alone to the public. But following a commitment entered into in the late Soviet period, Russia supplied to the United Nations an annual report on military spending in considerably more detail than made available within the country. In so far as the chapter 'National Defence' covered only the MOD plus nuclear weapons, it was necessary to assemble additional items of military-related spending from other budget chapters, in particular spending on the troops of the Ministry of the Interior (MVD) and the border and security services, some additional R&D spending, allocations to mobilisation preparation, support for the 'closed' cities of the MOD and the nuclear industry, and expenditure on the disposal and storage of surplus stocks of weapons. The present author has been undertaking this analysis on a regular basis for the Stockholm International Peace Research Institute (SIPRI) for inclusion in its *Yearbook*.

For the 2000 federal budget the budget classification was altered, enlarging the scope of the chapter 'National Defence' to include the provision of military training outside the forces for mobilisation purposes, training for, and participation in, collective

¹ http://www.pravitelstvo.gov.ru/data/structdoc.html?he-ind=102&do_id=1989, 29 September 2005.

security and peace-keeping operations, and 'securing the activity of branches (of the economy) for national defence'. However, this change increased spending under the budget chapter by little more than one per cent. Military expenditure in the 2004 federal budget, according to the budget classification in force at the time when it was adopted, is shown in Table 1.

Table 1 The Russian 2004 Federal Budget

Figures are in million roubles and current prices.

	2004 Budget (law of 23-12-03)	Revised budget (law of 10-11-04)	Implementation (provisional)
'National defence'			
Construction and maintenance of Armed forces of RF	389 401.6	403 799.5	407 021.5
Current maintenance and training	250 145.5	258 002.4	
<i>MOD State Defence Order</i>	<i>137 676.4</i>	<i>144 083.4</i>	
Procurement	54 864.0	59 817.6	
Repair of armaments	30 912.4	32 042.2	
R&D	51 900.0	52 223.6	
Minatom (nuclear weapons)	16 826.4	18 326.4	18 326.4
Mobilization and training (outside forces)	4 687.2	4 696.1	4 081.9
<i>MOD</i>	<i>921.4</i>	<i>920.3</i>	
<i>Railway troops</i>	<i>3 765.8</i>	<i>3 775.8</i>	
Collective security/peacekeeping	214.8	211.1	190.3
<i>MOD</i>	<i>200.1</i>	<i>206.5</i>	
<i>MVD</i>	<i>4.7</i>	<i>4.6</i>	
Nat sec provisions, branches of economy	342.6	342.6	341.5
Total 'National defence'	411 472.6	427 375.8	429 961.6
Other military expenditure			
Military pensions	66 605.8	66 605.8	64 858.5
Military reform	7 245.6	8 458.0	6 273.2
Paramilitary forces:			
Interior troops	21 530.5	23 347.4	23 580.3
Border troops	29 993.0	31 271.6	30 710.5
Security services	49 736.6	53 571.3	51 826.0
<i>Total paramilitary forces</i>	<i>101 260.1</i>	<i>108 190.3</i>	<i>106 116.8</i>
Additional military-related R&D ¹	18 480.0	18 480.0	18 991.2
Liquidation of weapons	10 364.8	10 943.6	10 926.8
Mobilization preparation of economy	1 100.0	1 100.0	1 092.1
Subsidies, closed towns, MOD & Minatom	14 333.8	13 667.0	(13 667.0)
Realisation of international obligations in military-technical co-operation	3 599.5	5 999.4	3 742.1
Total other military expenditure	223 169.6	233 444.1	225 566.8
Total military expenditure	634 642.2	660 819.9	655 528.4
Total federal budget expenditure	2 659 447.0	2 768 085.8	2 695 622.9
'National defence' as % total exp.	15.47	15.44	15.95
Total military exp. as % total exp.	23.86	23.87	24.32
GDP forecast on which budget based	15 300 000	16 130 000	16 751 100 ²
'National defence' as % GDP	2.69	2.65	2.57
Total military exp. as % GDP	4.15	4.10	3.91

1. In the author's work for SIPRI, it was estimated that 40 per cent of the budget allocation to Science and Technology was military-related. 2. Actual GDP (provisional).

Source: <http://www.minfin.ru>, 1 September 2005.

Revised budget: <http://document.krmlin.ru/doc.asp?ID=024929>

Implementation: <http://www.minfin.ru>, 15 February 2005; GDP: <http://www.economy.gov.ru>, 1 September 2005.

The new classification for the 2005 federal budget rationalised the treatment of military expenditure in so far as items of spending previously scattered under non-defence chapters were incorporated into a more broadly defined 'national defence' chapter. At the same time, the budgets of the MOD and paramilitary forces were reclassified in order to include explicitly some items of social spending previously concealed under the chapters of the budget devoted to education, health and culture. The 'Explanatory notes' issued with the draft 2005 budget provided summaries in terms of the new classification of the 2004 budget chapters for 'national defence' and 'security and law and order' in order to provide approximate comparisons with 2005 spending plans. Table 2 shows military expenditure in the 2005 federal budget and 2004 in comparable terms.

Table 2 2005 federal budget and 2004 in comparable terms

Figures are in million roubles and current prices.

	2004 budget (in 2005 classification)	2005 f.b. Law of 23-12-2004
'National defence'		
Armed forces of RF	316 689.0	388 028.8
Nuclear-weapons complex	5 615.7	8 693.1
Mobilization and training (outside forces)	921.4	1 895.4
Mobilisation preparation of economy	1 100.0	3,500.0
Collective security/peacekeeping	63.7	61.1
International obligations in mil-tech coopn.	6 053.4	6 231.0
Applied R&D in field of national defence	63 558.3	79 189.9
Other questions in field of ND	19 700.1	43 539.9
Total 'National defence'	413 701.6	531 139.2
Other military expenditure		
Military pensions	66 605.8	65 842.0
Paramilitary forces:		
Interior troops	20 080.6	23 893.8
Border troops	25 986.5	31 685.0
Security services	48 429.1	62 315.8
Total paramilitary forces	94 496.2	117 894.6
Subsidies to closed towns	14 333.8	14 308.2
Total other military expenditure	175 435.8	198 044.8
Total military expenditure	589 137.4	729 184.0
Total federal budget expenditure	2 659 447.0	3 047 929.3
'National defence' as % total exp.	15.56	17.43
Total military exp. as % total exp.	22.15	23.92
GDP	15 300 000	18 720 000
'National defence' as % GDP	2.70	2.84
Total military exp. as % GDP	3.85	3.90

Source: <http://www.minfin.ru>, 1 September 2005.

It will be seen that for 2004 spending on ‘national defence’ shows a modest increase under the new classification, but ‘other military spending’ a substantial decrease, leading to an overall reduction in the military share of total budget spending and in its share of GDP. Further investigation is required to explain this outcome. In order to clarify the new budget classification, the budget chapter (02) ‘national defence’ will now be considered in detail line by line, using the coding system employed by the Ministry of Finance. This can be done by study of three appendices of the 2005 budget: appendix 7, summarising total spending under each functional chapter and sub-chapter of the budget, appendix 9, spending by government department, and appendix 28, spending analysed in detail on a functional basis. In addition, appendix 41 provides some details of spending on arms procurement and R&D under the annual state defence order (*gosudarstvennyi oboronnyi zakaz*, hereafter, GOZ); this order being related to the fulfilment of the long-term ‘state programme of armament’.

All 02 National Defence, 531 192.0 million rubles.

02 01 Armed forces of the Russian Federation

Total	388,028.8
Of which, MOD	255,249.6 (appendix 9)
State defence order of MOD	
Arms procurement	82 531.3 (appendix 41)
Repair and modernisation:	42,115.2 " "
Total	124 646.5
Total above	379 896.1
Residual:	8 132.7

02 02 Mobilisation and extra-forces training

Total	1,895.4. (all MOD)
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Note, in 2004 the railway troops were absorbed into the MOD.

02 03 Mobilisation preparation of the national economy

Total	3,500.0
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In the published law on the federal budget no government agency is identified with this item. However, in the notes to the draft budget it is indicated that the sum will be initially allocated the Ministry of Economic Development and Trade (which has overall responsibility for mobilisation preparation), then distributed to other government departments.²

02 04 Preparation and participation in the provision of collective security and peace-keeping activity

Total	61.1
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² *Poyasnitel'naya zapiska k projektu federal'nogo byudzheta na 2005 goda*, p.61 (<http://www.minfin.ru>, 30 August 2004). (hereafter, PZ 2005)

In the published law on the federal budget no government agency is identified with this item. However, the explanatory notes for the 2006 draft budget explain that this line covers the maintenance abroad of Russian peace-keeping contingents.³

02 05 Nuclear weapons complex

Total 8,693.1

According to the explanatory notes, this line covers spending by the Russian Agency for Atomic Energy (Rosatom, successor to Minatom) associated with the production of nuclear warheads, and with measures for securing the reliability and safety of the production of nuclear materials and components. However, this spending is entirely omitted from the detailed departmental budget for Rosatom (appendix 9).

02 06 Realisation of international obligations in the sphere of military-technical co-operation

Total 6,231.0 (of which Russian Space Agency (Roskosmos), 3,450.0; residual, 2 781.0 (MOD?))

According to the explanatory notes for the 2006 budget, this line covers Russia's international obligations and also rental payments for test ranges and military bases on foreign territory, including the 'Dar'yal' radar station in Azerbaijan and test ranges in Kazakhstan, and payments by Roskosmos for the use of the Baikonur space complex in Kazakhstan. The term 'military-technical co-operation' often relates to arms exports, and it is suspected that the 'international obligations' include payment for arms supplied to foreign customers under the terms of inter-governmental agreements, in particular those involving arms supply as part settlement of Russian debts.

02 07 Applied research in the field of national defence

Total	79,189.9	(including 793.0 shown in appendix 28)
MOD state defence order, R&D	63 136.6	(appendix 41)
Other MOD	459.2	(appendix 9)
Federal Agency for Industry	265.1	"
Federal Space Agency	39.2	"
Ministry of Industry and Energy	29.5	"
Residual	15 260.3	

This new line marks a major departure from past practice. Before the 2005 budget the MOD state defence order for R&D was included with procurement in the line 'armed forces of the Russian Federation'. As the explanatory notes make clear, this new line includes spending by Rosatom on R&D associated with the development of nuclear weapons, assumed to have been included previously in the former budget line 'military programmes of Minatom'. It also includes research undertaken in connection with the fulfilment of a number of federal programmes, including those for the liquidation and utilisation of obsolete and withdrawn weapons, the development of the Russian 'Glonass' global navigation system (a programme led by the MOD), and the 'Anti-terror' anti-terrorism programme. While the substantial residual may include some other concealed items of spending, the bulk of it is probably allocations to Rosatom. This raises a question: did the budget as present prior to 2005 conceal some

³ PZ 2006, p.63 (http://www.akdi.ru/FINANCE/new/text_b06.htm, 10 September 2005).

military-related spending of the nuclear industry? For 2004, the line ‘military programmes of Minatom’ was 16,826.4 m.r. If the new line ‘nuclear weapons complex’ relates mainly to the procurement of nuclear warheads, then 11,211 m.r would be left for R&D, less than half the residual shown above. One possibility is that some weapons related research was previously concealed in the budget sub-chapter for fundamental research, or simply included as part of Minatom’s apparently civilian R&D spending.

02 08 Other questions in the sphere of national defence

This budget line includes a number of spending categories previously found in budget chapters other than ‘national defence’.

Total 43,531.0 (included in appendix 28, 42 392.8; concealed, 1138.2)

This is best considered in terms of the principal lines of spending:

02 08 001 Leadership and management in the sphere of established functions

Federal Service for Military-Technical Co-operation	107.1
Federal Service for the Defence Order	155.4
Federal Agency for Special Construction	58.0
Total (no residual)	320.5

02 08 100 Federal goal-oriented programmes

MOD	9 365.4
Including	
Transfer to contract forces, 2004-07:	7 194.9
Relocation of Black Sea fleet	900.0
Reconstruction of Chechnya	68.1
‘World ocean’	34.9
‘Anti-terror’	30.0
Anti-drugs	20.0
Utilisation of weapons:	
MOD	1 117.5
Federal Agency for Industry	11 916.2
Federal Agency for Atomic Energy	5 080.2
Federal Space Agency	328.5
Ministry of Industry and Energy	80.1
Federal Agency for State Reserves	33.4
Total utilisation	18 555.9
Aerospace materials (FA for Ind)	200.0
Nuclear and radiation safety ("	15.8
Total	27 019.6

02 08 102 Non-programme investment in basic funds

This has two lines: 214 ‘construction of objects of general-civilian purpose’, and 215, ‘construction of special and military objects’, the latter clearly having greater military significance.

214	
MOD	7 066.2
Federal Agency for Special Construction	20.0
Total	7 086.2

215	
MOD	13.8
Federal Agency for Industry	2 952.8
Federal Agency for State Reserves	65.0
Federal Agency for Special Construction	37.0
Siberian Division of Academy of Sciences	35.5
Ministry of Economic Development	8.5
Total	3 112.6

Total 02 08 102 10 198.8

02 08 201 Material-technical provision

Federal Agency for Special Construction 112.8

02 08 202 Military formations (organs, sub-divisions)

All Federal Agency for Special Construction 674.2

02 08 208 Mobilisation training and retraining of reserves

All Federal Agency for Special Construction 2.5

02 08 213 Utilisation and liquidation of armaments (not under specific programmes)

MOD	1 055.0
Federal Agency for Industry	41.9
Federal Space Agency	18.0
Total	1 114.9

02 08 214 Realisation of state functions connected with securing national defence
This line includes subsidies, 'measures in field of national defence' and prizes and awards for special services to the state.

MOD	196.0 ('measures')
Ministry of Industry and Energy	2 253.4 (2,157.4 m.r. 'measures' and 96.0 awards)
Federal Space Agency	500.0 (subsidies)
Total	2 949.4

Note: the 500 m.r. is classified as subsidies, but in the notes accompanying the draft budget, the funding is described as compensation to enterprises in connection with the cancellation of the 'Energiya-Buran' space-shuttle programme.⁴

Total of identified 02 08 budget lines: 42 392.7

⁴ PZ 2005, p.63.

Concealed spending: 1 138.2

Other concealed military-related spending

The federal budget of Russia always has a number of concealed items of spending, the scale of which can be determined by detailed analysis. From detailed study of the budget over a number of years it is clear that any concealed spending relates directly defence and national security and, as such, if not already included in the budget chapter 'national defence', should be included in 'other military spending'. Some of the concealed spending has been considered in the above analysis of 'national defence'; almost all the remainder relates to the budget chapter (03) 'national security and law-and-order activity'. Detailed analysis indicates that the scope of 'paramilitary forces' needs to be broadened to include some of the spending undertaken by the Ministry for Civil Defence, Emergencies and the Liquidation of the Consequences of Natural Disasters (MChS), a ministry with quite sizeable and well-equipped armed forces.

Analysis of the 03 budget chapter of the 2005 budget reveals the following military-related spending:

03 03 MVD Interior troops: 23 893.8 m.r., of which spending on the state defence order for arms procurement, repair and R&D is 3 171.7 m.r. (none of this spending is concealed).

03 06 Security organs: 62 315.8 m.r.

This is the spending line of the federal budget with the highest level of concealment. The line includes spending of the 03 chapter relating to the Federal Security Service (FSB), the External Intelligence Service (SVR) and the Federal Protection Service (FSO), the latter responsible for the security of President Putin and other government leaders.⁵ In appendix 9, departmental allocations, only the following is revealed: FSB: 16 223.2 m.r. (only 4 371.4 m.r. under 03 – mainly on programmes, apparently relating to the border troops; and 11 851.9 m.r. – budget chapter 10, 'social policy' – almost all for pensions).

SVR: 536.4 m.r. (526.4 under 03 - 'Anti-terror' programme, 60.0; investment 466.4; 10.0 under 05 (housing)).

FSO: 1 307.3 m.r. (all 03, international cooperation 900.0; 'Anti-terror' and Chechnya reconstruction programmes, 123.5; investment 283.8).

03 07 Border service of the FSB: 31 685.0 m.r., of which the state defence order is 4 459.7 m.r. In appendix 9 spending on the border troops is not identified separately under the FSB, so that in effect all this spending is hidden.

03 09 Warning and liquidation of the consequences of emergencies and disaster, plus civil defence: 22 054.7 m.r. In appendix 9, total 03 spending of the emergencies ministry, MChS is given as 21 993.2 m.r., but this includes 11 862.5 for the fire service, a separate budget line (03 10). This leaves 11 924 hidden spending.

03 12 Applied R&D: 2,654.3 m.r.. Only 634.3 of this is identified, leaving 2 020.0 hidden spending.

⁵ This coverage can be deduced but is confirmed explicitly by PZ 2005, p.71.

03 13 Other questions of national security: 19 100.1 m.r. Of this 1 166.2 is hidden spending.

Thus, under the 03 budget chapter there is an overall total of 101 905.9 m.r hidden spending, which can be assumed to be of a broadly paramilitary character.

Other hidden budget spending.

In the 2005 budget two more chapters have hidden spending, but on a modest scale. Chapter 01, 'general questions of state', includes 32.1 m.r. concealed spending, presumably relating to defence and security.

Chapter 04, 'national economy', has 127.4 m.r. hidden spending.

The general pattern of concealed spending in the 2005 budget is broadly similar to that of the 2004 and earlier budgets, but with one significant difference. The previously employed budget classification had a chapter 3, 'international activity'. In 2004 there was hidden spending under this chapter to a total of 12 496 m.r. . Of the total 2 665.9 related to international military-technical co-operation, transferred to 'national defence' in 2005, leaving an unexplained hidden component of 9 830.1 m.r. under the line 03 01 'international co-operation'. Detailed analysis has failed to illuminate the nature of this concealed spending and no equivalent item has been found in the 2005 budget.

There is one more hidden line of spending found under both the 2004 and 2005 budget classifications: state material reserves. The spending is hidden in the sense that no government department is identified as being responsible for the budget line and it is omitted from the appendix providing details of the budget's functional breakdown. In 2004 this budget line was part of chapter 20, 'supplementation of state stocks and reserves'; in 2005 part of chapter 1, 'general questions of state' (01 10, 'state material reserves'). The sums involved were 18,941.8 m.r. in 2004 and 18 443.3 in 2005. While these material reserves are held as part of preparation for emergencies and conflict, it is probably inappropriate to include them as a component of military related spending.

The new budget classification adopted from 2005 makes a significant change in the treatment of spending by the MOD and paramilitary forces on activities in the fields of education, health and culture. This change raises questions about the treatment of defence spending in the years prior to 2005: it suggests that identified spending was to some extent understated. While the budget of the MOD included a modest volume of spending on specialist educational and health facilities, other spending was included in the budget chapters 'education' and 'health' and could not be separated out. The new classification reveals additional spending by the MOD, MVD and the security services, the latter being hidden but nevertheless identifiable.

For the MOD the 2005 budget identifies the following spending in addition to the budget chapter 'national defence':

07 Education	19 670.9
08 Culture, cinematography and mass media	926.1 (all 'culture')
09 Health and sport	14 179.0 (all 'health')
<i>Total</i>	<i>34 776.0</i>

The MOD share of total spending on education and health is quite substantial: 12.7 per cent of total spending on education and 19.6 per cent of total spending on health. The share of spending on culture is more modest, only 5.5 per cent. However, the MOD's share of certain spending lines of the 07, 'education' chapter is surprisingly high: 95 per cent of 07 01 'pre-school education' and 26 per cent of 07 02 'general education'. However, it should be noted that much Russian spending under these headings is funded not by the federal budget but by republican, regional and local budgets.

Under the new classification, the budget chapters for education, culture and health now also have items of hidden spending, clearly related to the security services. Total concealed education expenditure is 4 243.8 m.r., including 3 543.8 m.r. on higher education. Hidden expenditure on culture is 59.1 m.r. (including 40 m.r. on press and publishing) and on 3 052.1 m.r. on health and sport (3 032.5 on health and 19.6 on sport).

For the MVD it is not possible to identify spending on education, culture and health directly associated with the internal troops. To obtain an approximate figure, spending on these items can be estimated by applying the share of internal troop in total MVD spending under the 03 budget chapter, i.e. 16.7 per cent. This gives 1 123.3 m.r. on education and 734.1 m.r. on health. For some reason, not explained, there are no budget lines for spending on education, culture and health for the Ministry of Emergencies, MChS.

To conclude discussion of this topic it is worth briefly considering the overall share of the MOD, MVD (as a whole, not just the internal troops) and security services in total spending on education and health in the 2005 federal budget: for education, 19.7 per cent and health 29.9 per cent.

Two other items of military-related spending need to be considered. Firstly, as under the previous classification there is spending on the support of the closed cities (so called 'closed administrative-territorial formations', in Russia known as ZATO) of the Ministry of Defence and the Federal Agency for Atomic Energy, the later being the country's centres for the development and production of nuclear warheads. In the 2005 budget there are allocation to 41 ZATO, including 8 of the nuclear industry, 32 of the MOD and 1 (Raduzhnyi) believed to be under the Federal Agency for Industry. Secondly, there is some defence-related R&D funded under the 'national economy' (04) chapter of the budget. According to the explanatory notes of the 2005 budget, the sub-section of the chapter for applied R&D (04 10) allocated 32 211.6 m.r. in total, including 16 000.8 for civil science, or 30 per cent of total outlays on civil science in the budget.⁶ From this it can be established that total spending on civil science is 53 336 m.r.. The total of all spending on fundamental and applied R&D in the budget for 2005 is some 153 600 m.r., giving a military total of approximately 100 000 m.r., i.e. some 18,000 m.r. more than the already identified military-related R&D. For simplicity, it is assumed that additional military R&D can be identified by taking 50 per cent of the applied R&D under the national economy chapter giving some 18,000 m.r. additional military-related R&D in 2005. The overall total of military expenditure in the 2005 federal budget, with account of concealed spending and

⁶ PZ 2005, p.82. In fact, the budget as approved into law included an allocation of 35,650.2 m.r. for applied R&D under the 'national economy' chapter.

spending on education, health and culture, is shown below, together with the 2006 budget.

The 2006 federal budget

In August 2005 the Russian government ratified the draft law on the federal budget for 2006 prepared by the Ministry of Finance and passed it to parliament for eventual approval, which culminated with President Putin's signature, in late December. Regrettably, in a break with practice of recent years, the appendix setting out spending on the state defence order (GOZ, covering arms procurement, repair, and R&D) for the MOD, MVD and FSB border troops has been classified. However, the total value of the MOD GOZ has been revealed by defence minister Sergei Ivanov as 236,694 m.r. and the GOZ for the MVD can be found as a residual.⁷ Of the MOD, according to Ivanov 164 b.r. (almost 70 per cent) is for procurement and repairs, leaving almost 72,700 m.r. for R&D. Otherwise, the items of hidden expenditure follow the general pattern of 2005. Spending plans as set out in the 2006 federal budget are shown in Table 3, which also shows the 2005 budget for comparative purposes. It will be seen that the military shares of total budget spending and GDP show a slight increase compared with 2004 using the previous budget classification. However, defence spending for 2004 and preceding years was probably understated to a modest extent by the exclusion of some spending on education and health, and hidden spending on the Ministry of Emergencies, now considered to be part of total military-related expenditure.

⁷ <http://www.mil.ru/articles/article11337.shtml>, 10-11-05

Table 3 Military expenditure in the 2004 federal budget and the budget for 2006

Figures are in million roubles and current prices.

	2005 f.b. Law, 23-12-04	2006 f.b. Law 26-12-06
'National defence'		
Armed forces of RF	388 028.8	497 771.1
MOD	255 249.6	314 593.0
GOZ (Procurement and Repair)	124 646.5	c.164 000.0
Residual	8 132.7	c.19 178.1
Nuclear-weapons complex	8 693.1	11 429.6
Mobilisation and training (outside forces)	1 895.4	5 181.3
Mobilisation preparation of economy	3 500.0	3 500.0
Collective security/peacekeeping	95.9	98.3
International obligations in VTS	6 231.0	6 083.2
Applied R&D field of national defence	79 189.9	92 917.9
MOD GOZ	63 136.6	c.72 700.0
Other, identified	793.0	5 574.6
Residual (inc. n-w) ²	15 260.3	14 643.3
Other questions in field of ND	43 539.9	49 045.2
Total 'National defence'	531 139.2	666 026.6
Other military expenditure		
Other MOD expenditure	35 493.2	58 715.4
Housing		14 604.8
Education	19 670.9	24 423.3 ⁴
Health and sport	14 179.0	17 242.8
Other	1 643.3	2 444.5
Military pensions MOD	65 842.0	78 481.8
<i>Total military</i>	<i>632 474.4</i>	<i>803 223.8</i>
Paramilitary forces:		
Interior troops of MVD (03)	23 893.8	35 827.0
Inc GOZ	3 171.7	3 963.3
Other (as % I t 03 in total MVD 03)	1 857.4	2 570.0
Border troops of FSB (03)	31 685.0	44 984.3
Inc GOZ	4 459.7	(6 400.0)
Security services (FSB, SVR, FSO)	62 315.8	91 747.2
Inc other security services and border troops	11 243.1	14 992.4
Inc R&D	2 562.5	3 126.9
Education	4 243.8	5 512.8
Health and sport	3 052.1	5 103.1
Other	1 384.7	1 249.6
Min of emergencies ¹	13 203.0	18 553.6
<i>Total paramilitary forces</i>	<i>144 198.1</i>	<i>208 674.5</i>
Additional military-related R&D ³	17 825.0	21 953.0
Subsidies to closed towns	14 308.2	14 837.1
Total other military expenditure	277 666.5	382 661.8
Total military expenditure	808 805.7	1 048 688.4
Total federal budget exp.	3 047 929.3	4 270 114.7
'National defence' as % total exp.	17.43	15.60
Total military exp. as % total exp.	26.54	24.56
GDP	18 720 00 0	24 380 000
'National defence' as % GDP	2.84	2.73
Total military exp. as % GDP	4.32	4.30
Other concealed spending: state material reserves	18 443.3	37 984.9

1. Concealed component, assumed to be military-security related.

2. Total R&D under state armaments programme, MOD and Rosatom, almost 90 b.r. This suggests the residual is Rosatom (<http://www.mfit.ru/defensive/obzor/ob16-09-05>, 16-9-05)
3. Estimated as half the applied R&D shown in chapter 04, 'national economy'.
Source: 2006 law on f.b.: <http://document.kremlin.ru>, 4-1-06, except MOD GOZ, as text above.
4. Appendix 44 of the budget allocates a modest amount of additional funding transferred from 2005. This includes an additional 87.4 m.r. for MOD higher education, not taken into account here as so modest.

Trend of military spending in real terms

Allocations to defence in Russian federal budgets adopted in recent years have shown significant increases in nominal terms, e.g. the 2005 budget showed a 27.9 per cent increase in spending on 'national defence' compared with the 2004 budget; for the 2006 budget the equivalent increase compared with 2005 is 25.6 per cent. At the same time, planned spending on the MOD state defence order (GOZ) for procurement and R&D has also grown rapidly, especially in 2005 – 36.4 per cent, but in 2006 a more modest 19.8 per cent. These rates of growth have been substantially higher than forecast rates of inflation as measured by the consumer price index. This suggests that under President Putin the Russian government has been attempting to increase the allocation of resources to the military, which suffered severe funding reductions during the 1990s.

Analysis of the trend of actual (and planned future) spending on defence in recent years shows that while the trend of the 1990s has indeed been reversed, the improvement in funding in real terms has been modest. However, preliminary data for 2005 suggest that spending in real terms increased much more rapidly than during the preceding three years. Here military spending in current prices has been converted to constant prices using the annual GDP deflator.

Table 4 Trend of spending in real terms: 'National Defence' (m.r.)

Year	GDP	GDP chang e %	GDP Deflator	'National defence' (actual spending)	% real change	Index 2000 =100	ND% GDP
2006B	24,380,000	105.8	107.5	666 026.6	105.8	147	2.73
2005*	21,430,000	106.4	118.4	585,520.4	115.0	139	2.73
2004	17 008 400	107.2	119.8	429 961.6	100.9	121	2.53
2003	13 243 200	107.3	114.0	355 691.4	105.6	120	2.69
2002	10 830 500	104.7	115.7	295 392.9	103.1	114	2.73
2001	8 943 600	105.1	116.5	247 703.0	110.9	111	2.77
2000	7 305 600	110.0	137.7	191 727.6	120.5	100	2.62
1999	4 823 200	106.4	172.4	115 594.3			2.40

* Provisional

Sources: 1999-2006 budget, Rosstat/Goskomstat and Minfin data (can be supplied).
2005: spending and GDP, http://www1.minfin.ru/off_inf/1672.doc, 18-1-06.

In order to secure a longer time span it is necessary to resort to an earlier (pre-1999) definition of 'national defence' that included spending on military pensions. This permits analysis of the entire period from 1992, and, though with less accuracy, comparison with the final Soviet era year, 1991.

Table 5 Trend of Russian military spending in real terms: 'National Defence' plus military pensions (m.r.)

	GDP	%	GDP Deflator	ND+P (actual)	ND+P %GDP	Real %	92= 100	91= 100
2006B	24,380,000	105.8	107.5	744 508	3.05	106.3	63	41
2005F	21,430,000	106.4	118.4	651 362	3.04	111.2	59	39
2004	17 008 400	107.2	119.8	494 820	2.91	99.3	53	35
2003	13 243 200	107.3	114.0	415 940	3.14	107.7	53	35
2002	10 830 500	104.7	115.7	337 584	3.12	105.2	49	33
2001	8,943,600	105.1	116.5	277 464	3.19	111.2	47	31
2000	7,305,600	110.0	137.7	214,118	2.93	115.7	42	28
1999	4,823,200	106.4	172.4	134,412	2.79	103.4	36	24
1998	2,629,600	94.7	118.5	75,000	2.85	77.8	35	23
1997	2,342,500	101.4	115.1	81,400	3.47	110.7	45	29
1996	2,007,800	96.4	145.8	63,891	3.18	88.3	41	26
1995	1,428,500	95.9	263.0	49,565	3.47	66.1	46	30
1994	610,700	87.3	407.9	28,500	4.67	82.8	70	46
1993	171,500	91.3	988.4	7,213	4.20	85.4	85	56
1992	19,000	85.5	1,590.1	855	4.50	65.6	100	66
1991	1,400	95.0		82	5.86			100

Note: 2005 forecast - ND as Table 4, plus pensions, as original 2005 f.b. The latter may understate actual spending.

Sources: 1992-2006 budget, Rosstat/Goskomstat and Minfin data (can be supplied); 2005 as Table 4; 1991: Institute of Economy in Transition, *Russian Economy, January-September 1998. Trends and Prospects*, Moscow, 1998, p.15

From the above it is difficult to establish whether the new budget classification adopted from 2005 has led to any significant discontinuity in the series. With exceptionally high oil prices, conditions were unusually favourable for the Russian federal budget, which ended the year with a surplus amounting to 7.5 per cent of GDP. For 2006 actual spending in real terms is forecast to grow at rate broadly in line with the growth of GDP. With somewhat more modest rates of GDP growth forecast for 2007 and 2008 it will be interesting to see whether this trend will continue. With mounting pressure for more rapid re-equipment of the armed forces, it cannot be ruled out that there will be a policy decision during the next two-three years to increase the share of GDP devoted to defence. One possibility is that the GDP defence share will be increased to 3.5 per cent, finally implementing an early 1998 decree of President Eltsin. In late 2005 a group of 19 Duma deputies, including influential defence and security committee members, attempted to introduce a law imposing a mandatory 3.5 per cent of GDP minimum for spending on 'national defence'.⁸ This may represent a calculated test of opinion and may herald a more official initiative at a later date. At the time this level of defence spending was set under Eltsin, 'national defence' included pensions, the definition employed in Table 5, but this fact was overlooked by the deputies in preparing their draft law. Without such a policy shift, if defence spending continues to grow in line with GDP then with an annual rate of grow of GDP of 6 per cent it will be 2015 before the 1992 level of defence spending is attained once again; and the 1991 level will not be attained until after the year 2020.

⁸ N Gafutulin, 'Skol'ko stoit oborona', *Krasnaya zvezda*, 7-12-05. The deputies also called for more transparency in defence spending, arguing that the present level of secrecy served the interest not of the MOD, but the Ministry of Finance.