Military expenditure in the Russian Federation during the years 2012 to 2015: a research note

Julian Cooper, Centre for Russian and East European Studies, University of Birmingham

On 28 September 2012 the Russian government delivered to the parliament, the State Duma, the draft three-year budget for the years 2013 to 2015. Before the end of the year it will have completed its parliamentary scrutiny and will have been signed into law, probably with some amendments, by President Putin. Prior to its completion, the draft budget generated some tense debate within the government and more widely. One of the issues of contention was whether the country could afford the envisaged increase in spending on the military and security at a time of economic uncertainty and pressing demands for increased spending on social problems and general socio-economic modernisation. But the strong political commitment to military renewal is such that plans set out in the draft budget for spending on the military and security are unlikely to undergo much amendment. In the author's view, analysis of the draft budget is likely to provide a close approximation to the final budget law on issues of military expenditure.

The decision to increase military expenditure and its share of GDP dates back to late 2008. In the aftermath of the brief war with Georgia, it was decided to undertake a far-reaching reform of the armed forces and to accelerate their re-equipment with new armaments. The urgent need for re-equipment was not in dispute, as the forces of the Russian Ministry of Defence had received had been starved of new military hardware since the early 1990s. On 31st December 2010 then president Dmitrii Medvedev signed a new , highly ambitious , State Armaments Programme (*Gosudarstvennaya programma vooruzheniya*; hereafter GPV-2020) for the ten-year period 2011 to 2020. This programme was clearly based on the optimistic economic forecast embodied in the concept of socio-economic development of Russia to 2020, signed by the president in November 2008, just as country was beginning to experience the severe impact of the global financial-economic crisis. This envisaged an annual average rate of growth of GDP of some 6.5 per cent. But since the crisis the Russian economy has grown at a more modest pace and to 2020 an average rate of growth of 4-5 per cent now appears much more likely, assuming that there is not another round of global economic downturn, which would inevitable have a negative impact of Russian economic prospects.

As show in Table 1, spending on the military will increase as a share of GDP in 2012 compared with 2011. Most spending on the armed forces of the Ministry of Defence is covered by the budget chapter 'national defence': its GDP share will increase from 2.8 per cent to over 3.0 per cent, and with account of other military-related spending in the budget will total almost 4.6 per cent.

Table 1

Military expenditure in the 2011 and 2012 federal budgets

Figures are in million roubles and current prices.

	2011 Actual spending	2012 f.b. As of 1 August 2012
'National defence'		
Armed forces of RF	1 128 393	1 388 257
MOD	685 484	800 691
Classified residual	442 898	587 566
Inc GOZ (Procurement and Repair)		
Other		
Mobilisation and training (ex forces)	5 454	7 315
Collective security/peacekeeping	208	418
Nuclear-weapons complex	26 964	27 475
Mobilisation preparation of economy	4 893	4 895
International obligations in mil-tech coopn	4 446	4 572
Applied R&D field of national defence	153 250	176 831
Classified residual (inc.GOZ)		
GOZ		
Other, identified		
Other classified		
Other questions in field of ND	192 347	255 111
Total 'National defence'	**1 515 955**	**1 864 874**
Other military expenditure		
Other MOD expenditure	(186 159)	(149 567)
Housing	99 998	43 657
Education	43 472	58 977
Health	38 702	43 520
Other – culture, media	3 987	3 413
Military pensions, MOD	***148 839***	***252 085***
Paramilitary forces:		
Interior troops of MVD	75 628	119 022
Inc GOZ	5 609	5 373
Border troops of FSB	84 742	89 070
Security services (FSB, SVR, FSO)	237 733	252 103
Additional military-related R&D[1]	39 337	58 289
Subsidies to closed towns	12 093	12 093
Baikonur	1 146	1146
Total other military expenditure	**785 677**	**933 375**
Total military expenditure	**2 301 632**	**2 798 249**
Total federal budget exp.	10 925 617	12 817 831
National defence' as % total exp.	13.88	14.55
Total military exp. as % total exp.	21.07	21.83
GDP	54 585 600	61 238 000
'National defence' as % GDP	2.78	3.05
Total military exp. as % GDP	4.22	4.57

1. Assumed to be one-quarter of total applied R&D for the economy.

Source

2011 actual spending: according to draft law on implementation of the 2011 federal budget (http//asozd2.duma.gov.ru, draft law no.106468-6)

2012 budget as at 1-9-12: Roszkazna (Federal treasury: http://www.roskazna.ru) report on budget spending as of 1 August 2012. Revised GDP forecast of Ministry of Economic Development for 2012.

Table 2

Military expenditure in the draft federal budget for 2013 and the planned period 2014 and 2015

Figures are in million roubles and current prices.

	2013 draft f.b.	2014 draft f.b.	2015 draft f.b.
'National defence'			
Armed forces of RF	1 635 715	1 903 145	2 410 306
MOD	842 118	803 097	813 800
Classified residual	793 597	1 100 048	1 596 506
Inc GOZ (Procurement and Repair)	(785 994)	(1 016 582)	(1 485 540)
Other	(8 003)	(83 466)	(110 966)
Mobilisation and training (ex forces)	6 793	6 881	6 891
Collective security/peacekeeping	-	-	-
Nuclear-weapons complex	29 289	33 335	38 571
Mobilisation preparation of economy	5 662	5 712	5 762
International obligations in mil-tech coopn	5 804	5 888	5 995
Applied R&D field of national defence	198 346	233 810	228 526
Classified residual (inc.GOZ)	186 780	222 377	214 439
GOZ	(175 215)	(210 944)	(208 454)
Other, identified	11 565	11 433	5 985
Other questions in field of ND	259 597	312 663	381 950
Classified	121 535	189 675	262 350
Total 'National defence'	**2 141 206**	**2 501 434**	**3 078 001**
Other military expenditure			
Housing	28 000	9 000	10 000
Education	57 993	58 758	57 960
Health	46 954	48 257	47 506
Other – culture, media	3 961	3 363	3 298
Total other MOD expenditure	*391 818*	*370 378*	*383 764*
Military pensions, MOD	254 910	(260 000)	(265 000)
Paramilitary forces:			
Interior troops of MVD	129 826	127 922	130 437
Inc GOZ	5 739	6 957	8 043
Border troops of FSB	99 560	93 606	107 381
Security services (FSB, SVR, FSO)	222 747	234 730	218 218
Additional military-related R&D[3]	54 327	47 935	42 002
Subsidies to closed towns	12 093	12 093	12 093
Baikonur	1 146	1 146	1 146
Total other military expenditure	**911 517**	**887 810**	**895 041**
Total military expenditure	**3 052 723**	**3 389 244**	**3 973 042**
Total federal budget exp.	**13 387 340**	**14 207 002**	**15 615 500**
National defence' as % total exp.	16.00	17.61	19.71
Total military exp. as % total exp.	22.80	23.86	25.44
GDP	66 515 000	73 993 000	82 937 000
'National defence' as % GDP	3.22	3.38	3.71
Total military exp. as % GDP	4.59	4.58	4.79

Source

Ministerstvo finansov Rossiiskoi Federatsii, *Proekt federal'nogo zakona "O federal'nom byudzhete na 2014 god i na planovyi period 2014 i 2015 godov* and accompanying documents as transmitted to State Duma, 28 September 2012 (http://asozd2.duma.gov.ru, draft federal law No.143344-6).

(..) estimate of author in absence of data for 2014 and 2015 in draft budget.

Some features of the draft budget are worthy of deeper exploration. Firstly, the striking growth of spending envisaged under the budget sub-chapter (02 09) 'other questions in the field of national defence', from 260 billion roubles in 2013 to 382 b.r. in 2015. This can be explained to a large extent by planned spending under the federal targeted programme in Russian*, federal'naya tselevaya progamma*, usually abbreviated to FTsP), 'Development of the defence-industrial complex of the Russian Federation, 2011-2020' (budget classification code 1400000). Total spending on this classified programme will be some 2,800 b.r, , of which 1,800 b.r. will be from the federal budget and the remaining 1,000 b.r. from non-budget sources.[1] The programme was actually adopted by the government in March 2012 and probably accounts for much of the increase in spending on 'other questions', 2012 compared with 2011 (see Table 1). Part of the spending under this programme is also being implemented under other budget chapters. It is known that some applied R&D is being funded under the 'national economy' (04) chapter, specifically under 04 11, 'applied R&D in the field of the national economy'. In recent years this budget chapter has had a modest classified component, indicating some spending for purposes of defence and national security. For 2013-15 this classified component increases quite substantially, probably because of the defence industry development programme.

Every year the MOD participates in a number of open FTsP; in 2013 twelve in number. However, there are also a small number of classified defence-orientated FTsP, including the new one for the development of the defence industry. Three more classified programmes have been identified, two also funded under the 'national defence' chapter. The total volume of funding under these programmes is not known. One programme, first adopted for 2007 but extended in 2010, is for the development of the nuclear weapons industry under Rosatom. This programme, 'The development of the nuclear weapons complex of the Russia Federation during 2007-2015 and the period to 2020' (budget code no. 1006300) appears to be funded under the sub-chapter 02 06 ‘nuclear weapons complex'. Secondly, there is a targeted programme, 'The development, restoration and organisation of the production of strategic scarce and import-substituting materials and low volume chemicals for armaments, military equipment and special equipment during 2009-2011 and the period to 2015' (budget code no. 1007900). The funding of this programme is under 'national defence', in both the 'applied research' and 'other questions of national defence' sub-chapters. Organisations participating in the realisation of this programme include the Ministry of Trade and Industry, the Russian Space Agency, Rosatom and the Ministry of Education and Science. Thirdly, there is a programme, 'The Creation and development of systems of monitoring of the geophysical situation on the territory of the Russian Federation during 2008-2015' (code no. 1006900), headed by the Federal Service for Hydrometeorology and Monitoring the Environment, but this is not being funded under 'national defence', although the fact that it is classified suggests that it has sufficient relevance to national security that it cannot have open status. [2]

[1] Http://premier.gov.ru/eng/events/news/18490/, 22 March 2012 Meeting of Putin and Denis Manturov, Minister of Industry and Trade. Note, the government website has been changed and this link no longer exists.
[2] Details from the website of the TS VPK information agency, http://www.vpk.ru, section 'finances'. (Note, open only to registered users).

The increased GPD share of spending on 'national defence' is explained above all by the rapid growth of expenditure on the annual state defence order (*gosudarstvennyi oboronnyi zakaz*, usually known in Russia as the GOZ). In its narrow definition this covers the procurement of new armaments and other military hardware, the repair and modernisation of the existing stock, and R&D for the development of new arms and equipment. Expenditure on the MOD GOZ is disbursed under three sub-chapters of the budget chapter, 02, 'national defence', namely 02 01, 'the armed forces', 02 06, the nuclear weapons complex' (spending on the development and production of new nuclear devices) and 02 08, 'applied R&D'. The precise volume of the GOZ is considered a state secret, but an approximation can be obtained by identifying the scale of the classified component of the relevant budget sub-chapters (but not for nuclear weapons, as that sub-chapter is always wholly classified). In the case of procurement, repairs and modernisation, the volume of the GOZ is assumed to be that part of spending under 'armed forces' left as a residual after the identification of open lines of spending.[3] In the case of applied R&D, a small volume of funding is openly indentified for the Ministry of Trade and Industry, MOD and the Russian Space Agency; the residual is assumed to be the GOZ. The results are shown in Table 2. Most of this spending on the GOZ will be within the framework of the above mentioned State Programme of Armaments, GPV-2020.

Total spending over ten years under GPV-2020 is over 20,000 billion roubles, of which 19,000 bn are for the MOD, the remainder for other agencies, above all the Ministry of the Interior (MVD), the Federal Security Service (FSB) and the Federal Guards Service (FSO). According to Aleksandr Sukhorukov, first deputy defence minister, the allocation of funding over the ten year period is 31 per cent during 2011-15, 69 per cent during 2016-20.[4] It is known that the adoption of this ambitious armaments programme was viewed with concern by the Ministry of Finance, then headed by Aleksei Kudrin, The Ministry argued vigorously, without success, for a lower volume of spending (13 trn r). However, it did manage to set a total volume of spending in current prices, not constant prices of the initial year, leaving open the possibility that spending would be constrained by inflation. This was a break with past practice in relation to the state armaments programme.[5]

Given the growth prospects of the Russian economy, GPV-2020 is now an extremely ambitious programme and, in recognition of this, from the outset the Russian government found it necessary to find a mechanism for supplementing federal budget funding by alternative means. The mechanism of state guaranteed bank credits made available to enterprises and organisations undertaking work on the GOZ on favourable terms of interest. This means that military expenditure is now being part-funded from non-budget sources. However, resort to credit is not a favoured option for many enterprises: in 2011 only part of

[3] Specifically, the residual as shown p.145 of the explanatory notes of the draft budget.
[4] http://www.vestnikrf.ru/journal/post/482/, 29 April 2012.
[5] Ministerstvo finansov Rossiiskoi Federatsii, *Osnovnye napravleniya byudzhetnoi politiki na 2012 god i planovnyi period 2013 i 2014 godov*, p 65 (http://minfin.ru/common/img/uploaded/library/2011/07/ONBP_2012-2014.doc, 8 July 2011).

the guaranteed credits were taken up (123,182 m r of 168,950 m r, i.e. 27 per cent of the total credits available were not used). The approximate volume of the annual GOZ from 2011 is shown in Table 3. State guaranteed credits add to the country's domestic debt. The burden of any defaults will fall on the federal budget and interest has to be paid on the debt. But defence industry enterprises are also paid subsidies from the budget to cover interest payments incurred in engaging state guaranteed credits. According the Duma Committee for Defence, in 2013 of total funding allocated under the GOZ, approximately 20 per cent will be devoted to R&D, more than 75 per cent to new procurement and the repair of existing hardware, and some 5 per cent in the form of subsidies to enterprises for interest payments.[6] In the view of the Committee, the Ministry of Finance, in reducing direct budget funding of the GOZ and increasing reliance on state backed credits, had underestimated the need for subsidies to enterprises to the extent of 20.2 b.r. in 2013, 48.7 b.r. in 2014 and 77.2 b.r. in 2015.

It is worth noting that in August 2011 the Ministry of Finance, then headed by former minister, Aleksei Kudrin, expressed some concern about the potential dangers of excessive resort to such credits. They introduce additional uncertainty and significantly complicate budgetary planning.[7] Under the terms according to which the credits are granted to the defence industry, there is no necessity to undertake prior checks on the financial viability of the defence industry enterprises concerned.

It can be seen from the Table 3 that the share of total expenditure on 'national defence' devoted to the GOZ is set to increase to a significant degree and it must be questionable whether this will prove to be feasible. However, it has become clear that President Putin and the prime minister, Dmitrii Medvedev, are resolutely committed to the full implementation of GPV-2020 even if it requires a larger defence burden on the economy. A simple simulation exercise, assuming an annual average rate of growth of GDP over the years 2016-20 of 5 per cent, with an annual GDP deflator also of 5 per cent and spending on the GOZ at a level of 50 per cent total spending on 'national defence' (all probably optimistic assumptions), shows that the full implementation of GPV-2020 will require an increase in the GDP share of 'national defence' to at least 4.4 per cent over the five years, or resort to additional state guaranteed credits totalling some 2,500 bn. r. It is doubtful whether either option is viable. However, the total, 6,756 bn r represents some 35 per cent of the total 19,000 bn r plus allocated to the MOD GOZ under GPV-2020, i.e. a somewhat larger share than the planned 31 per cent. The budget funded component represents 28 per cent of the total sum, showing the importance of the resort to state backed credits.

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[6] Gosudarstvennaya Duma, Komitet po oboronre, *Zaklyuchenie p proekti federal'nogo zakona No.143344-6 "O federal'nom byudzhete na 2013 god i na planovyi period 2014 i 2015", venesennomu Pravitel'stvom Rosssiiskoi Federatrii*, 8 October 2012, p.15 (http://asozd2.duma.gov.ru, draft federal law No.143344-6).

[7] Ministerstvo finansov Rossiiskoi Federatsii, *Osnovnye napravleniya gosudarstvennoi dolgovoi politiiki Rossiiskoi Federatsii na 2012-2014 gg*., Moscow, August 2011, pp.22-3.

Table 3. Funding of the annual state defence order (GOZ) (million roubles)

	GOZ funded from federal budget			GOZ as per cent total 'National defence'	GOZ funded by state guaranteed credits	Total GOZ
	Procurement & repair/ modernisation	R&D	Total GOZ[1]			
2015	1 485 540	214 440	1 699 980	55.2	300 000	1 999 980
2014	1 016 582	222 376	1 238 958	49.5	496 950	1 745 908
2013	785 994	186 781	972 775	43.3	399 450	1 372 225
2012	574 983	158 856	733 839	39.4	175 950	909 789
2011A	479 850	135 340	615 190	40.6	123 372	738 372
Total	4 342 949	917 793	5 260 742		1 495 532	6 756 274

1. Note, that these estimates of the author are near the actual totals is confirmed by the conclusions of the Duma Committee of Defence on the draft budget, in which it is stated that the total GOZ for 2013 is c.1,000 b.r. (a more than 30 per cent increase cf. 2012), for 2014 more than 1,200 b.r. and for 2015 more than 1,700 b.r. (Komitet po oboronre, *Zaklyuchenie p proekti federal'nogo zakona No.143344-6 "O federal'nom byudzhete na 2013 god i na planovyi period 2014 i 2015", venesennomu Pravitel'stvom Rosssiiskoi Federatrii*, 8 October 2012 (http://asozd2.duma.gov.ru, draft federal law No.143344-6).

Source: Draft federal budget for 2013-15 and accompanying explanatory notes (as source Table 2); draft law on implementation of 2011 federal budget and accompanying materials. (This law was signed by the President, 2 October 2012).

But it is not only GPV-2020 that is being part-funded by resort to state guaranteed credits; this also applies to the federal programme for the development of the defence industry. In a very late amendment to the draft three-year budget it was decided that 31 496 m r funding for the programme in 2013, 55,759 m r. in 2014 and 99,711 m r. funding in 2015 would take the form of state guaranteed credits.[8] As discussed below, the resort to credits on a quite significant scale has implications for the overall scale of military expenditure.

It was noted above that the political commitment to increased military expenditure is strong, making it unlikely that the allocations set out in the draft budget will be reduced as it makes its passage through the two houses of the Federal Assembly. However, notwithstanding many other pressing demands, the allocations could be increased to a limited extent. In the view of the Duma Committee for Defence, the Ministry of Finance has underestimated the spending required under the chapter 'national defence' to a quite significant degree and has called for additional funding: 94.2 b.r. in 2013 (including the above-mentioned 20.2 b.r. for additional subsidies to enterprises), 196.5 b.r.in 2014 (27.9), and 237.0 b.r. in 2015 (77.2).[9] This amounts to additional outlays of almost 8 per cent in both 2014 and 2015. It is unlikely that the Duma will approve increases on this scale, but modest supplementation is a possibility.

[8] Appendices 34 and 35 of draft budget.

[9] Calculated from Komitet po oboronre, *Zaklyuchenie p proekti federal'nogo zakona No.143344-6 "O federal'nom byudzhete na 2013 god i na planovyi period 2014 i 2015", venesennomu Pravitel'stvom Rosssiiskoi Federatrii*, 8 October 2012, pp.7-18 (http://asozd2.duma.gov.ru, draft federal law No.143344-6).

The trend of military expenditure over time in real terms over a fifteen year period is show in Table 4.

Table 4 Expenditure on 'National defence', 1999-2015 in real terms[1]

Year	GDP	GDP change %	GDP Deflator	'National defence'	% real change	Index 2000 =100	ND% GDP	GDP 2000 =100
2015B	82 937 000	104.5	107.3	3 078 001	114.7	260	3.71	195
2014B	73 993 000	104.3	106.7	2 501 434	109.5	227	3.38	187
2013B	66 515 000	103.7	104.7	2 141 206	109.7	207	3.22	179
2012BA	61 238 000	103.5	108.4	1 864 154	113.4	189	3.04	173
2012B	58 683 000	103.7	104.1	1 846 585	117.0	195	3.15	173
2011	54 585 600	104.3	115.8	1 515 955	102.4	167	2.79	167
2010	45 172 700	104.2	111.6	1 276 514	96.4	163	2.84	160
2009	38 807 200	92.9	101.9	1 188 174	112.0	169	3.06	154
2008	41 276 800	105.2	118.0	1 040 855	106.0	151	2.52	166
2007	33 247 500	108.5	113.8	831 875	107.2	142	2.50	158
2006	26 917 200	108.2	115.2	681 803	101.8	140	2.53	146
2005	21 609 800	106.4	119.3	581 144	113.3	138	2.69	135
2004	17 027 200	107.2	120.3	429 999	100.5	122	2.53	126
2003	13 208 200	107.3	113.8	355 691	105.8	121	2.69	118
2002	10 819 200	104.7	115.5	295 393	103.2	114	2.73	110
2001	8 943 600	105.1	116.5	247 703	110.9	111	2.77	105
2000	7 305 600	110.0	137.6	191 728	120.5	100	2.62	100
1999	4 823 234	106.4	172.5	115 594			2.40	

1. Using the GDP deflator to establish the trend in real terms.
   B: as draft budget BA: as law amending 2012-14 federal budget

Source
2013-15 - draft budget as of 29-8-12 (as Table 2 above)
GDP volume and change, 2012-15, as forecast of Ministry of Economic Development.
Other years, annual laws on budget implementation and GDP data of Rosstat.

The table shows clearly the impact on military spending of GPV-2020. Whereas expenditure prior to the global economic crisis was only 2.5 per cent of GDP, it is now set to rise to over 3.5 per cent by 2015. This appears to be the new target level of spending. According to Dmitrii Rogozin, deputy prime minister and chair of the government's Military-Industrial Commission, from now on defence spending must be at 3.5 per cent of GDP.[10] This means that from 2011 the rate of growth of military expenditure will greatly outstrip the rate of growth of GDP.

Substantial resort to state guaranteed credits means that measuring the military burden on the basis of budget spending alone is not entirely adequate. If defence enterprises have additional, non-budget funding available for the development and production of armaments, fully backed by the state, then, in effect, the military share of GDP is being increased. The scale of state guaranteed credits from 2011 is such that the increase is quite significant. With account of the full level of funding of GPV-2020 and the programme for the development of the defence industry, the GDP share rises to 3.3 per cent in 2012, 4.16 per cent in both 2013 and 2014, and 4.2 per cent in 2015. It is not difficult to see why the Ministry of Finance has been concerned about the implications of GPV-2020 for the budget. If the entire 4.2 per cent

[10] Http://www.vz.ru/news/2012/9/17/598406.html, 17 September 2012 ('Rogozin: Raskhody na oboronu dolzhny byt' na urovne 3,5% VVP.'

had fallen on the federal budget it would represent no less than 22 per cent of total spending in 2015 (assuming the total ceiling of budget spending were unchanged), and all military-related spending would amount to over 28 per cent of total expenditure, an unrealistically high level given the many other pressing demands on the Russian federal budget.

Military spending in Russia has now reached a level that is generating strains on the budget and could prove unsustainable, especially if another round of crisis were to afflict the global economy. Given the backwardness of the equipment of the armed forces, the political leadership is understandably reluctant to reduce or delay spending on the state armaments programme. But there is another way out of the dilemma for the government. According to Rogozin, speaking in early September 2012, work has started on a new GPV to the year 2025.[11] Past experience indicates that replacing an existing armaments programme by a new one is a very convenient mechanism for revising spending intentions in a non-transparent manner. It is by no means certain that military spending in Russia will in fact increase to the extent suggested now by the new draft federal budget for 2013 and the following two years.

9 October 2012

[11] Http://www.rbc.ru/rbcfreenews/20120907145930.shtml, 7 September 2012.