

*Changing Character of War Centre
Pembroke College, University of Oxford
With Axel and Margaret Ax:son Johnson Foundation*

Military Expenditure in the Russian Draft Federal Budget for the three years 2019 to 2021: A Research Note

Julian Cooper¹

The Ministry of Finance's draft federal budget for 2019 and the planned years 2020 and 2021 was approved by the government at a meeting on 20 September 2018. It was sent to the State Duma for consideration on 29 September.² In the preceding period, in accordance with standard practice, the Prime Minister, Dmitrii Medvedev, chaired a series of meetings to consider spending plans by sector of the economy and society, including the military. The latter meeting, attendees of which included First Deputy Prime Minister (and finance minister) Anton Siluanov, Deputy Prime Minister for oversight of the defence industry Yurii Borisov, economy minister Maksim Oreshkin, defence minister Sergei Shoigu, and deputy defence minister for finance Tatiana Shevtsova, was held on 29 August.³ According to Vyacheslav Volodin, chair of the State Duma, the first reading of the budget will be held on 24 October, the second, at which amendments can be adopted, on 14 November and the third and final reading on 20 November.⁴ This means that it should be signed into law by the President at the end of November or early December.

The draft budget is based on a forecast for the years 2019-21 prepared by the Ministry of Economic Development. This forms part of a longer-term forecast to the year 2024, covering the entire period of Vladimir Putin's new term as president. Its principal features are shown in Table 1.

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² 'Zasedanie pravitel'stva', Website of the Russian Government, 20 September 2018, <http://government.ru/news/34043/>; 'Pravitel'stvo odobrilo proekt byudzheta RF na 2019-2021 gody', *Prime*, 20 September 2018, https://1prime.ru/state_regulation/20180920/829247761.html. The meeting was attended by Defence Minister, Sergei Shoigu. The website the draft budget is <http://sozd.duma.gov.ru/bill/556362-7>

³ 'Dmitrii Medvedev provyol soveshchanie o raskhodakh federal'nogo byudzheta n 2019 god i na planovyi period 2020 i 2021 godov v sfere natsional'noi oborony', Website of the Russian Government, 29 August 2018, <http://government.ru/news/33771/>

⁴ 'Pravitel'stvo odobrilo proekt byudzheta RF na 2019-2021 gody', *Prime*, 20 September 2018, https://1prime.ru/state_regulation/20180920/829247761.html.

Table 1 Ministry of Economic Development forecast to 2024, August 2018

	2018	2019	2020	2021	2022	2023	2024
GDP (mn.r.)	101	105 820	110 732	118 409	126 998	136 745	147 173
Growth, %	164	1.3	2.0	3.1	3.2	3.3	3.3
Deflator, %	1.8	3.3	2.6	3.7	3.9	4.2	4.2
Inflation, % ¹	8.0	4.6	3.4	4.0	4.0	4.0	4.0
Investment, % ²	2.7	3.1	7.6	6.9	6.6	6.4	6.1
Oil, \$ p.b.	2.9	63.4	59.7	57.9	56.4	55.1	53.5
r./\$ ex. rate	69.6	63.5	63.8	64.0	64.7	66.3	68.0

1. Annual average 2. Investment in basic capital

Ministerstvo ekonomicheskogo razvitiya, *Kartina ekonomiki Avgust 2018 goda*, p.19, Russian Ministry of Economic Development Website, 5 September 2018,

<http://economy.gov.ru/minec/about/structure/depmacro/201805091>.

NB. as of 20 September 2018 Urals oil was \$78.8 per barrel and the market exchange rate 66.5 roubles per \$.

The detailed version of the forecast for 2019-21 was made available when the draft budget was sent to the State Duma. It has two variants, a 'basic' one, as above, on which the budget is based, and a 'conservative' scenario taking account of a possible sharp slowdown in the rate of growth of the world economy in the event of a 'hard landing' for the Chinese economy.⁵ The GDP forecast for the three-year budget period is appropriately cautious, the rate of inflation possibly too optimistic and it is not clear how the sharp jump in the rate of investment forecast for 2020, probably important for boosting growth in the following year, is to be achieved. The share of GDP going to investment is forecast to increase from 21.3 per cent in 2018 to 24.7 in 2021 and this may in part be explained by the mobilisation of investment finance from large corporations, the so-called "Belousov tax", and also, possibly, wealthy regions such as Moscow.⁶

Spending plans in the budget have been influenced by two principal factors. First, the Ministry of Finances has drafted a budget which will provide for a surplus in all three years as a precautionary measure should the economic situation deteriorate and/or the United States impose more sanctions that could create problems for the implementation of the budget, particularly the possibility that sanctions could target Russian state debt.

Second, the implementation of President Putin's edict of 7 May 2018 on national goals and strategic tasks of development to 2024 is a major spending priority.⁷ This frames a challenging set of priorities, now embodied in thirteen 'national projects' to run from 2019 to 2025, with a total spending of over 13,032 billion roubles, the largest are those for transport infrastructure, demography, health and the digital economy. Dmitri Medvedev has made it clear from the outset that meeting the demands of the edict would be the principal focus of the budget.⁸ Given the centrality of these two factors, there will be little scope for any significant increase in defence spending, meaning that the draft plans set out below are unlikely to undergo any major amendment as the budget passes through its approval process. The basic features of the draft budget are shown in Table 2.

⁵ Ministerstvo ekonomicheskogo razvitiya, *Prognoz sotsial'no-ekonomicheskogo razvitiya Rossiiskoi Federatsii na 2019 god i na planovyi period 2020 i 2021 godov*, Russian Parliament Website, September 2018,

<http://sozd.duma.gov.ru/bill/556362-7>

⁶ *Ibid*, p.17; 'Belousov predlozhit iz'yat' bolee 500 mlrd rublei u metallurgov ikhimikov', *Vedomosti*, 9 August 2018, <https://www.vedomosti.ru/business/articles/2018/08/09/777810-belousov>; Dmitrii Butrin, 'Absolyutnyi profitsit', *Kommersant*, 1 October 2018.

⁷ Ukaz Prezidenta Rossiiskoi Federatsii ot 07.05.2018 g. No.204, 'O natsional'nykh tselyakh i strategicheskikh zadachakh razvitiya na period do 2024 goda', Website of the Presidential Administration, 7 May 2018,

<http://www.kremlin.ru/acts/bank/43027>.

⁸ Zasedanie Pravitel'stvennoi kommissii po byudzhetyam proektirovкам na ocherednoi finansovyi god i planovyi period, <http://government.ru/news/32959/>, 21 June 2018.

Table 2 Basic features of the draft federal budget for 2019-21 (billion roubles)

	2019	2020	2021
Revenue	19 969	20 218	20 978
Expenditure	18 037	18 994	20 026
Of total exp, provisionally approved	-	475	1 002
Surplus	1 932	1 224	952
As % GDP	1.8	1.1	0.8
Expenditure on 'national projects'	1 685	1 863	2 085

Source

Poyasnitel'naya zapiska k proektu federal'nogo zakona "O federal'nom byudzhete na 2019 god i na planovyi period 2020 i 2021 godov", pp. 25 and 96. <http://sozd.duma.gov.ru/bill/556362-7>

Military expenditure

Military expenditure in the draft budget is as shown in Table 3, which for comparative purposes also includes the amended 2018 federal budget according to the budget listing of 1st August.

Table 3 Military expenditure in 2018 and in the draft federal budget for 2019-21 (million roubles)

	2018 budget as of 1 August	2019 draft budget	2020 draft budget	2021 draft budget
<i>'National defence'</i>				
Armed forces of the Russian Federation	2 261 216	2 227 016	2 362 717	2 440 951
Ministry of Defence	839 839	910 448	945 892	968 925
Classified residual	1 424 377	1 316 568	1 416 825	1 472 026
Mobilisation and extra-forces training	7 317	7 523	7 514	7 558
Mobilisation preparation of economy	3 203	3 198	3 198	3 198
Nuclear weapons complex	45 142	46 320	44 951	44 537
International obligations in mil-tech coopn.	10 464	9 574	9 561	9 588
Applied R&D in field of national defence	378 420	295 804	298 031	340 922
Open spending	20 957	14 100	14 113	12 792
Classified residual	357 463	281 704	283 918	328 130
Other questions in field of national defence	320 825	324 778	293 498	313 405
Open spending	134 253	71 872	65 478	65 153
Classified residual	186 572	252 906	228 020	248 252
Total 'national defence'	3 026 587	2 914 213	3 019 470	3 160 159
Arms re-cycling ^a	8 373	2 753	2 753	2 801
Total 'national defence' less arms recycling & mobilisation preparation of economy	3 015 011	2 908 262	3 013 519	3 154 160
<i>Other military expenditure</i>				
Other Ministry of Defence expenditure:				
Housing	75 211	54 382	52 958	53 963
Environment	1 506	1 482	1 582	1 640
Education	80 148	85 523	85 698	89 133
Health	71 066	74 149	77 748	81 111
Culture and cinematography	3 499	3 662	3 897	4 060
Physical culture and sport	3 786	3 945	4 026	4 157
Mass media	2 233	2 258	2 265	2 272
Pensions	344 512	349 473	(364 500) ^b	(379 080) ^b
Social support	148 299	202 019	222 657	239 098
Fees to international agencies	8	9	9	9
<i>Paramilitary forces</i>				
Troops of National Guard (Rosgvardia)	228 416	236 200	242 700	250 100
Open spending	212 426	219 656	227 425	235 124
Including state defence order (GOZ)	(15 990)	(16 544)	(15 275)	(14 976)
Border service of Federal Security Service	135 934	135 500	144 400	148 200
Support, closed towns of MOD, Rosatom	9 151	8 919	8 921	8 952
Support for Baikonur space centre	1 188	1 024	1 024	1 024
Total other military expenditure	1 104 957	1 158 545	1 212 385	1 262 799
Total military expenditure	4 119 968	4 066 807	4 225 904	4 416 959
Total budget expenditure	17 229 301	18 037 246	18 993 250	20 026 030
'National defence' as % total expenditure	17.57	16.16	15.90	15.78
Total military expenditure as % total exp.	23.91	22.55	22.25	22.06
Gross domestic product (GDP)	101 164 000	105 820 000	110 732 000	118 409 000
'National defence' as % GDP	2.99	2.75	2.73	2.67
Total military expenditure as % GDP	4.07	3.84	3.82	3.73
Total budget-funded GOZ, approximate	1 781 840	1 598 272	1 700 743	1 800 156

a. The programme for eliminating chemical weapons ended in 2017.

b. Three-year federal budgets never specify pensions for servicemen in the second and third years.

They have been estimated here using the forecast rate of inflation for each year. See Ivan Tkachyov, 'Pravitel'stvo snova nedoindeksiruet voennye pesnii', *RBC*, 30 September 2018,

<https://www.rbc.ru/economics/30/09/2018/5bafa29b9a79479c0b3c92b7?from=main>

Source

2018: Ministerstvo finansov, *Predvaritel'naya otsenka ispolneniya byudzheta za yanvar'-iyul' 2018 goda*, <https://www.minfin.ru/ru/press-center/?#>, 13 August 2018; Federal'noe kaznacheistvo, ispolnenie byudzhetrov, na 1 Avgusta, <http://www.roskazna.ru/ispolnenie-byudzhetrov/federalnyj-byudzhets/1020/> 2019-21 draft budget: Prilozhenie No.9 k poyasnitel'noi zapiske k proektu federal'nogo zakona "O federal'nom byudzhete na 2019 god i na planovyi period 2020 i 2021 godov" and Prilozhenie No. 10 k federal'nom byudzhete na 2019 god i na planovyi period 2020 i 2021 godov.

There appears to be a modest fall in funding of the budget chapter 'national defence' in 2019 compared with 2018. As explained in the appendix on implementation of the 2017 budget, however, this is rather artificial, being created by delayed settlement of some payments under the state defence order for 2017 in the early months of 2018. Account for this, spending on 'national defence' will show a modest increase on an annual basis throughout the period but decline as a share of GDP.

The classified component of 'other spending on national defence' is set to increase quite significantly, probably explained by spending under the state programme for the development of the defence industry and increased funding for infrastructure associated with new weapon systems. The classified components of the sub-chapters 'armed forces of the Russian Federation' and 'applied R&D', largely representing spending on the state defence order but also – to a limited extent – R&D allocations under the defence industry state programme, show a fall in 2019 and then increases in both 2020 and 2021. This pattern of expenditure is probably explained by the fact that 2018 is the first year of a new state armament programme and it takes sometime before contractual arrangements are concluded for new projects.

Another feature of spending intentions is the increased outlay on social support for service personnel and their families. This follows a trend of recent years, as does the increased spending on education and health for MOD personnel. With a growing share of volunteer contract personnel, as opposed to conscripts, it has become necessary to improve social conditions to attract and retain them. But spending on arms recycling has fallen, a consequence of the ending of the special programme on the elimination of chemical weapons. Finally, as in 2018, there will be no resort to state guaranteed credits in funding the state defence order.

Given the priority of the national projects and the determination of the Ministry of Finance to retain a sizeable budget surplus, it is unlikely that there will be any amendments which will involve an appreciable increase in the planned allocation to 'national defence'. But it cannot be ruled out that some other items of MOD spending will be modestly increased, particularly pensions, for the three-year period indexed according to the rate of inflation whereas many other budget funded personnel of civilian agencies will be indexed on somewhat more generous terms.⁹

State programme No.31, 'Ensuring the defence capability of the country'

A new feature of the draft budget is the fact that for the first time it incorporates a new state programme (no.31), 'Ensuring the defence capability of the country'. When it was decided in 2010 to adopt a programme approach to drawing up the budget, it was expected that a state programme relating to defence would soon be adopted and implemented.¹⁰ It then emerged that the new defence programme would be approved by the end of 2015 – but this did not happen, perhaps because of the decision to delay the start of a new state armament programme and the uncertain state of the economy.

⁹ Ivan Tkachyov, 'Pravitel'stvo snova nedoindeksiruet voennye pesnii', *RBC*, 30 September 2018, <https://www.rbc.ru/economics/30/09/2018/5bafa29b9a79479c0b3c92b7?from=main>.

¹⁰ Julian Cooper, *Russian Military Expenditure: Data, Analysis and Issues*, FOI-R-3688-SE, September 2013, FOI, Sweden, pp. 45-47, <https://www.foi.se/reportsummary?reportNo=FOI-R--3688--SE>

In October 2017 it was revealed that the state programme had been drafted but not approved in time to include in the 2018-20 budget.¹¹ There must have been a classified decision to adopt the programme in late 2017 or early 2018 because in June 2018 a Ministry of Finance order (prikaz) approved a procedure for the forming and use of budget codes which included the new state programme and revealed its sub-programmes and within each a number of basic measures.¹² Appendix 15 of the draft budget for 2019-21 shows open spending under the new state programme no.31 (see Table 4). The total volume of funding, open plus classified, is not known and is unlikely to be revealed.

¹¹ Zaklyuchenie komitet po proektu federal'nogo zakona No.274618-7 'O federal'nomu byudzhe na 2018 god i na planovyi period 2019 i 2020 godov', Russian Parliament Website, 10 October 2018, <http://sozd.parliament.gov.ru/bill/274618-7>

¹² Ministerstvo finansov Rossiiskoi Federatsii, Poryadok formirovaniya i primeneniya kodov byudzhethnoi klassifikatsii Rossiiskoi Federatsii, utverzhden prikazom 8 iyunya 2018 godov No.132n, Ministry of Finance Website, <https://www.minfin.ru/ru/performance/budget/classandaccounting/#>

Table 4 The structure of open spending in the state programme 'Ensuring the defence capability of the country' (million roubles)

	2019	2020	2021
Sub-programme 31.1			
Construction and development of armed forces	447 014	446 325	448 668
1 01 Staffing of armed force	11 156	11 293	11 764
1 02 System of training	9 561	9 637	9 826
1 03 Research in field of defence	10 378	10 941	11 414
1 04 Work with personnel	5 352	5 556	5 681
1 05 System of material-technical supply	246 172	258 588	258 912
1 06 Dev. & maintenance of infrastructure	164 395	150 310	151 071
1.07 Realisation of State Armament Programme	C	C	C
Sub-programme 31.2			
Improvement of system of management	5 850	5 850	5 850
2 01 Provision of communications	4 592	4 592	4 592
2 02 Maintenance & readiness of systems of mgt.	1 258	1 258	1 258
2.03 M & r of systems of mgt of fedl. exec. organs ^a	C	C	C
	19 298	19 041	19 099
Sub-programme 31.3	170	170	171
International activity	17 785	17 578	17 585
3 01 Inspection activity	1 343	1 343	1 343
3.02 Military coopn with foreign states			
3 03 Techl systems for impltn of intl. agreements	922 152	972 480	1 018 220
Sub-programme 31.4	696 136	724 567	752 639
Ensuring realisation of the state programme	6 131	6 168	6 132
4.01 Payment of service and civil personnel	40 180	42 174	44 065
4.02 Insurance in armed forces	179 705	199 571	215 384
4.03 Social guarantees of personnel leaving serv.			
4.04 Housing of service personnel			
4.05 Pre-school and general school orgns of MOD ^b	2 540	2 540	
Sub-programme 31.5			
Creation of system of basing of Black Sea Fleet ^c	2 801 ^d	2 801 ^d	
Sub-programme 31.6			2 801
Industrial utilisation of arms and equipment ^c			
Sub-programme 31.7			
Utilisation of arms and equipment			2 540
Sub-programme 31.8			
Creation of system of basing of Black Sea Fleet			
Total open spending	1 399 655	1 449 037	1 497 178

a. This clearly refers to systems of mobilisation preparation of federal agencies of executive power.

b. In the budget classification but not for some reason used.

c. In both cases, the existing federal targeted programmes to 2020.

d. In Appendix 13 of the draft budget these totals given as 2,753, not 2,801, probably more accurate.

C. All spending classified.

Source

Open spending: Prilozhenie No. 15 k federa'nom byudzhete na 2019 god i na planovyi period 2020 i 2021 godov.

Budget classification: Ministerstvo finansov Rossiiskoi Federatsii, Poryadok formirovaniya i primeneniya kodov byudzhetnoi klassifikatsii Rossiiskoi Federatsii, utverzhden prikazom 8 iyunya 2018 godov,

<https://www.minfin.ru/ru/performance/budget/classandaccounting/>

Examination of spending under the programme shows that it is essentially a restructured version of the budget spending of the MOD, with the exclusion of pensions and some other items not directly linked to enhancing defence capability, plus spending under the 'national defence' chapter of other

agencies, including 'Roskosmos' (recycling of weapons) and the Federal Service for Military-Technical Cooperation. The state programme is not as comprehensive as was conceived earlier. In 2013, the Ministry of Finance undertook an analysis of budget spending of that year in terms of state programmes. The future programme, then entitled 'Ensuring the military capability of Russia', was expected to include spending on support for the closed cities (ZATO), the defence industry (now a separate state programme (no.44), The development of the defence-industrial complex), and pensions for MOD personnel.¹³

The state defence order and a new state armament programme

As noted in the appendix, the original planned state defence order (GOZ) for 2017 was approximately 1,600 billion roubles. It was at meeting of the Military Industrial Commission (MIC) on 19 September 2018, chaired by Vladimir Putin, that the decision was taken to start work on the elaboration of the next GPV. The reporting of this has been inconsistent. According to deputy prime minister Yurii Borisov, speaking after the session, in the budget for 2019-21 the annual volume of the GOZ will be stable.¹⁴ But, as shown in Table 3, it is set to *increase* over the three years. If in 2022 the volume is held at the 2021, level it would give spending during the first, operational, five years of the new state armament programme (GPV) to 2027 of approximately 8,700 b.r., i.e. 46 per cent of the total 19,000 b.r. allocated to the MOD over the ten years. This would be in accordance with this author's assumption that for GPV-2027 the share of funding in the first five years is probably 40-45 per cent, not the 31 per cent of GPV-2020.¹⁵

Borisov is also cited as claiming that it will be adopted in 2023, to start in 2024 and end in 2033.¹⁶ But the first five years of the current GPV end in 2022, so one would expect the new programme to run from 2023 to 2032. The journalist Aleksei Nikol'skii suggests that it will run from 2023 to 2033 but that is eleven years, not ten.¹⁷ He also reveals that in February 2018 the deputy director of the MOD's 46th Central Research Institute, responsible for drafting GPVs, Oleg Achkasov, had said that the MOD had proposed a new programme to run from 2021 to 2030, i.e. restoring the normal schedule for new programmes disrupted by the decision in 2015 to replace GPV-2025 by GPV-2027.¹⁸ No doubt this issue of timing will soon be clarified.

The trend of military spending over time

As can be seen from Table 5, having peaked in 2015, Russian military spending as a share of GDP is set to come down to the level of the initial years of the state armament programme to 2020.

¹³ Julian Cooper, *Russian Military Expenditure: Data, Analysis and Issues*, FOI-R-3688-SE, September 2013, FOI, Sweden, pp. 56-57, <https://www.foi.se/reports/summary?reportNo=FOI-R--3688--SE>

¹⁴ Aleksei Nikol'skii, 'Raskhody na oboronu v blizhasishie tri goda sushchestvenno ne izmenyatsya', *Vedomosti*, 20 September 2018.

¹⁵ Julian Cooper, The Russian State Armament Programme, 2018 - 2027, *Russian Studies*, 01/18, May 2018, NATO Defence College, p.4.

¹⁶ 'Novuyu gosprogrammuy vooruzhenii RF na 10-letnii period primut v 2023 godu', *Tass*, 19 September 2018 <https://tass.ru/armiya-i-opk/5583184>

¹⁷ Nikol'skii, op. cit.

¹⁸ Ibid.

Table 5 Military expenditure (excluding debt repayment) as a share of GDP (million roubles)

Year	GDP	GDP change, %	Total millex	As % GDP	'National defence'	As % GDP
2021B	118 409 000	103.1	4 416 959	3.73	3 160 159	2.67
2020B	110 732 000	102.0	4 225 904	3.82	3 019 470	2.73
2019B	105 820 000	101.3	4 066 807	3.84	2 914 213	2.75
2018B	101 164 000	101.8	4 119 968	4.07	3 026 587	2.99
2017	92 037 200	101.5	3 705 608 ^a	4.03	2 665 475	2.90
2016	85 917 800	99.8	3 830 548 ^b	4.45	2 983 348	3.47
2015	83 387 200	97.5	4 026 284	4.83	3 181 366	3.82
2014	79 199 700	100.7	3 224 274	4.07	2 479 074	3.13
2013	73 133 900	101.8	2 787 420	3.81	2 103 579	2.96
2012	68 163 900	103.7	2 504 600	3.67	1 812 386	2.71
2011	60 282 500	104.3	2 029 000	3.37	1 515 955	2.51

a. With debt repayment 3 895 222 m.r., 4.23% GDP b. With debt repayment 4 623 761 m.r., 5.38%

Source: GDP: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/

Total military expenditure and 'national defence': 2017-2021 budget, as Tables 1 and 2, 2011-15 author's calculations based on annual laws on federal budget implementation.

In real terms Russia's military spending grew rapidly during 2010-15, driven by significantly increased spending on the procurement of new weapons. It then began to decline, as shown in Table 6.

Table 6 The trend of Russian military expenditure in real terms, 2010-21 (million roubles)

Year	GDP	GDP change, %	GDP Deflator	Total millex	Real terms, %	Index 2010=100	GDP 2010=100
2021B	118 409 000	103.1	103.7	4 416 959	100.8	121.4	118.8
2020B	110 732 000	102.0	102.6	4 225 904	101.3	120.4	115.2
2019B	105 820 000	101.3	103.3	4 066 807	95.6	118.9	112.9
2018B	101 164 000	101.8	108.0	4 119 968	99.5	124.4	111.5
2017	92 037 200	101.5	105.2	3 705 608	92.0	125.0	109.5
2016	86 148 600	99.8	103.5	3 830 548	91.9	135.8	107.9
2015	83 387 200	97.5	108.0	4 026 284	115.6	147.8	108.1
2014	79 199 700	100.7	107.5	3 224 274	107.6	127.9	110.9
2013	73 133 900	101.8	105.4	2 787 420	105.6	118.8	110.1
2012	68 163 900	103.7	109.1	2 504 600	113.1	112.5	108.2
2011	60 282 500	104.3	115.9	2 029 000	99.5	99.5	104.3

Source: GDP data: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/

Total military spending: as Table 3.

It is set to decline again in 2019 but to a large extent this is because 2018 spending was boosted by delayed payments under the 2017 state defence order. If budget plans are not changed, spending will start to increase again in real terms in 2020, though only to a modest degree. Taking the period as a whole, military expenditure should increase at a slightly faster pace than GDP.

Conclusion

The draft federal budget for 2019-21 provides confirmation that, after a few years of rapid growth, Russian defence spending has now settled down to a more modest rate of increase, with a declining share of GDP. At some point soon the GDP share will probably stabilise, perhaps at about 3.5 per cent for total military spending, and from then on its annual rate of growth will approximate to that of GDP. The MOD has experienced considerable reform in recent years and now functions more efficiently. The budget resources allocated to it are used more effectively, with stricter monitoring and control, in particular for the funding of the state defence order. The Russian armed forces are now set on an evolutionary path of development, with cost effectiveness an important consideration.

Appendix: implementation of the 2017 federal budget

The draft law on the implementation of the 2017 federal budget was sent to the State Duma in July and was approved, always a formality, with a single reading, on 27 September.¹⁹

Table 7 Implementation of the 2017 federal budget (million roubles)

	2017 amended budget	2017 actual expenditure
<i>'National defence'</i>		
Armed forces of the Russian Federation	2 358 650	2 219 075
Ministry of Defence	896 951	876 963
Classified residual	1 461 699	1 342 112
Mobilisation and extra-forces training	7 011	6 636
Mobilisation preparation of economy	3 373	3 351
Nuclear weapons complex	44 440	44 437
International obligations in mil-tech coopn	9 301	8 823
Applied R&D in field of national defence	335 655	270 499
Open spending	15 710	11 596
Classified residual	319 945	258 903
Other questions in field of national defence	291 393	299 454
Open spending	108 924	119 537
Classified residual	182 469	179 917
Total 'national defence'	3 049 823	2 852 275
Repayment of past debts relating to GOZ	186 800	186 800
'National defence' less debt settlement	2 863 023	2 665 475
Arms recycling	8 657	7 563
Total 'national defence' less arms recycling & mobilisation preparation of the economy Less debt repayment	3 041 166 2 850 993	2 844 711 2 654 561
<i>Other military expenditure</i>		
Other Ministry of Defence expenditure:		
Housing	4 188	45 929
Environment	1 461	1 412
Education	75 729	73 777
Health	54 310	58 697
Culture and cinematography	3 256	3 761
Physical culture and sport	3 550	3 717
Mass media	2 308	2 305
Pensions	338 497	339 330
Social support	143 478	148 464
Fees to international agencies	9	9
<i>Paramilitary forces</i>		
Troops of National Guard (Rosgvardia)	223 935	222 588
Open spending	208 287	199 191
Including state defence order (GOZ)	15 648	23 397
Border service of Federal Security Service	139 078	140 385
Support, closed towns of MOD, Rosatom	9 449	9 449
Support for Baikonur space centre	1 244	1 224
Total other military expenditure	1 000 492	1 051 047
Total military expenditure	4 041 658	3 895 758
Less debt repayment	3 851 485	3 705 608

¹⁹ Zakonproekt, 'Ob isplonenii federal'nogo byudzhetaz za 2017 god', Russian Parliament Website, <http://sozd.duma.gov.ru/bill/514334-7>

Total budget expenditure	16 728 364	16 420 303
'National defence' as % total expenditure	17.11 ^a /18.23	16.23 ^a /17.37
Total military expenditure as % total exp.	23.02 ^a /24.16	22.57 ^a /23.73
Gross domestic product (GDP)	92 224 000	92 037 200
'National defence' as % GDP	3.10 ^a /3.31	2.90 ^a /3.10
Total military expenditure as % GDP	4.18 ^a /4.38	4.03 ^a /4.23
Total budget-funded GOZ (approximate) ^a	1 594 844	1 414 215
GOZ financed by state guaranteed credits	-	-

GOZ - state defence order

a. Excluding debt settlement

Source

2017 amended budget: Federal'nyi zakon No.326-FZ, 'O vnesenii izmenenii v Federl'nyizakon "O federal'nom byudzhete na 2017god i na planovyi period 2018 i 2019 godov"', 14 November 2017,

<http://www.kremlin.ru/acts/bank/42468>; Federal Treasury of Russia, 'Otchet ob ispolnenii federal'nogo byudzheta, 2017', <http://www.roskazna.ru/ispolnenie-byudzhetov/federalnyj-byudzhet/>

2017 implementation: draft law, 'Ob isplonenii federal'nogo byudzheta za 2017 god',

<http://sozd.duma.gov.ru/bill/514334-7>

GDP: amended budget, as budget law; actual, Rosstat,

http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/

The shortfall in implementation of the budget chapter 'national defence' arose from a decision late in the year to withhold payments under state defence order contracts until they had been met in full, either in terms of the delivery of new weapons or the completion of R&D projects to the contracted extent.²⁰ These payments were made in the early months of 2018, increasing spending on the chapter 'national defence' above the level set out in the budget law, which was not amended when it was adopted to take account of this development.

It will be seen that this resulted in an apparent reduction in actual spending on the state defence order (GOZ) from a planned c.1,600 billion roubles (less some spending on the state programme for the defence industry) to little more than 1,400 billion roubles. According to Andrei Frolov of CAST in Moscow, citing Borisov, this was the planned GOZ for 2017, but in this author's view this is incorrect: Borisov was clearly referring to the planned volume of procurement only, not the full volume of funding.²¹ Frolov also claims, citing Nikol'skii, that the volume of R&D in the 2017 GOZ was set at 346 billion roubles, but this was the total for *all* R&D in the original law on the 2017 budget, i.e. it included R&D outside the state defence order, almost 16 billion roubles. In the amended budget for the year, as shown in the table, the R&D component of the GOZ was reduced to 320 billion roubles. This means that R&D accounted for 20 per cent of the total planned GOZ, procurement of new hardware and the repair and modernisation of old, 80 per cent, not the 25 and 75 per cent claimed by Frolov.

Contact Details

Changing Character of War Centre, Pembroke College, Oxford, OX1 1DW

Tel: +44 (0)1865 276458

Email: info@ccw.ox.ac.uk

Twitter: @Oxford

²⁰ Julian Cooper, *Military spending in Russia in 2017 and planned spending to 2020: a research note*, 3 February 2018.

²¹ Andrei Frolov, 'Ispolnenie gosudarstvennogo oboronnoogo zakaza Rossii v 2017 godu', *Eksport vooruzhenii*, July-August 2018, p.1; 'SMI: obyem gosoboronzakaza na 2017 god sostavit 1.4 trln rublei', <https://tass.ru/armiya-i-opk/4042947>