# 2009 budget of the Ministry of Defence of the Russian Federation

**"**According to open sources, the Russian Federation closed a successful financial year in 2008, which is demonstrated by the fact that the GDP increased about by 5.6%. Based on the previous year's success, the government made serious efforts to compile the 2009 yearly budget in such a way to ensure the most effective use of the available financial resources.

It was on the second occasion that the government prepared a mid-term budgetary plan for the following three years, (this time for the period between 2009-2011). However, it is expected return to the one-year planning, due to the current global economic crisis. While distributing the financial resources for the next three years, the government took into account – keeping to the usual, previous practice – the mid-term reports made by the ministries about the use of their 2008 budgetary resources and their envisaged mid-term tasks to be accomplished during the next three years." [1]

The main data (between 2007 and 2011) of the federal budget are shown in the table below:

*Table 1. Main data and indexes in 2007-2011* [2]

1 Expenses of federal and consolidated budgets in 2007-2011 (in billions roubles)

| Parameters | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Price for oil of "Urals" brand, in US dollars for barrel | 55,0 | 53,0 | 52,0 | 50,0 | 50,0 |
| Gross domestic product (GDP) | 30690 | 44056 | 51475 | 59146 | 67610 |
| Consumer price index, % | 108 | 111,8 | 108,5 | 107,0 | 106,8 |
| Dollar exchange rate | 26,0 | 25,9 | 30,0 | 28,0 | 25,0 |
| Expenses of federal and consolidated budgets | | | | | |
| Federal Budget income | 6614,2 | 8965,7 | 10927,5 | 11733,6 | 12839,0 |
| Federal Budget expenses | 5615,5 | 7021,9 | 9024,6 | 10320,3 | 11317,7 |
| Amount of the Stabilizing Fund for the end of the year | 3539,7 | - | - | - | - |
| Amount of the Reserve Fund for the end of the year | - | 3381,9 | 3709,2 | 4129,7 | 4950,7 |
| Amount of the National Welfare Fund for the end of the year | - | 481,5 | 492,7 | 504,4 | 554,4 |

[1] Annual breefing of Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation in February 2009, http://www.mil.ru/847/852/1159/1404/59093/index.shtml

[2] Annual breefing of Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation in February 2009, slide 1., http://www.mil.ru/847/852/1159/1404/59093/index.shtml

The largest federal incomes derive from the hydrocarbon energy resources, first of all from the sale of crude oil; therefore during the planning process it is the expected word market-oil price that represents the determining factor.

Taking as a starting point the five-year average (2007-2011) of the price of the Russian “Urals” oil, economic experts came to the conclusion that the oil price may be between 50 and 55 USD per barrel in the short-term. Thus, in estimating the oil price for 2008, they calculated on 50 USD per barrel. Relying on relevant forecasts, they expect a further decrease in 2009, so the oil price may be about 45-50 USD per barrel.

In elaborating the federal budget and determining the entire revenue originated from the crude oil, they count only on 27 USD per barrel, which is the average oil price of the last ten years. The remaining sum total (originating from the difference between the ten-year average and the estimated actual price) is to be allocated into the Stabilizing Fund. This sum was 3,863.4 billion roubles, which is about 140 billion euro in 2008. Despite the expected decrease in oil price, experts estimate that the Stabilizing Fund (Reserve and Welfare Funds) will have 5,500 billion roubles in 2010. According to Russian concept, the revenues originating from the oil-sales have to be put aside and saved for rainy days, when – due to a very low oil price – the extra incomes disappear. That will be the time when the savings have to be used – hopefully during a short transitional period – for stabilizing the economy.

Owing to public pressure, in 2008 the Stabilizing Fund was divided into two parts that are likely to total in 2009 to the following sums:

– Reserve Fund; 3,709.2 billion roubles
– Welfare Fund; 492.7 billion roubles

Prim Minister Putin announced in March 2009 that Russia possesses 8 billion roubles financial reserve fund, equal with 248.45 billion USD, (1 USD = 33.20), which is destined for crisis management. It is necessary to state that this sum is not precise, because the savings are kept abroad, mostly in the USA, in the form of interest-bearing currency and securities, thus the rouble-inflation is not reflected in these sums. I find it also important to mention that the savings will begin to show a decreasing trend only in the second half of 2009, when the long-term oil and gas contracts will expire and the lower oil and gas prices will affect the final settlement of accounts.

Another key factor for economic development is to keep the inflation at the lowest possible level. The officially acknowledge inflation in 2008 was approximately 11.8%, but its real level – owing to the economic recession – reached 13-15%. Russian experts envisage for 2009 8.5% inflation and recommend to the government to keep its level for the end of the three-year planning period under 7%.

*Table 2. Expensditures of the MoD in billion rubel* [3]

**Expenses of the Ministry of Defense of Russia (in billions roubles)**

| Expenses | 2009 | 2010 | 2011 |
|---|---|---|---|
| Personal wage costs | 259,3 | 287,1 | 313,5 |
| Suplies | 173,4 | 191,4 | 210,6 |
| State investments | 86,4 | 90,6 | 96,9 |
| Pensions | 115,2 | 120,8 | 129,2 |
| Development, purchase and repair of armament and military technique | 518,2 | 543,4 | 581,4 |
| Federal task programs | 57,6 | 60,4 | 64,6 |
| Other Expenses (logistics, flats, etc.) | 229,3 | 215,7 | 218,8 |
| Total: | 1439,4 | 1509,4 | 1615,0 |

The Russian government allocated 1,439.40 billion roubles (43.36 billion USD) for “national Defence ” in the 2009 federal budget. This sum is 16% of the federal budget and 2.8% of GDP.

In the course of reviewing the 2009 yearly budget, the government increased the Ministry of Defence ’s (MoD’s) expenses by 4%, exactly by 63 billion roubles. This increase was necessary and inevitable to ensure the fulfilment of the following most urgent tasks:

- implementing the armament modernization program;
- realizing the planned pay rise for professional and civilian personnel;
- solving the housing problems;
- accelerating the transition to contract manning;
- carrying out other pressing tasks.

Taking into consideration this additional financial allocation, the MoD has at its disposal altogether 1,502.5 billion roubles (46.66 billion USD), which amounts to 17% of the complete federal budget and 2.8% of GDP.

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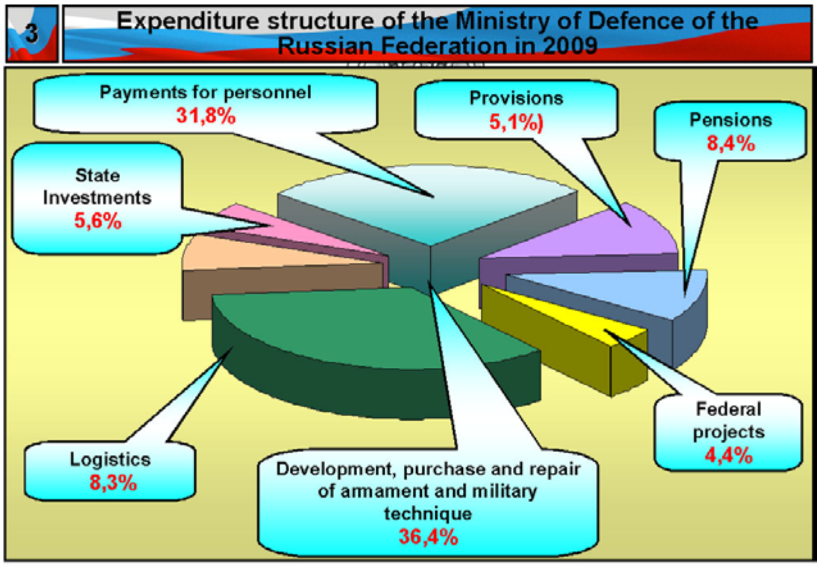
[3] Annual breefing of Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation in February 2009, slide 2., http://www.mil.ru/847/852/1159/1404/59093/index.shtml

The 2009 expenses planned for the MoD originally were by 26% more than in 2008. However, due to the financial crisis, they reduced by 8%. Thus, the military budgetary appropriation seemingly still increased, but in real terms – owing to the significant inflation – remained at the same level as in 2008.

*Table 3. Distribution of the 2009 expenditures of the MoD* [4]




"The MoD plans to procure in 2009-2011 the following weapons and equipment:

– 70 (Topol-M silo-based and mobile, as well as Bulava) ICBMs;
– 30 Iskander-M missile complexes;
– 48 combat aircraft;
– 14 several-class warships;
– 300 tanks;
– 400 pieces of new type equipment;
– 600 pieces of prototype equipment.

The MoD plans to spend on the above weapons and equipment 4 billion roubles during three years."[5]

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[4] Annual breefing of Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation in February 2009, slide 3., http://www.mil.ru/847/852/1159/1404/59093/index.shtml
[5] http://www.polit.ru/news/2008/12/22/goszakaz.html

*Table 4. Participation of the MoD in federal task* [6]

4 Participation of the Ministry of Defence in the Federal task programs in 2009 (in millions roubles)

| Projects | 2009 | 2010 | 2011 |
|---|---|---|---|
| Conversion of missiles, ammunition and explosive materials stocks, putting of the system of their storage and maintenance into explosive-and-fire-secure state for 2005-2010 | 8366,6 | 7162,4 | |
| GLONAS Global Navigation system for 2002-2011 | 9538,1 | 11172,3 | 7271,3 |
| Creation of the Black Sea stationing system in the territory of the Russian Federation in 2005-2020 | 4321,0 | 3734,0 | 8261,4 |
| Development of Russian space launch facilities (cosmodromes) in 2006-2015 | 6024,4 | 5999,4 | 5392,8 |
| Transition of the number of military units for manning by servicemen on contract basis | 25985,5 | 16200,0 | 21600,0 |
| Other projects of the Ministry of Defence | 8867,7 | 5331,5 | 4779,2 |
| **Total:** | 63103,3 | 49599,6 | 47304,7 |

In addition to developing the living and working circumstances of the military personnel, the improvement of their social conditions means, first of all, to implement a substantial wage adjustment.

*Table 5. Wage adjustment plan* [7]

5 Indexation of money allowance of military men and salary of the civilian personnel

**Indexation of money allowance of military men**

from 1 of February 2008 – on 9 %
from 1 of Oktober 2008 – on 9 %
from 1 of August 2009 – on 7 %
from 1 of Januar 2010 – on 6,5 %

**Indexation of salary of the civilian personnel of the Armed Forces**

Federal state employees
from 1 of February 2008 – on 9 %
from 1 of Oktober 2008 – on 9 %
from 1 of August 2009 – on 7 %
from 1 of Januar 2010 – on 6,5 %

Uniform tariff scale employees
from 1 of February 2008 – on 14 %
from 1 of August 2009 – on 7 %
from 1 of Januar 2010 – on 6,5 %

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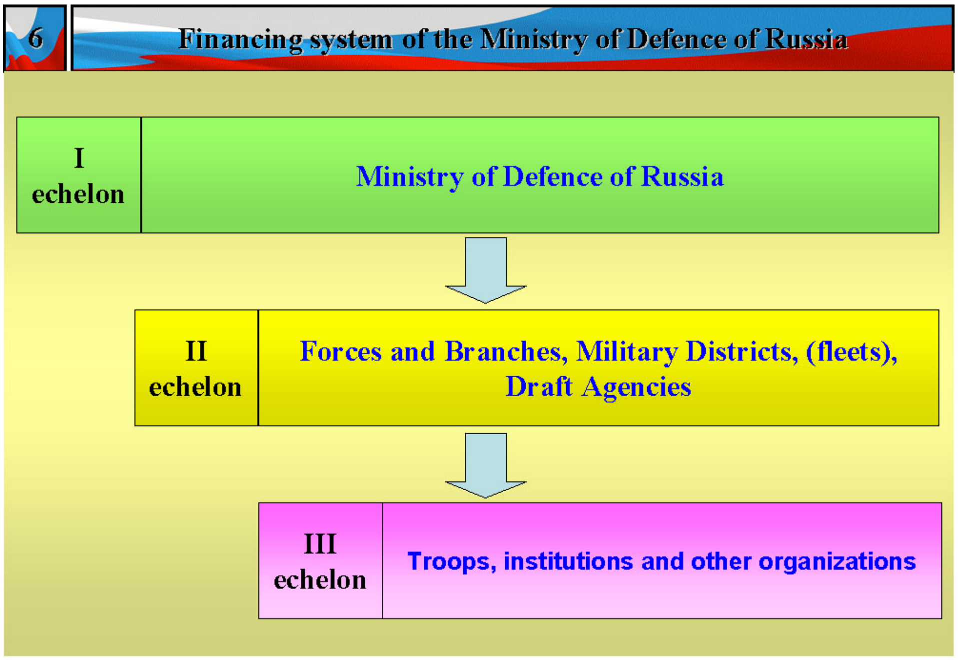
[6] Annual breefing of Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation in February 2009, slide 4., http://www.mil.ru/847/852/1159/1404/59093/index.shtml

[7] Annual breefing of Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation in February 2009, slide 5., http://www.mil.ru/847/852/1159/1404/59093/index.shtml

As from 2006, the wage adjustment affects not only the active personnel, but the retired soldiers and civilians as well. The degree of their pay rise was the same as the active personnel's.

The Russian military financial provision system is strongly centralized and is adjusted to the army's hierarchical structure. The financial department of any unit has to overcome three-level control and security obstacles for having access to the financial resources allocated to it.

*Table 6. Three-level financing system of the Russian MoD* [8]




According to experts, the 2009 MoD budget contributes to the successful completion of the constructive processes started by the military reform and helps the armed forces to fully carry out their tasks. At the same time, it is necessary to underline that the budget is very "narrow" and requests additional austerity measures. The 47 billion-rouble expenditures are enough only to pay starvation wages to the more than one million strong personnel. We face very often the dilemma; how is it possible to keep alive from this under-financed budget this enormous army? The secret is hidden in the fact that there are concealed Defence -related costs nearly in all major items of the federal budget, which can be, more or less, perceived only by the "insiders". For example, a significant part of the expenses of the nuclear forces is practically paid by the Federal Atomic Energy Agency and the technical background of the

[8] Annual breefing of Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation in February 2009, slide 6., http://www.mil.ru/847/852/1159/1404/59093/index.shtml

cosmic forces is financed by the Ministry of Information, and so on. The experts and even the government officials are very often incapable to realize the real flow of money spent on Defence purposes by several ministries or agencies. This confusion is inherited from the Soviet era, when the financial means provided for the military were ensured by multiply overlapping resources, when the economy as a whole was subordinated to Defence purposes.

It would be a big mistake to believe that the Defence budget truly reflects the combat capability of the Russian armed forces. It is worth mentioning for instance the rearmament of the Strategic Rocket Forces. Although the MoD originally planned in the budget to acquire one or two missiles every year, it has rearmed complete missile regiments (10 missiles for each) in the last couple of years. The land forces are in a similar situation as well. Their weapons and equipment are very obsolete, but still operational. If the MoD is going to continue to rearm – similarly to the missiles regiments – complete brigades and battalions in the forthcoming years, a very significant technical development can be expected within a decade.

"President Medvedev declared: "We have had enough of the patching! We have to give up patching the old armament; we have to buy new one"! This would give the military industry new orders in the middle of the current crisis and would certainly help it to tide over these very hard times. Despite the crisis, the financial resources are available for the state procurements."[9]

The same holds true in respect of financing the transition to contract manning. The expected increase in the number of contracted soldiers will certainly contribute to improving combat readiness.

"The reform program aimed at shaping a new image for the armed forces will probably free up new financial resources for the MoD to provide the personnel with differentiated allowances and wages. The significant decrease in the number of officers (the elimination of about 205,000 officer posts, the gradual dismiss of approx. 130,000 officers) makes it possible for the MoD to provide differentiated (augmented) allowances to those who serve in very important posts or actively and directly contribute to the maintenance of combat readiness. According to the decree No. 400 of the Defence Minister, the allowance of these soldiers can amount to 130,000 roubles (3,916 USD) per month."[10]

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[9] President Medvedev speech at the annual meeting with military leaders in March 2009, http://www.mil.ru/848/19267/19295/19294/index.shtml?id=60059

[10] Ministry of defence Serdukov announced in October 2008, http://nvo.ng.ru/forces/2008-12-12/1_reform.html

"At present, nearly 34,000 officers filling several positions – from platoon commander to nuclear submarine commander – get augmented allowance. Thus, a second lieutenant (serving in crises area) can bring home 50,000 roubles, while a submarine commander can get 130,000 roubles. The MoD plans to give allowances to all officers in accordance with the above-mentioned differentiated wage-system."[11]

**References:**


- Lubov Kudelina, Head of Economics and Finance Department of the Ministry of Defence of the Russian Federation presentation about the military budget in 2009 for the defence attaches accredited in the Russian Federation
- www.mil.ru
- www.cast.ru
- www.militarynews.ru


[11] Prim Minister Putin announced In DUMA in March 2009, http://www.rg.ru/2009/04/06/putin-duma.html

**Resume:**

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**The main key-words:**

- 2009 budget of the Ministry of Defence - Védelmi Minisztérium 2009 évi költségvetése;
- GDP increase – GDP növekedés;
- mid-term budgetary plan – középtávú költségvetési terv;
- Russian "Urals" oil – orosz kitermelésű "Urals" kőolaj;
- Reserve Fund – Tartalék Alap;
- Welfare Fund – Jóléti Alap;
- economic recession – gazdasági recesszió (válság);
- Federal Atomic Energy Agency – Szövetségi Atomenergetikai Ügynökség;
- differentiated allowances and wages – differenciált bérezés.