

Russia: unpopular reforms overshadowed by the FIFA World Cup

Iwona Wiśniewska

On 14 June, Russia opened the FIFA World Cup and won the first game. On the same day, the Russian government announced unpopular bills raising the state pension age and increasing the VAT rate. According to the government's proposal, the state pension age is to rise to 63 (from 55 at present) for women and to 65 (from 60) for men. The state pension age is to raise gradually. The transition period for women will last until 2034 and for men until 2028. The present life expectancy in Russia is 77.6 years for women and 67.5 for men. In parallel to this, the government proposed to increase the standard VAT rate to 20% (from the current rate of 18%) starting from 1 January 2019, while maintaining the reduced 10% rate on socially sensitive goods (including food, medicine and children's products). The governmental bills were submitted to the State Duma already on 16 June where work on them started immediately.

Commentary

- The savings and incomes resulting from the introduction of the changes proposed by the government would allow it to partly finance the implementation of a presidential decree which has set ambitious state development tasks until 2024 for the government. According to the government's estimates, the costs of their implementation will reach around 8 trillion roubles (US\$130 billion). The savings will increase each year as the state pension age is raised, and may reach around 1 trillion roubles (US\$16 billion) in 2024. As a result of the changes, the working age population will increase by around 9 million (to 88 million). Given the present low unemployment rate (around 5%), the labour market in Russia could face a shortage of workers, missing personnel that might ensure a boost to the Russian economy. Furthermore, the increased rate of VAT will bring in an additional 600 billion roubles (US\$10 billion) to the Russian state budget.
- The Russian government has used the FIFA World Cup to distract the public's attention from the painful changes it is proposing. Discussions on the need to increase the state pension age in Russia have been ongoing from more than a decade. However, due to the fact that this idea is highly unpopular and that Russian finances were in good condition during the times of oil prosperity, the decision concerning this issue has been postponed. Nevertheless, problems linked to the rapidly ageing society in the present economic situation in Russia have forced the government to introduce the changes (around 1.5

million retire each year, and payments from the Pension Fund exceed 9% of Russia's GDP). Vladimir Putin is consistently trying to distance himself from the pension reform idea, and the presidential administration is creating the impression that the government is responsible for the changes, leaving itself the option to intervene (for example, to soften the principles of the reform), should there be massive public protests.

- After information on the planned changes was announced, a campaign against the launch of the pension reform commenced in which the trade unions and opposition are engaged (the VAT increase principally is not questioned). However, street protests have been banned until 25 July in all the World Cup host cities. The government is likely to make efforts to prevent any major protests and will neutralise the most active opponents of the changes.