Cuts Watch brief
Last updated: 15 August 2011
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Russia

<table>
<thead>
<tr>
<th>Country</th>
<th>Russia</th>
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<tbody>
<tr>
<td>GDP change 2009</td>
<td>-7.8</td>
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<tr>
<td>Stimulus: % of GDP</td>
<td>4.5</td>
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<tr>
<td>Support for banks etc: % of GDP</td>
<td>7.7</td>
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<tr>
<td>Government austerity cuts: % of GDP</td>
<td>-3.7</td>
</tr>
<tr>
<td>IMF proposed extra cut by 2030: % of GDP</td>
<td>-7.5</td>
</tr>
<tr>
<td>Public sector job cut</td>
<td>-93,000</td>
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<tr>
<td>Planned 20% cut in civil service jobs 2011-2013</td>
<td></td>
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<tr>
<td>Public sector pay cut</td>
<td>No</td>
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<tr>
<td>Large real increases in pay of health, education workers 2011-2012</td>
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<tr>
<td>Healthcare cut</td>
<td>No</td>
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<tr>
<td>Extra public spending on healthcare announced 2011</td>
<td></td>
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<tr>
<td>Pensions cut</td>
<td>No</td>
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<tr>
<td>Increases in levels of pensions as part of stimulus 2009</td>
<td></td>
</tr>
<tr>
<td>New privatisation</td>
<td>Yes</td>
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<tr>
<td>Partial privatisations (10%) of some state enterprises announced 2010, continued contracting-out of public services measures.</td>
<td></td>
</tr>
<tr>
<td>Municipal, regional, state level cuts</td>
<td>No</td>
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<td>Growth in municipal employment resumes 2010</td>
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</table>

1. Government policy on spending and services

Russia was badly hit by the economic crisis, because the recession reduced demand for the country’s oil and gas. In 2009 GDP fell by 7.9%, and tax revenues fell by 29%, but the government deliberately increased public spending by 27%, and ran a budget deficit - for the first time in 10 years, to stimulate the economy and protect the unemployed and others on low incomes. The stimulus package included large increases in pensions, but also the equivalent of $33 billion was used to support the banks.

In July 2010 the Russian government announced it would halve the budget deficit by 2013, and eliminate the deficit altogether by 2015. It proposed to do this by cutting public spending by 3.7% of GDP by 2015, and increase social insurance contributions, and taxes on oil, tobacco, petrol, and exported metals. The proposals also included job cuts, with a target to reduce the number of government administration employees by 20 percent by 2013, and privatisation, with plans to sell shares in many state-owned companies, to raise money worth 1.6% of GDP spread over 3 years.

In May 2011 government revenues were much higher than expected because of higher world prices for oil and gas. The government is using only about 30% of it for increases in social spending, most of which consists of increasing pensions and public sector pay in line with inflation: but much more is being used to build up reserves and to finance a new private equity fund.

In December 2010 the IMF criticised Russia for not cutting spending enough. It called for more than twice the cuts planned by the government (equivalent of 8.5% of GDP by 2015), as well as a reduction in taxes: “The problem, said the IMF, was that much of the increase in stimulus spending, such as the pensions increase, were permanent commitments which could not be easily rolled back….to unwind the stimulus, Russia will have to cut elsewhere and support this by fundamental reforms of the public sector….Russia should rely on the private sector, as the public sector is not an engine of growth”.

Sources:
Financial Times December 9 2010 Moscow warned to cut deficit or face inflation
2. Public sector jobs, pay, pensions and union rights

The government announced in 2010 as part of its proposed cuts that it would reduce the number of national government employees by 20% by 2013. In June 2011 Finance Minister Alexei Kudrin confirmed that will be a reduction of 93,000 jobs, exactly 20% of the 435,000 civil servants: 23,300 in 2011, 23,300 in 2012, and 46,000 in 2013. This will save 33 billion roubles per year, but it will not result in a reduction in public spending because it will all be reallocated to increase pay or spending on other social programmes: “Half of that amount, 16.5 billion roubles, will go to raise the salaries of the remaining staff, and the rest will be used to fund various social and economic programmes as part of the optimisation of budget expenditure.”

Stated government policy is not to reduce the pay or conditions or pensions of public employees, but rather to increase their pay in relation to other workers, and provide specific funding to pay for these increases: in the budget statement for 2012-2014 President Medvedev stated that: “Wages in the public services sector must be more competitive compared to wages in other sectors. This goes above all for teachers and healthcare workers, whose wages will increase substantially over the next two years as part of the state programmes in these sectors.” As noted above, half of the savings from the civil service job cuts will be used to increase the pay of civil servants. The pay levels of health workers were about 60% of average pay, but in June 2011 the health workers union negotiated pay increases worth about 50%, to be paid over the next year: a substantial real rise, with inflation running at around 10%. A large increase in the health budget has been announced, one-half of it to finance this pay rise (see below). Teachers salaries are also being increased, with a specific budgetary allocation.

Municipal workers pay remains depressed as a result of a procurement law in 2005, which allowed corruption, awards of contracts without competition, and without protection of employment conditions. About 18,000 jobs were lost in Moscow alone as a result. This law may now be amended.

Sources:
- Presidency of Russia 29 June 2011 Dmitry Medvedev presented the 2012–2014 Budget Address
- Russian government 22 June 2011 Praesidium meeting 22 June 2011
- Report to EPSU sub-regional meeting Moscow May 2011
- PSIRU/EPSU June 2011: Pay of healthcare workers in Russia and Central Asia (Turning the Tide brief) www.epsu.org
- Youtube May 2011: Interview with Mikhail Kuzmenko: President of the Health Workers Union of the Russian Federation

3. Services

3.1. Healthcare

Following the collapse of the Soviet Union, Russia introduced private health insurance and private providers. Public spending on healthcare fell, but the private systems have not worked - people’s health, including life expectancy, got worse. Since 2000 public spending on healthcare has increased, and life expectancy and infant mortality have improved.
Russia has also had some success in dealing with ‘informal’ payments to doctors, by ‘An
unprecedented pay rise [double or triple pay] and increase in public financing of primary care
services…illustrates that an aggressive increase in salaries for medical personnel can reduce
informal payments.’

In 2011 the government announced a review of inefficient hospitals, plan to spend an extra $10
billion on healthcare ‘over the next few years’, including money. It would be paid for by increasing
social insurance contributions from 3.1% to 5.1%. Half of the new money will be spent on “raising
the salaries of medical personnel, providing patients with medicines and food, and purchasing
diagnostic equipment”

3.2. Pensions

Nearly half of Russian households depend on pensions for all or part of their income. The
government has said it aims to raise the average pension to 40% of the average wage. Public
pensions are paid from a state fund which is financed from social insurance contributions and tax
revenues. There are pressures to raise the retirement age from 60 for men and 55 for women to 63
and reduce the rights of employees to take early retirement, but no decisions have been taken on
these issues.

3.3. Other services

Municipal services have suffered from reforms intended to introduce market models based on the principles
on new public management. The revenues of municipalities in Russia rely heavily on transfers from central
government, and so were relatively shielded from the effects of recession in 2009.

Sources:
- Novosti 17 May 2011 Putin says Russia needs major health care reform, pledges initial investment of
  over $10 bln
- RIA Novosti 13 May 2011 Pensions gap widens
- Russia Profile 22 June 2010 There’s a Huge Hole in the State Pension Fund, and Kudrin Wants to
  Plug the Leak with Elderly Workers
- OECD: 2006 Healthcare reform in Russia: problems and prospects
- WHO/EOHSP 2010 Implementing Health Financing Reform - Lessons from countries in transition.
- Ria Novosti 10/06/2011 Russia’s new political hybrid
- Russia profile 29/04/2011 Who’s Got a Better Vision for Russia’s Future?

4. Privatisation

Privatisation by outsourcing has been a major problem for municipal workers. A 2004 law
effectively encouraged ‘cowboy’ contractors, with the result that tens of thousands of unionised
jobs were lost, and replaced by migrant workers employed at exploitatively low wages by the
contractors. In 2011 the government has responded to union campaigns by promising a new tighter
procurement law.
The 2010 budget announced a new privatisation programme, with plans to raise 1,000bn roubles between 2011 and 2013 by selling off stakes in 10 big state companies, including a 15 per cent stake in Rosneft, the state-controlled oil producer, and a 25% stake in Russian Railways, as well as 900 smaller companies.

Sources:
- Report to EPSU sub-regional meeting Moscow May 2011
- FT 17 November 2010  Moscow approves $32bn sale of state assets