

Crisis country case study

Russian Federation

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The report was prepared by Dmitri Karasyov.

Ian Orton was responsible for the project management.

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ISSA crisis case study: Russian Federation

Summary

The crisis has had a severe but not a devastating impact on the national economy of the Russian Federation. In 2009, national GDP declined about 8.7 per cent. Anti-crisis policies halted the growth of the crisis and cushioned its impact on the population.

The following major steps were undertaken for national social protection during 2008–9: all social security benefits were fully indexed; pension benefits increased by 46 per cent and pension benefits expenditure increased from 5 to 10 per cent of GDP; unemployment benefits increased by 50 per cent; targeted vocational, training and retraining programmes were enhanced or introduced; and measures aimed at modernization of healthcare and improving medical treatment and services were implemented.

It is noteworthy that the national social security system was not seriously affected by the crisis due to the state guarantee of social security benefits that were largely supported by the Reserve Fund and National Welfare Fund accumulated by the government in preceding years. In the context of the crisis, by lowering social tensions and supporting consumption by the population, the national social security system has been an important stabilizer of society.

However, the crisis underlines the Russian economy's heavy dependence on oil and gas prices. Therefore the need for modernization and diversification along with improvements in the quality of the labour force becomes a priority for the national government's policy agenda.

Social security institutions covered

The Ministry of Health and Social Development; the Pension Fund; the Social Insurance Fund; and federal and regional compulsory health insurance funds.

Overview of the social security system

The national system of social security is a complex system comprising social insurance, health insurance, social assistance, unemployment benefits and other arrangements to provide social protection.

Financing and types of social security benefits and services

The main sources of financing social security benefits are social insurance contributions, and federal and regional budgets.

National legislation provides for the following social security protection: Reimbursement of expenditures for provision of healthcare by a medical establishment; provision of old-age, disability and survivors' pensions; sick leave; work injury and occupational disease benefits;

pregnancy and birth delivery grants; childcare grant; unemployment benefit; a lump-sum for women who register their pregnancy at an early stage with medical establishments; a childbirth lump-sum; second childbirth benefit (maternity capital); burial benefit; and spa and sanatorium medical treatment and health prophylaxis for workers and members of their families.

Pension system

There are 38,776 million pensioners in Russia. The system still retains elements of the paternalistic Soviet welfare provisions such as universal coverage, a vast array of early retirement benefits and a low retirement age – 55 for women and 60 for men.

After a major reform in 2002 and until 2010, the national mandatory pillar of the pension system was financed by a single social insurance payroll tax (contribution) of 26 per cent (20 per cent finances pensions) which is paid by employers for employees. The "labour pension" (an earnings-related pension) is composed of three elements until 2010: a flat-rate basic part, a notional defined contribution (NDC) insurance part and a funded defined contribution (DC) part. The DC part covers workers who were born after 1966 and is run by state or non-state (private) institutions. There is also a voluntary pension pillar which is operated by "non-state pension funds" (national terminology).

Unemployment protection

Before the introduction of the single social tax in 2001, employers paid 1.5 per cent of payroll as an unemployment insurance contribution to the State Employment Fund. With the introduction of the single social tax, unemployment insurance was abolished and the State Employment Fund was dissolved. Currently, unemployment benefits are paid out of the federal budget.

Impact of the crisis

The economy and labour force

Half of the Russian federal budget revenue derives from oil and gas exports. Since the global economic and financial crisis led to the sharp drop in oil prices in 2009, the energy resources export-based economy has been seriously affected.

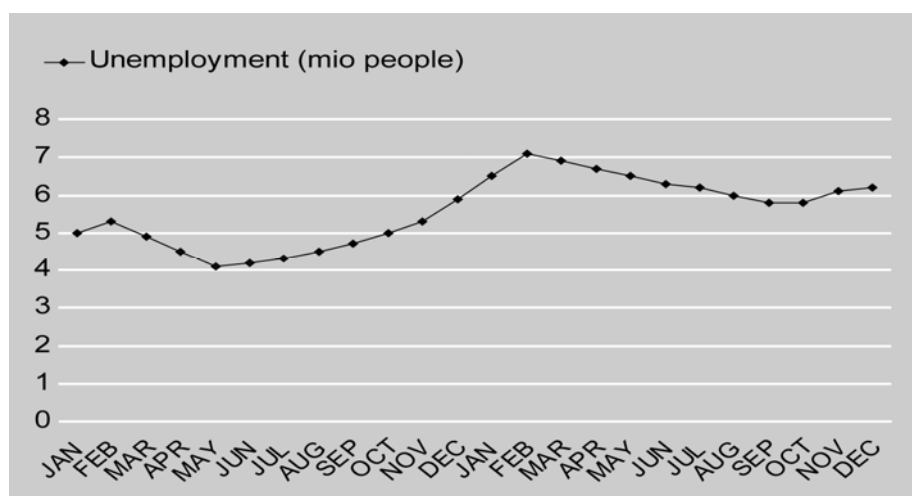
In 2009, national GDP declined about 8.7 per cent. In 2009, on a year-to-year basis, investments declined by 15.5 per cent, industrial output by 16 per cent and real wages by 9.1 per cent, and tax revenue fell by 20 per cent. The negative impact of the world crisis on the Russian economy was exacerbated by inadequate development of the national financial system and small and medium enterprises (SMEs), weak competitiveness of many manufacturing enterprises, as well as problems linked to the so-called one-plant towns inherited from the Soviet command economy.

Unemployment

Since October 2008, following downturns in key national industrial sectors, redundancies have occurred in construction, metallurgy and vehicle manufacturing as well as in the investment and banking sectors. Consequently, the unemployment rate rose quickly. In December 2009, 6.2 million (8.2 per cent) workers were unemployed according to the

International Labour Organization. Similar figures were also reported by the Federal Statistics Service as shown in figure 1.

Figure 1: Unemployment dynamics, 2008–2009



Source: Federal Statistics Service (Russian Federation).

Investment performance of pension savings

According to the National Association of Non-State Pension Funds (NAPF), in December 2008 the non-state pension funds had 6.41 million participants (representing 10 per cent of the active population). Most of the participants are insured under mandatory pension insurance which is financed by contributions of 6 per cent of payroll (as a DC part of the national mandatory pillar of the pension system).

The global financial crisis severely affected the investment performance of pension savings in 2008. The fall in investment income by the state governing company (*Vnesheconombank*) was US-dollar (USD)51.8 million. The private companies managing these funds (with one exception) experienced substantial losses in their asset portfolios. Nevertheless, the largest companies and the majority of non-state pension funds compensated losses of participants out of assets earmarked to ensure their statutory activities. The NAPF reports that over a three-year period (2007–9), while inflation grew by 37.9 per cent, the pension funds reportedly increased asset values on average by 31.2 per cent.

Responses to the crisis

National anti-crisis action in 2008–2009

In September 2008, to address the negative impacts of the global financial and economic crisis, the government began implementing anti-crisis measures that have been further developed by an action plan and then subsequently by the national anti-crisis programme for 2009. The national budget expenditure that was not connected to the programme priorities was cut by USD30 billion,¹ while the expenditures related to the programme were increased by USD43.9 billion. To finance the expenditure, Russia did not resort to borrowing from

¹ The exchange rate at time of writing was USD1 = Russian Rouble (RUB)31.6 (June, 2010).

abroad, but used resources largely accumulated in the Reserve Fund and National Welfare Fund² from oil and gas revenue.

The comprehensive targeted anti-crisis measures were set in accordance with seven priorities of the programme:

- Honour commitments to the public by supporting citizens and families that were hardest hit by the economic crisis, and enhance social protection for the public.
- Create an environment for enhancing the efficiency of Russian enterprises.
- Stimulate domestic demand for Russian goods as the basis for revitalizing economic growth.
- Stimulate modernization and restructuring of the economy.
- Create an environment for economic growth.
- Create a powerful financial system as a reliable foundation for the development of the national economy.
- Ensure macroeconomic stability and preserve the trust of Russian and foreign investors.

Social protection response to crisis

Support to citizens was the top priority set for the national anti-crisis programme. Modernization of the pension system, provision of quality healthcare services, employment assistance and training were key social protection measures taken in response to the crisis.

Social security cash benefits increased

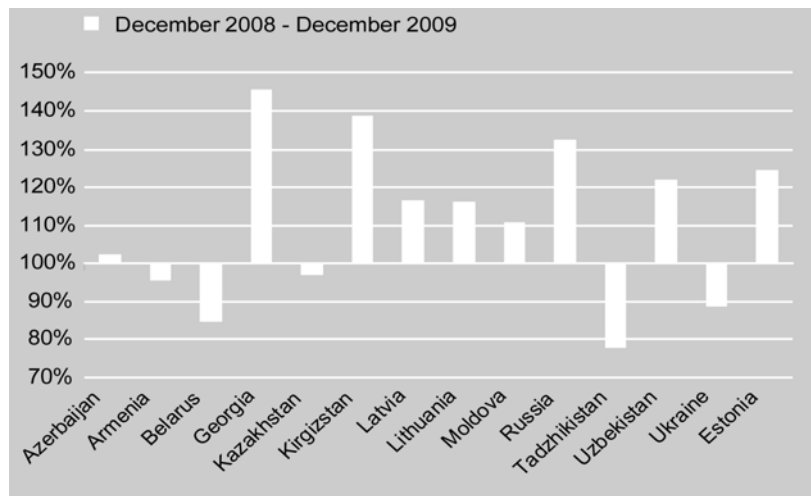
To meet commitments to the public (including wages, student grants, medicine and pensions), the federal budget allocations totalled USD138.9 billion in 2009, up 30 per cent from 2008. As much as USD78.3 billion were allocated to social projects and pensions, compared to USD59.6 billion in 2008.

In 2009, federally funded social grants and Social Security Fund subsidies were indexed according to the inflation rate. This primarily concerned children's grants and maternity capital (grant payable on the birth of a second child).

An increase in the average social pension to the subsistence level was implemented in 2009. This involved an increase in the basic part of the labour pension, and an 8.7 per cent increase to take into account the increase in the CPI. It is planned to increase the average labour pension by 46 per cent from 2009 to 2010, as a result of recognition of pension rights earned before 1 January 2002, plus 1 per cent for each year of work during the Soviet period

² The Stabilization Fund was split into the National Welfare Fund and the Reserve Fund on 1 February 2008. The National Welfare Fund is an earmarked part of the state budget to cover the deficit of the Pension Fund and expenditure related to the voluntary programme of co-financing of the funded part of labour pensions.

Figure 2: Dynamics of minimum pension amounts in the CIS countries and Baltic States from December 2008 to December 2009 (%)



Source: International Association of Pension and Social Funds.

Measures to enhance healthcare

Federal budget allocations for healthcare, including development of physical culture and sport, increased to USD10.7 billion from USD8.9 billion in 2008.

Work on the National Project on Healthcare, which started in 2006, continued with an emphasis on healthy living. The development programmes launched in 2008 for vascular heart disease treatment and first aid following traffic accidents continued; around 120 blood donor stations were equipped and a united donor database was set up. The implementation of programmes to improve cancer and tuberculosis treatment started in 2009.

Improvement of mother and child-oriented health services continued. The government tightened control over the pricing of medicines, including obligatory registration of manufacturers' ceiling prices of essential and life-saving medicines. An additional health survey of workers was made, with special examination of workers employed in hazardous production to detect diseases at an early stage.

Measures to support the unemployed and return them to work

The maximum unemployment benefit increased by 50 per cent since the beginning of 2009. Personnel reductions due to company liquidation, lay-offs and the shift of companies to shorten the working week were monitored regularly by the government.

Another priority was to improve laid-off workers' competitiveness in the labour market through training and retraining for jobs that are in greater demand, or resettling them to regions where demand for their skills exceeds supply.

The federal budget has earmarked an additional USD1.4 billion to stabilize employment. The constituent entities of the Russian Federation have adopted 82 regional programmes of preventive vocational training as a measure to address mass lay-offs, creation of temporary jobs and organization of labour force migration. The allocations finance special measures to promote small businesses and self-employment.

It was planned to provide preventive vocational training, retraining and skill improvement for 173,000 employees, create 982,000 temporary and public works jobs, grant financial aid to 55,800 entrepreneurs and provide relocation grants to 15,000 migrants.

The total cost of the regional programmes exceeded USD795.6 billion, of which federal subsidies accounted for 90 per cent. The amount of federal grants to support the unemployed and employment programmes increased by USD1.1 billion, including USD948 million to support registered unemployed persons.

Employees and employers were better informed than in the past about state guarantees of employment and the labour market situation in particular regions. All constituent entities established employment assistance centres and telephone hotlines.

A special emphasis was given to preserving and creating jobs for people with disabilities. One of the conditions for receiving government support for a company was preserving jobs and priority employment of disabled people.

Support to the regions and to low-income citizens

Constituent entities of the Russian Federation that were unable to cope independently with their essential social responsibilities received support. The overall volume of welfare subsidies increased. This included aid to vulnerable population groups and families with children. Grants were administered to pay for the maintenance of children in foster or guardian families, in order to remunerate these parents, and to subsidize rents and utilities. The lowest-income citizens had top priority for these subsidies.

As social protection grew in scale and significance in the face of the economic downturn, the government focused on better delivery of appropriate social services. In particular, electronic services to the population were expanded.

Lessons learned

The first set of government anti-crisis measures coupled with the growth in global market prices for hydrocarbons and other Russian export goods and a revival of the global economy improved the situation of the labour market and facilitated stabilization in the agricultural sector. The decline in annual industrial production slowed from 14.3 per cent in the first quarter to 5 per cent in the last quarter of 2009. The positive economic changes were accompanied by a rate of falling inflation.

The anti-crisis measures kept unemployment in check, which stood at 8.1 per cent of the economically active population as of the end of November 2009 compared to 9.1 per cent at the end of March 2009.

The positive economic changes of the last quarter of 2009 showed that the Russian economy has overcome the acute phase of the crisis. In March 2010, the World Bank forecasted that the Russian economy would grow by 5.0–5.5 per cent in 2010, boosted by increased oil prices and rising global demand. The World Bank expects that in 2010 the deficit of the national consolidated budget will be 3 per cent of GDP against 6.2 per cent in 2009.

However, these positive trends are not stable in Russia. Economic growth and increased industrial production in some sectors has been accompanied by decline in other sectors. The key drivers of stable growth – investment and lending – continued to stagnate. The policy

should be adjusted to adjust the focus of the measures aimed at immediate anti-crisis support for various sectors of the economy.

In view of the first results and lessons learned, the government has elaborated the national anti-crisis programme for 2010. The programme will aim to support economic revival and turn nascent economic growth into sustainable development. Particular attention is to be given to social security, in terms of supporting employment, enhancing social assistance and provision of pensions.

In its anti-crisis programme for 2010, the following social protection measures have been agreed by the government:

- Pensions will increase considerably from 1 January 2010 through the introduction of a valorisation mechanism for the evaluation of pensioners' rights.
- A new type of targeted social assistance will be introduced: a social premium will be added to federal or regional pensions for non-working, low-income pensioners aimed at raising pensions to the pensioners' minimum income as stipulated in the constituent entity of the Russian Federation.
- Social payments and allowances will be raised 10 per cent to ensure they maintain their purchasing power, which will represent an increase above the expected inflation rate.
- The government will introduce social contracts which set out the mutual responsibilities of the recipients of targeted social assistance and the social insurance agency.
- Social assistance will become more effective; in particular, the programmes of the Fund of Assistance to Children in Need will continue, and effective mechanisms will be devised to support social projects of non-commercial organizations.
- The implementation of regional programmes aims to make it easier to find jobs and enhance the quality of the workforce through vocational training for 146,200 persons, onsite training for 85,300 graduates, measures to encourage the creation of 1.4 million additional jobs (including 12,000 jobs for disabled people), and providing start-up business assistance to 169,100 persons. As much as USD1.2 billion will be allocated from the 2010 federal budget for these purposes.

Conclusion

The crisis had a severe but not a devastating impact on the national economy of the Russian Federation. Anti-crisis policies which were adopted halted the growth of the crisis and cushioned its impact on the population.

Summing up, the following major steps were undertaken by national social protection from 2008 to 2009:

- All social security benefits were fully indexed.
- Pension benefits increased by 46 per cent (pension benefits expenditure increased from 5 to 10 per cent of GDP).

- Unemployment benefits increased by 50 per cent.
- Targeted vocational, training and retraining programmes were enhanced or introduced.
- Measures aimed at modernization of healthcare and improving medical treatment and services were implemented.

It is noteworthy that the national social security system was not seriously affected by the crisis due to the state guarantee of social security benefits that were largely supported by the Reserve Fund and National Welfare Fund accumulated by the government in preceding years. In the context of the crisis, by lowering social tensions and supporting consumption by the population, the national social security system became an important stabilizer of society.

However, the crisis underlines the Russian economy's heavy dependence on oil and gas prices. This stresses the need for modernization and diversification, along with improvements in the quality of the labour force.

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