

Nabiullina Disputes Need for Tax Hikes

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Plans to plug a budget gap by raising the value added tax level and pension age are “unacceptable,” Economic Development Minister Elvira Nabiullina said Wednesday, reopening a war of words with Finance Minister Alexei Kudrin.

The Finance Ministry has proposed such measures to narrow the budget deficit that it expects to swell to 4.3 to 4.5 percent of gross domestic product in 2010.

Using a hike in VAT to narrow the budget deficit is “an absolutely dead-end solution,” Nabiullina said. “I am categorically opposed.” Raising the pension age, another option that has been brought up by Kudrin, would be “unacceptable to our society,” she said.

Nabiullina, whose ministry is devoted to long-term growth and investment, has a history of confrontation with more fiscally conservative Kudrin. Their boss, Prime Minister Vladimir Putin, said during his marathon question-and-answer show last week that there are no plans to raise the pension age.

On Monday, Deputy Finance Minister Sergei Shatalov said in an interview with Reuters that a tax hike was inevitable and that VAT was likely to be raised first. Social security contributions are set to increase from Jan. 1.

The maximum VAT rate is set at 18 percent, although some goods are exempt and others subject to a lower levy. VAT revenue accounts for about 30 percent of budget income, making it second only to taxes paid by the oil and gas sector.

But Nabiullina said any tax rise would kill economic growth, and called instead for an expansion of the tax base, optimized spending and less passive government policies in reforming the economy.

“To balance the budget the first priority is to optimize spending, including through public procurement though the creation of a federal contracting system,” she said.

“We need more focus on the structure of the economy, on its diversification and modernization priorities,” she said, singling out education, health care and infrastructure as key areas for investment.

Kudrin first floated the idea of raising the retirement age at the St. Petersburg Economic Forum in June.

He told delegates that a higher pension age could narrow the pension fund's deficit and increase the average pension allowance from 7300 rubles (\$237) to 10,000 (\$325).

Nabiullina came out strongly against the idea Wednesday. “You can't adopt solutions that are absolutely rejected by society,” she said, adding that average life expectancy would have to increase significantly before the matter could even be discussed.

The current retirement age is 60 for men and 55 for women. Life expectancy in 2008 was 61.8 for men and 74.1 for women, according to a United Nations report released in October.

Pensions are an attractive target because the value of the annual state outlay closely matches the value of the deficit. “If you reduce the federal budget spending by the amount of the transfer to the state pension fund, you'll see the budget is running a deficit of pretty much zero,” said Natalia Orlova, chief economist at Alfa Bank.

There is considerable disagreement about how big the deficit is, however. Nabiullina's ministry estimates it at 3.8 percent for 2010, but in a conversation with Prime Minister Vladimir Putin on Monday, Kudrin put it at 4.3 percent.

Putin seemed to welcome the competition between the two ministries, telling Kudrin, “We'll see who counts better: the Finance Ministry or the Economic Development Ministry.”

Nabiullina also proposed amending a new real estate tax to exclude owners of smaller properties — apartments of up to 55 square meters and plots of land of up to 600 square meters.

The new tax, which is expected to be introduced in 2012 after completion of a comprehensive property survey, will be based on a property's market value.

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