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TRENDS AND OUTLOOKS
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R95 **Russian Economy in 2011. Trends and Outlooks.**
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The review provides a detailed analysis of main trends in Russia's economy in 2011. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Social Living Standard in Russian in 2011

Incomes of the population

Growth rate of real per capita income of the population in 2001-2003 is by 2 or more times higher than the GDP growth rate in real terms, reaching the double rates (up to 14.6% in 2003), which was mainly due to the rapid growth of real wages and pensions.

In 2004-2007 the excess growth rate of real per capita income of the population over the of GDP growth rate was also typical, however, the gap in the values of indicators was reduced to 1.5-1.8 times. During that period, the growth rate of real volume of pensions lagged behind GDP growth, while real wages continued to grow rapidly.

The economic crisis of 2008-2009 has provoked a decrease in growth rate of real per capita income of the population. Nevertheless, the values of the indicator remained positive:

- in 2008 the growth rate was 3.8%,
- in 2009, it has dropped down to 0.9% (of GDP in that year declined by 7.8%).

Since the beginning of the post-crisis period, growth in real per capita income was almost equal to the increase in real GDP, having made 3.9% as compared to 2009 level.

Pensions in 2008 increased in real terms by 18% in 2009 - by 11%, and in 2010 - by 34.8% due to indexation, valorization, the introduction of additional payments to the social subsistence level. The high rate of growth of wages in this period was observed only in 2008. In 2009, real average monthly wages declined compared with 2008 by 3.5%. Since the beginning of real economic growth, average monthly wages began to grow, and of its growth in 2010 made 5.2%.

In 2011, real per capita personal income exceeded the level of 2010 only by 0.8% with the GDP growth equal to 4.3%.

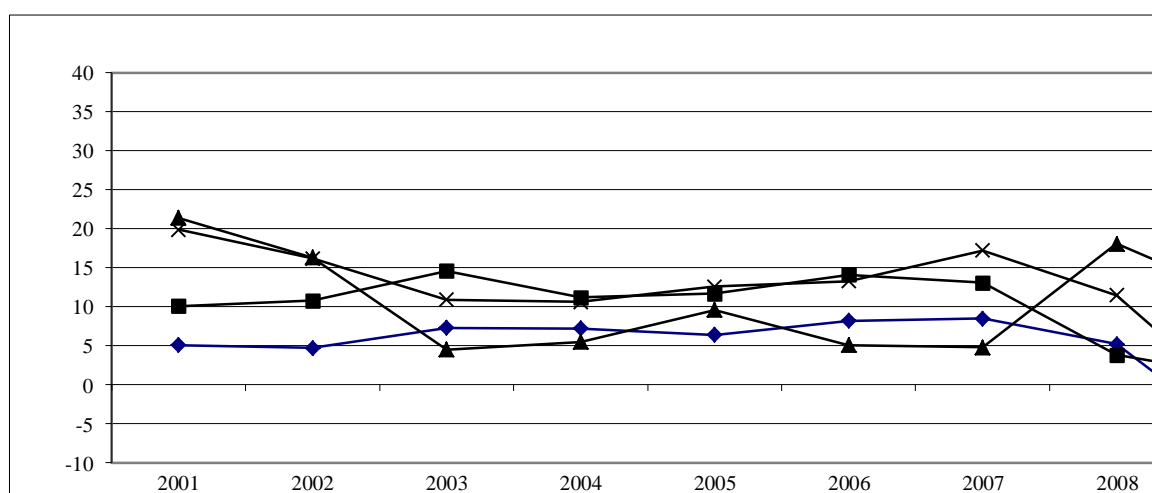


Fig. 1. GDP growth rate of per capita income, average monthly gross wages and the average size of pensions in 2001 to 2011

The growth rate of per capita income and average monthly wages for the period 2001-2011 were higher than the average rate of cost of living (except for 2005 and 2011). As a result, compared with 2001 in 2011 (in 2001 prices):

- real per capita personal income have grown by 2.4 times;
- the real average monthly wages increased by 2.6 times;
- the real size of pensions – by 2.8 times;
- the actual size of the subsistence level rose by the end of the first six months of 2011 was 1.5 times on average for the whole population and for the working population and children, and 1.6 times for retirees (*Table 1–3*).

Table 1

Average per capita real income and the subsistence minimum for an average of the total population in 2001-2011

	Per capita income, USD per month	A living wage for an average of the total population, Rb per month	Growth,% against previous year	
			Average per capita income	The average cost of living for all people
2001	3,062	1,500		
2002	3,429	1,571	12	5
2003	4,616	1,886	35	20
2004	5,739	2,127	24	13
2005	7,315	2,721	27	28
2006	9,354	3,139	28	15
2007	11,262	3,438	20	10
2008	13,193	4,054	17	18
2009	15,633	4,736	18	17
2010	17,354	5,228	11	10
2011 (9 months)	18,633	6,133	7	17

Source: estimated as per Rosstat data.

Table 2

Average real gross wage and the subsistence minimum of working population in 2001-2011

	Average monthly wages, Rb	A living wage for an average of the total population, Rb per month	Growth,% against previous year	
			Average monthly salary	Subsistence minimum of able-bodied population
2001	3,240	1,629		
2002	3,788	1,710	17	5
2003	4,910	2,057	30	20
2004	6,034	2,329	23	13
2005	7,714	2,935	28	26
2006	9,756	3,390	26	15
2007	12,147	3,717	25	10
2008	15,260	4,387	26	18
2009	17,131	5,121	12	17
2010	19,384	5,642	13	10
2011 (9 months)	21,637	6,487	12	15

Source: estimated as per Rosstat data.

Table 3

Average monthly pension and retiree cost of living, adjusted for consumer price index in 2001-2011

	Average size of pensions Rb per month	The subsistence minimum pensioner Rb per month	Growth,% against previous year	
			Average monthly pension	Subsistence minimum of a retiree
2001	1,024	1,144		
2002	1,198	1,198	17	5
2003	1,462	1,433	22	20
2004	1,714	1,612	17	13
2005	2,132	2,180	24	35
2006	2,501	2,506	17	15
2007	2,784	2,739	11	9
2008	3,706	3,216	33	17
2009	4,771	3,768	29	17
2010	6,872	4,155	44	10
2011 (6 months)	7,809	4,738	14	14

Source: estimated as per Rosstat data.

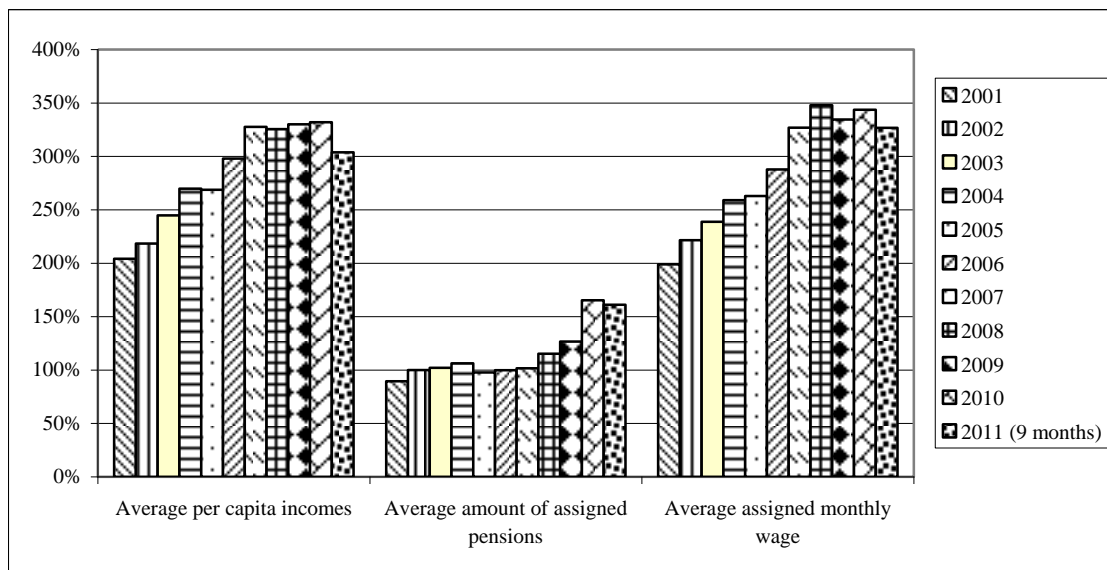
Higher growth rates of per capita income relative to cost of living have led to an increase in ratio of core indicators of incomes against the subsistence minimum:

- the ratio of per capita income to the average subsistence minimum of the total population has increased over the period under review by 1.6 times - from 204% in 2001 to 332% in 2010 (304% over 9 months of 2011)
- an increase in the average monthly wage to the subsistence minimum of working age population was 1.7 times. From 2001 to 2010 the value of this indicator has increased from 199% to 344% (334% for 9 months. In 2011)
- the ratio of monthly pensions to the subsistence level has increased over the years 2001-2011. 1.8-fold from 89% to 165%¹.

It should be noted that unlike the other major indicators of an increase in pension income was very irregular:

- in 2001, the average size of pensions amounted to 89% of the subsistence minimum for a pensioner,
- in 2002, the average size of pensions has reached 100% of the subsistence minimum for a pensioner,
- in 2003-2004 the growth of that indicator was noted from 102 to 106%, respectively,
- in 2005 the average pension again dropped below the subsistence level, however, the lag was only 2%,
- in 2006-2007 pensions again rose to the level of 100-102% of the subsistence minimum for pensioners,
- periodic increase in pensions in 2008 led to an increased ratio of pensions against the subsistence level to 115% in 2008, 127% in 2009, 165% in 2010 and 161% over 9 months of 2011.

¹ Estimates are based on data for January-November 2011. The data on the average amount of pensions in December 2011 and on average over 2011 have not published so far, but as in December 2011 there was no increase of pensions (the last indexation of pensions was carried out in April 2011), then with high probability we can assume that the average amount of pensions in 2011 will be almost the same as the value of this indicator for January-November 2011.



Source: estimated as per Rosstat data.

Fig. 2. The dynamics of population incomes against the subsistence minimum in 2001-2011

More dynamic growth of wages, as compared with an increase in the subsistence minimum in the period under review has changed the level of families welfare. For example, a family consisting of two adults and a child (under the assumption that the father is working and mother is looking after a child and if the father's salary is at average level in the Russian Federation), the wages provided: in 2001–68% of the family subsistence minimum, in 2002–2003–76–82%; in 2004–2005–90–91%; in 2006–100%; in 2007–113%; in 2008–121%; in 2009–2010–106–119%; over 9 months of 2011–113% of the family subsistence minimum.

Inequality and Poverty

In 2001-2010 inequality in the distribution of monetary income has grown:

- the share of the poorest quintile of the population accounted for:
 - in 2001–2003 – 5.5–5.7% of the total income of the population,
 - in 2004–2006 – 5.3–5.4%,
 - in 2007–2010 – 5.1%;
 - the share of the richest fifth quintile of the population accounted for:
 - in 2001–2003 – 45.7–46.2% of the total income of the population,
 - in 2004–2006 – 46.7–47.3%,
 - in 2007–2010 – 47.8–47.9%;
 - the share of the richest tenth decile accounted for:
 - in the early 2000s – 29.2% of the total income of the population,
 - in the middle of the period under review – 30.1–30.6% of the total income of the population,
 - in 2007–2010 – 31.0–31.1% of the total monetary income of population (See Table 4).
- Markedly increased during the period under review:

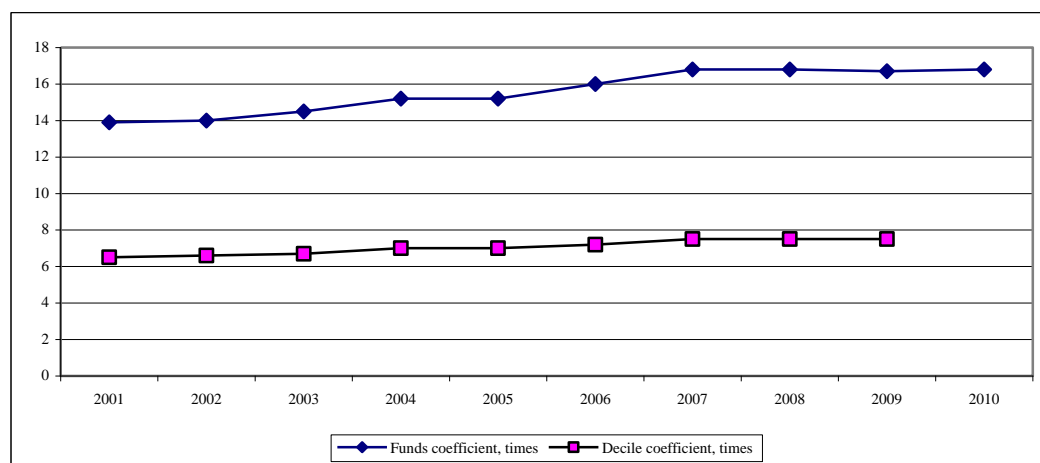
- Gini coefficient¹ - from 0.397 to 0.423,
- Funds coefficient² - from 13.9 times to 16.8 times,
- Decile coefficient - from 6.5 to 7.5 times (See *Table 4* and *Fig. 3*).

Table 4

Distribution of population by per capita income in 2001–2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Monetary income, total, %	100	100	100	100	100	100	100	100	100	100
including 20% of the population groups:										
first (lowest income)	5.7	5.7	5.5	5.4	5.4	5.3	5.1	5.1	5.1	5.1
second	10.4	10.4	10.3	10.1	10.1	9.9	9.7	9.8	9.8	9.7
third	15.4	15.4	15.3	15.1	15.1	14.9	14.8	14.8	14.8	14.8
fourth	22.8	22.7	22.7	22.7	22.7	22.6	22.5	22.5	22.5	22.5
fifth (highest income)	45.7	45.8	46.2	46.7	46.7	47.3	47.9	47.8	47.8	47.9
Among them 10% of the population with the highest income	29.2	29.3	29.7	30.1	30.1	30.6	31.1	31.1	31	31.1
Index Gini	0.397	0.397	0.403	0.409	0.409	0.416	0.423	0.422	0.422	0.423

Source: Rosstat data.



Source: Rosstat data.

Fig. 3. The dynamics of funds and decile coefficients in 2001-2010

During January-September 2011, as compared with their levels in the relevant period in 2010 a decrease in inequality was observed, which was reflected in a slight increase in the share of monetary income in total cash income of the first three quintiles of population with the lowest income (0.1–0.2 p.p. respectively) and the reduced share of the fifth quintile (with the highest income) from 47.2 to 46.8%.

Similar dynamics was observed among 10% of the population groups:

¹ Index Gini (an index of income concentration) characterizes the degree of deviation from the level of actual distribution of the total revenue from the level of equal distribution. The coefficient can range from 0 to 1, herewith, the higher is the value of the index, the more uneven is the distribution of income.

² Funds coefficient (coefficient of income inequality) demonstrates the degree of social stratification and is defined as the ratio between the average levels of cash income of 10% of the population (employees) against the highest income and 10% of population (employees) with the lowest income.

- the share of 10% of the population with the lowest income in the total monetary income of population has increased during the first 9 months of 2011 from 1.9% to 2.0% against the same period in 2010.
- however, the share of 10% of the richest population in total monetary incomes of population, which made in January-September of 2010 30.5%, decreased in the same period of 2011 to 30.2% (See *Table 5*).

The value of Index Gini (an index of income concentration) has also decreased from 0.414 to 0.41 and the funds coefficient from 15.8 times to 15.3 times.

Seasonal revenue growth in December 2011 (payment of the thirteenth salary, rewards and bonuses) will lead to an increase in the values of the socio-economic differentiation of the population. However, most likely the annual values of inequality in 2011 will be slightly lower than the values of that indicator for 2010.

Table 5

Distribution of population by per capita income over the nine months of 2010 and 2011

	2011 (9 months)	2010 (9 months)
Monetary income, total, %	100	100
including 20% of the population groups::		
first (lowest income)	5.4	5.3
second	10.1	9.9
third	15.1	15
fourth	22.6	22.6
fifth (highest income)	46.8	47.2
Among them 10% of the population with the highest income	30.2	30.5
Index Gini	0.41	0.414

Source: Rosstat data.

The number of people with incomes below the poverty level declined from 40m in 2001 to 25.2m in 2004–2005 and in the pre-crisis 2007 has reached the lowest value for the period of 2001-2007 (18.7m people) (See *Fig. 4*).

The crisis led to a very small - 0.2m people increase in the number of people with incomes below the poverty level in 2008. In 2009 - 2010 the number of the poor has declined to below pre-crisis level (18.5 and 18.1m people, respectively), which was largely due to the growth in incomes of the population, and especially pensions in the crisis period.

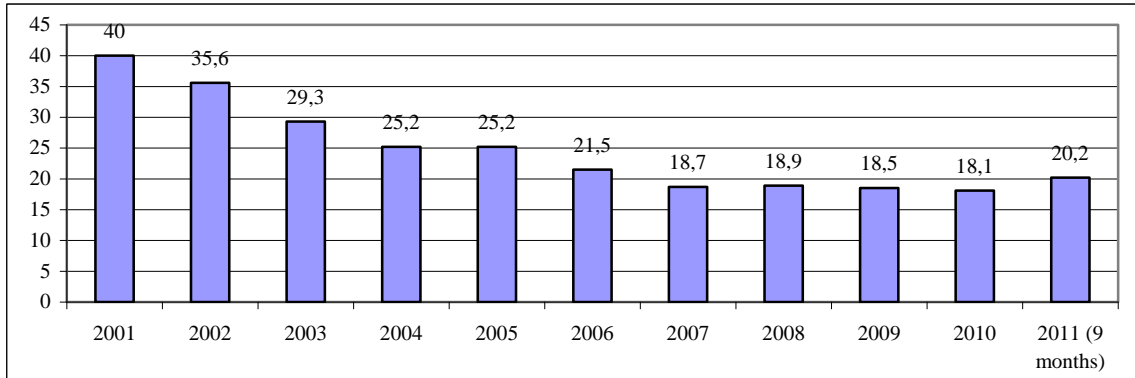
A similar dynamics was observed in the indicator "the share of population with incomes below the subsistence minimum as a percentage of the total population":

- in 2001 the share of people with incomes below the subsistence minimum was 27.5% of the total population;
- in 2004-2005 the poverty level has fell down to 17.6-17.7%;
- In 2007 the poverty rate has dropped to 13.3%.

In 2008 the poverty rate rose by 0.1 p.p. as compared with 2007 and then began to decline - to 13.2% and 12.8% respectively in 2009 and 2010.

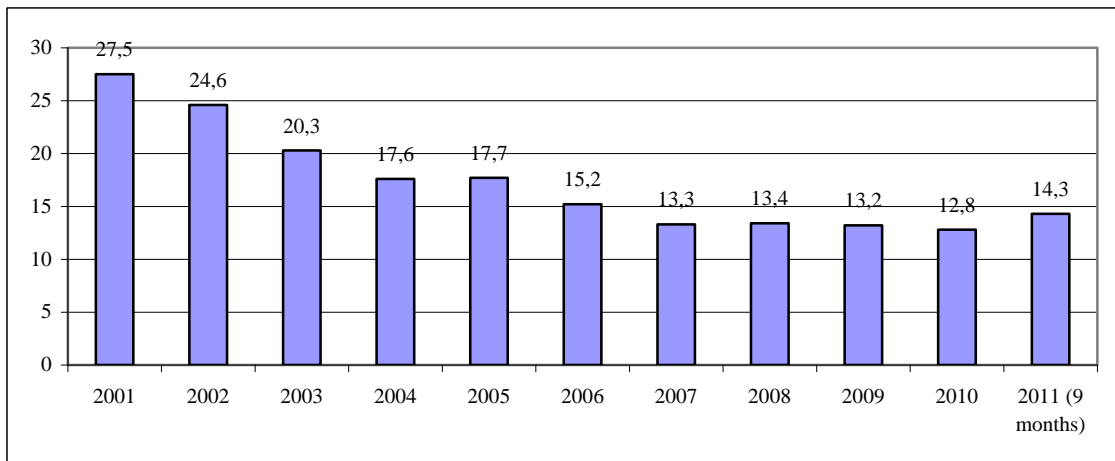
The slowdown in the growth of the population monetary income in 2011 was caused by the increased value of the "number of the poor" in Q1 and H1 of 2011, compared with the same periods in 2010, which was not fully offset by the reduced number of the poor in the Q3 2011. Thus, in Q1 2011 the number of the poor was 22.9m people. (in Q1 2010 - 20.6m people), in H1 2011 - 21.1m people. (in H1 2010 -19.1m people). The "poverty index" had the same trend: the poverty rate made 16.1% in Q1 and 14.9% in H1 2011, as compared with 14.5% and 13.5% over the same periods in 2010 in H3 the index fell down to 12.9%, while over the 9

months of 2011 – to 14.3% (in Q3 2010 the poverty rate made 13.1%, against 13.4% over 9 months of 2010).



Source: Rosstat data.

Fig. 4. The number of population with monetary income below the subsistence minimum in 2001-2011, m of people



Source: Rosstat data.

Fig. 5. The share of population with incomes below the subsistence minimum as a% of total population in 2001-2011,%

Trends in income progress in the Russian Federation were largely correlated with the dynamics of the indicators in OECD countries.

Virtually in all OECD countries over the period of the 2000s real per capita income has grown, but it should be noted that in countries with the highest rates of growth of that indicator is still significantly lagging behind against level in the Russian Federation:

- in most OECD countries the average per capita real income grew during the period from 2000 to 2008 by 1.1 - 1.25 times;
- in Australia and Poland - by 1.4-1.5 times (See *Table 6*);
- in the Russian Federation over the same period per capita income grew by 2.2 times.

Table 6

The dynamics of real per capita income of the population in OECD countries

	In national currency, 2000 rate			2008 vs. 2000 %
	2000	2005	2008	
Japan	3,151,263	2,969,538	2,963,009	94
Spain	17,453	15,995	16,734	96
Germany	22,222	22,426	22,080	99
Portugal	11,256	11,923	11,521	102
Italy	17,644	18,200	18,240	103
the Netherlands	23,880	25,146	24,945	104
Belgium	22,026	21,781	23,100	105
Denmark	196,411	207,408	211,527	108
Luxembourg	36,813	38,926	40,055	109
Israel	66,930	67,195	73,350	110
France	21,695	22,850	24,197	112
USA	35,111	36,473	39,377	112
Switzerland	53,223	53,152	60,058	113
Mexico	51,019	53,337	57,963	114
Great Britain	16,732	18,243	19,317	115
Ireland	24,640	28,426	28,585	116
Canada	33,822	36,435	39,492	117
Sweden	196,356	206,872	233,820	119
New Zealand	33,073	34,432	40,609	123
Hungary	1,127,847	1,431,086	1,393,410	124
Finland	20,237	23,012	25,038	124
Austria	19,817	23,956	24,530	124
Czech Republic	185,154	198,693	230,367	124
Greece	12,899	14,642	16,399	127
Norway	256,510	284,931	327,423	128
Australia	32,723	37,113	47,284	144
Poland	15,907	17,400	24,114	152

Source: OECD data. <http://stats.oecd.org/Index.aspx?DataSetCode=INEQUALITY>.

The dynamics of socio-economic disparities in OECD countries in the period under review was volatile. In half of the countries over 2000-2008 Index Gini has declined. The maximum decline in the index value was observed in Greece, Belgium, Spain, Hungary and Mexico, where the value of the Index Gini was reduced by 6-11%. In nine countries reduction in the values of the Index Gini for the period was formed at the level of 1-4%. In a number of OECD countries over the period of 2000-2008 the differentiation of the population by income level has increased: in the Netherlands, Canada, France, Austria and Finland this indicator was formed at the level of 1-5%. In the US, Australia, Sweden, Israel, Switzerland, Czech Republic and Luxembourg - an increase made 6-10%. In Germany the growth of the Index Gini - 12% - was the highest in the OECD countries (See Table 7).

In the Russian Federation over the period of 2000-2008 Index Gini increased by 6%, which corresponds approximately to the change in the value of this indicator in countries with high differentiation, such as the USA and Australia.

Table 7

Index Gini in OECD countries

	2000	2005	2008	2008 vs. 2000
1	2	3	4	5
Australia	0.317	0.315	0.336	1.06
Austria	0.252	0.265	0.261	1.04
Belgium	0.289	0.271	0.259	0.90
Great Britain	0.351	0.331	0.345	0.98
Hungary	0.293	0.291	0.272	0.93
Germany	0.264	0.285	0.295	1.12

cont'd

1	2	3	4	5
Greece	0.345	0.321	0.307	0.89
Denmark	0.26	0.268	0.256	0.98
Israel	0.347	0.378	0.371	1.07
Ireland	0.304	0.314	0.293	0.96
Spain	0.342	0.319	0.317	0.93
Italy	0.343	0.352	0.337	0.98
Canada	0.318	0.317	0.324	1.02
Luxembourg	0.261	0.258	0.288	1.10
Mexico	0.507	0.474	0.476	0.94
Netherlands	0.292	0.284	0.294	1.01
New Zealand	0.339	0.335	0.33	0.97
Norway	0.261	0.276	0.25	0.96
Poland	0.316	0.349	0.305	0.97
Portugal	0.356	0.385	0.353	0.99
USA	0.357	0.38	0.378	1.06
Finland	0.247	0.254	0.259	1.05
France	0.287	0.288	0.293	1.02
Czechia	0.226	0.232	0.248	1.10
Switzerland	0.243	0.234	0.259	1.07
Sweden	0.279	0.276	0.303	1.09
Japan	0.337	0.321	0.329	0.98

Source: OECD data. <http://stats.oecd.org/Index.aspx?DataSetCode=INEQUALITY>.