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TRENDS AND OUTLOOKS
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The review provides a detailed analysis of main trends in Russia's economy in 2010. The paper contains 6 large 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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Standard of Living in Russia in 2010

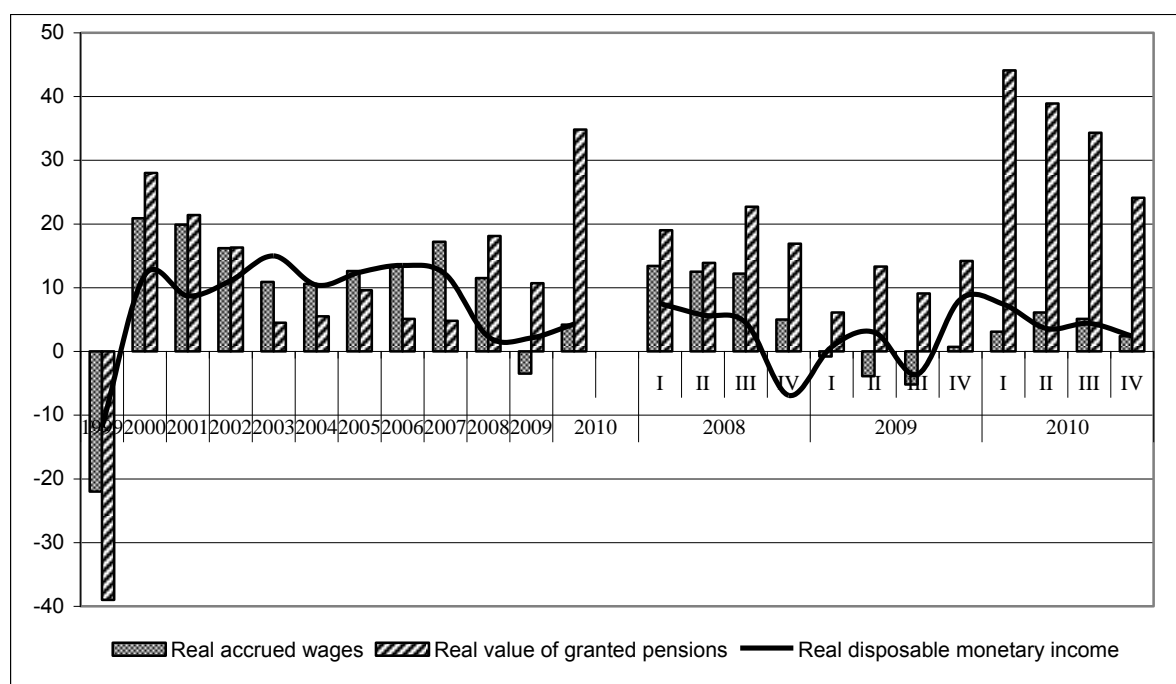
Money Income

The real disposable income of the population dynamics during the period of 2000-2007 on the average was 11.9% per annum. However, during the crisis period (2008–2009) their annual growth rate fell down to 2.2%.

For the first time in the last ten years in 2009 the wages growth rate was in the negative values domain making –4.4% versus the preceding year. Positive real wages dynamics recovery may be observed starting from Q4 2009. 2010 results demonstrated real wages growth by 4.2% bringing the wages back to the level of 2008.

During 2008-2009 in the acute phase of the crisis the RF government increased social support to certain groups of population, mainly – to pensioners. Outstripping growth rates of real pension values versus wages could be observed over the last three years. In 2010 the real granted pensions' growth rate made 34.8% versus the preceding year and reached the 10 years' maximum. As a result, the average value of the granted pensions versus the average wages value increased up to 35.4% versus 27.9% in 2009 and 24.3% in 2008.

Fig. 1. Real disposable income of the population dynamics – by components



Source: Federal State Statistics Service (Rosstat).

In 2010 the real disposable income growth rate increased to 4.2% with simultaneous growth of wages and especially – real pensions' value. The difference in the recovery rates by compo-

nents defined the specifics of monetary income re-distribution. The most prominent changes in the structure of monetary income of the population in 2010 are associated with decreasing shares of property-generated income (down to 4.3% of monetary income) and income from entrepreneurial activity (down to 9.3% of monetary income). Wages account for almost 2/3 of the income of the population and have a dominating impact on social development parameters.

Table 1

Monetary Income of the Population: Structure in 2008–2009, % of the final

	2008		2009				year	2010			
	year	year	quarters					I	II	III	IV
			I	II	III	IV					
Monetary income – total	100	100	100	100	100	100					
income from entrepreneurial activity	10.3	9.7	10.5	9.3	10.2	9.0	9.3	9.7	9.0	9.8	8.9
remuneration of labor including latent wages	68.3	66.9	67.3	67.2	64.2	68.7	66.4	66.0	65.9	65.1	68.1
social benefits	13.2	14.9	14.7	14.5	15.3	14.8	18.0	18.0	18.5	18.7	17.1
property-generated income	6.2	6.5	5.3	6.8	8.4	5.5	4.3	4.4	4.6	4.4	3.9
other income	2.0	2.0	2.0	2	1.9	2.0	2.0	1.9	2.0	2.0	2.0

Source: Federal State Statistics Service (Rosstat).

The level of poverty during 9 months of 2010 made 13.5% of the total population if Russia (Table 2). The increase of real disposable income of the population in Q4 by 17.1% was to a great extent defined by seasonal factors: paying bonuses and end-of-year allowances in December, etc. It allows for the following assumption: the level of poverty in Q4 decreased so much, that the annual poverty indicator is lower versus 2009 by 0.1–0.5 %.

Table 2

Number of Russian citizens with income below the minimal subsistence level, total in 2009-2010

	Mln. pers.	% to the total population size
2009		
Q1	24.5	17.4
H1	21.1	15.0
January-September	19.7	14.0
Year	18.5	13.2
2010		
Q1	20.6	14.7
H1	19.1	13.6
January-September	18.9	13.5

Source: Federal State Statistics Service (Rosstat).

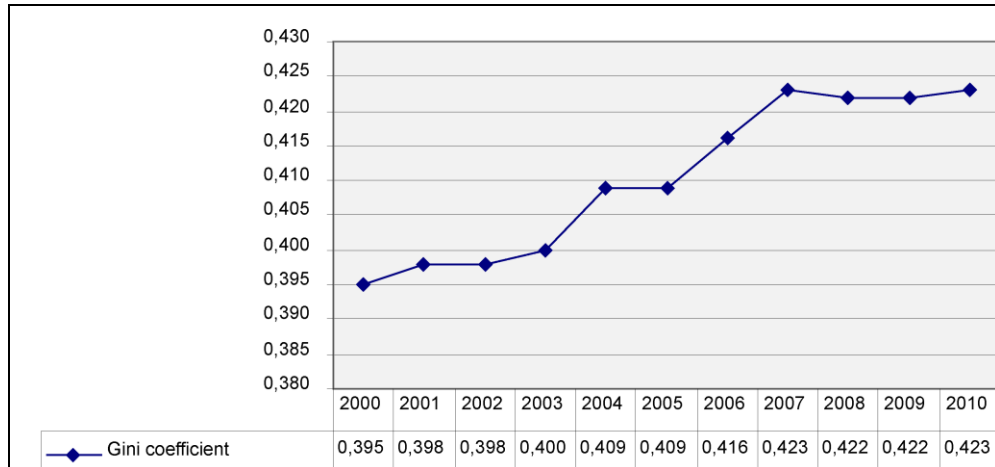
The inequality of income was increasing in the Russian Federation during the entire period of economic growth, but in 2008–2010 it practically stabilized at the level of 2007. Income concentration index (Gini coefficient) decreased in 2009 down to 0.422 and in 2010 was at the level of 0.423; fund factor demonstrated some shrinkage in 2009, then was back to the level of 2007 and in 2010 made 16.7 fold (Fig. 2 and 3). In 2010 10% of the most well-to-do citizens received for 31.1% of the total monetary income; while 10% of the poorest citizens received 1.9% of the total monetary income.

In 2001–2007 inequality was growing due to redistribution of revenues in favor of the fifth quintile of the population (with the highest income): the share of this group in the total amount of monetary income of Russian population increased by 2.1 percentage points during 2001–2007 (from 45.8 to 47.9%); at the same time the shares of all other groups of citizens with

lower incomes decreased. The first three quintiles of the population demonstrated the biggest shrinkage of their shares in the total monetary income:

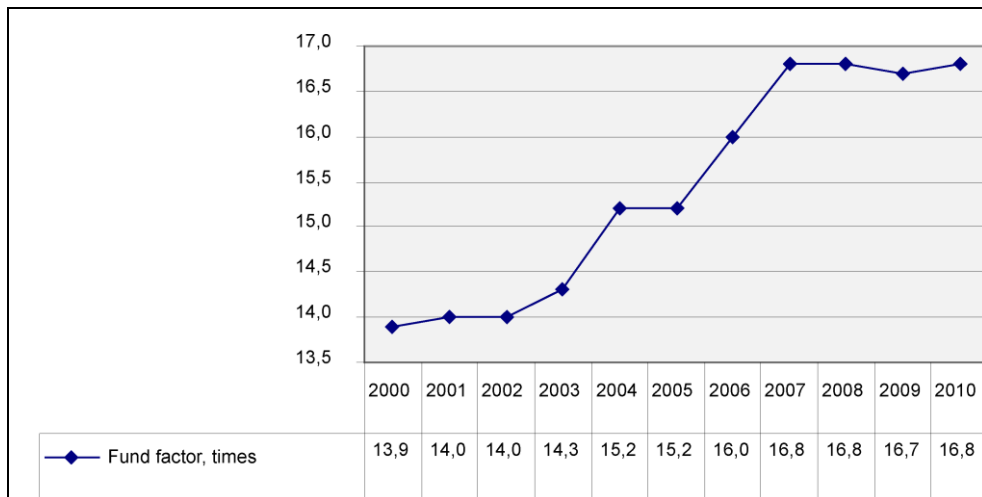
- 1st quintile – from 5.6% to 5.1% the total amount of monetary income of the population
- 2nd quintile – from 10.4% to 9.7%;
- 3rd quintile – from 15% to 14.8%.

Fig. 2. Concentration of citizens' income¹ in the RF during 2000–2010



Source: Federal State Statistics Service (Rosstat).

Fig. 3: differentiation of the RF citizens' income² in 2000–2010



Source: Federal State Statistics Service (Rosstat)

¹ Citizens' income concentration index (*Gini coefficient*) characterizes the extent of deviation of the actual distribution of the total income curve from their equal distribution curve. Величина The coefficient value may vary between 0 and 1, the higher one reflecting the increased inequality of income distribution.

² Income spread factor (*fund factor*) is defined as the ratio between average incomes of 10% of the population (employed) with the highest income and 10% of the population (employed) with the lowest income.

Public Spending

In 2010 the total money income of the RF population made RUR 31,598.6 bln. demonstrating 11.1% growth versus 2009. Citizens spent RUR 22,052.9 bln to buy goods and services which is 11.5% more vs. the preceding year. The amount of savings during this period made RUR 5,785.9 bln, which is 4.0% more than in 2009.

Inflation affected the dynamics and the profile of household expenses significantly. Starting from the beginning of 2010 headline inflation made 108.8% being I line with the preceding year indicators. Due to various factors affecting the dynamics of prices in certain segments of consumer market, the inflation profile was also subject to significant change. Food products prices increased by 12.9% in 2010; at the same time the prices growth rate for non-food products decreased by 5.0% and for services – by 8.1% (*Table 3*).

Table 3

Consumer Price (Tariff) Index for Goods and Services, December versus December of the preceding year, %

Year	All goods and services	including		
		food products	non-food products	services
2000	120.2	117.9	118.5	133.7
2001	118.6	117.1	112.7	136.9
2002	115.1	111.0	110.9	136.2
2003	112.0	110.2	109.2	122.3
2004	111.7	112.3	107.4	117.7
2005	110.9	109.6	106.4	121.0
2006	109.0	108.7	106.0	113.9
2007	111.9	115.6	106.5	113.3
2008	113.3	116.5	108.0	115.9
2009	108.8	106.1	109.7	111.6
2010	108.8	112.9	105.0	108.1

Source: Federal State Statistics Service (Rosstat).

The share of goods/services expenses in the monetary income profile was practically in the same low level as one year and made 69.8% including 54.4% share of goods expenses versus 53.6% (*Table 4*).

Table 4

Monetary Income of Population Utilization Structure, %

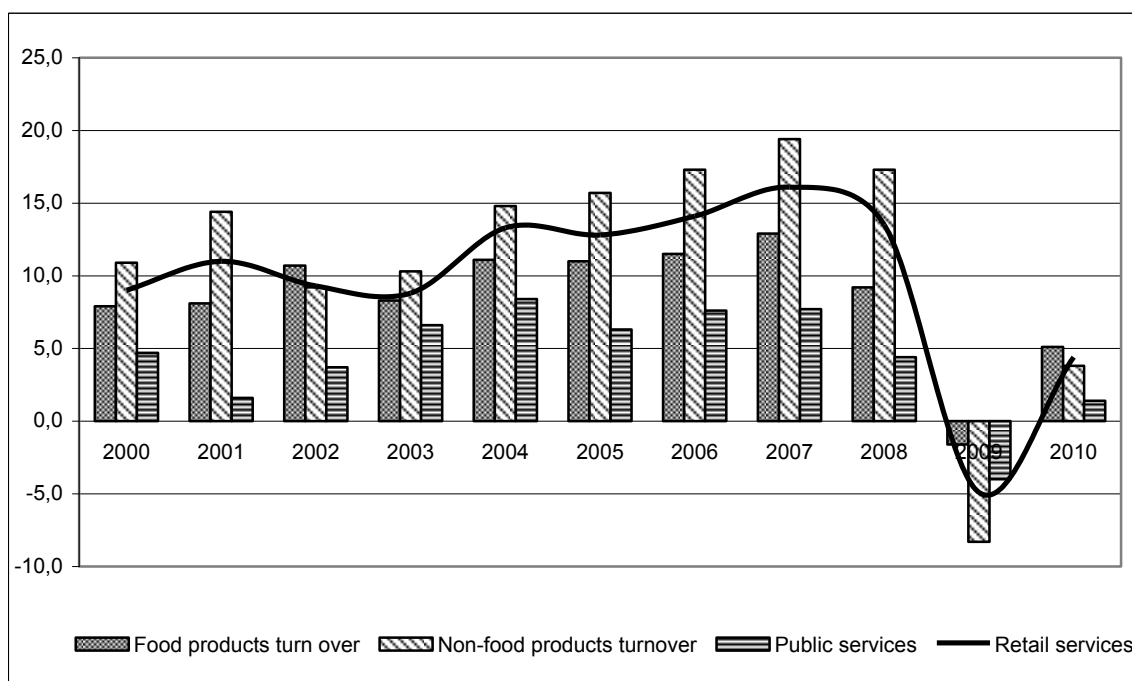
	Monetary income	including used for:							Increment (+), decrement (-) cash in hand
		Buying goods, paying for services	including			Savings	including Deposits and Securities	Buying currency	
			Buying goods	Paying for services	Making mandatory payments and fees				
2008									
Q1	100	77.1	59.7	17.4	12.1	8.3	+2.7	6.9	-4.4
Q2	100	71.8	55.7	16.1	12.3	7.2	+6.4	4.7	+4.0
Q3	100	74.4	58.1	16.3	12.6	4.6	+1.7	5.7	+2.7
Q4	100	73.6	58.4	15.2	12.0	2.2	-9.2	13.7	-1.5
Year	100	74.1	57.9	16.2	12.3	5.3	0.0	7.9	+0.4
2009									
Q1	100	76.3	58.8	17.5	11.3	8.7	-2.7	10.3	-6.6
Q2	100	66.6	51.3	15.3	10.4	17.1	+6.3	3.5	+2.4
Q3	100	70.2	54.2	16.0	11.4	12.9	+2.4	6.0	-0.5
Q4	100	65.3	51.3	14.0	10.6	16.8	+8.5	3.5	+3.8
Year	100	69.2	53.6	15.6	10.9	14.2	+4.1	5.5	+0.2
2010									
Q1	100	73.0	56.3	16.7	9.6	+15.9	+6.7	3.2	-1.7
Q2	100	68.0	52.6	15.4	10.0	+15.3	+8.8	3.3	+3.4
Q3	100	72.6	56.6	16.0	10.3	+11.7	+4.9	4.3	+1.1
Q4	100	66.6	52.8	13.8	10.3	+15.5	+9.9	4.0	+3.6
Year	100	69.8	54.4	15.4	10.1	+14.6	+7.7	3.7	+1.8

Source: Federal State Statistics Service (Rosstat).

The incomes of the population were growing at a moderate rate; and as for expenditures – the main share fell on buying food and basic necessities. As a result, the share of food products including beverages and tobacco products in the overall retail turnover profile grew up to 48.7% in 2010 and exceeded 2008 figure by 1.8 percentage points with respective shrinkage of non-food products’ share.

In general in 2010 the turnover of food products market increased by 5.1%, and the turnover of non-food products market – by 3.8% (Fig. 4). It resulted in food products market turnover exceeding 2008 turnover by 3.4%. The non-food products market and services market turnover made 95.4% and 97.1% of 2008 turnover respectively.

Fig. 4. Turnover dynamics in retail and services during 2000–2010, % to the preceding year



Source: Federal State Statistics Service (Rosstat).

It should be noted that increasing the citizens’ inclination towards saving is a distinctive feature of 2009–2010 period.

Citizens used different instruments for saving their cash. In 2009 5.5% of the monetary income was used to buy foreign currency, but in 2010 this indicator decreased down to 3.7% while at the same time the share of savings in deposits and securities increased up to 7.7% of monetary income of the population. Total share of savings in monetary income of the population in 2010 made 14.6%.

The following factors had a material effect on the citizens’ savings dynamics: inflation, FOREX change and situation in the real estate market (housing commissioning slowed down). Total citizens’ investment into participatory construction in 2010 made RUR 69.6 bln decreasing by RUR 10.3 bln versus 2009 and making $\frac{3}{4}$ of 2008 amount.

The key areas for citizens to use their savings – same as during two previous years – are acquisition of real property and housing improvements. This underpins the trend towards reducing of arrears in housing loans and mortgages at the expense of citizens' savings, which could be observed starting from Q2 2009. This trend is developing in the environment of tightening credit terms by the banks. The amount of loans issued by credit institutions to individuals in rubles and in foreign currency for buying housing in 2010 made RUR 417.8 and RUR 19.2 bln respectively, versus RUR 170 bln and RUR 11.9 bln in 2009.

Public surveys conducted by Federal State Statistics Service (Rosstat) in Q4 2010 reflect the improvement of consumer expectations.