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R95 **Russian Economy in 2012. Trends and Outlooks.**
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The review provides a detailed analysis of main trends in Russia's economy in 2012. 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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Living Standards in Russia in 2012

Personal real income: poverty and extreme poverty in Russia measured by national poverty method

Rapid economic growth early in the 2000s was accompanied by high growth rates in personal income. Personal real income grew up by 2.5 times as inequality increased insignificantly (Gini coefficient¹ was 0.42 in 20112 against 0.4 in 2000). In the first decade of the 21st century, the subsistence minimum increased mainly in response to its indexation to the consumer price index growth rate, thereby increasing the real personal income to subsistence minimum ratio (from 1.89 times in 2000 to 3.32 times in 2010). As a result, population with a substandard per capita money income and poverty level reduced by 2.3-2.4 times from the period between 2000 and 2010:

- poor population reduced from 42.3 million to 17.9 million persons,
- poverty level reduced from 29 to 12.6%.

Personal money income deficit reduced from 5% to 1.2% of total money income over the same period.

It should be noted that extreme poverty³ figures saw a more substantial reduction than poverty figures in Russia in the period between 2000 and 2010: about 8.2 million persons, or 5.7% of total population in 2000, against about 1 million persons, or 0.7% of total population⁴, in 2010.

Even amidst the financial and economic crisis poverty level kept decreasing in Russia, including, but not limited to a rapid, by 2.8 times, increase in pension benefits and other social transfers (e.g., nursing benefit payable for infants at the age of up to 1.5), introduction of employment programs for unemployed, rapid growth in salaries of government employees. The foregoing distinguished the dynamics of poverty figures in Russia from such figures in developed countries, e.g., the United States⁵.

¹ Gini coefficient (income concentration index) describes deviation of total income actual distribution line from their equal distribution line. The value of the coefficient may vary from 0 to 1. The higher is the value, the more equally is income distribution.

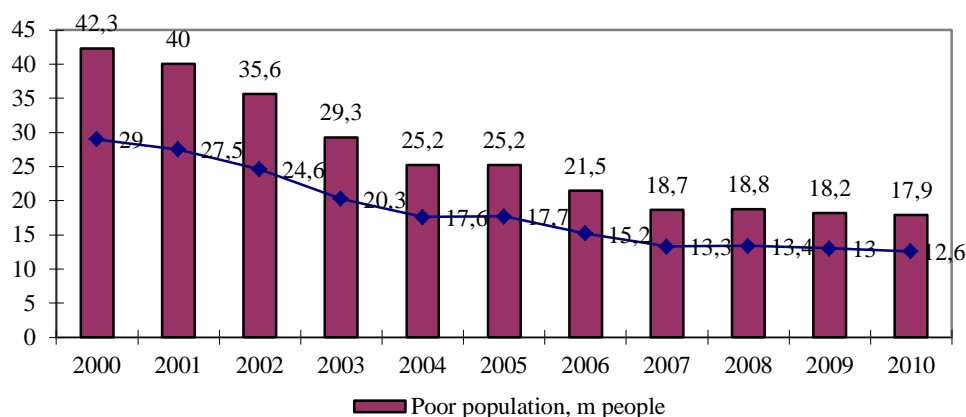
² Most of statistics on living standards in the Russian Federation is generated through collection and aggregation of the data of the Household Budget Survey which is conducted by Federal State Statistics Service of Russia (Rosstat) on a quarterly basis, and some data, e.g., data on the availability of durable consumer items are collected on an annual basis. Since data processing takes time, principal data on living standards in the Russian Federation are published with quite a lag.

³ In Russia, individuals who have personal income less than 50% of the subsistence minimum are classified as extremely poor.

⁴ The authors' estimates are based on the Rosstat's data on personal money income distribution and average annual subsistence minimum.

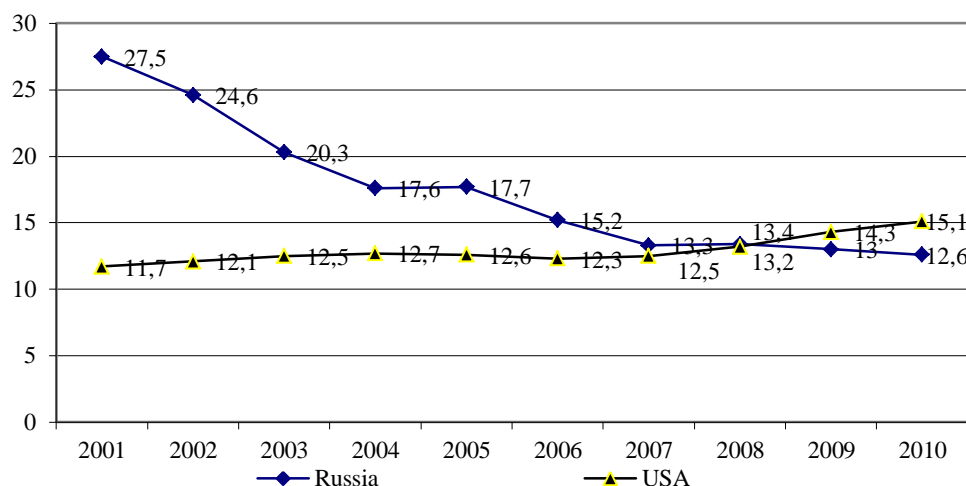
⁵ In Russia, poverty level is measured on the basis of absolute national poverty line. A similar method is employed is in the United States, whereas in EC countries poverty is measured on the basis of a relative approach towards changes in poverty.

In the United States, individuals who have personal income less than poverty threshold are classified as poor. Poverty thresholds are established with due regard to family size and the number of children in a family. In 2010, for example, single nationals whose annual income was less than \$11,000 were classified as poor in the United States. A poverty threshold of \$22,000 per year was set for a family of four members without children. A poverty threshold of \$23,000 per year was established for a family of four members including one child at the



Source: Federal State Statistics Service of Russia.

Fig. 1. Dynamics of poverty figures in Russia in 2000–2010



Source: Federal State Statistics Service of Russia and U.S. Census Bureau (Current Population Survey), <http://www.census.gov/>.

Fig. 2. Dynamics of poor population (as measured through national methods) in the United States and Russia, as % of total population, in 2001–2010

Poverty level in Russia measured by international comparative methods applied to developing countries

Two poverty indicators are commonly used for international comparisons applied to developing countries:

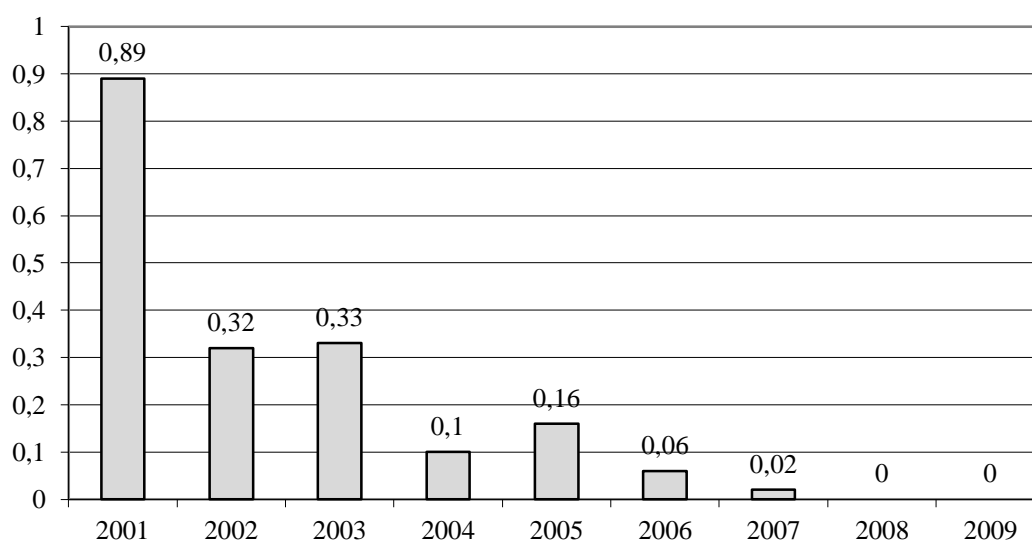
- \$1.25 per day according to purchasing power parity (PPP) – to measure extreme poverty level in most poor countries; this is an average value of national poverty lines in the 15 poorest countries of the world¹;

age of below 18. A poverty threshold of \$22,000 per year was fixed for a family of four members with 2–3 children. See U.S. Census Bureau. www.census.gov.

¹ See Ravallion M., Chen Sh. and Sangraula P., 2008, “Dollar a Day Revisited,” Policy Research Working Paper 4620, Washington DC, World Bank.

- \$2.15 per day according to PPP – to measure poverty level in all developing countries; this is a median of national poverty lines in developing countries¹.

The data presented in *Fig. 3* and *Table 1* show that Russia has a very few individuals who live on less than \$1.25 or \$2.15 per day according to PPP. Thus, international comparative methods applied to developing countries show that Russia has a very low level of poverty and extreme poverty if measured by methods applied to developing countries. Furthermore, the available data show that poverty level in Russia reduced at a higher rate than in other countries in the beginning of the 2000s. No such methods are used to measure poverty in OECD member countries. The use of these methods in Russia will lose its point by the end of the first decade of the 21st century.



Source: World Bank's data. www.worldbank.org

Fig. 3. Russia's population who live on less than \$1.25 per day (in international prices of 2005), as % of total population

Table 1

Population who live on less than \$2.15 per day (in international prices of 2005), as % of total population

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Russia	n/a	5.97	3.67	2.95	1.84	1.49	1.22	0.29	0.08	0.05
Croatia	0.14	0.15	n/a	n/a	0.09	n/a	n/a	n/a	0.09	n/a
Ukraine	n/a	n/a	3.41	1.46	1.25	0.48	0.58	0.21	0.13	0.17
Slovakia	n/a	n/a	n/a	n/a	0.43	0.43	0.14	0.19	0.17	0.12
Belarus	1.89	1.52	2.5	n/a	0.64	0.49	0.25	0.25	0.19	n/a
Poland	0.57	0.57	0.58	n/a	0.41	0.57	0.31	0.29	0.25	0.2
Latvia	n/a	n/a	0	1.44	1.04	n/a	n/a	0.47	0.37	n/a
Lithuania	1.28	1.9	1.83	n/a	1.55	n/a	n/a	n/a	0.44	n/a

¹ See Chen Sh. and Ravallion M. *The Developing World Is Poorer Than We Thought, But No Less Successful In The Fight Against Poverty*. Policy Research Working Paper 4703, World Bank, 2010.

Source: World Bank's data. www.worldbank.org

Poverty level in Russia measured by international comparative methods applied to developed countries

If Russia is measured by using poverty criteria which are applied to developed countries, in particular the United States, a reduction in the poverty level in Russia early in the 2000s would be substantial, by 2.1 times, from 64.4 to 30.6%¹ in the period between 1999 and 2010. A poverty threshold was about \$15.5 per day in 2010, as measured by applying the US poverty criteria. To compare: a subsistence minimum denominated in US dollars according to PPP was about \$9.4 per day in Russia. The data presented in *Table 2* show poverty level in Russia according to the US criteria.

Table 2

Population distribution by amount of per capita money income in Russia in 2010

Per capita money income interval			A share of population, %
Rubles per month	US dollars according to PPP per day*		
		from	to
0–3,500.0	0	5.8	3.9
3,500.1–5,000.0	5.8	8.3	5.6
5,000.1–7,000.0	8.3	11.6	9.4
7,000.1–10,000.0	11.6	16.5	14.7
10,000.1–15,000.0	16.5	24.8	20.2
15,000.1–25,000.0	24.8	41.3	23.5
25,000.1–35,000.0	41.3	57.8	10.8
Beyond 35,000.0	57.8	and beyond	11.9

* – PPP in 2010 based on IMF data. www.imf.org.

Source: Social situation and living standards in Russia. 2011: Stat.sb./ Rosstat – M., 2011; the author's estimates based on the data provided by the Rosstat and IMF.

Population consumption dynamics

Over the first decade of the 21st century, consumption of poor population improved substantially in Russia. According to Rosstat, over the foregoing period a gap in consumption of food products between non-poor and poor population narrowed notably for all basic groups of food products, a caloric intake of poor population increased 1.4 times to reach 2,100 kcal² in 2010, being in line with the basic requirements of the World Health Organization

¹ The author's estimates based on the data from Rosstat, US Census Bureau, IMF. Since in the United States absolute poverty line is measured by using an equivalence scale which is rarely used in developing countries, M. Ravallion uses the poverty line for a family of four members, divided by 4 (see Chen Sh. and Ravallion M. The Developing World Is Poorer Than We Thought, But No Less Successful In The Fight Against Poverty. Policy Research Working Paper 4703, World Bank, 2010). In 2010, a poverty line was about \$15.5 per day, as measured by the same method. In the mid-1990s, the UN Development Program applied such approach to measure absolute poverty level in developed countries, by using the US poverty line for a family of 3 members, divided by 3 (see Human development report. 2003.UNDP. www.undp.org). An average of poverty thresholds for households comprising 3 and 4 members is used as poverty threshold in the measurement. This measurement ignores the effect of the equivalence scale: it underestimates poverty of households with 1 to 2 members (in particular single member households) and overestimates poverty of large households. However, the effect of this factor seems to be insignificant, because households of 3 to 4 members account for a major part of poor households in the Russian Federation (56.9%), whereas single person households account for less than 5% of total poor households.

² Socio-economic indicators of poverty in 2007–2010. Stat.sb. / Rosstat – M., 2011.

(WHO). Protein consumption of poor population increased to reach the WHO and FAO¹ standards.

According to the data obtained during a survey conducted as part of the traditional World Barometer project under the auspices of the world largest association of independent research agencies ROMIR/Gallup International/WIN, those who ran short of food accounted for 31% (10% of these persons claimed that they often ran short of food) of the population in Russia in 2005, whereas this figure declined to 8% by 2012 (1% of these persons claimed that they often ran short of food)². These data correlate with the results of a Rosstat household survey in which households who ran short of money to buy food accounted for 5.8% of poor households (an average of 1.5% of all households) in 2011.

Table 3

Consumption of staple food products, kg per consumer on average annually

	2000		2010		Gap between poor and non-poor households, times	
	Poor households	Non-poor households	Poor households	Non-poor households	2000	2010
Vegetables and gourds	45	97	64	104	2.1	1.6
Fruits and berries	10	35	36	78	3.4	2.2
Meat and meat products	24	60	53	85	2.5	1.6
Milk and dairy products	113	235	182	282	2.1	1.6
Eggs	130	232	169	234	1.8	1.4
Fish and fish products	8	16	14	23	2.1	1.6
Caloric value, kcal daily	1,525	2,762	2,096	2,786	1.8	1.3
Daily protein consumption, g	38	72	58	81	1.9	1.4

Source: Federal State Statistics Service of Russia.

Comparison of poor with non-poor households for availability of durable consumer goods shows no visible gap was between them (except for motorcars and personal computers) as early as 2010. However, it should be taken into account that a minimum set of non-food products, which are included into the subsistence minimum of an average family³, comprises a refrigerator, a washing machine, and a TV set. It is seen from *Table 4* that poor households have the foregoing goods plus non-essentials which are not included into the subsistence minimum (cellular phones, vacuum cleaners, videotape recorders, etc.). More than half of poor households have audio systems, two fifths of households have personal computers, one third of households have motorcars.

Table 4

Availability of durable consumer items in low-income households in 2010, as per 100 households on average, items

¹ Food and Agriculture Organization of the United Nations. See Energy and protein requirements. Report of a Joint FAO/WHO/UNU Expert Consultation. World Health Organization Technical Report Series 724. World Health Organization. 1985.

² The index is calculated as a share of respondents from a representative sample of those who gave answers like ‘often’ and ‘sometimes’ to the following question: “Did you or your family happen to run short of food over the last twelve months?”. ROMIR. Issledovaniya. “Bogatye tozhe goloduyt”. http://romir.ru/studies/405_1352750400/ 13.11.2012 (ROMIR. Studies. ‘The rich starve too’. http://romir.ru/studies/405_1352750400/ 13.11.2012).

³ The Russia’s Government Order dd. February 17, 1999, No. 192 “On the Approval of Methodological Recommendations Consumer Goods Basket for Principal Socio-Demographic Groups of Population in the Russian Federation and Constituent Territories of the Russian Federation” (as amended and restated on March 16, 2000, August 12, 2005, June 4, 2007).

	Poor households	Non-poor households
TV set	140	167
Videotape recorder, video player, DVD player	81	91
Refrigerator, freezer	112	122
Washing machine	96	100
Vacuum cleaner	81	93
Cellular phone	244	225
Audio system, audio tape recorder, audio player	57	68
Personal computer	41	59
Motorcar	32	50

Source: Federal State Statistics Service of Russia.

High degree of supply of durable consumer goods to the population, including poor population, depends on lending: according to the data provided by Rosstat, about 20% of poor households and about 30% non-poor households had an outstanding loan balance in 2011.

There is no big difference between poor and non-poor households in housing conditions (Table 5), except for dwelling space per dweller¹.

Table 5

Characteristics of household housing conditions

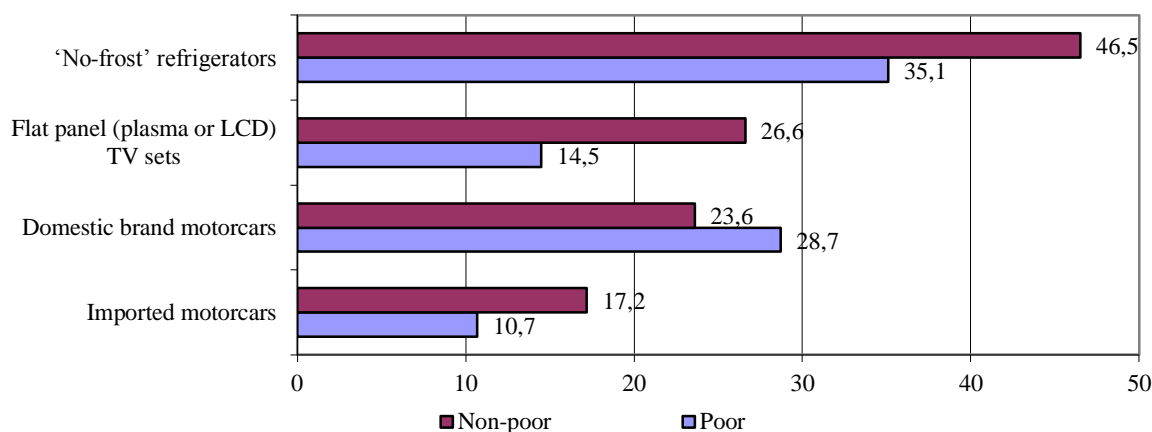
	Poor households	Non-poor households
Households living in a self-contained apartment, house, part of a house, %	97.7	98.7
Number of rooms per household	2.58	2.44
including separate rooms	1.92	1.99
Dwelling space per dweller on average, m ²	15.7	22.1
including living space	11	14.8

Source: Federal State Statistics Service of Russia.

Aggregation of the data provided by the 19th round of the Russian Economic and Public Health Monitoring in the Russian Federation, which was conducted in the period between Q4 2010 and Q1 2011, showed that such non-essential goods as no-frost refrigerators, flat panel (plasma or LCD) TV sets, domestic motorcars, imported motorcars are increasingly bought not only by representatives of non-poor, but also poor population in accordance with the Russian household criteria (see Fig. 2).

In 2011, poor population in Russia increased to 18.1 million persons (17.9 million persons in 2010), poverty level increased to 12.8% (against 12.6% in 2010). The situation in 2011 was indicative of stabilized living standards and poverty rather than a turning point in positive dynamics. Quarterly and semiannual data, as well as 9-month data on poverty in 2012 are lower than in 2011, and, more importantly, lower than in 2010 which saw the lowest poverty in Russia, thereby holding out a hope of further downward trend for poverty in Russia which seems to slowdown though.

¹ To some extent, a small gap in the figures relates to expensive housing in Russia.



Source: authors' estimates based on the data provided by the 19th round of the Russian Economic and Public Health Monitoring in the Russian Federation (Q4 2010 – Q1 2011).

Fig. 4. Households which have non-essential assets, %

Table 6

**Population with substandard per capita money income
in 2010–2012**

	2010			2011				2012		
	Q1	H1	year	Q1	H1	9 months	year	Q1	H1	9 months
Population with money income less than subsistence minimum, million persons	20.6	19.1	17.9	22.9	21.1	20.2	18.1	19.1	17.7	17.2
As % of total population	14.5	13.5	12.6	16.1	14.9	14.3	12.8	13.5	12.5	12.1

Source: Federal State Statistics Service of Russia.