

GAIDAR INSTITUTE FOR ECONOMIC POLICY

RUSSIAN ECONOMY IN 2013
TRENDS AND OUTLOOKS
(ISSUE 35)

Gaidar Institute
Publishers
Moscow / 2014

UDC 330.34(470+571)"2013"
BBC 65.9(2Poc)
Agency CIP RSL

Editorial Board: *S. Sinelnikov-Mourylev (editor-in-chief),
A. Radygin,
L. Freinkman,
N. Glavatskaya*

R95 **Russian Economy in 2013. Trends and Outlooks.**
(Issue 35) – M.: Gaidar Institute Publishers, 2014. 516 pp.

ISBN 978-5-93255-393-0

The review provides a detailed analysis of main trends in Russia's economy in 2013. 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.

UDC 330.34(470+571)"2013"
BBC 65.9(2Poc)

ISBN 978-5-93255-393-0

© Gaidar Institute, 2014

The Living Standards of Russia's Population in 2013

Over 2013, the population's real disposable income rose by 3.3%. The salary level in the budget-funded sphere was being raised at a high rate – which, however, proved to be insufficient to meet the targets set in the President of the Russian Federation's Executive Order of 7 May 2012, No. 597 'On Measures Aimed at the Implementation of Government Social Policy'. The income inequality index over the period January–September 2013 somewhat increased. The poverty level over the first 9 months of 2013 was 0.5 pp. above its level over the corresponding period of 2012, due in the main to the alterations introduced into the methodology applied for estimating the subsistence level. The impact of social transfers on the child poverty level in Russia is low by comparison with that in the European Union.

Population Income

In 2013, the average nominal monthly charged wage amounted to Rb 29,960, having risen on 2012 by 12.3%. As the Consumer Price Index increased by 6.8% in 2013¹, growth of the real average monthly charged wage over the course of that year was 5.2%.

Over the course of 2013, the average nominal monthly wages in arrears increased on the previous year by 24%² – from Rb 2,046.7m to Rb 2,536.9m. The real amount of average monthly wages in arrears remains at a low level: as of 1 January 2014 it amounted to less than 1% of companies' total monthly wages fund. The number of employees whose wages were in arrears over the year varied between 53 and 97 thousand. Wages in arrears arose, as a rule, due to lack of companies' own funds; the average monthly share of wages in arrears arising as a result of delays in money transfers from the budgets of all levels over the entire year, with the exception of February, was at the level of only 3–4% of the total amount of wages in arrears.

Over 2013, the size of labor pension was increased twice:

- from 1 February 2013, labor pensions were increased by 6.6 %,
- from 1 April, due an increase in the RF Pension Fund's revenues in 2012, an additional upward adjustment of labor pension by 3.3% was carried out.

In April 2013, the size of pensions paid under the government pension program was raised by 1.81%, while the monthly federal benefits paid to special categories of pensioners were increased by 5.5%.

In August 2013, the size of pensions paid to working pensioners was adjusted, in accordance with the planned scheduler, by the amount of insurance contributions received in 2012 from their employers under the mandatory pension insurance program.

As result of all these measures, over the course of 2013 the average size of allotted monthly pension increased by 9.7%, thus amounting to Rb 9,918. Its growth in real terms amounted to 2.8%.

Over the course of 2013, the monthly per capita money income in nominal terms increased by 10.7% - to Rb 25,522. At the same time, the population's real disposable money income increased by only 3.3%.

¹ The period January–December 2013 against the period January–December of the previous year.

² Based on data reported by organizations other than small-sized businesses.

The nominal indicators of the population's money income (salaries, pensions, other money incomes) for 2013 were slightly below the corresponding indicators for the previous year, while the inflation rate was higher (6.8% vs. 5.1% in 2012); as a result of these changes, growth of the population's real disposable money income over that period was less impressive than in 2012 (3.3% vs. 4.6% in 2012).

The movement of the real disposable money income in 2012 and 2013 is shown in *Table 1*.

Table 1

**Changes in the Real Disposable
Money Income, %**

	As percentage of	
	corresponding period of previous year	previous period
2012		
Q1	102.2	76.4
Q2	104.8	115.8
1st half year	103.6	
Q3	104.5	100.1
Q4	106.0	119.7
Year	104.6	
2013		
Q1	105.6	76.1
Q2	103.0	112.9
1st half year	104.2	
Q3	102.4	99.6
Q4	102.9	120.2
Year	103.3	

Source: data released by Rosstat.

The salary raise in the budget-funded sphere (funded, in addition to other sources, also by the dotations transferred to regional budgets from the federal budget) resulted in a situation where, in 2013, the fastest growth rates were demonstrated by the average monthly charged wage indexes (less social benefits) in the public education sector (123.2%) and the public healthcare and social welfare sectors (118.9%). As a result, the average monthly salary in the education sphere grew to Rb 23,421, and that in the public healthcare and social welfare sectors - to Rb 24,564. In 2013, the upward movement of these indexes pushed up the sectoral-to-national salary ratios in these three sectors, which became as follows: in the public education sector - 78% of the average national salary and 82% of the national average for the processing industries; in the public healthcare and social welfare sectors - 81% of the average national salary and 85% of the national average for the processing industries.

In general over the year 2013, the salary levels of the relevant categories of employees in the budget-funded sphere of each RF subject shown as a percentage of the average monthly wage index were as follows:

- in the public education sector: 73.5% of the average monthly salary of secondary school teachers in a RF subject for tutors employed at educational establishments providing extracurricular education to children; 94.9% of the average monthly salary in the general education sphere in a RF subject for tutors employed at pre-school educational establishments; for teachers employed at secondary schools and other general-education establishments, and for the faculty members of higher (professional) educational establishments – 96.9% and 134.9% respectively of the average monthly wage index in a given RF subject;
- in the public healthcare sector: for nursing staff - 47.8% of the average monthly wage index in a given RF subject, and for physicians and other healthcare practitioners with higher

education diplomas, employed at medical institutions and providing medical care services to the population - 141% of the average monthly wage index in a given RF subject.

The targets set in the RF President's Executive Order of 7 May 2012, No. 597 'On Measures Aimed at the Implementation of Government Social Policy' for the years 2012 and 2013 are as follows:

- in 2012, the average salary level of secondary school teachers and the tutorial staff of other general-education establishments should be raised to match the average salary for a given region's economy;
- by 2013, the average salary of tutors employed at pre-school educational establishments should be raised to match the average salary level in the general education sphere of each region.

If the salary raise targets for the budget-funded sphere are set against the actually achieved results, it will become evident that, as late as 2013, the average salary level of the staff of general-education establishments was still below that of each region's average salary, although it had been planned that this target should be already achieved in 2012. When the salary levels of the staff of general-education establishments are analyzed in relation to the form of ownership of each establishment, it turns out that, at present, the actual salaries at federal general-education establishments and those owned by RF subjects are higher than the targets stipulated in the RF President's Executive Order of 7 May 2012, No. 597 'On Measures Aimed at the Implementation of Government Social Policy'; however, the salaries of the staff of municipal schools amount to no more than 85% of the average salary index in a given RF subject.

The same, in fact, is true with regard to the salaries of tutors employed at pre-school educational establishments: in 2013, their level was still below the average salary level in the general education sphere of each given region, while the salary level of tutors employed at municipal pre-school educational establishments amounted to only 86.2% of the average salary in the general education sphere.

Socioeconomic differentiation

In 2013, the inequality in distribution of the population's money incomes became slightly less prominent.

The income inequality indices dropped on 2012 as follows:

- the Gini coefficient¹ - from 0.420 to 0.418;
- R/P 10%² - from 16.4 to 16.2.

The declining inequality in the distribution of the population's money incomes was largely caused by the shrinking share of the fifth quintile (highest incomes) in the population's aggregate income (by 0.1 pp.) and the increasing share of the second quintile (also by 0.1 pp.). In the main, the income share's shrinkage was spawned by changes in the income level of the richest 10%. In 2013, the share of the richest 10% amounted to 30.7% of the population's total income against 30.8% in 2012.

The share of the poorest 10% remained at its 2012 level, thus amounting to 1.9% of the population's aggregate income.

The population distribution by per capita money income level is shown in *Table 2*.

¹ The Gini coefficient (income concentration index) is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. Its value may vary from 0 to 1. The higher the value, the more unequal is the income distribution.

² The ratio of the average income of the richest 10% to the poorest 10% (R/P 10%) describes a nation's socioeconomic differentiation.

Table 2

The Population Distribution by Per Capita Money Income Level, %

	2013	2012
Total population	100	100
including with per capita monthly money income level under Rb 5,000.0	4.4	5.8
Rb 5,000.1–7,000.0	5.7	6.9
Rb 7,000.1–10,000.0	10.6	12.0
Rb 10,000.1–14,000.0	14.4	15.4
Rb 14,000.1–19,000.0	15.3	15.5
Rb 19,000.1–27,000.0	17.4	16.7
Rb 27,000.1–45,000.0	19.1	17.1
over Rb 45,000.0	13.2	10.6

Source: data released by Rosstat.

Subsistence level and poverty

In 2013, the subsistence level indexes were as follows (*Table 3*): national average – Rb 7,429 per month, including Rb 8,014 per month for the able-bodied population, Rb 6,097 per month – for pensioners, and Rb 7,105 per month – for children.

Table 3

Subsistence Level, Rb

	Total population	Able-bodied population	Pensioners	Children
2012				
Q1	6,307	6,827	4,963	6,070
Q2	6,385	6,913	5,020	6,146
Q3	6,643	7,191	5,229	6,387
Q4	6,705	7,263	5,281	6,432
Year	6,510	7,049	5,123	6,259
2013				
Q1	7,095	7,633	5,828	6,859
Q2	7,372	7,941	6,043	7,104
Q3	7,429	8,014	6,097	7,105

Source: data released by Rosstat.

The share of food in the consumer basket is highest (45.8%). The share of non-food products amounts to 23.4%, that of services – 23.6%. Mandatory payments and fees take up 7.2% of the consumer basket.

The ratios of the main population income indexes to the subsistence level in Q3 2013 were as follows:

- the ratio of per capita money income to the national average subsistence level – 335.5%,
- the ratio of the average monthly charged wage index to the subsistence level of the able-bodied population – 380.9%,
- the ratio of the average monthly charged pension index to the subsistence level of pensioners – 177.2%.

The poverty index for the first 9 months of 2013 was at the level of 17.8m, or 12.6% of the total population (*Table 4*), while the corresponding indexes for the same period of the previous year were 17.2m and 12.1% respectively. However, these changes are by no means indicative of a rising poverty level in Russia. The upward movement of these indexes has resulted from the alterations introduced into the methodology for calculating the subsistence level from 1 January 2013, which pushed up the subsistence level estimates.

Table 4

Number of People with Incomes Below Subsistence Level

	Million	As % of total population

2012		
Q1	19.1	13.5
Q2	16.4	11.5
1st half year	17.7	12.5
January–September	17.2	12.1
Q4	12.5	8.8
Year	15.6	10.9
2013		
Q1	19.6	13.8
Q2	17.2	12.1
1st half year	18.4	13.0
January–September	17.8	12.6

Source: data released by Rosstat.

The Child Poverty Rate and the Effect of Social Policies on the Child Welfare Levels in the Russian Federation and the European Union

To obtain the child poverty rate estimates comparable with those in the developed countries, and to assess accordingly the effect of social transfers on child welfare in the Russian Federation, the relevant approaches practiced in the developed countries were applied¹. Russia's child poverty rate, after the receipt of social transfers allocated in 2012, amounts to 20.3%. If Russia is to be compared with the developed countries, by its child poverty rate after social transfers it will fit somewhere in the middle of the list, as the at-risk-of-poverty threshold amounts to 60% of the equivalent median disposable money income of all households after social transfers (*Fig. 1*).

¹ The estimates for EU countries are based, among other sources, on EU-Statistics on Income and Living Conditions (EU-SILC). The estimates for the Russian federation are based on the results of 21st round of the Russian Monitoring of the Population's Economic Status and Health, which took place in October–December 2012.

The household's aggregate income was set against the value of the 'total money income of all members of a household' variable. Out of these two variables, the one with the higher value was selected.

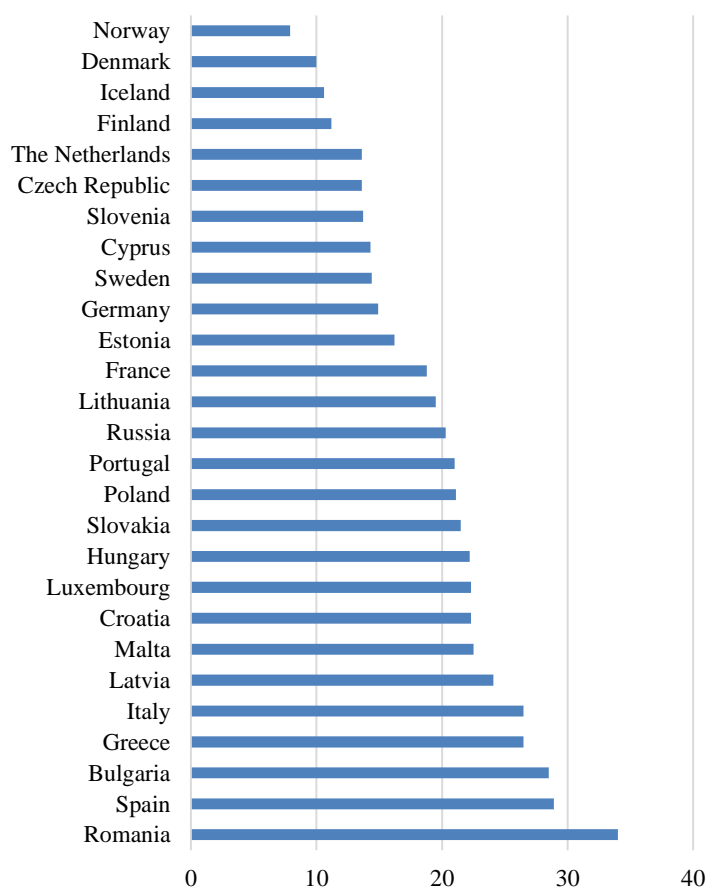
To adjust the results by economy of scale effect, the equivalence scale applied by the Statistical Office of the European Union (EUROSTAT) to weight household incomes in the developed countries was applied.

To determine the at-risk-of-poverty threshold, the value of 60% of the equivalent median disposable money income per household member was applied.

To measure the value of the total social transfer variable, the aggregate transfer index was applied, which included the following indices:

- dotations to cover the cost of fuel: natural gas, kerosene, coal, firewood, peat, etc.
- child care benefit, for parents with children aged under 1.5 years,
- monthly child benefit,
- welfare benefit,
- subsidies to cover the cost of housing rent and utilities,
- monthly money payments in lieu of in kind benefits,
- pensions,
- stipends,
- unemployment benefits,
- deductions from the cost of housing rent and utilities,
- tax deduction granted to cover the cost of tuitions, medical care or purchase of housing.

For the purpose of imputation of minimum salary level data, the amount of salary declared by an adult able-bodied household member was set against that of the minimum salary index. If the amount of salary declared by an adult able-bodied household member was found to be lower than the minimum salary index, the latter value was entered in the statistics file.

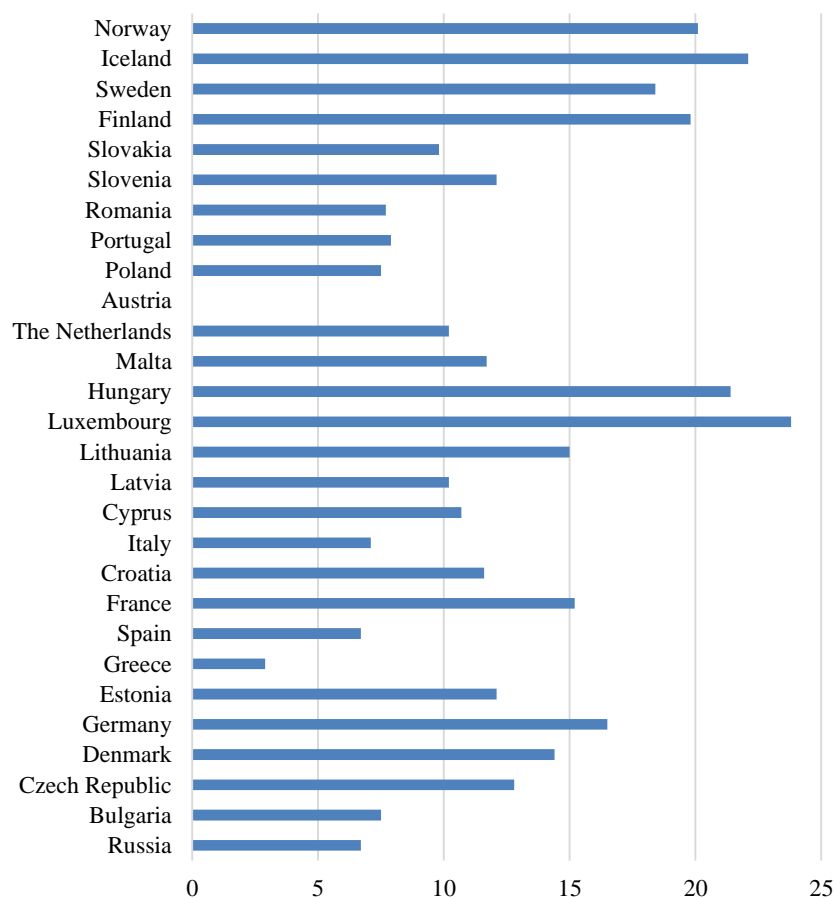


Source: calculations based on EU-Statistics on Income and Living Conditions (EU-SILC) and RLMS data.

Fig. 1. Child Poverty Rate after Social Transfers and Taxes, at the At-risk-of-poverty Threshold of 60% of the Equivalent Median Money Income in the EU Countries and the Russian Federation in 2012, %

The amount of child social transfers in Russia, if set against the standards applied in the developed countries, is low; besides, such transfers are not highly targeted, and so it can hardly be expected that their effect will match the effect of their counterparts in the developed countries. Besides, it should be noted that the population welfare surveys conducted in the RF do not take into account the data on all the social transfers received by families with children. The results of our estimations are not adjusted by the effects of taxes on Russia's child poverty rates, because the relevant data are not available. As noted in many studies, the level of personal income information concealment in the RF is very high; people prefer not to report the amount of their real income not only to tax agencies, but also to the interviewers collecting data for the population welfare surveys.

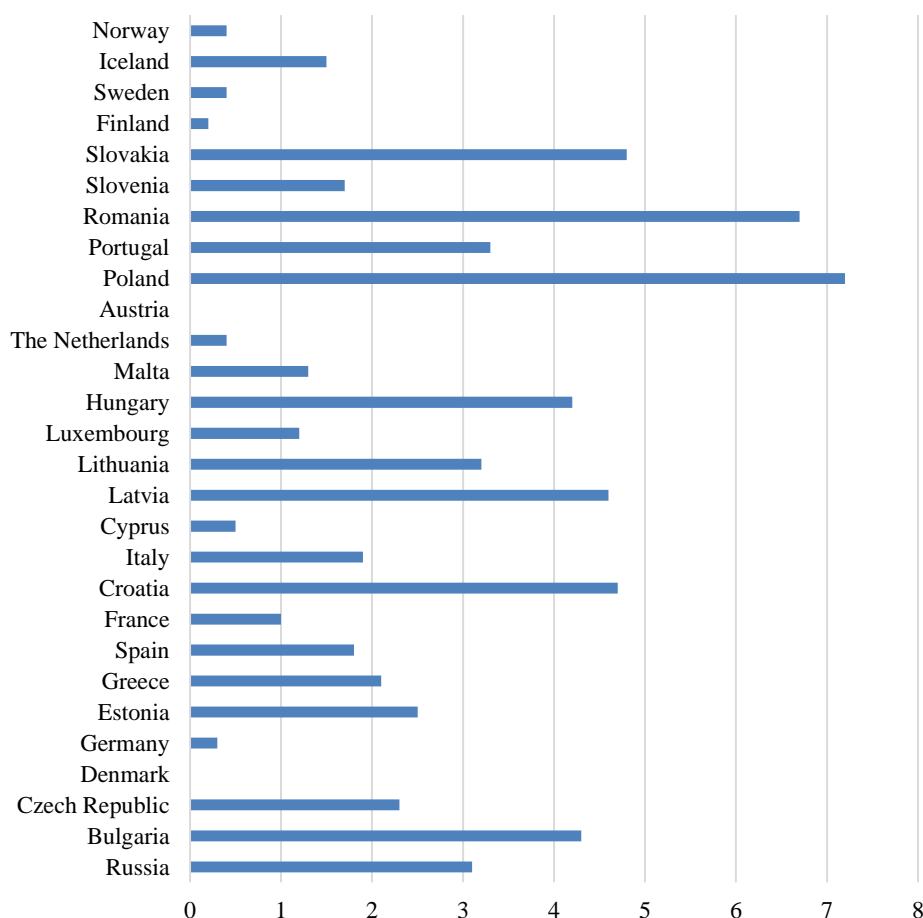
In 2012, social transfers (less pensions) in Russia brought down the child poverty rate before social transfers by 6.7 pp. By the value of its index of 'effect of social transfers (less pensions) on the child poverty rate', the Russian Federation falls far behind almost all of the EU countries, with the exception of Greece (*Fig. 2*).



Source: calculations based on EU-Statistics on Income and Living Conditions (EU-SILC) and RLMS data.

Fig. 2. Differences between Child Poverty Rates before Social Transfers and Taxes (Pensions Not Included in Social Transfers) and Child Poverty Rates after Social Transfers and Taxes (Pensions Included in Social Transfers), at the At-risk-of-poverty Threshold of 60% of the Equivalent Median Money Income in the EU Countries and the Russian Federation in 2012, as Percentage Points

The effect of pensions on the child poverty rate in the Russian Federation, by the standards applied in the developed countries, is rather high. Such a situation is more typical of the EU countries with lower levels of economic development, where grownup children after getting married prefer to stay in the home of their parents even after the birth of their own children. As seen in *Fig. 3*, the way that the amount of pension influences Russia's child poverty rate is closer to the similar effects observed in countries like Bulgaria, Hungary, Lithuania, Portugal, and Croatia, than in more developed countries like Denmark, Finland, Germany, or The Netherlands.



Source: calculations based on EU-Statistics on Income and Living Conditions (EU-SILC) and RLMS data.

Fig. 3. Differences between Child Poverty Rates after Social Transfers and Taxes (Pensions Not Included in Social Transfers) and Child Poverty Rates before Social Transfers and Taxes (Pensions Included in Social Transfers), at the At-risk-of-poverty Threshold of 60% of the Equivalent Median Money Income in the EU Countries and the Russian Federation in 2012, as Percentage Points

If we attempt to eliminate, in part, the effect of the factor of personal income concealment in Russia, and to replace the absent or evidently underestimated (by comparison with the minimum salary index) data on salary levels by the available data on the incomes of adult able-bodied RF citizens, the resulting children poverty rate for Russia will become somewhat lower (see *Table 5*).

These results have confirmed the necessity of conducting some additional studies in order to develop a methodology for additional data imputation in the personal income indexes applied in the Russian Federation, which will be suitable for estimating the child poverty rate and the effects of social transfers and taxes on child welfare on the basis of the methodologies applied in the EU countries.

Table 5

**Child Poverty Levels in the RF Without and With Imputation
for Minimum Salary Data, %**

	Without imputation for minimum salary data	With imputation for minimum salary data
Child poverty rate after social transfers and taxes, calculated for poverty threshold set at 60% of median household income after social transfers, %	20.3	18.7

Source: calculated on the basis of RLMS data.