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The review provides a detailed analysis of main trends in Russia's economy in 2014.
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.

5.1. The Living Standards of Russia's Population in 2014

Over 2014, the population's real disposable income constituted 99.0% of its 2013 level. However, it posted growth in 2008 recession year. Growth rates of salaries in the budget-funded sphere went down. Over 2014, the level of inequality somewhat declined by comparison with 2013 level. The poverty level over the first 9 months of 2014 remained without change vis-à-vis the corresponding period of 2013. Noticeable reduction of the population's real income and households consumption as well as small-scale of the poverty level is forecasted in 2015.

5.1.1. Population income

The population's average nominal money income went up by 6.9% and constituted on average Rb 27,714 per person in 2014. The Consumer Price Index growth resulted in the fact that the real disposable per capita income[1] over the course of the year dropped to 99.0% versus the same period of 2013, meanwhile in 2013 there was a growth of real disposable per capita income at the amount of 4.0%. Moreover, it should be noted that even in the recession 2008 year real disposable per capita income grew by 2.4% over 2007.

The movement of the real disposable money income in 2013 and 2014 is shown in *Table 1*.

Table 1

Changes in the Real Disposable Money Income, 2013–2014, %

	As percentage of	
	corresponding period of previous year	previous period
2013		
Q1	105.9	76.5
Q2	103.8	113.3
H1	104.8	
Q3	103.2	99.5
Q4	103.6	120.2
Annual	104.0	
2014		
Q1	96.6	71.3
Q2	100.7	118.1
H1	98.8	
Q3	102.1	100.9
Q4	96.5	113.5
Annual	99.0	

Source: Rosstat.

The average nominal payable monthly salary amounted to Rb 32,600.00 having risen on 2013 by 9.2% in 2014 (*Table 2*). Inflation consumed practically all incremental salary which resulted in the fact that real monthly salary per employee over 2014 went up solely by 1.3% meanwhile in 2013 it went up by 4.8% against 2012.

Table 2

Change in the average payable monthly salary, 2013–2014, %

	Average payable monthly salary in % to		Real payable monthly salary in % to	
	Corresponding period last year	Corresponding period	Corresponding period last year	Corresponding period
2013				
Q1	111.9	90.4	104.5	88.7
Q2	113.8	110.6	106.2	109.0
H1	112.9		105.4	
Q3	113.2	97.8	106.4	96.4

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[1] Income less mandatory payments and contributions and adjusted to the Consumer Price Index.

Q4	110.6	113.2	103.9	111.7
Annual	111.9		104.8	
2014				
Q1	111.1	90.3	104.4	88.6
Q2	110.2	109.7	102.4	107.1
H1	110.6		103.4	
Q3	108.3	96.3	100.6	94.8
Q4	107.4		98.0	
Annual	109.2		101.3	

Source: Rosstat.

Economic crisis resulted in the high rates of salaries paid in the spheres of education, healthcare and social services which were financed in 2013 with the aim of bringing salaries of a number of categories of budget-funded employees to 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" remained in the past.

In 2014 average payable monthly salary (less social contributions) amounted in education Rb 25,855 (79% to the All-Russia level of average monthly salary and 88% to the salary in the manufacturing sectors) and in public healthcare and social services – Rb 27,123 (83% to the all-Russia average monthly salary and 92% to the salary in manufacturing sector).

Over January-September 2014, 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 were as follows:

- In public education: from 78.2% of the average monthly salary for teachers in supplementary educational institutions[2] to 93.3% of the average monthly salary for teachers in pre-school educational institutions[3], 97.2% of the average monthly salary for teachers in general education institutions and 135.6% of the average monthly salary for the faculty members of higher (vocational) educational establishments ;
- In public healthcare sector: for nurses staff – 49.3% of the average monthly salary index, and for physicians and other healthcare practitioners with higher education diplomas, employed at medical institutions and providing medical care services to the population - 142.5% of the average monthly salary index in a given RF subject.

The RF President's Executive Order of 7 May 2012, No 597 "On Measures Aimed at the Implementation of Government Social Policy" set for the year 2012 that in that year the average salary level of the secondary school teachers and the tutorial staff of general-education institutions should be brought to match the average salary for a given region. In reality the targeted value was nearly achieved in H1 2014 (the salary level of this category of employees constituted 91% of a given RF subject's average salary) and exceeded it to 107.7% of a given subject's average monthly salary in H1. However, in Q3 the situation was not as good and the average salary of teachers and the tutorial staff of general-education institutions over 9 months 2014 fell to 97.2% of the given region's average salary.

The same Presidential Executive Order envisaged to bring the average monthly salary of the teachers of pre-school educational institutions in line with the level of the average monthly salary in the sphere of general education in a corresponding region in 2013. This target was nearly achieved by the end of 2013: the average monthly salary of tutors employed at pre-school educational institutions in 2013 amounted to 94.9% of the level of the average monthly salary in the sphere of general education of a given region. However, in H1 2014 the situation started to deteriorate: the level of average monthly salary of tutors employed at pre-school educational institutions fell to 90.4% of the average monthly salary in the sphere of general education in a given region. However, in Q3 the situation stabilized and the average monthly salary of tutors employed at the pre-school educational institutions over 9 months 2014 nearly reached 2013 level constituting 93.3% of the average salary in the sphere of general education in a given region.

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[2] Ratio to the average salary of teachers in a given RF subject.
[3] Ratio to the average salary in the sphere of general education in a given RF subject.

Nominal average monthly salaries in arrears constituted Rb 2,006m as of 1 January 2015. Real volume of the average monthly salaries in arrears remains still at a low level: as of 1 January 2015, the volume of arrears amounted to less than 1% of companies' total payroll budget. The number of employees whose salaries were is arrears over the year varied between 54 and 82 thousand (49 thousand as of 1 January 2015). Practically all salaries in arrears arose, as a rule, due to lack of companies' own funds: the average monthly share of salaries in arrears arising as a result of delays in money transfers from the budgets of all levels over the entire year varied between 0.1-3.7% of the overall volume of salaries arrears. As of 1 January 2015, the share of arrears in average monthly salaries due as a result of delays in money transfers from the budgets of all levels constituted 0.1%.

Over 2014 the size of pensions were increased this way:
- From 1 February, labour pensions of 37.8m pensioners were indexed by 6.5% due to the consumer price growth in 2013;
- From 1 April, social pensions of 2.9m pensioners went up by 17.1%.

In April 2014, the size of pensions paid under the government pension program went up. Also the monthly federal benefits paid to 16.2m special categories of pensioners were increased by 5.0%.

In august 2014, the size of pensions paid to working pensioners and disability pensioners was adjusted, in accordance with the planned scheduler, by the amount of insurance contributions received in 2013 and/or Q1 2014 from their employers under the mandatory pension insurance program. This adjustment according to the RF Pension Fund data affected almost 14m people or 37% of the labour pensioners. However, according to the Pension Fund assessments, the size of the raise is insignificant.

Also in August 2014, went up pensions of those who receive pension savings in the form of pension payment (by 2.3%) and in the form of savings part of the labour pension (by 2.9%). The system of social payments to the subsistence minimum level is still in force in case the pension is below the subsistence minimum.

As result of all these measures, over the course of 2014 the average size of allotted monthly pension increased by 8.8%, which resulted in the size of the average accrued pension to come to Rb 10,786 in October 2014. Growth of the average real allotted pensions over 10 months 2014 constituted 0.9%.

According to the RF Ministry of Economic Development forecast, real disposable money income of the population over 2015 will fall to 93.7% of their 2014 level.

5.1.2. Socioeconomic differentiation

According to preliminary data, in 2014 the inequality in distribution of the population's money incomes slightly dropped against 2013:
- The Gini coefficient was at the level of 0.416, while during the same period of the last year it was 0.419;
- R/P 10% dropped to 16.0 (in 2013 it constituted 16.3).

Table 3

Distribution of the Overall Volume of the Population Income, %

	2014	2013
Money incomes	100	100
Including 20% groups of population: first (with least incomes)	5.2	5.2
second	9.9	9.8
third	14.9	14.9
fourth	22.6	22.5
fifth (with least incomes)	47.4	47.6

Source: Rosstat.

The population distribution by average per capita money income level is shown in *Table 4*.

Table 4

The Population Distribution by the Average Per Capita Money Income Level, %

	2014	20
Total population	**100**	**100**
Including with average per capita money monthly under Rb 7,000.0	8.2	9.8
7,000.1–10,000.0	9.4	10.4
10,000.1–14,000.0	13.4	14.2
14,000.1–19,000.0	15.0	15.2
19,000.1–27,000.0	17.8	17.5
27,000.1–45,000.0	20.7	19.3
45,000.1–60,000.0	7.2	6.5
Over 60,000.0	8.3	7.1

Source: Rosstat.

5.1.3. Subsistence level and poverty

In Q3 2014, the subsistence level dropped vis-a-vis Q2. The drop is insignificant and amounts to 1.3% on average for total population, 1.2% for working population, 0.9% for pensioners and 2.3% for children (*Table 5*).

The estimates of the subsistence level in the Russian Federation are done by the Ministry of Labour and Social Security on the basis of the consumer basket determined by the Federal Law of 3 December 2012 "On the Consumer Basket Nationwide the Russian Federation" and the data provided by the Federal Service of State Statistics on the level of consumer prices for food products and consumer price index for food products, non-food products and services. By multiplication of normative amount of food products on prices, we get money estimate of the food share of the subsistence level. Therefore, if composition and number of food products considered in subsistence level calculation did not change then the reduction of the subsistence level amount can be explained solely by the fall of food prices which comprise the subsistence level.

Table 5

Subsistence Level, Rb.

	Total population	Working population	Pensioners	Children
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
Q4	7,326	7,896	6,023	7,021
2014				
Q1	7,688	8,283	6,308	7,452
Q2	8,192	8,834	6,717	7,920
Q3	8,086	8,731	6,656	7,738

Source: Rosstat.

Table 6

**Price Indices for Three Quarters
of 2014, Rb**

	Q1	Q2	Q3	9 months
Consumer price index	101.9	102.4	101.4	105.8
Food price index	103.0	103.5	100.6	107.3
Food price index minus alcoholic drinks	103.7	103.5	100.4	107.8

Source: Rosstat.

Table 6 demonstrates that we clear consumer price index of prices for goods and services which are not considered for price following comprising the subsistence level (alcohol, for example, does not comprise the subsistence level), the higher the subsistence level becomes for three quarters 2014 and smaller for Q3 2014. Of course, we can mention the seasonal factor and the fact that in summer fruits and vegetables are cheaper than in spring. However, in 2013 seasonal factor was applicable but it did not result in the downward trend in the subsistence level neither on average for the whole population not for certain socio demographic groups of population. Moreover, in Q3 2014 price fall on fruits and vegetables practically did not differ from the price fall in Q3 2013.

Situation on the food market in Q3 2014 differed from the same period of 2013 by the fact that sanctions were imposed on imports of food products from the EU countries. It turns out that imposition of sanctions resulted in the price reduction on food products which comprise the subsistence minimum. However, this suppositioncauses very big doubts.

According to Rosstat data, over January-September 2014 in comparison with the same period of 2013 purchasing power of the average per capita money income went up including on such basic food products comprising subsistence minimum as beef (minus boneless meat), frozen and chilled chicken (minus chicken quarters), sunflower seed oil, margarine, rye bread, mixed rye-wheat bread, bread and bakery goods, wheat flour, cereals, vermicelli, carrots and apples.

Using the Rosstat data on the average prices on food products which comprise the subsistence minimum we can verify whether there was a price reduction on those food products which are positively linked with the purchasing power of the average per capita money income of the population.

In Q3 2014 prices went up on such products which comprise the subsistence minimum, as:
- beef (less boneless meat) – by 3.6%;
- mutton (less boneless meat) – by 2.1%;
- frozen and chilled chicken (minus chicken quarters) – by 13.0%;
- table salt (including iodized salt) – by 1.6%;
- margarine – by 1.0%;
- vermicelli – by 0.9%;
- rye bread, mixed rye-wheat bread – by 1.7%;
- bread and bakery goods – by 1.3%;
- wheat flour – by 0.7%;
- cereals: rice white rice – by 0.6%, millet – by 2.2%, semolina – by 0.5% (price on other types of cereals did not change over Q3 2014).

Thus, reduction of the subsistence level index in Q3 2014 and increase of the purchasing power of the money income of the population on given types of food products (first of all, on meat products) which comprise the subsistence minimum cause certain doubts.

In Q3 2014, food products expenses (45.8%) constitute the main share in the structure of the subsistence minimum. Expenses on non-food products constitute 23.5% and on services – 23.6%. Mandatory payments and contributions constitute 7.1% of the subsistence minimum index.

The ratios of the main population income indexes to the subsistence level in Q3 2014 were as follows:
- the ratio of per capita money income to the national average subsistence level – 346.7%;
- the ratio of the average monthly charged wage index to the subsistence level of the working population – 363.4%;
- the ratio of the average monthly charged pension index to the subsistence level of pensioners – 174.1%.

The poverty index for the first 9 months 2014 was at the level 18.0m, or 12.6% of the total population, unchanged vis-à-vis the corresponding period of 2013 (*Table 7*).

Table 7

Number of People with Money Incomes Below Subsistence Level, 2013–2014

	Million people	As % of total population
2013		
Q1	19.7	13.8
Q2	17.3	12.1
H1	18.6	13.0
Q3	17.3	12.1
January-September	18.0	12.6
Q4	12.2	8.5
Year	15.4	10.8
2014		
Q1	19.8	13.8

Q2	17.4	12.1
H1	18.9	13.1
Q3	16.6	11.5
January-September	18.0	12.6

Source: Rosstat.

More than half of the low-income households are households with children. Falling number of the poor in Russia is followed by poverty structural changes: the structure of low-income households comprises fewer households without children and more often households with children. In 2013 about two thirds of the low-income households were represented by the households with children, and in 2008 only half of the households, which, on the one hand, represents a positive outcome of measures implemented in the sphere of the improvement of the socio economic situation of pensioners and, on the other hand, speaks about insufficient efficiency of the social safety net for households with children in Russia. It should be noted that the structure of low-income households widens at the expense of not only multiple children households but at the expense of households with one or two children (*Table 8*).

Table 8

**Distribution of Low-income Households Depending on the Number
of Children under 16, 2008-2013, %**

	2008	2009	2010	2011	2012	2013
Low-income households, total	100	100	100	100	100	100
Of which:						
Without children	47.7	45.4	42.5	40.3	37.8	36.0
With children	52.3	54.6	57.5	59.7	62.2	64.0
Of which:						
1 child	30.2	30.3	31.2	32.7	33.4	32.7
2 children	17.3	18.6	20.3	20.6	21.3	22.3
3 and more children	4.9	5.7	6.0	6.5	7.5	9.0

Source: Rosstat.

Households with children are poorer than households without children: the deficit of disposable funds in a low-income household with children is by 1.55 times higher than in the low-income household without children. This fact is both due to higher deficit of disposable funds per member of a household and to the high number of members of a household.

One of the main benefits targeted at the support of the poor families with children are monthly child allowances which are financed by the RF subjects.

The number of households receiving monthly child allowance in 2000s went down due to:

- Population's income growth resulted in the fall of the number of families with the average per capita income below the subsistence level;
  - the number of population with average per capita money income below the subsistence level over 2000-2013 fell by 26.6 m people or by 2.7 times (from 42.3 to 15.7m persons), and the poverty level fell by about 18 p.p. (from 29.1% to 11%).[4]
- Insignificance of the allowance in the income of the families with children led to a reduction of calls for allowances;
  - Allowance's amount grew very slowly: even in the end of 2013 there were regions where basic amount of the allowance does not exceed Rb 100 per month per child (Nizhniy Novgorod oblast, Republic of Altai, Kabardino-Balkar Republic). Only in the single RF region, Moscow oblast, the minimum basic allowance exceeded by the end of 2013 RB 1,000 per month per child;[5]
  - Over 2000–2013 the number of those who received allowance went down from 13.8m to 5.3m, the number of children targeted by allowance went down from 19.2m to 8.4m,

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[4] Data Released by *Rosstat*.
[5] It should be noted that in several regions the amount of the basic allowance depends on the children's age and the number of children in a family and in some cases can even exceed Rb 1,000.

the share of children targeted by allowance in a corresponding age category went down from 68.8% to 30.8%.

Number of recipients of monthly child allowance, 2007–2013

	2007	2008	2009	2010	2011	2012	2013
Number of allowance recipients, thousand persons	8,040	7,445	7,285	6,750	6,440	5,761	5,303
Number of children under 16 targeted by allowance, thousand persons	11,312	10,623	10,524	9,943	9,675	8,886	8,423
Share of children under 16 targeted by allowance in the overall number of children (from 0 to 16) , %	44.8	43.0	42.8	40.4	38.7	34.9	30.8[6]

Source: Data released by Rosstat on the basis of the data released by the RF Ministry of Labour

Other types of assistance to low-income people is categorical aid the recipients of which can be both families and single citizens who receive average per capita income below the subsistence level. Provision, size, and types of categorical aid are determined by the subjects of the Russian Federation. They also finance these expenditures. Main forms of such payments can be monthly and quarterly allowance set for small periods (from 2 to 6 months) and lump sum assistance in dire straits (different regions set different criteria for determining dire straits). Data shows that the most widespread, it was received by 4m people, form of this assistance is regular money transfer to low income people. The size of it in 2013 constituted Rb 779 on average (less than 10% of the subsistence level on average per person per month).

Provision of Social Assistance within Regional and Municipal Programs in 2013

Categories of citizens	Citizens eligible for social welfare, persons	Citizens regularly receiving money payment, persons	Average size of regular money payment (less social services), Rb per month per a recipient	Number of citizens who received a subsidy, persons	Average size of a subsid y, Rb per a recipient
Citizens in difficult economic situation	686,931	316	742	634,915	15,766
Low-income citizens	3,996,804	1,880,286	779[7]	1,264,316	3,023[8]
Of which receiving social assistance on the basis of social contract	181,952	75,412	498	97,312	11,133
Low-income persons	107,424	84,105	1,314	2,160	1,542

Source: Rosstat.

According the RF Ministry of Economic Development, the poverty level will go up to 12.4% of the total population in 2015. J.P. Morgan experts note that household consumption in 2015 will fall by 5.8%. Plan of principal measures designed to ensure sustainable economic development and social stability in 2015 includes measures aimed at reducing tension on the labour market, to support pensioners (indexing of non-contributory pensions to the consumer price index growth in 2014) and families eligible for multiple-child allowance (allowance in the amount of Rb 20,000). There are also measures in the sphere of healthcare and medicine procurement. The size of assistance by way of multiple-child allowance constitutes less than 10% of the subsistence level for two child family. Regions are unlikely to increase assistance to the poor families. Moreover, those families with children who have already received multiple-child allowance and those who have one child are not illegible for social assistance measures. Indexing of non-contributory pensions and introduction of stabilizing measures on medicine prices and compensation of expenses due to a fluctuation of the exchange rate at purchasing imported medicine most likely

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[6] Data released by Rosstat on children under 16.

[7] Per a member of low-income family.

[8] Per a member of low-income family.

will be insufficient as an assistance for pensioners to purchase medicine, especially those pensioners who do not receive state social benefits and are not treated in hospitals.

5.1.4. Socio economic features and important political values of the middle class in the Russian Federation

In order to obtain the size of the middle class in the Russian Federation, its socio economic and political values both Western and Russian methodologies were applied[9].

Analysis of foreign and Russian sources dedicated to the estimation of the size of the middle class demonstrated that for the interstate comparison of scale and dynamics of the middle class single criterion analysis is used. They are based on the criteria of income or self-identification of population. At the same time, multiple-criteria analysis is used for the evaluation of main socio economic and political values of the middle class.

Variance of the size of the middle class estimated by single criterion analysis constitutes from 7.3 to 70.1% of the total adult population of the Russian Federation depending on criterion applied. The highest estimation was received on the self-identification criterion and it is comparable with the size of the middle class obtained on the basis of similar analysis in a number of developed countries.

Multi-criteria analysis in the evaluation of the middle class comprises such criteria, as:
- Income and assets level which is a complex criterion and comprises four properties:
  - Average monthly income per family member at the level no less that median income in a given region;
  - Number of durable goods at the median level of durable goods for a given region;
  - Car (not older than five years) ownership of domestic or foreign make;
  - Property ownership bringing significant income.
- Social and occupational status of an individual:
  - Type of work, first of all, its non-manual character;
  - education (middle class educational criterion is the one starting from vocational secondary education and above).
- Self-identification – individual's evaluation of his/her position in society along a scale of ten (estimates from 4 to 6 define a person as a member of the middle class).

The size of the middle class in Russia one can estimate by applying multi-criteria analysis at the level of 14.3-27.9% depending on the applied educational criteria.

Analysis of the socio economic features and political values of the RF middle class demonstrated that:
- In economic sphere:
  - According to the two thirds of the middle class the price rise on the housing and communal services and food products was significant;
  - Members of the middle class more than total population on average are interested in drawing an officially declared salary;
  - Significant share of the middle class savings is kept in rubles on ruble bank accounts.
- In political sphere:
  - According to the middle class, striking relations with the West European countries, the USA and the CIS countries Russia should stick to the policy of developing:
    - 11.3% of the middle class favour priority relations with Western Europe and the USA;
    - 26.2% of the middle class are more for good relations with Western Europe and the USA with good relations with the countries of near abroad;

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[9] Estimates were obtained after processing micro data of the RF representative survey done by 'Evrobarometr' in 2012. The survey is carried out by the Russian Presidential Academy of National Economy and Public Administration and allows to estimate the size of the middle class and describe its features and values including prior unanalyzed. See in detail: http://www.ranepa.ru/about-the-academy/consulting-services/evrobarometr.html.

- – 19.6% of the middle class are for priority relations with the countries of the former USSR;
- – 31.2% of the middle class favour relations with the countries of the former USSR and good relations with Western Europe and the USA;[10]
- – over two fifth of the middle class consider foreign organizations and foundation interfering in Russia's political affairs and negatively affect the Russian economy; less than one third of the respondents think that foreign organizations and foundations bring assistance to our country.
- Information technologies:
  - o The middle class by far more actively uses state of the art information technologies compared to the population lower than the middle class.

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[10] 11.5% of the middle class were undecided.