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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 2015. 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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The standard of living in Russia in 2015¹

5.1.1. The formation of money income

In 2014, the real money incomes of the population declined by 0.5% on the previous year, with most of the decline taking place in Q4. In 2015, real money incomes amounted to 95.4% of that index one year earlier.

Over the course of 2015, the average money income in nominal terms increased by 10.1%, to Rb 30,311 per capita. Although the year 2015 saw a rise in the growth rate of nominal money incomes relative to 2014, a 12.9% increase in consumer prices caused a sharp decline in the indicators of the standard of living in real terms. In 2015, the real disposable incomes of the population, real wages, and the real size of allotted pension amounted to 96.0%, 90.5% and 96.2% respectively, of their values in 2014 (*Table 1*).

Table 1

Major socio-economic indicators of the standard of living

	2010	2011	2012	2013	2014	2015
Nominal income, Rb						
Average money income	18,958	20,780	23,221	25,928	27,766	30,311
Average nominal charged wage for employees of organizations	20,952	23,369	26,629	29,792	32,495	33,925
Average size of allotted pension	7,476	8,203	9,041	9,918	10,786	11,983
Real income, % of previous year						
Real disposable money income	105.9	100.5	104.6	104.0	99.3	96.0
Real charged wage	105.2	102.8	108.4	104.8	101.2	90.5
Real size of allotted pension	134.8	101.2	104.9	102.8	100.9	96.2

Source: Rosstat.

When analyzing the changes in the main parameters of the standard of living, it should be borne in mind that the active social policy pursued by the State resulted in a 2.2-fold increase in the nominal size of pension in 2013 relative to 2009. In the period 2009-2013, there emerged an upward trend in the coefficient applied to the average size of allotted pension, the goal being to gradually raise it to the same level as the average wage, as a result of which the share of social payments in the incomes of the population was expected to increase. In 2015, the financial status of pensioners significantly worsened – the ratio between the average size of allotted pension and the minimum subsistence level amounted to 148.9%, thus falling to its record low since 2010.

The downfall of real wages during the 2009 crisis was fully compensated in 2010. The implementation of measures designed to increase the average monthly charged wage was accompanied by an accelerated growth rate of wages in the budget sphere, as compared with the corresponding indices in the economy as a whole. In 2013, the average nominal wage in budget-funded institutions and organizations rose 2.0 times vs. 1.6 times in the economy as a whole (relative to 2009).

From the second half of 2013, the economy experienced a decline in the growth rate of the population's incomes, these phenomena being especially pronounced in the budget-funded sector. In 2015, the growth of incomes petered out into a 9.5% fall of real wages in the economy as a whole. Also, the dynamics of the standard of living parameters in 2015 was negatively affected by a 3.8% drop in the real size of allotted pension, relative to the previous year. The

¹ Author of this section: Izryadnova O. – Gaidar Institute for Economic Policy.

sharp fall in the real incomes of the population in 2015 resulted in a 7.9% contraction of the actual final consumption of households relative to 2014 (*Table 2*).

Table 2

Indices of physical volume of actual final consumption of households, in comparable prices, as a percentage change to the previous year

	2010	2011	2012	2013	2014	2015
Household final consumption expenditure	104.3	105.8	106.1	103.1	101.4	92.1
including, due to:						
household expenditure	105.5	106.8	107.4	103.7	101.7	89.9
state administration	98.5	101.4	102.5	101.4	100.4	98.2

Source: Rosstat.

The drop in the level of real incomes was accompanied by a number of structural changes which had first manifested themselves in Q4 2014 (*Table 3*). In 2015, remuneration for labor and social benefits accounted for 66.0% and 18.1% respectively of the money incomes of the population, while the share of incomes from property and entrepreneurial activity continued to decline. Bearing in mind that remuneration for labor exerts a determining influence on the level of incomes of the population, it should be assumed that the trend towards the decline in real wages will remain the main factor determining the social parameters of the standard of living of the population in 2016.

Table 3

The structure of the money incomes of the population in 2010-2015, % of total

	2010	2011	2012	2013	2014	2015
Total money income	100	100	100	100	100	100
Compensation for labor, including hidden wages	65.2	65.6	66.0	65.3	65.8	66.0
Incomes from entrepreneurial activity	8.9	8.9	8.6	8.6	8.4	7.3
Social benefits	17.7	18.3	18.3	18.6	18.0	18.1
Incomes from property	6.2	5.2	5.1	5.5	5.8	6.6
Other incomes	2.0	2.0	2.0	2.0	2.0	2.0

Source: Rosstat.

According to preliminary data, the level of income slightly reduced in 2015:

- the Gini coefficient declined to 0.412 from 0.419 a year earlier;
- the assets ratio declined to 15.5 times from 16.0 times in 2014 .

On the one hand, the drastic fall of the exchange rate of the ruble resulted in a relative gain of the owners of dollar-denominated assets and individuals with incomes denominated in foreign currencies. On the other hand, there was a growth of the share of wages in the incomes of the population, as well as a decline in wage differentiation among various categories of workers. As wage differentiation is lower than the differentiation of incomes from property and entrepreneurial activity, the latter factor has led to a certain decline of the final indices of the wage difference in the population as a whole. Apparently, it is partly for this reason that the final income differentiation indices have remained practically unchanged over the course of the last five years (*Table 4*).

Table 4

Distribution of the total volume of the population's money income, %

	2011	2012	2013	2014	2015
Money income	100	100	100	100	100
Including by population quintile:					
first (with lowest income)	5.2	5.2	5.2	5.2	5.2
second	9.9	9.8	9.8	9.9	10.0
third	14.9	14.9	14.9	14.9	15.1

forth	22.6	22.5	22.5	22.6	22.6
fifth (with highest income)	47.4	47.6	47.6	47.4	47.0
Assets coefficient (income differentiation)	16.2	16.4	16.3	16.0	15.5
Gini coefficient (index of income concentration)	0.417	0.420	0.419	0.416	0.412

Source: Rosstat.

According to preliminary estimates, in 2015 the minimum per capita subsistence income level amounted to Rb 9,701, which represented a 20.5% rise on 2014. Much of the growth of the minimum per capita subsistence income level took place in H1 2015, while H2 saw a relative decline in its growth rate. The considerable increase of this index at the beginning of 2015 resulted in a rise in poverty rates. In the period January-September 2015, the share of the population with incomes below the subsistence level amounted to 14.1% of the total population, which represented a 1.5 pp. rise on the previous year (*Table 5*). On the whole, the percentage of the population living below the poverty line in 2015 amounted to 13% of the total population, similar to the percentage registered in 2009.

Table 5

The number of population with money income below the minimum subsistence level, 2013-2015

	Million persons	As percentage of total population
2013	15.4	10.8
Q1	19.7	13.8
Q2	17.3	12.1
Q3	17.3	12.1
Q4	12.2	8.5
2014	16.1	11.2
Q1	19.8	13.8
Q2	17.4	12.1
Q3	16.6	11.5
Q4	13.1	9.1
2015		
Q1	22.9	15.9
Q2	20.1	14.0
Q3	17.9	12.4
January-September	20.3	14.1

Source: Rosstat.

The Government of the Russian Federation's action plan to ensure socio-economic development in 2016 envisages a number of measures designed to decrease tensions in the labor market; the provision of assistance to pensioners (the indexation of pensions is to be carried out in H2 2016); an increase in the level of financial assistance to families with children, including through payments out of the Maternity Capital (Family) Grant Funds, an increase in the social protection of families with children, and a continuation of the health and fitness programs for children from troubled families. Some measures are also planned in the sphere of healthcare and pharmaceutical supply.

5.1.2. The monetary expenses of the population

In 2015, the volume of the population's money income amounted to Rb 53,202.9bn, which represented a 10.2% rise on 2014. The population spent Rb 37,903bn on goods and services, or 5.0% more than in the previous year. In 2015, the population's savings amounted to Rb 9,384bn, which represented a 1.5-fold rise on 2014.

In 2015, the dynamics and structure of household expenditure was significantly affected by inflation. Consumer price inflation amounted to 12.9% in 2015. As a result of the influence

exerted by various factors on the behavior of prices in individual sectors of the consumer market, the structure of inflation underwent significant changes due to a notable acceleration of growth in food products prices relative to the aggregate index of consumer prices for goods and services. In 2015, the consumer price index for food products amounted to 114.0%. The behavior of prices for non-food products was formed under the influence of the decline in the exchange rate of the ruble and the reduction in imports. The consumer price index for non-food products amounted to 113.7% vs. 08.1% in 2014. The transformation of price ratios determined a number of changes in consumer behavior (*Table 6*). The share of own income spent on goods and services remained relatively low: in 2015 it amounted to 71.3% vs. 75.3% a year earlier, including expenses on goods which amounted to 54.5% vs. 57.4% in 2014.

Table 6

Household final consumption expenditure structure, %

	Money income	Of these, expenditures on:							Growth (+), decline (-) in cash on hand
		purchase of goods & services	including			sav-ings	including in deposits & securi-ties	purchase of forex	
			purchase of goods	purchase of ser-vices	mandatory payment & contribu-tions				
2014									
Q1	100	82.2	61.5	17.9	12.2	0.3	-6.9	7.0	-1.7
Q2	100	73.2	55.5	15.5	11.7	9.9	5.0	4.6	0.6
Q3	100	75.7	57.6	15.6	11.7	7.3	2.7	4.5	0.8
Q4	100	72.0	56.0	14.0	11.9	8.5	1.0	7.1	0.5
Full year	<i>100</i>	<i>75.3</i>	<i>57.4</i>	<i>15.6</i>	<i>11.8</i>	<i>6.9</i>	<i>0.8</i>	<i>5.8</i>	<i>0.2</i>
2015									
Q1	100	78.3	59.3	16.7	11.1	12.9	2.2	4.0	-6.3
Q2	100	69.8	53.5	14.6	10.8	15.0	7.1	4.1	0.3
Q3	100	72.4	55.3	15.1	11.2	12.0	5.6	4.8	-0.4
Q4	100	66.6	51.3	13.3	11.7	16.0	10.0	3.9	1.9
Full year	<i>100</i>	<i>71.3</i>	<i>54.5</i>	<i>14.8</i>	<i>11.2</i>	<i>14.1</i>	<i>6.5</i>	<i>4.2</i>	<i>-0.8</i>

Source: Rosstat.

While the nominal incomes of the population grew at a relatively slow pace, the bulk of household expenditure was going to the purchase of food products and basic commodities. As a result, the share of food products, including beverages and tobacco products, in the structure of retail turnover increased to 48.6%, which represented a 1.86 pp. rise on the same period of 2008, while the share of non-food products dropped correspondingly. On the whole, over the course of 2015, turnover in the market for food products shrank by 9.2%, while that in the market for non-food products – by 10.7%. On the whole, the most prominent negative trend was a notable decline in retail turnover in various segments of the market, relative to last year. At the end of the year, this trend clearly gained momentum.

One of the typical features of 2015 was the population's increased propensity to save as a precautionary measure in crisis conditions.

People were resorting to a variety of instruments in saving their income. While in 2014, 5.8% of the population's money income had been converted into foreign cash, in 2015 this index dropped to 4.2%, while saving in the form of bank deposits and securities increased to 6.5% of the population's money income index. In Q4 2015, the share of saving rose to 16.0% of money income, including saving in the form of bank deposits and securities (to 10%). The behavior of the personal saving index was strongly influenced by the interest rates on deposits in late 2014 – H1 2015. The total volume of individual bank deposits in Russia in late 2015 amounted to Rb 23,219.1bn, having risen by nearly a quarter on its year-end index for 2014. However, as the interest rates on deposits fall below the inflation rate, it is very likely that pensioners will

remain the biggest group of individual clients still keeping their deposits with banks, as they have grown used to the negative interest rates in real terms offered by banking institutions.

Among the main consequences of the crisis we may point to shrinkage of the assortment of available commodities, dwindling supplies of many expensive items to the market, and the disappearance from the market of many of the previously active suppliers and producers. Demand shrinkage occurred not only in the relatively hi-tech segments of the consumer market (computers, electronics, telecommunications), but also in the more expensive segments of the food market oriented to higher-income social strata.

The volume of commercial services rendered to the population decreased by 2.1% on 2014. The deepest plunge was demonstrated by the volume of outbound tourism and recreational services, while that of education, spa and healthcare services declined at a more modest rate. The downward trend in retail turnover and the turnover of commercial services rendered to the population will prevail over H1 2016 and push domestic demand even further down.

The results of population surveys conducted by *Rosstat* in Q4 2015 point to a downward trend in consumer expectations. The consumer confidence index dropped on Q3 2015 by 2 pp., while its level reflects the collective consumer opinion on the overall situation in Russia's economy and individual material status. Social and political stability will depend on the success of government measures designed to support the most vulnerable population groups.