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R95 **Russian Economy in 2022. Trends and outlooks. (Issue 44) /** [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2023. – 521 pp.: illust.

The review "Russian Economy. Trends and Outlooks" has been published by the Gaidar Institute since 1991. This is the 44th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

Reviewer:
Spartak A.N., Doctor of sciences (economics), Corresponding Member of RAS, Professor, Director of JSC VNIKI, honored scientist

Households' incomes and assessment of their financial situation in Russia in 2022[1]

4.2.1. Forecasts and assessments of households' incomes

Late in 2021, the Russian economy reached the level in many positions to implement strategic economic development objectives. Relative to 2020, various economic indicators demonstrated positive dynamics, which was evidence of the fact that the Russian economy reached the pre-COVID 2019 level and gave us grounds to expect more substantial progress in 2022.

Against this background, early in 2022 expert assessments in respect of economic forecasts showed positive trends. Late in 2021, the RF Central Bank presented several scenarios of Russia's macroeconomic development in 2022–2024.[2] According to the estimates of the baseline scenario, GDP was expected to grow by 2%—3% by the end of 2022. Apart from that, the regulator presented other three scenarios proceeding from potential risks to Russia: +2.4%–3,4% (the "Financial Crisis" scenario and the "Global Inflation" scenario); (-0.8%)–(-0.2)% (a decrease in GDP in case of the "Growing Pandemic" scenario).

In the consensus-forecast presented by the TASS, it was specified that experts expected Russian GDP to grow on average by 2.5%.[3] Think tanks' proposed estimates (at year-end 2021) were as follows: UK Alfa-Kapital (2.7%), the Sovkombank (2.5%), BKS Mir Investitsii (2.6%), Expert RA (2.8%), FG Finam (2.3%) and NRU HSE (2.2%). Some companies presented their estimates of growth in households' real incomes: 1.5%–2% (by estimates of FG Finam) and 4%–5% (UK Alfa-Kapital). The Analytical Credit Rating Agency (ACRA) predicted economic growth of 2.7% by the end of 2022.[4] According to ACRA's forecast, households' disposable real incomes were expected to increase by 2.4%.

In September 2021, the RF Ministry of Economic Development prepared the forecast of Russia's social and economic development in 2022.[5] It predicted a 3%

1 Authors: *A.A. Osavolyuk*, Junior Researcher of ISAP RANEPA; *E.A. Tsatsura*, Candidate of Social Sciences, Senior Researcher of the ISAP RANEPA.
2 The main guidelines for the state monetary policy in 2022 and in the 2023–2024 period // The RF Central Bank. URL: https://www.cbr.ru/about_br/publ/ondkp/on_2022_2024/
3 Experts predict that Russian GDP growth will slow down to 2.5% by the end of 2022 // TASS. URL: https://tass.ru/ekonomika/13311805
4 Global prices for energy and food and the rate of inflation in Russia // ACRA. URL: https://www.acra-ratings.ru/research/2666/
5 The Forecast of the Social and Economic Development of the Russian Federation in 2022 and the 2023—2024 Planned Period. Table 1. "The main indicators of the social and economic development of the Russian Federation." The Ministry of Economic Development of the Russian Federation. URL: https://www.economy.gov.ru/material/directions/makroec/prognozy_socialno_ekonomicheskogo_razvitiya/prognoz_socialno_ekonomicheskogo_razvitiya_rf_na_2022_god_i_na_planovyy_period_2023_i_2024_godov.html

growth in GDP in case of the baseline scenario and a 2.5% growth in GDP in case of the conservative scenario in 2022 amid a pickup in production of oil within the frameworks of the OPEC+ deal (4.6%), tightening of the monetary policy, as well as the expansion of domestic demand. According to the forecast, retail trade turnover was to grow by 2.3%—2.8% in 2022. At the same time, the forecasted increase in households' real disposable incomes was to amount to 1.9%–2.4%. Further, real wages were to grow by 2.0%–2.4%. This forecast did not present the assessment of poverty for the next year, but previous long-term forecasts predicted a fall in the poverty rate to 9.4% (based on the estimate relative to the minimum subsistence level).[1]

In Spring 2022, upside dynamics and expert evaluations started to move in a negative direction on the back of the beginning of the special military operation and, as a consequence, the war of sanctions and the pressure on the part of Western countries. The RF Central Bank, the RF Ministry of Economic Development and experts-economists started to adjust their forecasts with these developments taken into account. So, the RF Central Bank revised several times within a year its forecast of the decline in GDP: 8.0%–10.0% in May[2], 6.0%–4.0% in July[3] and 3.5%–3.0% in October.[4] In Spring 2022, the Center for Macroeconomic Analysis and Short-Term Forecasting (CMASTF) released an analytical report, including the Russian economic forecast with the "sanctions shock" taken into account. According to the forecast, GDP was expected to decrease by 6.3%—6.6% by the end of the year. Also, real wages and households' real disposable income were predicted to fall by 4.0%–4.2% and 7.0%–7.2%, respectively, and, as a consequence, the rate of unemployment was to pick up (the forecast value of 7.0%–7.3%)[5]. Forecasts of other expert groups were mostly pessimistic, too. So, in March 2022 the JP Morgan presented its findings with a 7% fall in GDP by the end of 2022.[6] In 2022, the International Monetary Fund revised more than once its outlook for the Russian economy (a fall up to -8.5%). The Ministry of Finance presented its assessment of a fall in real disposable incomes (6.8% year-on-year).

However, as seen from the comparison of the forecast values with the actual ones in 2022, experts' negative expectations did not materialize in full. Indeed, various fluctuations of incomes and the consumption pattern, which are difficult to predict, actually took place, but owing to the measures of state support of the population the fall in incomes was less dramatic than experts forecasted.

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1 The Russian economy: under the effect of the credit cycle // The RF Ministry of Economic Development. URL: https://www.economy.gov.ru/material/news/rossiyskaya_ekonomika_pod_vliyaniem_kreditnogo_cikla.html
2 The Report on the Monetary Policy // The RF Central Bank. May 2022. URL: https://www.cbr.ru/collection/collection/file/40972/2022_02_ddcp.pdf
3 The Report on the Monetary Policy // The RF Central Bank. July 2022 г. URL: https://www.cbr.ru/Collection/Collection/File/42214/2022_03_ddcp.pdf.
4 The Report on the Monetary Policy // The RF Central Bank. October 2022. URL: https://www.cbr.ru/Collection/Collection/File/43452/2022_04_ddcp.pdf
5 On some parameters of the short-term forecast: adaptability to sanctions // CMASTF. URL: http://www.forecast.ru/_Archive/analitics/DB/foreparam2022.pdf.
6 The Russia-Ukraine Crisis: What Does It Mean For Markets? URL: https://www.jpmorgan.com/insights/research/russia-ukraine-crisis-market-impact#:~:text=J.P.%20Morgan%20Research%20forecasts%20that,contraction%20of%20at%20least%207%25.

4.2.2. The main developments in the sphere of social protection

According to the new methods of calculating the minimum subsistence level (MSL), which have been applied since 2021, it was equal to 44.2% of the median salary. However, owing to a high rate of inflation in 2022, the calculations based on these methods were suspended, including in 2023 and 2024, and the unscheduled MSL indexation based on the forecasted poverty line was carried out. So, in 2022 MSL increased twice: from January 1 it was equal to Rb12,654 (for the whole population) and from June 1 it increased to Rb13,919.[1] By contrast with 2021, the overall increase in the minimum subsistence level amounted to 19.4%. From January 1, 2023, the MSL base amount rose by 3.3% to be equal to Rb14,375. It is noteworthy that growth in the minimum subsistence level has an effect both on the coverage of the population with social support measures and the size of numerous monthly social payments. Further, the measurement of the size of the poor population on the basis of the poverty line, which is calculated with the headline inflation taken into account and not on the basis of changes in the cost of the consumer basket, may produce the effect of moderation of the poverty level because the cost of the consumer basket grows faster than the rate of inflation as whole.

The minimum wage growth in 2023 and 2024 is set 3 p.p. above the growth in the minimum subsistence level of an able-bodied person. In 2022, the minimum wage increased twice: by 8.6% from January 1 (to Rb13,890)[2] and by 10% from June 1 (to Rb15,279)[3]. From January 1, 2023, the minimum wage increased again by 6.3% (to Rb16,242)[4]. So, as of January 1, 2023, the minimum wage exceeds the basic subsistence level and the subsistence level of an able-bodied person by 13% and 3.7%, respectively.

The benefits, which indexation is envisaged by the law, have been indexed by 11.9% since February 1, 2023. The high percentage of indexation is related with the high rate of inflation in 2022. From 2023, wages in the public sector will grow at the same rate as average wages of those engaged in economic activities. In 2022, indexation was equal to 6.5%. In 2023, indexation was already planned from January 1, 2023, and not from October 1, 2023, however, implementation of the plans is currently delayed.

From May 1, 2022, full families with average per capita incomes below one minimum subsistence level received an opportunity to apply for benefits for children aged 8-17 years (before that these benefits were granted only to single parents). In 2023, it is planned to continue the transformation of the system of social support of families with children. From January 1, 2023, a single benefit for

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1   The value of the minimum subsistence level as a whole in the Russian Federation // Rosstat. URL: https://rosstat.gov.ru/storage/mediabank/vpm-643_.doc

2   Federal Law No.406-FZ of December 06, 2021 "On Amendment of Article 1 of the Federal Law "On the Minimum Size of the Labor Remuneration." URL: http://publication.pravo.gov.ru/Document/View/0001202112060038

3   RF Government Decree No. 973 of May 28, 2022. URL: http://publication.pravo.gov.ru/Document/View/0001202205300031?index=2&rangeSize=1

4   Draft Law No. 201618-8 "On Amendment of Article 1 of the Federal law "On the Minimum Labor Remuneration" and Suspension of its Individual Provisions." URL: https://sozd.duma.gov.ru/bill/201618-8

families with children aged 0—17 years and pregnant women was introduced, but for a number of categories the conditions for receiving this support have been changed. A larger volume of support will be directed to the poorest pregnant women (the size of payments may amount to 75% and 100% of MSL, rather than 50%), and families with children below the age of 3 years will be able to receive two payments: one payment from the budget in case of income below 1 MSL and the other from the maternity capital in case of average per capita incomes being less than 2 MSL. At the same time, for some categories the criteria for the entitlement to the state social support have been tightened. For example, mothers with children below the age of 1,5 years who did not work before their pregnancy used to receive Rb7,677.81 per month regardless of any need criteria. Families with children aged 0—3 years with the first baby used to have the right to receive a payment equal to 100% of MSL of a child, if average per capita incomes were less than 2 MSLs. After the unification for them and other families with children was carried out, the income threshold amounts to 1 MSL, while in compliance with the new rules the payment from the budget may be equal to 50%—75%—100% of MSL depending on the family's income. Overall, these changes are mostly of administrative nature, making it feasible to harmonize the conditions of granting support to families with children aged 0—17 years regardless of the birth order with need criteria, property restrictions and the zero-income rule taken into account. In the current environment, the support of low-income families with children by means of target social payments plays an important role in curbing growth in poverty.

However, apart from implementation of the above administrative changes there are no grounds so far to speak about the introduction of the Social Treasury project and expansion of target social support of the population. On the contrary, the year 2022 saw the introduction of a number of social support measures for the mobilized persons and participants in the special military operation (SMO) both at the federal and regional levels without a family's incomes taken into account. In particular, in assigning a single child allowance for families with children aged 0—17 years, incomes of mobilized persons' and SNO participants' family members are not taken into account. However, according to the data of ISAP RANEPA in February 2023 only 2% of the respondents declared that they or their family-members received payments, wages or allowances in connection with the special military operation.

In 2018, a national goal was set to reduce the level of poverty by half compared to 2017 (12.9%) by 2024. Amid the coronavirus pandemic, the period was shifted to 2030. At present, it is difficult to forecast whether the target value can be achieved by that time, however, in 2022 the indicator coincided with the planned one.

In the RF President's Address to the Federal Assembly on February 21, 2023, a few lines were identified in the development of the system of social support of the population and protection of citizens' incomes, including: the establishment of the special government fund for support of families of SMO participants; the launch of a special preferential rental housing program for workers of defense

industry enterprises; the introduction of the system of insurance of voluntary pension savings (up to Rb2.8mn) and protection of citizens' investments in other long-term investment instruments; provision of maternity capital to families with children born from the year 2007 in the Donetsk and Lugansk People's Republics and the Zaporozhye and Kherson regions; a further increase of 10% in the minimum wage (overall, from January 1, 2024 the minimum wage will increase by 18.5%); an increase in the limit for social tax deductions for educational expenses of children from Rb50,000 to Rb100,000 and for expenses on one's own education, medical treatment and purchasing of medicines from Rb120,000 to Rb150,000, as well as the introduction of a proactive regime of granting tax deductions.

4.2.3. The level and dynamics of households' incomes

By Rosstat's preliminary estimates, in 2022 real disposable cash incomes decrease by 1.0% relative to 2021. At the same time, by contrast with the previous year, in Q4 2022 this indicator increased by 0.9%. In Q4 2022, real wages grew by 0.5% on the relevant period of the previous year. The real size of the assigned pensions picked up by 4.2% in Q4 2022 year-on-year (*Fig. 7*). In 2022, real pensions fell by 0.9% without a lump-sum payment taken into account in 2021 and 5.8% with a lump-sum payment counted in.

In Q4 2022, the volume of cash incomes increased slightly by 0.37% as compared with the relevant period of 2021. During that period, incomes from entrepreneurial activities picked up by 14.2%. The volume of social payments (+0.88%) and other cash receipts (+5.39%) increased slightly. However, a downward trend was
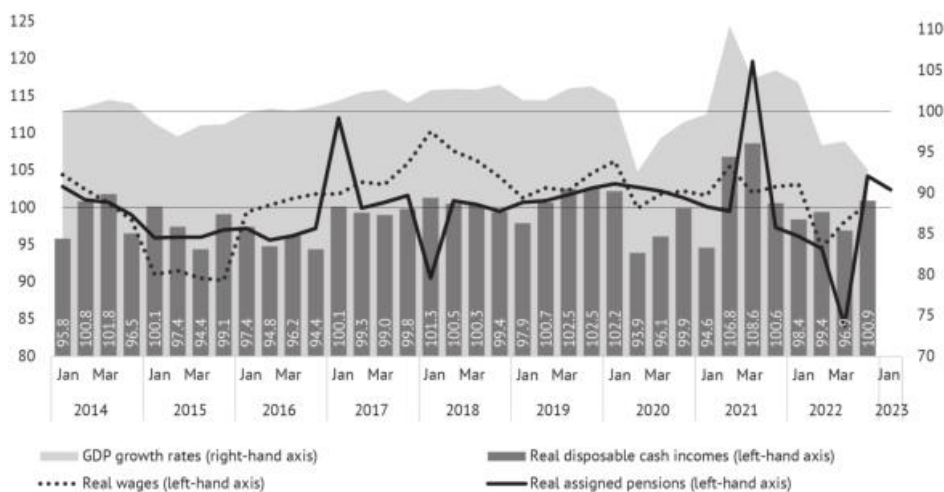

Fig. 7. Dynamics of households' real disposable cash incomes, real accrued wages, real size of assigned pensions and GDP growth rates in 2014–2023, % relative to the corresponding period of the previous year
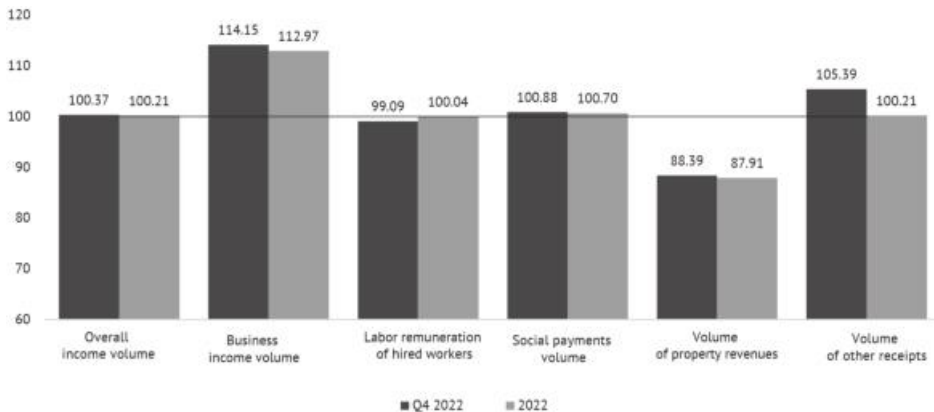
Source: Rosstat.

Fig. 8. The dynamics of households' overall cash income volume and its components in real terms in Q4 2022 on Q4 2021, as well as in 2022 on 2021, %

Source: Own calculations based on Rosstat's data.

observed on the part of the labor market: labor remuneration decreased by 0.91%. Incomes from property saw the most negative dynamics; they fell by 11.61% year-on-year in Q4 2022 (*Fig. 8*). In 2022, overall dynamics of incomes are similar. The volume of incomes in 2022 increased by 0.21% relative to 2021. The main growth driver was business income, which grew by 12.97% in 2022. A slight increase was observed in the volume of labor remuneration (+0.04%), social payments (+0.7%) and other cash receipts (+0,21%). A substantial downward trend was evident in revenues from property: they fell by 12%.

In Q4 2022, in the household cash expenditures pattern the share of expenditures on purchasing goods and services declined by 5 p.p., including those on purchasing goods (4.2 p.p.) and services (0.8 p.p.) on the domestic market. The dynamics of expenditures on purchasing goods and services abroad remained at the same level. Expenditures on mandatory payments and contributions decreased slightly by 0.4 p.p. At the same time, as seen from Rosstat's data the Russian population started to save more in Q4 2022 relative to Q4 2021: growth in deposit account balances was equal to +12.8% (compared with +10.6% in Q4 2021) and the volume of cash on hand increased by 3.8% (*Fig. 9*).

It is noteworthy that Q1 2022, the start of the SMO, accounted for the largest increase in demand for cash (+4.7%) and the largest fall in the volume of deposit account balances (-11.2%). In Q2 2022, the situation stabilized: savings in deposits started to grow (+9.5%) and cash volumes declined (–2.7%). In Q3 2022, the situation aggravated: savings and cash continued to grow (+7.0% and +1.5%, respectively).

According to the annual statistics, households' expenditures declined virtually across all the sources (*Fig. 10*). In particular, the volumes of payments for goods and services on the domestic and foreign markets declined. In the pattern of
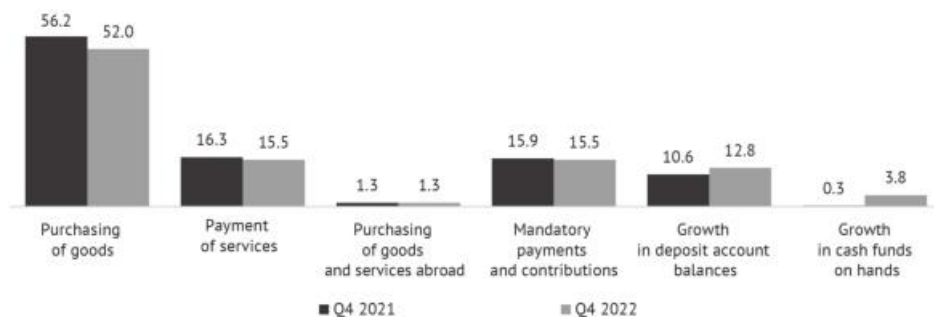
Fig. 9. The pattern of utilization of household cash incomes
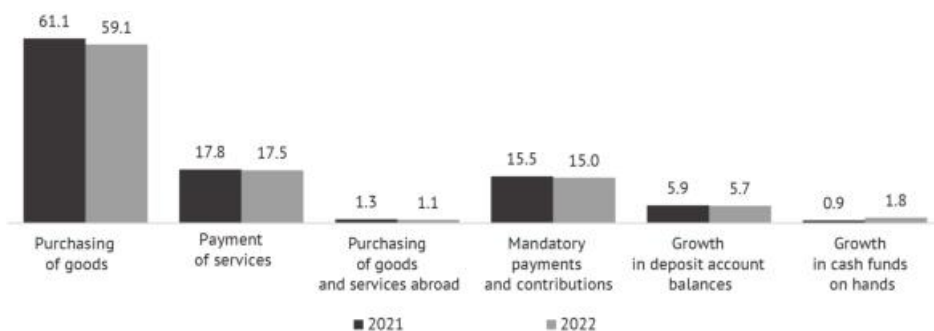in Q4 2021 and 2022, %

Source: Rosstat.

Fig. 10. The pattern of household cash income utilization in 2021–2022, %

Source: Rosstat.

household cash income utilization, the share of expenditures on goods and services of the Russian market declined by 2 p.p. and 0.3 p.p., respectively. On foreign markets, relevant indices decreased by 0.2 p.p. The share of expenditures on mandatory payments fell by 0.5 p.p. At the same time, deposit account balances decreased from 5.9% in 2021 to 5.7% in 2022). Also, the volumes of households' cash funds on hand increased from 0.9% in 2021 to 1.8% in 2022). Similar dynamics points indirectly to a decline in households' confidence in the banking sector and uncertainty in the financial sector's stability.

In Q2 2022, the average incomes of the tenth decile group of the population fell by 2.1% in real terms as compared with Q2 2021, while those of the poorest first decile group and the second decile group, by the mere 0.1% and 0.4%, respectively. In Q3, the average incomes of the tenth decile group declined by 2.4% in real terms relative to Q3 2021, while no decrease was registered in the first two poorest decile groups; by contrast, the first decile group saw growth of 0.7%. The minimal decrease in incomes of the poorest decile groups can be explained by

a high share of pensions and allowances in the pattern of these groups' incomes which were indexed by the government. However, the replacement of incomes from labor and entrepreneurial activities, which trend has been observed in the past few years, with payments from the state cannot be called a positive trend on which basis one can judge about the sustainability of the poorest population's economic situation.[1]

In 2022, the level of income inequality decreased slightly as compared with the previous year (the Gini index was equal to 0.402 and 0.409 in 2022 and 2021, respectively). In 2022, the ratio between the average income of 10% of the wealthiest population and 10% of the poorest population decreased and amounted to 14.4 (in 2021 R/P 10% ratio was equal to 15.2%). The incomes of the poorest population group increased by 0.2 p.p. (relative to 2021), as well as those of the second and third income groups (+0.2 p.p. in each group) (*Fig. 11*).

Actually, this trend is the evidence of redistribution of households' incomes in favor of less well-off groups. The government's social support of the most vulnerable groups has created costs, a so-called "penalty" which the higher-income population had to pay.

In Q4 2022, the share of the population with incomes below the poverty line became 0.6 p.p. lower than in Q4 2021 (*Fig. 12*). From Q1 2022, poverty growth (0.1 p.p. relative to Q1 2021) was compensated in subsequent Q2, Q3 and Q4 2022 owing to the government's social support measures and the year-on-year dynamics saw a positive trend as compared with 2021. The number of the population with incomes below the poverty line declined by 0.7 mn people in 2022 (year-on-year) and amounted to 15.3 mn people (without the statistical data on the Donetsk and Lugansk Peoples' Republics and the Zaporozhye and Kherson regions taken into account).
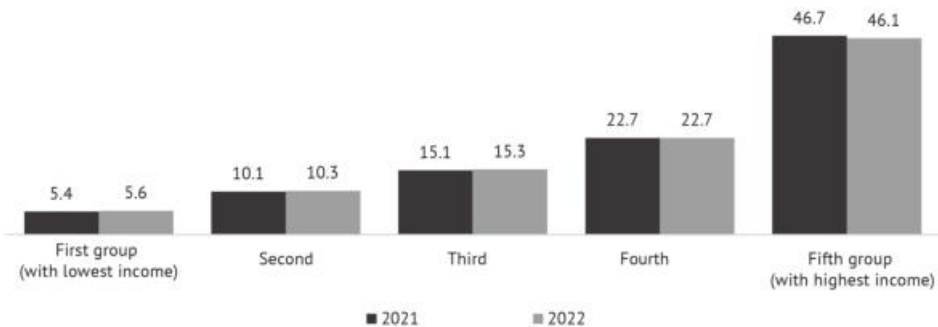

Fig. 11. Distribution of the overall volume of households' cash
income across income groups, %

Source: Rosstat.

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1   Households' incomes, expenditures and consumption in 2022 (based on the sampling survey of households' budgets) // Rosstat. URL: https://gks.ru/bgd/regl/b22_102/Main.htm
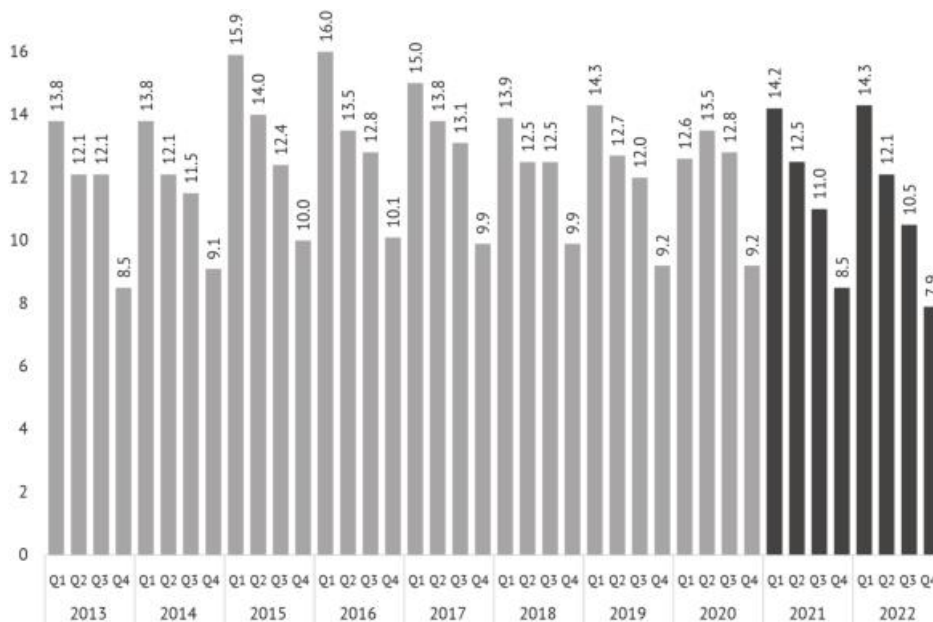
Fig. 12. The dynamics of the share of the population with cash incomes below the poverty line (before 2020: the minimum subsistence level), % of the overall number of the population

Source: Rosstat.