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**TRENDS AND OUTLOOKS**

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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.

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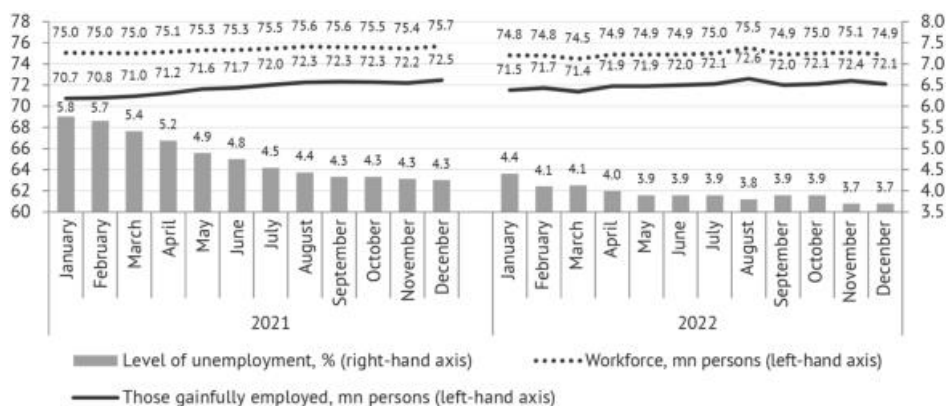
## Labor market dynamics in Russia in 2022<sup>1</sup>

In 2022, the labor market saw an ambiguous situation. On one side, in 2022 it completely recovered after the coronacrisis: the level of unemployment fell below the pre-crisis values and wages kept growing in real terms. On the other side, as far back as the beginning of 2022, the Russian economy encountered various, mostly negative, implications related with the special military operation, including foreign economic sanctions and the exit from the Russian market of a number of foreign companies, while from September it was the partial mobilization and increased outflow of a portion of the workforce abroad. At the same time, the Russian economy demonstrated a high degree of resilience and economic recession turned out to be substantially lower than predicted at the beginning of the year. In the new economic environment, employers have been actively using the main mechanisms of adjustment to economic crises since last spring; these mechanisms have been developed during the past 30 years and helped overcome effectively the most acute phase of adaptation.

Throughout 2022, the main labor market indices demonstrated sustainable positive dynamics. In 2022, the number of workforce and gainfully employed persons remained virtually unchanged<sup>2</sup>, the level of unemployment calculated in accordance with ILO methods was falling and at year-end amounted to the record-low of 3.7% (*Fig. 1*). Further, as in 2021 the level of unemployment did not see seasonal growth which is typical of autumn and winter. The average length

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2 A small spike in the number of the workforce and those gainfully employed in August registered by the survey of the workforce could have been caused by a pickup in the number of those employed under verbal agreements and temporary labor contracts. At the same time the data on mid-sized and large entities do not show growth in the number of filled job vacancies. We can assume that the August growth was related with a short-term hiring of workers for assistance to households in production of goods (primarily agricultural products) for their own consumption and seasonal fluctuations as a whole.



*Fig. 1.* Dynamics of the number of the workforce, those gainfully employed and the level of unemployment in 2021–2022

Source: Data of ORS; Rosstat.

of job search decreased from 6.8 months in 2021 to 6.2 months in 2022 and the share of those looking for a job for over 12 months among the unemployed fell from 22% to 18%. At year-end 2022, the number of the unemployed registered with employment services amounted to 568,000 or 0.8% of the entire workforce.

However, this unemployment dynamics entails a serious long-term challenge. It shows unambiguously that the Russian labor market faced labor shortages late in 2022, which phenomenon is quite unique for the struggling economy. Normally, in such an environment employers seek to get rid of workers and this leads to the opposite situation: labor surplus and unemployment growth. Actually, in 2022 demand for labor was falling, which fact is illustrated by the dynamics of job vacancies and labor turnover.

According to the data of hh.ru, in 2022 the number of vacancies throughout the year was much lower than a year before. The biggest fall was registered in May (23%); at year-end 2022 it was equal to 9% (*Fig. 2*). According to the data of the state employment services, demand for workers decreased among employers (18% lower on average per year than in 2021).

In 2021–2022, labor turnover accelerated at mid-sized and large enterprises: both the numbers of those laid off and those hired were much higher than in the previous ten years (*Fig. 3*). In 2021, it can be explained by recovery processes after the crisis year 2020. The pandemic caused a decrease in labor turnover on the Russian labor market because workers did not seek to leave their jobs and employers took advantage of loan programs created specifically to stimulate them to retain their workers. In 2021, most programs ceased to work. In 2022, the rate of labor turnover accelerated further (one in three workers changed a job!), thus illustrating active changes on the labor market. It seems, such dynamics could have been caused at least by the restructuring of a large portion of Russian enterprises and renegotiation of labor contracts on new terms.

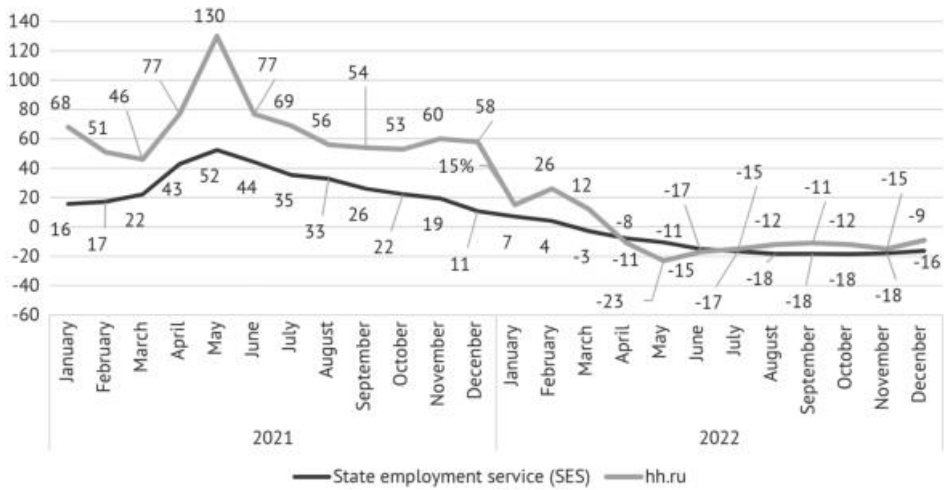


Fig. 2. Dynamics of the number of vacancies relative to the same period of the previous year, %

Source: Data of hh.ru, Rosstat.

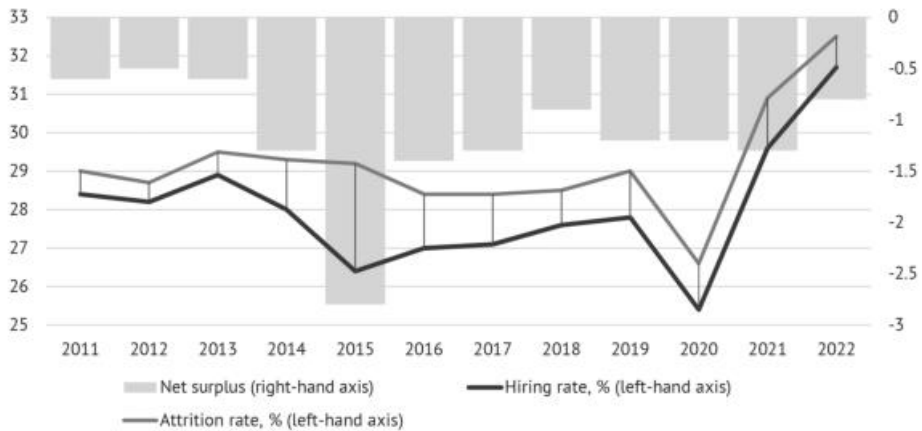


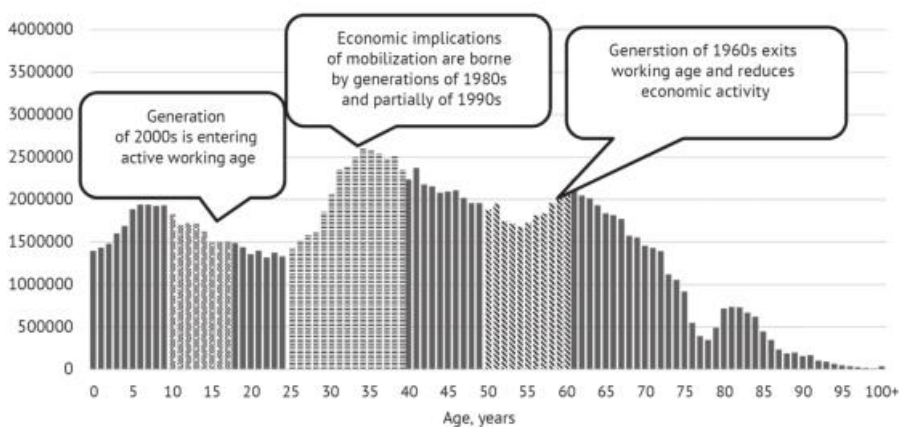
Fig. 3. Hiring, attrition and net surplus of personnel at large and mid-sized enterprises in 2011–2022, % of all workers

Source: Data of ORS; Rosstat.

At the same time, a decrease in demand for labor coincided with a constriction of labor supply, that is, a decline in the number of workforce. A low level of unemployment suggests that labor resources were decreasing at a substantially higher rate than demand for labor. A legitimate question arises: what is the cause of such a fall and why was not it reflected directly in the Russian statistics?

First, it is related with long-term demographic trends and the specifics of the Russian age pyramid (*Fig. 4*). At present, more numerous generations born in 1950s and 1960s are leaving the labor market, while smaller generations born in the 2000s come to it. Demographic trends lead to a pickup in the share of older population, thus reducing the potential of an innovation component for the Russian economy. According to the data of the workforce survey, in 2022 a decrease in the number of workforce was equal to about 0.4 mn people, which situation can be attributed completely to the effect of this factor. However, such a factor existed before, as well, but never brought about dramatic labor shortages of such an extent as happened at the end of last year.

Second, an important factor was the partial mobilization and withdrawal of a portion of workers from the labor market. The extent of a decline in the number of the workforce engaged directly in manufacturing of goods and provision of services in 2022 can be assessed only approximately. According to the official data, 318,000 persons were mobilized for the special military operation. It is infeasible to name the exact number of those who left the country, but we can assume that it may vary from 300,000 to 600,000 persons. As a result, in 2022 the overall number of workforce declined owing to these two factors by 0.6 mn to 0.9 mn persons, a decrease of 1.0%–1.5%. It should be taken into consideration that an important aspect is not only the number of labor resources withdrawn from manufacturing of goods and provision of services in the Russian economy, but also a declining quality of the human capital. A substantial portion of this group of the population is made up of men born in the 1980s and 1990s. These generations make up the bulk of Russian labor resources and have a higher level of efficiency. The decision to emigrate was taken primarily by skilled and well-educated workers who had an opportunity and savings to live abroad.



*Fig. 4.* The number of the population in terms of age in 2022, persons

Source: Data of ORS; Rosstat.

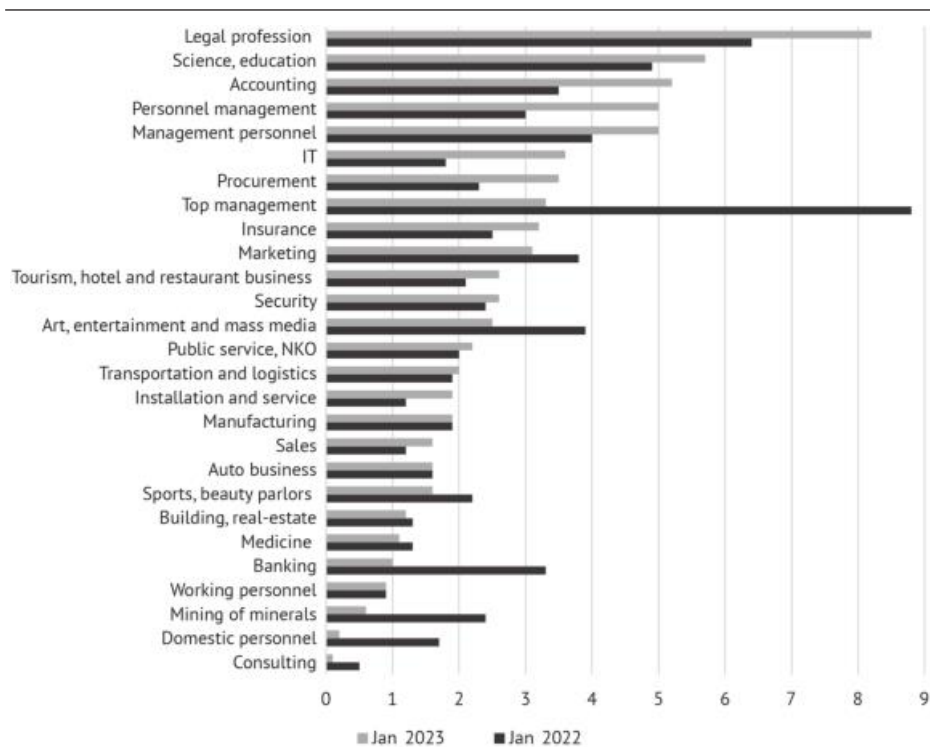
Unfortunately, Rosstat's statistics does not virtually register changes related with the partial mobilization and emigration of a portion of the working population which started as far back as March 2022 and intensified late in September. According to the official statistical methodology, mobilized workers are actually still included in the number of those employed. For similar methodological reasons, Rosstat's statistics did not register a decline in the number of the workforce owing to multiple emigration.

The "effect of mobilization" on the labor market can be traced through regional dynamics of the levels of unemployment. By contrast with a similar period of 2021, Q4 2022 saw the largest fall in unemployment in the Republic of Adygeia (4.2 p.p.), the Republic of Buryatia (2.7 p.p.) and the Republic of Tyva (2.5 p.p.). We can assume that employers in these regions had to replace mobilized workers with the unemployed more than others. No decline in the rate of unemployment was registered in the capital regions of St. Petersburg and Moscow; on the contrary unemployment even picked up there.

Third, a temporary labor migration to Russia from the near abroad has largely decreased, but it is not reflected in the workforce indicator, either.

At the same time, a shortage of labor varied largely in terms of professions and sectors. Based on the hh.index dynamics between January 2023 and January 2022, one can see which sectors and professions showed trends towards labor shortages and which ones saw growth in the number of resumes relative to the number of job vacancies. The largest labor shortages were seen in consulting, extractive industries, the banking sector and top management. Quite the opposite trend prevailed in the IT sector, personnel management and accounting. For example, the IT sector saw a 23% decline in the number of job vacancies during the year, while the number of resumes increased by 9%, which means sooner a surplus of job seekers as compared with the situation in February 2022. Demand for workers in the manufacturing industry remained stable during the entire year. It is noteworthy that the sample of job vacancies on hh.ru is partly shifted, however, at present this problem is not as acute as five years ago. For example, an average pay offered at the website (Rb 58,179 as of the end of January 2023) is close to an average accrued wage in the economy (*Fig. 5*).

Apparently, in 2022 the most important mechanism of adjustment on the Russian labor market was the introduction of part-time work schedules. Though in most sectors, the share of those working part-time or being in idle time remained unchanged during the year or even decreased, in sectors which were hit the most by sanctions the share of such workers increased substantially. It concerns primarily the automaking industry which as far back as April faced the forced shutdown and, subsequently, the statistics registered a pickup in the share of workers being in idle time from 13.5% in Q3 2021 to 29.3% in Q2 2022 and a slight decline to 23.9% by the end of the year. Similar processes were evident in woodworking (growth from 1.2% to 9.6%) and to a lesser extent in most sectors of the manufacturing industry. In the services sector, trade saw growth in the number of workers being in idle time (from 0.1% to 0.8% in Q2—Q3 and 0.5% in Q4), while in other subsectors the number of such workers even decreased.



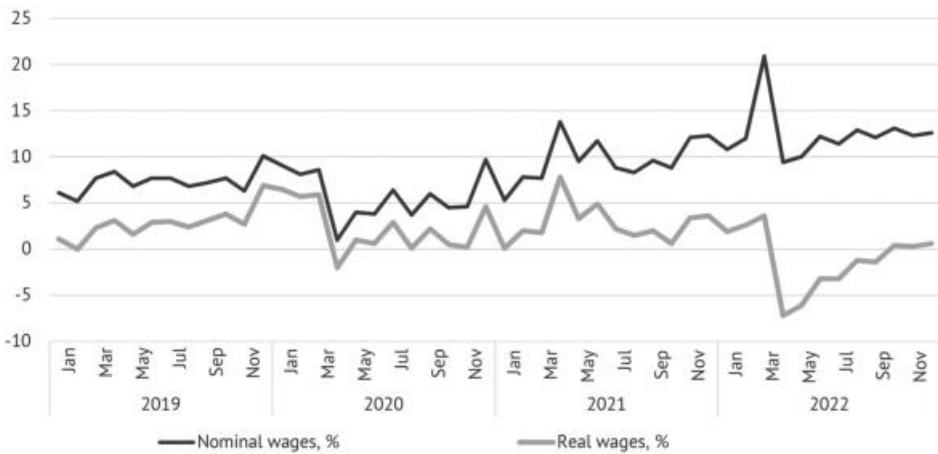
*Fig. 5. The hh. Index dynamics in terms of professions*

*Source:* The data of hh.ru.

In its turn, a shortage of workers sped up growth in wages in most sectors. On the back of rapid inflation in March-May, real wages fell by 6.1%-7.2% on the relevant period of 2021, however, they returned to the pre-crisis level by the end of last year (*Fig. 6*). On average, in 2022 the average monthly pay of workers amounted to Rb64,191, a decrease of 1.0% in real terms relative to 2021. In 2022, the highest increase in wages in absolute terms was registered in coal mining (23.4%), railway transportation: intercity and international passenger services (22.7%) and printing and copying of information from media (21.6%). The year 2022 saw the lowest growth in wages in absolute terms and a decrease in real terms in such sectors as provision of other types of services, activities in the sphere of culture and sports, leisure and entertainment, public administration, healthcare, automobile manufacturing and woodworking. Overall, in 2022 wages grew faster in most sectors of the industry and agriculture than in the services sector.

Telephone surveys of households carried out by ISAP RANEPa in 2022 showed that the assessment of labor market processes by workers correlated well with the statistics data. On one side, respondents point to stabilization on the labor market since last summer: if in March-April up to 16% of workers pointed to high





*Fig. 6.* An increase in real and nominal wages on the relevant indicator of the previous year

*Source:* The data of ORS; Rosstat.

or very high risks of losing a job next month, starting from June this share of the respondents fell to 9%—10%. At the same time, the share of those who believe that they can find a new job on the same terms and with the same pay fell from 69% to 55%—59%. On the other side, a large portion of the respondents refer to high economic costs related with the partial mobilization: 38% of the respondents from enterprises where a portion of workers were mobilized noted that efficiency declined. If only managers are taken into account, this share increases to 40%. One of the main factors, which respondents referred to, was a decrease in the number of workers at enterprises and the need to hire or transfer unskilled workers. Another common factor reducing labor efficiency was higher anxiety and conflicts in work teams. Finally, some respondents said that the number of their customers and orders for their products and services had decreased.

In short, though the situation on the Russian labor market looked quite favorable on the outside in 2022 if compared with 2014—2015 or 2020, the situation from the inside was not so rosy. Indeed, the rate of unemployment renewed on a monthly basis its record low and a decline in real wages was rather limited as compared with GDP dynamics. At the same time, a complicated business environment affected largely employers of a number of sectors, primarily, car manufacturing and woodworking. In 2022, a large number of workers in these sectors were in idle time or received only a portion of their wages. The emigration of a large number of people and the mobilization of able-bodied manpower made it feasible to preserve a low level of unemployment. However, along with a decrease in the number of the unemployed in 2022, the number of job vacancies declined, as well. By the end of the year, substantial labor shortages were seen in some professions. It depends on the situation in the Russian economy in 2023

whether these shortages prevail or this trend is short-lived. Labor shortages will be an important factor preventing a prompt adaptability of the economy to a new economic environment. However, in case of growing crisis phenomena in some sectors owing to sanctions (mining of minerals, the banking sector, manufacturing industries), a low volume of labor resources is expected to mitigate the extent of the crisis for the population.

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