World Bank report points to deepening social crisis in Russia

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In early November, the World Bank published its latest report on the Russian economy, summarizing the country's recent economic development and giving an outlook for 2010-11. The figures given in this report, as well as those in other recently published studies, indicate that for the overwhelming majority of the population there was no "recovery" in 2010. On the contrary, crucial industrial regions in Russia are still in deep recession, while soaring food prices have forced millions into poverty.

According to the report, 5 million people or 6.6 percent of the population currently count as unemployed. This figure suggests a decline of the unemployment rate relative to 2009, when it stood at 8.2 percent. However, it does not include many of the long-term unemployed who have dropped out of the labor force.

The World Bank report suggests that most regions of the country have not experienced any improvement in the labor market situation; 62 percent still have higher unemployment rates than in 2008. Hardest hit by the crisis were the larger and richer areas of Russia, those most closely tight to the international market, such as Moscow, Chelyabinsk, Mordovia, Iaroslavl, Orel and Tver. Several of them are still in deep recession, with unemployment rates twice as high as before the crisis.

The "recovery" frequently referred to in the press and by government officials has generally been restricted to regions with comparatively more smaller and medium-size enterprises, such as Kamchatka, Karachaevo and Tomsk. Furthermore, the UN report indicates that the overall decline in unemployment in Russia is only temporary. With the winter season ahead, the authors predict an increase in overall joblessness in the coming months, which is expected to remain high in 2011.

Inflation, particularly with regards to foodstuffs, is eroding ordinary people's living standards. While the official inflation rate is expected to peak at 8 to 9 percent at the end of this year, as *Nezavisimaia Gazeta* reported on November 9, prices for basic food items have increased by between 15 and 50 percent over the past several months, and in some cases even more. The liberal newspaper anticipates that prices next year could be 50 percent higher than official predictions.

A severe drought in the summer of this year, which destroyed a large percentage of Russia's crops and forced a ban on grain exports, contributed to the soaring food prices. However, despite promises to monitor the rising cost of these basic necessities, the Kremlin has failed to do anything to check inflation.

The authors of the World Bank report estimate that due to the increasing cost of food, more than 1.4 million people may have fallen beneath the poverty line, on top of the 13.6 percent of the Russian population already officially counted as destitute. Pensioners and others living on fixed incomes were the most severely affected, experiencing a 2.6 percent increase in poverty, the report found.

The chasm between the super-rich and the poorest layers of the population has further widened since the middle of 2009. Judging by data provided by Rosstat, the state statistical agency, the top 10 percent of the population in Russia now receives about a third of the country's total income. The bottom 10 percent draw less than 2 percent. According to economists interviewed by *Nezavisimaia Gazeta*, however, the real figures are nearly twice high as the official ones. They believe that the income of the top 10 percent is 20 to 22 times higher than that earned by the poorest 10 percent.

The World Bank report also indicates that the overall state of the economy remains fragile, with capital flows being particularly volatile and credit markets, particularly for households, largely frozen. In addition, many medium-size companies that lack close ties to the Kremlin and therefore, are not in a position to benefit from Moscow's nepotism, have moved capital out of the country. At the same time, the external debt of Russian banks and corporation declined only marginally in 2010.

The economic outlook for 2011 is anything but rosy. While the World Bank is predicting a 4.2 percent growth of the Russian economy (downgraded from 4.5 percent earlier this year), this optimistic outlook, generally shared by the Russian government, assumes stable oil prices and an improvement in the world economy. However, there is no guarantee that either of these will come true in 2011. Any deterioration in the global economic situation or a decline in oil prices could shake the country's fragile economy to its very foundations. Economist Igor Nikolaiev, director of strategic analysis for the corporation FBK, told *Nezavisimaia Gazeta* that he expects Russia to stagnate in 2011.

The Kremlin has been trying to play down the real proportions of the crisis and its social consequences. It is concerned about growing discontent in the population only one and a half year before the next presidential election. In recent months, the government has expanded the powers of the state security services and pushed through reforms of the police force in an effort to make the state better prepared to handle popular opposition.