

THE CRISIS AT THE DOOR: SOCIAL DECLINE IN RUSSIA AFTER 24 FEBRUARY 2022

Series "The Russian Crisis". Paper #3

Ilya Matveev
February 2023



Living standards and social protection in Russia have been negatively and profoundly affected by economic sanctions, the army draft and the war itself. While the economic collapse has been avoided, the stage is set for a renewed social crisis.



The report identifies several areas in which the negative impact has been particularly significant: poverty and living standards, the situation in industrial areas, healthcare, the non-profit organisations and demography.



The current crisis leaves little opportunity to decrease poverty and increase real incomes in the medium and long term. The emigration of skilled professionals in healthcare and social work will be felt acutely by vulnerable groups.

CONTENT

The crisis at the door: Social decline in Russia after 24 February 2022

Ilya Matveev	3
Introduction	3
Poverty and declining living standards	4
The impact on industrial areas	5
Healthcare: Supply and personnel problems	5
The third sector: On the brink of survival	7
Demographic decline	7
Conclusion	8
About the Author	9

THE CRISIS AT THE DOOR: SOCIAL DECLINE IN RUSSIA AFTER 24 FEBRUARY 2022

Ilya Matveev

INTRODUCTION

Judging by the macroeconomic indicators alone, Russia's invasion of Ukraine and the unprecedented economic sanctions in response to it dealt a significant but not devastating blow to the Russian economy. Most organizations improved their GDP forecasts for Russia in the course of this year. For example, in April 2022, the World Bank predicted that the Russian GDP would decrease by 11,2% by the end of the year; in October 2022, it released a new report, predicting a 4,5% decline. The Russian ministry of economic development has recently issued an even more optimistic forecast: a decrease of just 2,9% in 2022. These numbers indicate that, despite the barrage of trade, financial and other restrictions, as well as thousands of foreign companies leaving Russia, the current crisis is milder than in 2009, when the GDP declined by 7,8%. Problems in particular industries notwithstanding, the negative impact on manufacturing, the extractive sector, construction and services has been moderate overall, although both wholesale and retail trade experienced a sharp drop. A significant decrease in real incomes and a spike in unemployment have also been avoided, at least according to the official statistics.

Not surprisingly, the media commentary on the Russian economy has changed its tone in recent months, with headlines like ‘Why the Russian economy keeps beating expectations’ appearing more often. The sources of Russia's apparent economic resilience have received significant attention. The most recent World Bank report sums up the current consensus: ‘The initial shock was mitigated by the authorities’ strong fiscal response (3 percent of GDP), capital controls, monetary tightening, swift action to stem financial sector risks, as well as high FX inflows driven by the surge in global commodity prices’¹. Indeed, Russian business proved to be rather adaptable and some state institutions, such as the Central Bank, took swift and adequate action. Furthermore, as pre-

vious research demonstrated, Russian companies are wary of fully implementing just-in-time delivery principles and prefer to keep significant stocks of supplies². This practice prevented supply chain chaos during the COVID crisis in 2020 and provided the economy with some breathing space to navigate trade restrictions and supply chain breakages in the spring and summer of 2022.

Nevertheless, Russia's apparent economic stability should be considered with four negative factors in mind. First of all, the base level of economic activity was already quite low. In 2009-2021, the Russian GDP grew by just 1,13% on average while the global growth rate was 2,52%. Bouts of economic growth were interrupted by severe crises in 2009, 2014-2016 and 2020. As a result, Russia's economic trajectory diverged not just from major developing countries such as China and India but also from its more successful post-Soviet neighbors such as Kazakhstan. Secondly, the current drop in the GDP might not be as deep as in 2009 but the chance to reach a stable growth trajectory is even slimmer than it was before 24 February. Sanctions, lack of cooperation with the technologically advanced nations and the brain drain (at this point, better termed the ‘brain flood’) will prevent an increase in productivity needed to avoid long-term stagnation while the negative demographic tendencies will put a brake on economic dynamism. Thirdly, current economic statistics do not factor in the effect of mobilization that began in September 2022. With declining consumer sentiment, hundreds of thousands of workers, some of them critical to their companies’ operation, being taken out of the economic process and a new wave of migration, both internal and external, to avoid the draft, mobilization can produce economic chaos on a scale not seen before. Fourthly and finally, macro statistics hide the situation in specific regions and industries as well as multiple new hardships brought about by the economic crisis and the war itself. Indeed, despite the apparently non-catastrophic economic figures, the situation

¹ World Bank. 2022. ‘Europe and Central Asia Economic Update, Fall 2022: Social Protection for Recovery’. Washington, DC: World Bank. <https://doi.org/10.1596/978-1-4648-1928-5>. P. 149.

² Dolgopjatova, T.G., N.V. Akindinova, Ju.V. Simachev, and A.A. Jakovlev, eds. 2021. *Otvet Rossijskogo Biznesa Na Pandemiju COVID-19 Na Primere Shesti Otrasleyvkh Kejsov*. Moskva: Izdatel'skij dom Vyshej shkoly jekonomiki. P. 420.

in Russia is characterized by a renewed social crisis with five dimensions: poverty and declining living standards, employment and wages in the industrial areas, healthcare, the non-profit sector and demography. In this report, I will examine the situation in each of these five areas and present some concluding remarks.

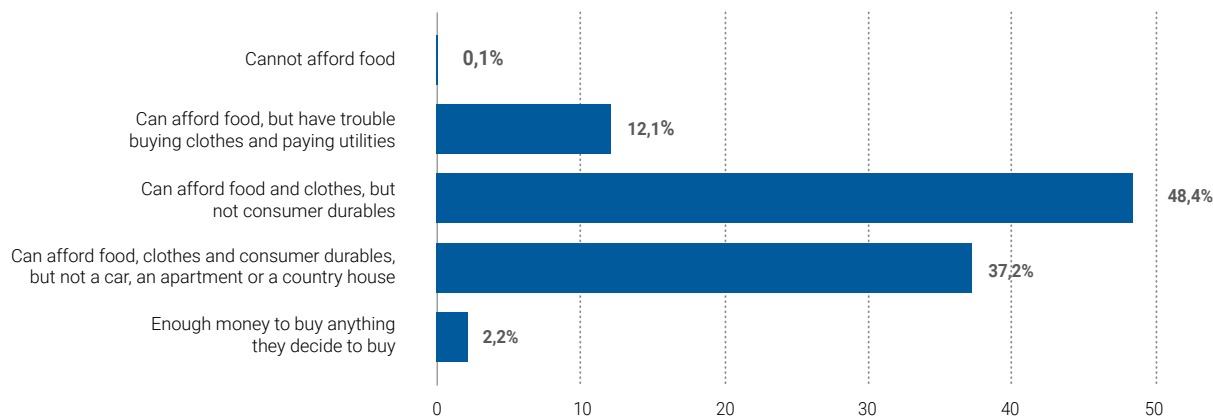
POVERTY AND DECLINING LIVING STANDARDS

Poverty in Russia is massive and entrenched. According to the official statistics, 11% of the population (16,1 million people) lived below the poverty line in 2021. However, this line is rather arbitrarily set at 44,2% of the median monthly income. Globally, the most common measure is 60% of the median monthly income – if used in Russia, it would produce a much higher estimate: 24,6% of the population, or 36 million people, living below the poverty line in 2020, according to an independent study³. However, relative poverty measures do not fully capture the absolute levels of

some two-thirds of the population consistently report that they do not have any savings⁴. With a relatively low unemployment rate (4,8% in 2021), the vast majority of those living below the poverty line are the working poor, many of them holding university degrees. Poverty is particularly widespread in small towns and rural areas, testifying to the geographically uneven development of post-Soviet capitalism. There is little progress made in eradicating poverty in the last 15 years, with the official poverty rate decreasing by just 2,3 percentage points since 2007.

In September 2022, Rosstat, Russia’s statistical agency, reported that real incomes fell only by 1,9 percentage points y/o/y in the second quarter of 2022 and the poverty rate actually decreased by 0,4 percentage points. To some extent, this can be explained by a raft of new spending measures to counter the effects of the crisis: a 10% increase in pensions for non-working pensioners, a 10% increase in the minimum wage and an introduction of new child benefits (as well as an expansion of the existing ones). Still, these num-

Figure 1. Households’ evaluation of their financial well-being, 2021



Source: Rosstat (<https://rosstat.gov.ru/compendium/document/13271>).

deprivation in Russia since the median monthly income is quite low: in 2020, it was 27036 rubles (\$375). In 2021, 12,1% of the population could only afford food, yet had difficulty buying clothes or paying utilities (interestingly, this number, also coming from Rosstat, is 1,1 percentage points higher than the official poverty rate). In addition, 48,4% of the population could afford food and clothes, but not consumer durables. Only 37,2% could afford food, clothes and consumer durables (see Fig. 1). In other words, over 60% of the population experience severe material deprivation. Furthermore,

numbers appear to be problematic given a huge spike in inflation in March-April (17,8% y/o/y in April). While inflation stabilized somewhat in the next few months, Rosstat figures are hard to reconcile with this economic turbulence. In fact, a UNICEF report projects as many as 8,3 million excess poor in Russia as a result of the war, 2,8 million of them children⁵. This number is based on modeling a relationship between

³ Trubnikova, Elena. 2021. ‘Chetvert’ Rossijan Stolknullas’ s Riskom Bednosti’. 2021. <https://finexpertiza.ru/press-service/researches/2021/risk-bednosti/>.

⁴ See, for example, Dergachev, Vladimir, and Julija Starostina. 2019. ‘Bol’shinstvo rossijskih semej okazalis’ voobshhe bez sberezhenij’. RBK. 2019. <https://www.rbc.ru/economics/16/05/2019/5cdabe099a79479536f3c523>.

⁵ Richardson, Dominic, Frank Otchere, and Alberto Musatti. 2022. ‘The Impact of the War in Ukraine and Subsequent Economic Downturn on Child Poverty in Eastern Europe and Central Asia’. UNICEF Regional Brief.

GDP growth and poverty reduction in 2000-2021 and using GDP projections to forecast an effect on poverty in 2022. While the forecast is based on an earlier IMF projection of Russia's GDP decrease that was subsequently improved, still, the number of people thrown into poverty as a result of the current economic crisis is likely to be in the millions. With long-term economic stagnation as an almost inevitable outcome of Russia's pariah status in the world, entrenched poverty is unlikely to decrease significantly in the coming years, if not decades. Furthermore, a record non-energy deficit (that is, federal budget deficit excluding revenues from energy exports) was already on the cards in the summer months. Russia's fiscal situation hangs on continued energy exports at relatively high prices. Declining export revenues (an almost guaranteed outcome at this point) will hamper the government's ability to adjust pensions and benefits, resulting in further decline in real incomes.

THE IMPACT ON INDUSTRIAL AREAS

Russian capitalism is characterized by uneven geographic development that overlaps with the Soviet legacies of industrial urban geography. Only 31% of the Russian population lives in metropolitan areas of one million or more – compared to over 66% in the US⁶. By contrast, a significant share of the population lives in mid-sized industrial (and often deindustrializing) cities of 50,000 to 250,000 inhabitants, some of them built around a single factory and known as ‘monotowns’ (monogoroda). While industrial areas in general and monotowns in particular have presented a perennial problem of post-Soviet development and receive significant policy attention from the state, the current crisis creates a new set of problems for these communities. A report by the Center for Strategic Research, a think tank serving the Russian government, identifies four risks to the ‘monotowns’ that emerged after February 24:

- Foreign companies leaving Russia or shutting down operations
- Factories in the ‘monotowns’ being subject to the industry-wide and personal sanctions
- Export restrictions imposed by the Russian government as part of the counter-sanctions
- Secondary risks associated with sanctions against the companies in the supply chain.⁷

The metallurgical industry is subject to sectoral sanctions, while the timber industry is subject to export restrictions as part of the counter-sanctions. Mechanical engineering and freight car production are particularly dependent on the import of components and equipment. Furthermore, factories in several ‘monotowns’ have foreign shareholders that are exiting the Russian market. Overall, according to the CSR report, 182,000 workers in the ‘monotowns’ are directly at risk and another 552,000 are exposed to the secondary risks in the supply chain. In fact, the overall number of workers facing potential unemployment and underemployment is much higher since many industrial areas are not located in the ‘monotowns’.

Production statistics for September 2022 indicate a moderate decline of 3,1% y/o/y, however, some industries have already suffered tremendous losses, most notably, the auto industry (-60,2%) and consumer appliances (-46,4%) – production in these industries cannot be resumed after the exit of foreign brands.

Paradoxically, the industrial decline did not translate into increased unemployment: in August 2022, the unemployment rate reached an all-time low of 3,9%. However, there are clear signs of growing underemployment: the number of furloughed workers rose sharply from 163,000 in the last quarter of 2021 to 302,000 in the first quarter of 2022 and 345,000 in the second quarter of 2022 (during the previous crisis of 2014-2016, this number never reached 300,000). Some, if not most, of these workers will eventually be dismissed. Overall, the sanctions-induced technological decline will put increased pressure on the ‘monotowns’ that have struggled to maintain competitive industries throughout the whole post-Soviet period. At the same time, the national rate of unemployment is unlikely to increase dramatically in the medium and long term due to demographic pressures and the substitution of lost technologies with cheap labor, but real incomes will decline even further and the numbers of working poor will keep growing.

HEALTHCARE: SUPPLY AND PERSONNEL PROBLEMS

Similar to other countries, the Russian healthcare system went through a shock during the COVID crisis; a shock that had lasting effects, such as high rates of burnout among doctors and other medical professionals. The effects of the COVID epidemic were compounded by the system's chronic problems of underinvestment and rigid bureaucratic

⁶ Crowley, Stephen. 2020. ‘Global Cities versus Rustbelt Realities: The Dilemmas of Urban Development in Russia’. *Slavic Review* 79 (2): 365–89.

⁷ ‘Riski 2022: Gradoobrazujushhie Organizacii i Monogoroda’. 2022. Centr strategicheskikh razrabotok.

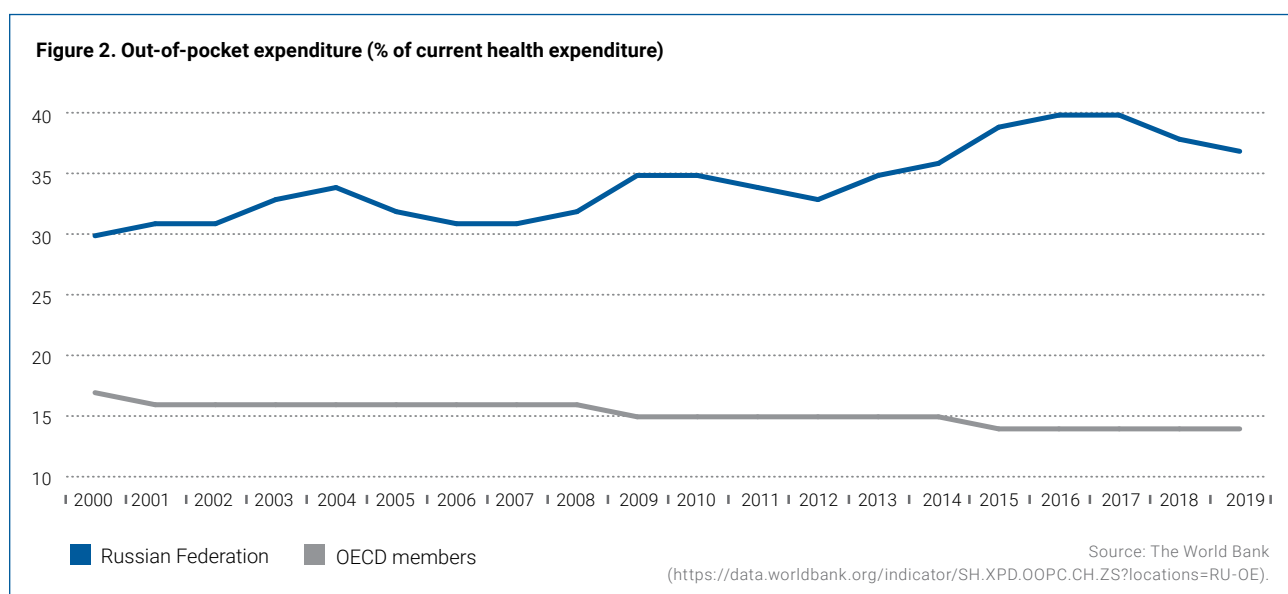
control. The invasion of Ukraine and subsequent sanctions created a new set of problems for Russian healthcare.

Almost immediately after 24 February, a wave of panic buying hit the pharmacies as the population expected some medicines, particularly Western-produced drugs, to increase in price or even completely disappear from the market. In a few weeks, this wave receded as the supplies of medicines continued (the pharmaceutical industry was exempt from sanctions) and the ruble exchange rate stabilized, preventing especially dramatic price hikes. Nevertheless, the majority of doctors (72% in March, 73,9% in July) still reported shortages of medical supplies⁸. Although sanctions did not target healthcare directly, the disruption of logistics affected healthcare imports. In October 2022, several Russian charities helping oncological patients sent a letter to the Russian authorities, calling their attention to the severe shortages of 26 cancer drugs⁹. Furthermore, while healthcare in general is not targeted by sanctions, a vast network of hospitals belonging to the ministry of defense cannot acquire supplies in the West.

A potentially even bigger problem concerns the medical personnel. The Russian healthcare system has long suffered from staff shortages, particularly outside of big cities. To improve the situation, the authorities launched a special program, providing doctors and nurses willing to move to small towns

and remote areas with relocation grants of up to 2 million rubles (\$27,000 in 2021 dollars). Since 24 February, many healthcare workers left the country, making staff shortages even worse. The situation became particularly acute after the ‘partial’ mobilization had been declared in September 2021. By law, all healthcare professionals in Russia are liable to conscription for military service. The government announced the plan to draft up to 3,000 healthcare workers. The exact number of medical professionals who left the country after that is unknown but anecdotal evidence suggests it is quite substantial. The departure of experienced doctors disrupts the training process for their younger colleagues, weakening the healthcare system overall.

A final issue concerns the resources. Due to the lack of state funding, government clinics in Russia provide paid services and the private healthcare industry has grown alongside the public one. The share of out-of-pocket expenditures in the total healthcare spending in Russia is markedly higher than the OECD average (see Fig. 2). As more state resources in healthcare are diverted towards the war effort and providing long-term care for wounded soldiers, the pressure on households to finance their own health expenditures will grow, while real incomes will decline, increasing an overall level of hardship. Combined with the lingering supply and personnel issues, this will result in the deterioration of public health and living standards in Russia.



⁸ '74% vrachej govoryat o deficite preparatov'. 2022. GxP News (blog). 22 July 2022. <https://gxpnews.net/2022/07/74-vrachej-govoryat-o-deficite-preparatov/>.

⁹ Mishina, Valerija. 2020. 'Gde onko, tam i rvetsja'. Kommersant. 2020. <https://www.kommersant.ru/doc/4548863>.

THE THIRD SECTOR: ON THE BRINK OF SURVIVAL

While the nominal goal of the Russian state has long been to integrate NGOs into social provision, the third sector has suffered from a lack of resources domestically and a threat of criminal prosecution associated with any foreign funding (that can result in the status of a ‘foreign agent’ with all the legal problems it entails). Rights-oriented organizations, particularly with feminist and LGBT agendas, have also faced direct political pressure.

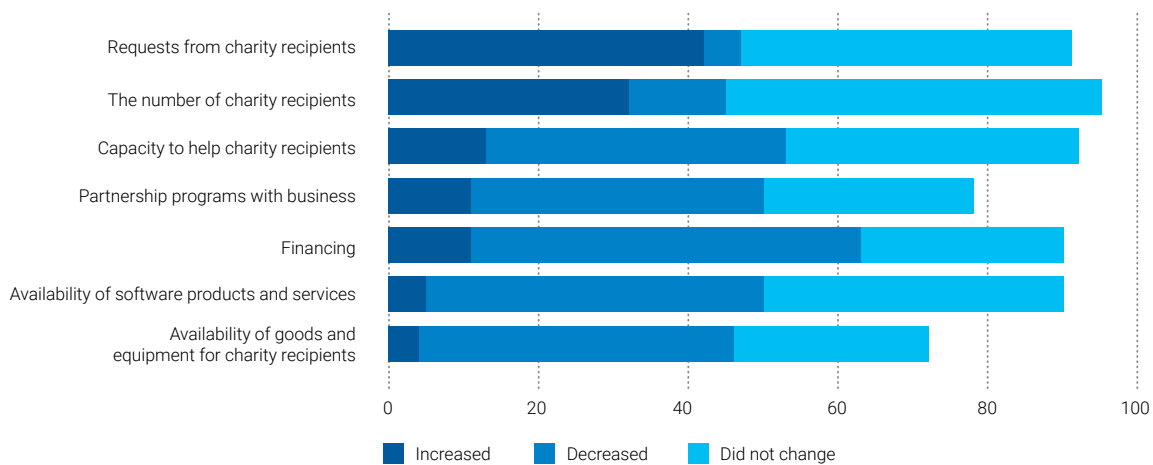
The current crisis has a multi-dimensional negative impact on the third sector. Immediately after the invasion, donations to the NGOs plummeted while the number of people in vulnerable situations increased. A survey of 168 NGOs conducted on 30 March – 18 April 2022 revealed that their capacity to provide help is decreasing while the number of those in need is increasing (see Fig. 3). Foreign companies leaving Russia shut down their diversity and inclusion programs. This created a funding vacuum for many NGOs and disrupted their work in other ways: for example, organizations assisting the employment of vulnerable groups could no longer rely on partnerships with foreign brands like IKEA. NGOs also suffered from the government-ordered ban on social networks such as Instagram and Facebook which served a crucial role in communications and finding donors. Similar to the healthcare system, the third

sector is hemorrhaging skilled professionals that joined the emigration wave, especially after the announcement of mobilization.

DEMOGRAPHIC DECLINE

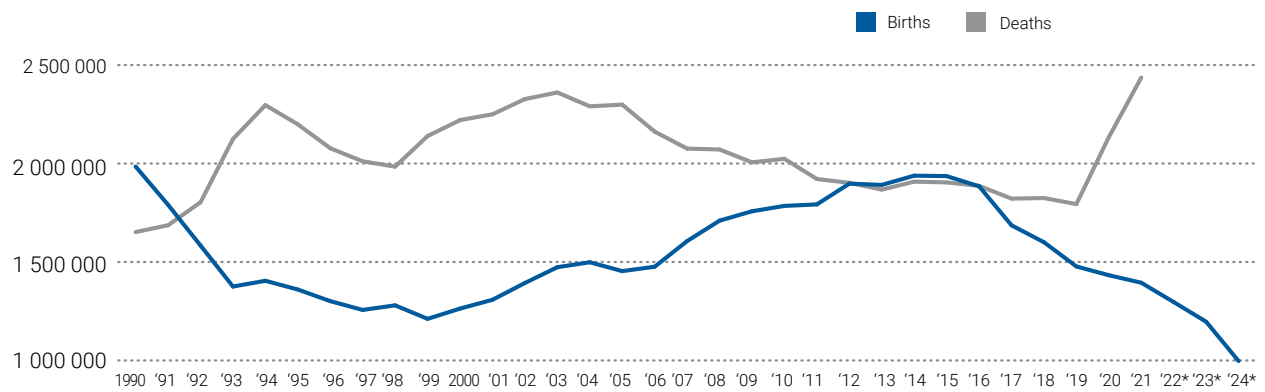
Demography is probably the area where this year’s events will have the strongest impact in the long term. Birth rates have been decreasing for several years now due to the demographic crisis of the 1990s: declining fertility rates during those years have resulted in a lower number of births at the current moment as those who were born in the 1990s begin to have children themselves. This negative trend is combined with the effects of the war, mobilization and economic crisis, creating a ‘perfect storm’, in the words of the demographer Alexei Raksha¹⁰. Hundreds of thousands of people have left the country, most of them in child-bearing age; several hundred thousand men were drafted into the army; some will be killed in action. Economic decline, fear and uncertainty will prevent families from having children. As a result, Russia may see fewer than 1,2 million births during 2023 – the lowest number in modern history, according to the demographer Igor Ephremov (see Fig. 4). Demographic decline will have a negative impact on economic growth and prosperity.

Figure 3. The state of the third sector in Russia (%)



Source: NGO Pulse (<https://pulsngo.ru/blitz1>).

¹⁰ Bloomberg. 2022. ‘Putin’s War Escalation Is Hastening Demographic Crash for Russia’, 2022. <https://www.bloomberg.com/news/articles/2022-10-18/putin-s-war-escalation-is-hastening-demographic-crash-for-russia>.

Figure 4. Number of births and deaths in Russia by year

Source: Bloomberg (<https://www.bloomberg.com/news/articles/2022-10-18/putin-s-war-escalation-is-hastening-demographic-crash-for-russia>).

CONCLUSION

'I don't think we lost anything or will lose anything [as a result of the invasion];' Vladimir Putin said in September 2022, convincing no one. As a result of the unprovoked and unjustified invasion of Ukraine, tens of thousands of soldiers were killed in action, hundreds of thousands were wounded. Russia's scientific, technological, artistic and intellectual potential is inhibited by the lack of international co-operation. Hundreds of thousands of skilled professionals have left the country. Furthermore, as this report demonstrated, Russian society lost jobs and incomes, experienced doctors and social workers, further damaging the lives of the sick and vulnerable. The invasion reverses the social gains of 22 years of Putinism, meager as they were. The generalized social crisis that resulted from the post-Soviet transformation never disappeared. Now Russia is at the next turn of the spiral, with no end in sight.

NB.

The text was last revised in November 2022.

ABOUT THE SERIES

The full-scale Russian invasion of Ukraine in February 2022 marked a turning point in the history of the continent. While the war is undoubtedly the most catastrophic outcome of the fundamental crisis in Russia, it is not the only one. **The Russian Crisis** is a series of papers, which are focused on events and trends affecting society, economy, and politics in the Russian Federation.

Due to Moscow’s growing global isolation, intensified internal repression, mass emigration, severed international ties, disinformation campaigns, and rapid news cycles, it has become increasingly difficult to keep up with long-term developments in Russia. This project is dedicated to deepening the public discourse and aims to bridge the gap between fast-paced political reporting and academic research. By doing so, it strives to shed light on the multifaceted aspects of the crisis and encourage a more nuanced understanding of the complex challenges ahead.

The series editor is **Greg Yudin**. He is a political theorist and sociologist, affiliated with multiple academic institutions in Russia and the United States. He has contributed to the theorization of Russian politics within the current global trends, conducted fieldwork in Russia and beyond, engaged in methodological debates on studying and reading Russian society. He is active as academic researcher, author of commissioned reports and policy papers, and is a contributor to major media in Russia and abroad.

ABOUT THE AUTHOR

Dr Ilya Matveev is a political scientist specializing in Russian political economics. Until 2022, he was an associate professor and deputy dean for international cooperation at the Russian Presidential Academy of National Economy and Public Administration (RANEPA), Saint-Petersburg campus. His academic work appeared in *Europe-Asia Studies*, *East European Politics*, *Demokratizatsiya: The Journal of Post-Soviet Democratization*, *Socialist Register*, *South Atlantic Quarterly* and other journals. He is a member of the Public Sociology Laboratory, a research collective exploring the political, social and economic dynamics in the post-Soviet space. He is also a member of the editorial collective of *Posle. Media*, a new bilingual Russian-English anti-war platform, and a co-host of the *Political Diary*, a Russian-language podcast on politics.

IMPRINT

Published by:

Friedrich-Ebert-Stiftung e.V.

Godesberger Allee 149

53175 Bonn

Germany

www.russia.fes.de

E-mail: info@fes-russia.org

Editing Department:

International Cooperation Department,

FES Russia Programme

Responsibility for content and editing:

Alexey Yusupov

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung e.V. Commercial use of media published by the Friedrich-Ebert-Stiftung (FES) is not permitted without the written consent of the FES. Publications of the Friedrich-Ebert-Stiftung may not be used for election campaign purposes.

© 2023

SUMMARY



The effects of economic sanctions, the army draft and the war itself on the living standards and social protection in Russia have been profoundly negative. While the economic collapse has been avoided, the stage is set for a renewed social crisis. In many ways, the invasion of Ukraine reversed the social gains of 22 years of Putinism, modest as they were. The Russian economy demonstrated certain resilience, yet international isolation and demographic decline lower the chances for long-term recovery.



The report identifies five areas in which the negative impact has been particularly significant: poverty and living standards, the situation in industrial areas, healthcare, the third sector and demography. In each of these areas, the trade, financial and technological disruption caused by sanctions against Russia, the massive outflow of people from the country, the military conscription of several hundred thousand men and the psychological effects of the war all result in extreme dislocation.



The current crisis leaves little opportunity to decrease poverty and increase real incomes in the medium and long term. The emigration of skilled professionals in healthcare and social work will be felt acutely by vulnerable groups. Combined with the negative trend rooted in the demographic crisis of the 1990s, the war is likely to result in a huge decrease in the number of births in the coming years. The demographic decline will put a brake on economic dynamism for decades to come.