

# MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

## trends and challenges of socio-economic development

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### INCOME INEQUALITY IN RUSSIA TO STOP GROWING IN 2025

**Tatiana Ivakhnenko**, Researcher, Mathematical Modeling of Economic Processes Department, Gaidar Institute;

**Andrey Polbin**, Candidate of Economic Sciences, Head of Mathematical Modeling of Economic Processes Department, Gaidar Institute

*In 2022, Russian statistics recorded the lowest income inequality for 20 years. However, in 2023 there was an increase in inequality in almost all regions, with the exception of Dagestan and Ingushetia, where the indicators remained unchanged, and in 2024 the Gini Index was back at the 2021 level. Such dynamic is consistent with previous crisis periods, when inequality first decreased and then returned to higher levels. Among the possible reasons for the observed changes, we can single out the recovery of regional economies after the 2022 crisis, the increase in public investment in the military-industrial complex, as well as a temporary decline in entrepreneurial income in 2022 with its subsequent growth in 2023-2024. Taking into account the forecasts of slowdown in the Russian economy, we can expect that in 2025 the growth of inequality will stop.*

#### **National level of income inequality**

In 2023, the Index Gini that reflects the degree of differentiation of the population by income in Russia as a whole amounted to 0.405 against 0.398 a year earlier. In 2022, the value was the lowest for the period since 2002, when it was equal to 0.397, and inequality was at its maximum in 2007, when the index was 0.422. The index in 2023 remained below the values of 2020 (0.406) and 2021 (0.409), but already in 2024 (0.408) the index approached the level of 2021 (0.409).

Based on the dynamics of the Gini index (*Fig. 1*), several trends can be revealed.

Firstly, the period of economic recovery in 2000, which lasted until the 2008 global financial crisis of 2008, was accompanied by a steady increase in the overall level of income concentration in Russia (from 0.395 in 2000 to 0.422 in 2007). In 2008–2010 the level of inequality reached a plateau remaining equal to 0.421. In 2012, the maximum value (0.42) for the entire period of the 2010's was observed, after which a steady decline in the degree of income inequality commenced until 2017. In 2018, there was a deviation from the general downward trend, reflected in an increase in the level of inequality (from 0.41 in 2017 to 0.414), but in 2019 inequality fell to 0.412.

Secondly, it is important to note the role of crises in the dynamic of inequality: the development of the index shows that the covid 2020, as well as 2022, were

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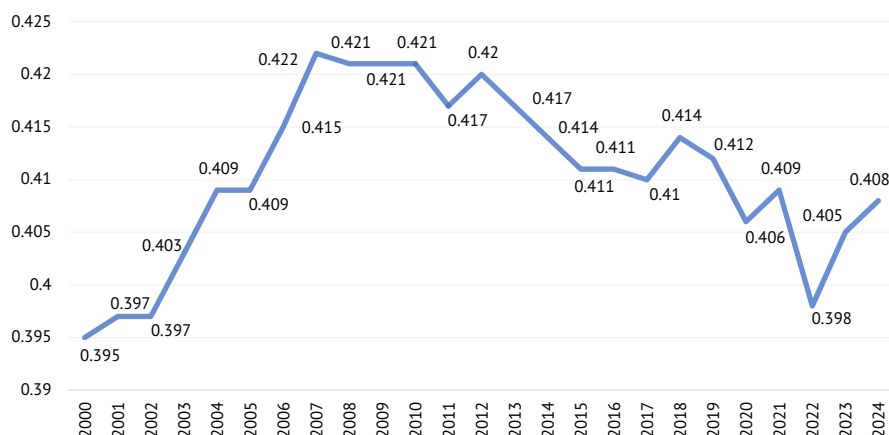


Fig. 1. The Gini Index dynamic in Russia, 2000–2023

Source: Rosstat.

accompanied by sharp declines in the level of income concentration. As already mentioned, the value of the Gini coefficient in 2022 became the minimum for the last 20 years. Nevertheless, the effect of 2022 did not remain constant and in 2023 the level of inequality reached the level of covid 2020, and in 2024 it practically equaled the level of 2021. Each crisis declines in the level of income inequality were accompanied by a rebound in the next period, the value of which, however, was smaller than the value of the decline during the crisis.

The two observations illustrate that inequality increased during periods of economic growth and, conversely, decreased during crises and recessions. This can be explained by the fact that when the economic situation is favorable, the richest segments of the population get richer faster than the rest of the population, which contributes to growth in the income gap. At the same time, periods of recessions are accompanied by bankruptcies and closure of enterprises, reduced business activity, higher cost of credit and other negative consequences that limit the ability of the wealthiest segments of the population to further increase their wealth. This is primarily about the reduction of entrepreneurial income. At the same time, in times of crisis, the state strengthens support for the least well-off strata of the population, while wage earners continue to receive wages fixed in their contracts, as a result of which the income gap may decrease. However, the overall picture for the country is not sufficiently informative, so we proceed to analyze the regional level of inequality.

### Regional level of income inequality

Fig. 2 shows the dynamic of some descriptive statistics for 80 regions of Russia for each year. A number of trends can also be highlighted here. While the level of inequality in the country as a whole was increasing until 2007, the maximum value of the Gini coefficient (Moscow), on the contrary, was decreasing, and for a longer period – until 2015. From 2016, the trend changed, and the maximum value began to gradually increase, and it was from this period that the leader in terms of income inequality changed, which became the Yamal-Nenets Autonomous Okrug, taking the place of the capital.

The minimum level of inequality was increasing up to 2012 simultaneously with the growth of the average level of inequality by regions. Both indicators reached a maximum in 2012, after which they began to show a decline. The average value became the lowest in 2020 (0.365) since 2003 (0.364), while the

## Income inequality in Russia to stop growing in 2025

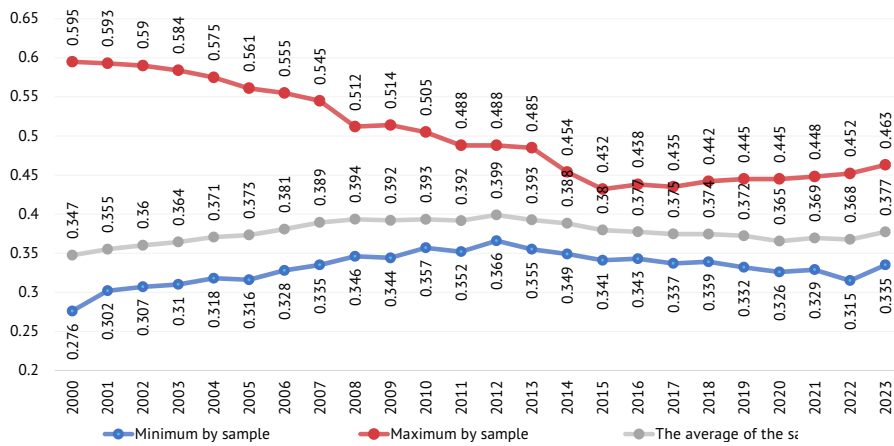


Fig. 2. The Gini Index dynamic across 80 regions of Russia, 2000–2023

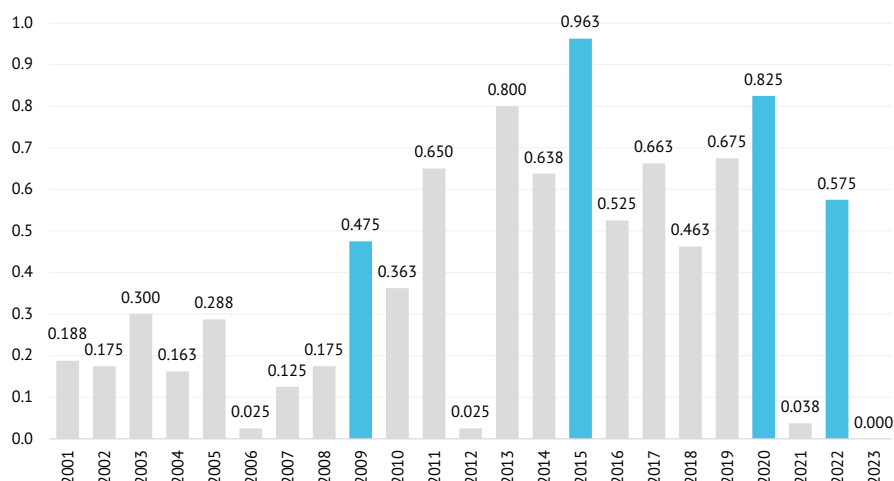
Source: Rosstat.

minimum value in the sample reached its lowest value in 2022 (0.315), also becoming the lowest since 2003 (0.31). At the same time, both the minimum and the mean value increased markedly in 2023: the minimum exceeded the pre-covid level of 2019, while the mean value returned to the 2016 figure. Thus, all the above indicators showed growth in 2023, which speaks in favor of the increase in the level of inequality not only in the country as a whole, but also in regions with relatively lower levels of income inequality. This trend can be characterized rather as a negative one, as social tensions tend to increase along with the growth of inequality.

Fig. 3 shows the dynamics of the share of regions where the Gini coefficient decreased in the current year compared to the previous year (crisis periods are highlighted in the graph). It can be noted once again that in periods of crises the share of regions where inequality decreased in the current period compared to the previous one increases. It should be noted that after 2012 the share of regions where income inequality decreased exceeded or was close to 0.5 for all periods except 2021 and 2023. For the two mentioned periods, the level of inequality remained the same or increased compared to the previous crisis year. In 2023, the growth of income inequality affected all regions except the Republic of Dagestan and the Republic of Ingushetia, where the Gini coefficient remained at the same level. Inequality increased most strongly in three regions – Kalmykia (from 0.315 to 0.343), Orel (from 0.366 to 0.388) and Smolensk (from 0.372 to 0.393) oblasts.

Thus, as can be seen from the statistics, the “crisis” reductions in the levels of inequality in the regions in the following periods are leveled out by the recovery in the economy. This is probably due to the fact that in a favorable economic situation the richest segments of the population, in particular entrepreneurs, restore their incomes, which corresponds to an increase in inequality. At the same time, such manifestations of the economic situation as high savings rate, tight monetary policy, wage growth concentrated in certain industries, apparently, created some preconditions for the growth of income inequality in 2024. The high key rate provided an opportunity for the wealthiest strata of the population to receive additional low-risk income through deposits and increased rent. The growth of wages in certain industries could also exacerbate inequality in those regions of the country where the share of these industries

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*Fig. 3. Dynamics of the share of regions where the Gini coefficient decreased in the current year compared to the previous one, 2000–2023*

Source: Rosstat.

in the economy is significant, since the incomes of workers in these industries have risen, and it is unlikely that the incomes of the rest of the population (primarily the socially disadvantaged) have increased in the same proportion.

In general, the current situation of economic recovery, other things being equal, should be accompanied by an increase in inequality. A positive correlation between inequality and economic growth is observed in many countries. However, many experts expect a slowdown in the Russian economy in 2025, when the overheating of the economy should subside and the actual growth rate should approach the potential growth rate. As a result, there is reason to believe that in 2025 the growth of inequality may stop, and it will remain at the pre-crisis level of 2021. In the current environment, key attention should be paid to economic policy measures aimed at supporting socially vulnerable groups of the population. This includes timely indexation of pensions and social payments, development of retraining and employment programs, as well as strengthening targeted support to reduce potential social tensions that may arise against the background of growing inequality. An additional factor in curbing inequality in 2025–2026 may be a serious modification of the tax system, which will contribute to equalizing the incomes of the rich strata of the population, on the one hand, and the introduction of a “tax-cashback” for families with children with low incomes, which will increase the welfare of such families, on the other hand. Thus, in the context of serious fine-tuning of income taxation, we can expect that income inequality will stop growing and rather even decrease.▲