Russias Growing Elite

Contributed by Euromonitor International
Friday, 15 August 2008
Last Updated Thursday, 01 January 2009

The fortunes of Russia's elite have been growing rapidly, supported by high commodity prices, strong foreign investment and rapid economic growth. Russia is now considered one of the most promising luxury markets in the world. Unfortunately, the poor are not profiting equally from this growth, which results in high income inequality and regional disparities.

Issue
Russia's economy has boomed in recent years averaging 7.3% annual real GDP growth between 2003 and 2007. The rich have benefited the most:

Between 2000 and 2007, the average annual disposable income of the 10% richest households (decile 10) grew faster than those of any other income group, reaching US$34,741 in 2007. This means that decile 10 households possessed 31.2% of the total disposable income in 2007, up from 25.4% in 1993;Â
In 2008, Russia could boast between 87 and 101 billionaires, placing it second in the world after the USA.

A significant number of very rich people combined with the Byzantine culture of flamboyancy make Russia a perfect target for luxury products. At the same time, companies need to keep up with the ever-changing tastes of Russia's elite.

Importance
A rapid increase in disposable income has accompanied the country's strong economic growth:

Real GDP growth reached 8.0% in 2007 and real annual disposable income per capita grew 68.8% between 2002 and 2007.Â

However, growth in incomes has not been equal for the whole society:

Most fortunes were made in the 1990s during semi-legal privatisations of Russia's biggest enterprises. With global prices of metals and gas and oil rising rapidly, owners and co-owners of companies trading in these commodities have made huge profits;
The rich make up a diverse group. Although the average annual disposable income of decile 10 households was US$34,741 in 2007, 1.2% of all households had a disposable income higher than US$75,000 annually.

Moscow is becoming a prime target for luxury products. However, with such a large elite, products need to be differentiated to reflect the financial capabilities and tastes of its different groups.

Implications
Various luxury brands have flocked to Moscow:

According to some analysts, Russia is now the fourth largest consumer of luxury goods, after the USA, Japan and China;
For the first time, the annual luxury conference, 'Supreme Luxury', was organised in Moscow in 2007. Another event, Extravaganza-2007, presented the rich with luxury properties, cars and jets;
Glamour and ostentation are popular, although less known brands are also gaining ground. Luxury cars, holidays and properties, branded clothing and footwear as well as exotic pets and racehorses are some ways in which Russia's elite distinguish themselves from the rest of the country.

However, many have questioned the source of this wealth:

Russia's business environment is perceived as highly corrupt. In 2004, the editor of the Russian Forbes edition was gunned down, allegedly for enquiring too much into the wealth of Russia's elite. Russia has faired poorly on Transparency International's Corruption Perceptions Index, ranking 143 out of 179 in 2007;
However, the listing of many Russian companies on the stock exchange and especially on the London Stock Exchange is believed to have increased overall transparency.

Growing social inequality has resulted from increased elite wealth:

Russia's Gini coefficient, which measures income inequality, has been steadily rising from 29 in 1992 to 41 in 2007 (0=perfect equality and 100=perfect inequality). As a result, Russia has become the most unequal country in the region.

This is significant in the face of rising living costs:

The living cost, calculated by the Russian statistical office with reference to the consumer basket of food and maintenance costs, rose by 3.2% between the third and fourth quarters of 2007. In 2007, 13.4% of the population had incomes below the living cost.

The distribution of wealth varies enormously between regions:

Although the share of Moscow in the country's population was only 7%, in 2005 it possessed 20% of total disposable income.

Poor wealth redistribution mechanisms mean that there is a tighter squeeze on the incomes of the poor and middle class, which is exacerbated by current high inflation.

Future scenarios
Russia will continue to grow strongly in the coming years:

Real GDP growth should reach 6.8% in 2008, although this will be countered by strong growth in consumer prices of 11.4% as a result of the global rise in food prices.

Inflation will not affect the luxury market:

By 2017, Russia is expected to account for one-third of global luxury sales.

The poorer parts of the population are likely to profit from the country's development:

Real wages increased by 14% annually in March 2008.

Higher federal budget expenditure should ensure some wealth redistribution although corruption could remain a problem:

The 2007 federal budget almost doubled in real terms since 2004, having grown from Rb2.4 trillion to nearly Rb6.0 trillion. Much spending was devoted to the health sector, with expenditure in this area having grown more than three-fold during this period. The next three-year budget is expected to follow this trend.

Please click here to see similar articles

Please click here to visit Euromonitor's Homepage