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R95 **Russian Economy in 2013. Trends and Outlooks.**
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The review provides a detailed analysis of main trends in Russia's economy in 2013. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Russian Industrial Enterprises in 2013

The section is prepared using data of monthly business surveys conducted by the Gaidar Institute for Economic Policy (IEP) among managers of industrial enterprises since September 1992. The surveys are based on the European harmonized methodology and encompass the entire territory of the Russian Federation. The size of the panel is about 1000 enterprises that employ over 13% of the total number of employed in industry. The panel is biased towards large enterprises in each of the selected branches. The rate of response to questionnaires ranges from 70% to 75%.

The business survey questionnaire contains quite a small number of questions (not more than 15-20). They are of qualitative rather than quantitative nature. The simple formulation of questions and answers allows the respondents to fill in the forms quickly and without consulting any documentation. It's essential that the respondent at each enterprise is an executive of the highest level possible who is fully aware of the situation at the enterprise and is directly involved in its management.

When analyzing the results of business surveys a specific derivative indicator is used which is termed "balance". The balance is calculated as the difference between the percentage of respondents who answered "will grow" (or "above normal") and the percentage of respondents who answered "will decrease" (or "below normal"). The resulting difference allows to present the distribution of answers to each question by one figure with "+" or "-" sign.

The balance is interpreted as the first derivative or the rate of the process. If the balance of responses to the question about expected change in prices has the "+" sign, it means that in the near future average prices will grow (e.g. the prevailing number of enterprises reported their intention to raise prices). For instance, the increase of balance from +10% to +17% over a month implies that average prices in industry will grow at a higher rate as the prevalence of enterprises anticipating their growth became more convincing. A negative balance is the sign of future reduction of average prices (more enterprises intend to cut their prices). The changing of the balance from -5% to -12% is interpreted as greater intensity (rate) of price decline.

Russian industry: from stagnation to ...?

The official statistical data on the performance of Russian industry in 2013 has been a matter of heated debates about the current situation in and development prospects of this sector of economy. The key point at issue is whether Russian industry is still experiencing stagnation (the fact of which is by now admitted by most experts and officials) or has proceeded into the recession phase. Therefore the IEP's Industrial Optimism Index (IEP IOI)¹ introduced in 2008

¹ The index is calculated as the simple average of balances - differences in responses to four questions from the IEP's business questionnaire:

1. Actual change of demand, balance = % growth – % decrease;
2. Assessment of demand, balance = % above normal + % normal – % below normal;
3. Assessment of finished goods stocks, balance = % above normal – % below normal;
4. Output projections, balance = % growth – % decrease.

Balances of responses to the 1st and the 4th questions are adjusted for the seasonal and calendar factors.

as an indicator of operational monitoring continues to preserve its relevance in the current situation of lingering stagnation in Russian industry and ambiguity of official statistics. The latter circumstance has revived interest in this aggregate indicator basing upon a representative set of initial indices (estimates of the actual dynamics of demand, finished goods stocks, current sales and output projections of enterprises). It helps to assess the performance and prospects of Russian industry the way enterprise managers see them. The constantly being improved system of IEP's business survey indicators provides an opportunity to understand what is actually constraining the growth of output and investments at this particular moment rather than in the previous years.

IEP IOI shows that enterprises' assessments of the last 6 months of 2013 were better than those of the start of the year (*Fig. 14*). The index basically managed to remain in the positive area albeit with a minimal surplus over the zero level. The key positive drivers of situation at enterprises (but not in ministries!) were output projections (after the adjustment for seasonality their values remained positive and at the end of the year were even growing), estimates of finished goods stocks (this indicator displayed minimal surplus after surging in June) and the actual change of demand (despite the revealed decrease of sales, the latter was smoother and less intense than in 2012 and early 2013).

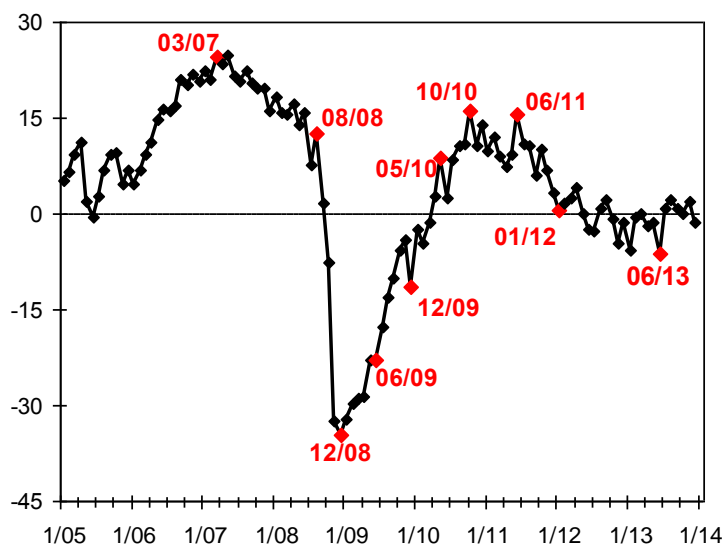


Fig. 14. IEP's Industrial Optimism Index, 2005-2013

But in general the surveyed enterprises found that the situation in 2013 was worse than in 2010-2012. The maximum post-crisis value of IEP IOI annual average was recorded in 2011 when it reached 9.25 points. Then the indicator fell to zero in 2012 and down to -0.97 points in 2013. So, the basic decline of optimism in Russian industry took place in 2012 and more exactly – in its first half. Last year the changes in situation were minimal (according to business estimates) the only noteworthy development being the official admission of the fact of stagnation: first, it was attributed to “our partners in the West”, then its domestic origin was also mentioned and official forecasts repeatedly experienced downward corrections. Against

The index can range from -100 to +100. A positive value of the index implies the prevalence of positive estimates. A negative value of the index means that negative estimates prevail. Lowering of the index value is the sign of deteriorating situation while its growth – the sign of ameliorating situation.

this background, the projections of enterprises as to the demand, output and employment in early 2014 looked more “patriotic”. The highest optimism continued to be observed in business assessments of the expected growth of output; in November-December the trend was supported by improving projections for the number of employed. The balance of demand projections remained positive but regrettably was not as high and sustainable as that for the projected output.

The start of 2013 was traditional. The actual dynamics of demand for industrial output suffered a traditional sharp drop observed in recent years. Meantime, demand projections (that soared in January similarly following the tradition) showed that industry still cherished hopes for the revival of sales. Output projections also demonstrated high optimism of business expectations the feasibility of which still seemed questionable to enterprises themselves. Doubts of producers about the possibility of demand and output growth were reflected in their estimates of finished goods stocks: the balance of this indicator showed an increase of stocks’ surplus up to the 40-month maximum.

The investment outcomes of 2012 and the initial plans for 2013 did not promise the desired growth of investments in production. 56% of enterprises were in general satisfied with their total amount in 2012. It was the best result for the whole 18-year (!) period of monitoring. It looked quite logical taking into account another IEP’s survey indicator – the estimate of “sufficiency/surplus” of investments relative to the expected growth of demand for output. 63% of enterprises estimated the past year investments as “sufficient” (taking into account realistic rather than official forecasts). The latter percentage has also become a record (an absolute maximum) of the multi-year monitoring. Respectively, the share of “non-sufficient” responses fell down to an absolute minimum.

Upon completion of January that was difficult for the economy and statistical recording, the surveys registered a clear growth of sales and output that still failed to reduce high surplus of finished goods stocks and to prevent the decrease of optimism in demand, output and employment projections. Price policies of enterprises were usual for the first months of the year: the most intense rise of prices in January and its slowdown in February. However, price projections of industry were more moderate as compared with the respective months of previous years.

In March the system of indicators of IEP’s business surveys reflected the worsening of situation in Russian industry. Enterprises started to loose confidence in the correctness of their production and marketing policies and attempted to more accurately coordinate their output with the dynamics of demand. The demand for industrial products failed to uphold the high results of February and demonstrated the lowering of growth rates as judged from both the initial data and the data adjusted for seasonality (*Fig. 15*). In March the survey data on the dynamics of output showed that production growth slowed down to zero. The growth of factory prices actually stopped with its rate falling by 10 points.

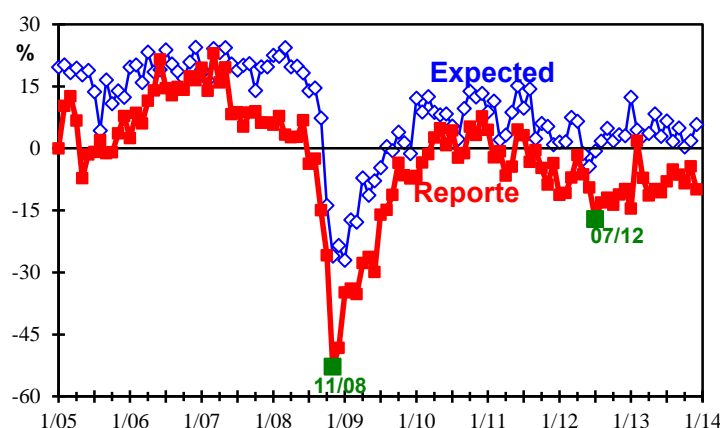


Fig. 15. Change of solvent demand adjusted for seasonality
(balance = % growth - % decrease)

In general the first quarter of 2013 displayed such a high level of correspondence between changes in output and demand that had never been observed in Russian industry either after the IV quarter of 2008 or before that crisis period. However, this correspondence between changes in output and demand was largely attributable to “no change” responses the coincidence of which in the I quarter of 2013 reached almost a historical maximum. Another indicator of the examined quarter also looked abnormal. The share of enterprises where the actual change of output went ahead of the change of demand for their produce fell to the minimum level since 1995 (i.e. to actually the historical bottom). The percentage of such producers in Russian industry became as low as 18% while at the end of 2008 – the beginning of 2009 it reached 20% and 25%, respectively. In other words, in 2013 Russian industry was forced to follow trends in demand for its output almost as strictly as in the crisis period and to minimize the freedom of action despite the wish to be ahead of demand and produce to stock in the hope that in the following months the demand would grow and enable them to sell the accumulated stocks.

Smaller demand in April increased the share of surplus stocks of finished goods, slowed down production and made enterprises refrain from raising prices both in the current and the following months. In these conditions output projections started to loose optimism after the traditional maximum at the beginning of the year. In 2013 their coincidence with demand projections increased and reached 78% (in the previous year it equaled 69%). Such a high result is not a frequent event for surveys (usually it’s registered in the critical periods for Russian industry) – a greater coincidence of output and demand projections was observed only in November-December 2008. So, in the I quarter of 2013 Russian industry was certainly in a difficult situation but planned to mitigate the severity of a possible crisis by at least minimizing the surplus of finished goods stocks.

“Insufficient demand” remained the basic impediment to the growth of output in Russian industry (Fig. 16). In the II quarter of 2013 60% of enterprises pointed to its hindering effect. At the peak of the recent crisis (I quarter 2009) demand held back production at 69% of enterprises; the 1998 maximum was 66% and an absolute record over the 20-year period of monitoring was registered in the II quarter of 1994 and amounted to 84%. From the start of 2011 the negative impact of demand on industrial production was gradually increasing. At the

end of 2008 the situation developed in quite a different way: then demand grew by 37 points over three quarters. The catastrophic circumstances of 2008 precluded the government from taking preventive measures in order to encourage demand for the domestic produce. In 2012-2013 the situation was different: both demand and output underwent small but clearly negative changes. Potentially this gives the government enough time not only for the working out and implementation of anti-crisis measures but also for the analysis of their impact. So far, the efficiency of these measures can be assessed from the fact that no catastrophic developments under the 2008 scenario have taken place in Russian industry. But the lack of reversal in economic trends, the shifting of blame to “our partners in the West” and the demand that the RF Central Bank should engage in combating the imminent crisis evidences that the set of habitual anti-crisis measures fails to ensure the desired effect and is close to exhaustion while new ideas are formulated and implemented with difficulty.

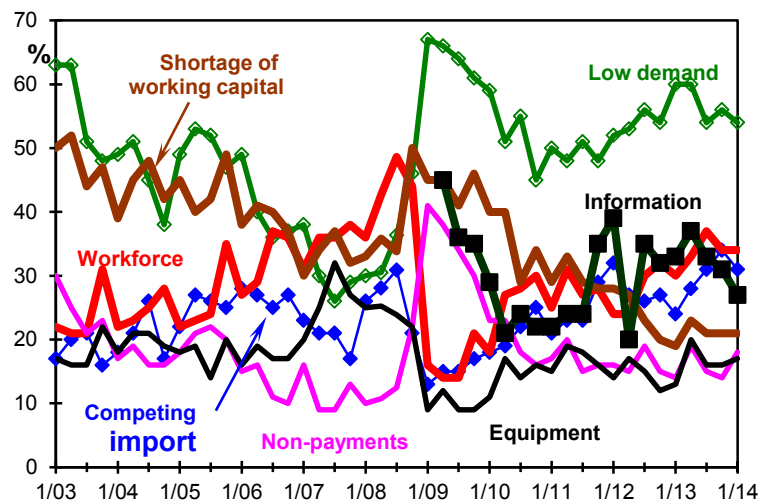


Fig. 16. Impediments to industrial growth, 2003–2013

The latter thesis is directly supported by the upsurge in mentioning the factor of “uncertainty of the current economic situation and its further development” by enterprises. In April 2013 its hindering effect grew up to 37% and had a purely economic background as different from the upsurge in late 2011 – early 2012 when it was triggered by pre-election – election – post-election campaign. As a result this factor has reinforced its second position in the rating of impediments to industrial growth (as assessed by business).

The third and the fourth positions (mentioning in 33% and 28% of responses, respectively) are occupied by the “shortage of skilled labour” and “competing import”. While the former of the above factors has been long and continuously (for the fourth quarter in turn with the same result) hindering growth in Russian industry (but is far from its historical maximum), the latter increased by 4 points over the quarter and approached its absolute maximum. As a result business and authorities seem to have got one more headache. Meantime, positive emotions due to low unemployment even in the situation of stagnation are leveled down by mass workforce problems in industry that will inevitably aggravate in case even a slow economic growth begins.

Next positions in the rating of Russian industry’s problems belong to “low export demand” (22%, the lowering by 9 points over the quarter, the best result over 6 quarters), “shortage of working capital” (23%, almost an absolute minimum) and “shortage of equipment” (20%, an increase by 7 points over the quarter, the worst result from the start of 2008 crisis).

The rating of impediments to industrial growth (let's point out – as assessed by enterprises) ends with “problems associated with crediting industry”. For already 9 (!) quarters in turn it has been considered a hindrance to production by only 3-4% of enterprises. The interest rate on credits (one of the components of their availability) is mentioned as a hindrance by 7% of respondents.

The drop of sales and growth of finished goods' surplus stocks that continued in May forced enterprises to further hold back production, lower prices, cut personnel and be very cautious in their investment plans. Meantime, price policies of enterprises demonstrated industry's attempts to revive sluggish demand for its output.

The growth of output that was registered by surveys in June became a problem for Russian industry in the situation of contracting demand. It resulted in a sharp increase of dissatisfaction with sales and further building of surplus stocks of finished goods (Fig. 17), made enterprises revise downwards their demand projections and output and employment plans for July-August.

In July the continuing drop of demand, mass use of price factor for supporting sales, plans for curtailing investments and ongoing dismissals of workers combined with minimal growth of output, sharp positive adjustment of finished goods stocks assessments and strengthening optimism of output projections. Indeed, judging by August data these projections came true supported by positive dynamics of demand and the consequent growth of prices. However, enterprises were not sure of the preservation of these trends in the following months and didn't plan to increase investments.

The changes of demand and output in September discouraged enterprises, pulled down the indicators of demand sufficiency and increased the surplus of finished goods stocks. At the same time industry continued to raise prices which hardly encouraged demand. The ongoing outflow of workers from enterprises resulted in the deficit of personnel even in the conditions of stagnation.

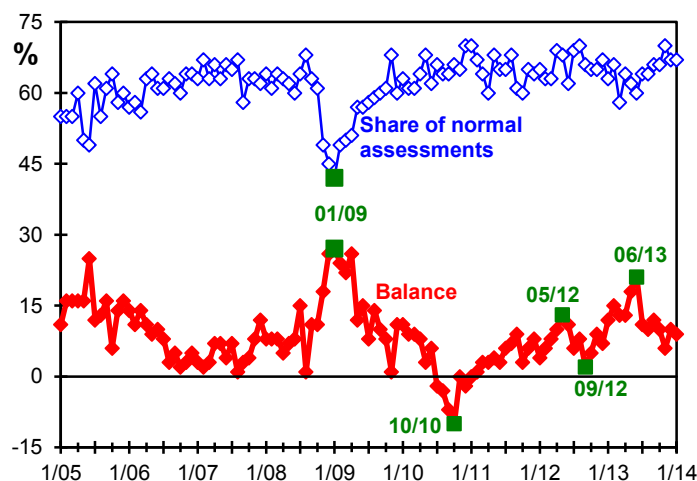


Fig. 17. Assessment of finished goods stocks
(balance = % above normal – % below normal)

October failed to improve trends in either demand or output in Russian industry. This further stirred dissatisfaction with the current volumes of sales and made business refrain from raising prices in the hope to revive sales. The continuing drain of labour from enterprises, the

worsening projections for the number of employed and steadily negative investment plans completed the gloomy picture of the start of IV quarter 2013.

According to the survey data in November Russian industry probably attempted to break away from stagnation. However, the acceleration of production growth and the rising optimism of output projections were then supported only by assessments of finished goods stocks. Meantime the dynamics of demand for the industrial produce didn't demonstrate any principal improvements relative to October (as judged from both initial and seasonality-adjusted data).

At the end of 2013 the demand for industrial products underwent dramatic negative changes. The initial data displayed the highest rate of December sales drop over the 5 recent years. After the adjustment for seasonality, the December rate of demand decrease was one of the worst over the last 18 months. However, such dynamics of sales is becoming habitual for the Russian industry. On the contrary, demand projections demonstrated unusual growth by the end of the year. In the previous post-crisis years the balance of December sales projections either continued falling or remained at the worst level registered in November.

In December the industry resolved to scale down factory prices after their growth in August-September and stabilization in October-November. But the rate of this reduction (-5 points) was the lowest as compared with the respective months of 2011-2012. The December balance was also below that of June 2013 when prices fell at the rate of -9 points. Such a "weak" indicator of enterprises' price policies at the end of the year was most likely attributable to the intensive growth of costs that was observed in the same period.

The terms of crediting Russian industry in the IV quarter of 2013 remained stable and were considered acceptable by 72% of enterprises. The value of this indicator (assessment of credit availability) established back in the middle of 2010 and with minimal fluctuations both up and down rests at this level for already 3.5 years coinciding with the respective assessments of the first half of 2008 (*Fig. 18*).

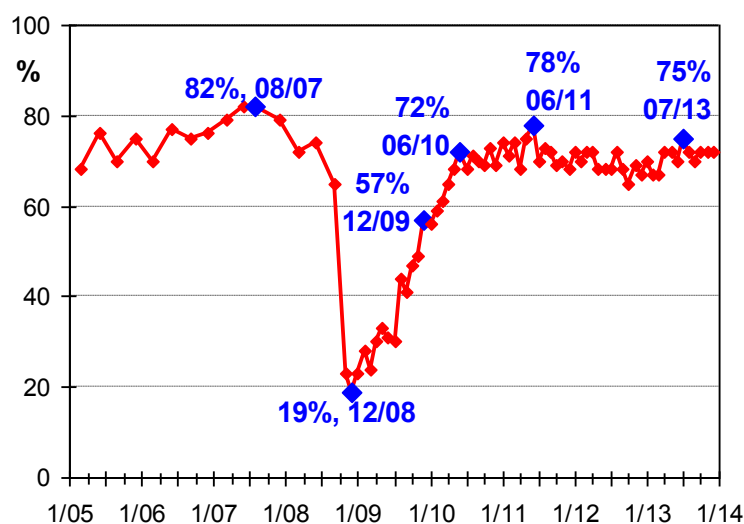


Fig. 18. Share of enterprises assessing credit availability as “above normal” + “normal”

The average minimal interest rate on credits in rubles fell from 13.0% per annum in the I quarter to 12.5% in the IV quarter of 2013. The reduction was observed in all branches but the banking system's priorities didn't change. The lowest rates were available for metallurgy and chemical industry, in the second echelon followed machine building and food industry while

construction materials and consumer goods industries could borrow only at maximum rates. The quite logical dependence of interest rate on factory size preserved: while credits to enterprises with over 1000 employees were offered at 10.5% per annum, for small- and medium-size businesses the rate was as large as 14.3%.

However, one fourth of Russian industrial enterprises do not use credits preferring to live on their own funds. Last year this indicator was record for the three post-crisis years when enterprises were asked this question. In 2009 18% of them reported having no credits, in 2012 – 23%, in 2013 – 24%. The main direction of credit utilization was the replenishment of working capital as followed from responses of over one half of enterprises in 2012-2013 and 68% of them in 2009. Before the crisis of late 2008 62-70% of industrial enterprises borrowed funds for these purposes. The data was supported by monitoring of impediments to output growth: in 2013 the hindering effect of shortage of working capital fell to the historical minimum (21%). The second most important field of credit utilization was the expansion of production. In the two recent years slightly over one third of enterprises (35%) took credits for these purposes. Earlier this indicator was as high as 46% in 2008 and amounted to 36% in 2005-2007. 23% of enterprises borrowed money for re-equipping production facilities in 2013.

The lack of positive trends in indicators of Russian industry's performance and a clear growth of pessimism in declarations and forecasts of authorities made us resume at the end of 2013 the monitoring of business assessments as regards the probability of the second wave of the crisis in the sector. In November 31% of enterprises thought that this probability "grew" while 32% found that it "didn't change". In January 2013 the proportion between these responses was principally different: 12% – "grew", 42% – "didn't change". So, over the past year the probability of a new crisis (as assessed by top managers of industrial enterprises) increased by 20 points. At the same time the share of "no answer" responses (i.e. the share of respondents finding it difficult to estimate the dynamics of pre-crisis developments) fell from 43% to 35%. On the one hand, it spoke of the growing concern of industrial enterprises about this problem while on the other hand it showed that one third of them continued to feel "uncertainty about the current economic situation and its further development". The latter quote is an exact option of response to the question about impediments to industrial growth. In October 2013 31% of enterprises pointed to this factor.

In November 2013 the most notable increase of respondents anticipating the second wave of the crisis was observed in consumer goods and construction materials industries – the respective share there was as high as 41% of enterprises (*Fig. 19*). Taking into account the share of respondents that didn't see any changes in the probability of the crisis, an ultimate leader was consumer goods industry where only 10% of enterprises didn't find that the second wave of the crisis was coming closer (in construction materials industry the respective share was 18%). In the second echelon were ferrous metallurgy and machine building (in both of them 34% of respondents estimated the probability of the crisis as growing). But the above shares were opposed by large segments in these industries that did not notice any changes (40% and 34%, respectively). The proportion of growing crisis expectations was even smaller in timber processing (28%), food industry (26%) and chemical industry (23%). These moderate (as compared with other industries) percentages were coupled with a notable share of "no change" responses: 18, 24 and 39%, respectively. Meantime, the most "positive" expectations as regards the second wave of the crisis were demonstrated by non-ferrous metallurgy: 11% - "growth", 43% - "no change" and 12% - "decrease".

If examined by positions of responding managers, the biggest growth of crisis moods was registered among enterprise directors (46% - “growth of crisis probability”, 17% - “no change”). On the contrary, their deputies demonstrated an increase of positive (for the current historical moment) assessments (25% - “growth”, 43% - “no change”). Heads of economic divisions displayed almost a zero balance of crisis expectations (35% - “growth”, 33% - “no change”).

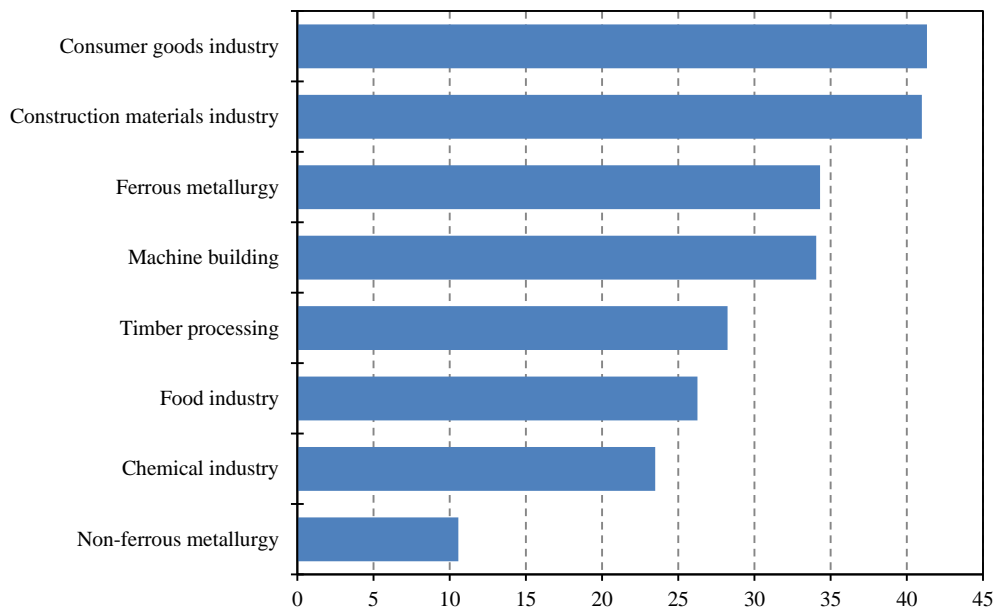


Fig. 19. Rating of industries by the assessed growth of probability of the second wave of the crisis (November 2013, %)

Workforce problems of the Russian industry

In 2013 Russian industry continued to lose workers. According to the data of IEP surveys last year the average annual rate of dismissals there reached -8 balance points – the maximum level since 2010. In the crisis 2009 business let this indicator drop down to -23 points despite the resistance of authorities at all levels. Only in March 2010 surveys registered the first increase of industrial employment after the crisis. This process went on till August 2010 with intensity ranging from +3 to +8 points. Then the recruitment in industry at large stopped but no massive lay-offs were registered either. 2011 began with the most sizable (by post-crisis criteria) hiring of workers – in March its rate reached +15 points. But already in May it stopped and by the end of the year gave way to the reduction of personnel at the rate of -11 points. However, the outcome of 2011 was not so dramatic: enterprises managed to balance the number of hired and dismissed workers with just -1 point result. 2012 turned out to be much worse: the annual balance fell down to -5 points, the rate of recruitment at the beginning of the year increased only up to +8 points while the rate of dismissals at its end reached -12 points. In 2013 industry failed to achieve a positive balance of employment change in any of the months. In February-April when enterprises used to increase the number of employed, the balance was up to only -4 points, i.e. dismissals prevailed over hiring of personnel in industry. In the next months the indicator remained in a narrow interval between -6 and -8 points implying a stable rate of lay-offs as different from previous years when the outflow of workers from enterprises

accelerated at the end of the year. So, throughout 2013 industry displayed a flatter dynamics of the number of employed as compared with the previous years (*Fig. 20*).

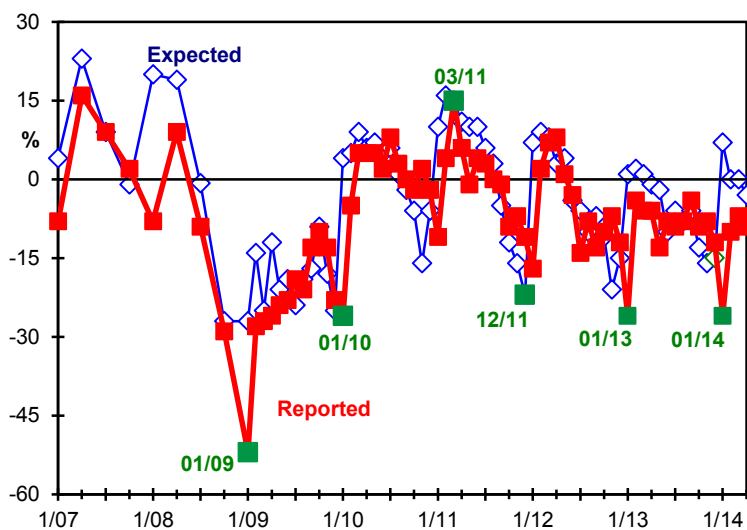


Fig. 20. Actual and projected changes of employment
(balance = % growth - % reduction)

Projections for the number of employed in 2013 also demonstrated greater stability as compared with the first post-crisis years. In the first quarters of 2010-2012 industry displayed the most optimistic employment change projections – then the balance rose up to +9 points in 2010 and 2012 and even up to +12 points in 2011. But by the year end it fell down to -22..-16 points. In 2013 this indicator managed to grow to only +2 points in the first quarter, i.e. didn't differ much from zero, and in November-December was down to only -13 points. Even the latter value was most likely attributable to the declaration of the head of the government who stated that authorities wouldn't fight with lay-offs in case of the second wave of the crisis. Within 4 months before that the balance of employment change projections was relatively stable ranging from -9 to -6 points. So, industry has come to terms with its workforce problems and does not even project to cope with them.

The data about actual dismissals of workers from industrial enterprises and the prevalence of negative employment change projections among their managers could be due to deliberate policies for optimizing the number of employed in the situation of stagnation and the absence of hopes for recovery in the foreseeable future. But three indirect circumstances make one doubt such an explanation.

The first is that the actual employment demonstrates more sizable reductions as compared with those projected (expected) by enterprises. Indeed, the average annual balance of actual employment changes in 2013 reached -8 points while the balance of projections – only -3 points. The statement is supported by the comparison of actual employment changes with the respective projections at micro-level. In 2013 expectations of 15% of enterprises were more optimistic than the actual changes of the number of employed in the same month. The opposite situation (i.e. more pessimistic expectations as compared with actual changes) was registered at 12% of enterprises. So, industry more often hoped for the improvement of employment dynamics than expected its deterioration from the actual level preceding these projections. The

maximum prevalence of improvement projections over deterioration projections was registered in 2008. Then positive changes were observed at 19% of enterprises versus negative changes at 10% of them. But in all the surveyed years an absolute majority of enterprises projected preservation of the actual trends. The share of such responses ranged from 70% to 75%.

The second circumstance bases upon the estimates of workforce sufficiency in Russian industry. The question about sufficiency of workers at a particular enterprise (introduced in IEP's business survey questionnaires back in 1996) allows to get direct estimates thereof. Annual averages show that throughout all the years of monitoring the most part of Russian industrial enterprises considered the available number of workers to be sufficient for meeting the expected growth of demand. The historical maximum of this indicator was registered in 2012 when the share of such responses reached 77%. In 2013 it fell down to 73% but remained within the interval habitual for the post-crisis period. Among the rest of enterprises the prevailing estimate throughout the post-crisis period was "below sufficient". In 2013 the share of such responses amounted to 16% – the 5-year maximum. As a result, the balance of estimates of workforce sufficiency (traditionally examined by surveys) was negative albeit not so impressive as in 2006-2008 (*Fig. 21*).

In 2013 the shortage of workforce was most acute in consumer goods industry where as of the end of the year one third of enterprises reported that the number of workers was insufficient relative to the demand projections and the balance of estimates was as low as -24 points. Still, that was not the worst post-crisis result of the sector – in 2010 the share of such responses reached 46%. So, the consumer goods industry managed to reduce the deficit of labour. However, at least initially, it was most likely achieved not by means of recruitment but owing to the revision of demand and output projections. While in 2010 the shortage of personnel was accompanied by hiring of workers (the balance of employment change was positive) and resulted in the decrease of respective indicator from -39 to -28 points, in 2011 there began lay-offs that nevertheless did not reverse the contraction of shortage down to -18 balance points. In 2013 the intensity of labour loss in the sector increased even more (up to -13 points) and its outcome was the deterioration of workforce sufficiency down to -24 points. The extent of labour drain in the past year seems to have surpassed the negative adjustment of demand and output projections and presently the sector experiences shortage of workers even for maintaining the shrinking volumes of output.

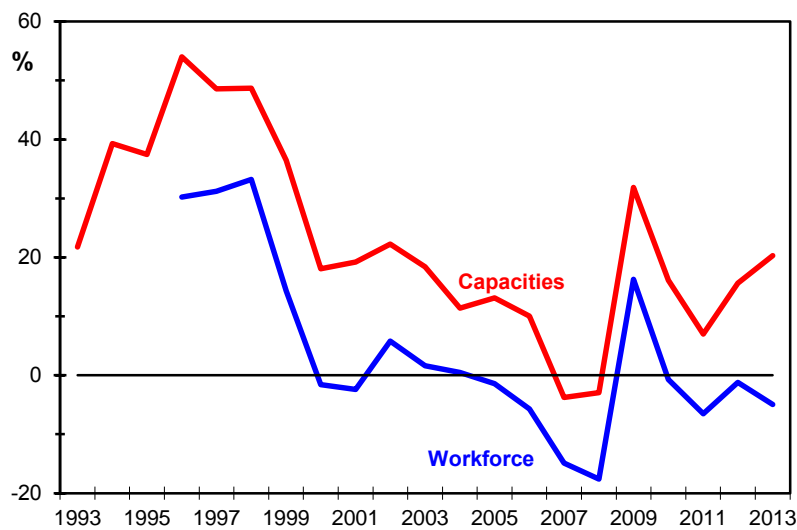


Fig. 21. Average annual balances of capacity and workforce estimates in 1993-2013

Three branches rank second by the shortage of workforce: non-ferrous metallurgy, machine building and food industry where the balance of estimates amounts to -10 points. They also lost workers in 2013 but at different rates: while in metallurgy and machine building the intensity of the process was -6 and -7 points, in food industry – only -2 points. This proportion between estimates of workforce sufficiency and lay-offs can be inter alia due to different prospects of the sectors.

Other branches in 2013 estimated the number of their workers as excessive. The biggest surplus was registered in construction materials industry (+14 points) and ferrous metallurgy (+10 points), the smallest – in chemical industry (+2 points). The workforce situation in these branches was also aggravated by the practice of dismissing workers only at the end of the year. However, the extent of such dismissals (either voluntary or forced) seems to be insufficient as there remained excessive employees.

The third circumstance comes out of the analysis of workforce sufficiency estimates and plans (projections) of enterprises as regards correcting of employment deviations from the “normal” number of employed for this particular enterprise. One should keep in mind that enterprises are free in their estimates of workforce sufficiency, i.e. nothing prevents them from answering that the actual number of workers is excessive (“above sufficient”) or vice versa insufficient (“below sufficient”). Meantime in their employment adjustment plans managers have to take into account the actual situation at the labour market, i.e. the actual ability of enterprises to dismiss excessive workers or hire new ones. Calculations show that in 2013 the ability of industry to correct deviations from the desired level of employment at least at the level of projections fell to a 15-year minimum. Only 58% of enterprises had plans envisaging lay-offs in case of excessive employment, the preservation of personnel in case of ideal number of workers or their recruitment in case of shortage. The historically greatest ability of industry to provide an adequate response to workforce imbalances was registered in 2010 and amounted to 68%. So, over the 3 recent years the tackling of personnel problems has become a more difficult task for enterprises. And it has turned out that the cause thereof is by no means their inability to dismiss surplus workers due to the pressure of authorities. In 2013 26% of

enterprises projected such changes in the number of employed that could result in an increase, preservation or appearance of workforce shortage in industry. This is a historical maximum for this indicator. A similar level of projections implying growing shortage of workers was observed in 2008 when the Russian economy and industry were maximally overheated. At the same period the share of projected changes in employment that could result in an increase, preservation or appearance of workforce surpluses was only 15% – a historical minimum for this indicator. The latter's maximum value (30%) was registered in 1997. At present the share of projections implying growth of workforce surpluses in industry is only 16% and as a result 2013 ranks second among all the 18 years of monitoring this indicator. However, similar results were registered in 2011-2012 proving the minimal pressure of authorities on industry in the 3 recent years with the aim to prevent sizable lay-offs in the situation of stagnation. The latter was proclaimed by the head of the Russian government in autumn 2013.

The detailed (per quarter) analysis of 2013 data shows the weakening of industry's ability to correct the workforce imbalances. While at the beginning of the year 61-62% of enterprises were ready to solve their staff problems, in its second half the respective share fell down to 54% – a minimum for the recent 15 years. At the end of 2013 one third of enterprises had plans (projections) of employment change pointing to the growing shortage of labour in industry. The value of this indicator was most close to an absolute maximum over the whole 18-year period of monitoring employment estimates that was registered in October 2008 (42%). At the beginning of 2008 only 18-19% of industrial enterprises were unable to cope with the deficit of workforce.

On the contrary, the expectation of problems with surplus employment at the end of 2013 reduced and was as small as 13%. This is not the lowest level of this indicator implying that there still exists a potential for lay-offs in industry. In October 2011 the projections for preservation of workforce excessiveness fell down to 7% which was most likely due to the forthcoming federal elections (let's note that already in January 2012, i.e. soon after the elections to the State Duma, the industry's inability to cope with surplus employment returned to 15-20% habitual for that period). In October 2008 this indicator equaled 8% conditioned by the highest point of pre-crisis over-heating of the economy. In 1996-2013 there were no other periods demonstrating a clear inability of industry to cope with excessive employment.

So, industry is rather losing workers than dismissing them on its own initiative. This conclusion is supported by the direct data on the workers' reasons for leaving.

According to the data of 2012 and 2013 surveys workers more often leave industrial enterprises voluntarily than are dismissed by administrations. In 2012 the proportion was 65% versus 27%, in 2013 – 76% versus 30%. So, 3/4 of Russian industrial enterprises are losing workers by no means of their own will and this fact explains quite a natural in such situation insufficiency of labour in industry. Therefore, the thesis about the need to dismiss "extra" workers in case of the possible second wave of the crisis requires a serious revision. Most likely it shouldn't be applied to the major part of industrial enterprises that as it is do not have extra workers relative "to the expected changes of demand". But the obtained data evidences aggravation of problems faced by employers and authorities rather than their alleviation. These conclusions base upon analysis of the reasons for leaving in 2012 and 2013.

The leader among reasons for leaving is "low wages" (*Fig. 22*). For the second year in turn this factor is mentioned by 47% of enterprises. The composition of branches most intensely losing workers due to this reason hasn't changed: non-ferrous metallurgy, food industry, timber processing and construction materials industry. In machine building the loss of workers due to

low wages remains at the level of 55%. The contribution of this factor is the lowest in ferrous metallurgy. Nevertheless, in recent time 63-66% of industrial enterprises find the level of wages paid to be normal. This raises doubts about the alleviation of low wages' negative impact on staff problems of enterprises.

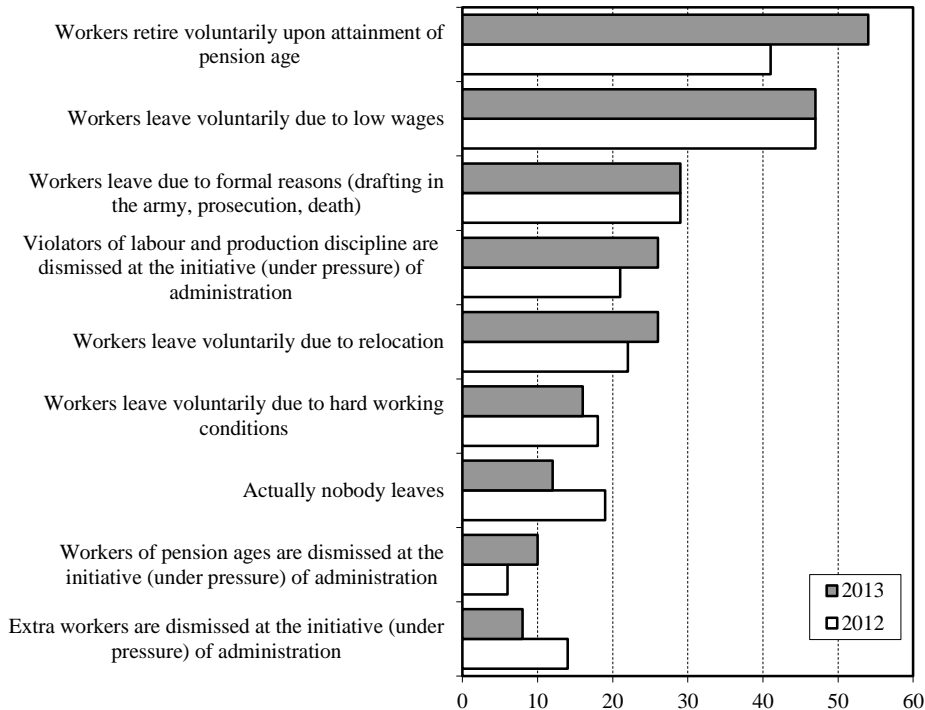


Fig. 22. Actual reasons of workforce drain from industrial enterprises, %

However, in 2013 enterprises faced one more problem that was probably more serious and long-lasting than insufficient wages. The “voluntary retirement of workers of pension ages” has climbed to the first place among reasons for leaving in industry. This fact is the outcome of conjunction of multiple developments in our recent history. The start of economic reforms resulted in the lowering of birth rates in the country and the reduction of the number of graduates from secondary schools in recent years. Drawbacks in the policy of after-school education conditioned creation of such a big number of tertiary institutions that actually any school graduate can find one corresponding to his level of knowledge. On the contrary, the number of vocational secondary institutions shrank as well as the efforts of state to fill them with school graduates. All this resulted in smaller inflow of young people to worker vacancies in industry. Enterprises had to do their best to keep workers of elder ages from retirement. But the objective process of aging that is not responsive to any economic policy tools started to inconvertibly curtail the number of elderly workers in our industry. In 2013 already 57% of enterprises realized this fact. The growing outflow of pension-age workers was registered in all branches except consumer goods industry (there the share of such quits slightly reduced from 53% to 51%) and food industry (down to 24% from 28%). The biggest growth of voluntary retirements of pensioners was observed in chemical industry (up to 53% from 22%) and ferrous metallurgy (up to 87% from 60%).

The third cause of voluntary quits – “hard working conditions” – retained its importance at the same level both in industry at large and in most branches.

The number of “dismissed at the initiative of administration” grew as well. Similar to the previous year, employers mostly prefer to fire violators of labour and production discipline. At present 26% of enterprises resort to this practice (in 2012 - 21%), most often in ferrous metallurgy (50% of enterprises), consumer materials industry (33%) and machine building (31%). On the contrary, food industry demonstrates steadily low rates of dismissing discipline violators (15%). As compared with 2012, the lay-offs of pension-age workers at the initiative of administration grew as well (from 6% to 10%) but the moderate scale of this practice is obvious. The detailed analysis showed that in 2013 the only contributor to the growth of forced lay-offs of pensioners was ferrous metallurgy. While in 2012 only 8% of enterprises reported such cases (and it was not the highest result as compared with other sectors), in 2013 the respective indicator grew up to 40% – well above other branches where it ranged from 2% to 7%. The persisting low demand for metals makes enterprises of the sector resort to all means of reducing costs that are possible in the current economic situation in Russia. Prioritizing current problems they probably undermine their future development.

The dismissal of “extra” (according to the employers’ opinion) workers remained in the last place among reasons for leaving having lost several percent points over the year. This fact seems quite logical taking into account the shortage of labour in industry that increased in 2013. Currently only 8% of enterprises dismiss workers for that reason. This indicator could be lower if not for ferrous metallurgy and food industry. In the former the share of enterprises laying off extra workers remained at the level of 20% while in the latter the frequency of applying this tool for reducing costs increased (although the growth was not significant – up to 7% from 5%). On the contrary, the scale of such dismissals in other industries diminished.

The performance of Russian industrial enterprises suffering from the shortage of labour and losing it due to demographical reasons is also aggravated by apparent problems with recruiting new, especially skilled workers. The finding of such workers on the market still remains the most difficult task. Only 37% of enterprises state that “there are no special problems with hiring skilled workers, i.e. we find and hire them when it’s necessary”. The probability of finding and hiring other categories of personnel in industry is higher: in 2013 40% of enterprises easily found heads of production and other units, 47% - engineers and office workers, 71% - non-skilled personnel. However, as different from 2012 the situation on the market of skilled labour seems to have changed for the better for employers. First, enterprises got more opportunities to solve their personnel problems by hiring skilled workers (in 2012 only 29% of enterprises could do that). It should be noted, however, that similar improvements took place in respect of other mentioned categories of staff. Second, in 2013 only 5% of enterprises retained the reserve of necessary skilled labour. In 2012 17% of enterprises had such a “reserve”. The lowering of staff reserves was also registered for other categories of workers but it didn’t exceed several percent points. Meantime, the overall capability of relatively problem-less replenishment of workforce in industry (labour market + own reserve) remained approximately the same: 42% of enterprises in 2013 versus 46% in 2012. So, the re-ranking of potential sources of skilled labour took place in 2013: henceforth employers will search for such workers “out of gate” rather than “in gate”. This can be assessed as a negative circumstance since it implies greater risk for enterprises to face difficulties in hiring workers in case of industrial recovery and feverish demand for labour from businesses already having experience of operation under deficit of skilled personnel. A positive side of the new situation is the lowering of employers’ expenditures on maintaining excessive workforce on the staff.

The problems that industrial enterprises encounter in search for skilled workers remained the same. As assessed by enterprises, in 2013 low wages ranked first in the rating of hindrances to recruitment. The frequency of mentioning this factor remained at the same level – 36%. Nearly similar “popularity” in industry had the problem of general shortage of labour supply in the region – it was named by 34% of enterprises (in 2012 – 37%). To the second place they put the dismantling of the system of vocational secondary education. 26% of enterprises (in 2012 – 22%) found that the number of specialists trained by educational institutions was insufficient and 24% of them complained about the quality of graduates’ training (in 2012 – 22%). At the third place business self-critically preserved hard working conditions. This factor was again mentioned by 14% of enterprises. 9% of respondents (in 2012 – 6%) considered work in industry to be generally non-appealing (“jobseekers do not apply to our enterprise”).

One more direction of IEP’s annual monitoring allows to estimate the impact of staff scarcity that was not an infrequent guest in Russian industry even in the period of 2012-2013 stagnation. The long-standing and informal relations with respondents create conditions for receiving direct answers to direct questions including the ones about possible effects of skilled labour shortage in Russian industry.

The deteriorating quality of manufactured products remains the most important sequence of personnel (and first of all skilled workers’) shortage. In 2013 37% of enterprises (the same percentage as in the previous year) admitted the fact of this most negative outcome of staff scarcity. Also no changes took place in the composition of branches suffering most from the deteriorating quality of output. In the first place remains machine building where 53% of enterprises admitted the fact (in 2012 – 46%), then follow consumer goods industry (in 2013 – 41%, in 2012 – 31%), food industry (in 2013 – 38%, in 2012 – 41%), timber processing (in 2013 – 38%, in 2012 – 39%) and ferrous metallurgy (in 2013 – 31%, in 2012 – 42%). So, direct estimates of producers paint a highly gloomy picture of the vanishing competitiveness of the sector that should have become a locomotive of Russian economy’s modernization. The admission of this fact is hindered by two circumstances: first, by the difficulty of measuring these processes using instruments of traditional statistics and, second, by the utter responsibility for them of authorities the policies of which in the sphere of vocational education have led to such a deplorable result.

The second place among actual aftereffects of staff scarcity continues to belong to the inability to increase output even in case of available orders. About one third of industrial enterprises consistently point to this hindrance to recovery from lingering stagnation. This figure is supported by another indicator of business surveys – the rating of impediments to output growth in industry in which the same share (about one third) of enterprises named shortage of personnel. In 2013 the hindering effect of this factor was the greatest in machine building (46% of enterprises mentioned it against 42% in 2012), consumer goods industry (43% against 40% in 2012), non-ferrous metallurgy (39% against 18% in 2012) and chemical industry (34% against 23% in 2012). At another pole of this personnel-stagnation rating was ferrous metallurgy where only 10% of enterprises couldn’t increase output due to the shortage of labour.

In 2013 an absolute reduction of output due to the insufficiency of workers was registered at 22% of enterprises thus retaining the third place in the general industrial rating of staff scarcity impacts. The leader in decreasing output due this reason was consumer goods industry (49% of enterprises against 51% in 2012). In the second place with a large gap were machine building (32% against 28% in 2012) and timber processing (30% against 23% in 2012).

The “wage response” to the shortage of workers in industry was in the fourth place in 2013. Within two years the application of this tool for fighting deficit of workforce grew from 11% to 19%. Enterprises are forced to increase workers’ remuneration even despite stagnation in order not to be left without personnel in the situation of continuous labour drain, the main cause of which according to their own estimates are low wages.

Investment problems of Russian industry

Investment activity that according to the data of official reports has been fading quarter by quarter may eventually spring a very unpleasant surprise in the nearest future. Therefore the analysis of factors hindering growth of investments in Russian industry is of immediate importance.

Usually IEP collects survey data on hindrances to investments in the I quarter when industry is actively developing investment programs for the new year. The set of factors that could be considered hindrances to investments is based on the recommendations of harmonized European survey program and remains unchanged since 1996. It includes: shortage of own funds, high interest rate on credits, difficulties with receiving long-term credits, high prices for construction and installation works and equipment, low profitability of investments and surplus of existing facilities. The latest regular survey was conducted in January 2013. But as the problem of investments’ slow down was becoming more and more serious each month, a non-planned survey was made in September 2013. It carried on the traditional multi-year monitoring of hindrances to investments and produced the following results (*Fig. 23*):

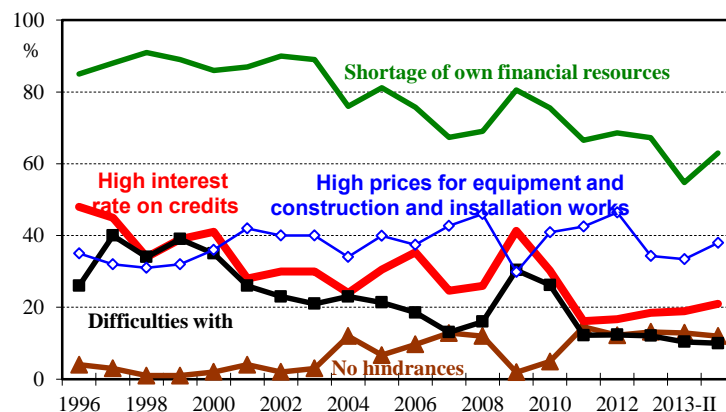


Fig. 23. Hindrances to investments in Russian industry

The results of the second survey in general supported the figures of January survey except for the first (most frequently mentioned) factor in the rating of hindrances – the shortage of own financial resources. The mentioning of this hindrance by enterprises fell by 12 percent points down to 55%. It implies that only slightly over one half of industrial enterprises suffer from the shortage of own funds for investments. The maximum level of this indicator amounted to 90% and was registered at the beginning of 1998, 2002 and 2003. The result of monitoring this deterrent seems to be quite logical taking into account at least two circumstances. First, according to estimates of the Development Center the amount of “surplus” funds on accounts of enterprises continues growing. Second, according to data of IEP surveys the actual (as different from reported) financial and economic performance of Russian industrial enterprises

in 2012-2013 was not getting worse – only 13% of enterprises assessed it as unsatisfactory. For reference – in 2009 the share of such assessments was as high as 32%, in the best post-crisis 2007 – 10%. Meantime, enterprises' projections as regards the change of their performance in 2013 were even several percent points better than in 2012.

In 2013 the highest sufficiency of own funds for investment projects was registered in ferrous metallurgy (where 59% of enterprises did not consider their shortage to be a hindrance for investments), food industry (56%) and electrical power industry (51%). It's worth noting that the frequency of complaints about high interest rate on credits was the lowest in the same sectors (15%, 14% and 11%, respectively). The deterring effect of insufficient own funds quite predictably diminished with the growth of unit size: while small and medium enterprises mentioned this factor in 72% of responses, very large ones did it in 59% thereof.

The second (albeit, most popular with officials and experts) problem of the sources of finance is high interest rate on credits. But beginning from 2011 it actually worried only 16-19% of industrial enterprises and in 2013 slid down to the 4th place (19%) in the rating of traditional hindrances being monitored since 1996. Complaints about interest rate are mostly heard from enterprises in chemical industry (28%) and construction materials industry (25%). As one could expect, its negative effect on investment activity reduces with the growth of enterprise size.

Difficulties with receiving long-term credits in 2013 were also minimal over the whole period of monitoring. At present they are experienced by only 10% of industrial enterprises. In the 1990's this hindrance was mentioned by 40% of respondents, in 2009 – by 30%. These difficulties are most often encountered in chemical industry (21%) and electric power industry (15%) which can be due to different understanding of "long term" by enterprises of the named sectors and their creditors.

So, business assessments prove that financial constraints to investments in 2013 and especially at its end were minimal over the whole period of monitoring. The accumulation of own funds by enterprises even in the situation of stagnation and the softening of credit terms by banks even in case of long-term lending extend the financial basis for potential investments in Russian industry. These results and apparent conclusions make one switch attention to other factors hindering investment activities of Russian industrial enterprises.

The negative effect of high prices for construction and installation works in 2013 was also minimal for the period of monitoring: they were mentioned by only 33% of enterprises. It was certainly a consequence of stronger competition between builders and producers of equipment for performing the shrinking volumes of construction works and machinery supplies. This indicator was slightly lower only at the end of 1990's and in 2009 that was a crisis year for investments. The negative effect of prices reached its peak in the pre-crisis 2008 and at the beginning of 2012 when the combination of investment plans and investment opportunities permitted service suppliers to raise prices. So, in 2013 the price factor was also at the most comfortable level for investors (certainly relative to other periods and by Russian standards). It can be excluded from the list of potential barriers to investments.

On the contrary, the negative effect of low profitability of investments in 2013 reached its maximum. In the situation of decelerating price growth that got increasingly widespread in industry 20-25% of enterprises could not ensure acceptable rate of return on investments even despite consistent efforts to reduce costs. The most affected were enterprises in ferrous metallurgy (30% of them) and machine building (25%). Meantime enterprises in electrical

power industry (even after the announcement about possible freezing of their tariffs) showed the least concern about low profitability of investments (8%).

In 2013 the hindering effect of surplus capacities on investment activity in industry was also record high. At present 10% of enterprises directly admit that they have so many idle machines and equipment that their modernization or increase of fleet makes no sense. Meantime in 2012 the proportion of such statements was only 3% - almost the same as in the favourable for Russian industry 2005-2006 and 2008. So, by this indicator 2013 was the worst year for launching investments. But not in all sectors. The counter-investment surplus of capacities was the biggest in ferrous metallurgy (32% of enterprises in the sector admitted the fact) and food industry (14%). At the same time in chemical industry and timber processing this factor was a hindrance for only 2% of enterprises.

In general the analysis of traditional factors considered to be hindrances to investments has not revealed a principal deterioration of current terms for investing in modernization and expansion of capacities. Rather the opposite is true since the mentioning of most widespread deterrents has become less frequent and the factors whose impact is growing rank last in the rating of hindrances (as assessed by enterprises) and cannot sufficiently explain the increasingly apparent reluctance of industrial enterprises to invest in production. Due to this some additional factors reflecting the specifics of the current period of national economic development were included in the September survey. The results showed that new constraints (some of which had informal nature) well complemented the traditional list of factors and took the third, the fourth and the fifth places in the rating (*Fig. 24*).

It has turned out that the most widespread hindrance among the ones newly included in the IEP's monitoring is the uncertainty about prompt recovery of the Russian economy. 22% of enterprises mentioned this factor thus attaching to it the same importance as to low profitability of investments and high interest rate on credits. Let's note that the survey was conducted in September, i.e. before the public admission of problems in Russian economy by the head of the government and declaration of his intention to take control over their solution. It is logical to suggest that if the survey was done after the proclamation of these estimates and plans, the above hindrance would have gained several more points.

Meantime uncertainty about prompt recovery of the world economy cherished by all Russian officials as the cause of our problems is admitted as such by only 8% of industrial enterprises.

The detailed analysis shows that the strongest dependence of investment intentions on the prospects of Russian economy is currently observed in ferrous metallurgy where 39% of enterprises point to this factor. Moreover, this cause ranks first in the sector by 10 points surpassing the most widespread deterrent to the investment process in Russian industry, i.e. the shortage of own funds. In other branches the impact of uncertainty about prompt recovery of the Russian economy on investments is much smaller – the place of this factor in their ratings is far from the top. In non-ferrous metallurgy and consumer goods industry it is mentioned by slightly over 1/4 of enterprises, in machine building – by slightly over 1/5 of them, in construction materials industry – by 12%. The lowest dependence of investment plans thereon is registered in food industry. It seems quite natural as the country's population constantly needs feedstuffs and so the industry has to maintain production and investments at a certain (at least minimal) level irrespective of the phase of economic cycle.

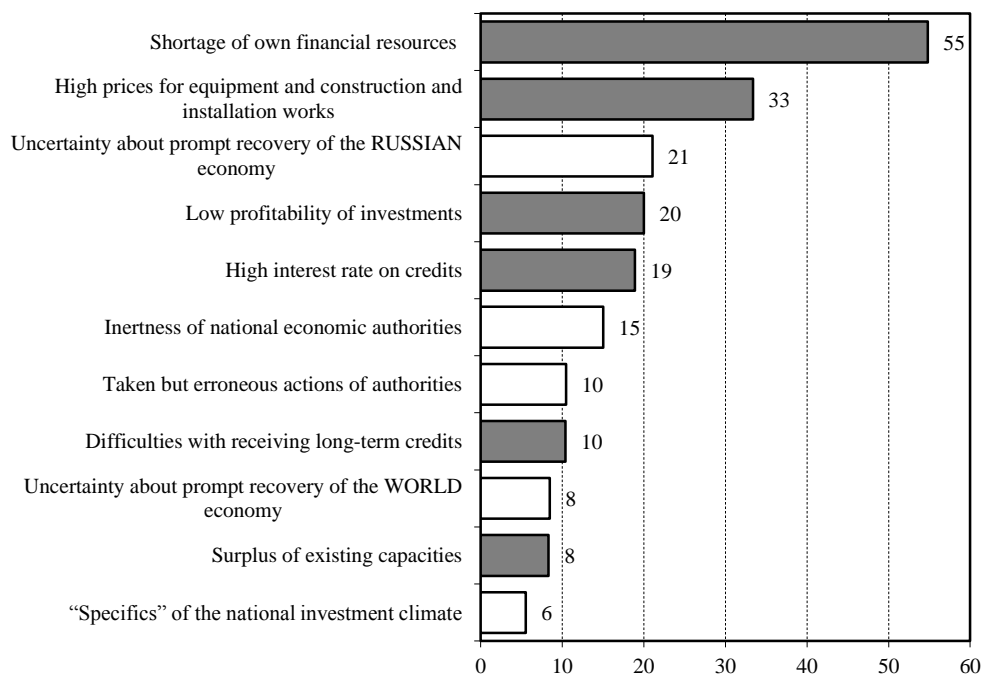


Fig. 24. Structure of hindrances to investments as assessed by Russian industrial enterprises in September 2013 (traditionally monitored factors – grey color, newly monitored factors – white color)

The negative effect of uncertainty about prompt recovery of the world economy on investment processes is also generated primarily in ferrous metallurgy where 27% of enterprises admit this fact (the second place in the sector’s rating of hindrances). In other branches this factor is mentioned by 8% or 7% of enterprises at the most (timber processing and machine building, respectively). So, the attributing of problems with investments in Russian industry to the difficult economic situation in partner countries would be amazing for the absolute majority of domestic enterprises.

The fourth place in the current industry’s rating of hindrances to investments belongs to inertness of national authorities. It’s logical to suggest that these assessments primarily relate to the lack of feasible plans for recovery from the lingering stagnation which is the main cause of investments’ slow down. There was enough time from 2011 (i.e. the moment of the first outburst of concerns (expectations) about the second wave of the crisis) to work out such measures. The actions taken by authorities were either inappropriate or the support of Russian industry was not their primary target. It’s worth noting that the assessment of authorities’ inertness varies greatly by sectors. The most displeased with economic authorities are timber processing (27% of enterprises), consumer goods industry (23%) and construction materials industry (22%). Meantime in ferrous metallurgy only 1% of enterprises think that authorities are not doing anything in this field. The latter fact can be attributed to strong lobbying capabilities of the largest producers in the sector. This thesis is supported by assessments of authorities’ actions depending on the size of enterprise: while small enterprises point to their inertness in 37% of responses, for medium enterprises the respective share is already 18% and for large ones – only 13%.

Erroneous actions taken by authorities in order to overcome the slow down of investments were mentioned by 10% of enterprises participating in the September survey. This result can

be interpreted as quite acceptable since 90% of the authorities' endeavors have found support of business. However, in one branch the official anti-crisis (in the part pertaining to investments) actions were assessed as erroneous by a high share of respondents – 27% of enterprises in food industry pointed to this fact. In other sectors the share of such responses was about 10% and in chemical industry and non-ferrous metallurgy even smaller – below 1%.

Precautions of industrial enterprises against the second wave of the crisis

The Rosstat data on dynamics of industrial production in 2013 showed that month by month the crisis was approaching or that at least there were no signs of overcoming stagnation and shifting to sustainable growth. These circumstances made us resume the analysis of anti-crisis measures actually implemented (as opposed to projected) in Russian industry. For the first time enterprises were asked this question in 2012, for the second time – in 2013. The comparison of results of these two successive surveys leads to the following conclusions.

As compared with 2012, in 2013 industry was forced to more widely resort to anti-crisis measures. In some cases the increase ranged from 1 to 3 percent points while in other it actually doubled. And only in two cases enterprises reported a decrease of precautionary preparations by 1 and 4 percent points (*Fig. 25*).

“Accurate” price policies became the leader in 2013. Earlier it ranked second but sluggish demand forced enterprises to use price factor more actively in order to win the competition for consumers and to prevent a crisis drop of sales. As a result the anticipation of the second wave of the crisis currently influences price policies of over one third of industrial enterprises. The most wide-scale anti-crisis adjustments of prices were registered in ferrous metallurgy where 71% of enterprises reported resorting to it (in non-ferrous metallurgy – only 3%), timber processing (45%) and consumer goods industry (43%).

The search for more cost-efficient suppliers (i.e. the reduction of costs) has preserved its popularity with Russian industry at the level of 33%. And here again an absolute leader is ferrous metallurgy (71%). Other industries apply this measure in at least twice smaller proportion of cases and in food industry only 15% of enterprises resort to it.

The minimization of finished goods stocks was the only measure the use of which in industry reduced as compared with the 2012 survey. But it fell by only 4 percent points leaving this tool at the third place (although in company with other measures the popularity of which grew up to 24%). The weakening of importance attached by enterprises to anti-crisis stock management probably became one of the reasons of record high surplus of finished goods stocks in the first half of 2013. And the highest frequency of applying measures for minimization of stocks was again registered in ferrous metallurgy. On the other pole were non-ferrous metallurgy and food industry that actually did not use this tool in fighting (pre)crisis developments.

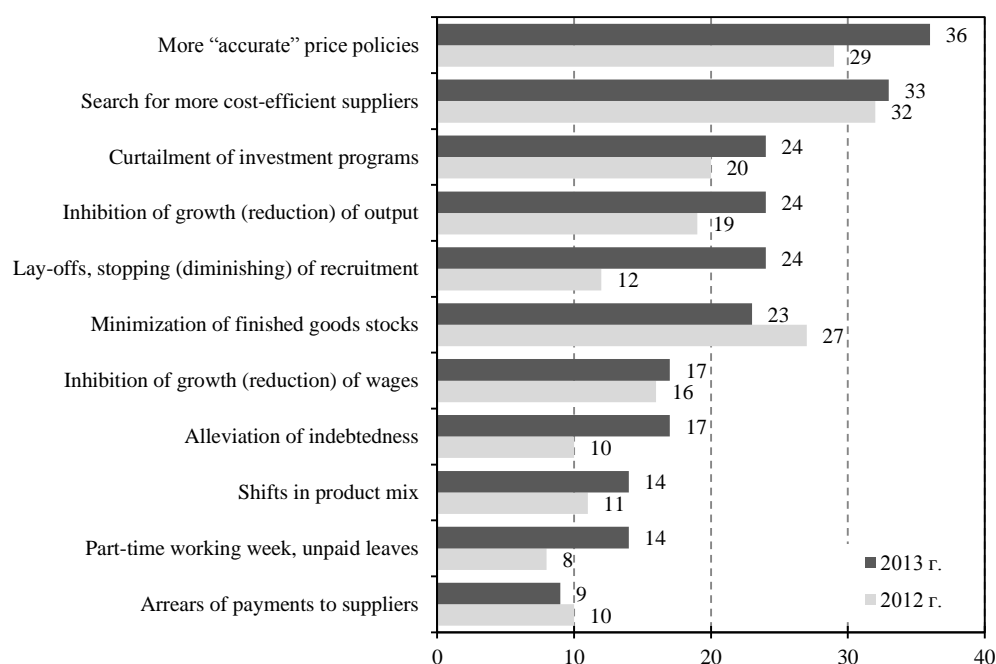


Fig. 25. Actual taking of precautions against the second wave of the crisis in Russian industry, as % of respondents

The extent of use by industry of a whole set of measures expanded from the former 12-20% of enterprises to 24%. The biggest increase was registered in the application of anti-crisis adjustment of the number of employed. While in 2012 only 12% of enterprises resorted to lay-offs, stopping or diminishing of recruitment, a year later such actions were taken twice more frequently. The leader was the same – ferrous metallurgy where 34% of enterprises reported having made pre-crisis adjustment of personnel. However, in this case other industries did not lag far behind the leader: in machine building 32% of enterprises adjusted the number of employed, in non-ferrous metallurgy – 30%. But the initiative here seemed to belong to workers voluntarily leaving enterprises rather than to employers.

The popularity of one more anti-crisis HR measure increased greatly in 2013. The shortening of working week and sending of workers to unpaid leaves was used in industry almost twice as often as a year earlier. An absolute leader here was machine building where this tool was applied by 27% of enterprises, then followed non-ferrous metallurgy (14%) and consumer goods industry (11%). Meantime the incidence of direct inhibition of growth (reduction) of wages in industry remained the same. This measure was most frequently applied in timber processing (24% of enterprises), consumer goods industry (21%) and machine building (21%).

In 2013 one fourth of Russian industrial enterprises curtailed investments as a precaution against resumption (aggravation) of crisis. The impact of crisis expectations on investment activities was the greatest in metallurgy (as followed from reports of 54% of enterprises in ferrous metallurgy and 35% of enterprises in non-ferrous metallurgy), machine building (24%) and timber processing (23%).

The volumes of output also became more affected by possible crisis developments. In 2013 this fact was admitted by 24% of enterprises against 19% in 2012. The strongest impact of crisis anticipations on output was observed in ferrous metallurgy (where it was admitted by 46% of

enterprises), timber processing (26%), machine building and consumer goods industry (25% each). The possibility of the crisis had absolutely no effect on production in food industry.

At the beginning of 2013 the alleviation of indebtedness climbed to the fourth place in the general rating of industry's precautions against a possible aggravation of crisis developments. Such actions were taken by 17% of enterprises. They were most popular in ferrous metallurgy (reported by 50% of enterprises in the sector), timber processing, consumer goods industry (18% each) and machine building (15%).

Estimate of industry's demand for anti-crisis measures to be taken by the government

The program of crisis monitoring launched several years ago by the Gaidar Institute for Economic Policy and based on business surveys allows to assess the practical efficiency of anti-crisis measures taken by the government as early as at the design stage.

Summarizing the results of three recent years of monitoring, an absolute leadership belongs to three well-known measures of support to the real sector of economy: constraining of increase of tariffs by natural monopolies, alleviation of tax burden and fostering of demand for industry's output (*Fig. 26*).

According to business assessments, the growth of tariffs is the most persistent crisis-provoking measure. In 2011-2013 on the average 65% of respondents pointed to the possibility of industrial recovery in case of constraining their increase. No other anti-crisis measure was so popular with industrial enterprises. In 2013 2/3 of them could have ensured so much needed increase of industrial output if the state listened to appeals to constrain the growth of tariffs.

So, the state that created and nurtured monopolies now has to engage in a severe battle with them in the hope to revive the rest of the economy and industry in particular. The repercussions of this struggle could be traced in speeches of the country's top officials before the decision on freezing tariffs was taken in autumn 2013 and after that – in plans of monopolies to cut investments. But even before the decision was taken business seemed to have made its own attempts to diminish the negative impact of state monopolies on industrial performance. Russian Railways have officially admitted the decrease of carried volumes. Given the lack of data on transportation by trucks, this admission allows to suggest that enterprises are starting to decline services of the monopolist in favour of more competitive and flexible motor transport when it's possible.

In 2011-2013 "alleviation of tax burden" ranked second in the rating of measures most needed for the recovery of industry. The maximum demand and hope for state assistance in this field was registered in 2012 when 73% of enterprises were ready to respond to such a gesture by increasing output. The 2012 result was all the more unique as a year before (in 2011) tax breaks could have helped only 44% of producers. In their anti-crisis policies enterprises focused on lowering costs and expected the same from the state. But these expectations were never to come true while the directions and efficiency of state expenditures probably left business astonished and discontent. In 2013 the industry's demand for revision of taxes averaged 68% and was the highest in food industry, timber processing (80% each), machine building (78%) and consumer goods industry (76%).

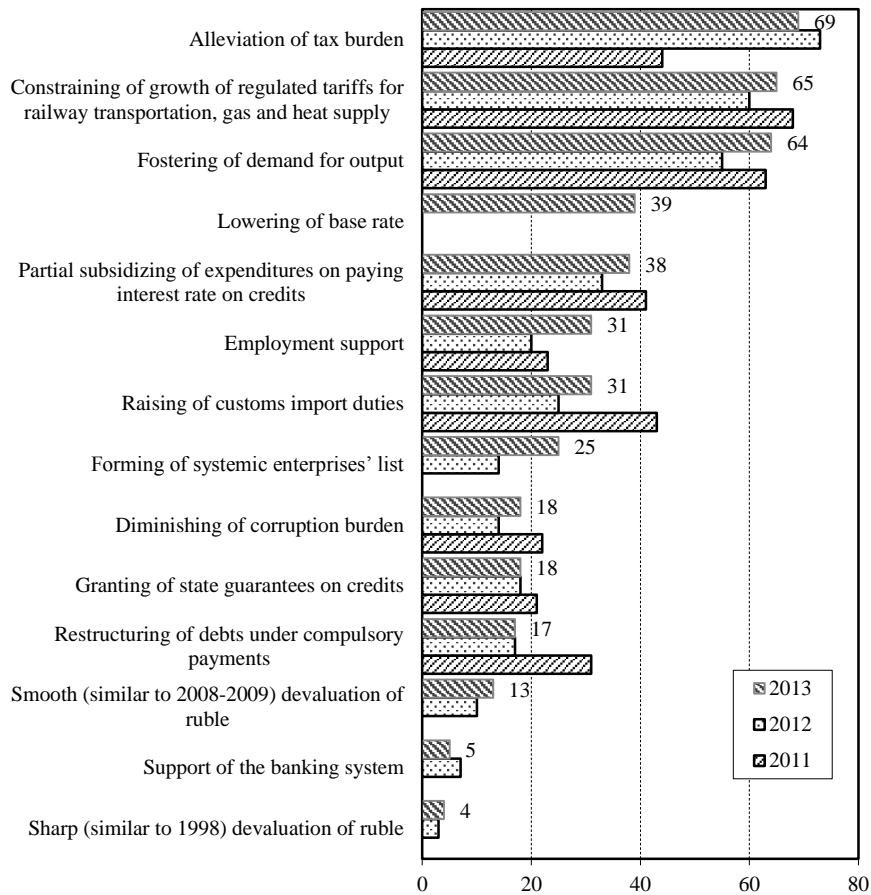


Fig. 26. Rating of desirable anti-crisis measures to be taken by the government (as assessed by Russian industrial enterprises, %)

The fostering of demand for output is regarded as necessary by 63% of enterprises and differs greatly by sectors. While in ferrous metallurgy and machine building it is awaited by 74% of producers, in food industry the respective share is only 37%, in non-ferrous metallurgy – 34%.

Possible government actions in the sphere of lending to the real sector of economy form the second echelon in the rating of anti-crisis measures. The novelty of 2013 is that “the lowering of base rate at which banks receive money from the RF Central Bank for crediting enterprises” has got support of 38% of producers and clearly lags behind the leaders. Although easy to implement, this measure so far gets stuck on an apparent reluctance of the Bank of Russia to assume the responsibility for possible and unpredictable inflationary after-effects of such actions. Besides, between the RF Central Bank and enterprises there are commercial banks supposed to transfer cheaper funds to enterprises. Meantime, the experience of 2008-2009 shows that these institutions may actually ignore the instructions of economic authorities as regards the crediting of real sector. With respect to the current situation this implies low probability of reduction of market rates at which credits will be offered to the most part of industrial enterprises.

Enterprises find that they can get an equal but real benefit from partial subsidizing of expenditures on paying interest rate on credits. The expediency of this measure in the course of 2008-2009 crisis was admitted by 20% of producers. The growth of its popularity in 2011-2013

may be due to the hope that the priority will be given to this form of credit support instead of the then used pumping of cash into the banking system coupled with appeals not to curtail crediting of the real sector. At present the latter actions seem reasonable to only 4% of enterprises.

The third echelon of anti-crisis (growth promoting) measures includes government actions targeted at the support of employment and raising of customs duties on imported products. At the current historical stage mechanisms and directions of possible steps at the labour market can differ from the ones taken in 2009-2010. Then the number of employed in industry was excessive due to the sharp production drop and constraining of lay-offs by authorities. Now the situation is different: there is not enough workforce for a moderate and even zero production growth, workers are leaving industry on a massive scale and enterprises project further reduction of personnel. It's time for authorities to think not about the prevention of lay-offs and aggravation of social tension but about attraction of workers to industry that has got depleted inter alia due to the growth of wages in the budgetary sector.

In 2013 the negative impact of imports on Russian industry became rather strong depriving domestic producers of a growing share of the market. The current pre-crisis level of this factor's importance increased the demand for state protection against imports 1.5 fold as compared with previous years.

In 2013 the need for target support of systemic enterprises in Russian industry grew up to 25% from 14% a year before. But these measures have not been so far included in the list of proclaimed actions to be taken by authorities thus undermining hopes for personal treatment by the state that are cherished by about one third of enterprises in machine building and consumer goods industry.

The possible (already underway?) devaluation of ruble considered by economists to be an efficient measure for protecting domestic producers actually rounds out the rating of measures targeted at the stimulation of economy (as assessed by industry). Only 12% of enterprises now speak for a smooth devaluation of national currency. In consumer goods industry that is traditionally most affected by import supplies the devaluation of ruble can help only 7% of enterprises. The cheapening of own output relative to imported commodities seems to be less important than the rise of prices for imported equipment.

Summing up the results of multi-year monitoring of efficiency assessments relating to potential anti-crisis (growth promoting) measures to be taken by the Russian government, the following conclusions can be made:

First, to the opinion of industrial enterprises the currently debated, implemented or earlier applied economic policy measures differ greatly by their efficiency. It would be very irrational to ignore this difference.

Second, the box of most efficient measures is stable, time-proven and largely adopted by authorities. There is little left to do – to ensure their implementation both by overcoming the resistance of monopolies and by suppressing own ambitions.

Third, the novelties of 2013 (the lowering of base rate, infrastructural projects) may have unpredictable or remote effects while the GDP growth rates need to be accelerated here and now.