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The review provides a detailed analysis of main trends in Russia's economy in 2014. 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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### 4.3. Russian industrial enterprises in 2014. (analysis on the basis of surveys)

This section was prepared on the basis of the business surveys of industrial enterprise managers, carried out on a monthly basis from September 1992 by the E. T. Gaidar Institute for Economic Policy (the “IEP”) in accordance with the European harmonized methodology, and covering the whole territory of the Russian Federation. The panel includes nearly 1,000 enterprises, with a combined workforce exceeding 13% of the workers, employed in industry. The panel is biased towards large enterprises in each of the defined sub-sectors. The typical rate of return of questionnaires is 70–75%.

The business survey questionnaire contains a very small number of questions (not more than 15–20). The questions are qualitative, not quantitative. The simple structure of the questions and answers allows respondents to fill in the questionnaires quickly and without using any other documentation. It is crucially important that the respondent for each enterprise is a manager at the highest level, having a complete picture of the overall situation within the company and directly linked to the management of the enterprise.

During the analysis of the business survey results a specific derived index, called the 'balance', is used. Balances are calculated as the difference between the percentage of those who answered “will increase” (or “above the norm”) and the percentage of those who answered “will decrease” (or “below the norm”). The difference thus obtained allows us to represent the distribution of answers to each question as a single digit with either a '+' or '-' sign.

The balance is interpreted as the first derivative or speed of a certain process. If the balance of the answers related to any expected change in prices has a '+' sign, it means that the average prices will increase in the nearest future (in other words, the number of enterprises, which have returned information about the projected growth of their prices, prevails). For instance, a monthly increase of the balance from +10 to +17% indicates that the average industry prices will increase more intensively, since the number of enterprises forecasting their growth, has increased. A negative balance would mean a decrease in average prices (a larger number of enterprises planning deliberately to decrease their prices). A change of the balance from -5 to -12% would be interpreted as an increase in the intensity of price reductions.

#### 4.3.1. Dynamics of the main indices of Russian industry

The year just ended, 2014, did not become a turning-point for the crisis in Russian industry. The industry remained relatively stable during this period which had been difficult, both for Russian society and for the Russian economy. Moreover, the IEP industrial optimism index<sup>1</sup> showed that in the second half of the year companies felt more confident than they did at the beginning of the year (*Fig. 19*). Furthermore, even during the last two months, the managers of

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<sup>1</sup> The index is based on the arithmetic mean value of balances (different answers) of four questions from the IEP's monthly business questionnaire:

1. Actual change in demand, balance = % growth – % decrease.
2. Evaluation of demand, the difference of evaluations = % above the norm + % norm – % below the norm.
3. Evaluation of the stocks of finished products, balance = % above the norm – % below the norm, the opposite sign.
4. Plans to change output, balance = % growth – % decrease.

The balances of the 1st and 4th questions are cleared of seasonal and calendar factors. The index may vary from –100 points to +100 points. Positive values of the index mean that positive evaluations prevail. Negative values of the index mean that negative evaluations prevail. A decrease in the value of the index means a worsening of the situation, while growth in the value of the index means an improvement in the situation.

those enterprises remained optimistic, despite the shock behaviour of the currency and credit markets, while there was also heightened public anti-crisis rhetoric from the government.

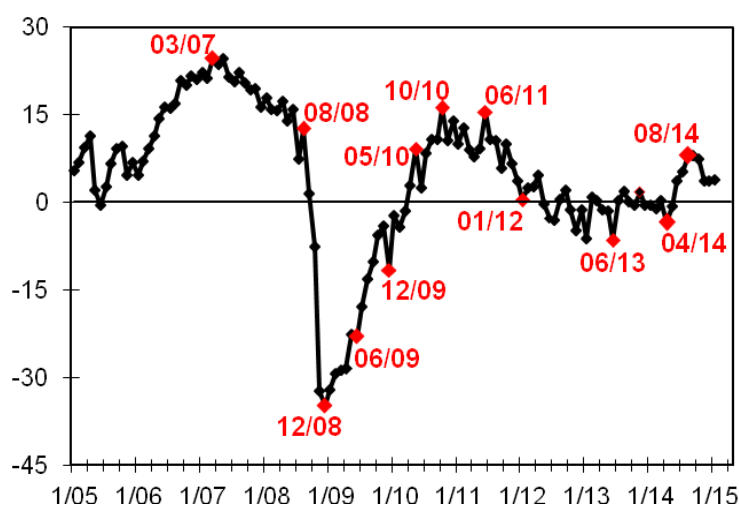


Fig. 19. The IEP industrial optimism index, 2005–2015

The beginning of 2014 turned out to be fairly comfortable for Russian industry. The positive dynamics of demand provided support for output without an increased redundancy in the stocks of finished products. The typical start-of-year decrease in demand for industrial products was lower than usual. In January, measured on the basis of the initial data, the dynamics of production output, following the demand, showed not such a strong decrease compared with that of previous years. After clearing the data of seasonality, on balance, the changes in output in January even became positive.

However, pessimistic forecasts of the demand, output, prices and investment indicated that the enterprises were uncertain of early and steady industrial growth. The demand and output forecasts did not manage to reach the usual beginning-of-year positive level. Therefore investment plans remained at the post-crisis minimum level which was established as early as August 2013.

Indeed, the following months showed that the recovery of the operational mode of Russian industry in the beginning of 2014 was carried out with difficulty and this did not bode well for the formation of new positive trends. The more intense than usual decline in demand caused a deceleration of output, while retaining normal levels of surplus stocks of finished products. As a result, the evaluations of unsatisfactory current demand continued to prevail. But such a predominance was relatively small, stable and, on the whole, better than in the previous year. Companies were therefore not inclined to give sharply negative assessments of the situation at the beginning of 2014.

However, at that time the enterprises could only increase their prices with extreme caution, and forecast only modest growth for the future (Fig. 20). The growth of the actual prices in January and February 2014 turned out to be the most moderate within the period of 2009–2014, with the natural exception of the beginning of 2011, when an increase in insurance premium rates pushed companies into the most rapid rate of increase in prices at the beginning of a year in the period since 1995 (!). According to detailed analysis, almost all of the momentum of the price increases at the beginning of 2014 fell on government enterprises.

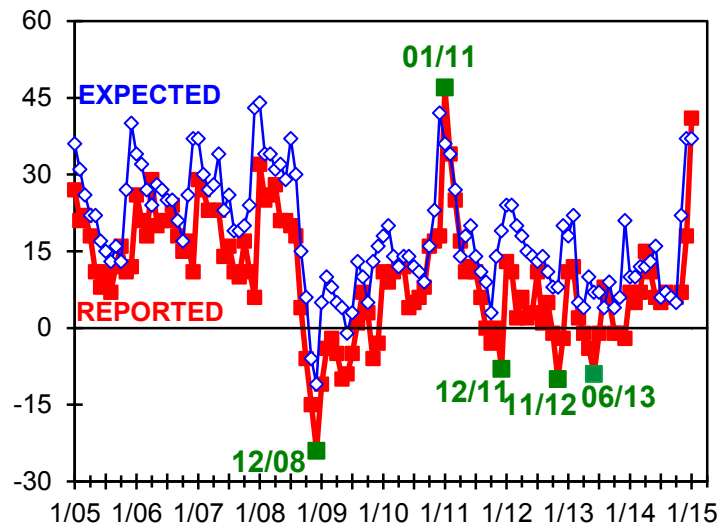


Fig. 20. Changes in selling prices (balance = % growth - % decrease)

The situation is similar with regard to price forecasts. The spike in this index was registered by the surveys only in December 2013, after which the projected price growth rate returned to the band it had occupied in March-November 2013. In previous years the enterprises retained high price forecasts during the first two to three months of each year. The government sector of Russian industry retained its leadership with regard to the price expectations of January-February 2014.

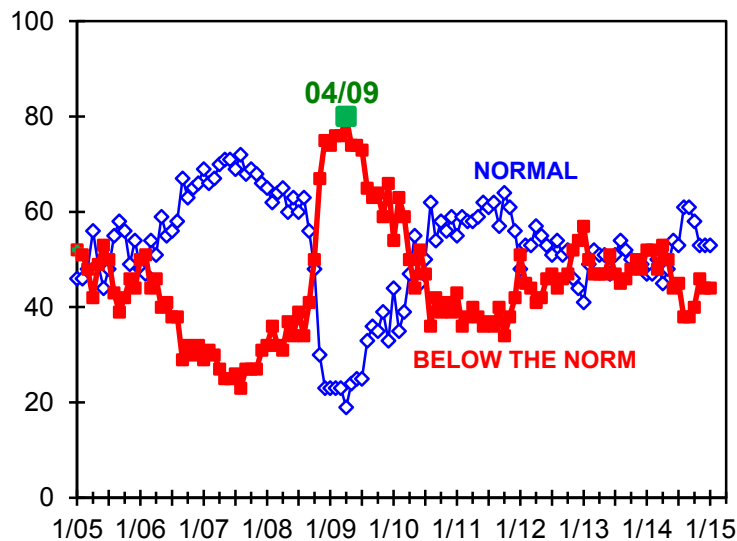


Fig. 21. Dynamics of the main evaluations of solvent demand

The end of Q1 did not demonstrate any fundamental changes in comparison with the first months in respect of demand, output, employment or the investment dynamics of Russian industry. The recovery of demand, which finally started, received adequate evaluation on the part of companies with, for the first time in 2014, the proportion of “normal” evaluations exceeding (although minimally) the “below the norm” evaluations (Fig. 21). Industry demonstrated once again its high adaptive capacity under the conditions of the current complex situation and uncertainty, which has increased due to the Ukrainian crisis. The modest volumes of surplus stocks of finished products confirm this point of view (Fig. 22). Nevertheless, it is completely understandable that the enterprises have decided to continue their investment pause. The balance of investment intentions remained in the negative zone, i. e. the answers in respect of planned

decreases prevailed over those on possible investment growth. However, the actual deceleration of investment and the pessimism of their plans were perceived as quite normal by the majority of Russian industrial enterprises under the conditions of protracted stagnation and the total absence of observable prospects of any exit from such a situation. Only 37% of them considered the volumes of their actual investments in Q1 2014 to be “below the norm”.

In March the prices set by the enterprises started to give in to inflationary pressure. Industry was forced to maintain a relatively high price growth rate, although during the last two years the balance by the end of Q1 had already lost its high January rate and tended towards zero. In 2014, under the conditions of pressure on the ruble exchange rate and the strengthening of inflationary processes, companies were forced to change their price policies even to the detriment of sales. Increases in costs to companies also influenced their changes in pricing policy. According to the surveys, the rate of growth in production costs increased in late 2013- early 2014 and reached its highest level since the beginning of 2011.

The terms of lending to the industry, despite the efforts made by the Central Bank of the Russian Federation, in Q1 2014 did not undergo any visible changes. According to the assessments made by the enterprises, the summary credit availability remained at a level of 70%, still within the band in which it had been resting for the previous 4 (four!) years. Neither was there a change in the average minimum ruble credit rate, offered by banks. It amounted to 12.5% per annum, remaining unchanged for the fourth consecutive month.

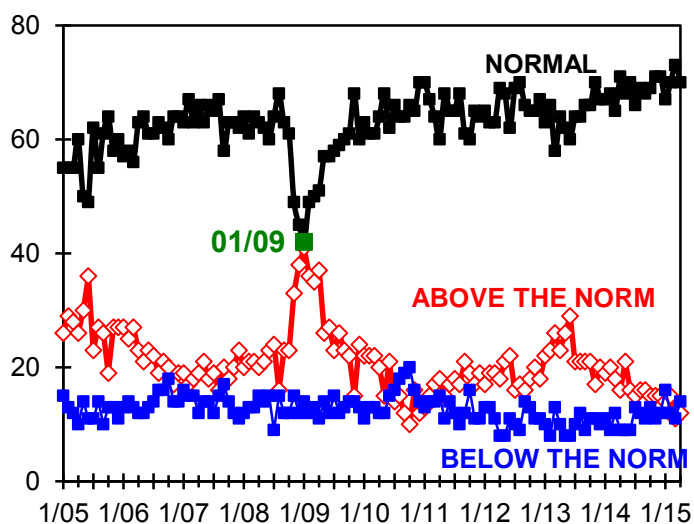


Fig. 22. Dynamic estimates of stocks of finished products, %

The beginning of Q2 turned out to be a difficult period for the industry. The actual changes in demand and output had negative dynamics, and their forecasts did not promise any improvement in the situation. The initial data showed an absolute growth in demand in March, but it was extremely weak. According to the enterprises' evaluations, by April 2014, the Ukrainian crisis had had a heavy impact, particularly on the sales of Russian products on Ukrainian markets. All other consequences of these events are significantly behind the decrease in demand on the part of the Ukrainian consumers in terms of scale. Under these conditions, the expectations of the enterprises for future changes in demand (according to the initial data) had dropped almost to zero, although during the previous post-crisis years the April levels had remained at +10 to +17 points. Exclusion of seasonality reduced the index to the post-crisis minimum (-4 points), which had previously only been registered in the middle 2012. Neither have further production dynamics made the enterprises optimistic. During March and April the initial balance of output plans lost 30 points; cleared of seasonality, minus 6 points, and dropped to an eighteen month minimum. At the same time, industry had been forced into more intensive price growth, which was hardly likely to contribute to the stimulation of demand.

However, in May the situation improved for Russian industry. The initial data on demand did not show the traditional holiday decrease in sales compared with April (as had happened in 2013). As a result, exclusion of seasonality indicated an improvement in the demand dynamics. This situation became more promising to a slightly larger proportion of enterprises than previously: the share of the “normal” answers increased to 50% when evaluating the demand, equaling the “below the norm” percentage of answers. Similarly, production output in May 2014 did not undergo the decline typical for this month. The initial data showed that it remained at the April level, and the data, cleared of seasonality, indicated a growth in intensity, rare in the two previous years. It appears that, in May industry neither felt the recession predicted for it, nor the effects of sanctions, promised by our Western 'partners'. In fact, the events in Ukraine tended to favour Russian industry output, both as a result of the objective departure of the Ukrainian competitors from the sales, raw materials and materials markets, and by the subjective growth of military and political patriotism under the new geopolitical conditions. A growth of optimism was also registered in the enterprise forecasts in May. As a result, all the previous losses shown by this index in March and April were won back, and the balance of the output plans returned to the normal level of expectation – which, though moderate when compared to the standards of the pre-crisis and first post-crisis years, was still very decent considering the wide-spread expectations of recession.

Business investment intentions in May improved slightly and reached -5 points. That is, plans to decrease investments still prevailed over intentions for expansion, although this predominance decreased month on month. During the first 5 months of 2014, the balance of investment intentions (*Fig. 25*) grew by 9 points after its failure, in the summer of the previous year, when it had dropped by 16 points. The industry, thus, was constantly getting rid of its investment pessimism. At the same time, the Ukrainian crisis did not have any adverse impact on the investment plans of Russian industry: only 1% of the respondents in Q2 indicated any decrease in their investments (plans) under the influence of these events.

However, the end of the first half of 2014 turned out to be unsuccessful for Russian industry. In June the actual dynamics of the majority of industry indices showed a return to the previous, less promising pathways. The June demand dynamics preserved those of May with demand changing towards a negative balance. But, while for the 'holiday' month of May this had actually appeared to be an encouraging result, for more or less normal-working June this kind of dynamic was evaluated as a deterioration of the situation when using formal clearance methods. The intensity of the drop in demand returned to that of the previous, February-April levels. However, evaluations of the June sales volumes demonstrated a growth in satisfaction with the current demand among enterprises. The proportion of the “normal” answers increased by 5 points and reached 53%, becoming the ten-month maximum of this index. Industry, thus, gave a positive assessment of the sales dynamics by the end of Q2. The rates of both output and growth in demand during June remained at the previous level of May. However, the difference in the number of working days also resulted in a decrease in the index, cleared of seasonality, by 5 points, but it still remained in the positive zone. So, output growth in June was sustained, although with lesser intensity.

According to the business evaluations bank lending terms in Q2 2014 underwent changes, both in respect of the offers and of the ability of the enterprises to service them. However they were so minor that they did not go outside the bands in which they had remained for the previous four years. In June, the average minimum rate, offered by the banks dropped to 12.6% after having reached its twelve-month maximum of 12.7% in May. Note that in February 2014 a twenty-two-month minimum of this index was registered, at 12.3%. The absolute minimum of the post-crisis monitoring of the bank rate was recorded by the enterprises in October 2011, at 11.8% per annum in rubles. On the whole, the availability of credit (taking into account all lending terms) in Q2 2014 was acceptable to 67% of the industrial enterprises. This was 3 points worse than the result for Q1, but still it did not move outside the band in which this index had remained for 4 consecutive years.

Since the end of 2013, the industry has continued to have sufficient capacity to service its current loans, and was equal to 82% of the enterprises, which had taken loans. The industry's maximum capacity to pay its debts was registered on the basis of the surveys in Q3 2013 and was equal to 87%. Note that this index has not fallen below 80% since Q2 2010.

Early in the H2 2014 the surveys showed obvious positive changes in most of the industry indices. The improvement of the dynamics of demand and estimates of the stocks of finished products caused active growth in industrial production. The initial growth rate increased by 14 points (cleared of seasonality, by 10 points) and reached its three-year maximum. The production plans of the enterprises also looked optimistic. Over three consecutive months the initial balances (increase-decrease) of the index remained constant, with a very high level of optimism: a three year maximum when cleared of seasonality. Industry, thus, not only ventured to grow its output in July, but also retained its 'appetite for risk' over the following months.

The positive dynamics of the actual output and industry plans were maintained at the beginning of H2 by fundamental changes in the structure of the limitations on industrial growth (*Fig. 23*). The July demand recorded a sharp reduction of the limitations on the demand side – domestic demand held back output growth of only 48% businesses, while in Q2 2014 this factor stood at 58%. The minimum mention of domestic demand after the 2008–2009 crisis was registered at the end of 2010 and amounted to 45%. The negative impact of competing imports was recognised in the middle of the year by 26% of the enterprises and was sustained for the second consecutive quarter at this lowered level due to the exchange rate policy carried out by the Central Bank of the Russian Federation. Correspondingly, at the end of 2013, industry reported that it had reached the historical maximum (34%) of the negative impact of imports on the output dynamics (since 1995!). Pre-default local maximum (1998) had amounted to 16%, while the pre-crisis maximum (of 2008–2009) was 31%.

There were fewer limitations of demand on the supply side. The most interesting result of July 2014 was the decrease to 29% in references to the “uncertainty of the current economic situation and its prospects”, compared with 34% in April. It looks as if the negative impact of the Ukrainian crisis and the loud announcements of Western sanctions were more than successfully countered by the response measures (rhetoric) of the Russian Government. A lack of equipment (production capacity) was subsequently mentioned less and less often, which obviously contradicted the conclusions drawn by some experts on the “overheating” of Russian industry (the economy), allegedly, at that time, working at the limit of its production capacity. In the summer of 2014 Russian industry suffered more strongly (on a greater scale) from a lack of staff, than from a lack of production capacity. At least one third of businesses lacked sufficient workforce, to increase their output growth. In fact such a situation was being registered by the surveys for the previous eighteen months despite the soothing official statistics regarding the low level of unemployment. This last circumstance brings with it substantial problems for businesses.

In August 2014 a strengthening of the positive trends in Russian industry took place. The actual changes in demand retained their positive dynamics, and as a result, the reached sales volumes were particularly appreciated by manufacturers, allowing them to preserve the growth in output. The dynamics of demand and its forecasts definitely and positively influenced the assessments of the stocks of finished products. The demand balance index improved in August by three more points, with the positive changes during the summer months amounting to 12 points. As a result, the estimates of demand reached the top of the forty-month indices. Another advantage was the strengthening of the positive investment plans of industry. The balance of this index, starting from June, was positive (after a twelve-month negative period) and reached +7 points. Against the background of the positive dynamics of demand, output and the assessment of the stocks of finished products such a build-up of investment optimism looked natural, but was not realised in official statistical reporting and was not reflected in official forecasts.



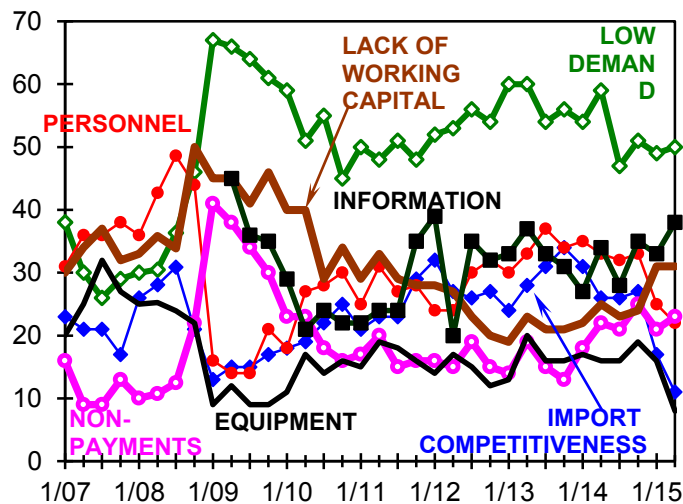


Fig. 23. Limitations of industrial growth, 2007–2015, %

The only negative trend in August was an increase in lending rates offered by the banks, by 0.5 percentage points. However, at the time this did not impact on the evaluation of credit availability by businesses.

At the end of Q3 the majority of the indices of Russian industry had remained at their previous levels. Stable demand dynamics allowed the maintenance of the previous output growth rates given the unchanged evaluations of stocks of finished products and the steady price policies of manufacturers. The moderation of price growth was also explained as a result of the success of enterprises in lowering costs. In the Q3 2014, according to evaluations by the manufacturers, the rate of growth of product costs fell to +12 points after reaching +33 points at the end of 2013, a record for the previous two and a half years. The forecasts of changes in the costs, received in 2014, suggested a further lowering of this index. In Q3 the forecasts fell to a post-default minimum. In other words, Russian industry had never planned such a moderate growth of product costs, as occurred in the second half of 2014, since July of 1998.

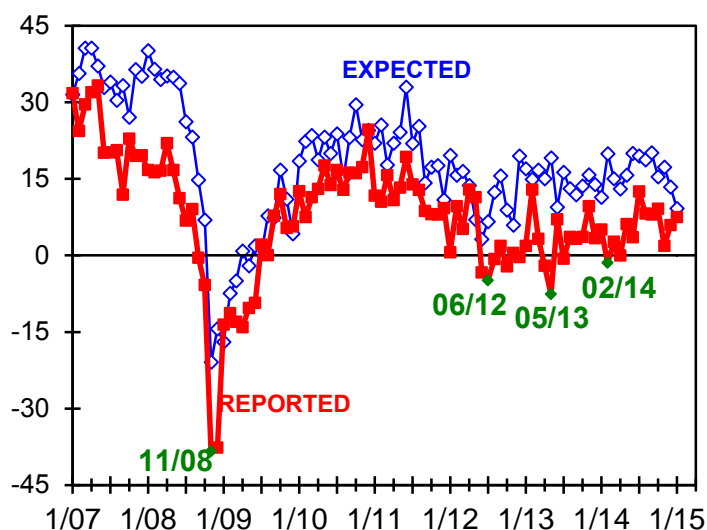
The demand forecasts in Q3 continued to gain in optimism, which in September reached a sixteen-month maximum. The same situation existed in respect of business output plans. Since May they had been approximately constant at a very optimistic level, although, after a January-February rise the optimism of these evaluations is typically expected to vanish gradually and, by October-December to move into the negative zone (i. e. expectations of a decrease in output start to prevail over plans for output growth). Once cleared of seasonality the September 2014 figures showed that the optimism of the output plans had reached a three-year maximum.

It was only the terms of providing loans to the industry that upset the optimism of the Q3 evaluations. In September the industrial enterprises began to feel the deterioration in the lending terms that had been projected by the experts for a long time. Firstly, the summary credit availability fell to a four and a half year minimum and satisfaction with the proposed lending terms fell to 61%. During the previous four and a half years this index had not gone below 65%. Secondly, the average minimum rate on credits offered by the banks, exceeded 13%, a situation which had not happened in the previous eighteen months. The tightening of the lending terms logically affected business borrowing plans. In Q3 the balance of this index fell to +8 points, which was the minimum for the whole four-year period of its being monitored. However, industry maintained a high capacity to service its existing credits. Moreover, in Q3 2014 this capacity increased up to 89%. The proportion of enterprises, capable of servicing their credits, turned out to be the highest for the whole monitoring period (since the beginning of 2009).

The beginning of Q4 was evaluated no less positively by the enterprises than the end of Q3. Good demand dynamics and successful control over the stocks of finished products allowed industry to maintain production growth in October. On the whole, the demand dynamics in 2014

showed a positive pathway which was atypical of recent years. The initial data showed the preservation of the sales change rates after January within a very narrow corridor, without the deterioration of the index at the beginning of Q4 typical of the previous post-crisis years. This fact was duly evaluated by the manufacturers: satisfaction with the demand in August-October was at the highest levels since the end of 2011.

The dynamics of industrial production (*Fig. 24*) in H2 2014 also differed for the better from the output dynamics of the previous year. The initial balance of the index (growth rate) was more stable and remained at higher levels in comparison with the corresponding periods of 2012–2013. Clearance of seasonality showed a stabilisation of the output growth rates at the level of the two-year maximum.



*Fig. 24.* Changes in production volumes, cleared of seasonality  
(balance = %growth - %decrease)

The evaluation of obstacles to output growth in Russian industry allows to confirm the positive changes in the demand and output dynamics within H2 of 2014, and also allows evaluation of the actual scale of resource limitation in respect of further growth of production.

The restraining influence of the domestic demand at the beginning of H2 fell by 12 points and almost reached the post-crisis minimum. Furthermore, growth of the index in Q4 amounted only to 4 points, and as a result only half of Russian industry faced limitations on the side of demand by the end of the year (*Fig. 21*). However, inadequate demand remains the most common obstacle to growth in the output from Russian industry. Resource limitations were mentioned by the enterprises to a much smaller extent. One third of Russian industry is fearful of increasing production due to the “uncertainty of the current economic situation and its prospects” (on *Fig. 23* this specified factor is indicated as “information”). With the developing Ukrainian crisis this factor moved to second or third position in the enterprise ratings, although before the crisis it had fallen to 5th position.

The “lack of skilled personnel” took second place in order of importance as a resource limitation (and was third in the general rating) for Russian industry. It was mentioned in Q4 2014 by 30% of the enterprises. In addition to this, during the previous 6 quarters, lack of personnel took second position in the ratings on four occasions, i.e. it was considered by the enterprises as the second most important resource limitation after inadequate demand. The third-placed factor in resource limitation for industry was the shortage of the working capital. In 2014 the deficiency of this resource was mentioned by 23% of the enterprises, which is just 2 points bigger (i. e. is worse) than the average result of 2013, when the absolute minimum of the index, amounting to 19%, was registered (for the whole period from 1993–2014). So, the tightening of the lending terms (with

the loans most often being used by business precisely for financing working capital) has not significantly worsened the availability of these resources to industry as yet.

Production capacities take only fourth position among the limits on the resources necessary for industry to increase production. By the end of 2014 only 20% of industrial enterprises faced a lack of production capacity in the short term. This index value is the post-crisis maximum. In other words, even under the conditions of the greatest lack of production capacity since the beginning of 2009, the scale of the phenomenon is significantly behind that of the shortage of other resources. Even fewer problems were experienced by Russian industry with regard to raw materials and semi-finished products. Only 11% of the enterprises pointed at a shortage of these production resources, even though this index became the maximum for the previous 15 quarters.

November became the only month of the second half of the year when the enterprises did not manage to maintain positive dynamics of the main industrial indices. Negative changes in demand did not live up to expectations for the import substitution effect which had been indicated by the Government, although a positive attitude was preserved in the plans, forecasts and evaluations of the stocks of finished products. The output growth rate, which, in the previous months had been showing unexpectedly positive values, in November, moved to more expected levels. However, the plans of the enterprises did not become sharply negative. In November they lost only 4 points in respect of the initial data, which even allowed the formal methods of clearance to show an improvement in the resulting value of the output plans by 3 points and that the plans' balance had maintained its closeness to the post-crisis maximum.

By the end of 2014, a powerful inflationary wave finally reached the costs and price plans of the enterprises. In Q4 2014 the rate of growth of industrial production costs jumped by 21 points. The surveys had not registered such sharp changes in this index in any of the previous 7 years. As a result the balance of the changes in costs reached their maximum for the previous 15 quarters. The forecasts of changes in production costs were adjusted even more. After the rate of their expected growth had been registered in Q3 as the minimum for the preceding sixteen years (i.e. for the whole post-default period!), in November this rate increased by 36 points. This change in the index even surpassed the record for the end of 2010, when industry was preparing for the increase in insurance premiums, and it was second only to the leap in cost forecasts in the post-default October of 1998.

In Q4 the investment plans of the enterprises started to lose their optimism (*Fig. 25*). In November their balance went down by 6 points, reaching a level of -11 points. So, the short period of expectation of a revival in investment activity (June-September) changed to a sharp return to the previous, extremely pessimistic investment moods of industry. That is why the decrease in the evaluations of investment plans by 18 points during these three months may serve as evidence of a further deepening of the investment crisis in Russian industry, even taking into account the import substitution, expected (planned) by the Government. However, the influence of the latter on investments is not as clear cut. If the import substitution, generated both by administrative measures, and by the exchange rate policy really does lead to an increase in demand for domestic products, this situation will put Russian manufacturers in a privileged position and allow them to use idle capacity, which under the previous conditions had been uneconomic. As a result, the incentives for companies to modernise and to extend their facilities may weaken. The unpredictability of political decisions with regard to economic sanctions also discourages investment. The problem is that if sanctions are cancelled, those Russian enterprises that had decided to invest, may once again find themselves in the same competitive market with imports. In this case they will hardly be able to achieve their planned results, since, for example, they may have previously been forced to use only affordable domestic equipment in their investment projects, due to the sanctions imposed.

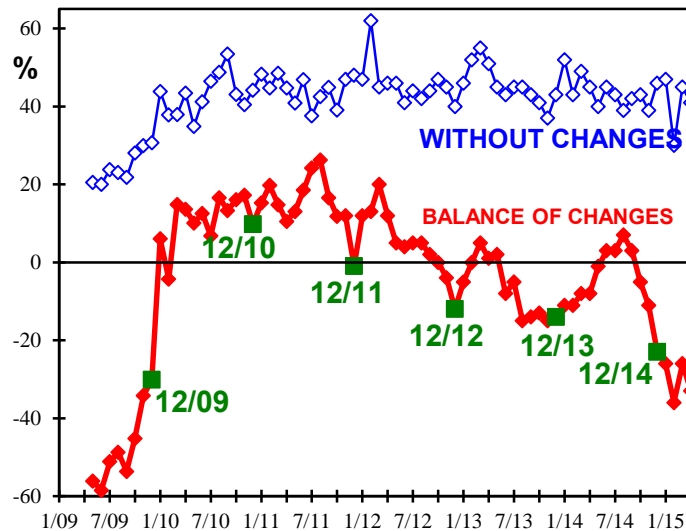


Fig. 25. Expected changes in capital investment in fixed assets in comparison with the previous year, %

Another factor in the decrease of investment activity was the further tightening of lending terms. Firstly, the average minimum rate, offered by the banks, reached 13.9% per annum (Fig. 26). There had not been such a high level of the ruble credit rate since the middle of 2010. Secondly, the overall evaluation of credit availability for industry also deteriorated. The perceived difficulty in obtaining credit jumped by 11 points and reached 27%. This figure represents the proportion of the industrial enterprises that considered the current credit availability to them to be “below the norm”. Such a pessimistic evaluation of the situation with credits had not been registered by industry since the beginning of 2010.

In December, Russian industry managed to avoid a crisis recession. The initial data on the demand dynamics at the end of 2014 showed the typical growth of negative trends. The balance of changes (the growth rate) fell to -20 points, thus reaching the sort of December values common in previous years. Consequently, there was no mention by Russian industrial enterprises of anything 'crisis-like' or even of 'pre-crisis' in the sales dynamics. Exclusion of seasonality did not provide any unusual negative signs, either. The current rates of the changes in demand turned out to be worse in comparison with the levels seen for the beginning and middle of 2014, but similar to the indices for twelve months previously. Neither did the stocks of finished products give the enterprises any cause for concern. During the whole second half of 2014 Russian industry showed the utmost care in the management of its stocks, maintaining stock levels with minimum redundancy so that the balance of evaluations (“above the norm” - “below the norm”) remained constant. On the contrary, the proportion of the “normal” responses in November-December reached its historical maximum. In such a situation a possible crisis of production would not receive any additional support through the use of accumulated stocks, and any unexpected positive scenario in 2015 would be supported by the need to replenish stocks. The output dynamics of Russian industry at the end of 2014 looked very optimistic. In December, according to the industry evaluations (based on initial data), the rate of change in production improved and surpassed the corresponding results of the previous years. Exclusion of seasonality shows an index growth of 3 points after the November decline of 7 points.

However the pricing policy, lending terms and investment plans of industry at the end of 2014 were adequate for the actions of the Central Bank of the Russian Federation. In December, Russian industry predictably and successfully realised the November price forecasts. These forecasts suggested one of the most intense increases in sales prices since the increase in Uniform Social Tax (insurance premiums) at the beginning of 2011. The rate of growth in prices during the month

increased by 11 points, after having remained more or less constant over the previous six months. However enterprises had to plan for further price growth: the December forecast increased further, by 13 points, and reached a four-year maximum. Industry investment plans, on the contrary, continued to deteriorate. By December the balance of the index fell to a five-year minimum. Worse values were registered only in the crisis year 2009. So, the short period of renaissance of investment plans, as registered by the surveys of June-September 2014, changed to an even deeper decline in the index, a decline which no one expects will be overcome in 2015.

Credit lending terms for industry at the end of 2014 continued to become tougher as expected (Fig. 26). According to the evaluations (which did not show a 'win back' to the full extent of the rise to 17% of the key rate of the Central Bank of the Russian Federation on 16 December) credit availability in December fell to 50%, although in August 2014 this index was still equal to 67% and remained within the band which had been established for more than 4 years. The minimum rate, according to which the banks were ready to lend money to Russian industry, also increased in December. It reached 14.8% per annum in rubles, although, of course, this does not reflect the more recent changes in the credit market.

The first data on the state of Russian industry for the beginning of 2015, declared to be a crisis year, contain few signs of a crisis. The actual dynamics of demand and output, evaluation of the stocks of finished products and plans for the recruitment of workers are typical for the month of January, and even look optimistic against the background of the (pre-) crisis panic. The latter, however, affected the forecasts of demand, output plans and investment intentions, which therefore could not reach the usual level of optimism. By contrast, the pricing policy of industry and the bank lending terms has reacted very decisively and adequately to the policy being carried out by the Government.

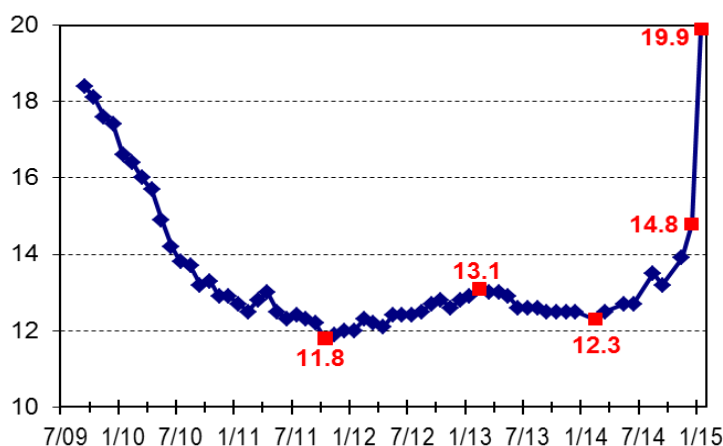


Fig. 26. Average ruble credit minimum rate, offered by banks, % per annum

#### 4.3.2. The effect of the Ukrainian crisis on Russian industry

The Ukrainian crisis, in which Russia actively started to participate from the beginning of March of 2014, immediately provoked the first and, naturally, strong reaction on the country's stock and currency markets. The statistics for these segments of economics allow us to monitor, the behaviour of the players on, literally, a minute-by-minute basis. So, what were the moods and expectations in Russian industry? How did Ukrainian crisis affect the real economy?

To evaluate the initial reactions of the industrial enterprises to the Ukrainian crisis, from 3–5 March 2014 the Gaidar Institute conducted the first express survey among enterprise managers, using the new method, developed in recent years. The results of the survey allow us to understand how the negative scenario of the development of military and political events related to Ukraine, can affect the volumes of Russian industrial production. The middle of March was also marked by

two other important events: the referendum conducted in Crimea, and the subsequent acceptance of Crimea and the city of Sevastopol as constituent members of the Russian Federation. This prompted us to conduct a repeat survey with precisely the same questions, but in a radically new situation. The two weeks, which had passed after the first survey, allowed the enterprises to evaluate more precisely the consequences of the foreign policy crisis for their own production, together with their actual actions and active probing of the positions of business partners when taking into account the massive propaganda campaigns triggered in all the participants in the conflict.

The reactions of the enterprises to these surveys themselves allows us to draw some first conclusions. Firstly, unusually large numbers of answers were received very quickly, indicating the presence of extreme tension in our society, resulting from the Ukrainian crisis. Secondly, the phrase “the negative scenario of development of the military and political events, related to Ukraine” did not give rise to either a single objection or request for clarification, even though the respondents have the opportunity to do this and constantly use it in other situations. It appears that, in regard to this question, there is a significant similarity of attitudes across our society. Thirdly, the answers to a question having a simple definition and a style of answers familiar to our respondents, were, unusually, often accompanied by additional comments. Fourthly, the majority of answers from the enterprises were definite and without reservation. This means that the respondents had clearly formed their vision of the consequences of the above events, so this, in turn, leads to the following, meaningful conclusions:

The first (at the beginning of March) evaluations, made by the enterprises, were almost equally divided between the two variants: “there will not be any significant influence” (50%) and “there will be a decrease in output” (46%). So, industry initially expected a massive decrease in output due to the Ukrainian crisis. The reasons for this could be twofold. Firstly, the consumers of Russian products in Ukraine may just reduce their purchases solely as a result of internal economic problems, which would be exacerbated by the explicit and implicit participation of Russia in this crisis. Secondly, the aggravation of Russian-Ukrainian relations may lead to frequent border closures, increased political risks for Russian suppliers and their refusal to ship their products. Although Russia, by contrast, called for the preservation of economic ties and tried to revive economic cooperation with separate regions of Ukraine, the comments made by the companies indicated that, in the first stage of the crisis, Russian industry was evaluating mostly the direct consequences of the decrease in demand on the part of Ukraine in the case of the developing negative scenario of events. More long-term and indirect production losses, resulting from the deceleration of business activity within the Russian economy could not be efficiently and adequately evaluated at that time.

The actual development of the crisis changed the expectations of Russian industry. Among the enterprises questioned in the middle of March, there were fewer forecasts of the restraining effect of the negative development of the crisis on production volumes. While, in the first survey, 46% of the enterprises made such forecasts, this number then dropped to 37%, and the proportion of the “there will be no significant influence” answers increased to 57%, with the forecasts of a positive influence reaching 7% (4% in the first survey). So, industries started to evaluate the impact of the Ukrainian crisis on their own output less pessimistically.

A detailed comparison of the results of these two surveys at a micro-level (this was possible, since almost precisely same enterprises took part in both surveys) showed that nearly 80% of the participants preserved their forecasts of the impact of a negative development of the crisis on industrial production volumes, while 17% reconsidered that the effect would be for the better, and 3% indicated that it would be worse.

The results of the two surveys showed the highest expectations of negative changes to be for ferrous metallurgy, while, in the space of these two weeks, chemical production and mechanical engineering had reconsidered their forecasts to show improvements although they were still in the forefront of those expecting a decrease in output. In light industry 30% of enterprises also expected

a decrease in production. It looks as if the public statements of our Western partners, about the targeting of the sanctions, have had an impact on Russian industry evaluations of their consequences. While, in the first survey, the Government industrial sector expected a fairly moderate influence of the Ukrainian crisis on its output, in the second survey such fears among the “state-owned plants” were particularly prevalent.

Summing up the results of these two express surveys of industry managers in relation to the influence of the negative development scenario of the Ukrainian crisis on the output of Russian, we can come to the following conclusions: Firstly, according to the forecasts made by the enterprises, the escalation of the crisis will have a significant influence on Russian industry, and in most cases it will be negative. Secondly, different branches of industry will suffer to different extents because of the crisis. Thirdly, the characteristics of the nation building events in modern Ukraine, the perceived bourgeois spinelessness of our 'Western partners' and the decisiveness of the Russian Government have allowed the enterprises to reduce the pessimism of their initial forecasts.

To evaluate the full range (rather than just the output volumes) of the actual (and unexpected) consequences of the Ukrainian crisis, we conducted three additional surveys among the enterprises: in Q2, Q3 and Q4 2014.

In April we introduced a new question for the enterprises on the actual consequences of the Ukrainian crisis for industry in respect of a much broader set of considerations. In July and October this question was repeated. The results provided an evaluation of the actual economic consequences of the crisis for Russian industrial enterprises in these three quarters of 2014.

According to the surveys, the majority of enterprises are still not feeling any consequences of this crisis on their activity (*Fig. 27*). The proportion of the “there are no significant consequences” answers confidently takes first position. However, at the end of 2014 the level of the sentiment regarding the “insignificance” of the Ukrainian crisis essentially fell from two thirds to a half. It appears that the protracted nature of this conflict and the efforts made by its participants (despite these efforts sometimes being very half-hearted and selective) did their job – almost half of Russian industry had started, finally, to feel its consequences.

The greatest actual influence of the Ukrainian crisis on Russian industry in 2014 consisted of a decrease in demand on the part of Ukrainian consumers. The topmost placing of this factor is totally logical, since the economy of our neighbouring state is going through an extremely difficult situation with uncertain prospects. But another aspect is surprising: during the period following the first measurement, the evaluation of the decrease in demand only rose by 5 percentage points, despite the evident aggravation of the military, political and economic situation.

The only problem, the scale of influence of which significantly increased during the three monitoring waves, was the delivery of raw materials, other materials and component parts from Ukraine. It appears that the political will of Kiev influenced this situation under the conditions of the expanding conflict, by stopping the deliveries of goods, critically important for Russian industry. It is far less likely to suspect that the Ukrainian manufacturers themselves had voluntarily refused to sell their products in Russia. However, since August 2014 the Russian side has also started to use administrative limitations with regard to the import of Ukrainian manufacturers' products.

As a result, by the end of the year, the decrease in output due to the Ukrainian crisis was marked for only 9% of Russian industrial enterprises. This result is higher than the evaluations made in Q2 and Q3, but it still remains extremely insignificant, taking into account the growing tension and the public activity of the participants in the conflict. We can add to this negativity the equally insignificant decrease in demand on the part of other Russian enterprises, suffering from decreased sales to Ukraine.

Although Russian industry has received some advantages as a result of this crisis, and the scales of these increased by the end of the year, they still remain insignificant. Only 11% of Russian manufacturers had felt the effects of the departure of their Ukrainian competitors from the joint

sales markets, and only 6% noticed their departure from the markets for raw materials and other materials.

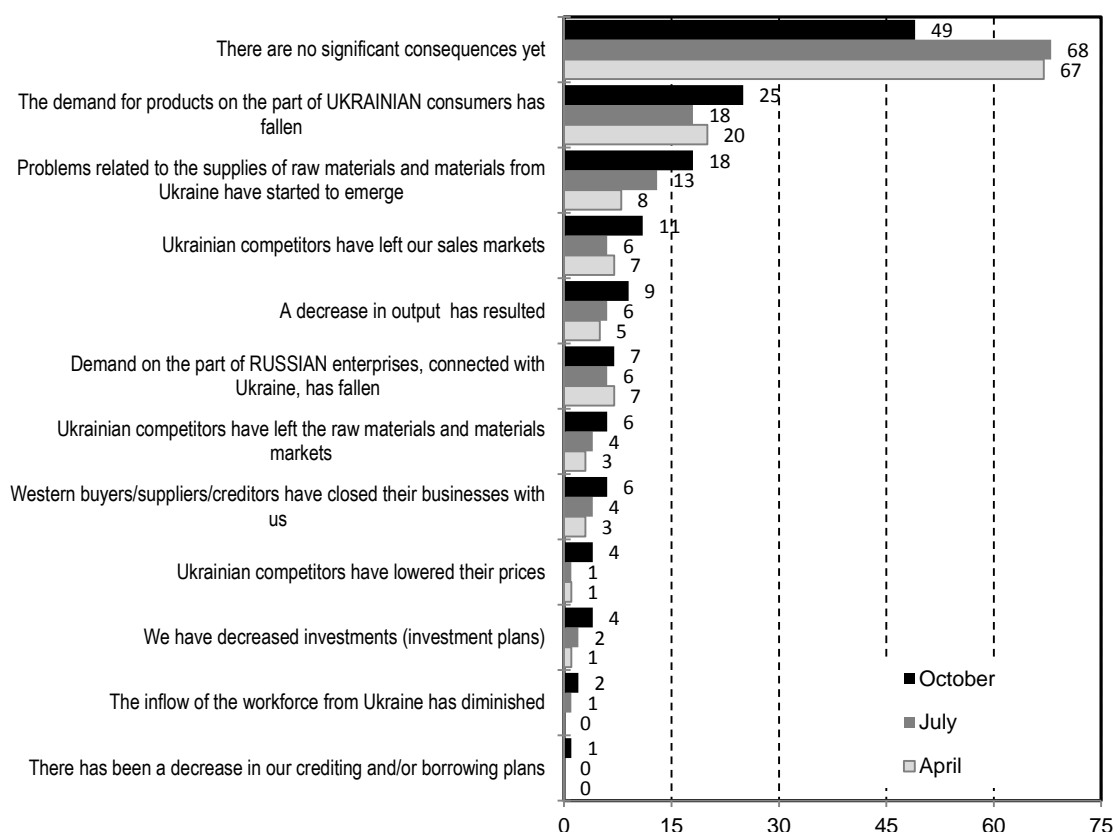


Fig. 27. Actual consequences of the Ukrainian crisis for Russian industry, 2014, %

The sanctions constantly being announced by politicians, have been put in place by the Western partners against up to 6% of Russian industrial enterprises. However, their effects remain very insignificant and dramatically contradict the abundance of words, spoken in relation to this matter.

#### 4.3.3. Reserves of production capacity in Russian industry

The problem of capacity utilisation by Russian industry became one of the hot topics of 2014. Almost the only results from this discussion were a) the point of view that Russian industry is working at the limit of its (possible) production capacity and b) that the measures aimed at the stimulation of demand for industrial products, are dangerous due to the growth of inflation. Let us consider the evaluations of the sufficiency / insufficiency of production capacity, made by the enterprises themselves, on the basis of a representative set of direct indices, as a result of recent data (collected in October 2014).

The results of the surveys show that, in 2014, the production capacity utilisation in Russian industry amounted on average to 66%, starting at 65% at the beginning of the year and rising to 68% in Q4. This data may be assessed in different ways, taking into account the dampened growth of the economy. Let us evaluate the data by considering the maximum possible capacity utilisation.

Direct evaluations of the latest index show that Russian industry is ready immediately, without any further investment, to bring capacity utilisation under normal operating conditions (i. e. with all relevant maintenance and repair procedures) for the output of competitive products (i. e. manufactured products, which will be sold) up to 81–82%. The total spare capacity is thus 13–14 percentage points, i. e. the volume of industrial product output could be increased by almost 20% compared with the current level.



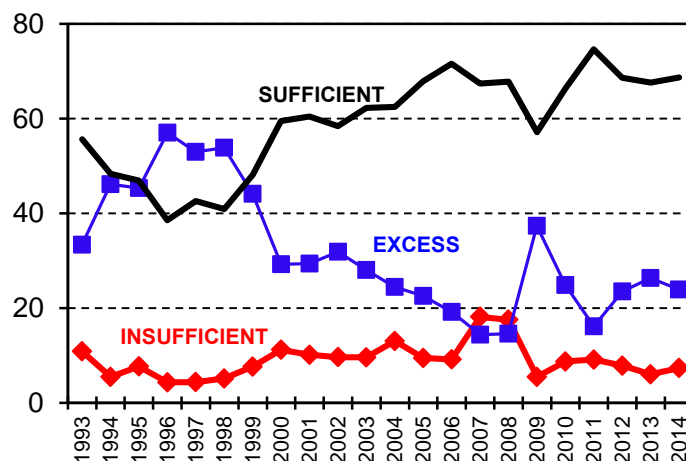
However in different sectors of industry the capacity reserves differ fundamentally. While the food industry reserves stand at 20 points, in light industry and forestry an increase in utilisation of only 8 and 9 points is possible. The reserves for growth are significant in ferrous metallurgy (18 percentage points), mechanical engineering (16 percentage points) and the building industry (14 percentage points).

According to direct evaluations, made by the enterprise managers (who, one must suppose, know the real possibilities of their production better than anyone), after the crisis of 2008, a lack of capacity connected with the expected changes in demand was registered for only 6–9% of enterprises (*Fig. 28*). In 2014 this index was equal to 7%. And 24% of enterprises have excess capacity (we must repeat that this is: “in relation to the expected changes in demand”). So, the balance of the evaluations turns out to be positive, and it has always been so. This was the case even in 2011, when the expectations of a return to the pre-crisis output growth rates were at a maximum. For the main, industry appears sufficiently provided with capacity for the expected industrial growth. In 2012–2014, 69% of enterprises were in this position. As a result we see, that not less than 90% of Russian industry has got at least sufficient capacity to satisfy the expected demand.

However, the expectations of the enterprises with regard to future demand may be extremely pessimistic. In other words, industry may be capable of satisfying only the decreasing volumes of demand which it is considering when evaluating its capacity. Such a suggestion is quite logical for the end of 2014, when the majority of even the official forecasts did not look too optimistic. However the direct monitoring of the enterprise forecasts shows otherwise.

Firstly, the annual balance of the demand forecasts by industry in 2014 was positive and equal to +6 points and turned out to be better, than the result achieved in 2013. However, only 13% of industrial enterprises in 2014 had predicted the decrease in demand for their products. This value is close to the post-crisis minimum of the index, which was registered in 2010 and amounted to 12%. The industry has the same low extent of pessimism in the forecasts of demand as it had at the beginning of the exit from the previous crisis. In 2014, most of industry was rather optimistic: 20% expected a growth in demand and 65% hoped to maintain its volume without any changes.

Secondly, the expectations of sales growth prevail over the forecasts of sales decreases in the demand forecasts made by those enterprises having enough production capacity to satisfy such demand. In other words, industry thinks that it has enough capacity to satisfy the growing volumes of demand. For 2010–2014, the level of capacity utilisation in the group of enterprises with sufficient volume was within the interval 69–71%. These figures may be interpreted as follows: the majority of these enterprises (namely 69%) are ready to satisfy the expected demand through the output of their products, without needing any additional investment, and that this includes increasing utilisation to a greater extent than is currently the case.



*Fig. 28. Average annual evaluations of the capacity available for industrial growth, %*

Thirdly, only those enterprises with excess capacity differ in their pessimism in relation to demand. This group's balance of sales forecasts was negative for 2014, i. e. their plans for a decrease in demand prevailed over their expectations for its growth, and stood at -9 points. With their excess capacity the ratio of capacity use was low and amounted to 56% in 2014. Furthermore, those enterprises with excess capacity have always shown the most moderate levels of utilisation. In the crisis year 2009, the index had fallen to 46%, but during the three following years it increased to 59%. Other groups of enterprises were not able to demonstrate such significant changes in utilisation. The reason for the increase in utilisation might, odd though it may seem, be the activation of investments in the phase of active exit from the crisis, since the companies' lack of competitiveness would be the result of the under-use of a significant part of their capacity.

Fourthly, enterprises with insufficient capacity are less represented in Russian industry. The forecasts of demand in this group are characterised, as would be expected, by their being the most optimistic. The balance of their expectations has never been negative. Even in the crisis year, 2009, it amounted to +4 points, and by 2011 had increased to +24 percentage points, i. e. it had almost reached the pre-crisis maximum (+26 percentage points). In 2014 it was equal to +16 percentage points being influenced, among other things, by the forecasts of decreasing sales.

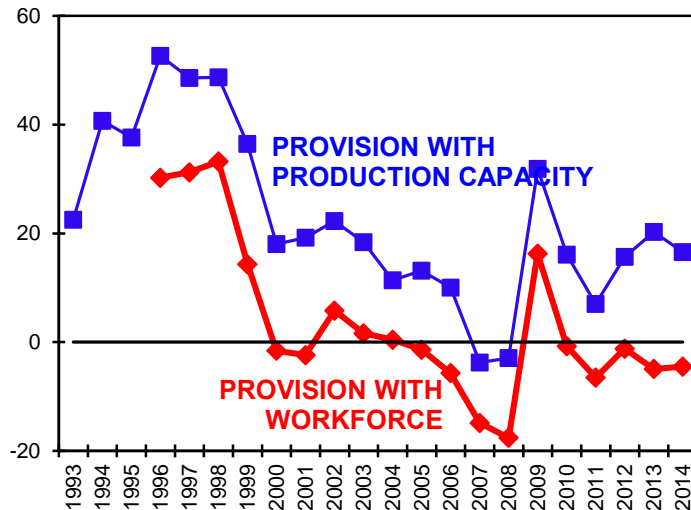
So, after the crisis of 2008–2009 Russian industry has never worked at the limit of its production capacity. It has either had sufficient capacity for future industrial growth, or has had an excess volume of capacity. Only a very small proportion of enterprises (7%) were not able to change their capacity utilisation in response to changes in demand for their products.

One more index – the readiness of the idle capacity to be brought into competitive production – also shows the successes of industry with regard to the preparedness of its equipment for meeting possible growth in demand. According to the evaluations made in 2014, 23% of enterprises had idle capacity in the highest state of preparedness (“one has only to turn on the switch”). A year earlier such evaluations were made by only 11% of companies. The greatest successes in respect of such capacity were those registered to light industry, which during the previous year, was able to raise its share of idle capacity in the highest degree of preparedness from 10 to 30%. By contrast the proportion of capacity requiring significant investment fell from 33 to 8%.

The proportion of capacity in the next highest degree of preparedness (use “with minimal investment”) fell from 37 to 29%. A similar decrease (from 28 to 19%) also occurred with those parts of the capacity which were still able to produce competitive products, but required “significant investments”. Light industry was, again, the most successful in this respect (a decrease from 33 to 8%).

The proportion of capacity beyond recovery (with which competitive products could no longer be produced even with investment) had fallen during the year from 10 to 5%. However, the results in 2013 turned out to be extremely high when seen in the context of the whole seven years of monitoring. In 2009–2012 the proportion of the capacity beyond recovery was evaluated by the enterprises as 2–3%.

On the whole, future (possible) industrial growth in Russia is better provided with production capacity, than with a sufficient workforce. Indeed, during recent years industry has seen a sustainable provision of excess capacity but a deficiency of staff (*Fig. 29*).



*Fig. 29.* Balances of provision of expected industrial growth with production capacity and workforce, %

A comparison of the evaluations of capacity and workforce at a micro-level provides detail for the previous conclusions and shows that, over the period 2009–2014, 66–73% of industrial enterprises were equally provided with these resources, i. e. the overwhelming majority. Within these enterprises the “sufficient” evaluations prevailed both with regard to capacity, and to workforce. The proportion of such enterprises in 2013 amounted to 55%. So, a little more than half of Russian industry had both enough capacity, and sufficient workforce for potential industrial growth. To this can be added another 9% of enterprises, the ones that had surpluses both of capacity and workforce, meaning that they, too, would not have any problems meeting a revival in demand.

By contrast, in 2014, 4% of enterprises suffered because of lack of both workforce and capacity, and were therefore in the most unenviable position. However, the size of this, the most problematic segment, is not large. Previously (in 2008) the proportion in this position had increased to 7% and while, in some quarters of that pre-crisis year, the index had reached 9% this was not actually a particularly high value either, taking into account the heating up of Russian industry. But already, by 2009, the proportion of such provision (more precisely, of such lack of provision) of workforce and capacity in industry had dropped to 1%.

So, the domestic industry is now far better provided with production capacity than with an adequate workforce, meant to use its capacity in order to revitalise Russian industry and to meet the growth in demand for its products. Under such conditions which are at least evident to business, Government policy must be aimed at ensuring the availability of training and at directing the workforce to this sector of the economy by reducing, for instance, other types of 'post-school' education.

#### 4.3.4. Industry staffing problems

The evaluations of staffing problems by Russian enterprises confirm this point of view. Firstly, the lack of sufficient industrial workforce has already been in either second or third position in the ratings of obstacles to growth in output for two years. Since the beginning of 2009, insufficient demand has ranked first.

As a result (and therefore secondly) industry has been forced to use its existing workers more intensively than its existing machinery and equipment. While “normal” + “above the norm” intensities of capacity utilisation, were registered in the middle of 2014 for 54% of enterprises, the corresponding levels for the utilisation of workers was registered for 68% of enterprises.

Thirdly, recruitment plans show that industry is still not able to solve its staffing problems. The balance of these plans, after the seasonal rise to +7 points in January of 2014 and its stabilisation

in February-March at zero, then descended 'into the red' (i. e. there were more forecasts within the industry of decreases in the numbers of workers, than of their increase), though this was not so significant, as in previous years.

Fourthly, one cannot rely on a growth in labour productivity as a way of solving the staffing problems of Russian industry. No less than 60% of the enterprises surveyed after the crisis evaluated their actual productivity as normal, and in 2014 this index amounted to 66%. Thus, the evaluations of this situation by the majority of the enterprises surveyed are clearly different from the evaluations made by experts and officials. The plans announced by industry to increase productivity in Q3 2014 showed a positive balance, amounting to only +6 points, while in Q2 in stood at +15 points.

Nevertheless there is still an opinion among the experts and politicians, that enterprises, at their own initiative, are making workers redundant because of overstaffing due to stagnation, and that by doing so, they are achieving the optimal number of workers for those enterprises under the current conditions. Since the official statistics did not give a direct answer to the question about the real reasons for the dismissal of workers from Russian industrial enterprises, in 2012 the Gaidar Institute began conducting an annual monitoring of this problem, by asking direct (and sometimes unpleasant) questions of company managers. As a result, we now have three different approaches that allow us speak quite confidently about the real, rather than the official reasons for the dismissal of workers from Russian industry, and which logically supplement the multi-year monitoring of business staffing problems.

The overall assessment of the results, obtained in 2014, showed the preservation of a negative situation on the labour market for employers: the workers more often leave at their own initiative, than by being dismissed by the administration. In 2014 these proportions were respectively: 71% and 24%. In 2012 they were: 65% and 27% while in 2013 the figures were 76% and 30%. So, currently, workers are almost three times more likely to leave a company of their own volition, than as a result of 'urging' by the administration. During previous years this ratio was 2.4 and 2.5 times respectively.

Amongst the reasons for workers leaving enterprises on their own initiative, reaching retirement age continued in top position (*Fig. 30*). Of the enterprises consulted 50% indicated this as the reason in 2014. The result, obtained in 2013, was similar (54%) where this cause also took first position in the ratings, while it was only in 2012 that the voluntary retirement of workers who reached the retirement age took second position, according to the employers.

So, Russian industry has entered an era of staffing deficiency, the main (in terms of numbers) reason for which is the irreversible (in the truest sense of the word) process of aging of the workers. This problem could be solved only by training new workers in specialised secondary educational institutions. However, the Soviet system of industrial and technical education was replaced almost totally by the higher education system, and its graduates have little willingness to be employed as workers in industrial enterprises. According to the results of our monitoring, such industrial enterprises have difficulties particularly with the recruitment of skilled workers, while the demand for other categories of workers (non-skilled workers, technical and engineering employees and managers) is either absent, or easily satisfied by means of recruitment. As a result, industry is already irreversibly losing skilled workers and this cannot be stopped even by raising salaries. The reinstatement of the system of specialised secondary education, and the redirection to this system of school leavers is a long process, and our Government and industry has less and less time to perform this as a means of providing a civilised solution to the problem. However, the stagnation of the economy, under the conditions in which we have been living during recent years, has postponed the occurrence of the really tough consequences of the education policies which have been in place over the last twenty years. However this does mean that there is still some time to search for a solution to the problems.

In 2014 the largest voluntary retirements took place in the forestry industry (64% of the answers among enterprises, 2013 – 52%), the chemical industry (58% and 53% of the enterprises,

respectively), mechanical engineering (56% and 45%) and light industry (53% and 51%). The metallurgical industry had probably, in the previous years, 'solved' the problems of many of its staff reaching retirement as its retirement rate has now decreased by more than a factor of two. Traditionally, the voluntary retirement of older staff, during the years over which monitoring has been conducted, has been smallest in the food industry.

Low salary levels have for the second year taken second position in the ratings for why workers leave their employment. In 2014 it was mentioned by 41% compared with 47% during the previous years. So, this reason for leaving became less prevalent in industry, although it retained its position behind leaving as a result of reaching retirement age to almost the same extent as in 2013.

The reduced prevalence of leaving due to low salaries may be linked to a growth in salaries. The quarterly monitoring showed an increase of 9 points in the proportion of "normal" evaluations by the enterprise managers for the salary sizes of workers, technical and engineering employees. As a result, 71% of industrial enterprises currently pay their workers a "normal" salary. This result represents a maximum for the whole seven-year monitoring of the index. Its minimum value was registered in April 2009, at 37%.

The main industries which had seen large numbers of workers leaving in 2013 due to low salaries, generally retained their ratings in 2014 as well. In 2014 the industries from which most workers left due to low salaries were the building industry (56%, 2013 – 63%), the forestry industry (52%, 2013 – 64%), the food industry (47%, 2013 – 65%) and mechanical engineering (46%, 2013 – 55%). During last year the metallurgical industry managed to reduce its losses of personnel because of low salaries, while the chemical industry traditionally has the fewest problems in this area.

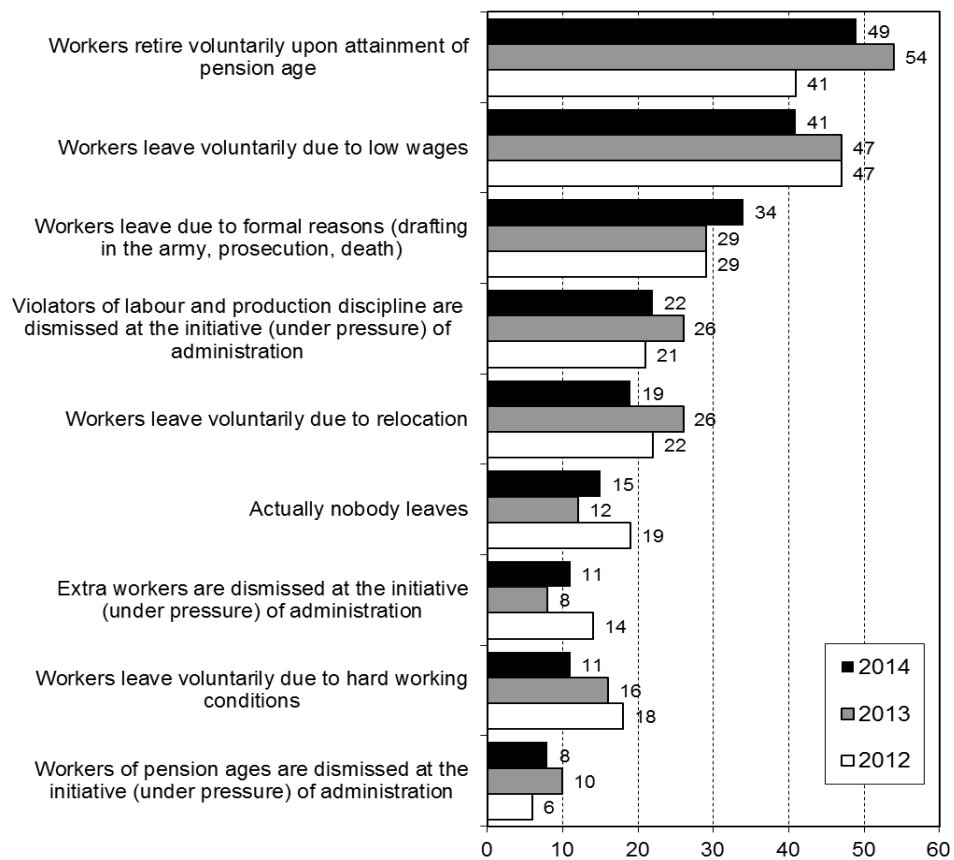


Fig. 30. Real reasons for why workers left industrial enterprises, 2012–2014, %

'Harsh working conditions' was the third reason causing workers to choose to leave their industry, as tracked during the monitoring. It consistently takes last position in the reasons rating, in 2014 being mentioned by only 11% of the enterprise managers.

Violations of labour (production) discipline remain the main (in terms of numbers) reason for the dismissal of workers by their industrial employers. In 2014 such dismissals were exercised by 22% of the enterprises, compared with 26% in 2013 and 21% – in 2012. The possibility of this reason for dismissals in 2014 was growing due to the increase of a company size, and was most prevalent in ferrous metallurgy, the food industry and forestry.

Redundancies of excess (surplus) workers are almost two times less frequent. In 2014 this approach was exercised by 12% of the enterprises surveyed, which is close to the average value over the three years of monitoring. As in the previous case, the likelihood of dismissal for this reason also increases with growth in enterprise size and is especially high in ferrous metallurgy.

The dismissal of workers because they have reached retirement age takes last position in the ratings for dismissals at the employer's initiative. On average, the monitoring showed that 8% of enterprises use this practice. Again, the possibility of such dismissal also increased with the growth of enterprise size. However such dismissals are used far less frequently in some sectors. In non-ferrous metallurgy, forestry and the building industry it is preferred not to dismiss workers simply because they have reached retirement age.

So, for Russian industrial enterprises the problem of having sufficient skilled personnel remained the most acute resourcing issue of 2014. The potential for crisis reduction in industrial production in 2015 will only be able to displace the critical aggravation a little way towards the recovery of stable economic growth, but will not solve it. Obtaining the required numbers of skilled workers for industry through the use of migrant labour, or as a result of increased domestic birth rate are either unreal, or require such a long period of time and sufficient resources from the Government that realisation of them cannot be considered to be on the foreseeable planning horizon. Increased labour productivity therefore remains the only reasonable strategy for solving the problem.