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The review provides a detailed analysis of main trends in Russia's economy in 2009. The paper contains five big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit and financial spheres; 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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Sergey Tsukhlo

Russian Industry in 2008-2009: History of the Crisis According to Industrial Surveys

This paper was prepared based on the surveys among managers of industrial enterprises, which are conducted by IET in compliance with the European harmonized methodology monthly, from September 1992 and cover the entire territory of the Russian Federation. The panel is about 1100 companies, which employ more than 15 per cent of total employment in the industry. The panel is biased towards large enterprises in each of the sub-industries. Feedback on questionnaires is 65-70 per cent.

Industrial surveys (IS), among business leaders is a quick way to gather information about the assessment of the situation in their enterprises and the expected (planned) changes the key performance indicators of the enterprise is a relatively new tool of economic analysis. The first survey was conducted by IFO Institute (Munich, Germany) in 1949. Soon afterwards such polls have been held in Great Britain, France and Italy. Since 1962, the EU is making efforts to harmonize (make comparable) the surveys in the countries of the continent.

IS questionnaire has a rather small number of questions (no more than 15-20). The questions are of qualitative rather than quantitative nature. Simple design of questions and answers allows the respondents to fill out the forms quickly and without involvement of other employees or any documentation. It is essential that the respondent in each enterprise should be the Manager was the top level, who has a complete picture of the situation at the enterprise and directly involved in the company management. In 2008 30 per cent of responses were received from the Directors of enterprises, 37 per cent - from the Deputy Directors, 23 per cent - from the leaders of economic departments.

In analyzing the results of industrial surveys a specific derivative index is applied, known as balance. Balance is calculated as the difference between the percentage of respondents given the answer about their business standing as "increasing" (or "above regular" indicators) and the percentage of respondents whose assessment was as a "declining" (or "below regular"). The resulting difference can express the answers to each question by one number with the sign "+" or "-".

Balance is interpreted as the first derivative or the process rate. If the balance of answers to the question about the expected price change is the sign "+", it means that the average prices in the near future will continue to grow (for example, there dominating the companies, reported an expected increase in their prices). The increase of the balance within a month from +10 to +17 per cent means that average prices industry will grow more intense as the increased prevalence of companies predicting growth. A negative balance means a decrease in average prices (more companies are going to lower their prices). Changing the balance of -5 to -12 per cent interpreted as plans of the intensity of lower prices.

3.2.1. Crisis Statistics or Statistical Crisis

In late 2008 the crisis reached the Russian industry. In December, it was recognized by: the Head of the government, then by the Ministry of Economic Development, and only then by the Russian Statistical Service. The procedure was a bit illogical. In civilized countries, it

is usually on the contrary, as the statistical service is the primary source of official data on the state of the economy. Russian sequence of recognition suggests that the domestic statistics is not very reliable, as it seems, it is too heavily dependent on other departments, primarily – on those in charge of the national economy. In the recent sustained economic growth that was not so important because the trend was obvious and there could be doubts only in the intensity of growth, which was insignificant. In 2008 the situation has changed: the growth has been replaced by a downfall, but it was uneven and unpredictable.

And here there was revealed another failure of the Russian industrial statistics - limited set of indicators and low speed output data. As a result, some Ministries, trade unions and employers' associations had to start their own monitoring to understand what is really going on in the industrial sectors, and not be trapped in the preparation of a package of anti-crisis measures. There already appeared the term "crisis monitoring". And this is not only statistics of the crisis, this is a crisis of statistics.

Having discovered in the mid December of 2008 the collapse of the Russian industry, the Russian Statistical Service also decided to start active "crisis monitoring". The Head of the Service announced that the RF Federal State Statistics Service in 2009 will conduct a decade monitoring of a number of key economic indicators in the country. The indicators of such monitoring will be submitted to various government committees, while it is not decided whether the results of the decade's monitoring are to be disclosed. Such a restriction in the dissemination of non-confidential information economy was practiced in the Soviet times and then annoyed only analysts, lacking the necessary statistical data. For businesses, those restrictions did not create any problems, since the decisions on the volume of output, prices, investments and other issues were taken by Ministries and other agencies, and the producers had only to "push through" the required indicators for their performance plan in the offices of government. But with the beginning of market reforms, the situation has drastically changed. The vast majority of the enterprises came out from the government custody and make decisions independently. And to this end, they need a variety of reliable, regular and timely information. One of the sources of necessary information to the company is the Russian Statistical Service, funded from the state budget, i.e., taxes on those same companies. Thus, one of the services of the government, paid from the taxes is provided only to a limited (albeit the most important) group of consumers (to the government authorities), but not to those for whose money it is created. In November 2008, when the majority of businesses were already facing a decline in demand and were forced to reduce output, a renowned economist said that "there is no crisis, ... the Rosstat statistics gathered by "half a million of people", shows no decline in the industry." Perhaps those words were uttered in the heat of discussions, but they belong to a highly qualified researcher, not the one of the Russian politicians. And it's not his fault, but our common misfortune. As the statistics collects the data that is available, but not those which are needed. But even the information that the companies report to Statistical Services, are not delivered and processed for such a long time, that by the time of their appearance in the government they are so outdated that are more valuable for academic research than for the operational management of the economy. It is extremely time-, resource- and effort-taking to readjust this system.

But even the publication of official statistical data on the Russian industry often induces not the flow of comments about the crisis and the debate about what these indicators mean and whether they are true. Thus, the disclosure of Rosstat data on October 15, 2009 on the dynamics of industrial production in September, provoked such comments: "We were not ex-

pecting such a large growth", "Is it true the industry started to exit from the crisis", "Industrial change", the "frontal recovery". The experts were unable to explain the grounds of September upsurge in the Russian industry ("statistics has presented to us one more puzzle"¹). Doubts about the reliability of official statistics on demand and stocks made less enthusiastic the expectations to consider the stock indicator as a driver of recovery from the crisis. The growth of the global economy and external demand were more often mentioned. There were hopes that anti-crisis measures of the government started to benefit (i.e., reached the business at last). Unpredictable September upsurge sometimes is "written off" to the errors of the Russian Statistical Service. IET surveys as early as on September 29, 2009 allowed to make a conclusion: "the August halt in the dynamics of the Russian industry was successfully overcome in September. Sales have continued to recover, what allowed businesses to move to the most intense growth of production and the very moderate reduction in staff since the beginning of the crisis"².

Therefore, the crisis of 2008-2010 has demonstrated the limited capacity of official statistics (sparse set of indicators, low speed) and the benefits of short-term surveys (representative set of indicators, high speed and the ability practically immediately start monitoring of the new, most essential indicators).

3.2.2. The overall dynamics of 2008-2009 crisis

To describe the overall crisis dynamics in the Russian industry there can be used the IET index of industrial optimism (IET IPO)³, which is published weekly from October 22, 2009.

This index during the economic crisis makes it possible to solve several important problems. First, it allows practically in on-line mode (against extended timeliness and low frequency of official statistics) to get an idea of the domestic industry state. Second, the enterprises participating in the IET surveys is a "middle class" of the Russian industry. They are located throughout the country and are predominantly involved in the manufacturing industries. Information on the status of such enterprises is not always delivered to the authorities and analysts on time and in the relevant scope. Thirdly, the index is estimated on the basis of indicators that have no analogues in the national statistics, but reflecting the most important aspects of the real situation in the Russian industry (demand, inventory, production plans). They very accurately and fully characterize the enterprises performance, as evidenced by a 16-year experience in conducting and analysis of more than 200 surveys. Long-term, personalized and informal relationships with the respondents (90 per cent of them are the Heads of enterprises) create the conditions for obtaining the most objective information on the Russian industry. Therefore, the IET index of industrial optimism gives an idea about the real situation in the Russian industry. The fact that the real situation in our national economy and Russian

¹ http://www.dcenter.ru/pdf/2009/kgb_09-36.pdf

² <http://www.iet.ru/ru/208-opros-sentyabr-2009-2.html>

³ The index is assessed as the arithmetic mean of the balances (the difference in the responses) of the four answers of IET market surveys: 1. The actual change in demand, balance =% of growth -% of decrease. 2. Estimates of demand, the balance of assessment = % above the normal rate -% below the standard rate. 3. Assessment of stocks of finished products, balance =% of higher than normal rate -% the rate below normal, the opposite sign. 4. Plans for changes in output, balance =% of growth -% of decline. Balances of the 1-st and the 4-th issues are cleared from the seasonal and calendar factors. The index can be from -100 to +100. In case of positive values the index positive assessments are dominating. Negative values of the index - negative assessment of the situation are dominating. Lower values of the index - the deterioration of the situation. The increase in index values – improvement.

statistics are not the same thing, is recognized at the highest level (President Vladimir Putin at a meeting with the Minister Alexei Kudrin on August 21, 2006 said: "Statistics and real situation in the economy show...»¹).

Already the first estimated values of the index showed the signs of crisis in the Russian industry in October 2008 (the index has dropped down to -4.3 points versus +2.0 in September). Only plans for output changes were positive at that time (hopes for growth were dominating) in the Russian industry and not allowed the index to fall below zero indicator. However, there was expressed a prudent assumption is that in November, most likely, they will cease to restrain the index from further decline.

The first estimates of the November (2008) index value (as of November 18, i.e., actually a month before the official recognition of the crisis) has shown a sharp increase in pessimism in the Russian industry. The index value fell down by 33.8 points at once and reached -38.2. There were never such a low value of the index, and in the pre-default period similar values were recorded only in 1995-1996 and in September 1998. The Heads of enterprises gave strong negative assessments of all the components of the index. Russian industry actually fell into crisis. The December index showed further deterioration of the situation, not as catastrophic as it was in November and as predicted by some experts: the index has fallen only by 6 points after the November decline by 26 points. However, the level of pessimism in September 1998 has reached the absolute minimum of the index (as of beginning 1996), only 3 points (*Fig. 1*).

The January index value demonstrated some stabilization of the situation in the Russian industry. As compared with December, the index has grown in January by 2 points and made -32.9. That is, the pessimism in the industry was still great (its scale is comparable only with the 1995-1996 and 1998.), but ceased to grow. In February, the index demonstrated the strengthening trend towards stabilization. In comparison with January, the February Index value improved further by 4.5 points, and compared with the December, the post-default minimum improvement made already 7.5 points. March and April values of the index showed stagnation at the level of previous months at a very low level (*Fig. 2*).

¹ See <http://www.izvestia.ru/news/news113617>.

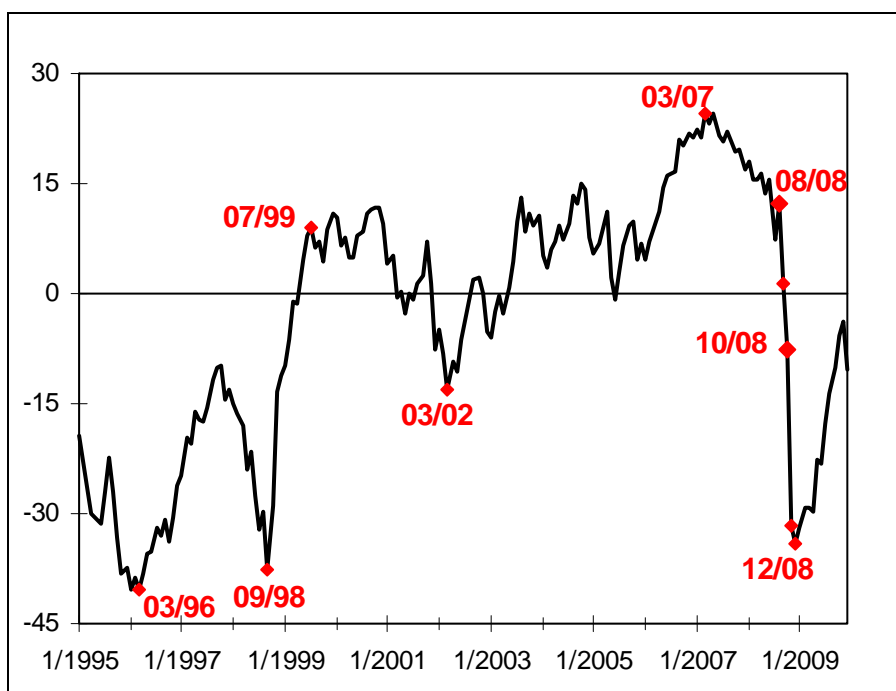


Fig. 1. IET Index of Industrial Optimism, 1995–2009.

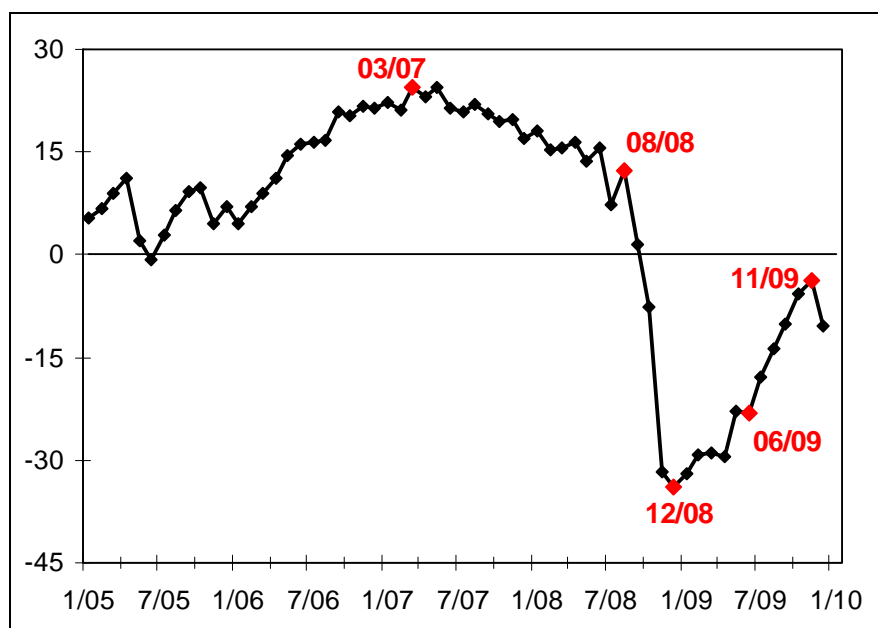


Fig. 2. IET Index of Industrial Optimism, 2005-2009.

But in May, the situation began to improve again. The main reason was the recovery of assessments of the current level of demand and improvement of the assessments of finished products stock. However, the trend to the pessimism reduction in the estimates proved to be unstable: in June, the index declined by 2 points after the upsurge of the previous month to 6.3 points. From a more profound reduction the index was saved only by a relative improve-

ment in the "output plans." Since July, there has begun the most significant and sustained growth of optimism in the Russian industry, which has nearly dragged the industry from the crisis as early as 2009. In July the crisis minimum (as of December 2008) was exceeded by 16 points. The August index value has exceeded the July level by 3 points and became the next crisis peak (since November 2008). The Russian industry was not in a such good shape in the past ten months. In September, the pessimism has lost another 1.5 points. October was one more month of recovery from the crisis: the index reached its crisis peak of -6,5 item.

In November, the positive trends in Russian industry have disappeared. The November index was equal to October - no significant changes (either positive or negative) trends at the enterprises in November is not registered. The estimates of the December IET index value showed a decrease in optimism of the Russian enterprises in late 2009. The loss of 6 points as compared with the November crisis peak was preserved even in the face of growing output, obtained after cleaning the results from seasonal factors.

However, the first assessments of the industries given by business leaders in January 2010 demonstrate recovery of the situation after the December downfall. The index of industrial optimism returned to the crisis peak, registered in November 2009. Industry is ready to continue recovery from the crisis after the Christmas holidays.

3.2.3. Second half of 2008: beginning of the crisis and the collapse

Let us now consider in detail the dynamics of the most representative array of indicators of the Russian industry since the second half of 2008. Already then the IET surveys results showed a gradual increase in crisis indicators, having resulted in a clear deterioration of the situation in October and a collapse in November.

The first signs of trouble in the Russian Industry surveys have been recorded at the beginning of the second half of 2008. The dynamics of demand and production, assessment of stocks of finished goods stocks and excessive production capacities, forecasts of production and sales showed a growing negative trend in this sector of the Russian economy.

Growing demand for industrial products in mid-2008 remained very low. By all indicators (the original, free from seasonal factors, with the exception of random fluctuations) of sales, the growth rate has dropped to +3 ...+5 balance points, which was the worst value since the end of 2005. This has resulted in the fact that the reduced demand for domestic products became a more significant obstacle to the production growth. In July 2008 its designation as an obstacle increased to 40 per cent, which was the maximum over the previous nine quarters. However, the leader of the "market handicap" in the output growth was still the shortage of human resources.

Under the pressure of demand, the companies were forced to restrain the growth of production. In July, all estimates made on the basis of the surveys indicators showed a slowdown to 12 balance items. It's the worst results of the previous two and a half years, i.e., so slowly the production was not growing since early 2006. The stocks of finished products also confirmed the problems with the sales. The balance of estimates (the difference between the excess of the normal indicator minus below normal indicator) has increased to 14 points and was the maximum over the previous 28 months. The growth rate was caused by reducing the percentage of responses "below normal" from 15 to 9 per cent, which indicated either the increased delivery of finished goods to warehouses, or the decline of growth prospects for the demand and the revaluation of stocks volume. Both reasons for changing the reserves estimates are

extremely negative, because in any case they mean a decrease in the intensity of the output growth.

The slowdown in demand has abolished the lack production capacity in the Russian industry already at the beginning of the third quarter of 2008. For the first time, the lack of production capacity was recorded in the surveys of the second quarter of 2007 and reached 10 balance points at the beginning of 2008. However, later the share of "insufficient" estimates has dropped from 21 per cent to 15 per cent in the background of an increase of the share of "more than enough" estimates from 11 per cent to 18 per cent - the balance again became positive. The demand, therefore, no longer justified the investment efforts of the Russian companies in the recent years. This thesis is confirmed by the statistics of the handicaps to production growth. If in mid-2007 the shortage of equipment hindered the increase in output by 32 per cent of companies (the third place among 10 tracked constraints on growth), in the middle of 2008, it was referred to only by 21 per cent of manufacturers (the 5-th place).

In August, the negative trends have become even more evident. It began an absolute reduction of effective solvent demand for industrial products. So far, though, with the minimum intensity (-2 balance point), but supported by a similar result and after purification from random fluctuations. As a result of the slowing demand, the trend formed in the second quarter of 2007 has reached its logical conclusion. The industrial production growth, according to the surveys, hated to slow down.

However, the relatively long-term and stable negative trends in the dynamics of demand and output enabled enterprises to adapt to them. As a result, the demand satisfaction in the Russian industry in the summer of 2008 has stabilized at the level of 60-63 per cent. A similar situation is observed with the stocks of finished products. Russian enterprises have been able to keep their volumes within a reasonable redundancy, allowing to quickly respond to the new orders. However, in a slowing of demand and production, the estimates of reserves lost their stability and become less optimistic, what is reflecting uncertainty of producers about the sales prospects.

In September of 2008, the situation in Russian industry continued to aggravate. The intensity of demand reduction has reached -13 b.p. and was the worst since mid-2002 (see *Fig. 3*). The absolute decline in demand (i.e., the predominance of responses "declined" over the share of "growth" estimates) was already happening in all sectors except for the food industry. That fact provoked a collapse in the satisfaction of production volume. In September, already 45 per cent of businesses believed the demand for their products was "below normal" (against 34 per cent in August). Such a great dissatisfaction with sales has not been noted since April 2006. An absolute decline in demand forced the industries to stop the growth of production in September.

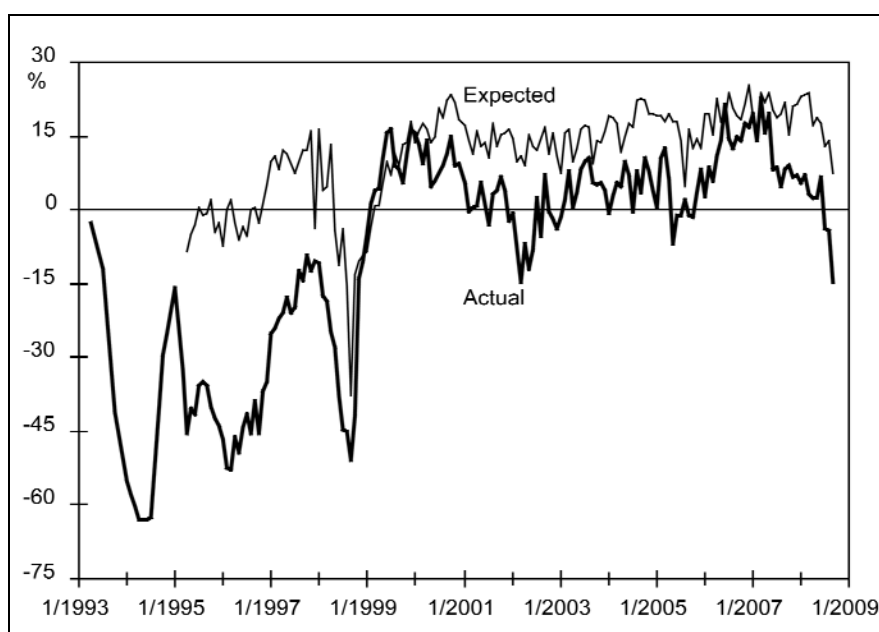
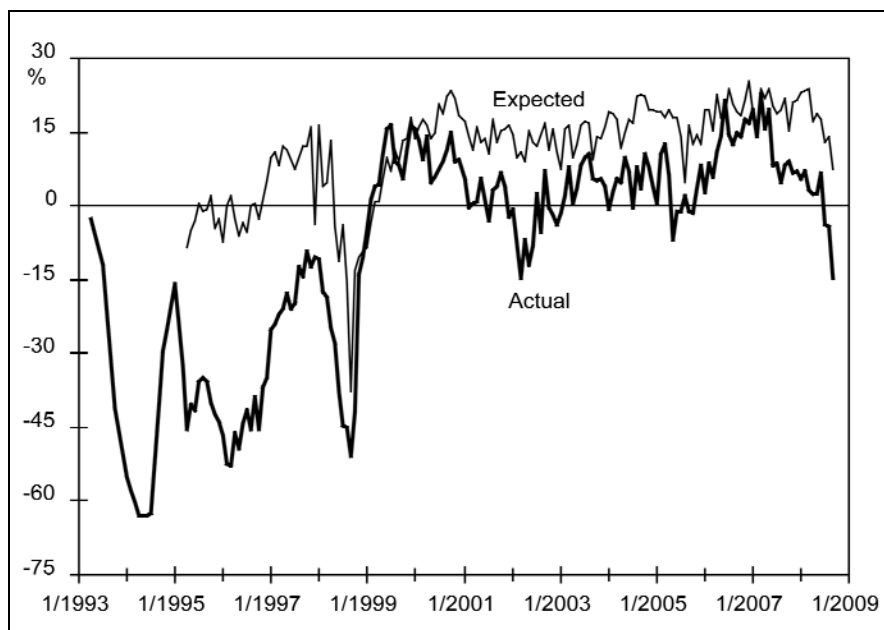


Fig. 3. Changes in the effective solvent demand, cleared from seasonal factors
(balance = % growth - % decrease)

Reduced sales forces enterprises not only to restrain production, but also to curb the growth of prices. In September, the balance of change (growth rate), in selling prices has declined (based on initial data) from 18 to 8 points. Cleanup of seasonal factors showed 1.5-fold slowdown and the lowest rate of growth over the previous three years. The second positive point September situation was the assessment of finished products stocks. They did not go beyond the ordinary level of recent values, indicating that accurate policy of producers in this area. Enterprises have been able to withstand such a ratio of actual output, the actual demand and prospects, which did not lead to physical overflow and negative adjustments to estimates of storage stocks. In September 2008, there were no crucial changes in the availability of credits to the Russian enterprises. For 69 per cent of producers it remained normal and the same as in the first and second quarters of 2008.

In October, the situation in the Russian industry has become even worse. Firstly, the intensity (balance) of the reduction in demand for industrial products has reached unprecedented for post-default (since 1998) period values. Such values of this index were recorded only in January, and even not every year. Clearance from seasonal and random fluctuations only slightly adjusted the rate of decline in demand, but has maintained its record values: there was no such intense demand since October 1998. Secondly, the satisfaction of demand in the Russian industry has dropped to 50 per cent, i.e., only a half of the enterprises considered the volume of their sales as normal in the pre-crisis situation. As compared with the absolute maximum (August 2007), a decline of almost 1.5 times and was the worst for the previous 32 months. Thirdly, the production growth has completely stopped. If in September the balance of output changes (after clearance from seasonal factors) still showed a modest positive trend, the October growth was zero. This indicator became the worst one since November 1998 (*Fig. 4*).



*Fig. 4. Changes in Production, Cleared from Seasonal Factors
(Balance =% growth -% Decrease)*

In Q4 of 2008 the structure of interference growth against the industrial production is starting to change. As expected, in the first place there was the "domestic effective demand". It was considered as an obstacle by 45 per cent of companies (growth in comparison with the III-rd quarter was by 9 points). The 2-nd place in the rating was a shortage of current assets. Since two thirds of enterprises have used their credits for replenishment thereof, the credit crunch has increased the prevalence of this interference for the quarter by 8 points, as compared with the absolute minimum (Q1 of 2007) – by 12 points. As a consequence, a sharp (by 13 points per quarter) downfall in the companies' stocks and raw materials were reduced: at the beginning of Q4, there were normal stocks only at 63 per cent of the enterprises, which was the worst value over the preceding 11 quarters. The situation was aggravated by the default. For the quarter, their reference in the industry has almost doubled (from 12 to 21 per cent). However, this interference appeared only in the 5-th place, but in early 2008, it was in 8-9-th place.

The third place in terms of interference, i.e., "shortage of qualified personnel", in 41 per cent did not look like disturbing in Q4. In other words, at that time the companies considered their employees as a rather valuable resource, and understood that in the recession of the vocational training system and the devaluation of higher education even possible massive dismissals in other sectors of the economy would not allow them quickly to find qualified workers and engineers. The pressure of competing imports was sharing the fifth honored place with non-payment and low export demand, but has also reduced the share of the processing industry to 21 per cent after the absolute maximum (31 per cent), recorded in the third quarter. There were clearly reduced reduction ambitions of the Russian manufacturers, starting with the efforts to reduce costs and monetary disturbances.

Russian enterprises involvement in the crisis occurred relatively smoothly. Several indicators testified for the possibility of "downgrading" for the domestic industry. First, the companies accurately managed their inventory of finished products. The balance of their assess-

ments remained within the normal for the preceding period corridor values, although not so stable – there was some nervousness. But one could not expect excessive stocks of finished products in the industry.

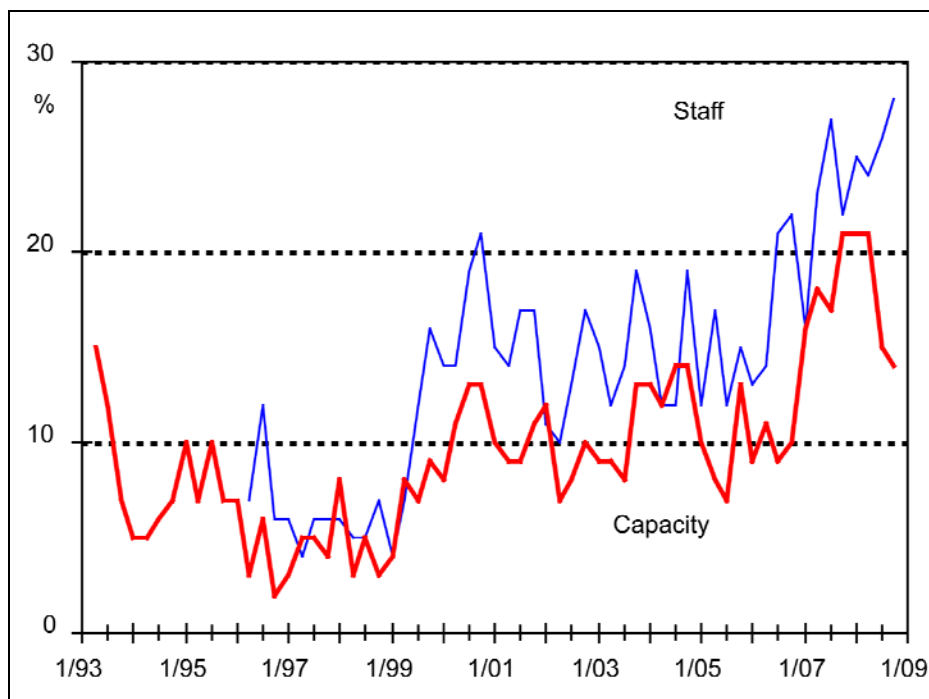


Fig. 5. Proportion of businesses with inadequate facilities and staff

Secondly, there were no sufficient grounds to talk about massive dismissals in the Russian industry in October. To a significant part of the enterprises HR still prevent to increase the output (see above). Assessments of the current staffing levels in view of the expected changes in demand still inspired optimism in the critical situation (see Fig. 5). In the domestic industry in October 2008, 28 per cent of businesses consider their staff is insufficient (26 per cent in July and 24 per cent in April) against 10 per cent businesses who think of there is an excess in the staff (after 9 per cent in July and 5 per cent in April). The majority of producers (62 per cent, July - 65 per cent, April - 70 per cent) regard the existing staffing adequate to the anticipated changes in demand.

In November, Russian industry totally drawn into the crisis. Following the sharp decline in sales, companies began to cut down the output, reduce costs and dismiss their staff. However, the storages of finished products were filling, and financial and economic standing of enterprises was deteriorating. Forecasts of the majority of producers were also disappointing: due to credits reduction, the expected significant reduction in demand there was planned a reduction in the output.

The rate of decline in demand for industrial products in November has reached the values recorded earlier only in the 90-th years of the twentieth century. This indicator fell down to -62 balance points, while in August he was +3, and in June +14 points. Clearance of the seasonal factor only slightly adjusted the rate sales reduction: now it is -54 points and is inferior only to the results in 1994. As a result, the estimates of sales volumes have dramatically changed. They have remained normal for only 26 per cent of enterprises, 71 per cent believed

the current demand was "below normal". In August of 2007 (the peak of prosperity for the Russian industry) there were opposite estimates: the demand was normal for 72 per cent of enterprises, and "below normal" for 23 per cent of enterprises.

The downfall in demand forced the industry to reduce output. If in October the intensity to reduce production was minimal (-1 balance point after the seasonal factors clearance), in November this indicator had risen to -41 b.p. Only in 1994, the rate of decline in output exceeded the results in November 2008, however, this reduction in output seemed to be insufficient - the industry started to change to the negative side of inventories assessment. Balance (above-below normal) has worsened over the month by 8 points and made 19 points, which actually was the maximum of the previous five years.

Reduction in demand is providing an increased pressure on producers' pricing. In November, the Russian industry has transferred to an absolute decline in prices. The rate of actual changes in producer prices has reached a minimum record (over 1993-2008 years, based on initial data). After clearance from seasonal factors, the November result was the second for the specified period. More intensively prices were declining only in July 1998. Price estimates of enterprises were also under a fundamental revision. In October, the industry was still planning to increase prices (not as intensive as in July – August, of course), whereas in November, there already began to dominate the intention to lower selling prices. Herewith, the November result in 2008 became a historic minimum for both, the initial and free from seasonal factors data.

The first counter-crisis measures of the government have been ineffective. The massive monetary infusions into the Russian economy did not reach the majority of industrial enterprises. In November, the availability of borrowed funds were sharply decreased. If in September 2008, the normal access to credits had 64 per cent of companies (maximum - 80 per cent was registered in August 2007), the availability of "below normal" - 22 per cent, then only two months later the situation was reversed. In the first crisis month the normal access to the borrowed funds had only 22 per cent of enterprises, "below normal" had already 63 per cent (*Fig. 6*).

Results of December were not so gloomy: the development of crisis in the Russian industry has slowed down a bit after the November downfall. Maintenance of the same intensity of reduction in demand has allowed the businesses to stabilize the rate of reduction in output. The main lever of the fight for the buyer were the prices, the rate of reduction of which has exceeded even the result of the beginning of 1998.

In December, the indicators of the falling demand intensity has not changed. A certain role in stabilizing the rates of decline in the demand was also played by the pricing policy. In late 2008, the surveys have registered an unprecedented reduction in producer prices. The balance of this indicator fell to -26 points after – November 15, and by -6 in October. Such a high rate of reduction of the actual price was not recorded even in the first half of 1998, and the December plans the reduced prices reached an absolute record over 199 previous surveys.

It did not help in the fight against excessive stocks of finished products. Their estimates have gone beyond the traditional values of previous years – there started to grow surplus savings in the industry. In December, the balance of assessments has grown to +29 points and was the maximum over the previous 13 years.

The situation of the enterprises of real sector and the continuing decline in the availability of credits was aggravated. In December, the normal access to borrowing funds has declined by another 5 points and reached 17 per cent. That's the number of enterprises which regarded

as normal credit rate and other credit conditions in the domestic banking system, which has received huge infusions of national liquidity and reporting on the great support of the real sector. Apparently, without of national support of the banks and pressure on them by the government authorities, access to credits would have been even lower.

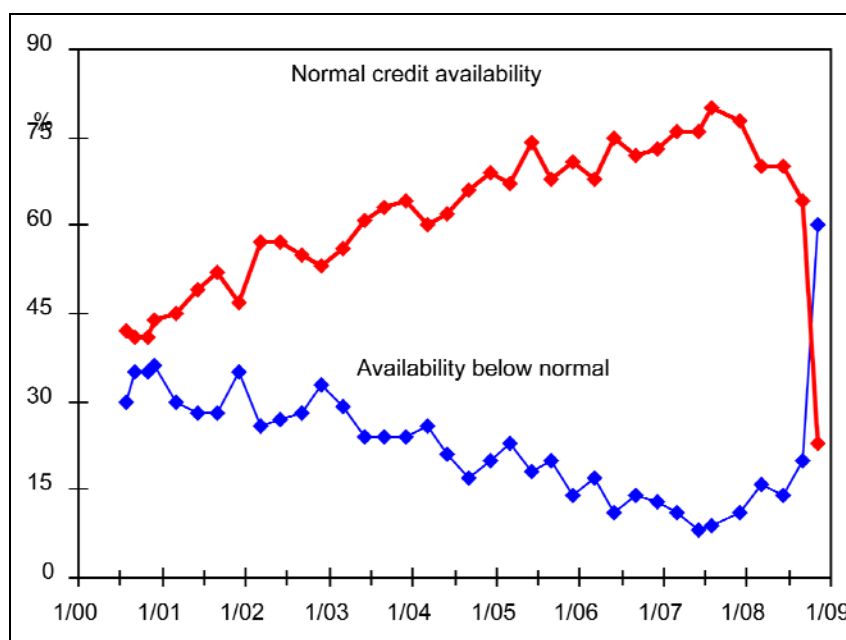


Fig. 6. Credits Availability Indicators

3.2.4. The First Six Months of 2009: Stabilization

Already in early 2009, positive trends started to develop in the Russian industries. Slowing rate in demand has led to the stabilization of satisfaction with sales volumes and allowed businesses to adjust the dynamics of production. A crucial change in price and production policies has restrained further warehouses overstocking. The industry formed an excess of production capacities and personnel, creating a basis for recovery growth.

The rate of decline in demand has slowed down in January to -32 b.p. after -50 b.p. in November. The demand growing dynamics allowed the industry to adjust and the dynamics of output. In January, the decline output reduction rate (upon clearance of seasonal factors) changed from -30 to -10 b.p.

However, the negative signal at the beginning of 2009 was the strengthening of prevailing "insufficient demand" in the rating of barriers to production growth. Low demand was regarded as an obstacle by 67 per cent of enterprises, which is by 21 points more than in Q4 of 2008 and by 41 point above the absolute minimum (in Q3 of 2007). Comparable scope of this barrier were recorded in 1996, 1998 and 2002, respectively; the larger ones - only in 1994. The absolute maximum was reached in the mentioning of the lack of export demand, affected by the global nature of the crisis. The weakness of foreign markets provoked a limitation to 36 per cent of the Russian industrial enterprises. The post-default minimum (11 per cent as of Q4 of 2007) was exceeded by more than 3-fold. Non-payments were still aggravating the sit-

uation (third-rank barrier). In Q1 of 2009, they served as an obstacle to 39 per cent of enterprises after 10 per cent in late 2007 - early 2008.

But the monitoring of barriers and detected positive trends as well. The shortage of current assets was shifted to the 2-nd place. However, growth of restraining impact of this barrier in the Russian industry has stopped: after reaching at the end of 2008 the level of 50 per cent mentioning (the maximum over preceding 22 quarters), in January 2009, it was referred as a barrier by 46 per cent of the enterprises. The lack of credits restrained the production of only 18 per cent of enterprises. Competing import has reduced its negative impact on the Russian industry up to 11 per cent, which is nearly 3 times lower than the absolute maximum (31 per cent), recorded only in Q3 of 2008. These were the first confirmed results of exchange rate policy of the RF Central Bank. Shortage of staff at the beginning of the year was regarded as a barrier only by 16 per cent of the enterprises, whereas six months later it was mentioned by 49 per cent of manufacturers, which means a three-fold reduction. The lack of equipment is regarded as a limiting factor of the output growth by 10 per cent of enterprises against 24 per cent in mid-2008 and by 32 per cent of enterprises eighteen months earlier (absolute maximum).

A positive factor at the beginning of the year was stabilization of the situation with industry crediting. Availability of credits, collapsed in November by 40 points at once, declined in December, only by 6 points, and in January 2009 has increased by 5 points. The normal access to credits at the beginning of the year had 22 per cent of the enterprises.

In February 2009, the positive effects in the crisis situation continued to strengthen. The rates of decline in demand were lower, allowing companies to move to a less intensive reduction of output, and sometimes even to its growth. Enterprises started to change their pricing policy - producers refused to lower prices, and in the forthcoming months were ready to increase them.

Demand continued to fall fairly rapidly, but still not as strong as in November - December 2008. The balance (increase-decrease ratio) increased to -33 points, what was better against "cleared" results of previous months (-51 ... -45). Industrial production in February continued to decline, but also clearly not as intensely as in January 2009 and all the more so in December - November 2008. Capacity utilization has shown that in Q1 of 2009, the Russian industry was still significantly falling behind in comparison even with Q4 of 2008. If in October 2008 the 70 per cent of production capacities were utilized, at the beginning of the new year that indicator fell down to 53 per cent. Such a sharp decline over the quarter was never noted before (see *Fig. 7*).

However, the assessment of stocks of finished goods in February remained at a relatively, but not extremely high level for the past 17 years. In 1994, the surplus was almost 2 times higher, and in late 1995 - early 1996 - about the same; before the 1998 default - 4 times lower.

In February, further positive developments in the banks' crediting to the industry became noticeable. Already 28 per cent of companies could afford to borrow in credit agencies. The growth rate reached 11 points as compared with recent absolute minimum (December 2008).

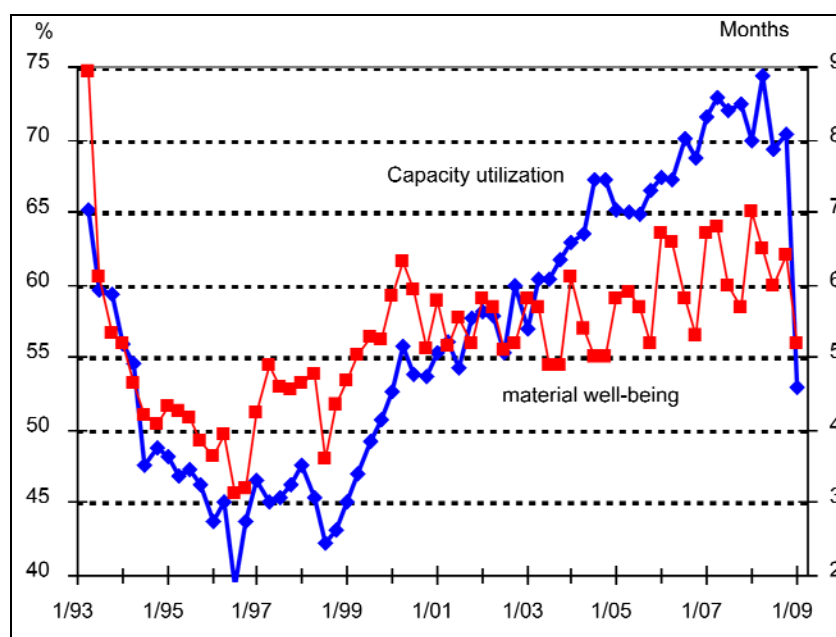


Fig. 7. Capacity utilization rate (%) and security orders (months)

In March, the positive trends of the first months of the year have not been further developed. The dynamics of demand, estimates of sales and stocks of finished products demonstrated that there were no firm foundation for growth in the output of the Russian industry so far. This forced the companies to refrain from more intensive growth of prices and re-extend the practice of dismissals.

In March, demand continued to decline rapidly, but not as intensively as in November - December 2008. Upon clearance of seasonal factors a stabilization of the rate of decline in demand was observed in Q1 of 2009 at the level of -36 ... -34 b.p. In 1998 this indicators was falling to -45 ... -50 points, in 1996 - up to -60. Stabilization of the rate of decline in demand has frozen the estimates sales volumes. In Q1 of 2009 the demand satisfaction was sustained at the level of 23, indicating the Russian enterprises got adapted to the situation existing at that time.

Availability of credits for Russian industrial enterprises in March remained almost unchanged. At that time regular access to borrowed funds had only 24 per cent of producers (versus the crisis minimum in December 2008 – up to 17 per cent). Average indicators of the availability of credits in Q1 of 2009 reflected the banks' sectoral priorities in the real sector in the first months, when the crisis was realized. As one can see from the graph, the positive attitude of banks differs by more than twice, depending on the industry sector of the potential borrower (Fig. 8.).

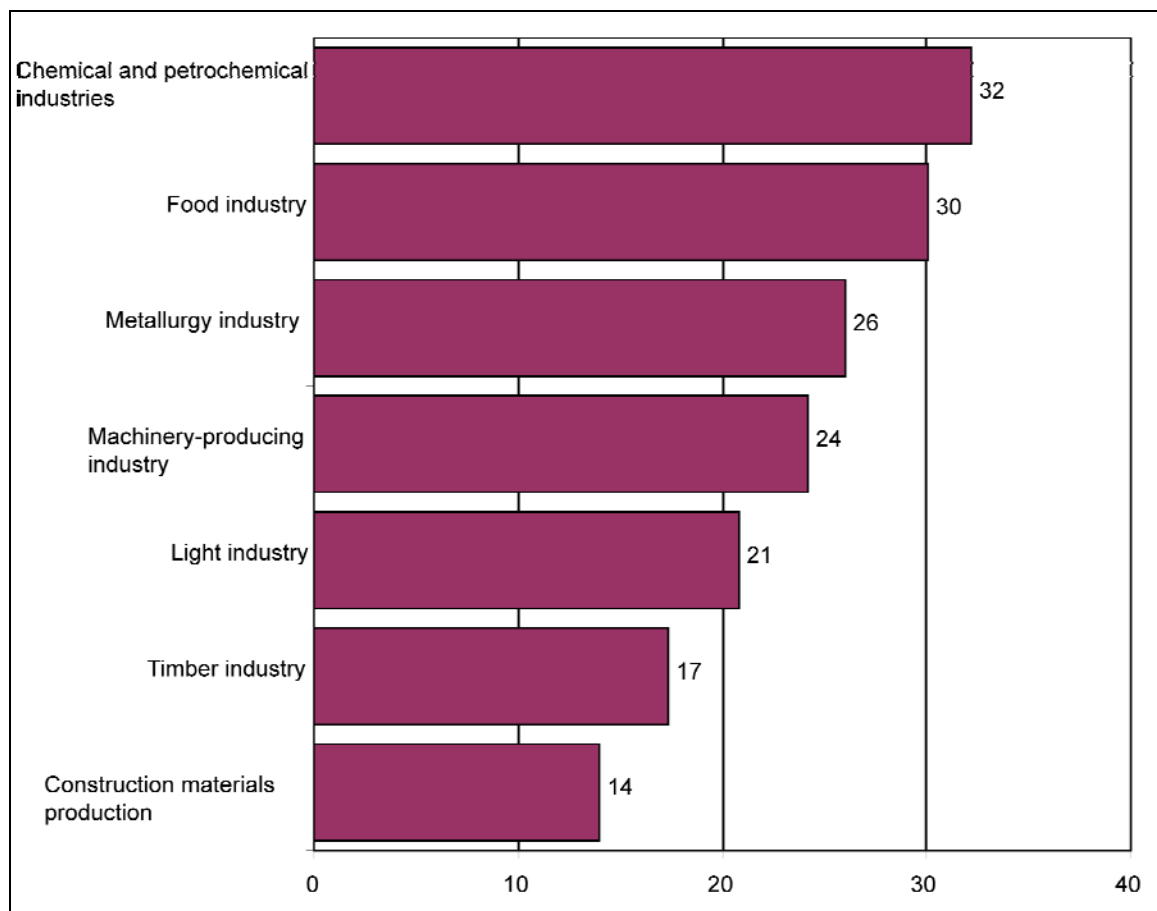


Fig. 8. Regular access to credits by industries in the I-st quarter of 2009, %

A similar pattern was observed in the first months of 2009 and in the banks' attitude to businesses of different scale: the larger the enterprise, the greater the chances of getting credit (*Fig. 9*).

The ability of companies to service already obtained credits can create problems both, to the borrowers and to the lenders. In the industry in general, among businesses with loans (they are taken as 100 per cent), only 60 per cent of borrowers in the 1-st quarter estimated their financial capability as sufficient to perform their already existing credit liabilities to the banks. The leaders in that ranking of reliability were metallurgy (85 per cent of businesses, which regarded themselves able to pay for credits), light industry (80 per cent) and food industry (74 per cent). Most of the problems with the return of loans could arise from banks, providing financing to the construction industry (25 per cent). Machine-building plants were reliable at that time in 52 per cent of cases (*Fig. 10*).

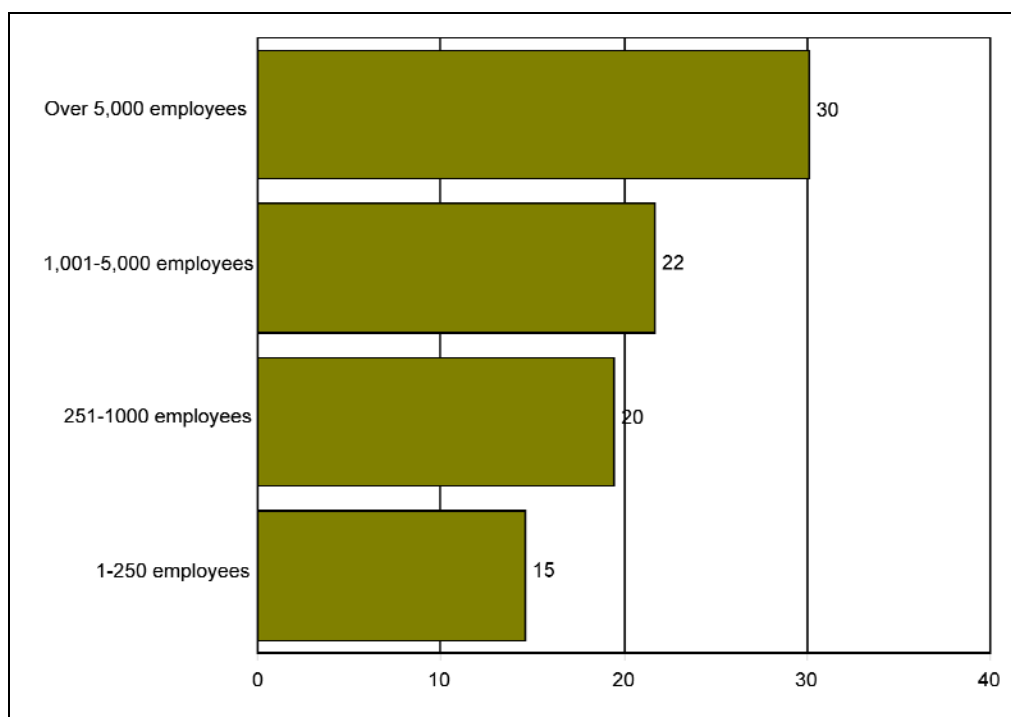


Fig.9. Regular access to credit by size of enterprise in the I-st quarter of 2009, per cent

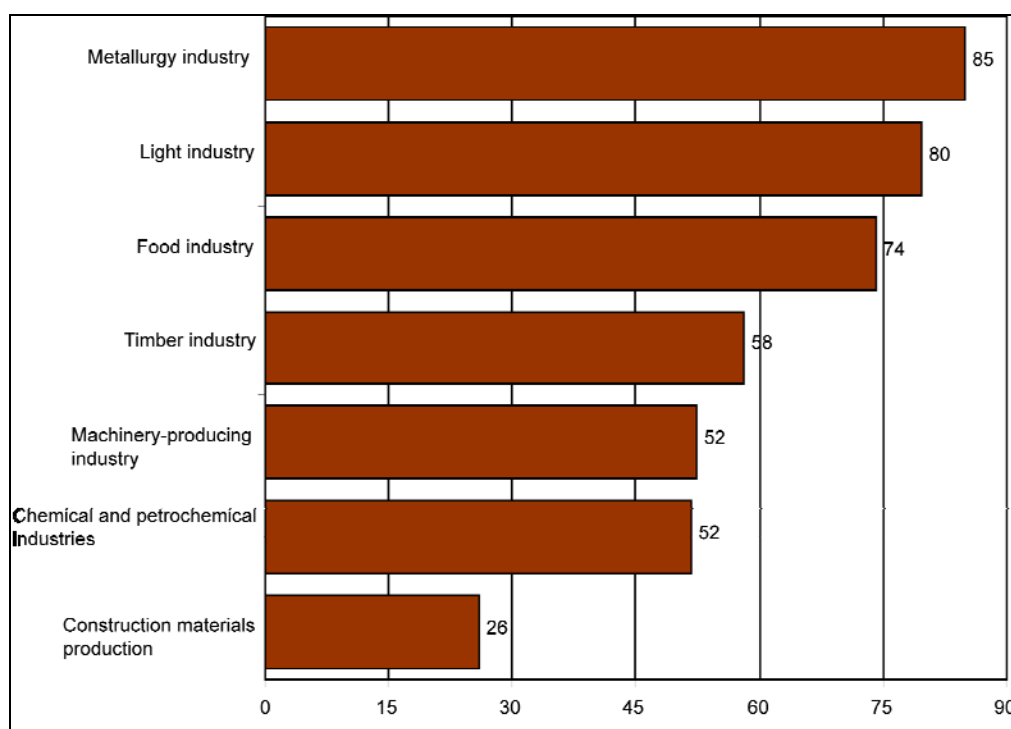


Fig.10. Share of businesses in industries that could pay for credits, %

In April, it became clear that hopes for a quick recovery from the crisis did not come true, - industry again began to get prepared to a more significant rate of demand reduction, output and lower selling prices. At the same time, the emotions from a “hard landing” at the first months of the crisis gave way to sober estimates and attempts to predict the immediate future.

Demand for manufactured goods continued to decline with the same intensity (as in January - March). Estimates of demand in April returned to the levels of December - January. Industry has lost hope of slowing sales decline, which appeared in February - March, and once again was getting prepared to the higher rates demand reduction. The changes in the output, as well as in demand were not so intense, and according to the enterprises estimates, no changes neither in April, nor within the following four months of 2009. As a result, industry has seriously adjusted its output plans for the next two months: estimated rate of decline in manufacturing got worse immediately by 7 points, and returned to the level of December - January. Targeted assessments demonstrated that some optimism of preceding two months (expressed in the gap between production plans and the real demand) started to decrease. In April, 77 per cent of companies planned their output in accordance with the forecasts of demand. In February, there were only 72 per cent of them. The highest correlation to anticipated changes in the output and demand over the entire period of monitoring (88 per cent) was registered in December 2008.

Availability of credits for industrial enterprises has grown in April to 31 per cent. However, changing the credit policy of the banks involved mainly rather large business (exceeding 5,000 employees) enterprises, a free access of which to the borrowed funds increased to 36 per cent. Small and medium-sized businesses (up to 250 employees) did not feel any changes, rather the opposite: only 13 per cent of companies in this category were in April, the regular access to credits over 16-17 per cent in December – February.

In May, the industry was staying at the bottom of the crisis. Neither positive, nor negative significant changes in key indicators did not happen in May. Demand continued to decline with the same intensity (as in January - April). The intensity of the lower output in May was slightly lower. Production plans of enterprises after clearing of seasonal factors were the interval of -8 ...- 5 b.p., what suggests an adaptation of enterprises to the crisis and the lack of hope for a quick recovery. Capacities utilization also witnessed that the situation with was not aggravating in second quarter of 2009. This indicator in the 1-st quarter fell down to 53 per cent after 70 per cent in October 2008 and by April had risen to 58 per cent.

The intensity of dismissals in the Russian industry by May 2009 was also stabilized (see *Fig. 11*). The rate of reduction of the number of employees remained at -28 ...- 26 b.p., which is almost twice lower (i.e., better) than the January indicator and equal to the October (2008) indicator. If we exclude the January (2009) downfall of the indicator (which is explained largely by panic, rather than by rational behavior, and seasonal factors), the pace of dismissals in the first months of 2009 and October 2008 were the highest since the monitoring of this indicator in 2003).

In June, the situation in the Russian industry has not actually changed. The initial rate of decline in sales was sustained at the level of in May (-23 b.p.). Clearance from seasonal factors has demonstrated its increase (worsening) by 4 points, but as a result, only returned it to the average value of May 1-st, to the average indicator of the first six months of 2009.

The deterioration of the sales dynamics (a growing reduction rate) has decreased the satisfaction with their volume. After fluctuations in the previous two months, this indicator also returned to the average level of 2009. As a result, 3/4 of Russian enterprises in June were un-

satisfied demand for their products. However, the stability index in the background of continuing intensive reduction of sales and total uncertainty about the prospects for the recovery from the crisis was clearly demonstrating the adaptation of enterprises to the crisis. Such stability in the estimates of demand in previous crises was not observed in the Russian industry.

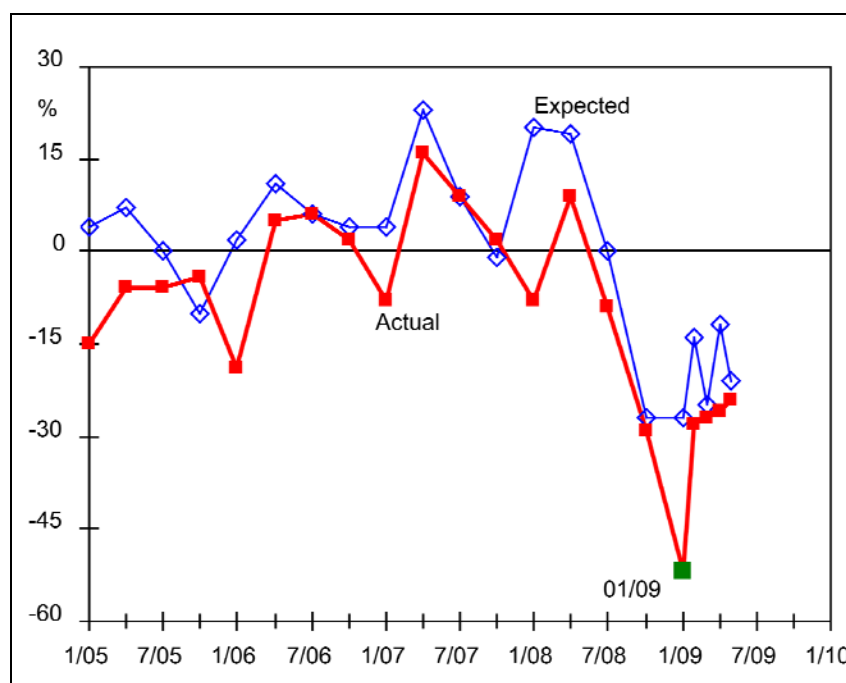


Fig. 11. Changes in employment (balance =% growth - % of decrease)

3.2.5. 2009, Second Semester: an Attempt to Overcome the Crisis

In July the situation in the Russian industry has definitely improved. However, significant positive changes in the dynamics of demand, output, employment and the stock assessments was not found in the Plan for the next few months. This indicated uncertainty about the enterprises' maintaining positive changes in July 2009.

At the beginning of the 2-nd half of the year the rates of decline in demand for industrial products have undergone significant positive changes – over the month the balance, cleared from seasonal factors has improved by 12 points and reached -18 b.p. (See Fig. 12). Therefore, the demand continued to decline, but not as intensively as in Q4 of 2008 and in the 1-st half of 2009. The demand forecasts in July have also improved, but not significantly (only by 3 points), like the actual sales. The apparent improvement in the dynamics of demand has allowed the businesses to make an equally obvious positive changes in the dynamics of the output in July. Cleared from seasonal factors data showed a zero rate of decline in output in July, which was the best level of this indicator since October 2008.

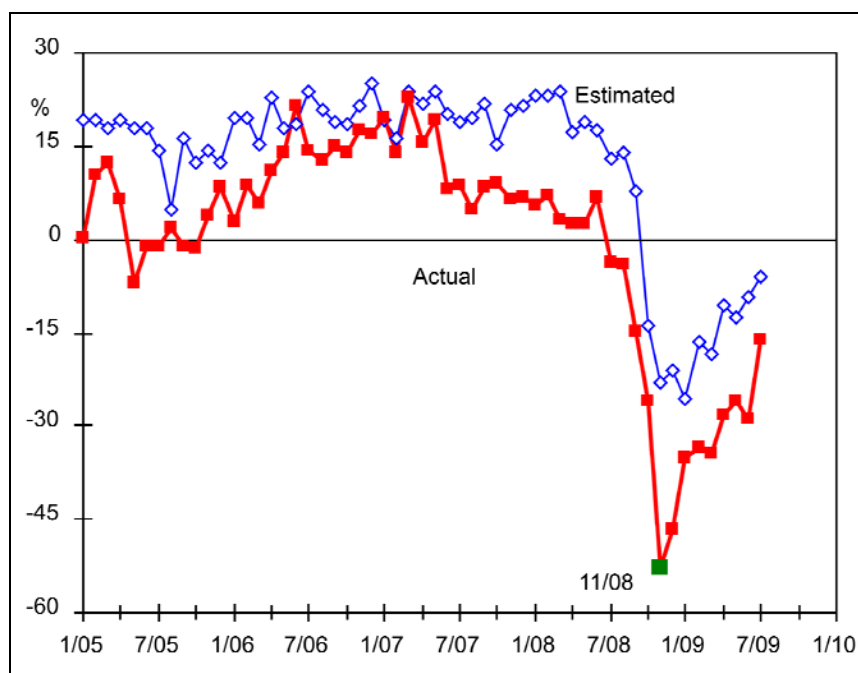


Fig. 12. Changes in effective solvent demand, cleared from seasonal factors (balance = % growth - % of decline)

However, the slowdown in demand reduction was unexpected (or perhaps, seemed to be unreliable), to many of enterprises which could not (or did not take the risk) adjust their production dynamics. As a result, the gap between the changes between the output and demand levels has increased in the Russian industry up to 13 per cent versus 7 per cent in June. The average value of this indicator over the crisis months in November 2008 - June 2009 was 6 per cent. Nevertheless, the majority of enterprises (58 per cent) adequately responded to changes in demand, while 29 per cent of production businesses, by contrast, took the risk to increase the output ahead of sales. Production plans of companies in July were practically unchanged as compared with June and were worse than the actual changes in the output. Such a ratio of planned and actual changes in output over the 17-year-old practice of surveys is infrequent and indicates an uncertainty of producers in the stability of the prevailing rate of the output growth.

Balance assessment of finished products stocks under the scale of "above normal - normal - below normal" has fallen down in July by 7 points and came to the pre-crisis level (*Fig. 13*). Industry, given the sharp slowdown in demand reduction and sustained improvement in forecasts of its changes, has made significant adjustments in the estimates of the warehouse stocks. Thus, by the end of Q1 of 2009, the shock of the first months of the crisis in both, psychological and physical terms was overcome (judging from the stocks of finished products).

Availability of credits of the Russian industry in July ceased to grow, but as compared with May (the best month of the crisis) has decreased by 2 points. The change is, of course, insignificant, but sufficient for the conclusion on unimproved situation with industry crediting, despite the persistent and varied efforts of the authorities. But it is wrong to make the conclusion that the industry was suffocating without credits. According to enterprises assessments, the lack of credits in the III quarter was only at the 6-th place (21 per cent of references) among 13 barriers, tracked by IET surveys.

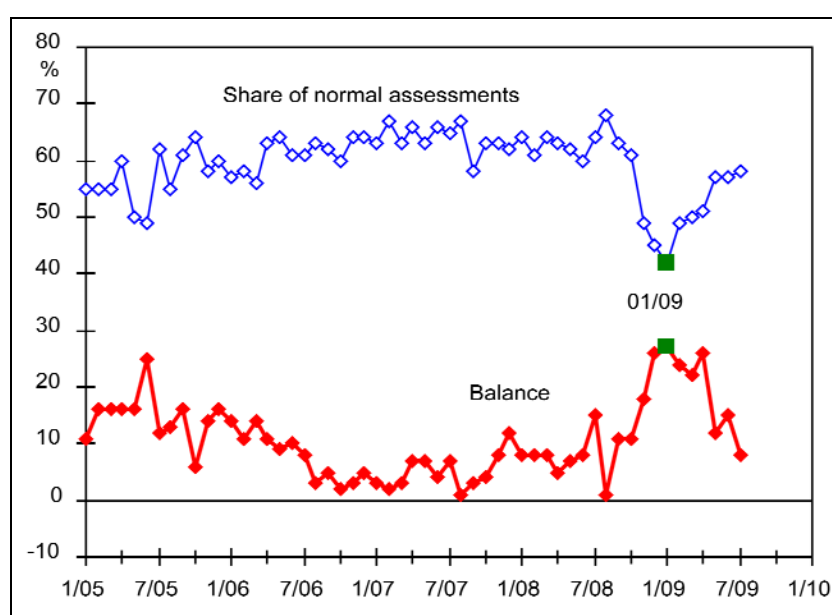


Fig. 13. Balance of finished products stocks assessment
(balance = % higher -% below normal)

In the situation of crisis and credit constraints has changed, as well as the structure of the borrowed funds utilization in the industry (see *Table 1*). The most significant changes undergone the investments in production: from 47 to 24 per cent reduction in the use of loans for the upgrading of production, from 30 to 17 per cent - to expand production. Other trends of the funds use either retained their shares, or even increased. There is still 2 / 3 of the enterprises, using loans to replenish working capital like before. Up to 27 per cent has increased the share of credits used for payment of wages, up to 17 per cent - to repay the debts to suppliers and to 7 per cent - to redeem the debt to other banks. Herewith, one fifth of the industrial enterprises have reported the absence of loans in July 2009.

Table 1

Trends of Credits Utilization in Industry (% of Respondents)

	2003	2004	2005	2006	2007	2008	2009
No credits	12	8	10	9	9	9	20
For R&D, know-how, license acquisition	2	6	6	2	1	6	6
For production upgrading	22	31	36	36	36	47	24
For production extension	13	23	24	25	27	30	17
For working capital	66	68	70	62	57	65	66
For sales management	2	1	2	1	1	3	1
For compensations	27	27	22	26	19	19	27
For export contracts	8	7	11	12	7	6	7
For debts redemption to other banks	6	9	7	9	5	5	7
For debts redemption to the suppliers	14	9	11	13	9	11	17

Note. In 2009 the survey was conducted in July.

The main reason for reluctance to take credit or failure to obtain a credit (in case of application to the bank) in mid-2009 was mentioned by a great number of enterprises (see

Table. 2). On average for the industries it was referred to by a third of enterprises. But the restraining effect of this factor varies considerably by industry. If in the chemical and petrochemical industries, it was the only obstacle for 21 per cent of enterprises, in the light industry - for 39 per cent and in non-ferrous metals - for 46 per cent. Therefore, the pressure on the government on credit refinancing rate provided a different effect in different industries. A second barrier in obtaining credit by a company (banks, of course, in the first turn) felt uncertainty in the enterprises standing. But even here the variety was significant: from 13 per cent in light industry and 15 per cent in the chemical industry to 31 per cent in machine-building industry. To reduce the height of this barrier was much more difficult.

Table 2

For What Reason the Company Decided to Avoid to Take Credit or Failed to Obtain a Credit in 2009

	All industries	chemical and petrochemical industries	Machine-building	Construction materials	Light industry	Food industry
No need for credits	13	16	9	17	31	12
Credit obtained	30	25	25	38	26	51
Too high credit interest	33	21	38	27	39	25
Too short timeframes	9	14	4	10	9	14
Shortage or other problems with credit security	20	27	21	17	17	13
Uncertainty in the company financial standing	24	15	31	20	13	17
Formal grounds of the bank rejection	9	7	12	10	5	10
Other reasons	3	4	3	5	2	10

Source: July (2009) IET survey.

After some positive changes in the July, in August the Russian industry has slightly slowed down. The rate of decline in demand for manufactured goods in August increased (i.e., worsened) by 3 points after the July improvement by 12 points. The increase in the rate of reduction in demand has forced the industry similarly adjusted the rate of decline in production: in August, the production declined by 4 points more intensively than in July, but less intensely than in any other crisis months. The production plans of enterprises, as well as forecasts of demand, in August improved by 6 points at a time, while in February they rose by 2 points every two months. As a result, in August they were for the first months of the crisis definitely positive. Capacities utilization in Q3 of 2009 was 57 per cent and remained practically unchanged as compared with Q2 (58 per cent).

The demand, of course, was the most significant and persistent barrier in the industrial growth in 2009 (see *Fig. 14*). The lack of working capital was sustained in the second place in mid-2009, but over the four quarters of the crisis, it lost 9 points. If in Q4 of 2008, it mentioned by 50 per cent of companies, in Q3 of 2009 - already by 41 per cent. In the 90-s years of the twentieth century the shortage of working capital was considered as a barrier by 70-80 per cent of the enterprises. Non-payments, which growth analysts feared with the beginning of 2009, have gradually gave way. In January 2009 they were considered as a barrier by 41 per cent of companies, in July - only by 34 per cent. This is, of course, a lot as compared to the 1-st half of 2008, when the non-payments were reported only by 10-12 per cent of the en-

terprises, but certainly is small as compared with the 90-s years when they were regarded as a barrier by 70-80 per cent of producers.

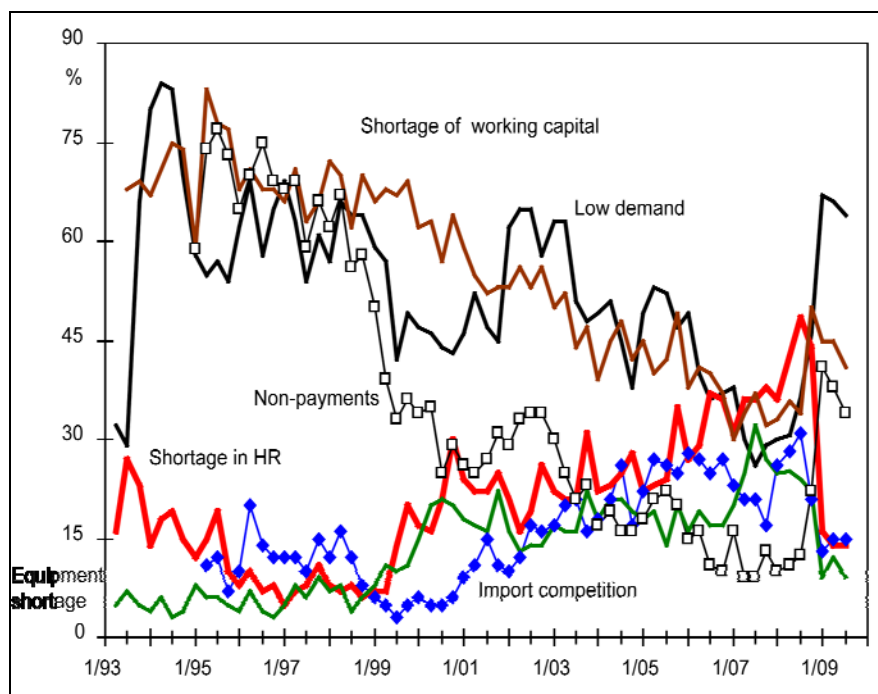


Fig. 14. Barriers in Production Growth

HR shortages, which was leading in the ranking of growth restriction in the output of 5 quarters in 2007-2008 from 36-49 per cent, during the crisis has reduced its restraining effect to 14 per cent and did not change the scale of its prevalence in the Russian industry since 2009.

In August the government managed to turn the trend in crediting the real sector. The share of the normal credit availability assessment increased over the month by 11 points and reached 41 per cent. Particularly sharply improved the banks attitude to the metallurgy and forest industries. At the same time, the companies could reconsider their need for credit.

The lack of equipment (capacities), which was frequently referred to by experts as a barrier from crisis through import substitution was estimated otherwise by enterprises in mid-2009 and in the near (already quite optimistic) perspective. The lack of equipment was mentioned as an obstacle to the output growth in Q3 of 2009 only by 9 per cent of enterprises. The peak of references (32 per cent) occurred in Q3 of 2007, but the investment activity has gradually reduced the occurrence of this limitation in the Russian industry up to 22 per cent (October 2008), and the crisis then allowed to reduce the indicator by another 13 points. In the 90-s years the reference to this factor was lowered to 3 per cent. And in connection with the anticipated changes in demand there was formed a relevant stock of facilities in the industry (see Fig.15). Since early 2009, though it was slightly decreased (by 6 points), but the balance is still clearly in favor of the rapid growth in output due to unused capacity.

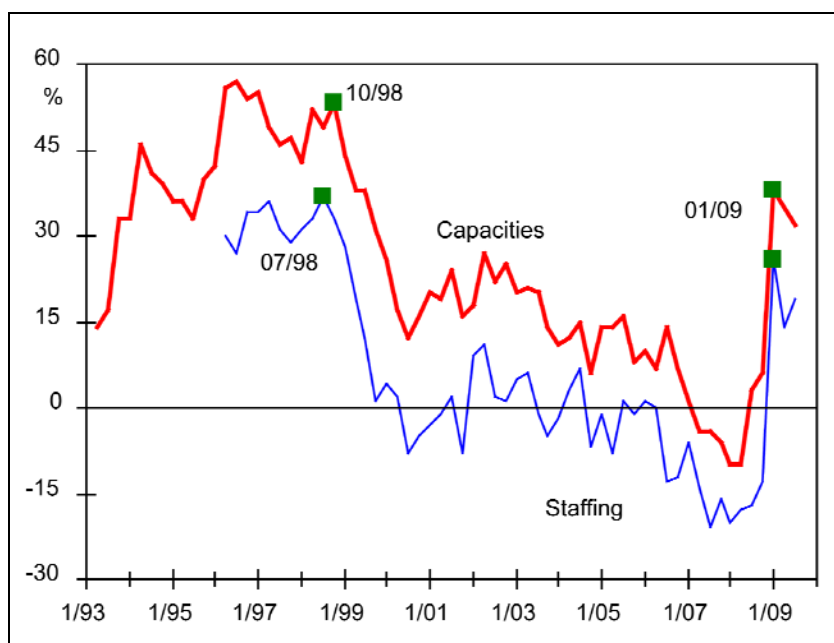


Fig. 15. The balance of Capacity and the Staffing Assessment (balance = "more than enough" - "less than adequate")

In September, sales have continued to recover, which allowed the enterprises to move to the most intense since the beginning of the crisis increase in production and the very moderate reduction in staff. In September, the rate of decline in the demand has declined (after seasonal factors clearance) by 5 points at a time and the result was the best (i.e., the lowest) from August 2008, when, if you look at the dynamics of the IET index of industrial optimism, Russian industry is starting to shift in the crisis pit. As compared with the minimum of the crisis (November 2008), the rate of reduction in demand has improved by September 2009 by 39 points.

Estimates of demand (sales satisfaction) in September have demonstrated the exit of the Russian industry to a new level of the situation understanding (see *Fig. 16*). For the second consecutive month the demand for its products were regarded as normal by a one third of Russian enterprises. Earlier (over previous eight months of crisis) only a one fourth of producers shared that opinion.

The balance of the finished goods inventories assessment from May to September 2009 make +12 points on average and definitely overcame the level of reasonable sufficiency, typical for 2004 - the first six months of 2006, the period of not very high heating of the Russian industry. The share of enterprises with normal stocks of finished products has overcome the level of the said period. Therefore, the companies have coped with the problem of excessive stocks, and stabilization of their estimates demonstrated that they had no desire to work for the warehouses.

The positive dynamics of demand has allowed the companies to move in September 2009 to the most intense since the beginning of the crisis downfall (in September 2008) in the growth of production. Explicit positive changes in September, was manifested all indicators of the actual output growth in the industry. As compared with November 2008 (the peak of the crisis in the dynamics of the output), by September 2009, that indicator has improved by

56 points and became definitely positive for the first time: an expressed growth started in the industry, according to the businesses estimates.

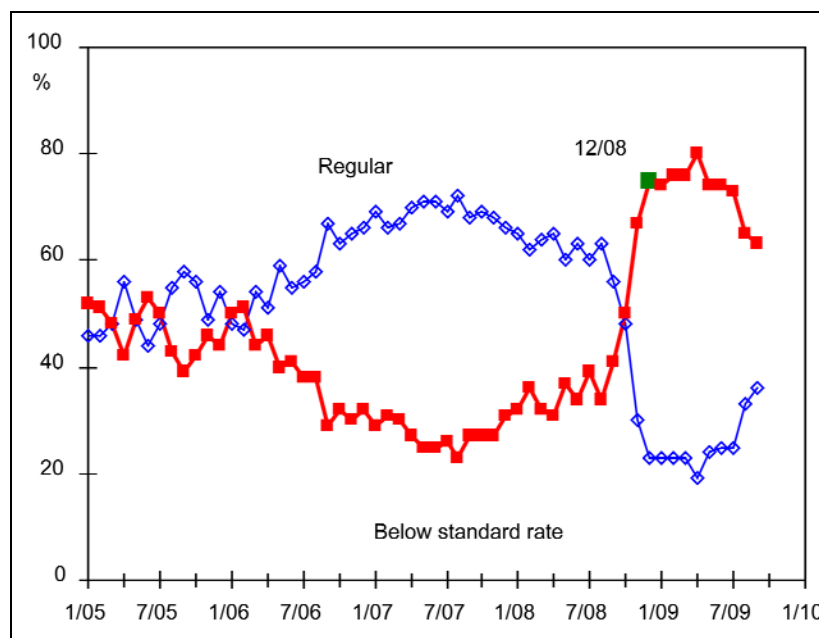


Fig. 16. Dynamics of Effective Demand Growth Assessments

In September, the companies most significantly from February 2009 have adjusted their policies in terms of employment. The intensity of dismissals has been reduced over the month to 9 points and became the most moderate since October 2008. In September, only a quarter of industrial enterprises dismissed their employees, whereas in January 2009, there were more than half of them. The share of reports of recruitment has increased to 12 per cent and became a record peak since July 2008.

In October, the Russian industry has continued to recover from the crisis. There was a positive dynamics in the actual changes in sales, production, employment, stocks assessment of finished.

The demand reduction has slowed down in October (+6 percentage points after seasonal factors clearing) and indicators have reached the level of July - August 2008. Then the demand (and probably, the industry in general) was a step away from the collapse of September - November. Over those three months the rate of change in sales (as per the balance responses of the survey statistics) has lost 50 points. The Russian industry has not faced such a collapse in demand even in the 90-s years of the twentieth century.

It took 11 months to overcome such crisis, which, incidentally, looks very nice, if we recall the gloom forecasts of winter-spring 2009 forecast. The demand estimates, after stabilizing in August - September have been improved in October by 5 points and become positive - for the first time since the crisis start hopes sales were definitely prevailing in the industry.

In October, the growth rate of output after clearance of seasonal factors has increased by another 4 points and made the next crisis record (but with a plus sign): so intensely the output of the Russian industry was not growing since the June 2008 Capacities utilization in industry in Q4 increased to 60 per cent and was the highest for the crisis quarters of 2009. In October,

the intensity of dismissals in the Russian industry has continued to decline and as a result became the most moderate since July 2008. Improving this indicator in October as compared with the January crisis value (largely alarmist) amounted to 42 points, and as compared with the more reasonable (i.e., not in so scaring) level of February - 18 points.

Regular access to credits for businesses in October rose to 48 per cent and for the first time during the crisis exceeded the share of businesses estimating credits availability as "below normal". It seems that the banking sector is beginning to believe in the recovery of the Russian industry from the crisis and started to increase its lending, but still under fairly stringent terms. The minimum proposed interest rate was in October, an average of 18 per cent per annum, but it has declined over the month only by 0, 4 percentage points. To small and medium enterprises credits were offered under 19 per cent per annum, with an increase off business scope the rate is decreased to 14-15 per cent per annum.

In November, the progressive dynamics of the main indicators of industry was suspended. The dynamics of demand for the fourth time this year demonstrated the slow-down of a positive trend of recovery from the crisis after undoubtedly positive changes in October. This time, the rate of sales reduction increased by 2 points (in August – by 1 in June - by 3, in March - by 1 point), which is already familiar and more than modest value. Estimates of demand in November, has undergone a significant negative change. Upon clearance from seasonal factors, the rate of anticipated changes in sales showed a decrease (by 4 points) in November for the first time within the previous 6 months.

The growth rate of output, as well as the rate of reduction in demand have changed in November for the worse. Baseline data showed slowing down by 10 points at once and nearly suspended growth of production. The data cleared from seasonal factors showed slowing growth in the output growth by 4 points, but still the growth of production was maintained. The production plans of enterprises declined by 6 percentage points. However, it was the first deterioration in the plans since the crisis beginning in November 2008. Hopes for growth industrial output growth were still large, but there was less confidence. The more intense decline in sales and slower growth in output led in November to an increase in the intensity of dismissals in the industries. The rate of layoffs has increased from -11 to -15. estimates of changes in the number of employees have decreased in November by 9 points and also became worse over the previous three months.

By the end of the crisis year 2009 there formed the new trends in the companies' plans regarding the productivity of workers and in estimates of this factor. The average year data show a lack of positive impact of the crisis on business plans to increase productivity. The share of enterprises, which were planning to change the ratio of output and employment in favor of higher returns during 2009, dropped to 27 per cent. This value fits well the trend established in 2005 and is characterized by a gradual decrease in the intensification of labor in industry. The rapid growth of the economy and escalating shortage of personnel fully explain this trend. But 2009 is the year of crisis, which in the first stage was often compared to the 1998 crisis. Then the share of enterprises intending to change the ratio of production output and employees in favor of increasing productivity, reached a maximum value (40 per cent on average in annual terms and 46 per cent in Q1 of 1998). It would seem that 2009 should provide a similar pressure on the Russian industrial enterprises. But this has not happened. And the reason is obvious - active (sometimes even too much) counteracting of unemployment from the authorities of all levels. Now it is not a secret to anybody that the relevant authority (according to the size of the enterprise) exerted any pressure to minimize the dismissals of

employees. It did not happen in 1998: the companies were left to themselves and were forced to get out of the situation by all means of their own capabilities.

In November 2009 the tendency of enterprises to increase productivity has dropped to historic minimum. Only 16 per cent of industrial enterprises were planned to change the ratio of output and employment, which would lead to increased productivity. Previous anti-record (19 per cent) was recorded back in 1993. The overwhelming majority of producers (74 per cent) had to plan the suspension of the currently existing performance, and everybody is aware of its level it is in Russian industry. The companies were estimating the situation with production output quite adequately. In October 2009, when the optimism of the enterprises has reached the crisis maximum, suddenly (at first glance, of course) there occurred a prevailing dissatisfaction with productivity in the industry. It rose to the level of April, one of the hardest months of the ending year.

In December, companies managed to consolidate the positive results of the previous months, but could not do better. At the end of the year this resulted in the reduced demand, deterioration finished products stocks estimates and growing pessimistic of all estimates before the of All-Russian New Year holidays.

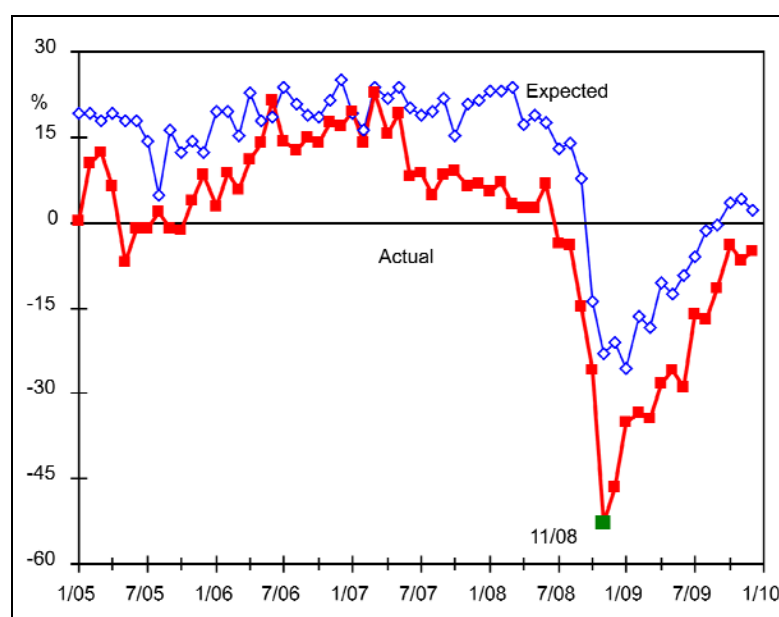


Fig. 17. Changes in effective demand, cleared from seasonal factors (balance =% growth -% decrease)

The intensity of reduction in demand in December remained at the level of October - November, i.e., the company did not notice any progress in this indicator in the IV quarter of 2009. The demand continued to decline, although not so intensively as in the II or III quarters of the crisis year (see Fig. 17). As a result, sales satisfaction was unable to stay at the new level and returned to the level of August - October, when sales of their products satisfied only one-third of enterprises and two thirds regarded it as "below normal". Estimates of stocks of finished products also returned to the medium indicators (and it is quite normal for a year of crisis), the levels of May - October.

The cleared from seasonal factor data on the dynamics of production showed in late 2009 the sustained rate of growth of output at the average level of +11 b.p. That is, production volume in September – December was growing, and quite explicitly and faster than ever during the current crisis. Companies’ production plans in anticipation of All-Russian New Year holiday were declining for two consecutive months and lost during this time 11 points of optimism upon clearance from seasonal factors. As compared with initial assessments, the loss amounted to 28 points, and as a result, the December balance of output plans for 2009 was the closest to the November-December balance of 2008 (the peak of the current crisis) and worse than all other points of observation since August 1994. Even in August - September 1998 (peak of the previous crisis) the original output plans of businesses were more optimistic. Most likely, now the situation is affected by slow recovery from the crisis in the January holidays.

Positive trends in personnel policy of enterprises, existing in September – November, were suspended at the end of the year. In December, the producers have reported the most intense over 11 months of the year, staff dismissal (January appears to have been a panic exception). Over the last month, the intensity of layoffs in the industry increased by 2 times.

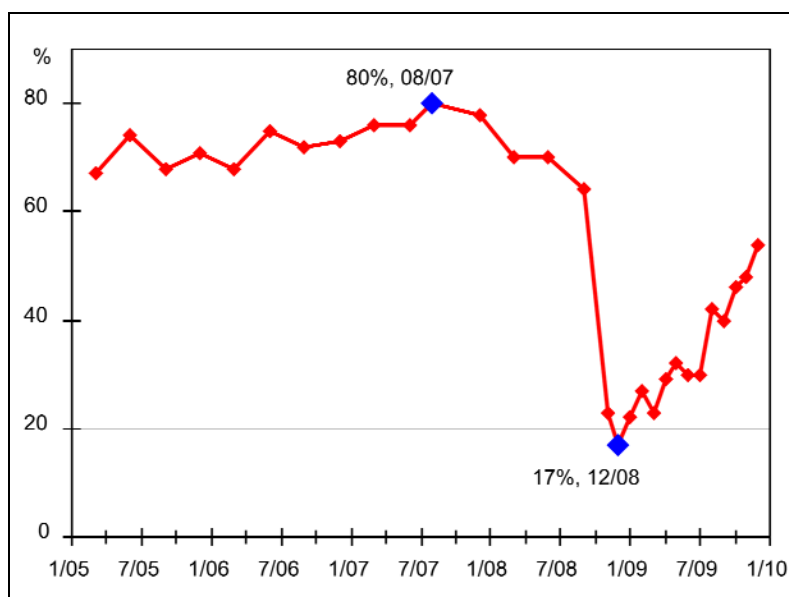


Fig. 18. Share of enterprises with normal access to credits

By the end of the crisis, the normal availability of credits to industrial enterprises increased to 53 per cent, slightly less than the level it reached in pre-crisis September (63 per cent). The crisis minimum (17 per cent, December 2008) has been already exceeded 3-fold (see Fig 18). Therefore, the industry crediting was definitely restoring over the year - not, perhaps, as fast as businesses and government wished, but the positive trend is evident.

But in early 2010, Russian industry continued to recover from the crisis. The January sales dynamics and assessment of demand allowed businesses to maintain growth in production and demand estimates, backed up by a portfolio of orders, indicate the formation of the most popular expectations for recovery from the crisis. In January 2010 the industry for the first time during the current crisis, expressed a desire to abandon dismissals and start to employ the personnel.