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**RUSSIAN ECONOMY IN 2015
TRENDS AND OUTLOOKS
(ISSUE 37)**

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The review provides a detailed analysis of main trends in Russia's economy in 2015. 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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□ Gaidar Institute, 2016

Russian industrial enterprises in 2015 (on the basis of business surveys)¹

This section is prepared using the data of monthly business surveys conducted by the Gaidar Institute for Economic Policy (IEP) among managers of industrial enterprises since September 1992. The surveys are conducted on the basis of the European harmonized methodology and encompass the entire territory of the Russian Federation. The size of the panel is around 1,000 enterprises, which employ over 13% of the total number of employed in industry. The panel is biased towards large enterprises in each of the selected branches. The rate of response to questionnaires ranges from 70% to 75%.

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

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

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

4.3.1. Year 2015: was there an industrial recession?

Year 2015 has been labeled as a crisis one for the Russian economy. However, the majority of indicators describing changes and the state of Russian industry are barely similar to the crisis developments on the 1990s or 2008-2009 crisis. Moreover, part of the indicators failed to demonstrate manifestation of any crisis changes in 2015. Analysis of a representative set of business surveys’ indicators, the majority of which are absent from the set of indicators used in state statistics, and a part – in similar surveys carried out by other organizations, hardly allows us to call 2015 a recession year *for Russian industry*.

¹ Author of this section: Tsukhlo S. – Gaidar Institute for Economic Policy.

First of all, let us analyze the dynamic of aggregate indicators used by the Business Surveys Laboratory of the Gaidar Institute for Economic Policy in order to provide a composite assessment of Russian industry. By the end of 2015, three such indicators were compiled: Industrial Confidence Indicator, Forecast Indicator, and Industrial Adaptability Indicator. First two indicators are calculated on a monthly bases and the third one – on a quarterly basis.

Industrial Confidence Indicator¹ has demonstrated that the initial (January) assessments of the situation in Russian industry labeled year 2015 as a recession one were far from critical ones. The indicator has remained in the positive zone and even has improved its value in comparison with November-December last year. However, February value of the indicator demonstrated optimistic responses of enterprises regarding the situation in Russia industry at a marked decrease. The indicator dropped 5.5 points and was negative following three months of being sustainably positive in the course of the currency and credit shocks. In March, the February decline of the indicator halted – the aggregate indicator moved up by mealy 1.7 points and turned out to be around zero mark. Thus, industry has managed to avoid critical reduction of confidence, which was definitely expected to happen by the authorities and experts. In April, this IEP indicator demonstrated an obvious improvement in enterprises' assessment of the situation unfolding in Russian industry. The Industrial Confidence Indicator has parted from around zero mark of Q1 2015 and has reached in the context of recession not bad levels of late 2014 due to growth of some components and non-deterioration of other. Aggregate assessments obtained in May 2015 still considered a recession year demonstrated still more solid rebound of the industry from the shock it found itself at the turn of the year. The indicator went on growing even amid flat demand and small fluctuations of assessments of stocks of finished products. However, in June, enterprises' managers, finally, noticed certain crisis developments in Russian industry. However, that was true to actual movements of book orders (part of Confidence Indicator) and actual movements of output (out of the indicator). Negative changes of these two indicators have resulted in the growth of dissatisfaction of current sales volumes. However, other components of the Indicator have not suffered sharp crisis changes. As a result, the aggregate indicator although negative but so far failed to approach its worst intercrisis values (see *Fig. 20*). July 2015, failed to add clarity to the assessment of the current situation in Russian industry. The months' results failed to produce both an obvious deterioration of the situation and obvious bottom out. The Industrial Confidence Indicator remained at the former notably negative level but without further downward trend. Such situation again forced experts and officials yet again in 2015 to review both assessments of the actual state of affairs in industry and their vision of its future.

The August share of surveys' results showed continuation of negative trends in Russian industry and further adjustment of enterprises to those trends. In August 2015, the Industrial Confidence Indicator demonstrated a symbolic increment albeit hovering about zero. September

¹ The indicator is built as the simple arithmetic average (differences in responses) to four questions from the IEP's monthly business questionnaire:

- 1) Actual change of demand, balance = % growth – % decrease;
- 2) Assessment of book orders, difference of responses = % above normal + % normal – % below normal;
- 3) Assessment of stocks of finished products, balance = % above normal – % below normal, opposite sign;
- 4) Output projections, balance = % growth – % decrease.

Balances of questions 1 and 4 are seasonally and calendar adjusted. The indicator can range from -100 to +100. A positive value of the indicator implies the prevalence of positive estimates. A negative value of the indicator means that negative estimates prevail. Lowering of the indicator value is the sign of deteriorating situation while its growth – the sign of ameliorating situation.

assessments of the situation in this sector produced rather not bad results amid the crunch period. The industry steadily was overcoming the period of minimum change of traditionally observed by the official statistics of volume terms preserving at the same time a steady control over stocks of finished products and demonstrating satisfaction with sort of crisis low volumes of book orders. In October, the IEP's Indicator lost three points but remained in the positive area. Such negative movement of the aggregate indicator was due to a drastic decrease of only one component – satisfaction with current book orders' volume. This fact was quite characteristic of the situation in Russian industry. In November, it continued adjustment to the protracted 2015 recession. The IEP Industrial Confidence Indicator moved up by symbolic two points, stayed in 'plus' and again surprised experts traditionally judging about the state of Russian industry by output volumes, which are barely informative in current context. By the end of 2015, the Industrial Confidence Indicator overcame a significant negative change: it lost 3.5 points and crossed into negative area.

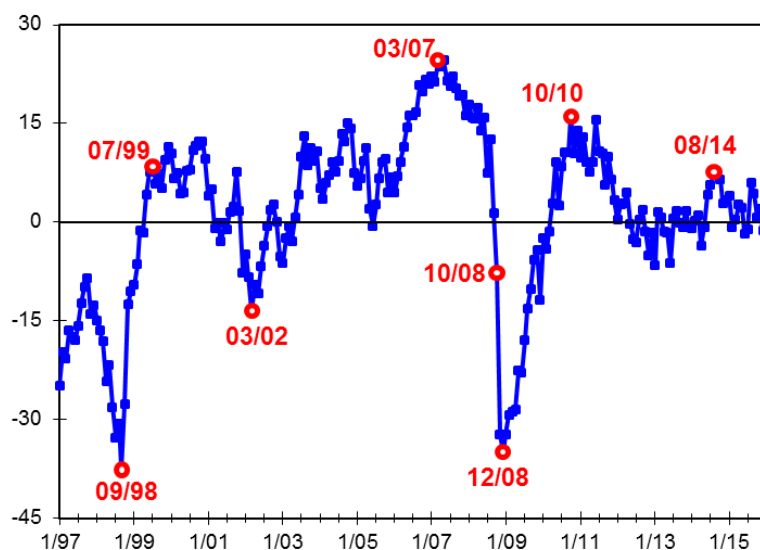


Fig. 20. IEP's Industrial Confidence Indicator 1997–2015

Thus, the Industrial Confidence Indicator showed features of 2015 recession. First, in the past year the indicator's values were in the narrow interval between -2 to +5 points, i.e. no sharp changes of the indicator were registered. Second, nothing similar to recognized crisis of 1990s and 2008-2009 crisis took place in Russian industry in 2015. The Industrial Confidence Indicator fell to below -30 points during those crises and in 1996, it decreased to -41 points. The worst values of the indicator for 2015 turned out to be superior to the minimum levels of inter crisis period of 2010-2014, which were obtained in 2013 and were inferior by -6 points. Third, 2012-2015 local maximum of the Indicator was registered in August 2014, which seems to be a watershed month when the Russian economy was drawn into the long promised 'second wave of recession'.

At the turn of 2015, in the wake of turmoil on financial and currency markets as well as amid proactive actions taken to the authorities to develop anti-crisis measures the **Industrial Projection Indicator**¹ posted a downward trend, which, by the way, failed to result in complete loss

¹ The indicator is the simple arithmetic average of the balances (in percentage points) of the answers to three questions from the IEP's monthly business questionnaire: a) projections for change of demand for the products of

of confidence in the sector. In March-May, the Indicator stabilized at the minimum positive values. Solely in June, the Indicator was negative: pessimistic expectations in industry, finally, prevailed over confidence. However, it happened in minimum volume and only for a month. Already in July, the Indicator moved up 2 points and again turned positive. In August, the Indicator went up by another 2.5 point and following September halt continued growing through the end of the year. As a result, (according to final 2015 data) according to enterprises' projections was the worst month of the year. However, the June Indicator's value barely differs from zero, indicator's decrease over H1 2015 (7.4 points) is insignificant in comparison with its decrease (51 points) prior to 2008-2009 crisis. By the end of the year, all losses incurred over H1 2015 were offset. The Indicator came to a level of maximum values registered in 2013-2015. Thus, there were no extraordinary changes in the aggregate Industrial Projections Indicator in 2015 (see Fig. 21).

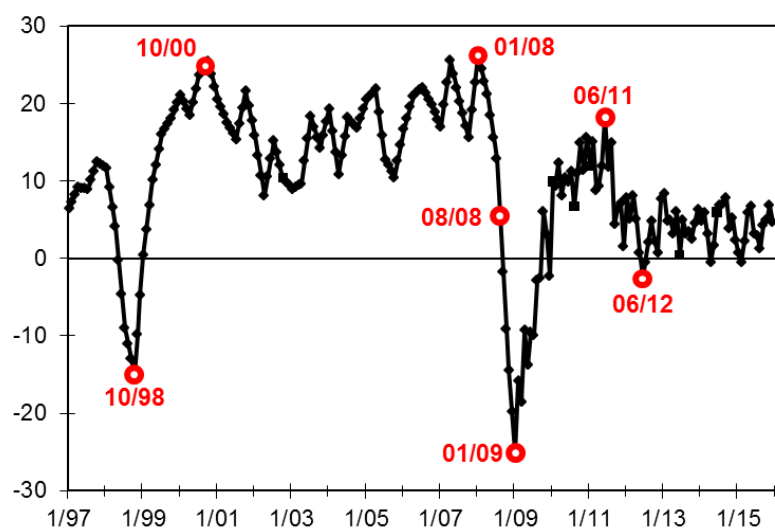


Fig. 21. Industrial Projections Indicator, 1997–2015

The **Industry Adaptability (Normality) Indicator**¹ provides the final assessment by enterprises of the crisis year of 2015.

First, the year 2015 has not seen any crisis abnormal in Russian industry as a whole. The indicator steadily preserved high values the latest of which was equal to all-time high of 72%

enterprise, balance = % growth – % decrease; b) plans of output change, balance = % growth – % decrease; c) plans of employment change, balance = % growth – % decrease. Balances are cleared of seasonal and calendar factors. The indicator can range from -100 to +100. A positive value of the indicator implies the prevalence of positive plans (estimates). A negative value of the indicator means that negative plans (estimates) prevail. Lowering of the indicator value is the sign of deterioration of expectations while its growth – the sign of amelioration of plans (forecasts).

¹ The Indicator is the arithmetical average of the balances (in percentage points) of the answers to the questions about six components: order books, stocks of finished products, stocks of raw materials, available production capacities, current employment, financial and economic state of enterprises. Gaidar Institute for Economic Policy has been analyzing a set of these assessments since 1994. The Indicator is compiled on a quarterly basis. The Adaptability Indicator (normality) shows the level of adaptability of Russian industry to current economic conditions. In other words: to what extent current operating conditions for Russian industry are considered normal.

registered in Q3 2007 and Q2 2012. Russian industry was not in the mood of panic regarding emotionally most difficult Q1 2015 compared to the Russian authorities and observers' sentiments. We can draw an unusual conclusion that the industry long ago and steadily came to terms with the slow rolling dynamic of recent years. Moreover, the Indicator shows that since late 2010, Russian industry *constantly* retained high resilience for adaptability to unfolding economic conditions of each quarter of that period. During these 5 years, the Indicator was in the range of 68-72%. Maximum three months reduction came to 2 points and 'worst' values of the indicator (68%) were obtained by far from crisis 2015 but in late 2013 – early 2014.

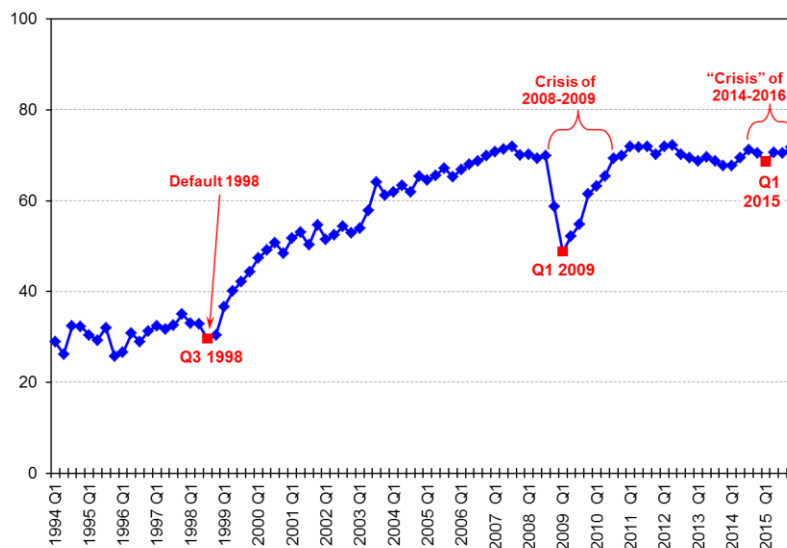


Fig. 22. Russian Industrial Adaptability Indicator, 1994–2015, % (share of enterprises assessing their indicators as “normal”)

Second, the crisis of 2008-2009 has turned out to be more painful for the industry. Then this indicator lost 21 points over two quarters and its recovery took one and a half years long. In other words, businesses required 1.5 years in order to come to terms with the new economic conditions.

Third, the Indicator managed to reach its all-time high only after 1998 default. Prior to that event, Russian industry resided in a state of high 'abnormality' where not more than one third of producers managed to adjust.

However, along industrial branches adaptability to the current recession of 2015 differs in principle. Metallurgy, chemical industry and food industry demonstrate high (80%) level of normality is their assessments of the current situation while light industry and construction materials industry are at the other end. Especially the light industry, which undergoes the current crisis as painfully as the crisis of 2008-2009. Consequently, devaluation of 2014-2015 failed to become a lifesaver for this industry. Machine building enterprises occupy an intermediate place with 70% of the adaptability level to the current recession. At the height of the last crisis, the Industrial Adaptability Indicator decreased to 46%. The recovery has taken 7 quarters.

Calculations show that the adaptability level grows with the increment of factory size. During 1994-2015, very large enterprises reached 75% of adaptability level whilst small and medium enterprises managed to reach not more than 63% (see Fig. 23).

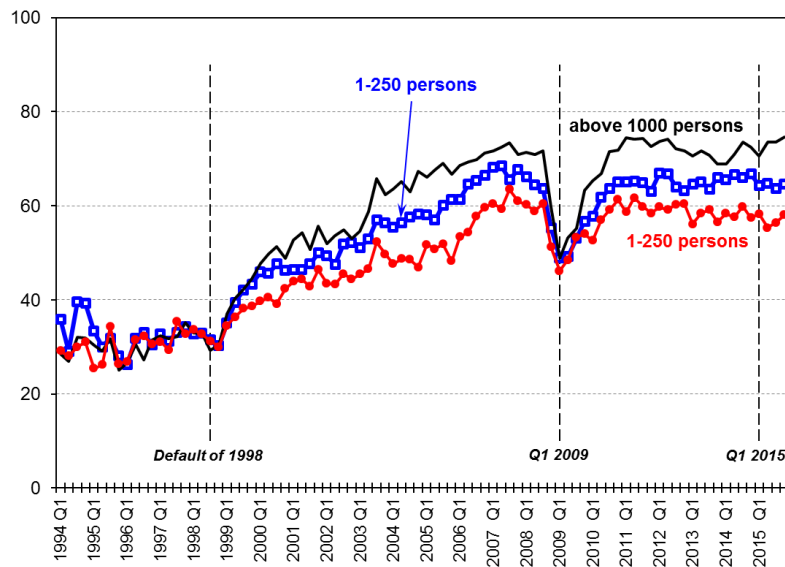


Fig. 23. Adaptability indicators along size of enterprises 1994–2015, % (share of enterprises assessing their indicators as “normal”)

Significant deviations in the Industrial Adaptability Indicator along factory size were registered, as a rule, during relatively good state of the industry. During crunch periods, the level of adaptability of businesses of all sizes decreased to around similar level. For example, in Q1 2009, the Industrial Adaptability Indicator for small and medium producers constituted 46%, for large and very large enterprises – 49%. Similar picture was observed prior to 1998 default when the difference in the adaptability did not exceed, as a rule, 3 points. With the recovery of Russian industry, enterprises’ divide increases due to much superior results obtained by large enterprises and traditionally less high – by small and medium producers.

Year 2015 has not seen critical decrease of the adaptability level in a single group of enterprises under analysis. Group indicators were falling in 2015 by not more than 3 points against the previous quarter, following which the Indicator could recover. Final (average) value of 2015 Indicator was below 2014 value by 1 point for small and medium enterprises, by 2 points for large and, and on the contrary, very large enterprises demonstrated the Indicator’s growth by 2 points. In 2015, there was no convergence of economic situation assessments: very large enterprises showed 73% adaptability (average for 4 quarters of the year), small and medium enterprises – 57% adaptability.

Therefore, industrial enterprises of all sizes have gone through 2015 recession without critical losses.

4.3.2. Movement of major indicators of Russian industry in 2015

First data regarding the state of Russian industry boasted of few crisis features reported in 2015. Actual movements of demand and output, assessment of stocks of finished products, plans of hiring workers were habitual for January and even looked promising in the wake of panic. The latter, by the way, affected projections of demand, output, and investment plans, which failed to gain traditional for the turn of the year confidence. Industry pricing policy and terms of bank corporate lending, on the contrary, reacted decisively to the authorities’ policy.

Dynamic of demand in January 2015 showed traditional for the turn of the year path: the balance of responses decreased to values commonly registered during a month with first ten days of national holidays. That is why, seasonal adjustment demonstrated unchanged rate of the indicator's deviation around previous levels even with a symbolic improvement compared to December. Therefore, industry did not see any critical decline of demand then. This development received a fair assessment by businesses, the majority of which considered unfolding sale volumes as normal in early 2015.

However, demand projections failed to recover to the common for the turn of the year confidence levels due to panic raging on the currency and financial markets as well as public anti-crisis activity of the authorities. The industry began waiting for the promised recession. It started to get ready for it.

Exactly this way looked the management policy of stocks of finished products in Russian industry. Since H2 2014, assessment of balances of stocks showed minimum surplus (+2... +5 points) and in 2015, the first value of the indicator was already negative. In other words, producers' responses 'below normal' started to dominate over responses 'above normal'. However, overall majority of managers (over 70% in November 2014 – January 2015) considered their stocks as 'normal'. Consequently, projected critical worsening of the output dynamic would have been partly flattened out by a deficit of stocks of finished products at 14% of businesses.

Sure enough, industrial production plans reflected the fact that producers expected deterioration of the output movement. According to initial data, January 2015 plans went up to only +20 points while during previous years they reached +30...+40 points. Seasonal adjustment showed deterioration of January projections balance by 5 points against the previous months and by 11 points – to the three-year maximum registered in September 2014.

As expected, 2015 commenced with a considerable price hike. However, its value turned out to be non-traditional at all due to foregone reasons: balance of changes became a four-year maximum. Moreover, solely indicator's growth of January 2011 (when authorities raised the rate insurance contributions) exceeded the outcome of January 2015.

As anticipated, enterprises' investment plans in January 2015 remained at the level of five-year minimum, whereinto they literally crashed in December 2014. Not a single branch of Russian industry projected Investment growth.

In January 2015, the industry had a chance to assess the magnitude of previous measures taken by the RF Central Bank regarding corporate lending terms to the real sector of the economy. Minimal average lending rate in rubles hiked to unprecedented heights of around 20% per annum not observed during recent 5 years of monitoring. Although in November 2014, the lending rate totaled 14% and in February 2014 – 12.3%. In January 2014, aforementioned lending rate was good enough for 70% of producers that was the share of enterprises, which considered credit availability as 'normal' or 'above normal'. In January 2015, credit availability indicator fell to 45%.

In February, recovery of book orders failed to reach customary levels, which resulted in surplus growth of stocks of finished products in the context of exceeding output over demand. Herewith, projections of book orders remained at their minimum since 2009. Apprehension was gaining momentum regarding output and investment plans. While corporate lending terms and conditions were getting tougher.

However, slack sales movement has failed to lead to a significant adjustment in assessment of current book orders volume. The share of responses 'normal' still exceeded the share of responses 'below normal'. Therefore, even decreased sales volumes in the wake of the currency

and lending shocks and unfolding anti-crisis measures undertaken by the government were acceptable for the majority of Russian enterprises.

In Q1 2015, the industry retained an intensive growth of costs. In the intervening three months production costs growth rate went up by another 16 points (growth over Q4 2014 came to 22 points), reached +51 points and totaled seven-year maximum, i.e. production costs did not register such intensive growth since early 2008. However in Q2 2015, the industry planned to halt growth of this indicator. Plans to curb production costs growth to a large extent were explained by a turn in the movement of factory prices. Following the four-year maximum registered in January, price growth rate down by 5 points in February. Price projections made by the industry, which hiked in December-January to nearly inter-crisis maximum level, also began falling in February.

In February, investment plans crumbled by another 12 points reaching the bottom level since October 2009. Just for September 2014 - February 2015 investment projections balance lost 45 points. Surveys failed to register such sharp fall of this indicator ever (its monitoring commenced solely in May 2009).

Another record is also impressive: the share of responses with plans to decrease investment reached 50% in the industry as a whole in February 2015. Producers considered shortage of own funds as a major hindrance to the investment because precisely profit remains the major source of investment in Russian industry. Nevertheless, the RF Central Bank monetary policy stripped producers of another classical source of investment – bank lending. At the turn of 2015, nearly half of Russian industry considered high lending rate as an impediment to investment. In 2014, barely 21% of producers reported this fact and in 2013 – 19%. The picture is completed by the assessment of hardships related to obtaining a bank loan even where the offered lending rate is acceptable for the producer. Other barriers related to obtaining an investment loan in this case were increased by banks in 2015 by nearly twofold (from 10 to 19%). Foreign exchange policy of the regulator enhanced downward pressure of another significant factor for Russian industry – prices on equipment. Following the ruble's devaluation, Russian producers have to pay through their noses for foreign made equipment. For many businesses investment import substitution is impossible due to the fact the required equipment is not built in Russia. Another part of Russian buyers of foreign machines and equipment will be unable to refuse to purchase it due to the fact that domestically manufactured equipment considerably differs in quality from the foreign analogues (quality-price ratio). As a result, in 2015, 42% of enterprises (in 2013 – 34%) consider high prices on equipment and on construction and installation works as a negative factor for investment.

However, results of Q1 2015 clearly turned out to be positive against the backdrop of pre-crisis panic of late 2014 – early 2015. The industry managed to avoid crisis production slump in spite of slow demand recovery following January holidays. The latter development was not acceptable for the considerable part of businesses, which judging by assessments of stocks of finished products, exercised a steady control over demand and supply balance. Commenced slowdown of price growth, decrease of the lending rate and March turning point in the negative trend regarding investment plans all looked positive amid the authorities' crisis rhetoric.

In the context of unfolding (or declared) dismissals in other sectors of the economy and amid slowdown of wages growth, Russian industry as a whole received more chances to resolve their personnel issues. According to the data of IEP surveys, even in early Q1 2015, (when panic mood overwhelmed all economic agents) quarter of industrial enterprises came short of workers required for securing current production volume and 15% of them were expecting its retention in the short term taking into account projected order books changes. In this context, positive

employment dynamic reported in March 2015 (i.e. excess of the share of recruitment responses over the share of lay-offs responses) seemed quite logical. It should be noted that such situation was not registered in the industry during three years, i.e. solely in early 2012 the industry managed to increase the number of workers in the sector. However, forthcoming wage growth in other sectors of the economy (especially in the budget one) stripped industry of its competitiveness on the labor market and led to a steady decrease of the headcount number in the sector, which resulted in the current shortage of personnel at 37% of businesses.

Obviously, non-catastrophic results of Q1 2015 turned around the negative trend in the investment plans of Russian industry. Following the six-month period of downward trend and decrease of expectations balance to the lowest level since the end of 2009, in March 2015 this indicator improved by 10 points. One of the reasons for the turning point in the sentiments in Russian industry was a sharp decline of satisfaction with the production investment volumes. Solely, 42% of businesses assessed investment in Q1 2015 as ‘normal’ following 55% normal assessments of investment in Q4 2014.

Termination of tightening of credit conditions for the industry (see *Fig. 24*) was another positive signal reported in March. First, the lowest bank rate for businesses began falling at last. In March, it decreased by 1 p.p. following an all-time high of 20.8% in rubles per annum posted in February. Second, general corporate lending terms and conditions stopped tightening. In March, unavailability of corporate loans for producers stopped growing and even decreased by barely 2 p.p. following the February level of 45% the share of producers, who assessed their accessibility to credits as ‘below normal’. This value was an all-time high since October 2009 when the indicator was falling following the crisis hike to 65% registered in December 2008.

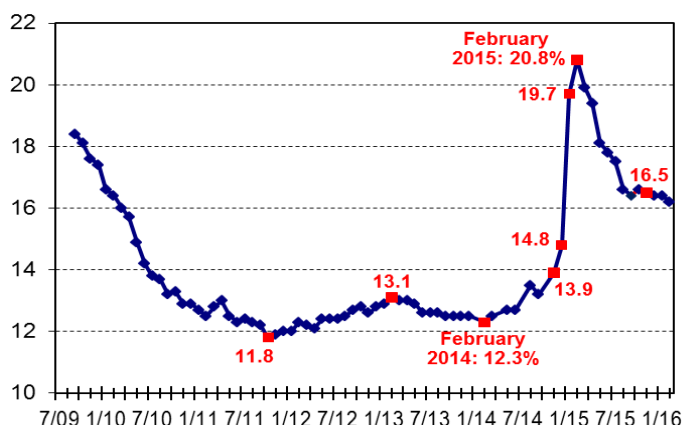


Fig. 24. Average minimum bank rate on ruble loans, 2009–2015, % per annum February

In April, Russian industry again avoided critical downturn in demand and production while retaining steady control over stocks of finished products, further slowdown of price growth and drastic positive review of their sales and production plans. In this context, satisfaction with order books remained low, however, strange as it may appear, it was better than during similar months of 2013 and 2014. Hereby, the industry even amid powerful crisis rhetoric of both authorities and experts did not succumb to the official panic mood. Change of key taken by the authorities who were very happy with Q1 results registered in the economy as a whole and in the industry, seems significantly affected businesses. The latter order books projects measured in April took a sharp hike following staying at the 69-months bottom during three months.

Similar turning point was true of the production projections. In April, surveys registered their drastic positive development. As a result, this indicator reached its 44-months minimum. Previously (in October 2014 – March 2015) it was declining reaching 40-months minimum. Assessments of stocks of finished products have confirmed the high level of exceptionally unclear economic outlook. The share of responses ‘normal’ remained at the all-time high, assessments balance of ‘above normal’ and ‘below normal’ remained around zero mark. Corporate lending conditions continued recovering following December shock. In April, the level of loans unavailability responses declined to 35% after reaching post-crisis maximum of 45% in February. Average minimum ruble bank rate moved down by another 0.5 p.p. and reached 19.5% per annum.

In May, industrial production showed a more positive dynamic than demand, which led to a deterioration of assessments of stocks of finished products. Balance moved up by 8 points reaching +6 percentage points. Although May value of assessments balance was the worst for the previous 12 months, its absolute value was not catastrophic for 2011-2015. This value was perceived rather than a small loss of businesses’ control over balance of demand and supply following a very successful management of stocks during shock periods of late 2014 and panic rhetoric of the authorities of early 2015. At the same time, the vast majority of enterprises assessed their stocks as ‘normal’: in May 2015, this indicator reached all-time maximum (of all 23 years of monitoring) (see *Fig. 25*).

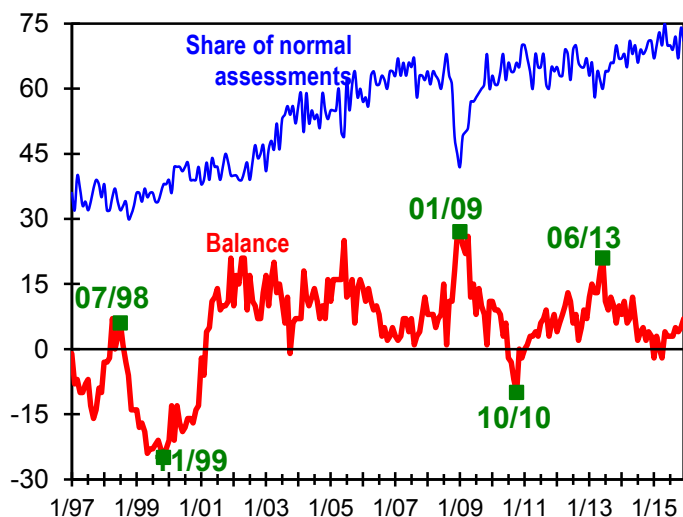


Fig. 25. Assessment of stocks of finished products, 1997–2015, %

In May, the industry continued its pricing policy characteristic of the previous months aimed at scaling down its price growth. Balance (rate) of growth fell by another 12 and reached +2 p.p. Such moderate growth of factory prices the surveys did not register since early 2014. Balance (rate) of production costs in Q2 2015 crashed to record 40 points: from +53 p.p. to +13 p.p. However, sharp slowdown of production costs and factory prices growth in Q2 affected sales little. In this context, projections of book orders and production stopped gaining confidence. The May investment plans improved but remained within the corridor where they were staying for six months: from December 2014. Barely 16% of businesses planned to increase investment in production in the coming months against 39%, which wanted to reduce investment.

Terms and conditions of corporate lending continued recovering slowly. According to the assessments of industrial borrowers, normal availability of loans went up in May by several points and reached 43%. Following regular CBR decision on the key rate, the ruble bank rate shrank to 18% per annum.

Stocks of finished products still failed to demonstrate any signs of the unfolding crisis or even of its prospects. The industry regularly alerted by the authorities and experts over a year kept stocks under control. Their assessment balance did not hike (as it happened in late 2008 – early 2009) nor went drastically low (as it was following 1998 default or in H2 2010). Since July 2014, the indicator remained in a very comfortable for producers interval -2...+5 points with stable and total (66%-75%) predominance of responses ‘normal’.

At the beginning of H2, Russian industry was slowly drawn into the ‘bog’ of a slow rolling recession. However, not a single major indicator demonstrated changes expected in line with the previous crises developments. This is confirmed by the demand satisfaction assessments: the share of responses ‘below normal’ went up to 53%. Such insignificant level of demand dissatisfaction in the wake of announced recession speaks at least about a number of its features. First, prolonged drawing into recession together with powerful PR-campaign conducted by the authorities aimed at the preparation for the recession allowed businesses to implement preventive measures and psychologically get ready to the demand and output decrease. Second, producers do not perceive highly moderate scale of reduction of the aforementioned indicators as a critical one, following a relatively recent across-the-board recession of late 2008. Third feature (or is we can say – weakness) of the current recession was instability (uncertainty) of industrial demand projections. In 2008, this indicator began drastically falling since September, reached maximum in December 2008, and already in January equally sharply went up. In 2015, the situation is different. Sluggish recovery of the initial demand projections registered in Q1 2015 (mainly due to panic) after the seasonal adjustment looked as expectation of sales contraction. However, absence of recession at the turn of the year added confidence to Q2 expectations. Fourth feature of the slow rolling industrial recession of 2015 one can consider the absence of any problems experienced by businesses with stocks of finished products. Assessments of stocks along the scale ‘above normal’, ‘normal’, and ‘below normal’ show a steady control of producers over demand and supply balance even amid high uncertainty. On average in industry, surplus of stocks nearly totally counterbalances by their shortage. To note, at the height of 2008-2009 crisis balance hiked to +27 points. All-time high of the indicator comes to +28 points, which was registered in January 1996.

The year 2015 signified an investment crisis for the industry especially in H1. However, by mid-2015 investment plans of Russian Industry stabilized at -20 points following four months of fluctuations (search for adequate to current conditions investment strategies) in the interval of -36..-26 points. However, even minimal values of investment plans of the current ‘crisis’ year (-36 points) significantly exceed minimal values (-58 points) posted in H1 2009 (monitoring of the indicator commenced from May) and consequently do not take into account the period of maximum panic of that crisis, which as in this case fell for the beginning of the year.

Other indicators, according to businesses assessments, have not undergone crisis changes. This fact allowed producers to ‘highly assess’ both demand for their products and stocks of finished products. In August, satisfaction with demand in Russian industry went up straight by 10 p.p. and reached 59%. The industry, thus, yet again managed to ‘take a breath’ in the context of constantly accelerated tensions and expectation of across-the-board and instantaneous recession of November 2008. Assessments of stocks of finished products reduced the feasibility of

catastrophe scenario in Russia industry along traditionally monitored by authorities and experts indicators.

In August, businesses reported significant reduction of ruble loan bank rate. Its average minimum value contracted over a month by 1 p.p. and reached 16.5% per annum. During three previous months, the rate decrease came to barely 0.6 points. As a result, general availability of loans (taking into consideration not only rate value) increased in August by 5 p.p. and came to 51%: the number of businesses that consider its availability as normal. Therefore, the indicator's growth following the crisis minimum (34% as of March 2015) reached 17 p.p. Average value of this indicator for the inter-crisis period (April 2010-August 2014) equals 70%.

September showed high ability of Russian industry to come to terms with the recession of 2015. Slow rolling negative demand dynamic as before satisfied the majority of producers and allowed them to continue steady control over stocks of finished products. Major crisis indicator for responses 'above normal' demonstrated in the crisis 2015 a surprising consistency and by far non-crisis level. September survey registered production growth, which was not buttressed by revision of producers' plans and projections. In 2015, production plans of the industry did not exceed their values for 2012-2014. Even panic of Q1 failed to decrease the indicator's balance down to (pre)crisis level. However, its best values failed to give an impression that the industry wished to bottom out the current slow rolling recession. Consequently, in the autumn Russian industry did not see grounds for transition to a positive and sustainable dynamic of production.

Nevertheless, in October, Russian industry decided to retain production growth. However, a limited set of indicators of official statistics does not allow assessing all peculiarities of the situation where Russian industry found itself making another attempt to recover from recession. Data on sales of industrial products were not so optimistic as the data on production dynamics. In October, initial indicator's balance outright fell by 11 points against modest values of July-September. Seasonal adjustment showed reduction by 2 points: not so critical against the backdrop of previous values of the year but obvious inadequate to the latest production developments. Such situation stopped satisfying Russian industry. In October, satisfaction with order books fell by 10 p.p. to 46%. Businesses definitely needed greater volumes of order books in order to maintain production growth.

Projections of order books, which were formulated by producers neither inspired confidence. Following the crash of the indicator in Q1 2015 due to the panic on the currency market and expectations of a crisis of 2008-2009 type, demand projections balance increased to zero level and remained in the interval of -3..+2. In other words, no fundamental changes in demand expectations on the enterprises' level took place including in September-October. Solely production plans demonstrated moderate positive dynamic following the July crash of the indicator. However, in September-October they increased solely to the level of Q2 2015. Consequently, there were no special (post-crisis) expectations for the output growth in the industry. Although, there were no crisis demise of this indicator either.

By the way, businesses were still ready to take risks and refused to revise stocks of finished products even amid exceeding demand changes in output. Assessment of socks balance remained in a small and far from crisis 'plus' since May 2015. Its 2015 maximum value of +5 p.p. did not look ludicrously low after +12 p.p. which was 2014 maximum, +21 p.p. – 2013 maximum, and crisis maximum of 2009 of +27 p.p. To note, this indicator did not decline in 2015 into a significant 'minus' as it happened in 1997, 1999-2000 and 2010 when the industry did not really trust unfolding then demand growth and preferred to hold insufficient (even according to proper assessments) stocks of finished products.

In October, decrease of the bank lending rate finally terminated (see *Fig. 24*). The ruble lending rate stabilized at 16.5% per annum waiting for the RF Central Bank Board decision on the key rate on October 30. However, during August-October creditors and borrowers searched for a compromise on other terms of lending under a fixed rate. This was reflected in instability of aggregate assessments of loans availability, which showed fluctuations in the range of 43% to 52% after a rare stability registered in May-June, brief growth and prolonged decline of the indicator during previous months.

In November, flat demand made businesses hold back production growth at the current high confidence in production plans and without revision of assessments of stocks of finished products. However, frustration with the sales volumes remained far from classical crisis of 2008-2009 when the share of responses ‘below normal’ reached 80%. Herewith, demand projections were unlike the crisis ones. During entire H2, they remain (after seasonal adjustment) around zero, i.e. expectations of the sales growth are counterbalanced by expectations of their reduction, which, to note, is quite adequate the current economic situation. They are characterized by the authorities as stability. “The situation in the economy and financial system is sufficiently stable,” – said Dmitry Medvedev speaking before the participants of CEO Summit APEC on November 17, 2015.

Despite flat demand and assessments zero balance regarding its change production plans after the July crash were gaining confidence. Major hike of the indicator fell for August (5 p.p.), than its values were growing by 1-2 points monthly and hit +22 balance points by November, which was four-year maximum of the indicator. Thus, the industry retained the wish to bottom out from the current recession, including at the expense of price decrease on its products even in the wake of continuing costs growth.

Still to the end of 2015, Russian industry failed to demonstrate statistically indisputable output growth. Sluggish demand, which resists revival attempts made by producer’s price decrease, by ruble’s depreciation, and by import substitution, resulted solely in deterioration of assessments of stocks of finished products and negative revision of output plans by businesses. Production plans, which were gaining confidence in August-November and which finally hit by far non-crisis four-year maximum, in December fell by 4 points and triggered new and ‘unpleasant’ trend in the movement of indicator.

Terms of corporate lending to the industry stabilized at the end of 2015 together with the CBR key rate. Average minimum ruble bank rate averages 16.5% per annum. Aggregate availability of loans (taking into account all terms of borrowing) during the period of fixed rates (both CBR and commercial banks) demonstrated obvious but damped fluctuations. Eventually, average availability of loans in August-December of 2015 constituted 48% following stable 46% level registered in May-July.

Capacity of Russian industry to service current loans in 2015 was sustainable and sufficiently high (did not go below 80%). During the crisis of 2009, this indicator fell to 52%.

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Monitoring of the representative set of indicators of the IEP business surveys allowed to reveal *peculiarities of 2015 recession in Russian industry*. *First*, during the year dynamic of major indicators (demand, output, and prices) differed by uncharacteristic for the previous crises and unexpected for observers sluggishness. *Second*, psychological preparation for 2015 crisis commenced several year before when the term ‘second wave of crisis’ was coined. These

developments have formed *third feature* of 2015: Russian industrial enterprises without serious consequences have overcome this crisis year, which is reflected by *assessments* of demand, stocks of finished products, employment, production capacities, and financial and economic situation. *Fourth*, single manifestations of the crisis of 2015 for Russian industry were the hike of bank lending rate and crash of investment plans. At the same time, actual investment volumes in 2015, the majority of businesses assessed as sufficient due to expected demand changes.