

GAIDAR INSTITUTE FOR ECONOMIC POLICY

**RUSSIAN ECONOMY IN 2016
TRENDS AND OUTLOOKS
(ISSUE 38)**

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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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4.3. Russian industrial enterprises in 2016 (on business surveys' findings)¹

Business surveys of industrial enterprises have been conducted by the Gaidar Institute using a European harmonized method in monthly cycles since September 1992, covering the entire territory of the Russian Federation. The panel size is around 1,000 enterprises employing over 13% of industrial employees. The panel is shifted towards large enterprises for each of the segregated sub-industries. The ratio of returned questionnaires is in the range of 70-75%.

Business survey questionnaire contains a limited number of questions (not more than 15–20). The questions are of a qualitative and not quantitative nature. Simple questions structure allows the respondents to fill out the questionnaire quickly and without using any documents. It is paramount that respondent at each enterprise is a manager of the highest level who has a full understanding of state of business and is directly linked to the business management.

We use specific derived index, which we call balance, for the analysis of business surveys results. Balances are calculated as difference between the percent of those who answered “go up” (or “above normal”) and percent of those who answered “go down” (or “below normal”). The obtained difference allows us to present responses to each question by one number with “+” or “-”.

Balance is interpreted as first derivative or process speed. When the balance of responses to a question of expected price shift is marked “+” this means that the average prices in the near future will be growing (for example, prevail those enterprises with responses about projected increase of their prices). For instance, increase of a monthly balance from +10% to +17% speaks about the fact that prices on average across industry will be growing faster because the number of enterprises projecting their growth have increased. Negative balance means a decline of average prices (more enterprises intend to cut their prices). Change of balance from -5% to -12% is interpreted as an increase of price fall intensity.

4.3.1. 2016: is industry still in crisis?

The Russian economy marked 2016 as a second year of the crisis. However, that is not true of Russian industry. The vast majority of indexes followed by Gaidar Institute in the course of monthly business surveys demonstrated that Russian industry was far crisis during last year.

First and general idea regarding the state in the sector is given by composite indexes computed on the basis of unique for the Russian survey statistics set of base values obtained during the 25-years history of IEP's business surveys. The Industrial Confidence Index is a common derived index for business surveys, the Industry Adaptability Index (“normal”) of industry represents a new instrument of the Institute, which allows to clearly illustrate the features of how the Russian industrial sector goes through the crisis years of 2015–2016.

The Industrial Confidence Index² demonstrated that the beginning of 2016 was more complicated for Russian industry than the upper turning point in 2015 (*Fig. 17*).

¹ Author of chapter: S. Tsukhlo – Gaidar Institute.

² The Index is computed as a simple arithmetic average (difference in responses) to four questions from the IEP's monthly business survey questionnaire:

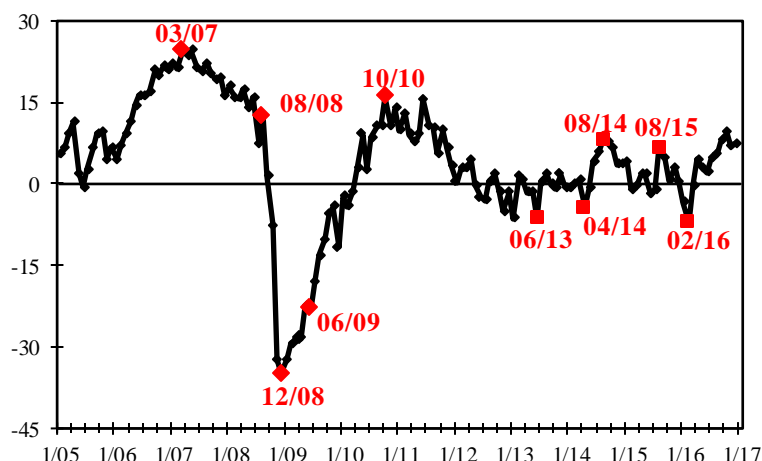


Fig. 17. IEP Industrial Confidence Index, 2005–2017

Initial values of the Index in 2016 demonstrated growing pessimism in industry against the background of relatively positive values by the year-end of 2015. For January-February 2016, the Index shed more than 8 points and final decline hit 13 points since August 2015 (when local maximum was obtained). Moreover, the Index was definitely in “minus.” However, later the situation started improving: March data regarding the state and forecast of Russian industrial enterprises were full of good news but exclusively regarding those indicators, which were unavailable to the official statistics. Following the February minimum, the Industrial Confidence Index moved up by 5 points and as a result returned to around zero. The April assessments of the state of business in Russian industry also were more positive than negative taking into consideration the publicity, which affected their formation. The Industrial Confidence Index has grown by merely 1 point, which was worth a lot in the context of total pessimism expressed by officials and experts. As a result, the Index secured a strong footing around zero. However, business surveys conducted in May 2016 demonstrated both stabile industrial situation and downward expectations related to the situation in the months that followed. This conclusion was supported by the fact that Confidence Index stayed at the April level amid sharp decline of businesses’ optimism. Moreover, sure enough, in June the Index shed several points and dropped to zero mark, thus remaining within previous bounds of uncertainty. Current sales performance nosedive was the main factor for the Index decline.

Aggregate data regarding the state of Russian enterprises in early H2 demonstrated further deterioration of the situation. The IPE’s Industrial Confidence Index continued its downward trend having lost all gains posted in late Q1–early Q2 2016. Indicator’s reduction in May-July constituted moderate 4 p.p., which, by the way, was rather in line with the slow-rolling current crisis. In July, the Index shed 1.5 p.p. and once again stayed at zero mark. In August, Russian

- 1) Actual change of demand, balance = % growth – % decline;
- 2) Estimate of demand, difference of assessments = % above normal + % normal – % below normal;
- 3) Estimate of stocks of finished products, balance = % above normal – % below normal, opposite sign;
- 4) Plans for output change, balance = % growth – % decline.

Balances of questions 1 and 4 are seasonally and calendar adjusted. The Index can range from –100 to +100 points. Positive index values imply the prevalence of positive assessments. Negative index values mean that adverse assessments prevail. Decline of index’s values is the sign of deteriorating situation. Growth of index’s values – the sign of ameliorating situation.

industry exhibited small negative change in the situation. The latter as before said nothing definite about previous probable crisis trends. The IEP's Industrial Confidence Index remained around zero mark where it stayed for five consecutive months surpassing sentiments reduction as of early 2016. The September producers' assessments of state of business in Russian industry triggered growth of the Confidence Index to the best (for that moment) crisis values amid projections of stabilization and deterioration of industrial output dynamics. To note, we do not use the latter in any of our composite indexes, but it is the only index used by the majority of officials and experts even in the context of its small value in terms of information in the course of current slow rolling crisis. The October Industrial Confidence Index value demonstrated small nearly symbolic reduction in assessments of business situation following the September local maximum value of the Index. The November business survey exhibited a fall of the Confidence Index after registering in September-October 2016 of 5-year maximum of this aggregate indicator, which was due to a decrease of all comprising base values minus the Industrial Production Index. The December business surveys data secured stabilization of the Industrial Confidence Index at the November level, which looked very little like crisis and post-crisis values of this index. Industry continues to remain in a state, which is very hard to identify by passed years standards. Moreover, enterprises are rather (nearly by 75% according to our Adaptability Index (normal)) satisfied with their situation.

The Industry Adaptability (“Normality”) Index¹ significantly improves assessments of enterprises of the second crisis year.

In Q1 2016, business surveys exhibited decline of the Adaptability Index by 3 points. We have not registered so steep adverse change of the Index since the 2008–2009 global crisis. Therefore, the turn of 2016 inspired less confidence in Russian industry than the beginning of 2015. Two paramount for Russian industry indicators, assessments of book orders and assessments of sufficiency of expected book orders with industrial capacities, were drivers for reducing the Index. Then current volumes of book orders were estimated as “normal” by only 42% of enterprises, which was the lowest value of the Index since the beginning of 2010. In these circumstances decline of sufficient security in industrial capacity looked rather logical taking into consideration the fact that the share of responses “more than sufficient” went up. In other words, Russian industry posted increased overhang of excessive capacities to 28%. Solely 7% of businesses posted a shortage of capacities. The most likely reason for adverse assessments of the situation in industry at the turn of the year accounted for the lack of positive dynamics promised by the authorities: “bottom out” did not happen in 2015.

However, already in Q2 enterprises restored previous non-crisis high assessments of state of business in industry: the Adaptability Index hit an all-time maximum of 72% (*Fig. 2*). Industry definitely put up with the inability to recover soon from the slow rolling crisis.

¹ The Index is the arithmetical average of the balances (in percentage points) of the responses 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 computed on a quarterly basis. The Adaptability Index (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.

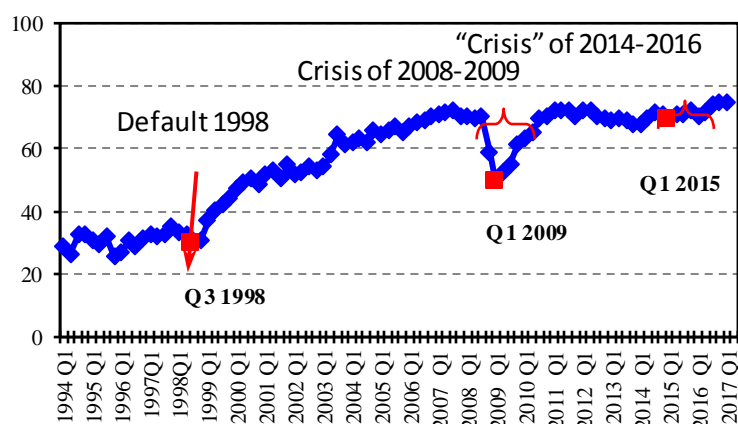


Fig. 18. Industrial Adaptability Index, 1994–2017, %
(share of enterprises estimating their indicators as “normal”)

Next quarter of the slow rolling crisis allowed businesses to better adapt to the current situation. The Adaptability Index hit 74 points, which was an all-time record for the entire 23-year period of its calculation. Previously (during fat “zero years” and during hard “inter-crisis” ones, and during previous “crisis” year) this index reached solely 72 points. Consequently, at the beginning of H2 of the second crisis year, Russian industry found itself well like never before. Because dynamics of the Index for entire previous years coincides with intuitive assessments of an even spare set of data released by the official industrial statistics (not to speak of the ultimate system of indicators of the IEP’s survey statistics), than, probably, one can recon that mentioned Index’s value correctly assesses the situation in Russian industry. Furthermore, it exceeds previous value by only 2 p.p., in other words is not an “outbreak.”

To note that since late 2010 our Index has been demonstrating very high stability. Even in Q1 2015, the Index dipped by only 1.8 points against the value of Q4 2014, although both the authorities and experts were preparing for the type of 2008–2009 crisis when Russian industry was hit hard. In late 2008, the Adaptability Index shed 11 p.p., and in early 2009 lost another 10 p.p. Enterprises and authorities took 6 months in order to return it to pre-crisis values.

At end-2016, the Adaptability Index hit an all-time high for the entire period of its calculation (1994–2016) of 75%. Businesses have miraculously adapted to the realities of the Russian economy and the economic policy. However, continuation and moreover “accomplishment of adaptation” are already fraught with danger of industry to seriously attempt a transition to statistically unquestionable output growth.

Calculation of the Adaptability Index along the sizes of enterprises have demonstrated that the index’s growth was secured by very large enterprises (with headcount above one thousand persons). In this group, the Index hit 79% in Q4 2016, which was an all-time high of the group indicator. To note, that these enterprises “entered” the crisis of 2015–2016 with adaptability at 71%, then raised and maintained it at the level of 74%, and in 2016, they managed to raise the Index by additional 5 p.p. Industrial enterprises of other sizes overcome the current crisis harder. The Adaptability Index for small and medium-size enterprises (1-250 employed) is inferior to the Index of very large enterprises and has no positive dynamics for 2015–2016. During these crisis years, the level of adaptability in the group of small and medium-size enterprises constitutes 57–58%. Large enterprises (251–1,000 employees) assess the situation

somewhat better. These businesses have managed to adapt to the current crisis at the level of 64%, but without any positive dynamics exhibited by the end of the second crisis year.

4.3.2. Dynamics of main indexes of Russian industry for 2016

In early 2016, attempts of Russian industry to increase output volumes amid slack and relatively stable demand whose projections for change were also stable resulted in a growth of excessive stocks of finished products, negative adjustment of output plans and investment sentiments. Moreover, stability, which the government was proud of, did not suit the majority of Russian industry. In January 2016, the share of responses “normal” for the current sales volume declined to 42%, which was 3-year minimum, although in August 2015, the level of demand satisfied 59% of producers. At the beginning of 2016, assessments of stocks of finished products gathered negative connotation. In January, the Index value dipped by another 3 points and since November 2015, the surplus moved up by 6 points reaching +10 points. On the one hand, formation of the negative trend for assessments of stocks of finished products was in place following a successful transition through the crisis year of 2015 with minimum level of surplus and with a maximum level of “normality.” On the other hand, these values were exceptionally moderate for crisis period. In 2009, balance of responses reached +25 points (according to quarter assessments). However, this indicator’s records were registered during the first years of economic reforms: +53 points in 1992, +44 points in 1994.

The February data for Russian industry demonstrated a lack of positive changes of demand and output, deterioration of assessments of existing volumes of demand and stocks amid growing pessimism regarding plans and projections. Attained in February sales volumes did not satisfy already 55% of businesses, which was the worst result of three previous years, although in August 2015 dissatisfaction with demand constituted solely 39% and in August – 38%. Attempts taken by Russian industry aimed at increasing production volumes in late 2015–beginning of 2016 and “to bottom out” still were not secured by sufficient book order volumes. Assessments of inventories confirmed this conclusion. In February 2016, the index’s balance reached maximum (in other words, lowest value) since May 2014, meanwhile during 20 previous months (by far being simple!) Russian industry steadily controlled the balance of demand and supply by keeping surplus of inventories during the majority of months at the minimum level, which previously was registered during unforgettable for our economy 2006–2007.

“Vagueness of the current economic situation and its prospects” rose sharply at the turn of 2016 thus becoming one of significant constraints for industrial growth. Respondents mentioned this factor in January 2016 by 8 percentage points more often in comparison with October 2015. This factor hit 48% securing 2nd place on the list of 17 factors, which limit industrial growth. At the same time, conventional (and acknowledged by everybody) constraint, low domestic demand, added solely 1 (one!) p.p. and hampered output growth of 53% of Russian industrial enterprises. Upsurge of misunderstanding by businesses of the current situation and even of its short-term prospects is explained by unfavorable combination of a whole number of factors. Firstly, the slow rolling crisis has denied businesses of a chance for a fast entrance into the crisis and fast exit the crisis. Secondly, protracted character of the crisis has allowed enterprises to hear a wide range and constantly reviewed array of assessments of the current crisis and projections for its development including those made by the officials. This fact most likely misinformed businesses than contributed to their better understanding of the current economic situation and its prospects. Thirdly, the fact the geopolitical component

contributed to the current crisis definitely reduced predictability of economic processes development. Another reason for vagueness were, probably, new ruble exchange rate principles. Drastic devaluation of the national currency in the context of its dependence on the oil price has a significant and ever-increasing negative impact on Russian industry. According to direct responses of enterprises, “undervalued ruble exchange rate and cost increase of imported equipment and raw materials” in early 2016 limit output growth of already one third of Russian industry, which propelled this constraint to 3rd place on the list of negative factors. Meanwhile in July 2014, solely 10% of businesses reported this factor, which put this factor to 9th place and sometimes even to 14th place on the list of 17 negative factors.

Export growth demand following ruble’s devaluation has not satisfied expectation of more than one fourth of domestic producers and the “low demand for exports” factor has come to 4th place on the list of constraints of industrial production growth according to proper domestic producers. At the same time, one should mention a reduction of downward pressure of competition with imports on the dynamics of Russian industrial production. In October 2013, imports interfered with one third of industrial producers, in April 2015 – with only 11%, and in January 2016 – with 12% of enterprises. The 1998 default reduced the negative impact of this factor to 3–5%, the 2008–2009 devaluation – to 9%. Thus, the 2014–2016 devaluation strengthened positions of domestic producers on the sales markets (most likely domestic ones), and created for them problems on the equipment and raw materials markets, especially, amid stalling import substitution with no Russian analogues.

In the end of Q1 2016, Russian industry reported about drastic and positive change of its assessments of stable dynamics of observed by us indexes and positive adjustment of their projections. Dissatisfaction with sales performance fell in March by 6 points. Therefore, negative trend of demand assessments in September 2015–February 2016 was stopped. Growth of confidence in demand projections was another positive sign. Following drastic February setback when seasonally adjusted balance of projections exhibited 11-months minimum, in March the index went up but to conventional for previous months zero level. Assessments of inventories were the third positive sign in March. Balance of this indicator following 6-months (also in September 2015–February 2016) slowdown fell in March by 5 p.p. and returned to a moderate for passed crises and conventional for the beginning of the current crisis level of surplus inventories assessments. Investment plans represented fourth positive sign in March. They achieved the best since September 2014 (in other words, since the onset of the current crisis) values. The balance of the index closely approached to zero mark, although remained negative but very small (-1 p.p.) in absolute magnitude. It should be noted that at the turn of 2015, it dipped below -30 p.p. Consequently, in spring 2016, industry nearly overcame a psychological barrier of investment pessimism (*Fig. 19*).

Russian businesses consider ruble’s strengthening as one of the factors for investments heading into plus. In 2015, the question regarding what ruble exchange rate would benefit the investment growth was asked twice: in May and in December. In December survey, respondents pointed to the investment growth already in 2016. Moreover, always, according to producers’ assessments, the impact of ruble exchange rate on the investment activity was rather definite. In May 2015, when ruble was strengthening the need for its revaluation for the investment growth in proper production was pointed by 61% of enterprises. In December 2015, when ruble was losing strength this need was pointed by already 73% of enterprises.

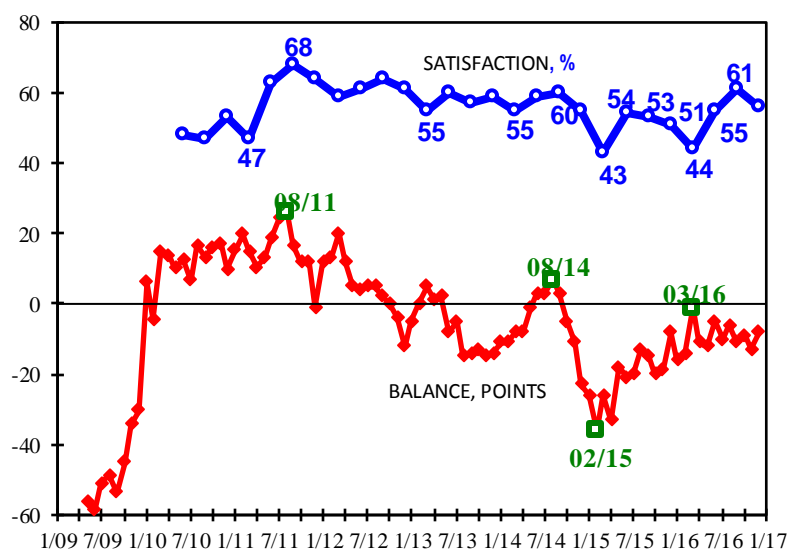


Fig. 19. Balance of expected changes of investments and satisfaction with their actual volumes

Actual dynamics of demand and output posted at the beginning of Q2 looked reassuringly non-crisis. Enterprises kept a tight control over stocks of finished products, projections and plans continued recovering following the February collapse. Sales volumes of industrial products achieved in April (estimated as “normal” for that stage of out complicated economic development) were satisfied by 53% of businesses, which was 7-months maximum for the indicator. Industry, hereby, continued exhibiting high adaptability to actually existing but not been understood through conditions of crisis year 2016. Investment intentions, although were not characterized by stable positive dynamics, anyway were not as pessimistic as they were in 2015. In April, they once again “backed off”. The April index balance shed 9 points following the current crisis March maximum. The same picture was registered in December 2015–January 2016, when the balance following an upsurge by 13 p.p. returned to the previous levels of stable pessimism. Thus, positive signs of investment intentions in industry have not turned sustainable and have failed to maintain the investment growth. However, the mere fact of such signs at the level of enterprises was undoubtedly a positive signal.

Zero industrial growth of H1 2016 was well provisioned with highly qualified personnel. The share of responses “sufficient” in assessments of headcount of enterprises hit an all-time high of 80% (Fig. 20). Previously such result was obtained only in 2012 and 2013. The remaining 20% of responses were accounted for “more than sufficient” and “less than sufficient.” Balance of last two assessments (“more than” and “less than”) stays around near-zero values for already three quarters, in other words, excessive headcount in industry on the whole is totally offset by headcount shortage. At the same time, the share of responses “less than sufficient” declined in Q2 2016 to its minimum since 2010, i.e. since the end of the previous crisis. Excessive industrial employment has stabilized at the non-crisis level of 11%. Prior to default period, the latter index stayed in the range of 35–40%, and during the crisis of 2008–2009 – in the range of 24–35%.

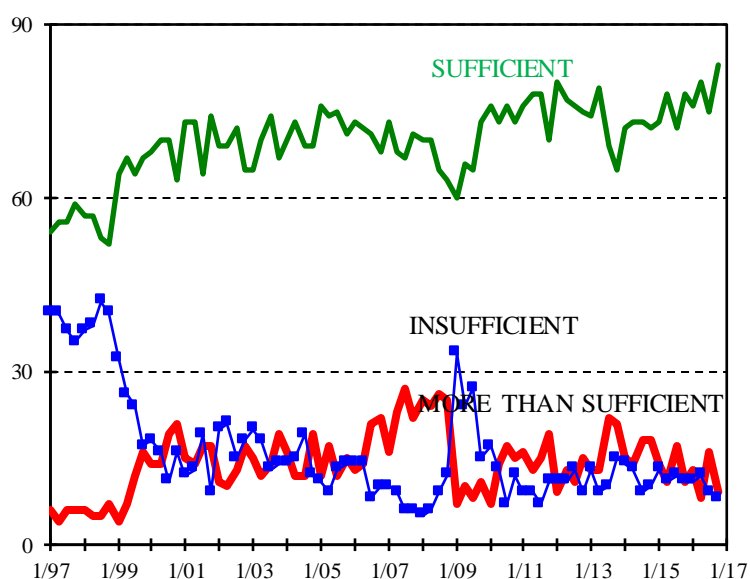


Fig. 20. Share of enterprises with excessive, sufficient and insufficient headcount, 1997–2016, %

Unexpected May positive demand dynamics increased satisfaction with achieved sales volumes to 54%, but did not boost respondents' confidence in retention of an upward trend: demand projections, which were gaining confidence in March-April along seasonally and calendar adjusted factor data, in May unexpectedly collapsed by 8 points. Pessimism expressed by the officials and experts neither contributed to the industrial confidence growth.

Assessments of stocks of finished products confirm the conclusion about a positive demand dynamics. Excessive (balance) of stocks dipped sharply in March 2016 and stayed at the level of +2..+3 points. In May, building a balance of responses happened amid contraction of both responses "above normal" and responses "below normal." As a result, shares of these responses (10 and 7%, respectively) hit an all-time minimum during the entire period (1992–2016) of instrumental observations of assessments (not volumes!) of inventories in Russian industry. Assessments of inventories as "normal" remained stable in the range of 70-72%. Reduction of the proportion of certain assessments of stocks ("above normal" + "normal" + "below normal") happened owing to growth of percentage of responses "no answer", which reflects a growth of misunderstanding by industry what physical quantity of stock was adequate current situation. In May 2016, rejection of their stock assessment hit 11% and thus exceeded the ration of responses "above normal" or "below normal". Although still in January 2016, solely 5% of businesses rejected their certain assessments of stock.

In the wake of constantly postponed (even officially) industrial growth recovery which expected rate did not promise pleasant surprises, industry revised assessments of capacities provision in view of such pessimistic projections. Moreover, it was done in order to improve capacity provision, which looked absolutely logical. The shortage of capacities amid enterprises' expectations of demand change for output declined in Q2 2016 to 5%. This is nearly a minimum level of equipment shortage reported for the entire monitoring period of the index since 1993. The IEP business surveys registered lower shortage of capacities (3%) during pre-default period, in April 2009, and in January 2013.

H1 of the crisis year of 2016 brought for Russian industry a more positive demand and output dynamics. However, businesses were not ready to overcome the current low rolling crisis in their plans and projections. Seasonally adjusted balances of demand projections remained around zero value. The initial balance of output plans shed in June 11 points, and when seasonally adjusted – 2, and as a result sank to nearly minimum value of 2012-2016. Businesses did not have sufficient reasons for launching the output growth, which is statistically distinguishable by the authorities, firstly, owing to insufficient demand volumes, and secondly, due to vagueness of prospects for the Russian economic recovery out of a protracted crisis started in 2014.

The beginning of H2 exhibited instability of an upward trend in Russian industry and validity of neo-optimistic forecasts of Q2 2016. In July, demand for industrial products underwent, according to businesses, drastic for the second crisis year changes. However, Russian industry was comfortable with such course of events. The proportion of “normal” responses regarding current demand volumes since April exceeded 50%, in other words the majority of producers were nonetheless satisfied with their sales and more than confidently controlled their inventories. In July 2016, The percent of their “normal” responses hit another all-time record for the entire previous 290-month period of instrumental observation for this index – 76% of businesses considered their volumes as “normal.” The remaining 24% of enterprises reported assessments “above normal” but solely by 2–4 percentage points. In other words, traditional balance showed a symbolic and highly rational for the current historical moment excess of stocks of finished products.

At the beginning of Q3, industry selected principal factors, which hampered the output growth in the context of ruble’s strengthening. No less than half of Russian enterprises considered insufficient domestic demand was the main (most widespread) impediment for industrial growth. Maximum references of this factor (55%) was accounted for Q1 2016, i.e. by no means at the crisis peak of early 2015. By the way, vagueness of the current economic situation and its prospects – another constraint important for the current historical stage registered peak of references in early 2016. Then, nearly half of Russian industrial managers did not understand what was going on in the Russian economy. However, half a year later the level of misunderstanding fell to traditional for pre-crisis quarters level of 35%. However, growth of understanding most likely is due to perception of the fact that nothing is happening in the Russian economy and its prospects look similar.

Businesses gave 3rd place in the rating of industrial growth constraints to insufficient demand for exports factor. This seems logical in the wake of ruble’s appreciation, but reduction of references of this constraint down to 22% after 32% registered in Q4 2015 and 29% posted in Q1 2016 seems illogical. Apparently, previous wave of devaluation shaped then exaggerated and frustrated expectations for external demand growth. However, subsequent ruble’s appreciation and upward trend of domestic demand permitted Russian industry to reduce a request for export demand.

In Q3, Russian industry retained customary stagnation amid complete and uncomplicated in such situation control by enterprises of state of business. Following June upsurge of balance of demand change and July dip, industry confirmed a return to slack negative sales dynamics. However, on the whole, the results of survey monitoring of demand changes for the first 9 months of 2016 looked extremely ambiguously. Enterprises’ responses did not provide reasons for concluding about a clear continuation of the crisis nor about its termination. Businesses’ forecasts attested to a lack during first 9 months of 2016 of hopes for sales growth

by Russian industry. Following a psychologically hard Q1 2015, industry was consistently forecasting approximately zero demand growth. However, at the beginning such forecasts were skeptically perceived by observers, who expected a full-scale crisis in 2015, thinking that enterprises underestimated “true” depth of a slump. In 2016, experts assessed retention of zero demand growth projections in industry as a mistake to the contrary: enterprises do not see “correct” moment for the onset of industrial growth, which will soon unfold, but does not materialize.

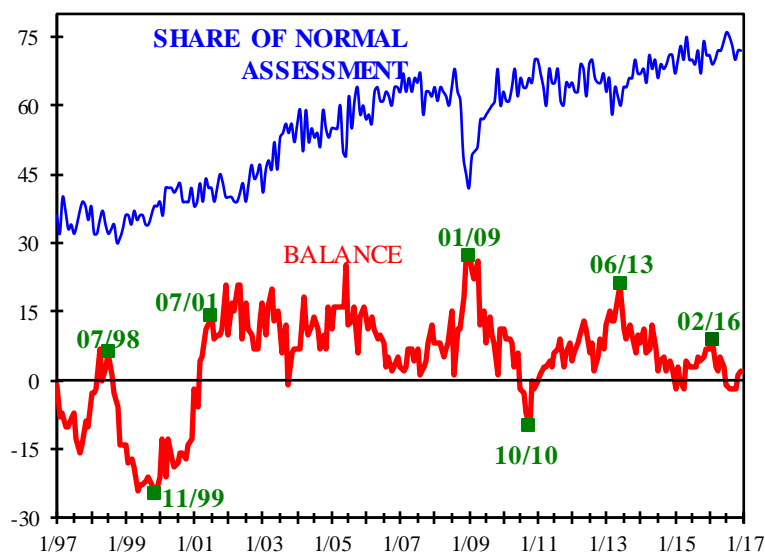


Fig. 21 Assessment of inventories balance, 1997–2016

Such demand dynamics enabled the enterprises to steadily control stocks of finished products (Fig. 21). In July-September, the proportion of responses as “normal” regarding physical volumes of inventories remained at all-time (1992–2016) maximum of 75%. The remaining 25% of responses approximately were divided half-and-half between responses “above normal” and “below normal,” in other words, their balance stayed around zero level. The maximum (i.e. most crisis) value of inventories balance during current crisis was obtained in February 2016 and constituted +9 points: then 17% businesses assessed their stocks as “above normal” against 8% of responses “below normal.” In December 2014 – March 2015 the balance of assessments steadily remained in the range of -2..+3 points and in no way corresponded the crisis pattern of Russian industry drawn by the authorities and experts.

The same situation is observed regarding industrial inputs. In Q3 2016, their proportion in responses “normal” hit an all-time high of 80%. Russian industry as never before was provided with industrial inputs to secure current output and even for its feasible changes, which unlikely will be shocking (but with “plus” sign) for producers. That is why enterprises not only boasted of sufficient industrial capacities but also were well provided with raw materials stock in order to satisfy feasible demand growth on their products.

Q4 2016 signaled clear positive changes in Russian industry. October demonstrated development of first hopes for weathering the stagnation. Demand dynamics for the first time during the current crisis (even according to traditionally understated enterprises’ assessments) exhibited “plus.” Projections of sales have also hit positive balance values. Satisfaction with

demand volumes retained high and far from crisis values. Meanwhile, enterprises' assessments of stocks of finished products exhibited a shortage of their physical volumes amid industry's unwillingness to start increasing stocks in the wake of uncertainty about stability of upward trends. Monitoring of industrial growth constraints confirms this conclusion. "Vagueness of the current economic situation and its prospects" comes to 2nd place in the rating of 17 negative factors. Since mid-2016, this factor hampered one third of Russian industrial enterprises to shape purposeful output strategy.

Businesses' investment plans demonstrated insufficient confidence of the sector in early start of industrial growth. Fluctuations of investment sentiments registered in mid-year with an upward trend began slowing down signaling growing investment pessimism. Industrial sector unwillingness to invest was explained not only by vagueness and unpredictability of macroeconomic situation, but by sufficiency, according to the majority of producers, of even shrinking volume of existing investments. In Q3 2016, sixty one per cent of enterprises assessed their investments in such a way, which was the crisis maximum of the index. The shortage of investments hampered the output growth in Q4 2016 of only 13% of enterprises, which was already the crisis minimum.

In November, Russian industry faced decline of demand dynamics, which forced the sector to slowdown a symbolic output growth and rather sharply adjust demand projections amid retention of high by the crisis terms of sufficiency of existing sales volumes. In this context, assessments of inventories exhibited rates exceptionally insignificant by volume and without a sign that enterprises were losing control over their volumes. Assessments of industrial inputs demonstrated in Q4 2016 still high readiness of the industrial sector to exit protracted stagnation. Eighty per cent of industrial producers boasted on normal for the current period stocks, which was close to an absolute maximum if the index for the entire 24-year period of IEP monitoring from 1993 through 2016. All-time high of 81% was obtained in early 2012, but it turned out to be unstable. Consequently, year-average assessments of stocks of raw and other materials in 2016 were the best: 79% of businesses assessed them as "normal", 15% – as "below normal", and 3% – as "above normal." Russian industrial sector held "shortage of raw and other material" in 2016 at 12th-13th places on the list of 17 factors that produce a negative impact on industry. Demand dynamics on industrial goods at the end of the year demonstrates non-typical for this time of the year positive outlook

The way Russian industrial sector finishes second crisis year encourages cautious optimism. Demand dynamics on industrial goods posted at the end of the year exhibits non-typical for this time of the year positive outlook. Demand projects avoided traditional December peak of pessimism prior to January national holidays and again registered maximum in the course of the current crisis. Assessments of stock of finished products have undergone changes, which attest to the development of positive sentiments in industry. Balance of responses ("above normal"–"below normal"), which in July-October was consistently negative, since November began gaining "positive" surplus of stocks and reached +3 points. The last value, naturally, in no way can be seen as a sign for overstocking. On the contrary, the industrial sector, most likely, stopped "disbelieving" in commencing output growth (precisely such situation was developing< for instance, during pre-default months) and started maintaining small but well managed surplus of stocks (that is characteristic to sustainable output growth). It should be noted that the industrial sector entered the current crisis anything but in a crisis manner: without surplus of stocks of finished products. Later under the influence of promises of its prompt termination industry conducted policy of building moderate amounts of stock. However,

“rebound from the bottom of recession” that eventually did not happen resulted in forming the largest for 2015–2016 surplus of stocks of finished products. Change in the official rhetoric and the onset of more realistic forecasts about the course of the crisis forced the industrial sector to get rid of surplus stocks of finished products (in May-June 2016) and then achieve “minus” according to assessments of balance of (July-October 2016) stocks.

* * *

The Russian industrial sector passed through the second year of economic crisis nearly as orderly as it passed the first one. Only in Q1 2016, businesses experienced some difficulties linked to the fact that promised by the authorities “rebound from the bottom of recession” eventually never happened. However, a change in rhetoric and careful policy regarding output and prices enabled Russian industry promptly adapt to officially acknowledged protracted crisis and assess its state at the end of 2016 as unprecedentedly “normal.”