

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

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MAIN TRENDS AND CONCLUSIONS

V.Gurevich

Disorientation in economic space regarding the new U.S. administration's policies has evolved into a "chronic illness". Experts with highly sophisticated mind see no way of how to quickly assess the effect of disrupting economic alliances (TTP, NAFTA) and of raising border walls, of banning the pre-scheduled construction of plants in contiguous countries, and of claiming mechanically on economic deregulation (a way to issue a new economic regulation is to denounce the two previous ones). A combination of growth in the value of U.S. assets, including capitalization of banks, and strong, daily lambasting of Donald Trump keeps one disoriented, too. Either the market or critics are so "blind". Either Warren Buffett, who has gained from the election of the new U.S. President, is short-sighted in his enthusiasm, or George Soros, who has lost from the same and is overcome by his anger, is facing the risk of even more losses. The "new reality" has been found indescribable, and hence it has remained as such.

Up until recently, many have had different views of the reality regarding Russia's forex market, too. Things have changed entirely following a plan that was announced by Russia's Ministry of Finance and was supported by the Bank of Russia, which aims to purchase foreign currency on a daily basis in an amount equal to extra revenues if crude oil is traded more than \$40 per barrel (the parameter set forth in the federal budget for 2017–2019) and to sell foreign currency if the price goes below the threshold. Additionally, it was announced that the ruble's exchange rate will continue to float freely, except that the ruble will float even more steadily, and the federal budget will be better off.

Verbal and real approaches to the decision were repeatedly attempted, including a host of presentations and discussions concerning the motives behind it. Russia's central bank already purchased foreign currency in the forex market in 2015, explaining that this was needed to increase foreign currency reserves, from less than \$400bn to \$500bn. However, the bank had to discontinue forex purchases because the ruble started to depreciate rapidly. "Restrengthening" of the ruble was the topic of a top-level discussion in 2016: a strong ruble made some Russian enterprises less competitive and federal budget revenues less than expected. The bank did not go as far as to intervene in the forex market, and the ruble stopped "restrengthening" and even depreciated slightly.

The recent, absolutely real, revisit of the topic has been defined as "provisional budget rule", the introduction of which aims to replace the previous rules that have been violated, in the run-up to a new rule that still remains to be defined. It appears that all these rules were/are and will focus on making the economy less reliant on market-based revenues from hydrocarbons. However, it is felt that the recent, suddenly introduced rule has three or even four objectives.

The rule aims to ensure a stable exchange rate (as was explained (officially)), increase foreign currency reserves, and generate more federal budget revenues through depreciation of the ruble (apparently, this was not report-

ed officially). All this is happening amid the previously announced budget sterilization of market-based revenues (extra revenues are not supposed to cover extra spending).

The problem lies not just in objections to each of the objectives. For example, no major threats to the ruble's exchange rate were observed, the ruble appreciated at a relatively smooth pace (a few points up cannot pose any threat to the economic sector that has for three years been benefiting from the recent drastic ruble devaluation). Or market-based revenues should not necessarily be kept in foreign currency. Or what's the point in counting on growth in federal budget revenues through ruble devaluation if they plan to sterilize revenues from crude price hikes ... This is not what causes the problem.

It was repeatedly stated (and written) that the Bank of Russia will intervene if there is a threat to the national financial system. However, the central bank has to explain interventions in the absence of spikes in the forex and financial markets, not to mention cases when there are no drastic threats: its measures are treated wrong, this is not about currency interventions and influence on the ruble's exchange rate. However, there is little confidence in the Bank, there is the general feeling of upcoming ruble depreciation, with the Ministry of Finance being more specific on the subject, expecting a nearly 10% devaluation. In this context, who can be convinced that the anticipated exchange rate movement will have nothing to do with purchasing foreign currency by the central bank (or that the Bank will buy foreign currency for the purpose other than influencing the exchange rate, e.g., to accomplish objectives set by the Ministry of Finance)? Finally, the logic that many already disclosed publicly would be very hard to argue with: ruble depreciation can boost the inflation rate, which contradicts the regulator's objective to lower the same, which means that the Bank of Russia will neither ease the monetary policy nor lower the interest rate, and hence loans will not become more affordable.

Russia's central bank repeatedly explained the reason why it is so important for the bank to enhance confidence between the state and the market, government authorities and business, and to make its measures clear and plans predictable. However, even if the Bank of Russia has a point in a theoretical dispute on "currency interventions and ruble devaluations", the practice shows that the entrenched assurance is more important: as soon as something (the ruble, in this case) begins to float for real, they instantly want it back to the shore.

According to our experts' analysis of the 2016 balance of payments to produce a forecast for 2017, with global crude prices staying at what they are now (about \$55 per barrel) and the ruble's nominal exchange rate at 60 rubles per US dollar, one should expect the ruble's real exchange rate to strengthen, exports to increase in value terms by 25–40%, and imports to grow by 10–15% compared to 2016. It appears that an increase in the current account balance will be offset by the Bank of Russia purchasing foreign currency for the Ministry of Finance under the provisional budget rule. Although this measure will in part alleviate the effect of oil price fluctuations on the ruble's nominal exchange rate, it may force the ruble to weaken in the short term. Risks of ruble devaluation are above all attributed to a possible worsening of terms of trade as well as potential tightening of Fed's monetary policy.

A positive balance of current accounts amounted to \$22.2bn as at 2016 year-end (a decrease of \$46.8bn from 2015). The decline was basically due to the balance of trade surplus falling by \$62.3bn in response to a 24% fall of exports of fuel and raw materials as well as of other exports (down 10%). Imports stabilized and even started to move up in the fourth quarter.

However, the current account surplus declined along with a comparable contraction of the financial account deficit (\$12.3bn compared to \$70.9bn in 2015). Net capital outflows in the non-public sector amounted to \$15.4bn in 2016, which is 3.7 times less than the amount recorded in 2015. This happened first of all because of a drastic decline in net capital outflows from banks, from \$34.2bn in 2015 to \$5.3bn in 2016.

Banking sector assets shrank by 3.5% in 2016 in part due to the ruble appreciation (ruble equivalent of foreign currency assets fell markedly). Bank assets, as adjusted for currency revaluation, exhibited a slow growth of 2.1%. Banking license revocations also affect the dynamics of assets (the assets of banks whose license was revoked in 2015–2016 amounted to Rb 2.3 trillion).

Retail deposits in banks whose license was revoked in 2016 reached Rb 478bn, 87% of which was subject to compensation by the Deposit Insurance Agency. The ratio remained stable in 2014–2016 due to the fact that the compensation cap on bank deposits was doubled in late 2014.

Banks generated Rb 930bn of profit in 2016, a growth that was driven basically by a drastic slow-down in allocations to loan loss provisions (e.g., the provisions increased Rb 1352bn in 2015, whereas they were up only Rb 188bn in 2016). Bad assets slowed down in growing, too. The quality of loans in the retail sector of the market increased markedly. The share of overdue loans to individuals, which reached 9% in the middle of the year, shrank to 8.3% at 2016 year-end.

As to overdue wages in arrears, the Rosstat (Russia's Federal State Statistics Service) reports that in 2016 they (in nominal terms) were 1.5 times the values recorded in 2014, although they remained fairly small in size. Note that the Rosstat statistics cover only large and medium-sized enterprises, excluding small enterprises and the informal economy. The number of organizations and workers facing overdue wages in arrears remained almost unchanged in the period between 2014 and 2016. There were about 70,000–80,000 of such workers, or they accounted for 0.2% of the total personnel employed at medium-sized and large enterprises (to compare, our experts provide the data as at late 1998 and early 1999: "There were more than 20 million of employees with short-received wages"). Even if the sectors and organizations that are not covered by public statistics are in a much worse situation, it is unlikely that such personnel will account for above 0.5–1.0%, according to the experts, adding that the situation at enterprises of various regions may differ from these figures.

Gaidar Institute's surveys of industrial enterprises show that positive dynamics of the demand for their products is in line with best-case forecasts for the dynamics. The final month of 2016 saw growth in positive assessments of demand, although they tend to be less optimistic in December. Today, 57% of enterprises consider their products are in normal demand, although the picture varies largely from industry to industry: from 66–67% in chemical industry to 26% in construction materials industry (however, satisfaction with the demand for construction materials dropped to 9% in 2009 and to 4% in 1998).

As to output, output dynamics “is moving towards a positive neighbourhood of zero”, albeit “none too keen on leaving zero line”. In Q4 2016, enterprises started to upgrade their fundraising plans for early 2017, which is possibly associated “with hopes of a steady ramp-up of output”. However, there was an issue of lower interest rate on loans while banks tightened their credit policy. It appears that credit institutions have not yet seen the possibility of Russia’s industry recovering from stagnation, the experts concluded.●

1. DECLINE IN SURPLUS: BALANCE OF PAYMENTS IN 2016

A.Bozhechkova, A.Knobel, P.Trunin

Russia's BoP data attest to a considerable decline in the current account surplus in 2016 compared to 2015. At the same time, net capital outflows in the private sector slowed down substantially because the rate of repayment of debts and liabilities slowed down, as a result of which the ruble appreciated as at 2016 year-end.

According to the Bank of Russia's preliminary assessment of the 2016 balance of payments (BoP), the current account balance stood positive, at \$22.2bn, down 68% (\$46.8bn) from the value recorded in 2015. The decline was basically due to the balance of trade surplus falling by \$62.3bn (from \$148.5bn in 2015 to \$87.8bn in 2016).

Exports/imports

Exports of fuel and raw materials (crude oil, gas, petrochemicals) contracted by \$48bn in value terms (a decline of 24% from 2015) while other exports fell by \$14.3bn (a decline of 10% from 2015). Non-resource exports declined in response to falling prices of wheat, metals, fertilizers, as well as because Russia's manufacturing industry failed to increase supplies in volume terms¹.

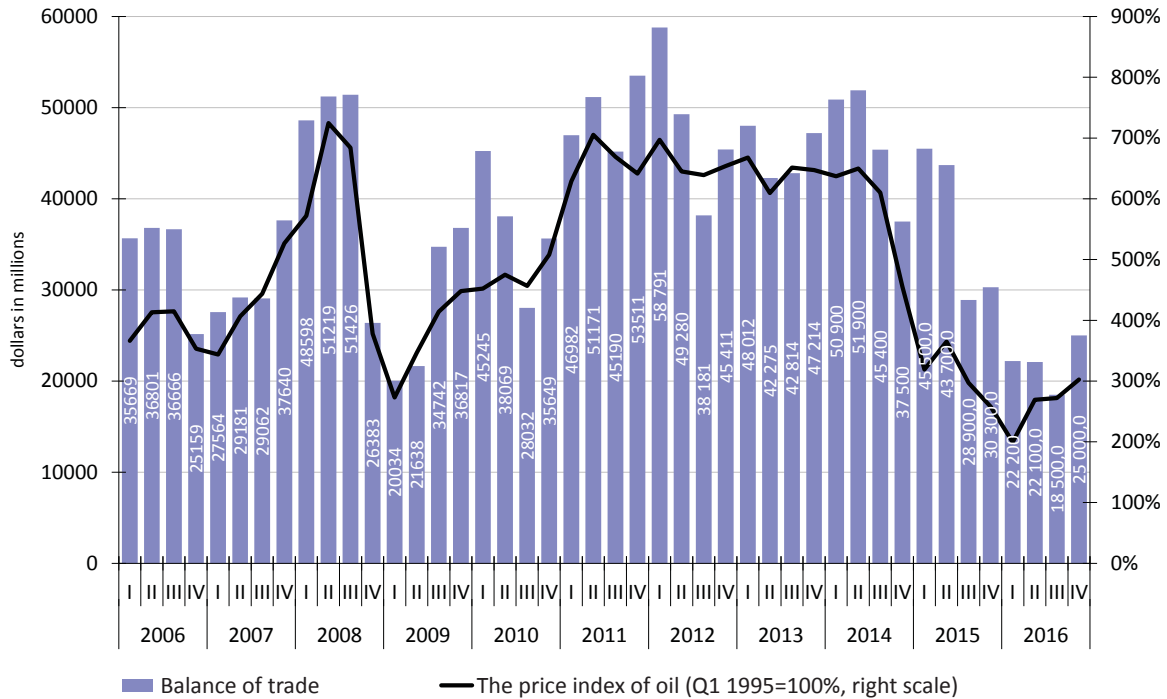
Stabilization of the ruble's real exchange rate was a reason that caused stagnation of non-resource exports: according to the Bank of Russia, the index of ruble's real effective exchange rate against foreign currencies stood at -0.4% in January–December 2016 compared to the same period of 2015. The ruble's real exchange rate saw minor changes on average in 2016 compared to the rate reported in 2015, which kept imports almost at the same level in value terms.

Imports declined by \$1.6bn (-0.8%), although they started to recover gradually: while Q1 2016 imports (in value terms) accounted for 85% of the level recorded in Q1 2015, they were up to 108% in Q4 2016.

At the same time, imports of services saw a decline of \$14.3bn (from \$88.6bn in 2015 to \$74.3bn in 2016), which was in part due to contraction of imports of transport services, but it was mostly because individuals cut back on their international travel (-\$11.2bn). The same level (about \$50bn) of exports of services and the decline in imports of services together were responsible for the reduction of a negative balance of trade in services, from -\$36.9bn in 2015 to -\$24.3bn in 2016.

The balance of compensation of employees saw minor changes (-\$2.5bn in 2016 compared to -\$5.1bn in 2015). The rest of the current account components remained almost unchanged: the investment income balance was at about -\$32bn, the balance of secondary income at about -\$32bn, and the balance of rent at around zero.

¹ For details see A. Knobel, A. Firanchuk, Specifics of Russian exports and imports in January–August 2016 // *Ekonomicheskoye Razvitiye Rossii*. 2016. Vol. 23. No. 11. PP. 15–21.



Sources: Bank of Russia, Gaidar Institute's own research.

Fig. 1. Russia Balance of trade and global oil price index in 2006–2016

Therefore, the balance of trade in services and the balance of trade, whose balance depends largely on the dynamics of hydrocarbons prices, are the key factors that determine a current account balance.

Capital outflow

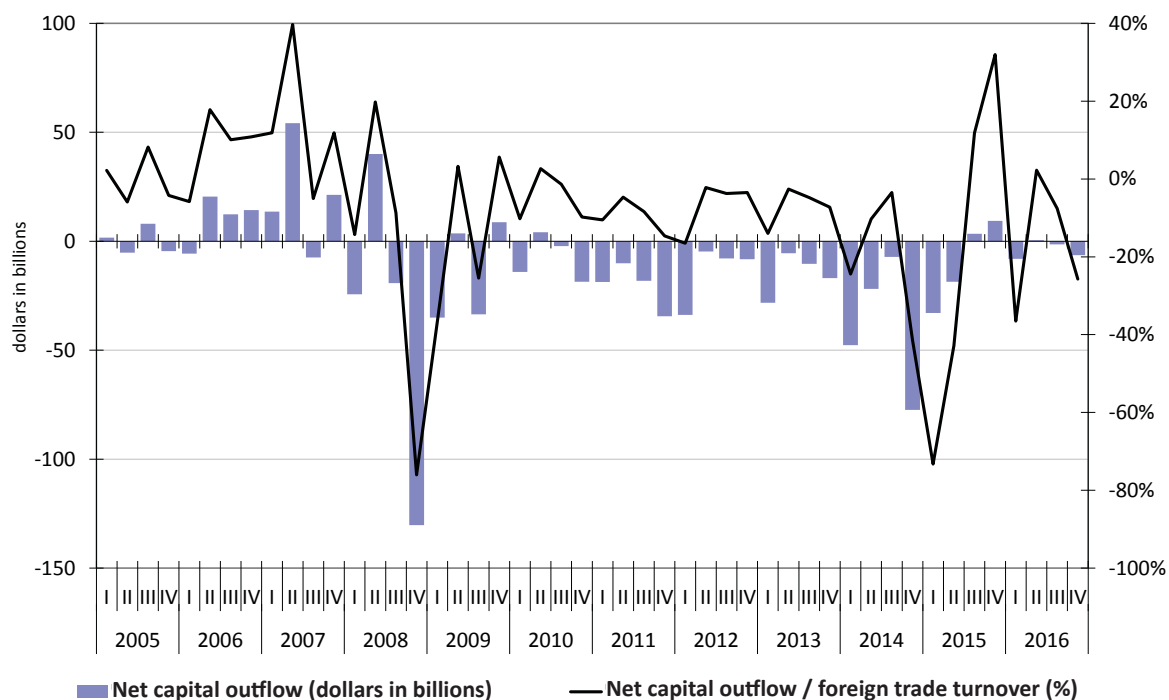
The current account surplus declined along with a comparable contraction of the financial account deficit, which ran at \$12.3bn in 2016 (compared to \$70.9bn in 2015). Net capital outflows in the non-public sector amounted to \$15.4bn in 2016, which is 3.7 times less than the amount recorded in 2015 (Fig. 2).

Much of the capital outflow dynamics was owed to operations in the banking sector. In particular, the amount of net capital outflows fell by 6.5 times, from \$34.2bn to \$5.3bn. A slowdown in the repayment of bank external debts and liabilities had the strongest effect on the dynamics of the balance of banks' operations with the rest of the world. In 2016, banks' liabilities to non-residents dropped by \$27.4bn, while they were down \$60.0bn in the previous year. Banking sector's external debts and liabilities were partially repaid through selling foreign assets. For instance, banks' foreign asset holdings declined by \$22.1bn in 2016 (-\$25.8bn in 2015). Additionally, banks' repayment of foreign currency loans on repos with the Bank of Russia (\$9.8bn as at 2016 year-end) was responsible for the shrinkage of foreign asset holdings in the banking sector.

Net capital outflows from other sectors were 2.3 times less than in 2015, to reach \$10.1bn in 2016. The non-bank sector saw its external liabilities increase \$21.0bn, whereas they dropped by \$5.8bn in 2015.

At the same time, the inflow pattern of non-bank sector's foreign debts and liabilities underwent some changes: direct investment inflows were

1. DECLINE IN SURPLUS: BALANCE OF PAYMENTS IN 2016



Sources: Bank of Russia, Gaidar Institute's own research.

Fig. 2. Net capital outflows in private sector in 2005–2016

\$25.8bn (\$5.9bn in 2015), portfolio investment inflows amounted to \$0.7bn (-\$4.7bn in 2015), loans and credits dropped by \$7.5bn (-\$4.8bn in 2015) while other liabilities increased \$4.3bn (outflow of \$2.2bn in 2015 was followed by inflow of \$2.1bn in 2016).

Such a great increase in direct investment inflows most likely stemmed from a deal on selling a 19.5% stake in Rosneft worth 10.5bn euro.

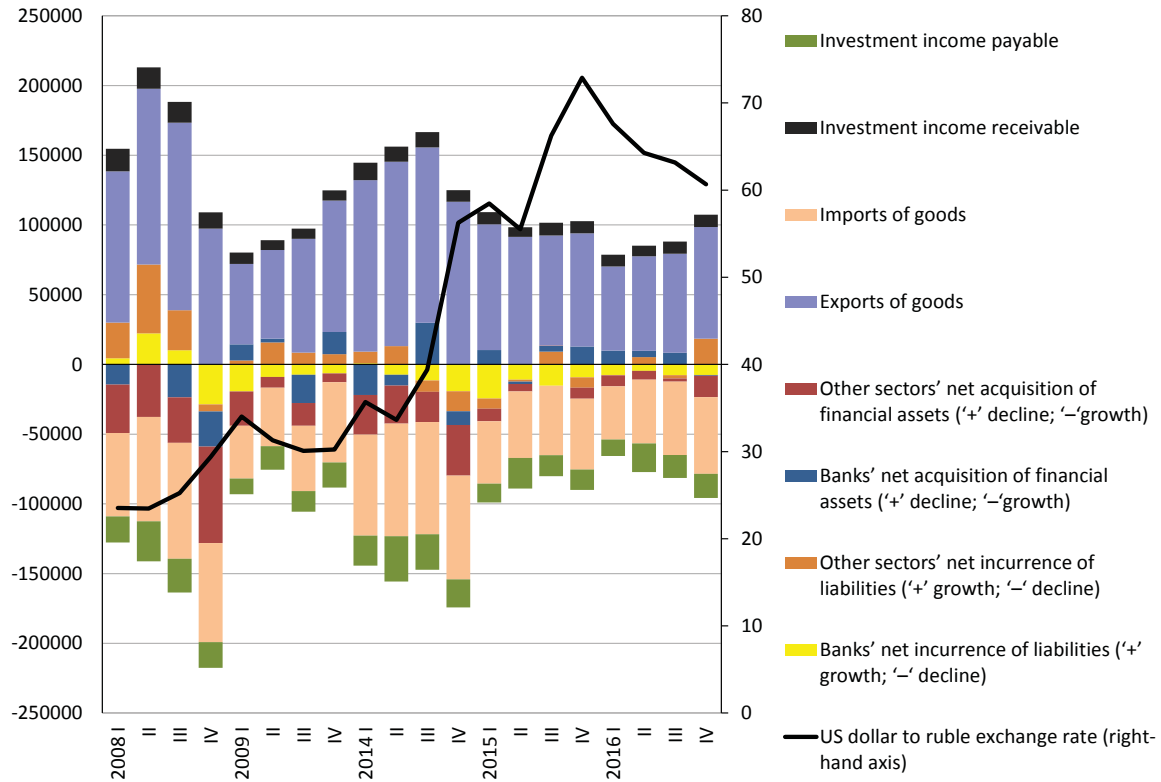
Overall, a positive increase in foreign liabilities is indicative of the fact that in 2016 the non-bank sector managed to raise much more funds than was needed to repay its external debts. This was also facilitated by the non-bank sector successfully refinancing its external debts despite limited access to the global capital market due to the continuing sanctions against Russia.

According to the BoP data, international reserve assets increased \$8.2bn (\$1.7bn in 2015) in 2016 as a result of the redemption of foreign currency debts owed by the banking sector to the central bank.

Therefore, in 2016, a downward pressure upon the ruble in response to the decline in a current account surplus was offset by a substantial decline in capital outflows, especially from the banking sector (Fig. 3).

Forecast for 2017

In 2017, with global crude prices staying at what they are now (about \$55 per barrel) and the ruble's nominal exchange rate at 60 rubles per US dollar, one should expect the ruble's real exchange rate to strengthen, exports to increase in value terms by 25–40%, and imports to grow by 10–15% compared to 2016. It appears that an increase in the current account balance will be offset by the Bank of Russia purchasing foreign currency for the Ministry of Finance under a provisional budget rule within



Source: Russia's central bank.

Fig. 3. Key sources of foreign currency supply and demand

a volume of federal budget revenues generated if crude oil is traded \$40 per barrel.

Although this measure will in part alleviate the effect of oil price fluctuations on the ruble's nominal exchange rate, it may force the ruble to weaken in the short term.

Risks of ruble devaluation are above all attributed to a possible worsening of terms of trade as well as potential tightening of Fed's monetary policy, which may spur capital outflows from emerging markets. ●

2. THE BANKING SYSTEM IN 2016: REAL INCOME IS FALLING

M.Khromov

In 2016, the volume of the banking sector assets was remaining relatively constant despite reduction of the overall number of operating banks. The banking profit has grown considerably. The reason was a sharp slowdown of bad assets growth. However without taking this factor into account, the banks' net profits continue shrinking.

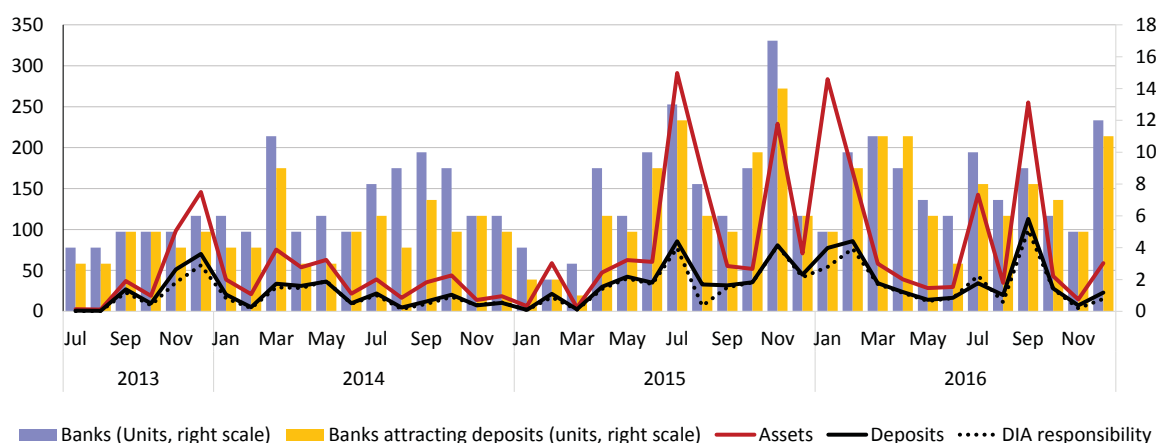
In 2016, total assets of the Russian banks contracted by 3.5% in nominal terms from Rb 83.0 trillion as of 1 January 2016 to Rb 80.0 trillion as of 1 January 2017. A year earlier, the volume of total bank assets went up by 6.9%. Reduction of a nominal scale of bank assets in 2016 was registered for the first time since the onset of regular release of such data in 1998. At the same time, in 2016, ruble's appreciation contributed negatively to the assets' dynamic. Over the year, the national currency has strengthened by 16.8% against the US dollar and by 19.9% against the euro. As a result, the ruble equivalent denominated in foreign currency has noticeably shrunk over the year. In 2016, bank assets adjusted by foreign currency revaluation demonstrated moderate growth (by 2.1%) following decline by 1.5% reported in 2015. Consequently, the volume of the Russian banking sector remains stable over two recent years.

In 2016, credit organizations whose indexes did not correspond the regulator's requirements were being put out of the market. During the year, licenses for carrying out banking activity were withdrawn from 97 credit organizations. Besides, the number of annually withdrawn licenses during recent three years is about the same (86 in 2014 and 93 in 2015). The 2016 index was the highest. Since Elvira Nabiullina became the Governor of the Bank of Russia more than 300 banks lost their licenses. Total number of operating banks during 4 years has shrunk by more than 30% from 956 as of 1 January 2013 to 643 as of 1 December 2016.

The volume of assets of those banks, which forfeited their licenses in 2016, totaled to Rb 1.2 trillion, which also represents a maximum value for the last three years and constitutes 1.4% of assets as of the turn of the year. Taking into consideration moderate growth rates of the banking sector, revocation of licenses significantly affects general assets dynamics. For instance, in 2015–2016 taking into account exchange rate revaluation the size of bank assets moved up by Rb 0.5 trillion and the size of bank assets with revoked licenses came to Rb 2.3 trillion during these years.

The volume of household deposits in banks with revoked licenses reached Rb 478bn in 2016. Around 87% of this amount was due to be reimbursed by the Deposit Insurance Agency (DIA). In 2014–2016, this ratio remains constant thanks to a double increase of the maximum compensation payment, which took place in late 2014.

So far, financial outcome of the banking sector performance remains moderate. Following a drastic decline of the banking profit reported in 2014–2015 when profitability on bank capital fell to 9 and 3% in annual terms, respec-



Sources: Bank of Russia, DIA, IEP's estimates.

Fig. 1. Main indexes of banks which lost licenses

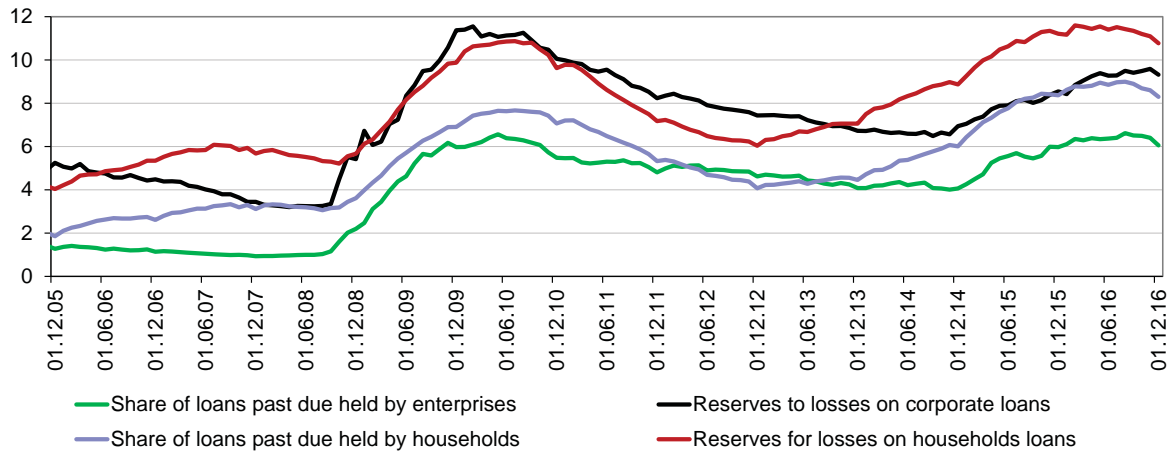
tively. In 2016, profitability on bank capital hit 13% in annual terms. However, this indicator is still behind profitability reached in 2011–2013 when it reached 17–20% let alone 2005–2007 when return on capital in the banking sector exceeded 25% per annum. This fact determines a rather low investment attractiveness of Russian banks both for existing owners and for new investors.

The nominal volume of banking profit in 2016 reached Rb 910bn. Banks earned more solely in 2012–2013 (Rb 1,012bn and Rb 994bn, respectively). The main reason for profits growth in 2016 was a sharp slowdown of provisions to required reserves against specified deposit liabilities. During the year, the amount of required reserves went up by barely Rb 188bn against Rb 1,202bn posted in 2014 and Rb 1,352bn registered in 2015. The volume of profit minus operations with reserves continues demonstrating a downward trend for the second year in a row from Rb 1.8 trillion in 2014 to Rb 1.1 trillion in 2016. This attests to the fact that real banking profits continue falling despite growth of nominal volumes of profit and profitability on own capital of banks.

Slowdown of bad assets growth can be considered as a positive outcome in 2016. Total volume of required reserves against specified deposit liabilities continued growing in 2016. Moreover, owing to a contraction of the nominal volume of assets the relation of total volume of formed required reserves against specified deposit liabilities to the overall volume of bank assets have moved up over the year from 6.5 to 7.0%. Regarding certain segments of the credit portfolio, there is visible trend of improvement of assets quality in 2016.

For example, obvious improvements have taken place in the retail segment of the lending market. The share of past due loans extended to households in their overall volume shank merely by 0.1 p.p. from 8.4 to 8.3% during the year. However taking into consideration the fact that in mid-year this indicator reached 9%, late changes in the trend are evident. Similar situation is observed regarding reserves against potential losses on loans extended to individuals to the volume of retail bank debt. Overall for the year, this ratio declined from 11.2 to 10.8% herein in spring 2016 this indicator reached 11.6%. The main reason for the improvement of the quality of retail credit portfolio in 2016 was gradual reorientation from riskier consumer lending to a less risky housing loans where past due payments are traditionally low.

2. THE BANKING SYSTEM IN 2016: REAL INCOME IS FALLING



Sources: Bank of Russia, IEP's calculations.

Fig. 2. Indexes of bank credit portfolio quality, %

In the corporate segment of the lending market, the situation with the loans quality remains less optimistic but even this segment saw improvements during recent months. The share of past due corporate loans in their overall volume for 2016 went up by 0.1 p.p. from 6.0 to 6.1% hitting maximum 6.6% during the year. ●

3. OVERDUE WAGE ARREARS REMAIN LOW

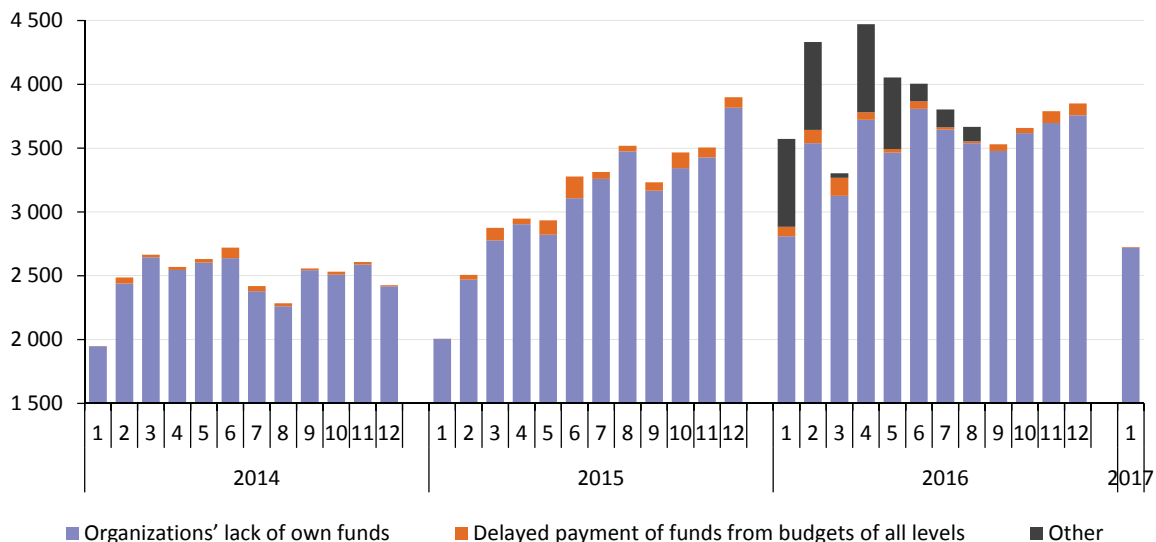
V.Lyashok

Since the beginning of 2014, wage arrears has been growing. In nominal terms, in 2016, according to Rosstat, it was 1.5 times higher than that in 2014. However, in absolute terms, the debt stays rather low and not comparable to the situation of the 1990s.

In early July 2016, Federal Law № 272-FZ was signed, which came into force on October 1. The law tightened responsibility for the failure to pay wages on time. Now, employers should add interest to the unpaid wages in the amount of 1/150 of the Central Bank key rate (rather than 1/300 as it was before), and the date of payment should be no later than 15 calendar days after the end of the period for which the wages are due. Besides that, penalties for the responsible administrators are increased.

These measures are intended to reduce the risk that the debt on wages will grow in Russia. According to Rosstat data, the volume of wage arrears has increased since the beginning of the crisis. The average nominal value of the debt in 2015 was 26% higher than that in 2014, and in 2016 it grew by another 23%, while the inflation in those years was 12.9 and 5.4%, respectively. It should be noted that Rosstat only provides statistics for large and medium-sized enterprises and does not take into account small enterprises and informal sector.

The main reason for non-payment of wages is the lack of own funds in organizations (*Fig. 1*). The share of debt due to the late receipt of funds from budgets of all levels averaged to no more than 3% of total arrears.



Note. The line "Other" accounts for Transaero's (bankrupt company's) debt to its employees. Transaero representatives believed that the cause of debts was non-payment of funds from the federal budget, while the Federal Air Transport Agency required to pay the debt from the organization's own funds. By September 2016, the organization had paid the arrears in full amount.

Fig. 1. Volume of wage arrears at the beginning of the month, by reason, million rubles

3. OVERDUE WAGE ARREARS REMAIN LOW

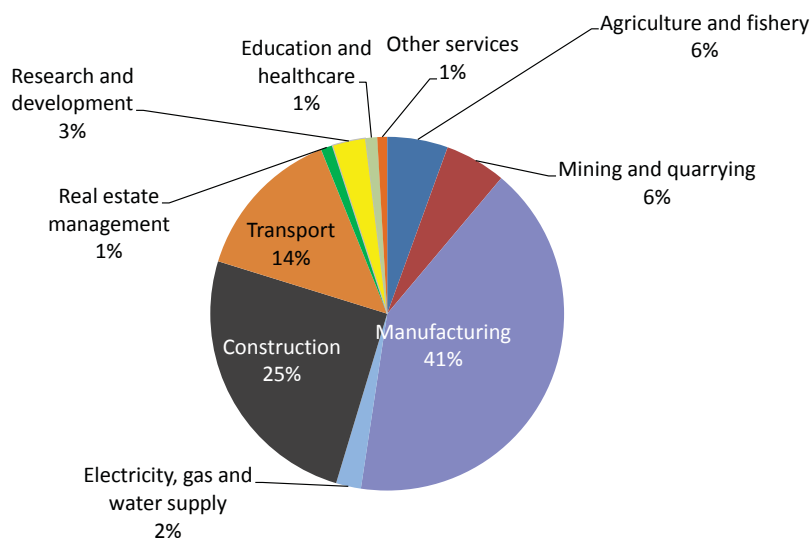


Fig. 2. Structure of wage arrears for certain types of economic activity in 2016

Debts are most common among enterprises in manufacturing industry, construction and transport, which account for more than 80% of the total volume of arrears (Fig. 2).

At the same time, the number of enterprises with wage arrears and the number of employees to whom the debt is owed remained almost unchanged in the period of 2014–2016 (Fig. 3). On average, only about 500 to 600 large and medium-sized enterprises had wage arrears. The number of employees to whom the debt was owed was 70 to 80 thousand people – this is about 0.2% of all employees of medium and large enterprises. Even if the situation is much worse in enterprises not covered by official statistics, it is unlikely that the overall proportion of employees to whom the debt is owed is more than 0.5–1.0% of their total number. Although there are substantial regional differences in this indicator, only in one subject of the Russian Federation – the Amur region – it exceeded 1%.

If the arrears of wages are not currently a mass phenomenon, why is this indicator under scrutiny of the authorities who decided to tighten the legislation in this area?



Note. The indicators of June and July 2014 rose due to the sharp increase in the number of educational institutions (from 12 in May to 641 and 635 in June and July, respectively).

Fig. 3. The number of enterprises with wage arrears and the number of employees to whom the debt is owed

The authorities are trying to prevent the situation similar to that of the 1990s, when non-payment of wages was one of the enterprises' main ways to reduce labor costs. In late 1998 – early 1999, the number of employees who hadn't received their wages in full amount exceeded 20 million people. From 1996 to 1998, the total amount of debt exceeded the monthly payroll for all industries observed by official statistics. Since 1999, with the beginning of sustainable economic growth, a process of gradual reduction of debt began, and in the second half of the 2000s, it reached the current minimum. The crisis of 2008–2009 did not lead to significant increase in wage arrears, as well as the current downturn in the economy hasn't.

Tightening of the legislation can be seen as a signal that shows employers what methods of reducing labor costs are considered adequate by the authorities and what methods aren't. However, the probability of mass practice of non-payment of wages is minimal today for several reasons.

First, enterprises nowadays have time to adapt to the new economic reality without resorting to the instrument of wage arrears.

Second, the structure of the economy has changed significantly over the past 25 years. Most organizations that delayed paying wages to employees in the 1990s were unprofitable and now have either closed or been modernized.●

4. DECEMBER 2016: INDUSTRY IS LOOKING FOR A WAY OUT OF STAGNATION

S.Tsukhlo

December data on Russian industry encourages cautious confidence. Upward trend of the actual demand goes with rather hopeful projections of its change, growth of stocks of finished products needed for the onset of economic growth and securing output growth rates to be around zero.

At the end of 2016, dynamics of demand for industrial products demonstrate uncharacteristic for this period of time upward trend. The initial sales balance (growth rate) resisted typical decline characteristic of Q4 and even demonstrated improvement in December compared to November. As a result, seasonality adjusted indicator went up by 5 p.p. and again hit highest for the crisis period values. Demand projections show the same dynamics. They avoided traditional December peak of pessimism prior to January holidays and also repeated their maximum value observed in October this year.

Possibly, industry counted on larger sales volumes to come in December 2016. Satisfaction with demand, which in November hit maximum for the entire crisis period declined by barely two symbolic points. As a result, this indicator's growth has stopped again. At present 57% of industrial enterprises consider demand for their products to be normal. However, satisfaction with demand differs fundamentally across sectors.

When the chemical industry managed to hit during the crisis 2015–2016 years a stable and non-crisis high level of satisfaction with demand for its products (66–67%), the light industry barely managed to surpass intercrisis minimum 2014 level and signal solely 30% of demand satisfaction in 2016. It must be said, the light industry index downfall was not so significant and was not as painful as it happened in the industry of construction materials. This industry faced a demand drop from 57% in 2012 to 26% in 2016. However, the latest value is far from minimums posted during the crisis for the Russian economy years: in 2009, satisfaction with demand for construction materials declined to 9%, and in 1998 – to 4%. Quite another dynamics of “normal” demand is observed in the food industry. This industry reports more stable satisfaction with sales and the highest satisfaction with sales on average during recent years.

Business' assessments of stocks of finished products faced changes in late 2016, which can attest to the formation of positive sentiments developing in industry. The balance of assessments of stocks (“above normal” – “below normal”), which in July–October was constantly negative, since November began growing and reached +3 points. This indicator can not be assessed as a symptom of crisis overstock. On the contrary, first and foremost industry stopped “doubting” in incipient output growth (precisely such situation was forming, for example, during months prior to default) and proceeded, possibly, to maintaining small and well managed surplus of stocks (characteristic for the period of sustainable output growth).

Industry has entered the current crisis lacking manifestations of crisis, without surplus of stocks of finished products and then under the influence

of promises of its prompt termination proceeded to the policy of building up moderate shortage of stocks of finished products. However, failed commencement of economic growth resulted in the accumulation of the largest for 2015–2016 surplus of stocks of finished products reported in February 2016. Change of the official narrative and provision of more realistic forecasts of the crisis duration forced businesses to get rid of the surplus of stocks of finished products in such circumstances (in March–June 2016) and then commence reduction of stocks (July–October).

Upward trend of demand has logically predetermined similar output dynamics. Seasonally adjusted balance of actual changes in industrial production demonstrated in December output growth similar in intensity to the previous months (minus September). It looks like the output dynamics is tasking an upward trend. At the same time, its values remain close to zero.

The output forecast for November–December has become less optimistic in comparison with low positive levels posted for the first ten months of 2016 and sharply (for a month) declined along initial values from +5 to -8 balance points. Usually during previous years, forecasts' pessimism prior to January holidays was getting strength gradually reaching the peak in December. Removal of seasonal component has preserved the output forecasts balance positive. However, the forecasts' confidence true of late 2016 is considerably below the confidence levels posted in late 2015 when industry continued waiting for the promised commencement of economic growth and even of late 2014 when industry did not project any crisis to commence at the beginning of 2015.

In December, the industrial sector failed to maintain a relatively low rate of the price growth characteristic for H2 of 2016 and posted growth of the indicator by +9 points, which is the maximum for March–December of 2016. In December 2015, the balance stood at zero, in other words the industrial sector reversed decision to increase prices hoping to revive demand for its products. However, price hike was projected at the turn of 2016, which coupled with rather pessimistic forecasts of demand. There are different projections available now. Price hikes at the turn of 2017 can surpass the 2009–2016 dynamics except shock years of 2011 and 2015 when producers' pricing policy received powerful excusable impulse resulting from increased insurance fees and the ruble's devaluation. However, demand projections do not anticipate sales contraction. The December balance of initial expectations turned out to be above the November one, although the highest pessimism of sales projections is registered in December. Seasonal adjustment demonstrated the December projections to be at the highest level, the most optimistic, expectations for 2014–2016. The industrial sector is definitely commencing to test its exit out of stagnation.

In December surveys registered job cuts growth, which is rather typical for the end of the year. However, the peak of redundancies usually falls on the beginning of a calendar year, following which a positive balance in employment balance is observed, enterprises make up for staff losses or at least try to do that. Precisely this way employment dynamics was developing during the crisis 2015–2016 years when it managed in fact and not only in forecasts (as it was true of pre-crisis 2013–2014 years) to increase the number of headcount. This fact has led to an increase of industrial personnel. What is more without any traces of excessive employment common for previous crises. The assessment of employment balance (“more than sufficient” minus “less

than sufficient”) during crisis 2015–2016 years stays around zero with total and stable predominance of “sufficient” responses.

In H2 2016, the investment plans of Russian industry demonstrated a downward trend with traditional for the current recession oscillations around the trend. Thus, March has remained the most optimistic 2016 month regarding investment sentiments. On the other hand, even the March balance of plans has never got round to be positive. The worst balance value was registered in February 2015.

In Q4 2016, industry revised its plans for borrowing. Following two quarters when it exhibited the lowest level of activity in this sphere, enterprises decided to buildup borrowing at the turn of 2017, which is due, most likely, to the expectations for a stable output buildup. However, it is still far from the pre-crisis record of last year (then the balance of plans reached +24 points). At present, the balance comes to a common for the first half of last year and the beginning of this year +17 points. Last year’s record is explained by expectations for an upcoming “rebound from the bottom of recession” that eventually did not happen. Recognition of a protracted character of the current recession has cut plans for borrowing by industry to the minimum for the entire period (true, not so long) of our monitoring these plans.

However, now businesses have come up with another issue: make borrowing facilities more rigorous from the part of banks with reduction of the interest rate. The credit organizations have not believed so far in a feasibility of industry to exit stagnation and have cut lending availability. ●

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