MONITORING OF RUSSIA'S ECONOMIC OUTLOOK:

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT

No. 19(80) November 2018

TRENDS AND CHALLENGES OF SOCIO-ECONOMIC DEVELOPMENT 3

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As far as the intensity of discussion was concerned, the 'gasoline problem' turns out to be the most important issue after the 'pension project'. The flurry of negotiations, compromises, concessions and warnings has come to the intermediate finish line following the Russian authorities' decision to abstain from any further attempts to persuade biggest market participants to forego some of their export super-profits for the sake of stabilizing domestic fuel prices. After many months of difficult discussions, the authorities have fired an unprecedentedly tough ultimatum to big business: if the oil tycoons do not agree to freeze their prices until at least the end of 2018 (and then to keep their growth rate within the limits of general inflation until April 2019), the Government will immediately introduce prohibitive export duties on oil.

Although the non-market character of this measure is evident to everybody, the Russian authorities apparently had no other arrow left in the quiver capable of putting an end to the painful process of gasoline inflation which had evolved into a grave social problem. Quite naturally, the solution they eventually arrived at failed to unwound the huge tangled ball of problems, including the unfinished and constantly revised tax maneuver in the oil industry, the interests and influence of biggest oil companies, the dependence of 'independent' petrol stations and oil refineries, and the unpredictability of the situation on the global oil market, which has been determined by the activities of geopolitical players to a greater extent than previously. It should be said, however, that this tangled ball of problems can never be properly unwound by resorting to any all-embracing regulation of the market. At the same time, it must be admitted that any attempts at solving this quandary through the application of purely liberalizing methods in order to transform this peculiarly structured and administered segment of the Russian economy would be purely illusory. Moreover, if crude oil prices go down significantly, the attractiveness of oil exports and, correspondingly, the threat of the domestic market's degeneration would drastically decrease.

The prospects for increasing tax yields remain rather beak not only in the oil sector (which is plagued by a number of problems, including the growing contradiction between the Government's desire to prevent gasoline price increases and its wish to continue the rise in fuel excise taxes despite its previous intention to reduce them). The revived intention to return to comparing the tax burden in various sectors is naturally seen as a confirmation of the fact that the development of the system as a whole is still far from completed. This fact, in its turn, can hardly give an impetus to the companies' investment activity.

Nevertheless, our experts have registered (based on the results of the first three quarters of 2018) an acceleration in the growth of bank loans to corporate borrowers, mainly due to the rise in the volume of ruble-denominated loans issued to them by non-financial institutions. As of 1 October 2018, the total bank debt of Russian enterprises had climbed to RUB 31.9bn,

having increased by 6.5% over the course of the first 9 months of 2018. It should be noted that ruble-denominated loans were growing 1.5 times faster than a year ago, while loans denominated in foreign exchange continued to decrease. On the other hand, activity in the bond market was slowing down (especially against the background of large loans that had been made in the previous years by companies such as *Rosneft* and *Gazprom*). As a result, the share of bond loans in the total amount of attracted borrowings declined by more than 1 pp., to 22.8%, relative to the beginning of 2018.

Although the dynamics of industrial production in the Russian Federation has been, on the whole, positive since the beginning of the current year (at the end of Q2 the corresponding data were revised by *Rosstat*), in Q3 industry as a whole, and first of all its processing sectors, returned to a near-zero rate of growth. Also in Q3, there was a considerable drop in imports, especially pronounced in machine building, the food industry, and the chemical industry. The Gaidar Institute's experts believe that it still is too early to speak of a drop in general demand in the economy, because the current developments have not demonstrated any drop in production. They assume that the decline in purchases could have been caused by the ruble's weakening in the spring and summer of 2018, coupled with the corresponding rise in the prices of imports, the partial shift of consumer preferences towards domestically produced goods, and the completion of some investment projects.

Having compared data from the monitoring of Russian industry which has been carried out by the Gaidar Institute over many years, our experts have come to the conclusion that during various periods of post-Soviet economic history, including crisis periods, there have always existed a stable relationship between the size of enterprises and their ability to adapt themselves to the existing economic situation. Biggest enterprises (with more than 1,000 workers) can adapt better than any other types of enterprises, especially small and medium-sized ones (with less than 250 workers). The latest business surveys carried out in January-September 2018 confirm this conclusion.

The new data coming from the RANEPA ISAP's Monthly Monitoring of Socio-Economic Situation and Perceptions of the Population indicate that the greatest source of social tension is the employment sector. Almost one quarter of the respondents are afraid of losing their jobs or having their wages cut. More than one quarter of the respondents negatively appraise some or other aspects of their daily activities, including work; approximately the same proportion of the respondents appraise their daily activities positively. The share of those respondents who view the existing socio-economic conditions as being favorable to their self-realization is almost twice as much as the share of those who estimate these conditions to be unfavorable to their self-realization. It should be said that there exists a quite logical connection between a respondent's assessment of their social comfort or discomfort and of their chances for self-realization and the income and age group they actually belongs to.

1. CORPORATE BORROWINGS: STRENGTHENING OF THE ROLE OF A BANK LOAN

M.Khromov, E.Khudko

In 2018, bank lending to corporate customers is gradually gaining momentum mainly by means of rouble loans to non-financial institutions. Domestic bond market dynamics slowed down dramatically due to reduction of new borrowings by the Rosneft oil company. In 2018, the share of bond loans on the domestic market is diminishing.

Within nine months of 2018, corporate borrowers' debt to Russian banks increased by Rb 1.9 trillion (6.5% of the volume of bank loans to corporate customers as of the beginning of this year, *Fig. 1*). As of 1 October 2018, the overall debt of Russian corporate customers to banks amounted to Rb 31.9 trillion. As compared to the relevant period of 2017, the corporate loan debt increased by over 80%. A year earlier, Russian banks' corporate loan portfolio rose by Rb 1.0 trillion (3.7%).

Within three quarters of 2018, corporate borrowers' debt on rouble loans grew by Rb 2.1 trillion, a 50% increase as compared to the previous year. The corporate debt on bank loans in foreign currency keeps falling. After it attained its maximum in the mid-2015 ($137bn), corporate customers have been consistently reducing their foreign currency debt to banks. From January to September 2018, the foreign currency debt decreased by $3.8bn; as of September 2018 the volume of foreign currency loans amounted to about $100bn.

In Q3 2018, annual growth rates of the loan debt amounted to 7.5–8.0%, that is, the same level as in 2015, but less than in 2011–2013. Note that annual growth raters of rouble loans (14–15%) have already attained the pre-crisis level (15.1% in 2013). So, growth rates of the overall corporate debt to banks are lagging behind the pre-crisis level on the back of the continued shrinkage of loans in foreign currency.

From the beginning of 2018, the speedup of the corporate bank lending was largely driven by lending to non-financial institutions. This category of borrowers increased their debt to banks by Rb 1.4 trillion, a three-fold growth on the year before (Rb 0.5 trillion). However, the growth rates of non-financial institutions' debt to banks still remain low. Within three quarters of 2018, the debt of non-financial institutions rose by 5.5% (1.8% a year before).

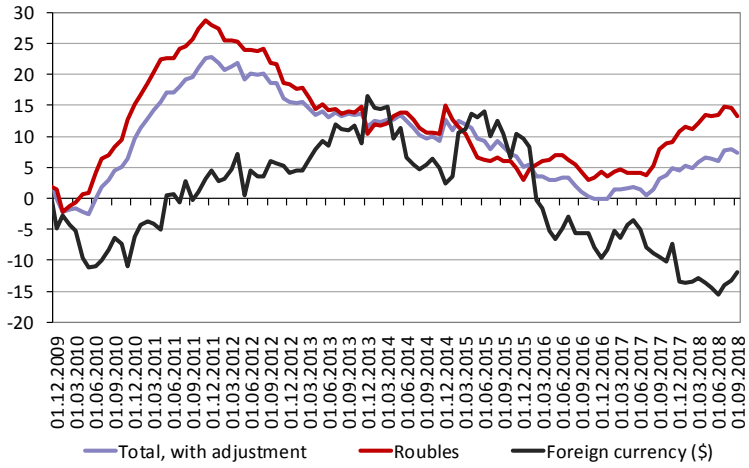

Fig. 1. Growth in corporate customers' debt on bank loans as compared to the relevant date of the previous year, %

Source: The Central Bank of Russia, own calculations.

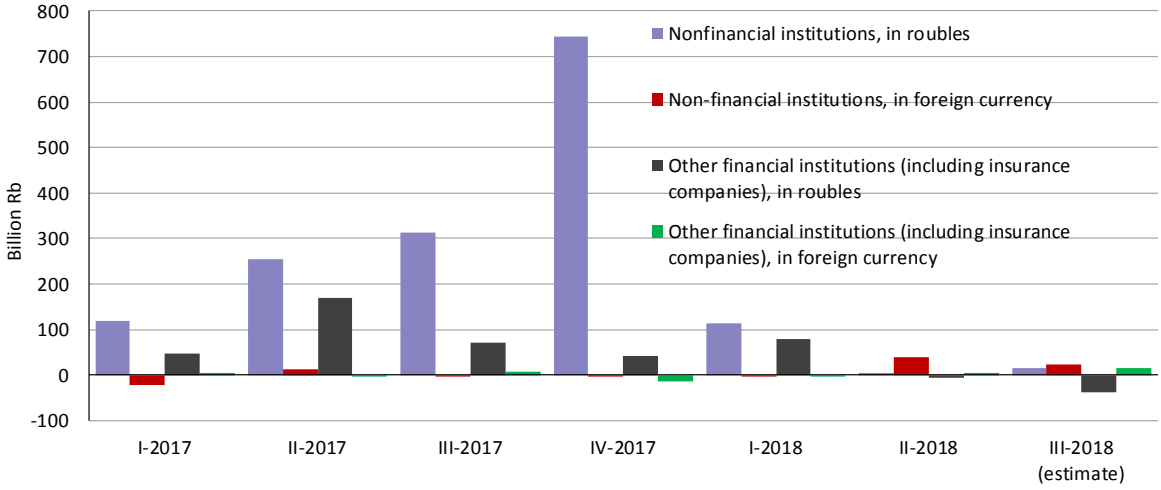

Fig. 2. Growth in the volume of bond loans issued by non-financial and other financial institutions (at the quarter end, %)

Source: The Central Bank of Russia, own calculations.

At the same time, financial institutions have slowed down largely the rates of attraction of bank loans in 2018. If in the first three quarters of 2017, they increased their debt to banks by Rb 0.6 trillion (or 21.4%), in the relevant period of 2018 their debt grew by Rb 0.5 trillion (13.2%).

During three quarters of 2018, the domestic bond market saw weakly positive dynamics of corporate issuers' borrowings[1]; the indicators of these dynamics were weaker than in the previous year (*Fig. 2*). At the same time, as of Q3 2018 the overall volume of corporate borrowings was the record high (Rb 9.4 trillion) in the entire history of the bond market in Russia.

Unlike the similar period of 2017, in Q2 and Q3 2018 the main contribution to the bond debt was facilitated by bond issues in foreign currency. It is noteworthy that since the beginning of the year the volume of the rouble market of corporate issuers has remained virtually unchanged. A similar upward trend of the currency segment of the domestic bond market can be largely explained by substantial appreciation of the exchange rate from April 2018. However, as of the end of Q3 2018 the share of the debt on foreign currency borrowings was equal to less than 6% of the corporate segment of the domestic bond market.

In 2018, the extent of activities on the primary bond market has declined: within three quarters of 2018 the overall volume of placed issues shrank by over one-third as compared to the same period of the previous year (a decrease of 25%-30% as compared to the relevant period of 2016 and 2015).

As seen from *Fig. 3*[2], in the period under review the largest borrower was the PAO Sberbank, though in the relevant periods of the previous years the leaders were the PAO NK Rosneft and Gazprom, a group of companies. This situation reflects the general trend of modification of the pattern of borrowers on the primary market: if in the first three quarters of 2017 nonfinancial sector companies accounted for over 50% of domestic borrowings, as per the results of three quarters of 2018 the share of the non-financial sector

1 Without credit institutions accounted for, but including other financial and insurance institutions.

2 The statistics is presented without short-term exchange-traded bonds of the VTB and the Vneshekonombank with maturity of 1 day to 85 days taken into account.

amounted to about 46%. In any case, if one excludes issues of the above companies, a drop in the primary market volume would be much more considerable.

It is worth mentioning separately the dynamics of the weighted average yield of corporate bonds. By the beginning of Q2 2018, the yield of bonds included in the IFX-Cbonds fell to the minimum since the beginning of 2014. However, that trend was later followed by gradual growth, which situation greatly affected the activities of issuers on the primary market. In their turn, the relevant yield dynamics are related with the worsening of macroeconomic indices. However, it is worth paying attention to the fact that after raising of the key interest rate by the Central Bank of Russia the yield did not exceed 9%, while, for example, in Q2 2014 with a similar key rate in effect the yield was on average at the level of nearly 9.5%.

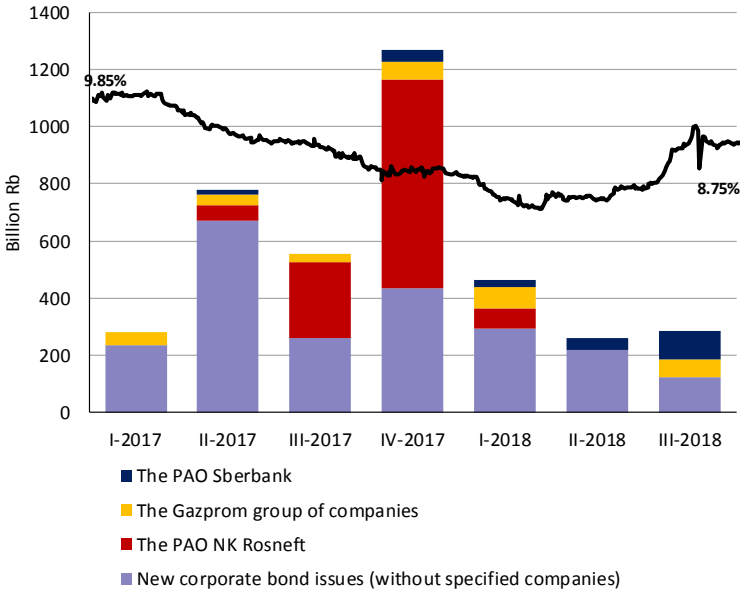

Fig. 3. Dynamics of the effective yield of bonds included in the IFX-Cbonds index and the volume of the new rouble denominated bond issues of financial and non-financial institutions

Source: The Cbonds, an information agency; own calculations.

So, at present investments in Russian corporate bonds are characterized by lower investment risks as compared with the 2014 crisis year. The case for it is underpinned by statements made recently by some large bond issuers (in particular, the OAO RZhD, the AO Gazprom, the PAO MOEK, the GK Avtodor, the PAO NGK Slavneft and other) and plans of a number of small companies (for example, the Gemabank, the Sibsteklo and the Rosmorport) to place inaugural bond issues.

In addition, within the first three quarters of 2018 a few foreign currency bond issues were placed on the domestic bond market, though their overall volume amounted to the mere $565m. This can be explained by higher currency risks. The largest bond issues were placed by the PAO Sovkombank (two issues worth $250m in Q1 2018) and the PAO State Transportation Leasing Company, a development institute ($150m worth of a bond issue in Q2 2018).

In the past few months, structured bonds issued by financial

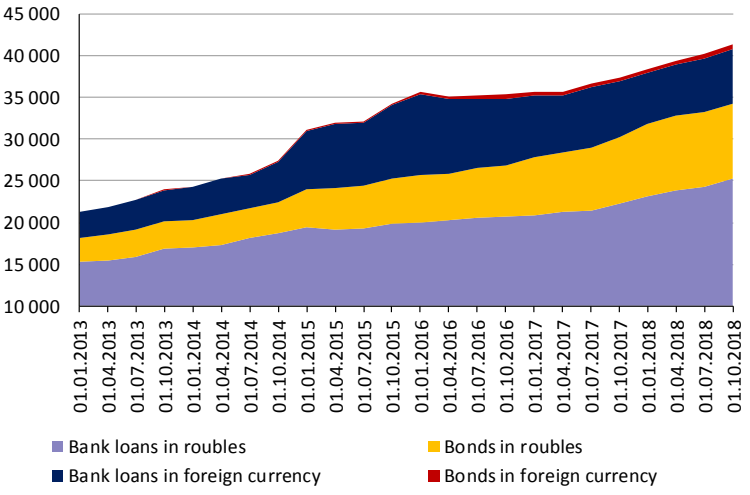

Fig. 4. The volume of the debt of Russian enterprises and entities on bank loans and domestic bond issues, billion Rb

Source: The Central Bank of Russia, own calculations.

institutions have become widespread on the market. The issues of the PAO Sberbank account for the largest share in the volume of such bond issues. Bond indices (in particular, the NXS Bond Fund Stars ER Index), exchange-traded funds (for example, ETF SPDR GOLD SHARES, SDPR S&P 500 ETF TRUST, ETF ISHARES 20+ YEAR TREASURY BO), primary commodities (copper, nickel and palladium), shares of large manufacturing companies (the ING Group NV, the Apple Inc., the Facebook and other) and American depositary receipts on their own shares serve as an underlying asset to which an additional yield on a bond paper in various emissions is linked. However, taking into account quite an unfavorable market situation the bank failed to place the declared bond volumes.

As per the results of September 2018, the overall volume of corporate borrowings on the domestic market amounted to Rb 41.3 trillion. In Q3 2018, the share of the bond debt in the total volume of borrowings was equal to 22.8%, a decrease of over 1 p.p. from the beginning of the year.

2. INDUSTRIAL PRODUCTION IN Q3 2018: NEAR-ZERO GROWTH[1]

A.Kaukin, E.Miller

In Q3 2018, the movement of industrial production indices returned to a near-zero growth pattern, and first of all in the manufacturing sectors. In some industries, the slightly positive dynamics may have had to do, in part, with government support measures. Over the course of the same quarter, imports declined, most notably in the food industry, machine-building and chemical industry. However, this was not followed by industrial production decline, and so there is no reason, as yet, to speak of a general decline of demand across the national economy.

At the end of Q2 2018, *Rosstat* revised its industrial production data. The close-to-zero rates of growth observed at the start of this year had given way to positive growth rates, due in the main to the developments in the extractive and the manufacturing industries, and more specifically – to the production of building construction materials, raw materials for the timber and wood product processing industries, production of petroleum products, and ferrous metallurgy[2].

However, in Q3 the production rate was close to zero. At the same time, imports of food, chemicalsб and machinery & equipment recorded a huge drop – by 3.7% relative to Q2 2018. Historically, a similar situation was seen during the periods of severe economic decline (e.g., in 2009 and in 2014), when the ruble's depreciation pushed up the prices of imported goods, industrial output plunged, household incomes were shrinking, and consumer and investment demand was on decline.

The possible causes of this drop in imports may be as follows:

1. An overall decline of demand (for domestic and imported goods);
2. A response of economic agents to the sharp reduction in the exchange rate of the ruble in the spring and summer of 2018 and the corresponding rise in the ruble-denominated prices of imported materials, components and final goods, on which the Russian economy and industrial production have traditionally depended, resulting in a drop in demand for imports or in a partial shift of consumer preferences towards domestically produced goods;
3. The significant shrinkage in imports of investment goods after the completion of large-scale government building construction projects and government investment projects.

The movement pattern of industrial production indices may be viewed as one of indicators that can serve as a basis for conclusions as to the most likely causes of the shrinkage in imports: industrial production decline can thus become an additional factor confirming the fact of a general decline

1 The authors should like to thank M. Turuntseva and T. Gorshkova for their assistance and expertise in the preparation of this statistical analysis.

2 Kaukin A., Miller E. Industrial Production Dynamics, H1 2018: Rosstat Revises Its Statistics // Russian Economic Developments. 2018. No. 8. P. 25–29.

in demand, which in its turn can be viewed as an indicator of the pre-crisis phenomena visible across the economy.

The movement patterns of industrial production indices were analyzed by the Gaidar Institute's experts on the basis of *Rosstat*'s latest available data by means of applying their decomposition method to the corresponding time series and removing their trend component[1].

Fig. 1–3 and *Table 1* show the results of our time series analysis. It can be seen that over the last three months (July-September 2018), the growth rate of the Industrial Production Index and that of the corresponding index for the manufacturing industry declined once again to near zero.

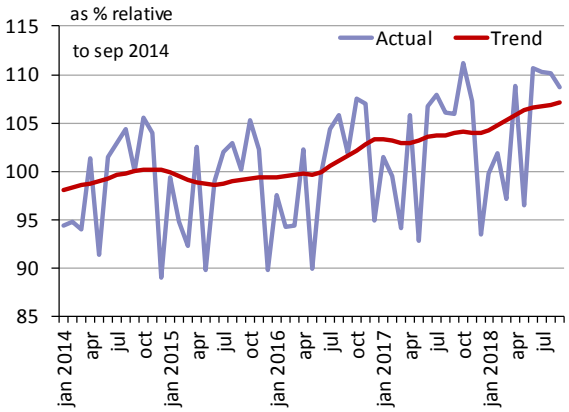

Fig. 1. The Movement Pattern of the Industrial Production Index in 2014–2018 (actual data and trend components), as % relative to September 2014

Over the period under consideration, the extractive industry has been displaying robust growth due to the persistently increasing crude oil production resulting from the easing of rules in the framework of OPEC+[2], as well as the continually rising exports of natural gas in response to a severe shrinkage of natural gas reserves in Europe's storage systems coupled with a notable decline in natural gas extraction. The rising prices for natural gas in the EU member states, as well as the steady rise in oil prices, have boosted the demand for

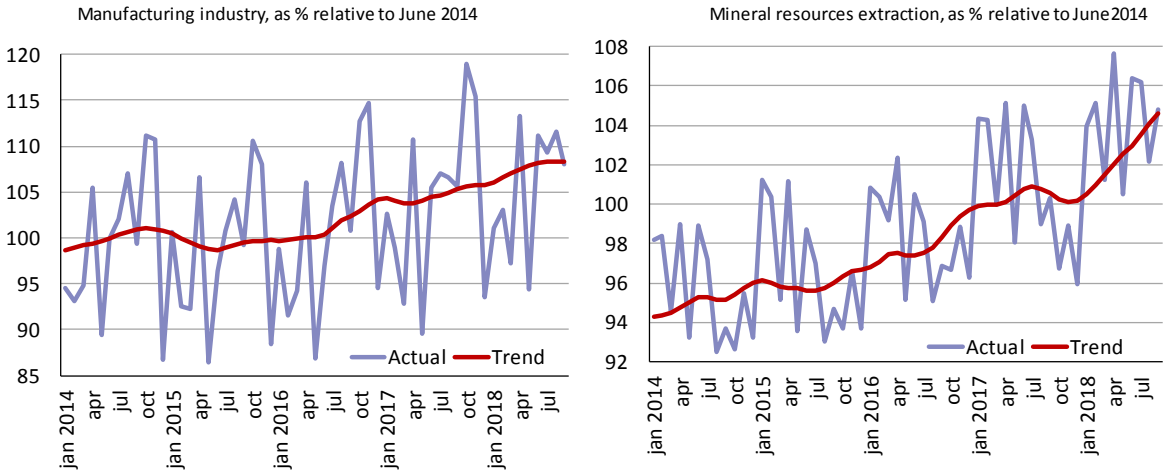

Fig. 2. The movement of the production index in manufacturing industry and the mineral resources extraction sector over the period 2014–2018 (actual data and trend components)

1 The trend component was removed by using the Demetra software package based on X12-ARIMA.

2 OPEC+ oil output has been growing since May 2018 in the aftermath of the USA's announcement of its intention to reintroduce anti-Iran sanctions, and of the precipitous decline in oil production in Venezuela, Mexico and a number of African countries, mainly due to a sharp increase in oil production in Saudi Arabia and Russia. These measures were taken in order to avoid a catastrophic supply deficit on the oil market. OPEC+ will discuss, in Algeria, its members' oil production quotas against the backdrop of strong internal disagreements // TASS, 22 September 2018. [https://tass.ru/ekonomika/5592670]

alternative energy sources[1], and this factor may have a significant effect on production in the mineral resources extraction sector during the next periods.

The manufacturing industry continues to display the same movement pattern as in late Q2 2018. Since late 2017, stable growth has been observed in the food industry, textiles and metallurgy. The growth rate in the chemical industry, which for several years in a row had been a leader in growth, palpably slowed down. It is possible that this decline in the growth rate was merely brought about by the current method of data processing[2], which stipulates that in order to obtain the final evaluation of the trend component of a time series it is necessary that the indices should be amended so as to reflect the most recent published data. For example, when processing data as of the end of Q2 2017, the upward trend component of the production index for the chemical industry was replaced by a downward one[3], which once again was replaced by an upward trend component with positive growth rates after the evaluation of data for Q3[4].

In spite of the anti-Russia sanctions and the imposition of tariffs on steel and aluminum imports, metallurgical production continued to grow in Q3 2018 (+ 16.9% relative to December 2017). This growth was caused by the Government's assistance measures designed to increase product demand. In particular, *Russian Railways* JSC (RZhD) was granted a 25% discount from the tariff for the transportation of raw and sheet aluminum on a number of domestic railway lines and for the transportation of raw and sheet aluminum exports. Also in September 2018, alterations were made to some regulations, whereby the limitations on the use of aluminum electrical wiring in multistorey residential buildings were removed.

The Government's assistance measures have continued to boost growth in railroad equipment manufacturing (production of freight and passenger rail cars), production of passenger cars, and in the food industry, which grew by 4.5%, 35.6%, and 10.2% respectively.

Thus, the dynamics of industrial production shows that the production indices of the industries oriented to domestic consumers, including the food industry and machine building – that is, the industries responsible for a very serious fall in imports, have maintained positive growth rates since the start of the current year[5] (chemical production, yet another sector which had witnessed a decline in imports, has been stagnating for the past few months). This phenomenon can be seen as an indirect evidence to support the proposition that at the present moment, the Russian economy is not experiencing any substantial drop in general demand[6], while the current decline in imports

1 According to the Institute of Natural Monopolies Research (IPEM), in January-September 2018, the use of natural gas for the generation of electric power in Germany, Italy, Spain and France dropped by 9% relative to January-September 2017, while the share of renewables in electric power generation increased by 17%.

2 The 'tail-wagging' effect. See Morgunova, O.V., Skrobotov, A. A., Turuntseva, M. Yu. (2016). Seasonal data adjustment // Russian Journal of Entrepreneurship. No. 17(1). P. 115–124 (in Russian).

3 Kaukin A. S., Miller E. M. Russian Industry in Mid-2017. // Russian Economic Developments. 2017. No. 9. P. 29–32.

4 Kaukin A. S., Miller E. M. The movement of industrial production indices in 2017 // Russian Economic Development. 2017. No. 9. P. 29–32.

5 Nevertheless, it should be remembered that growth is frequently demonstrated by those industries that receive government support.

6 Moreover, according to Rosstat, despite the stagnation of consumer incomes in Q3 2018, consumer demand continued to grow against the backdrop of low unemployment, high

can be explained by the combined effects of the weakening of the ruble's exchange rate and the recent decrease in the demand for investment goods. In order to come to more definite conclusions, the dynamics of imports and that of industrial production should be monitored further.

Table 1

BY-INDUSTRY MOVEMENT OF THE INDUSTRIAL PRODUCTION INDEX IN 2018, %

	Share in industrial production index	September2018 on September 2017	September2018 on December 2017	Changes over recent months (July–September 2018)
Industrial production index		102.97	102.96	stagnation
Extraction of mineral resources	34.54	104.01	104.39	growth
Manufacturing industries,	54.91	102.89	102.52	stagnation
including:				
production of foodstuffs, including beverages, and tobacco products	16.34	110.23	107.84	growth
textiles & textile products manufacturing	1.14	113.71	110.02	growth
leather production and leather products & footwear manufacturing	0.27	98.70	97.27	slow decline
timber & wood product processing	2.02	112.56	112.15	growth
cellulose & paper production	3.35	89.11	91.57	decline
production of coke & petroleum products	17.25	101.69	101.25	stagnation
chemical production	7.56	112.67	109.78	stagnation
manufacturing of rubber & plastic products	2.14	107.98	103.81	slow growth
manufacturing of other non-metallic mineral products	4.02	111.67	108.83	stagnation
metallurgical production & finished products	17.42	120.48	116.91	growth
machinery & equipment manufacturing	6.97	104.47	102.67	growth
electric, electronic & optical equipment manufacturing	6.27	96.93	99.96	stagnation
transportation equipment manufacturing	6.75	135.63	126.41	growth
other industries	2.42	108.08	105.41	stagnation
Electric energy, gas and water	13.51	100.68	100.65	stagnation

Source: Rosstat; own calculations.

real wages and consistently high levels of credit. See L. Petukhova. Harbingers of the next crisis. Economists see danger in the decline in imports // Forbes. 2018. URL: http://www.forbes.ru/finansy-i-investicii/367989-predvestnik-krizisa-ekonomisty-usmotreli-opasnost-v-padenii-importa

3. THE INDUSTRY ADAPTABILITY INDEX: BIG ENTERPRISES ADAPT BETTER

S.Tsukhlo

The movement pattern of the Industry Adaptability Index over different periods demonstrates that in the Russian economy, biggest enterprises can better adapt to external conditions. Small and medium-sized ones adapt less successfully. This observation was also confirmed by data for January-September 2018.

The Industry Adaptability ('Normality') Index has been followed by the Gaidar Institute's Business Surveys Department since late 2015. This aggregate index is calculated as the arithmetic mean of the relative share of enterprises that consider their stocks of finished products and raw materials, industrial capacity, workforce, and financial and economic situation to be 'normal'. Thus, the index demonstrates how adequately industry has been adapting to the current economic situation.

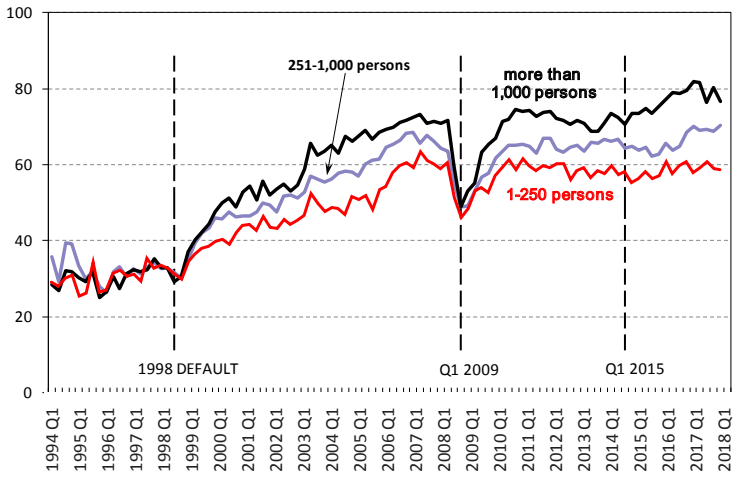

Fig. 1. Industry Adaptability Index by Enterprise Size, 1994–2018, % (percentage of enterprises considering their core indices to be 'normal')

The business surveys carried out by the Gaidar Institute have made it possible to estimate the Index's movement on a quarterly basis since 1994, and so to demonstrate just how successfully Russian industry was able to adapt to every phase of the ongoing economic reform, and in particular how the ability to adapt depended on enterprise size, among other criteria. In this case, we divided enterprises into groups as follows: small and medium-sized enterprises that employ up to than 250 people; big enterprises that employ 251 to 1,000 people; and very big enterprises that employ more than 1,000 people (*Fig. 1*).

As shown by our calculations for Russian industry, over the last 25 years it was small and medium-sized enterprises that found it most difficult to adapt to the current economic realities. The only exceptions were the 1990s and the 2008–2009 crisis, when all enterprises, no matter what size they were, were considering their situation to be unambiguously negative – with a low relative share of 'normal' assessments of their basic indices. But as soon as Russian industry exited from a crisis, the values of the Industry Adaptability ('Normality') Index would begin to vary depending on enterprise size, and the emerging variance pattern would be constant: during the non-crisis periods, very big enterprises were faring best, big ones – slightly worse, and the worst situation was reported by small and medium-sized enterprises.

The situation in the national economy over the period 2015–2016 was viewed as a crisis by none of the groups of Russian industrial enterprises included in this study. The Industry Normality Index for Q1 2015, both in total and broken by enterprise size, demonstrated no significant decline. Its values remained within their previously observed range and pointed to the same degree of variance depending on enterprise size.

The year 2016 saw no fundamental differences either in the movement pattern of the Normality Index by enterprise size, or in the observable differences between the groups of enterprises. That year was seen as 'normal' by 58% of small and medium-sized enterprises, by 64% of big ones, and by 76% of very big enterprises.

The arrival of the year 2017 marked the improvement in the conditions for functioning in every group of enterprises, according to their reports. The Normality Index rose to 82% for very big enterprises (the previous quarterly record high of 79% was seen in 2016), and to 70% for big ones (the previous quarterly record high of 68% was seen in 2007). The best result for small and medium-sized enterprises in 2017 amounted to only 59%, which was still below its 2007 value.

The slowdown, in 2018, of the crisis exit process translated into lower satisfaction, across Russian industry, with the conditions for economic functioning, this result being produced in the main by the estimates reported by very big enterprises. The period-end results for Q1 2018 demonstrated lowering satisfaction among the 'leaders' of Russian industry: the Normality Index declined to 76%, having lost 6 points. Such a deep plunge of its value had not been observed since the onset of the crisis period 2008–2009. In Q2 2018, the 'normality' assessments in that group of enterprises climbed back to 80%, but then in Q3 they once again dropped to 77%. So, in 2018, the sector of very big industrial enterprises definitely began to experience some problems. The enterprises of other sizes demonstrated their better adaptability to the conditions existing in 2018, having retained their indices practically at the previous year's level.

The main cause of the decline in the Industry Adaptability Index in the group of very big enterprises were their problems with sales. Only 65% of biggest industrial producers considered their volume of sales to be 'normal' over the course of three straight quarters in 2018. As for the enterprises of other sizes, better satisfaction with the volume of their product sales over the first three quarters of 2018 was reported by small and medium-sized enterprises (index increase from 32% to 36%) and by big ones (an increase from 42% to 52%). However, even this progress was too modest for these two groups of industrial producers to be able to achieve the same adaptation level as was reported by Russia's biggest enterprises. The subjective estimates of sales volumes correlate well with the objective data of production capacity utilization. Small and medium-sized industrial enterprises utilized 52% of their available capacities, big ones – 66%, and very big ones – 70%.

While in 2017 the available production capacities were on average estimated to be 'sufficient in view of the expected demand changes' by 81% of biggest industrial producers (and in Q3 – by as many as 87%), in 2018 enterprises' satisfaction with their available production capacities declined to 74%. At the same time, the estimates of both excessive and insufficient production capacities increased. The latter points to an increasing lack of proper understanding by enterprises of their prospects for an exit from the crisis. Big plants considered their production capacity to be 'normal' in 70% of cases, and small and

medium-sized enterprises – in 65% of cases. The excess capacity data confirm the assumption as to a better position of biggest industrial enterprises. In 2018, availability of excess capacities in expectation of future demand changes was reported by 26% of small and medium-sized enterprises, while the same was true for 22% of big enterprises, and for only 13% of biggest ones.

The estimated personnel numbers reported by biggest enterprises in 2018 likewise reflect the complexity of their understanding of their economic prospects. While in 2017 the quarterly estimates of personnel sufficiency were within the range of 82–88%, in 2018 the range became broader – 74–89%. Similar movement was observed with regard to the reported assessments of personnel numbers being either excessive or insufficient. In the groups of enterprises of other sizes, for three straight quarters of 2018 the numbers of those considering their personnel numbers to be sufficient were declining, mainly because the corresponding estimates of personnel numbers being excessive were on the rise.

At the same time, because of the delays in exiting from the crisis, biggest enterprises had to practice caution when creating their stocks of finished products, and to avoid maintaining them at slightly excessive levels, the latter being typical of periods of confidence in a situation of sustainable demand growth. Similar policies have been followed by big enterprises – in 2018 they got rid of their very small excessive stocks that they used to keep prudently and optimistically a year earlier. Small and medium-sized enterprises have never displayed a high degree of optimism concerning their prospects for product sales, and even during better periods in Russia's economic history they had estimated their product stocks to be insufficient, avoiding the risks associated with the possession of even moderately excessive stocks of finished product (which can be necessary in such cases). However, the lax movement patterns observed in 2018 have made it possible for them to increase the relative share of 'normal' assessments to a record high of 60%.

Small and medium-sized enterprises likewise have the lowest stocks of raw materials. This trend has been especially prominent since 2012, when industry began to feel the effects of a slowdown in exiting from the 2008–2009 crisis. In such a situation, that group of enterprises lacked the resources necessary for maintaining huge stocks of raw materials that would be sufficient to keep their production cycle at a high level. The relative share of 'normal' assessments shrank from 67% in 2011 to 55% in 2013. Later on, in response to a better adaptation to the specificities of that period, the relative share of 'normal' assessments stabilized within the range of 58–60%. Meanwhile, all the other groups of enterprises considered their stocks of raw materials to be at a 'normality level' of 70–80%.

By way of summing up our analysis of the adaptability of industrial enterprises to the conditions observed over the course of the first three quarters of 2018, we have come to the following conclusions. Firstly, biggest enterprises continue to demonstrate their highest adaptability to the economic realities of the current tricky period, although they have begun to experience some difficulties in assessing their prospects for ultimately overcoming the negative effects of the previous years. Secondly, the current situation assessments for 2018 reported by the enterprises of other sizes have become more stable. And thirdly, small and medium-sized enterprises have reported the worst assessments of their economic situation since the moment of exiting from the 2008–2009 crisis.

4. THE SOCIAL WELL-BEING AND SELF-ACTUALIZATION OPPORTUNITIES: WEALTH AND AGE GROUP DIVIDE

E.Avraamova, D.Loginov

According to the Monitoring of Social Well-Being (September 2018), the most topical social problems are related to employment: a job loss and/or cuts in wages are apprehended by nearly a quarter of employees. Over a quarter of those surveyed estimated their various aspects of life as unsatisfactory, while another quarter of respondents, positively. The share of those who can see opportunities for self-actualization in the existing socioeconomic situation is nearly twice as big as the group of those who do not.

According to the data of the INSAP RANEPA's Monitoring[1], the largest (that is the most numerous) groups of the population find food and essentials to be quite affordable. These two parameters were assessed more than satisfactory by over a half of the respondents surveyed, however, as regards other indicators the "good" estimate was made by less than a half of the respondents. The parameter which caused respondents' great apprehension was employment: a job stability and the size of labor remuneration. Respondents' second largest concern was ecology (*Fig. 1*).

The difference was quite considerable: higher estimates of satisfaction with the situation on the labor market are made by representatives of the youngest group, while the lowest ones, by employees at the age of 45 years old or elder.

The differences become more explicit depending on the income group respondents belong to; the difference in estimates as regards food and garment amounts to 50–60% (*Table 1*). As regards the living environment (residential place), estimates differ much, too (up to 30%), which situation can probably be explained by the fact that better-off persons can choose where to live. The same can be said about the security level (30%). The differences

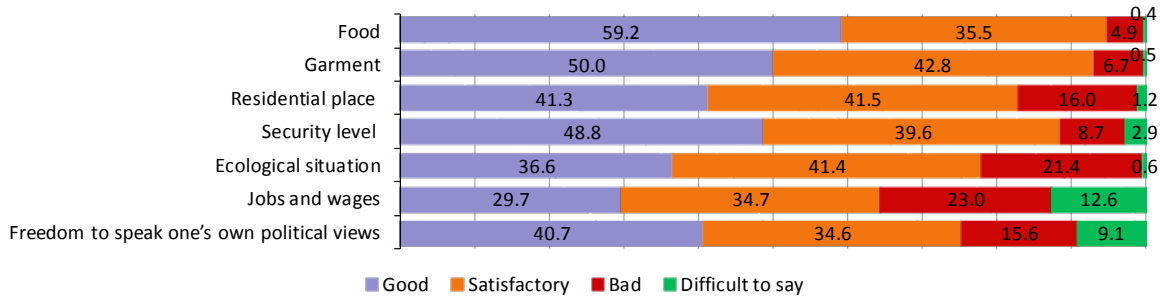

Fig. 1. Evaluation of the social well-being parameters

1 The Monitoring of Social Well-Being has been carried out by the Institute for Social Analysis and Prediction, RANEPA since 2015. Each year, 8 waves of the sociological survey based on the comparable sample which is representative for the adult population of Russia are carried out by means of a personal inquiry form interview. The sample volume includes 1600 respondents in each wave.

in the estimates of the ecological situation are explicit, too, though they are not quite substantial (15%). At the same time, the difference in the estimates as regards the employment situation between the better-off income groups and the worse-off ones is equal to 45%.

Table 1

ASSESSMENT OF THE SOCIAL WELL-BEING PARAMETERS, BY THE INCOME GROUP, % BY LINE

Income groups	Estimate of satisfaction			
	good	satisfactory	bad	Difficult to say
Food				
Below average	39.6	50.8	9.0	0.6
Average	74.4	23.8	1.4	0.4
Above average	90.1	9.3	0.6	0.0
Garment				
Below average	28.2	58.8	12.7	0.3
Average	66.1	31.8	1.6	0.6
Above average	91.9	7.5	0.0	0.6
Residential place				
Below average	31.0	44.3	23.6	1.1
Average	49.1	40.4	9.3	1.2
Above average	59.9	27.8	11.1	1.2
Security level				
Below average	38.2	44.1	14.0	3.7
Average	56.3	37.3	4.2	2.2
Above average	71.0	24.7	3.1	1.2
Ecological situation				
Below average	31.5	39.7	28.2	0.6
Average	40.2	43.8	15.4	0.5
Above average	46.3	37.0	15.4	1.2
Jobs and wages (% of the number of the employed)				
Below average	21.6	39.7	34.6	4.1
Average	45.0	39.3	11.7	4.0
Above average	68.5	21.5	7.7	2.3
Freedom to speak one's own political views				
Below average	31.1	35.9	22.1	10.9
Average	47.8	34.6	9.8	7.9
Above average	58.0	24.1	13.0	4.9

To single out groups that differ by the level of estimates of various aspects of the socio-economic situation (*Fig. 2*), let us place in the "red zone" those who gave positive estimates in respect of one parameter or none. As seen from the survey, they amount to 27.7% of the population. The "yellow zone" which represents relative satisfaction includes 43.8% of the population. It is those who made positive estimates in

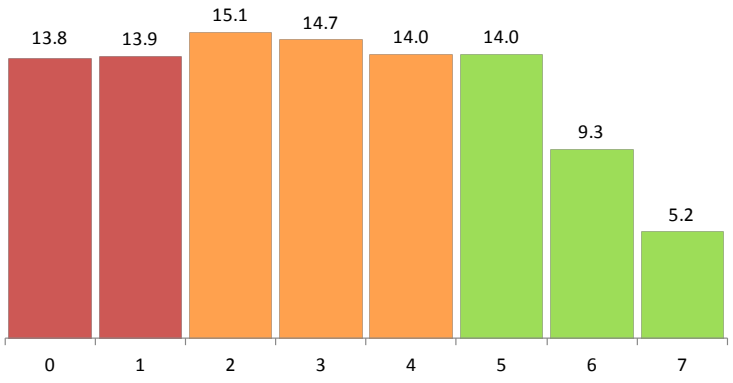

Fig. 2. The number of social well-being indicators estimated as "good"

respect of two-fourth of the parameters. And, finally, 28.5% of the population who gave a positive estimate in respect of 5–7 parameters is in the "green zone".

Let us discuss respondents' opinions about self-actualization chances in the existing socioeconomic situation. The question about self-actualization was asked in a broad sense to understand how respondents perceive their own chances to attain the standard and quality of living they intrinsically claim. As per the data received, the respondents divided almost 2:1, that is, the number of those who can see self-actualization opportunities for themselves is nearly 100% higher than the number of those who do not see such opportunities (*Table 2*).

Table 2

ASSESSMENT OF SELF-ACTUALIZATION OPPORTUNITIES, BY SOCIAL WELL-BEING GROUPS, % BY LINE

Social well-being groups	Estimate of self-actualization opportunities		
	Sooner exist	Sooner do not exist	Difficult to say
Red zone	40.0	56.0	4.0
Yellow zone	58.4	37.0	4.6
Green zone	81.8	14.7	3.5
Total	60.0	36.9	4.1

Age differences in the estimates are quite considerable. With each transfer to the next age group, the number of those who believe that they have self-actualization opportunities diminishes by nearly 10% (*Table 3*).

Table 3

ASSESSMENT OF SELF-ACTUALIZATION OPPORTUNITIES, BY AGE GROUPS, % BY LINE

Age groups (years)	Estimate of self-actualization opportunities		
	Sooner exist	Sooner do not exist	Difficult to say
25–34	73.8	23.3	2.8
35–44	63.2	31.7	5.0
45–54	54.3	42.2	3.5
55–65	47.7	47.4	4.9
Total	60.0	36.9	4.1

The differences in the estimates made by representatives of the groups differentiated by the level of education are not very big (the difference between the fringe groups is equal to the mere 6%). However, serious differences exist between groups differentiated by the size of income. In this category, the difference between the fringe groups amounts to 44% and the number of those who both give a positive answer to the question about self-actualization opportunities and belong to the group of the better-off people is twice as big as that of the worse-off people.

The minimum share of those with self-actualization opportunities (40%) is in the group which has neither financial nor social resources, while the maximum one (85%) is among those who have plenty of such resources.

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