

B U S I N E S S P E R F O R M A N C E

ASSESSMENTS OF ECONOMIC POLICY IN 2002

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In 2002, as shown by the results of regular surveys of enterprise managers conducted by the Russian Economic Barometer (REB), attitude towards the government's economic policy has generally undergone no major changes.

Industrial Enterprises

The average share of respondents that COMPREHENDED the government's economic policy (in whole or in general) was 31%. This was one percentage point higher than in 2001, 11 percentage points higher than in 1998, and was the highest score in recent nine years.

The share of respondents that DIDN'T COMPREHEND (totally or in general) what the government was doing continued to go down. On average in 2002, it was 24%, or one percentage point lower than in 2001, and 32 percentage points lower than in 1998. This was the lowest level of non-comprehension in our record. Even in 1992 when the policy of reforms gained the highest support, the share of industrialists that did not comprehend this policy was in the 42-49% range, in other words, it was much higher than now.

However, the greatest change from that period was observed in the number of those who found difficulty in giving a grade to the government: their share has grown from 12% to 45% over ten years.

In assessing the economic policy, enterprise managers are offered to choose one answer from the following five: "total lack of comprehension", "lack of comprehension in general", "it's hard to say", "comprehension in general", and "absolute comprehension ". Using this five-point scale, we can compile a more precise Index of Comprehension (IC) if we take into account all grades of the answer but

with relevant weights: 0; $\frac{1}{4}$; $\frac{1}{2}$; $\frac{3}{4}$, and 1. The case when IC=100 means universal and complete comprehension, and IC=0, on the contrary, means universal and total lack of comprehension of the government's policy.

Using this measurement, we find that the past year was a record year as well: IC has reached the highest mark in eleven years - 51 (see Table 1).

Similar trends are observed at the measurement of levels of approval of the government's economic policy. In 2002, average share of enterprise managers that APPROVED of this policy (in whole or in general) was 16%, and the share of those who DISAPPROVED of it was 29%. This is slightly worse than in 2001 when the relevant indicators were 18% and 28%, but much better than in any other earlier year in the period of reforms. For a comparison: the same data for the year 2000 were 15% and 34%, and in 1996-1997, 3% and 69% (the worst result in the whole period of reforms).

As in the former case, the measurement was made along a five-point scale: from total disapproval to complete approval. Therefore, we can compile an Index of Approval of the economic policy (IA), similar to the Index of Comprehension. In 2002, its average value was 45, which is almost a reiteration of record high value of the previous 2001 year (46).

It is interesting that in this case as well, the number of those who had been indecisive changed to a great deal. While in 1992, there were just 29% of those who could not decide upon their assessment, in 2002, their share was 55%.

Table 1**Assessments of Government's Economic Policy (of the last three to four months) and of Remaining Duration of Crisis, by Managers of Industrial Enterprises (Average data of four quarterly surveys)**

	Index of comprehension of government's economic policy ¹⁾	Index of approval of government's economic	Remaining duration of crisis, years ³⁾	Share of respondents believing that economic upswing has already started, (%)
1992 ⁴⁾	47	41	6.0	
1993	40	36	6.0	
1994	34	26	6.3	
1995	35	28	7.1	
1996	32	25	6.7	
1997	35	25	7.8	
1998	34	25	7.4	
1999	39	34	7.7	3
2000	46	43	6.0	9
2001	50	46	6.4	10
2002	51	45	7.1	6

Notes

¹⁾A 100-point scale: "100" corresponds to a case when all managers comprehend the policy, while "0" to a case when none of them comprehends anything at all.

²⁾ A 100-point scale: "100" corresponds to a case when all managers approve of the policy, while "0" to a case when none of them approves of anything at all.

³⁾ In the cases when the respondents believed that the crisis was already over, assessment of remaining duration of the crisis was taken as zero.

⁴⁾ Less the first quarter.

Source: REB surveys.

Assessment of further duration of crisis can also serve as an indirect way to evaluate the government's activity. In 2002 on average, as industrial respondents of the REB believed, the REMAINING DURATION OF THE CRISIS was 7.1 years. This was 0.7 year longer than they had believed a year ago. At the same time, the narrower range of managers assumed that the economic upswing had already started.

In 2001, just 10% of managers believed so, and in 2002, only 6% did. On the other hand, it should be emphasized that assessments of further duration of crisis should not be understood too literally. They are rather a reflection of the level of optimism (pessimism) felt by industrialists and their general perception of the present situation and the outlook for the Russian economy.

There are remarkable changes in the list of MAJOR INCENTIVES, which the respondents believe the government should consider in the first place. Further easing of tax burden is still number one item in this list: 68% of managers believe this is highly important for the success of their enterprises (see Table 2). However, due to the tax reform, this idea lost almost one fifth (16 percentage points) of its popularity Since 1998-1999. Nevertheless, it still has the largest number of supporters.

The second place in the list, for the first time in the last five years, was taken by a request to secure lower interest rates on bank lending -42%. And the third place (instead of the second) was occupied by a suggestion to expand easy credit, subsidies etc. - 40%. Although the difference between the two points is hardly distinguishable from a statistical error, the ongoing change has an obviously positive vector. It is reflecting stronger ties between the industry and the banking sector. For a growing number of producers, bank loans are shifting from the realm of unattainable to the level of practicability.

In the lower part of Table 2, a sharp increase in the number of proponents of import restrictions is a matter that deserves attention. In 2002, they amounted to 31% of the REB sample. This is 9 percentage points more than in 2001, and even 3 points more than the level of 1998, the year of Russia's sovereign default.

Table 2

**Rating of Different Incentives for Increasing Output
(Share of managers believing that the given item is essential
for their enterprise, average of two semi-annual surveys, %)**

	1998	1999	2000	2001	2002
1. To lower tax rates	84	84	83	74	68
2. To secure lower interest rates on bank	36	35	36	34	42
3. To give access to easy credit, subsidies	40	37	40	44	40
4. To use government procurement system	32	29	26	29	34
5. To improve tax structure	46	42	43	33	32
6. To curb imports	28	21	22	22	31
7. To stabilize exchange rate of ruble	52 ¹⁾	46	33	23	21
8. To ease exports	12	7	11	10	10
9. To revalue ruble	11 ¹⁾	12	9	8	7
10. To devalue ruble	0 ¹⁾	1	2	4	2
11. Other	14	6	5	4	4
12. No incentives are needed	3	3	4	4	3

¹⁾Second half of the year

Source: REB surveys.

Agricultural Enterprises

Support of the government economic policy has rather declined in agriculture. Index of Comprehension of the government's policy by managers of agricultural enterprises in 2002 was 41, and Index of Approval, 32. This is 3 and 2 points lower than in 2001, respectively (see Table 3).

Nevertheless, these indicators look fairly well against the records of previous years. However, assessments of remaining duration of the crisis became much worse. The waiting time before economic upswing, the agricultural respondents believe, has become 1.7 years longer (8.8 instead of 7.1 years) than they had believed in 2001. This deterioration in the assessment took place mostly in the second half of 2002 when the problem of oversupply of grain became acute. However, managers of

companies in agribusiness grew more and more pessimistic since the first half-year (in the first and second quarters of 2002, their assessments were 7.8 years).

Table 3

Assessments of Government's Economic Policy (of the last three to four months) and of Remaining Duration of Crisis, by Managers of Agricultural Enterprises (Average data of four quarterly surveys)

	Index of comprehension of government's economic policy ¹⁾	Index of approval of government's economic policy ²⁾	Remaining duration of crisis, years ³⁾
1992 ⁴⁾			6.2
1993	39	29	6.8
1994	32	22	7.8
1995	29	19	8.3
1996	30	18	7.8
1997	34	19	9.0
1998	37	21	9.2
1999	39	32	7.6
2000	41	31	7.5
2001	44	34	7.1
2002	41	32	8.8

Notes

¹⁾ A 100-point scale: "100" corresponds to a case when all managers comprehend the policy, while "0" to a case when on the contrary, none of them comprehends anything at all.

²⁾ A 100-point scale: "100" corresponds to a case when all managers approve of the policy, while "0" to a case when on the contrary, none of them approves of anything at all.

³⁾ In the cases when the respondents believed that the crisis was already over, the assessment of remaining years was taken as zero.

⁴⁾ Less the first quarter.

Source: REB surveys.

Banks

As earlier, banks gave the highest grades to the government. Their Index of Approval in 2002 was 64, almost the same as the record high level of the previous year (65).

Table 4
Assessments of Economic Policy of the Government and the Central Bank by Managers of Commercial Banks (Average of two semi-annual surveys)

	Index of approval of Government's economic policy ¹⁾	Index of approval of economic policy of Central Bank ¹⁾
1993 ²⁾	26	24
1994	22	34
1995	25	29
1996	37	33
1997	47	36
1998	34	26
1999	41	33
2000	53	40
2001	65	46
2002 ³⁾	64	52

Notes

¹⁾A 100-point scale: "100" corresponds to a case when all respondents approve of the policy in total, while 0 to a case when on the contrary, all disapprove of it in total.

²⁾ Second half of the year.

³⁾ First half of the year.

Source: REB surveys.

Representatives of commercial banks were much more severe in their assessments of the policy conducted by the Central Bank in recent years. However, in this case a turn to the better is also quite obvious. In 2002, the Index of Approval of the policy of the Central Bank was 52 (see Table 4). This is the best record in the whole period of our observation, and besides, this is the first time whenever the

assessments have surpassed the 50-point line. In other words, our respondents believe that there are more positive than negative trends in the policy of the Central Bank.

The results of our measurements give way to a conclusion that in 2002, economic policy of the Russian government enjoyed about the same relatively wide support from enterprise and bank managers as a year ago. However, there are considerable differences by sector. In the industry, the level of support is almost unchanged, in agriculture, it is somewhat lower, and in the banking sector (including the assessment of the policy of the Central Bank) it is still growing.