

BUSINESS PERFORMANCE

ASSESSMENTS OF ECONOMIC POLICY IN 2003

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The results of regular polls of enterprise managers conducted by the Russian Economic Barometer (REB) show that in 2003, attitude towards the economic policy pursued by the government has generally changed to the worse.

Industrial Enterprises

The share of respondents, which COMPREHENDED the economic policy of the government, was 29%. This was 2 percentage points lower than in 2002, when, it will be remembered, this indicator had the highest score in recent ten years.

The share of respondents that DIDN'T COMPREHEND (totally or in general) what the government was doing went up. On average in 2003, it was 27%, or 3 percentage points higher than in the record low 2002.

As previously, the group of those respondents who found difficulty in giving a grade to the government was the largest in number their share was 44% (in 2002, 45%).

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

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with relevant weights: 0; 1/4; 1/2; 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 looks somewhat less "clear" than 2002: the Index of Comprehension went 1 point down to 50 (see Table 1).

Similar trends are observed at the measurement of levels of approval of the government's economic policy. In 2003, the average share of enterprise managers that APPROVED of this policy (in whole or in general) was 15%, and the share of those who DISAPPROVED of it was 34%. This is slightly worse than in 2002, when the relevant indicators were 16% and 29%, but still much better than in the 1990s.

As in the former case, the measurement was made along a five-point scale: from total disapproval to complete approval. We compiled an Index of Approval of the economic policy (IA), similar to the Index of Comprehension. In 2003, its average value was 41, or 4 points below the level of 2002 (see Table 1).

It is interesting that in this case, the group of those who had been indecisive about giving a grade to the government was the largest in number as well: their share was 51%.

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	Index of approval of government's economic	Remaining duration of crisis, years ²⁾	Share of respondents believing that economic
1992	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
2003	50	41	7.5	6

Notes

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

²⁾ In the cases when the respondents believed that the crisis was already over, assessment of remaining duration of the crisis was taken as zero.

³⁾ 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 2003 on average, as the respondents of the REB believed, THE REMAINING DURATION OF THE CRISIS was 7.5 years. This was 0.4 year longer than they had believed a year ago. The range of managers who believed that the economic upswing was already going on was very narrow, as before. In

2003, just 6% of managers believed this was true (as in 2002). It should be emphasized that assessments of further duration of crisis should not be understood 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, as the respondents believe, the government should consider in the first place. Further easing of tax burden is still number one item in this list. However, the ranking of this policy stopped gradually declining, as it had done in 1999-2002. In 2003, 76% of managers believed this was highly important for the success of their enterprises. This was 8 percentage points more than the result of the previous measurement in 2002 (see Table 2).

The second most important item is incentives to capital investment, which has a rate of 45%. Unfortunately, this policy objective was included into our list only in 2003, so that there is no way to compare this result with the earlier ones. Nevertheless, it is fairly remarkable that the idea of incentives to capital investment has become more popular than a suggestion to expand easy credit, subsidies etc. (41%) and lower interest rates on bank lending (39%).

In the lower part of Table 2, the continuing decline in the number of those who support stabilization of the exchange rate of the ruble has attracted our attention. In 2003, their share was only 13% (against 21% in 2002 and 52% in 1998). This is probably an effect of the fact that the ruble has been rather stable for a long while nonetheless, and for this reason the managers regard this problem as less important. The number of those who could benefit from import restrictions is still much greater than the number of those who are concerned with easier exports (25% against 13%). The share of proponents of higher exchange rate of the ruble has further declined: now it is 5%. On the other hand, the share of those who believed that the advantage of their enterprises was the cheaper ruble had always been meager (0-4%), and it was the same in 2003.

Table 2

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

	1998	1999	2000	2001	2002	2003
1. To lower tax rates	84	84	83	74	68	76
2. To give incentives to capital	-	-	-	-	-	45
3. To give access to easy credit,	40	37	40	44	40	41
4. To secure lower interest rates on	36	35	36	34	42	39
5. To improve tax structure	46	42	43	33	32	32
6. To use government procurement	32	29	26	29	34	28
7. To curb imports	28	21	22	22	31	25
8. To stabilize exchange rate of ruble	52 ²⁾	46	33	23	21	13
9. To ease exports	12	7	11	10	10	13
10. To revalue ruble	11 ²⁾	12	9	8	7	5
11. To devalue ruble	0 ²⁾	1	2	4	2	2
12. Other	14	6	5	4	4	2
13. No incentives are needed	3	3	4	4	3	3

Notes

¹⁾ Inclusion of this measure into the 2003 list most probably didn't affect other rankings, since the number of responses to this question in the schedule is unlimited.

²⁾ Second half of the year

Source: REB surveys.

Agricultural Enterprises

Support of the government's economic policy, has remarkably declined in agriculture. Although the 2003 Index of Comprehension was the same as a year ago -41, the Index of Approval fell 7 points down right away and was 25 (see Table 3).

Assessments of remaining duration of the crisis also became much worse. The waiting time before the economic upswing, the agricultural respondents believe, has become one year longer, to reach almost 10 years. This is the most pessimistic forecast in the whole period of our

observation since 1992. The previous "record low" forecast was in 1998 (9.2 years). Another record of the year 2003 is the maximum disparity between the assessments made by the respondents in agriculture and in industry. Earlier, the largest excess of the former over the latter was observed in 1998 and was equal to 1.8 years, but it reached 2.3 years in 2003.

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 ¹⁾	Remaining duration of crisis, years ²⁾ (in assessments by industrialists from Table ¹⁾	
1992			6.2	(+0.2)
1993	39	29	6.8	(+0.8)
1994	32	22	7.8	(+1.5)
1995	29	19	8.3	(+1.2)
1996	30	18	7.8	(+1.1)
1997	34	19	9.0	(+1.2)
1998	37	21	9.2	(+1.8)
1999	39	32	7.6	(-0.1)
2000	41	31	7.5	(+1.5)
2001	44	34	7.1	(+0.7)
2002	41	32	8.8	(+1.7)
2003	41	25	9.8	(+2.3)

Notes

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

²⁾ In the cases when the respondents believed that the crisis was already over, the assessment of remaining years was taken as zero.

³⁾ Less the first quarter.

Source: REB surveys.

Banks

As earlier, banks gave the highest grades to the government. Their Index of Approval in 2003 broke all earlier records. It rose at once from the 2002-mark by 9 points to reach 71.

Table 4
Assessments of Economic Policy of the Government and
of 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	62	48
2003 ³⁾	71	54

Notes

¹⁾ A 100-point scale: "100" corresponds to a case when all respondents completely approve of the policy, 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 much more severely assess the policy conducted by the Central Bank in recent years than the policy of the government. However, in this case a turn to the better is also quite obvious. In 2003, the Index of Approval of the policy of the Central Bank was 54, or 6 points higher than in 2002 (see Table 4). This is also 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 now there are more positive than negative trends in the policy of the Central Bank.

In general, the results of our measurements give way to a conclusion that in 2003, economic policy of the Russian government enjoyed somewhat less support from enterprise managers than a year ago. This is especially true for agricultural producers. On the contrary, the level of support of activities of the government (and of the Central Bank) in the banking sector has sharply risen to beat all previous records.