

BUSINESS PERFORMANCE

ASSESSMENTS OF ECONOMIC POLICY IN 2004

S.AUKUTIONEK

The results of regular surveys of enterprise managers conducted by the Russian Economic Barometer (REB) show that in 2004, attitude towards the government's economic policy hasn't improved from 2003.

Industrial Enterprises

The share of respondents that COMPREHENDED the government's economic policy (in whole or in general) was 32%. This was three percentage points higher than in 2003, the highest score in recent twelve years.

At the same time, the share of respondents that DIDN'T COMPREHEND (totally or in general) what the government was doing went up. On average in 2004, it was 31%, or four percentage points higher than in 2003. However, this can hardly be called a record: in the 1990s, the share of respondents who did not comprehend the government's policy was in the 50-60% range for a long period of time.

As before, the most numerous group was those who found difficulty in giving a grade to the government: their share was 37%. However, their number declined much from last year (44%).

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), which takes into account all grades of the answer 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, the past year looks slightly less "clear" than 2003: the IC went one point down to 49 (see Table 1).

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 policy ¹⁾	Remaining duration of crisis, years ²⁾	Share of respondents believing that economic upswing has already started, (%)
1992 ³⁾	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
2004	49	41	7.6	10

Notes

¹⁾ A 100-point scale: "100" corresponds to a case when all managers 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.

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Similar trends were observed at the measurement of levels of approval of the government's economic policy. On the one hand, the share of industrial enterprise managers that APPROVED of this policy (in whole or in general) went one point up on the year to reach 16%, but on the other hand, the share of those who DISAPPROVED of it also rose from 34% to 37%.

As in the former case, the measurement was made along a five-point scale: from total disapproval to complete approval. In a similar way to the Index of Comprehension, we can compile an Index of Approval of the economic policy (IA). In 2004, its average value was 41%, which was an exact reiteration of the result that had been obtained in 2003.

It is interesting that in this case as well, the number of those who had been indecisive made the largest group of respondents, although this group significantly declined - from 51% to 47%.

As before, we also give an indirect evaluation of the government's activity, which is the expected remaining years till the end of the crisis. In 2004 on average, as industrial respondents of the REB believed, the REMAINING DURATION OF THE CRISIS was 7.6 years. This was 0.1 year longer than they had believed a year ago. The range of managers who believed that the economic upswing had already started expanded to 10% (last year, their share was only 6%), but it was still very narrow. Nevertheless, we have to remind 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.

Assessments of the government's economic policy differ a great deal by industry. Last year, it acquired understanding, first of all, among respondents in iron and steel, machinery, chemicals, and logging and woodworking: in all the above mentioned industries, the Index of Comprehension in 2004 stood beyond the halfway line, at the 52-55 point level. Much poorer understanding of the policy was noticed in light and food industries, as well as in the firms engaged in building materials.

Here, the Index of Comprehension was as low as 41-48 points. The lowest level for the second year in a row was in food - 41 points (see Table 2).

As for support of the economic policy, there was also a division into two groups with lowered and heightened levels of approval. Iron and steel, machinery and chemicals were in the first groups (with the Index of approval staying in the range of 45-50 points in 2004). Logging and woodworking, building materials and light industry were in the second group (34-40 points). Food was in the interval between the two groups (43 points).

Table 2
Assessments of Government's Economic Policy (of the last three to four months) by Managers of Industrial Enterprises (Average data of four quarterly surveys)

	Index of comprehension of government's economic policy		Index of approval of government's economic policy			Gap between levels of comprehension and approval
	2003	2004	2003	2004	Increase	2004
	(1)	(2)	(3)	(4)	(5)=(4)-(2)	(6)=(4)-(2)
Iron and steel	50	53	41	48	+7	-5
Machinery	53	52	49	45	-4	-7
Chemicals	55	54	50	50	0	-4
Logging and woodworking	54	54	34	34	0	-20
Building materials	46	45	39	40	+1	-5
Light industry	44	41	32	34	+2	-7
Food	47	48	46	43	-3	-5

Managers in all industries displayed more comprehension rather than support of the economic policy, and the gap between the two indexes was practically the same everywhere - about 5-7 points. The only exception was observed in the firms in logging and woodworking, where this gap reached 20 points (for the second consecutive year). The

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government's policy in this industry could perhaps be described as the greatest failure in the eyes of our respondents.

There were remarkable changes in the list of major INCENTIVES, which the respondents believed the government should consider in the first place. Further easing of tax burden was still number one item in this list. However, this problem is clearly becoming less acute than in 1998-2000. In 2004, 66% of enterprise managers pointed that relaxation of their tax burden was the first priority task. This was a record low level of this indicator in seven recent years (see Table 3).

The second place in the list, as a year ago, was taken by a request to give incentives to capital investment - 48%. This indicator went three percentage points up from the result of the last year measurement.

As before, such incentives as easy terms of lending, subsidies etc. were still a popular kind of measures (43%), as well as lower interest rates on bank lending (44%). In recent years, these policy directions went almost together, changing their places by turns.

The idea of optimization of tax structure lost much of its popularity. In 2004, only 30% of the respondents told that this optimization was very important (remember that their share was more than 49% in 1998-2000). Notice in the lower part of Table 3 that the number of proponents of stabilization of the exchange rate of the ruble has stopped to decline. In 2004, their share was 14%, or even one percentage point above the result of the last year measurement.

The number of proponents of import restrictions was still much higher than the number of those who supported the easing of exports. Meanwhile, this disparity became even larger than last year: 25% against 10% (from 25% against 13%). The share of managers wishing that the ruble should appreciate remained unchanged - 5%. But the share of those who believed that their enterprises could benefit from a lower exchange rate of the ruble grew slightly higher - 4%. Nevertheless, there is no reason to see that their increase will be a long-term trend.

Table 3
Rating of Different Incentives for Increasing 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	2004
1. To lower tax rates	84	84	83	74	68	76	66
2. To give incentives to capital investment ¹⁾	—	—	—	—	—	45	48
3. To secure lower interest rates on bank lending	36	35	36	34	42	39	44
4. To give access to easy credit, subsidies etc.	40	37	40	44	40	41	43
5. To use government procurement system	32	29	26	29	34	28	34
6. To improve tax structure	46	42	43	33	32	32	30
7. To curb imports	28	21	22	22	31	25	25
8. To stabilize exchange rate of ruble	52 ²⁾	46	33	23	21	13	14
9. To ease exports	12	7	11	10	10	13	10
10. To revalue ruble	11 ¹⁾	12	9	8	7	5	5
11. To devalue ruble	0 ¹⁾	1	2	4	2	2	4
12. Other	14	6	5	4	4	2	3
13. No incentives are needed	3	3	4	4	3	3	3

Notes:

¹⁾ Inclusion of this policy measure into the list in 2003 made probably no difference for other ratings, because the number of responses to this question in the survey is unlimited.

²⁾ Second half of the year.

Source: REB surveys.

Agricultural enterprises

Support of the government economic policy has rather increased in agriculture. The index of comprehension of the government's policy by managers of agricultural enterprises went four points up over 2004 to reach 45. This was a record high level in the whole period of our

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observation (since 1993). As for the index of approval, it increased by two points to 27. On the other hand, this was far from both the highest level (34 in 2001) and the lowest level (18 in 1996) (see Table 4).

Table 4
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 brackets, excess over assessments in industry from Table 1)	
1992 ³⁾			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)
2004	45	27	10.6	(+3.0)

Notes

¹⁾ A 100-point scale: "100" corresponds to a case when all managers 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.

Assessments of remaining duration of the crisis also became much worse. The waiting time before economic upswing, the agricultural

respondents believed, became one year longer to reach 10.6 years. This was the most pessimistic forecast in the whole period of our observation since 1992. Another record achievement of 2004 was the largest gap between the assessments made by managers of companies in agribusiness and by industrialists. While in the past, the largest excess of the former over the latter was observed in 2003 when it reached 2.3 years, now it has expanded to three years.

Banks

As earlier, banks gave the highest grades to the government. Their Index of Approval in 2004 was 60. Although this was 7 points less than a year before, still it was historically a very high indicator (see Table 5).

As in all recent years, representatives of commercial banks were much more severe in their assessments of the policy conducted by the Central Bank than the activities of the government. The index of their approval of the Central Bank plunged 8 points down from the last (record high) year to reach 51. However, in this case as well, the level of support from banks was very high this year, considering the trend in this indicator over a longer time span.

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Table 5
Assessments of Economic Policy of Government and Central Bank
by Managers of Commercial Banks (From 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	67	59
2004 ³⁾	60	51

Notes

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

²⁾ Second half-year.

³⁾ First half-year.

Source: REB surveys.

In general, the results of our measurements give way to a conclusion that *in 2004*, economic policy of the Russian government enjoyed about the same level of support from industrial enterprise managers as a year ago. In agriculture, it has got even higher, although it remains very low in absolute terms. As for the banking sector, here on the contrary, the degree of support given both to the Government and to the Central Bank has decreased, although its absolute level remains fairly high.