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ASSESSMENTS OF ECONOMIC POLICY IN 2005

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The results of regular surveys of enterprise managers conducted by the Russian Economic Barometer (REB) show that in 2005, general attitude towards the government's economic policy has rather deteriorated from 2004.

Industrial Enterprises

The share of respondents that COMPREHENDED the government's economic policy (in whole or in general) was 32%. This was a reiteration of the result of 2004, which, it will be remembered, was the highest score in recent thirteen 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 2005, it was 32%, or one percentage point higher than in 2004. However, this can hardly be called a record because in the 1990s, the share of respondents who did not comprehend the government's policy was in the 50-60% range for several years.

As before, the most numerous group was those who found difficulty in giving a grade to the government: their share was 36%. However, it declined a little from the previous year (37%). Meanwhile, this erosion of the group of "those who found difficulty", to all appearances, is a long-run tendency. The relative decline in the number of those who find it difficult to give a straightforward answer to the question about clearness of this policy has been going on steadily since 2001-2002, when the share of such respondents was record high and amounted to 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 compile a more precise Index of Comprehension (IC), which takes into account all grades of the answer with relevant weights: 0; j; S; s, 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 about equally "clear" (or "unclear") as 2004: the IC was then, and is now 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
2005	49	39	7.8	7

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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Measurement of the level of approval of government's economic policy reveals some less encouraging trends. The share of industrial enterprise managers that APPROVED of this policy (in whole or in general) went three points down on the year to reach 13%. At the same time, the share of those who DISAPPROVED of it rose from 37% to 41%.

Interestingly, in this case as well, the largest group in terms of number was made by those respondents who found difficulty in giving their appraisal of the government. However, the share of this group has also declined from 47% to 46% (in 2002 when this indicator was the highest in the whole period of observation, it was equal to 55%).

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 compile the Index of Approval of economic policy (IA). In 2005, its average value was 39, which was 2 points lower than in 2004 and the lowest value of this indicator since 2000.

For an indirect evaluation of the government's activity, we can give one more REB indicator: the expected remaining years till the end of the crisis. In 2005 on average, as industrial respondents of the REB believed, the REMAINING DURATION OF THE CRISIS was 7.8 years. This was 0.2 year longer than they had believed a year ago, and a reiteration of the sad record of 1997. The range of managers who believed that the economic upswing is already going on is still very narrow - 7% (last year, their share was 10%). We must emphasize 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 of their general perception of the present situation in comparison with the pre-crisis 1990.

Assessments of the government's economic policy differ a great deal by industry. In 2005, it acquired relatively better understanding among respondents in iron and steel, logging and woodworking and food industries: in all the above mentioned industries, the Index of Comprehension in 2005 was above the 50-point line. Much poorer

understanding of the policy was disclosed in light industry and machinery. Here, the Index of Comprehension was as low as 46-47 points. Notice that the lowest level for the third year in a row was in light industry - 46 points (see Table 2).

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

Industry	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	2005	2003	2004	2005	2005
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(3)-(6)
Iron and steel	50	53	52	41	48	34	18
Machinery	53	52	47	49	45	42	5
Chemicals	55	54	49	50	50	37	12
Logging and woodworking	54	54	54	34	34	40	14
Building materials	46	45	48	39	40	42	6
Light industry	44	41	46	32	34	32	14
Food	47	48	51	46	43	46	5

As for support of the economic policy, there was also a division into two groups of industries with lowered and heightened levels of approval. Machinery, building materials and food industry belonged to the first group (with the Index of approval staying in the range of 42-46 points in 2005). Light industry, chemicals, and iron and steel were in the second group (32-37 points).

Managers in all industries displayed more comprehension rather than support of the economic policy, and the gap between the two indexes was quite significant in certain industries. For example, in light industry and logging and woodworking it was 14 points, and in iron and steel, 18 points. In these very industries, as we may guess, the government policy in 2005 met the strongest objection: the respondents gave it no support not because they found it difficult to assess it or weren't sure that they

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understood it, but on the contrary, they found it unacceptable for the very reason that they understood it quite well (or thought that understood it). At least, for their industries.

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 2005, 61% 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 the recent eight years (see Table 3).

The second place in terms of importance, as a year ago, was taken by a request to give incentives to capital investment - 53%. This indicator went 8 percentage points up in the last two years. And if this upward tendency continues, as soon as in 2006-2007 we can witness a very significant shift in the state of mind of our directors' corps: for the first time in the reform era, the problem of incentives to capital investment will look more urgent in the eyes of those who represent this corps than lowering of the tax burden.

Popularity of such measures as easy terms of lending, subsidies etc. is still fairly wide (40%), as well as of lowering of bank lending rate (42%). In recent years, these policies are almost concurrent, changing places in turn. However, they begin to show a kind of difference, which can be seen in their dynamic trends. While popularity of easy terms of lending and subsidies fluctuates around the same level for eight years, rating of lowering of bank lending rate seems to gain more recognition. In two recent years, the latter is more than 40%, although in 1998-2001 it was fluctuating in the range of 34-36%.

The idea of optimization of tax structure lost much of its popularity. In 2005, only 23% of the respondents spoke of the need to improve it - 7 percentage points less than a year ago. Remember that their share was more than 40% in 1998-2000.

The number of those who could win from import restrictions (30%) was still much higher than the number of those who supported the easing of exports (12%). Meanwhile, this disparity became even larger

than last year: 18 percentage points against 15 in 2004. This is the largest disparity in the entire period of our observation. Even in the year of default (1998) the numerical superiority of proponents of import restrictions over supporters of easing of exports was smaller (16 percentage points).

There were practically no changes in the share of managers wishing that the ruble should appreciate - 5%, as well as in the share of those who believed that their enterprises could benefit from a lower exchange rate of the ruble, -3%.

Table 3
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	2004	2005
1. To lower tax rates	84	84	83	74	68	76	66	61
2. To give incentives to capital investment ¹⁾	–	–	–	–	–	45	48	53
3. To secure lower interest rates on bank lending	36	35	36	34	42	39	44	42
4. To give access to easy credit, subsidies etc.	40	37	40	44	40	41	43	40
5. To use government procurement system	32	29	26	29	34	28	34	32
6. To improve tax structure	46	42	43	33	32	32	30	23
7. To curb imports	28	21	22	22	31	25	25	30
8. To stabilize exchange rate of ruble 52	²⁾	46	33	23	21	13	14	8
9. To ease exports	12	7	11	10	10	13	10	12
10. To revalue ruble	11 ²⁾	12	9	8	7	5	5	5
11. To devalue ruble	0 ²⁾	1	2	4	2	2	4	3
12. Other	14	6	5	4	4	2	3	4
13. No incentives are needed	3	3	4	4	3	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.

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Interestingly, the level of popularity of foreign exchange regulations is several times lower than that of trade policy in general: 3—5% against 12-30%. This can be understood in the sense that the respondents, referring to export or import policies, usually mean that they should be carried out in other ways than foreign exchange regulations (by means of customs duties, quotas etc.).

Apart from evaluations of concrete economic policies from the enterprise point of view, the REB respondents are also asked to give their judgment about relative importance of incentives to increase production and of lowering of inflation rate for the Russian economy in general. As seen from Table 4, numerical superiority of the supporters of incentives to increase production over believers in lowering of inflation rate was overwhelming over the whole period under review. It remained the same in 2005: 89% of the respondents believe that production is more important than inflation at the present time, and only 7% of them share the opposite opinion. Although the share of those who supported the priority of incentives to increase production was declining, though slowly, before 2002, since 2003 the trend turned in the opposite direction.

Table 4

Distribution of Answers to Question "What is More important for Russian Economy at Present: to Lower Inflation Rate or to Give Production Incentives?" (Share of respondents having chosen a given version, average of four quarterly polls, %)

	Inflation (1)	Either, equally (2)	Production (3)	Balance (4) = (3)-(1)
1997	2	4	94	92
1998	2	3	95	93
1999	5	6	89	84
2000	5	5	90	85
2001	6	6	88	82
2002	7	7	86	79
2003	7	7	86	79
2004	6	7	87	81
2005	7	4	89	82

Agricultural enterprises

Support of the government economic policy has apparently declined among the respondents of agricultural enterprises in the REB sample. **The index of comprehension of the government's policy by managers** went eight points down in 2005 to as low a level as 37. This was a record low level in the whole period of our observation after the sovereign default (1998). As for the index of approval, it declined by 4 points to 23. This is also the lowest value of this indicator since 1998 (see Table 5).

Table 5
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)
2005	37	23	11.6	(+3.8)

Notes:

¹⁾A 100-point scale: "100" corresponds to a case when all managers comprehend (approve of) the policy completely, 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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Assessments of remaining duration of the crisis also became essentially worse. The waiting time before economic upswing, the agricultural respondents believed, became one more year longer to reach 11.6 years. This was the most pessimistic forecast in the whole period of our observation since 1992. Another record achievement of 2005 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 2004 when it was 3 years, now it has expanded to 3.8 years.

Banks

As earlier, the respondents from banks gave the highest grades to the government. Their Index of Approval in 2005 was 62, repeating the result of 2004. Although this was 7 points less than in the record high 2003, still it was historically a very high indicator (see Table 6).

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 13 points down from the previous (record high) year to reach 50. However, in this case as well, the level of support from banks remained very high in 2005, considering the trend in this indicator over a longer time span.

Table 6
Assessments of Economic Policies of Government and 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 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	62	63
2005 ³⁾	62	50

Notes:

¹⁾A 100-point scale: "100" corresponds to a case when all managers approve of the policy completely, while "0" to a case when none of them 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 2005, economic policy of the Russian government enjoyed a little lower level of support from industrial enterprise managers than in 2004. It went much lower in agriculture. As for the banking sector, the changes are less obvious, but the degree of support given both to the Government and to the Central Bank remained fairly high.