

BUSINESS PERFORMANCE

ASSESSMENTS OF ECONOMIC POLICY IN 2019

S. Aukutsionek

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Abstract: The article describes how the managers of Russia's industrial and agricultural enterprises (the Russian Economic Barometer's respondents) assess the governmental economic policy through the end of 2019. The author presents the data on the proportion of managers who understand and approve this policy and on the high priority measures that they consider necessary to stimulate production.

Keywords: Russia; industry; economic policy; assessment of economic policy of the Government; index of approval; index of comprehension; production incentives; residual duration of the crisis.

The results of managerial opinions' surveys conducted by the Russian Economic Barometer (REB) testify that in 2019, the assessments of government economic policy in the industrial and agricultural sectors remained at approximately the same level as a year before.

Industrial Enterprises

The share of the REB's respondents who COMPREHEND the Government's economic policy (entirely or mainly) was 28%. This is 5 percentage points less than in 2018.

The share of NON-COMPREHENDING the government actions in 2019 (entirely or mainly) amounted to 23%, which is 3 points less than the 2018 assessment.

For most of the post-default period, the largest group of respondents consisted of those who were undecided in assessing the government

policy. In 2016, however, its share dropped to 34% and this group lost first place to the group of “understanders”. The very same situation was observed in 2017, whereas in 2018 the number of respondents without any opinion increased significantly and this group came out on top again (41%). This trend became even stronger in 2019 when 49% of respondents found it difficult to make an assessment.

When answering the question about economic policy, enterprise managers are offered to choose one of five positions: “full incomprehension”, “essential incomprehension”, “it’s hard to say”, “essential comprehension”, and “full comprehension”. Using this five-stage scale, we compile an elaborated Index of Comprehension (IC), which takes into account all grades of answers with relevant weights: 0; $\frac{1}{4}$; $\frac{1}{2}$; $\frac{3}{4}$ and 1. The case when IC=100 means unified and full comprehension; whereas IC=0, on the contrary, means unified and full incomprehension of the Government’s policy.

In terms of such measurement, the Government’s actions in 2019 looked rather “understandable” to almost half of enterprise managers. The index of comprehension amounted to 49% remaining at the same level as in 2018. By historical standards, this is quite a high result. Comprehension of government’s policy was even greater only in 2006–2008 and in 2017 – 52–53% (see table 1).

The share of industrial managers who APPROVE OF the governmental economic policy (entirely or mainly) decreased by 5 percentage points over a year and amounted to 14%. While the share of DISAPPROVING ones increased by 4 percentage points – from 26% to 30%.

As well as for the previous indicator, the measurement is made on a five-stage scale: from complete disapproval to complete approval. The Index of Approval (IA) of the Government’s economic policy is constructed in the same mode as the Index of Comprehension. In 2019, its average value was 45 which almost repeated the results of 2014–2018 and was only two points lower than the record high value of 2007.

Table 1

Assessments of the Government's Economic Policy (conducted in the last three to four months) and of the Residual Duration of Crisis by Industrial Managers (average data of four quarterly surveys)

	Index of comprehension of Government's economic policy ¹⁾	Index of approval of Government's economic policy ¹⁾	Residual duration of crisis, years ²⁾	Share of respondents believing that economic recovery 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
2006	52	44	7.1	12
2007	53	47	6.8	16
2008	52	45	5.9	13
2009	45	40	4.2	2
2010	50	44	4.4	6
2011	47	40	4.9	12
2012	48	41	5.7	10
2013	48	42	5.7	4
2014	49	45	5.9	3
2015	50	46	5.0	0
2016	50	46	6.0	2
2017	53	46	6.5	5
2018	49	46	7.3	6
2019	49	45	6.9	4

¹⁾ A 100-point scale: "100" corresponds to the case when all managers comprehend/approve of the policy, while "0" to the case when none of them comprehend/approve of it.

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

³⁾ Without the first quarter.

Source: REB surveys.

As an indirect estimate of the government's activity, one more REB indicator can be used: the expected number of years before the end of the economic crisis. On average for 2019, the RESIDUAL DURATION OF THE CRISIS, according to the REB respondents, was 6.9 years. This is 0.5 years better than the result calculated for 2018 but very far from the optimistic evaluations of 2009–2010, when the end of the crisis was expected already in slightly more than 4 years. The share of top managers defining the current situation as an economic recovery has narrowed a little from 6% to 4% of the sample.

Table 2

Assessments of the Government's Economic Policy (conducted in the last three to four months) by Industrial Managers, different branches (average data of four quarterly surveys)

	Index of comprehension of Government's economic policy			Index of approval of Government's economic policy			Disparity between levels of comprehension and approval
	2017	2018	2019	2017	2018	2019	2019
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(3) – (6)
Iron and steel and non-ferrous metals	46	50	56	50	48	45	11
Machinery and metalworking	60	54	52	53	52	48	4
Chemicals and petrochemicals	44	37	45	42	33	41	4
Logging, woodworking, pulp-and-paper	43	53	43	24	36	49	–6
Building materials	53	47	55	46	40	52	3
Light industry	53	39	38	49	39	33	5
Food industry	50	52	44	43	44	37	7

Source: REB surveys.

Assessments of the Government's economic policy differ significantly by industry (see table 2). A noticeable and favorable (for the Government) shift in comprehension was registered in the iron, steel

and non-ferrous metals industry: +6 percentage points in comparison with 2018, chemicals and petrochemicals (+8 points) and building materials (also +8) industries. Whereas in the timber industrial complex and food industry a significant subsidence of the index of comprehension was noted: by 10 and 8 percentage points, respectively.

Positive dynamics in assessment of economic policy's approval was observed, first of all, in the timber industrial complex (+13 points) and in building materials industry (+12 points). The latter industry was the only one where the absolute approval rate exceeded half (52%). The government's policy received a noticeable increase in approval in the chemical industry (+8 points). At the same time, the indicator fell for all other industries. The largest decrease was in the light and food industries (–6 and –7 points, respectively).

Let us turn now to the list of incentive measures, which, according to the respondents, should be taken by the Government first of all. The alleviation of tax burden continues to be the proposed measure number one. Since 1998–2000, there was a tendency to decrease the acuteness of tax problem. Even in the crisis year of 2009, the frequency of claims to cut down the taxes kept around a record low of 56% and dropped by another 2 points in 2010. In 2011 it seemed that everything was back to square one: 74% of respondents considered the reduction of tax burden to be of paramount importance problem of economic policy. This level was on par with the results of 2001–2003. However in 2012, the tendency to reduce the severity of tax problems prevailed once again and in 2014 the relevant rating dropped to 52%, in 2015 and 2016 – to 44%. In 2017–2018, it rose again to 55–53%. But in 2019, it fell to a record low level of 42% (see table 3). It must be emphasized that the decline of this index is not equivalent to the alleviation of taxes for enterprises. What is meant here is a perception of the relative severity of the tax problem, compared to other problems.

Table 3
Ratings of Different Incentives to Increase Production (shares of respondents who consider the given item important for their enterprises, average data of two semi-annual surveys, %)

	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19
1. Reduce taxes	84	84	83	74	68	76	66	61	59	58	60	56	54	74	58	61	52	44	44	55	53	42
2. Promote capital investments ¹⁾	-	-	-	-	-	45	48	53	56	54	47	43	44	39	46	44	36	28	30	39	35	33
3. Reduce bank interest rates	36	35	36	34	42	39	44	42	43	47	45	46	43	38	37	42	36	33	34	33	31	30
4. Provide soft loans, subsidies, etc.	40	37	40	44	40	41	43	40	41	44	40	41	38	31	33	45	46	39	32	28	34	26
5. Use Government procurement system	32	29	26	29	34	28	34	32	28	26	31	41	42	29	34	43	45	40	44	38	46	34
6. Improve tax structure	46	42	43	33	32	32	30	23	23	25	21	16	17	22	22	22	22	15	8	13	17	20
7. Restrict imports	28	21	22	22	31	25	25	30	32	25	27	31	25	23	21	23	27	21	15	18	12	20
8. Stabilize "rules of the game" ¹⁾	-	-	-	-	-	-	-	27 ²⁾	20	17	17	15	15	16	20	18	21	15	17	25	16	13
9. Stabilize rouble exchange rate	52 ²⁾	46	33	23	21	13	14	8	5	7	10	10	10	9	13	7	25	28	26	20	22	17
10. Promote exports	12	7	11	10	10	13	10	12	11	11	7	9	11	10	5	6	3	5	8	5	13	12
11. Upvalue the rouble	11 ²⁾	12	9	8	7	5	5	5	4	5	6	7	4	3	5	3	5	10	6	5	4	3
12. Devalue the rouble	0 ²⁾	1	2	4	2	2	4	3	3	4	3	3	4	3	4	2	2	2	2	3	2	0
13. Other	14	6	5	4	4	2	3	4	4	4	2	3	3	3	3	4	3	4	6	5	0	4
14. No incentives needed	3	3	4	4	3	3	3	3	2	3	4	2	2	2	1	0	1	5	3	3	3	4

¹⁾ The inclusion of this measure into the list, most likely, did not affect significantly the other ratings, because the number of answers to this question in the questionnaire is unlimited.

²⁾ Second half-year.

Source: REB surveys.

"Use of the Government procurement system" abruptly came to the second position with 46% in 2018 and retained it in 2019, declining however to 34%. This is just 1 percentage point more than the third-place measure of "providing capital investment incentives" (33%). The fourth and fifth lines in the rating were taken by measures to reduce the cost of bank credit (30%) and to provide preferential loans, grants, etc. to enterprises (26%). And in the latter case, we have a record low value of the indicator for the entire history of its measurement (since 1998).

Among the measures of lesser importance, our attention should be drawn to some increase in popularity of the ideas of import restrictions (from 12% in 2018 to 20% in 2019) and of tax structure's improvement (from 17% in 2018 to 20% in 2019). On the contrary, there was a significant decline in the shares of respondents supporting measures to stabilize the "rules of the game" (from 16% in 2018 to 13% in 2019) and the ruble exchange rate (from 22 to 17%). Apparently, the severity of these two problems for the enterprises has actually decreased recently.

Apart from assessing specific measures of economic policy from the enterprises' point of view, the REB's respondents were asked about the relative importance of stimulating production versus lowering inflation for the Russian economy on the whole. As can be seen from table 4, throughout the period under assessment, the numerical superiority of production increase supporters over inflation decline supporters was overwhelming. It remained the same in 2019: 72% of respondents believed that production was more important than inflation, and only 13% were of the opposite opinion.

Table 4
Distribution of Answers to the Question “What is More Important for Russian Economy at Present: to Lower the Inflation Rate or to Promote the Production?” (Shares of respondents who chose a given version, average data of four quarterly surveys, %)

	Inflation	Both equally	Production	Balance
	(1)	(2)	(3)	(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
2006	9	6	85	76
2007	9	7	84	75
2008	17	9	74	57
2009	9	9	82	73
2010	11	12	77	66
2011	14	12	74	60
2012	11	12	77	66
2013	13	15	72	59
2014	13	17	70	57
2015	12	18	70	58
2016	11	16	73	62
2017	9	13	78	69
2018	11	18	71	60
2019	13	15	72	59

Source: REB surveys.

Over the past 10 years there has been an increase in the relative importance of anti-inflationary policy in the eyes of respondents. The importance of this policy received its record high assessments in 2008–2015 (excluding 2009), when high inflation sharply contrasted with the slowdown in production. According to our data, this contrast was eliminated in 2016: production seemingly went upwards, and inflation, on the contrary, radically declined. Apparently, this was the reason for the breakdown of the above-mentioned tendency. The data for 2017 also fit well into this logic: inflation almost disappeared, whereas production grew hard and slowly. That is why the emphasis on stimulating production became stronger. As for 2018, we should pay attention to the record high value of the third answer, offering “equally” to counteract inflation and to stimulate production. Apparently, the fear of resuming a rapid price increase (with certain grounds for it) was combined with the expectation of a new recession (equally reasonable). In our opinion, the same logic can be seen in the respondents’ answers in 2019.

In general, despite all the fluctuations, the structure of respondents’ assessments is very far from that observed in the late 1990s and in the zero years of the new century. It seems that the majority of those who underestimated the importance of anti-inflationary policy 10–15 years ago have now changed their minds.

Agricultural Enterprises

The comprehension of the Government’s economic policy among the respondents of agricultural enterprises of the REB sample increased by 1 percentage point – to 49. By historical standards, this is a record high value. In other words, as a year ago, almost half of respondents believed that they understood the sense of government’s economic actions.

The economic policy approval indicator increased by 2 percentage points – to 40. This is only 1 point less than the record high value for 2015.

Table 5

Assessments of the Government's Economic Policy (conducted in the last three to four months) and of the Residual Duration of Crisis by Agricultural Managers (average data of four quarterly surveys)

	Index of comprehension of Government's economic policy ¹⁾	Index of approval of Government's economic policy ¹⁾	Residual duration of crisis, years ²⁾ (in brackets – excess over the assessments for the 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)
2006	47	31	10.5	(+3.4)
2007	44	34	9.0	(+2.2)
2008	44	37	8.7	(+2.8)
2009	38	36	7.7	(+3.5)
2010	38	34	8.1	(+3.7)
2011	37	31	9.6	(+4.7)
2012	42	36	7.6	(+1.9)
2013	40	32	9.2	(+3.5)
2014	34	26	9.0	(+3.1)
2015	44	41	7.4	(+2.4)
2016	45	40	7.7	(+1.7)
2017	38	34	11.3	(+4.8)
2018	48	38	9.7	(+2.4)
2019	49	40	7.4	(+0.9)

The data for 2012–2014 were adjusted.

¹⁾ A 100-point scale: "100" corresponds to the case when all managers comprehend/approve of the policy, while "0" to the case when none of them comprehend/approve of it.

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

³⁾ Without the first quarter.

Source: REB surveys.

The assessment of the residual duration of the crisis decreased by more than two years – to 7.4 years. This is almost a record low estimate for the last 26 years. The respondents' expectations were even more optimistic only in 1992–1993 (6.2–6.8 years) and in 2001 (7.1). As for the discrepancy between the estimates of the residual duration of the crisis by the agricultural and industrial managers, it dropped two and a half times: from +2.4 to +0.9 years. These two estimates of the residual duration of the crisis were not so close to each other during 18 years.

* * *

On the whole, the results of our measurements allow us to make a conclusion that the industrial managers' support for the Government's economic policy almost didn't change in 2019 compared with the previous year, remaining at a high level by historical standards. At the same time, it slightly increased among the agricultural managers.