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The review provides a detailed analysis of main trends in Russia's economy in 2011. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Foreign Investments

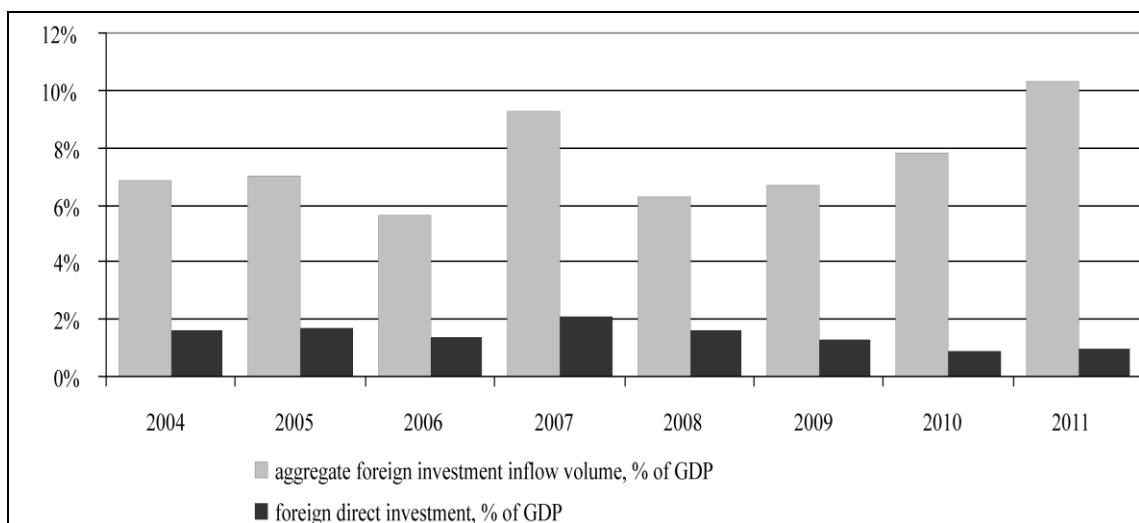
In 2011, the inflow of foreign investment into the RF increased by 66.1% on 2010 - to \$ 190.6bn, thus rising 57.6% over the historic high registered in 2007 (*Table 14*).

At the same time, foreign investors continued to leave the Russian market. As seen by the results of the year 2011, the outflow volume amounted to \$ 165.2bn, or to 86.6% of the foreign investment inflow observed over that same period. Investment outflow took the form of foreign investors' incomes transferred abroad, as well as the payment of interest on credits and credit redemption. As compared to the 2010 level, capital outflow increased by 36.7%. Besides, in 2011 the volume Russia's overseas investment rose to \$ 151.7bn, or by 57.6% on 2010, thus amounting to 79.6% of the volume of investment in the Russian economy (in 2010 – 83.9%).

On the whole, the inflow of foreign investment in the Russian economy increased from 7.8% of GDP in 2010 to 10.3% of GDP in 2011 (*Fig. 42*).

In 2011, the highest investment growth (by \$ 71.6bn) was noted in the 'other investments' segment. Direct investment increased by \$ 4.6bn. This growth was contributed to by all categories of direct investment. The bulk of direct investment was constituted by contributions to charter capital and credits obtained from foreign stakeholders in organizations. The former, as seen by the results of the year 2011, rose by 17.9% to \$ 9.1bn. The volume of credits received from foreign stakeholders rose by 62.6% to \$ 7.5bn. Thus, the share of credits issued by foreign stakeholders in the structure of foreign direct investment (FDI) in the RF increased from 33.4% in 2010 to 40.7% in 2011, while the share of contributions to charter capital dropped from 55.8% to 49.3%.

Fig. 42. Foreign Investment Inflow in the Russian economy in 2004–2011 (as % of GDP)



Source: Rosstat.

In 2011, the major rating agencies estimated the RF rating credit to be at the same level as in 2010.

Table 14

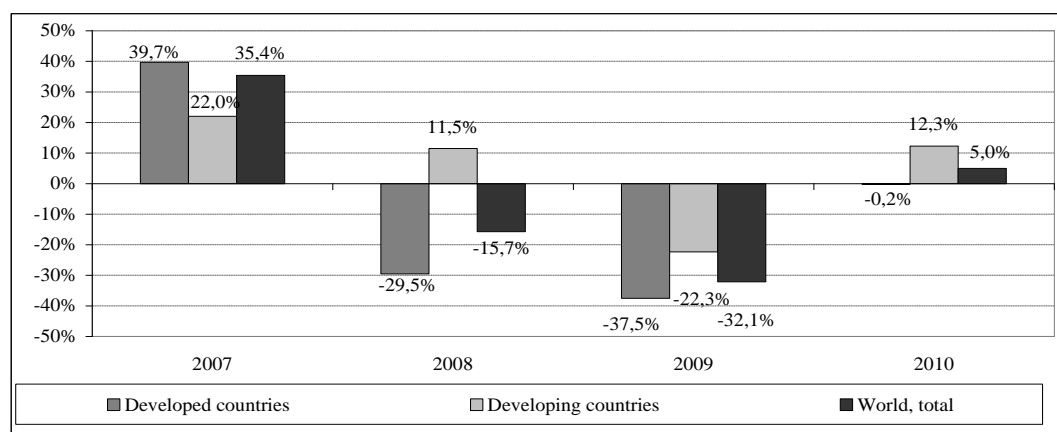
Structure of Foreign Investment in the Russian Economy¹

	In m USD				As % of previous year			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
2007	120,941	27,797	4,194	88,950	219.5	203.2	131.8	232.6
2008	103,769	27,027	1,415	75,327	85.8	97.2	33.7	84.7
2009	81,927	15,906	882	65,139	79.0	58.9	62.3	86.5
2010	114,746	13,810	1,076	99,860	140.1	86.8	121.9	153.3
2011	190,643	18,415	805	171,423	166.1	133.3	74.9	171.7

Source: Rosstat.

According to the UNCTAD's *World Investment Report* published in July 2011, in 2010 the RF was the 7th most successful country in terms of the volume of attracted foreign direct investment (in 2009 – the 6th; in 2008 – the 5th; in 2007 – the 9th; in 2006 – the 10th; in 2005 – the 15th). As in the previous year, as far as the large developing economies were concerned, Russia came second after China in terms of the FDI volume. As stated in the *Report*, in 2010 Russia received 3.3% of the world foreign direct investment volume (in 2009 – 3.5%; in 2008 – 4.1%), and 7.1% of the volume of foreign direct investment inflow into developing countries (in 2009 – 8.2%; in 2008 – 11.9%) (Fig. 43).

Fig. 43. Movement of Foreign Direct Investment Inflow in 2007–2010

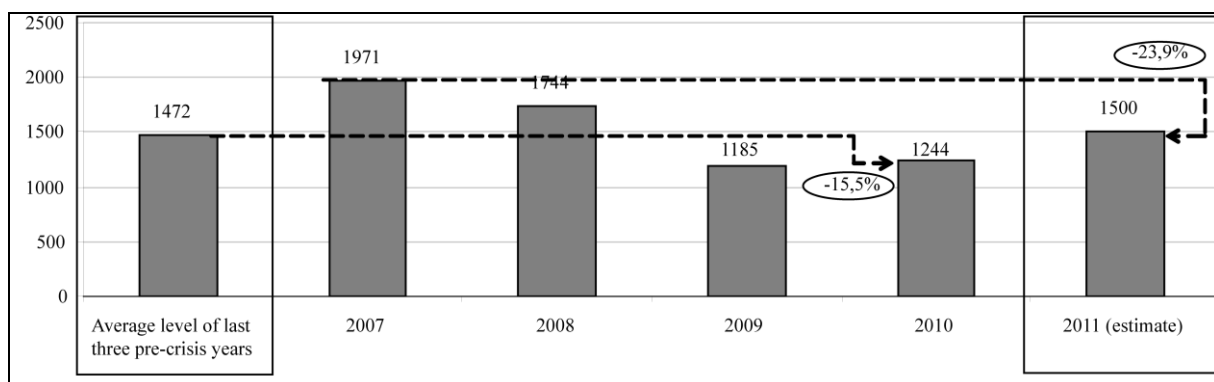


Source: UNCTAD, World Investment Report 2011, 26.07.2011.

¹ Direct investments are investments in real assets, acquisition of a controlling stake or a stake with the right of participation in management; portfolio investments are investments in securities solely for deriving income; other investments are returnable investments (credits issued by international financial organizations, commercial credits, etc.).

In accordance with the UNCTAD's report, the world's aggregate foreign direct investment volume in 2010 rose slightly above its 2009 level (*Fig. 44*) According to preliminary estimates, in 2011 that index returned to its pre-crisis value, amounting to \$ 1.4–1.6 trillion; in 2012 it will increase to \$ 1.7 trillion; in 2013 the historic high of 2007 at the level of 1.9 trillion will be reached.

Fig. 44. World's Foreign Direct Investment Inflow, bn USD



Source: UNCTAD, World Investment Report 2011, 26.07.2011.

The implementation of that scenario can be possible in absence of any serious problems in the world economy. According to the pessimistic scenario, in 2011–2013 the aggregate foreign direct investment volume will remain at the level of 2010.

The segment of portfolio investments in the Russian economy in 2011 demonstrated a decline by 25.1% on 2010. Their structure displayed growth of investments in stock capital by 67.6%, with the resulting increase in their share from 32.0% in 2010 to 71.7% in 2011 (in 2007 – 95.5% of portfolio investment volume; in 2008 – 79.6% and in 2009 – 42.9%).

Other investments rose in 2011 by 71.7% on 2010 – by \$ 71.4bn. The share of commercial credits within the ‘other investments’ structure dropped from 17.6% (by the results of the year 2010) to 16.2% in 2011 (in 2008 – 21.5%; in 2009 – 21.4%). In terms of loan period, the share of credits issued for periods over 6 months declined to 28.3% against 38.0% in 2010. (in 2008 – 68.1%; in 2009 – 67.9%). The share of credits issued for periods less than 6 months rose to 53.4% (in 2010 – 10.1%; in 2009 – 10.1%; in 2008 – 8.8%).

Thus, in 2011 the structure of foreign investment in the Russian economy remained practically the same as in the previous year (*Table 15*).

Table 15

Structure of Foreign Investment in the Russian Economy in 1996–2011, %

	Direct investment	Portfolio investment	Other investments
2000	40.4	1.3	58.3
2001	27.9	3.2	68.9
2002	20.2	2.4	77.4
2003	22.8	1.4	75.8
2004	23.3	0.8	75.9

2005	24.4	0.8	74.8
2006	24.8	5.8	69.4
2007	23.0	3.5	73.5
2008	26.0	1.4	72.6
2009	19.4	1.1	79.5
2010	12.0	1.0	87.0
2011	9.7	0.4	89.9

Source: Rosstat.

In 2011, as before, foreign investment was directed in the main towards the financial sphere, industry and trade. These sectors of the Russian economy accounted for 90.5% of the aggregate foreign investment volume (in 2010 – 86%). Investor interest in investing in transport and communications became less pronounced.

The lower rate of growth of foreign investment in industry and real estate transactions alongside increasing aggregate foreign investment indices and substantial growth of investments in trade and financial activity resulted in certain changes in the structure of foreign investment by comparison with the previous year. The distribution of foreign investment across the main sectors of the Russian economy is shown in *Table 16*.

Table 16

**By Sector Structure of Foreign Investment in the Russian Economy in
2009–2011**

	In m USD			As % of previous year			As % of total		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Industry	32 980	47 558	61 145	66.4	144.2	128.6	40.3	41.4	32.1
Transport and communications	13 749	6 576	5 943	282.8	47.8	90.4	16.8	5.7	3.1
Wholesale and retail trade; repair of motor vehicles, motorcycles, and personal and household goods	22 792	13 334	24 456	95.3	58.5	183.4	27.8	11.6	12.8
Real estate, renting and service rendering	7 937	7 341	9 237	51.6	92.5	125.8	9.7	6.4	4.8
Financial activity	2 658	37 913	86 885	53.4	1426.3	229.2	3.2	33.0	45.6
Other sectors	1 811	2 024	2 977	36.6	111.8	148.1	2.2	1.8	1.6

Source: Rosstat

Within the structure of foreign investment in industry, as seen by the results of the year 2011, the leader in growth was the mining sector (extraction of mineral resources); investments in that sector rose by 34.5% on 2010 (in 2010 - by 34.2%) (*Fig. 45*). The volume of foreign investment in the processing industry rose by 23.9% (in 2010 – by 49.2%).

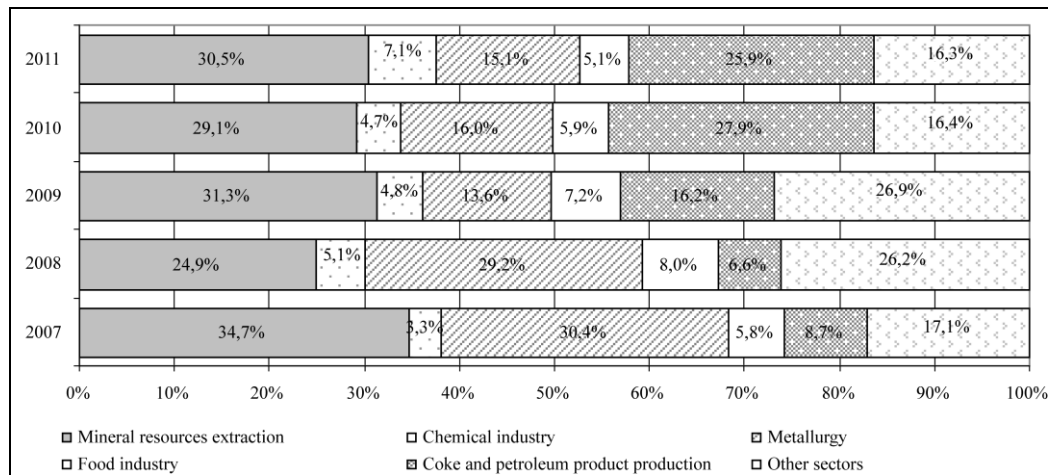
Within the processing industry, investments in the production of coke and petroleum products increased by 19.4%, and those in the chemical industry nearly doubled, amounting to \$ 15.8bn and \$ 4.4bn respectively (in 2010, the former index increased 2.5 times, and the latter – by 41.3%). Foreign investment in metallurgy in 2011 rose by 21.1% on 2010 – to \$ 9.2bn (in 2010 - by 69.7%).

The volume of direct and other investment in industry rose on 2010 by 40.6% and 26.4% respectively (in 2010, the former index declined by 7.9%, and the latter rose – by 62.0%). The volume of portfolio investment in industry increased by 39.9% (in 2010 that index dropped by 41.6%). Thus, the share of the volume of other investment in industry shrank from 84.9% in 2010 to 83.4% in 2011, and those of direct and portfolio investment over the same period increased from 14.3% to 15.7% and 0.8% to 0.9% respectively.

Some changes also occurred in the structure of foreign investment broken down by type of economic activity in industry. Direct investment in mineral resources extraction in 2011 increased 2.3 times to \$ 4.6bn, resulting in growth of its share in the aggregate volume of investment in that sector to 24.8% (in 2010 – 14.7%; in 2009 – 30.7%; in 2008 – 40.2%). The share of other investment in mineral resources extraction, which in 2011 increased by 17.8% (to \$ 13.9bn), dropped to 74.4% (in 2010 – 85.0%; in 2009 – 65.8%; in 2008 – 59.0%).

In 2011, the bulk of the investment volume in the processing industry was also constituted by other investment, whose volume rose on 2010 by 28.0%, thus amounting to 88.3% of the resulting volume of investment in the processing industry (in 2010 – 85.4%; in 2009 – 80.6%). The volume of direct foreign investment in the processing sectors remained almost unchanged, its growth amounting to 0.8%. The share of direct investment in the processing industry in 2011 shrank to 11.4% (in 2010 – 14.0%; in 2009 – 18.5%).

Fig. 45. Structure of Foreign Investment in Industry in 2007–2011

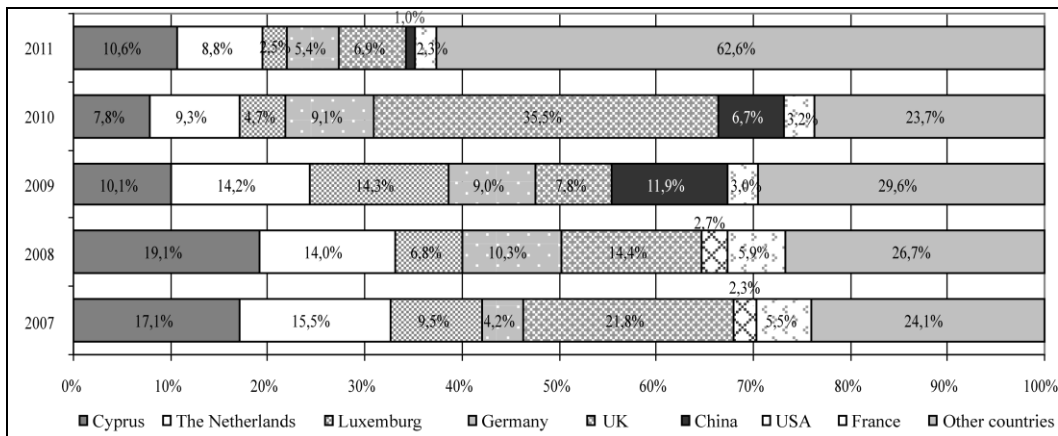


Source: Rosstat.

A noteworthy feature of the **geographical structure** of foreign investment flowing in the Russian economy in 2011 is the altered order of countries in the list of biggest capital exporters in the RF. In 2011, the highest volume – \$ 20.3bn (10.6% of the total foreign investment volume in the Russian economy over that period) – was transferred from the Cyprus, followed by The Netherlands (\$ 16.8bn). The UK came third, its volume of investment in the Russian economy amounting to \$ 13.1bn.

In 2011, the highest growth rate was displayed by investments from the Cyprus – 2.3 times on 2010; investments from The Netherlands increased by 57.2%, and those from Luxemburg and the UK declined by 12.9% and 67.9% respectively. The investment flow from China shrank by 75.3% (Fig. 46).

Fig. 46. Geographical Structure of Foreign Investment in the Russian Economy in 2007–2011



Source: Rosstat. Data for investments from the USA are for 2009–2011; China’s investments in 2007–2008 are listed as other investment.

As of the end of the year 2011, the accumulated foreign capital volume, less that of monetary regulation agencies, commercial and savings banks and including that of ruble-denominated investments recalculated in US dollars, amounted to \$ 347.2bn, which is 15.7% more than the value of that index as of the year’s beginning. The volume of accumulated direct investment since the year’s beginning increased by 19.8%, other investment – by 13.2%.

As seen by the results of the year 2011, the leaders in terms of the accumulated foreign capital volume are Cyprus, The Netherlands, Luxemburg, Germany, and China, their aggregate share amounting 63.5% (in 2010 – to 64.4%; in 2009 – to 66.3%). At the same time, the share of the top five investor countries in the other investment segment is estimated to be at the level of 63.2% (in 2010 – 64.8%; in 2009 – 62.9%), their shares in the structure of direct and portfolio investment is estimated to be 66.9% and 22.1% respectively (in 2010 – 67.1% and 21.9%; in 2009 – 69.0% and 85.1%).

In the structure of foreign investment accumulated as of the end of the year 2011 the share of other investment is highest and amounts to 57.1% (in 2010 – to 58.3%). The same index with regard to foreign direct investment is 40.1% (in 2010 – 38.7%).