

**GAIDAR INSTITUTE FOR ECONOMIC POLICY**

**RUSSIAN ECONOMY IN 2012  
TRENDS AND OUTLOOKS  
(ISSUE 34)**

**Gaidar Institute  
Publishers  
Moscow / 2013**



UDC 330(470+571)  
BBC 65.9(2Poc)-04

*Agency CIP RSL*

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R95 **Russian Economy in 2012. Trends and Outlooks.**  
**(Issue 34) – Moscow: Gaidar Institute Publishers, 2013. 548 pp.**

ISBN 978-5-93255-374-9

The review provides a detailed analysis of main trends in Russia's economy in 2012. 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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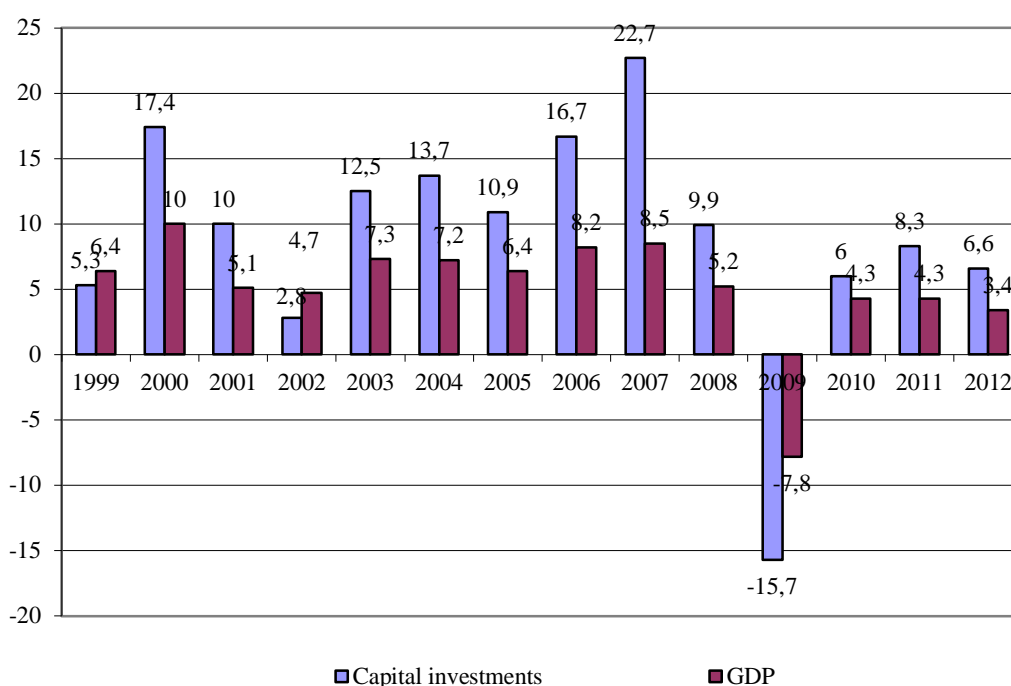
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### Investment in Russia in 2012

#### Domestic capital investments

In 2010–2011, business activities in the investment sector were characterised by a faster rate in growth than that of the GDP. However, the effects of the deep investment crisis in 2008 - 2009 were overcome only in 2012. In 2012, capital investments were 3.2% higher than in 2008. In 2012, with the GDP growth at a level of 103.4% compared to the previous year and with capital investments of 106.6%, the share of capital investments in GDP had almost reached the level of 2007 and amounted to 20.2%.



Source: Rosstat.

Fig. 23. Capital investments and GDP in 1999 - 2012, as % of the previous year

The different behaviour of institutional business entities significantly affected how the crisis developed. In the acute crisis phase, when compared to small businesses, the large and medium-sized businesses were forced to pursue a more assertive policy to reduce investment costs. Despite the slowdown in investment activity in 2011, the volume of investments in the small businesses sector for that year almost reached the pre-crisis level of 2008, and then significantly exceeded it in 2012.

The dynamics of capital investments of large and medium-sized businesses in the post-crisis period were quite unstable, and in 2012 this sector recorded a sharp slowdown in investment activity. As a result the capital investments of large and medium-sized businesses amounted to 96.4% of the 2008 pre-crisis level.

It should be noted that the changes in the performance of large and small businesses and organisations was of an opportunistic nature and did not reflect the fundamental changes in the investment climate. Another fundamental point was the change in the structure of the financing of capital investments in 2009–2012. The slow recovery rate of the domestic market, and of income, determined the stronger emphasis on the use of businesses' own funds to finance investment programmes. In late 2012, the share of businesses' own funds in the structure of capital investments increased to 45.4% and exceeded the level of the previous year by 3.5 percentage points.

Table 12

**Growth in the volume of capital investments, as a % of the previous year**

	2008	2009	2010	2011	2012
Capital investments (across the full range of organisations, including adjustments for investments not observed through direct statistical methods)	109.9	84.3	106.0	108.3	106.6
Large and medium-sized businesses (capital investments, excluding small businesses and investments not observed through direct statistical methods)	105.6	82.5	105.1	110.4	100.7

Source: Rosstat.

Table 13

**Investments in fixed capital by sources of funding (excluding small businesses and investments not observed through statistical methods), as a % of the total**

	2007	2008	2009	2010	2011	2012
Capital investments - total	100	100	100	100	100	100
Including by sources of funding:						
Own funds	40.4	39.5	37.1	41.0	41.9	45.4
Profit disposable by the business (accumulation fund)	19.4	18.5	16.0	17.1	17.9	NA
Borrowed funds	59.6	60.5	62.9	59.0	58.1	54.6
Including:						
Bank loans	10.4	11.8	10.3	9.0	8.6	7.9
Including loans from foreign banks	1.7	3.0	3.2	2.3	1.8	1.2
Borrowed funds of other organisations	7.1	6.2	7.4	6.1	5.8	5.4
Budgetary funds	21.5	20.9	21.9	19.5	19.2	17.9
Including:						
Federal funds	8.3	8.0	11.5	10.0	10.1	9.6
Budgetary funds of the subjects of the Russian Federation	11.7	11.3	9.2	8.2	7.9	7.1
Extra-budgetary funds	0.4	0.3	0.3	0.2	0.2	0.2
Other	20.1	21.2	23.0	24.1	24.3	23.1
Including:						
Funds of superior organisations	11.3	13.8	15.9	18.0	19.0	17.8
Funds from the equity in the construction (businesses and individuals)	3.7	3.5	2.6	1.9	2.0	2.0
Including funds derived from the public	1.5	1.9	1.3	1.1	1.3	1.3
Funds from the issuance of corporate bonds	0.1	0.1	0.1	0.01		
Funds from the issue of shares	1.8	0.8	1.0	1.4	1.0	1.0
Foreign investments in the total investments in fixed capital	5.4	4.3	4.3	3.8	3.1	2.7

Source: Rosstat.

Although in 2012 the main sources of financing of capital investments were borrowed funds, which accounted for 54.6% of the total investments in the economy, their structure was changed. The share of the budget in such sources decreased from 19.2% in 2011 to 17.9% in 2012. The share of budget funds used for capital investments in GDP was 2.52% of GDP in

2012 against 3.41% of GDP in 2009, including federal budget funds (1.35% against 1.78%, respectively).

The public demand for the products and services of Russian companies was supported through the implementation of planned investment projects in transportation, telecommunications, etc. implemented under FTP and FTIP. According to the federal targeted investment programme, approved by the Russian Ministry of Economic Development, a provision of RUR 755.3 billion was made in 2012 (with updates as at 1 January, 2013), including federal budget funds of RUR 719.0 billion. In 2012, RUR 492.4 billion from the federal budget and RUR 29.4 billion from the budgets of the subjects of the Russian Federation and other sources were allocated under the annual limit. In 2012, there were plans to commission 1,430 projects. Of these 562 projects were commissioned at full capacity and 64 projects were partially commissioned. On 1 January 2013, the technical readiness of 710 sites (with no facilities, as the design and survey works for future construction are still in progress) ranged from 51.0% to 99.9%.

Table 14

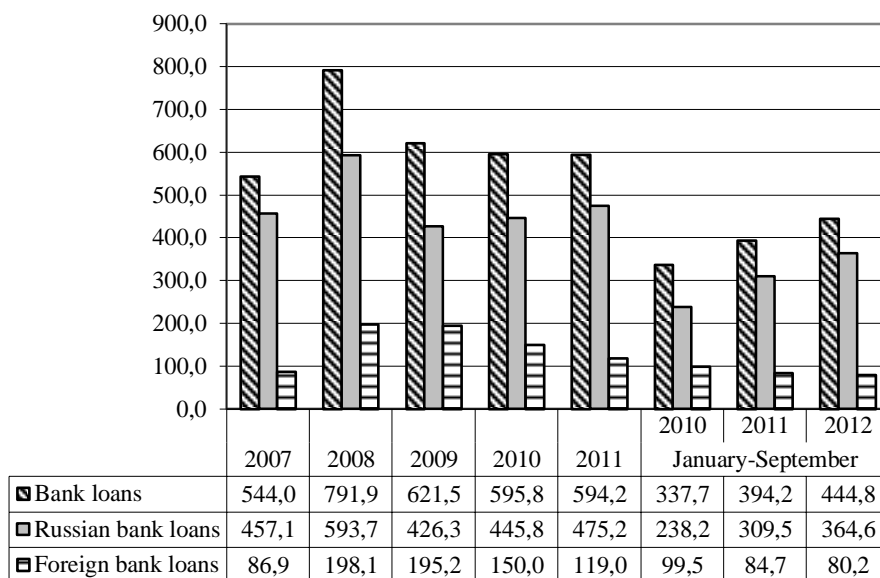
**Facilities provided in the targeted investment programme, and the amount of state capital investment for 2012 (excluding construction projects and facilities included in the state defence order)**

	Number of sites		Commissioned		State capital investment limit		Financed from the federal budget	Investment utilised from all sources
	Total	Including those with commissioning dates in 2012	At full capacity	Partially	Total	Including from the federal budget		
	Units				Bn. RUR			
Total	3,777	1,430	562	64	755.3	719.0	492.4	468.7
Including:	132	58	39	6	5.1	5.1	5.0	5.0
Agriculture, hunting and forestry								
Fishing and fish farming	21	5	-	-	2.1	2.1	NA	1.3
Processing industry	51	11	1	-	8.3	7.0	NA	2.6
Production and distribution of power, gas and water	39	14	-	-	44.5	42.5	30.5	40.7
Construction	105	49	14	4	18.0	15.2		13.7
Transportation and Communication	608	279	124	15	310.5	299.0	241.7	234.9
Real estate, rent and services	1307	136	22	5	149.4	142.9	NA	32.1
Public administration and defence;	695	515	294	14	55.3	54.4	40.9	35.1
Education	207	110	24	12	40.6	38.3	32.0	29.3
Public health and social services	187	93	26	6	60.3	57.0	44.2	38.4
Other utility, social and personal services	414	158	18	2	59.0	53.4	NA	33.7
Other activities	11	2	-	-	2.2	2.2	NA	1.9

Source: Rosstat.

Before the crisis in 2008 the restructuring of the financing of capital investments was associated with increased activity in the banking sector, increasing public investments in residential housing and a heavy influx of foreign capital. Since 2009, the share of borrowed funds to

finance capital investments has shown a strong trend towards a narrowing of the participation of banking and debt capital. Moreover, we note that the very slow recovery of the credit activity of domestic banks did not overlap the decline in loans from foreign banks. In 2011, the share of loans in borrowed funds was 13.4% and had decreased by 4.1 percentage points compared to 2007. In 2012, the share of bank capital in borrowed funds remained at about the level of 2011, and the ratio of loans had changed to increase the share of the domestic banks.



Source: Rosstat.

Fig. 24. Bank loans to finance capital investments in 2007–2012, Bn. RUR

The crisis of 2008 was characterised by steeper rates of decline in foreign loans and of investments in the Russian economy relative to the domestic capital. In 2011, direct foreign investment in the Russian economy amounted to 66.2% as compared to 2007 with an increase in domestic investment of 6.3%. In 2012, the overstripping growth of internal investments (106.6% of the previous year) continued with respect to direct foreign investment (101.4% of the previous year). As a result, the share of foreign investment in total capital investment in 2012 decreased to 2.7% from 3.1% in 2011. The discreet participation of Russian and foreign private capital to finance investments was defined by the disinvestment trends existing in 2008. In 2012, the net outflow of capital amounted to USD 56.8 billion. In contrast to the previous year, an absolute reduction of capital outflow was associated with the inflow of capital through the banking sector. The outflow of capital to other sectors of the economy in 2012 had increased and reached 80.4 billion dollars.

Table 15

**Net inflow/outflow of capital from the private sector according to the balance of payments, Bn. USD**

	Net inflow/outflow of capital from the private sector, Total	Net inflow/outflow of capital from banks	Net inflow/outflow of capital from other sectors
2007	81.7	45.8	35.9
2008	-133.7	-56.9	-76.8
2009	-56.1	-30.4	-25.8
2010	-33.4	15.9	-50.3
<b>2011</b>	<b>-80.5</b>	<b>-24.2</b>	<b>-56.4</b>

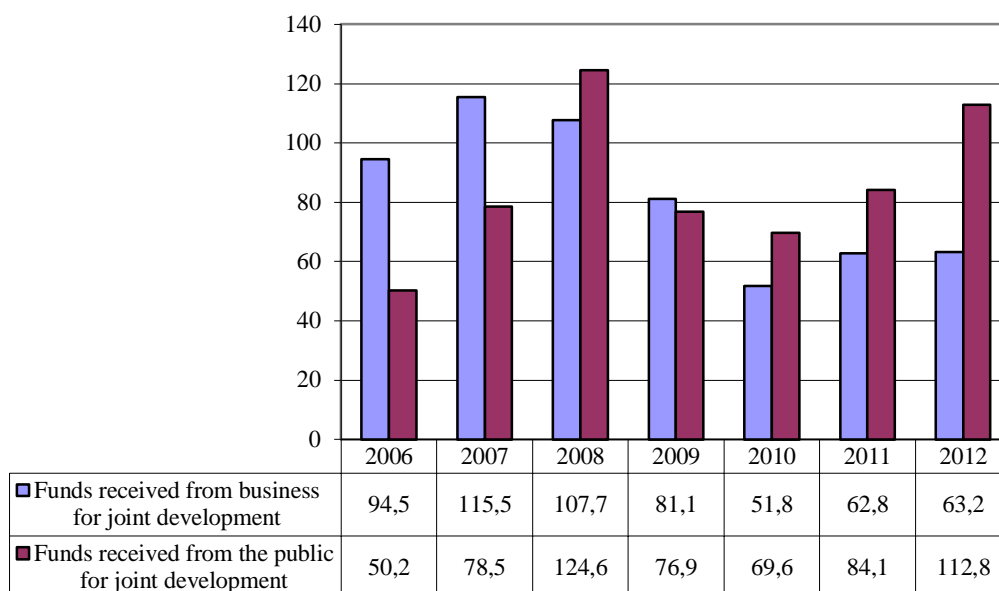


<b>2012</b>	<b>-56.8</b>	<b>23.6</b>	<b>-80.4</b>
QI	-33.3	-9.7	-23.5
QII	-6.4	11.6	-18.0
QIII	-7.6	7.6	-15.2
QIV (estimate)	-9.4	14.2	-23.6

Source: Central Bank of the Russian Federation.

In analysing the changes in the financing of capital investments, it is necessary to note the features of the financing of housing construction. In 2009, there was a reversal in housing construction trends. Following the steady increase in housing construction during 2001 - 2008, the level of commissioning of residential buildings in 2011 fell by 2.8% compared to the pre-crisis level in 2008.

In 2011, the absolute reduction of investment in housing construction suspended (including small businesses and adjustments). In 2012, the growth of population funds for joint development was RUR 28.7 bn. compared to the previous year. Increasing investments by members of the public was supported by an increasing demand for loans. The volume of residential loans in 2012 amounted to RUR 1,053.6 billion against RUR 746.0 billion in the same period in 2011.

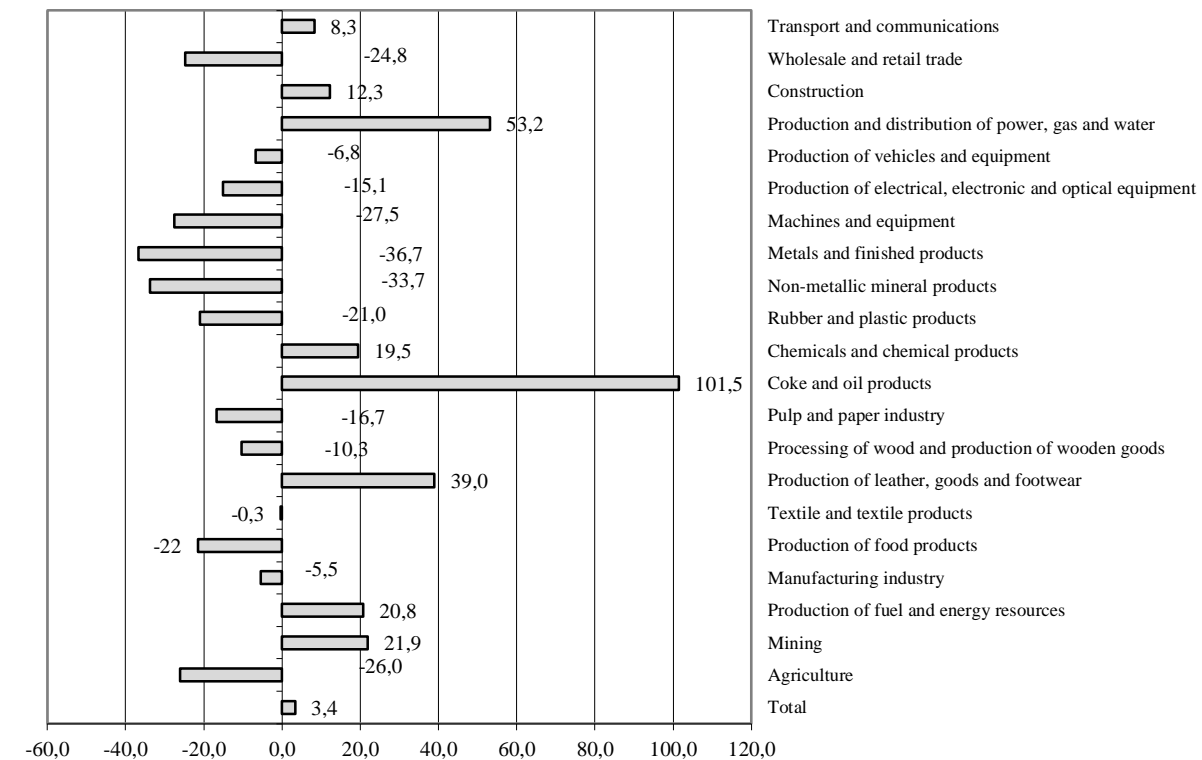


Source: Rosstat.

Fig. 25. Funds received for joint development in 2007 - 2012, bn. RUR

Analysis of capital investments in 2009 - 2012 allows the identification of common and specific features of the change in investment demand by different types of activity. In 2009 - 2012, the structural changes in capital investments were determined by the increased share of industry in total capital investment (excluding small businesses). In 2012, industry accounted for 5.3% of capital investment in the economy compared to an average of 44.5% in 2011-2010. In 2012, investment in industry increased by 7.2% compared to the previous year. There was quite a significant differentiation of rates by economic activity. The recovery was defined both by the higher rate of growth of the fuel and energy sector and of the mining industry, together with higher growth rates of investment demand. Investments in the fixed cap-

ital of mining industries production in 2012 compared to 2008 increased by 21.9%; in the production and distribution of power, gas and water by 53.2%, meanwhile in the manufacturing industries overall investment only amounted to 94.5% of the pre-crisis level. The highest rates of growth in investment in manufacturing industry in 2009 - 2012 were observed in the production of coke and oil products, in chemical production and in the production of leather goods and shoes. Investment activity in the production of machinery, equipment and vehicles remained below the pre-crisis levels of 2008. Regarding other economic activities, the rapid growth of investment in pipeline construction should be noted.



Source: Rosstat.

Fig. 26. Capital investments in 2012, as a % of 2008

An analysis of the performance and structure of investments indicates that the recovery of investment activity in the machine-building industry is much slower compared to other economic activities.

According to a sample survey of investment activity conducted by Rosstat, the main purpose of capital investments, as in previous years, has been to replace worn-out equipment and machinery. The structure of capital investments in 2009 shows a steady increase in expenditure for the purchase of machinery, equipment, vehicles, and an increasing shift towards domestic equipment. We must not overestimate the importance of these changes, given the poor development trends and status of production facilities in the Russian machine-building sector.

The existing structure of capital investment related to the type of economic activity with a high proportion going towards the fuel and energy industries and their associated vehicles, has apparently exhausted itself. There is a growing imbalance between investment performance

and the production of capital goods. The replacement of fixed assets is slowing down. There are no significant changes in favour of innovative production in manufacturing industry or of improvements in the quality of the labour force. The rapid growth of investments, increasing of the share of investment in GDP at the pre-crisis level with a slowdown in the growth of GDP, is leading to an increased capital intensity for production but this not supported by increased labour productivity.

Table 16

**Capital investments by type of fixed assets in 2007–2012 (excluding small businesses and parameters of the informal economy)**

	2007	2008	2009	2010	2011	2012
<b>In bn. RUR, for each year</b>						
Capital investments	4,908.2	6,272.1	5,769.8	6,413.7	7,701.2	8,764.7
Including:						
Houses	371.8	467.2	343.5	372.3	361.8	418.4
Buildings (excluding residential) and other construction	2,436	3,286.8	3,221.2	3,495.8	4,172.5	4,574.1
Machinery, equipment, vehicles	1,736	2,071.3	1,798.2	2,109.6	2,644.3	3,175.7
Including:						
Purchase of domestic machinery, equipment and vehicles	1,427.5	1,656.9	1,426.4	1,729.8	2,152	2,661.2
Purchase of imported machinery, equipment and vehicles	308.5	414.4	371.8	379.8	492.3	514.3
Other	364.4	446.8	406.9	436	522.6	600.4
<b>Share, as a % of total</b>						
Capital investments	100	100	100	100	100	100
Including:						
Buildings (excluding residential) and other construction	7.6	7.4	6.0	5.8	4.7	4.8
Machinery, equipment, vehicles	49.6	52.4	55.8	54.5	54.2	52.7
Including:	35.4	33.0	31.2	32.9	34.3	36.2
Purchase of domestic machinery, equipment and vehicles						
Purchase of imported machinery, equipment and vehicles	29.1	26.4	24.7	27.0	27.9	30.3
Buildings (excluding residential) and other construction	6.3	6.6	6.4	5.9	6.4	5.9
Other	7.4	7.1	7.1	6.8	6.8	6.8
For reference:						
The share of purchased imported machinery, equipment and vehicles in the total investment in machinery, equipment and vehicles	17.8	20.0	20.7	18.0	18.6	16.2

Source: Rosstat.