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TRENDS AND OUTLOOKS
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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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Foreign Investments in Russia in 2012

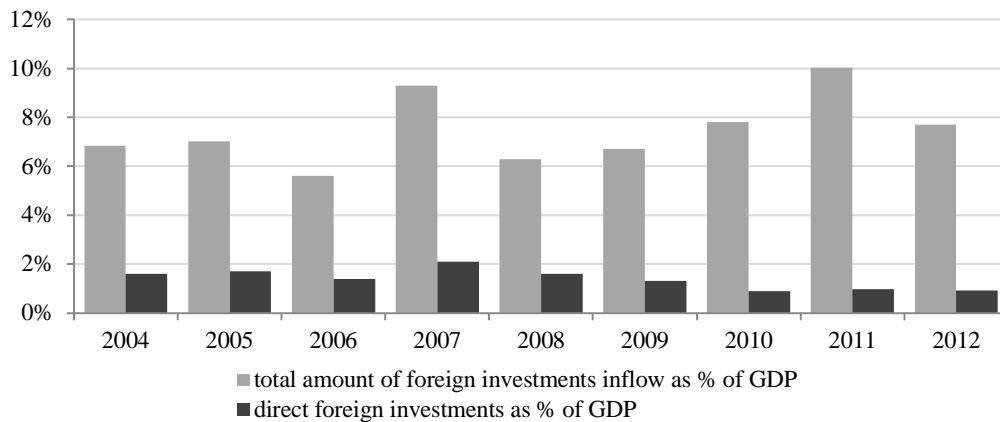
The year of 2012 was characterized by lower interest of foreign investors in the economy of Russia. Foreign investments in the Russian Federation decreased by 18.9% to \$154.6bn in 2012 against 2011. In 2012, a total of \$136.6bn or 88.3% of foreign investment inflow at that period (against 86.6% in 2011) was withdrawn as returns on foreign investments transferred from Russia to other countries, as well as payments of loan interests and repayment of loans. Capital outflow by the foregoing items decreased by 17.3% against 2011. In 2012, Russian investments in other countries reached \$149.9bn, a decrease of 1.2% against 2011, and accounted for 97.0% of total investments in the economy of Russia (against 79.6% in 2011).

Inflow of foreign investments in the economy of Russia as percentage of GDP decreased from 10.0% in 2011 to 7.7% in 2012

In spite of the decrease, foreign investments inflow in the economy of Russia in 2012 remained higher than that prior to the crisis.

Aggregate values decreased in response to a \$37.3bn decrease in other investments.

Direct investments increased by \$251m. Contributions to charter capital, and loans from foreign joint owners of companies accounted for most of direct investments. The former increased by 1.9% to reach \$9.2bn in 2012. Loans obtained from foreign joint owners of companies increased by \$2.3% to reach \$7.7bn. Thus, loans from foreign joint owners of companies saw an increase from 40.7% in 2011 to 41.1% in 2012, whereas contributions to charter capital remained at the preceding year level and stood at 49.5% (against 49.3% in 2011) in the structure of direct foreign investments in the Russian Federation.



Source: Federal State Statistics Service of Russia.

Fig. 27. Foreign investments inflow in the economy of Russia in 2004–2012 (as % of GDP)

Table 17

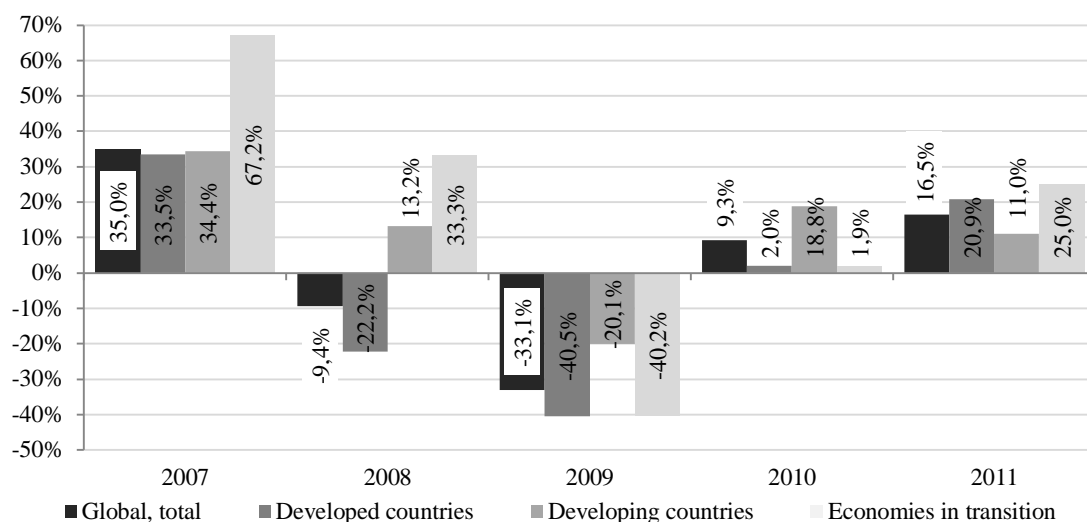
Structure of foreign investments in the economy of Russia¹

	millions of US dollars	As % of the previous year
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¹ Direct investments – investments in real assets, acquisition of a control interest or a corporate governance interest; portfolio investments – investments in securities for the purpose of generating returns on investments only; other investments – revolving investments (loans from international credit institutions, trade loans, etc.).

	Total	Direct investments	Portfolio investments	Other investments	Total	Direct investments	Portfolio investments	Other investments
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
2012	154,570	18,666	1,816	134,088	81.1	101.4	in 2.3 times	78.2

Source: Federal State Statistics Service of Russia.

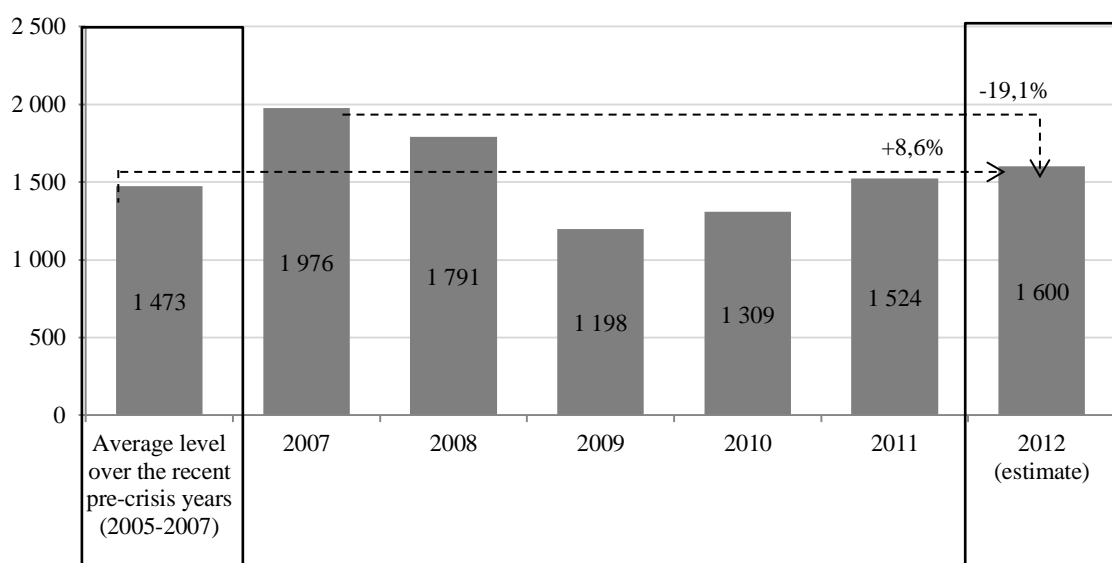


Source: UNCTAD, World Investment Report 2012, 05.07.2012.

Fig. 28. Changes in direct foreign investments inflow worldwide in 2007–2011

According to the UN Conference on Trade & Development (UNCTAD, World Investment Report 2012) report on investments which was published in July 2012, по объему привлеченных direct foreign investments in 2011 the Russian Federation was ranked 8 in the world (according to refined data, it was ranked 8 in 2010 and 6 in 2009 thru 2008). According to the foregoing report, in 2011 Russia accounted for 3.5% of direct foreign investments worldwide (3.3% in 2010, 3.0% in 2009, 4.2% in 2008) and 6.8% of direct foreign investments in developing countries, and economies in transition (6.3% in 2010, 6.3% in 2009, 9.7% in 2008).

According to the UNCTAD report, in 2011 total direct foreign investments worldwide remained lower than the peak level of 2007. According to preliminary estimates, in 2012 total direct foreign investments may amount to \$1.5 to \$1.7 trillion, in 2013 it is expected to grow up to \$1.6 to 1.9 trillion, in 2014 up to \$1.7 to 2.1 trillion. Such a scenario may be realized as long as no serious problems are faced by the global economy.



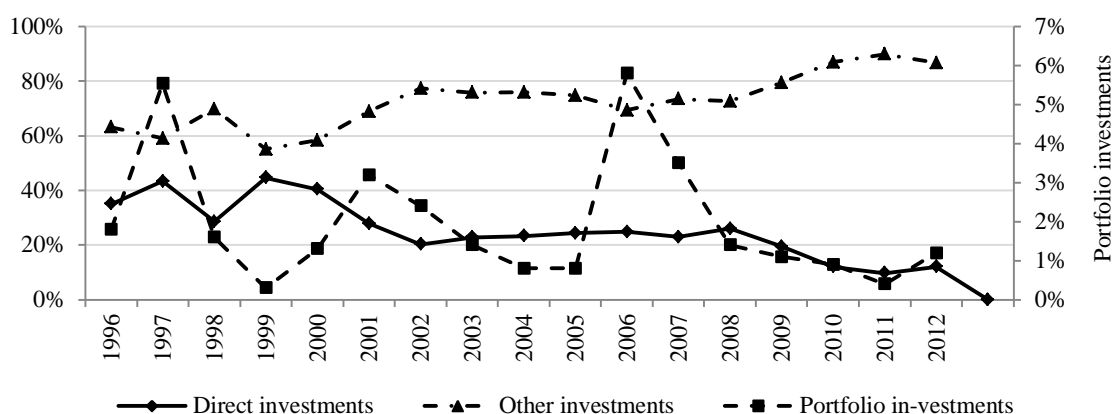
Source: UNCTAD, World Investment Report 2012, 05.07.2012.

Fig. 29. Direct foreign investments inflow worldwide, billions of US dollars

With regard to the portfolio investments inflow in the economy of Russia, a growth of 2.3 times was reported in 2012 against 2011. Furthermore, investments in stocks and units increased by 2.7 times in the structure of portfolio investments, thereby increasing its share from 71.7% in 2011 to 84.4% in 2012

Trade-related loans increased from 16.2% in 2011 to 20.9% in 2012 in the structure other investments. With regard to term of loans, loans with a maturity of more than 6 months increased in 2012 to 39.5% against 28.3% in 2011, whereas loans with a maturity of less than 6 months decreased to 33.2% (against 53.4% in 2011).

In 2012, the structure of foreign investments in the economy of Russia saw changes against the preceding year.



Source: Federal State Statistics Service of Russia.

Fig. 30. Structure of foreign investments in the economy of Russia in 1996–2012

In 2012, concentration of foreign investments remained in the financial sector, financial business, industrial production sector, and trade industry. На данные сферы of the economy in Russia in 2012 accounted for 89.3% of total foreign investments inflow (against 90.5% in 2011) in the Russian Federation. Investors heightened their interest in the industrial production sector, trade industry, and real estate business as investments in transport and communications continued to decline, and investments in financial business decreased.

Distribution of foreign investments by key sector of the economy in Russia is presented in *Table 18*.

Table 18

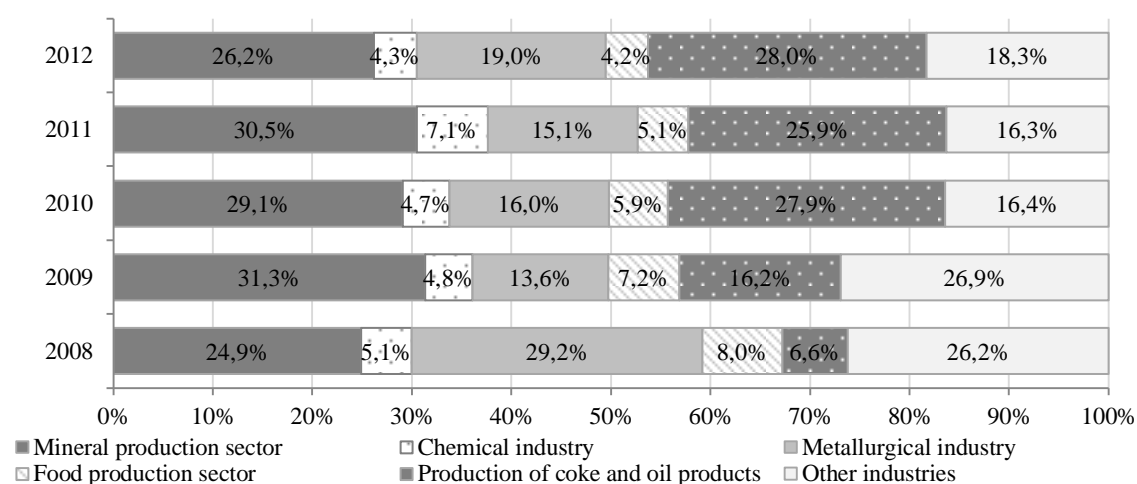
**Sectoral structure of foreign investments in the economy of Russia
in 2010–2012**

	millions of US dollars			Changes as % of the previous year			as % of total		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Production sector	47,558	61,145	69,201	144.2	128.6	113.2	41.4	32.1	44.8
Transport and communications	6,576	5,943	4,622	47.8	90.4	77.8	5.7	3.1	3.0
Wholesale and retail trade; repair of motor vehicles, motor bikes, household items and personal articles	13,334	24,456	25,379	58.5	183.4	103.8	11.6	12.8	16.4
Real estate business, leasehold, and provision of services	7,341	9,237	10,035	92.5	125.8	108.6	6.4	4.8	6.5
Financial business	37,913	86,885	43,395	1426.3	229.2	49.9	33.0	45.6	28.1
Other industries	2,024	2,977	1,938	111.8	148.1	65.1	1.8	1.6	1.2

Source: Federal State Statistics Service of Russia.

The secondary industry was leading in terms of growth within the structure of foreign investments in the industrial production sector in 2012. Investments in secondary industry sectors increased by 19.8% against 2011 (a growth of 23.9% in 2011). Foreign investments in the mineral production sector decreased by 2.6% (a growth of 34.5% in 2011).

In the secondary industry, investments in the production of coke and oil products increased by 22.4% and in the metallurgical industry by 42.2%, reaching \$19.4bn and \$13.1bn, respectively (in 2011, investments in production of coke and oil products increased by 19.4% and in the metallurgical industry by 21.1%). In 2012, foreign investments in chemical and food manufacturing industries decreased by 31.8% and 6.6%, to \$3.0bn and \$2.9bn, respectively, against 2011 (in 2011, foreign investments in these sectors doubled and increased by 10.6%, respectively).



Source: Federal State Statistics Service of Russia.

Fig. 31. Structure of foreign investments in the industrial production sector in 2008–2012

Portfolio and other investments in the industrial production sector increased by 2.2 times and 14.3% in 2012 against 2011 (in 2011, portfolio investments in the industrial production sector increased by 39.9%, other investments grew up by 26.4%). Direct investments in the industrial production sector increased slightly by 1.0% (2011 saw a growth of 40.6%). Thus, other investments in the industrial production sector increased from 83.5% in 2011 to 84.3% in 2012, portfolio investments increased from 0.9% to 1.8%, whereas direct investments decreased from 15.7% to 14.0%, respectively, at that period.

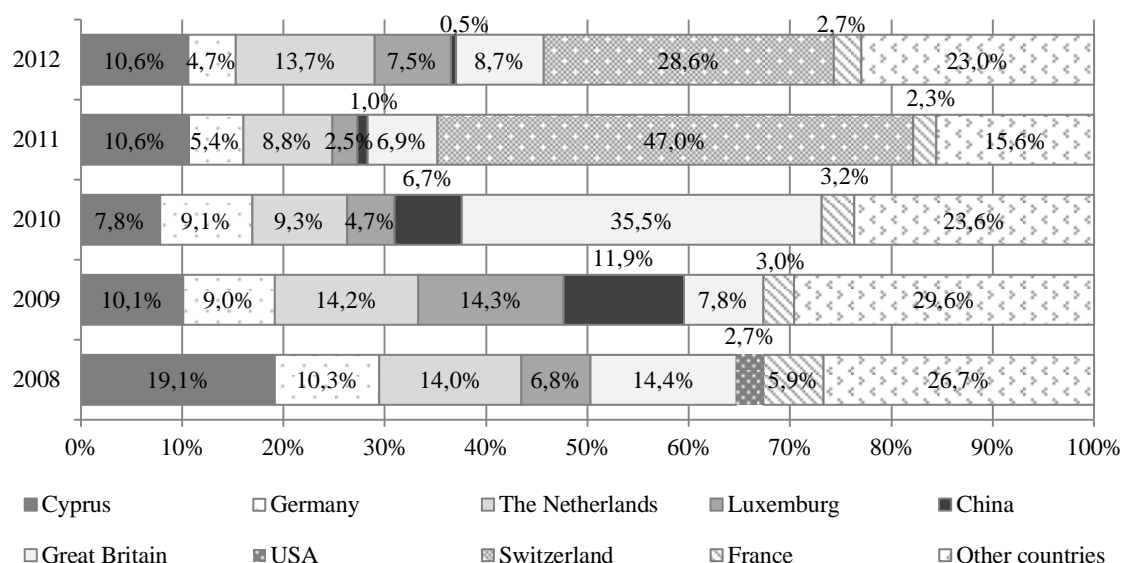
Changes were noted in the structure of foreign investments by type of economic activity in the industrial production sector of economy. In 2012, direct investments in the mineral production sector reduced by 23.7% to \$3.5bn, thereby shrinking their share to 19.4% in total investments in this industry (against 24.8% in 2011). Other investments in the mineral production sector, which increased by 4.9% to amount to \$14.6bn in 2012, increased to 80.2% (against 74.4% in 2011).

Other investments dominated in the secondary industry in 2012. They were increased by 17.1% against 2011 to finally account for 86.3% of investments in the secondary industry (against 88.3% in 2011). Direct foreign investments in secondary industry sectors increased by 21.7%. In 2012, direct investments accounted for 11.6% of the secondary industry (against 11.4% in 2011). Portfolio investments increased by 8.7 times, their share grew up to 2.1% in secondary industry sectors (against 0.3% in 2011).

Changes in the list of countries as large suppliers of capital to the Russian Federation come under notice in the geographic structure of foreign investments in the economy of Russia in 2012. The biggest inflow of investments in the Russian Federation, more than \$44bn, came from Switzerland, \$21.1bn from the Netherlands in 2012. At the year-end (2012), the list of top-3 leading suppliers of capital in the Russian Federation also included Cyprus who invested \$16.5bn in the economy of Russia.

In 2012, investments from Luxemburg showed the highest growth, 2.5 times against 2011, investments from the Netherlands increased by 25.6%, investments from Great Britain grew up by 2.9%. Investments from China decreased by 60.8%, investments from Cyprus, Germany, and France declined by 18.8%, 29.8%, and 3.7%, respectively. The difference in dynamics

of investments resulted in changes in the geographic structure of foreign investments in the economy of Russia.



Source: Federal State Statistics Service of Russia. Data on investments from the United States in 2009 thru 2012, from China in 2008, from Switzerland in 2008 thru 2010 are included into other investments.

Fig. 32. Geographic structure of foreign investments in the economy of Russia in 2008–2012

As of the year-end (2012), accumulated foreign capital, net of monetary authorities, commercial and saving banks, including ruble investments converted into US dollars, amounted to \$362.4bn, thereby showing a growth of 4.4% against the beginning of 2012. Direct accumulated investments reduced by 2.3%, whereas other investments increased by 9.8% from the beginning of the year.

As of the year-end (2012), Cyprus, the Netherlands, Luxemburg, China, and Great Britain were leaders accounting for 65.0% of total accumulated foreign investments (against 63.5% in 2011). The top-5 countries as investors accounted for 69.1% of other investments (against 63.2% in 2011), 58.9% of the structure of direct investments, and 59.5% of the structure of portfolio investments (against 66.9% and 22.1%, respectively, in 2011).

Other investments prevailed in the structure of accumulated foreign investments at the year-end (2012), accounting for 60.1% of the same (against 57.1% in 2011). Direct foreign investments accounted for 37.5% of the structure of accumulated foreign investments (against 40.1% in 2011).