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The review provides a detailed analysis of main trends in Russia's economy in 2013. 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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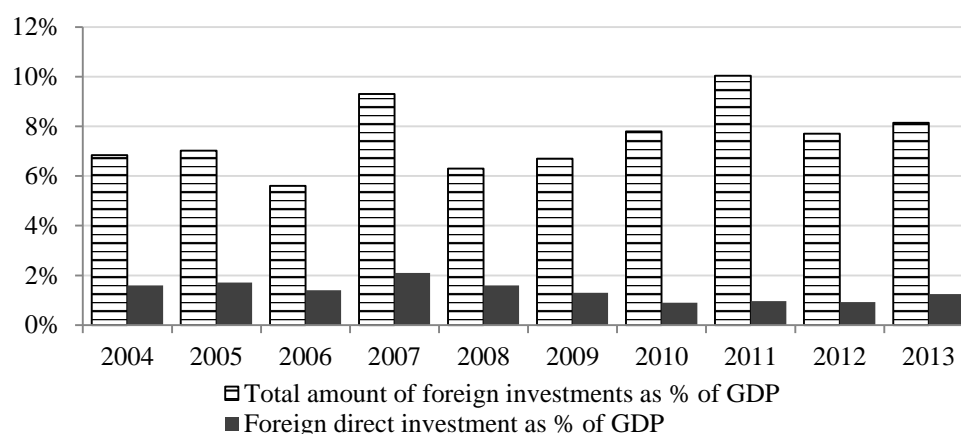
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Foreign Investments in Russia in 2013

2013 was characterised by the increased activity of foreign investors in the Russian Federation in comparison with the previous year. Foreign investments into the Russian economy increased in 2013 by 10.1% compared to the \$170.2bn in 2012. In the form of the income of foreign investors transferred abroad, as well as from the payment of interest for using credits and paying off loans, \$127.2bn was withdrawn in 2013, or 74.7% of the volume of foreign investment during this period (in 2012 it was 88.3%). Compared to 2012, capital outflow in these areas decreased by 6.9%. In 2013, Russia’s investments abroad reached \$201.6bn, which is 34.5% higher than in 2012 and constitutes 118.5% of the investments in the Russian economy (in 2012 it was 97.0%).

The level of foreign investments in the Russian economy has grown from 7.7% of GDP in 2012, to 8.1% of GDP in 2013 (Fig. 34).



Source: Federal State Statistics Service (Rosstat).

Fig. 34. The level of foreign investment in the Russian economy in 2004-2013, as % of GDP

The dynamics of foreign investment in the Russian economy are shown in Table 17.

Table 17

Dynamics of foreign investments in the Russian economy¹

	In millions of dollars				As % of the previous year			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
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	2.3 times	78.2
2013	170,180	26,118	1,092	142,970	110.1	139.9	60.1	106.6

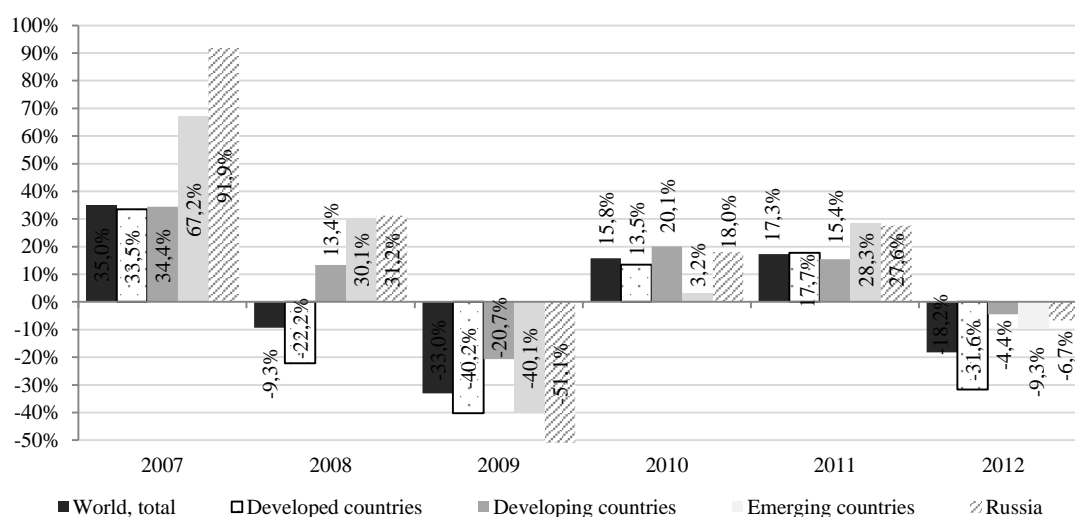
¹ Direct investments – investments in real assets, acquisition of a controlling interest or stock of shares, which gives the right to participate in management; portfolio investments – investments in securities aimed at generating income; other investments – investments made on a return basis (loans from international financial organisations, trade credits, etc.).

Source: Federal State Statistics Service.

In 2013, the total volume of foreign investments in the Russian economy increased due to the growth of the basic components – direct and other investments.

The main volume of direct investments fell within equity payments and loans from foreign co-owners of organisations. Following the results of 2013 the first grew by 7.9% to \$10.0bn, while the latter increased in 1.9 times to \$14.6bn. Thus, the share of loans from foreign co-owners in the structure of foreign direct investments in Russia rose from 41.1% in 2012 to 55.8% in 2013, and the share of equity payments decreased from 49.5% to 38.2%.

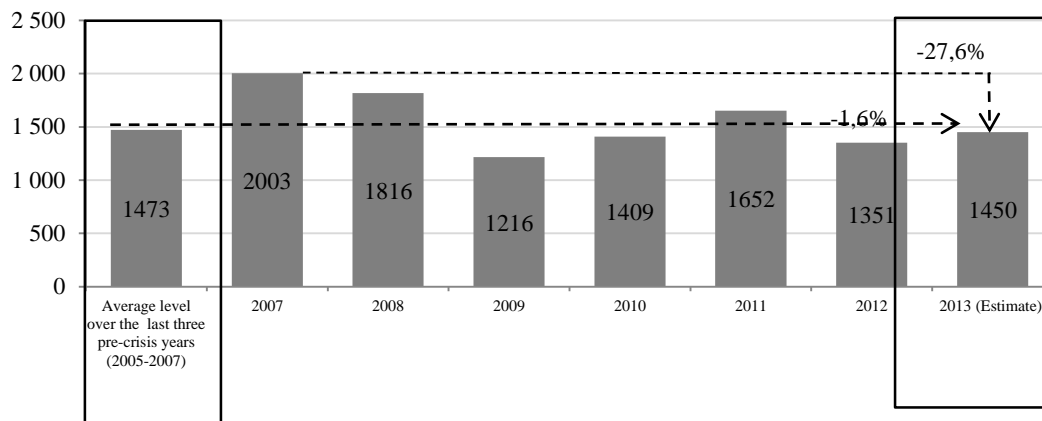
According to the report on investment activities by the UN Conference on Trade and Development (UNCTAD, World Investment Report 2013), published in June, 2013, and based on the volume of foreign direct investments in 2012, the Russian Federation reached ninth place in the world (according to verified data it was ninth in 2011; eighth in 2010 and sixth in 2009-2008). According to this report, in 2012, Russia accounted for 3.8% of world foreign direct investments (2011 – 3.3%, 2010 – 3.1%, 2009 – 3.0%, 2008 – 4.1%) and 6.5% of foreign direct investments into developing countries and countries with economies in transition (2011 – 6.6%, 2010 – 6.1%, 2009 – 6.1%, 2008 – 9.5%).



Source : UNCTAD, World Investment Report, June 26, 2013.

Fig. 35. Change (increase (+), decrease (-)) of the inflow of direct foreign investments in 2007-2012 compared with the previous year

According to the published UNCTAD report, total global foreign direct investment in 2012 was below the peak level of 2007. (Fig. 35 and 36). According to preliminary estimates, total direct foreign investments could reach \$1.45 trillion, in 2013, and in 2014 this amount will grow to \$1.6 trillion, reach \$1.8 trillion in 2015. This scenario is possible assuming the absence of serious problems in the world economy.



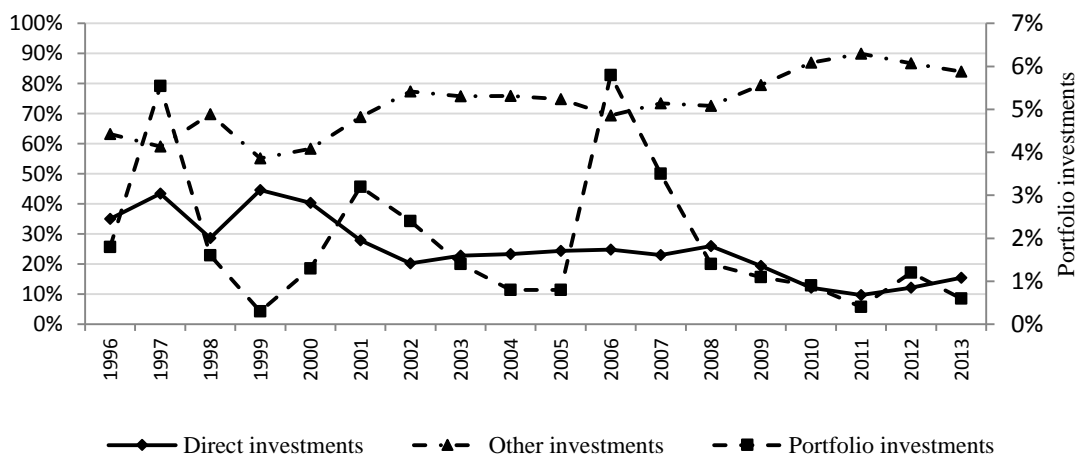
Source : UNCTAD, World Investment Report, June 26, 2013.

Fig. 36. Inflows of direct foreign investment in the world, billions of dollars

In the segment of portfolio investments in the Russian economy in 2013 there was a reduction in investments compared to 2012, by 39.9%. Moreover, their structure experienced a reduction of component investment in stocks and shares to 41.6% and, consequently, a reduction of its share from 84.4% in 2012 to 82.0% in 2013.

The proportion of trade credits in the structure of other investments fell from 20.9% in 2012 to 19.1% in 2013. According to their terms of attraction of financial resources, the share of loans with maturity more than 6 months increased in 2013 to 64.6% compared to 39.5% in 2012. The share of loans provided for a period of less than 6 months, in 2013, fell to 15.1% (in 2012 it was 33.2%).

Compared with the previous year, in 2013, the structure of foreign investments in the Russian economy changed (Fig. 37).



Source: Federal State Statistics Service.

Fig. 37. The structure of foreign investment into the Russian economy, 1996-2013

In 2013, the concentration of foreign investment in industry, commerce and finance remained the same, with these spheres of Russian economy accounting for 90.5% of the total volume of foreign investment into the Russian Federation (in 2012 it was 89.3%). Investor

interest in the industrial and trade sectors increased amid the further decline of investments in transport and communications, real estate transactions and investments in financial activity.

The distribution of foreign investments in key sectors of the Russian economy is shown in *Table 18*.

Table 18

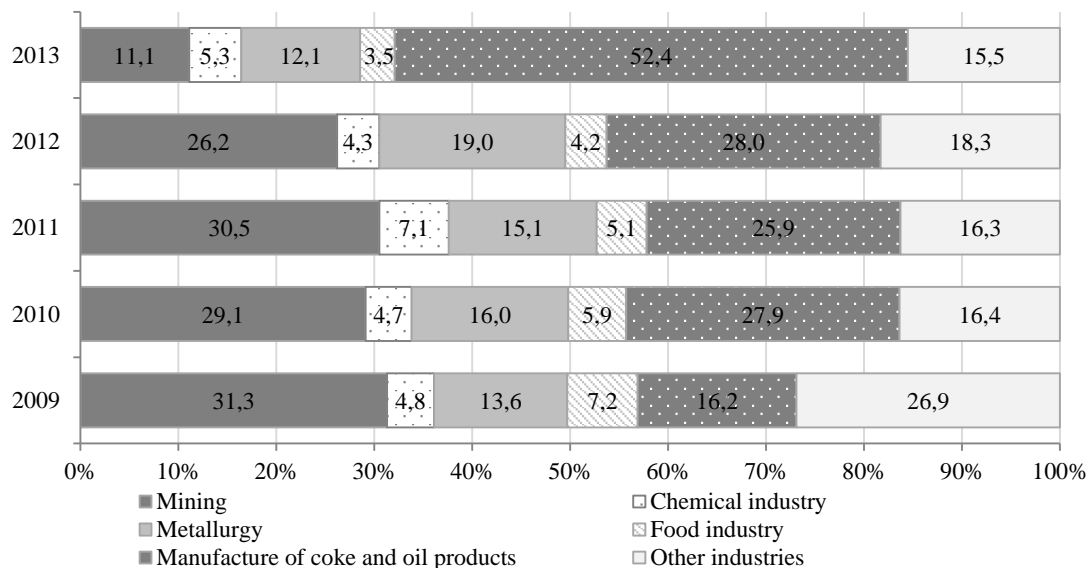
Sectoral structure of foreign investment in the Russian economy in 2011-2013

	Millions of dollars			Change as % of the previous year			As % of the total		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Industry	61,145	69,201	102,849	128.6	113.2	148.6	32.1	44.8	60.4
Transport and communications	5,943	4,622	4,759	90.4	77.8	103.0	3.1	3.0	2.8
Wholesale and retail; repair of motor vehicles, motorcycles, personal and household goods	24,456	25,379	31,030	183.4	103.8	122.3	12.8	16.4	18.2
Real estate transactions, renting and provision of services	9,237	10,035	9,717	125.8	108.6	96.8	4.8	6.5	5.7
Financial activity	86,885	43,395	20,121	229.2	49.9	46.4	45.6	28.1	11.8
Other industries	2,977	1,938	1,704	148.1	65.1	87.9	1.6	1.2	1.0

Source: Federal State Statistics Service (Rosstat).

In 2013, the leading growth sector within the structure of foreign investments in the production sector (*Fig. 38*) was the processing industry when compared with 2012, as investments in the processing industries rose by 82.4% (while in 2012, the growth was 19.8%). Foreign investments in the mining sector fell by 37.1% (in 2012, the reduction amounted to 2.6%).

In manufacturing industry, in 2013, investments in the production of coke and oil products increased by 2.8 times while in the steel industry they decreased by 5.1%, amounting to \$53.9bn and \$12.5bn respectively (in 2012, investments in the manufacture of coke and oil products rose by 22.4%, while in the metallurgical industry they increased by 42.2%). As compared to 2012, foreign investments in the chemical and food industries increased in 2013 by 84.7% and 25.8%, respectively to \$5.5bn and \$3.6bn (in 2012, there was a decline in these industries by 31.8% and 6.6%).



Source: Federal State Statistics Service (Rosstat).

Fig. 38. The structure of foreign investments in industry in 2009-2013

In comparison with 2012, direct and other investments in industry in 2013 grew, by 18.5% and 55.8% respectively (in 2012, direct investments in industry increased by 1.0%, with ‘other investments’ growing by 14.3%). Portfolio investments in industry fell by 56.0% (in 2012, they had increased 2.2 times). Thus, the share of ‘other investments’ in industry rose from 84.3% in 2012 to 88.3% in 2013, whilst that of portfolio investments decreased from 1.8% to 0.5% and the share of direct investment over the period decreased from 14.0% to 11.1%.

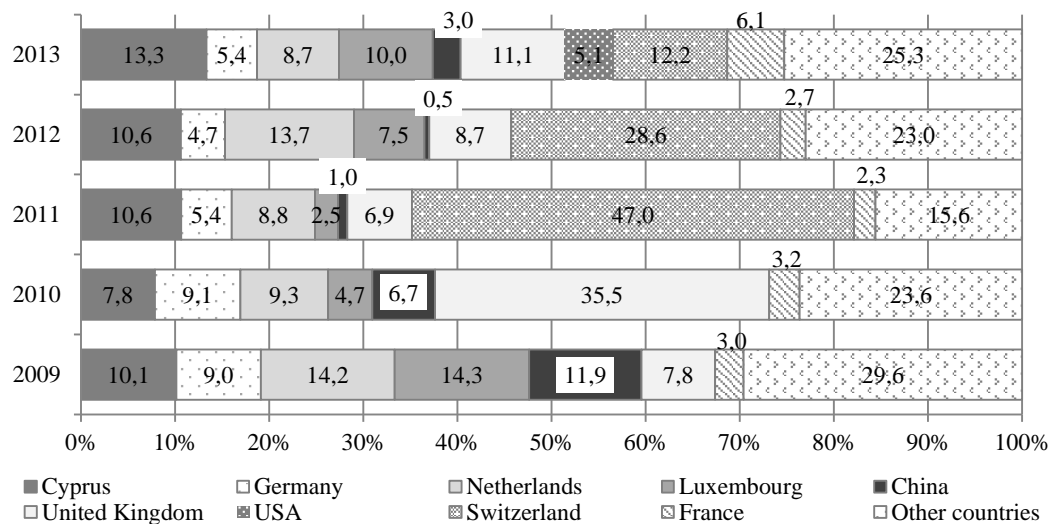
There were changes in the structure of foreign investments by type of industrial economic activity. In the mining sector, direct investments declined, in 2013, by 5.3% to \$3.3bn. Despite the decline, their share of total investments in this industry grew to 29.3% (in 2012 it was 19.4%). In 2013, the share of other investments in mining, which decreased by 8.1% and amounted to \$44.7bn had dropped to 70.5% (in 2012 it was 80.2%).

In 2013, the bulk of investment in the processing industry was also attributed to other investments, which, compared with 2012, increased by 91.9%, amounting to a total investment in manufacturing of 90.8% (in 2012 it was 86.3%). Direct foreign investments in the manufacturing sectors increased by 39.4%. In 2013, the share of direct investments in the manufacturing sector amounted to 8.8%, (in 2012, 11.6%). Portfolio investments in manufacturing decreased 2.9 times, leading to a decrease in their share to 0.4% (in 2012 this was 2.1%).

In the geographical structure of foreign investments in the Russian economy in 2013, we should note the redistribution of countries in the list of major capital exporters to the Russian Federation (Fig. 39). In 2013, the largest volume, \$22.7bn, was sent from Cyprus, while Russia received more than \$20.7bn from Switzerland. The United Kingdom was amongst the top three leaders in terms of the supply of capital to Russia during 2013, its investments amounting to \$18.9bn.

According to the 2013 results, for the countries investing in the Russian economy the highest growth in investments are from China, an increase of 6.8 times compared with 2012 (to \$5.0bn), from France, an increase of 2.5 times (to \$9.7bn) and from Luxembourg, by 47.5% to (\$17.0bn).

Compared with 2012, investments from the United Kingdom increased by 39.8%, and from Cyprus and Germany, by 37.8% and 27.1%, respectively. Investments from Switzerland and the Netherlands over the period under review decreased by 53% and 30%, respectively. The differences in the dynamics of investments changed the geographical structure of foreign investments in the Russian economy.



Source: Federal State Statistics Service (Rosstat). Data on investments from the United States in 2009-2012, and from Switzerland in 2009-2010 are included in 'other investments'.

Fig. 39. Geographical structure of foreign investments in the Russian economy in 2009-2013

As of 1 January 2014, the accumulated foreign capital, without taking into account monetary authorities, commercial and savings banks, including ruble-denominated investments converted into US dollars, amounted to \$384.1bn, which is 6.0% higher than the level as of 1 January 2013. The direct accumulated investments since the beginning of the year fell by 7.3% and portfolio investments, by 34.7% , while other investments increased by 16.0%.

According to the results of 2013, in terms of the total accumulated foreign investment, the leaders are Cyprus, the Netherlands, Luxembourg, the United Kingdom and China, the total share of these being 64.2%, (in 2012 it was 65.0%). At the same time, the share of the top five investors in the 'other investments' segment is estimated at 67.2%, (in 2012, 69.1%), and in the structure of direct and portfolio investments: 58.8% and 50.5% (in 2012: 58.9% and 59.5% respectively).

The structure of foreign investments, accumulated as of the end of September 2013, is dominated by 'other investments', accounting for 65.7% (in 2012 it was 60.1%). The same indicator for direct and portfolio foreign investments amounted to 32.8% and 1.5% respectively (in 2012: 37.5% and 2.4%).