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The review provides a detailed analysis of main trends in Russia's economy in 2014. 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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#### 4.4. Investments in fixed assets in Russia in 2014

Last year the trend towards declining investment in fixed assets was fairly predictable being determined by the fall of investments, which had been under way since Q2 2013. According to the results of 2014, investments in fixed assets amounted to 97.5%, while the volume of completed construction works was 95.5% of that in the previous year. The proportion of investments forming the GDP in 2014 amounted to 19.1% and was thus 0.9 percentage points lower than the corresponding index in 2013.

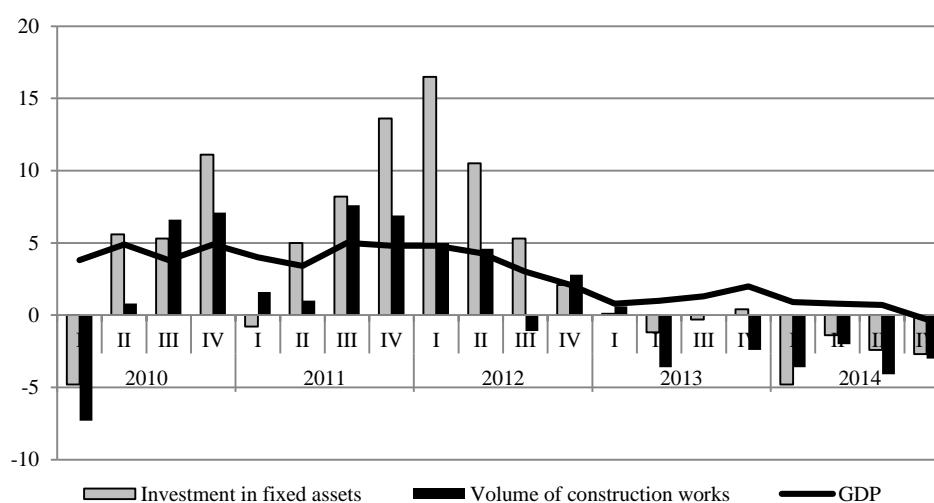
The dynamics of investment in fixed assets is differentiated for large and small enterprises. Through a reduction of the total volume of investment in fixed assets in 2014 by 2.5%, the investment in the fixed capital of large and medium-sized enterprises declined by 4.3% (*Table 11*). So, under conditions of increasing unpredictability in the development of the situation on the domestic market, big business regarded taking investment decisions with great caution. Investment by small businesses and the volumes of their investments showed positive dynamics (although not observable by direct statistical methods), and the cumulative share of these in 2014 was 27.1% of the total volume of the investments in fixed assets.

*Table 11*

**Dynamics of the physical volume of investments in fixed assets 2009–2014,  
% in comparison with the previous year**

	2009	2010	2011	2012	2013	2014
Investment in fixed assets (across the full range of organisations, including recalculations for investments, not observable by direct statistical methods)	84.3	106.0	108.3	106.6	99.8	97.5
Large and medium-sized organisations (investments in fixed assets not including small business entities and volumes of investments, not observable by direct statistical methods)	82.5	105.1	110.4	100.7	91.4	95.7

Source: Rosstat.



Source: Rosstat (Russian Statistics Service).

*Fig. 31. Dynamics of investments in fixed assets in 2010–2014, % compared with the corresponding quarters of the previous year*

The structure of investments in fixed assets by type of main funds in 2012–2014 changed due to an increase in the volumes and proportion of investments in the construction of dwellings and a reduction in the specific weight of investments in non-residential buildings and other forms of construction.

This change of investment structure between housing and industrial construction determined the features of the development of the construction and investment complex in 2014, which was reflected in a reduction in the total investment in machinery and equipment, and vehicles (*Table 12*).

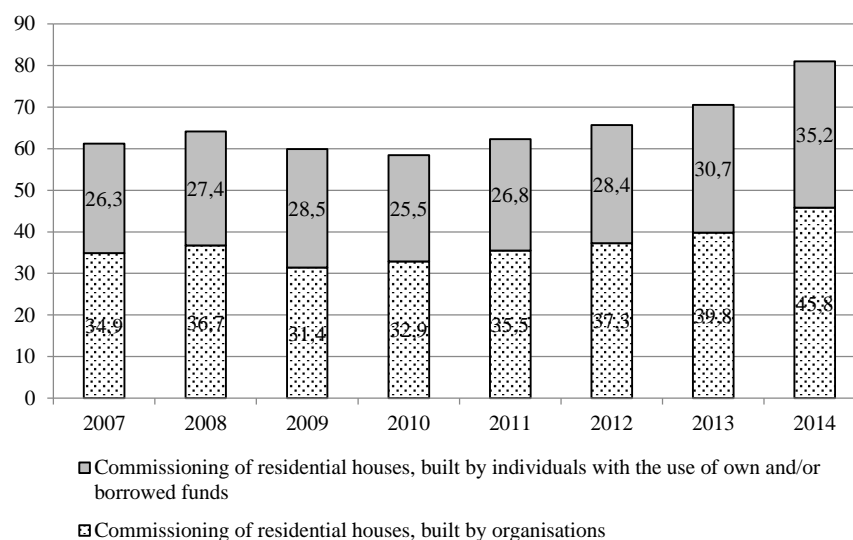
*Table 12*

**Investments in fixed assets by type of the main funds in 2010–2014  
(excluding small businesses and any parameters of informal activity)**

	Rb bn					% of the total				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
<b>Investments in fixed assets</b>	6,625	8,445.2	8,446.2	9,493.4	9,852.91	100	100	100	100	100
Including: dwellings	384.3	396.9	439.2	550.6	642.3	5.8	4.7	5.2	6.1	6.5
buildings (except residential) and constructions	3,610.6	4,577.3	4,417.4	4,840.8	4,909.6	54.5	54.2	52.3	50.2	49.8
machinery, equipment, vehicles	2,179.6	2,896.7	3,006.8	3,366.5	3,358.5	32.9	34.3	35.6	35.1	34.1
among these:										
acquisition of domestic machinery, equipment, vehicles	1,787.3	2,357.9	2,519.7	2,825.2		27.0	27.9	29.8	29.8	
acquisition of foreign machinery, equipment, vehicles	392.3	538.8	487.1	541.3		5.9	6.4	5.8	5.7	
Other	450.5	574.3	582.8	735.5	942.5	6.8	6.8	6.9	7.7	8.6

*Source:* Rosstat.

Positive changes in the commissioning of the total area of residential development had been under way since H2 of 2011, and was connected with some improvements in the situation related to the financing of housing construction. In 2014, across all types of properties, a total of 81.0m sq. metres was commissioned, which was 14.9% bigger than the corresponding index of the previous year. Individual developers built 35.2m sq. metres of total residential space, which made up 43.5% of the total volume of the dwellings commissioned in 2014. (*Fig. 32*).



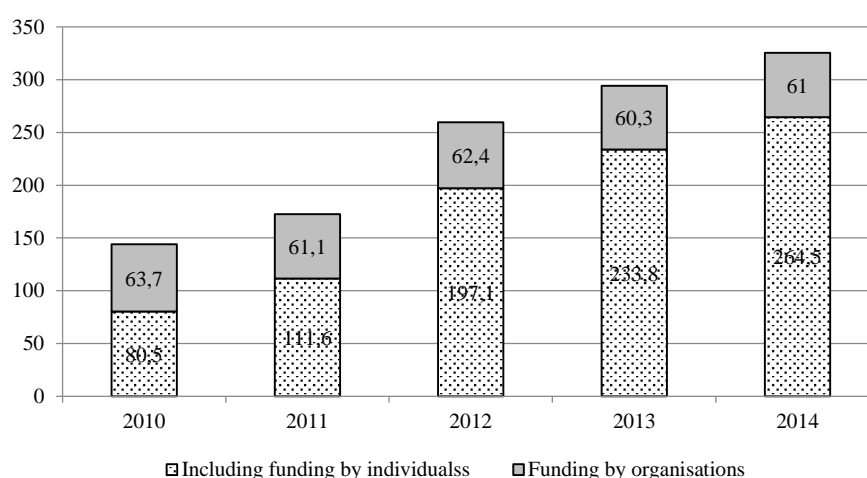
Source: Rosstat.

Fig. 32. Dynamics of commissioning of residential houses in 2007–2014, million sq. metres

Within the structure of the financing of shared housing construction we can observe an increase in the volume and proportion funding by individuals (i.e. members of the public) with a decrease in the extent of funding by organisations (Fig. 33). In 2014 the total of funding by private individuals amounted to 81.2% of the total volume of funding by organisations and individuals, directed at equity in construction, which was 5.3 percentage points higher than the corresponding index in 2012 when the volume of contributions had recovered to its pre-crisis level. The increase in individuals' investment activity was supported by the scale-up of lending. In 2014 mortgage loans were granted to the sum of Rb 1,806.9bn, which was 1.3 times bigger in comparison to the previous year.

The financing of investment activity in 2014 was clearly segmented. In nominal terms, the investments using enterprises' own funds increased while investment with the use of budgetary funds and bank credits fell, in comparison with 2013.

The results for 2014 indicate that the proportion of enterprises' own funds in the structure of investments in fixed assets increased to 48.1%, exceeding by 2.9 percentage points the index of the previous year (Table 13).



Source: Rosstat.

Fig. 33. Funding of shared housing construction according to source of finance in 2010–2014, Rb bn.

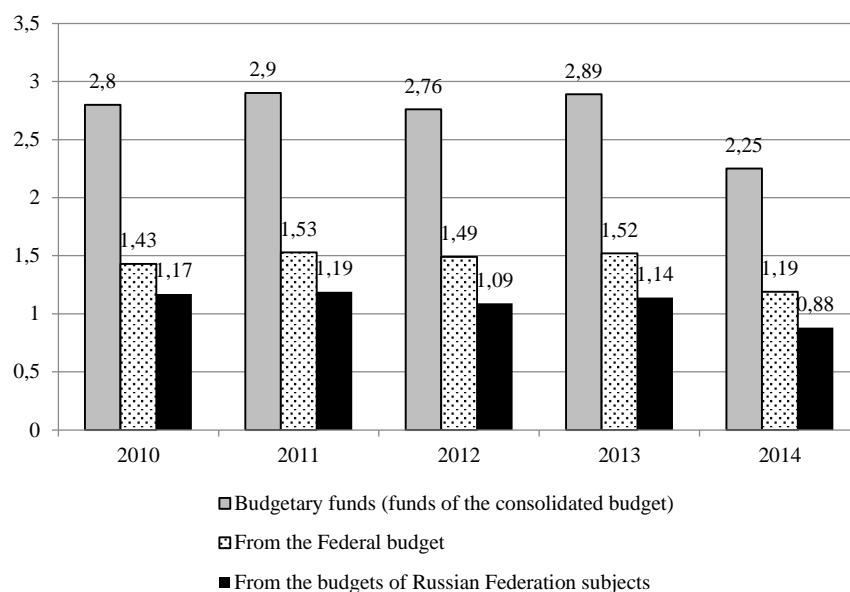
Table 13

**Investments in fixed assets, by funding source 2010–2014 (excluding small businesses and investments, not observable by statistical methods)**

	Rb bn					% of the total				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Investments in fixed assets	6,625	8,445.2	9,595.7	10,047.5	9,852.9	100	100	100	100	100
Including by funding source:										
own funds	2,715	3,539.5	4,274.6	4,548.5	4,736.7	41.0	41.9	44.5	45.2	48.1
raised funds	3,910	4,905.7	5,321.1	5,499	5,116.2	59.0	58.1	55.5	54.8	54.8
Including:										
bank credits	595.8	725.7	806.3	1,000.9	918	9.0	8.6	8.4	10.0	9.3
among them the credit granted by foreign banks	150.0	149.4	113.7	107.4	108.5	2.3	1.8	1.2	1.1	1.1
borrowed funds of other organisations	404.7	485.8	588.2	625.1	632.6	6.1	5.8	6.1	6.2	6.4
investments from abroad				78.8	83.6				0.8	0.9
budgetary funds	1,294.9	1,622	1,712.9	1,909.7	1,598.3	19.5	19.2	17.9	19.0	16.2
from the Federal budget	661.9	855.1	926.6	1004.8	846.5	10.0	10.1	9.7	10.0	8.6
from the budgets of the constituent subjects of the Russian Federation	542.8	665.7	677	752.1	622.9	8.2	7.9	7.1	7.5	6.3
from local budgets			109.3	152.8	128.9			1.1	1.5	1.3
resources of extra-budgetary funds	21	18.2	33.3	27.9	20.9	0.3	0.2	0.4	0.3	0.2
funds of organisations and individuals, raised for shared construction	144.2	172.7	259.5	294.1	325.5	2.2	2.0	2.7	2.9	3.3
including individuals' own funds	80.5	111.6	197.1	233.8	264.5	1.2	1.3	2.1	2.3	2.7
other	1,449.4	1,881.3	1,920.9	1,562.5	1,537.3	21.9	22.3	20.0	15.6	15.6
funds of higher level organisations	1,161.8	1,604.0	1,611.3	1,192.1	1,248.4	18.0	19.0	16.8	13.0	12.7
funds received from the issue of corporate bonds	0.9	0.4	4.2	8.6	7.1	0.01	0.01	0.04	0.02	0.1
funds received from share issues	72.4	82.0	95.6	98.3	84.7	1.4	1.0	1.0	1.0	0.9

Source: Rosstat.

The proportions of budgetary funds changed within the structure of the borrowed funding used for financing investments in fixed assets. In 2014, Rb 1,598.3bn of investment in fixed assets was financed using budgetary funds, which amounted to 16.2% of the total volume of investment in the economy. In comparison with the year 2013, the volume of financing of investments in fixed assets using budgetary funds had therefore fallen by Rb 311.4bn, with approximately equal participation of the funds, received from the Federal budget and other budget sources (*Fig. 34*). The share of state investments in 2014 amounted to 2.25% of GDP, having fallen by 0.74 percentage compared with 2013.



Source: Rosstat.

Fig. 34. Share of budgetary funds in investments in fixed assets in 2010–2014, as % of GDP

In accordance with the Federal Targeted Investment Programme for 2014 (as revised on 1 January 2015) provisions, in the amount of Rb 596.70bn, including Rb 575.01bn from the Federal budget, were made available. In 2014, using annual limit, provisions in the amount of Rb 413.3bn (71.9%) from the Federal budget, and Rb 12.9bn from the budgets of the Federation subjects, were made available. The actual use of funds from all sources of finance amounted to Rb 369.7bn, or 62.0% of the volume of the funds, available for the year, from all sources.

Altogether, in 2014 2,476 construction sites, facilities and events were financed. According to Rosstat data, in 2014 207 objects were actually commissioned out of the 826 objects which it had been, planned to commission. One of the main reasons for delays in commissioning remains the late elimination of restrictions on financing by the main budgetary fund managers.

In 2014, the structure of investments in fixed assets by type of ownership underwent changes due to the influence of a reduction in investment by the state and state-owned corporations. In 2014, the aggregate share from organisations with these types of ownership was equal to 20.7% of the total volume of investments in fixed assets (in the previous year this index was 24.3%).

The main factor, impeding the development of negative tendencies in the construction and investment complex, remained the increase in the absolute volumes and proportions of private investments, as well as the investments, made by organisations and enterprises of mixed, foreign and joint (Russian and foreign) ownership, in the structure of investments in fixed assets.

With the reduction in volume of the state funding of investments in fixed assets in 2014, the participation of the banking sector notably weakened. In 2014 the proportion of bank credits in the structure of funding sources amounted to 9.3%, compared with 10% in the previous year. The changes in the bank lending structure in 2011–2013 were defined by an increase in the volume and proportion of the credits granted by Russian banks, which replaced credits with foreign banks. In 2014 the absolute reduction of bank lending in comparison to that of 2013, was connected with a Rb 83.5bn decrease in lending by Russian banks.

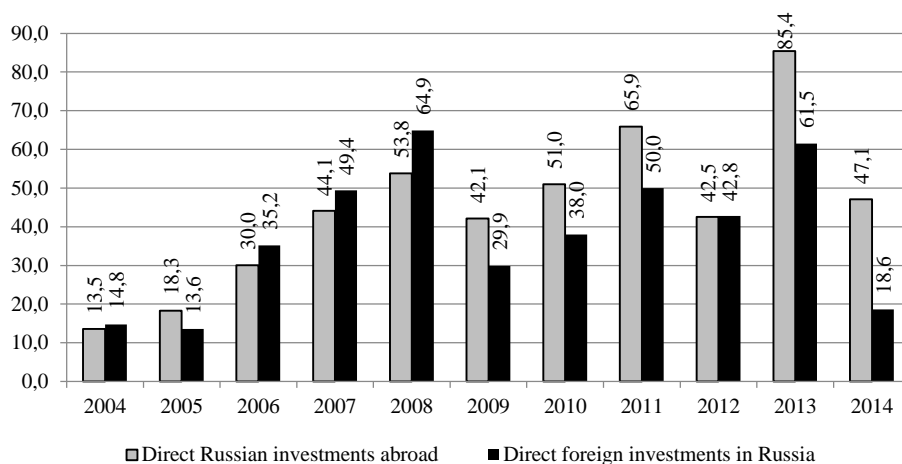
It is worth noting, that in 2014 the volume of funds, aimed at investments using credits with foreign banks, increased by Rb 1.1bn compared with the previous year, however this did not compensate for the contraction of foreign credits, which took place in 2013. In 2014 the credits, granted by foreign banks, remained below their level in 2010 by almost 28%.

The reaction of foreign investors to the change in the geopolitical situation was a sharp reduction of the scales of investment in the Russian economy. The investments, received from

abroad in 2014, amounted to Rb 83.6bn, and their share was equal to just 0.9% of the total volume of investments in fixed assets.

The financing of investment programmes was adversely affected by a strengthening of the tendency towards capital outflow, amounting to \$151.5bn (in 2013 this index amounted to \$61.6bn).

Foreign direct investment in the non-financial sector of Russian enterprises in 2014 decreased 3.3 times compared with that in 2013 and amounted to 62% of the index in the crisis year, 2009. Russian investments abroad in 2014 fell in comparison to 2013, after reaching a maximum during the period 2009–2014. So, in the period 2009–2014 the non-financial corporation sector was a net exporter of capital (*Fig. 35*).



Source: the Central Bank of the Russian Federation.

*Fig. 35.* Direct foreign investments in the Russian economy and Russian investments abroad by non-financial enterprises in 2004–2014, \$bn.

The share of investment, using the funds from parent organisations in the structure of financing sources fell to 12.7% (in 2012 this index was 19.0%). In Russian practice, the funds of parent organisations are mostly represented by large holdings, joint-stock companies and financial and industrial groups with state participation. The weakening of the activity of these institutional investors during 2013–2014 had an extremely negative impact on the overall dynamics of investments in fixed assets.

In 2014, the own funds of enterprises and organisations remained the main source of finance for investments in fixed assets. It is worth noting that, in a situation of increasing risk and a general trend towards a decrease in income, enterprises behaved in a rather reserved fashion towards any investment in production.

In 2014, the changes in the structure of investments in fixed assets in relation to type of economic activity were defined by a stabilisation of the construction and investment activity of industry and by an increase of activity in pipeline transport, the cumulative share of which amounted to almost half of the total investment in the economy. The volume of investment in pipeline transport amounted to 104.7% when compared with the corresponding index in 2013, and was the result of a continuation of existing investment projects. It is worth mentioning, that the current structure of investment in transport is increasing the risks of a growing disparity between the development of different types of transport. Over the last four years investment in rail transport has been diminishing, which, in the medium term, may lead both to limitations of the overall transit potential, and have an impact on the development of logistics services (*Table 14*).

*Table 14*



**Investments in fixed assets (excluding small businesses and volumes of investment, not observable by direct statistical methods), % in comparison with the previous year**

	2010	2011	2012	2013	2014
Total	106.0	108.3	106.6	99.8	95.7
agriculture	89.1	114.6	92.8	96.0	93.0
fishery, fish-farming	108.8	137.4	127.4	77.4	83.3
industry	106.1	110.9	107.4	96.8	99.9
extraction of commercial minerals	106.6	113.8	111.8	93.6	105.9
manufacturing industries	101.5	105.3	106.7	101.4	98.6
production and distribution of electricity, gas and water	112.5	114.7	101.7	95.8	92.9
construction	110.9	90.6	79.9	84.0	81.2
wholesale and retail trade	120.2	90.0	107.1	103.1	110.7
hotels and restaurants					108.4
transport and communications	102.4	118.3	98.4	88.5	92.1
financial activity	112.9	136.8	111.4	80.8	74.9
real estate operations	125.4	91.9	100.8	104.4	103.1
state administration	115.2	112.4	98.7	93.7	84.4
education	84.9	122.0	85.2	77.9	97.4
healthcare and provision of social services	109.7	113.0	93.6	98.8	71.9
provision of other services	103.6	103.5	111.8	75.0	72.7

Source: Rosstat.

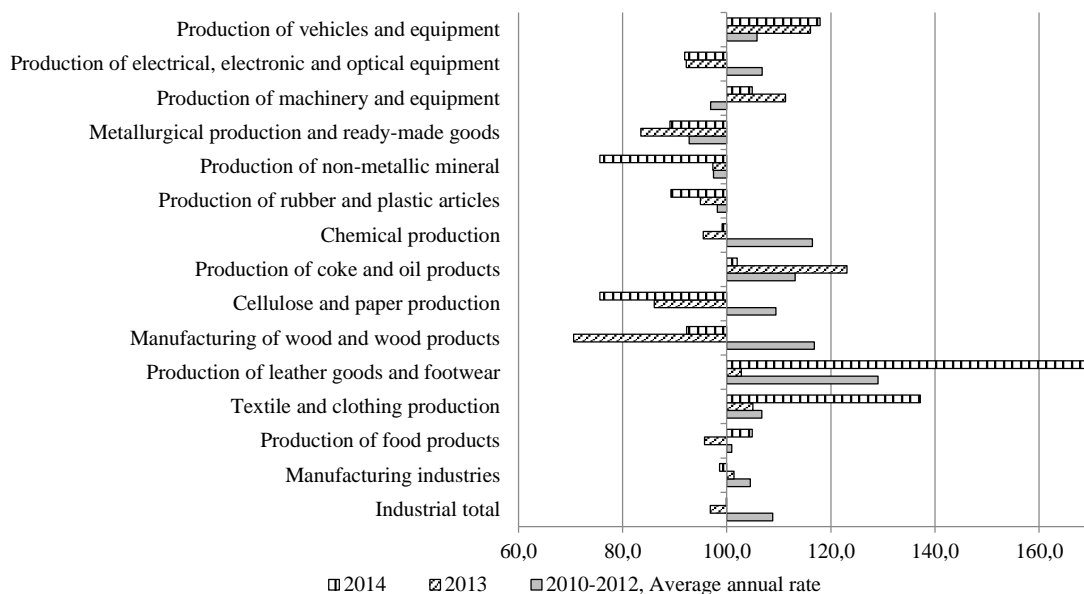
In 2014, investment in fixed assets in industry by physical volume remained approximately at the level of the previous year. However, in the same year the structure of the investments in fixed assets in industry underwent changes due to the influence of an upsurge in investment activity in the field of fossil fuel extraction. This upsurge compensated for its failure in the previous year and allowed a stabilisation of the situation in this type of economic activity.

Investments in fixed assets for the production and distribution of electricity, gas and water fell by 7.1% in comparison with 2013. A notable feature of 2014 was the suspension of the positive dynamics of investment in fixed assets in the manufacturing industry, which had been observed over the previous four years.

In 2014 investments in fixed assets in the field of vehicle production (117.9%), the production of coke and oil products (102.0%) – the cumulative share of which amounted to more than 40% of the investments in the fixed assets of manufacturing – were growing at a faster pace than the overall average. At the same time it is worth mentioning, that the investment activity in these branches of economic activity was accompanied by a simultaneous increase of investment activity on the part of associated industries of the machine building complex, producing capital goods. In 2014 investment in the production of machinery and equipment amounted to 104.9%. Investment in the production of electrical equipment, electrical and optical equipment over the previous six years had been subject to fairly substantial fluctuations, and, although, this type of economic activity in investment in fixed assets exceeded the pre-crisis level of 2008, the reduction in activity in 2013–2014 does not provide sufficient grounds for any positive forecasts in the short term.

With the tendency towards an overall reduction in the volume of investment in fixed assets, which has become established in the last three years, a decline has been registered for investments in the development of industries associated with metallurgy (89.1% in comparison with the same index in 2013) and those industries producing constructional materials (75.6%).

In 2014 the tendency for an increase in investment activity in the consumer complex was preserved, being connected with an active involvement in the production of competitive capacity and the activation of import substitution. In the food products industry the increment of investments in comparison with the previous year amounted to 4.9%, while, in textile and clothing production it was 37.2%, and in leather and footwear production, 69.5% (Fig. 36).



Source: Rosstat.

*Fig. 36.* Dynamics of investment by type of activity in manufacturing industries in 2010–2014, % in comparison with the previous year

In 2013–2014 the main factors, restraining the investment activity of organisations, were insufficient demand for products and high interest rates, as well as uncertainty over the economic situation. In 2015 it is expected, that the predicted decline of investment in fixed assets will make the largest contribution to the rate of decrease of economic growth.