

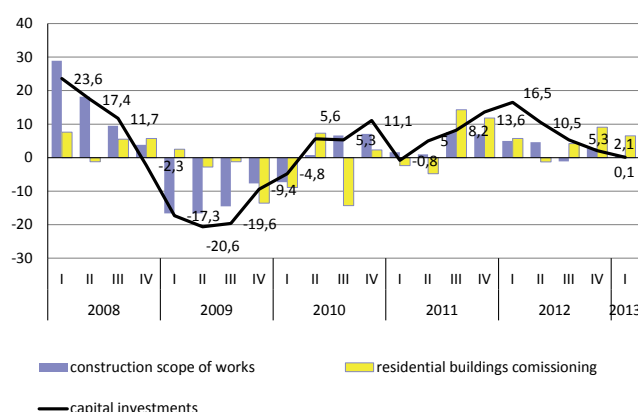
CAPITAL INVESTMENT IN RUSSIA IN Q1 2013

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In January thru May 2013 capital investments in real terms stood at 99.6% on a year-on-year basis. An uptrend in corporate own funds and federal budget funds was boosted in the structure of sources of investment financing. In Q1 2013, investments dropped in real terms on a year-on-year basis by 11.4% in the extractive industries, 13.9% in the production and distribution of electric power, gas and water, and 19.1% in transport sector. The preceding-year uptrend in investments remained unchanged in manufacturing industry, but output declined due to ineffective usage of investments.

The situation in the investment sector of the economy in 2013 has been governed by slowdown in business activity which began in H2 2012. Capital investments stood at 99.6% year on year in January–May 2013 and 100.4% in May. The scope of works performed in the construction sector within the first five months of the year stood at 99.0% (101.7% in May 2012), commissioning of residential buildings at 100.8% (110.9%) year on year.

In Q1 2013, capital investments in real terms stabilized at the level reported in the preceding year. Given that the 3-year downtrend for capital investments was reportedly overcome in Q1 2012, the result at the beginning of 2013, all other conditions being equal, shouldn't have produced alarming anticipations. However, it should be noted that capital investments saw an extremely unbalanced dynamics in 2012 and was characterized from H2 of the year by rapid slowdown in growth rates. In September and December 2012, capital investments declined against on a year-on-year basis. Low investment activity late in 2012, lack of required backlogs in construction had a downward im-



Source: Rosstat.

Fig. 1. Capital investments in 2008–2013, as percentage of a respective quarter in the preceding year

part on investments early in 2013. Capital investments stood at 12.6% of GDP in Q1 2013, being 0.2 p.p. less than in 2013.

Capital investments dynamics is differentiated by small and large enterprises. Capital investments con-

Table 1

CAPITAL INVESTMENTS STRUCTURE BY TYPE OF FIXED ASSETS IN Q1 2009–2013
(EXCLUSIVE OF SMALL-SIZED ENTREPRENEURSHIPS AND INFORMAL ACTIVITY PARAMETERS),
AS PERCENTAGE OF TOTAL

	Billions of rubles					As percentage of total				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Capital investments	933,3	802,1	956,8	1211,0	1310,2	100	100	100	100	100
including:										
housing	56,4	44,3	47,6	48,4	63,9	6.0	5.5	5.0	4.0	4.9
buildings (other than residential buildings) and facilities	481,8	410,5	499,2	604,6	609,4	51.6	51.2	52.2	49.9	46.5
machinery, equipment and transport means	300,6	266,7	326,1	441,1	506,5	32.2	33.2	34.1	36.4	38.6
of which: purchase of imported machinery, equipment, transport means	76,6	54,4	63,6	71,4	89,9	8.2	6.8	6.6	5.9	6.9
others	94,5	80,6	83,9	116,9	10,4	10.2	10.1	8.7	9.7	10.0

Source: Rosstat.

**CAPITAL INVESTMENTS STRUCTURE BY SOURCE OF FINANCING IN Q1 2009–2013, AS PERCENTAGE OF TOTAL
(EXCLUSIVE OF SMALL-SIZED ENTREPRENEURSHIPS AND INFORMAL ACTIVITY PARAMETERS)**

	Billions of rubles					As percentage of total				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Capital investments	933,3	802,1	956,8	1211,0	1310,2	100	100	100	100	100
including by source of financing:										
equity	381,3	362,1	464,8	613,3	693,9	40.9	45.1	48.6	50.6	53.0
fundraising	531,7	423,9	474,7	571,8	583,8	57.0	52.8	49.6	47.2	44.6
including:										
bank loans	125,0	76,0	66,5	97,6	130,3	13.4	9.5	7.0	8.1	9.9
of which										
foreign bank loans	40,0	25,3	17,4	23,2	15,9	4.3	3.2	1.8	1.9	1.2
loans from Russian banks	85,0	51,7	49,1	74,4	114,4	9.1	6.3	5.2	9.2	8.7
other organizations' borrowings	85,9	51,3	47,0	64,4	94	9.2	6.4	4.9	5.3	7.2
budget funds	121,5	103,3	127,6	133,4	148,4	13.0	12.9	13.3	11.0	11.3
of which:										
federal budget	37,9	44,2	51,9	57,0	70,4	4.1	5.5	5.4	4.7	5.4
budgets of constituent territories of the Russian Federation	75,9	52,8	69,0	67,8	67,6	8.1	6.6	7.2	5.6	5.2
money of extrabudgetary foundations	2,1	1,6	3,4	2,9	6,1	0.2	0.2	0.3	9.2	0.5
others	197,2	191,7	230,2	273,5	204,9	21.1	23.9	24.1	22.6	15.6
of which:										
funds of senior organizations	164,2	154,5	200,7	237,4	135,8	17.6	19.3	21.0	19.6	10.4
money generated from corporate bonds issue	0,1	0,02	n/a	n/a	0,4	0.01	0.0	-	-	0.0
money generated from stock issue	5,2	14,9	10	13,6	15,4	0.6	1.9	1.0	1.1	1.2
money obtained for participatory construction projects (organizations and individuals)	20,3	16,1	17,3	25,9	32,5	2.2	2.0	1.8	2.1	2.5
including households' money	8,4	7,8	10,6	16,6	25,4	0.9	1.0	1.1	1.4	1.9
Of total capital investments – foreign investments	62,9	46,2	36,4	40,3	36,6	6.7	5.8	3.8	3.3	2.8

Source: Rosstat.

tracted by 5.0% in the segment of large and medium-sized enterprises in Q1 2013. In Q1 2013, investments in the segment of small-sized enterprises increased by 7.1%, and, though the growth was one half as high year on year, but encouraged stabilization of the situation in the investment and construction sector at the level reported in Q1 2012. Transformation of capital investments structure in Q1 2013 took place through substantial increase in volumes and share of investments in housing construction and machinery, equipment and transport means and shrinkage of a share of investments in non-residential buildings and facilities. A share of investments in purchase of domestic machinery and equipment in total capital investments have gradually been increasing over the last five years. However, in Q1 2013 a share of imported machinery, equipment, transport means increased 17.7% in total investments in machinery, equipment, transport

means against 16.2% in Q1 2012. Outrunning growth in investment imports over capital investment dynamics has been following the recent trend and shows that domestic production of capital goods needs further development.

Post-crisis development of the construction & investment sector is distinguished by slow recovery of volumes of investments in housing construction. Investments in housing construction saw an outrunning growth over general dynamics of capital investments and construction of non-residential buildings in Q1 2013. Positive dynamics of commissioning of total housing floor space of residential buildings was noticed from H2 2011 and governed by the improvement in the situation with financing. Entities of all forms of ownership constructed 126,100 apartments, 10,4 million square meters of total floor space, in Q1 2013, showing an increase of 6.5% year on year. Individual

Table 3

CAPITAL INVESTMENTS BY TYPE OF ACTIVITY (EXCLUSIVE OF SMALL-SIZED ENTREPRENEURSHIPS AND VOLUME OF INVESTMENTS WHICH CAN'T BE SEEN THROUGH DIRECT STATISTIC METHODS) IN Q1 2009–2013

	Growth rate, year on year					Structure as percentage of total				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Total	95	78.9	101.9	116.8	95.0	100	100	100	100	100
agricultural sector, hunting and forestry	74.8	100.8	107.8	116.7	102.5	2.9	3.4	3.0	3.2	3.3
fishing, fish farming	85.8	107.3	194.4	161.4	46.4	0.04	0.1	0.1	0.1	0.1
industrial sector	95.2	90.4	102.0	129.0	94.8	47.1	51.7	49.6	53.8	53.8
mineral production	90.7	89.9	107.5	132.2	88.6	20.7	22.4	22.1	25.0	24.1
manufacturing	97.8	78.6	104.7	128.9	108.0	19.1	17.7	17.9	18.5	20.2
electric power production and distribution,	100.6	122.6	87.2	121.9	86.1	7.3	11.6	9.6	10.3	9.5
construction industry	97.5	70.3	96.7	134.5	106.5	3.2	2.5	2.3	2.6	2.6
retail and wholesale trade	96.2	84.2	129.7	91.8	119.1	2.7	2.0	2.7	2.2	3.0
hotels and restaurants	89.9	141.2	94.7	40.3	135.4	0.3	0.5	0.5	0.2	0.7
transports and communication	105.4	76.5	113.0	106.2	80.9	25.6	24.2	26.3	24.0	19.5
railway transport	61.4	130.7	87.8	82.1	94.0	3	6.8	5.3	3.7	3.3
pipeline transportation	147.4	55.1	125.8	107.3	60.8	13.3	8.6	11.1	10.4	6.6
communications	75	82.8	107.9	129.0	104.1	3	3.1	3.0	3.2	3.2
financial business	135.3	61.4	129.6	140.6	99.8	1.5	1.1	1.3	1.4	1.6
real estate transactions.	76	66.7	87.5	97.9	115.4	10.2	8.8	7.4	6.3	9.2
state administration	106.7	81.5	85.7	121.3	80.0	1.1	1.2	0.8	0.8	0.7
education	80.9	97	124.3	88.7	116.1	1.1	1.3	1.5	1.2	1.2
healthcare and provision of social services	93.2	83.8	115.8	125.7	102.9	1.5	1.5	1.6	1.6	1.6

Source: Rosstat.

developers constructed 5,3 million square meters of total floor space of residential buildings, or 51.4% of total housing floor space commissioned in Q1 2013.

In 2010–2013, financing of housing construction underwent structural changes, thereby increasing the amount and a share of involvement of individuals in participatory housing construction projects as corporate costs were reduced. In Q1 2013 vs. Q1 2012, money for participatory construction increased by Rb 6,7bn, including an increase of Rb 8,8bn in household money. Growth in investment activity among individuals was supported by broadening the scope of lending. Mortgage loans amounted to Rb 224,1bn at the end of Q1 2013, having increased 1.25 times against the preceding year.

Post-crisis recovery of investment financing was increasingly focused on the use of equity capital of enterprises. In Q1 2013, a share of corporate proprietary investments stood at 53.0%, exceeding by 2.4 p.p. the value of Q1 2012. A share of investments through corporate profit increased regardless of the fact that profitability in the economy at large stood at 8.4% in Q1 2013, having declined by 2.3 p.p. year on year.

Amid general trend towards reviving involvement of the banking sector in investment financing, the

effect of the process on business activity in the construction sector can hardly be evaluated in a unique manner. In Q1 2013, bank loans accounted for 9.9% of the structure of sources of financing and exceeded absolute values by 5.1% year on year. Changes in the bank lending structure over the past three years have been distinguished by higher amounts and share of loans from Russian banks, thereby substituting foreign bank loans. Loans from Russian banks increased by Rb 40,0bn, whereas foreign banks' loans declined by Rb 7,3bn against Q1 2012.

A capital outflow trend had an adverse effect on the rate of involvement of banks in financing of investment programs in Q1 2013. According to Central Bank's preliminary evaluation, net capital outflow in the private sector in January–March 2013 amounted to \$25,8bn, including \$24,0bn through the banking sector. In addition, direct foreign capital investments declined in Q1 2013 while their share in total investments in Russia's economy dropped to 2.8% against 3.3% in the preceding year.

A share of budget funds at different budget levels underwent changes in the structure of funds raised for capital investment financing. In Q1 2012, Rb 148,4bn of capital investments (11.0% of total investments in the economy) were financed with budget funds.

Growth in volumes of investment financing with federal budget funds compensated moderate involvement of budgets of the constituent territories of the Russian Federation.

The Federal Targeted Investment Program (FTIP) for 2013 provides for Rb 869,5bn of federal budget funds, being Rb 41,9bn less than in 2012. In addition, the volume of funds to be allocated to finance special works performed within a state defense order as part of program and non-program components, amounts to 193,4bn Rb, exceeding by Rb 30,4bn the volume of 2012.

According to Rosstat (Federal State Statistics Service), items included into the FTIP (net of special works within state defense order) were financed with Rb 217,4bn of federal budget funds (35.7% of the allowed annual limit), Rb 61,2bn from all sources of financing was actually used. Items not included into federal targeted programs were financed with Rb 39,2bn or 18.9% of federal budget funds.

Capital investments by type of economic activity underwent significant changes in the period of 2009 thru 2013. The period of post-crisis development was distinguished by less deep decline rates of investment activity in the industrial sector against figures in the economy at large. In Q1 2013, a share of investments in the industrial sector remained at the level of Q1 2012 (53.8%).

Positive dynamics of capital investments in manufacturing sector (108.0% against Q1 2012) was maintained in Q1 2013, whereas investments in mineral production declined (88.6%). Investments in wood-working and production of wood items (170.2% against Q1 2012), chemical industry (127.9% against Q1 2012), production of coke and oil products (125.5% against Q1 2012), production of machinery and equipment (111.2% against Q1 2012) grew at outstripping rates over the average level in the manufacturing sector.

In Q1 2013, the mid- and high-tech sector saw accelerated growth rates in capital investments by type of activity. Capital investments in machine building industry and science increased 31.9% and 31.2% respectively against Q1 2012.

Types of activity such as production of electric power, gas and water (86.1% κ Q1 2012), transport (80.9%) had an adverse effect on the dynamics of investments.

Infrastructure development has been given a priority in the context of problems relating to the promotion of economic growth. A new fiscal period in 2014–2016 provides for allocation of National Wealth Fund resources and pension accruals to finance self-supporting infrastructural projects along with the development of new instruments attractive for private investments. ●