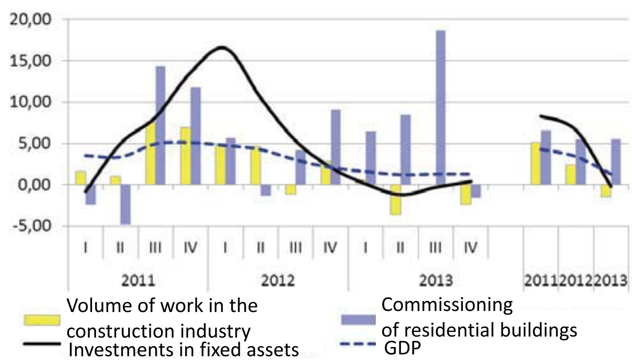
INVESTMENTS IN FIXED ASSETS IN JANUARY–FEBRUARY 2014

O.Izryadnova

Falling investments in fixed assets in early 2014 were the result of the negative tendency which had formed in the construction investment complex in 2013. Investments in fixed assets in January-February this year were 95.0% while the volume of construction works was 96.2% of the corresponding indicator for last year.

The declining trend in investments in fixed assets throughout 2013 and into early 2014 was quite predictable and was determined by the extremely low level of business activity seen from the second half of 2012. The stabilisation of investments in fixed assets in the 1st quarter of 2013 at the level of the previous year was replaced by a decline of 0.5% during the 2nd quarter of 2013, and in the 3rd quarter, by 0.3% compared with the corresponding quarter of the year before. A revival of business activity in October-December failed to compensate for the negative tendencies of the previous months and, in general, the 2013 results for investments in fixed assets were 99.8% of the corresponding figures of the previous year, with the volume of work in the construction industry standing at 98.5%. The share of investments in GDP in 2013 was 19.8%, which corresponded to the average value of the last four years.

The dynamics of investments in fixed assets are different for large and small enterprises. While the total volume of investments in fixed assets in 2013 decreased by 0.2%, investments in fixed assets of large and medium-sized enterprises decreased by 5.6% (*Table 1*).



Source: Federal State Statistics Service (Rosstat).

Fig. 1. Dynamics of investments in fixed assets in 2011–2013, as % of the corresponding period of the previous year

Table 1

DYNAMICS OF PHYSICAL VOLUMES OF INVESTMENTS IN FIXED ASSETS IN 2009–2013, AS % OF THE PREVIOUS YEAR

	2009	2010	2011	2012	2013
Investments in fixed assets (for the entire range of organisations, including recalculation for investments unobservable using direct statistical methods)	84.3	106.0	108.3	106.6	99.8
Large and medium-sized enterprises (investments in fixed assets excluding small businesses and volume of investments unobservable using direct statistical methods)	82.6	105.1	110.4	100.7	94.4

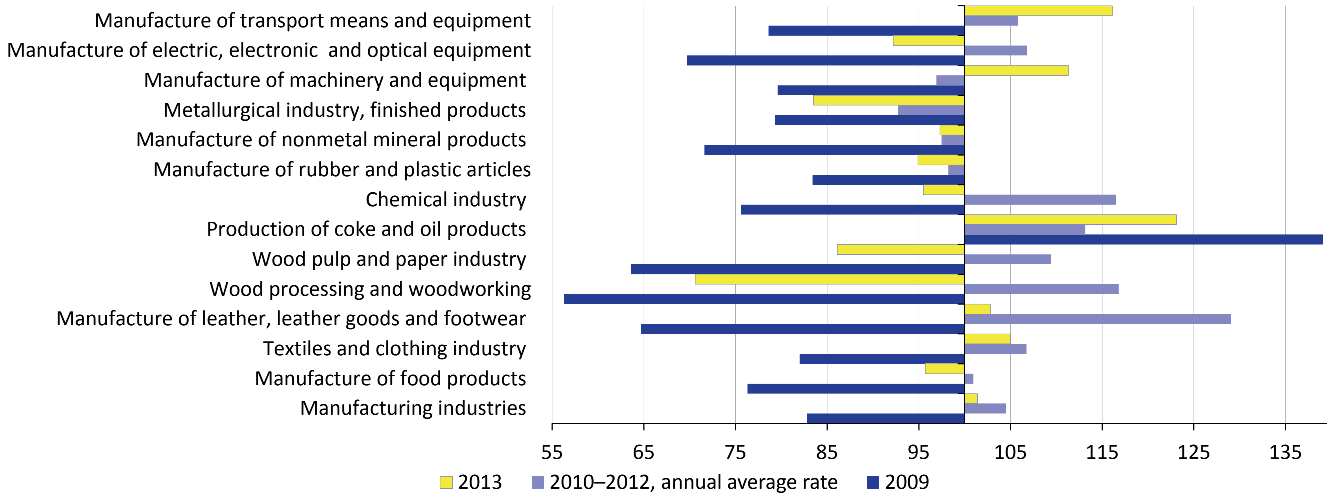
Source: Federal State Statistics Service (Rosstat).

Table 2

INVESTMENTS IN FIXED ASSETS (EXCLUDING SMALL BUSINESSES AND THE VOLUME OF INVESTMENTS UNOBSERVABLE USING DIRECT STATISTICAL METHODS) IN 2008–2013 AS % OF THE PREVIOUS YEAR

	2008	2009	2010	2011	2012	2013	2013 as % of 2008
Total	109.9	84.3	106.0	108.3	106.6	99.8	103.0
Industry	109.9	90.7	106.1	110.9	107.4	96.8	111.0
Mining	106.5	89.9	106.6	113.8	111.8	93.6	114.1
Manufacturing industries	112.5	82.8	101.5	105.3	106.7	101.4	95.7
Production and distribution of electricity, gas and water	111.6	108.9	112.5	114.7	101.7	95.8	136.9
Transport and communications	116.1	103.5	102.4	118.3	98.4	88.5	109.2

Source: Federal State Statistics Service (Rosstat).



Source: Federal State Statistics Service (Rosstat).

Fig. 2. Growth rates of fixed asset investments in manufacturing industries

In 2013 changes in the structure of investments in fixed assets by type of economic activity were caused by a sharp decline in construction and investment activities in manufacturing and transport, which together had accounted for almost 70% of investments in the economy. The volume of investments in the transportation industry was 88.5% of the 2012 figure due to the completion of large investment projects in pipeline transport and to a reduction in the scale of investment in railway transport due to a decrease in cargo turnover and the poorer financial results of companies and organisations.

In industry, investments in fixed assets in 2013 were 96.8% of the 2012 figure. One feature of the 2013 investment process was the maintenance of the positive dynamics of investments in fixed assets in the manufacturing sector (101.4% of that in 2012) unlike other types of industry activities, even though this was the sector with the deepest fall during the crisis and slower post-crisis recovery. Investments in mining operations decreased by 6.4%, while those in the production and distribution of electricity, gas and water decreased by 4.28%, compared with 2012. In 2013 investments in fixed assets for vehicle manufacturing, and that of machinery and equipment and of coke and oil products grew faster than the average for manufacturing industry – by 16.1%, 11.3% and 23.1%, respectively.

The structure of investments in fixed assets, by type of fixed asset, changed in 2013 compared with 2012 due to an increase in the volumes and shares of investments in residential construction, and in machinery, equipment and vehicles, whilst the share of investments in non-residential buildings and structures decreased (*Table 3*). In 2013 the share of imported machinery, equipment and vehicles was 16.1% in the total investment in this area. The growth of investment in imports, compared with the dynamics of investment in fixed assets, has continued for several years now,

Table 3

STRUCTURE OF INVESTMENTS IN FIXED ASSETS BY TYPE OF FIXED ASSET IN 2011–2013 (EXCLUDING SMALL BUSINESSES AND THE PARAMETERS OF INFORMAL ACTIVITIES)

	Rb (billion)			As % of the total		
	2011	2012	2013	2011	2012	2013
Investments in fixed assets	8,445.2	8,446.2	9,493.4	100	100	100
including:residential buildings	396.9	439.2	550.6	4.7	5.2	5.8
buildings (other than residential) and structures	4,577.3	4,417.4	4,840.8	54.2	52.3	51
machinery, equipment and vehicles	2,896.7	3,006.8	3,366.5	34.3	35.6	35.5
out of which:						
acquisition of domestically produced machinery, equipment and vehicles	2,357.9	2,519.7	2,825.2	27.9	29.8	29.8
acquisition of imported machinery, equipment and vehicles	538.8	487.1	541.3	6.4	5.8	5.7
Other	574.3	582.8	735.5	6.8	6.9	7.7

Source: Federal State Statistics Service (Rosstat).

evidencing insufficient development of the domestic production of capital goods.

A notable feature of the development of the construction industry complex is the faster growth of the investment volume in residential properties in 2012-2013, when compared with both the total dynamics of investment in fixed assets and the dynamics of non-residential construction. An increase in the total area of land for commissioned residential building was recorded from the second half of 2011 on and was determined by improvements in the financing situation. In 2013 organisations under all types of ownership commissioned 69.4m sq.m. of residential space, which was 5.5% higher than the previous year's figure. In 2013 the share of construction of individual houses in the total volume of commissioned residential buildings reached 43.8%, showing an increase of 1.1 p.p. over the pre-crisis level of 2008.

When analysing the trends in the absolute volumes of investment in residential construction between 2010 and 2013 one should note the structural peculiarities of the funding related to the increase in the volume and share of funds from individuals alongside further reductions in the funding from organisations. In 2013 the funding received for shared participation in construction increased by Rb 20.8bn compared with the previous year, including Rb 19.5bn of funding by individuals. This increase in investment activity by the public was supported by an expansion in lending. Based on the results of 2013, mortgage loans were Rb 1,338.4bn, having increased 1.36 times compared with the year before.

The structure of financing investment activities, by source of finance, is changing. The share of equity used for investment is growing, while there is a decrease in the use of borrowed funds. Based on the results for 2013, the share of company equity in the structure of investment in fixed assets increased to 46.1%, exceeding by 1.5 p.p. the figure of the previous year.

The main change in the structure of investments by source of funding was due to a sharp fall in business activity by parent organisations – large holdings, joint-stock companies and financial-industrial groups with state participation. The share of investment by these parent organisations in the structure of funding sources decreased to 12.6% in 2013 against 16.8% in 2012 and 19.0% in 2011 (*Table 4*).

Table 4

STRUCTURE OF INVESTMENTS IN FIXED ASSETS BY SOURCE OF FUNDING (EXCLUDING SMALL BUSINESSES AND THE VOLUME OF INVESTMENTS UNOBSERVABLE USING DIRECT STATISTICAL METHODS), AS % OF THE TOTAL

	2011	2012	2013
Investments in fixed assets , total	100	100	100
With funding from:			
Equity	41.9	44.5	46.1
borrowed funds	58.1	54.6	53.9
Of which:			
bank loans	8.6	8.4	9.3
including loans from foreign banks	1.8	1.2	0.9
borrowed from other organisations	5.8	6.1	6.2
budgetary funds	19.2	17.9	18.8
including:			
federal budget funds	10.1	9.7	9.8
funds from budgets of subjects of the Federation	7.9	7.1	7.7
non-budgetary funds	0.2	0.4	0.3
funds received for shared participation in construction (from both organisations and individuals)	2.0	2.7	3.0
including: funds of the population	1.3	1.3	2.3
Other	22.3	20.0	16.3
including:			
funds of parent organisations	19.0	16.8	12.6
funds from the issue of corporate bonds	0.01	0.04	0.1
funds from the issue of shares	1.0	1.0	1.0
Foreign investments in total the total volume of investment in fixed assets	3.1	3.0	2.2

Source: Federal State Statistics Service (Rosstat).

Table 5

SHARES OF BUDGETARY EXPENDITURE ON INVESTMENTS IN FIXED ASSETS IN 2007–2013 AS % OF GDP

	2007	2008	2009	2010	2011	2012	2013
Budgetary funds, total	3.37	3.40	3.41	2.80	2.91	2.76	2.68
including:							
from the federal budget	1.30	1.30	1.78	1.43	1.54	1.49	1.40
From the budgets of subjects of the Russian Federation	1.84	1.84	1.42	1.17	1.20	1.09	1.10
Federal Target Investment Programme, total	1.41	1.02	1.28	1.23	1.40	1.45	1.06
Programme part	0.88	0.70	0.77	0.71	0.93	0.97	0.76
Non-programme part	0.32	0.38	0.53	0.31	0.51	0.48	0.30

Source: Federal State Statistics Service (Rosstat).

Table 6

VOLUMES OF BANK LOANS TO FINANCE INVESTMENTS IN FIXED ASSETS IN 2009–2013 (BILLIONS OF RUBLES)

	2009	2010	2011	2012	2013
Bank loans, total	622.8	559.2	725.7	801.8	879.4
Including					
Russian bank loans	427.6	409.2	576.3	688.1	793.1
foreign bank loans	195.2	150.0	149.4	113.7	86.3
Borrowings from other organisations	448.3	404.7	485.8	587.6	589.3

Source: Federal State Statistics Service (Rosstat).

The change in volumes and proportions of the borrowed funds from the different sources was accompanied by changes in their structure. In 2010–2013, the average share of budgetary funds across the sources of finance for investment in fixed assets was 18.9% and remained below the pre-crisis indicators. In 2013 budgetary funds used for financing investments in fixed assets were 2.68% of GDP, including federal budget funds at 1.40% of GDP (*Table 5*). In 2013 a reduction of spending could be observed within the Federal Target Investment Programme, to 1.06% of GDP, whereas the same indicator had averaged 1.43% of GDP over the two previous years. In 2013 the volume of budgetary funds used for financing investments in fixed assets increased by Rb 86.0bn, compared with the previous year, totalling to Rb 1,790.1bn. It should be noted that, in contrast to 2010–2012, the main contribution (Rb 62bn) was associated with the increased use of the budgetary funds of subjects of the Russian Federation to finance investment programmes.

In 2013 the share of bank loans in the sources of finance for investments was 9.3%, having exceeded the previous-year indicator by 0.9%. The changes in the structure of bank lending in the last three years have resulted from the increased volumes and share of lending by Russian banks, replacing loans from foreign banks. Compared with 2012, lending by Russian banks increased by Rb 105.0bn while loans foreign bank loans decreased by Rb 27.4bn (*Table 6*).

The reduction in volumes of foreign loans and the small scale of direct foreign investment led to a steady decline in the share of total investments from abroad within the structure of investments in fixed assets and, in 2013, reached its lowest level (2.2%) for 13 years. Note that, in 2011, the net capital outflow reached Rb 81.4bn, which was approximately equal to the total index for the last two years. In 2012-2013, the volume of net capital export was in the range of Rb 54.6–62.7bn.

The investment attractiveness of the Russian economy to foreign and domestic private capital may be negatively affected by the revision of Russia's sovereign rating from "stable" to "negative" by agencies Standard & Poor's, and Fitch in March 2014, when confirming Russia's long-term and short-term credit rating for foreign currency obligations (BBB/A-2) and in local currency (BBB+/A-2).