

## FOREIGN INVESTMENTS IN RUSSIA IN 2013

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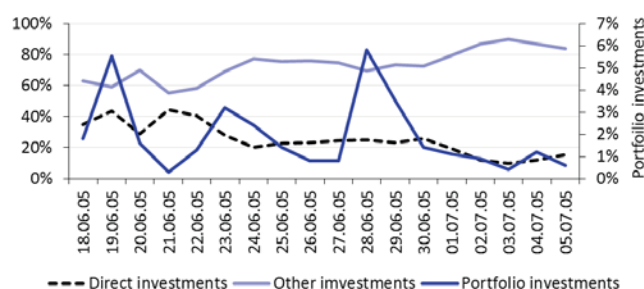
Foreign investment in the Russian economy in 2013 increased 10.1% year-o-year. The increase was triggered by the results achieved in Q1 2013. Foreign investment was concentrated in the industrial sector, trade, and financial sector. Manufacturing industry was leading in the industrial sector. Cyprus, Switzerland, and Great Britain were leading in volumes of investment in the Russian Federation.

Aggregate foreign investment in the Russian economy saw an increase of 10.1% to \$170,2bn at 2013 year-end against 2012. Q1 2013 was responsible for most of the increase (+65.4% of the corresponding period in 2012). Foreign investment inflow to the Russian economy advanced from 7.7% in 2012 to 8.1% in 2013, as percentage of GDP.

Total volume of foreign investment inflow to the Russian economy in 2013 saw an increase though direct and other investment whose growth amounted \$7,5bn and \$8,9bn respectively against the previous year.

Contributions to the charter capital and loans obtained from foreign co-owners of organizations accounted for the biggest volume of direct investment. The former increased 7.9% to \$10,0bn at at 2013 year-end. Loans from foreign co-owners of organizations increased 1.9 by times to \$14,6bn. Therefore, the share of loans received from foreign co-owners of organizations increased from 41.1% in 2012 to 55.8% in the structure of direct foreign investment in the Russian Federation in 2013, whereas the share of contributions to the charter capital dropped from 49.5% to 38.2%.

The share of trade loans dropped from 20.9% in 2012 to 19.1% in the structure of other investment in 2013. The share of loans with a maturity of more than six months increased to 64.6% in 2013 against 39.5% in 2012. The share of loans with a maturity of less than six months declined to 15.1% (33.2% in 2012).



Source: based on the data supplied by Rosstat.

Fig. 1. Structure of foreign investment in the Russian economy in 1996 thru 2013

A substantial 39.9% contraction of investment in 2013 against 2012 was recorded in the segment of portfolio investment inflow to the Russian economy. Furthermore, investment in shares and units dropped 41.6% in the structure and, consequently, their share declined from 84.4% in 2012 to 82.0% at 2013 year-end.

In 2013, \$127,2bn, or 74.7% of the volume of foreign investment inflow during that period (88.3% in 2012), included foreign investors' income transferred from Russia, as well as payments of interest on loans and prepayment of loans. Capital outflow on the specified items dropped 6.9% against 2012. Quarterly dynamics of capital outflow in 2013 was overtaken by foreign investment inflow in the Russian Federation during the period in question.

Table 1

## DYNAMICS OF FOREIGN INVESTMENT INFLOW TO THE RUSSIAN ECONOMY

	millions of US dollars				year-on-year			
	Total	Direct investment	Portfolio investment	Other investment	Total	Direct investment	Portfolio investment	Other investment
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

Source: based on the data supplied by Rosstat.

Table 2

STRUCTURE OF FOREIGN INVESTMENT IN THE RUSSIAN ECONOMY BY SECTOR IN 2011 THRU 2013

	millions of US dollars			year-on-year			as percentage of 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 sectors	5,943	4,622	4,759	90.4	77.8	103.0	3.1	3.0	2.8
Wholesale and retail trade; repair of motor vehicles, motorbikes, household appliances, personal items	24,456	25,379	31,030	183.4	103.8	122.3	12.8	16.4	18.2
Real estate transactions, leasehold and service provision	9,237	10,035	9,717	125.8	108.6	96.8	4.8	6.5	5.7
Financial sector	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

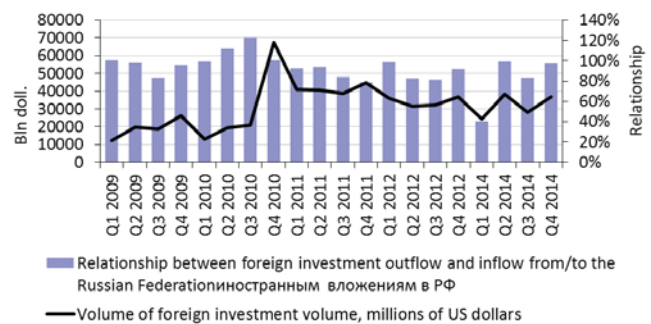
Source: based on the data supplied by Rosstat.

Investment in the industrial sector, trade sector, and financial sector remained top-priority for foreign investors in 2013. In 2013, these sectors of the Russian economy accounted for 90.5% of the total foreign investment inflow to the Russian Federation (89.3% in 2012). Distribution of foreign investment by key industry of Russian economy is presented in Table 2.

The manufacturing sector was ranked at the top of the structure of foreign investment in the industrial sector in 2013. Investment in the manufacturing sector advanced 82.4% against 2012 (2012 saw an increase of 19.8%). Foreign investment in mineral resources production dropped 37.1% (2012 saw a decline of 2.6%).

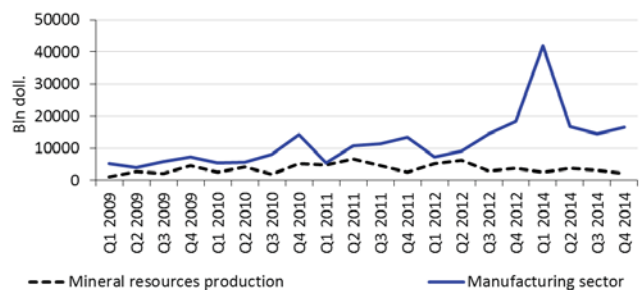
The manufacturing sector saw a 2.8-fold increase in investment in the production of coke and oil products and a 5.1% decline in investment in the metallurgy industry, \$53,9bn and \$12,5bn respectively (in 2012 investment in the production of coke and oil products and metallurgy industry increased 22.4% and 42.2% respectively). In 2013, foreign investment in chemical industry and food industry increased 84.7% and 25.8% to \$5,5bn and \$3,6bn respectively against 2012 (2012 saw a decline in investment in these industries, 31.8% and 6.6% respectively).

Direct investment and other investment in the industrial sector in 2013 increased 18.5% and 55.8% respectively against 2012 (in 2012 direct investment in the industrial sector increased 1.0% while other investment advanced 14.3%). Portfolio investment in the industrial sector contracted by 56.0% (2012 saw a 2.2-fold growth). Therefore, the share of other investment in the industrial sector increased from 84.3% in 2012 to 88.3% at 2013 year-end, portfolio investment declined from 1.8% to 0.5% while the share of direct investment dropped from 14.0% to 11.1% respectively during the period in question.



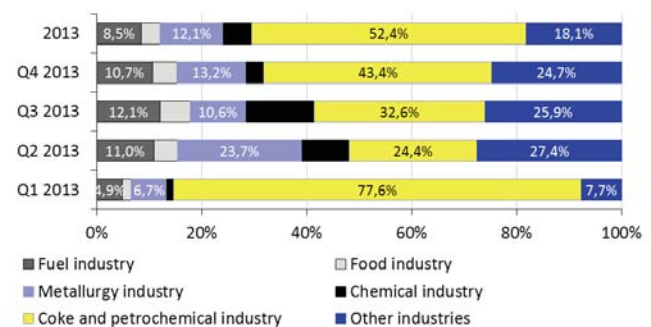
Source: based on the data supplied by Rosstat.

Fig. 2. Foreign capital outflow from the Russian economy in 2009 thru 2013



Source: based on the data supplied by Rosstat.

Fig. 3. Foreign investment inflow in the mineral production industry and manufacturing industry of the industrial sector in 2009 thru 2013



Source: based on the data supplied by Rosstat.

Fig. 4. Sector-specific structure of foreign investment in the industry in 2013

Regarding the geographic structure of foreign investment inflow to the Russian economy in 2013, emphasis should be placed on changes to the ranking of countries in the list of major capital exporters to the Russian Federation. In 2013, Cyprus was ranked 1<sup>st</sup> with \$22,7bn, Switzerland 2<sup>nd</sup> with more than \$20,7bn of investment in the Russian Federation. Furthermore, the top-3 capital exporters to the Russian Federation at 2013 year-end included Great Britain who invested \$18,9bn in the Russian economy.

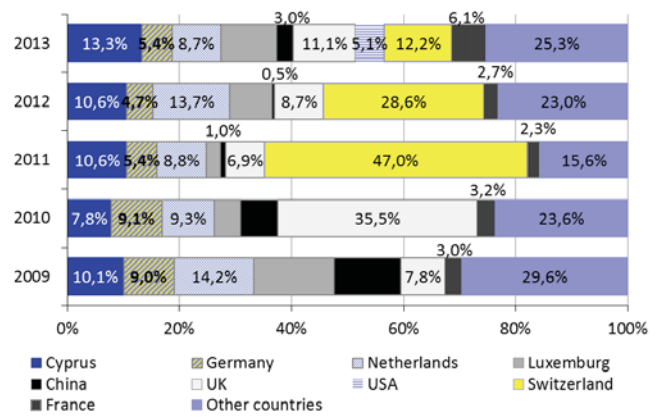
China showed the fastest growth rates among the key investors in the Russian Federation at 2013 year-end. Investment from China increased 6.8 times against 2012 (to \$5,0bn), from France 2.5 times (to \$9,7bn), and from Luxemburg by 47.5% (to \$17,0bn).

Investment from Great Britain increased by 39.8%, from Cyprus and Germany by 37.8% and 27.1% respectively against 2012. Investment from Switzerland and the Netherlands contracted by 53% and 30% respectively over the period under review. The differences in the dynamics of investment caused changes to the geographic structure of foreign investment in the Russian economy.

The data on investment from the United States in 2009 thru 2012, from China in 2008, from Switzerland in 2008 thru 2010 is classified as other investment.

As of 2013 year-end, cumulative foreign capital, net of monetary regulators, commercial and saving banks, including ruble-denominated investment expressed in US dollars, amounted to \$384,1bn, seeing an increase of 6.0% over the value recorded as of January 1, 2013. Direct cumulative investment since the beginning of the year lost 7.3%, portfolio investment declined 34.7%, whereas other investment advanced by 16.0% since the beginning of the year.

At 2013 year-end, Cyprus, the Netherlands, Luxemburg, China, and Great Britain were leading in terms of total volume of cumulative foreign investment, their total share accounting for 64.2% (65.0% in 2012). At



Source: based on the data supplied by Rosstat.

Fig. 5. Geographic structure of foreign investment in the Russian economy in 2009 thru 2012

the same time, the share of the top-5 countries in other investment accounted for 67.2% (69.1% in 2012) of the structure of direct and portfolio investment – 58.8% and 50.5% respectively (58.9% and 59.5% respectively in 2012).

Other investment prevailed accounting for 65.7% (60.1% in 2012) in the structure of foreign investment accumulated at 2013 year-end. The same indicator for direct and portfolio foreign investment showed 32.8% and 1.5% respectively (37.5% and 2.4% respectively in 2012).

According to the UNCTAD, World Investment Report 2013 published in June 2013, the Russian Federation was ranked 9th in the world in volume of direct foreign investment inflow in 2012 (9th in 2011, 8th in 2010, 6th in 2009 thru 2008, based on the updated data). According to the report, in 2012 Russia accounted for 3.8% of the world direct foreign investment (3.3% in 2011, 3.1% in 2010, 3.0% in 2009, 4.1% in 2008) and 6.5% of direct foreign investment in developing countries and economies in transition (6.6% in 2011, 6.1% in 2010, 6.1% in 2009, 9.5% in 2008).