

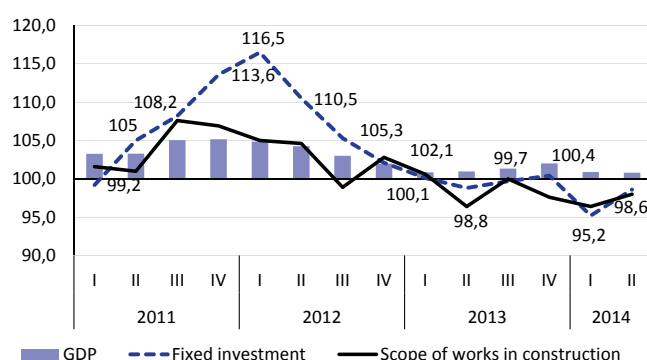
FIXED INVESTMENT IN H1 2014

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Fixed investment in real terms stood at 97.42% in the period of January to July 2014 compared to the corresponding period in 2013. The structure of sources of financing saw an upward trend towards the formation of a bigger share of equity at enterprises as the share of federal budget resources tended to diminish. In H1 2014, fixed investment stopped falling in the segment of large and medium-sized enterprises, up by 2.8% relative to the corresponding period of the previous year, although it couldn't offset entirely the negative growth dynamics observed in the preceding year. Investment upsurge in industrial and transport sectors had a positive effect on the dynamics of investment at large enterprises in H1 2014. Fixed investment kept diminishing in the investment and construction sector.

Fixed investment in real terms stood at 97.2% in H1 2014 and 97.4% in the period of January to July 2014 relative to the corresponding period of the previous year. The volume of completed work in the construction sector stood at 97.4% in H1 2014 and 97.0% in the period between January and July 2014 relative to the corresponding period of the previous year.

The dynamics of fixed investment is differentiated by economic agents. Fixed investment stopped falling in H1 2014 in the segment of large and medium-sized enterprises. Investment by large enterprises in H1 2013 accounted for 94.2% of the value observed in the previous year, and in H1 2014 it increased 2.8% relative to the value observed in the period of January to June 2013. Extremely slow positive changes in the terms and regulatory standards of businesses in the internal market had an adverse effect on the performance figures of small enterprises. Investment reduction by small enterprises in the first half of the current year triggered a more than 1/5 decline in fixed investment across the economy at large.



Source: Rosstat (the Federal State Statistics Service).

Fig. 1. Dynamics of fixed investment in 2011–2014, as a % of the corresponding quarter of the previous year

The structure of fixed investment in H1 2014 saw an increase in the volume and share of investment in the construction of housing facilities. Residential buildings accounted for 93.7% of the buildings commissioned in H1 2014.

A positive dynamics of the total floor space of commissioned residential buildings has been observed

Table 1

STRUCTURE OF FIXED INVESTMENT BY TYPE OF FIXED ASSETS IN H1 2011–2014 (EXCLUSIVE OF SMALL-BUSINESS ENTITIES AND INFORMAL ACTIVITY PARAMETERS), AS A % OF TOTAL

	Billions of rubles				As a % of total			
	2011	2012	2013	2014	2011	2012	2013	2014
Fixed investment	2650.9	3135.0	3356.1	3579.4	100	100	100	100
including:								
housing facilities	121.8	133.7	166.7	215.8	4.6	4.3	5.0	6.0
buildings (other than residential buildings) and facilities	1419.0	1601.9	1644.9	1764.9	53.5	51.1	49.9	49.3
machinery, equipment, and transport means	872.2	1146.9	1241.8	1228.7	32.9	36.6	37.0	34.3
of which: purchase of imported machinery, equipment, transport means	63.6	71.4	89.9	n/a	6.9	6.5	6.9	n/a
Others	83.9	116.9	130.4	370.0	9.0	8.0	9.0	10.4

Source: Rosstat (the Federal State Statistics Service).

FIXED INVESTMENT (EXCLUSIVE OF SMALL-BUSINESS ENTITIES AND INVESTMENT VOLUME WHICH CANNOT BE MEASURED BY DIRECT STATISTIC METHODS) IN H1 2011–2014

	Growth rate as a % of the corresponding period of the previous year				Structure as a % of total			
	2011	2012	2013	2014	2011	2012	2013	2014
Total	112.3	109.6	94.2	102.8	100	100	100	100
agricultural sector, hunting and forestry	117.3	106.9	100.8	103.2	3.3	3.4	3.4	3.4
fishing, fish farming	105.2	240.0	95.2	40.4	0.1	0.1	0.1	0.1
industrial sector	109.4	118.1	94.8	104.8	47.8	51.1	51.3	52.6
mineral extraction sector	116.9	117.8	92.1	105.0	20.9	22.3	22.7	23.4
manufacturing sector	110.5	121.5	100.4	105.7	16.6	17.8	18.2	19.2
electric power production and distribution,	95.9	113.4	90.9	102.9	10.3	11.0	10.4	10.0
construction sector	93.9	97.4	101.5	92.1	2.4	2.3	2.1	2.1
wholesale and retail trade	102.9	99.0	130.9	93.0	2.1	1.9	2.8	2.8
hotels and restaurants	97.1	81.1	123.5	144.8	0.4	0.3	0.8	1.0
transports and communications	121.4	99.6	84.1	100.7	27.5	25.3	21.2	20.2
railway transport	90.0	86.8	100.8	71.4	5.1	4.2	4.1	2.9
pipeline transportation	143.3	92.0	68.1	116.5	11.8	10.0	6.7	7.3
communications	135.3	112.2	92.8	116.0	3.5	3.4	3.4	3.3
financial business	121.3	141.0	110.8	77.9	1.3	1.6	2.1	1.4
real estate transactions	99.1	102.7	103.1	115.9	7.9	6.9	8.7	10.4
public administration	99.9	99.6	83.0	88.7	1.0	1.4	1.4	1.0
education	135.8	99.0	101.6	108.2	1.7	1.5	1.4	1.4
healthcare and provision of social services	97.8	122.5	103.1	68.4	1.6	1.7	1.7	1.1

Source: Rosstat (the Federal State Statistics Service).

since H2 2011 and determined by some evidence of recovery in financing. In H1 2014, organizations of all types of ownership built 375,800 apartments with 29,4 million sq. meters of total floor space, up by 30.2% relative to the corresponding period of the previous year. Private developers constructed residential buildings with 13,9 million sq. meters of total floor space or 47.4% of the total floor space of the residential buildings commissioned in H1 2014.

The volume and contribution of individuals' funds in housing construction under shared ownership terms has been increasing while legal persons' contribution diminishing throughout the entire period between 2011 and 2014. In H1 2014, the funds obtained via housing construction under shared ownership terms increased Rb 32,8bn, including individuals' funds, up Rb 28,2bn vs. the amount observed in H1 2013. Individuals' investment activity was supported by a wider scope of lending. Mortgage loans amounted to Rb 735,9bn as of the end of H1 2014, up by 1.42 times the value observed in the preceding year.

Structurally, the beginning of the current year was characterized by growth in investment in the construction of non-residential buildings and facilities as investment spending on machinery, equipment

and transport means diminished. Total construction volume of non-residential buildings commissioned in H1 2014 amounted to 47,0 million sq. meters, up by 1.26 times that in H1 2013, including commercial facilities (up by 1.31 times), administrative buildings (up by 1.15 times), educational facilities (up by 1.32 times). It's worth noting that the statistically covered volume of the industrial and healthcare facilities commissioned in the first half of the current year remain below the volume observed in the previous year.

The share of machinery and equipment in fixed investment in H1 2014 lost 2.7 p.p. compared to the corresponding period of the previous year, which is most likely because of insufficient backlogs for erection works and construction in progress. The provision of construction and erection works with machinery and equipment is worsening by a fall in the output of Russia-made types of machinery.

Although investment in the industrial sector in H1 2014 increased 4.8%, the amount of investment observed in H1 2012 was not achieved because of drastic decline in investment in industrial facilities in H1 2013. The following fixed investment saw a stronger growth than in H1 2013: petroleum products manufacturing

Table 3

**STRUCTURE OF FIXED INVESTMENT BY SOURCE OF FINANCING, IN H1 2011-2014, AS A % OF TOTAL
(EXCLUSIVE OF SMALL-BUSINESS ENTITIES AND INFORMAL ACTIVITY PARAMETERS)**

	Billions of rubles				As a % of total			
	2011	2012	2013	2014	2011	2012	2013	2014
Fixed investment	2650.9	3135.0	3356.1	3579.4	100	100	100	100
including by source of financing:								
equity	1428.5	1591.0	1678.0	1878.7	46.1	49.3	50.0	52.5
borrowed funds	1222.4	1544.0	1678.0	1700.7	53.9	50.7	50.0	47.5
including:								
bank loans	224.4	262.8	340.5	369.9	8.5	8.4	10.2	10.3
of which								
foreign banks' loans	46.5	49.3	40.1	51.1	1.8	1.6	1.2	1.4
Russian banks' loans	177.9	213.5	300.4	318.8	6.7	6.8	9.0	8.9
loans of other organizations	129.6	165.4	234.8	243.7	4.9	5.3	7.0	6.8
budget funds	382.7	412.9	459.8	444.8	14.4	13.2	13.7	12.4
of which:								
federal budget funds	174.2	199.5	242.8	213.2	6.6	6.4	7.2	6.0
budget of the constituent territories of the Russian Federation	185.7	187.0	188.3	198.6	7.0	6.0	5.6	5.5
extrabudgetary funds	6.1	6.9	13.4	7.0	0.2	0.2	0.4	0.2
money obtained for participatory construction projects (organizations and individuals)	45.8	64.0	82.1	114.9	1.7	2.0	2.4	3.2
including individuals' money	29.1	42.9	65.2	93.4	1.1	1.4	1.9	2.6
others	639.9	679	547.5	495.4	24.1	21.7	16.3	13.9
of which:								
money of upper-level organizations	547.6	583.6	415.5	410.2	20.7	18.6	12.4	11.5
money borrowed by issuing corporate bonds	0.01	0.0	1.8	3.5	0.00	0.0	0.1	0.3
money generated by issuing stocks	27.7	38.7	31.5	41.3	1.0	1.2	0.9	1.2
Of total volume of fixed investment – foreign investment	95.2	100.1	89.5	25.0	3.6	3.2	2.7	0.9

Source: Rosstat (the Federal State Statistics Service).

(128.6%), transport means manufacturing (125.6%), textile and garment industry (194.4%).

Following are the industries which had an adverse effect on the dynamics of investment in the manufacturing sector: chemical industry (97.0% vs. H1 2013), pulp and paper industry (85.3%), rubber and plastics industry (76.4%), construction materials industry (79.7%).

Investment in pipeline transport increased substantially (116.5% vs. H1 2013), following most visible fall last year.

Financing of investment was determined by stronger focus on the use of equity capital. In H1 2014 the share of equity-capital investment by legal entities stood at 52.5%, up by 2.5 p.p. the value observed in H1 2013. In H1 2014, the cost effectiveness across the economy at large stood at 10.0%, up by 2.3 p.p. relative to the corresponding period of the previous year, which increased the contribution of investment financed with companies' profit.

The dynamics of bank loans appeared to slow down in H1 2014 compared to the corresponding period of the previous year. Changes in the structure of bank

loans over the past three years has been determined by mounting volumes and share Russian banks' loans which replaced foreign banks' loans. To compare with in H1 2013, Russian banks' loans increased Rb 18,4bn while foreign banks' loans were up Rb 11,0bn.

The persistent capital flight trend had an adverse effect on the scope of banks' participation in the financing of investment programs in H1 2014. According to the preliminary estimation of the Central Bank of Russia, net capital exports by the private sector amounted to \$74,6bn in the period between January and June 2014, including \$38,3bn by the banking sector. Additionally, the volume of foreign fixed investment diminished in H1 2014, their contribution to the total volume of investment in the Russian economy dropped to 0.9% compared to 2.7% in the preceding year.

The role of budget resources appeared to change in the structure of funds raised to finance fixed investment. In H1 2014, Rb 444,8bn of fixed investment was financed with budget resources, by Rb 15,0bn less than the value observed in the preceding year. To compare with H1 2013, financing of investment with federal

budget resources diminished by Rb 29,6bn, whereas the contribution of the budget of the constituent territories of the Russian Federation and local budgets increased Rb 10,3bn and Rb 4,3bn respectively.

The total volume of envisioned budget allocations for the implementation of the Federal Targeted Investment Program (FTIP) in 2014 amounted to Rb 838,3bn as of August 1. Budget investment and subsidies to finance facilities owned by the Russian Federation and budget investment to open joint-stock companies amounted to Rb 743,7bn while subsidies to facilities owned by the regions (municipalities) to Rb 104,6bn. In the period of January to July 2014, the volume of financing with budget allocations for the implementation of the FTIP amounted to Rb 265,4bn (49.3% of the total) and disbursement to Rb 133,6bn (23.9%). As of August 1, 2014, Rb 209,4bn (51.9% of the allocations envisaged for a year) of federal budget resources was allocated to finance the facilities covered by the FTIP and Rb 118,3bn (28.2%) disbursed.

Of the 805 facilities to be commissioned in 2014, 24 facilities were commissioned in the period between January and July 2014, of which 20 ones were operating at full capacity while the others at partial capacity.

Table 4

FINANCING VOLUMES OF THE FEDERAL TARGETED INVESTMENT PROGRAM IN 2014, BILLIONS OF RUBLES

	FTIP	Including	
	total	Covered by the FTIP	Not covered by the FTIP
Financing total	848.3	535.3	313.0
Including			
facilities owned by the state and open joint-stock companies	743.7	437.4	306.3
facilities owned by the regions (municipalities)	104.6	97.9	6.7

Source: The Ministry of Economic Development of Russia.