

INVESTMENTS IN CAPITAL ASSETS IN NOVEMBER 2014

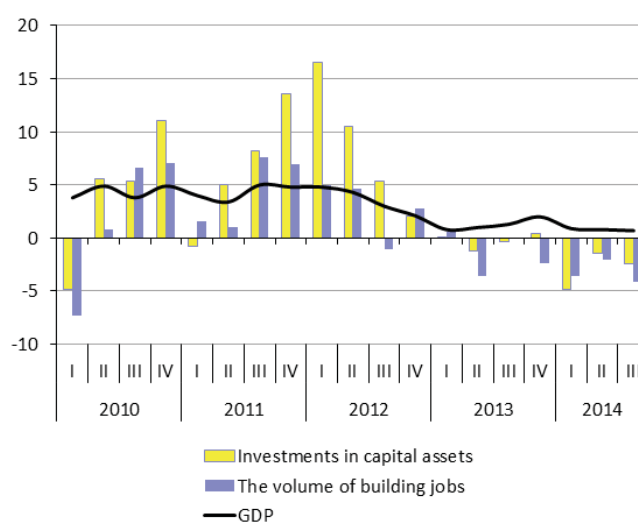
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In November 2014, investments in capital assets amounted to 95.2%, while in January–November 2014, to 97.2% on the respective index of the previous year. A long-term reduction of the volumes of building jobs may result in a dramatic drop in business activities in the business and investment complex early in 2015. The situation is made worse due to a sudden surge of the rate of inflation and growth in the cost of credit resources which situation limits the activities of private investors on the market.

The trend of reduction of investments in capital assets in the current year was quite a predictable one and was determined by a drop in investments in capital assets which drop was registered from Q2 2013. On the basis of the results of January–September 2014, investments in capital assets and the volume of completed jobs in building amounted to 97.5% and 96.7% on the indices of the respective period of the previous year, respectively. In January–September 2014, the share of investments in GDP amounted 15.7% and was 0.9 p.p. lower than the index of the respective period of the previous year.

The dynamics of investments in capital assets is differentiated by large and small enterprises. In January–September 2014, with a decrease of 2.5% in the total volume of investments in capital assets in the segment of large and mid-sized enterprises investments in capital assets increased by 2.3%. So, in a situation of growing uncertainty about development of the situation on the domestic market the mid-sized and small businesses are quite cautious about taking investment decisions.

In January–September 2014, changes in the pattern of investments in capital assets by the type of economic activities were determined by higher building and investment activities in industry and pipeline transportation whose aggregate share accounted for 3/5 of the investments in the economy. The volume of investments in pipeline transportation amounted to 117.2% on the index of January–September 2013 which situation was determined by continuation of the existing investment projects. It is to be noted that



Source: The Rosstat.

Fig. 1. Dynamics of investments in capital assets in the 2010–2014 period as % of the respective quarter of the previous year

due to the existing system of investments in transport there are higher risks of growing disproportions in development by the type of transport. Over the past four years, investments in the railway transport have been falling which situation in the mid-term prospect may limit the transit potential and affect the system of logistics services.

In January–September 2014, investments in capital assets increased by 5.2% as compared to the respective period of 2013, however, that failed to compensate dra-

Table 1

DYNAMICS OF THE PHYSICAL VOLUME OF INVESTMENTS IN CAPITAL ASSETS IN JANUARY–SEPTEMBER 2009–2014, % OF THE RESPECTIVE PERIOD OF THE PREVIOUS YEAR

	2009	2010	2011	2012	2013	2014
Investments in capital assets (by the entire range of entities, including recalculations of investments which were not observed by direct statistical methods)	81.1	103.7	105.0	109.6	98.6	97.5
Large and mid-sized entities (investments in capital assets without small business entities and the volume of investments not observed by direct statistical methods)	86.7	96.2	112.1	108.6	93.1	102.3

Source: The Rosstat.

Table 2

INVESTMENTS IN CAPITAL ASSETS (WITHOUT SMALL BUSINESS ENTITIES AND THE VOLUME OF INVESTMENTS NOT OBSERVED BY DIRECT STATISTICAL METHODS) IN JANUARY–SEPTEMBER 2010–2014

	Growth rate as % of the respective period of the previous year					Pattern as % of the result				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Total	96,2	112,1	108,6	93,1	102,3	100	100	100	100	100
Agriculture	97.2	120.9	97.1	103.5	10.6	3.3	3.5	3.2	3.4	3.3
Fishery, fish farming	97.6	125.7	174.7	93.8	56.2	0.1	0.1	0.1	0.1	0.1
Industry	100.1	111.1	115.2	92.1	105.2	47.2	47.2	49.2	50.7	51.5
Mining	95.7	116.9	115.8	93.1	107.4	18.7	19.5	20.3	21.2	22.2
Production of fuel and energy mineral resources	96.2	114	115.6	90.8	109.7	17.3	17.6	18.4	19	20.2
Manufacturing	95.9	108.3	115.4	103.0	105.0	16.6	16.2	17.2	18.5	18.8
Utilities (electricity, gas and water)	116.3	106	113.2	90.6	101.3	11.9	11.5	11.7	11	10.5
Building	101.5	92.4	80.2	98	95.9	2.6	2.3	1.8	1.9	2.2
Wholesale and retail trade	100.8	100.6	106.6	113.5	99.9	2.4	2.3	2.1	2.7	2.7
Hotels and restaurants	112.4	109.4	64.2	134.7	106.3	0.4	0.4	0.3	0.8	0.8
Transport and communications	97.3	119	102.4	81.5	100.6	25.8	27.5	26.2	21.5	20.5
Railway transport	116.3	93.3	99.7	84.1	78.1	6.2	5	4.6	3.8	3.1
Pipeline transportation	97.2	131.6	96.3	66.6	117.2	9.3	11.1	9.8	6.5	7.1
Communications	109.3	137.9	105.2	84.2	117.0	3.1	3.5	3.3	2.8	3.2
Financial sector	86.2	133.9	127	89.4	78.5	1.1	1.3	1.6	1.7	1.3
Real estate operations	96.6	99.4	113.1	100.3	116.0	9.2	7.8	7.8	9.1	10.8
State governance	78.1	106.3	104.4	91.5	86.4	1.4	1.2	1.4	1.4	1.2
Education	105.7	121.6	96.2	99.9	112.2	1.8	1.8	1.6	1.6	1.7
Healthcare and provision	107.2	97.4	114.7	98.1	75.2	2	1.6	1.7	1.7	1.3
Other services	104.9	125.8	111.1	117.1	75.3	2.7	3.0	3.0	3.4	2.5

Source: The Rosstat.

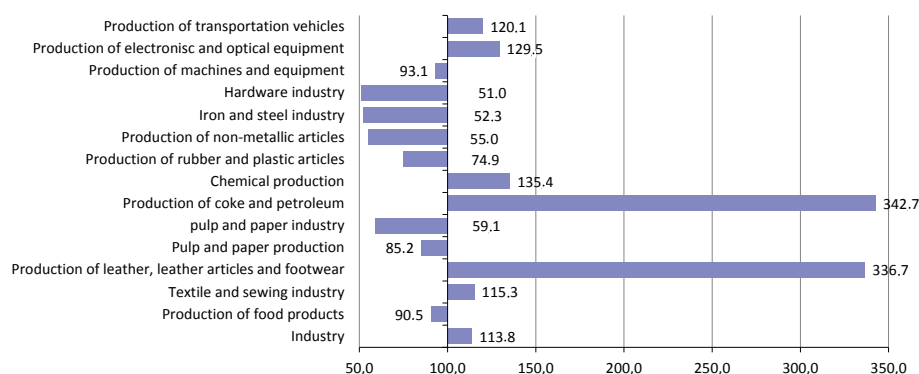
matic weakening of investment activities in January–September 2013. In January–September 2014, the pattern of investments in capital assets in industry changed due to, first, a surge in investment activities in production of fuel and energy minerals which surge compensated a drop of the previous year and permitted to stabilize the situation in that type of business activities; second, weak growth in investments in capital assets of utilities (electricity, gas and water) (it is to be noted that growth in that area is mainly related to a considerable increase – 14.7% as compared to January–September 2013 – in investments in production and distribution of gas fuel); and, third, sustained positive dynamics of investment demand in manufacturing.

In January–September 2014, as compared to the average level in manufacturing industries there was growth in capital investments in production of transportation vehicles (126.1%) and coke and petroleum (114.7%), whose aggregate share accounts for nearly 40% of capital investments in manufacturing. It is to be noted that investment activities in those types of business were not accompanied by simultaneous growth in investments activities on the part of related industries of the ma-

chine-building complex that produce capital goods. In January–September 2014, a drop in investments in machinery amounted to 17.7% and brought to nought completely the success of the previous year. Over the past six years, investments in production of electric equipment and electronic optical equipment were prone to substantial fluctuations and though in that type of business activities investments in capital assets exceeded the pre-crisis level of 2008 a drop in activities in 2013–2014 does not provide any sufficient grounds for positive forecasts in the short-term prospect.

In January–September 2014, there was still a trend of growth in investment activities in the consumer complex industries which situation is related to active engagement of competitive capacities and consolidation of import substitution processes.

In January–September 2014, the pattern of investments in capital assets by the type of capital funds transformed due to growth in the volumes and share of investments in building of housing (with a reduction of the unit weight of investments in machines, equipment and transportation vehicles), nonresidential premises and constructions.



Source: The Rosstat.

Fig. 2. Growth rates of investments in capital assets in manufacturing in January–September 2014, % of January–September 2008

From H2 2011, the positive dynamics of commissioning of residential housing was determined by some improvement of funding. In January–September 2014, entities of all the forms of incorporation commissioned 48.7m sq. meters of housing, that is, 24.6% more than in the respective period of the previous year. However, it is to be noted that a substantial gap – which was formed this year – between the rates of commissioning and the volumes of building jobs took place due to a reduction of the volumes of the required capacities which situation is highly likely to result in a more dramatic recession in the building industry early in 2015.

There have been changes in the pattern of investments in building of housing in the 2010–2014 period by the source of funding; the above changes were related to growth in the volumes and share of households' funds in the shared-equity construction with growing reduction of legal entities' funds. In January–September 2014, the funds received for shared-equity construction increased by Rb 62.0bn, including households' funds (an increase of Rb 53.3bn as compared to the respective period of the previous year). Growth in investment activities by households was underpinned by a higher extent of lending. On the basis of the out-

puts of January–September 2014, the volume of mortgage loans amounted to Rb 1,213bn and increased 1.33 times over as compared to the respective period of the previous year.

In January–September 2014, the nature of funding of investment activities was clearly segmented. In nominal terms, investments at the expense of own funds and bank loans keep growing, while those, at the expense of budget funds, are decreasing.

On the basis of the outputs of January–September 2014, the share of own funds of enterprises in the pattern of investments in capital assets rose to 50.2% and exceeded by 1.2 p.p. the index of the respective period of the previous year. It is to be noted that Rb 845.9bn worth of investments in capital assets was financed by means of budget funds, that is, 13.9% of the total volume of investments in the economy. As compared to January–September 2013, the volume of financing of investments at the expense of budget funds decreased by Rb 37.8bn and was not compensated by participation of budgets of constituent entities of the Russian Federation and local budgets.

In accordance with the 2014 Federal Target Investment Program (FTIP) (as amended as of October 1, 2014), Rb 568.7bn worth of allocations, includ-

Table 3

**THE PATTERN OF INVESTMENTS IN CAPITAL ASSETS BY THE TYPE OF CAPITAL FUNDS
IN JANUARY–SEPTEMBER 2010–2014
(WITHOUT SMALL BUSINESS ENTITIES AND PARAMETERS OF INFORMAL ACTIVITIES), % OF THE RESULT**

	Billion Rb					% of the result				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Investments in capital assets	3712.5	4581.7	5461.4	5703.6	6070.1	100	100	100	100	100
including: housing building (except for residential ones) and constructions	225.4	222.3	260.2	314.0	359.9	6.1	4.8	4.8	5.5	6.5
Machines, equipment and transportation vehicles	1209.0	1529.0	1954.4	1992.6	2063.1	32.6	33.2	35.8	35.0	34.0
Including: import ones	244.6	313.7	338.2	351.1	n.a	6.6	6.8	6.2	6.2	n.a
other	286.3	361.6	399.7	492	599.9	7.7	7.9	7.3	8.6	9.9

Source: The Rosstat.

THE PATTERN OF INVESTMENTS IN CAPITAL ASSETS BY THE SOURCE OF FUNDING IN JANUARY–SEPTEMBER 2010–2014 (WITHOUT SMALL BUSINESS ENTITIES AND THE VOLUME OF INVESTMENTS NOT OBSERVED BY STATISTICAL METHODS), % OF THE RESULT

	Billion Rb					% of the result				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Investments in capital assets	3712.5	4581.7	5461.4	5703.6	6070.1	100	100	100	100	100
Own funds	1597.7	2075.7	2604.3	2797.1	3047.7	43	45.3	47.7	49	50.2
Attracted funds	2114.8	2506	2857.1	2906.5	3022.4	57	54.7	52.3	51	48.8
Bank loans	337.7	393.2	444.8	566.7	596.3	9.1	8.6	8.2	9.9	9.8
Including loans of foreign banks	99.5	84.7	80.2	60.5	71.0	2.7	1.8	1.5	1.1	1.2
Borrowed funds of other entities	244.3	252.5	307.9	386.9	414.6	6.6	5.5	5.6	6.8	6.8
Investments from abroad	178.2	167.3	179.8	144.8	51.2	4.8	3.7	3.3	2.5	0.9
Budget funds	644.9	744.3	777.6	877.6	845.9	17.4	16.2	14.2	15.4	13.9
out of the federal budget	316.9	368.7	384.2	462.3	424.5	8.5	8	7	8.1	7.0
out of budgets of constituent entities of the Russian Federation	288.1	338.8	339.9	362	359.3	7.8	7.4	6.2	6.4	5.9
out of local budgets	39.9	36.8	53.5	53.3	62.1	1.1	0.8	1	0.9	1.0
Extrabudgetary funds	11.8	9.3	14.6	20.7	12.0	0.3	0.2	0.3	0.4	0.2
Legal entities' and households' funds attracted for shared-equity construction	73.8	82	115.8	145.6	207.6	2	1.8	2.1	2.6	3.4
Including households' funds	41.7	51.2	76	116.8	170.1	1.1	1.1	1.4	2	2.8
other	802.3	1024.7	1196.4	909	894.8	21.6	22.4	21.9	15.9	15.9
Funds of superior entities	621.4	824.7	1033.6	685.6	743.7	16.7	18	18.9	12	12.3
Funds received from issuing of corporate bonds	0.8	45.6	0.05	5	5.3	0.02	1	0	0.1	0.1
Funds received from issuing of equities	52.8	48.1	62.8	50.6	53.6	1.4	1	1.1	0.9	0.9

Source: The Rosstat.

ing Rb 547.1bn out of the federal budget was made. According to the data of the Rosstat, in January–September 2014 the level of funding of budget allocations envisaged for implementation of the FTIP by the projects of the FTIP amounted to Rb 304.5bn or 55.7% of the limit of funds envisaged for the year. In January–September 2014, utilization of funds at the expense of the sources of funding amounted to Rb 20.6bn or 36.3% of the volume of funds – at the expense of all the sources – envisaged for the year.

In 2014, funding of 2400 projects is envisaged; 809 projects are expected to be commissioned. According to the data of the Rosstat, within 9 months of 2014 42 projects were commissioned. A major factor behind untimely commencement of implementation of projects is still late lifting of funding limitations by main disponents of budget funds.

In January–September 2014, the share of bank loans in the pattern of sources of funding remained at the level of the respective period of the previous year. In the past 3 years, changes in the pattern of bank lending have been determined by growth in the volumes and share of loans extended by Russian banks which replaced loans of foreign banks. As compared to January–September 2013, loans extended by Russian banks increased by Rb 19.1bn with

the index of Rb 141.6bn a year before. In 2014, the Central Bank of the Russian Federation revised seven times the key rate from 5.5% (03.02.2014) to 8.0% (28.07.2014) and 17.0% (16.12.2014), which situation resulted in appreciation of loans and reduction of demand on them.

It is to be noted that in January–September 2014 growth of Rb 10.5bn in foreign banks' loans was registered as compared to the respective period of the previous year, however, it failed to compensate a drop in the influx of investments from abroad. Foreign investors reacted vehemently to changes in the political and economic situation in Russia having reduced dramatically the extent of their investments. In January–September 2014, investments to the Russian economy from abroad amounted to Rb 52.2bn or 0.9% of the total volume of investments in capital assets.

In the pattern of sources of funding, in January–September 2014 the share of investments at the expense of funds of superior entities fell to 12.3% against 18.9% in January–September 2012. As in the Russian practice funds of superior entities are represented by large holdings, joint-stock companies and financial and industrial groups with state participation, weakening of activities of those institutional investors throughout the 2013–2014 period had a rather negative effect on

the dynamics of investments in capital assets of the Russian economy.

Standard & Poor's, an international rating agency downgraded Russia's long-term and short-term ratings on obligations in foreign currency to the level of «BBB/A-3»; the long-term and short-term ratings on obligations in the national currency was at the level of «BBB/A-2», while the forecast on the long-term ratings was "negative". Negative rating factors are still structural disadvantages of the Russian economy, in particular, weak economic institutions which are inadequate both to the requirements of higher competi-

tiveness of the economy and formation of a favorable investment and business climate, as well as high dependence of the economy on hydrocarbons.

On the basis of the results of January–November 2014, investments in capital assets amounted to 97.2% and 95.2% as compared to the previous year and November 2014, respectively. With the existing dynamics of the main macroeconomic indices, on the basis of the results of 2014 reduction of investments in capital assets is expected in the range of 3–4%, which situation has a rather negative effect on the building and investment complex in 2015. ●