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## Investments in Fixed Assets

*On December 14, 2012 Federal State Statistics Service published updated data on volumes and dynamics of investment in fixed assets in Q2 and Q3 2012. As a result, the figure for the investment in fixed assets growth rates in January-September 2012 against the corresponding period of the previous year has been raised up to 10.3% (+3.1% compared to figures published earlier). Because of this the RF Ministry of Economic Development increased the estimated growth rate of the investments in fixed assets by 2.3% as compared with the one projected earlier for 2012 up to 7.8 % (8.3% in 2011). In Q4 2012 it is forecast that the growth rates of the investments will decline further to 3.7% versus the corresponding period of the previous year.*

In January-November 2012 investments in fixed assets made Rb 10090.7bn, having increased by 8.4% on the corresponding period of the previous year. It should be noted that in November 2012 compared with October 2012 an absolute contraction of the investments volume was recorded, which has not been typical for the Russian economy of the recent months<sup>1</sup>. Under the existing dynamics in October-November the expected growth rates of the investments in fixed assets in Q4 2012 is estimated at the level of 103.5% in annual terms as compared with 113.6% a year ago.

On December 14, 2012 the Federal State Statistics Service published updated data on volumes and dynamics of investment in fixed assets in Q2 and Q3 2012. It was the figures of April-September 2012 that were subject to correction.

As a result, according to the corrected data, the volume of investments in fixed assets in January-September was increased by Rb 213.3bn as compared with the data published previously and made Rb 7524.6bn. As compared with the corresponding figure of the previous year, in Q3 2012 the growth rates of the investments in fixed assets was raised up to 107.3%, the previous estimation being at the level of 101.4%. On the whole over January-September the growth rates of the investments now equal 110.3% as compared with 107.2% (previous estimation).

It should be noted that at the same time the workload in construction made 97.3% in Q3 2012 on Q3 2011 and 101.9% in January-September 2012 versus the corresponding period of 2011. The correction of the indices did not influence the general trend of quarter-by-quarter slowdown of the investments in fixed assets growth rates.

Thus, in January-September 2012 the growth rates of the investments in fixed assets made 10.3% versus 5.0% in January-September 2011, of the workload in construction – 1.9% versus 4.1% a year ago.

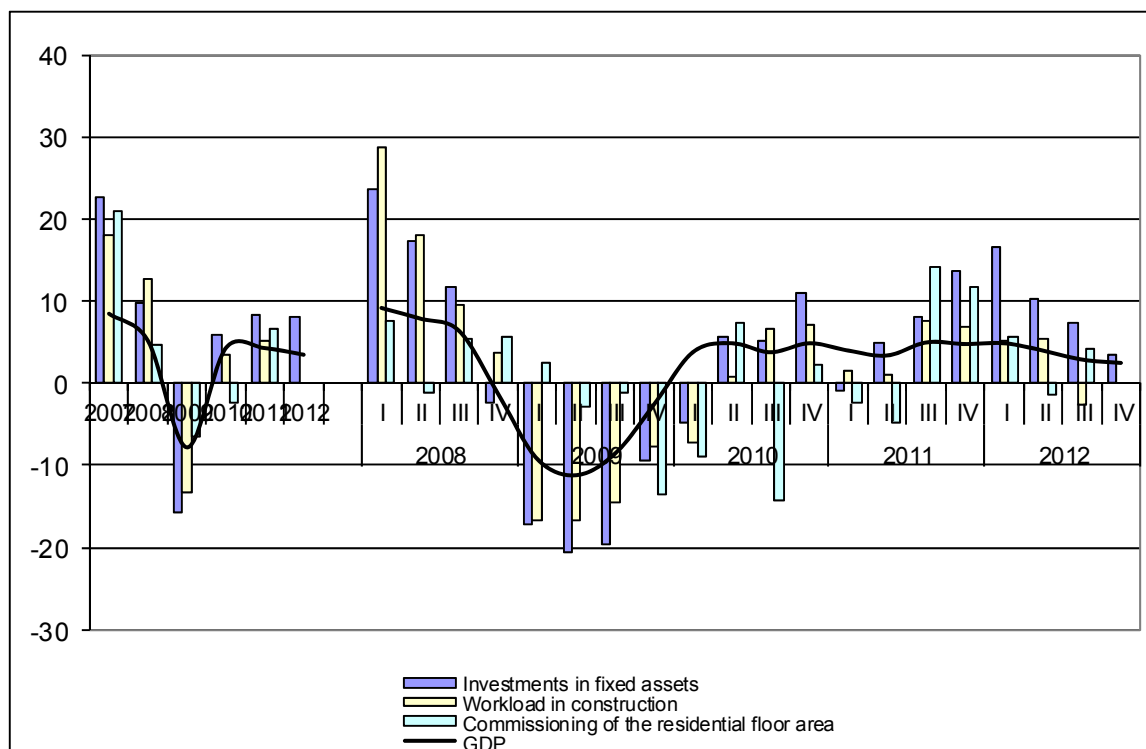
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<sup>1</sup> Traditionally in November-December the positive dynamics of the investments is registered when compared with the preceding period of the year, which is connected with the characteristic features of the investment cycle and statistical reporting. In 1999-2012 the contraction of the investments in fixed assets in November as compared with October was observed only in November 2008.

In 2012 the preservation of business activity in the investment sector of the economy was characterized by the anticipating growth rates of the investments with respect to the GDP dynamics. Impact of investments on economic growth dynamics in this situation cannot be assessed unambiguously. It should be noted that higher growth rates of investment in fixed assets, the dynamics of the workload in construction remaining the same, indicate a decrease in the efficiency of the use of the capital, which in general has a negative impact on the economic growth.

It was the slowdown of the investment growth rates throughout the year that was the characteristic feature of the investment process in 2012. It should be remembered that in Q1 2012 investments in fixed assets growth rates in annual terms reached 116.6% and it was the first time in the post-crisis period such high growth rates were registered. Starting with Q2 2012, however, the business activity has been observed to weaken in the construction complex, which was accompanied by the contraction of the enterprises' profits and the recovery of the growth of the average weighted interest rate on credits in rubles issued for a year or less.

In September 2012 investments in fixed assets decreased by 0.2%, the workload in construction - by 5.6%, and commissioning of the residential floor area - by 7.2% compared to September 2011. This resulted in a further weakening of the investments dynamics in Q3 2012 and determined sluggish investments growth in October-November 2012. The changing investments dynamics is partly due to the effect of the high base of the corresponding months of 2011, when there was a sharp increase in business activity, but the fundamental causes of the investment process instability are accounted for by the internal factors of the economy functioning.



Source: Federal State Statistics Service

**Fig. 1. Dynamics of the Investment Activity Indices and GDP in 2008–2012, as Percentage to the Corresponding Period of the Previous Year**

Over January-September 2012 investments made by the large and medium-scale business, which accounted for 72.6% of the total volume of the investments in fixed assets throughout the economy, increased by 8.6% as compared with the corresponding period of the previous year, which is 3.5% below the growth of 9 months of 2011 and 1.7% below the growth rates of the total volume of the investments in fixed assets over the corresponding period of the current year (*table 1*). The anticipating growth of the investment activity in January-September 2012 in the small business segment was unsteady and was not supported by the fundamental changes in the investment climate.

Table 1

**Dynamics of the Physical Volumes of the Investments in Fixed Assets in January-September 2009-2012, as Percentage to the Corresponding Period of the Previous Year**

|                                                                                                                                                                                                                | 2009 | 2010  | 2011  | 2012  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|-------|-------|
| Investments in fixed assets (for all organizations, including adjustment for investments not observed by direct statistical methods)                                                                           | 81.1 | 103.7 | 105.0 | 110.3 |
| Large and medium organizations (investments in fixed assets not taking into account the subjects of small-scale entrepreneurship and the volume of investments not detected by the direct statistical methods) | 86.7 | 96.2  | 112.1 | 108.6 |

Source: Federal State Statistics Service

In January-September 2012 the proportion of the own funds of the enterprises in the investments programs financing expanded, having increased up to 47.7%, exceeding by 2.4% the figure of the corresponding period of the previous year (*table 2*).

Table 2

**Structure of Investments in Fixed Assets as Broken by the Sources of Financing in January-September 2009-2012, as Percentage to the Total (excluding the subjects of small-scale entrepreneurship and parameters for informal activities)**

|                                                                                       | 2009 | 2010 | 2011 | 2012 |
|---------------------------------------------------------------------------------------|------|------|------|------|
| Investments in fixed assets - total                                                   | 100  | 100  | 100  | 100  |
| of which by sources of financing:                                                     |      |      |      |      |
| own funds                                                                             | 38.3 | 43.0 | 45.3 | 47.7 |
| of which:                                                                             |      |      |      |      |
| profit remaining in the organization (accumulation fund)                              | 15.5 | 16.0 | 17.6 | 19.1 |
| borrowed funds                                                                        | 61.7 | 57.0 | 54.7 | 52.3 |
| of which:                                                                             |      |      |      |      |
| bank loans                                                                            | 11.1 | 9.1  | 8.6  | 8.2  |
| of which loans from foreign banks                                                     | 3.4  | 2.7  | 1.8  | 1.5  |
| borrowings from other organizations                                                   | 8.9  | 6.6  | 5.5  | 5.6  |
| budget funds                                                                          | 18.7 | 17.4 | 16.2 | 14.2 |
| of which:                                                                             |      |      |      |      |
| from the federal budget                                                               | 8.6  | 8.5  | 8.8  | 7.0  |
| from the budgets of subjects of the Russian Federation                                | 9.1  | 7.8  | 7.4  | 6.2  |
| off-budget funds                                                                      | 0.2  | 0.3  | 0.2  | 0.3  |
| other                                                                                 | 22.8 | 23.6 | 24.2 | 24.0 |
| of which:                                                                             |      |      |      |      |
| funds from overhead organizations                                                     | 16.2 | 16.7 | 18.0 | 18.9 |
| funds for share participation in construction (from the population and organizations) | 2.6  | 2.0  | 1.8  | 2.1  |
| of which funds of the population                                                      | 1.0  | 1.1  | 1.1  | 1.4  |
| funds from corporate bonds emission                                                   | 0.1  | 0.02 | 1.0  | 0.0  |

|                                                                            |     |     |     |     |
|----------------------------------------------------------------------------|-----|-----|-----|-----|
| funds from stocks emission                                                 | 0.8 | 1.4 | 1.0 | 1.1 |
| Foreign investments in the total volume of the investments in fixed assets | 5.4 | 4.8 | 3.7 | 3.3 |

Source: Federal State Statistics Service

Despite that, it is the borrowed funds that serve as the main source of investments in fixed assets financing in January-September 2012, which accounted for 52.3% of the total volume of investments in the economy.

The change in the volume and proportion of the borrowed funds in the sources of financing was accompanied by the change in their structure. The public demand for the production and services of the Russian enterprises is supported through the fulfillment of the planned investments projects in the sphere of transportation, telecommunication etc. within the framework of FTP and FTIP as well as the large infrastructure projects of the Investment Fund.

In accordance with the federal targeted investment program approved by the RF Ministry of the Economic Development, in 2012 (taking into the account specification of October 1, 2012) the allotments of Rb 757.0bn were allocated, of which Rb 725.6bn – from the federal budget, for construction of 3626 objects of capital construction, purchase of real estate objects and fulfillment of measures (consolidated investment projects). 964 objects are scheduled only for project and exploratory work. In 2012 it is planned to put 1422 objects into commission, during January-September 190 objects were put into commission, 170 – to the full extent, 25 – partially. As on October 1, 2012 657 objects (not taking into account those that are scheduled only for project and exploratory work for future construction) the extent of the technical readiness is in the range from 51.0% to 99.9%.

In January-September 2012 Rb 363.3bn of the year limit was financed from the federal budget and Rb 17.7bn – from budgets of the subjects of the Russian Federation and other sources.

In January-September 2012 the proportion of budget funds in the sources of the investments financing made 14.2% or 1.77% of the GDP versus, correspondingly, 16.2% and 1.90% a year ago.

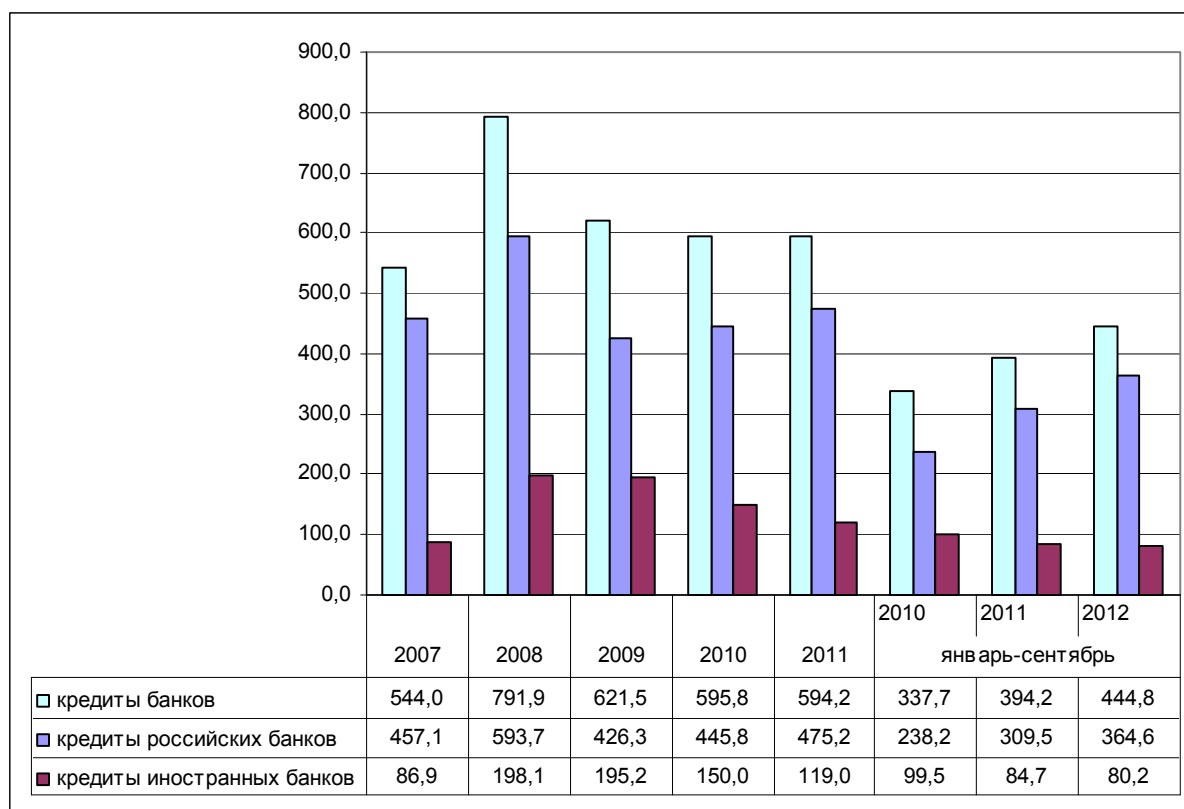
Table 3

**Objects Envisaged by Targeted Investment Program and Volumes of Public Investments in 2012 (not taking into account construction sights and objects included in the state defense order)**

|                                                          | Number of objects for 2012 |                                                  | Put into commission in January-October 2012 |           | Limit of public investments in 2012 |                                  | Financed from the federal budget in January-October 2012 | Investments used at the expense of all sources of financing in January-October 2012 |
|----------------------------------------------------------|----------------------------|--------------------------------------------------|---------------------------------------------|-----------|-------------------------------------|----------------------------------|----------------------------------------------------------|-------------------------------------------------------------------------------------|
|                                                          | total                      | of which with the commissioning deadline in 2012 | to the full extent                          | partially | total                               | of which from the federal budget |                                                          |                                                                                     |
|                                                          | units                      |                                                  |                                             |           | Rb billion                          |                                  |                                                          |                                                                                     |
| Total                                                    | 3704                       | 1424                                             | 197                                         | 34        | 753.5                               | 719.8                            | 392.5                                                    | 302.7                                                                               |
| of which:                                                |                            |                                                  |                                             |           |                                     |                                  |                                                          |                                                                                     |
| agriculture, forestry and hunting                        | 134                        | 59                                               | 10                                          | 4         | 5.1                                 | 5.1                              | 4.8                                                      | 3.3                                                                                 |
| fishing and fish breeding                                | 21                         | 5                                                | -                                           | -         | 2.1                                 | 2.1                              | no data                                                  | 0.9                                                                                 |
| manufacturing industries                                 | 51                         | 11                                               | -                                           | -         | 8.1                                 | 7.0                              | no data                                                  | 1.3                                                                                 |
| electricity, gas and water production and distribution   | 40                         | 19                                               | -                                           | -         | 44.2                                | 42.5                             | 25.6                                                     | 29.9                                                                                |
| construction                                             | 108                        | 52                                               | 2                                           | 1         | 20.5                                | 17.7                             |                                                          | 9.3                                                                                 |
| transportation and communication                         | 600                        | 283                                              | 42                                          | 5         | 309.2                               | 298.2                            | 209.0                                                    | 159.7                                                                               |
| operations with real estate, rent and services rendering | 1299                       | 139                                              | 3                                           | 3         | 149.3                               | 143.9                            | no data                                                  | 17.0                                                                                |
| state management and military security                   | 626                        | 489                                              | 129                                         | 18        | 53.5                                | 52.7                             | 33.4                                                     | 23.3                                                                                |
| education                                                | 207                        | 112                                              | 8                                           | 2         | 41.8                                | 39.7                             | 25.4                                                     | 17.9                                                                                |
| health care and social services provision                | 190                        | 96                                               | 1                                           | 1         | 59.3                                | 55.8                             | 30.5                                                     | 20.0                                                                                |
| other utilities, social and personal services            | 417                        | 157                                              | 2                                           | -         | 58.0                                | 52.9                             | no data                                                  | 19.1                                                                                |
| other types of activity                                  | 11                         | 2                                                | -                                           | -         | 2.2                                 | 2.2                              | no data                                                  | 1.0                                                                                 |

Source: Federal State Statistics Service

Starting with 2009 the proportion of the bank and the borrowed capital in the structure of the attracted funds for the financing of the investments in fixed assets has decreased. In January-September 2012 the proportion of the bank capital in the structure of the borrowed funds remained approximately at the level of January-September 2011, the ratio of the credits changing towards the expansion of the domestic banks proportion.



January-September

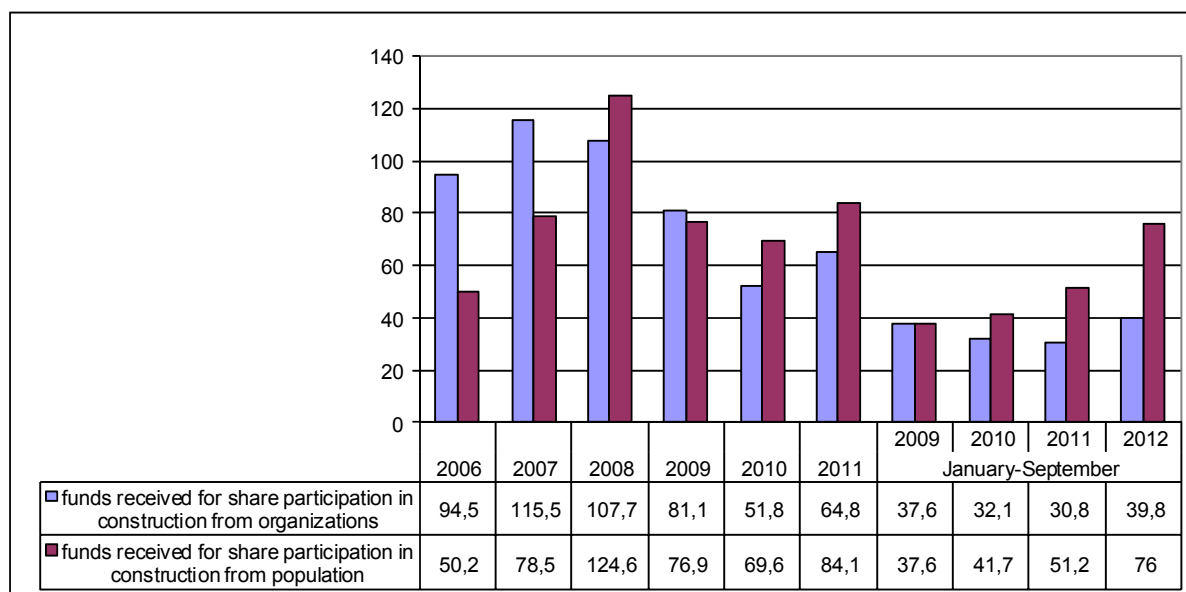
Note. Bank loans; Loans issued by Russian banks; Loans issued by foreign banks

Source: Federal State Statistics Service

**Fig. 2. Banking Credits for Financing of the Investments in Fixed Assets in 2007–2012, Rb billion**

The contraction of the foreign banks' credits, slowdown of the direct foreign investments in fixed assets growth rates to 104.6% in January-September 2012 as compared with 143.2% a year ago resulted in the decrease in the proportion of foreign investments in the total volume of investments in fixed assets down to 3.3% versus 3.7% in the corresponding period of 2011.

Analyzing the changes in the structure of investments in fixed assets financing, the specific features of the housing construction should be noted. In 2011 the reduction of the investments in housing construction in absolute terms ceased (taking into account small business and adjustment of investments), which predetermined the activity stirrup in 2012. The incomes of the population in January-September 2012 increasing as compared with the corresponding period of the previous year, the growth of the funds of the population allocated for the share participation in construction made Rb 24.8bn. The stirrup of the investment activity of the population was supported by the growth of the demand for the credits. The volume of the housing credits issued in January-September 2012 made RB 717.2bn versus Rb 489.9bn over the corresponding period of 2011, of which mortgages accounted for Rb 689.1bn versus Rb 452.7bn a year ago.



Source: Federal State Statistics Service

**Fig. 3. Funds for Share Participation in Construction in 2007-2012, Rb billion**

The analysis of the structure of the investments in fixed assets in January-September 2009-2012 allows singling out general and specific features of the investments demand as broken by the types of economic activity. In 2009-2012 the structural shifts of the investments in fixed assets were defined by the expansion of the proportion of the industry in the total volume of the investments in fixed assets (excluding the subjects of small-scale entrepreneurship). In January-September 2012 the proportion of the industry accounted for 49.2% of the investments in the fixed assets on the whole throughout the economy as compared with 47.2% on average over the corresponding period of 2011-2010. In January-September 2012 the investments in the industry went up by 16.2% as compared with the corresponding period of the previous year. At the same time a considerable differentiation of the investments growth rates by types of economic activities was observed. The recovery from the crisis was accompanied by higher growth rates of both the fuel and energy and extraction complexes as well as by higher dynamics of the investment demand growth. In January-September 2012 investments in fixed assets in the extractive industries went up by 14.6% as compared with January-September 2008, in electricity, gas and water production and distribution – by 46.7%, while in the extractive industries the investments made 99.8% of the pre-crisis level. It was in the coke and oil products production, electric, electronic and optical equipment production, production of leather, leather goods and footwear that the highest growth rates of the investments among the manufacturing industries were observed. Investment activity in machinery and equipment production, production of transport vehicles remained below the pre-crisis level of January-September 2008. Besides, the dynamic growth of the investments in the development of the pipeline transportation should be noted.

Analysis of the dynamics and the structure of the investments demonstrates that the recovery of the investment activity in the machine-building complex occurs at significantly slower rates as compared with other types of economic activity.

According to the data of the sampling survey of the investment activity conducted by the Federal State Statistics Service, the same as in the preceding years it was the replacement of

outdated equipment and technology that was the main purpose of the investments in fixed assets. Starting with 2009 the structure of the investments in fixed assets the steady increase in the expenses for the purchase of machinery, equipment and transport vehicles has been observed; at the same time the shift towards the domestic models of the equipment has been observed. However one should hardly overestimate the significance of these changes taking into account the situation in the Russian machine-building.

As to the structure of the investments in fixed assets by the types of the fixed assets, it should be noted that since 2009 the proportion of the investments in housing construction has been observed to contract, the growth rates of the housing commissioning decreasing.

Table 4

**Structure of Investments in Fixed Assets as Broken by Types of Fixed Assets in January-September 2009-2012, as Percentage to the Total (excluding the subjects of small-scale entrepreneurship and parameters of informal activities)**

|                                                 | Rb billion |        |        |        | As percentage to the total |      |      |      |
|-------------------------------------------------|------------|--------|--------|--------|----------------------------|------|------|------|
|                                                 | 2009       | 2010   | 2011   | 2012   | 2009                       | 2010 | 2011 | 2012 |
| Investments in fixed assets                     | 3604.4     | 3712.5 | 4581.7 | 5461.4 | 100                        | 100  | 100  | 100  |
| including:                                      |            |        |        |        |                            |      |      |      |
| housing                                         | 221.5      | 225.4  | 222.3  | 260.2  | 6.1                        | 6.1  | 4.8  | 4.8  |
| buildings (excluding housing) and constructions | 1974.8     | 1991.8 | 2477.6 | 2847.1 | 54.8                       | 53.6 | 54.1 | 52.1 |
| machinery, equipment and transport vehicles     | 1119.2     | 1209.0 | 1529.0 | 1954.4 | 31.1                       | 32.6 | 33.2 | 35.8 |
| of which: imported                              | 257.4      | 244.6  | 313.7  | 338.2  | 7.1                        | 6.6  | 6.8  | 6.2  |
| other                                           | 288.9      | 286.3  | 361.6  | 399.7  | 8.0                        | 7.7  | 7.9  | 7.3  |

Source: Federal State Statistics Service

On December 14, 2012 the RF Ministry of Economic Development reconsidered the estimated growth rate of the investments in fixed assets towards the increase up to 7.8% (+2.3% as compared with the figure projected earlier) maintaining the GDP growth estimation at the level of 3.5%.