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Foreign Investment in the Russian Economy

In the period from January through September 2012, the inflow of foreign investment in the Russian economy declined on the previous year by 14.4%, which happened due to a drop in the volume of ‘other’ investments, made on a refundable basis. Their share in the aggregate structure of foreign investment constituted 87.9%. The share of direct investment is estimated to be 10.7%; that of portfolio investment – 1.4%. Industry has become a more alluring target for foreign investors, followed by financial activities and trade. The volume of investment outflow from Russia over the period from January through September 2012 continued to be on the rise, amounting to 95.6% of the total volume of foreign investment inflow over the same period.

As of the end of September 2012, accumulated foreign investment in the Russian Federation, less the assets of financial regulatory agencies, commercial and savings banks and including ruble-denominated investment recalculated in US dollar terms, amounted to \$ 353,3bn, which is 1.8% above the index registered as of 1 January 2012 and 9.3% above that as of 1 October 2011.

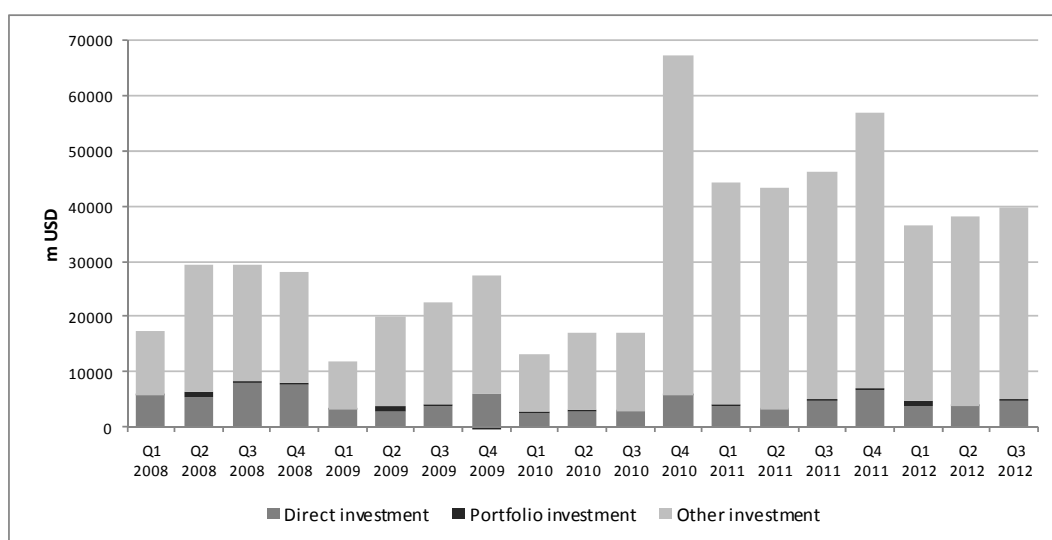
Table 1

Foreign Investment Inflow in the Russian Economy in January-September 2008–2012

	In m USD				As % of previous year			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
2008	75,792	19,201	1,296	55,259	86.2	97.7	83.8	82.8
2009	54,738	9,975	1,019	43,744	72.2	51.9	78.6	79.1
2010	47,488	8,196	866	38,426	86.8	82.2	85.0	87.8
2011	133,784	11,736	535	121,513	281.7	143.2	61.8	316.2
2012	114,463	12,277	1,571	100,615	85.6	104.6	2.9-fold	82.8

Source: RF Federal State Statistics Service.

The decline of aggregate indices occurred due to the downward movement of ‘other’ investment, which by the results of the first 9 months of 2012 dropped by \$ 20.9bn on the period of January-September 2011.



Source: RF Federal State Statistics Service.

Fig. 1. Quarterly Movement of Foreign Investment Inflow in the RF in 2008–2012

In 2012, the quarterly volumes of ‘other’ investment made by foreign investors amounted to approximately \$ 33.5bn, thus demonstrating a decline on the corresponding periods of the previous year.

Growth, on the corresponding period of the previous year, of direct foreign investment in the Russian economy was noted in Q2 2012. In Q1 and Q3, the decline amounted to 0.7% and 0.4% on the same periods of 2011.

In contrast to ‘other’ and direct foreign investment, the portfolio investment segment in 2012 demonstrated growth on the corresponding periods of the previous year. In Q1 2012, the volume of portfolio investment increased 8.3 times.

The difference in the movement of each type of foreign investment in the Russian economy resulted in the following changes in the foreign investment structure: as seen by the results of the first 9 months of 2012, the shares of direct and portfolio foreign investment increased to 10.7% and 1.4% respectively (over the first 9 months of 2011 – to 8.8% and 0.4% respectively), while the share of other investment shrank to 87.9% (over the first 9 months of 2011 – to 90.8%)

In Q3 2012, the focus of foreign investment continued to be industry, the financial sphere and trade, which received 90.2% of the aggregate volume of foreign investment in the RF (in Q1 and Q2 2012 – 93.2% and 94.8% respectively).

The decline in the volume of investment in financial activities and the transport and communications sector against the backdrop of increasing investment in other branches of the economy resulted in some alterations in the by-sector structure of foreign investment by comparison with the previous year.

Table 2

By Sector Structure of Foreign Investment in the Russian Economy in January-September 2010-2012

	In m USD	Change, as %, on previous year	As % of total
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	2010	2011	2012	2010	2011	2012	2010	2011	2012
Industry	28,022	44,291	46,343	132.6	158.1	104.6	59.0	33.1	40.5
Transport and communications	3,952	5,494	3,377	46.4	139.0	61.5	8.3	4.1	3.0
Wholesale and retail trade; repair of motor vehicles, motorcycles, household utensils and articles of personal use	8,688	12,363	18,074	53.4	142.3	146.2	18.3	9.2	15.8
Operations with real estate, renting and service rendering	3,843	4,782	7,150	68.7	124.4	149.5	8.1	3.6	6.2
Financial activities	1,764	65,711	38,300	89.5	3725.1	58.3	3.7	49.1	33.5
Other sectors	1,219	1,143	1,219	97.1	93.8	106.6	2.6	0.9	1.1

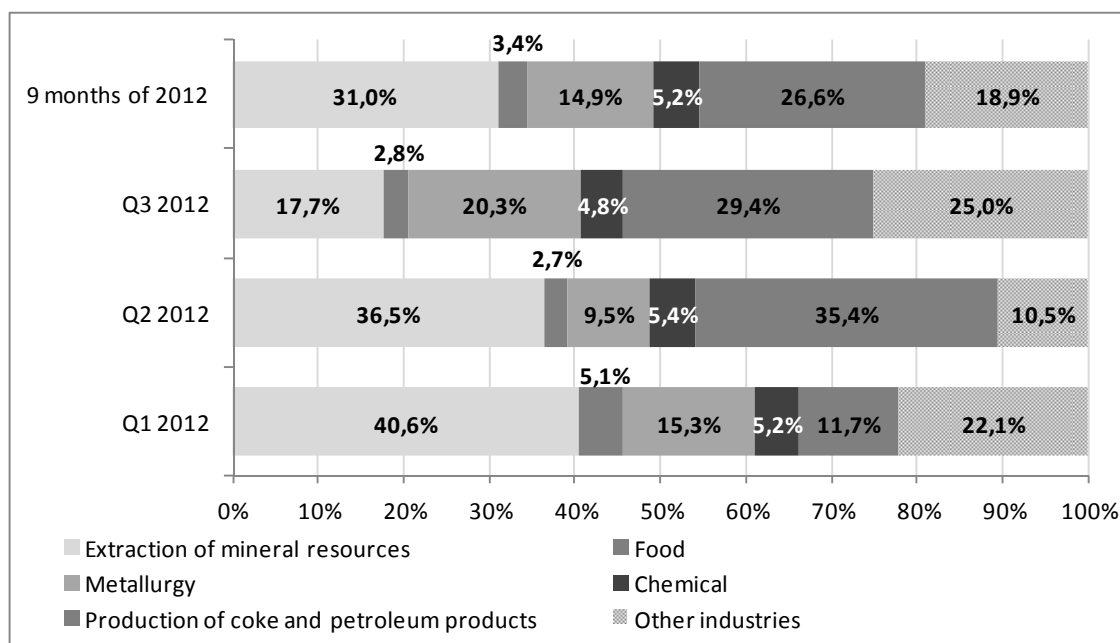
Source: RF Federal State Statistics Service

In the structure of foreign investment in industry, as demonstrated by the results of the first 9 months of 2012, the top position is occupied by the processing industry, where the volume of investment increased on January-September 2011 by 11.1% (in 2011, growth amounted to 46.4%). Investment in the extraction of mineral resources over that period declined by 10.5% on January-September 2011 (in 2011, growth amounted to 85.5%).

In the processing industry, investment in the production of coke and petroleum products increased by 23.4%, and in metallurgy – by 13.2%, thus amounting to \$ 12.3bn and 6.9bn respectively (over the period of January-September 2011, the volume investment in the production of coke and petroleum products doubled, and investment in metallurgy increased by 20.3%). Foreign investment in the chemical and food industries over the first 9 months of 2012 dropped on the corresponding period of 2011 by 34.4% and 19.4% to \$ 2.4bn and 1.6bn respectively (the period of January-September 2011 saw growth of investment in these two industries – 2.2 times and 5.3% respectively).

The highest growth of foreign investment in industry on the same period of 2011 was noted in Q1 2012 (by 27.4%). In Q3 2012, the rate of growth amounted to 1.5%, after a decline by 5.6% in Q2.

Foreign investment in metallurgy in Q1 and Q3 2012 increased by 85.7% and 59.3% respectively on the same periods of 2011, while in Q2 this index dropped by 45.6% on Q2 2011. The interest of foreign investors in the extraction of mineral resources increased by 11.5% in Q1, while in Q2 and Q3 2012 it declined by 8.2% and 36.6% respectively. The volume of foreign investment in the food industry in Q1 2012 increased on the same period of 2011 by 57.9%, while in Q2 and Q3 2012 it declined by 27.7% and 49.3% respectively. Changes in foreign investment in the chemical industry was as follows: –4.7% in Q1; +31.7% in Q2; and –64.4% in Q3 2012.



Source: RF Federal State Statistics Service.

Fig. 2. By Sector Structure of Foreign Investment in Industry in 2012

The share of direct investment in industry, as seen by the results of the first 9 months of 2012, shrank to 14.4% from 16.2% registered by the end of the corresponding period of 2011; while the share of ‘other’ investment over that period remained practically unchanged and amounted to 83.0%, and the share of portfolio investment increased from 0.6% to 2.5%.

Some changes can also be noted in the structure of foreign investment by type of economic activity in industry. In the extraction of mineral resources, the volume of direct investment by the results of the first 9 months of 2012 dropped by 40.3% - to \$ 2.3bn, which brought down its share in the aggregate investment volume in that industry to 15.8% (vs. 23.7% in January-September 2011). The share of other investment in the extraction of mineral resources, which over the course of 2012 remained practically unchanged and amounted to \$ 12.0bn, was 75.8% (in January-September 2011 – 76.0%).

The bulk of investment in the processing industry over the period of January-September 2012 was also constituted by ‘other’ investment’, which rose on 2011 by 4.5%, thus amounting to 88.8% in the processing industry’s resulting values (vs. 88.4% over the first 9 months of 2011). Direct foreign investment in the processing sectors increased by 33.2%. The share of direct investment in the processing industry over the period of January-September 2012 increased to 13.6% (over the first 9 months of 2011 – to 11.3%). Portfolio investment in the processing sectors over the period under consideration grew 11.1-fold, which increased their share to 3.4% (in 2011 – 0.3%).

The three leaders in the geographical structure of the foreign investment inflow into the Russian economy over January-September 2012 were the same three countries. The highest volume of investment – more than \$ 40bn – came from Switzerland; The Netherlands invested \$ 15.7bn, followed by Cyprus with its volume of investment in the Russian economy in the amount of \$ 11.8bn.

Table 3

Movement of Foreign Investment in the RF, by Major Investor Country, in 2012

	Inflow, m USD			As % of corresponding period of 2011			As % of total		
	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
Switzerland	17,703	13,010	9,869	68.6	63.2	44.8	48.5	34.0	24.9
Germany	1,519	1,056	1,224	86.2	27.4	48.1	4.2	2.8	3.1
UK	2,011	5,524	3,083	89.9	326.9	127.9	5.5	14.4	7.8
Cyprus	2,994	3,196	5,598	110.4	66.3	103.0	8.2	8.4	14.1
The Netherlands	3,601	5,680	6,395	89.4	149.4	118.6	9.9	14.8	16.1
Luxembourg	1,657	256	3,480	228.2	39.0	612.7	4.5	0.7	8.8
Other countries	7,049	9,533	10,025	99.3	120.4	130.0	19.3	24.9	25.3

Source: RF Federal State Statistics Service.

Country-specific differences in the behavior of investment flows caused some changes in the geographical structure of foreign investment in the Russian economy. The share of Switzerland in the aggregate volume of foreign investment inflow in the RF declined from 51.1% in January-September 2011 to 35.5% over the same period of 2012. Over that period, the share of Germany shrank from 6.1% to 3.3%; while that of Cyprus increased from 9.7% to 10.3%, that of the UK – from 4.7% to 9.3%, that of France – from 1.8% to 3.0%, and that of Luxembourg – from 1.5% to 4.7%.

As demonstrated by the results of the first 9 month of 2012, the financial sphere remained the main focus for investors from Switzerland. This sector of the Russian economy received 87.9% of the aggregate volume of investment from Switzerland and 93.2% of all foreign investment in that sphere (over 9 months of 2011 – 92.3% and 96.1% respectively).

The structure of investment from The Netherlands demonstrated a decline in the share of investment in the extraction of fuel and energy resources – from 50.5% in January-September 2011 to 44.2% in January-September 2012. As seen by the results of the first 9 months of 2012, the trade sector received 30.3% of the total volume of investment flowing from The Netherlands into the RF (in January-September 2011 – 19.8%); the transport and communications sector – 1.2% (in January-September 2011 – 12.1%); and metallurgy – 13.5%.

Over the period of January-September 2012, the business community from Cyprus – similarly to the situation in the previous year – focused on the processing industry, having invested in it 39.7% of their aggregate volume of investment in the RF (in January-September 2011 – 41.6%). The share of operations with real estate in the structure of investment from Cyprus increased from 13.5% in January-September 2011 to 21.3% by the results of the first 9 months of 2012.

The results of the period of January-September 2012 demonstrate that the countries with the highest volume of investment accumulated in Russia are Cyprus, The Netherlands, Luxembourg, China and the UK, whose aggregate share amounts to 65.7% (by the results of the first 9 months of 2011, the share of the top five investor countries (where the place now occupied by the UK had belonged to Germany) was 64.2%). The share of the top five investor countries in the segment of direct investment dropped to 59.7% (in January-September 2011 – 66.4%); their shares in the structure of portfolio and other investment were 60.5% and 69.8% respectively (in January-September 2011 – 20.4% and 64.7%).

Against the decline in the volume of foreign investment in the Russian economy, the volume of capital withdrawal in the form of foreign investors' incomes transferred abroad, as well as interest paid on loans and loan redemption over the first 9 months of 2012 dropped on the same period of 2011 by 17.2% and amounted to \$ 99.7bn, or 87.1% of the foreign investment volume received over the first 9 months of 2012 (vs. 90.0% over the first 9 months of 2011). It should be noted that while in Q1 2012 the amount of capital withdrawal from Russia was equal to 98.4% of the volume of foreign investment inflow over the same period, in Q2 and Q3 this index dropped to 82.4% and 81.3% respectively.

By the results of the first 9 months of 2012, investment outflow from Russia amounted to \$ 109.4bn, or was equal to 95.6% of the total volume of investment in the Russian economy (vs. 72.3% over the first 9 months of 2011). In Q1 and Q2 2012, the ratio of the investment outflow volume from Russia to foreign investment inflow in the Russian economy was estimated at the level of 86.8% and 98.8% respectively. In Q3 2012, investment outflow from the RF was equal to 100.5% of the investment inflow over the same period.