

INVESTMENTS IN FIXED ASSETS IN RUSSIA IN JANUARY–JULY 2015

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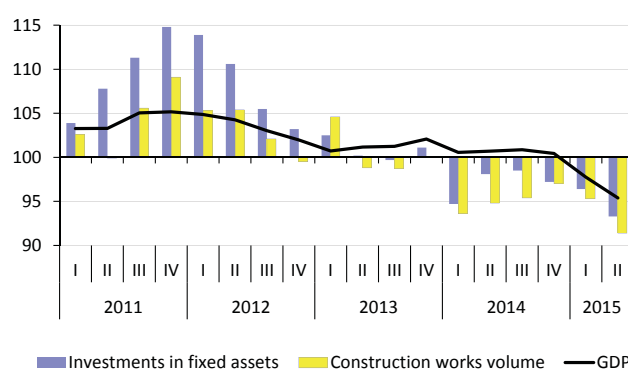
The volume of investments in fixed assets over the period of January–July 2015 in real terms amounted to 94.1%; the index for July dropped to 91.5% on the same month of last year. The structure of sources of investment financing displayed a strengthening trend towards increasing the share of equity and federal budget funding.

Over the first half-year of 2015, the decline of investment in fixed assets demonstrated by the segment represented by big and medium-sized enterprises amounted to 7.3% on the corresponding period of last year.

This year has, so far, been marked by an increasingly downward trend displayed by investment demand in response to the declining business activity, which has been observed since the second half-year of 2012. Investment in fixed assets in July 2015 amounted to 91.5%, and in January–July – to 94.1%, while the construction works volume over the same periods amounted to 89.7% and 92.3% of the corresponding indices for 2014. Over the last six years, the index of investment and construction activity has never displayed such a dramatic decline.

The movement of the index of investments in fixed assets varies by economic subject. Over the first half-year of 2015, the decline of investment in fixed assets in the segment represented by big and medium-sized enterprises amounted to 7.3%.

Over the first half-year of 2015, the structure of investments in fixed assets demonstrated a shrinkage of the relative share of investment in housing and industrial construction alongside the stabilization of the size of the share of investment in machinery and equipment. This year, the redistribution of investment funds by fixed asset type was strongly determined by the changing structure of prices for capital products and services. While the producer prices of construction products over the first half-year of 2015 increased by 1.7%, the indices of purchasing prices for capital



Source: Rosstat.

Fig. 1. The Movement of Investments in Fixed Assets in 2011–2015, As %, on the Same Quarter of the Previous Year

machinery and equipment increased by 7.1%, and those for other types of products and services – by 7.3%. The situation with regard to putting in operation newly constructed industrial complexes has been influenced by the adverse effects of the simultaneous decline of Russia's domestic output and imports of capital machinery and equipment machinery. Given the differences in the technological structure of investment in fixed assets represented by industrial vs. non-industrial entities, the most dramatic shrinkage in the construction works volume as noted in industry and agriculture.

Table 1

THE STRUCTURE OF INVESTMENTS IN FIXED ASSETS, BY FIXED ASSET TYPE, OVER THE FIRST HALF – YEARS OF 2012–2015 (LESS SMALL-SIZED ENTREPRENEURS AND DATA ON INFORMAL ACTIVITY), AS % OF TOTAL

	Rb bn				As % of total			
	2012	2013	2014	2015	2012	2013	2014	2015
Investments in fixed assets	3,135.0	3,356.1	3,579.4	3,632.5	100	100	100	100
including:								
residential housing	133.7	166.7	215.8	205	4.3	5.0	6.0	5.6
buildings (other than residential) and structures	1,601.9	1,644.9	1,764.9	1,932.9	51.1	49.9	49.3	47.7
machinery and equipment, means of transportation	1,146.9	1,241.8	1,228.7	1,240.6	36.6	37.0	34.3	34.2
other	116.9	130.4	370.0	454.0	8.0	9.0	10.4	12.5

Source: Rosstat.

In 2015, the structure of investments in fixed assets broken by type of economic activity displayed some changes compared with the previous year. The volume of investment in industry dropped by 2.7% on the corresponding period of last year, and its relative share shrank by 1.0 pp. In the first half-year of 2015, the index of investment in mineral resources extraction rose by 9.6% on the first half-year of 2014, while those of capital investment in the processing industries dropped by 5.9%, and in the production and distribution of electric energy, gas and water – by 24.2%.

The volume of investment in real estate operations over the first half-year of 2015 declined by 12.4% on the same period of the previous year; and in the structure of financing sources in the housing construction sector, the population's savings began to play a noticeably less prominent part in funding for share construction projects. Over the first half-year of 2015, the amount of individual savings spent on share construction projects shrank by Rb 1.1bn, while a year earlier this index had demonstrated growth by Rb 28.2bn. The volume of issued housing loans as displayed by the period-end result of the first half-year of 2015 amounted to Rb 459.0bn, or 60% of the previous year's index. The achievements of the previous year determined the positive movement of the housing construction sector's indices in Q1 2015, but later on,

from May 2015 onwards, these indices became indicative of a sharp slowdown, and then in June–July – a fall in the volume of housing stock being put in operation. The downward movement of the investment index in the processing industries was determined by the shrinkage, on the first half-year of 2014, of investment in fixed assets in the machine-building complex by 2.5%, in metallurgy – by 7.6%, in the production of coke and petroleum products – by 15.4%, and in the consumer goods manufacturing industry – by 16.0%.

The overall moderate rate of decline in the amount of investment in machine-building over the first half-year of 2015 on the first half-year of 2014 masks a drastic by-sector differentiation in the rates of investment activity inside that industry. Thus, the index of investment in the production of electrical, electronic and optical equipment rose by 30.7%, and that of investment in the production of machinery and equipment – by 18.0%, while investment in the production of capital investment in the production of means of transportation and transport equipment dropped by 14.5%. Such shifts in the by-sector structure of investment in machine-building were caused by a boost of import substitution projects in the production of some types of machinery and spare parts.

Another distinctive feature of the first half-year of 2015 was the accelerated rate of growth displayed by

Table 2

INVESTMENTS IN FIXED ASSETS (LESS SMALL-SIZED ENTERPRISES AND THE VOLUME OF INVESTMENT UNDETECTABLE BY DIRECT STATISTICAL METHODS) OVER THE FIRST HALF-YEARS OF 2012-2015

	Growth rate, as % of corresponding period of previous year				Structure, as % of total			
	2012	2013	2014	2015	2012	2013	2014	2015
Total	109.6	94.2	102.8	92.7	100	100	100	100
Agriculture, hunting and forestry	106.9	100.8	103.2	100.2	3.4	3.4	3.4	3.7
Fishery and fish-breeding	240.0	95.2	40.4	79.8	0.1	0.1	0.1	0.1
Industry	118.1	94.8	104.8	97.3	51.1	51.3	52.6	51.6
Extraction of mineral resources	117.8	92.1	105.0	109.6	22.3	22.7	23.4	23.4
Processing industries	121.5	100.4	105.7	94.1	17.8	18.2	19.2	19.9
Production and distribution of electric energy, gas and water	113.4	90.9	102.9	75.8	11.0	10.4	10.0	8.3
Construction	97.4	101.5	92.1	79.4	2.3	2.1	2.1	1.6
Wholesale and retail trade	99.0	130.9	93.0	89.3	1.9	2.8	2.8	2.7
Hotels and restaurants	81.1	123.5	144.8	27.4	0.3	0.8	1.0	0.4
Transport and communications	99.6	84.1	100.7	88.6	25.3	21.2	20.2	20.2
Railway transport operations	86.8	100.8	71.4	88.5	4.2	4.1	2.9	3.0
Pipeline transport	92.0	68.1	116.5	87.9	10.0	6.7	7.3	6.7
Communications	112.2	92.8	116.0	88.8	3.4	3.4	3.3	3.3
Financial activity	141.0	110.8	77.9	92.0	1.6	2.1	1.4	1.4
Real estate operations	102.7	103.1	115.9	87.6	6.9	8.7	10.4	9.8
Government administration	99.6	83.0	88.7	108.3	1.4	1.4	1.0	1.1
Education	99.0	101.6	108.2	106.5	1.5	1.4	1.4	1.6
Healthcare and social services	122.5	103.1	68.4	90.1	1.7	1.7	1.1	1.1

Source: Rosstat.

Table 3

THE STRUCTURE OF INVESTMENTS IN FIXED ASSETS, BY FINANCING SOURCE, OVER THE FIRST HALF-YEARS OF 2012-2015, AS % OF TOTAL (LESS SMALL-SIZED ENTREPRENEURS AND DATA ON INFORMAL ACTIVITY)

	Bn Rb				As % of Total			
	2012	2013	2014	2015	2012	2013	2014	2015
Investments in fixed assets	3,135.0	3,356.1	3,579.4	3,632.5	100	100	100	100
including by source of investment financing:								
equity	613.3	693.9	1,878.7	2,052.5	49.3	50.0	52.5	56.2
borrowed funds	1,544.0	1,678.0	1,700.7	1,590.0	50.7	50.0	47.5	43.8
including:								
bank loans	262.8	340.5	369.9	321.7	8.4	10.2	10.3	8.3
of these								
loans issued by foreign banks	49.3	40.1	51.1	83.1	1.6	1.2	1.4	2.3
loans issued by Russian banks	213.5	300.4	318.8	238.6	6.8	9.0	8.9	5.0
Funds borrowed from other organizations	165.4	234.8	243.7	197.1	5.3	7.0	6.8	5.4
foreign investment	no data	no data	25	34.6	no data	no data	0.7	1.0
budget resources	412.9	459.8	444.8	464.7	13.2	13.7	12.4	12.8
of these:								
federal budget	199.5	242.8	213.2	249.3	6.4	7.2	6.0	6.9
budgets of subjects of Russian Federation	187.0	188.3	198.6	183.4	6.0	5.6	5.5	5.0
off-budget funds	6.9	13.4	7.0	8.3	0.2	0.4	0.2	0.2
funding for share construction projects (received from organization and individuals)	64.0	82.1	114.9	114.5	2.0	2.4	3.2	3.1
including individual funds	42.9	65.2	93.4	92.3	1.4	1.9	2.6	2.5
other	679	547.5	495.4	449.1	21.7	16.3	13.9	12.4
of these:								
funding allocated by superior organizations	583.6	415.5	410.2	345.7	18.6	12.4	11.5	9.5
funding generated by issuance of corporate bonds	0.0	1.8	3.5	48.1	0.0	0.1	0.1	1.3
funding generated by issuance of shares	38.7	31.5	41.3	15.7	1.2	0.9	1.2	0.4

Source: Rosstat.

investment in fixed assets in chemical production (by 23.1%) and in rubber and plastic products manufacturing (by 14.9%) in response to the increasing export potential of these sectors and the import substitution activities.

In the context of economic growth issues, special attention should be given to infrastructure development. However, the decline of investment in transport and communications amounted to 11.4% on the first half-year of 2014, while the index of investment in pipeline transport dropped by 12.1%. The shrinkage of domestic demand pushed down the volume of investment in the development of wholesale and retail trade, and hotel and restaurant businesses.

Investment financing was increasing its orientation to companies' equity. In the first half-year of 2015 the share of investment funded by organizations' equity amounted to 56.2%, which represents an increase by 3.7 pp. on the first half-year of 2014. Over the first

half-year of 2015, the rate of return in the national economy as a whole amounted to 10.1%, having risen by 1.2 pp. on the corresponding period of the previous year, which resulted in an increased share of profits in the structure of investment financing sources. The volume of borrowed funds in the structure of investments in fixed assets over the first half-year of 2015 shrank by Rb 110.7bn.

The participation of the banking sector in providing financing for the investment activity became much less prominent. In the first half-year of 2015, the share of bank loans in the structure of investment financing sources amounted to 8.3%, which represents a drop by 2.0 pp. on the corresponding period of the previous year. These changes in the structure of bank loans occurred in response to the shrinking volume and share of loans issued by Russian banks. Compared with the first half-year of 2014, the index of loans issued by Russian banks declined by Rb 80.2bn. The increased

volume and share of loans issued by foreign banks and foreign investment can be explained by the recalculation of the values of these indices (denominated in foreign currencies) in ruble terms.

The index of participation of banks in investment programs was negatively influenced over the first half-year of 2015 by the persisting capital outflow trend. According to the RF Central Bank's preliminary estimates, net capital outflow from the private sector over the period from January to June 2015 amounted to \$ 52.5bn, including \$ 28.6bn from the banking sector.

Among the financing sources for investment in fixed assets, the structure of borrowed funds displayed a shift in the share of budget funding. Over the first half-year of 2015, budget funding accounted for Rb 464.7bn of investment in fixed assets (or 12.8% of the total investment volume in the national economy). Compared with the first half-year of 2014, the volume of federal budget funding allocated to investment increased by Rb 36.1bn, this compensating for the

shrinkage of the volume of investment allocations in the budgets of RF subjects and the local budgets.

The share of investment funded by 'superior organizations' in the structure of investment financing sources shrank from 11.5% in the first half-year of 2014 to 9.5% in the first half-year of 2015. In Russia, 'superior organizations' are most commonly represented by big holding companies, joint-stock companies and financial-industrial groups with state stakes. The slumping activity of these major institutional investors over the course of the period from 2013 to 2015 had a very adverse effect on the overall movement of the index of investment in fixed assets. However, in the first half-year of 2015, the situation with regard to investment financing was positively influenced by the increasing inflow of funds generated by the issuance of corporate bonds, which compensated for the sharp drop in funding generated by the issuance of shares.

In view of the existing trends, the general outlook for 2015 is that the index of investment in fixed assets will decline by approximately 8%. ●