

DYNAMICS OF CAPITAL INVESTMENT¹

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Following two years of relative stability, in 2015 fixed investments shrank by 8.4%. Analysis of structural features of the investment activity allows to suppose that in 2015 the bottom of the recession was passed. However, without significant positive changes in economic and institutional environment solely slow and weak correction is feasible. In order to get back to the trend of sustainable fixed investment growth, significant increase of their financing through raised funds is required.

In 2015, fixed investment amounted to Rb14.6 trillion. Following minimal real increase posted in 2013 (+0.8%) and small decrease in 2014 (-1.5%), last year fixed investments shrank by 8.4%.

Nominal growth of fixed investments from Rb12.6 trillion in 2012 (eve of the investment pause in Russian economy) to Rb14.6 trillion in 2015 is mainly due to the investment activity of small enterprises and the investment volume beyond direct statistical monitoring methods. Out of Rb2 trillion nominal increase in fixed investments, this segment of Russian economy accounted for Rb1.3 trillion, whereas fixed investments made by medium and large enterprises in the course of three-year investment pause are changing insignificantly and exceed 2012 indicator by merely Rb0.7 trillion.

Table 1

FIXED INVESTMENTS IN CURRENT PRICES, RB TRILLION

| | 2012 | 2013 | 2014 | 2015 | Increase during 3 years |
|---|------|------|------|------|-------------------------|
| Full circle of organizations, including: | 12.6 | 13.5 | 13.9 | 14.6 | 2.0 |
| Less small enterprises and investments non-observed by direct statistical methods | 9.6 | 10.1 | 10.4 | 10.3 | 0.7 |
| Small enterprises and investments non-observed by direct statistical methods | 3.0 | 3.4 | 3.5 | 4.3 | 1.3 |

Source: Rosstat.

Giving credit to Rosstat's optimism regarding the investment activity in non-observed segment of the Russian economy, one should register by far weaker investment activity of large and medium enterprises whose activity is directly statistically verifiable. In 2015, investment decrease in this segment constituted 10.2%, which practically coincides with the Ministry of Economic Development projected contraction of fixed investments.

In the context of deepening investment pause, the nominal growth of fixed investment is offset to the price increase. In 2015, enterprises financed the same volume of fixed assets to the tune of Rb14.6 trillion as in 2008 (in real terms investment has not practically changed). But seven years ago it amounted to

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Rb8.8 trillion. Nominal expansion of investment by 1.7 times was mainly compensated by the price hike during the implementation of the investment projects.

For the second time since 1998 (similar phenomenon was observed solely in pre-crisis year of 1999) enterprises financed more than half of all fixed investment at the expense of their own funds – 51.1%. By contrast, 2015 was marked by an abysmal record set by the Russian banks regarding support of the investment projects (overall 5.9% in sources of investment financing) and reduced share of state funds (16.8%). In 2014–2015, loans extended by the Russian banks and state funds for the investment purposes have fallen not only as a share in the structure of investment sources but when taken in nominal terms.

Table 2

SOURCES OF FINANCING FIXED INVESTMENT*

| | 2012 | 2013 | 2014 | 2015 |
|---|------|------|------|------|
| Sources of financing of fixed investment, Rb trillion | | | | |
| Own funds | 4.27 | 4.55 | 4.74 | 5.26 |
| Raised funds, including: | 5.32 | 5.52 | 5.64 | 5.02 |
| Russian banks' loans | 0.69 | 0.90 | 0.83 | 0.61 |
| Budget and extra budgetary funds | 1.75 | 1.94 | 1.79 | 1.73 |
| Structure of sources of investments financing, % | | | | |
| Own funds | 44.5 | 45.2 | 45.7 | 51.1 |
| Raised funds, including: | 55.5 | 54.8 | 54.3 | 48.9 |
| Russian banks' loans | 7.2 | 8.9 | 8.0 | 5.9 |
| Budget and extra budgetary funds | 18.2 | 19.3 | 17.2 | 16.8 |

*Less small enterprises and investments non-observed by direct statistical methods.

Source: Rosstat.

Nominal increase of fixed assets was due exclusively to the investment in structures and facilities. In the course of 2012–2015, investment in machinery, equipment and means of transport persistently remained at Rb5 trillion per annum and were decreasing in the investment composition. Investment in nonresidential buildings and facilities went up to Rb6.0 trillion after stable Rb5.6 trillion (2012–2014). Finally, investments housing construction are behind the investment growth: they progressively grew in nominal terms from Rb1.5 trillion in 2012 to Rb2.2 trillion in 2015 and in the investment structure – from 12.2% to 15.0%. Precisely investment in housing construction supported by corresponding state programs was the main driver for nominal fixed investment growth in the Russian economy.

Table 3

TYPE OF INVESTMENT IN FIXED ASSETS

| | 2012 | 2013 | 2014 | 2015 |
|---|------|------|------|------|
| Investment in fixed assets, Rb trillion | | | | |
| Investment in housing | 1.53 | 1.68 | 2.01 | 2.19 |
| Investment in buildings (less residential) and facilities | 5.56 | 5.58 | 5.67 | 6.03 |
| Investment in machinery, equipment and means of transport | 4.73 | 5.21 | 5.05 | 5.05 |
| Structure of investment in fixed assets by type, % | | | | |
| Investment in housing | 12.2 | 12.5 | 14.5 | 15.0 |
| Investment in buildings (less residential) and facilities | 44.2 | 41.5 | 40.7 | 41.4 |
| Investment in machinery, equipment and means of transport | 37.6 | 38.8 | 36.3 | 34.7 |

Source: Rosstat.

Investment pause of 2013–2015 has become the first longest period of absence of real growth of investments in fixed assets in the last 17 years. Following nearly five-fold real decrease in 1990s, investment have been progressively growing and their increase outpaced GDP and industrial output increment. They stimulated activity in the Russian economy. In 2013–2015, contraction of investment turned out to be more profound than GDP and industrial output reduction. Investment pause significantly reduces demand in economy, thus deteriorating not only its current dynamics but also its prospects.

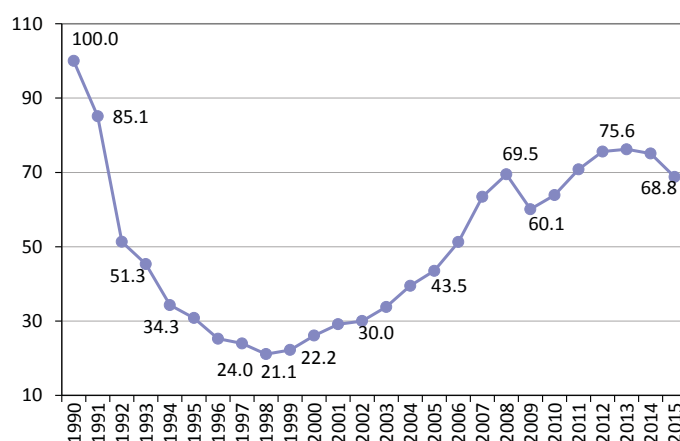
Characterizing prospects of the investment process in the Russian economy in 2016, one can note the following.

Russian enterprises finished 2015 with good financial results. Potential for financing investments from their own funds went up in 2016. At the same time, in 2015 for the first time in recent years a reduction of enterprises' intentions to self-financing of investment was registered. This fact can be of a local character connected with the producers' reaction to a sharp deterioration of economic situation. Any positive changes in the environment (both economic and institutional) can bring back the propensity to self-financing of investment to the previous level and on the back of profit growth and set aside a significant increase of investments at the expense of own resources.

At the same time, bank financing is limited, possibilities of the state to support investment projects of Russian companies are falling and raising resources on the global financial markets is restricted. Financing of investment at the expense of raised funds in recent years was growing slower than self-financing of investment projects. In 2015, it altogether decreased. With high probability, expansion of investment in 2016 will be in the minimal degree connected with their financing from raised funds.

In the absence of significant negative changes in economic and institutional environment in 2016, we can observe somewhat correction of fixed investment trend, which will be possible mainly owing to their financing growth at the expense of own funds. This correction can be buttressed by state programs of incentives in the form of support of targeted credit programs, privileges for self-financing of investment, etc.

However, such growth of investment will turn out to be minimal and correctional at best. Mere self-financing will be insufficient to overcome recession and move to a new path of fixed investment growth. ●



Source: Rosstat.

Fig. 1. Investment in fixed assets in constant prices, 1990 = 100%