

## BUSINESS FIXED INVESTMENT IN H1 2016

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*In H1 2016, business fixed investment stood at 95.7% against the corresponding period of the previous year. Reduction in the scale of investment and construction activity is due to pattern of adaptability of economic entities to the current situation in the economy. The segment of large and medium enterprises faces a gradual easing of recession: during January–June 2016 against the corresponding period of the previous year, business fixed investment shrank by 1.0%. In the current environment small enterprises responded with derailing construction and investment activity. Upward trend in the share of own funds with a reduction of borrowed capital has strengthened in the structure of the investment financing sources.*

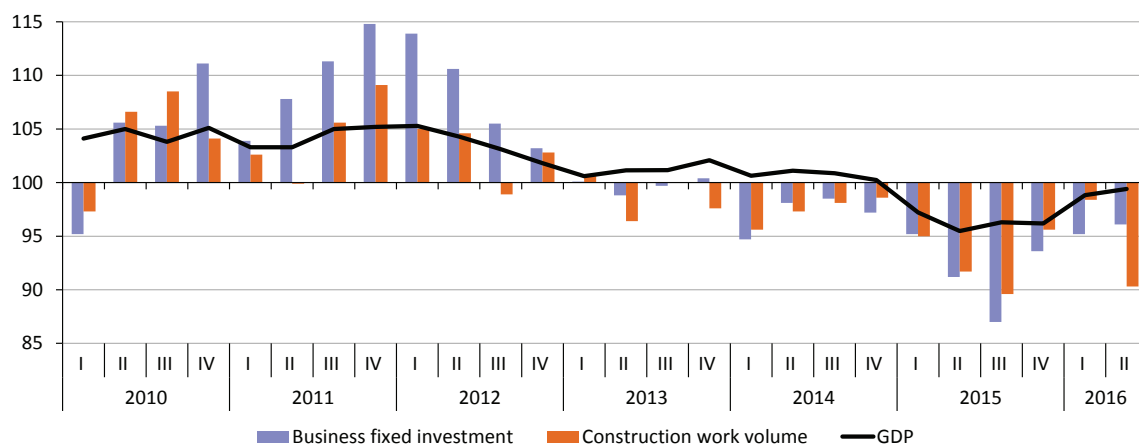
*Business fixed investment of large enterprises in the mining sector went up by 7.5% in H1 2016 against the corresponding period of the previous year. Manufacturing industry and infrastructure sectors have demonstrated enhancement of recession along quarters of the current year.*

This year the situation in the investment sector of the economy is determined by a fall of business investment in the course of last thirteen quarters. In H1 2016, business investment stood at 95.7%. The scope of works completed in the construction sector comes to 94.3% against the corresponding values of 2015. Business expectations and projections regarding domestic investment demand are not very optimistic and somewhat easing of dynamics of slowdown of investment and construction activity volume is due to pattern of adaptability of economic entities to changing conditions. In the segment of large and medium enterprises gradual easing of recession through quarters resulted in the decrease of business fixed investment by 1.0% for January–June 2016 against the corresponding period of the previous year. Decrease of the entrepreneurial confidence and small businesses' profits enhanced the process of derailing investment and construction work.

In H1 2016, business fixed investment saw growing share of investment in construction of residential and industrial buildings as the share of investment in machines and equipment stabilizes. Redistribution of investment funds along capital stock in the current year was affected by a price correlation on the investment products. Following price hike on purchase of machines and equipment of the investment purpose by 20.1% and on the construction services by 4.1% in June 2015 against December of the previous year, price indices hit 102.3 and 102.0%, respectively.

Situation with ensuring commissioning of industrial facilities is hampered by simultaneous decrease of domestic production and imports of capital machinery and equipment. Taking into account the difference in the technological structure of business investment along facilities of industrial and non-industrial purpose the most significant reduction of the construction work was observed in industry and agriculture.

In H1 2016, investment in transactions with real property went up by 8.2% in comparison with the same period of the previous year. The structure of



Source: Rosstat.

Fig. 1. Dynamics of fixed capital investment in 2011–2016, % to the corresponding quarter of the previous year

financing of residential housing in 2012–2016 saw changes owing to the increase of volume and share of the population's funds in the cost sharing residential housing construction amid growing reduction of funds invested by organizations. In Q2 2016, somewhat decreased trend of the investment activity growth of the population recovered and by H1-end 2016, the funds received for the cost sharing construction moved up by Rb 12.8 bn. Growing investment activity of the population was accompanied by demand increase on housing and mortgage loans by 1.45 times in comparison with H1 2015. It should be noted that amid general trend to a reduction of the population's income and contraction of savings ratio, growing credit activity of the population is accompanied by outstanding debt growth on housing loans. Increased share of investment in construction of non-residential buildings in the current year was determined by an increase in volumes of work and commission of industrial and agricultural buildings amid reduction of construction activity in administrative, commercial, and social spheres.

Increased commissioning of industrial buildings determines a change in the technological structure of investment and predetermines demand

Table 1

**STRUCTURE OF BUSINESS FIXED INVESTMENT AS BROKEN BY TYPE OF CAPITAL STOCK IN H1 2012–2016 (LESS SMALL BUSINESS AND INFORMAL ACTIVITY PARAMETERS), % TO TOTAL**

	Rb bn in current prices					% to total				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Business fixed investment	3135.0	3356.1	3579.4	3632.5	3920.9	100	100	100	100	100
Residential housing	133.7	166.7	215.8	205	239.1	4.3	5.0	6.0	5.6	6.1
Buildings (other than residential buildings) and facilities	1601.9	1644.9	1764.9	1932.9	1876.9	51.1	49.9	49.3	47.7	47.9
Machines, equipment, and means of transport	1146.9	1241.8	1228.7	1240.6	1347.2	36.6	37.0	34.3	34.2	34.3
Other	116.9	130.4	370.0	454.0	457.7	8.0	9.0	10.4	12.5	11.7

Source: Rosstat.

growth for machinery and equipment. However, comparison of dynamics of domestic manufacture of equipment, imports of capital goods and business fixed investment demonstrates that in existing dynamics of machine-building complex operation and in the wake of retention of sanctions on imports of certain types of equipment and machinery the balance of technological structure of investment is disrupted. Structural changes in goods import in H1 2016 in increasing the share of investment goods to 23.6% (+2 p.p. to last year's indicator) resulted in somewhat ease decline in the investment activity. However, these changes failed to offset slump in domestic production of machines and equipment.

Financing of investment was determined by increased orientation towards the use of own funds. In H1 2016, the share of investment at the expense of the enterprises' own funds hit 56.6% of the total volume of business fixed investment. In the context of high interest rates in order to optimize costs enterprises favored the use of own funds. Although in Q1 2016, profitability in the economy as a whole fell by 1.4 p.p. against the corresponding period of the previous year.

In H1 2016, borrowed funds from the banks earmarked for business fixed investment shrank by Rb 8.1 bn. At the same time, credits issued by Russian banks have not offset contraction of credits issued by foreign banks. Foreign investment volume continued to contract in H1 2016. Predominance of busi-

Table 2

**STRUCTURE OF BUSINESS FIXED INVESTMENT BY SOURCE OF FINANCING IN H1 2012–2016,  
% TO TOTAL (LESS SMALL BUSINESSES AND PARAMETERS OF INFORMAL ACTIVITY)**

	Rb bn, current prices					% to total				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Business fixed investment	3135.0	3356.1	3579.4	3632.5	3920.0	100	100	100	100	100
By sources of financing:										
Own funds;	613.3	693.9	1878.7	2052.5	2217.3	49.3	50.0	52.5	56.2	56.5
Borrowed funds	1544.0	1678.0	1700.7	1590.0	1703.7	50.7	50.0	47.5	43.8	43.5
Bank credits, including:	262.8	340.5	369.9	321.7	313.6	8.4	10.2	10.3	8.3	8.0
Credits from foreign banks;	49.3	40.1	51.1	83.1	71.2	1.6	1.2	1.4	2.3	1.8
Credits from Russian banks;	213.5	300.4	318.8	238.6	241.4	6.8	9.0	8.9	5.0	6.2
Borrowed from other organisations	165.4	234.8	243.7	197.1	301.5	5.3	7.0	6.8	5.4	7.7
Foreign investments	н/д	н/д	25	34.6	30.7	н/д	н/д	0.7	1.0	0.8
Budgetary funds:	412.9	459.8	444.8	464.7	481.2	13.2	13.7	12.4	12.8	12.3
from federal budget	199.5	242.8	213.2	249.3	259.5	6.4	7.2	6.0	6.9	6.6
from budgets of RF subjects	187.0	188.3	198.6	183.4	192.0	6.0	5.6	5.5	5.0	4.9
Funds from extra budgetary funds	6.9	13.4	7.0	8.3	8.9	0.2	0.4	0.2	0.2	0.2
Funds obtained for cost-shared construction (organizations and population), including	64.0	82.1	114.9	114.5	135.8	2.0	2.4	3.2	3.1	3.5
population's funds	42.9	65.2	93.4	92.3	104.8	1.4	1.9	2.6	2.5	2.7
Other	679	547.5	495.4	449.1	431.5	21.7	16.3	13.9	12.4	11.0

Source: Rosstat.

nesses controlled by the state as well as the low level of Russian corporate governance negatively affect the influx of foreign investors to the country.

The role of the budget funds was changing in the structure of the borrowed funds earmarked for financing business fixed investment. In H1 2016, fixed capital investment to the tune of Rb 481.2 bn (12.3% of the total volume of investment in the economy) were assigned from the budget funds. Compared to H1 2015, the scale of investment funding from the federal budget went up by Rb 16.5 bn including by 10.2 bn from the federal budget funds.

Easing of the investment activity on the part of large holdings, joint stock companies and financial industrial groups with state participation in the course of 2013–2016 is telling highly negatively on the formation of business fixed investment dynamics. The share of investment disbursed from other sources of funding, the dominant share of which falls on the institutional investors with public participation, contracted by 2.4 p.p. against H1 2015 and by 10.7 p.p. in comparison with H1 2012. Amid the existing interest rates, large enterprises exceptionally reservedly treat the idea of widening the scope of the investment activity and stick to the savings model. However, it should be noted that the turn of 2016 was characterized by a more significant easing of dynamics of corporate deposits against the demand on credit resources.

During 2013–2016, the structure of investment in fixed assets by types of economic activity saw rather significant changes.

The feature of H1 2016 was the growing share to 54.7% of business fixed assets in comparison with the corresponding period of the previous years. At the same time, in H1 2016, speed up in growth of investment in mining and quarrying by 7.5% against H1 2015 was accompanied with a contraction of capital investment in the manufacturing sector by 6.5% and in the production and distribution of electricity, gas and water by 7.8%. As a result by H1 – end 2016, the share of business investment remained at the level of the previous year.

In the context of economic recovery prolonged downward trend in investment in transport remains very warning sign, taking into account high importance of transport communications and characteristics of the technical state of rolling stock. Tightening of domestic demand has determined contraction of investment in the development of commerce, hotel industry and restaurant business.

Structural changes in the manufacturing industry were determined by a fall of business investment in the machine-building complex by 22.7%, in production of coke and petroleum products – by 27.3% in comparison with H1 2015.

In H1 2016, investment in chemical and timber complex went up by 13.4% and in metallurgical complex – by 23.3% against H1 2015, which is due both to an increase in export potential of these industries and to import substitution processes.

According to the forecast of socio-economic development of the Russian Federation, projected volume of investment is estimated in the range of 96.9% (base scenario) to 90.6% (conservative scenario) compared to the previous year. The rating of challenges for the Russian investment market depends on the geopolitical situation, consistency of measures of state regulation, character of changes in spending and behavior of consumers.

Table 3

**BUSINESS FIXED INVESTMENT (WITHOUT SMALL BUSINESSES AND INVESTMENT VOLUME  
NOT OBSERVED BY DIRECT STATISTICAL METHODS) IN H1 2012–2016**

	Growth rate in % to the corresponding period of the previous year					Structure in % to total				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Total	109.6	94.2	102.8	92.7	99.0	100	100	100	100	100
Agriculture, hunting and forestry	106.9	100.8	103.2	100.2	109.0	3.4	3.4	3.4	3.7	3.7
Fishery and fish farming	240.0	95.2	40.4	79.8	152.2	0.1	0.1	0.1	0.1	0.1
Industry	118.1	94.8	104.8	97.3	100	51.1	51.3	52.6	51.6	54.7
Mining and quarrying	117.8	92.1	105.0	109.6	107.5	22.3	22.7	23.4	23.4	27.1
Manufacturing sector	121.5	100.4	105.7	94.1	93.5	17.8	18.2	19.2	19.9	19.9
Production and supply of electricity, gas and water	113.4	90.9	102.9	75.8	92.2	11.0	10.4	10.0	8.3	7.7
Construction sector	97.4	101.5	92.1	79.4	100.8	2.3	2.1	2.1	1.6	1.5
Wholesale and retail commerce	99.0	130.9	93.0	89.3	99.8	1.9	2.8	2.8	2.7	3.0
Hotels and restaurants	81.1	123.5	144.8	27.4	94.8	0.3	0.8	1.0	0.4	18.6
Transports and communications	99.6	84.1	100.7	88.6	94.8	25.3	21.2	20.2	19.5	18.6
Railway transport	86.8	100.8	71.4	88.5	93.0	4.2	4.1	2.9	3.0	2.0
Pipeline transport	92.0	68.1	116.5	87.9	80.5	10.0	6.7	7.3	6.7	5.3
Communications	112.2	92.8	116.0	88.8	103.0	3.4	3.4	3.3	3.3	3.4
Financial business	141.0	110.8	77.9	92.0	87.4	1.6	2.1	1.4	1.4	1.4
Real estate operations	102.7	103.1	115.9	87.6	108.2	6.9	8.7	10.4	9.8	11.5
Public administration	99.6	83.0	88.7	108.3	123.6	1.4	1.4	1.0	1.1	1.3
Education	99.0	101.6	108.2	106.5	77.4	1.5	1.4	1.4	1.6	1.2
Healthcare and provision of social services	122.5	103.1	68.4	90.1	104.2	1.7	1.7	1.1	1.1	1.2

Source: Rosstat.