

Investments to the Economy of Russian Regions: Dynamics, Structure, Risks

Tatiana N. Fliginskih¹, Marina V. Vladyka¹ and Elena A. Stryabkova²

¹Belgorod State National Research University 308015, Belgorod, Russian Federation;
fliginskih@bsu.edu.ru, vladyka@bsu.edu.ru

²Belgorod State Technological University named after V.G. Shukhov 308012, Belgorod, Russian Federation;
stryabkova.elena@mail.ru

Abstract

Background/Objectives: Within current paperwork we examined questions connected to investment attractiveness of Russia in period from 2000 year up till nowadays, we extruded the most attractive industries for international investors, and also the structure of investments and it's changing during the researching time period. **Methods/Statistical Analysis:** Research demonstrated that lack of investment portfolio diversification in the context of countries-counterparts is a threat for Russia's investment portfolio. Regional aspect was analyzed, we conducted structural analysis of investments in context of Russia's regions, and it's investment attractiveness was evaluated. Belgorod region was examined as a potential object of investment for foreign countries; we conducted monitoring of core regional industries with purpose of growth points determination. **Findings:** Establishment and development of institutional environment promotes regulation and strengthening of Russia's international connections, and attraction of capital into economy. However, besides creation of specialized companies – coordinators of investment area, currently in RF it is necessary to achieve diversification of investments in relation to: types (concerning credits in foreign currency); sources of financing (countries-investors); to form a portfolio from more dissimilar types of investments in order to minimize risks; industries and etc. **Applications/Improvements:** Current approach will allow reducing risks of investing into Russia's economy and will allow achieving an effective redistribution of investments.

Keywords: Domestic Investments, Dynamic of Investment Flows in Russia's Regions, Foreign Investments, International Investments, Risks of International Cooperation

1. Introduction

Development of market relations in Russia favors to formation of investment resources market. Role of additional involvement and effective utilization of investment is growing in system of management of domestic enterprises' financial flows. Currently one of the key sources of large companies financing is foreign investments.

Organizations, which promote the establishment of proper environment for attraction and effective application of investments, already exist in Russia. These

organizations also directly engaged into promotion of Russia's business image and attraction of foreign investors. Firstly, we have to mention the Russian regional investment congress, which goal is to improve investment climate in Russia's regions through experience exchange and coordination of activities between regional, federal authorities and investors. Russian investment agency is engaged in attraction of foreign investments in Russia's economy by providing of assistance to foreign investors in getting an access to Russia's market, and by promoting of Russia's business image through cooperation with

*Author for correspondence

international investment community. The union of R&D (innovative-technological) centers of Russia, which helps to evolve the investment environment for development of small and medium-sized businesses in scientific-technically area and many others organizations, which specialize in implementation of investment projects.

However, the systematic issues of Russia's economy intensify negative influence on investment attractiveness. Investments efficiency remains at low level. This problem is highlighted by many specialists, including¹⁻⁴ Quality of guaranties and terms of investing significantly vary from region to region⁵. All of this provokes a necessity for conduction of scientific research by quantitative and qualitative analysis.

2. Materials and Methods

Let's examine a dynamic of investments into basic funds and intangible assets of Russian Federation Figure 1.

During the period of 15 years the investment inflow in Russian Federation had relatively positive dynamic, at the same time maximum inflow of investments was registered in 2014 in such industries as: oil and gas production and accompanying manufacturing industries in amount of 8,076 bln.rub, transport and communication – 3,016 bln.rub, operations with immovable, rent and provision of services – 2,355 bln.rub. If analyze allocation of

investments in context of industries, we can single out a tendency of putting foreign investors' capital in favor of oil and gas industry. From one point of view, for Russian Federation such character of investment has a positive effect, because incomes from oil and gas industry have significant share of total budget incomes. From other point of view, we can also note negative tendencies concerned with strategically important industries of Russian Federation suffer from lack of sufficient investments.

Nowadays, we can define several industries in Russian Federation, which take considerable losses due to lack of funds for development from foreign investors. From such industries we can name the following: agriculture – 498.5 bln.rub., metallurgical production – 231 bln.rub., research and development – 129.5 bln.rub., medicine – 192 bln. rub. of losses only for 2014. The reasons which lead to such disproportion are lack of investors concernment in support of domestic industries, deficiency of motivational program from government, which will put emphasize not only on production of oil and gas, but also on development of others strategical industries for formation of more diversified and independent, so far, from oil and gas industry income clause in Russian Federation budget.

Dynamic research of investment outflow issue and significant decrease of its growth allowed define a row of factors directly influencing investors interest: insufficient demand for domestic products, deficiency of own finan-

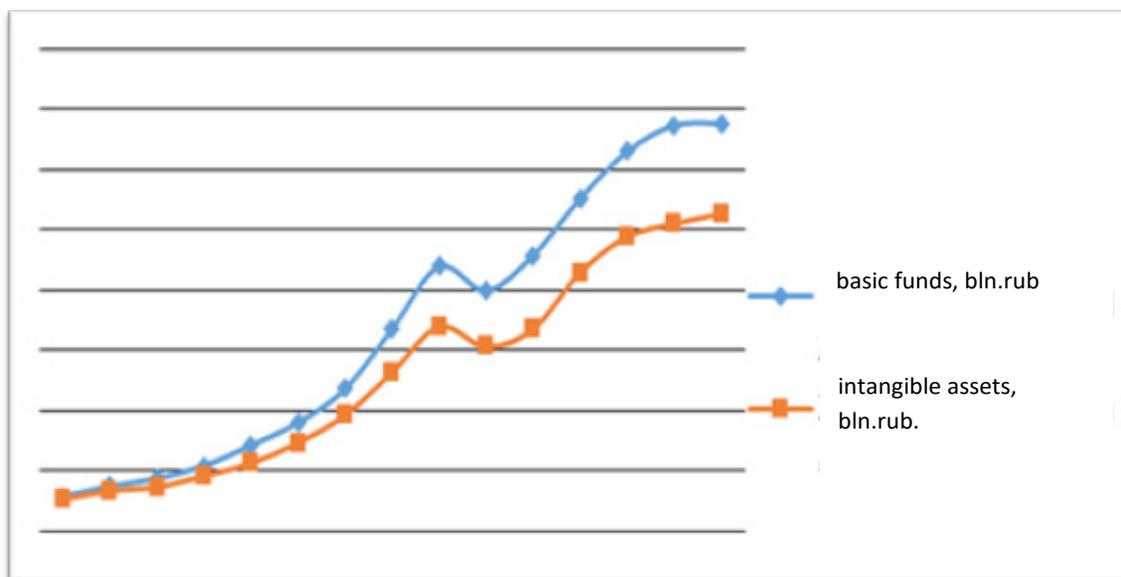


Figure 1. Dynamic of investments into basic funds and intangible assets of Russian Federation from 1995 to 2014 (data presented by Federal state statistical service of RF)

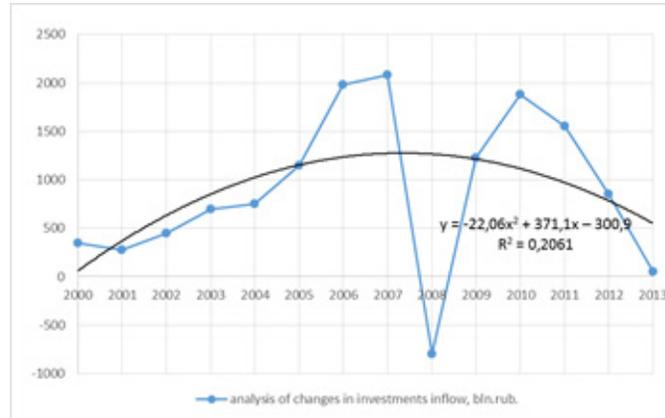


Figure 2. Investment flow in economy of Russian Federation from 2000 to 2014 years (data provided by Federal state statistical service of RF).

cial assets, high percent for commercial credit, investment risks, uncertainty of economic situation.

According to data provided by Federal state statistical service, during 2005-2013 years singular place in risk factors, which influence investment attractiveness, is provided to uncertainty of economic situation, as a leading factor predetermining the decision of investor on putting of funds into Russian projects. For approval of this fact, we appealed to dynamic of investment flow from 2000 to 2014 and figured out the trend Figure 2.

3. Results and Discussion

Considering the information represented on picture 2, we determined a polynomial tendency with infirm rate of data credibility and considerable decreasing of investment flows in RF bordering with figures of 2008-2009 years, which correspond with period of mortgage crisis in world economy. In this connection we can observe, that significant recessions of investment activity occur during the periods of so-called economic instability. By analyzing of investments expansion growth during observable period we can state, that in 2014 absolute growth of investments amount was 78 bln.rub. in comparison with 2013. In this connection since 2009 year the tendency of investments growth in Russia's economy had been growing 1.2 bln. rub. per year in average.

In addition to decreasing growth rates of investments in economy, let us graphically depict the structure of

investment financing sources from side of external investors and note it's risky character Figure 3.

On the picture 3 represented an analysis of investment changes during 2000-2013 years by types. Based on graph data we can see that the main share belongs to trade credits. Structural analysis of credit assets in total amount of investments demonstrates a substantial credit component of Russia's investment portfolio Figure 4.

From diagram 4 the one can see that credit character of investments significantly increased from 82% of total volume (9,017 bln.rub.) to 92% (155,876 bln.rub.) during the examining period. Besides positive statistics trade credits, obtained as investments, bring significant risks for investing due to susceptibility to currency crisis because of growth of comparative volumes of currency crediting. Among the main risks connected with this form in investing are:

- credit risks,
- risks of percent rate growth,
- currency risks.

Research of dynamic and structure of investments in Russia's economy demonstrated, that besides the above-mentioned risks, investment portfolio is also threatened by deficiency of investment portfolio diversification in context of counties-counterparts. Nowadays an essential amount of investments belongs to China. Pausing for detail overview of Russian-Chinese relationships in attraction of investments into domestic economy, we specify, that for 2-years period of cooperation Russian-Chinese rela-

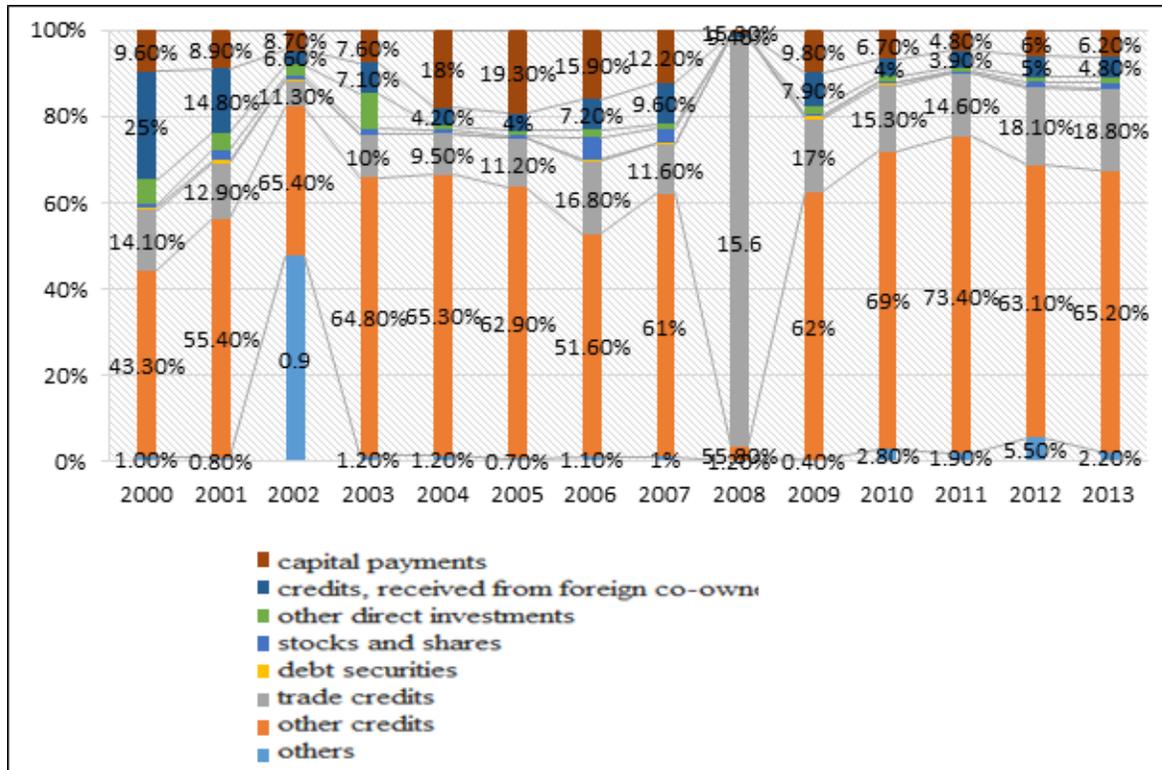


Figure 3. Structure of investments in economy of Russian Federation in 2000-2013 (data provided by Federal state statistical service of RF)

tionships are continuing to develop rapidly. Oil pipeline from Russia to China was built and is currently effectively operating, joint ventures for prospecting and production of oil in Russia were established, and the construction of large joint oil processing plant was initiated in China. Russia and China do not limit their cooperation with energy industry. In 2014, despite not simple situation in world economy, RF managed to remain the same level of turnover. According to preliminary estimation⁶, this figure will transcend 90 bln.USD. Perspectives of mutual trade development in 100 bln.USD will be achieved by 2015 and 200 bln.USD – by 2020.

Apart from country-type of risk, there is a regional (internal risk). Considering regional development of RF, we can note, that growth of investment activity is demonstrated by regions, which specialize in oil and gas industry, in particular Tyumen region – 732 bln.rub. However, today we can observe an activation of regions with high-developed agricultural sector: Krasnodar region – 199

bln.rub. (data for 1st half-year of 2015), Rostov region – 94 bln.rub. and Saratov region with orientation for capital market: Moscow, Voronezh and Tambov regions. Positive factor in that case is that absolute growth of production from these cities is at least 10 bln.rub. in comparable prices, in Rostov region this indicator reached maximum level of 59 bln.rub^{7,8}.

In June 2015 Fitch Ratings agency gave Belgorod region long-term Rating of Emitter Default (RED) with mark “BB” and short-term rating of emitter default – “B”, which characterize risks of depression in Russia’s economy in long-term period and future decrease of region’s financial indicators. However, agency has a stable forecast for long-term rating of Belgorod region^{9,10}. According to situation on the 1st half-year of 2015 the amount of investment in economy of Belgorod region is 57 bln. rub. Register of perspective regional investment grounds in context of municipalities was created. In research of marketing agency “Expert” – “Investment rates of regions

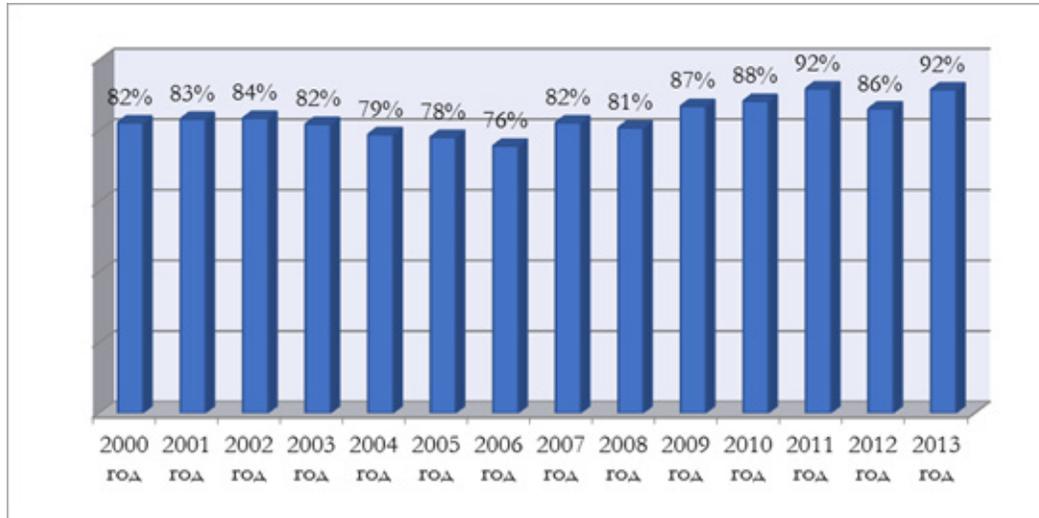


Figure 4. Share of credits in total amount of investments given to Russian Federation from 2000 to 2013 years (data provided by Federal state statistical service of RF)

– 2014: management burden” Belgorod region holds 4th place within the second group of regions with average potential and minimal risk. Closest competitive regions in central federal district are in group with low potential and minimal risk, holding, respectively, eighth place – Voronezh region, ninth – Kursk, tenth – Lipetsk, eleventh – Tambov, twelfth – Tula region. Noteworthy, results of current rating cannot be considered as credible, because

leader in attraction of foreign investments – Kaluga region is related to group with lower potential and moderate risk, holding only 28th place.

Rating of Belgorod region’s investment attractiveness is equal to 2A and has an average potential. This is confirmed by statistical data, presented by department of economic development of Belgorod region. By results of previous year investments in basic assets of Belgorod

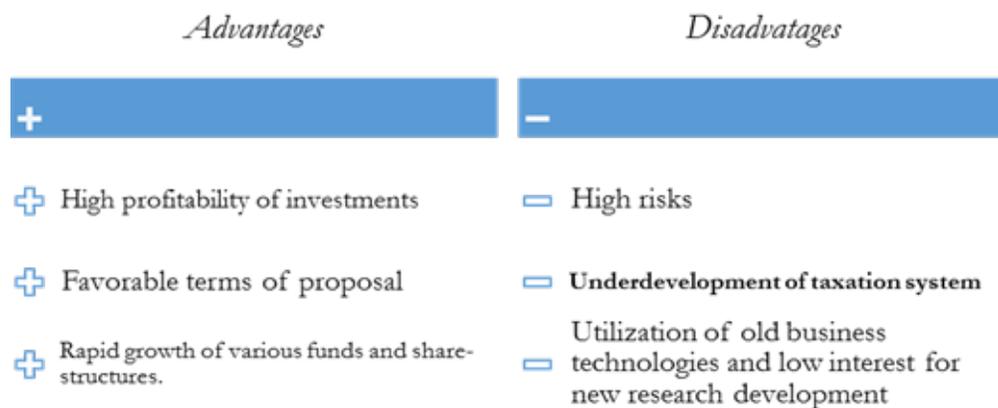


Figure 5. Main pros and cons of investments management

region were about 120,4 bln.rubles – the fourth place in Central federal district after Moscow city, Moscow and Voronezh regions, and also it is the same place as it was in 2013. Within the Belgorod region Belgorod city, and also Stari Oskol and Gubkin city districts demonstrated the most prominent investment activity. At these territories, the maximum quantity of investment projects was implemented^{11,12}.

4. Conclusion

Consequently, there search demonstrated that significant reduction of investments in Russia' economy and its regions hadn't occurred. Enterprises adapt to new circumstances of management. The one searches management solutions for optimization of sources for companies' financial resources. Participation in investment projects with attraction of foreign investments is an objective necessity, but, at the same time, in conditions of ruble falling, risks are significantly growing. We picked out main pros and cons of investments management (Figure 5).

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