

## FEATURES OF THE INVESTMENT PROCESS IN RUSSIA

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**Key words:** investment process, profit, extra means, structure of the investments, efficiency, national riches, economic growth, human capital, natural capital, fixed capital.

The article reviews the theoretical approaches to the notions of “savings” and “accumulation”, the dynamics of their activities in both quantitative and qualitative aspects, peculiarities of the investment process are considered in Russia’s economics at present time.

As is known in Russia since 1999 year a growth of Gross Domestic Product is observed. However its estimations are ambiguous. The economists see the proof of efficiency of policy of liberal reforms 1990 years, others mark mainly power feed, monetary filling of growth and conclude, that in the long term such growth not only does not promote to economic development of the country, but strengthens backwardness it technique-economic structure and interferes to returning of the country in number of leading global power having held.

On our sight temps of growth Gross Domestic Product, taken in a separation from other parameters, nothing speaks about quality of reproduction of our economy. Let’s remind that the public reproduction can be carried out in the form simple, extended and narrowed. If the economic growth is expression of the extended reproduction of national economy, in this case grows not only the final product (in system of the national accounts it parameter corresponds with Gross Domestic Product), economic potential of the country-production assets, material turnaround means is increased also, the labour, that in turn causes necessity of formation of money resources potentially accessible to financing capital formed investments and accumulation of a fixed capital in material form<sup>1</sup>. In the economic literature it is enough frequently of concept “savings” and “accumulation” are used as synonyms. But actually they are different. The savings is a use of the incomes for the purposes of reduction of the current consumption for the sake of increase of consumption of the future. Accumulation is a use of the savings for expansion of manufacture, i.e. for productive consumption. So, K. Marks defined accumulation as connection of a part of the profit to working, functioning capital. Hence, not any savings is ac-

cumulation. Motive of accumulation is increasing of the profit in the future. In real practice the accumulation allows to remove resource restrictions, to ensure economic growth.

In national scale the volumes of accumulation depend on a number factors: first of all from a proportion, in which the national income is divided into fund of consumption and fund of accumulation; general size of the national income; the rates of interest; volumes of the savings of all layers of the population; rates of return in national economy; technical equipments and capacities of manufacture in each branch; weights of tax burden and tax policy of the state.

The need of economy of Russia in investments is great. Except formation of sector of high technologies and updating of manufacture, the investment resources are necessary for overcoming structural and reproduction disproportions, existing in the Russian economy. The realization of measures, directed on decrease to power consumption of manufacture, reduction of specific gravity of branches of a heavy industry, introduction of environmentally safe technologies, modernization of manufacture, increase of competitiveness of production, should have financial maintenance.

The basic financial source of the investments is the total (national) savings, representing a part of the available income, which was not spent for final consumption of the goods and services. The parity of total accumulation of a fixed capital to the total savings shows, what part preserved in national economy of resources is used with the purposes of accumulation and reproduction of a fixed capital in manufacture (table 1).

As we see, preserved in national economy resources significantly don’t direct for the purposes of accumulation. If in pre-crisis period

\* Matveev Kirill Y., Candidate of Economic Sciences of the Samara State University of Economics.

Table 1

**Gross accumulations and savings in Gross Domestic Product of the Russian Federation, % \***

Parameters	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007
Gross Domestic Product (GDP) in market prices - total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Expenses on final consumption, % to GDP	69,0	71,2	61,3	65,5	68,9	68,0	65,7	65,2	66,6	85,8
Gross savings, % to GDP	31,0	28,8	38,7	34,5	31,1	32,0	34,3	34,8	33,4	34,2
Gross saving of fixed capital, % to GDP	28,7	21,2	16,9	18,8	18,0	18,3	18,3	18,4	18,8	21,0
Gross saving of fixed capital, % to gross savings	92,6	73,6	43,7	54,5	57,9	57,2	53,4	52,9	56,3	61,4

\* Is made and is considered for: Short statistical collection / Russian Statistics Committee. M., 2000. P. 151 (1992-1999 years); Russia in figures. 2005: Short statistical collection / Russian Statistics. M., 2005. P. 158 (2000-2004 years); A.E. Dvoretckaya. Investment potential of the Russian economy // the Finance and credit. 2007. № 16. P. 7; V. Gricuna, I. Kurnusheva. Features of investment process // the Economist. 2000. № 3. P. 8; L. Grigoriev. Investment process: the saved problems and interests // Problems of Economy. 2008. № 4. P. 50.

on the purpose of investment in a fixed capital was used more than 86% of all resources of the national savings, in subsequent - this share has decreased on 25-30 of percentage items. Comparisons with similar parameters of the advanced countries testify that for economy it is the lowest level of capitalization of the savings. In many countries the adequacy of the savings and accumulation (table 2) is provided.

As it is visible, the difference between the savings and investments is insignificant and makes the 100-th shares of interests of Gross Domestic Product. In Russia inadequately strong excess of norm of the savings above norm of accumulation, two-multiple break of the savings and investments (norm of the savings also is observed in comparison with norm of accumulation). Last (relation of volume of the investments to Gross Domestic Product), having decreased more, than in a two in the beginning of reforms, remains at a level 18-20%<sup>2</sup>.

The norm of accumulation for the first time has reached normal (for the majority of the countries) parameter 21% in 2007. But the countries of Central and East Europe send this parameter for 10 years earlier.

The economists of classical school and neo-classical direction considered the savings as economic process, closely connected to investment, i.e. the increase of the savings invariable provided growth of the investments and, as a consequence, more high level of manufacture and consumption in the future, i.e. economic progress. Within the framework of other direction of the economic theory (Keynesianism and Neo-Keynesianism) affirms that in process of increase of consumption the society increases aggregate demand. It is necessary stimulus for escalating manufacture, growth of employment and subsequent increase of the incomes. The increase of the savings, on the contrary, does not make a society a rich, as it is conducted to

Table 2

**Norms of the savings and investments in the countries of Big Seventh in 2000 year\***

Country	Norm of savings**	Norm of investments***
Japan	0,33	0,30
Great Britain	0,14	0,15
Germany	0,21	0,22
Italy	0,19	0,19
Canada	0,16	0,18

\* Source: Finance and credit. 2007. № 16. P. 6.

\*\* Total national savings / GDP.

\*\*\* Total investments / GDP.

the detriment of consumption, as the consequence, results in decrease of aggregated demand, curtailment of production and employment. For this reason in system of the recommendations of J.M. Keynes, caused by system its initial theoretical preconditions, the central role lead to increasing of level of using of production recourses by stimulation of solvent (effective) demand.

In postwar Europe the norm of accumulation until 1970 years made 25%, in Japan in the same period it reached 30%, and in Southern Korea was more<sup>3</sup>. During industrialization in USSR, and also in conducting modernization of economy in modern China the norm of accumulation exceeded j, reaching 40% of Gross Domestic Product. According to calculation of V. Demytyev for model of catching up development, the increase of norm of accumulation from 22,3% up to 26%, that with preserving backlog of a trajectory of development to proceed on a trajectory of its overcoming suffices. The increase of examined norm up to 28% allows making it rather quickly. By other estimations to correct a situation with updating of a fixed capital and seriously to engage in re-structuring of an industry in view of the admitted backlog in 1992-2004 years, the level of accumulation not less than 40% Gross Domestic Product<sup>4</sup> is necessary. Besides there are has developed and is supported not optimum structure of the savings in Russia. Approximately half of all savings is accumulated at corporations and on one quarter - at the state and households. Households is not obvious save (their share makes 8-10% Gross Domestic Product), at state sector is relative surplus of the savings. High positive balance of the account of the current operations (first of all, trade), reached to the beginning 2007 year 9,4% of Gross Domestic Product, that is a high enough

potential for growth of the internal investments. The inflow of the export incomes consistently increases the savings of corporations and accumulation of public sector.

The savings of the extended government is materialized in consecutive growth of surplus of the federal budget from 1,4% in 2002 up to 6,7% of Gross Domestic Product in 2006 year, stabilization fund up to a level \$ 99,77 billion on 01.02.2007, and also in accumulation of gold currency reserves - from \$ 47,8 billion up to \$ 313,5 billion as of a beginning of April 2007 year. The accumulations of sector of state management mean that a deduction from investment potential of Russia.

In the whole structure of use of the savings in Russia looks as follows (table 3).

The analysis is shown that if the clean repayment of the state debt tends to reduction, the export of the capital (state and private) down to 2005 year had stably high level according to the experts more than 50 billion of dollars in year<sup>5</sup>. Growth of total outflow first of all of private capital from the country is indicator that the capital can not find of effective use inside the country.

For years of market reforms in Russia the structure of the investments for patterns of ownership, branch, functional and sector structure has changed. There were changes in sources of financing of the investments (table 4).

From the table follows, that on a share of own and budget resources (not market sources) it is necessary on the average about 69% of all investment resources. Last years about 50% of the investments in a fixed capital are formed at the expense of own means of the enterprises: the not distributed profit, amortization, partially of means from disinvestment (sale) of actives. To investment a part of own means, released at the expense of attraction of

Table 3

Balance of the national savings,% to GDP\*

Savings	2000	2001	2002	2003	2004	2005	2006
Total national savings	38,7	34,3	30,8	32,1	33,7	34,8	33,4
<i>Using:</i>							
Total accumulation	18	21,9	20,3	20,7	21,2	20,1	20,3
Removal of capital	9,5	4,9	2,3	4,4	13,6	~0	-0,1
Clear repayment of public debt	6,1	5,9	3,9	3,8	5,8	4,1	2,4
Accumulation of reserves	6,2	2,7	3,3	6,1	7,7	8,0	10,6
Other operations with other world (balance)	-1,1	-1,1	1,0	-2,9	-14,6	2,6	0,2

\* Source: The finance and credit. 2007. № 16. P. 8.

Table 4

**Structure of the investments to fixed capital for sources of financing,% to total\***

Structure	2000	2001	2002	2003	2004	2005	2006
Investments to fixed capital - total	100	100	100	100	100	100	100
Including for sources of financing; Own capital	47,5	49,4	45,0	45,2	45,4	44,5	42,1
From their:							
Profit of organization	23,4	24,0	19,1	17,8	19,2	20,3	19,9
Amortization	18,1	18,5	21,9	24,2	22,8	20,9	19,1
Attracted means	52,5	50,6	55,0	54,8	54,6	55,5	57,9
From their budget means (means of consolidation budget)	22,0	20,4	19,9	19,6	17,9	20,4	20,2
Bank credits	2,9	4,4	5,9	6,4	7,9	8,1	9,6
Credits of foreign banks	0,6	0,9	0,9	1,2	1,1	1,0	1,6
Borrowed funds of other organizations	7,2	4,9	6,5	6,8	7,3	5,9	6,0
Other	15,6	18,3	20,4	21,1	20,8	20,5	21,7
Including:							
Means from edition of corporative bond			0,1	0,2	0,2	0,3	0,0
Means from emission stocks	0,5	0,1	0,4	0,3	0,2	3,1	2,3

\* Source: The finance and credit. 2007 № 16. P. 8; Problems of economy. 2008. № 4. P. 55.

the credits for turnaround means. The greatest part is profit. At the same time, in conditions of real reduction of profits at many enterprises and stable presence of one third of unprofitable enterprises (34,7% - in January, 2007) it is necessary to recognize some narrowing of potential of own sources. On the one hand, it shown that in real sector of economy the unsatisfactory demand for investment resources grows. With another - the demand covered with own accumulation, is demand of not market character. From the macroeconomic view the financing of the investments half at the expense of self-financing does not give an opportunity to reconstruct structure of a national economy.

The movement of the capital is carried out basically by purchase of the control above already existing actives of other branches. In structure of a credit portfolio of bank system about half of given credits directed to export-oriented branches (fuel industry, non-ferrous metallurgy). Transition of the capital from raw branches to developed restrains by the closed character of crediting inside financial and industrial groups: such internal credits make till 40-45 of % of a credit portfolio of the Russian banks. All this testifies that the bank system not to the full carries out a role financial intermediary<sup>6</sup>. Now there is a problem of structure of the investments is actual. There is became clear that the economy exists for the man, in-

stead of man for economy. The increasing gain of national wealth is provided at the expense of use of the human capital (table 5).

The human capital is similar to a fixed capital requires the perfection and is subject to physical and moral obsolescence. To physical obsolescence of the human capital render influence production, consumed by the man, condition of an environment etc. To minimize a degree of obsolescence of the human capital and to provide its development probably at the expense of investment in the man, social sphere and socialization of all economic process. Thus the investment process undergoes changes, both in structure of investment, and in organization. There is a change of type of reproduction, forms of accumulation and representations about criteria of efficiency of development of economy. The real accumulation is there, where is provided increase of specific gravity of the human capital in structure of public wealth. At the same time, carried out analysis of investment process in economy of Russia (table 6) has shown, that in structure of investment the greatest share is necessary on the investment in financial actives, thus it is necessary to note, that the statistical analysis does not provide allocation of a share of the investments in human capital<sup>7</sup>.

The investment process in Russia is formed in objective conditions of demand and structure of actives, profitability of business

Table 5

## National wealth and structure of the capital of the world on beginning XXI century\*

Countries	National wealth		Including for kinds of capital, Billion of dollars			Including for kinds of capital, %		
	Total, billion of dollars	Per head of population, Thousand of dollars	Human	Natural	Reproduction	Human	Natural	Reproduction
World total	550	90	365	90	95	66	16	17
Country of Big Seventh and European Union	275	360	215	10	50	78	4	18
Petroleum-Exporting Countries	95	195	45	35	15	47	37	16
Countries of Union of Independent States	80	275	40	30	10	50	38	13
Including Russia	60	400	30	24	6	50	40	10
Other countries	100	30	65	15	20	65	15	20

\* Source: L. Nesterov, Ashirova. National wealth and human capital // Problems of economy. 2003. № 2. P. 103.

(see table 7). At the large investments in branch with short reinvestment cycles and high profitability there was a situation, when the large investment projects could carry out only state companies.

On the question that has been carried out in middle summer 2006 year by the Russian economic barometer, each third industrial enterprise as the terminator of the growth has named absence appropriate equipment<sup>8</sup>. Therefore counting on the script energy-raw material development, supposing use of competitive advantages of Russia in energetic sector for steady escalating of export of raw material and increase of depth of its processing, maintenance on this

basis of steady socio-economic growth is little perspective. In comparison with other countries, exporting raw material, in Russia the production of oil in estimation per capita is less. So, in Norway in middle of present decade was extracted 33 tons of oil per capita<sup>9</sup>. In Russia, according to accounts Ministry of Economic development, similar parameter was 3,5 tons in 2007 year, and in 2010 and in 2015 years it should reach accordingly 3,7 and 3,8 tons. It is quite obvious, that in such conditions it is impossible to decide tasks of steady growth, basing on the given factor, at any possible world prices for oil and in view of internal needs for oil. Besides at kept backlog of a national machine-

Table 6

## Dynamics and structure of investment investments\*

	January - September 2004 year, Billion of rubles	In% To total	January - September 2005 year, Billion of rubles	In% To total
Financial investments of organizations (without subjects of small business)	2 862	68,20	5 123,6	74,87
Investments to no financial actives (without subjects of small business)**	1 334,7	31,80	1 719,4	25,13
Total	4 196,7	100,00	6 843	100,00

\* Source: the finance and credit. 2007. № 27. P. 20.

\*\* Without investments in a gain of stocks of material turnaround means.

Table 7

**Structure of the investments in sectors of economy  
for the large and average companies, billion of dollars \***

	2005	2006	2007	
			estimation	% To total
Total	95	130	192	100,0
Agriculture	3	5	8	4,1
Forestry	1	1	1	0,7
Fishery, fishing	0	0	0	0,1
Industry	37	53	77	40,2
Mining of the raw materials	16	26	36	18,9
Coal	1	1	2	1,1
Oil-and-gas	13	22	31	16,3
Metal mining	2	2	3	1,6
Machining	16	21	29	15,1
Food industry	3	3	5	2,4
Light industry	0	0	0	0,1
Forestry, wood-working, pulp and paper and printing industry	1	1	2	0,9
Chemical and oil chemical	2	3	4	2,1
Oil processing	2	2	3	1,5
Industry of construction materials	1	2	3	1,6
Metallurgy	5	6	7	3,9
Machinery construction	2	3	5	2,4
Others	0	0	0	0,2
Production and distribution of electrical energy, gas and water	5	6	12	6,1
Power industry	1	1	1	0,7
Construction	6	9	16	8,1
Trade	3	4	6	3,2
Transport	13	16	19	9,9
Communication	6	7	8	4,2
Financial mediation	2	2	3	1,8
Services in law sphere, accounting and audit; consultations for problems of commercial activity and management by enterprise	7	8	14	7,2
Activity in architecture sphere, engineering-technique projection; geological survey and geophysical works etc	7	9	13	6,7
Public health and education	1	2	4	2,0
Others (state management and maintenance of military safety, providing of the other municipal, social and person services)	10	14	23	11,9

\* Source: Problems of economy. 2008 № 4. P. 53.

building complex it will be impossible as the extraction of remote resources, and transition to alternative sources energy<sup>10</sup>.

The reason of backlog of mechanical engineering and joint with it branches is in distribution of investment resources, developing not in their benefit (table 8).

The orientation of the investments is defined first of all, interest of the investor to receive profit, much exceeding opportunity of its reception in other spheres. The orientation of the investments is defined not only parameter of prof-

itability, here operate economic and political interests. But in this case it is possible to note, that profitability, which has usually a level, probably, operates the same as also all other factors, determining domestic, and foreign enterprise interest in a direction of investment<sup>11</sup>.

The necessity of orientation in interests arises in connection with a taken nowadays course of Government of Russian Federation to modernization of economy by concentration of resources in the state or corporations, which is by control of state. Representatives of economic

**Structure of the investments to a fixed capital and profitability  
for kinds of economic activity, 2006, in% \***

<b>Kinds of economic activity</b>	<b>From general volume of investments</b>	<b>From general volume of direct foreign investments</b>	<b>Profitability of sold goods (works, services) and actives of organizations</b>
Mining of the raw materials	15,3	16,6	30,6
Production of cars and equipment**	1,0	1,0	8,3
Production of electrical equipment, electron and optic equipment	0,5	0,3	9,2
Production of transport means and equipment	0,9	2,6	6,1

\* Source: Problems of economy. 2008. № 4. P. 105.

\*\* Without manufacture of the weapon and ammunition.

science ask: whether the management of these corporations in innovation business is interested? If such direct interest is not present, the state will be compelled to undertake administrative functions in relation to created corporations that at the end inevitably will result to loss of the real control above them and their adaptation to the usual system of the economic attitudes, which at all does not derivate interest to innovations<sup>12</sup>.

Thus, on the basis of above-stated it is possible to make the following conclusions:

◆ The reality has shown that during development of national economy always takes place interaction real and monetary factors. Absolutization by one of these parties can give the deformed representation about all mechanism of economic growth and about the original reasons of its instability;

◆ There is observed a dual role of consumption and savings in economy in depending on a level of its development. Distribution of the received income in a society on the savings and investments and degree of its influence to temps of economic growth is not similar in different countries and in different periods of development of economy;

◆ Features of investment process in Russia at the present stage it is possible to attribute:

1) Low level of capitalization of the savings;

2) Sources of financing of the investments at a microlevel mainly is own and budget resources (not market sources);

3) From the point of view of reproduction of a fixed capital the Russian economy is essentially not full investment. From a point of

sight of investment appeal of demand to investment resources the Russian economy looks full and more investment: the scale export of capital from the country testifies about it;

4) There is observed growth of share of investment in financial actives at insignificant volume of the investments in a fixed capital in structure of the investments of the enterprises;

5) It is observed the low share of the investments in a science and mechanical engineering in branch structure;

6) The gain of national wealth is provided by increase of the expenses to industrial and natural, instead of human capital.

The formation of the mechanism of the extended reproduction of innovation resources in Russia is connected not to shortage of investment resources and not so much with economic policy, how many with the usual system of the economic attitudes. Therefore systems of social and state institutes should develop.

<sup>1</sup>It is necessary to note, that on a background of high rates of a gain Gross Domestic Product the essential updating of the industrial capital in Russia does not occur, and in a number of branches the qualitative parameters of used means of manufacture continue to be narrowed. So, if the share of the industrial equipment in the age of till 5 years, made in 1990 year 29%, in 2003 year it has fallen up to 7,8%. And on the contrary - share of the equipment more than 20 years, in 1990 year the component 15%, has grown to 2003r. up to half of all industrial equipment. In 2004 in key branches of a process industry mechanical engineering and metal working, chemistry and oil chemistry, in oil processing - the qualitative capacities have made only 6-12%. Per the sixtieth years XX centuries service life of machines

and equipment in the world, made on the average 12 years, in the period "Reignomics" in USA it was reduced till 7-8 years. In USSR average service life of the equipment made 12 years, rate of updating 8% per one year. For 1990 years the volumes of a capital investment in a fixed capital have decreased five times. The updating of the equipment made 1-2% per one year, and average term of his(its) service has increased till 20-22 of years. In 2006r. due to growth of the investments on 10-12 of% per one year it(he) was reduced till 19 years. See: A. Vodyanov, A. Gavrilova, T. Marshova. Capacities of the Russian economy in a context of tasks of economic growth // of Dews. Economic magazine. 2006. № 2. P. 7.15; A.G. Aganebyan. Economy of Russia on cross-road // Economic. 2007. № 9. P. 12.

<sup>2</sup> S.O. Glazyev. About strategy of economic development of Russia // Problems of Economy. 2007. № 6. P. 37.

<sup>3</sup> G. Sapir. What should be a rate of inflation? // Problem of forecasting. 2006. № 3. P. 18.

<sup>4</sup> V.E. Dementyev. A trap of technological borrowings and conditions of its overcoming in 2-sector model of economy // Economy and mathematical methods. 2006. № 4. P. 31.

<sup>5</sup> S.O. Glazyev. Prospects of development of the Russian economy in conditions of global competition // The Economist. 2007. № 5. P. 5.

<sup>6</sup>Now at the expense of the bank credit is financed about 9,4% of all investments in a fixed capital. Thus terms of the credit remain small (about 2 years even for the bonds). In the whole bank system be not capable to finance the large projects.

Almost 90% of banks are not capable to give out of any credit of volume 10 billion of dollars, that the minimal threshold of the investment credit - 50 billion of dollars / See: L. Dvoreckaya. Resources of the market of the capital as a source of financing of real sector of economy // Problems of economy. 2007. № 11. P. 96.

<sup>7</sup>Investments in financial actives are understood as investments in valuable papers of the enterprises, organizations, purchase of share in investment funds, which basic purpose is reception of the profit without account of interests of the man and society.

<sup>8</sup> N. Raiskaya, Y. Sergienko, I. Frenkel. Qualitative growth. Political magazine 2006. № 33-34. P. 39.

<sup>9</sup> V. Mironov, S. Pukhov. The Russian economy in a context of development of the world power markets // Problems of Economy. 2006. № 8. P. 121.

<sup>10</sup>By an estimation Ministry of nature, about 60% of the reconnoitered stocks of oil in Russia concern to hard extracted. Economy and life. 2005. № 40. P. 37.

<sup>11</sup>According to the data of the interrogation, which has been carried out in 2005 year, international consulting by the agency THE PBN Company, only 3% of the foreign investors show interest to Russia in realization of scientific researches, technological cooperation and инновационной of activity; 79% consider(examine) her(it) as the market of selling of the goods and services / See: Федорова And. The foreigners are frightened by(with) corruption // Economy and life. 2005. № 11. P. 35.

<sup>12</sup> D. Sorokin. Reproduction sector of the Russian economy: 1999-2007 years // Problems of Economy. 2008. № 4. P. 105, 106.