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Investment drought in the Russian economy: Structural characteristics and turnaround perspectives ☆

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Abstract

The investment drought of 2013–2015 in Russia is the first prolonged period of no capital investment growth in the last 17 years. After stagnation in 2013–2014, fixed capital investments in real terms have systemically lagged behind industrial output growth and GDP. Lack of capital expenditures not only lowers demand and inhibits growth of construction, machinery, industrial production and the economy as a whole, but also preserves existing structural imbalances and technological gaps in the Russian economy. The duration of investment drought and its significant disincentivizing effect on current and expected growth of the Russian economy suggest the importance of analyzing structural characteristics of the investment process and triggers of capital investment.
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1. Introduction

In recent years, fixed capital investments in Russian companies have deteriorated dramatically. Following minor growth in 2013 and minor decline in 2014, investments plummeted by 8.4% in 2015. Over the past 17 years, 2013–2015 is the first lengthy period of stagnation in fixed capital investments (Fig. 1).

The recovery of investment activity in the Russian economy began in 1999, after a nearly fivefold real reduction of fixed capital investments from 1991 through

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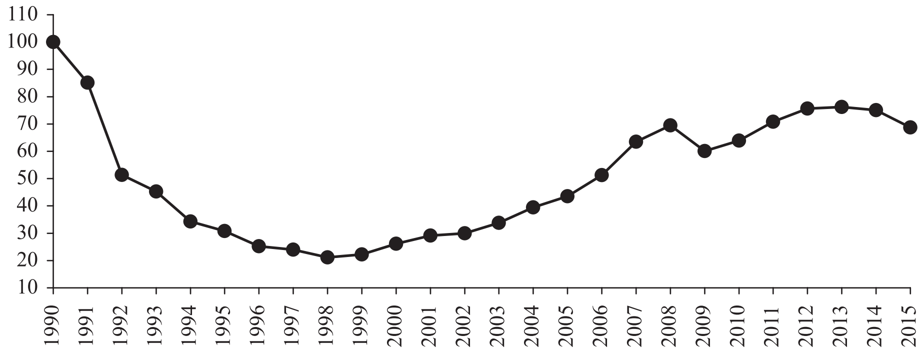

Fig. 1. Fixed capital investments in companies, 1990–2015 (in constant prices, 1990 = 100%).
Source: Rosstat.

1998. Significantly high annual average investment growth rates during a period of balanced economic growth (10.9% per year, 1999–2005) accelerated during a period of growth due to strong demand (16.9% per year, 2006–2008). During the acute stage of the crisis, fixed capital investments decreased by 13.5%; this decline was overcome within two years. The average annual increase in fixed capital investments from 2010 to 2012 was slightly below 8%, which was substantially lower than in 1999–2008.

Over the ten years between the 1998 and 2008 crises, the low base effect was substantially depleted, the stimulation of investment with high global prices for Russian export and capital inflow came to an end, while global economic downturn and resource restrictions became primary restraining factors.

Fixed capital investments peaked in 2012 and 2013 (in constant prices), exceeding the level in 1998 by nearly 230%. During the following three years corresponding to the investment drought period, fixed capital investments declined by more than 9%. As a result, by the end of 25 years of economic development, fixed capital investments are still noticeably lower than they were in the early 1990s; the fixed capital investment level in 2015 is hardly 69% of their level in 1990.

During the periods of recovery, growth driven by high demand, crisis, and the subsequent adjustment growth, fixed capital investments contributed to stronger demand, stimulating current business activity and improving the future technological capacity of Russian economy. In 1999–2012, the 14 years preceding the investment drought period, fixed capital investments outpaced GDP by nearly 260% in real terms, while the GDP doubled and the Russian industrial output increased by approximately 80%.

In contrast, during the investment drought from 2013 to 2015, fixed capital investment dynamics was systematically worse than the trend for industrial output and GDP (Berezinskaya, 2016a). The reduction in GDP and industrial output began later than the reduction in fixed capital investments. It was also far less prominent: in real terms, over the three-year period, industrial output decreased by 1.4%, GDP declined by 1.8%, while fixed capital investments dropped by over 9%. The investment drought suppressed the domestic demand in the economy, thus decelerating growth in construction, machinery and equipment, industry, and the economy as a whole and preserving the existing structural imbalances and

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