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FEATURES OF THE RUSSIAN ECONOMY'S INVESTMENT ATTRACTIVENESS AT THE PRESENT STAGE

Elina Salambekovna Ibragimova (a)*
*Corresponding author

(a) Kadyrov Chechen State University, Grozny, Russia, elli1888@mail.ru

Abstract

The research aims to analyze the investment attractiveness of the Russian economy in the current context. Employing a combination of quantitative and qualitative research methods, including statistical analysis, literature review, and examination of economic indicators, the study explores key factors influencing investment attractiveness. The primary dataset comprises national economic indicators, international investment reports, and expert analyses. This research delves into the examination of the investment attractiveness of the Russian economy in the contemporary context, employing a comprehensive research approach. The primary objective is to provide a nuanced understanding of the factors influencing investment decisions and the overall economic climate in Russia. The study incorporates a thorough literature review to establish a theoretical foundation, exploring existing works on investment attractiveness and economic indicators. Statistical analysis forms a pivotal component, scrutinizing national economic indicators such as GDP growth, inflation rates, foreign direct investment (FDI), and trade balances to quantify the overall economic performance and attractiveness. International investment reports from reputable organizations like the World Bank and IMF are scrutinized to discern global perceptions of the Russian investment climate and identify comparative advantages and disadvantages. Furthermore, expert analyses contribute qualitative insights through interviews and surveys with economic experts, financial analysts, and industry specialists. While possessing abundant natural resources and a diverse market, challenges such as geopolitical uncertainties and regulatory frameworks impact overall attractiveness. Notably, the research highlights a resilience in specific sectors, like technology and renewable energy, amidst broader economic fluctuations.

Keywords: Capital, investments, investment attractiveness, macroeconomic

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1. Introduction

Involving investment is of the great importance for any country since investment is a factor of economic growth and increasing the competitiveness of national economies. Russia is described by uneven placement of investments in the regions (the largest placement is observed in Moscow, Arkhangelsk region, Krasnodar and Primorsky Territories, Yamalo-Nenets Autonomous District). The integrated assessment of the investment potential showed that the main factors determining the investment attractiveness of the region are the following ones:

i. high domestic demand;

ii. development of the raw material base;

iii. vicinity to the capital (The investment attractiveness of the regions is uneven (Raexpert, 2021).

However, factors such as information accessibility and transparency, developed infrastructure, social and economic resources, the state of the environment, etc. remain important.

Consequently, the investment attractiveness of the country as a whole is determined by the attractiveness of its individual regions.

2. Problem Statement

The investment climate in the Russian Federation exhibits a concerning decline, as substantiated by a plethora of statistical data and scholarly research. The discernible influence of sanctions plays a pivotal role in contributing to the country's adverse investment scenario. A noteworthy aspect is the persistently low contribution of private investment to the Russian economy, necessitating urgent measures to enhance the overall investment attractiveness for private investors. This research seeks to delve into the multifaceted factors contributing to this downturn and explore viable strategies to bolster private investment in the Russian context.

3. Research Questions

In the pursuit of understanding the intricacies of the current research topic, several pivotal questions emerge, delineating the path for comprehensive investigation:

i. What are the primary factors that exert a defining influence on the investment attractiveness of the region?

ii. How can these factors be systematically categorized into primary and secondary determinants of investment appeal

iii. What characterizes the degradation of the investment climate within the Russian Federation?

iv. To what extent do sanctions contribute to the adverse investment position experienced by the country?

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v. In what strategic ways can Russia enhance its investment attractiveness for private investors, notwithstanding the persistent pressure of sanctions?

These questions provide a framework for dissecting the multifaceted landscape of investment dynamics in Russia, aiming to uncover nuanced insights and propose effective solutions for the challenges at hand.

4. Purpose of the Study

The purpose of this study is to review the most relevant factors that determine the investment attractiveness of the region, identify primary and secondary factors, analyze the current negative investment position of the Russian economy, and highlight the impact of sanctions on this position. Additionally, this study aims to underscore the importance of increasing investment attractiveness for private investors as a means of solving the problem of underinvestment in the Russian Federation.

5. Research Methods

The research employs a systematic literature review methodology to discern the pivotal factors influencing the investment attractiveness of the region. This method involves an extensive exploration of academic research studies focused on the investment climate, aiming to identify and consolidate the key factors expounded in these scholarly works.

In the examination of the sanctions' impact on the investment climate of the Russian Federation, the author relies on statistical data from authoritative sources. This includes official government statistics and data procured from reputable international organizations. Through a meticulous analysis of this data, the study seeks to unveil discernible trends and patterns in capital outflow and investment activities within Russia.

The primary indicators of investment appeal are scrutinized, with a specific emphasis on capital import/export dynamics and foreign direct investment. Notably, the study illuminates a concerning escalation in capital outflow from Russia, particularly in recent years. This trend poses significant economic risks, including potential instabilities in exchange rates, balance of payments, and a contraction in GDP growth.

6. Findings

The influx of investment into a country serves as a barometer for its investment attractiveness and the overall favorable investment climate. Regrettably, contemporary Russia grapples with a deteriorating investment climate attributed to the prevailing political landscape.

A paramount consideration in evaluating investment appeal is the indicator of capital import/export. This metric plays a pivotal role in gauging the vibrancy of a nation's investment environment. In the context of Russia, it reflects the challenging dynamics of attracting and retaining investment. The examination of this indicator sheds light on the hurdles faced by the country in fostering a conducive atmosphere for sustained investment.

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The investment inflow into the country shows the degree of its investment attractiveness as well as the favorable investment climate in the country. Unfortunately, the investment climate is only getting worse in Russia today which is explained by the current political situation.

If we consider the main indicators of assessing investment attractiveness, we should note the indicator of capital import/export first of all.

Table 1. Private sector financial transactions (USD billion) (Balance of payments, www.cbr.ru)

	Totally	**Banks**	**Other sectors**
2015	57,1	34,2	22,9
2016	18,5	-1,1	19,6
2017	24,1	23,3	0,8
2018	65,5	32,6	32,9
2019	22,5	17,7	4,8
2020	50,4	21,7	28,7
2021 (evaluation)	72,0	2,7	69,3

As it is seen from the Table 1, the outflow of capital from Russia is growing rapidly (a decrease in this indicator was associated with the restrictions imposed due to coronavirus infection COVID-19 in 2019. In 2021, when the growth of direct investment abroad in other sectors prevails significantly, the indicator amounted to the largest value for the period under review - $72 billion. The Central Bank of the Russian Federation noted that the reason is the reinvestment of the income of foreign subsidiaries. In 2022, the situation is only getting worse which is associated with an unprecedented number of sanctions (over 8 thousand by 08.04.2022) imposed against Russia due to a special operation in Ukraine.

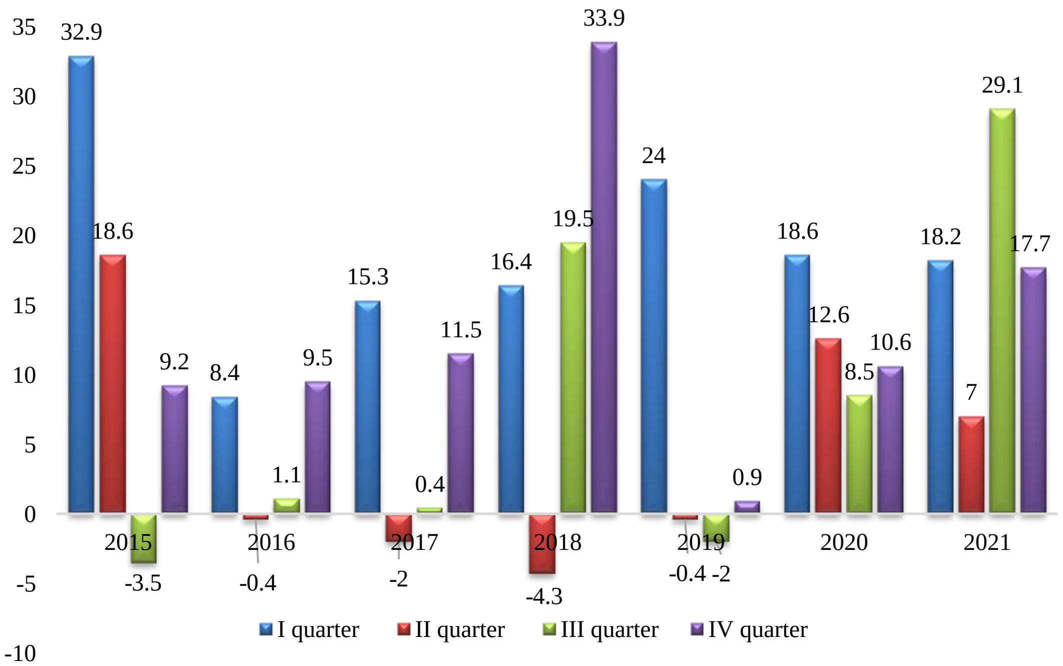

Figure 1. Quarter capital movement of the Russian Federation (compiled by the author based on statistical data)

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Figure 1 shows that the lagest capital outflow in Russia occurs mainly at the beginning and end of the year. In addition, it is seen that the largest capital outflow is observed in the 4th quarter of 2018. The Bank of Russia explains such dynamics by operations carried out in order to reduce external obligations and place assets abroad (Interfax, 2018, October 9).

Table 2. FDI inflows/outflows to/from Russia in the period 2015-2021

Period	FDI from Russia ($ billion)	FDI to Russia ($ billion)
2015	22 086	6 853
2016	22 314	32 539
2017	39 049	28 684
2018	31 377	8 800
2019	21 923	28 900
2020	47 847	1 400
2021	69 300	30 700

Direct investments from Russia and in Russia for the period 2015-2018 amounted to 114,826 and 76,876 billion dollars, accordingly the difference between them amounted to 37,950 billion dollars. In 2016, for the first time since the 2008 crisis FDI inflows exceeded outflows. This is associated with capital investments regarding the sale of a 19.5% stake in Rosneft (Daskovsky & Kiselyov, 2016) (see table 2).

The inflow of investments in 2017 amounted only 21.06% of the same indicator in 2016. Moreover, the outflow that year was 3.2 times more and reached the maximum during 2015-2017. In 2017 the outflow exceeded the inflow by only 1.36 times. Also, the dynamics of investments can be influenced by the volatility of the national currency and in the event of devaluation the volume of investments decreases. This is due to a decrease in income for the investor from operations in Russia in national currency and a loss in conversion.

Direct investments from and in Russia for the period 2019-2021 amounted to 139,070 and 61,000 billion dollars, so the difference between them amounted to 78,070 billion dollars in favor of capital outflow. This situation is firstly explained by the inflow of capital during the pandemic when investor opportunities were severely limited and then by the capital outflow in 2020-2021 which was facilitated by investor fears associated with the risks of tax unpredictability, insecurity against law enforcement agencies, possible nationalization of property, etc. (Dubinskiy, 2021).

In addition, the trend of capital outflow from Russia immediately before the crises: 2007 ($133 billion), 2014 ($152 billion), 2021 ($72 billion) should be noted.

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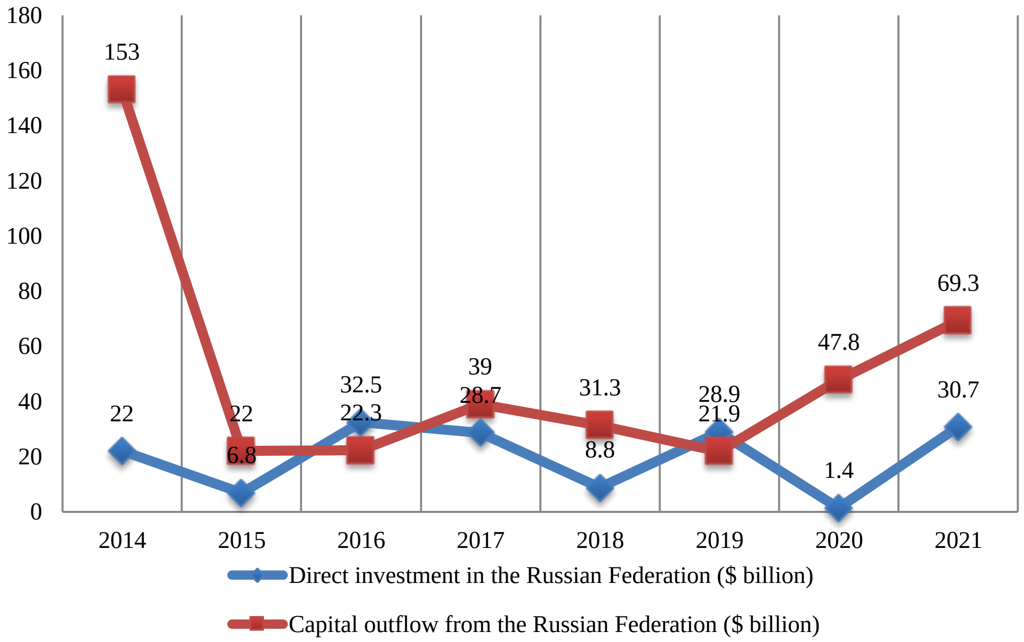

Figure 2. Private investment and capital outflow dynamics (compiled by the author based on statistical data)

If we compare the data on capital outflows and the dynamics of foreign direct investment, as shown in the Figure 2, there is a significant decrease in capital outflows since 2014 and a smooth excess over this indicator of direct investment. In 2016, the volume of foreign direct investment in Russia exceeded the amount of capital outflow by $14 billion. This trend also remained at the end of 2017 but the gap was much smaller. In considering the annual data it is seen that the situation with Russia's investment position improved by the end of 2017 compared to the crisis of 2014.

However, the consideration of the period of recent years is more relevant. So, the outflow of capital from our country increased 2 and 3 times in 2020 and 2021 respectively compared to 2019.

These trends indicate quite negative phenomenon in the investment position of the Russian economy on the world's stage. The acceleration of the export of capital by the private sector and a sharp reduction in investment in the sectors of the national economy and portfolio assets can lead to an aggravation of economic problems in the area of exchange rate, balance of payments stability, maintaining the development of industries, etc. The sanctions were the main reason of the capital outflow until some time as they signal about the degenerating situation and the need to reduce risks.

It should be noted that capital outflow also includes withdrawal from the bank system and circulation of foreign currency savings. So, for example, after the mass execution of transactions with currency by the population at the beginning of this year a ban was imposed on the export of more than $10,000 in cash. In reference with the current situation, the Central Bank of the Russian Federation decided to 20% raise the key rate on February 28 this year.

This measure is aimed at attracting funds from the population in deposits in the context of general panic due to the threat of depreciation of the ruble.

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Today there is the following:

i. disconnection from SWIFT international payment system;

ii. suspension of Visa and Mastercard payment systems;

iii. assignment by rating agencies Fitch, Moody's and S&P of the credit rating of Russia at the level of pre-default state;

iv. over 8 thousand imposed sanctions;

v. withdrawal of foreign companies from the Russian market in protest;

vi. toughening the legislation in the area of relations regulation with foreign individuals and legal entities, etc.

It is rather problematic to predict further prospects of the investment activities development in Russia in such conditions.

The inflow of investment into the country contributes to sustainable economic growth due to the increase in the technical level of production through the attraction of foreign technologies and the use of global management and marketing experience. Thus, the Russian economy is being integrated into the world economy, the tax base is expanding and export production is diversifying. The lack of FDI negatively affects economic growth and the development of the national economy in its' turn. And in addition, "capital flight" leads to instability of the national currency, increased demand for loans from foreign countries, a decrease in production volumes and as a result a slowdown in GDP growth. So, Russia's GDP will decrease by 7% in 2022 according to the forecast of the rating agency Moody's (Finmarket, 2022).

In addition, investments are necessary for the implementation of infrastructure projects (electrical, gas and water supply, astronautics, aviation, transport and communications, railways, etc.). Due to the large capital intensity, complexity and long-term infrastructure projects there are not enough budget funds for their implementation, therefore it is necessary to attract private and international investors. Also, the investment decision-making now focuses on environmental aspects, social development and management factors.

Thus, the total volume of investments aimed at infrastructure development in 2020 amounted to 26,578 trillion rubles but despite the positive dynamics of investments this year, the share of private investment is only 1.7%, which is lower than the global figure (Figure 3 and Figure 4).

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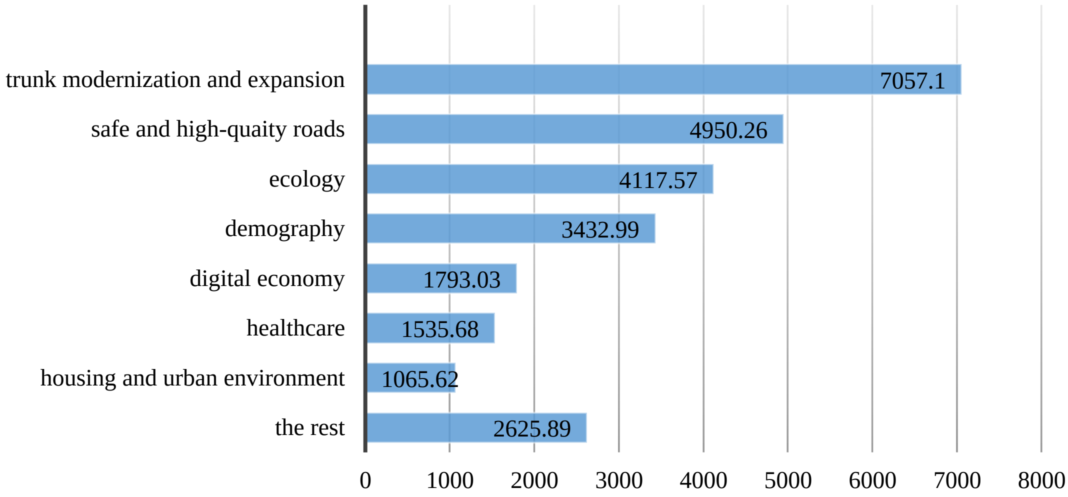

Figure 3. The composition of investments in the areas of infrastructure development in the RF (Rosinfra, 2022)

The following Figure 3 shows the composition of the infrastructure elements for the development which mentioned investments were aimed on. Thus, most of it was aimed at expanding and modernization of the main infrastructure as well as safe and high-quality roads (7057.1 and 4950.26 trillion respectively) and it is mainly important for logistics which has made the production costs increase due to the current situation.

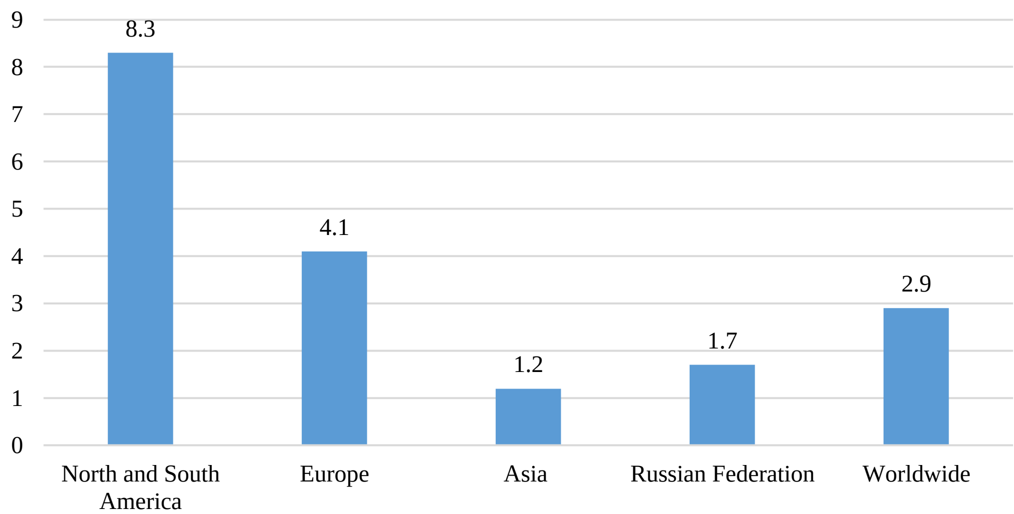

Figure 4. Share of private investment in infrastructure projects, 2020 (Rosinfra, 2022)

We can conclude that Russia is lagging behind in terms of the share of private investment from developed countries based on the Figure 4. The share of private investment in Russia is twice and fourth lower than in Europe and the United States respectively. Our country does not globally lag behind the rest of the world but the parts we mentioned (Europe and the USA) already make up a significant part of the world, therefore despite the general increase in the share of private investment the comparison with other

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countries shows more sad but real picture of the need to solve the problem of increasing investment attractiveness for private investors as it was noted earlier.

The role of investment is also manifested in the development of innovation since scientific and technological progress requires a significant injection of capital into relevant projects. Innovative projects involve modernization, improvement of the activities of companies which in its turn has a favorable effect on the state as a whole.

Table 3. Macroeconomic indicators (Federal State Statistics Service, 2021)

Indicators	**2019**	**2020**	**2021**	**Changing in 2019 (%)**	
GDP ($ billion)	1693,32	1493,71	1647,59	-11,79	-2,7
Gold and currency reserves ($ billion)	532,9	556	597,4	+4,33	+12,1
Unemployment rate %	4,9%	4,7%	5,8%	-0,2	+0,9
Average income of the population (rub/month)	30164	31479	32611	+4,35	+8,11
Inflation %	5,00	2,42	5,19	-2,58	+0,19
External debt ($ billion)	454,7	470,1	467	+3,39	+2,7
Ruble exchange rate	69,47	61,78	74,22	-12,45	+6,4
FDI ($ billion)	30	9,2	30,7	-226	+2,28

Considering the main macroeconomic indicators (Table 3), we should pay attention to the increase in international foreign exchange reserves. The following dynamics indicate an accumulation of safety margin in a crisis in the debt market and an increase in sanctions pressure. The instability of the national currency exchange rate and the increase in capital outflow can lead to a sharp devaluation shock which will require compensation for the deficit of foreign currency also for repaying external borrowing. There is also a reduction in external debt relative to 2020. In one way, bonds and loans to external creditors are being repaid, and in the other way, a decrease in this indicator shows the unattractive nature of Russian debt instruments for an external investor. This trend negatively affects the entire investment climate of the country.

7. Conclusion

In summary, this study delved into the primary factors influencing Russia's investment attractiveness, considering both regional and national perspectives. The examination revealed a fluctuating landscape for Russia's investment appeal across different developmental stages. Despite variations, the overall assessment indicates a persistently low investment attractiveness. This condition is predominantly attributed to the intricate economic and political circumstances, compounded by substantial external sanctions pressure from other nations. The cumulative effect underscores the formidable challenges that Russia faces in enhancing its investment climate and fostering sustained economic growth.

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