

INVESTMENT RISKS IN THE RUSSIAN FEDERATION

(SPbGUEF, St. Petersburg)

The attraction of investment has been brought forward as one of the most significant issues facing the Russian economy. It is necessary to reorganize the economy structure, modernize all branches to ensure high rates of economic growth. Nevertheless, according to the State Committee of the Russian Federation on Statistics and Analysis (Goskomstat), the total value of foreign investment in 2009 was – 21% in comparison with 2008 (see Table 1). Before the crisis this index tended to increase.

Table 1. Volume of foreign investment by types [1]

	2008		2009		2010	
	mln. US dollars	Percentage of the total	mln. US dollars	Percentage of the total	mln. US dollars	Percentage of the total
Total investment	103769	100	81927	100	114746	100
including:						
direct investment	27027	26,0	15906	19,4	13810	12,1
portfolio investment	1415	1,4	882	1,1	1076	0,9
of which:						
shares	1126	1,1	378	0,5	344	0,3
debt securities	286	0,3	496	0,6	680	0,6
other investment	75327	72,6	65139	79,5	99860	87,0
of which:						
trade credits	16168	15,6	13941	17,0	17594	15,3
other credits	57895	55,8	50830	62,0	79146	69,0
other	1264	1,2	368	0,5	3120	2,7

Investment is deferred consumption, which includes an asset purchase, lending or keeping finance in a bank account to generate profit. Different investment options offer a range of risk-reward tradeoffs. It is reasonable for any investor to make a portfolio investment maximizing revenue at the lowest risk impact. Unfortunately the unfavourable investment climate in the Russian Federation increases the risk rate.

However, businessmen involved agree that foreign investor interest for Russia seems stronger at the moment than for most other emerging markets. For example, Plamen Monovski, chief investment officer at Renaissance Asset Managers, in an interview to the Financial Times says that it is the right time to buy «emerging market laggards» such as Russia, because it is the cheapest major market out there. He is optimistic about an improving economic outlook with the «domestic cycle is accelerating», re-opening bank credit lines after the financial crisis and the prospect of «massive infrastructure stimulus, similar to what we have seen in China» [2].

The IMF's Russia's economic growth forecast for 2011 has advanced up to 4.8 percent of the GDP compared to projected 4.3 percent, thus improving its investment attractiveness for foreigners.

None of these arguments convince Bill Browder, founder of Hermitage Capital Management, a specialist emerging fund manager, who was one of Russia's biggest portfolio investors before the crisis. He writes in the *Forbes* that Russia is the riskiest of the emerging markets, because any company may lose its assets or cash flow at any time to criminals or competitors without any recourse. This makes it difficult to estimate the future value of an equity investment [3].

Lack of liquidity is also a risk but some experts hope this will improve when the country's two main stock exchanges, the Micex and RTS, merge. Plans to merge are a part of the government's policy to improve Russia's financial infrastructure, aiming to attract more foreign investors. There are also grand ambitions to become an international financial centre.

Another risk element is dependence on natural resources, notably oil and minerals, which brings about the necessity to invest in other sectors of the economy. For instance, information and communications technology is one of the most promising areas due to its dramatic growth worldwide. Unfortunately, according to the Statistical Office of the European Communities (Eurostat) and the Russian Goskomstat, Russia lags behind developed countries in expenditure on the information technology (see Table 2).

Table 2. Information technology expenditure
(according to Eurostat [4], Goskomstat [1])

Country	Percentage of GDP (2007)	Percentage of GDP (2009)
United States	3,1	3,5
United Kingdom	3,2	4,2
Japan	2,8	3,1
France	2,5	2,5
Germany	2,7	2,7
Czech Republic	2,2	2,2
Portugal	1,9	2,1
Spain	1,7	1,6
Russia	1,2	1,4

Several problems impede the ICT spread, including the underdeveloped market and legislative regulation, low levels of readiness to use and direct use of ICT by the business and government sectors. However by international standards the Russian Federation's strengths are highly educated population and a great number of researchers. In these aspects, Russia is far ahead of the BRIC quartet. According to the RAND Corporation research 'Global Technology Revolution 2020: Technology Trends and Cross-Country Variation', Russia is one of the «scientifically developed countries» [5]. Sergey Andreev, president and CEO at ABBYY, believes that Russian

companies are more competitive in cloudy calculations, no less than in offering software products in the form of services, in mobile platforms, data processing, speech recognition and other segments of the global ICT market [6].

On comparison, there are no traditional investments in the real estate in view of falling home prices in most federal districts (see Table 3).

Table 3. Average price (in rubles per sq m) in the primary housing market by the federal districts of the Russian Federation (according to Goskomstat [1])

	2000	2003	2004	2005	2006	2007	2008	2009	2010
Russian Federation	8678	16320	20810	25394	36221	47482	52504	47715	48144
includes:									
Central Federal District	11108	21412	28433	34773	47821	62189	70075	62287	63591
Northwestern Federal District	8671	17371	21179	24442	37457	58360	64642	66496	55199
Southern Federal District	6182	11938	14741	17721	23072	32221	41053	37214	39150
Volga Federal District	7156	12217	14724	17852	28964	36449	40063	35922	36642
Urals Federal District	6230	14340	17425	23410	35385	43691	41982	39028	39269
Siberian Federal District	5482	13419	16579	21210	25952	36634	38781	35005	35790
North Caucasian Federal District	-	-	-	-	-	-	-	-	29122

Russia today encounters numerous problems. As the Russia's leading economist Sergey Glaziev says, expanding the list of deductions from the taxable income base in a case of investment or renovation of production are obvious ways to modernize the economy [7]. Companies suffer less political intervention than in the past. The legislation is modified close to international standards. The Russian government makes efforts to create a good climate for foreign investment, but the economy needs more consistent actions for successful development.

References

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SOCIAL AND ECONOMIC PROBLEMS OF ICT IMPLEMENTATION IN RUSSIAN HOUSEHOLDS

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Information and communication technologies (ICT) are expected to be involved in all spheres of the society life in the immediate future; in that households do not stand aside, though that seems to be a two-way process. On the one hand, computerization throughout people's everyday life is gathering pace; on the other hand, the financial and economic crisis consequences have led to decrease in demand for innovative information and communication devices and slowed down the process of ICT penetration into Russian households.

As the government's duty is to support and improve human welfare, it gives much attention to enhancing ICT awareness of the population. The ICT social programs, exemplified in The School Computerization Program, computerization of kindergartens, libraries and clinics of the Russian Federation, are targeted at getting children acquainted with ICT since their early age, which means they become digital natives. In view of the introduction of electronic innovations in the social sphere of life, one should not overlook serious negative consequences, like deteriorating family interaction, depression and detachment from the outer world.

The share of large families in Russia is insignificant, being only 6.6 percent of the total number of families with dependent children. At first glance unimpressive percentage, if converted into figures, produces the share of about 3 mln. out of 30 mln. families. Large families (with more than three dependent children) being in a difficult financial situation after the crisis have no possibility to afford expensive equipment.

One of the major consequences of the financial and economic crisis was mass redundancies. Specialists in different areas were reduced because of financial problems in the organization or its bankruptcy. About 5 percent of Russians were made redundant, mainly workers in the manufacturing industry. Unemployment rate increased from 6.1% in 2007 to 7.5% in 2010.

Another crisis aftereffect was low wages and non-payment. The total amount of debts in 2008 was RUR 4,674m and RUR 3,565m in 2009. The number of citizens who faced delayed payment of wages was 169,000. A sharp rise of prices for goods and services aggravated the problem of unemployment. All these factors impacted households, forcing people to re-set their priorities and values.