

# ***Stabilizing investment processes as a factor of industrializing a national economy***

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**Abstract** – The article substantiates the investment processes in Russia within the period 2015-2017, the analysis of investment structure and the evaluation of investment performance. The paper focuses on the amount of financial resources invested in the speculative financial market; a significant regional differentiation; a low inflow of foreign investments, a profound government policy aimed at creating competitive innovative sectors of the economy. The conditions for improving investment processes in the Russian economy are formulated on the basis of the analysis made on the factors that hinder the investment activities.

**Keywords** – investment process, modernization, industrialization, investment climate, fixed capital investment

## I. INTRODUCTION

Sustainable and balanced growth of the national economy is one of the main goals of any developing country. There are many factors that have a significant impact on the indicator. However many leading financiers agree that investment is an integral part of economic growth. It is the investment into the economy that creates a powerful impetus for advancement. In this regard investment and economic growth are considered integrally.

Reprocessing requires constant investments in the economy which ensures not only expanded but also a simple reprocessing. The economy can't be stabilized without stable and growing investments. During the economic crisis the Russian investment sector faces serious challenges. The lack of investments is the main constraint, a hindrance to the economic growth which is considered to be a basis for improving the living standards.

Today aggravating factors of the investment crisis are macroeconomic instability and reduction of financial and investment opportunities of economic entities. Sustainable and long-term investments in fixed assets are necessary to improve the economy. The level should be sufficient to keep it up-to-date. Investments should ensure full and timely modernization

of fixed capital. Besides, it is a key to the production of innovative, competitive domestic products. A clear and consistent economic policy is required to stimulate the investment process. In addition, it is necessary to coordinate joint efforts for representatives of large and medium-sized businesses and public authorities.

## II. THEORY AND METHODS

The greatest contribution to the theory of investment was made by the founder of macroeconomic analysis J. Keynes. According to his concept the investment costs are the major component of aggregate demand stimulation of which has a positive impact on the economic dynamics due to the multiplier effect [1, p. 503]. Theory of the accelerator developed by G. Hicks and P. Samuelson systemized the category of investment. The issues of investment at different times and in various aspects were studied by G. Markovich, Lintner, A. Pigu, G. Schroeder, G. Tobin, W. Silber, J. Gerley, etc.

The objectives of various investments are achieved in the process of investment, i.e. the investment process. The investment process is a set of subject-object relations associated with making a return [3]. The process is aimed to increase and multiply investment resources, expand production and obtain other benefits. In the modern economic literature there are many approaches to the interpretation of the category "investment process" (table 1).

TABLE I. APPROACHES TO THE DEFINITION OF THE CATEGORY "INVESTMENT PROCESS"

Author	Definition of the category
C. L. McConnell, S. R. Brue	Allocating investment resources in a project
W. Sharpe	Decision on the securities in which investments are made as well as the volume and deadlines of investments
E. G. Slutsky	The mechanism of transferring funds from an individual who has free money to the one who wants to get the money with the help of financial institutions in

	the financial markets
L. S. Valinurova, O. B. Kazakova, N. N. Ivanova, S. I. Ogarkov	The most important form of accumulation
N. V. Igoshin	a set of investment activities, investment environment, object and subject of investment
John. M. Keynes.	The relationship between investment and saving
Federal law No. 39 "on investment activity"	Investments and implementation of practical activities to get profit or to achieve a beneficial effect

Investment processes do not function as separate units. The processes are entirely dependent on such factors as investors and investment capital, assets, projects and other objects suitable for investment, investment environment, technical and legal opportunities for the interaction of investors and projects to be invested in [6].

Investment activity is an indicator of the general state of the economy, the volume of investments indicates the period of the economy. The change in the volume of investments increases or decreases the level of production and income, which boosts or halts the economic development. For this reason foreign investments are of great value in the modern world, foreign investments add up to the domestic investment which improves economic growth rate of the country [11].

In general, investments are the main economic tool of any country. It is the only way of benefiting from the savings, the main source of additional benefits from business.

In the course of study the authors applied general scientific methods: on the basis of scientific abstraction a retrospective analysis of the main indicators of foreign investment in the national economy was made; in addition, the method of expert assessments and the method of data comparison were used; the dynamics and structure of the main indicators of the current trends in the inflow and distribution of foreign capital in the Russian economy were described by means of graphical interpretation of the data and tabulation procedure.

### III. INVESTMENTS IN THE RUSSIAN ECONOMY

The dynamics of the national economy is determined by the volume and structure of investment processes implemented by the subjects of the system. Intensified investment activities of economic agents accelerate the implementation of new equipment and technology in the field of production and selling, quality improvement and raising competitiveness of goods and services, facilitate the balanced development of sectors of the national economy, the creation of the necessary industry-related raw material base, the improvement of social care, solving the unemployment problems, etc. [14].

However, in the context of economic instability the dynamics of investment processes is characterized by negative changes which have an adverse impact on the dynamics of aggregate demand and on the volume of national production and employment. The relevant factors of unbalanced investments are economic expectations and cyclical fluctuations in the volume of gross production [13].

#### A. Analysis of investment processes in modern Russian economy

At present investment processes in Russian economy are characterized by decreased activities of business entities due to the deteriorated financial position, inflation processes and the high cost of borrowed funds [4, p.887]. However, in case investment and aggregate demand declines in the period of crisis key industry-related enterprises are seeking resources to invest. Today investing in fixed assets is the major form of investment made by the enterprises. In the period under analysis in the economy of the country there is a steady increase in the national enterprises' fixed capital investments. In 2017 business entities invested 15966.8 billion roubles, i.e. 8.3% higher than the level of 2016 and 74.5% higher than in 2010.

A characteristic feature of investment processes in the national economy is a wide use of own funds as a source of investment financing. In the period under analysis the share of this source increased to 54.4% of the total fixed investment financing. This trend is caused by the increase in interest rates on borrowed funds proposed by the banking system as well as the reduction of budget funds at the levels experiencing problems of social support in adverse economic conditions.

On the one hand, in macroeconomic instability government intervention in the investment process is limited by the reduced financial capacity of the budget, on the other hand, it remains for the main life-supporting industries and the social sphere. In general, in Russia financing investment processes are characterized by the regular government intervention, the share of which is about 14% in the total amount of attracted funds of enterprises.

Investments of domestic enterprises are mainly directed at projects for the modernization and reconstruction of buildings and structures, the share of which in the total investment reaches 45% in 2017. The purchase of new advanced technologies and machines is invested in.

The most active investors in the national economy are communication and information technology enterprises, transport companies, which account for about 20% of the total investment in fixed assets, organizations engaged in real estate operations (18%), enterprises of mining and manufacturing industries. The least active participants in investment processes are traditionally enterprises in the health sector, hotel business, financial sector, etc.

Apart from the fixed capital investments and financial tools, modern enterprises have such tools as bank deposits and certificates of deposit. National investors are characterized by precautionary motives in the period of economic crisis, restraining investments in long-term risk financial tools. The share of long-term investments in the total portfolio of financial tools of domestic enterprises doesn't exceed 12%. The predominance of the share of short-term financial investments over long-term ones in the portfolios of Russian enterprises indicates low-efficient investment performance in the financial market as the participation is mainly speculative.

Private investments are an important source of financing investment processes in the economy. In favorable investment conditions population, enterprises and organizations act as active participants in the investment activities. The population invests the savings only in

economic stability [10]. To date, the dynamics of per capita income of the population is characterized by a favorable growth trend.

The share of expenses on goods and services made by the residents is significant (more than 73% of the total expenses). A significant proportion includes mandatory payments and various contributions (12% of the total cost). However, Russians also spend about 15% of their funds on financial assets. The amount of savings in deposits and securities increases every year. In 2017 in credit institutions of the country the population kept 24200 billion RUR, which is 4.2% higher than in 2016 and by 43% higher than the crisis level in 2014 when public confidence in the banking system was destroyed. However, the timely and strict government policy of banking supervision again attracted the attention of private investors to this financial tool [8]. For Russians the most preferable deposits are rouble bank deposits. Although government securities are also attractive to citizens and their share in total investment has increased in recent years. Perhaps this can be explained serious government guarantees for securities [7].

Thus, it can be concluded that the Russian population demonstrates mainly passive type of investment behavior. Having free money the Russian prefer to invest it in securities and open bank deposits. Even buying securities citizens do not plan to manage them but control the receipts. Probably this is due to the desire to reduce the potential risks of a failed investment decision, investment and information and communication illiteracy, insufficient stock market monitoring, lack of free time, etc.

#### *B. Foreign investments in modern Russian economy*

In the modern Russian economy foreign direct investment does not play a significant role as the country has not created economic and legal conditions to realize the potential for the national development [2]. Russia's strained international relations, restrictive measures undertaken by the West and the adverse global commodity market environment have made the national economy less attractive for foreign investors. The unsteady foreign exchange market and the continued devaluation of the rouble increased the outflow of capital from the country.

Dynamics of foreign direct investment in the domestic economy for the period 2014-2017 is characterized by cyclic changes. By the end of 2017 the accumulated FDI of the Russian economy were 10748 million which is significantly higher than the same indicator of 2016, when the external investment balance was negative. However, at the beginning of 2015 due to the aggravated external Russian economic relations the outflow of foreign capital increased and foreign direct investment in the economy lagged behind by 40% in comparison with the indicator in the first quarter of 2014. A similar situation occurred in the third quarter of 2015 when short-term activities of foreign investors was over in the middle of the year there was a sharp decline in the volume of foreign capital in the Russian economy.

Foreign direct investors are mainly present in the national economy in the form of direct participation in the capital of the invested enterprise. Thus, in 2014 the tools involved in the capital of the invested enterprise and related

parties accounted for about 98% of the total FDI directed in the Russian economy. However, in the economic instability and contradictory relations with foreign partners the attractiveness of this tool became less attractive for foreign investors.

National economy faced the worse challenge of foreign direct investments directed in debt tools that include bonds, commercial papers, certificates of deposit, promissory notes. In Russia the negative balance of the direct investment tools began to form in 2014. During the economic crisis the outflow of foreign capital from the country destabilized the financial market. Within the period under analysis Russian debt tools didn't became attractive again for foreign direct investors.

Thus, in the period 2015-2017 there were significant transformations in the dynamics of foreign direct investment flows into the Russian economy. These changes are negative for FDI volumes, directions and tools in the national economy. At current stage of investment processes the partnership relations are destroyed.

#### *C. Assessment of investment processes in macroeconomic instability*

Analysis of the dynamics of the volume and structure of investment processes in the Russian economy in the period under analysis 2014-2017 revealed the cyclical nature of these processes caused by a number of negative factors that have both internal and external effects. It is necessary to analyze performance indicators in order to assess the investment processes in the structure of the national economy (table 2).

TABLE II. PERFORMANCE INDICATORS OF INVESTMENT PROCESSES IN THE RUSSIAN ECONOMY

Indicators	2014	2015	2016	2017
<b>Gross domestic product</b>				
billion roubles	79199.7	83232.6	86043.6	87420.3
per capita, thousand roubles	542.1	568.5	586.6	595.1
percentage, previous year	100.7	105.1	103.4	101.6
<b>Total accumulation</b>				
billion roubles	17614.6	18622.1	20132.1	21943.9
percentage, previous year	98.6	105.7	108.1	109.0
<b>Fixed capital investments</b>				
billion roubles	13902.6	13897.2	14639.8	15966.8
per capita, thousand roubles	95.2	94.9	100.2	109.4
percentage, previous year	98.5	99.96	105.3	109.1
percentage, GDP	17.5	16.7	17.01	18.3

The key indicator of the capital investment performance in the economy is total accumulation. In the period under analysis there was a positive tendency of increasing assets in the Russian economy as a result of making

investments. In 2017 total accumulation reached about 22 billion roubles which is 9% higher than in 2016 and 25% higher than in 2014[5].

Increase in investments per capita in 2017 indicates an increase in the efficiency of investment processes in the country. Advanced growth rate of investment per capita (9.4% compared to the previous year) in relation to the growth rate of investments indicates the emerging economic growth in the country. The increase in investment per GDP is also the result of intensified investment activities and the improved investment climate in Russia. The positive dynamics of the indicator demonstrates that the increase in the gross domestic product of the country is mainly caused by the maximized investments.

The efficiency of investment processes in the Russian is obtained by intensified commissioning of new production facilities, renovation and modernization of industrial production. It is assumed that the economy has created favorable conditions for the transforming monetary savings into investments in order to sustain economic growth [12].

Thus, it is possible to make conclusions about stabilization and investment performance of the Russian enterprises. Today economic entities have the necessary resources to modernize and equip the production, maximize profits through functioning in the financial market. However, a characteristic feature of national investment processes is a regional differentiation in volume and structure of investments. In this case, the efficient investment policy is proved to have been implemented in a proper way.

*D. Measures to create favourable conditions for investment activities*

The investment performance is influenced by a set of conditions and factors of investment activities. On the basis of the analysis made on the forecasts of macroeconomic development it can be assumed that favorable conditions for transforming savings into investments are likely to be formed in the national economy (figure 1). As can be seen in figure 1 a set of objective macroeconomic conditions will determine the favorable investment conditions. The major factors of improving investment activities are the stabilization of the financial system, regulated inflation, stabilization of the national currency, etc.

For example, a decrease in the key rate in 2018 to 7.25% is likely to have a positive impact on investment performance because availability of borrowed funds to potential participants of investment processes is an important factor. In 2018 the increase in the money supply in the economy also has a positive impact as the accumulation of personal savings ensures participation in investment activities.

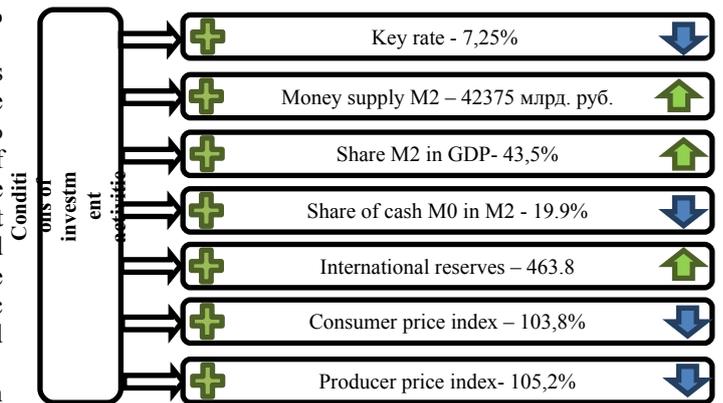


Fig. 1. Dynamics of indicators forming the conditions of investment activities in the Russian economy in 2018.

However, in accordance with one-sided public expectations and entrepreneurs' views on economic conditions there are risk factors that hinder the efficient investment activities. Insufficient investment sources of enterprises and the unstable macroeconomic situation in the country are problems today. The number of enterprises for which these factors were significant in 2017 decreased as compared to 2015 (table 3). High investment risks, unregulated inflation and unavailability of commercial loans are major obstacles for national producers to participate in investment processes [9].

However, despite the urgent problems of the Russian economy investors indicate the positive results of participation in investment processes. These indicators include improving the competitiveness of the organizations and the products. There is also an increase in labor productivity in enterprises that make heavy investments.

TABLE III. FACTORS THAT HINDER THE INVESTMENT ACTIVITIES, % OF THE TOTAL NUMBER OF ENTERPRISES

Factors	2015	2016	2017
Insufficient demand for products	28	27	23
Lack of own funds	61	61	57
Imperfect legal and regulatory framework governing investment processes	27	27	29
Complex mechanism for obtaining loans to implement investment projects	42	46	44
High percentage of commercial credits	56	56	53
Investment risks	60	50	51
Tax regime for investment activities	36	33	32
High inflation rate in the country	65	60	53
Parameters of exchange rate policy in the country	54	48	43
Volatile economic situation in the country	66	61	57
Economic situation in the global market	50	41	37
Price fluctuations in the global energy market	44	39	34

Thus, effective participation in investment processes undoubtedly gives additional competitive advantages for both

enterprises and the national economy. On the basis of the analysis made on factors that hinder the investment activities it is possible to formulate the conditions for improving investment processes in the Russian economy (figure 2).

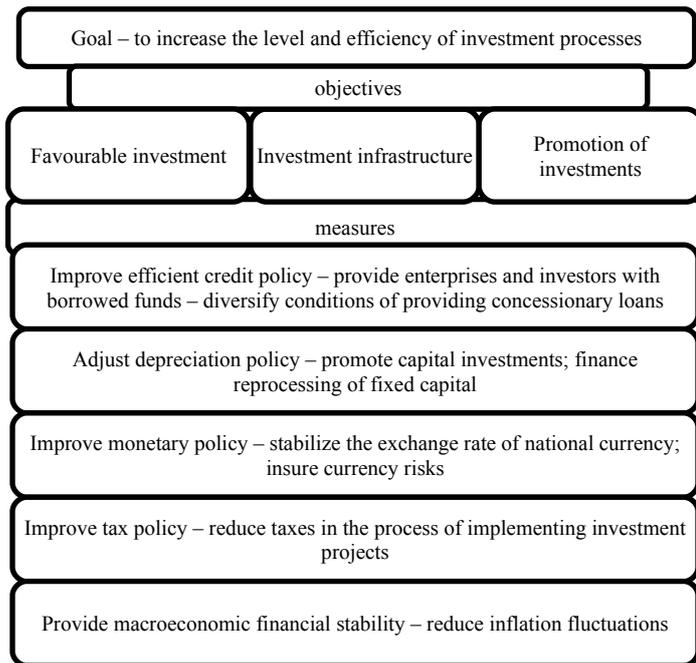


Fig. 2. Measures aimed to create conditions for improving investment processes in Russian economy

#### IV. FINDINGS AND DISCUSSION

At present both domestic and foreign investors need government support. The key aspects of government support for investment activities are: legislative guarantees of investors' activities; the presence of one executive body that is authorized to be a representative of the Russian Federation for Russian and foreign investors; creating a system of preferences and providing reliable guarantees for investment risk coverage.

Government support for investors should be aimed at creating a favorable investment climate in the country. It will have a positive impact on the production of goods and services in the main sectors of the economy.

Along with the aforementioned goals other related issues are to be dealt with. These include: modernizing the production base facilitated by new technologies, know-how, modern equipment; implementing support program for Russian producers; developing economic sectors of import substitution; careful and effective use of natural resources; increasing productivity, employment and purchasing power of citizens, intensified of production.

These conditions make it possible to attract investments to the Russian economy and provide not only stabilization but also recovery and rise.

#### V. FINDINGS AND DISCUSSION

The functioning and rise of the economy depend on how easily money can be mobilized to finance the growing needs of government, companies and individuals. Today the

investment climate in the Russian Federation is characterized by a tendency to overcome the crisis, and by insufficient investments. Positive factors include new elements of planning and regulation, initial attempts of project financing, developing legislative framework in the field of small business.

Today one can say that the stable financial position of domestic enterprises makes it possible to accumulate free money by means of functioning in the financial market in order to maximize profits. However, the predominance of short-term financial investments over long-term ones in the portfolios of Russian enterprises indicates low-efficient investment performance in the financial market as the participation is mainly speculative. In this case, it is important for the government to implement an effective investment policy that conforms to the new economic conditions.

The Russian economy is characterized by favorable conditions for investment. However, in new economic conditions it is expedient to create a new investment image of the country and increase its attractiveness. Long-term investments aimed to modernize, renovate manufacturing complex and develop a production infrastructure improve the domestic economy.

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