

Investment situation in Russia with focus on the energy generation sphere
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Инвестиционная ситуация в России с фокусом на сферу производства
электроэнергии
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Abstract: *the article analyzes the overall situation with foreign investments in Russia, investment climate in Russian Federation, and problems that might have lead to the current situation. A graphical data is provided to show the overall situation with investments over the period of 14 years, as well as analysis of prominent reasons behind those changes as well as problems that have to be addressed to improve the situation, mostly focused on the energy sphere.*

Аннотация: *в статье анализируется общая ситуация с иностранными инвестициями в Россию, инвестиционным климатом Российской Федерации и проблемами, которые привели к подобной ситуации. Приводится наглядное отображение ситуации с инвестициями в течение последних 14 лет, и проводится анализ причин изменений и проблем, которые необходимо решить, чтобы улучшить общую ситуацию, с фокусом на ситуации в энергетической отрасли.*

Keywords: *analysis, investments, energy, investment climate, problems, risks.*

Ключевые слова: *анализ, инвестиции, энергетика, инвестиционный климат, проблемы, риски.*

Current investment situation in Russia is not very good. With all the sanctions, and heat between our country and many countries of Europe as well as the European own problems it is expected for overall investments to lower. It also means that many possible big projects that didn't start yet will probably never get to be started as investors are going to be wary, and less likely to participate in them. There are also plenty of risks associated with those which arise from this situation as well.

Participants of the Russian electricity market face a number of risks, which are common to both residents and non-residents. Among these risks are market risk, due to the unpredictability of future changes in the industry of the mechanism, as well as operating risks associated with failures or inefficiencies of production processes and systems. Other serious risks include the risk of emergency on the power plants, exacerbated by a high degree of wear and tear of generating equipment, and environmental risks.

In addition, there is a risk of being unable to return or a delayed return of funds, invested in the construction of new plants and modernization of the existent equipment which have been done as part of supply contracts, which have been established with the owners of energy companies in 2011 (assuming that invested funds must be returned in view of the inflation in the period from 10 up to 15 years). An additional problem for the generation companies, including foreign, is the complexity of the decommissioning procedures and morally and physically obsolete facilities, which creates a surplus capacity in the market and imposes additional costs for owners of power plants and their infrastructure [1].

The key foreign investor risk factors that should also be considered in case of Russian investment situation are: the risk of energy prices rising in the coming years, which obviously entails an increase in costs of private or foreign owned businesses compared with the government-owner or subsidized power plants and nuclear power plants.

However, foreign investors are not limited to risks that have been explained above. In the course of their activities, they face risks associated with the business conditions in the country of investment – which also known as country-specific risks or country risks. Under the country risks are understood direct losses of tangible and \ or financial assets placed in a given country, or unforeseen decline in revenues on these assets due to certain changes, situations and events taking part in the process of country's macroeconomic development, as well as the events having the financial, social and political nature, the appearance and development of which are beyond the control of private enterprises or individuals. The result of the implementation of country risk may be the damage caused to foreign investors as a result of certain actions of the host country (including political), adverse changes in the financial markets, military events on its territory or generally taxing military engagements in foreign countries [2].

It should also be noted the special role of systemic risks. Subsidiaries of international generation companies affected by system risks as any other market players. And the force of impact of such risks on different companies can be different, but possibility to completely avoid their negative effect can not be due to the nature and character of this threat. The causes to their occurrence may be different events and situations appearing in the social, economic and political spheres.

Imposed by the United States, the EU and other states against Russia, economic sanctions have not affected directly the power sector; however, they have exacerbated the internal problems of the Russian economy and led to adverse changes in the economic situation in the country, which resulted in reduced production, raising level of inflation (according to available estimates, the expected level in annual terms could reach in 2015 - 12.4-12.5 %), and an increase in unemployment (in October 2015 it grew by 8 % compared to the same period in 2014 D.8). These changes may lead to a fall in the demand for electricity [3].

Investment attractiveness of our economy worsens also due to lowering of international rating of long-term solvency and creditworthiness of Russia by the Moody's agency, due primarily to the world current geopolitical situation.

The deterioration of the investment climate of the Russian economy exacerbates the risks of foreign investor, namely:

- Political risk related primarily to changes in geopolitical situation in the world.
- Country Economic risk of falling demand for the products.
- Currency risk, particularly noticeable in recent years, after a sharp drop of the ruble in December, 2014.
- Interest rate risk of increasing interest rates on loans.
- Reputational risk arising from the deterioration of the country rating as a whole, entailing a decrease in share prices.

In order to maintain power generation equipment in a state of readiness to carry out repairs and replacement time we require borrowed funds.

However, additional problems for the investor here creates a high interest rate on credit (as of 12.11.2015 the key rate is 11 %), which entails a rise in the cost of loans in commercial banks.

Foreign investors whose loans taken from banks abroad, also are met with the problem of the sharp rise in price of borrowed funds related to huge changes in the price of the ruble against the dollar and the euro. Ruble revenues obtained from the sale of electricity and capacity in Russia, translated into the European currency lose its value considerably.

In addition to economic country risk, foreign investors need to take into account the political risks. Although electricity is not included in the list of strategic sectors of the economy, the value of country power generation, and infrastructure can't be underestimated. Consequently, we can't exclude the possibility of direct state intervention in situations which they deem necessary to use it, by creating preferential conditions for national producer, nationalization and expropriation of foreignly owned or maintained businesses etc.

In addition to sectoral and country risks described above, the negative impact on the interest of foreign investors to invest in the Russian electricity and energy generating is also caused by unwillingness of the Russian economy has to maintain course taken by several Western energy companies for the production of clean energy, the development of modern technologies, such as electric vehicles, 'smart' homes, etc. [4].

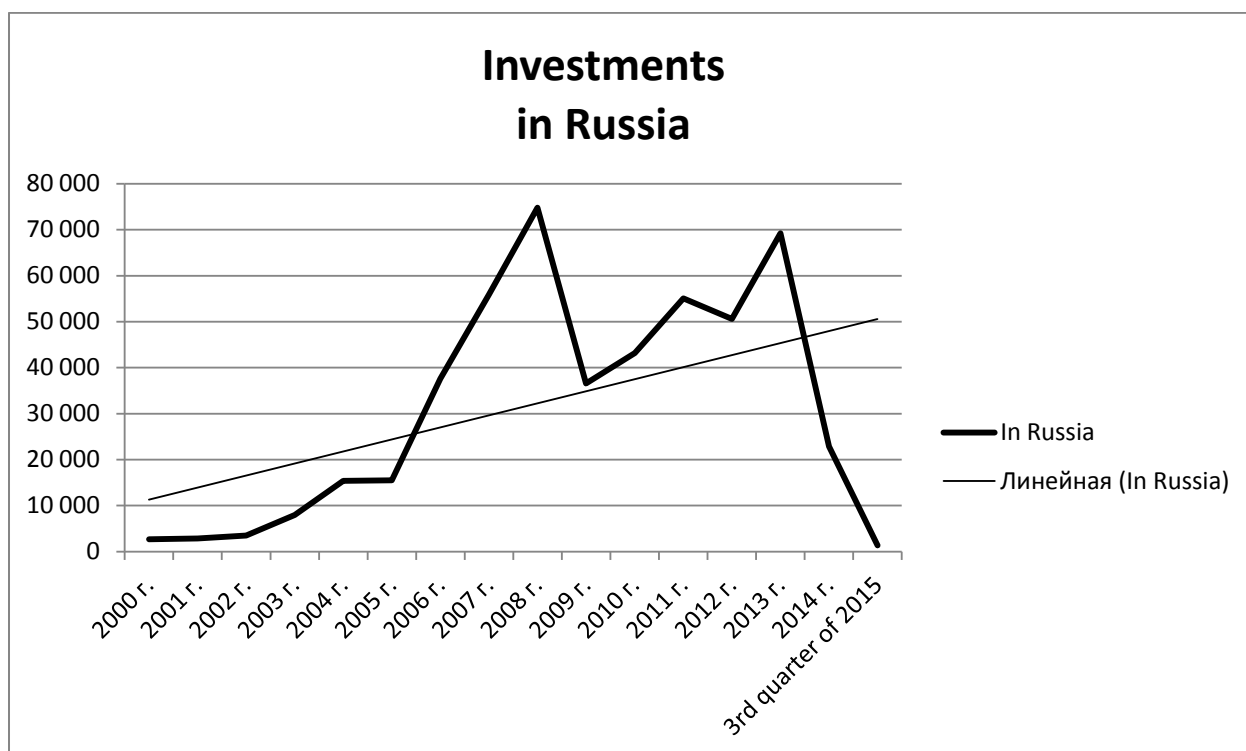


Diagram 1. Graph of foreign investments in Russia [5]

This graph also gives us an insight on the effect current political and economic situation has on our country. Since the Ukraine conflict our country has experienced a very, very sharp drop in overall investments – which brings it almost as low as to the investments in our country in 2005. On the whole scale of things it shows clear problems with possibility of foreign investments in our country in the future.

To summarize, current investment situation in our country is dire, and will require changes to be made in all of the spheres of economy and our international politics to improve it. In future years, we may expect that the overall investments in our country will not increase back to the previous levels and investment attractiveness will at best remain on same level.

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