

Leasing in the russian construction industry 2003

The given material is based on research data on the leasing market in Russia conducted by the Russian Association of Leasing Companies Rosleasing, following the results of Association members' activities in 2003. The report was published in the journal Leasing and Investment Technologies No.1(12), 2004.

Furthermore, data from an analytical review of building machinery leasing by V.D. Gazman, printed in the magazine Leasing Review No.1, 2004, was also used.

Macroeconomic indicators of the Russian economy have been adopted from the study "The Russian Economy in 2003. Tendencies and Prospects" of the Institute for the Economy in Transition.

INTRODUCTORY NOTE

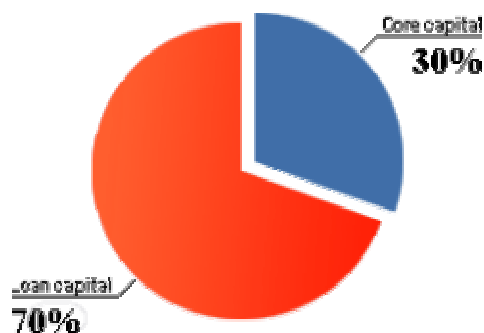
The volume of investments in the fixed capital of the Russian economy amounted to 2,183.31 billion roubles in 2003 for all financing sources, which is 12.5 % higher than in 2002.

The shift from financing investments in fixed capital at the expense of enterprises' and organizations' own capital to the increase of the share of borrowed funds became a fundamentally new feature of economic growth.

The lending growth has accelerated in the economy. This growth, according to experts' estimations, exceeded 46 % in 2003 versus 36% in the previous year.

The material affect on the appeal of the money-and-credit market was impacted by the lowering of the Russian Federation Central Bank's lending rate for refinancing from 25 % in March 2002 to 18 % in February, to 16 % in June 2002 and to 14 % in January 2003, and also the increase of the fraction of medium- and long-term assets accumulated by the banking system.

This macroeconomic situation had a favourable effect on the development of leasing in Russia. Russian leasing companies, just like in the rest of the world, mostly use borrowed funds. The sources of these funds are:



- foremost, bank loans and investment resources of export agencies;
- funds from lesasers (advance payments ranging from 10 to 30 %)
- funds from equipment suppliers (installment sales, repurchase agreements)
- budget funds (if the leasing is carried out in the framework of federal, regional, or municipal programmes) by way of a governmental stake in the authorised capital

of a company, the subsidization of the percentage rate of commercial bank lending, and soft lending to leasers.

ENTITIES OF THE LEASING MARKET

The Association conducts a yearly survey of leasing companies for the purpose of studying the status and development tendencies of leasing in Russia. Leading companies that operate in all sectors of the economy and deal with the broadest equipment range, as well as movable and immovable assets, participate in the survey.

Today virtually no more than 300 leasing companies operate on the Russian market (these are companies where more than 60 % of funds circulate namely on the leasing line). The Rosleasing Association includes 85 leasing companies, the majority of which are the largest in the country. The combined volume of its members' leasing transactions makes up 30-35 % of the whole leasing volume in Russia.

LEASING IN THE CONSTRUCTION INDUSTRY

Over the course of several years, construction and road construction machinery leasing has been intensively developing in the country. This can be seen from paradigm 1.

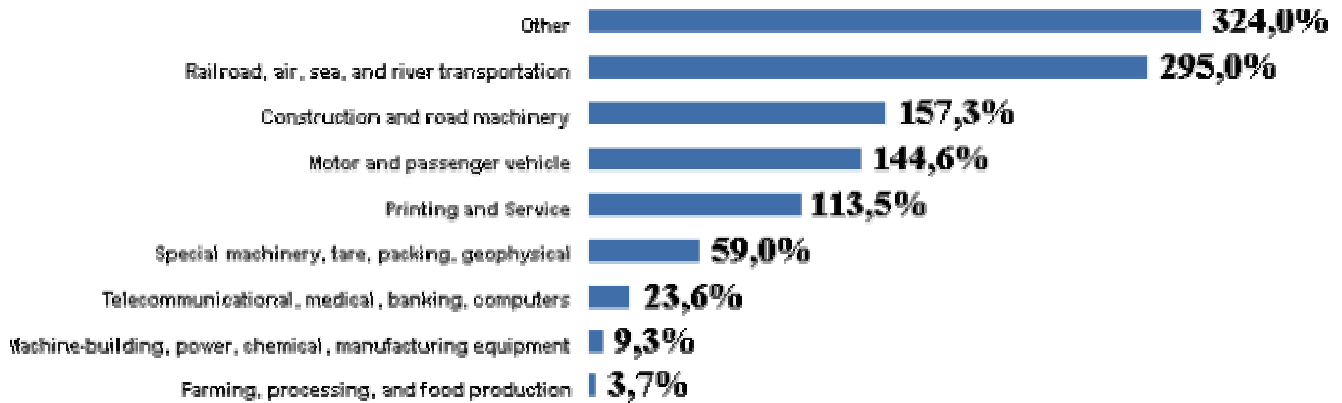
Paradigm 1. Construction and road construction equipment leasing 2000-2003 in Russia

	2000	2001	2002	2003 estimate of Rosleasing Association
Cost of new signed leasing contracts, in millions of dollars	80.65	111.72	138.04	More than 170.00
Share of leasing costs for construction equipment and road construction machinery in the general cost of signed leasing contracts, in %	5.7	5.7	5.95	8.32

In two years, in comparison to 2000, the number of new signed leasing contracts increased by 71 %. According to Association data, this figure grew by 57 % in 2003 in comparison to 2002. (diagram 1)

For reference: The primary estimate indicator of the analysis of the leasing market in Russia is the amount of new signed contracts from the period of 1 January to 31 December, when the research is conducted. The analysis takes a contract into consideration if the credit agreement has been signed on its basis, there is an agreement with an equipment supplier, and leasing transaction security contracts have been signed.

Diagram 1

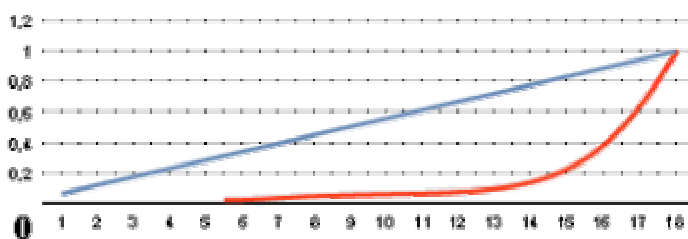


The growth of construction machinery leasing has already become a stable tendency, disregarding the significant cost of leasing objects. Obviously, there is a heightened demand for such leasing objects (the construction and road boom), and the machinery itself satisfies leasing companies in terms of the minimization of risks (the object itself possesses a high liquidity within the term of the leasing contract, installation works are either lacking or maximally oversimplified and automated, a secondary market is developed, etc.).

The number of companies that work with the given type of equipment grows with every year. According to various estimates, 40 % of all leasing companies dealt with the leasing of construction machinery on the Russian market, and 20 % dealt with the leasing of road construction equipment.

It would seem that this fraction is large enough to speak for the competitive situation in the given sector of leasing. However, it is too early to talk about the growth of competition yet. Out of the 300 companies actually operating on the market, 80 % of leasing contracts were signed by about 10 companies.

Diagram 2



The Lorenz curve (Rosleasing Association data) on diagram 2 illustrates the high level of capital concentration in the leasing construction sector. Here the coefficient Gini is .03 higher than the coefficient of concentration on the leasing market as a whole. What is more, in comparison with 2002, it grew by 1.8 points.

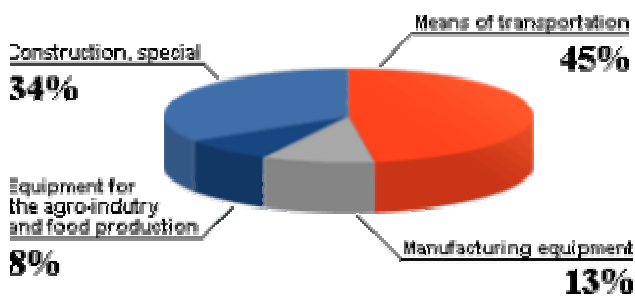
Paradigm 2. CONSTRUCTION AND ROAD CONSTRUCTION MACHINERY (members of the Rosleasing Association)

1 to 10 million roubles	10 to 20 million roubles	20 to 60 million roubles	150 to 260 million roubles	450 to 550 million
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				roubles
ARGUMENT	TECHNOLEASING	RUSSIAN LEASING	REGION LEASING (UFA, GROUP OF COMPANIES)	BALTIC LEASING
LEASINGCOM	RMB LEASING	LEGA PROTECT	LIKOSTROY	INTERLEASING (ST.PETERSBURG)
OUR BUSINESS (Svoyo Delo)	MOSCOW LK	LEASINGPROM HOLD	INTERROSLEASING	
AUTOTECHCAPITAL	STONE XXI	UNIVERSAL LEASING HOLDING		
URAL LEASING CENTRE		ENERGOGASLEASINGHOLD (group of companies)		
		MMB-LEASING		

Shown in paradigm 2 are the main players on the leasing market of the given type of property with a breakdown of the volume of new signed contracts.

Diagram 3



On diagram 3 the priority fields that will be the main consumers of leasing services (by Rosleasing Association estimations) are shown.

Among provided leasing objects the following can be named: tower cranes, equipment for the production of concrete and cement, automatic concrete mixers, production lines for rolled roofing materials, construction and facing material, and so on.

In conclusion, we would like to mention that the construction equipment and road construction machinery leasing sector is one of the few where companies actively combine financial leasing with operational leasing (or renting). For example, the company Leasingstroy Mash, having started with financial leasing, gradually switched over to renting terms with customers, and carried out contract building projects partially on its own.

However, the Russian legislation does not equate operative (operational) leasing with financial leasing from the taxation point of view. The latter has significant advantages in the form of sped up depreciation and the inclusion of the full amount of leasing payments into the net cost of products manufactured by the leaser. This limits the effectiveness of the application of operative leasing in Russia.

Reference:

The Russian Association of Leasing Companies Rosleasing was founded in 1994.

It unites 86 leasing companies and 9 insurance companies.

It is a member of LEASUROPE.

It publishes the magazine Leasing and Investment Technologies.

It conducts the international conference "Leasing in Russia. Status and Development" every year.

The Association's chairman is Elena Borisovna Skrynnik, the general director of the state agro-industrial company Rosagroleasing.