



*Moscow, 06 October 2020*

## **Results of the AEB Annual Survey "Strategies and Prospects for European Companies in Russia"**

The survey "Strategies and Prospects for European Companies in Russia" was conducted by the Association of European Businesses (AEB) for the thirteenth time, and in conjunction with the International Institute of Marketing and Social Research GfK Rus since 2011. This survey is a highly valuable source of first-hand information that gives an overview of the Russian investment climate attractiveness and highlights the key challenges and strategies of European companies doing business in Russia. In addition, the wave-like nature of the survey makes it possible to analyse and compare year-on-year data.

The current survey was conducted in July – August 2020. The survey involved 90 AEB member companies.

### **Company profiles**

The survey involved companies from different countries: Russia (24%), Germany (18%), Netherlands (8%), Sweden (6%), Italy (4%), Finland (4%), USA (3%), United Kingdom (2%) and others. It is worth noting that many Russian member companies of the AEB have a share of European capital and/or were established by citizens of European countries.

16% of member companies stated that their main operations are in professional services, the same amount - chemicals & pharmaceuticals, with 12% in automotive and 9% in FMCG & Retail.

52% of companies indicated that the number of employees in their company in Russia is 100 or less people. The survey involved companies employing more than 5,000 people, and they made up 4% of all participants in the survey.

Most companies (61%) noted that their turnover in 2019 increased from last year. At the same time, 18% of companies, on the contrary, saw a decrease in turnover from last year.

### **Market entry**

The main reasons for entering the Russian market continue to be the large size of the market, the large market potential, and the positive market dynamics (95%, 92% and 90%, respectively, of the companies noted these reasons as the most important). These factors keep their relevance as reasons for presence on the Russian market today.

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## Prospects for companies and the business environment

Most of macroeconomic indicators show a negative dynamic. Majority of companies (72%) noted, that overall state of the economy in the first half of the 2020 is developing worse than their expectations. 56% noted that their company in 2020 is developing worse than they expected.

Only 27% of the member companies expect the Russian economy to grow in the short term. In the medium and long term, the forecasts are more positive: 66% of companies expect the Russian economy to grow in the next 3-5 years and 79% in the next 6-10 years.

28% of companies expect an increase in investment in their industry in the next 2-3 years.

24% expect an increase in investment in Russia as a whole in the same period.

The economic climate in Russia remains challenging and company operations are affected by a variety of factors:

1. 77% of companies said that volatility of rouble had had a negative impact on their performance in Russia;
2. 73% pointed to the negative impact of sanctions against Russia;
3. 64% noted their business decrease due to coronavirus pandemic;
4. 56% indicated that US policy towards Russia affects negatively the activities of their company, but, compared to previous years, it has less influence (75% in 2019);
5. compared to 2019, the negative impact of oil prices on business has significantly increased (in 2020 this factor is noted by 51% of companies vs. 26% in 2019).

The above factors, in the opinion of the members, have the most negative impact not only on their company, but also on the economy of the Russian Federation as a whole.

## Financing

A bit less than a half of companies (45%) have gone to court to recover debt, and the majority of the cases were successful. 33% of companies have never had bad debts.

The main problems related to financing remain the lack of cash flow/available financing (26%), the high interest rates (20%), and new factor of 2020 - restrictions caused by coronavirus pandemic (42%).

## Perception of the business environment

The business culture and business environment of the country have a modest rating. Work with legislative, customs, tax and other authorities is rated rather negatively.

Regulatory restrictions are a major barrier to business (68% of companies mentioned regulatory restrictions as the main barrier to business). Another important problem is the lack of qualified personnel (22% of companies noted the lack of qualified personnel as a major barrier). 21% of companies named the insufficient reliability of the supply chain as a main barrier to business. A new factor arose in 2020 - restrictions caused by coronavirus pandemic (57% of the companies named it as the most significant barriers to business in Russia).

Most members of the AEB do not expect an improvement in the situation with regard to bureaucracy and corruption (56% and 57% of companies, respectively, do not expect an improvement in the next two years).

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## Coronavirus pandemic effects on business in Russia

64% of surveyed participants noted that their business had decreased due to coronavirus pandemic and only 10% could get advantage and their business has grown.

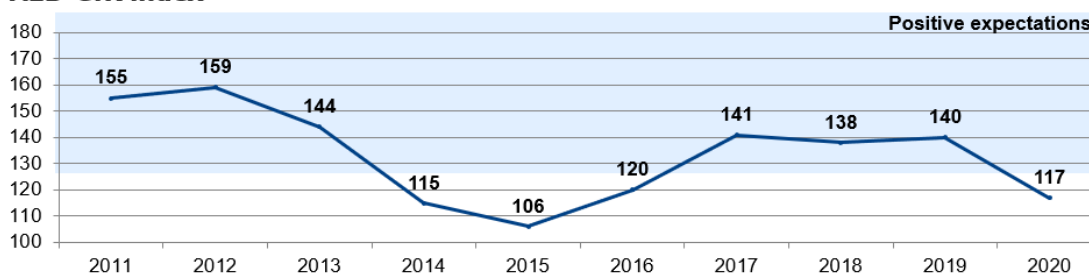
The leading negative impacts on business:

1. 56% of the companies stated drop in sales;
2. 33% had to cut advertisement budgets;
3. 21% had to cut market research budgets;
4. 20% postponed launch of new products;
5. 14% was forced to cut employee salaries.

Only quarter of companies who suffered from coronavirus crisis expect to recover by the end of 2020. Most companies believe that recovery will take more time (during 2021).

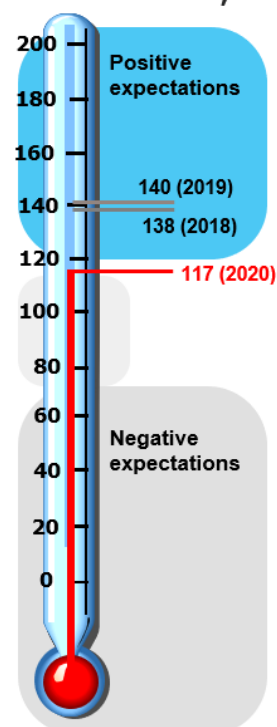
## AEB-GfK Barometer

### AEB-GfK index



The comprehensive AEB-GfK index decreased by 23 points from the last year to 117 points out of a possible 200. The main contribution to decrease was made by the assessment of macroeconomic situation, business development and short-term expectations regarding the Russian economy. Index shows lower than positive expectations and is on the level of 2014 and 2016 years.

### AEB-GfK index, 2020



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