



Association  
of European  
Businesses

*Moscow, 26 may 2021 r.*

## **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 fourteenth 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 April – May 2021. The survey involved 105 AEB member companies.

### **Company profiles**

The survey involved companies from different countries: Russia (25%), Germany (19%), France (8%), Netherlands (5%), Italy (4%), USA (4%), Sweden (3%), United Kingdom (3%), Finland (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.

11% of member companies stated that their main operations are in professional services, the same amount - FMCG and Retail, with 10% - chemicals & pharmaceuticals and financial services, 9% - automotive, 8% - energy and natural resources, with 6% - engineering/construction and transport/logistics.

43% 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 7% of all participants in the survey.

Almost half of companies (46%) noted that their turnover in 2020 increased from the last year, however, it is much less compared to 2019 indicator (61% stated growth in 2019). At the same time, 31% of companies, on the contrary, reported a decrease in turnover from the last year, what is almost twice more than in 2019 (18%).

### **Market entry**

The main reasons for entering the Russian market continue to be the large market potential, the positive market dynamics and the large size of the market (95%, 93% and 91%, 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 negative dynamics. However, business expectations improved at the beginning of 2021 and look rather optimistic. Survey results show significant increase in short-term (1-2 years) and mid-term (3-5 years) expectations for Russian economy development (64% of companies expect growth in 1-2 year and 73% - in 3-5 years vs. 27% and 66% last year respectively). The long-term (6-10 years) economic outlook continues to be highly valued (79% expect growth).

While the start to 2021 was more successful than expected, AEB members estimations regarding their investments in 2021 and business development in the short-term grew:

- 42% of the survey participants stated that their company business developed in the first 3 months of 2021 was better than expected. Most companies expect revenue and profit growth in the next 3 years (75% expect revenue and 62% profit growth, compared to 68% and 51%, respectively, in 2020).
- Slightly less than a half (45%) plan to increase their investments this year what is significantly higher than last year (27% planned to increase their investments in 2020). However, a much smaller number expect investments growth in their industry and in Russia as a whole (21% and 25% respectively - the same as last year).

The economic climate in Russia remains challenging and company operations are affected by a variety of factors, which negative impact significantly increased over the past year:

1. 85% of companies said that volatility of rouble had had a negative impact on their performance in Russia;
2. 75% pointed to the negative impact of sanctions against Russia;
3. 65% indicated that US policy towards Russia affected negatively the activities of their company;
4. 55% stated that Russian sanctions against the EU and the United States were a negative factor;
5. 52% mentioned relations between Russia and Ukraine.
6. 43% of surveyed participants noted that their business had decreased due to coronavirus pandemic, however, COVID19 impact on business is on decline.

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.

Oil price reduced its negative impact on business compared to the last year.

## Financing

A bit more than a half of companies (55%) have gone to court to recover debt, and the majority of the cases were successful. 27% of companies have never had bad debts.

The main problems related to financing remain COVID19 pandemic impact (restrictions – 20% and economic consequences – 42%), high interest rates (18%) and restricted access to bank credits (14%).

## Perception of the business environment

AEB members assess cooperation with clients positively (there was fixed an increase in positive evaluations), with contractors and suppliers as neutral to positive, and with legislative, tax, customs as neutral to negative. Regarding legislative bodies, an increase in negative ratings was recorded.

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The main obstacles to business are the regulatory constraints (discontent increased significantly - 84% noted it as the most significant barriers to business in Russia vs. 68% in 2020), epidemic restrictions (36%), lack of skilled labor (29%) and the low reliability of supply chain (20%).

There was recorded a decline in positive expectation of a business towards following operational blocks:

- legal constraints on activities (47% don't expect any improvements in this area over the next 2 years vs. 39% in 2020);
- taxes and duties (58% don't expect any improvements in this area over the next 2 years vs. 42% in 2020);
- growth in labor costs (37% don't expect any improvements in this area over the next 2 years vs. 24% in 2020).

### **Coronavirus pandemic effects on business in Russia**

Over coronavirus pandemic span almost a half of the companies (43%) experienced a business decreased, however, one in five of them (20%) have already managed to recover completely. The half of those who haven't recovered yet (47%) are going to do it up to the mid-2022, the rest state longer period.

8% of the survey participants took advantage of systematic measures of state support, 9% - anti-crisis measures of state support.

So far 59% of companies consider sustainable development as a priority for their company and include it in their TOP 3 business activities. Pandemic of COVID-19 contributed to the development of sustainability topic. More than a quarter of AEB members (28%) stated that pandemic accelerated their company involvement in sustainability agenda. In general, 64% of companies have developed a sustainable development strategy and have already adopted it, 21% have it in a process of developing it and 5% plan to develop it in the nearest future. The majority of business representatives (72%) believe that the implementation of sustainable development initiatives contributes to the improvement of the company's financial and economic performance.

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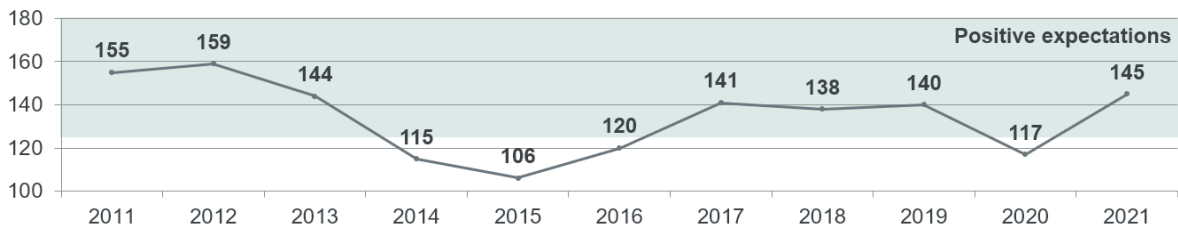
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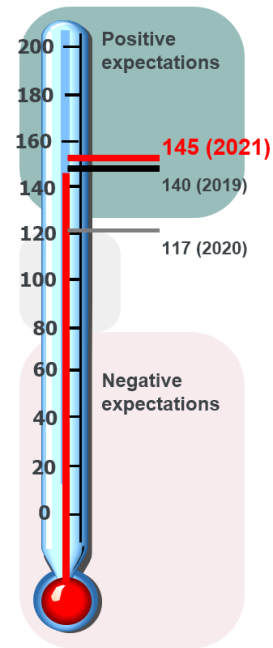
## AEB-GfK Barometer

### AEB-GfK index, Dynamics



The comprehensive AEB-GfK index increased by 28 points from the last year to 145 points out of a possible 200. The main contribution to the growth of Index was made by the assessment of business development in the first 3 months of 2021 and short - and medium-term expectations regarding business and economic outlook. Index is in the area of positive expectations at the level of 2019, 2017 and 2013.

### AEB-GfK index, 2021



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